

Investment beliefs policy

This paper has been prepared for the Pensions Committee (“the Committee”) and the Pensions Officers (“the Officers”) of the East Sussex Pension Fund (“the Fund”) for the purpose of considering the investment beliefs survey recently completed by the Committee members and providing a proposed investment beliefs statement for approval. It has not been prepared for use for any other purpose and should not be so used. The paper should not be disclosed to any third party except as required by law or regulatory obligation or with our prior written consent. We accept no liability where the paper is used by or disclosed to a third party unless we have expressly accepted such liability in writing. Where this is permitted, the paper may only be released or otherwise disclosed in a complete form which fully discloses our advice and the basis on which it is given.

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Background

Current government reform of the LGPS means many investment decisions will move from the Committee to the pool.

The Committee’s decisions will be formally limited to the strategic asset allocation, deciding what proportion of the Fund’s assets should be allocated to each of nine asset class buckets as defined by government. Below that, all decisions sit with the pool. The Fund’s belief statement will therefore be an important tool for communicating the Committee’s priorities and preferences to be reflected in the pool’s management of the Fund’s assets.

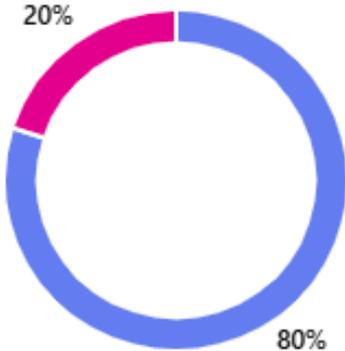
Similarly, government reform also means that the Fund will need to have an approach to investing “locally”. In this area, the Committee are given a greater remit by government to determine a local investment strategy, needing to define issues such as the geographical area defined as “local” (with the widest permitted being the area covered by the parter funds within the pool), as well as any areas of focus in particular types of investment or impacts to achieve. Whilst these are the Committee’s decisions, the government are clear that if policies on these are too prescriptive in a way that prevents the pool being able to implement with scale (e.g. a small geographic area with specific asset classes and impacts that would require the pool to set up a specific solution for the Fund) then the pool can choose to ignore the policy.

A survey was therefore shared with the Committee in December 2025 asking a range of questions to help set out these beliefs, as well as an approach to local investment. This paper sets out a summary of the questions and responses, and puts forward a proposed investment beliefs statement for the Fund to adopt.

Survey results

- (1) The purpose of the Fund is to pay pensions in full when they fall due, done so in a way that manages stability and affordability for employers.**

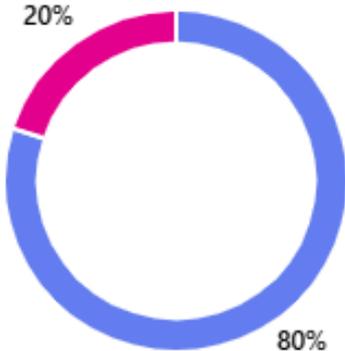
| | |
|---------------------|---|
| ● Strongly agree | 4 |
| ● Agree | 1 |
| ● Neutral | 0 |
| ● Disagree | 0 |
| ● Strongly disagree | 0 |



Additional comments: Respondents agreed with the stated purpose, with one individual highlighting the Fund should operate within an ethical framework and consider the environmental implications of its investments. Others reinforced the importance of stability, affordability and legal compliance.

(2) The Fund should invest with a long-term focus, given its long-term liabilities, and be able to ride out shorter-term market volatility to achieve longer-term returns.

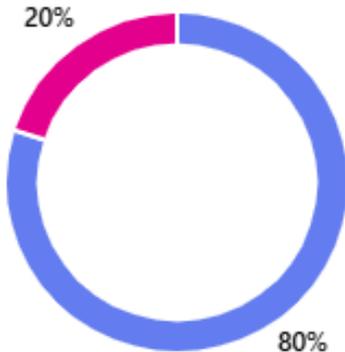
| | |
|---------------------|---|
| ● Strongly agree | 4 |
| ● Agree | 1 |
| ● Neutral | 0 |
| ● Disagree | 0 |
| ● Strongly disagree | 0 |



Additional comments: Respondents noted that although the Fund can take a long-term approach, it must still acknowledge medium-term risks so that employer contributions remain stable. Several comments highlighted the growing importance of cashflow availability as the Fund matures. Others observed that while short-term volatility is tolerable, extended periods of poor performance would still be a concern.

