

# East Sussex Pension Fund

Current Equity Portfolio Observations

September 2024

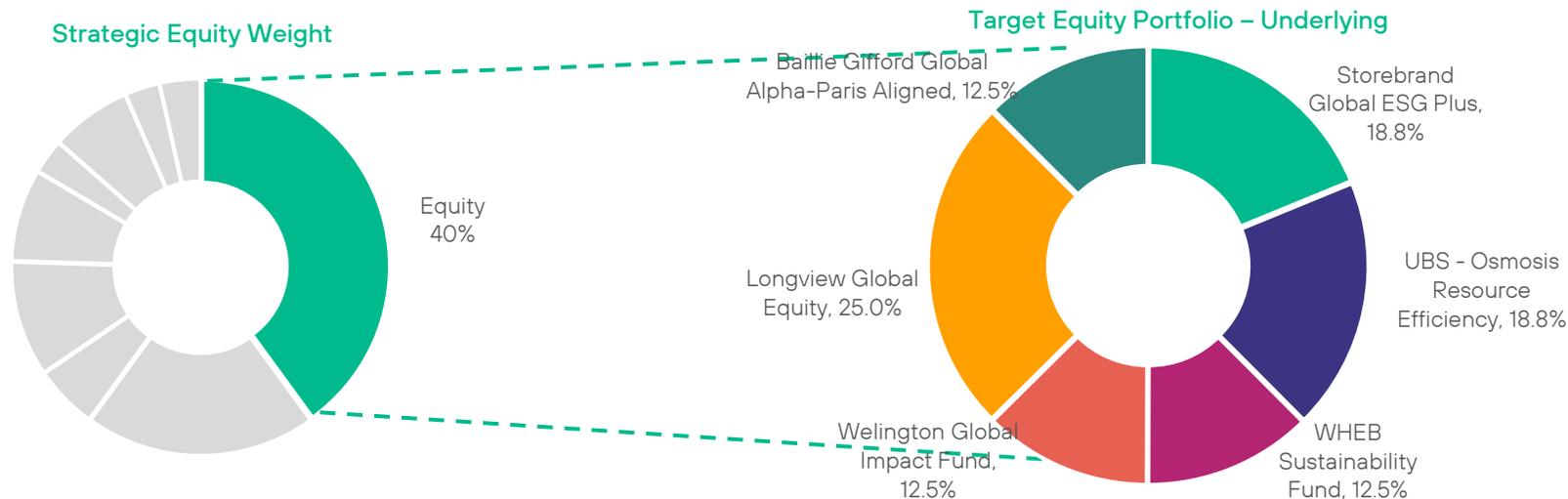
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# Background

- The Fund's equity portfolio is a core driver of returns and the largest contributor to overall investment risk.
- The equity allocation is currently split across 6 mandates with both actively (25%) and passively (15%) managed approaches.
- Within the actively managed allocation there is a 10% allocation to Longview and 5% to each of Wellington, WHEB and Baillie Gifford.
- Most active funds have now been in place for over 3 years, with the exception of Baillie Gifford, and with Longview significantly longer than this.
- Recent market conditions have led to the overall equity portfolio materially underperforming. This has been amplified by narrow market leadership from US technology stocks and broader large cap stocks.
- The analysis provided in the 2021 equity review has been refreshed and summarised in this presentation.

