Report to:	**Pension Committee**
Date:	**25 September 2025**
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.**

RECOMMENDATIONS:

The Pension Committee is recommended to:

1) **note the report;**
2) **approve the amended asset allocation set out in paragraph 4.11; and**
3) **approve the Investment Strategy Statement as set out in Appendix 4.**

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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 Fund’s investments and receives a quarterly investment monitoring report, from its investment consultant.

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 Fit for the Future consultation has resulted in ACCESS no longer being a supported pool by government new pooling arrangements are being considered.

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:

- LGPS Pooling
    - Finalising decision on new Pool
    - Shareholder Agreement
    - Client Agreements
    - Transition of assets
- UK Stewardship code submission
- Engage with investment managers on the engagement priorities defined in the Statement of Responsible Investment Principles.

3. Quarterly Performance Report

3.1 The Quarterly Performance Report for Q2 2025 is attached as Appendix 2. Since the last reported position, the valuation of the Fund has increased from £5.0bn as at 31 March 2025 to £5.1bn as at 30 June 2025 (an increase of £0.1bn). This performance reflects a positive absolute return of 2.1% in the quarter to June. The Fund underperformed the benchmark over the period by -1.1%. Performance of Fund assets is similarly behind benchmark over longer time periods. Over the past 12 months and 3 years, to 30 June 2025 the Fund has relative returns of -3.6% and -3.6% p.a. respectively.

3.2 The asset allocation has an overweight position to Growth and Protection of +2.8%, and +3.1% respectively with Income being underweight by -7.6%. This is mostly driven by the unfulfilled private debt allocation.

3.3 On a relative basis, the stand-out detractors were:

- The Longview Global Equity strategy underperformed its MSCI World benchmark by 6.7% over Q2 2025. Relative underperformance can be attributed to the strategy having no exposure to the surging semiconductor sector (+41% return over the quarter), stock-specific weakness at UnitedHealth and Fiserv, and de-ratings across its life sciences holdings. These three factors contributed roughly equally to the shortfall.

- The Fund's private equity mandates, Admas Street and HarbourVest, returned -3.8% and -4.0% respectively, compared with a positive 5.4% return from their benchmark (MSCI ACWI +1.5% p.a.). Although public equity markets rallied over the quarter, private equity performance can reflect subjective or stale valuations therefore diverge over the short term. In addition, private equity is typically exposed to additional risk factors such as liquidity risk, concentration risk, and exit risk, which can make shorter-term comparisons to public indexes inappropriate.

3.4 The Fund's infrastructure mandates delivered highly contrasting performance over Q2 2025, with returns ranging from +8.0% to -5.8% across the 5 mandates. While these strategies all target infrastructure assets, their performance can diverge significantly due to differences in portfolio composition, sector focus, and valuation methodologies. In addition, the timing of revaluations and the use of discount rates can create short-term dispersion in reported returns, even where underlying assets share similar long-term characteristics.

4. Strategy Review

4.1 The Fund is currently working on its March 2025 triennial valuation of the Fund to ensure that the Fund's investment strategy is suitable in relation to the funding expectations of the actuary. Hymans Robertson LLP (Hymans) have undertaken a review of the Fund's overall investment strategy in order to quantify the inherent risks and to consider options for the evolution of the asset allocation.

4.2 Hymans presented initial considerations for the investment strategy to the Pension Committee at the July strategy day where collaborative discussions took place to identify the preferred direction of travel for the strategy. A summary is included as Appendix 3.

4.3 The objectives of the Investment Strategy is to deliver a return that improves the funding level over time (to achieve future lower employer contribution rates), with as little volatility in the funding level as possible (to maintain stability of contributions as far as possible) and maintain sufficient assets to meet liabilities i.e. a minimum funding level of 100%.

4.4 The assumptions underlying the Actuary's funding basis are important factors in determining the return requirement. As the Fund grows, it will also be important to ensure that stability, relative to sponsor budgets, is maintained.

4.5 The Fund's current strategy is shown below:

Table 1: Current long term strategic benchmark

Asset	**Strategic asset allocation (%)**
Listed equity	40.0
Private equity	5.5
Diversified growth funds	17.0
Property	7.0
Infrastructure	11.0
Private credit	5.0
Credit	10.5
Index linked gilts	4.0
Total	**100.0**

4.6 The current investment strategy is expected by Hymans to have an 89.4% probability of remaining fully funded by 2045. The downside funding risk for this strategy was assessed by looking at the worst 5% of outcomes for the funding level over a 5 year period and was calculated to be 77.4% funded. These percentages are high and reflects the robustness of the current strategy in place, as well as the Fund's current strong funding position.

