

**Report to:** Pension Committee

**Date:** 26 February 2026

**By:** Chief Finance Officer

**Title of report:** Investment Report

**Purpose of report:** To provide the Pension Committee with an update on the investment activities undertaken by the East Sussex Pension Fund.

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## **RECOMMENDATIONS:**

The Pension Committee is recommended to:

- 1) note the report; and
  - 2) Approve the investment beliefs and approach to local investment as set out in section 8 of this report
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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 created following changes in the 2016 LGPS Investment Regulations. These changes aimed to facilitate collective investment vehicles and enable administering authorities to pool their investments. The 'Fit for the Future' consultation has resulted in ACCESS no longer being a supported pool by government. New pooling arrangements are being implemented, and the Fund will join the Border to Coast Pensions Partnership Ltd investment pool on 1 April 2026.

## **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 work to join new LGPS Pool
  - Client Agreements
  - Joint Pool governance
  - Transition of assets
- Revise the Investment Strategy Statement in line with new regulation and guidance

- Principles for Responsible Investment (PRI) submission
- UK Stewardship code submission

### 3. Quarterly Performance Report

3.1 The Quarterly Performance Report for Q4 2025 is attached as Appendix 2; this quarter saw the Fund grow to £5.4bn, returning 2.1% against a 2.4% benchmark. Equity and impact mandates were the main detractors, while infrastructure delivered strong outperformance. The Fund rebalanced over the period, allocating £81m to both index-linked gilts and absolute return strategies, funded largely through disinvestments from global equity mandates. Income assets remain underweight against target.

3.2 Key highlights are:

Fund Valuation:

- 30 September 2025: £5.3bn
- 31 December 2025: £5.4bn (+£0.1bn, +2.1% absolute return)

Market Background:

The report notes a mixed but generally supportive global environment:

- Global growth remained resilient, particularly in the US and parts of Asia.
- Inflation trends diverged, with US inflation falling to 2.7% while UK inflation rose to 3.4%.
- Major central banks shifted policy:
  - US Fed and Bank of England cut rates in Q4.
  - Bank of Japan raised rates to a 30-year high.
- Gilt yields fell, while US and European yields rose due to expected higher government issuance.
- Equities performed strongly overall, up 3.8% globally for the quarter and 20.5% for the year.
- Infrastructure and gold performed well; oil prices weakened.

Relative Performance:

- Q4 2025: – 0.3% vs benchmark
- 12 months: – 3.0%
- 3 years (p.a.): – 3.9%

Performance Drivers:

Main detractors:

- Baillie Gifford Global Alpha (-1.8% absolute and -5.0% relative)
- Wellington Active Impact Equity (-2.8% absolute and -6.0% relative)

Both delivered negative absolute returns in a positive equity quarter and continue a trend of underperformance.

Top performers:

- Infrastructure managers outperformed strongly:
  - Atlas Infrastructure: +5.0% absolute and +4.6% relative
  - IFM Global Infrastructure: +5.3% absolute and +4.2% relative
  - Pantheon Infrastructure: 4.3% absolute and +3.2% relative

These strategies helped offset equity underperformance over the quarter.

Asset Allocation:

- Overweight in Growth: +1.2% (+3.8% Q3)
- Overweight in Protection (including cash): +2.5% (+1.4%)
- Underweight in Income: -3.7% (-5.2%)

This imbalance was reduced during the quarter due to the rebalancing activity that took place, but the primary cause continues to be due to the unfulfilled private debt allocation.

3.3 Overall, the report describes performance as mixed, with strong results in infrastructure balancing equity weakness.

## 4. Stewardship Code

4.1 The Financial Reporting Council (FRC) UK Stewardship code requires the Fund to produce a report which demonstrates how the Fund meets the 12 principles within the code over a 12-month period. The principles are divided into four categories;

- purpose and governance,
- investment approach,
- engagement, and
- exercising rights and responsibilities.

4.1 At its meeting in November 2025 the Committee were advised that the Fund had submitted the UK Stewardship Code report to the Financial Reporting Council (FRC).

