



PENSION COMMITTEE

MONDAY, 27 JULY 2015

10.30 am COMMITTEE ROOM, COUNTY HALL, LEWES

MEMBERSHIP - Councillor Richard Stogdon (Chair)
Councillors Frank Carstairs, Godfrey Daniel, Bob Standley and David Tutt

A G E N D A

- 1 Apologies for absence
- 2 Disclosure of Interests
Disclosure by all Members present of personal interests in matters on the agenda, the nature of any interest and whether the Members regard the interest as prejudicial under the terms of the Code of Conduct.
- 3 Urgent items
Notification of items which the Chair considers to be urgent and proposes to take at the appropriate part of the agenda.
- 4 Terms of Reference (*Pages 3 - 4*)
- 5 Draft Pension Board Minutes (*Pages 5 - 10*)
- 5a Officers' Report - Business Operations (*Pages 11 - 20*)
- 5b Officers' Report - General Update (*Pages 21 - 22*)
 - Cashflow
 - National Development/Shadow Board updates
 - Board Training feedback/strategy
- 6 Review of Annual Governance Reports and Pension Fund Accounts 2014/15 (*Pages 23 - 100*)
- 7 Investment Performance for the first quarter of 2015 (*Pages 101 - 150*)
- 8 Governance Compliance Statement (*Pages 151 - 192*)
- 9 Pension Committee Forward Plan 2015/16 (*Pages 193 - 218*)
- 10 Any other non-exempt items previously notified under agenda item 3
- 11 Exclusion of the public
To consider excluding the public and press from the meeting for the remaining agenda item on the grounds that if the public and press were present there would be disclosure to them of exempt information as specified in paragraph 3 of Part 1 of the Local Government Act 1972 (as amended), namely information relating to the financial or business affairs of any particular person (including the authority holding that

information).

- 12 Investment Manager (Lazard) Performance (*Pages 219 - 228*)
- 13 Any other exempt items previously notified under agenda item 3

PHILIP BAKER
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LEWES BN7 1UE

17 July 2015

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Pension Committee terms of reference and membership

1. In accordance with the Local Government Pension Scheme Regulations and associated legislation, to exercise functions and responsibilities for dealing with the Pension Fund in conjunction with other bodies who contribute to the Fund.
2. To exercise the powers and duties of the County Council in respect of:
 - the pensions of all employees of the Council (except teachers), including the approval of pension fund admission agreements; and
 - management of the investment of the pension fund, receiving advice as appropriate from the Pension Board.
3. To make arrangements for the investment, administration and management of the Pension Fund.
4. To arrange for the appointment of investment managers and advisors.
5. To agree Policy Statements as required under the Local Government Pension Scheme regulations.
6. To agree the Investment Strategy having regard to the advice of the Fund's Managers and the Pension Board.
7. To set the Investment Policy and review the performance of the Pension Fund's external investment managers.
8. To determine the fund management arrangements and to appoint fund managers and fund advisers.
9. To decide on the admission and cessation of bodies to the Pension Fund.
10. To consider and agree actuarial variations.
11. To ensure that the Pension Fund administration is conducted in accordance with relevant legislation.
12. To appoint Additional Voluntary Contribution providers and to monitor their performance.

Membership

Five members appointed in accordance with political balance provisions.

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PENSION BOARD

DRAFT MINUTES of a meeting of the Pension Board held at Chairman's Function Room, County Hall, Lewes on 10 July 2015.

PRESENT Councillor Richard Harbord (Chair), Angie Embury, Sue McHugh, Councillor Brian Redman, Tony Watson, Councillor Kevin Allen and David Zwirek

ALSO PRESENT Marion Kelly, ESCC Chief Finance Officer; Ola Owolabi, ESCC Head of Accounts & Pensions; John Shepherd, Finance Manager (Pension Fund); Wendy Neller, Pensions Strategy and Governance Manager; Jason Bailey, SCC Pension Services Manager; Giles Rossington, Senior Democratic Services Adviser; Harvey Winder, Democratic Services Officer

1 APOLOGIES FOR ABSENCE

1.1 There were no apologies.

1.2 Cllr Kevin Allen has replaced Cllr Andrew Wealls as the representative from Brighton & Hove City Council.

2 DISCLOSURE OF INTERESTS

3 CONSTITUTION AND TERMS OF REFERENCE

3.1 Members discussed whether to appoint a Pension Board Vice Chair, deciding instead that a temporary Chair would be appointed on an ad hoc basis should one be required.

3.2 Cllr Brian Redman (BR) sought clarification as to whether Pension Board members who are also members of the Local Government Pension Scheme (LGPS) could be deemed to have a clash of interests. Officers agreed to seek clarification on this point.

4 PENSION COMMITTEE AGENDA

4.1 The Chair, Richard Harbord (RH) told members that the Pension Board needed a mechanism for considering and commenting on exempt items due to be reported to Pension Committee. Marion Kelly (MK), Chief Finance Officer, agreed that a process should be determined, but noted that Pension Committee would not commonly be expected to consider exempt reports. Reports detailing the award or termination of contracts would typically be exempt, but such reports are seldom taken.

4a PENSION FUND REPORT & ACCOUNTS, 2014/15

4a.1 This item was introduced by Ola Owolabi, Head of Accounts and Pensions (OO).

- 4a.2 David Zwirek (DZ) proposed that the Pension Board should examine the issue of the fees charged by Investment Managers, particularly in terms of recent increase in these costs at a period where the performance of the funds does not obviously justify high charges (e.g. when compared with investing in a fund that tracks the market).
- 4a.3 Angie Embury (AE) agreed, adding that it was also important to understand the total cost of transaction charges etc. – and therefore gain a holistic understanding of the additional costs involved in employing very ‘active’ Investment Managers.
- 4a.4 DZ also proposed scrutinising the performance of Investment Managers, noting that the long term performance of East Sussex investments is only around the 50th percentile when benchmarked.
- 4a.5 In addition, DZ proposed examining the level of Pension Fund liabilities, seeking to establish whether the current levels present an acceptable risk, and what plans are in place to address the current deficit.
- 4a.6 Sue McHugh (SM) suggested that it might be useful to consider Investment Manager performance inclusive of fees, rather than exclusive of fees as is typically the case.
- 4a.7 The Chair agreed that the Board should be interested in the issues of the costs of investment activity, the performance of various fund managers, and the degree to which the scheme is funded. The Chair proposed, and members agreed, that the Board should receive reports on Investment Manager fees and performance (including benchmarking information), and on implications of the scheme funding level at the next Board meeting.
- 4a.8 MK told members that she was happy to report on the above issues. In terms of performance, it was important to recognise that in investment terms, high performance is strongly correlated with high risk investment strategies. It is therefore necessary to understand performance in the context of the fund’s investment strategy: high returns often reflect high risk and/or the acceptance of high volatility. MK also noted that the issue of fees had been recently explored with Investment Managers.
- 4a.9 SM noted that it would be useful for the Board to know how the Pension Committee proposed dealing with the issues of fees, performance and the degree to which the scheme is funded.

4b MEETING WITH INVESTMENT ADVISORS - HYMANS ROBERTSON REPORT

- 4b.1 This item was introduced by Ola Owolabi, Head of Accounts and Pensions (OO).
- 4b.2 The Chair noted that, in order to fully comprehend the information in this report, Board members needed to understand how the fund benchmark is calculated. MK agreed, noting that fund performance (and hence the benchmark figures) has to be viewed relative to the fund investment strategy, since the strategy will determine the level of returns that Investment managers seek. The Fund has had a strategy of diversification and pursuing less volatile returns overall by hedging against equities – it is crucial to judge performance in the context of the objectives of the investment strategy. Additionally, there has been a recent disinvestment in equities in favour of gilts. The intention here has been to reduce risk levels by increasing holdings of low risk investments. This is fully in line with our strategy, and was recommended by Hymans as a way to ‘lock-in’ recent gains. However, this will inevitably have resulted in a lower return on investment, which needs to be understood as a positive rather than a negative, even though it may appear on face-value to indicate under-performance.

- 4b.3 SM commented that it would be useful for a report on Investment Manager fees and performance to include information on how performance targets are set. SM noted that she was uncomfortable about setting performance targets that are gross of fees, as this appears to offer a poor incentive.
- 4b.4 MK told members that the Board could talk to the fund's independent advisors about these issues, although this would entail an additional expense. The Board has no set budget to pay for this type of training, but sensible costs would be met. The Chair noted that, given the costs involved, it was important that the Board was clear on how it wanted to use the fund's independent advisors before meeting with them.
- 4b.5 In response to a query from BR, MK explained that the Hyman's report in the Board papers was the same report that would go to 27 July Pension Committee. These reports will unavoidably focus on the previous quarter's activities; a more up to date report would be too expensive to produce.
- 4b.6 There was discussion about the performance of Lazard's, with MK telling members that there has been a performance issue here for several years.
- 4b.7 Members discussed their training needs. It was noted that it was unlikely that there could be shared training with the Pension Committee. Cllr Kevin Allen (KA) noted that, as a recent appointee he had not yet received any training, although he was eager to undertake some.
- 4b.8 The Chair noted his preference for short sharp training sessions rather than lengthy and expensive training.
- 4b.9 AE made the point that she was unhappy that Pension Committee members could make substantive decisions about the pension fund without necessarily having had the level of training in pension issues required of Unison representatives on the Pension Board. MK noted that the recent Government regulations on training had focused on the Pension Board rather than on Pension Committees as it was a new body. However, as with any other local authority body, it was incumbent on the county council to ensure that all elected member decisions are appropriately informed.
- 4c GOVERNANCE COMPLIANCE STATEMENT
- 4c.1 There were no comments on this item.
- 5a OFFICERS' REPORT - BUSINESS OPERATIONS
- 5a.1 This item was introduced by Jason Bailey (JB), Pension Services Manager, Surrey County Council.
- 5a.2 DZ declared a personal interest in this item, as he has been professionally involved in trade union activity regarding Orbis.
- 5a.3 MK explained that the pension fund administration has for two years been shared with Surrey County Council. In recent months this arrangement has been extended to the joint provision of a wide-range of 'back office' functions including the finance function itself, up to and including the Chief Finance Officer under the aegis of 'Orbis'. Orbis is in fact a brand rather than a separate organisation. It is overseen by a joint committee of East Sussex and Surrey County Councils.

- 5a.4 JB added that the East Sussex fund administration team was being integrated with the much larger Surrey team. In time this would reduce administration costs and improve resilience. There is also investment in improved IT systems.
- 5a.5 Currently, there are a number of areas where performance is below target. This is in part due to difficulties associated with moving to the new CARE pension. Since employees who were members of the previous final salary scheme have retained their historical rights, this means that in effect two schemes are now being administered without any uplift in staffing. Orbis is currently benchmarking its staffing levels and may need to review them. Changes to rules around voluntary retirement have also led to an increase in queries from scheme members, that has impacted upon administrative staff time although not to date on the fund itself (as few enquiries result in members actually withdrawing from the scheme).
- 5a.6 BR suggested that Orbis might wish to reconsider whether its targets were all still relevant. It may be that the costs of employing additional staff to reach targets cannot be justified and that the target should instead be relaxed. The Chair recognised the validity of this argument, but noted that customer care was an important factor in terms of pensions, as scheme members were increasingly anxious about their pension provision. JB agreed, informing the Board that customer care was a priority for Orbis, and that he would welcome the opportunity to report back to the Board on this issue. RH noted that he considers this to be a prime area of focus for the Pension Board.

5b OFFICERS' REPORT - GENERAL UPDATE

- 5b.1 This item was introduced by Ola Owolabi, Head of Accounts and Pensions (OO).
- 5b.2 OO informed the Board about several issues including a recent surplus in fund cash-flow; Government interest in pursuing innovations in terms of: (a) the role of Section 151 officers, (b) having joint committees of pension authorities, and (c) the complete separation of local authorities from pension schemes. MK added that the Government had also announced plans to consult on Collective Investment Vehicles, broadly, the joint procurement of fund Investment Managers.
- 5b.3 In answer to a query from BR on why forecast administration costs for the current year of £2.2m were much higher than the actual costs for 14/15 of £1.7m, i.e., a variation of £0.5m, OO promised to come back with a detailed answer.
- 5b.4 In response to a query from DZ as to whether the fund's returns on cash investments were maximised, John Shepherd (JS) explained that the strategic cash figure of £80M in the reports was the total cash held by the Fund at a particular point in time, i.e., as at 31 March 2015: the majority of this (C £60M) was cash held temporarily by Investment Managers pending future investments. Safety rather than returns is the main factor in determining how this cash is managed.

6 PENSION BOARD FORWARD PLAN 2015/16

- 6.1 This item was introduced by Ola Owolabi, Head of Accounts and Pensions (OO).
- 6.2 OO explained that the work programme/forward plan report included all the main policies that would need to be reviewed. Officers will continue to develop this plan, proposing how regularly various policies should be reviewed and putting together a timetable for this.

- 6.3 In terms of work programme issues, the Chair noted that he was eager to view the pension fund Risk Register in the near future. MK agreed that it should be added to the Board work programme.
- 6.4 In terms of the Board training programme, BR noted that although he had considerable experience in issues relating to investment, he knew little about the actual pension scheme terms or administration. MK assured members that there would be training on this.
- 6.5 The Chair remarked that there would clearly need to be a period of assimilation and learning before the Board was fully effective.

7 ANY OTHER BUSINESS

- 7.1 DZ raised the issue of substitutes for Board Members. He spoke in favour of allowing them. The Chair noted that the current position was that substitute members were to be allowed at the discretion of the Board. However, he was not happy with this position.
- 7.2 BR remarked he was unaware that the option of having substitutes had been discussed with the District & Borough councils. He opposed having substitutes on the Pension Board.
- 7.3 MK told members that the initial position had been that there would be no substitutes permitted, but that Governance Committee had agreed to leave this to the Board's discretion following lobbying. District & Borough councils had been consulted as to their own membership of the Board.
- 7.3 AE noted that any substitutes for the Unison representative would have been fully trained.
- 7.4 The Chair summed-up by stating that there were clearly different opinions on the Board on the issue of substitutes. However, Board members are unanimous in being unhappy that this matter should be left to the Board's discretion. He therefore requested that a report be submitted to the next meeting of the ESCC Governance Committee asking that the rules on substitutes be clarified.
- 7.5 **RESOLVED** – that the ESCC Governance committee be asked to clarify whether or not substitute members should be permitted on the Pension Board rather than leaving the matter to the Board's discretion.

(The meeting ended at 12.15 pm)

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Report to: Pension Committee

Date of meeting: 27 July 2015

By: Acting Head of Orbis Business Operations

Title: Officers' Report – Business Operations

Purpose: Background information on the administration service provided to the Pension Fund by Orbis Business Operations

RECOMMENDATION

The Committee is requested to note the background information provided and highlight any areas of particular interest for consideration at future meetings.

1 Introduction

1.1 Business Operations within Orbis have prepared this summary of topical administration areas that may be of interest to the Committee. This report is provided for information at this stage as an introduction and Business Operations would welcome any input from the Committee on specific areas of interest that they may wish to pursue in future. Subjects are presented in alphabetical order and not perceived importance.

2 Administration Performance – Key Performance Indicators

2.1 On a monthly basis, Business Operations reports its Key Performance Indicators (KPIs) focusing on the main areas of administration that affect scheme members. These have developed based on 'industry standard' performance indicators rather than any statutory requirements. The last three months' KPI reports are attached as **Appendix 1**.

2.2 Business Operations strives for continuous improvement in administration and, in the main, is able to report consistently high achievement rates for the majority of administration tasks. We have been constrained in recent months by staff shortages but, as indicated on the reports, these are being addressed currently and we expect to see an improvement in performance in future months.

3 Communications with members - Annual Benefit Statements 2015

3.1 The LGPS regulations have introduced a timescale of 31 August 2015 for the production of annual benefit statements to active and deferred members. For active members, this is a challenging timescale because 2014/15 is the first year employers have been required to provide the fund with year-end pay information for both the 2008 Final Salary Scheme and the 2014 Care Scheme.

3.2 The format of the annual statement for active members will unavoidably be more complex for 2015 because of the requirement to include CARE benefits. To give a flavour of the potential complexity of the annual statement for 2015, the Local Government Association (LGA) have developed a template document for pension funds (see **Appendix 2**) that provides all the information legally required to be included in the statement.

3.3 We are engaging with a specialist print firm working with a number of local authority funds with a view to creating a more user-friendly version of the statement and this can be shared with the Committee once produced.

4 Guaranteed Minimum Pension (GMP) Reconciliation

4.1 In association with the abolition of contracting out (of the State Second Pension – formerly SERPS) in April 2016, HM Revenue and Customs are ending the retention of GMP data in 2018. GMP is the minimum amount of pension that a scheme must provide to a member under the contracting-out arrangements for public sector schemes.

4.2 HMRC is recommending that, in advance of 2018, schemes should undertake a detailed reconciliation exercise to identify GMP discrepancies between their own data and scheme records.

4.3 As part of a joint exercise across East Sussex, Surrey and Westminster funds, Independent Transition Management Ltd (ITM) have been selected to conduct an initial data matching exercise on behalf of the three funds. The initial outcome from this high level data analysis will be reported to the Board at the next available meeting. It is anticipated that considerable resource input will be required in future to fund the reconciliation exercise.

5 Pensions Administration system – Procurement

5.1 The licensing contract for the current pensions administration system utilised by Business Operations on behalf of the East Sussex pension fund, ALTAIR, is due to expire in April 2016.

5.2 In conjunction with the East Sussex, Surrey and Westminster administering authorities, the Orbis procurement team are undertaking a joint procurement exercise to determine the most appropriate system to adopt when the licensing contract expires in April 2016. The three key guiding principles for the procurement are:-

- Obtaining best value for all the individual pension funds through partnering
- A shared platform across funds to standardise processes – this will lead to efficiency savings and improved resilience.
- Proven functionality of the administration system and scope for future developments

5.3 The Committee will be kept updated on the development of the procurement process.

6. Conclusion

6.1 As indicated in the introduction, the subject areas contained in this initial report are intended as background reading for the Committee to assist in understanding current issues occupying the Orbis pensions administration team. We would be happy to consider the inclusion of any specific topics of interest in future.

Simon Pollock - Acting Head of Orbis Business Operations

Contact Officer: Jason Bailey Tel. No. 020 8541 7473

Email: jason.bailey@surreycc.gov.uk

Pensions

Critical Performance Monitoring

Item	Target	Dec	Jan	Feb	Mar	Apr	May	
1. Full reconciliation of every suspense account within agreed timescales	100%	100%	100%	100%	100%	100%	100%	
2. Calculation of spouses benefits within specification	100%	100%	75%	75%	94%	79%	83%	
3. Deferred benefit notifications within specified timescales	100%	97%	88%	95%	93%	69%	81%	
Transfers/ Interfunds IN	4a. Request values within specified timescales	100%	100%	89%	100%	94%	95%	97%
	4b. Request payment within specified timescales	100%	91%	92%	90%	94%	91%	100%
Transfers/ Interfunds Out	5a. Provide quote within specified timescale	100%	100%	95%	100%	95%	100%	97%
	5b. Make payment within specified timescale	100%	100%	80%	100%	100%	100%	60%
6. Refunds - within specified timescales	100%	100%	78%	91%	100%	97%	97%	
7a. Written complaints - acknowledged within 2 working days	100%	2	1	0	0	1	0	
7b. Written complaints - resolved and responded to within 5 working days (10 days for complex queries)	100%	2	1	0	0	0	0	
8. Payslips despatched as per specification	100%	100%	100%	100%	100%	100%	99.93%	
9. Payroll accuracy - as specified	100%	100%	100%	100%	100%	100%	100%	
10. Payment of lump sums within specification	100%	99%	91%	93%	93%	88%	82%	
11. Estimates provided within specified timescales	100%	96%	72%	82%	76%	47%	73%	

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Exception Commentary

Deferred Benefit volumes "ring-fenced" remain at 469.

5b. Reduction in performance exaggerated as only 5 cases processed with 2 out of 5 missing target.

Recruitment underway for replacement staff and Temporary placements to assist in addressing back log.

8. Reflects 14 cheque payments which required re-issue

Key volume processes; May

Changes (addresses, hours, change personal details):

231 (YTD 1,023)

New Employers

0 (YTD 0)

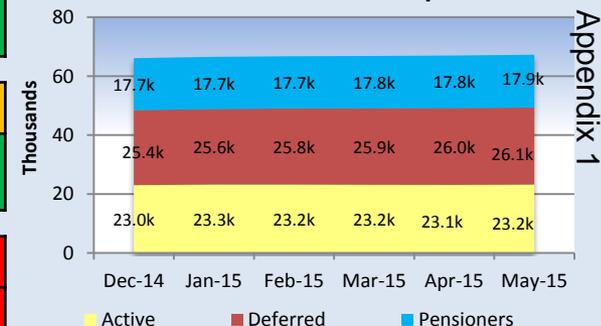
Nominations

108 (YTD 248)

Starters :

237 (YTD 664)

Number Of Pension Records By Status



Appendix 1

Pensions

Critical Performance Monitoring (Green = 100%, Amber >91%, Red =/ <90%)

Item	Target	Nov	Dec	Jan	Feb	Mar	Apr
1. Full reconciliation of every suspense account within agreed timescales	100%	100%	100%	100%	100%	100%	100%
2. Calculation of spouses benefits within specification	100%	95%	100%	75%	75%	94%	79%
3. Deferred benefit notifications within specified timescales	100%	95%	97%	88%	95%	93%	69%
Transfers/ Interfunds IN	4a. Request values within specified timescales	100%	100%	89%	100%	94%	95%
	4b. Request payment within specified timescales	100%	100%	91%	92%	90%	91%
Transfers/ Interfunds Out	5a. Provide quote within specified timescale	100%	95%	100%	95%	100%	100%
	5b. Make payment within specified timescale	100%	93%	100%	80%	100%	100%
6. Refunds - within specified timescales	100%	97%	100%	78%	91%	100%	97%
7a. Written complaints - acknowledged within 2 working days		N/A (0)	2	1	0	1	1
7b. Written complaints - resolved and responded to within 5 working days (10 days for complex queries)		1	2	1	0	Unknown - Passed to Gov team	1
8. Payslips despatched as per specification	100%	100%	100%	100%	100%	100%	100%
9. Payroll accuracy - as specified	100%	100%	100%	100%	100%	100%	100%
10. Payment of lump sums within specification	100%	92%	99%	91%	93%	93%	88%
11. Estimates provided within specified timescales	100%	98%	96%	72%	82%	76%	47%

Exception Commentary

Items 2,3,10 & 11; Case work has been carried out but delay to checking process resulted in completion of tasks with total average time taken;
 Item 2; 4 days
 Item 3; 17 days
 Item 10; 5 days
 Item 11; 9 days

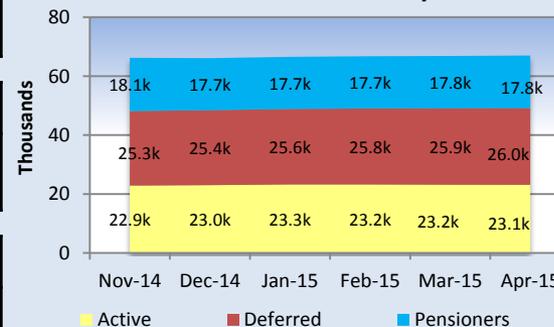
Deferred benefits awaiting action remains static with oldest file dated 5 Apr 2014. 158 new leaver notifications were received and completed in April.

Recruitment underway to replace resigned and maternity positions and to add additional resource to tackle backlog.

Key Volume Processes From 1/4/15

Changes (addresses, hours, change personal details): 792 (YTD 792)
 New Employers 0 (YTD 0)
 Nominations 140 (YTD 140)
 Starters : 327 (YTD 327)

Number Of Pension Records By Status



Pensions

Critical Performance Monitoring

Item	Target	Oct	Nov	Dec	Jan	Feb	Mar
1. Full reconciliation of every suspense account within agreed timescales	100%	100%	100%	100%	100%	100%	100%
2. Calculation of spouses benefits within specification	100%	92%	95%	100%	75%	75%	94%
3. Deferred benefit notifications within specified timescales	100%	98%	95%	97%	88%	95%	93%
Transfers/ Interfunds IN	4a. Request values within specified timescales	100%	90%	100%	100%	89%	94%
	4b. Request payment within specified timescales	100%	100%	100%	91%	92%	94%
Transfers/ Interfunds Out	5a. Provide quote within specified timescale	100%	100%	95%	100%	95%	95%
	5b. Make payment within specified timescale	100%	100%	93%	100%	80%	100%
6. Refunds - within specified timescales	100%	97%	97%	100%	78%	91%	100%
7a. Written complaints - acknowledged within 2 working days	100%	N/A (0)	N/A (0)	2	1	N/A (0)	1
7b. Written complaints - resolved and responded to within 5 working days (10 days for complex queries)	100%	N/A (0)	1	2	1	N/A (0)	Unknown
8. Payslips despatched as per specification	100%	100%	100%	100%	100%	100%	100%
9. Payroll accuracy - as specified	100%	100%	100%	100%	100%	100%	100%
10. Payment of lump sums within specification	100%	94%	92%	99%	91%	93%	93%
11. Estimates provided within specified timescales	100%	87%	98%	96%	72%	82%	76%

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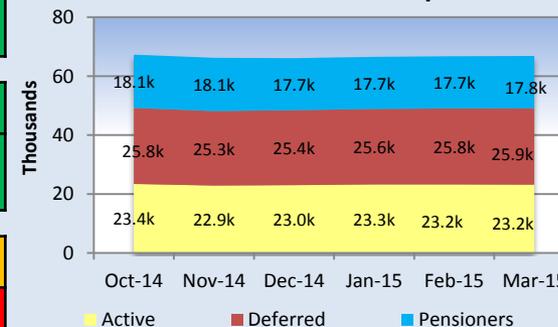
Exception Commentary

- Item 7b Complaint received regarding refund of contributions now being dealt with by ESCC Governance team.
- Item 11 As identified in audit, process review will commence in April 2015 to improve use of task management system with individual team members.
- Team received a spike in volume of change requests from employers.

Key Volume Processes

Changes (addresses, hours, change personal details): 557 (YTD 4,196)
 New Employers 0 (YTD 11)
 Nominations 117 (YTD 1,624)
 Starters : 259 (YTD 4,177)

Number Of Pension Records By Status



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Annual Benefit Statement for the LGPS in England and Wales - Template (version 1.1)

Section 1: Personal Details [note 1]

Member Full Name and Title:	Address Lines 1 – 5 Postal Code	Date of Birth:	NI Number:
Partnership Status: <small>[note 2]</small>		Payroll Number:	Member Reference Number:
Employer @ 31 March 20XX: <small>[note 3]</small>		Date joined Scheme in Employment:	Section of Scheme at 31 March 20XX:

PLEASE NOTE: The benefits calculated in this statement are based on the pay figures provided by your employer below. It is important that you check these for accuracy and contact your employer should there be any inaccuracies. [notes 4 + 5 + 9 + 11]

Pensionable Pay for year ending 31 March 20XX (used to calculate Career Average Pension built up in 20XX/XX, as shown in Section 3) : £
[note 4]

Final Salary Pay for year ending 31 March 20XX (used to calculate Final Salary Pension benefits accrued to 31 March 2014 , if any, as shown in Section 4): £ [note 5]

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Section 2: Summary of Total Benefits at 31 March 20XX

Your benefits accrued at 31 March 20XX (as detailed in sections 3 and 4)		Benefits payable on your death in service (at 31 March 20XX)	
Annual Pension @ 31 March 20XX: £	Automatic Tax Free Lump- sum: £	Death in Service Lump-sum: £ <small>[note 6]</small>	Annual Survivor Pension: £ <small>[note 7]</small>

Expression of Wish Details: [note 8]

KEEP IT SAFE! Remember – this statement contains personal information

Section 3: Career Average Pension Benefits as at 31 March 20XX (payable from DD/MM/YYYY) [note 10]

Pensionable Pay for year ending 31 March 20XX in Main Section: £ [notes 4 + 9]

Pensionable Pay for year ending 31 March 20XX in 50/50 section: £ [notes 4 + 9 + 11]

PLEASE NOTE: The benefits calculated in this section of the statement are based on the pay figures opposite. It is important that you check this and the pension build-up on the line below and contact your employer by [DATE] to report any perceived inaccuracies.

Amount of pension built up in year 20XX/XX

20XX/XX: Main Section	20XX/XX: 50/50 Section	Additional Pension bought	Transfers in	Total
Pay / 49 = £	Pay / 98 = £	£ [note 12]	£ [note 13]	Total = £ [note 14 a-e]

Total Career Average Pension to 31 March 20XX:

Closing balance at 31 March 20XX £	+	Increase for the cost of living (added 1 April 20XX) £[note 15]	+	In Year build up (as shown above) £	=	Total Career Average Pension at 31 March 20XX £
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Section 4: Value of Final Salary Pension Benefits as at 31 March 20XX (payable from DD/MM/YYYY) [note 10a]

Final Salary Pay:
£ [notes 5 + 16]

Annual pension (for pre 1 April 2014 membership): £ [note 17]
Including: 60ths = £ + 80ths = £

Automatic Lump Sum: £[note 18]

Section 5: Projections if you remain contributing to the Scheme until DD/MM/YYYY i.e. to your Normal Pension Age (NPA) [note 19]

Normal Pension Age:
[note 20]

Pension @ NPA: £
(Including projected Career Average Pension to NPA = £ [note 19] and Projected Final Salary Pension to NPA [note 21]= £ (Actuarial Increase separate [note 22]))

Automatic Tax-Free Lump-Sum @ NPA:
£ [notes 18 + 22]

Prospective survivor's annual pension if you remain in the Scheme to NPA: £ (Including £XX from the Career Average Scheme and £XX from the Final Salary Scheme) [note 23]

Section 6: Service History Details [note 24]

Breakdown of the member's service history details in this employment

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Report to: **Pension Committee**

Date: **27 July 2015**

By: **Head of Accounts and Pensions**

Title: **Officers' Report – General Update**

Purpose: **To provide a general update to Members of the Pension Committee on matters related to the Committee activity.**

RECOMMENDATIONS – The Committee is recommended to note the update.

1. Introduction

1.1 This report provides an update on matters relating to the Committee activities.

2. Report Overview

Business Operation

2.1 A report is attached from the Acting Head of Orbis Business Operations, covering pension administration activities, and would welcome input from the Committee on specific areas of interest that they may wish to pursue in future.

Cash Flow Forecast and Summary

2.2 The East Sussex Pension Fund invests any surplus cash with the Fund's custodian, Northern Trust. Over the past 5 years, the East Sussex fund has been broadly cash flow 'neutral'. However for the fiscal year 2014/15 the fund generated a surplus of £2.7m, the cash flow position has been helped by higher employer pension contribution rates set at the last triennial valuation and payable since 1 April 2014. In March 2015 £2m of this 'new money' generated was transferred from the East Sussex Pension Fund bank account to Northern Trust for investment. The projected cash flow forecast for 2015/16 is a surplus of £3.5m. Table 1 shows the cash movements to 31 March 2015 and the 2015/16 forecast.