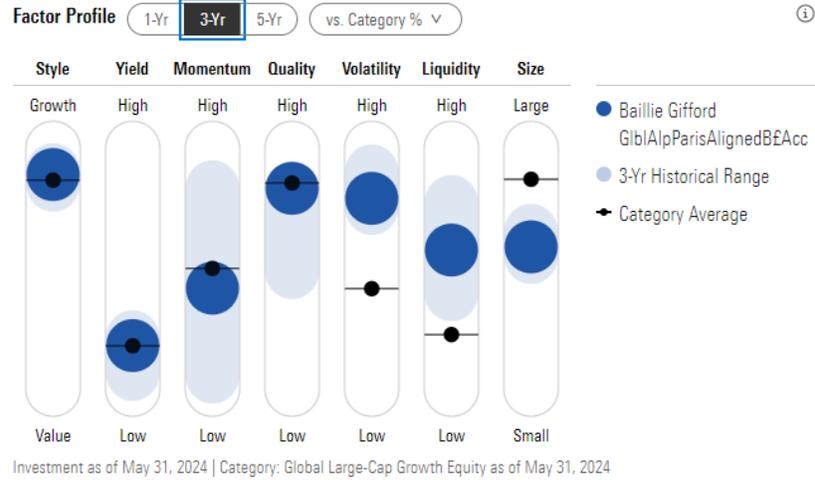
# Current Equity Portfolio Composition



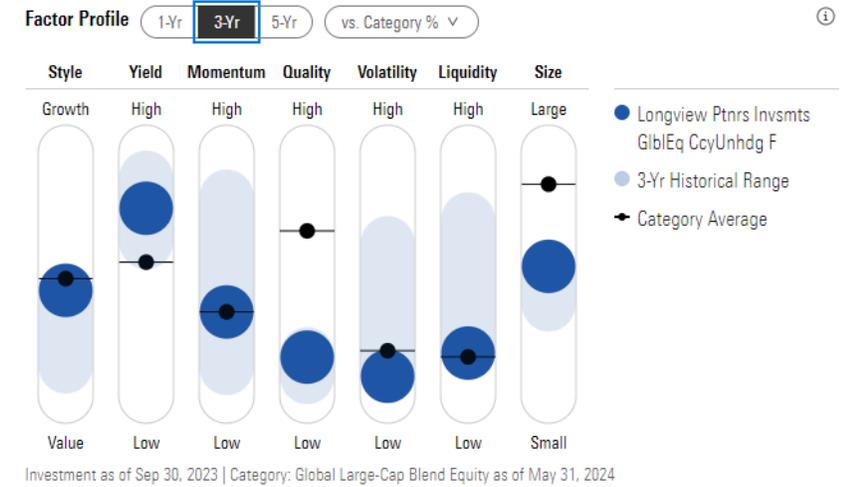
Manager	Inception	Management Style	Pool Aligned	Overall Target Allocation	Description
Longview	Apr 2013	Active Global. Growth at reasonable price (style flex)	Yes	10%	The fund's objective is to outperform the MSCI benchmark by 3.0% gross of fees over 3 year rolling periods. The Fund is concentrated (40-50 names) comprised of predominately large cap firms (greater than £5bn) and has a strong bias to US stocks. The style is defined as "growth at a reasonable price" or "GARP" but incorporates elements of styles broader than growth and style exposures flex over time.
Baillie Gifford	Aug 2021	Active: Global. Growth Paris Aligned	Yes	5%	The fund has an unconstrained global equity approach which focuses on investing in large cap companies displaying above average earnings growth and sustainable competitive advantages in their respective industries, whilst aligning to the UN Paris Agreement climate commitments. This is a high conviction growth approach although Baillie Gifford have looked to add further diversification to the portfolio in recent periods following underperformance.
Wellington	Dec 2020	Active Global. Impact / Growth	No	5%	The Wellington Global Impact Fund looks to generate long term returns while addressing major social & environmental challenges. The Fund has a bias towards mid-cap companies within the UK and Europe and a slight inherent growth tilt given the way the manager constructs the portfolio and the constrained universe they have for stock selection. This is a concentrated portfolio currently consisting of 64 names.
WHEB	Dec 2020	Active Global. Impact / Growth	No	5%	The WHEB Sustainability Fund looks to generate long term returns while advancing sustainability and prosperity. The Fund is comprised of mid cap stocks and exhibits some bias to the UK and Europe compared to the benchmark, a bias towards healthcare and Industrials, as well as a slight growth style tilt, given the way the manager constructs the portfolio and the constrained universe they have for stock selection. This is a concentrated portfolio currently consisting of 43 names.
Storebrand	Dec 2020	Passive Global. Sustainable Smart Beta	No – possibly in future	7.5%	The Storebrand Global ESG Plus Fund tracks a benchmark with significantly reduced climate risk, excluding fossil fuels and climate negative stocks.
Osmosis	Mar 2022	Passive Global. Sustainable Smart Beta	Yes	7.5%	The Osmosis Sustainable Equity Fund tracks an MSCI World benchmark while incorporating ESG and climate risk overlays.