(3) Funding and investment are linked. The investment strategy should be set with a strong eye to achieving/maintaining full funding in a manner that achieves a suitable balance of stable and affordable contribution rates for employers.

| | |
|---------------------|---|
| ● Strongly agree | 4 |
| ● Agree | 1 |
| ● Neutral | 0 |
| ● Disagree | 0 |
| ● Strongly disagree | 0 |



Additional comments: Commentary centred on the need for realistic assumptions when linking funding and investment strategy. Some respondents stressed that climate-related financial risks could materially affect the Fund’s liabilities, and therefore should be reflected in discount rate assumptions and contribution planning.

(4) The Fund must earn strong levels of return above inflation in order to maintain affordable contribution rates for employers. This requires taking investment risk. The optimal level of risk-adjusted return should be sought in the Fund’s strategy to achieve the target return in the safest way possible.

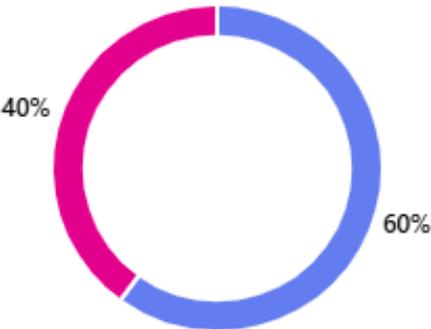
| | |
|---------------------|---|
| ● Strongly agree | 3 |
| ● Agree | 2 |
| ● Neutral | 0 |
| ● Disagree | 0 |
| ● Strongly disagree | 0 |



Additional comments: Respondents reiterated that achieving returns above inflation requires taking investment risk. A number emphasised that climate-related economic risks should form part of the assessment of long-term return prospects.

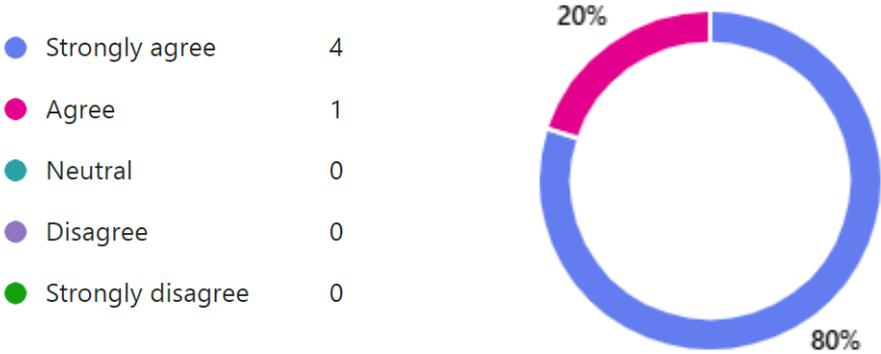
(5) Risk management is important, however the Fund has the time horizons to ride out short-term market volatility. Diversification across asset classes, investment managers and styles should be utilised to manage risks.

| | |
|---------------------|---|
| ● Strongly agree | 3 |
| ● Agree | 2 |
| ● Neutral | 0 |
| ● Disagree | 0 |
| ● Strongly disagree | 0 |



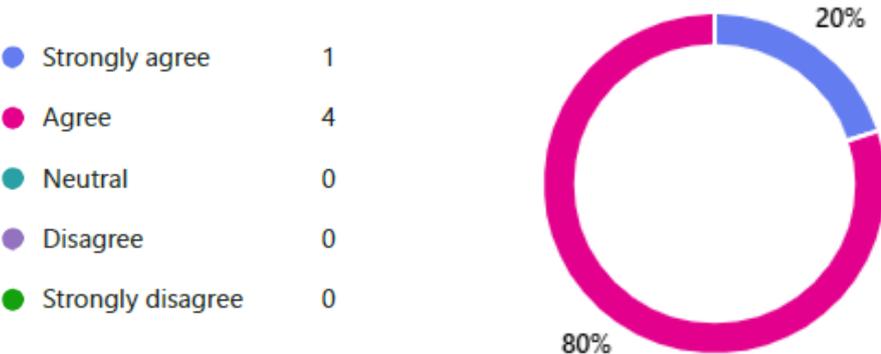
Additional comments: Comments reflected agreement that diversification is important, but there were contrasting views about which sectors should be included. Some respondents felt the Fund should exclude fossil fuel and defence companies for ethical or climate-related reasons, while others argued strongly that such exclusions should not be made if the companies can deliver superior returns. Several respondents also raised concerns about concentration risks and about risks emerging in private markets, particularly around valuations and exit opportunities.