PENSION FUND DEALINGS WITH MEMBERS AND EMPLOYERS	2014/15 £m	Forecast 2015/16 £m	Variance £m
Employees Contributions	26.8	27.4	0.6
Employers Contributions	87.2	91.0	3.8
Transfers In	5.6	5.8	0.2
TOTAL INCOME	119.6	124.2	4.6
Pensions Benefits Paid	(112.0)	(115.1)	(3.1)
Administration expenses	(1.7)	(2.2)	(0.5)
Transfers Out (excluding Probation transfer)	(3.2)	(3.4)	(0.2)
TOTAL EXPENDITURE	(116.9)	(120.7)	(3.8)
SURPLUS CASH	2.7	3.5	0.8

National Development/Shadow Board - updates

2.3 The LGPS Scheme Advisory Board (The Board) was established to advise the Secretary of State for Communities and Local Government on the development of the LGPS. The Board now is inviting proposals from interested parties to assist it in developing options with regard to the increased separation of *LGPS pension funds* and *their host authorities* for consideration prior to potentially making recommendations to the Secretary of State.

- 2.4 The Board will require the successful organisation to produce a comprehensive review and develop the following options –
1. Stronger role for Section 151 Officer within a distinct entity of the host authority
 2. Joint Committee of two or more administering authorities
 3. LGPS complete separation of the pension fund from the host authority
- 2.5 The Board expect the proposals from interested parties to be returned on Thursday 2nd July 2015, with a view to making a presentation to the 21st September Board meeting.

3. Pension Committee Training - feedback and strategy

Self Assessment Returns

- 3.1 The results/feedback from the attendees at the Pension Committee Induction training day were positive and officers are currently collating the outcome of the completed self-assessment training need from Pension Committee members.
- 3.2 The Self Assessment returns so far, highlight specific areas for individual Members where pension knowledge gaps exist. Hopefully, the proposed training plan will address these but where it doesn't, specific training can be targeted on an individual basis.

Proposed Members Training Plan for 2015-2017

- 3.3 The proposed Training Plan for East Sussex Pension Fund Committee/Board Members is contained within the Committee/Board Forward Plan document. This Plan incorporates the ideas, themes and preferences identified so far from the Self Assessment of Training Needs along with best practices/upcoming areas where the Committee/Board will require additional knowledge.
- 3.4 The Plan aims to give an indication of the delivery method, meeting the CIPFA Knowledge and Skills Framework (KSF), and target completion date for each area (to be determined). On approval, officers will start to implement this programme, consulting with Members as appropriate concerning their availability.
- 3.5 The KSF recommends a Members' Training Plan should take a medium term view. Therefore, the new plan has been extended to cover the period from 2015-2017 to take Members past the 2016 Triennial Valuation.

4. PensionsWEB

- 4.1 The East Sussex Pension Fund is utilising a PensionsWEB system which is contracted with its actuarial and benefit consultants Hymans Robertson. It is a secure Employer portal designed to streamline information transfer and validation, with the capability of bulk loading of joiners, leavers and contribution files. It allows Employers to see the data held by the Fund in regards to its employees and as such allows employers to take ownership of resolving owned errors. The East Sussex Pension Fund has been working with Hymans Robertson over the last couple of months in implementing PensionsWEB which was launched on the 1 July 2015.

5. Conclusion and reasons for recommendations

- 5.1 The Committee is requested to note the general update regarding the Pension Fund activities.

Contact Officers: Ola Owolabi, Head of Accounts and Pensions, 01273 482017
ola.owolabi@eastsussex.gov.uk

Local Member(s): All

Report to: **Pension Committee**

Date: **27 July 2015**

By: **Chief Operating Officer**

Title: **Review of Annual Governance Reports and Pension Fund Accounts 2014/15**

Purpose: **To present to the Pension Committee the position of the Pension Fund for 2014/15**

RECOMMENDATION:

- 1) to approve the Independent Auditor's (KPMG) Annual Governance Report on Pension Fund Annual Report; and**
 - 2) to authorise the Chief Finance Officer to sign the formal Letter of Representation to KPMG LLP**
-

1. Background

- 1.1 There are no direct financial implications for the East Sussex Pension Fund from this report, but it does provide commentary on the Fund's performance. A responsibility of the County Council as the administering authority is to undertake a valuation of the Pension Fund's assets and liabilities every three years. At 31 March 2013, the past service liabilities of the East Sussex Fund was 81% funded.

2. Supporting Information

- 2.1 The East Sussex Pension Board at its meeting on 10 July 2015 received the draft Report and Accounts of the Pension Fund for the year ended 31 March 2015. The East Sussex Pension Fund Accounts (Appendix 1) will be given a 'true and fair view' by the Independent Auditor (KPMG) in their Annual Governance Report 2014/15 (Appendix 2).
- 2.2 The accounts show that contributions income for 2014/15 was £114.0m (£112.9m in 2013/14) and total benefits expenditure was £112.0m (£114.5m in 2013/14). The net return on investments was £367.6m and the net assets of the Fund increased by £267.0m to £2,746.5m at 31 March 2015.
- 2.3 Copies of the Report and Accounts will be made available through the East Sussex Pension Fund website.

3. Investment Performance

- 3.1 As in previous years the compilation of the pension fund statistics for local authorities has been undertaken by the WM (State Street) Company.
- 3.2 The basis of performance is to compare the East Sussex Fund to the combined performance of all 85 funds. The total of all funds is known as the WM Local Authority Universe.
- 3.3 The East Sussex Pension Board noted that the total East Sussex Pension Fund annual investment return was 15.0%, placing the Fund in the 22nd percentile of the 85 local authority funds. Over three years the Fund returned 11.2% pa, compared with the average local authority universe of 11.0%, ranking in the 44th percentile. Over the longer periods the

East Sussex Fund returned 8.4% (WM universe average 8.7%) for 5 years and 7.9% for 10 years (WM universe 7.9%), ranking in the 67th percentile and 50th percentile respectively.

4. Conclusion and reasons for recommendations

- 4.1 The committee is recommended to approve the Independent Auditor's (KPMG) Annual Governance Report on Pension Fund Annual Report and to authorise the Chief Finance Officer to sign the formal Letter of Representation to KPMG LLP.

KEVIN FOSTER
Chief Operating Officer

Contact Officer: John Shepherd

Tel No. (01273) 481785

Local Member: All

Background Documents

none

East Sussex Pension Fund Annual Report and Accounts

2014/2015

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1. Introduction

Local Government Pension Scheme

The Local Government Pension Scheme (LGPS) is a statutory pension scheme, whose rules are governed by Parliament in accordance with the Public Services Pensions Act 2013. The rules of the scheme are provided in the Local Government Pension Scheme Regulations that came into force from 1 April 2014 and provide the statutory basis within which the Scheme can operate. Separate transitional regulations provide the link between the old and new scheme provisions.

Although a national pension scheme, mainly set up for the benefit of local government employees, the LGPS is in fact administered locally. The LGPS is open to all non teaching employees of the County Council, District and Borough Councils and Unitary Authorities in East Sussex, as well as Colleges of Further Education, Town and Parish Councils and a small number of charitable organisations who have applied to be treated as “admission bodies”. In addition, the LGPS allows employees of private contractors to participate in the Scheme where they are providing a service or assets in connection with the functions of a scheme employer, in accordance with the specific requirements of the LGPS Regulations. The scheme is not open to teachers or fire fighters, as these groups of employees have separate pension schemes.

A summary of the provisions of the scheme is given below.

Currently within the East Sussex Pension Fund there are 106 participating employers. A full list of participating employers is given at note 27.

Administering Authority Responsibilities

East Sussex County Council has a statutory responsibility to administer and manage the East Sussex Pension Fund on behalf of all the participating employers of the Fund in East Sussex, and in turn the past and present contributing members, and their dependents.

The Fund receives contributions from both employees and employers, as well as income from its investments. All of these elements put together then meet the cost of paying pensions, as well as the other benefits of the pension scheme. As part of its responsibilities as the administering authority the County Council is responsible for setting investment policy and reviewing the performance of the Fund’s external investment managers.

The County Council has entered in to a partnership arrangement with Surrey County Council known as South East Shared Services (SESS) to undertake the day to day functions associated with the administration of the LGPS. The main services provided by SESS include maintenance of scheme members’ records, calculation and payment of retirement benefits including premature retirement compensation, transfers of pension rights, calculation of annual pension increases and the provision of information to scheme members, employers and the Fund’s Actuary.

Although the day to day work associated with administering the LGPS has been passed to SESS, the County Council takes its statutory responsibility very seriously. It has therefore, set up procedures to ensure that SESS undertake the work associated with the administration of the LGPS in accordance with an agreed service specification. The County Council also ensures that all the participating employers within the East Sussex Pension Fund are aware of their own responsibilities, as well as any changes to the provisions of the Scheme that may be introduced.

A major responsibility of the County Council as the administering authority is to undertake a valuation of the Pension Fund’s assets and liabilities (triennial valuation). The main purpose of this exercise is to assess the size of the Fund’s current and future liabilities against the Fund’s assets, and then set the employer contribution to the Fund for each participating employer for the following three year period. The most recent actuarial valuation of the Fund was carried out as at 31 March 2013. In addition to the triennial valuation of the Pension Fund, the County Council also receives requests each year from scheme employers to obtain appraisal reports from the Fund actuary, to enable them to comply with requirements of the Financial Reporting Standards FRS17 or IAS19. The provision of these reports, however, falls outside of the functions of the County Council as an administering authority.

It is important to note that ultimate responsibility for both the administration of the Pension Fund and the investment of all monies associated with the Fund remains with the County Council. The County Council has in place an established annual employers’ pension forum, to update and involve all the participating employers of the East Sussex Pension Fund, which is always well attended.

Changes affecting the LGPS, and future developments

There were major changes to the rules governing the benefit structure of the LGPS that were introduced from 1 April 2014.

These changes were as a consequence of the Government in 2010 commissioning Lord Hutton to chair an Independent Public Service Pensions Commission. The purpose of the Commission was to review public service pensions and to make recommendations on how they could be made sustainable and affordable in the long term, while being fair to both taxpayers and public sector workers. Lord Hutton's final report was published on 10 March 2011.

Subsequent negotiations between the local government employers and unions took place resulting in agreement on changes to the future shape of the LGPS. The revised arrangements took effect from 1 April 2014 changing the structure of the new scheme applying from 1 April 2014 to include:

- A Career Average Revalued Earnings (CARE) arrangement, revalued by CPI;
- Accrual rate of 1/49th of pensionable earnings ;
- Normal Pension Age in line with the member's State Pension Age;
- Contribution banding rates ranging from 5.5% to 12.5% depending on earnings;
- Employee contribution rates based on actual pay and to include all earnings;
- Minimum period of membership to qualify for a deferred pension 2 years;
- Members can opt to pay half contributions but only accrue half the pension, whilst retaining full value of death benefits ;

The reforms proposed by Lord Hutton also focussed on the delivery of governance within public sector pension schemes, and the generally expressed view is that the overall objective is to ensure benefits can be met as they fall due. As a result the new Scheme regulations will now require the establishment of a local pension board with responsibility for assisting the County Council as "scheme manager" in:-

- securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme connected with it;
- securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator, and
- such other matters as the scheme regulations may specify.

The East Sussex Pension Fund has grasped the impetus for change, and the opportunity to secure a sustainable and affordable future for the LGPS. This is reflected in our collaborative activities with SESS, our review of governance arrangements and the introduction of a dedicated website for pension scheme members (<http://www.eastsussexpensionfund.org>)

2. Management and financial performance report

Scheme management and advisers

Responsibility for the investment of the Pension Fund is delegated to the County Council's Pension Fund Investment Panel Members and the Governance Committee. The Investment Panel comprises members representing districts and boroughs as well as the County Council. Employee representatives attend as non-voting members. The committee receives advice from the County Council's Chief Finance Officer, Actuary and an independent Investment Adviser.

2014/15 Pension Fund Investment Panel Members

East Sussex County Councillors:	Richard Stogdon (Chairman) David Tutt Frank Carstairs	
Brighton & Hove Councillors:	Andrew Wealls Leo Littman	
District Councillor:	Brian Redman	
Staff Rep (Observer):	Tony Watson	
FUND MANAGERS:		
Adams Street Partners	Harbourvest	Lazard
Legal and General	Longview Partners	Newton
Prudential M&G	Ruffer	Schroders
State Street Global Advisers	UBS Infrastructure	
CUSTODIAN:	Northern Trust	
AVC PROVIDER:	Prudential	
ACTUARY:	Hymans Robertson 20 Waterloo Street Glasgow G2 6DB	
LEGAL ADVISORS:	Appointed from National LGPS Framework for Legal Services	
BANKERS TO THE FUND:	Natwest	
TREASURER:	Marion Kelly Chief Finance Officer East Sussex County Council	
AUDITOR:	KPMG	
SCHEME ADMINISTRATOR:	South East Shared Service	
INVESTMENT ADVISER:	Hymans Robertson	
INDEPENDENT ADVISER:	William Bourne	

Contact Addresses:

Investments	LGPS policy or statutory requirements	Day-to-Day Matters
John Shepherd BSD Finance County Hall St Anne's Crescent Lewes, BN7 1UE (01273) 481785	Wendy Neller BSD Finance County Hall St Anne's Crescent Lewes, BN7 1UE (01273) 481904	Graham Devenish South East Shared Services Tribune House, Bell Lane Bellbrook Industrial Estate Uckfield, TN22 1QL (01825) 744591

Risk management

Risk management is the process of identifying risks, evaluating their likelihood and potential impact and determining the most effective methods of controlling or responding to them. The Fund's approach is to manage risk rather than eliminate it entirely.

Risk is identified and managed as follows:

Management Risk:

A significant risk is the potential insolvency of scheme employers, leaving outstanding liabilities in the Fund. To this end the Fund requires all admission bodies that wish to join the Fund to be guaranteed by a scheme employer(s) or to provide a bond to protect the Fund in the event of insolvency. In the monitoring of employers, consideration is given to the Funding Strategy Statement (FSS) which outlines the Fund's approach to how employer liabilities are measured and one of the aims of the FSS is to reduce the risk from employers defaulting on its pension obligations. The Fund monitors the financial sustainability of the scheme employers and takes this into account in the valuation exercise. Some funding risks can be mitigated by the Investment Strategy and the funding and investment strategies focus on the expected real returns from the assets, thus mitigating the effect of inflation on the value of the pension liabilities.

Risks include the non-payment of contributions by employers and processes are in place to ensure that contributions are reconciled regularly and late payers are reported. The operational risks of using third party suppliers these are monitored through the annual review of Internal Control Reports

Benefits Administration Risk:

Relate mainly to the inability of the Fund to meet its obligations and pay benefits accurately and on time as agreed with employers or under statute. These could include non- or late payment of members' benefits, incorrect calculation of benefits, breach of Data Protection Regulations and the failure to comply with Freedom of Information Act requests or Disclosure of Information requirements

All of the above could lead to adverse publicity, loss of reputation and ultimately statutory fines. In addition, the Fund is dependent on a sole supplier of pension administration software. There are processes in place to mitigate administration risks.

Internal Control Framework:

Internal controls and processes are in place to manage administration, financial and other operational risks. The East Sussex County Council's Internal Audit assesses the Fund's internal control processes in order to provide independent assurance that adequate controls are in place.

Investment risk:

Investment risk is regularly considered by Members and Officers, advised by the East Sussex Pension Fund (ESPF) Investment Consultants. The annual investment strategy meeting reviews the current ESPF strategy and looks at risk in more detail. The main investment risks to the Fund are from interest rates, inflation and market volatility. In June 2014, the ESPF Investment Panel looked at the potential to adjust the risk in the investment strategy. This resulted in an agreed policy to de-risk at a target funding level of 85%, switching from equities into index-linked gilts.

The ESPF Statement of Investment Principles (see page 55) sets out the governance requirements for the ESPF and it is reviewed annually by members. The Pension Fund receives external assurance reports from Investment Managers and the Custodian, detailing their internal control systems, scrutinised by their external auditors. Each report is reviewed when available and the conclusion of each was that the control procedures are suitably designed and operated during the 12 months period under review.

Financial performance

Analytical Review

The following tables provide a brief review of the major movements in the Fund Account and the Net Assets Statement for the financial year. More detail is provided in the Investment Policy and Performance report on pages 10 to 14.

	2013/14 £000	2014/15 £000
Fund Account		
Net (Contributions)/withdrawals (<i>note 1</i>)	(224)	90,586
Management Expenses	9,632	10,037
Return on Investments	(144,672)	(367,632)
Net Increase in Fund	(135,264)	(267,009)

	2013/14 £000	2014/15 £000
Net Asset Statement		
Bonds (<i>note 2</i>)	221,539	426,154
Equities	724,237	846,310
Pooled Funds (<i>note 2</i>)	1,441,223	1,388,116
Cash	80,934	81,220
Other	9,100	10,600
Total Investment Assets	2,477,033	2,752,400

Notes:

- £95m transfer of assets to the Greater Manchester Pension Fund as part of the Ministry of Justice consolidation of probation funds
- £135m transfer of assets from passive equity to passive bonds

Analysis of pension contributions

The table below shows the value of primary pension contributions received late.

Month	Employers	Number of Payments Received Late
April	101	6
May	101	4
June	101	3
July	103	2
August	105	2
September	105	3
October	106	4
November	105	4
December	104	0
January	104	2
February	103	1
March	105	4

No interest was charged on any of the late payments.

Forecasts

The following tables show the forecasts and outturn for the Fund Account and the Net Asset Statement for the 3 years to 31 March 2014.

Fund Account	2013/14		2014/15		2015/16
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Contributions	(118,400)	(122,217)	(125,500)	(119,590)	(124,200)
Payments	112,500	121,993	200,400	210,176	115,100
Administration expenses	1,100	1,127	1,140	1,085	1,620
Oversight and governance costs	630	630	640	572	590
Investment expenses	8,050	7,875	8,180	8,380	9,010
Net investment income	(22,600)	(23,922)	(24,900)	(26,235)	(27,300)
Change in market value	(187,300)	(120,750)	(179,700)	(341,397)	(206,000)
Net increase in the Fund	(206,020)	(135,264)	(119,740)	(267,009)	(231,180)

Contributions and payments are based on current expectations; the administration and investment management expenses are based on current budgets; and the net investment income and change in market value are based on the long term forecast returns for each asset class.

Net Asset Statement	2013/14		2014/15		2015/16
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Equities	1,790,500	1,723,067	1,764,000	1,715,256	1,845,600
Bonds	236,700	221,540	236,200	426,154	454,300
Property	208,400	244,451	262,800	287,569	309,100
Alternatives	218,600	197,941	215,000	231,601	251,500
Cash	60,900	80,934	89,200	81,220	82,300
Other	15,500	9,100	9,800	10,600	11,400
Total Investment Assets	2,530,600	2,477,033	2,577,000	2,752,400	2,954,200

The forecasts for total investment assets are based on the actual figures multiplied by the forecast long term returns for each asset class used. Net contributions, less administration and investment management expenses and oversight and governance costs, are added to the Cash figure to reflect new money into the Fund. The forecasts do not take into account potential additions or disposals of investments within these asset classes during the period as potential changes are not known with any degree of certainty. The asset class and long term forecasts are as follows:

Asset Class	Long Term Forecast Return
Equities	7.6%
Bonds	6.6%
Property	7.5%
Alternatives	8.6%
Cash	3.9%
Total	7.4%

These long term forecasts are provided by State Street Investment Analytics.

Management Expenses

	2013/14		2014/15		2015/16
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Pension Administration					
ESCC Support Services	20	24	20	46	50
SESS Support Services	790	805	820	750	770
Supplies and Services	290	298	300	289	800
Administration total	1,100	1,127	1,140	1,085	1,620
Oversight and governance costs					
ESCC Support Services	220	220	220	232	240
Supplies and Services	410	420	430	348	360
Third Party Payments	100	107	110	154	160
Other Income	(100)	(117)	(120)	(162)	(170)
Oversight and governance total	630	630	640	572	590
Investment Management					
Supplies and Services	8,050	7,875	8,180	8,380	9,010
Investment Management Total	8,050	7,875	8,180	8,380	9,010
Management Expenses Total	9,780	9,632	9,960	10,037	11,220

Pension overpayments

2014/15	Number	Value £000
Overpaid Pensioners	40	22
Recoveries	31	14
Write Off	1	1

3. Investment policy and performance

Bodies which the fund is member, subscriber or signatory

National Association of Pension Funds

Local Authorities Pension Fund Forum

CIPFA Pensions Network

Club Vita

Local Government Association (LGPC)

Local Government Pension Scheme National Framework for Legal Services

Current Investment Arrangements

The Investment Panel ("the Panel") made slight changes to the Fund's investment manager structure and asset allocation over the course of the financial year to 31 March 2015.

The Fund's overall equity allocation was reduced by 5% through a reduction in the Legal & General UK and Global equity holdings following an improvement in the Fund's funding level. A corresponding allocation to index-linked gilts was implemented and is passively managed by Legal & General.

When considering the investment portfolio, diversification is one of the most important issues that the Panel considers. Rather than relying on a single investment decision, making a larger number of smaller decisions can reduce risk. For example, any investment in equities is spread across many stocks, across a wide range of industries and across a number of countries. If a particular company, industry or country has a period of poor returns, this should have a limited impact on the portfolio.

The Fund's investments are very well diversified, as a way of controlling risk. This applies in two ways:-

1. Asset Allocation

Although the benchmark is heavily weighted towards equities (as the asset class expected to provide the highest return over the medium to long term), there is a significant exposure to property and infrastructure ("real" assets with a different performance cycle to equities) and a small exposure to bonds (which more closely "match" the Fund's liabilities). This exposure has been increased, reducing the Fund's overall risk profile and providing additional diversification. The allocation to absolute return mandates provides further diversification. Uniquely, within those mandates, the managers have the flexibility to alter asset allocation between asset classes.

Within equities, diversification is achieved by investing in different markets across the world, which provides exposure to many different stocks and sectors.

The Fund is further diversifying some of the equity exposure by making annual allocations to unquoted equity. This allocation is expected to lead to higher returns over the longer term, without adding significantly to overall risk (which is consistent with the objectives of the Fund).

2. Manager Structure

The Fund employs a number of managers with differing styles and management approaches. This is a deliberate policy to avoid over-dependence on the fortunes of a single manager and to concentrate on managers' particular areas of expertise. All managers are expected to maintain well diversified portfolios. The Fund's structure is broadly as follows:

- Legal & General Investment Management remains the Fund's largest single equity manager; all of the assets are managed passively against UK and Global equity market benchmarks. The Fund's two active global equity managers (now Lazard and Longview) employ approaches which both differ in terms of style and the inherent risk. The Fund's remaining equity manager State Street offers additional diversification from Legal & General's market capitalisation based passive management approach, through the fundamental indexation mandate. The Investment Panel maintains the belief that global equity mandates offer the most efficient way to access world equity markets.
- The two absolute return managers are expected to add diversification away from the Fund's other mandates due to their flexible and unconstrained management approach.
- A single property manager is employed (Schroders); however, the "fund of fund" approach provides manager diversification within the underlying holdings.

- Corporate bonds and absolute return bonds are managed by M&G. Index-linked bonds are managed by Legal & General.
- The Fund's allocations to infrastructure and unquoted equities are split into four portfolios, each managed by separate managers.

The objective is to seek to ensure:

1. each active manager adds value, net of the fees which it charges;
2. each manager brings something different - specialist skills or a different approach to investment - to the mix.

In this way, the Fund seeks to achieve an appropriate return and added value over the medium term, but in a risk controlled fashion.

Custodian

A specialist provider of Custodian Services, Northern Trust, is employed by the East Sussex Pension Fund.

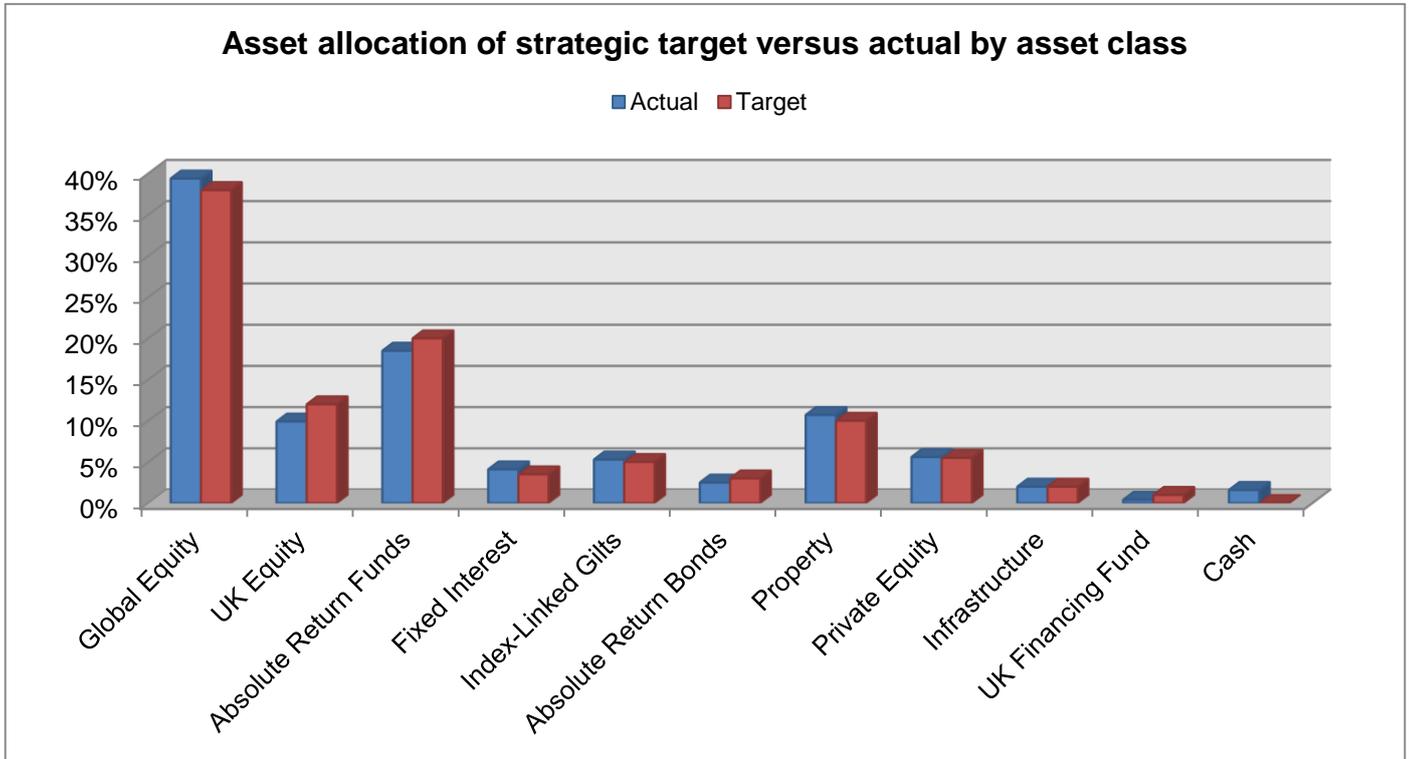
The responsibilities of the Custodian are:

- Collection of investment income.
- Arranging for the custody of the schemes assets in compliance with the custody agreement.
- Providing quarterly valuations of the schemes assets, details of all transactions and investment accounting..
- Responsibility for cash management and investing the daily cash balances in a "Triple A" rated cash pool.

Asset allocation

Mandate	Value (£m)		Proportion (%)		Value (£m)		Proportion (%)	
	Q1 2014	Actual	Target	Q1 2015	Actual	Target	Actual	Target
L&G - Global Equities	250.0	10.1%	10.0%	216.4	7.9%	8.0%		
Lazard - Global Equities	345.1	13.9%	15.0%	410.4	15.0%	15.0%		
Longview - Global Equity	137.1	5.5%	5.0%	174.8	6.4%	5.0%		
State Street - Fundamental Indexation	253.3	10.2%	10.0%	291.2	10.6%	10.0%		
L&G - UK Equities	399.1	16.1%	15.0%	271.6	9.9%	12.0%		
Newton - Absolute Return	233.8	9.4%	10.0%	250.1	9.1%	10.0%		
Ruffer - Absolute Return	230.8	9.3%	10.0%	257.1	9.4%	10.0%		
L&G - 5yr ILG	0.0	0.0%	0.0%	144.6	5.3%	5.0%		
M&G - Bonds	163.4	6.6%	6.5%	180.8	6.6%	6.5%		
Schroder - Property	252.0	10.2%	10.0%	300.5	11.0%	10.0%		
M&G - Infrastructure Fund	31.6	1.3%	1.0%	33.5	1.2%	1.0%		
UBS - Infrastructure	22.0	0.9%	1.0%	22.1	0.8%	1.0%		
Adams Street - Private Equity	68.4	2.8%	2.8%	83.3	3.0%	2.8%		
HarbourVest - Private Equity	60.0	2.4%	2.8%	70.0	2.6%	2.8%		
M&G - UK Financing Fund	13.1	0.5%	1.0%	10.7	0.4%	1.0%		
Cash account	22.9	0.9%	0.0%	25.4	0.9%	0.0%		
Total	2482.6	100.0%	100.0%	2742.5	100.0%	100.0%		

Set out below is the Fund’s strategic target and actual allocations at the beginning and end of the 2014/2015 financial year.



During the year the Committee agreed to implement a modest de-risking of the investment strategy at a pre-determined funding level. The funding level was hit in March 2015 and a mix of global and UK equities were sold to fund a 5% allocation to index-linked gilts; target allocations to equities and gilts were changed to reflect the strategic de-risking.

Investment performance

The Fund delivered an absolute return of 15% over the twelve month period to 31 March 2015, outperforming its customised benchmark by 2.7%. Note 28 on page 54 gives further detail on the total fund performance.

Actual and benchmark performance for each of the Fund's mandates is provided in the table below, over 12 months 3 years and 10 years. Results are considered by the Investment Panel on a quarterly basis and the Fund members on an annual basis as part of this report.

Mandate	1 year			3 year (p.a.)			10 year (p.a.)		
	Fund	Benchmark	Relative	Fund	Benchmark	Relative	Fund	Benchmark	Relative
L&G - Global Equities	19.2%	19.0%	0.2%	14.2%	14.1%	0.1%	10.8%	10.8%	0.0%
Lazard - Global Equities	19.5%	19.2%	0.3%	12.9%	14.2%	-1.1%	10.1%	11.6%	-1.3%
Longview - Global Equity	28.4%	18.4%	8.4%	23.6%	12.7%	9.7%	N/A	N/A	N/A
State Street - Fundamental Indexation	14.8%	14.8%	0.0%	11.1%	11.2%	-0.1%	N/A	N/A	N/A
L&G - UK Equities	6.7%	6.6%	0.1%	10.7%	10.6%	0.1%	5.8%	5.7%	0.1%
Newton - Absolute Return	6.8%	1.5%	5.2%	6.1%	0.8%	5.3%	5.9%	0.8%	5.1%
Ruffer - Absolute Return	11.4%	0.5%	10.8%	7.2%	0.5%	6.7%	7.0%	0.6%	6.4%
L&G - 5yr ILG	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
M&G - Bonds	11.1%	9.3%	1.6%	8.5%	5.7%	2.6%	6.8%	5.1%	1.6%
Schroder - Property	18.1%	16.6%	1.3%	11.2%	9.7%	1.4%	N/A	N/A	N/A
M&G - Infrastructure Fund ¹	29.4%	4.5%	23.9%	13.6%	4.5%	8.7%	N/A	N/A	N/A
UBS – Infrastructure ¹	1.5%	0.6%	0.9%	3.7%	0.6%	3.1%	N/A	N/A	N/A
Adams Street - Private Equity ¹	26.0%	19.0%	5.9%	15.3%	14.1%	1.1%	N/A	N/A	N/A
HarbourVest - Private Equity ¹	20.1%	19.0%	0.9%	10.8%	14.1%	-2.9%	N/A	N/A	N/A
M&G - UK Financing Fund ¹	4.9%	0.6%	4.3%	4.8%	0.6%	4.2%	N/A	N/A	N/A
Cash account¹	2.4%	0.4%	2.0%	0.9%	0.4%	0.5%	N/A	N/A	N/A

¹ Source: WM

The Funding Strategy Statement dated March 2014 has been in force throughout the year to 31 March 2015.