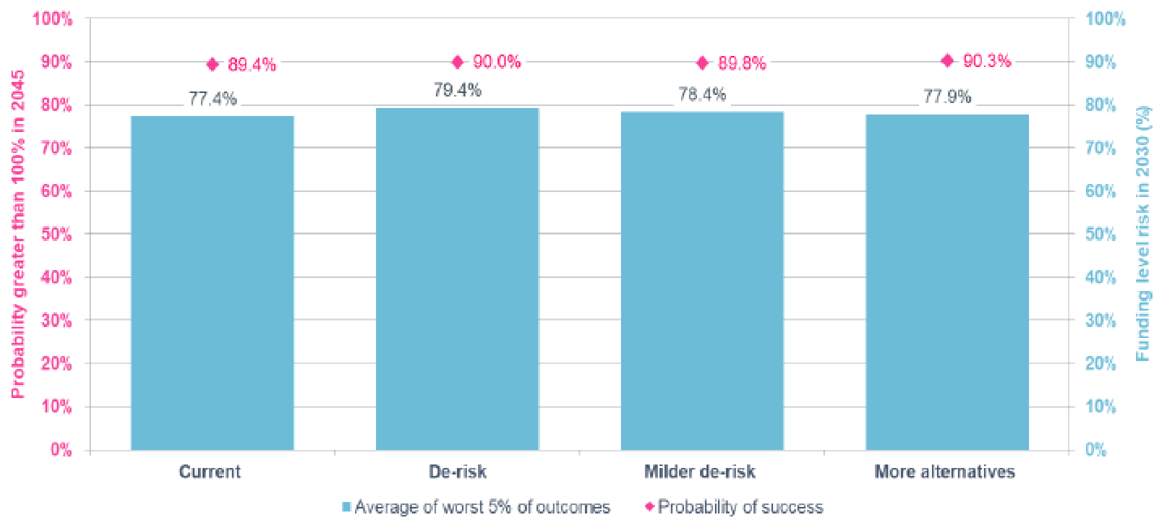
4.7 Whilst acknowledging that the current strategy is a robust strategy, Hymans proposed 3 alternative strategies to consider if the Fund's strategy could be enhanced by making strategic changes. The 3 alternate strategies are described below:

- **De-risk** – This strategy involves reallocating 6.0% of the Fund's holdings from diversified growth funds into index-linked gilts. It should be noted that the Fund's diversified growth fund allocation provides income, whereas the index-linked gilts currently do not, which will affect the Fund's cashflow position.
- **Milder de-risk** – Similar to the de-risked strategy reported above, this strategy involves a 3.0% reduction of the Fund's holding from diversified growth funds into index-linked gilts. Due to a number of preset 'triggers' being hit during 2024 and early 2025, whereby 3% of Fund assets were sold from diversified growth funds and transferred into index-linked gilts as yields rose, the Fund's actual holdings are already close to this strategy.
- **More alternatives** – This strategy focuses on new commitments to alternative investments by reallocating 8.5% of assets from diversified growth funds to private equity, private credit and infrastructure. However, when assessing the results of the alternative strategies modelled, there is a modest increase in the

likelihood of the funding level being greater than 100%. This modest increase is greatest under the 'more alternatives' strategy due to an increased return expectation, followed by the 'de-risk' strategy.

4.8 The outcomes of the Hymans analysis are set out in the chart below:

Chart 1: Probability of success versus risk



4.9 When assessing the results of the alternative strategies modelled, there is a modest increase in the likelihood of the funding level being greater than 100%. This modest increase is greatest under the 'more alternatives' strategy due to an increased return expectation, followed by the 'de-risk' strategy.

4.10 In assessing the impact on funding level risk in 5 years' time (i.e. in 2030), funding level risk is expected to be modestly higher under the alternative strategies modelled in comparison to the current strategy. Funding level risk in 2030 is expected to be lowest under the 'de-risk' strategy, as would be expected. However, the impacts are again relatively small.

Strategy recommendations

4.11 As discussed in the results of the modelling, and at the Investment Strategy Day, Hymans recommended the Committee implement the 'milder de-risk' investment strategy. This strategy involves a 3.0% decrease in the Fund's allocation to diversified growth funds with the proceeds invested into index-linked gilts (as illustrated in Table 2 below).