(6) Cashflow is an important consideration in the Fund’s investment strategy. Being a forced seller of assets can lead to material risks of poorer long-term returns. The Fund should have a process in place to manage this efficiently.



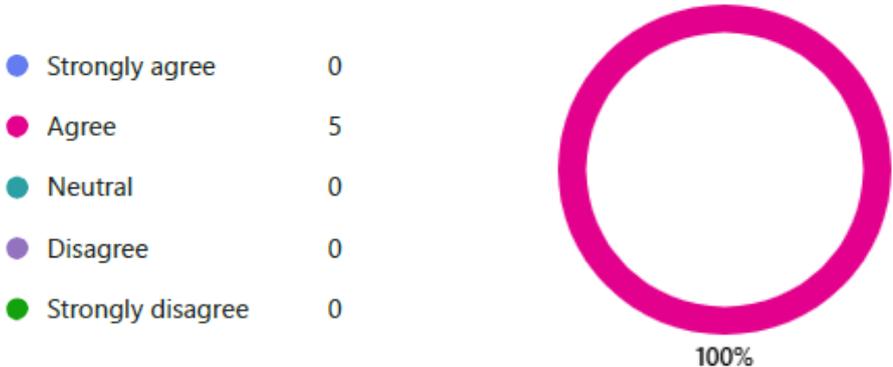
Additional comments: Respondents commented that cashflow pressures are increasing because of the Fund’s ageing demographic. They emphasised that avoiding forced sales is important, and that liquidity needs should play a significant role in shaping the overall investment strategy.

(7) There are pros and cons to both active and passive investment. Using a blend of approaches provides diversification benefits. Passive management is beneficial for its lower costs and ability to provide a market return, but active management should be used where there is reasonable expectation that it will be rewarded with higher returns or lower risk.



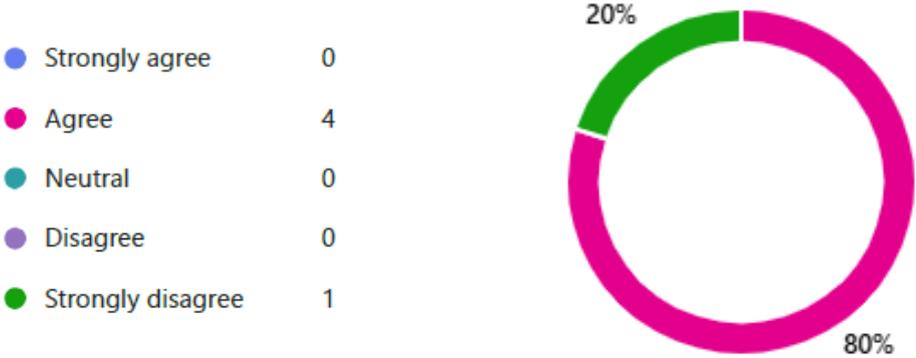
Additional comments: Respondents expressed support for combining active and passive management. Some warned that passive investment can lead to unintended exposures, including to sectors they considered unethical, whereas others highlighted the role of passive funds in reducing costs. One respondent suggested that passive approaches with robust ethical or responsible investment filters could mitigate these concerns.

(8) Illiquid private market investments can provide benefits to the Fund, including higher returns compared to public market equivalents, diversification and income provision. While investing in illiquid assets is a risk, the Fund has a long enough time horizon and enough liquidity to manage this. However, excessive levels of illiquid investment will present a risk and the optimal level should be kept under review as the Fund matures.



Additional comments: Most respondents recognised the value of illiquid assets given the Fund’s long-term horizon. However, some cautioned that private equity presents valuation and exit risks, while others emphasised that any illiquid investments should be aligned with ethical principles and climate-related objectives.

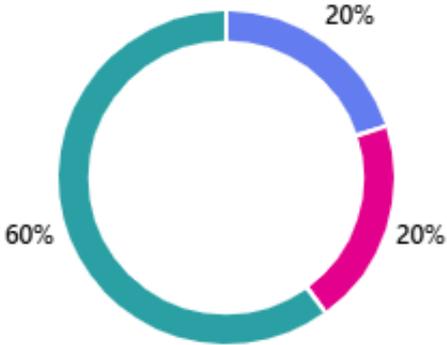
(9) While cost management is important, value for money and net-of-fees returns are more important. The Fund is willing to invest in higher-fee investment solutions, such as active funds and private markets, if there is an expectation that this will lead to improved financial outcomes overall.