Contribution rates payable by participating employers over the year to 31 March 2015 were set at the 2013 valuation in line with the principles summarised in the Funding Strategy Statement. Similarly, the approach used to set asset allocations for new bodies, to calculate the bond requirements for admitted bodies and to determine any cessation debts payable by exiting employers has been in line with the Funding Strategy Statement.

The Fund monitors the change in the funding position at a whole Fund level on a regular basis.

The next review of the Funding Strategy Statement will take place over the 2016/17 year.

An analysis of fund assets as at the reporting date

	UK	Non-UK	Global	Total
	£m	£m	£m	£m
Equities	396	693	495	1,584
Bonds	438	37	6	481
Property (direct holdings)	-	-	-	-
Alternatives	288	-	244	532
Cash and cash equivalents	-	-	121	121
Other	-	13	9	22
Total	1,122	743	875	2,740

An analysis of investment income accrued during the reporting period

	UK	Non-UK	Global	Total
	£000	£000	£000	£000
Equities	2,457	9,902	-	12,359
Bonds	1,824	314	-	2,138
Property (direct holdings)	-	-	-	-
Alternatives	9,177	-	2,658	11,835
Cash and cash equivalents	-	-	524	524
Other	-	-	-	-
Total	13,458	10,216	3,182	26,856

In the above tables:

'Alternatives' are taken to mean holdings in private equity, hedge funds, pooled property funds, infrastructure funds and derivatives.

'Other' denotes assets not falling into any other category, such as investments in vehicles where the underlying investments may comprise of assets of more than one type.

'Global' holdings are those that include an element of both overseas and UK listed assets.

Investments in pooled funds have been allocated to categories based on the nature and domicile of the underlying assets.

4. Administrative management performance

Key administration performance indicators

Performance Indicator	Target %	Achieved by Fund %
Calculation of spouses benefits within specification	100%	94%
Deferred benefit notifications within specified timescales	100%	93%
Transfers in request values within specified timescales	100%	94%
Transfers in request payment within specified timescales	100%	94%
Transfers out provide quote within specified timescale	100%	95%
Transfers out make payment within specified timescale	100%	100%
Refunds - within specified timescales	100%	100%
Payslips despatched as per specification	100%	100%
Payroll accuracy - as specified	100%	100%
Payment of lump sums within specification	100%	93%
Estimates provided within specified timescales	100%	76%

	2013/14 4*	2014/15 7
Number Of Complaints		

*records begin from August 2013

Financial indicators of administrative efficiency

Unit Costs Per Member	East Sussex Pension Fund		Benchmark Unit Costs
	2013/14	2014/15	
Excluding investment management expenses	25.97	25.28	29.81
Including investment management expenses	150.94	153.09	126.78

Key staffing indicators

Staffing numbers at South East Shared Service remained relatively consistent over the year at 31 March 2015 there were 16.4 full time equivalent members of Staff.

This provides the fund with a Staff to fund member ratio of 1:3,891.

With an average cases per member of staff of 1,388

Membership

The East Sussex Pension Fund was established in 1974 to cover the future pension entitlement of all eligible employees of the County Council and former District Councils. The Fund excludes provision for teachers, police officers and fire-fighters, for whom separate arrangements exist. A number of other bodies also participate in the Scheme. These include Parish and Town Councils, Further Education Colleges, Academy Schools, Police and Fire Authorities (non-uniformed staff only) and Admitted Bodies. Admitted Bodies are those which are able to apply for membership of the Scheme under the Regulations. If the Pension Fund Committee agrees to the application, an Admission Agreement is drawn up admitting the body into the Scheme.

Note 27 to the accounts provides a list of all organisations currently contributing to the Fund. It includes their contribution rates, expressed as a percentage of employees' pensionable pay, and additional annual payments for those participating bodies which would otherwise have a shortfall in contributions by the end of the recovery period.

Below is a summary of the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some deferred members and pensioners).

	Active	Ceased	Total
Scheduled body	71	23	94
Admitted body	35	14	49
Total	106	37	143

EAST SUSSEX PENSION FUND REPORT AND ACCOUNTS 2014/15

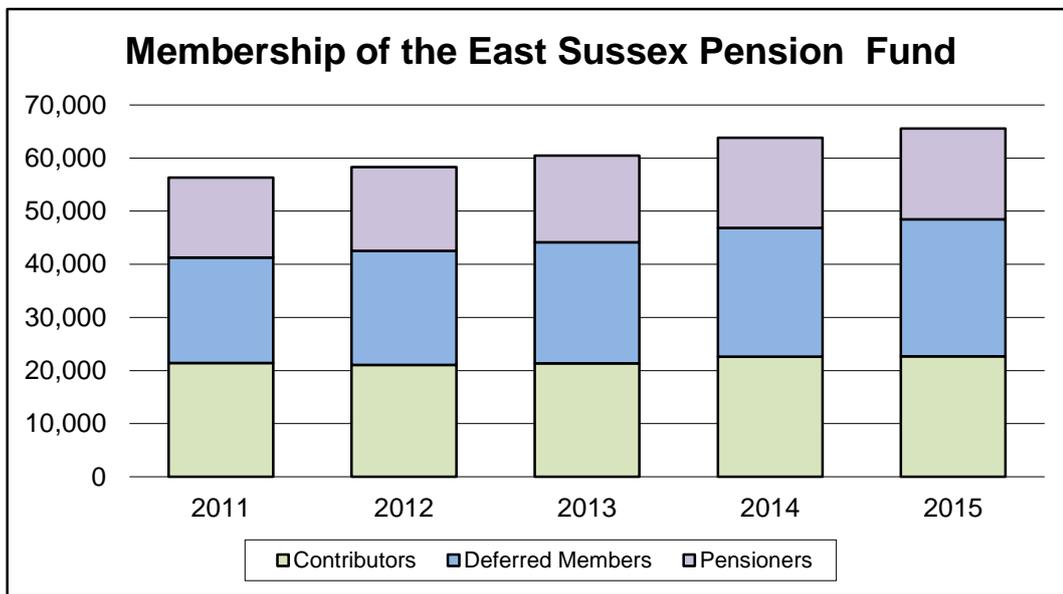
During 2013/14 the number of contributing members within the Pension Fund increased by 0.2% from 22,649 to 22,688. In summary, the number of members contributing to the Scheme is:

	2013/14	2014/15
East Sussex County Council	9,442	8,970
Scheduled Bodies	12,769	13,307
Admitted Bodies	438	411
Total	22,649	22,688

The number of pensioners in receipt of payments from the Fund increased from 16,993 to 17,117 (or 0.7%).

The following table and bar chart provide a summary of contributing members, pensioners in payment and deferred pensioners over the last five years:

	March 2011	March 2012	March 2013	March 2014	March 2015
Active Members (contributors)	21,430	21,050	21,347	22,649	22,688
Pensioners (inc dependants)	15,027	15,738	16,276	16,993	17,117
Deferred Members	19,845	21,504	22,822	24,173	25,757



5. Scheme administration report

East Sussex County Council is the Administering Authority for the East Sussex Pension Fund and the Scheme administration is the responsibility of their Chief Finance Officer. The costs of administering the Scheme are charged to the Pension Fund. The administration of the scheme uses the Altair system to support the complex requirements of the Local Government Pension Scheme. The Pension Fund website eastsussexpensionfund.org provides scheme members and employers access to up to date information on the Local Government Pension Scheme. Along side this website East Sussex County Council also provides information on their website around how the Pension Fund is governed eastsussex.gov.uk/jobs/workingateastsussexcountycouncil/pensions/default.htm.

The County Council has entered in to a partnership arrangement with Surrey County Council known as South East Shared Services (SESS) to undertake the day to day functions associated with the pensions administration of the LGPS.

The Accounts and Pensions team and SESS staff assist the Chief Finance Officer in their statutory duty to ensure that the Pension Scheme remains solvent and is administered effectively, adhering to the Local Government Pension Scheme Regulations in order to meet any current and future liabilities.

The Pensions Administration Team at SESS comprises of 16.4 full time equivalent staff who provide a wide range of services including:

- administration of the affairs of East Sussex Pension Fund and also provision of services in connection with the pensions of teachers and uniformed fire officers;
- calculation of pensions and lump sums for retiring members of the Local Government Pension Scheme and provision of early retirement estimates;
- administration of new starters in the Scheme;
- calculation of service credit calculations, outgoing transfer value calculations and divorce estimates for the Local Government and Fire Brigade Schemes;
- collection of employee and employer contributions to be invested into the Local Government Pension Scheme;
- maintenance of the database of pension scheme members and provision of annual benefit statements and deferred benefit statements;
- calculation of deferred pensions and refunds for early leavers;
- undertaking the annual pension increase exercise;
- calculation of widows and dependants benefits for retired and active members;
- dealing with the administration of in-house AVCs;

A team of 4.4 full time equivalent staff in Accounts and Pensions provide support to the Chief Finance Officer in their statutory role in relation to governance, accounting and investment related activities for the Pension Fund, including:

- production of newsletters for active and retired members;
- preparation of Pensions Fund Committee reports relating to administration related issues;
- working with Pension Fund employers to assist them in understanding and managing the cost of participation in the Local Government Pension Scheme;
- liaison with the Actuary to provide information for the triennial valuation, annual accountancy disclosures and ad hoc costings for employers and prospective employers;
- preparation of the Pension Fund Accounts for inclusion in East Sussex County Council's Statement of Accounts;
- preparation of the Annual Report and Accounts of the Pension Fund;
- liaison with External and Internal Audit;
- day-to-day accounting for the Pension Fund;
- completion of statistical and financial returns for Government and other bodies;

- co-ordination of the production of FRS17/ IAS19 information for employers;
- preparation of Pension Fund Committee reports relating to investments and accounting issues;
- co-ordination of reports for Quarterly Pension Fund meetings and the Pension Fund's Annual Meeting;
- liaison with Investment Managers, Advisers and Actuary;
- appointment of Investment Managers, Advisers and Actuary;
- monitoring and Review of Investment Managers, Advisers and Actuary;
- preparation of the Statement of Investment Principles and Funding Strategy Statement;
- allocation of Cash to Investment Managers;
- rebalancing of Investment Managers to their asset allocations;
- investment of Pension Fund surplus cash balances;
- calculation of interest on all Managers' cash held by the Pension Fund;
- reconciliation of all Managers' purchases, sales and dividends received.

Internal Dispute Resolution Procedure

The LGPS is required by statute to make arrangements for the formal resolution of any disagreements on matters in relation to the scheme that may arise between, the managers of the Scheme and the, active, deferred and pensioner members of their representatives.

There is access to a two stage dispute resolution procedure. This procedure consists of an initial application to the person or persons appointed by the individual's employer to consider the matter. If the complainant is still dissatisfied with the decision they then have the right to refer the matter to the County Council to consider the matter under dispute. The person appointed for this role in the East Sussex Pension Fund is the Assistant Chief Executive.

In addition to the dispute procedure the Social Security Act 1990 and the Pensions Act 1995 have created a framework of national organisations to control occupational and personal pension schemes, to which LGPS members have access.

The following table summarises the number of disputes made through the Fund's Internal Dispute Resolution Procedure at each stage of appeal:

	2014/15
First Stage	
Upheld	-
Declined	-
Ongoing	1
Second Stage	
Upheld	-
Declined	-
Ongoing	-

6. Actuarial report on funds

An Actuarial valuation is carried out by the Fund's actuary, in particular, to test future funding or current solvency of the Pension Fund's assets against its liabilities. In the case of the LGPS the Actuary values the Fund's assets and liabilities every three years.

The underlying principle of the Fund is to ensure that employer contribution rates are set at a level to attain 100% funding, as certified by the Fund's actuary, whilst keeping the employer contribution rate as stable as possible. The purpose of the valuation exercise is to ensure that sums are put aside on a regular and managed basis to meet liabilities in the future. The Fund's liabilities are essentially the benefits promised to fund members (past and current contributors) and to members' dependent on their death.

From an employee perspective, members' benefits are currently guaranteed by statute and therefore not directly related to the Fund's assets. In this respect the employer is responsible for making contributions to meet any shortfall.

The latest actuarial valuation of the fund was carried out as at 31 March 2013 and set the employer contribution rates from 1 April 2014 to 31 March 2017. The full valuation report can be downloaded from the Fund's website and is discussed in some detail in the Funding Strategy Statement. The actuary has also provided a report on the Fund which can be seen in Note 18 to the Pension Fund Accounts on page 47.

The common contribution rate for employers is 27.1% (Future Service Rate 19.4% plus Past Service Adjustment 7.7%) (2010: 20.4%). Average employee contributions were assumed to be 6.3% (2010: 6.6%).

Between the 2010 and 2013 valuation the funding position deteriorated:

- **Assets:** Although the Fund is not 100% funded on the Actuary's assumptions, the Fund exceeded its asset performance objectives over the period by £59m.
- **Liabilities:** When calculating the Fund's liabilities the Actuary will typically try to forecast when benefits will come into payment and what form these will take (demographic assumptions) and try to anticipate the size of these benefits (financial assumptions). A big driver in these calculations is the estimate of how much all these benefits will cost the Fund in today's money. This is based on government gilt yields, these have fallen over the three year period since the last valuation, pushing up the cost of liabilities by £319m having a significant impact on the total funding level.
- **Active membership profile:** The Fund membership is gradually maturing, meaning that the burden on contributing members of meeting the cost of the Fund's liabilities is becoming progressively greater. However, membership experience, such as actual pay awards versus expected pay awards have served to decrease the deficit at this valuation by around £13m.

It is important to note that significant valuation shortfalls are rarely funded in one go. The Council's strategy is to phase in its own contribution rate increases over three years, with the view of recovering the deficit over 20 years. The Council produces a Funding Strategy Statement which explains how it intends to meet those liabilities over the longer term. This is available on the Fund's website.

7. Governance Arrangements

Governance Committee/Pension Fund Investment Panel

East Sussex County Council has a Governance Committee to exercise its functions as the Administering Authority for the Local Government Pension Scheme in East Sussex. This responsibility includes managing the investments of the Fund. The Governance Committee agreed to delegate certain of its responsibilities for managing the Fund's investments to the Investment Panel. The Committee has also delegated day-to-day management of the Fund's investments to professional investment managers. Legally binding agreements govern the relationship between East Sussex Pension Fund and the investment managers.

Irrespective of whether or not the Committee decides to delegate a function to an officer, it is essential that those making a decision receive proper advice from suitably qualified people or organisations (usually the Chief Finance Officer or the Fund's investment consultants and advisers). Nothing can override the responsibility of Members and Officers to comply with East Sussex County Council's Constitution, Financial Regulations, or Standing Orders.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations provide the legal framework governing investments by the Pension Fund. Any decisions or actions taken by the Committee, Members or officers must comply with these regulations.

Role of the Committee/Panel

The Investment Panel and Governance Committee exercises the functions of East Sussex County Council as administering authority for the Local Government Pension Scheme in East Sussex County. The Pension Panel comprises voting members representing East Sussex County Council, the employers and the employee unions. The Panel is supported by professional advisers and officers who principally oversee how the Scheme is run and how the assets of the Fund are managed. A large part of the work involves monitoring how the fund managers perform and the investments which they are responsible for.

One requirement in managing the Fund and reducing any risk, as far as possible, is to make sure the assets are spread over different asset classes, in different countries and between fund managers. We need to get the balance right between the desire for improved returns and the possible `risk` of those returns dropping due to investment conditions. In addition, the Panel acknowledges the responsibility as a major shareholder. The Committee/Panel will also consider pension issues as they arise.

The Panel responsibilities include the following items:

- The Fund's investment strategy
- The Statement of Investment Principles
- Approval of all policies
- The appointment of investment managers, consultants and the custodian
- Approval of the Annual Business Plan
- Approval of Annual Report and Accounts
- Acceptance of the triennial valuation report produced by the Fund Actuary

The Chief Finance Officer and independent adviser have the responsibilities for the following:

- Managing and monitoring the investment managers, consultants and custodian
- Managing the Fund's cash assets directly held by the Administering Authority
- Transferring assets between the Administering Authority, the investment managers and custodian
- Accounting for all investment transactions
- Within limits, authorising expenditure from the Fund
- Paying the fees of the investment managers and the custodian
- Admitting organisations into the Pension Scheme after consulting the Panel Chairman

Committee membership and attendance

During the year ended 31 March 2015 there were 5 meetings of the Pension Fund Investment Panel and one annual employers forum.

Member attendance at panel meetings during 2014-15 Panel meetings attended

2014/15 Pension Fund Investment Panel Members		
		Nos. of meetings attended
East Sussex County Councillors:	Richard Stogdon (Chairman)	5/5
	David Tutt	5/5
	Frank Carstairs	4/5
Brighton & Hove Councillors:	Andrew Wealls	4/5
	Leo Littman*	0/1
	Ollie Sykes*	4/4
District Councillor:	Brian Redman	4/5
Staff Rep (Observer):	Tony Watson	5/5

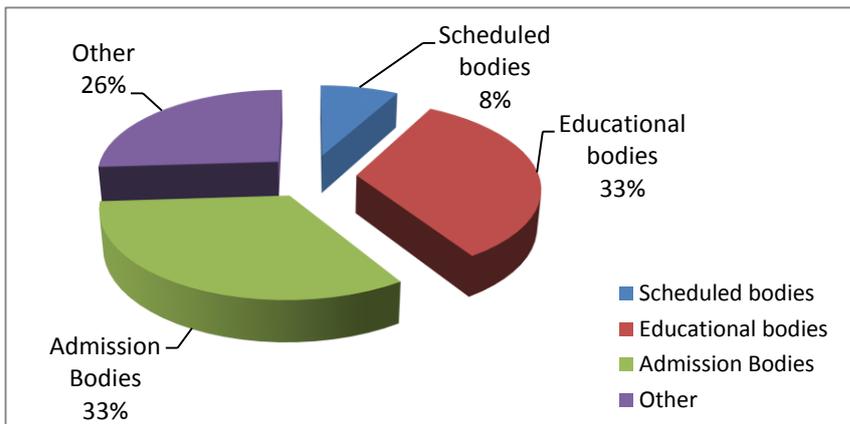
*Councillor Littman was replaced by Councillor Sykes in June 2014

Employer statistics by Employer type

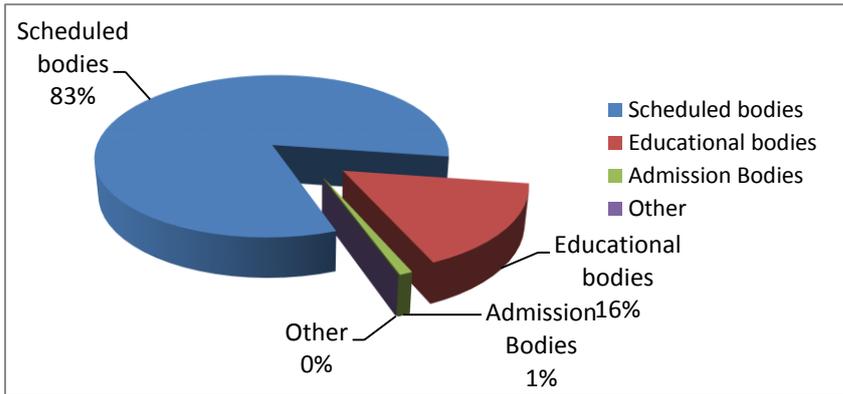
Employer Type	Number of Employers as a percentage of total	Percentage of total fund membership	Number of Employers in Group
Scheduled bodies	8%	82%	8
Educational bodies	33%	16%	35
Admission Bodies	33%	1%	35
Other	26%	0%	28

Note - all percentages have been rounded to the nearest whole number

Number of Employers as a percentage of total



Percentage of total fund membership



Regulatory Framework

The Annual Report

The Local Government Pension Scheme Regulations 2013 require administering authorities to prepare a document known as “the pension fund annual report”. From 1 April 2014, this report must contain information about the fund on the following:

- The management and financial performance during the year;
- The authority’s investment policy and a review of performance of the fund assets;
- Administration arrangements;
- A statement by the Actuary of the assets, liabilities and funding level;
- The current version of the Governance Compliance Statement;
- The Fund Account and Net Asset Statement and supporting notes and disclosures in accordance with proper practices;
- The current version of the Statement of Investment Principles;
- The current version of the Communications Statement;
- The current version of the Funding Strategy Statement; and
- Other material considered appropriate.

The Scheme and benefits available

The Local Government Pension Scheme is a statutory scheme, established by an Act of Parliament and governed by regulations made under the Superannuation Act 1972. The Local Government Pension Scheme Regulations 2013 came into force on 1 April 2014. Membership of the LGPS is open to all employees of local authorities except teachers, fire-fighters and police, who have their own separate schemes.

Pensions and entitlements are still fully protected in law. The Scheme is open to all employees under age 75, whether they work full-time or part-time. East Sussex County Council automatically enrolls all employees into the Fund, as long as they have a contract of employment of more than three months duration. Employees with a contract of employment for less than three months may now join the LGPS upon application. All members of the scheme can choose to leave at any time.

The Regulations relating to the Fund’s Assets

The regulations relating to the management and investment of the Fund’s assets are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Under these regulations, we have to consider the different types of investments and their suitability, and to report regularly on all transactions. We must also get proper advice on investment matters.

Work programme and future challenges

During 2014-15, the fund focussed on a number of key objectives, including the transition of the investment strategy and de-risking options. In conjunction with this the Fund continues to seek the best opportunities in the illiquid asset classes, such as infrastructure, to continue the journey to the approved asset allocations.

The other major consultations undertaken include the Secretary of State announcing a formal review of the future structure of the LGPS. The first stage of the process was for the Government to issue a call for evidence from all interested parties. As part of this review there were initially a number of objectives that they wished to consider on either a high or secondary level. The two main objectives were to deal with fund deficits and improve investment returns. The secondary objectives were to reduce investment fees; improve the flexibility of investment strategies; provide access to higher quality resources; provide more in-house investment capabilities; and to improve the cost effectiveness of the administration process. The Investment Panel considered these objectives and responded to the call for evidence.

After this process, the Secretary of State commissioned Hymans Robertson to undertake a cost-benefit analysis of proposals for reform, although Hymans Robertson were not requested to make recommendations from this analysis. On 1 May 2014, the Department for Communities and Local Government issued a formal consultation, based upon the call for evidence and the cost benefits analysis. The consultation established 3 main proposals which were:

- Establish common investment vehicles to provide funds with a mechanism to access economies of scale, helping them to invest more efficiently in listed and alternative assets and to reduce investment costs.
- Significantly reducing investment fees and management for listed assets, since the aggregate fund performance has been shown to replicate the market.
- Keeping asset allocation with the local fund authorities, and making available more transparent and comparable data to help identify the true cost of investment and achieve further efficiencies in the Scheme.

As part of the consultation, respondents to the consultation were also invited to submit any feasible proposals for the reduction of fund deficits. Once again the Pension Panel responded to this formal consultation and we now currently await the outcomes, if any, which we believe will be released after the 2015 general election.

The East Sussex Pension Board

The Public Service Pensions Act 2013 makes it a mandatory requirement to establish a local Pension Board with responsibility for assisting the Scheme Manager (East Sussex County Council) in relation to securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme. The Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 were issued on 28 January 2015 and set out the terms for the local Pensions Board, which must be in place by 1 April 2015.

The County Council established the Board in time for the 1 April 2015 start date in compliance with the regulations. The East Sussex Pension Board will consist of 7 members:-

- An independent Chair
- 3 Employer representatives
- 3 Scheme member representatives

In November 2014, the East Sussex County Council Governance Committee agreed the new pension governance structure for the East Sussex Pension Fund ; a Pensions Committee, the decision making body, comprised solely of East Sussex County Council members, which replaces the now defunct Investment Panel. This new ESCC Pensions Committee will be supported by the new local Pension Board.

The Board's role is to assist the administering authority in carrying out its functions and complying with legislation. It is not a decision making body, so it will focus on ensuring that due diligence has been followed by the Pension Committee and officers in making decisions. It must ensure that the Fund understands the Pensions Regulator's requirements and it will also bring a stronger employer, scheme member voice to the Fund's governance. However the Board does not exercise delegated administering authority functions.

The methodology for appointing employer and member representatives, terms of appointment, governance and frequency of the meetings are all up to local discretion as long as the authority is satisfied that all members of the Pension Board have the relevant experience and capacity to undertake the role.

Governance compliance statement

East Sussex County Council has adopted a Local Code of Corporate Governance, which is consistent with principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. This Local Code covers all of the staff, systems and other activities involved in or related to the County Council's role as administering authority of

the Pension Fund. A copy of the Local Code is on ESCC website at www.eastsussex.gov.uk or can be obtained from the Council's Monitoring Officer.

The Pension Fund has also adopted its own Governance Policy Statement, which sets out in more detail its key governance arrangements, and it is included within the Statement of Investment Principles (copies are available from the Fund's website www.eastsussex.gov.uk/jobs/workingateastsussexcountycouncil/pensions/).

Governance Policy and Compliance Statement

All Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish a Statement, which reflects the current governance position for the Fund and as such has been prepared by the administering authority in consultation with appropriate interested persons. This policy and compliance statement is included in the Fund's Statement of Investment Principles.

Investment Panel Training

As the administering authority of the East Sussex Pension Fund, the Council recognises the importance of ensuring that all staff and members charged with the financial management and decision making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. It therefore seeks to appoint individuals who are both capable and experienced and will provide training for staff and members of the decision making bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

It is not the intention that elected representatives should individually become technical experts, but collectively they have the ability, knowledge and confidence to question and challenge the information and advice they are given, and to make effective and rational decisions.

The following training was given to members of the East Sussex Pension Fund Investment Panel during the year:

Training for Panel members is primarily provided as an adjunct to Panel meetings by presentation from the Funds professional advisers. During 2014/2015 presentations were given on:

- Fund valuation and funding strategy
- Economic Reviews
- Property
- Liability Driven Investment, including De-Risking
- Passive Investment – Index tracking at Legal & General
- Environmental, Social and Governance issues
- Current Investment Issues
- Strategic and tactical asset allocation
- Fund Manager Reviews

The Annual East Sussex Pension Fund Investment Panel Training Day was hosted by Legal and General Investment Management Limited on 8 April 2014.

A specific one-off property trustee training session was organised at County Hall, in June 2014. This training session was presented by Schroders and covered the UK Commercial Property Market. This interactive training session enabled Panel Members to discuss and ask questions of the Schroders property experts.

Pension Board / Pensions Committee – Training arrangements

Training sessions will be organised by the Scheme Manager, including some high quality pre-appointment training for Board members. The Pensions Board will agree and implement a programme of training in respect of all members of the Board to ensure that they are adequately trained properly to perform their respective duties. Board members will be expected to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date. They will also undertake a personal training needs analysis and maintain their own record of relevant training and development.

All new members will be given initial training on the operation of the East Sussex Pension Fund and their responsibilities. This will be supplemented by external training provided by the Funds consultants and one-off specific training sessions.

b. Net Assets Statement for the year ended 31 March 2015

31 March 2014 £000		Notes	31 March 2015 £000
2,393,629	Investment assets	15	2,667,422
2,470	Other Investment balances	20	3,758
80,934	Cash deposits	15	81,220
2,477,033			2,752,400
(2,338)	Investment liabilities	21	(12,486)
9,800	Current assets	20	10,570
(4,955)	Current liabilities	21	(3,935)
2,479,540	Net assets of the fund available to fund benefits at the year end.		2,746,549

The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 19.

Treasurers Certificate

I certify that the accounts of the East Sussex Pension Fund provide a true and fair view of the Pension Fund at 31 March 2015 and of the movements for the year then ended.

Marion Kelly
Chief Finance Officer
Business Services Department

c. Notes to the East Sussex Pension Fund Accounts for the year ended 31 March 2015

1: Description of fund

The East Sussex Pension Fund ("the fund") is part of the Local Government Pension Scheme and is administered by East Sussex County Council. The County Council is the reporting entity for this pension fund.

The following description of the fund is a summary only. For more detail, references should be made to the East Sussex Pension Fund Annual Report 2014/15 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations.

a) General

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

It is a contributory defined benefit pension scheme administered by East Sussex County Council to provide pensions and other benefits for pensionable employees of East Sussex County Council, the district councils in East Sussex County and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and Fire fighters are not included as they come within other national pension schemes.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the East Sussex Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 106 employer organisations within East Sussex Pension Fund including the County Council itself, as detailed below:

East Sussex Pension Fund	31 March 2014	31 March 2015
Number of employers participating in the scheme	99	106
Number of employees		
County Council	9,442	8,993
Other employees	13,207	13,695
Total	22,649	22,688
Number of pensioners		
County Council	7,428	7,671
Other employers	9,565	9,446
Total	16,993	17,117
Deferred pensioners		
County Council	11,321	12,360
Other employers	12,852	13,397
Total	24,173	25,757

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2015. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013. Currently, employer contribution rates range from 12.9% to 31.0% of pensionable pay.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final Pensionable salary	Each year worked is worth 1/60 x final Pensionable salary
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off -tax Free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid Paid for each £1 of pension given up.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is uprated annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the East Sussex Pension Fund Website.

2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2014/15 financial year and its position at year-end as at 31 March 2015. The accounts have been prepared in accordance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008, the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 issued by CIPFA which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector and the Financial Reports of Pension Schemes Statement of Recommended Practice.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 19 of these accounts.

The Pension Fund publishes a number of statutory documents, including a Statement of Investment Principles, a Funding Strategy Statement, Governance Policy Statement, Communications Policy Statement, Employers Contributions, Responsibilities of Key Parties, and Statements of Compliance. Copies can be obtained by contacting the Council's Accounts and Pensions team or alternatively are available from - <http://www.eastsussex.gov.uk>

3: Summary of significant accounting policies

Fund account – revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see notes 8 and 10).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their Additional Voluntary Contributions (see below) to purchase additional scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

Bulk (group) transfers are accounted for on a receipts basis in accordance with the terms of the transfer agreement.

c) Investment income

- i) Interest income - Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.
- ii) Dividend income - Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
- iii) Distributions from pooled funds - Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.
- iv) Movement in the net market value of investments - Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e) Taxation

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

f) Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Pension Fund discloses its management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Costs.

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

Where an investment manager's fee has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2014/15, £1.3m of fees is based on such estimates (2013/14: £0.0m).

Net assets statement**g) Financial assets**

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised by the fund.

The values of investments as shown in the net assets statement have been determined as follows:

- i) **Market-quoted investments**

The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
- ii) **Fixed interest securities** are recorded at net market value based on their current yields.
- iii) **The fair value of investments for which market quotations are not readily available is determined as follows:**
 - Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
 - Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
 - Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.
- iv) **Limited partnerships**

Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.
- v) **Pooled investment vehicles** are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

h) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

i) Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The value of exchange traded options is determined using the exchange price for closing out the option at the reporting date. The value of over-the-counter contract options is based on quotations from an independent broker. Where this is not available, the value is provided by the Custodian using generally accepted option-pricing models with independent market data.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

k) Financial liabilities

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under IAS 26, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 19).

m) Additional voluntary contributions

East Sussex Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with section 4(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 22).