Table 2: Recommended long term strategic benchmark

Asset	Strategic asset allocation (%)
Listed equity	40.0
Private equity	5.5
Diversified growth funds	**14.0**
Property	7.0
Infrastructure	11.0
Private credit	5.0
Credit	10.5
Index linked gilts	**7.0**
Total	**100.0**

4.12 This strategy is attractive due to:

- The risk metrics, which improves slightly compared to the current strategy.
- Given the significant uncertainty created by pooling, Hymans do not believe making large changes to the strategy at this time would be sensible.
- This strategy is easy and low cost to implement. The Fund is already at its recommended target allocation to index-linked gilts and therefore, this change will require a simple adjustment to the target allocation to reflect this.

5. Investment Strategy Statement

5.1 The Fund is required to produce an Investment Strategy Statement (ISS) under Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

5.2 The Investment Strategy Statement required under Regulation 7, must include:

a) A requirement to invest money in a wide variety of investments;
b) The authority's assessment of the suitability of particular investments and types of investments;
c) The authority's approach to risk, including the ways in which risks are to be measured and managed;
d) The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
e) The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
f) The authority's policy on the exercise of rights (including voting rights) attaching to investments.

5.3 The 'Fit for the Future' consultation sets out clear expectations from the government as to what constitutes strategic decision-making and what the responsibility of the Pension Committee will be going forward. Notably that implementation will be conducted by what the Fund's LGPS Pool does and that a Strategic Asset Allocation should be restricted to high-level asset classes. This will impact what is currently required under Regulation 7a, b, and c within the ISS.

5.4 7d will also be impacted as due to the consultation and resultant Pension Schemes Bill, the Fund's pooling arrangements will change substantially with the withdraw of support for the continuation for ACCESS. Until the Fund has finalised its joining of another LGPS Pool it is not clear what the Fund's approach to pooling investments can and will take. Particularly as the Pools themselves are changing to meet the requirements.

5.5 The regulations are currently silent on other aspects of the requirements, such as local investment. This aspect will require the Fund to consider not only what the LGPS Pool will provide but also what other Funds are going to do in this space. It is not clear what regulations might require the Fund to do with these aspects.

5.6 Taking into consideration the various unknown aspects of what will be required by new regulations and delivery of a new LGPS Pool. It was considered that a full review of the ISS would not be the most effective use of Officer time, whilst the Fund is waiting for the Pensions Schemes Bill to be passed and for the publication of new regulations. As it is expected that these would likely require a substantial revision when they are provided, the decision has been taken to only amended the Strategic asset allocation proposed in the Investment Strategy Review and amend the rebalancing policy to align this with the revised strategic asset allocation. The revised ISS can be found at Appendix 4 to this report.

5.7 A thorough review of the content of the ISS will be undertaken once new regulations have been provided and confirmation of new pooling arrangements have been confirmed.

6. Carbon footprinting

6.1 The Fund appointed Northern Trust to conduct a carbon footprint measurement on its liquid investments as at 31 March 2025 (Appendix 5). This is the second year of that Northern Trust has provided this information previously this had been provided by Minerva in 2023 and by Vigeo Eiris/Moody's in prior years.

6.2 The results from this sixth year are not directly comparable to the first 4 years as there is a different methodology behind the calculations. It is also worth noting that this is an area where additional disclosure improves the data and it is an area where the industry is still developing, so even with the same supplier there will be differences in the data year on year.

6.3 The rationale for this analysis allows the Fund to monitor the progress of its investment decisions in relation to climate change. This also provides the Committee with information to assist them in their duties in ensuring the Fund's managers are reflecting Committee's stated beliefs when implementing their investment mandates on behalf of the Fund.

6.4 Carbon footprinting and transition scoring are still a relatively new science; there is limited consistency in the scoring between providers and can be quite subjective. The carbon footprint reports have been produced to help the Fund understand the direction that the Investment Managers are moving and to focus engagement during discussions with the Investments Managers for the coming year.