Additional comments: One respondent argued the Fund’s investment managers should be incentivised through performance-based fees. Others accepted that higher-fee strategies can be justified when they provide strong net-of-fees returns.

(10) Rebalancing is important and can add value over the long-term. The Fund should have strict ranges around the central asset allocation targets and rebalance back to the target if and when the allocation strays outside of these ranges.

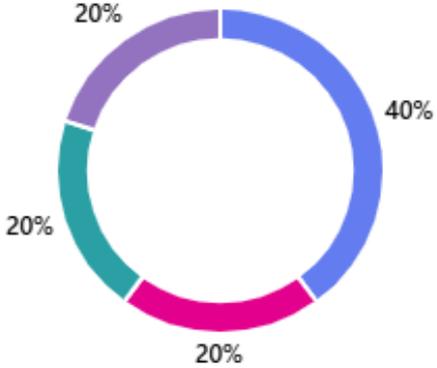
| | |
|---------------------|---|
| ● Strongly agree | 1 |
| ● Agree | 1 |
| ● Neutral | 3 |
| ● Disagree | 0 |
| ● Strongly disagree | 0 |



Additional comments: Comments indicated general support for maintaining rebalancing ranges, although one respondent felt that these ranges should allow sufficient flexibility rather than being overly strict.

(11)Responsible Investment practices can add value through higher returns and/or improved risk management. The Fund will look to implement this across the portfolio where it is expected to achieve these financial benefits. However, the Fund is not willing to forgo returns to achieve a positive impact.

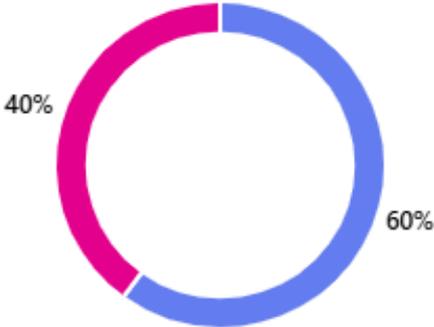
| | |
|---------------------|---|
| ● Strongly agree | 2 |
| ● Agree | 1 |
| ● Neutral | 1 |
| ● Disagree | 1 |
| ● Strongly disagree | 0 |



Additional comments: Views varied considerably. Some respondents framed responsible investment primarily as a risk-management tool. Others argued that the Fund should avoid sectors they consider unethical and that it should be willing to sacrifice some returns to achieve positive climate or social outcomes.

(12)Proper stewardship of the Fund’s assets is important and it is expected that the Fund’s pool will actively engage with investee companies and investment managers to achieve positive outcomes.

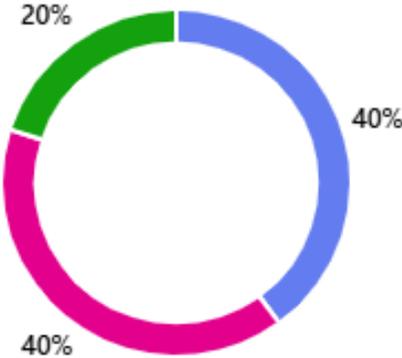
| | |
|---------------------|---|
| ● Strongly agree | 3 |
| ● Agree | 2 |
| ● Neutral | 0 |
| ● Disagree | 0 |
| ● Strongly disagree | 0 |



Additional comments: Respondents agreed that stewardship is an important responsibility. Several emphasised that engagement should be firm, with a willingness to vote against company directors or divest from companies that do not respond adequately to concerns.

(13) Climate change is a significant financial risk to the Fund that should be adequately reflected and managed in the Fund’s investments.

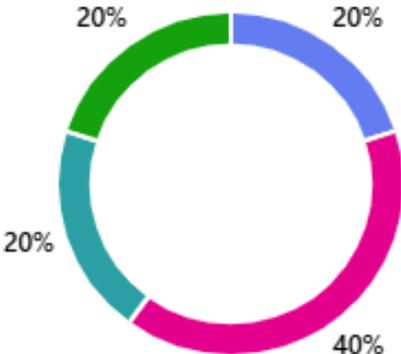
| | |
|---------------------|---|
| ● Strongly agree | 2 |
| ● Agree | 2 |
| ● Neutral | 0 |
| ● Disagree | 0 |
| ● Strongly disagree | 1 |



Additional comments: Comments on climate change demonstrated a wide spectrum of views. Some respondents saw climate change as a major financial risk that must be integrated into all investment considerations. Others felt strongly that the Fund is devoting too much attention to climate issues and should focus more narrowly on paying pensions.