4.2 The FRC confirmed on 28 January that their signatories list was updated. The Fund is pleased to confirm that it has maintained its status as a UK stewardship code signatory. The Stewardship report is now on our website along with notification that we are still signatories.

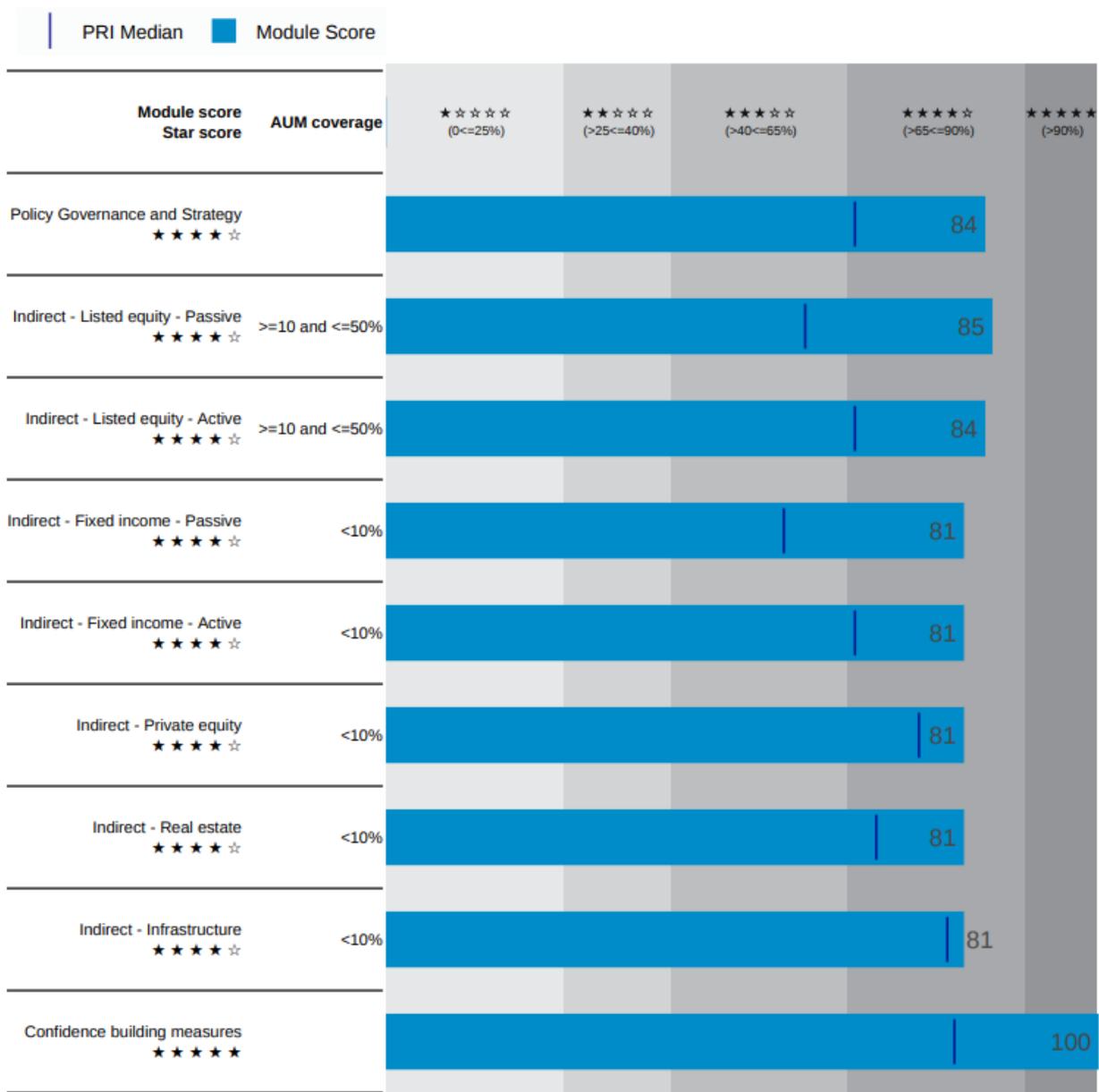
## 5. Principles of Responsible Investment assessment

5.1 In line with its commitments as a signatory to the Principles of Responsible Investment (PRI), the Fund submitted its annual PRI report in July 2025. PRI published the Fund's Private Assessment Report and Public Full Transparency Report in November 2025.