Carbon Footprinting Analysis Results – Summary

6.5 The high-level results of the carbon footprinting exercise are shown below along with comparator figures for the prior year:

31 Mar 25	Coverage		Scope 1	Scope 2	Scope 3	Scope 1 + 2	Scope 1 + 2 + 3
	Number	% Weight					
Total Carbon Emissions (tCO2e)							
Portfolio	86.1	97.1	53,539.0	14,315.8	745,687.5	67,854.8	813,542.3
Benchmark	99.8	100.0	147,777.9	29,207.6	2,085,483.6	176,985.6	2,262,469.2
Carbon Footprint (tCO2e) / GBP Invested							
Portfolio	86.1	97.1	22.4	6.0	311.4	28.3	339.7
Benchmark	99.8	100.0	61.7	12.2	870.9	73.9	944.8
Carbon Intensity (tCO2e) / GBP Revenue							
Portfolio	86.1	97.1	71.2	19.0	991.4	90.2	1,081.6
Benchmark	99.8	100.0	120.7	23.9	1,703.8	144.6	1,848.4
Weighted Average Carbon Intensity (tCO2e) / GBP Revenue							
Portfolio	91.3	98.5	51.4	21.0	897.0	72.4	969.4
Benchmark	99.8	100.0	99.3	22.4	1,290.6	121.7	1,412.3

31 Mar 24	Coverage		Scope 1	Scope 2	Scope 3	Scope 1 + 2	Scope 1 + 2 + 3
	Number	% Weight					
Total Carbon Emissions (tCO2e)							
Portfolio	70.6	78.0	58,906.2	13,465.3	971,795.3	72,371.5	1,044,166.8
Benchmark	99.9	100.0	156,294.7	28,078.3	1,917,527.5	184,373.1	2,101,900.6
Carbon Footprint (tCO2e) / GBP Invested							
Portfolio	70.6	78.0	33.5	7.7	552.2	41.1	593.4
Benchmark	99.9	100.0	88.8	16	1,089.7	104.8	1,194.4
Carbon Intensity (tCO2e) / GBP Revenue							
Portfolio	70.6	78.0	79.2	18.1	1,306.0	97.3	1,403.3
Benchmark	99.9	100.0	136.2	24.5	1,670.9	160.7	1,831.5
Weighted Average Carbon Intensity (tCO2e) / GBP Revenue							
Portfolio	92.5	98.5	57	24.5	1,050.0	81.6	1,131.6
Benchmark	99.9	100.0	91.6	21.4	1,267.8	113.1	1,380.9

Absolute Emissions

6.6 The figures shown in the report at Appendix 5 reflect the actual disclosures made by the Fund's investee companies that Northern Trust were able to identify and collect. The table reflects the actual Greenhouse Gas (GHG) emissions disclosure position as far as they could determine, and the total amount of GHG emissions is clearly connected to the size of the portfolio, in terms of the number of companies held.

Emissions Intensity

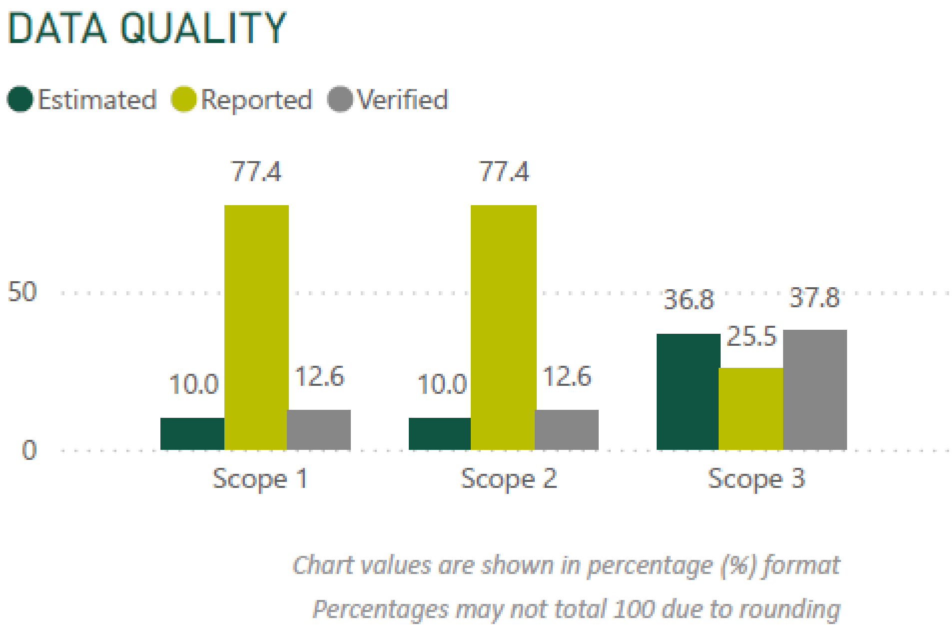
6.7 The Fund's current carbon footprint - i.e., its 'share' of the emissions made by its investee companies - equates to circa 90.2 (circa 97.3 in March 2024) tonnes of CO_2e emissions per GBP (pound sterling) revenue generated by the companies. Again, the figures shown are connected to the size of the individual portfolio, and also the size of investment held in each investee company.