4: Critical judgements in applying accounting policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2015 was £153.9 million (£128.1 million at 31 March 2014).

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 18. This estimate is subject to significant variances based on changes to the underlying assumptions.

Use of Financial Instruments

The Fund uses financial instruments to manage its exposure to specific risks arising from its investments. In applying the accounting policies set out within the notes that accompany the financial statements the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the financial statements are based around determining a fair value for the alternative investments shown in the Net Asset Statement. It is important to recognise valuations for these types of investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements that involve many factors.

Forward exchange contract adjustments

In line with LGPS accounting guidance foreign exchange forward contracts are disclosed on a net basis. A gross basis was used in the prior year. This disclosure change has no impact on the net assets of the fund and no adjustment has been made to the prior year comparator figures.

5: Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical

experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the Net assets statement at 31 March 2015 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance, for the 2013 Valuation the actuary advised that:</p> <ul style="list-style-type: none"> • A 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £253 million (9%). • A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £78 million (3%). • A 0.5% increase in the assumed prices inflation (increase in pensions) would increase the value of liabilities by approximately £197 million (7%). • A 1 year increase in assumed life expectancy would increase the liability by approximately £87 million (3%).
Debtors	At 31 March 2015, the fund had a balance of sundry debtors of £2.3 million. The fund makes allowance for doubtful debts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable.	Where the expectation is different from the original estimate, such difference will affect the carrying value of receivables.
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £153.9 million. There is a risk that this investment may be under or overstated in the accounts depending on use of estimates applied in the valuation models by the fund managers.

6: Events after the balance sheet date

There have been no events since 31 March 2015, and up to the date when these accounts were authorised that require any adjustments to these accounts.

7: Contributions Receivable

	2013/14	2014/15
	£000	£000
By category		
Employers	85,915	87,237
Members	27,012	26,761
Total	112,927	113,998
By authority		
Scheduled bodies	63,059	62,033
Admitted bodies	7,805	9,620
Administrative Authority	42,063	42,345
Total	112,927	113,998
By Type		
Employee's normal contributions	27,012	26,761
Employer's normal contributions*	67,650	83,555
Employer's deficit recovery contributions*	16,925	3,104
Employer's augmentation contributions	1,340	578
Total	112,927	113,998

*A new Rates and Adjustments Certificate came into effect from 1 April 2014 following the 31 March 2013 actuarial valuation. The new rates payable by employers were set in line with the funding strategy, as documented in the Funding Strategy Statement dated March 2014.

The total employer contribution rates payable from 1 April 2014 were split as follows:

- the amount required to meet the expected cost of benefit accrual, as determined at the 2013 valuation, expressed as a percentage of pensionable pay, and
- The amount payable towards the recovery of any past service deficit, expressed as monetary amounts.

Implementation of the funding strategy at the 2013 valuation led to a slight increase in the total employer contributions received over the 2014/15 year (relative to the 2013/14 year). The element of total contributions expressed as a percentage of pensionable pay (i.e. in respect of the expected cost of benefit accrual) increased from 16% for the 2013/14 year (i.e. the future service rate from the 2010 valuation) to 19.4% for the 2014/15 year (i.e. the future service rate from the 2013 valuation). As a result, the portion of total contributions expressed as a percentage of pay increased in the 2014/15 year, leading to a reduction in the share of total contributions expressed as a monetary amount.

8: Transfers in from other pension funds

	2013/14	2014/15
	£000	£000
Group transfers	2,952	719
Individual transfers	6,338	4,873
Total	9,290	5,592

9: Benefits payable

	2013/14	2014/15
	£000	£000
By category		
Pensions	92,736	95,040
Commutation and lump sum retirement benefits	19,634	15,584
Lump sum death benefits	2,148	1,369
Total	114,518	111,993
By authority		
Scheduled bodies	65,299	61,933
Admitted bodies	3,861	3,962
Administrative Authority	45,358	46,098
Total	114,518	111,993

10: Payments to and on account of leavers

	2013/14	2014/15
	£000	£000
Refunds to members leaving service	9	160
Group transfers*	1,122	95,097
Individual transfers	6,344	2,926
Total	7,475	98,183

During 2014/15 the Ministry of Justice (MoJ) merged the 35 probation trust pension funds into a single fund hosted within the Local Government Pension Scheme. The MoJ appointed the Greater Manchester Pension Fund (GMPF) to manage the assets and liabilities of these 35 trusts. As part of this merger the Surrey and Sussex Probation Board's assets and liabilities were transferred to the GMPF the value of this group transfer was £95m.

11: Management expenses

	2013/14	2014/15
	£000	£000
Administrative costs	1,127	1,085
Oversight and governance costs	630	572
Investment management expenses	7,875	8,380
Total	9,632	10,037

This analysis of the costs of managing the East Sussex Pension Fund during the period has been prepared in accordance with CIPFA guidance.

The investment management expenses above includes £273.4k in respect of transaction costs.

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 15a).

The external auditor appointed to audit the fund is KPMG their fee for 2014/15 was £27k (£30k 2013/14) and this is included within oversight and governance costs. Fees include only the statutory audit of the fund and no non-audit services have been provided.

12: Investment income

	2013/14	2014/15
	£000	£000
Fixed interest securities	1,900	1,543
Index linked securities	600	594
Equity dividends	11,520	12,352
Private equity income	19	7
Pooled property investments	7,189	9,149
Pooled investments - unit trusts and other managed funds	2,983	2,672
Interest on cash deposits	374	524
Class Actions	31	15
Total	24,616	26,856

The 2013/14 figures have been represented to ensure the presentation of this note is in line with CIPFA guidance.

13: Taxes on income

	2013/14	2014/15
	£000	£000
Withholding tax - equities	(404)	(382)
Withholding tax - pooled	(290)	(239)
Total	(694)	(621)

14: Investment expenses

	2013/14	2014/15
	£000	£000
Management fees	7,727	8,277
Custody fees	148	103
Total	7,875	8,380

This analysis of the investment expenses of managing the East Sussex Pension Fund during the period has been prepared in accordance with CIPFA guidance.

During the year, the Pension Fund incurred fees of £2.4m (£2.1m in 2013/14) on its private equity investments and fees of £0.8m (£0.8m in 2013/14) on its infrastructure investments. These fees are deducted at the individual portfolio level rather than being paid directly by the Pension Fund. As such, any amounts paid as fees will be reflected in a reduction of the distributions received.

15: Investments

	2013/14	2014/15
	£000	£000
Investment assets		
Fixed interest securities	162,880	180,186
Index Linked	58,659	245,968
Equities	596,116	692,429
Pooled Investments	1,139,887	1,033,431
Pooled property investments	244,451	287,569
Private equity/infrastructure	181,777	215,199
Commodities	6,631	6,842
Multi Asset	3,228	5,798
Derivative contracts:		
Forward Currency Contracts	316	207
	2,393,945	2,667,629
Cash deposits with Custodian	80,934	81,220
Other Investment balances (Note 20)	2,154	3,551
Total investment assets	2,477,033	2,752,400
Investment Liabilities (Note 21)	(2,327)	(10,973)
Derivative Contracts - Forward Currency	(11)	(1,513)
Total Investment Liabilities	(2,338)	(12,486)
Net investment assets	2,474,695	2,739,914

The 2013/14 figures have been represented to ensure the presentation of this note is in line with CIPFA guidance.

15a: Reconciliation of movements in investments and derivatives

	Market value 1 April 2014	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2015
	£000	£000	£000	£000	£000
Fixed interest securities	162,880	37,219	(37,867)	17,954	180,186
Index Linked	58,659	195,656	(28,694)	20,347	245,968
Equities	596,116	120,689	(170,522)	146,146	692,429
Pooled investments	1,139,887	2,072	(198,456)	89,928	1,033,431
Pooled property investments	244,451	22,730	(14,195)	34,583	287,569
Private equity/infrastructure	181,777	29,316	(30,593)	34,699	215,199
Commodities	6,631	-	-	211	6,842
Multi Asset	3,228	6,263	-	(3,693)	5,798
	2,393,629	413,945	(480,327)	340,175	2,667,422
Derivative contracts					
■ Futures	-	-	-	-	-
■ Purchased/written options	-	-	-	-	-
■ Forward currency contracts	305	7,886	(9,824)	327	(1,306)
	2,393,934	421,831	(490,151)	340,502	2,666,116
Other investment balances:					
■ Cash deposits	80,934			895	81,220
■ Other Investment Balances	2,154				3,551
■ Investment Liabilities	(2,327)				(10,973)
Net investment assets	2,474,695			341,397	2,739,914

	Market value 1 April 2013	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2014
	£000	£000	£000	£000	£000
Fixed interest securities	156,837	1,936	-	4,107	162,880
Index Linked	64,412	16,404	(17,630)	(4,527)	58,659
Equities	459,951	496,935	(388,033)	27,263	596,116
Pooled investments	1,209,533	98,567	(238,696)	70,483	1,139,887
Pooled property investments	192,773	47,660	(16,336)	20,354	244,451
Private equity/infrastructure	185,765	19,996	(25,113)	1,129	181,777
Commodities	11,998	635	(2,832)	(3,170)	6,631
Multi Asset	1,297	8,408	(5,410)	(1,067)	3,228
	2,282,566	690,541	(694,050)	114,572	2,393,629
Derivative contracts					
■ Futures	-	632	-	(632)	-
■ Purchased/written options	202	-	(124)	(78)	-
■ Forward currency contracts	(1,104)	5,296	(11,058)	7,171	305
	2,281,664	696,469	(705,232)	121,033	2,393,934
Other investment balances:					
■ Cash deposits	58,468			(283)	80,934
■ Other Investment Balances	80,284				2,154
■ Investment Liabilities	(81,629)				(2,327)
Net investment assets	2,338,787			120,750	2,474,695

The 2013/14 figures have been represented to ensure the presentation of this note is in line with CIPFA guidance.

Transaction costs incurred during the year total £273.4k (£819k in 2013/14). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

15b: Analysis of investments (excluding derivative contracts)

	2013/14 £000	2014/15 £000
Fixed interest securities		
UK		
Corporate quoted	162,880	180,186
	162,880	180,186
Index linked Securities		
UK		
Public sector quoted	35,580	209,174
Overseas		
Public sector quoted	23,079	36,794
	58,659	245,968
Equities		
UK		
Quoted	75,434	87,439
Unquoted	12,936	10,603
Overseas		
Quoted	507,746	594,387
	596,116	692,429
Pooled funds - additional analysis		
UK		
Unit trusts	654,420	538,178
Overseas		
Unit trusts	485,467	495,253
	1,139,887	1,033,431
Pooled property investments	244,451	287,569
Private equity/infrastructure	181,777	215,199
Commodities	6,631	6,842
Multi Asset	3,228	5,798
	436,087	515,408
	2,393,629	2,667,422

The 2013/14 figures have been represented to ensure the presentation of this note is in line with CIPFA guidance.

Analysis of derivatives**Objectives and policies for holding derivatives**

Derivatives can be used to hedge liabilities or hedge exposures to reduce risk in the fund. Derivatives maybe used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the fund and the various investment managers.

a) Futures

The scheme's objective is to decrease risk in the portfolio by entering into futures positions to match assets that are already held in the portfolio without disturbing the underlying assets.

b) Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the fund's quoted equity portfolio is in overseas stock markets. The fund can participate in forward currency contracts in order to reduce the volatility associated with fluctuating currency rates.

c) Options

The fund wants to benefit from the potentially greater returns available from investing in equities but wishes to minimise the risk of loss of value through adverse equity price movements. During the year the fund bought equity option contracts that protect it from falls in value in the main markets in which the scheme invests.

Open forward currency contracts

Settlement	Currency bought	Local value	Currency sold	Local value	Asset value	Liability value
		000		000	£000	£000
Greater than 2 months	GBP	6,153	EUR	(8,270)	163	-
Greater than 2 months	GBP	46,686	USD	(71,071)	-	(1,213)
Greater than 2 months	EUR	8,270	GBP	(5,987)	28	(24)
Greater than 2 months	GBP	19,913	JPY	(3,585,214)	15	(270)
Up to 2 months	USD	1,366	GBP	(919)	1	-
Up to 2 months	GBP	38	USD	(57)	-	-
Up to 2 months	JPY	143,605	GBP	(810)	-	(3)
Up to 2 months	GBP	514	SGD	(1,048)	-	(1)
Up to 2 months	GBP	530	CAD	(999)	-	(2)
Up to 2 months	GBP	281	HKD	(3,232)	-	-
					207	(1,513)
Net forward currency contracts at 31 March 2015						(1,306)
Prior year comparative						
Open forward currency contracts at 31 March 2014					316	(11)
Net forward currency contracts at 31 March 2014						305

Investments analysed by fund manager

	Market value 31 March 2014		Market value 31 March 2015	
	£000	%	£000	%
Prudential M&G	96,060	3.9%	112,502	4.1%
East Sussex Pension Fund Cash	22,975	0.9%	25,337	0.9%
UBS Infrastructure Fund	22,035	0.9%	22,081	0.8%
Prudential Infracapital	31,621	1.3%	39,237	1.4%
Legal & General	647,469	26.3%	631,265	23.1%
M&G UK Financing Fund	12,936	0.5%	10,603	0.4%
Schroders Property	247,740	10.0%	294,110	10.7%
Harbourvest Strategies	60,042	2.4%	69,800	2.5%
Adams St Partners	68,433	2.8%	85,379	3.1%
M&G Absolute Return Bonds	66,828	2.7%	67,699	2.5%
Ruffer LLP	229,982	9.3%	256,733	9.4%
Lazard Asset Management	344,862	13.9%	410,206	15.0%
Newton Investment Management	233,496	9.4%	249,719	9.1%
Longview Partners	136,926	5.5%	174,558	6.4%
State Street Global Advisers	253,290	10.2%	290,685	10.6%
	2,474,695		2,739,914	

The following investments represent more than 5% of the investment assets of the scheme -

Security	Market Value 31 March 2014	% of total fund	Market value 31 March 2015	% of total fund
	£000		£000	
State Street Fundamental Index	253,325	10.2%	290,724	10.6%
L&G UK Equity Index	398,147	16.1%	270,937	9.9%
Newton Real Return (Pooled Fund)	233,832	9.4%	250,075	9.1%
L&G Over 5 year Index Gilt Linked	-	-	144,327	5.3%
L&G North America Equity Index	129,967	5.3%	116,763	4.3%

15c: Stock lending

The East Sussex Pension Fund has not operated a stock lending programme since 13th October 2008.

16: Financial instruments**16a: Classification of financial instruments**

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (including cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

31 March 2014			31 March 2015		
Market value Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Market value Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£000	£000	£000	£000	£000	£000
Financial Assets					
162,880	-	-	180,186	-	-
58,659	-	-	245,968	-	-
596,116	-	-	692,429	-	-
1,139,887	-	-	1,033,431	-	-
244,451	-	-	287,569	-	-
181,777	-	-	215,199	-	-
6,631	-	-	6,842	-	-
3,228	-	-	5,798	-	-
316	-	-	207	-	-
-	80,934	-	-	81,220	-
2,154	-	-	3,551	-	-
-	9,800	-	-	10,570	-
2,396,099	90,734	-	2,671,180	91,790	-
Financial liabilities					
(11)	-	-	(1,513)	-	-
(2,327)	-	-	(10,973)	-	-
-	-	(4,955)	-	-	(3,935)
(2,338)	-	(4,955)	(12,486)	-	(3,935)
2,393,761	90,734	(4,955)	2,658,694	91,790	(3,935)

The 2013/14 figures have been represented to ensure the presentation of this note is in line with CIPFA guidance.

16b: Net gains and losses on financial instruments

	31 March 2014 £000	31 March 2015 £000
Financial assets		
Fair value through profit and loss	113,902	340,180
Loans and receivables	(286)	890
Financial liabilities		
Fair value through profit and loss	7,133	327
Total	120,750	341,397

16c: Fair value of financial instruments and liabilities

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

	31 March 2014		31 March 2015	
	Carrying value £000	Fair value £000	Carrying value £000	Fair value £000
Financial assets				
Fair value through profit and loss	2,396,099	2,396,099	2,671,180	2,671,180
Loans and receivables	90,734	90,734	91,790	91,790
Total financial assets	2,486,833	2,486,833	2,762,970	2,762,970
Financial liabilities				
Fair value through profit and loss	(2,338)	(2,338)	(12,486)	(12,486)
Financial liabilities at amortised cost	(4,955)	(4,955)	(3,935)	(3,935)
Total financial liabilities	(7,293)	(7,293)	(16,421)	(16,421)

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

16d: Valuation of financial instruments carried at fair value

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

Level 1

Financial instruments at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Financial instruments at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value and where these techniques use inputs that are based significantly on observable market data.

Level 3

Financial instruments at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

Such instruments would include unquoted equity investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which East Sussex Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2015	Quoted market price	Using observable inputs	With Significant unobservable inputs	Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Financial assets				
Financial assets at fair value through profit and loss	1,764,750	294,505	611,925	2,671,180
Loans and receivables	91,790	-	-	91,790
Total financial assets	1,856,540	294,505	611,925	2,762,970
Financial liabilities				
Financial liabilities at fair value through profit and loss	(12,486)	-	-	(12,486)
Financial liabilities at amortised cost	(3,935)	-	-	(3,935)
Total financial liabilities	(16,421)	-	-	(16,421)
Net financial assets	1,840,119	294,505	611,925	2,746,549

Values at 31 March 2014	Quoted market price	Using observable inputs	With Significant unobservable inputs	Total £000
	Level 1 £000	Level 2 £000	Level 3 £000	
Financial assets				
Financial assets at fair value through profit and loss	1,643,063	241,032	512,004	2,396,099
Loans and receivables	90,734	-	-	90,734
Total financial assets	1,733,797	241,032	512,004	2,486,833
Financial liabilities				
Financial liabilities at fair value through profit and loss	(2,338)	-	-	(2,338)
Financial liabilities at amortised cost	(4,955)	-	-	(4,955)
Total financial liabilities	(7,293)	-	-	(7,293)
Net financial assets	1,726,504	241,032	512,004	2,479,540

17: Nature and extent of risks arising from financial instruments

Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to meet the fund's forecast cash flows. The fund manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the fund's pensions operations. Policies are reviewed regularly to reflect changes in activity and in the market conditions.

a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The fund manages these risks in two ways:

- the exposure of the fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the fund to ensure it is within limits specified in the fund investment strategy.

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisors, the fund has determined that the following movements in market price risk are reasonably possible for the 2015/16 reporting period:

Asset Type	Potential Market Movements (+/-)
Index linked Bonds	5%
Other Bonds	10%
UK equities	17%
Overseas equities	20%
Overseas equity unit trusts	20%
Pooled property investments	15%
Private Equity	29%
Infrastructure funds	16%
Commodities	14%
Cash	1%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisors' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows.

Asset Type	Value as at 31 March 2015 £000	Percentage change %	Value on increase £000	Value on decrease £000
Cash and Cash Equivalents	81,220	1%	82,032	80,408
Investment portfolio assets:				
Index Linked Bonds	245,968	5%	258,266	233,670
Other Bonds	180,186	10%	198,205	162,167
UK equities	636,219	17%	744,376	528,062
Overseas equities	594,387	20%	713,264	475,510
Overseas equity unit trusts	495,254	20%	594,305	396,203
Pooled property investments	287,569	15%	330,704	244,434
Private equity	153,880	29%	198,505	109,255
Infrastructure funds	61,319	16%	71,130	51,508
Commodities	6,842	14%	7,800	5,884
Multi Asset	5,798	-	5,798	5,798
Net derivative assets	(1,306)	-	(1,306)	(1,306)
Investment income due	2,010	-	2,010	2,010
Amounts receivable for sales	1,526	-	1,526	1,526
Amounts payable for purchases	(9,132)	-	(9,132)	(9,132)
Total assets available to pay benefits	2,741,740		3,197,483	2,285,997

Asset Type	Value as at 31 March 2014 £000	Percentage change %	Value on increase £000	Value on decrease £000
Cash and Cash Equivalents	80,934	1%	81,743	80,125
Investment portfolio assets:				
Total Bonds	221,539	10%	243,693	199,385
UK equities	742,790	17%	869,063	616,516
Overseas equities	507,746	19%	604,218	411,274
Overseas equity unit trusts	485,467	19%	577,706	393,228
Pooled property investments	244,451	15%	281,119	207,783
Private equity	128,121	28%	163,995	92,247
Infrastructure funds	53,656	16%	62,241	45,071
Commodities	6,631	14%	7,559	5,703
Multi Asset	3,228	-	3,228	3,228
Net derivative assets	305	-	305	305
Investment income due	1,787	-	1,787	1,787
Amounts receivable for sales	359	-	359	359
Amounts payable for purchases	(671)	-	(671)	(671)
Total assets available to pay benefits	2,476,343		2,896,345	2,056,340

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fund's interest rate risk is routinely monitored by the Fund and its investment advisors in accordance with the fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The fund's direct exposure to interest rate movements as at 31 March 2015 and 31 March 2014 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset type	As at 31 March 2014	As at 31 March 2015
	£000	£000
Cash with Custodian	80,934	81,220
Cash balances	(882)	(246)
Fixed interest securities	162,880	180,186
Total	242,932	261,160

Interest rate risk sensitivity analysis

The fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. An 100 basis point (bps) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The fund's investment adviser has advised that this is consistent with an annual one standard deviation move in interest rates, where interest rates are determined by the prices of fixed interest UK government bonds.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

Asset type	Carrying amount as at 31 March 2015	Effect on asset values	
		+ 100 BPS	- 100 BPS
	£000	£000	£000
Cash and cash equivalents	81,220	-	-
Cash balances	(246)	-	-
Fixed interest securities	180,186	1,802	(1,802)
Total change in assets available	261,160	1,802	(1,802)

Asset type	Carrying amount as at 31 March 2014	Effect on asset values	
		+ 100 BPS	- 100 BPS
	£000	£000	£000
Cash and cash equivalents	80,934	-	-
Cash balances	(882)	-	-
Fixed interest securities	162,880	1,629	(1,629)
Total change in assets available	242,932	1,629	(1,629)

This analysis of the interest rate risk for the East Sussex Pension Fund during the period has been prepared in accordance with CIPFA guidance.

Income Source	Amount receivable in year ending 31 March 2015	Effect on income values	
		+ 100 BPS	- 100 BPS
	£000	£000	£000
Cash deposits/cash and cash equivalents	524	810	(810)
Fixed interest securities	1,537	-	-
Total change in assets available	2,061	810	(810)

Income Source	Amount receivable in year ending 31 March 2014	Effect on income values	
		+ 100 BPS	- 100 BPS
	£000	£000	£000
Cash deposits/cash and cash equivalents	374	801	(801)
Fixed interest securities	1,900	-	-
Total change in assets available	2,274	801	(801)

This analysis of the interest rate risk for the East Sussex Pension Fund during the period has been prepared in accordance with CIPFA guidance.

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the land (£UK). The fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

The fund's currency rate risk is routinely monitored by the fund and its investment advisors in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

The following table summarises the fund's currency exposure as at 31 March 2015 and as at the previous period end:

Currency exposure - asset type	Asset value as at 31 March 2014	Asset value as at 31 March 2015
	£000	£000
Overseas index linked	23,079	36,794
Overseas quoted securities	507,746	594,387
Overseas unit trusts	485,467	495,253
Total overseas assets	1,016,292	1,126,434

Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the fund investment advisors, the fund considers the likely volatility associated with foreign exchange rate movements to be 13% (as measured by one standard deviation).

This assumes no diversification with other assets, and in particular, interest rates remain constant.

A 13% strengthening/weakening of the UK pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Asset value as at 31 March 2015	Change to net assets available to pay benefits	
		+13%	-13%
	£000	£000	£000
Overseas Index Linked	36,794	41,577	32,011
Overseas quoted securities	594,387	671,657	517,117
Overseas unit trusts	495,253	559,636	430,870
Total change in assets available	1,126,434	1,272,870	979,998

Currency exposure - asset type	Asset value as at 31 March 2014	Change to net assets available to pay benefits	
		+13%	-13%
	£000	£000	£000
Overseas Index Linked	23,079	26,079	20,079
Overseas quoted securities	507,746	573,753	441,739
Overseas unit trusts	485,467	548,578	422,356
Total change in assets available	1,016,292	1,148,410	884,174

b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimise credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipt that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

The fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits in recent years.

Summary	Asset value as	Asset value as
	at 31 March 2014	at 31 March 2015
	£000	£000
Money market funds		
NTGI Global Cash Fund	80,209	71,519
Bank deposit accounts		
Non NT cash accounts	103	6,000
Bank current accounts		
NT custody cash accounts	622	3,701
Total overseas assets	80,934	81,220

c) Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The fund therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments.

The fund has immediate access to its pension fund cash holdings and the fund also has access to an overdraft facility for short-term cash needs. This facility is only used to meet timing differences on pension payments. As these borrowings are of a limited short-term nature, the fund's exposure to liquidity risk is considered negligible.

All financial liabilities at 31 March 2015 are due within one year.

Refinancing risk

The key risk is that the fund will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

18: Funding arrangements

The latest actuarial valuation of the fund was carried out as at 31 March 2013. The purpose of the triennial valuation is to calculate the contribution rates required to be made by each employer participating in the fund which together with investment growth will be sufficient to meet the fund's future liabilities. The 2013 valuation shows the fund has a past service deficit, being 81% funded in respect of past liabilities. This compares with 87% funded at the 2010 valuation.

East Sussex Pension Fund (“the Fund”)

Actuarial Statement for 2014/15

This statement has been prepared in accordance with Regulation 57 (1)(d) of the Local Government Pension Scheme Regulations 2013, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2014. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund, using a prudent long term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (**NB** this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £2,344 million, were sufficient to meet 81% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £541 million. Individual employers' contributions for the period 1 April 2014 to 31 March 2017 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the valuation report dated 28 March 2014.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.6%	2.1%
Pay increases	4.3%	1.8%
Price inflation/Pension increases	2.5%	-

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.2 years	24.4 years
Future Pensioners*	24.2 years	26.7 years

*Figures assume members aged 45 as at the 2013 valuation.

Copies of the 2013 valuation report and Funding Strategy Statement are available on request from East Sussex County Council, the Administering Authority to the Fund.

Experience over the period since April 2013

Experience has been worse than expected over the year to 31 March 2015 (excluding the effect of any membership movements). Real bond yields have fallen dramatically and the effect of this has been only partially offset by the effect of strong asset returns, meaning that funding levels are likely to have worsened and deficits increased over this period.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

19: Actuarial present value of promised retirement benefits

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2014/15 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits.

The actuarial present value of promised retirement benefits is to be calculated similarly to the defined benefit obligation under IAS19. There are three options for its disclosure in pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for the East Sussex Pension Fund, which is in the remainder of this note.

Balance sheet

Year ended	31 Mar 2014 £m	31 Mar 2015 £m
Present value of Promised Retirement Benefits	3,385	4,031

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. I estimate this liability at 31 March 2015 comprises £1,893m in respect of employee members, £732m in respect of deferred pensioners and £1,405m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2015 is to increase the actuarial present value by £537m.

Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2014 % p.a.	31 Mar 2015 % p.a.
Inflation / Pension Increase Rate	2.8%	2.4%
Salary Increase rate	4.6%	4.3%
Discount Rate	4.3%	3.2%

Longevity assumption

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI_2010 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a.. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.2 years	24.4 years
Future Pensioners*	24.2 years	26.7 years

*Future pensioners are assumed to be currently aged 45

Please note that the assumptions are identical to those used for the previous IAS26 disclosure for the Fund.

Commutation assumption

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

20: Current assets

	31 March 2014 £000	31 March 2015 £000
Other Investment Balances		
Sales inc Currency	675	1,734
Investment Income Due	1,443	1,685
Recoverable Taxes	344	324
Managers Fee Rebate	8	15
Total	2,470	3,758

	31 March 2014 £000	31 March 2015 £000
Current Assets		
Contributions receivable from employers and employees	8,267	8,243
Sundry Debtors	1,533	2,327
Total	9,800	10,570

21: Current liabilities

	31 March 2014 £000	31 March 2015 £000
Investment Liabilities		
Purchases including currency	(682)	(10,645)
Managers Fees	(1,656)	(1,841)
Total	(2,338)	(12,486)
	31 March 2014 £000	31 March 2015 £000
Current Liabilities		
Pension Payments (inc Lump Sums)	(1,426)	(988)
Cash	(882)	(246)
Professional Fees	(8)	(21)
Admin/CBOSS Recharge	(1,013)	(1,173)
Sundry Creditors	(1,626)	(1,507)
Total	(4,955)	(3,935)

22: Additional voluntary contributions

	Market value 31 March 2014 £000	Market value 31 March 2015 £000
Prudential	14,568	14,992

The Pension Fund Scheme provides an Additional Voluntary Contribution (AVC) facility for scheme members. In 2014/15 some members of the pension scheme paid voluntary contributions and transfers in of £1.512m (£1.496m 2013/14) to Prudential to buy extra pension benefits when they retire. £1.925m was disinvested from the AVC provider in 2014/15 (£2.571m 2013/14). Contributions and benefits to scheme members are made directly between the scheme member and the AVC provider. The AVC funds are not, therefore, included in the Pension Fund Accounts.

23: Related party transactions**East Sussex County Council**

The East Sussex Pension Fund is administered by East Sussex County Council. Consequently there is a strong relationship between the council and the pension fund.

Each member of the pension fund committee is required to declare their interests at each meeting.

The Treasurer of the Pension Fund and members of the County Council and the Investment Panel have no material transactions with the Pension Fund.

The Council incurred costs in administering the fund and charged £1.2m to the fund in 2014/15 (£1.0m in 2013/14). The Council's contribution to the fund was £42.3m in 2014/15 (£42.1m in 2013/14). All amounts due to the fund were paid in the year. At 31 March 2015 the Pension Fund bank account was overdrawn by £0.246m. The average invested throughout the year was £2.7m (£1.4m in 2013/14) and earned interest of £0.017m in 2014/15 (£0.005m in 2013/14).

Key management personnel

The Chief financial officer of East Sussex County Council holds the key position in the financial management of the East Sussex Pension Fund.

24: Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2015 totalled £115.3m (31 March 2014: £122.4m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing, typically over a period of between four and six years from the date of each original commitment.

At 31 March 2015 the unfunded commitment was £111.5m for private equity, and £3.8m for infrastructure. The commitments are paid over the investment timeframe of the underlying partnerships. As these partnerships mature they are due to distribute capital back to investors. Commitments are made in US Dollars or Euros and the figures presented here are based on relevant Sterling exchange rates as at 31 March 2015.

EAST SUSSEX PENSION FUND REPORT AND ACCOUNTS 2014/15

Sussex Careers Limited – a Community Admission Body in the Fund until 12 November 2008, supplied careers advisory services on behalf of both East Sussex County Council and Brighton & Hove City Council. Sussex Careers is now in the process of being wound up, and its assets will be distributed to its creditors, including the Fund which is the major creditor. These are not sufficient to meet their deficit of approximately £3.6 million.

The Valuation Tribunal Service – a Scheduled Body in the Fund – ceased on 22 November 2011 on the retirement of their last active member. Discussions are ongoing at a national level with the Department of Communities and Local Government (DCLG) with regards to consolidating VTS in one single fund.