# Active Manager Style Analysis – 3 Year Average

## Baillie Gifford



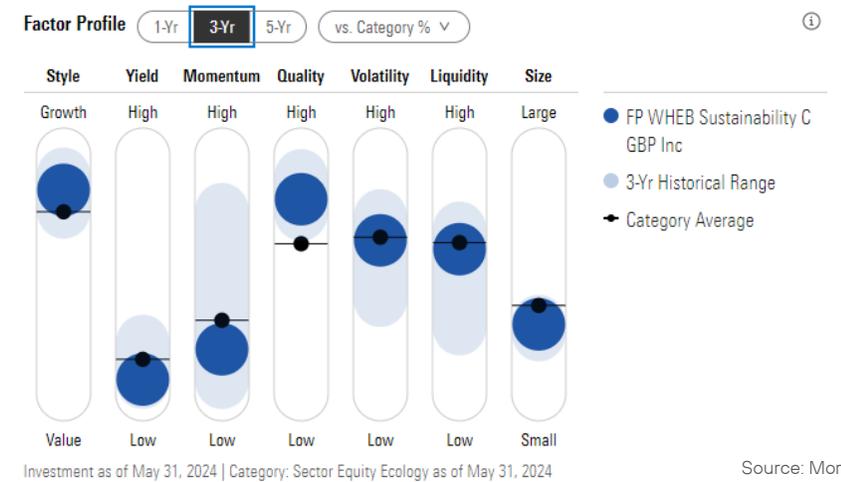
## Longview



## Wellington



## WHEB



Source: Morningstar

# Manager Performance

Fund	Q2 2024 Performance			1 Year Performance			3 Year Performance			5 Year Performance		
	Fund	Benchmark	Relative	Fund	Objective	Relative	Fund	Objective	Relative	Fund	Objective	Relative
UBS Osmosis – Sustainable Equity	2.4%	2.6%	-0.1%	20.5%	20.9%	-0.4%	-	-	-	-	-	-
Longview - Global Equity	-1.4%	2.6%	-3.9%	11.3%	20.9%	-9.6%	10.0%	10.1%	-0.0%	9.8%	11.9%	-2.1%
WHEB - Sustainable Equity	-3.5%	2.6%	-6.1%	4.1%	20.9%	-16.8%	-1.0%	10.1%	-11.2%	-	-	-
Wellington – Sustainable Equity	-0.5%	2.8%	-3.3%	11.1%	20.1%	-9.0%	0.6%	8.6%	-8.0%	-	-	-
Storebrand – Sustainable Equity	2.8%	2.6%	+0.2%	19.5%	20.9%	-1.4%	8.3%	10.1%	-1.9%	-	-	-
Baillie Gifford – Global Equity	1.2%	2.8%	-1.6%	13.9%	20.1%	-6.2%	-	-	-	-	-	-

Source: Northern Trust

- All actively managed mandates have underperformed over all time periods shown.
- WHEB followed by Wellington have exhibited the most marked underperformance – driven by their small and mid cap bias and lack of energy exposure.
- Longview has underperformed materially over the 12-month period with longer performance numbers more stable.
- Baillie Gifford has underperformed over the 1-year period, but with a lesser degree than the other active managers, more recently this has been driven by headwinds to their growth style and underweight positions in technology stocks, which have outperformed.