5.2 The Fund's responses have been published on the PRI website within its Public Full Transparency Report. The 2025 Private Assessment Report scored the Fund's responses on the assessable modules of the reporting framework, as shown in the summary scorecard below:

2025 Summary Scorecard:

### SUMMARY SCORECARD



## 2024 Summary Scorecard:

### SUMMARY SCORECARD



5.3 The Fund's 2025 PRI report marked an improvement over its 2024 report. The largest improvement came from the Confidence Building Measures module, which increased from 70 points in 2024 to 100 points in 2025. This was due to enhancements in processes, providing greater assurance on responsible investment data and procedures. The scores for all other modules remained broadly consistent with previous years. Due to the PRI's assessment criteria being designed to evaluate continuous improvement and include requirements that vary across asset classes and organisational practices, it is not possible for the Fund to achieve a score of 100 across all assessed modules.

5.4 The Fund reviewed changes to PRI questions and assessment criteria to ensure its responsible investment approach reflects best practice. The Fund also reported on a new mandatory module introduced in the 2025 PRI reporting framework: 'Other Responsible

Investment Reporting Obligations (ORO)'. This module is designed to capture reporting demands faced by PRI signatories and is not scored.

5.5 Overall, the Fund scored significantly above the median on key modules including Policy Governance and Strategy, Confidence Building Measures, Listed Equity, and Fixed Income. The Fund achieved four stars for every module except Confidence Building Measures, which scored five stars.

## **6. Competition and Markets Authority**

6.1 With effect from 10 December 2019, the East Sussex Pension Fund is required to comply with the Competition and Markets Authority (CMA) Investment Consultancy and Fiduciary Management Market Investigation Order 2019 and set strategic objectives for its investment consultant. This was brought in by the CMA investigation into the investment consultancy and fiduciary market, with the aim for Committees to better assess and evaluate the quality of their investment consultant. It is Part 7 of the order which requires trustees to set strategic objectives for their investment consultant. Specifically, Part 7 states:

“Pension Scheme Trustees must not enter into a contract with an Investment Consultancy Provider for the provision of Investment Consultancy Services or continue to obtain Investment Consultancy Services from an Investment Consultancy Provider unless the Pension Scheme Trustees have set Strategic Objectives for the Investment Consultancy Provider.”

6.2 The Committee have previously agreed strategic objectives at the February 2024 Committee meeting after the appointment of Hymans Robertson, which were prepared with reference to the Pensions Regulator's guidance, combining a mixture of quantitative and qualitative measures as set out in Appendix 3.

6.3 The Fund is required to confirm that it has complied with the requirements over the last 12 months and had objectives in place. This must be re-confirmed on an annual basis. The Fund must submit a 'compliance statement' and 'certificate' stating that they have complied with the CMA requirement. This was provided to the CMA on 6 January 2025.

6.4 If the Committee are aware of any failure on their own part to comply with any part of the Order, they must report such non-compliance to the CMA within 14 days of becoming aware of the failure to comply and provide a brief description of the steps taken to address the failure.

## **7. Requirements for the Investment Strategy Statement**

7.1 Within the draft Local Government Pension Scheme (Pooling, Management and Investment of Funds) Regulations 2026, the Investment Strategy Statement (ISS) will continue to be a statutory document that the Fund must prepare. It will set out how the Fund determines its long-term investment objectives, approach to risk, responsible investment policies, local investment objectives and strategic asset allocation, within the framework of mandatory asset pooling.

7.2 The ISS will need to be prepared after taking proper advice from the Fund's asset pool company, consulted on with key stakeholders, and published by 30 September 2026. The new Regulations introduce additional requirements compared to the previous framework, including a specific high-level objective for local investments aligned with regional economic priorities.