25: Contingent assets

Twenty-one admitted body employers in the Fund hold insurance bonds to guard against the possibility of their being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default. In addition to these bonds, pension's obligations in respect of 9 other admitted bodies are covered by:

- 5 guarantees by local authorities participating in the Fund;
- 2 Parent company guarantee;
- 2 deposits, equal to the value of the bond required, held by East Sussex County Council.

At 31 March 2015 the Fund has invested £196.5 million in private equity funds managed by Adams Street and HarbourVest. The Fund has also invested £14.4 million in the M&G UK Companies Financing fund and £54.8 million in the infrastructure funds managed by UBS and M&G.

Following Rulings given by the European Court of Justice, along with a number of other local authority pension funds, the East Sussex Pension Fund is pursuing the recovery of tax paid on certain dividends. If successful this may be of material benefit to the Fund. The amount which may be recoverable is not currently quantifiable.

26: Impairment losses

During 2014/15 the fund has not recognised any impairment losses.

27: East Sussex Pension Fund – Active Participating Employers

Employer	Contribution Rate					
	2013/14		2014/15		2015/16	
	Payroll %	Amount £	Payroll %	Amount £	Payroll %	Amount £
Scheduled Bodies - Major Authorities						
Brighton and Hove City Council	18.5%	-	19.0%	-	19.3%	249,000
East Sussex County Council	19.3%	424,000	19.3%	1,179,000	19.3%	1,999,000
East Sussex Fire & Rescue Service	18.9%	-	19.4%	-	19.9%	-
Eastbourne Borough Council	19.1%	264,000	19.1%	314,000	19.1%	367,000
Hastings Borough Council	20.6%	144,000	20.6%	194,300	20.6%	248,800
Lewes District Council	20.5%	46,500	20.5%	97,000	20.5%	151,700
Rother District Council	19.7%	307,100	19.7%	355,900	19.7%	408,300
University of Brighton	18.7%	-	18.7%	-	18.7%	-
Wealden District Council	18.0%	409,800	18.5%	427,400	19.0%	445,700
Other Scheduled Bodies						
ARK Schools Hastings	19.6%	5,960	19.6%	1,040	19.6%	-
Aurora Academies Trust	19.9%	10,600	19.9%	16,600	19.9%	18,500
Beacon Academy	20.6%	-	20.7%	4,400	20.7%	10,400
Bexhill Academy	20.7%	28,800	20.7%	25,300	20.7%	24,500
BHCC Bilingual Primary School	12.9%	5,400	12.9%	5,300	12.9%	5,200
Brighton Aldridge Community Academy	17.9%	-	18.4%	-	18.5%	4,400
Cavendish Academy	18.2%	22,300	18.2%	20,200	18.2%	17,900
City Academy Whitehawk	21.6%	1,590	21.6%	280	21.6%	-
Diocese of Chichester Academy Trust	26.4%	-	26.4%	-	26.4%	-
Eastbourne Academy	19.4%	-	19.9%	-	19.9%	4,700
Eastbourne Homes Ltd	17.5%	-	18.0%	-	18.5%	-
Gildredge House Free School	16.6%	7,200	16.6%	6,700	16.6%	6,200
Glyne Academy	23.4%	-	23.4%	-	23.4%	-
Hailsham Academy	17.3%	23,800	17.3%	20,800	17.3%	17,600

EAST SUSSEX PENSION FUND REPORT AND ACCOUNTS 2014/15

Employer	Contribution Rate					
	2013/14		2014/15		2015/16	
	Payroll %	Amount £	Payroll %	Amount £	Payroll %	Amount £
King Church of England Free School	13.7%	980	13.7%	960	13.7%	930
Marshlands Academy	18.9%	2,200	18.9%	2,300	18.9%	2,400
Ore Village Primary Academy	16.6%	7,510	16.6%	6,540	16.6%	5,470
Pebsham Academy	17.2%	4,300	17.2%	3,500	17.2%	2,700
Portslade Aldridge Community Academy	18.2%	1,100	18.2%	6,600	18.2%	12,700
Ratton Academy	20.6%	-	21.1%	-	21.6%	-
Ringmer Academy	18.8%	-	19.3%	-	19.8%	-
Rye Academy	24.0%	-	23.5%	-	23.0%	-
Seaford Academy	21.6%	12,300	21.6%	9,100	21.6%	6,300
Seahaven Academy	19.3%	5,800	19.3%	6,100	19.3%	6,400
Surrey & Sussex Probation Board	18.1%	62,000	-	-	-	-
The Hastings Academies Trust	18.6%	-	19.1%	-	19.6%	-
Torfield & Saxon Mount Academy Trust	20.6%	-	21.1%	-	21.6%	-
White House Academy	16.0%	1,600	16.0%	1,700	16.0%	1,700
William Parker Academy	19.6%	5,120	19.6%	-	19.6%	-
Town and Parish Councils (pool)						
Battle Town Council	20.1%	-	20.6%	-	21.1%	-
Chailey Parish Council	20.1%	-	20.6%	-	21.1%	-
Chiddingly Parish Council	20.1%	-	20.6%	-	21.1%	-
Conservators of Ashdown Forest	20.1%	-	20.6%	-	21.1%	-
Crowborough Town Council	20.1%	-	20.6%	-	21.1%	-
Ewhurst Parish Council	20.1%	-	20.6%	-	21.1%	-
Fletching Parish Council	20.1%	-	20.6%	-	21.1%	-
Forest Row Parish Council	20.1%	-	20.6%	-	21.1%	-
Hailsham Town Council	20.1%	-	20.6%	-	21.1%	-
Hartfield Parish Council	20.1%	-	20.6%	-	21.1%	-
Heathfield & Waldron Parish Council	20.1%	-	20.6%	-	21.1%	-
Hurst Green Parish Council	20.1%	-	20.6%	-	21.1%	-
Lewes Town Council	20.1%	-	20.6%	-	21.1%	-
Maresfield Parish Council	20.1%	-	20.6%	-	21.1%	-
Newhaven Town Council	20.1%	-	20.6%	-	21.1%	-
Newick Parish Council	20.1%	-	20.6%	-	21.1%	-
Peacehaven Town Council	20.1%	-	20.6%	-	21.1%	-
Pett Parish Council	20.1%	-	20.6%	-	21.1%	-
Plumpton Parish Council	20.1%	-	20.6%	-	21.1%	-
Polegate Town Council	20.1%	-	20.6%	-	21.1%	-
Ringmer Parish Council	20.1%	-	20.6%	-	21.1%	-
Rye Town Council	20.1%	-	20.6%	-	21.1%	-
Salehurst & Robertsbridge Parish Council	20.1%	-	20.6%	-	21.1%	-
Seaford Town Council	20.1%	-	20.6%	-	21.1%	-
Sussex Inshore Fisheries & Conservation Authority	20.1%	-	20.6%	-	21.1%	-
Telscombe Town Council	20.1%	-	20.6%	-	21.1%	-
Uckfield Town Council	20.1%	-	20.6%	-	21.1%	-
Westham Parish Council	20.1%	-	20.6%	-	21.1%	-
Willingdon & Jevington Parish Council	20.1%	-	20.6%	-	21.1%	-
Colleges						
Bexhill College	17.0%	-	17.5%	-	18.0%	-
Brighton, Hove & Sussex Sixth Form College	17.0%	-	17.5%	-	18.0%	-
City College, Brighton	17.4%	42,000	17.4%	68,000	17.4%	96,000
Plumpton College	17.0%	-	17.5%	-	18.0%	-
Sussex Coast College	17.5%	-	18.0%	-	18.4%	2,700
Sussex Downs College	16.0%	-	16.5%	-	17.0%	-
Vardean Sixth Form College	17.0%	-	17.5%	-	18.0%	-

EAST SUSSEX PENSION FUND REPORT AND ACCOUNTS 2014/15

Employer	Contribution Rate					
	2013/14		2014/15		2015/16	
	Payroll %	Amount £	Payroll %	Amount £	Payroll %	Amount £
Community Admission Bodies						
Amicus Horizon	17.5%	310,000	17.5%	388,000	17.5%	472,000
Brighton Dome & Festival	31.0%	-	31.0%	-	31.0%	-
Care Quality Commission	21.3%	-	21.8%	-	22.3%	-
De La Warr Pavilion Charitable Trust	25.1%	-	27.0%	1,900	27.0%	5,500
East Sussex Energy, Infrastructure & Development Ltd (ESEID)	22.1%	-	21.2%	-	20.4%	-
Hastings Business Operations Limited (HBOL)	17.2%	-	18.6%	-	20.0%	-
Hove & Portslade CAB	21.5%	-	21.5%	-	21.5%	-
Sussex Archaeological Society	24.2%	31,400	24.2%	35,600	24.2%	40,100
Sussex County Sports Partnership	15.8%	-	15.8%	-	15.8%	-
Sussex Housing & Care	20.0%	59,300	20.0%	123,700	20.0%	193,500
University of Sussex	30.9%	112,700	-	-	-	-
Transferee Admission Bodies						
Accent Catering Services Ltd	21.4%	-	21.4%	-	21.4%	-
Amey	22.9%	-	19.1%	-	15.2%	-
BHCC - Peyton and Byrne	21.1%	-	20.9%	-	20.7%	-
Curchill - Cavendish	26.2%	200	26.2%	1,100	26.2%	2,100
Civica ICT - William Parker	15.9%	-	15.9%	-	15.9%	-
Eastbourne Homes - SEILL	22.6%	-	22.6%	-	22.6%	-
Eastbourne Leisure Trust	20.9%	-	21.2%	11,700	21.2%	25,000
EBC - Towner	19.2%	-	19.2%	-	19.2%	-
Eden Foodservice	19.3%	-	16.1%	-	13.0%	-
Education Futures Trust	21.9%	-	21.9%	-	21.9%	-
ESCC - Care at Home	21.5%	-	17.3%	-	13.0%	-
ESCC - Churchill	20.7%	-	23.3%	-	26.0%	-
ESCC - Health Management Ltd (HML)	20.0%	-	20.0%	-	20.0%	-
ESCC - John O'Conner Ltd	19.9%	1,600	16.8%	-	13.0%	-
ESCC - NSL Limited	24.3%	-	23.9%	-	23.5%	-
European Electronique Ltd	14.5%	14,700	14.5%	24,700	14.5%	35,600
May Gurney Ltd	22.8%	-	24.7%	-	25.4%	3,000
Mears Ltd	24.9%	5,200	24.9%	25,400	24.9%	47,300
MyTime Active Ltd	20.1%	3,400	20.1%	10,900	20.1%	19,000
Wave Leisure Trust Ltd	18.8%	-	20.9%	13,100	20.9%	56,300
WDC - ISS Limited	26.4%	-	26.4%	-	26.4%	-
WDC - Kier	24.8%	-	24.4%	-	24.0%	-
WDC - Richardson	21.8%	-	21.0%	-	20.3%	-
WDC - Wealden Leisure	22.1%	17,600	22.1%	111,200	22.1%	212,900
BHCC - Wealden Leisure	20.1%	-	22.6%	4,000	22.6%	19,000
White Rock Theatre	22.4%	8,500	22.4%	18,600	22.4%	29,700

28: Investment Performance

The County Council uses an independent Investment performance measurement service, provided by the WM Company which measures the performance of the Fund compared with 85 other local authority pension funds. Pension Fund investment is a long term business so as well as showing the annual performance of the Fund, comparison to peers over longer periods is also detailed below.

Performance relative to the Fund's strategic benchmark

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	15.0	11.2	8.4	7.9
Benchmark	11.9	9.5	7.2	7.5
Relative	2.7	1.6	1.2	0.4

Investment performance relative to peer group

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	15.0	11.2	8.4	7.9
Local Authority Average	13.2	11.0	8.7	7.9
Relative	1.6	0.1	(-0.3)	0.0

The Fund outperformed the average local authority fund over the year by 1.6% (0.3% underperformance 2013/14), ranking the East Sussex Fund in the 22nd percentile (59th percentile 2013/14) in the local authority universe. Over three years the fund outperformed by 0.1% (0.7% underperformance 2013/14) and was placed in the 44th percentile (81th percentile 2013/14). Over five years the fund underperformed by 0.3% (0.8% underperformance 2012/13) and was placed in the 67th percentile (77th percentile 2013/14). Over ten years the fund relative performance was in line with the local authority fund average 0.0% (0.2% underperformance 2013/14) and was placed in the 50th percentile (52th percentile 2013/14).

Relative performance is calculated on a geometric basis as follows:

$$\left(\frac{1 + \text{Fund Performance}}{1 + \text{Benchmark Performance}} \right) - 1$$

As opposed to the simpler arithmetic method the geometric method makes it possible to directly compare long term relative performance with shorter term relative performance.

9. Funding strategy statement

The Funding Strategy Statement (FSS) focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. The FSS is prepared in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2007 and in collaboration with the Fund's actuary, Hymans Robertson LLP, after consultation with the Fund's employers and investment adviser. The FSS sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years);
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles

This statement is included in the Fund's Statement of Investment Principles

10. Statement of investment principles

The Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2009 require administering authorities of pension funds to prepare, maintain and publish a written statement setting out the investment policy for their Fund they must consult with persons they deem appropriate when drawing up their statements. Any material change in investment policy must be included in a revised Statement of Investment Principles (SIP) within six months of the change. The statement also covers the extent to which social, environmental and ethical considerations (see below) are taken into account in the selection, retention and realisation of investments and a summary of the policy (if any) in relation to the exercise of the rights (including voting rights) attaching to investments. The East Sussex Pension Fund statement was first published in May 2000 and is reviewed annually (updated copies are available on the website).

Social, environmental and ethical considerations

The Panel has considered the issues surrounding socially responsible investment and has adopted an 'Active Shareholder Approach' to encourage companies to adopt best ethical and environmental principles without jeopardizing the investment performance of the Fund. When selecting investments for purchase, retention or sale, Fund Managers are able to invest in all companies, subject to their specific restrictions set out in the Fund's Policy Guidelines in order to achieve their performance targets. However they have been encouraged to engage in constructive dialogue on behalf of the Fund and to use their influence to encourage companies to adopt best practice in all key areas of business. The key areas are:

- Corporate governance
- Employment standards
- Human rights
- Environmental standards

Compliance with the updated Myners Principles

The original Myners Review in 2001 established ten principles of investment for defined benefit schemes. In October 2008, the Government published their response to consultation on updating the Myners review and restructured the original principles into six new high level principles, providing guidance on recommended best practice for applying the principles, and identifying tools to provide practical help and support to trustees and their advisers.

The Panel has set out details of the extent which the Fund complies with these six principles set on a 'comply or explain' basis. This compliance statement is included in the Fund's Statement of Investment Principles.

11. Communications policy statement

The Local Government Scheme regulations (Regulation 61) requires each pension fund administering authority to prepare and publish a policy statement setting out its approach to communicating with scheme members, representatives of members, prospective members and scheme employers.

The East Sussex Pension Fund policy statement sets out our existing communication activities.

This Policy is included in the Fund's Statement of Investment Principles and can be seen on the East Sussex County Council Website.

12. External auditors report

Independent auditor's report to the members of East Sussex Pension Fund on the pension fund financial statements published with the pension fund annual report

TO FOLLOW

for and on behalf of KPMG LLP, Appointed Auditor

Chartered Accountants

15 Canada Square

Canary Wharf

London

E14 5GL

30 September 2014

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Report to those charged with governance (ISA 260) 2014/15

East Sussex County Council Pension Fund

Appendix 2

July 2015

The contacts at KPMG in connection with this report are:

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This report is addressed to the Fund and has been prepared for the sole use of the Fund. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. The Audit Commission issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on Public Sector Audit Appointment's website (www.psaa.co.uk).

External auditors do not act as a substitute for the audited body's own responsibility for putting in place proper arrangements to ensure that public business is conducted in accordance with the law and proper standards, and that public money is safeguarded and properly accounted for, and used economically, efficiently and effectively.

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Philip Johnstone, the engagement lead to the Fund, who will try to resolve your complaint. If you are dissatisfied with your response please contact the national lead partner for all of KPMG's work under our contract with Public Sector Audit Appointments Limited, Trevor Rees (on 0161 246 4000, or by email to trevor.rees@kpmg.co.uk). After this, if you are still dissatisfied with how your complaint has been handled you can access PSAA's complaints procedure by emailing generalenquiries@psaa.co.uk, by telephoning 020 7072 7445 or by writing to Public Sector Audit Appointments Limited, 3rd Floor, Local Government House, Smith Square, London, SW1P 3HZ.

This document summarises the key issues identified during our audit of the financial statements for the year ended 31 March 2015 for the pension fund.

Scope of this report

This report summarises the key findings arising from:

- our audit work at East Sussex County Council Pension Fund ('the Fund') in relation to the Fund's 2014/15 financial statements.

Financial statements

Our *External Audit Plan 2014/15*, presented to you in March 2015, set out the four stages of our financial statements audit process.



This report focuses on the second and third stages of the process; control evaluation and substantive procedures. Our on site work for these took place during March 2015 (interim audit) and June 2015 (year end audit).

We are now in the final phase of the audit, the completion stage. Some aspects of this stage are also discharged through this report.

Structure of this report

This report is structured as follows:

- Section 2 summarises the headline messages.
- Section 3 sets out our key findings from our audit work in relation to the 2014/15 financial statements of the Fund.

We do not have any recommendations as a result of our testing to report.

Acknowledgements

We would like to take this opportunity to thank officers and Members for their continuing help and co-operation throughout our audit work.

This table summarises the headline messages for the Fund. Section three of this report provides further details on each area.

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Proposed audit opinion	<p>We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in East Sussex County Council's Statement of Accounts and the Pension Fund Annual Report before 30 September 2015. It is likely this will be by 28 July 2015.</p>
Audit adjustments	<p>In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.</p> <p>We did not identify any material misstatements.</p>
Key financial statements audit risks	<p>We identified the following key financial statements audit risk in our 14/15 External Audit Plan issued in March 2015.</p> <ul style="list-style-type: none"> ■ LGPS Reform <p>We have worked with officers throughout the year to discuss this key risk and our detailed findings are reported in section 3 of this report. There are no matters of any significance arising as a result of our audit work in these key risk areas.</p>
Accounts production and audit process	<p>The Fund worked to an accelerated closedown timetable this year with the aim of having an audited set of accounts signed by 28 July 2015. We agreed with officers that a draft set of financial statements would be made available for audit on 5 June 2015 along with supporting working papers and that the draft financial statements would be made available for public inspection at the same time. Draft financial statements were provided to audit by this date with working papers being provided at the same time.</p> <p>The Fund invested and planned carefully for the accelerated year end timetable, has good processes in place for the production of the accounts and good quality supporting working papers. Officers dealt efficiently with audit queries and the audit process has been completed within the planned timescales.</p> <p>We have worked with Officers throughout the year to discuss the specific risk areas for this year's audit, and the Council addressed the issues appropriately. We shall debrief with the Fund following the audit on areas where further improvements might be made in the future.</p>
Completion	<p>At the date of this report our audit of the financial statements is substantially complete subject to completion of the following areas:</p> <ul style="list-style-type: none"> ■ Receipt of a signed management representations letter from the Fund; and ■ Final review and closedown procedures <p>We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Fund's financial statements.</p>

We have identified no issues in the course of the audit of the Fund that are considered to be material.

We anticipate issuing an unqualified audit opinion in relation to the Fund's financial statements, as contained both in East Sussex County Council's Statement of Accounts and the Pension Fund Annual Report by 30 September

2015
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Pension fund audit

We anticipate issuing an unqualified audit opinion following approval of the Statement of Accounts by the Governance Committee on 21 July and the adoption of the Pension Fund Annual Report by the Pensions Committee on 27 July 2015.

Audit differences

In accordance with ISA 260 we are required to report uncorrected audit differences to you. We also report any material misstatements which have been corrected and which we believe should be communicated to you to help you meet your governance responsibilities.

The final materiality (see Appendix 4 for more information on materiality) level for this year's audit was set at £49 million. We did not identify any material misstatements.

Pension Fund Annual Report

We have reviewed the Pension Fund Annual Report and confirmed that:

- the financial and non-financial information it contains is not inconsistent with the financial information contained in the audited financial statements.

We anticipate issuing an unqualified opinion on the Pension Fund Annual Report.

The statutory deadline for publishing the document is 1 December 2015. The Pension Fund Annual Report is currently due to be approved by the Pensions Committee on 27 July 2015.

We have worked with management throughout the year to discuss significant risks and key areas of audit focus

This section sets out our detailed findings on those risks

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In our *External Audit Plan 2014/15*, presented to you in March 2015, we identified the significant risks affecting the Pension Fund's 2014/15 financial statements. We have now completed our testing of these areas and set out our evaluation following our substantive work.

The table below sets out our detailed findings for each of the risks that are specific to the Fund.

Significant audit risk	Issue	Findings
	<p>From 1 April 2014, all members of the LGPS have automatically joined the new career average defined benefit scheme. The new scheme provides more flexibility on when members can take their pension and also how much they pay in. There is a risk that pension administration systems have not been set up to correctly reflect the changes resulting from LGPS 2014 and will therefore not accurately calculate the pension benefits due to members. While any errors in the system are unlikely to result in material misstatements in 14/15, the possible cumulative effect in future years means that specific audit work is needed on ensuring that the changes required to the system have been accurately reflected.</p>	<p>We have reviewed the controls and processes that the Pension Fund have put in place to accurately capture the data required by LGPS 2014. We have also tested that the system has been set up to accurately calculate future benefit entitlement.</p> <p>There are no matters arising from this work that we need to bring to your attention.</p>

In our *External Audit Plan 2014/15* we reported that we would consider two risk areas that are specifically required by professional standards and report our findings to you. These risk areas were Management override of controls and the Fraud risk of revenue recognition.

The table below sets out the outcome of our audit procedures and assessment on these risk areas.

Areas of significant risk	Summary of findings
<div style="display: flex; align-items: center;"> <div style="border: 2px solid #008080; border-radius: 50%; padding: 10px; margin-right: 10px; text-align: center;"> <p style="margin: 0;">Management override of controls</p> </div> <div style="font-size: 2em; margin-right: 10px;">➔</div> <div> <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ All areas </div> </div>	<p>Our audit methodology incorporates the risk of management override as a default significant risk. Management is typically in a unique position to perpetrate fraud because of its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. We have not identified any specific additional risks of management override relating to this audit.</p> <p>In line with our methodology, we carried out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.</p> <p>There are no matters arising from this work that we need to bring to your attention.</p>
<div style="display: flex; align-items: center;"> <div style="writing-mode: vertical-rl; transform: rotate(180deg); font-weight: bold; margin-right: 5px;">Page 89</div> <div style="border: 2px solid #008080; border-radius: 50%; padding: 10px; margin-right: 10px; text-align: center;"> <p style="margin: 0;">Fraud risk of revenue recognition</p> </div> <div style="font-size: 2em; margin-right: 10px;">➔</div> <div> <p>Audit areas affected</p> <ul style="list-style-type: none"> ■ None </div> </div>	<p>Professional standards require us to make a rebuttable presumption that the fraud risk from revenue recognition is a significant risk.</p> <p>In our <i>External Audit Plan 2014/15</i> we reported that we do not consider this to be a significant risk for Local Authorities or their administered Pension Funds as there is unlikely to be an incentive to fraudulently recognise revenue.</p> <p>This is still the case. Since we have rebutted this presumed risk, there has been no impact on our audit work.</p>

Financial Statements (continued)

Accounts production and audit process

The Fund has a well established and strong accounts production process. This operated well in 2014/15, and the standard of accounts and supporting working papers was high.

Officers dealt promptly and efficiently with audit queries and the audit process was completed within the planned timescales.

Accounts production and audit process

ISA 260 requires us to communicate to you our views about the significant qualitative aspects of the Fund's accounting practices and financial reporting. We also assessed the Fund's process for preparing the accounts and its support for an efficient audit.

We considered the following criteria:

Element	Commentary
Accounting practices and financial reporting	The Fund continues to maintain a strong financial reporting process and produce statements of accounts to a good standard. We consider that accounting practices are appropriate.
Completeness of draft accounts	<p>We received a complete set of draft accounts on 5 June 2015. Given the accelerated deadline that the Authority has worked to, we considered the draft financial statements to have been prepared to a high standard.</p> <p>The Fund have made a small number of presentational and disclosure changes to the accounts presented for audit, however there have been no changes which we consider to be significant.</p>
Quality of supporting working papers	<p>We issued our <i>Accounts Audit Protocol</i> including our required working papers for the audit on 25 March 2015.</p> <p>The quality of working papers provided was good and met the standards specified in our <i>Accounts Audit Protocol</i>.</p>
Response to audit queries	Officers resolved all audit queries in a timely manner and were helpful and supportive throughout the audit process.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Fund's financial statements.

Before we can issue our opinion we require a signed management representation letter.

Once we have finalised our opinions and conclusions we will prepare our Annual Audit Letter and close our audit.

Declaration of independence and objectivity

As part of the finalisation process we are required to provide you with representations concerning our independence.

In relation to the audit of the financial statements of East Sussex County Council Pension Fund for the year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and East Sussex County Council Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

We have provided a detailed declaration in Appendix 4 in accordance with ISA 260.

Management representations

You are required to provide us with representations on specific matters such as your financial standing and whether the transactions within the accounts are legal and unaffected by fraud. We have provided a template to the Chief Financial Officer for presentation to the Governance Committee. We require a signed copy of your management representations before we issue our audit opinion.

Other matters

ISA 260 requires us to communicate to you by exception 'audit matters of governance interest that arise from the audit of the financial statements' which include:

- significant difficulties encountered during the audit;
- significant matters arising from the audit that were discussed, or subject to correspondence with management;
- other matters, if arising from the audit that, in the auditor's

professional judgment, are significant to the oversight of the financial reporting process; and

- matters specifically required by other auditing standards to be communicated to those charged with governance (e.g. significant deficiencies in internal control; issues relating to fraud, compliance with laws and regulations, subsequent events, non disclosure, related party, public interest reporting, questions/objections, opening balances etc).

There are no others matters which we wish to draw to your attention in addition to those highlighted in this report.

Appendix 1: Key issues and recommendations

We give each recommendation a risk rating and agree what action management will need to take. Progress against recommendations should be monitored closely during the year.

Recommendations raised will be followed up as part of our 2015/16 financial statements audit.

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Priority rating for recommendations		
<p>1 <i>Priority one:</i> issues that are fundamental and material to your system of internal control. We believe that these issues might mean that you do not meet a system objective or reduce (mitigate) a risk.</p>	<p>2 <i>Priority two:</i> issues that have an important effect on internal controls but do not need immediate action. You may still meet a system objective in full or in part or reduce (mitigate) a risk adequately but the weakness remains in the system.</p>	<p>3 <i>Priority three:</i> issues that would, if corrected, improve the internal control in general but are not vital to the overall system. These are generally issues of best practice that we feel would benefit you if you introduced them.</p>

We are pleased to inform you that we have not identified any recommendations during our audit of the Pension Fund.

This appendix sets out the significant audit differences identified during the audit for the year ended 31 March 2015.

We are reporting all audit differences over £49 million.

We are required by ISA 260 to report all uncorrected misstatements, other than those that we believe are clearly trivial, to those charged with governance (which in your case is the Audit Committee). We are also required to report all material misstatements that have been corrected but that we believe should be communicated to you to assist you in fulfilling your governance responsibilities.

Uncorrected audit differences

We are pleased to report that there are no uncorrected audit differences.

Corrected audit differences

We are pleased to report that there are no significant corrected audit differences.

Our audit identified a small number of presentational and disclosure amendments in the financial statements. These have been discussed with management and the financial statements have been amended for these.

The Code of Audit Practice requires us to exercise our professional judgement and act independently of both Public Sector Audit Appointments Ltd and the Fund.

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Requirements

Auditors appointed by Public Sector Audit Appointments Ltd must comply with the *Code of Audit Practice* (the 'Code') which states that:

“Auditors and their staff should exercise their professional judgement and act independently of both the Commission and the audited body. Auditors, or any firm with which an auditor is associated, should not carry out work for an audited body that does not relate directly to the discharge of auditors’ functions, if it would impair the auditors’ independence or might give rise to a reasonable perception that their independence could be impaired.”

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code, the detailed provisions of the Statement of Independence included within the Public Sector Audit Appointments Ltd *Terms of Appointment* ('Public Sector Audit Appointments Ltd Guidance') and the requirements of APB Ethical Standard 1 *Integrity, Objectivity and Independence* ('Ethical Standards').

The Code states that, in carrying out their audit of the financial statements, auditors should comply with auditing standards currently in force, and as may be amended from time to time. Public Sector Audit Appointments Ltd guidance requires appointed auditors to follow the provisions of ISA (UK & I) 260 *Communication of Audit Matters with Those Charged with Governance* that are applicable to the audit of listed companies. This means that the appointed auditor must disclose in writing:

- Details of all relationships between the auditor and the client, its directors and senior management and its affiliates, including all services provided by the audit firm and its network to the client, its directors and senior management and its affiliates, that the auditor considers may reasonably be thought to bear on the auditor's objectivity and independence.

- The related safeguards that are in place.
- The total amount of fees that the auditor and the auditor's network firms have charged to the client and its affiliates for the provision of services during the reporting period, analysed into appropriate categories, for example, statutory audit services, further audit services, tax advisory services and other non-audit services. For each category, the amounts of any future services which have been contracted or where a written proposal has been submitted are separately disclosed. We do this in our *Annual Audit Letter*.

Appointed auditors are also required to confirm in writing that they have complied with Ethical Standards and that, in the auditor's professional judgement, the auditor is independent and the auditor's objectivity is not compromised, or otherwise declare that the auditor has concerns that the auditor's objectivity and independence may be compromised and explaining the actions which necessarily follow from his. These matters should be discussed with the Audit, Best Value and Community Services Scrutiny Committee.

Ethical Standards require us to communicate to those charged with governance in writing at least annually all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place that, in our professional judgement, may reasonably be thought to bear on our independence and the objectivity of the Engagement Lead and the audit team.

General procedures to safeguard independence and objectivity

KPMG's reputation is built, in great part, upon the conduct of our professionals and their ability to deliver objective and independent advice and opinions. That integrity and objectivity underpins the work that KPMG performs and is important to the regulatory environments in which we operate. All partners and staff have an obligation to maintain the relevant level of required independence and to identify and evaluate circumstances and relationships that may impair that independence.

We confirm that we have complied with requirements on objectivity and independence in relation to this year's audit of the Fund's financial statements.

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Acting as an auditor places specific obligations on the firm, partners and staff in order to demonstrate the firm's required independence. KPMG's policies and procedures regarding independence matters are detailed in the *Ethics and Independence Manual* ('the Manual'). The Manual sets out the overriding principles and summarises the policies and regulations which all partners and staff must adhere to in the area of professional conduct and in dealings with clients and others.

KPMG is committed to ensuring that all partners and staff are aware of these principles. To facilitate this, a hard copy of the Manual is provided to everyone annually. The Manual is divided into two parts. Part 1 sets out KPMG's ethics and independence policies which partners and staff must observe both in relation to their personal dealings and in relation to the professional services they provide. Part 2 of the Manual summarises the key risk management policies which partners and staff are required to follow when providing such services.

All partners and staff must understand the personal responsibilities they have towards complying with the policies outlined in the Manual and follow them at all times. To acknowledge understanding of and adherence to the policies set out in the Manual, all partners and staff are required to submit an annual ethics and independence confirmation. Failure to follow these policies can result in disciplinary action.