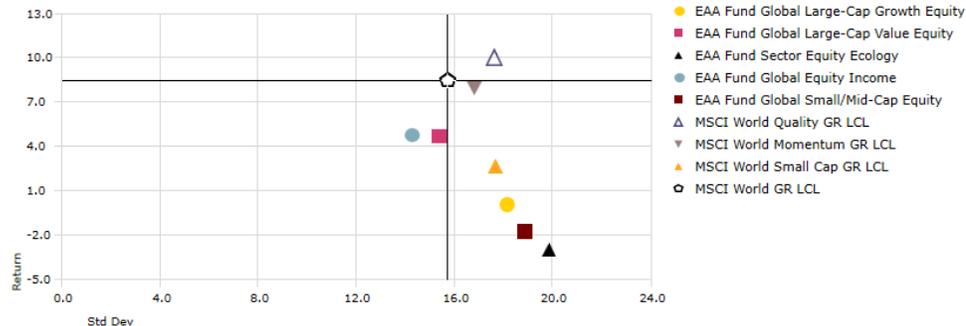
# Risk and Reward – 3 Years

## Markets

### Risk-Reward

Time Period: 01/09/2021 to 31/08/2024

Calculation Benchmark: MSCI World GR LCL



### Risk

Time Period: 01/09/2021 to 31/08/2024

Calculation Benchmark: MSCI World GR LCL

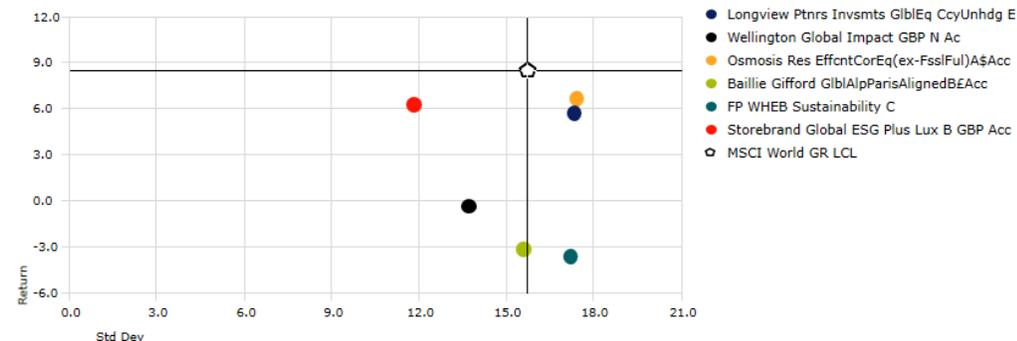
	Return	Std Dev	Downside Deviation	Alpha	Beta	R2	Sharpe Ratio (arith)	Tracking Error
EAA Fund Global Large-Cap Growth Equity	0.01	18.15	4.90	-8.42	1.11	93.16	-0.21	5.00
EAA Fund Global Large-Cap Value Equity	4.71	15.42	5.30	-3.02	0.89	82.96	0.06	6.52
EAA Fund Sector Equity Ecology	-2.99	19.83	6.97	-11.60	1.19	88.79	-0.34	7.23
EAA Fund Global Equity Income	4.74	14.30	4.48	-2.88	0.85	86.95	0.07	5.64
EAA Fund Global Small/Mid-Cap Equity	-1.75	18.89	6.65	-10.02	1.10	84.51	-0.29	7.54
MSCI World Quality GR LCL	10.00	17.64	2.99	1.24	1.08	92.88	0.36	4.81
MSCI World Momentum GR LCL	7.90	16.79	6.16	0.02	0.93	75.45	0.25	8.31
MSCI World Small Cap GR LCL	2.68	17.70	5.97	-5.37	1.02	82.23	-0.06	7.41
MSCI World GR LCL	8.51	15.74	0.00	0.00	1.00	100.00	0.30	0.00