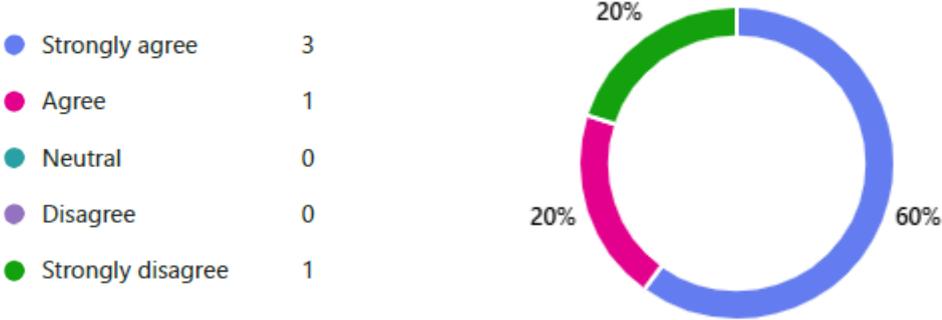
(14) The Fund should define “local” as the widest geographic area permissible under the regulations and guidance (the pool area) in order to maximise the opportunity set and risk-adjusted returns.

| | |
|---------------------|---|
| ● Strongly agree | 1 |
| ● Agree | 2 |
| ● Neutral | 1 |
| ● Disagree | 0 |
| ● Strongly disagree | 1 |



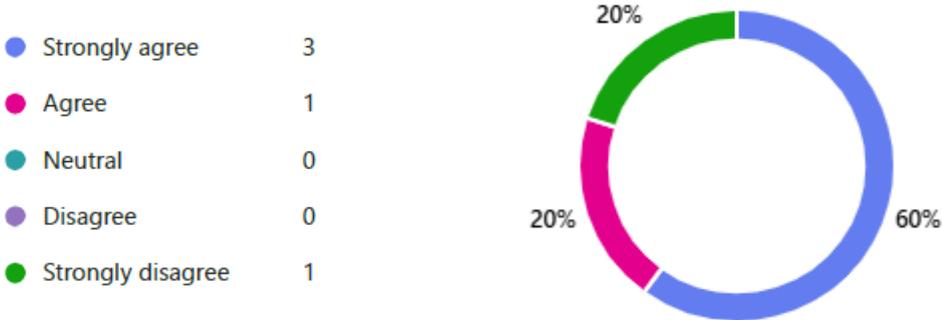
Additional comments: Respondents offered differing views on what “local” should mean. One felt the pool area was too broad and that some social-impact-focused investments could justify lower returns. Another felt strongly that local investments should not prioritise social benefits and should be judged solely on financial grounds. There was also concern that vague definitions could lead to uneven or inefficient allocations.

(15)When investing locally, the Fund should not specifically target particular types of investments for the local allocation, in order to maximise the opportunity set and risk-adjusted returns.



Additional comments: Some respondents disagreed with the statement and argued that the Fund should specify climate-positive, nature-positive or social-impact requirements for local allocations. Others supported a more flexible approach, noting that being too prescriptive could restrict opportunities for the pool.

(16)When investing locally, the Fund should not target particular types of impacts to aim for in its local investments, in order to maximise the opportunity set and risk-adjusted returns.



Additional comments: Some respondents felt strongly that local investments should have defined positive impacts. Others cautioned against adding too many beliefs and argued that investment beliefs should be tightly linked to fiduciary outcomes and aligned with pool-level beliefs.