Auditor declaration

In relation to the audit of the financial statements of East Sussex County Council Pension Fund for the financial year ending 31 March 2015, we confirm that there were no relationships between KPMG LLP and East Sussex County Council Pension Fund, its directors and senior management and its affiliates that we consider may reasonably be thought to bear on the objectivity and independence of the audit engagement lead and audit staff. We also confirm that we have complied with Ethical Standards and the Public Sector Audit Appointments Ltd requirements in relation to independence and objectivity.

For 2014/15 our materiality for the Pension Fund it is £49 million.

We have reported all audit differences above £2.4 million for the Pension Fund, to the Audit, Best Value and Community Services Scrutiny Committee.

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Materiality

The assessment of what is material is a matter of professional judgment and includes consideration of three aspects: materiality by value, nature and context.

- Material errors by value are those which are simply of significant numerical size to distort the reader's perception of the financial statements. Our assessment of the threshold for this depends upon the size of key figures in the financial statements, as well as other factors such as the level of public interest in the financial statements.
- Errors which are material by nature may not be large in value, but may concern accounting disclosures of key importance and sensitivity, for example the salaries of senior staff.
- Errors that are material by context are those that would alter key figures in the financial statements from one result to another – for example, errors that change successful performance against a target to failure.

We used the same planning materiality reported in our External Audit Plan 2014/15, presented to you in March, 2015

Materiality for the Fund's accounts was set at £49 million which equates to around 2 percent of gross assets. We design our procedures to detect errors in specific accounts at a lower level of precision.

Reporting to the Audit, Best Value and Community Services Scrutiny Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit, Best Value and Community Services Scrutiny Committee any misstatements of lesser amounts to the extent that these are identified by our audit work.

Under ISA 260, we are obliged to report omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria.

ISA 450 requires us to request that uncorrected misstatements are corrected.

We propose that an individual difference could normally be considered to be clearly trivial if it is less than £2.4m for the Fund.

Where management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Audit, Best Value and Community Services Scrutiny Committee to assist it in fulfilling its governance responsibilities.

Appendix 5: KPMG Audit Quality Framework

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG.

The diagram summarises our approach and each level is expanded upon.

At KPMG we consider audit quality is not just about reaching the right opinion, but how we reach that opinion. KPMG views the outcome of a quality audit as the delivery of an appropriate and independent opinion in compliance with the auditing standards. It is about the processes, thought and integrity behind the audit report. This means, above all, being independent, compliant with our legal and professional requirements, and offering insight and impartial advice to you, our client.

KPMG's Audit Quality Framework consists of seven key drivers combined with the commitment of each individual in KPMG. We use our seven drivers of audit quality to articulate what audit quality means to KPMG.

We believe it is important to be transparent about the processes that sit behind a KPMG audit report, so you can have absolute confidence in us and in the quality of our audit.

Tone at the top: We make it clear that audit quality is part of our culture and values and therefore non-negotiable. Tone at the top is the umbrella that covers all the drives of quality through a focused and consistent voice. Philip Johnstone as the Engagement Lead sets the tone on the audit and leads by example with a clearly articulated audit strategy and commits a significant proportion of his time throughout the audit directing and supporting the team.

Association with right clients: We undertake rigorous client and engagement acceptance and continuance procedures which are vital to the ability of KPMG to provide high-quality professional services to our clients.

Clear standards and robust audit tools: We expect our audit professionals to adhere to the clear standards we set and we provide a range of tools to support them in meeting these expectations. The global rollout of KPMG's eAudIT application has significantly enhanced existing audit functionality. eAudIT enables KPMG to deliver a highly

technically enabled audit. All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.



Recruitment, development and assignment of appropriately qualified personnel: One of the key drivers of audit quality is assigning professionals appropriate to the Fund's risks. We take great care to assign the right people to the right clients based on a number of factors including their skill set, capacity and relevant experience.

We have a well developed technical infrastructure across the firm that puts us in a strong position to deal with any emerging issues. This includes:

- A national public sector technical director who has responsibility for co-ordinating our response to emerging accounting issues, influencing accounting bodies (such as CIPFA) as well as acting as a sounding board for our auditors.

- A national technical network of public sector audit professionals is established that meets on a monthly basis and is chaired by our national technical director.

- All of our staff have a searchable data base, Accounting Research Online, that includes all published accounting standards, the KPMG Audit Manual Guidance as well as other relevant sector specific publications, such as the Audit Commission's *Code of Audit Practice*.

- A dedicated Department of Professional Practice comprised of over 100 staff that provide support to our audit teams and deliver our web-based quarterly technical training.

We continually focus on delivering a high quality audit.

This means building robust quality control procedures into the core audit process rather than bolting them on at the end, and embedding the right attitude and approaches into management and staff.

Quality must build on the foundations of well trained staff and a robust methodology.

Commitment to technical excellence and quality service delivery:

Our professionals bring you up- the-minute and accurate technical solutions and together with our specialists are capable of solving complex audit issues and delivering valued insights.

Our audit team draws upon specialist resources including Forensic, Corporate Finance, Transaction Services, Advisory, Taxation, Actuarial and IT. We promote technical excellence and quality service delivery through training and accreditation, developing business understanding and sector knowledge, investment in technical support, development of specialist networks and effective consultation processes.

Performance of effective and efficient audits: We understand that how an audit is conducted is as important as the final result. Our drivers of audit quality maximise the performance of the engagement team during the conduct of every audit. We expect our people to demonstrate certain key behaviors in the performance of effective and efficient audits. The key behaviors that our auditors apply throughout the audit process to deliver effective and efficient audits are outlined below:

- timely Engagement Lead and manager involvement;
- critical assessment of audit evidence;
- exercise of professional judgment and professional scepticism;
- ongoing mentoring and on the job coaching, supervision and review;
- appropriately supported and documented conclusions;
- if relevant, appropriate involvement of the Engagement Quality Control reviewer (EQC review);
- clear reporting of significant findings;
- insightful, open and honest two-way communication with those charged with governance; and
- client confidentiality, information security and data privacy.

Commitment to continuous improvement: We employ a broad range of mechanisms to monitor our performance, respond to feedback and understand our opportunities for improvement.

Our quality review results

Public Sector Audit Appointments Ltd publishes information on the quality of work provided by us (and all other firms) for audits undertaken on behalf of them (<http://www.psa.co.uk/audit-quality/principal-audits/kpmg-audit-quality/>).

The latest Annual Regulatory Compliance and Quality Report (issued June 2014) showed that we are meeting the overall audit quality and regulatory compliance requirements.



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Report to: **Pension Committee**

Date: **27 July 2015**

By: **Head of Accounts and Pensions**

Title of report: **Investment Performance for the first quarter of 2015**

Purpose of report: **To provide a general update to Members of the Pension Committee on the performance of the Pension Fund investment portfolio and that of the individual managers for the quarter ended 31 March 2015.**

RECOMMENDATION – The Committee is recommended to note the contents of the report, and the detailed analysis provided by Hymans Robertson as the fund advisor.

1. Introduction

1.1 This report sets out the performance for the quarter ended 31 March 2015 and since inception, as provided by the Fund's investment advisors Hymans Robertson. The full report and performance commentary will be provided at the meeting by the investment advisors as an appendix to this covering report.

2. Report Overview

2.1 The Fund outperformed the aggregate benchmark by 0.7% during the first quarter of 2015, returning 5.7% in absolute terms. Over the twelve month period to end March 2015, the Fund delivered an absolute return of 14.2%, versus a benchmark return of 11.9%.

2.2 At a manager level the Longview global equity mandate and both absolute return portfolios outperformed over the quarter. M&G also delivered marginal outperformance. Underperformance from Lazard detracted from total Fund performance. Other main points arising are:

- a. The rating for Lazard has changed from a "3 - On watch" to a "2 - Sell - review options" due to the lack of confidence Hymans Robertson have in the team's ability to execute their approach.
- b. Since the de-risking switch into the L&G 5 year Index Link Gilt fund and also the transfers in respect of the Probation Liabilities, the Fund is now underweight UK Equity and overweight Global Equity whilst remaining underweight in absolute return funds.
- c. Global equity and bond markets rose during the first quarter of 2015. A major support was lower inflation, which lessened investors' concerns about short-term interest rates being raised, at least in the immediate future.
- d. In the UK, official estimates for economic growth in 2014 were revised from 2.6% to 2.8%, the highest rate since 2007, and estimates for 2015 remain strong.

2.3 The Fund has a total of 13 distinct investment managers / mandates (including two private equity managers), and strategy has been developed for regular meetings with the managers, with those managers investing via an active approach to be engaged more frequently than those managing passive mandates.

3. Conclusion and reasons for recommendations

- 3.1 The Committee is requested to note the performance of the Pension Fund investment portfolio.

Contact Officers: Ola Owolabi, Head of Accounts and Pensions, 01273 482017
ola.owolabi@eastsussex.gov.uk

Local Member(s): All

Appendices:

Appendix 1: Hymans Report – Investment Manager Performance for 1st Quarter

Appendix 2: Strategy for meeting with Investment Managers

East Sussex Pension Fund

Review of Investment Managers' Performance for First Quarter of 2015

 Prepared By:

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For and on behalf of Hymans Robertson LLP
May 2015

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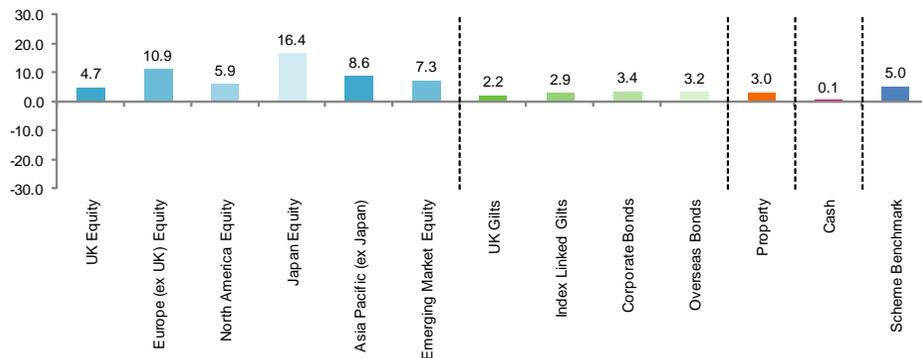
Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an 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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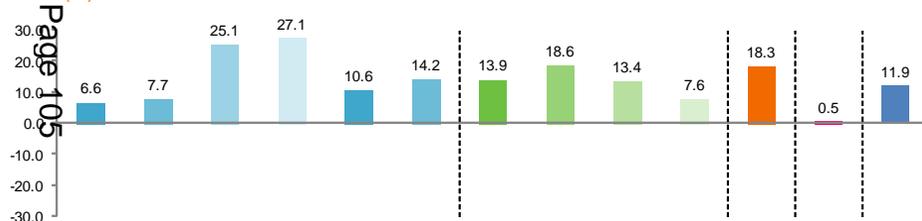
Historic Returns for World Market to 31 March 2015

Historic Returns - Chart 1 ^[1]

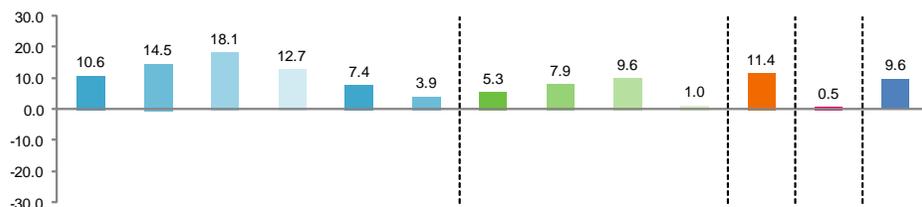
3 Months (%)



12 Months (%)



3 Years (% p.a.)



[1] All returns are in Sterling terms. Indices shown (from left to right) are as follows: Equities – FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, S&P/IFCI Composite; Bonds – FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds; Property – IPD UK Monthly Property Index; Cash – UK Interbank 7 Day.

Historic Returns - Comment

Global equity and bond markets rose during the first quarter of 2015. A major support was lower inflation, which lessened investors' concerns about short-term interest rates being raised, at least in the immediate future.

Economic news was varied. Although the US has enjoyed higher economic growth than other major markets, news during the quarter was a little disappointing. Poor weather and the impact of the strong dollar were contributory factors. In contrast, data relating to the Eurozone indicated some improvement, albeit from a very low base. The European Central Bank launched a programme of quantitative easing in March. This will result in the purchase of up to €1.1tn of government and private debt over the next eighteen months.

In the UK, official estimates for economic growth in 2014 were revised from 2.6% to 2.8%, the highest rate since 2007, and estimates for 2015 remain strong. In February, the Governor of the Bank of England expressed the view that inflation could temporarily fall below zero because of falling oil prices.

A recurring theme throughout the quarter was when and by how much the US might start to 'normalise' short-term interest rates from the current record low. This difficult task has to be handled with extreme care in the US, and ultimately in other major financial centres.

Key events during the quarter included;

Global Economy

- Short-term interest rates were unchanged in the UK, US, Eurozone and Japan;
- UK inflation (CPI) fell to 0% in February (lowest since records started in 2008);
- Modest deflationary pressures persisted in the Eurozone throughout the quarter;
- The US Central Bank gave mixed signals over potential rises in short-term interest rates;
- Japan's economic growth remained subdued, after emerging from recession in late 2014;
- China set 2015 growth target at 7.0%, lower than that achieved (7.4%) in 2014.

Equities

- The strongest sectors relative to the FTSE All World Index were Health Care (+5.4%) and Consumer Services (+2.6%); the weakest were Utilities (-7.0%) and Oil & Gas (-5.4%);
- Corporate activity included \$50bn merger of Heinz and Kraft Foods (US) and £10.3bn acquisition of O2 (UK) by Hutchison Whampoa of Hong Kong.

Bonds and currencies

- The Euro fell to 11 year low against US \$, unsettled by Eurozone quantitative easing;
- German five year bonds sold at a negative yield, joining Denmark, Finland and Netherlands.



Fund Asset Allocation and Performance

Valuation Summary [1]

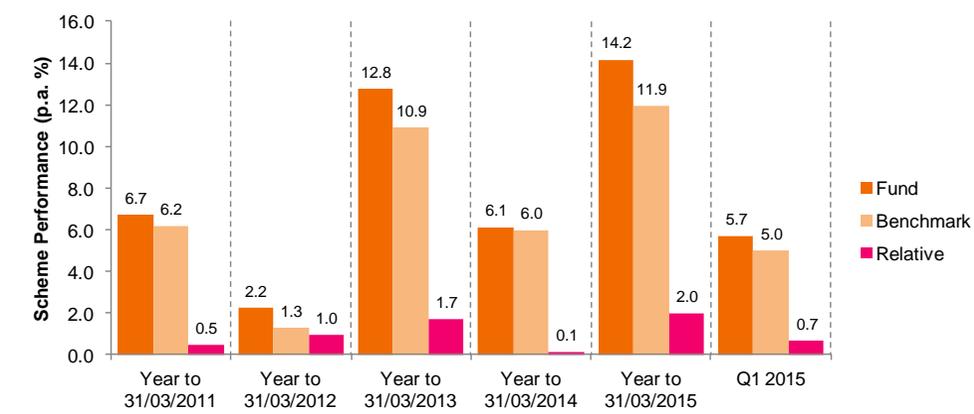
Asset Class	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q4 2014	Q1 2015			
Global Equity	1083.9	1080.9	39.4	38.0	1.4
UK Equity	406.7	271.6	9.9	12.0	-2.1
Fixed Interest	108.4	113.1	4.1	3.5	0.6
Index-Linked Gilts	0.0	144.6	5.3	5.0	0.3
Property	283.0	293.9	10.7	10.0	0.7
Infrastructure	56.2	55.6	2.0	2.0	0.0
Private Equity	148.3	153.3	5.6	5.5	0.1
Absolute Return Funds	487.2	507.2	18.5	20.0	-1.5
Cash	41.3	43.9	1.6	0.0	1.6
UK Financing Fund	10.7	10.7	0.4	1.0	-0.6
Absolute Return Bonds	66.8	67.7	2.5	3.0	-0.5
Total Client	2692.5	2742.4	100.0	100.0	

Fund performance [2]

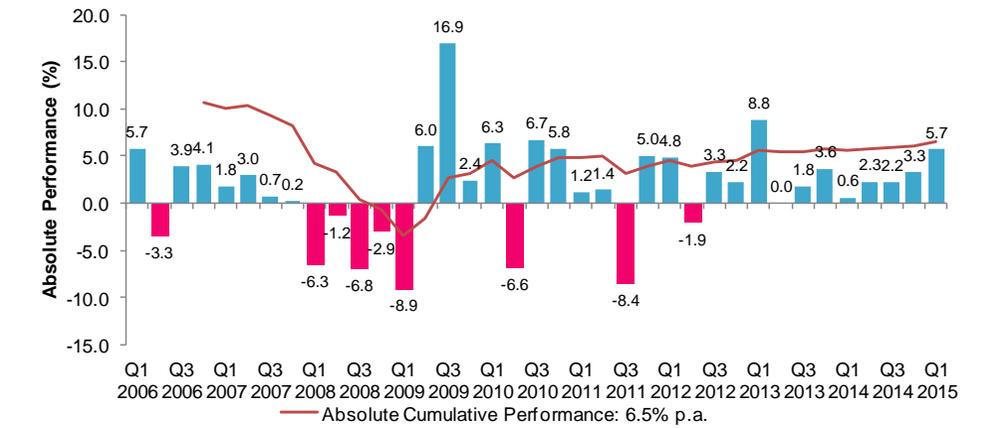
The Fund outperformed the aggregate benchmark by 0.7% during the first quarter of 2015, returning 5.7% in absolute terms. Over the twelve month period to end March 2015, the Fund delivered an absolute return of 14.2%, versus a benchmark return of 11.9%.

At a manager level the Longview global equity mandate and both absolute return portfolios outperformed over the quarter. M&G also delivered marginal outperformance. Underperformance from Lazard detracted from total Fund performance.

Performance Summary [i]



Absolute Quarterly and Absolute Cumulative Performance [ii]



[1] The cash figure shown includes the cash balances held by managers (the asset class allocations are shown on a 'look-through' basis) , [2] Total Fund return is estimated. Historical returns are backdated with WM figures.

Summary of Mandates

Manager Summary ^[1]

Manager	Investment Style	Date Appointed	Benchmark Description	Performance Target (% p.a.)	Rating *
L&G - Global Equities	Passive	11 May 2010	FTSE All World	Track index	
Lazard - Global Equities	Thematic	26 May 2010	FTSE All World	+3% (gross of fees) over rolling 3 year periods	
Longview - Global Equity	Active	16 Apr 2013	MSCI ACWI (GBP)	-	
State Street - Fundamental Indexation	Passive	06 Aug 2013	FTSE RAFI All-World 3000	Track Index	
L&G - UK Equities	Passive	21 Nov 2007	FTSE All Share	Track index	
Newton - Absolute Return	Absolute return	06 May 2010	Libor	+4% (gross of fees) over 5 years	
Ruffer - Absolute Return	Absolute return	06 May 2010	Libor	+4% (gross of fees) over 5 years	
L&G - 5yr ILG	Passive	11 Mar 2015	FTSE Actuaries UK Conventional Gilt Over 5 Years	0	
M&G - Bonds	N/A	01 Jan 1997	Bespoke	+0.8% (gross of fees) for corporate bonds only	
Schroder - Property	Fund of Funds	20 Feb 2010	IPD All Balanced Funds	0.75% p.a. (net of fees) over rolling 3 year periods	

* For information on our manager ratings, see individual manager pages

Key:- - Replace - On-Watch - Retain

Manager Summary Comment

The rating for Lazard has changed from a "3 - On watch" to a "2 - Sell - review options" due to the lack of confidence Hymans Robertson have in the team's ability to execute their approach.

Since investing in the L&G 5 year ILG fund in March and making the transfers in respect of the Probation Liabilities, the Fund is now underweight UK Equity and overweight Global Equity whilst remaining underweight in absolute return funds.

The figures to the right are based on the mandate positioning shown on page 6 (i.e. the allocation which the Panel has control over, as opposed to the 'look through' allocations on page 4).

Performance versus WM Local Authorities ^[2] ^[1]

	3 months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	3.3	8.5	10.6	8.3
WM average Local Authority	3.1	8.1	11.0	8.9
Relative	0.2	0.4	-0.4	-0.6

[1] Ruffer does not have a specific performance target, we have assumed a proxy for measurement purposes. Ruffer's stated objective is to 'preserve capital over rolling 12 month periods', and to grow the portfolio at a higher rate than could be expected from depositing the cash in a UK bank (net of fees) , [2] Performance is shown as at the end of last quarter.



Manager Structure

Manager Valuations ^[1]

Manager	Value (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q4 2014	Q1 2015			
L&G - Global Equities	276.9	216.4	7.9	8.0	-0.1
Lazard - Global Equities	384.3	410.4	15.0	15.0	-0.0
Longview - Global Equity	160.0	174.8	6.4	5.0	1.4
State Street - Fundamental Indexation	272.2	291.2	10.6	10.0	0.6
L&G - UK Equities	406.7	271.6	9.9	12.0	-2.1
Newton - Absolute Return	239.5	250.1	9.1	10.0	-0.9
Ruffer - Absolute Return	247.7	257.1	9.4	10.0	-0.6
L&G 5yr ILG	0.0	144.6	5.3	5.0	0.3
M&G - Bonds	175.2	180.8	6.6	6.5	0.1
Schroder - Property	292.4	300.5	11.0	10.0	1.0
M&G - Infrastructure Fund	31.8	33.5	1.2	1.0	0.2
UBS - Infrastructure	24.4	22.1	0.8	1.0	-0.2
Adams Street - Private Equity	78.7	83.3	3.0	2.8	0.3
HarbourVest - Private Equity	69.6	70.0	2.6	2.8	-0.2
M&G - UK Financing Fund	10.7	10.7	0.4	1.0	-0.6
Cash account	22.3	25.4	0.9	0.0	0.9
Total	2692.5	2742.4	100.0	100.0	0.0

[1] The Fund retains a small cash position to service the commitments made to the private equity portfolio and the infrastructure funds. The M&G UK Financing Fund can no longer draw on outstanding commitments.



Performance Summary (gross of fees)

Performance Summary (gross of fees) ^[1] ^[i]

		L&G - Global Equities	Lazard - Global Equities	Longview - Global Equity	State Street - Fundamental Indexation	L&G - UK Equities	Newton - Absolute Return	Ruffer - Absolute Return	L&G - 5yr ILG	M&G - Bonds	Schroder - Property	Total Fund
3 Months (%)	Absolute Benchmark	7.6 7.7	6.9 7.7	9.4 7.5	7.0 6.9	4.7 4.7	4.2 1.1	4.0 0.1	7.2 7.2	3.2 2.3	3.0 2.8	5.7 5.0
	Relative	0.0	-0.7	1.8	0.1	0.0	3.0	3.9	0.0	0.9	0.2	0.7
12 Months (%)	Absolute Benchmark	19.2 19.0	19.5 19.2	28.4 18.4 8.4	14.8 14.8	6.7 6.6	6.8 1.5	11.4 0.5 10.9	N/A N/A	11.1 9.3	18.2 16.6	14.2 11.9
	Relative	0.2	0.3	8.4	0.0	0.1	5.3	10.9	N/A	1.6	1.3	2.0
3 Years (% p.a.)	Absolute Benchmark	14.2 14.1	12.9 14.2	23.6 12.7 9.6	11.1 11.2	10.7 10.6	6.1 0.8	7.2 0.5	N/A N/A	8.5 5.7	11.2 9.7	10.9 9.6
	Relative	0.1	-1.1	9.6	-0.1	0.1	5.2	6.7	N/A	2.6	1.4	1.3
10 Years (% p.a.)	Absolute Benchmark	10.8 10.8	10.1 11.6	N/A N/A	N/A N/A	5.8 5.7	5.9 0.8	7.0 0.6	N/A N/A	6.8 5.1	9.1 8.6	7.8 7.5
	Relative	0.0	-1.4	N/A	N/A	0.2	5.1	6.4	N/A	1.6	0.4	0.3

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[1] The table shows since inception returns in place of one year, three year and ten year performance for some of the managers, if the mandate has been in place for a shorter period.

Source: [i] DataStream, Hymans Robertson

Performance Summary (net of fees)

Performance Summary (net of fees) [1] [i]

		L&G - Global Equities	Lazard - Global Equities	Longview - Global Equity	State Street - Fundamental Indexation	L&G - UK Equities	Newton - Absolute Return	Ruffer - Absolute Return	L&G - 5yr ILG	M&G - Bonds	Schroder - Property	Total Fund
3 Months (%)	Absolute Benchmark	7.6 7.7	6.7 7.7	9.3 7.5	6.9 6.9	4.7 4.7	4.0 1.1	3.8 0.1	7.2 7.2	3.1 2.3	2.9 2.8	5.6 5.0
	Relative	-0.1	-0.8	1.7	0.0	0.0	2.9	3.7	0.0	0.9	0.1	0.6
12 Months (%)	Absolute Benchmark	19.1 19.0	18.8 19.2	27.6 18.4	14.7 14.8	6.6 6.6	6.2 1.5	10.5 0.5	N/A N/A	10.7 9.3	17.9 16.6	13.8 11.9
	Relative	0.1	-0.3	7.8	-0.1	0.0	4.6	10.0	N/A	1.3	1.1	1.6
3 Years (% p.a.)	Absolute Benchmark	14.1 14.1	12.2 14.2	22.9 12.7	11.1 11.2	10.7 10.6	5.4 0.8	6.3 0.5	N/A N/A	8.1 5.7	10.9 9.7	10.6 9.6
	Relative	0.0	-1.7	9.1	-0.1	0.1	4.6	5.8	N/A	2.2	1.2	0.9
10 Years (% p.a.)	Absolute Benchmark	10.7 10.8	9.4 11.6	N/A N/A	N/A N/A	5.8 5.7	5.3 0.8	6.2 0.6	N/A N/A	6.6 5.1	8.8 8.6	7.7 7.5
	Relative	0.0	-1.9	N/A	N/A	0.1	4.5	5.6	N/A	1.4	0.2	0.2

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[1] We have estimated net returns based on each manager's expected fee levels. The table shows since inception returns in place of three year and ten year performance for some of the managers, if the mandate has been in place for a shorter period.

Source: [i] Fund Manager, Hymans Robertson

Legal and General - UK and Global Equities

HR View Comment & Rating



We rate Legal and General Investment Management's market cap index-tracking equity capability at '5 – Preferred Strategy'.

In addition to the leadership changes announced previously, including the retirement later this year of Ali Toutouchi, Managing Director Index Funds, LGIM has also announced in March the departure of Joseph Molloy, Head of Index Equities, who has subsequently joined HSBC. LGIM is currently assessing internal and external candidates to replace Molloy. Due to the continuity of a systematic investment process such as indexation, we are not changing our rating at this point. However, there is clearly significant change taking place in the senior management at LGIM and in particular we will be keeping a close eye on the manager's progress in finding replacements for Molloy and, eventually, Toutouchi.

Performance Attribution Comment

Both the Legal & General global and UK equity mandates performed broadly in line with their respective benchmarks over the quarter.

The UK equity fund delivered a positive absolute return of 4.7% over the quarter. Over the longer term, fund performance remains positive and marginally ahead of the benchmark, with relative performance of +0.2% p.a. over the last three years.

The global equity mandate also matched the performance of the benchmark over Q1, delivering an absolute return of 7.6%. Long term performance remains in line with the FTSE All World Index at both 3 years and since the mandate's inception.

The 85% funding level trigger was reached in March 2015 and Legal & General were instructed to disinvest £135m from the UK and global equity holdings. The holdings were also reduced during the quarter due to the bulk transfer of assets to the Greater Manchester Pension Fund. These transfers took place in January and March 2015.

L&G UK Fund Performance ^[i]

	3 months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	4.7	6.7	10.8	5.8
Benchmark	4.7	6.6	10.6	5.7
Relative	0.0	0.1	0.1	0.2

* Inception date 21 November 2007

L&G Global Fund Performance ^[ii]

	3 months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	7.6	19.2	14.2	10.8
Benchmark	7.7	19.1	14.2	10.8
Relative	-0.1	0.1	0.0	0.1

* Inception date 11 May 2010 (since restructure of Fund)

Legal and General - 5 year ILG

HR View Comment & Rating



LGIM announced the addition of a senior fixed income portfolio manager during Q1. We do not see this addition as having a significant impact on the manager's passive fixed income business and we continue to rate the manager '5 – Preferred Strategy' for passive fixed income.

Performance Summary - Table [i]

	Since Inception* (%)
Fund	7.2
Benchmark	7.2
Relative	0.0

* Inception date 11 Mar 2015.

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Performance Attribution Comment

On the 11th March 2015, holdings were disinvested from the Legal & General global equity and UK equity funds and the proceeds invested in the Legal & General 5 year index linked gilts fund. Partial performance for the quarter was 7.2%, in line with the benchmark.

Source: [i] DataStream, Hymans Robertson



State Street - Fundamental Indexation

HR View Comment & Rating



We rate the FTSE RAFI 3000 global equity index at '5 – Preferred Strategy' This is a 'fundamental' index with constituents' weightings calculated by their share of total universe sales, cash flow, book value and dividends using 5 year historic data. Index weightings are calculated annually with rebalancing implemented quarterly. The main sources of potential outperformance versus a market cap weighted index are: a) wider universe; b) contrarian rebalancing (typically rotates from outperforming to underperforming stocks when it rebalances) and c) a robust tilt to value and a more moderate tilt to mid/small cap stocks. Has added 1.5% to 2.0% over backtested periods but with tracking error (relative to cap weighted indices) similar to mainstream active managers. Preferred implementation is through the main UK passive managers all of whom have good index tracking capability. The recent poor performance of 'value' has hurt index returns but we remain confident of the long term outlook. There were no relevant business issues reported over the period. We are happy with State Street's ability to track the RAFI index.

Performance Attribution Comment

State Street's fundamental indexation fund performed slightly ahead of benchmark during the first quarter of 2015, returning 7% in absolute terms. Since inception, the fund is broadly in line with the benchmark.

Performance Summary to 31 March 2015

	3 Months (%)	12 Months (%)	Since Inception* (%)
Fund	7.0	14.8	11.1
Benchmark	6.9	14.8	11.2
Relative	0.1	-0.0	-0.1

* Inception date 06 Aug 2013.



Lazard - Global Equity

HR View Comment & Rating



In February we took the decision to downgrade our rating on Lazard's Global Thematic Equity strategy from '3 On Watch' to '2 Sell – review options'. We remain comfortable with Lazard's structure as an independent team focused on a single, unconstrained strategy and building portfolios with low turnover based on the portfolio managers' long term views. Unfortunately we have lost confidence in the Lazard team's ability to execute this approach effectively. This stems from our belief that:

- The team's portfolio positioning has given the strategy a de facto macroeconomic stance which is not consistent with building a well-diversified approach informed by the thematic investment philosophy;
- The multi-sector, wealth creation themes are too diverse to give Lazard a sustained competitive advantage and the team's ability to add value through the selection of narrower, focused themes appears to have deteriorated (albeit we accept some of these are aimed at mitigating macroeconomic risk);
- While Global Thematic's portfolio positioning may see a transitory benefit from a possible US rate rise in 2015, we attach a relatively low probability to the strategy receiving sustained support from a meaningful tightening of global financial markets in the short to medium term.