## Funds

### Risk-Reward

Time Period: 01/09/2021 to 31/08/2024

Calculation Benchmark: MSCI World GR LCL



### Risk

Time Period: 01/09/2021 to 31/08/2024 Calculation Benchmark: MSCI World GR LCL

	Return	Std Dev	Downside Deviation	Alpha	Beta	R2	Sharpe Ratio (arith)	Tracking Error
Longview Ptnrs Invsmts GblEq CcyUnhdg E	5.73	17.31	4.82	-2.54	1.03	87.21	0.12	6.16
Wellington Global Impact GBP N Ac	-0.34	13.73	7.23	-8.02	0.79	86.68	-0.41	8.46
Osmosis Res EffcntCorEq(ex-FsslFul)A\$Acc	6.61	17.41	1.88	-2.08	1.10	98.76	0.17	2.48
Baillie Gifford GblAlpParisAlignedBEAcc	-3.17	15.61	10.06	-10.56	0.78	76.13	-0.55	11.05
FP WHEB Sustainability C	-3.64	17.20	9.84	-11.14	0.87	78.92	-0.52	10.58
Storebrand Global ESG Plus Lux B GBP Acc	6.22	11.83	4.49	-1.76	0.76	96.97	0.07	6.16
MSCI World GR LCL	8.51	15.74	0.00	0.00	1.00	100.00	0.30	0.00

Source: Morningstar

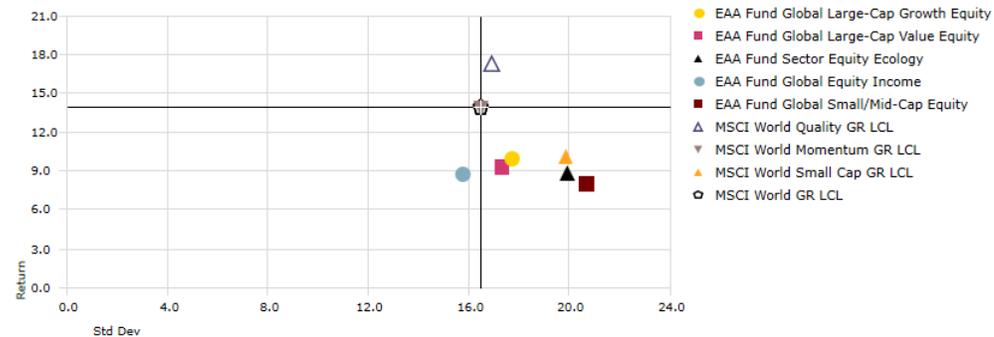
# Risk and Reward – 5 Years

## Markets

### Risk-Reward

Time Period: 01/09/2019 to 31/08/2024

Calculation Benchmark: MSCI World GR LCL



### Risk

Time Period: 01/09/2019 to 31/08/2024

Calculation Benchmark: MSCI World GR LCL

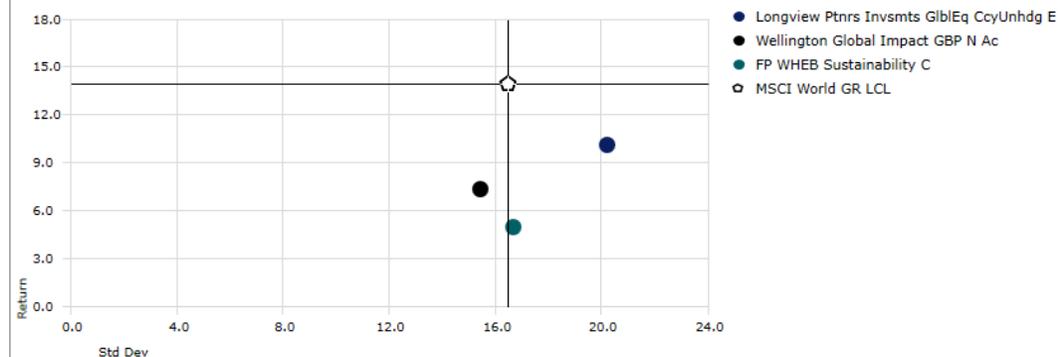
	Return	Std Dev	Downside Deviation	Alpha	Beta	R2	Sharpe Ratio (arith)	Tracking Error
EAA Fund Global Large-Cap Growth Equity	9.91	17.76	4.39	-3.78	1.03	91.29	0.42	5.26
EAA Fund Global Large-Cap Value Equity	9.27	17.34	5.05	-3.90	0.99	87.67	0.39	6.09
EAA Fund Sector Equity Ecology	8.83	19.96	5.81	-5.74	1.14	88.88	0.32	7.07
EAA Fund Global Equity Income	8.74	15.79	4.34	-3.74	0.91	90.46	0.40	5.09
EAA Fund Global Small/Mid-Cap Equity	8.03	20.70	6.23	-6.75	1.18	88.08	0.27	7.74
MSCI World Quality GR LCL	17.26	16.92	2.69	3.16	0.98	92.33	0.88	4.68
MSCI World Momentum GR LCL	13.80	16.49	5.66	1.18	0.89	79.48	0.69	7.67
MSCI World Small Cap GR LCL	10.14	19.83	5.96	-4.23	1.12	86.27	0.39	7.61
MSCI World GR LCL	13.94	16.48	0.00	0.00	1.00	100.00	0.70	0.00

