

Report to: Pension Committee

Date: 19 June 2024

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 the investment 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 was established as the result of 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 focus over the next 12 months is:

- Implement the strategic changes in relation to income distribution;
- Implement the strategic changes in relation to private debt;
- Monitoring of index link triggers for investment;
- Work with ACCESS to develop the governance and investment opportunities on the pool platform;
- Engage with investment managers on the engagement priorities defined in the Statement of Responsible Investment Principles;
- Carry out Carbon Foot printing as at 31 March 2024;
- Carry out the 2024 ESG implementation assessment of the investment managers;
- Produce the 2023 Stewardship report
- Complete the 2024 PRI survey.

3. Quarterly Performance Report

3.1 The Quarterly Performance Report for Q1 2024 is attached as **Appendix 2**.

3.2 Since the last reported position, the valuation of the Fund has increased from **£4.689bn** as at 31 December 2023 to **£4.866bn** as at 31 March 2024 (an increase of £0.177bn). This performance reflects a positive absolute return of 3.9% in the quarter to March. The Fund however underperformed its benchmark in the period by -1.1%.

3.3 The standout negative performance came from the Fund's M&G Infrastructure investment where a negative absolute performance of -18.8% and negative relative performance of -20.0% came through during the quarter. Conversations are being held with the manager to understand the longer term implications of these valuations. Further details on the performance of this manager will be shown in the exempt Investment report including the Isio manager page that has been excluded from appendix 2.

3.4 In more general terms the public equity managers all posted strong positive absolute return but underperformed their benchmarks. The Fund's illiquid holdings in private equity similarly posted positive absolute returns but negative relative performance in Q1 2024 as valuations failed to keep pace with strong returns from public equity markets which form the benchmark. The various credit mandates posted positive results on the whole in both absolute and relative terms despite rises in UK Gilt yields as spreads narrowed by varying degrees across credit sectors.

3.5 The long term returns at Fund level remain robust, and in line with expectations although lagging the benchmark. This underperformance has been driven by weak relative performance from the Fund's impact equity managers and challenging "cash plus" and "inflation plus" benchmarks over a period when both metrics have been high.

4. ACCESS Update

4.1 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 30 March 2024 there was £28.9bn invested in the authorised contractual scheme (ACS) managed by the pool operator, with a further £12.0bn invested in the UBS passive ACCESS governance arrangements and £3.0bn invested in other pool aligned assets. Totalling £43.9bn invested through the pool, representing 68% of the ACCESS pension fund's assets (£64.6bn).

4.2 As at 31 March 2024 East Sussex had a total of £2.9bn (55.9%) in ACCESS governed investments, £2.0bn across 6 ACS sub-funds and a further £0.6bn through the UBS passive arrangement along with £0.2bn in a pool aligned infrastructure investment.

4.3 The formal Joint Committee was held on 10 June 2024, the following items are highlighted:

- The final outturn for 2023/24 of the ACCESS pool came to £1.6m (£0.15m per authority) a slight overspend of £0.05m.

- The Joint Committee received an internal audit report from the Essex internal audit team, on the ACCESS Support Unit which gave them good assurance which is their highest rating.

5. Conclusion and reasons for recommendation

5.1 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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