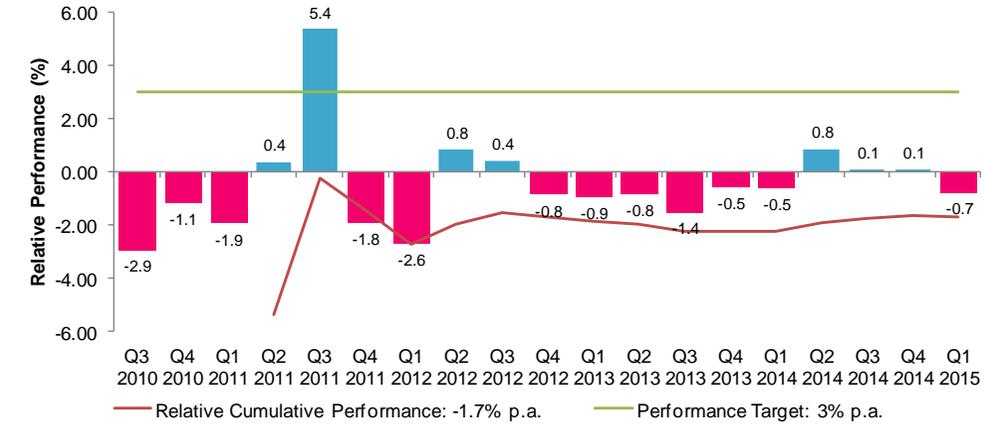
Performance Attribution Comment

Over the quarter, Lazard's global equity fund returned 6.9% in absolute terms, underperforming the benchmark by -0.8%. Over the 12 month period, the fund outperformed benchmark by 0.3% but since inception, it lagged by -1.4%.

Stock selection within the Gas & Oil theme detracted as Cenovus Energy and Southwestern Energy both reported poor quarterly results due to weakening oil prices. Stock selection in consumer goods, Gold & Precious Metals and Information in Systems - Asset Light also detracted. Individual holdings in Microsoft and EMC were amongst the biggest detractors from relative returns. At country level, the fund's stock selection in the US and the underweight positioning to Continental Europe had a negative impact on performance.

Stock selection in the UK had a positive effect on relative performance as well as the fund's overweight allocation to Japan and Hong Kong. Within the Information in Systems - Asset Heavy theme, robot manufacturer Fanuc performed very strongly over the quarter as they announced plans for solidifying investor relations, which created a greater confidence in business efficiency amongst the investors. In the Secure Streams theme, Costco posted positive returns for the quarter. General retailers also contributed to performance as well as financials and industrial engineering, at sector level.

Relative Quarterly and Relative Cumulative Performance [i]



Performance Summary to 31 March 2015 [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	6.9	19.5	12.9	10.1
Benchmark	7.7	19.2	14.2	11.6
Relative	-0.7	0.3	-1.1	-1.4

* Inception date 26 May 2010.

Longview - Global Equity

HR View Comment & Rating



We rate Longview's Global Equity strategy at '5 – Preferred Strategy'

Longview's flexible style and focused 35 stock portfolio continues to perform exceptionally well. The long running lack of exposure to Energy paid off handsomely in 2014. We would note that current exposure to listed US equity is around 70% with zero exposure to the Far East / Japan. There were no relevant business issues reported over the period.

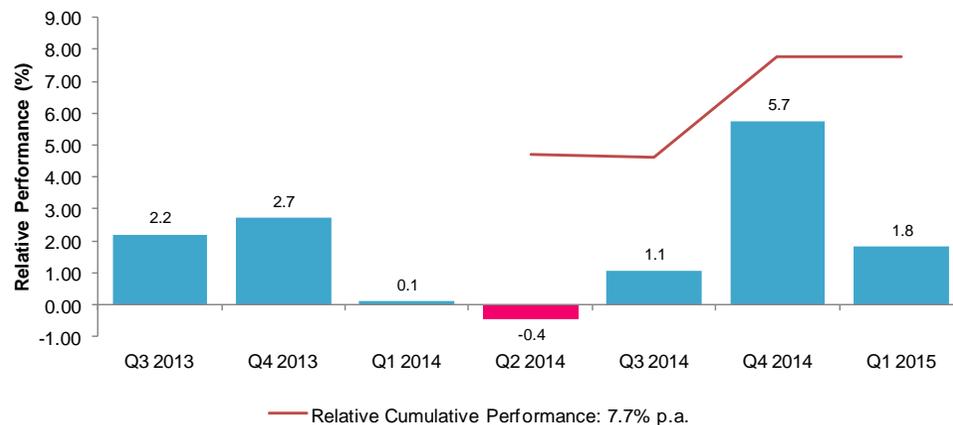
Performance Attribution Comment

Longview's global equity mandate outperformed the benchmark this quarter by 1.8%. Over the longer term, the fund has outperformed the benchmark since inception delivering an absolute return of 23.6% p.a.

The largest contributor to relative returns was stock selection in Information Technology. Individual holdings Continental, Pearson and United Health performed well over the quarter. United Health acquired the fourth largest pharmacy benefit manager, Catamaran Corporation which will almost double the company's pharmacy benefit management business and further increase their market share in the US healthcare market. Continental profited from the depreciating Euro over the quarter whilst Pearson benefitted from weakening of sterling. The overweight allocations to Consumer Discretionary and IT also benefitted mandate performance.

Over the quarter, detractors included selection within the financials sector and holdings in Oracle, Viacom and Emerson Electric. Oracle underperformed following appreciation of the US dollar during Q1 and Emerson performed badly due to repercussions from the declining oil price. Viacom suffered over the quarter as TV viewing ratings fell due to the rise in the use of tablets and laptops, however Longview are confident that the company's assets are strong enough to withstand these challenges.

Relative Quarterly and Relative Cumulative Performance [i]



Performance Summary to 31 March 2015 [ii]

	3 Months (%)	12 Months (%)	Since Inception*
Fund	9.4	28.4	23.6
Benchmark	7.5	18.4	12.7
Relative	1.8	8.4	9.6

* Inception date 16 Apr 2013.

Ruffer - Absolute Return

HR View Comment & Rating



We rate Ruffer '5 – Preferred Strategy'. We are confident in Ruffer's abilities as an absolute return manager. The success of the firm's approach is dependent on its ability to construct portfolios which can outperform cash, regardless of the market direction – which they have been successful in achieving since inception and in particular during the difficult period of 2008/09. Our only concern is the durability of the business as assets under management and the team both grow and adapt to Jonathan Ruffer's lesser input. However to date this does not appear to have had a detrimental impact on the strategy. In Q1 2015 Ruffer asked investors to approve the inclusion of new illiquid strategies, designed to provide protection against the tail-risk associated with credit markets. These investments have a 5 year illiquidity term. While this is not appropriate for all investors, we are comfortable with an allocation of up to 5% for East Sussex as proposed by Ruffer.

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Performance Attribution Comment

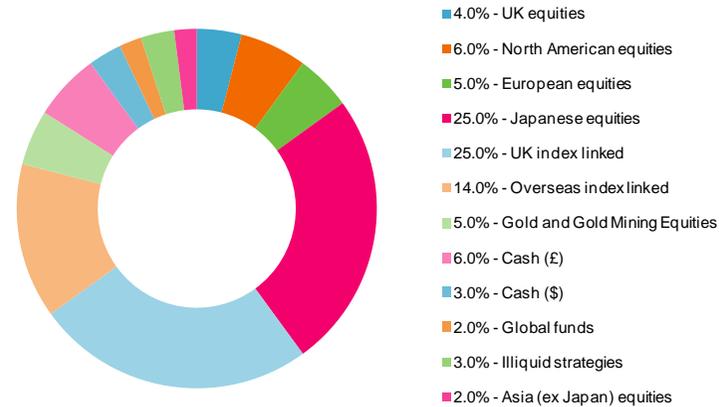
Ruffer's absolute return fund returned 4% over the first quarter of 2015. This was ahead of the benchmark by 3.9%. Over the longer term, the fund remains comfortably ahead of the proxy target.

The Fund's allocation to Japanese equities was the biggest contributor to relative returns over the quarter with several holdings such as Sony and Rakuten performing well. The dollar strengthened throughout January, due to the cessation of quantitative easing by the US Federal Reserve in Q4 of 2014 and the easing which was implemented in Europe and Japan. Ruffer made the decision to bank the profits and decreased dollar holdings to 5% at the end of January. Index-linked bonds were also positive for performance due to a decrease in commodity prices, low inflation and the continuation of an easy monetary policy environment which drove global yields further down causing prices to rise.

The fund's allocation to RBS and JPMorgan had a negative impact on performance because of the continued pressure on banks since the credit crisis. RBS specifically have been subjected to major restructuring charges but Ruffer remain confident about the management of both RBS and JPMorgan. Where the fund's allocation to index linked bonds benefitted from falling yields, exposure to options detracted due to the rising prices. Holdings in Mazda and Mitsubishi had a detrimental effect on performance as the two companies reported poor results over the quarter. Ruffer decided to sell holdings in Mitsubishi but continue to favour Mazda because of attractive new models being released to market and cheap valuations.

Source: [i] DataStream, Hymans Robertson

Asset Allocation



Performance Summary to 31 March 2015 [i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	4.0	11.4	7.2	7.0
Benchmark	0.1	0.5	0.5	0.6
Relative	3.9	10.9	6.7	6.4

* Inception date 06 May 2010.

Newton - Absolute Return

HR View Comment & Rating



We rate Newton at '5 – Preferred Strategy'. The Real Return Fund is an unconstrained multi-asset strategy that seeks to generate a return through both dynamic asset allocation and security specific selection. We like the unconstrained nature of the Newton approach and the real focus on downside protection. It is this focus on risk as the loss of capital rather than a measure of portfolio volatility that distinguishes 'absolute return' managers such as Newton. While the approach draws on a range of inputs from various investment staff in the wider Newton team, we believe that the success or otherwise of the strategy is heavily reliant on the head of the team, Iain Stewart, and there is therefore a high level of key man risk.

As at the end of the first quarter the Real Return strategy had assets under management of £12.9bn. Capacity is a consideration due to the portfolio investing in single stock names however at this level Newton do not believe this is a concern. There were no significant changes to report over the quarter to 31st March 2015.

Performance Attribution Comment

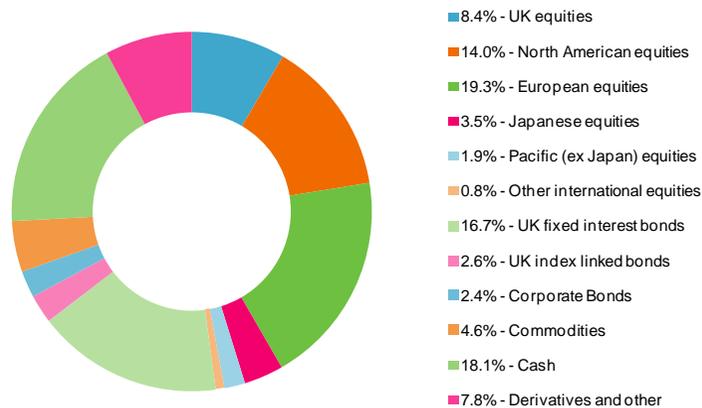
The Real Return Fund returned 4.16% over the first quarter of 2015, outperforming the cash benchmark by 3.05%. Over 12 months, 3 years and since inception, the Fund is ahead of its LIBOR +4% target.

Over the quarter, a number of global equity markets reached new highs; as such, the fund's equity exposure was the key driver for the portfolio's strong performance. Within the fund's equity holdings, performance was led by the long-standing positions in healthcare companies including Novartis, Sanofi and GlaxoSmithKline.

Within the insulating layer of the fund, government bonds, in particular Australian and US government bonds contributed significantly to the portfolio's performance. This was driven by signs emerging of slowing growth in China, which is a one of Australia's largest trading partners and mixed signals from the US Federal Reserve on their forward guidance for interest rate expectations, which sent bond yields lower. The fund's small exposure to gold continued to benefit from the strengthening of the US dollar. At the same time, the fund's derivative positions held as a hedge against equity market setbacks, detracted from the fund's performance as most equity markets rallied. Similarly, the manager's decision to hedge the currency exposure of the fund's international assets also detracted from returns as the Dollar continued to appreciate.

[1] The Fund maintains a high level of derivatives protection. On a notional basis, 30% of the Fund is protected. The manager uses options to achieve this and so the delta adjusted equity exposure will vary with changing market levels.

Asset Allocation ^[1] ^[ii]



Performance Summary to 31 March 2015 ^[ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	4.2	6.8	6.1	5.9
Benchmark	1.1	1.5	0.8	0.8
Relative	3.0	5.3	5.2	5.1

* Inception date 06 May 2010.

M&G - Bonds

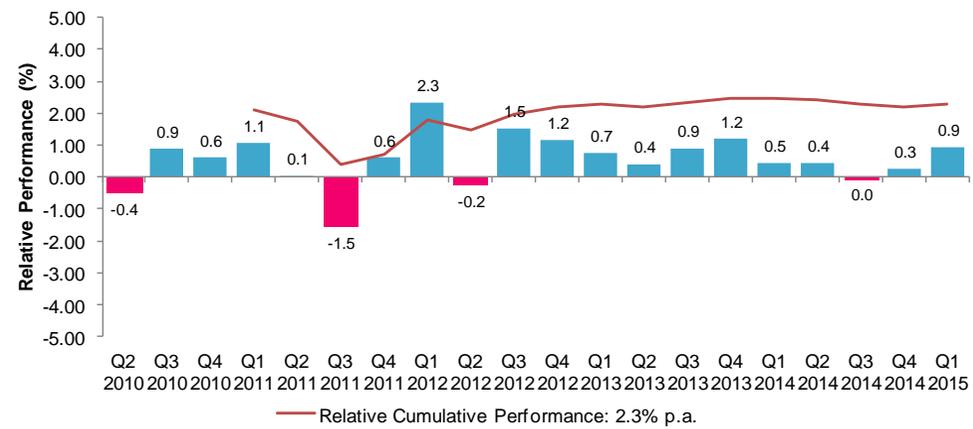
HR View Comment & Rating



M&G is rated '5 – Preferred Strategy' for fixed income. No significant changes to report over the quarter to 31st March 2015.

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Relative Quarterly and Relative Cumulative Performance



Performance Attribution Comment

M&G's corporate bond fund returned 4.4% in the first quarter of 2015, outperforming the benchmark by 0.3%. The Alpha Opportunities fund outperformed the LIBOR benchmark over the quarter by 1.2%, delivering an absolute return of 1.3%. Aggregate performance from both the funds was 3.2% for the quarter, 0.9% ahead of the benchmark. Over the longer term, the aggregate relative performance continues to outperform.

M&G does not allocate between the corporate bonds and the absolute return bonds which it manages. We have therefore provided estimates of performance based on the sizes of the allocations to each and the performance of the individual components. The current allocation of the M&G bond mandate is 60% to the traditional portfolio and 40% to the Alpha Opportunities fund.

Performance Summary to 31 March 2015 ^[1]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	3.2	11.1	8.5	7.7
Benchmark	2.3	9.3	5.7	5.3
Relative	0.9	1.6	2.6	2.3

[1] The longer term performance figures shown are for bonds only. Performance of the holding in the M&G property fund is no longer shown.

Source: [i] DataStream, Hymans Robertson

M&G - Bonds - Performance Attribution

Performance Attribution Performance [i]

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		UK Corporates	Alpha Opportunities Fund	Total
3 Months (%)	Absolute	4.4	1.3	3.2
	Benchmark	4.1	0.1	2.3
	Relative	0.3	1.2	0.9
12 Months (%)	Absolute	17.4	2.0	11.1
	Benchmark	17.3	0.5	9.3
	Relative	0.1	1.5	1.6
3 Years (% p.a.)	Absolute	10.9	4.9	8.5
	Benchmark	10.3	0.5	5.7
	Relative	0.6	4.4	2.6
5 Years (% p.a.)	Absolute	10.1	4.4	7.7
	Benchmark	9.4	0.6	5.3
	Relative	0.6	3.8	2.3

Source: [i] DataStream, Hymans Robertson



Schroders - Property

HR View Comment & Rating



Schroders informed clients in December 2014 that the name of its property business was changing to Schroder Real Estate (from Schroder Property) with immediate effect. Schroders believes the new name better conveys the wide variety of products and services it offers. Some fund names may change as a result in due course. More recently the multi manager business has also changed its name to Schroder Real Estate Capital Partners. This reflects the new name of the broader real estate business and also describes how the team now operates and sources investment opportunities. Jeremy Marsh joined Schroders as Head of UK Real Estate Research in January 2015 following Patrick Bone's move to the multi manager team in the summer of 2014.

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Performance Attribution Comment

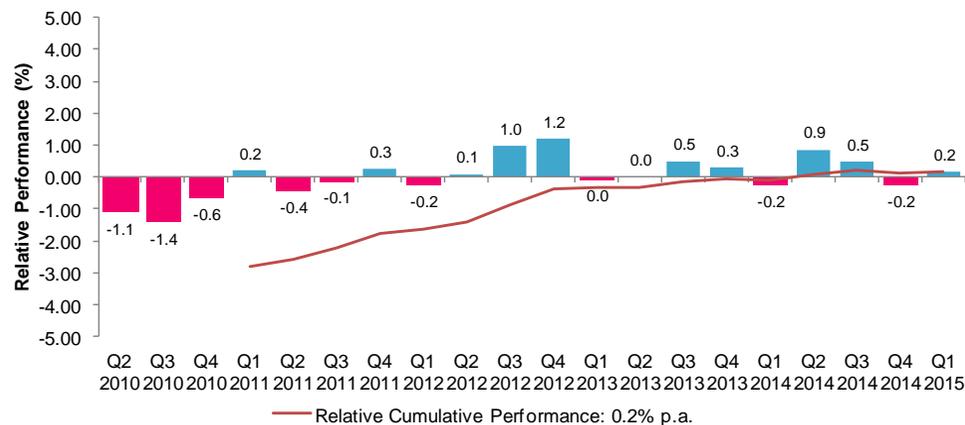
Schroders property mandate outperformed the benchmark by 0.2% over the quarter. The fund remains comfortably ahead of the benchmark over all longer periods considered.

The key drivers of performance in Q1 were funds with exposure to student accommodation and industrial assets. In particular, the Industrial Property Investment Fund and the UNITE UK Student Accommodation Fund contributed. Columbus UK Real Estate Fund also had a positive impact on performance.

This was marginally offset by retail holding funds which lagged the benchmark. The Henderson UK Retail Warehouse Fund performed poorly over the quarter after expensive re-financing. Schroders is confident that this will result in increased returns in the future.

Over the 12 month period, value add and core funds both contributed to relative performance. However, BlackRock and Aviva Investors Pensions had a negative impact as did the mandate's cash holdings.

Relative Quarterly and Relative Cumulative Performance



Performance Summary to 31 March 2015 ^[1]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	3.0	18.2	11.2	9.1
Benchmark	2.8	16.6	9.7	8.6
Relative	0.2	1.3	1.4	0.4

* Inception date 20 Feb 2010.

Summary of Benchmarks

Summary of Benchmarks

	Total Fund		Adams Street - Private Equity		Cash account		HarbourVest - Private Equity		L&G - 5yr ILG		L&G - Global Equities	
	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %
Global Equity	38.0	1.4	-	-	-	-	-	-	-	-	100.0	0.0
UK Equity	12.0	-2.1	-	-	-	-	-	-	-	-	-	-
Fixed Interest	3.5	0.6	-	-	-	-	-	-	-	-	-	-
Index-Linked Gilts	5.0	0.3	-	-	-	-	-	-	100.0	0.0	-	-
UK Property	10.0	0.7	-	-	-	-	-	-	-	-	-	-
Infrastructure	2.0	0.0	-	-	-	-	-	-	-	-	-	-
Private Equity	5.5	0.1	100.0	0.0	-	-	100.0	0.0	-	-	-	-
Absolute Return Funds	20.0	-1.5	-	-	-	-	-	-	-	-	-	-
Cash	0.0	1.6	-	-	100.0	0.0	-	-	-	-	-	-
UK Financing Fund	1.0	-0.6	-	-	-	-	-	-	-	-	-	-
Absolute Return Bonds	3.0	-0.5	-	-	-	-	-	-	-	-	-	-
Proportion of Total Assets	-	-	2.8	0.3	0.0	0.9	2.8	-0.2	5.0	0.3	8.0	-0.1

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Summary of Benchmarks (Cont.)

Summary of Benchmarks

	L&G - UK Equities		Lazard - Global Equities		Longview - Global Equity			M&G - Bonds		M&G - Infrastructure Fund		M&G - UK Financing Fund	
	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	
Global Equity	-	-	100.0	-2.9	100.0	0.0	-	-	-	-	-	-	
UK Equity	100.0	0.0	-	-	-	-	-	-	-	-	-	-	
Fixed Interest	-	-	-	-	-	-	54.0	8.6	-	-	-	-	
Index-Linked Gilts	-	-	-	-	-	-	-	-	-	-	-	-	
UK Property	-	-	-	-	-	-	-	-	-	-	-	-	
Infrastructure	-	-	-	-	-	-	-	-	100.0	0.0	-	-	
Private Equity	-	-	-	-	-	-	-	-	-	-	-	-	
Absolute Return Funds	-	-	-	-	-	-	-	-	-	-	-	-	
Cash	-	-	0.0	2.9	-	-	-	-	-	-	-	-	
UK Financing Fund	-	-	-	-	-	-	-	-	-	-	100.0	0.0	
Absolute Return Bonds	-	-	-	-	-	-	46.0	-8.6	-	-	-	-	
Proportion of Total Assets	12.0	-2.1	15.0	0.0	5.0	1.4	6.5	0.1	1.0	0.2	1.0	-0.6	

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Summary of Benchmarks (Cont.)

Summary of Benchmarks

	Newton - Absolute Return		Ruffer - Absolute Return		Schroder - Property		State Street - Fundamental Indexation		UBS - Infrastructure	
	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %
Global Equity	-	-	-	-	-	-	100.0	0.0	-	-
UK Equity	-	-	-	-	-	-	-	-	-	-
Fixed Interest	-	-	-	-	-	-	-	-	-	-
Index-Linked Gilts	-	-	-	-	-	-	-	-	-	-
UK Property	-	-	-	-	100.0	-2.2	-	-	-	-
Infrastructure	-	-	-	-	-	-	-	-	100.0	0.0
Private Equity	-	-	-	-	-	-	-	-	-	-
Absolute Return Funds	100.0	0.0	100.0	0.0	-	-	-	-	-	-
Cash	-	-	-	-	0.0	2.2	-	-	-	-
UK Financing Fund	-	-	-	-	-	-	-	-	-	-
Absolute Return Bonds	-	-	-	-	-	-	-	-	-	-
Proportion of Total Assets	10.0	-0.9	10.0	-0.6	10.0	1.0	10.0	0.6	1.0	-0.2

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Benchmarks Summary Comment

The main points to note from this table are:

- The L&G global equity mandate and the Lazard global equity mandate are benchmarked against the FTSE All World Index. Longview is benchmarked against a similar index (the MSCI All Countries). The FTSE All World Index covers around 2800 global firms, with a large or mid size market capitalisation and constitutes around 90%-95% of the world's investible markets. The index focuses on around 45 different countries, including 24 in the so called developed markets, and 21 in the emerging markets. The approximate allocations of the index to the regional stock markets is as follows: 7% UK, 55% US, 15% Europe, 6% Asia (ex Japan), 8% Japan and 9% emerging markets.
- M&G does not allocate between the corporate bonds and the absolute return bonds which it manages. The target shown is an assumed target based on the size of the initial allocation of the Fund made to the M&G Alpha Opportunities fund (absolute return bonds).



Performance Calculation Explanation

Geometric vs Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\left(\left(1 + \text{Fund Performance} \right) / \left(1 + \text{Benchmark Performance} \right) \right) - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$\text{Fund Performance} - \text{Benchmark Performance}$$

The following example illustrates the shortcomings of the arithmetic method in comparing short term relative performance with the longer term picture:

Period	Arithmetic Method			Geometric Method			Difference
	Fund Performance	Benchmark Performance	Relative Performance	Fund Performance	Benchmark Performance	Relative Performance	
Quarter 1	7.00%	2.00%	5.00%	7.00%	2.00%	4.90%	0.10%
Quarter 2	28.00%	33.00%	-5.00%	28.00%	33.00%	-3.76%	-1.24%
Linked 6 months 6 Month Performance	36.96%	35.66%	-0.25%	36.96%	35.66%	0.96%	-1.21%

Using the arithmetic method

If fund performance is measured quarterly, there is a relative underperformance of 0.25% over the six month period.

If fund performance is measured half yearly, there is a relative outperformance of 1.30% over the six month period.

Using the geometric method

If fund performance is measured quarterly, there is a relative outperformance of 0.96% over the six month period.

If fund performance is measured half yearly, an identical result is produced.

The geometric method therefore makes it possible to directly compare long term relative performance with shorter term relative performance.



Strategy for meeting with the East Sussex Pension Fund managers

Addressee

This paper is addressed to the Officers and Investment Committee (“the Committee”) of the East Sussex Pension Fund (“the Fund”). It suggests a timetable for regular manager meetings over the next year and discusses the type of analysis we could provide to support the Officers.

It has not been prepared for use for any other purpose and should not be so used. The paper should not be released or otherwise disclosed to any third party except as required by law or regulatory obligation or without our prior written consent.

Background

The Fund has a wide range of investment managers running traditional and alternative asset classes in both segregated and pooled mandates and via active and passive investment approaches. The structure of the Fund has grown more complex in recent years, reflecting the increasing desire to diversify the investment strategy.

Historically, the Investment Panel sought to meet with all managers on a regular basis through the year; this responsibility will now pass to the Committee. We are keen to ensure that while the Committee has appropriate opportunities to review and challenge the Fund’s managers, their meetings are not dominated by investment manager presentations, preferring to leave time to discuss more significant matters such as the investment strategy. The investment strategy will be the key driver of returns and risk for the Fund, and we believe that this is where the Committee should concentrate its focus. However, it is important to ensure that the maximum benefit is derived from the managers employed and that the Committee is kept up to date with their progress.

Investment Managers and Governance

The Fund has a total of 13 distinct investment managers / mandates (including two private equity managers). In addition, the Fund employs Northern Trust as the custodian.

We would recommend meeting with those managers investing via an active approach more frequently than those managing passive mandates. The more volatile the asset class being managed, ideally the more supervision and oversight is required. The size of the assets being managed will also impact how regularly the Fund should meet with the managers. We suggest that those actively managed mandates which constitute 5% or more of Fund assets should be prioritised. Taking these factors into account we suggest the following approach to meeting with managers. Managers should, of course, be invited more frequently if necessary and in particular if there are any specific issues requiring the Committee’s attention, or a decision on a desired course of action to be made.

- Managers to be seen once per year:
 - Longview (Global equities)
 - Lazard (Global equities)
 - Ruffer (Absolute return)
 - Newton (Absolute return)
 - Schroder (property)
 - M&G (bonds)
- Managers to be seen once every three years:
 - Adams Street

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- HarbourVest
- Infracapital (M&G Infrastructure)
- UBS (Infrastructure)
- M&G (Financing Fund)
- As necessary
 - L&G (passive manager)
 - State Street (passive manager)
 - Northern Trust (custodian)

In total this results in 8 or 9 manager meetings over the year. We suggest that these are spread across the 4 regular Committee meetings and potentially the Annual Strategy day where appropriate, although we would not wish to dilute the focus of this day from the more important strategic issues.

Meeting structure

In order to get the most out of the manager meetings the Committee might wish to consider imposing some structure on the managers' presentations. There are three factors we have found that can make meetings more effective.

1. Require managers to submit their presentation packs in advance of the meetings – the practicality of this will depend on the timing of the meeting relative to the quarter end;
2. The preparation by the Officers (or the Investment Consultant) of relevant questions - in the meeting itself it is essential that questions are followed through to ensure that managers give a full answer which can be understood by the members, and;
3. Requiring that managers follow a clear meeting structure and cover all points of interest.

In our experience the questions only work if:

- a) You send them to the manager beforehand, and;
- b) You insist on the pack being structured to answer the questions, rather than to the manager's own agenda.

We have outlined below a general structure for manager meetings together with examples of the types of questions that might be asked. Specific questions should be added dependent on each manager mandate and the historical performance. Sight of the presentation pack ahead of the meeting would make it easier to ensure that all appropriate questions are raised and managers should be asked to submit these five working days ahead of the meeting if at all possible. However, in the absence of that, we (or the Officers) could have a telephone conversation with the manager to get an insight into the relative performance and the drivers of that performance. In our experience managers will have assessed this well in advance of quarterly reports being issued, however they will need time to respond to specific questions.

Part 1 – Portfolio review

Investment views

When we last met what were your expectations of markets and how was that reflected in your portfolio positioning?

What went as expected and what did not? How did this impact on overall performance?

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What changes have you made to the portfolio since you last reported and what was the background to these?

Relative performance

What have been the key drivers of performance over the last 3 and 12 months? (These periods should be set to reflect the reporting regularity of each manager.) Please quantify the impact on our portfolio using attribution analysis at both a stock and sector level where possible.

Please select the sectors which have made the biggest positive and negative contributions to performance and discuss the background to the holdings in these sectors over the last 3 and 12 months.

Please comment on the share of total risk that is accounted for by your largest positions.

Add any other specific questions.

Part 2 – Current views

Markets and economies

Portfolio positioning

- What is your central view of the future and how is this reflected in your portfolio positioning?
- What would change this view?
- What environments would be most positive and most negative for your portfolio?

Part 3 – Business and other update

- Please outline any changes to the team and more broadly in the firm.
- How are new business flows and what impact is this having on resourcing?
- Please update us on the extent of your compliance with the Stewardship Code and more generally with your approach to ESG issues.

Timetable

We set out a proposed timetable for the meetings in the Appendix.

Prepared by:-

Linda Selman Partner

July 2015

For and on behalf of Hymans Robertson LLP

Appendix

Timetable of Meetings

The time table below is based on the Panel's typical dates for their regular meetings and the annual strategy meeting.

Meeting date	Manager rota
July 2015	Lazard (re performance)
September 2015	As requested by the Panel, e.g. for training matters and market views. ¹
November 2015	Longview and M&G (bonds and infrastructure)
February 2016	Newton and Ruffer
May 2016	Schroder and one of Harbourvest, Adams Street, UBS or Infracapital

¹It might be useful to invite one of the passive managers to present on 'smart beta' approaches.

If a particular issue arises with a manager the order can be revised.