## Funds

### Risk-Reward

Time Period: 01/09/2019 to 31/08/2024

Calculation Benchmark: MSCI World GR LCL



### Risk

Time Period: 01/09/2019 to 31/08/2024

Calculation Benchmark: MSCI World GR LCL

	Return	Std Dev	Downside Deviation	Alpha	Beta	R2	Sharpe Ratio (arith)	Tracking Error
Longview Ptnrs Invsmts GblEq CcyUnhdg E	10.14	20.21	5.89	-4.54	1.15	87.74	0.38	7.49
Wellington Global Impact GBP N Ac	7.38	15.46	7.37	-3.36	0.79	82.46	0.42	9.64
FP WHEB Sustainability C	4.96	16.68	8.92	-5.85	0.82	79.49	0.25	10.41
MSCI World GR LCL	13.94	16.48	0.00	0.00	1.00	100.00	0.70	0.00

Source: Morningstar

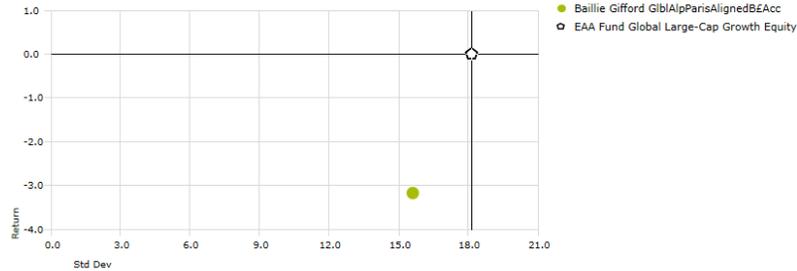
# Peer Group Analysis – 3 years

## Baillie Gifford vs Growth funds

### Risk-Reward

Time Period: 01/09/2021 to 31/08/2024

Calculation Benchmark: EAA Fund Global Large-Cap Growth Equity



### Risk

Time Period: 01/09/2021 to 31/08/2024

Calculation Benchmark: EAA Fund Global Large-Cap Growth Equity

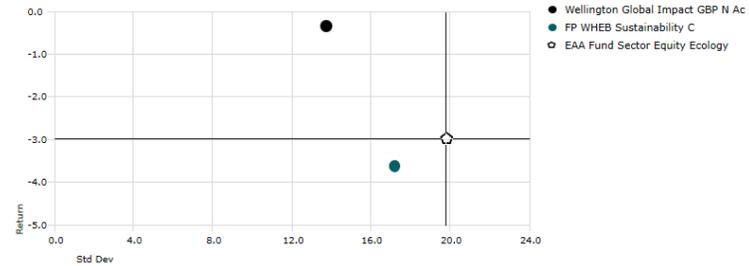
	Return	Std Dev	Downside Deviation	Alpha	Beta	R2	Sharpe Ratio (arith)	Tracking Error
Baillie Gifford GblAlpParisAlignedBEAcc	-3.17	15.61	4.87	-4.11	1.08	92.80	-0.55	5.60
EAA Fund Global Large-Cap Growth Equity	0.01	18.15	0.00	0.00	1.00	100.00	-0.21	0.00