7.3 Responsibility for setting the investment strategy and approving the ISS rests with the Fund. While the investment pool advises on and implements the strategy, accountability will remain with the Fund for overall fiduciary oversight. Pension Committee oversight is required to ensure the ISS is compliant with the regulations and statutory guidance, aligned with the Funding Strategy Statement, and capable of effective implementation.

7.4 The ISS must include, as a minimum:

- high-level financial objectives consistent with the Funding Strategy Statement;
- the authority's approach to investment risk;
- policies on responsible investment, stewardship and voting;
- a high-level local investment objective, including a target range as a proportion of fund assets; and
- a Strategic Asset Allocation covering all Fund assets, expressed by asset class with tolerance ranges and paying regard to local investment.

7.5 The Regulations restrict investment in entities connected with the administering authority to no more than 5% of total fund assets, to manage conflicts of interest and concentration risk.

7.6 Before publication, the ISS must be consulted on with employers, scheme members (or their representatives), the relevant strategic authority and other required parties. The ISS must be reviewed following each actuarial valuation and within 18 months of the valuation date. Any revised ISS must also be consulted on and published. With out-of-cycle reviews limited to exceptional circumstances.

7.7 The ISS must be prepared and maintained in line with statutory guidance. Failure to comply may result in a direction from the Secretary of State.

7.8 The guidance clarifies the ISS requirements to set out clear high-level investment objectives, consistent with the Funding Strategy Statement, covering:

- long-term returns,
- acceptable risk,
- cash-flow / liquidity, and
- local investment (including a target range).

7.9 The ISS must articulate a high-level approach to responsible investment and stewardship, focusing on financially material Environmental, Social, and Governance (ESG) factors and setting objectives for engagement and voting to be delivered by the pool. The guidance discourages prescriptive exclusions or instructions on individual investments.

7.10 A high-level local investment objective must also be defined, including:

- a target range expressed as a percentage of fund assets, and
- preferences on target area, risk, return and impact, informed by local growth priorities.
- Investment decisions remain the responsibility of the pool and must be compatible with the Fund's primary duty to pay benefits.

## **8. Investment Beliefs**

8.1 The shift in requirements set out in regulations for the Investment Strategy Statement (ISS) along with the deadline of the 30 September 2026 to have the new ISS in place

provides little time to prepare this document. With the reforms meaning that implementation decisions will sit with Border to Coast Pensions Partnership Ltd, with the Pension Committee retaining responsibility for investment strategy including a limited strategic asset allocation and local investment policy. It was considered prudent for the Fund to consider its investment beliefs within this new framework. The beliefs need to be at a high level to enable Border to Coast Pensions Partnership Ltd to deliver to the aggregated beliefs of the 18 funds that make up the new pool.

8.2 To facilitate this, Hymans Robertson were requested to undertake a piece of work to establish a set of beliefs that will translate to the new way of working. To do this a survey was completed by Pension Committee members during December 2025 to capture views on investment objectives, risk, responsible investment, and local investing. The resulting investment beliefs, local investment approach and survey results are included as Appendix 4 to this report. The resulting summary investment beliefs are structured so that they support fiduciary decision-making while allowing sufficient flexibility for efficient implementation at scale.

8.3 The proposed investment beliefs are:

- *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.*
- *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.*
- *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.*
- *The Fund focuses on value for money and net-of-fees returns over outright cost minimisation.*
- *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.*
- *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.*

8.4 The Proposed Local Investment approach is summarised below:

*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 Pensions 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.*

8.5 The Investment Beliefs are designed to provide a clear, proportionate, and fiduciary-focused framework for guiding the Fund's Investment Strategy Statement and interaction with its LGPS pool's implementation.

## **9. Conclusion and reasons for recommendation**

9.1 The Fund's investments are monitored regularly to ensure compliance with the strategic asset allocation set out in the ISS and to keep the Committee informed of any significant concerns regarding investment managers.

9.2 The Pension Committee is recommended to note this report and agree the investment beliefs as set out in paragraph 8.4 and the approach to local investment set out in section 8 of this report so that officers can move forward to draft a compliant ISS reflecting the investment beliefs of the Fund.

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