Summary of survey findings

1. The purpose of the Fund is to pay pensions in full when they fall due. Funding and investment are linked, and the investment strategy should be set with a strong eye to achieving and maintaining full funding in a manner that achieves a suitable balance of stable and affordable contribution rates for employers.
2. The Fund should primarily invest with a long-term focus, given its long-term liabilities, and be able to ride out shorter-term market volatility. However, the Fund recognises the importance of managing medium-term risks and the impact they can have on employer contribution rates, and as well as the growing importance of managing cashflow.
3. The Fund must earn strong levels of return above inflation in order to maintain affordable contribution rates for employers. This requires taking investment risk, and the optimal level of risk-adjusted return should be sought in the safest way possible, reflecting long-term financial risks including climate-related risks.
4. Risk management is important, however the Fund has the time horizons to ride out short-term market volatility. Diversification across asset classes, investment managers and styles, including both active and passive management, should be utilised to manage risks, while recognising that some concentrated or high-risk exposures may require additional scrutiny.
5. Cash flow is an important consideration in the Fund's investment strategy. Being a forced seller of assets can lead to material risks of poorer long-term returns, so the Fund should have a clear and efficient process in place to manage this.
6. There are pros and cons to both active and passive investment. Using a blend of approaches provides diversification benefits. Passive management is beneficial for its lower costs and ability to provide a market return, while active management should be used where there is a reasonable expectation of higher returns or lower risk and where index exposure may create concentration risks.
7. Illiquid private market investments can provide benefits to the Fund, including higher returns compared to public market equivalents, diversification and income provision. Whilst investing in illiquid assets is a risk, the Fund has a long enough time horizon and enough liquidity to manage this. However, excessive levels of illiquid investment will present a risk and the optimal level should be kept under review as the Fund matures. Similarly, the potential for risks across private markets asset classes, such as concentration of risks and uncertain valuations, should be considered in the investment process.
8. While cost management is important, value for money and net-of-fees returns are more important. The Fund is willing to invest in higher-fee investment solutions, such as active funds and private markets, where there is an expectation of improved financial outcomes, and where fees align fairly with performance delivered.
9. Rebalancing is important and can add value over the long term. The Fund should have ranges around central asset allocation targets and rebalance back to target when allocations move outside these ranges, allowing an appropriate level of flexibility.
10. Responsible Investment practices can add value through higher returns and improved risk management. The Fund will implement these where they are expected to achieve financial benefits, viewing environmental, social and governance considerations as financial risks and opportunities.

11. Proper stewardship of the Fund's assets is important, and the Fund expects its pool to actively engage with investee companies and investment managers to achieve positive outcomes, escalating appropriately where progress is insufficient.
12. Climate change is one of a number of significant financial risks to the Fund that should be adequately reflected and managed within its investments.
13. The Fund should define "local" as the widest geographic area permissible under the regulations and guidance in order to maximise the opportunity set and risk-adjusted returns. That said, the fund does hold some preference for investments to be within Sussex, while ensuring that investments are aligned with the Fund's wider financial and responsible investment goals.
14. When investing locally, the Fund does not target particular types of investments or impact for the local allocation, so that it can maximise the opportunity set. Any local investments should still meet the Fund's financial, responsible investment and governance standards.

Proposed Fund beliefs

1. The purpose of the Fund is to pay pensions in full when they fall due, and to do so by targeting a level of risk and long-term real return that finds the correct balance of contribution affordability and stability for employers.
2. Cash flow is an important consideration in the Fund's investment strategy and the Fund requires a clear and efficient process in place to manage this. Alongside this, the Fund believes that rebalancing is important and can add value over the long term, and can be used to efficiently meet cashflow needs.
3. The Fund utilises a mixture of investment and management types in order to achieve ample diversification. This includes active and index-tracking approaches, and public and private markets.
4. The Fund focuses on value for money and net-of-fees returns over outright cost minimisation.
5. Responsible Investment practices, including those considering climate change, can add value through higher returns and improved risk management. The Fund will implement these where they are expected to achieve financial benefits, viewing environmental, social and governance considerations as financial risks and opportunities.
6. Proper stewardship of the Fund's assets is important, and the Fund expects its pool to actively engage with investee companies and investment managers to achieve positive outcomes, escalating appropriately where progress is insufficient.

Proposed Local Investment approach

The Fund invests a share of its asset locally. There is a preference for investments to be invested within Sussex, however achieving attractive levels of risk and return, at least in line with those achievable from investments outside of Sussex, is more important. Investments across the wider area covered by the Partner Funds of the Border to Coast Pension Partnership are preferred if they offer better risk-adjusted returns. Similarly, the Fund does not target specific investment types or impacts with its local investment, but leaves the widest possible opportunity set to find the best risk-adjusted returns.

I look forward to discussing this paper with the Committee at the 26 February Committee meeting.

Iain Campbell, Senior Investment Consultant

For and on behalf of Hymans Robertson LLP

Risk warning

Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and Real Estate, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

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