## WHEB and Wellington vs impact peer group

### Risk-Reward

Time Period: 01/09/2021 to 31/08/2024

Calculation Benchmark: EAA Fund Sector Equity Ecology



### Risk

Time Period: 01/09/2021 to 31/08/2024

Calculation Benchmark: EAA Fund Sector Equity Ecology

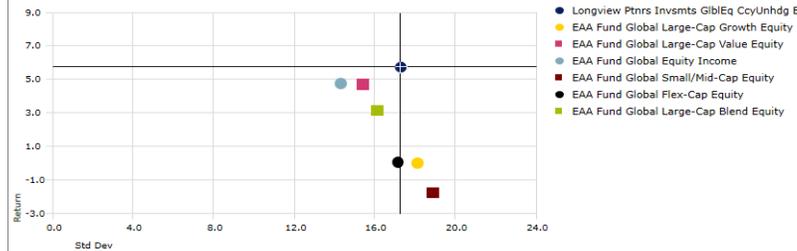
	Return	Std Dev	Downside Deviation	Alpha	Beta	R2	Sharpe Ratio (arith)	Tracking Error
Wellington Global Impact GBP N Ac	-0.34	13.73	3.55	0.63	0.93	92.27	-0.41	5.51
FP WHEB Sustainability C	-3.64	17.20	4.62	-1.22	1.09	94.05	-0.52	5.66
EAA Fund Sector Equity Ecology	-2.99	19.83	0.00	0.00	1.00	100.00	-0.34	0.00

## Longview vs Active peer groups

### Risk-Reward

Time Period: 01/09/2021 to 31/08/2024

Calculation Benchmark: FTSE All World TR USD



### Risk

Time Period: 01/09/2021 to 31/08/2024

Calculation Benchmark: FTSE All World TR USD

	Return	Std Dev	Downside Deviation	Alpha	Beta	R2	Sharpe Ratio (arith)	Tracking Error
Longview Ptnrs Invsmts GblEq CcyUnhdg E	5.73	17.31	4.28	-0.34	0.98	87.72	0.12	6.03
EAA Fund Global Large-Cap Growth Equity	0.01	18.15	4.35	-6.06	1.06	94.30	-0.21	4.39
EAA Fund Global Large-Cap Value Equity	4.71	15.42	4.28	-1.22	0.88	89.15	0.06	5.42
EAA Fund Global Equity Income	4.74	14.30	3.73	-1.16	0.83	92.30	0.07	4.85
EAA Fund Global Small/Mid-Cap Equity	-1.75	18.89	5.77	-7.74	1.07	88.39	-0.29	6.48
EAA Fund Global Flex-Cap Equity	0.05	17.14	3.53	-6.00	1.01	95.61	-0.21	3.56
EAA Fund Global Large-Cap Blend Equity	3.14	16.12	1.72	-2.95	0.96	98.94	-0.04	1.75

Source: Morningstar

# Considerations for Today

- The market continues to be driven by a narrow range of stocks but we believe that it is reasonable to assume this will broaden over time.
- We believe that a robust and diversified equity portfolio should remain a core driver of the Fund's returns. Timing markets and styles is notoriously difficult and we believe an equity portfolio should be constructed to deliver performance in a variety of market and economic conditions.
- The Committee should consider the observations and analysis outlined in this presentation and whether they remain comfortable with the current position. Specific thought should be given to:
  - Active/passive split and the areas of the market an active approach is targeted
  - Bias towards the growth style, and small and mid cap stocks
  - Bias away from fossil fuels and broader energy stocks and value sectors
  - The ESG credentials in the portfolio
  - Whether there is rationale to replace any specific managers given the performance
  - If additional style/sector diversification in the portfolio could be beneficial in the long run
- There are equity fund options available on the ACCESS pool that can offer diversification of manager style although we have not yet considered the implications of including these allocations (or any other third-party funds).

# Next Steps

- Perform a more detailed sector and geography look through analysis of the equity holdings.
- Consider alternative equity portfolio structures.
- Consider the equity mandates available via ACCESS to the Fund in further detail.

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