Data Quality

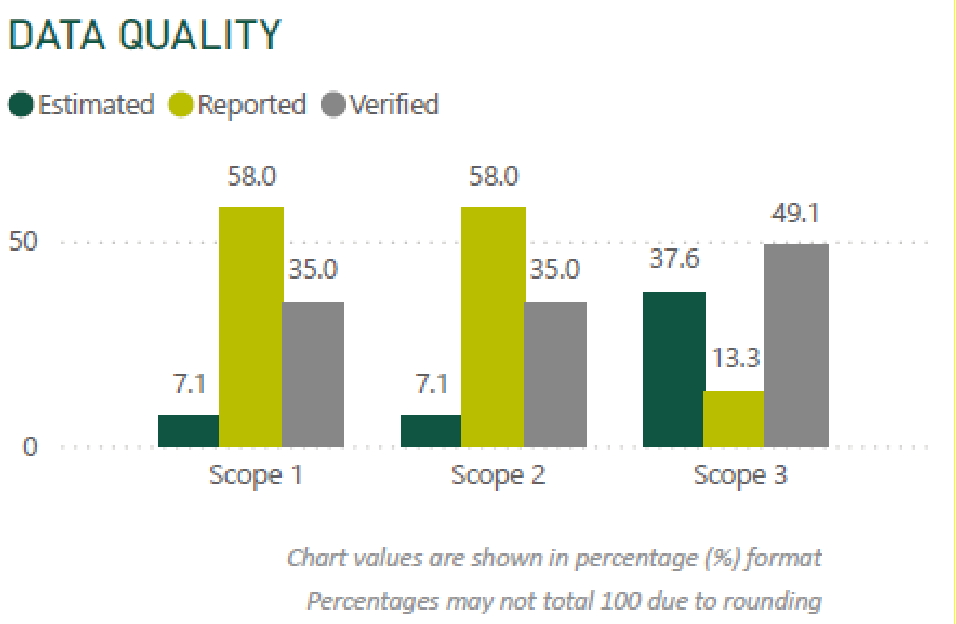
6.8 In undertaking this assessment, Northern Trust used the following criteria:

Categorization	**Description**
Verified	Reported GHG emissions calculated in line with the GHG Protocol and verified by a third-party
Reported	Reported GHG emissions calculated in line with the GHG Protocol without verification by a third-party
Estimated	Reported GHG emissions where the company has explicitly stated that they are 'estimated'

31 March 2025



31 March 2024

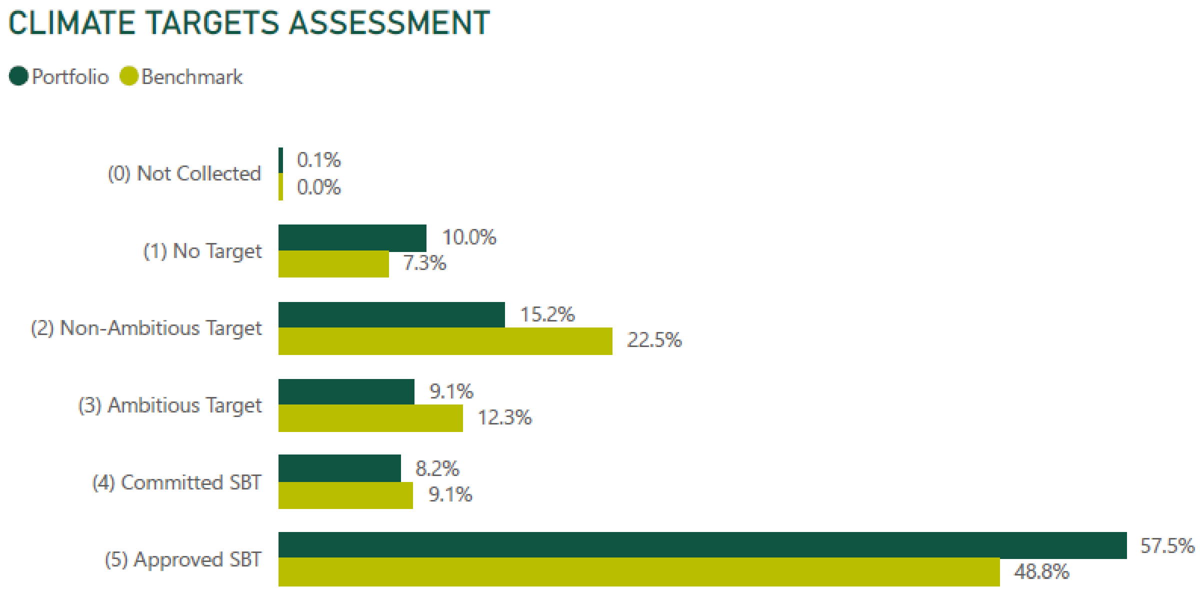


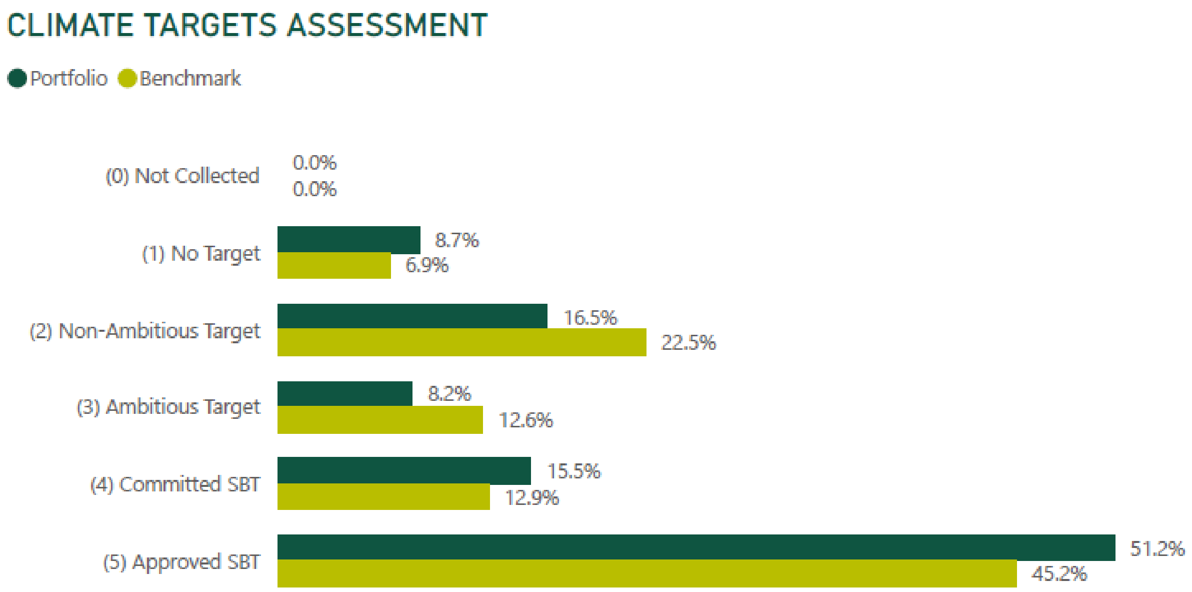
6.9 The results show that around 86% of investee companies (71% at 31 March 2024) are covered by Northern Trust with 90% of those disclosing GHG emissions are doing so on a reported or verified basis in line with the GHG Protocol (93% at 31 March 2024). However there is a decline in the verified data of 22.4% over the year.

Climate Scenario Alignment

6.10 In undertaking this assessment, Northern Trust have assessed the Portfolio temperature score to be 1.9 degrees (2.3 degrees in March 2024). This score is calculated by comparing the portfolio owned projected emissions in 2050 with the available owned carbon budgets for Sustainable Development Scenario (SDS) and Stated Policies Scenario (STEPS). The score is an interpolation between the two nearest scenario temperature thresholds based on the respective overshoot. The temperature score has a range between 1.5 and 6 degrees.

6.11 The climate targets assessment considers an entity's targets based on the existence and quality of greenhouse gas emissions reduction targets. It takes into account both science-based targets and other targets set by the company. From this it shows that over 57% (over 51% in March 2024) of the Fund's invested companies have an approved science-backed target.





7. Conclusion and reasons for recommendation

7.1 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.

7.2 The Pension Committee is recommended to note this report, approve the recommendation to the amended asset allocation set out in paragraph 4.11 and approve the Investment Strategy Statement as set out in Appendix 4.

IAN GUTSELL
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