East Sussex Pension Fund

Review of Investment Managers' Performance for Second Quarter of 2015

 Prepared By:

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For and on behalf of Hymans Robertson LLP
July 2015

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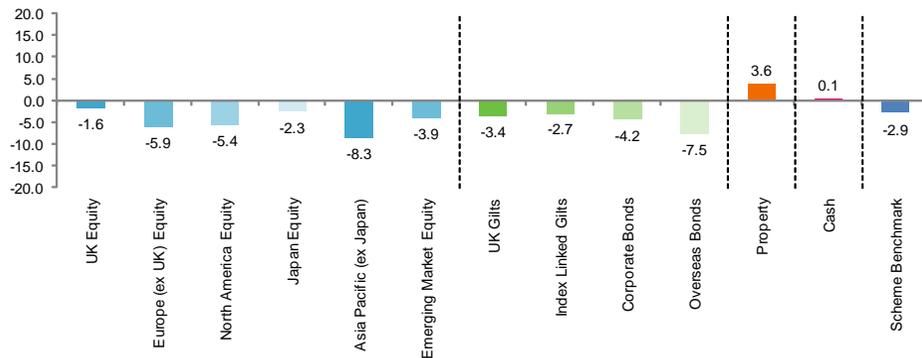
Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investment in developing or emerging markets may be more volatile and less marketable than in mature markets. Exchange rates may also affect the value of an 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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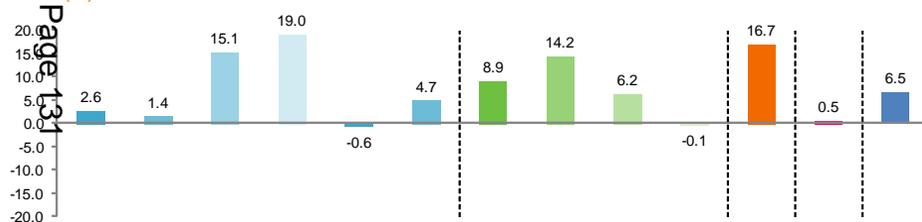
Historic Returns for World Market to 30 June 2015

Historic Returns - Chart 1 ^[1]

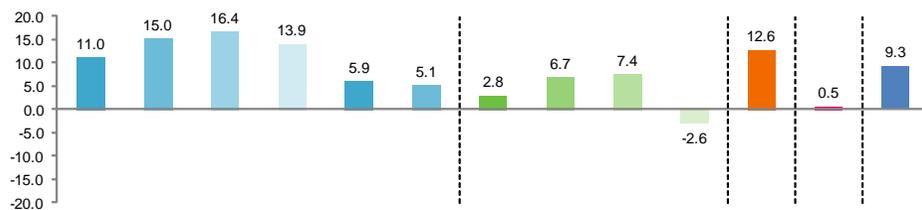
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Comment

Global equity and bond markets fell during the second quarter of 2015. Concerns about deflation eased and pushed bond yields steadily higher; sterling strengthened against most major currencies, and so broadly flat equity markets in local currency delivered negative sterling returns. Economic news was mildly positive in most regions. The US enjoyed a modest rebound after a disappointing first quarter, and data relating to the Eurozone suggested a continuation of the gradual recovery seen in recent quarters.

In the UK, economic growth estimates for Q1 2015 were revised upwards from 0.3% to 0.4%, and the estimate of growth for 2014 as a whole was revised from 2.8% to 3.0%, the highest rate since 2007. Inflation turned marginally negative in April for the first time in 50 years as prices declined by 0.1% compared with a year earlier, although this was reversed with a 0.1% increase on an annual basis in May.

Negotiations over a bailout for Greece dominated headlines, as the four-month extension negotiated in February grew closer to expiry. Towards the end of June the Greek government dramatically called a referendum on the terms of the expired bailout proposal, which was widely considered to be a referendum on euro membership; following a “no” vote in early July, banks remained closed and last-ditch negotiations continued.

Key events during the quarter included:

Global Economy

- Short-term interest rates were unchanged in the UK, US, Eurozone and Japan;
- UK inflation (CPI) fell to -0.1% in April, but recovered to 0.1% in May;
- Modest deflationary pressures in the Eurozone gave way to mild inflation throughout the quarter;
- Japan’s economy continued to grow moderately, after emerging from recession in late 2014;
- Trade data increased fears that the Chinese economy is slowing more quickly than expected; the authorities responded with a surprise cut to interest rates at the end of June;

Equities

- The strongest sectors relative to the FTSE All World Index were Telecoms (+2.5%) and Financials (+1.6%); the weakest were Utilities (-2.6%) and Industrials (-1.6%);
- Corporate activity came close to the record levels experienced in Q2 2007, driven by the £47bn takeover of BG Group by Royal Dutch Shell and the continued activity in the healthcare sector.

Bonds and currencies

- Sterling strengthened against major currencies; the yen weakened the most, with the euro surprisingly resilient to the Greek crisis;
- Bond yields generally rose; German ten year bonds dipped below 0.1% p.a. in April, before rising sharply to finish the quarter around 0.8% p.a..

[1] All returns are in Sterling terms. Indices shown (from left to right) are as follows: Equities – FTSE All Share, FTSE AW Developed Europe ex-UK, FTSE North America, FTSE Japan, FTSE AW Developed Asia Pacific ex-Japan, S&P/IFCI Composite; Bonds – FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds; Property – IPD UK Monthly Property Index; Cash – UK Interbank 7 Day.

Fund Asset Allocation and Performance

Valuation Summary [1]

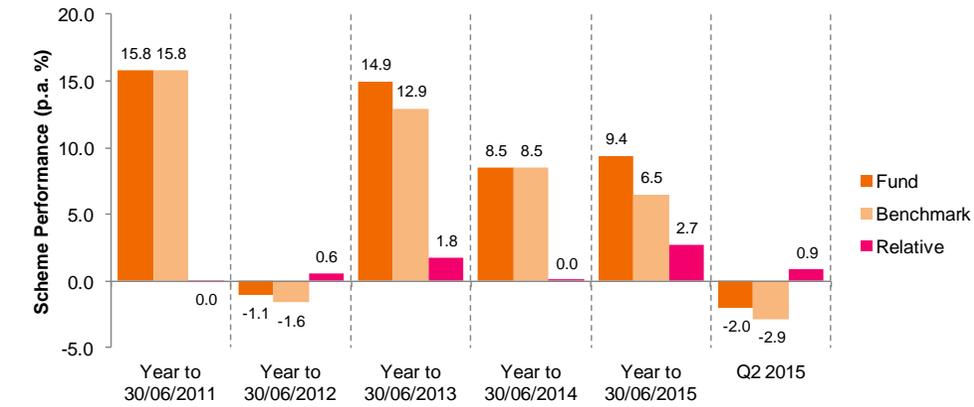
Asset Class	Values (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q1 2015	Q2 2015			
Global Equity	1080.9	1038.2	38.6	38.0	0.6
UK Equity	271.6	267.4	10.0	12.0	-2.0
Fixed Interest	113.1	107.0	4.0	3.5	0.5
Index-Linked Gilts	144.6	139.8	5.2	5.0	0.2
Property	293.9	299.2	11.1	10.0	1.1
Infrastructure	55.6	61.3	2.3	2.0	0.3
Private Equity	153.3	151.0	5.6	5.5	0.1
Absolute Return Funds	507.2	501.4	18.7	20.0	-1.3
Cash	43.9	44.1	1.6	0.0	1.6
UK Financing Fund	10.7	10.6	0.4	1.0	-0.6
Absolute Return Bonds	67.7	67.8	2.5	3.0	-0.5
Total Client	2742.4	2687.9	100.0	100.0	

Fund performance [2]

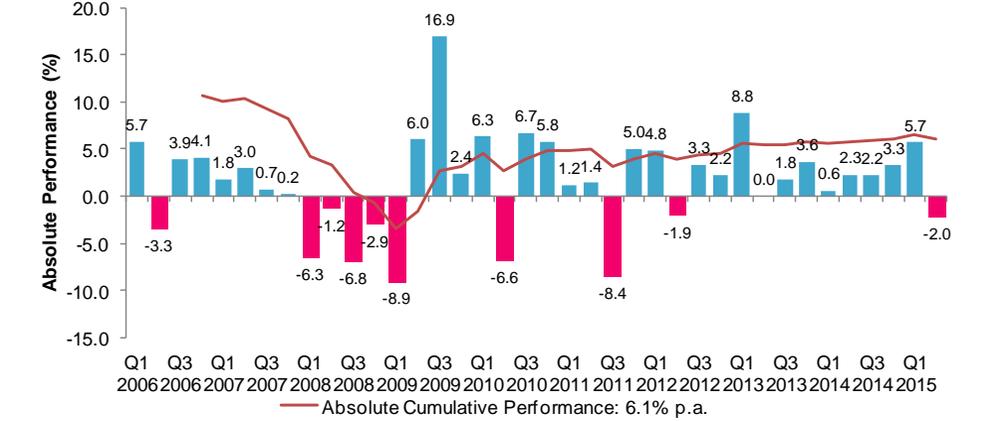
The Fund outperformed the aggregate benchmark by 0.9% during the second quarter of 2015, returning -2.0% in absolute terms. Over the twelve month period, the Fund has delivered a positive absolute return of 9.4%, versus a benchmark return of 6.5%.

At a manager level, Lazard and Longview's global equity funds outperformed their respective benchmarks over the quarter. This was slightly offset by Newton's real return fund which lagged the benchmark over the period.

Performance Summary [1]



Absolute Quarterly and Absolute Cumulative Performance [1]



[1] The cash figure shown includes the cash balances held by managers (the asset class allocations are shown on a 'look-through' basis) , [2] Total Fund return is estimated. Historical returns are backdated with WM figures.

Summary of Mandates

Manager Summary ^[1]

Manager	Investment Style	Date Appointed	Benchmark Description	Performance Target (% p.a.)	Rating *
L&G - Global Equities	Passive	11 May 2010	FTSE All World	Track index	
Lazard - Global Equities	Thematic	26 May 2010	FTSE All World	+3% (gross of fees) over rolling 3 year periods	
Longview - Global Equity	Active	16 Apr 2013	MSCI ACWI (GBP)	-	
State Street - Fundamental Indexation	Passive	06 Aug 2013	FTSE RAFI All-World 3000	Track Index	
L&G - UK Equities	Passive	21 Nov 2007	FTSE All Share	Track index	
Newton - Absolute Return	Absolute return	06 May 2010	Libor	+4% (gross of fees) over 5 years	
Ruffer - Absolute Return	Absolute return	06 May 2010	Libor	+4% (gross of fees) over 5 years	
L&G - 5yr ILG	Passive	11 Mar 2015	FTSE Actuaries UK Conventional Gilt Over 5 Years	0	
M&G - Bonds	N/A	01 Jan 1997	Bespoke	+0.8% (gross of fees) for corporate bonds only	
Schroder - Property	Fund of Funds	20 Feb 2010	IPD All Balanced Funds	0.75% p.a. (net of fees) over rolling 3 year periods	

* For information on our manager ratings, see individual manager pages

Key: - Replace - On-Watch - Retain

Manager Summary Comment

There were no changes to manager ratings over the quarter. We discuss Lazard, and the potential implications of its rating on the Fund's equity structure, in a separate paper.

The Fund continues to be underweight UK equity and overweight global equity. Property and cash allocations also remain overweight. The Fund is underweight absolute return funds. There was no transition activity during the quarter

The figures to the right are based on the mandate positioning shown on page 6 (i.e. the allocation which the Panel has control over, as opposed to the 'look through' allocations on page 4).

Performance versus WM Local Authorities ^[2] ^[1]

	3 months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	5.7	14.3	11.0	8.3
WM average Local Authority	5.3	12.9	11.0	8.7
Relative	0.4	1.2	0.0	-0.4

[1] Ruffer does not have a specific performance target, we have assumed a proxy for measurement purposes. Ruffer's stated objective is to 'preserve capital over rolling 12 month periods', and to grow the portfolio at a higher rate than could be expected from depositing the cash in a UK bank (net of fees), [2] Performance is shown as at the end 31 March 2015.

Source: [1] WM/State Street



Manager Structure

Manager Valuations ^[1]

Manager	Value (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q1 2015	Q2 2015			
L&G - Global Equities	216.4	205.6	7.6	8.0	-0.4
Lazard - Global Equities	410.4	392.9	14.6	15.0	-0.4
Longview - Global Equity	174.8	168.0	6.2	5.0	1.2
State Street - Fundamental Indexation	291.2	277.0	10.3	10.0	0.3
L&G - UK Equities	271.6	267.4	10.0	12.0	-2.0
Newton - Absolute Return	250.1	243.3	9.1	10.0	-0.9
Ruffer - Absolute Return	257.1	258.1	9.6	10.0	-0.4
L&G 5yr ILG	144.6	139.8	5.2	5.0	0.2
M&G - Bonds	180.8	174.8	6.5	6.5	0.0
Schroder - Property	300.5	310.7	11.6	10.0	1.6
M&G - Infrastructure Fund	33.5	41.1	1.5	1.0	0.5
UBS - Infrastructure	22.1	20.2	0.8	1.0	-0.2
Adams Street - Private Equity	83.3	78.8	2.9	2.8	0.2
HarbourVest - Private Equity	70.0	72.3	2.7	2.8	-0.1
M&G - UK Financing Fund	10.7	10.6	0.4	1.0	-0.6
Cash account	25.4	27.4	1.0	0.0	1.0
Total	2742.4	2687.9	100.0	100.0	0.0

[1] The Fund retains a small cash position to service the commitments made to the private equity portfolio and the infrastructure funds. The M&G UK Financing Fund can no longer draw on outstanding commitments.



Performance Summary (gross of fees)

Performance Summary (gross of fees) [1] [i]

		L&G - Global Equities	Lazard - Global Equities	Longview - Global Equity	State Street - Fundamental Indexation	L&G - UK Equities	Newton - Absolute Return	Ruffer - Absolute Return	L&G - 5yr ILG	M&G - Bonds	Schroder - Property	Total Fund
3 Months (%)	Absolute Benchmark	-5.0	-4.1	-3.8	-4.9	-1.5	-2.8	0.2	-3.3	-3.2	3.4	-2.0
		-5.0	-5.0	-5.3	-4.8	-1.6	0.1	0.1	-3.3	-3.5	3.3	-2.9
	Relative	0.0	0.9	1.6	-0.1	0.1	-2.9	0.1	0.0	0.3	0.1	0.9
12 Months (%)	Absolute Benchmark	10.3	10.7	21.1	6.5	2.7	2.5	11.5	3.7	5.5	16.1	9.4
		10.2	10.2	9.5	6.4	2.6	0.5	0.5	3.7	4.0	15.5	6.5
	Relative	0.1	0.4	10.6	0.0	0.1	2.0	11.0	0.0	1.5	0.5	2.7
3 Years (% p.a.)	Absolute Benchmark	13.7	12.4	18.6	6.7	11.2	3.7	8.8	N/A	6.8	12.3	10.9
		13.6	13.6	8.5	6.8	11.0	0.5	0.5	N/A	3.9	10.8	9.3
	Relative	0.1	-1.1	9.3	-0.1	0.1	3.2	8.3	N/A	2.8	1.4	1.5
10 Years (% p.a.)	Absolute Benchmark	9.2	8.6	N/A	N/A	5.4	5.0	6.7	N/A	5.9	9.3	7.1
		9.1	9.9	N/A	N/A	5.2	0.6	0.6	N/A	4.2	8.9	6.6
	Relative	0.1	-1.1	N/A	N/A	0.2	4.4	6.1	N/A	1.6	0.4	0.5

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[1] The table shows since inception returns in place of one year, three year and ten year performance for some of the managers, if the mandate has been in place for a shorter period.

Source: [i] DataStream, Hymans Robertson

Performance Summary (net of fees)

Performance Summary (net of fees) [1] [i]

		L&G - Global Equities	Lazard - Global Equities	Longview - Global Equity	State Street - Fundamental Indexation	L&G - UK Equities	Newton - Absolute Return	Ruffer - Absolute Return	L&G - 5yr ILG	M&G - Bonds	Schroder - Property	Total Fund
3 Months (%)	Absolute	-5.0	-4.3	-3.9	-4.9	-1.5	-2.9	0.0	-3.4	-3.3	3.3	-2.1
	Benchmark	-5.0	-5.0	-5.3	-4.8	-1.6	0.1	0.1	-3.3	-3.5	3.3	-2.9
	Relative	0.0	0.8	1.4	-0.1	0.1	-3.0	-0.1	-0.1	0.2	0.0	0.8
12 Months (%)	Absolute	10.2	10.0	20.3	6.4	2.7	1.9	10.6	3.6	5.1	15.8	9.0
	Benchmark	10.2	10.2	9.5	6.4	2.6	0.5	0.5	3.7	4.0	15.5	6.5
	Relative	0.0	-0.2	9.9	0.0	0.1	1.4	10.2	-0.1	1.1	0.3	2.3
3 Years (% p.a.)	Absolute	13.5	11.7	17.9	6.7	11.1	3.0	7.9	N/A	6.4	12.0	10.5
	Benchmark	13.6	13.6	8.5	6.8	11.0	0.5	0.5	N/A	3.9	10.8	9.3
	Relative	0.0	-1.7	8.7	-0.1	0.1	2.6	7.4	N/A	2.4	1.1	1.2
10 Years (% p.a.)	Absolute	9.1	8.0	N/A	N/A	5.4	4.4	5.9	N/A	5.7	9.1	7.0
	Benchmark	9.1	9.9	N/A	N/A	5.2	0.6	0.6	N/A	4.2	8.9	6.6
	Relative	0.0	-1.7	N/A	N/A	0.1	3.8	5.3	N/A	1.4	0.2	0.4

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[1] We have estimated net returns based on each manager's expected fee levels. The table shows since inception returns in place of three year and ten year performance for some of the managers, if the mandate has been in place for a shorter period.

Source: [i] Fund Manager, Hymans Robertson

Legal and General - UK and Global Equities

HR View Comment & Rating



We rate Legal and General Investment Management's market cap and fundamental index-tracking equity capability at '5 - Preferred strategy'.

LGIM has not yet found a direct replacement for Joseph Molloy, the Head of Index Equities who left in March 2015. Julian Harding, Director of Fund Management has assumed responsibility for Molloy's previous roles. In addition a new fund manager, Michel Porte has been recruited into the index equities team. LGIM is also still working on a succession plan for Ali Toutounchi, Head of Index who retires later this year. We are not changing our ratings at this time but LGIM do seem to be weathering an unwelcome degree of disruption amongst its senior management on the index side of the business.

Performance Attribution Comment

Both of the Legal & General equity mandates performed broadly in line with their respective benchmarks over the quarter.

The UK equity fund delivered a negative absolute return of -1.5% throughout the quarter. Fund performance remains positive and broadly in line with benchmark over 12 months and 3 years. Since inception, performance is marginally ahead of the benchmark by 0.2% p.a.

The global equity mandate also matched the performance of the benchmark over Q2, delivering a negative absolute return of -5.0%. Long term performance is broadly in line with the FTSE All World Index over 3 years and since the mandate's inception.

L&G UK Fund Performance ^[i]

	3 months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-1.5	2.7	11.2	5.4
Benchmark	-1.6	2.6	11.0	5.2
Relative	0.1	0.1	0.1	0.2

* Inception date 21 November 2007

L&G Global Fund Performance ^[ii]

	3 months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-5.0	10.3	13.7	9.2
Benchmark	-5.0	10.2	13.6	9.1
Relative	0.0	0.1	0.1	0.1

* Inception date 11 May 2010 (since restructure of Fund)

Legal and General - 5 year ILG

HR View Comment & Rating



There were no significant changes to report over the quarter to 30 June 2015.

Performance Summary - Table [i]

	3 Months (%)	Since Inception*
Fund	-3.3	3.7
Benchmark	-3.3	3.7
Relative	0.0	0.0

* Inception date 11 Mar 2015.

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Performance Attribution Comment

Over the quarter and since inception, Legal & General's 5 year index linked gilts fund performed in line with the benchmark.

It was a difficult quarter for the gilt market with yields rising, driving prices downwards. The current low level of RPI inflation has also negatively impacted the longer term index linked gilts.

State Street - Fundamental Indexation

HR View Comment & Rating



We rate the FTSE RAFI 3000 global equity index at '5 - Preferred strategy'.

There were no relevant business issues reported over the period.

Performance Summary - Table

	3 Months (%)	12 Months (%)	Since Inception*
Fund	-4.9	6.5	6.7
Benchmark	-4.8	6.4	6.8
Relative	-0.1	0.0	-0.1

* Inception date 06 Aug 2013.

Performance Attribution Comment

The fundamental index portfolio delivered performance broadly in line with benchmark over the quarter, returning -4.9% in absolute terms. RAFI moderately outperformed the equivalent cap weighted index in Q2 2015 as the value and growth styles performed in line, it is behind year to date and remains true to its 'contrarian' principles with an overweight to Energy and underweight to Health Care.

Performance remains broadly in line with benchmark over 12 months and since inception.



Lazard - Global Equity

HR View Comment & Rating



Our rating on Lazard's Global Thematic Equity strategy remains at '2 Sell – review options'. We are still comfortable with Lazard's structure as an independent team focused on a single, unconstrained strategy and building portfolios with low turnover based on long term views. Unfortunately we have lost confidence in the Lazard team's ability to execute this approach effectively. Our loss of confidence stems from our belief that:

- the team's macroeconomic stance is not consistent with building a well-diversified approach informed by the thematic investment philosophy;
- the multi-sector, wealth creation themes are too diverse to give Lazard a sustained competitive advantage and the migration of stock holdings from retired themes to new themes undermines their differentiation.

Global Thematic may see some short term performance recovery, possibly around a US rate rise in late 2015, but we have lost confidence in the team's long term ability to replicate the success enjoyed pre-2008. There were no relevant business issues reported over the period.

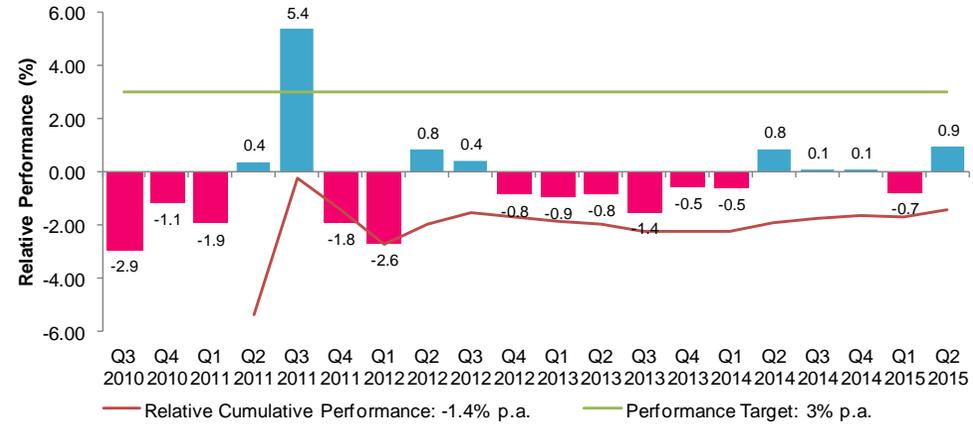
Performance Attribution Comment

Lazard's Global Thematic Equity strategy returned -4.1% over the quarter in absolute terms, outperforming the benchmark by 0.9%. The fund is ahead of benchmark over twelve months but over 3 years and since inception, the fund lags the benchmark.

The most significant contributor to performance over the quarter was the National Platforms theme due to strong performance from Hong Kong. The fund benefitted from its allocation to Hong Kong Exchanges & Clearing as the company outperformed. Due to foreign investment and encouraging company results, Japan has been the best performing market over the last six months. This has contributed to the fund's performance with exposure to Japanese banks such as Daiwa contributing to total fund performance.

The biggest individual detractors from performance over the quarter came from the Secure Streams theme and included Union Pacific, Costco and Mean Johnson Nutrition. Union Pacific was negatively impacted by a reduction in oil and gas freight volumes. Insurance stock Prudential had a negative impact on fund performance following the departure of the well-respected CIO.

Relative Quarterly and Relative Cumulative Performance [i]



Performance Summary to 30 June 2015 [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	-4.1	10.7	12.4	8.6
Benchmark	-5.0	10.2	13.6	9.9
Relative	0.9	0.4	-1.1	-1.1

* Inception date 26 May 2010.

Longview - Global Equity

HR View Comment & Rating



In July 2015 Longview announced that Daryn Hutchinson, a non-executive Director on its Guernsey Board, had been replaced by Frank Moon. Moon is Managing Director at Intertrust Fund Services (Guernsey) Limited having previously spent much of his career with ABN Amro. Emma Davies, Financial Controller of Longview Partners, replaces Hutchinson on the Board of Longview Partners (UK) Limited. We see no material impact from these changes and remain strongly supportive. We continue to rate Longview's Global Equity strategy at '5 - Preferred strategy'.

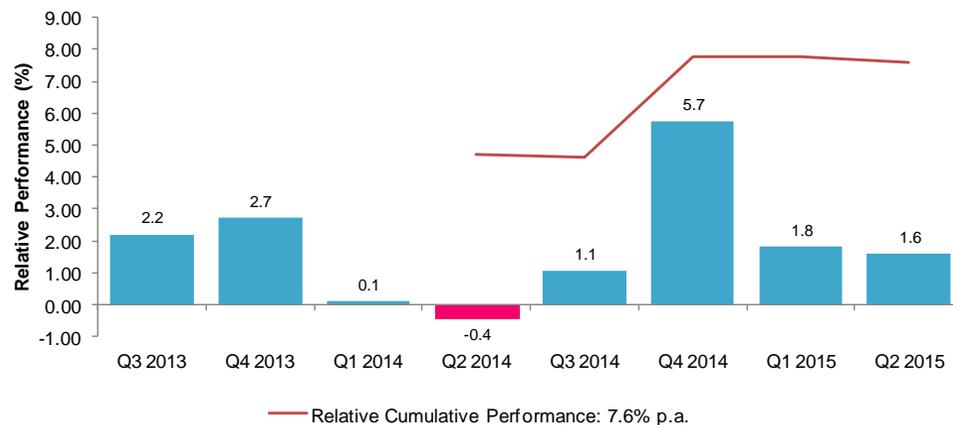
Performance Attribution Comment

Despite a volatile quarter, Longview's global equity fund outperformed the benchmark by 1.6%, returning -3.8% versus a benchmark return of -5.3%. Over all longer periods considered, the fund continues to outperform the benchmark.

The fund's stock selection in the Healthcare and Financials sectors was the main contributor over the quarter with holdings in Lloyds bank, hospital operator HCA Holdings and fast-food restaurant chain Yum! Brands driving performance at individual stock level. The reduction in political uncertainty following the general election saw Lloyds bank outperform. The fund's exposure to Yum! Brands contributed positively as the Chinese arm of the company, which makes up around 60% of the overall revenue, delivered better than expected profit margins over the quarter. HCA Holdings also drove performance as they reported strong financial results following the US Supreme Court ruling in favour of authorising insurance subsidy payments to Americans regardless of where they purchased their plans.

This was marginally offset by the fund's allocation to UK education publishing company, Pearson as their US revenue was affected by losing 3 of the 6 state testing contracts for the Texan Education Authority. Electronic components producer, TE Connectivity and payment services provider, Fidelity National Information Services also underperformed over the quarter.

Relative Quarterly and Relative Cumulative Performance [i]



Performance Summary to 30 June 2015 [ii]

	3 Months (%)	12 Months (%)	Since Inception*
Fund	-3.8	21.1	18.6
Benchmark	-5.3	9.5	8.5
Relative	1.6	10.6	9.3

* Inception date 16 Apr 2013.

Ruffer - Absolute Return

HR View Comment & Rating



We rate Ruffer '5 - Preferred strategy'. There were no significant changes over the quarter to end of June 2015.

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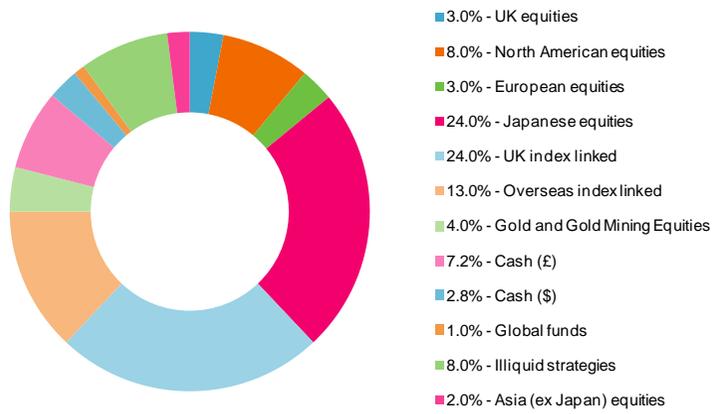
Performance Attribution Comment

The absolute return portfolio returned 0.2% over the three months to June 2015, marginally outperforming the proxy target by 0.1%. The portfolio remains comfortably ahead of target over all longer periods considered.

Japanese equities were one of the key drivers of performance for the fund over Q2 as the stock market in Japan outperformed all other developed markets. The financial sector in Japan, specifically the banking industry gained over the quarter with financial groups Mizuho and SMFG outperforming. This gain was due to growing investor confidence as management focused on profitability and shareholder dividends. Another contributor was the fund's option protection (in the form of 'swaptions') which increased in value as yields rose over the quarter. These provided a protection layer for the index-linked bonds which fell in value at the start of May due to rising yields.

Negative contributors throughout the quarter included the decline of the Japanese yen and the US dollar relative to sterling. As the UK general election saw an unexpected majority result and the continued strengthening of the sterling, the pound rose against the dollar and the yen by 6% and 8% respectively. However, the fund was not significantly affected by this depreciation as the manager had hedging in place to minimise the currency risk. The fund's allocation to long dated UK index-lined bonds detracted from returns due to the decline of the bond market.

Asset Allocation



Performance Summary to 30 June 2015 ^[1]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	0.2	11.5	8.8	6.7
Benchmark	0.1	0.5	0.5	0.6
Relative	0.1	11.0	8.3	6.1

* Inception date 06 May 2010.

Newton - Absolute Return

HR View Comment & Rating



We rate Newton at '5 - Preferred strategy'. As at the end of the second quarter the Real Return strategy had assets under management of £12.8bn. Capacity is a consideration due to the portfolio investing in single stock names, however at this level Newton do not believe this is a concern.

Newton recently announced that its CIO, Simon Pryke, is leaving the firm. Pryke has been in the role for just over 3 years and has been involved in many of the recent organisational changes at the firm. There will be no direct CIO replacement. Instead Charles French, who has been with Newton for 15 years, will assume a Head of Investment role, which will focus on the successful functioning of the investment process; he will report to Chief Executive Officer, Helena Morrissey. There will be no change to the investment process as a result of Pryke's departure and French's appointment. At this point all our Newton ratings are unchanged by this news.

Performance Attribution Comment

Newton's Real Return Fund returned -2.8% over the second quarter of 2015, underperforming the proxy target by 2.9%. Over 12 months and 3 years the Fund lags the LIBOR +4% target but since inception it outperformed.

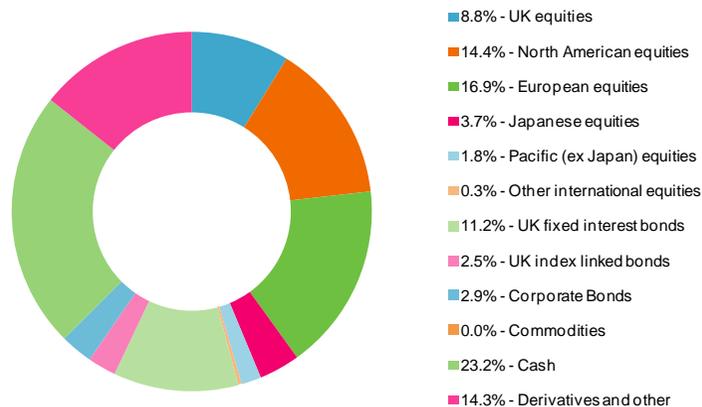
As global equity markets fell over the quarter, the Fund's equity exposure had a detrimental effect on performance, specifically in the customer services, health care and telecommunications sectors. Within these sectors, holdings in global information company Wolters Kluwer and publishing multinational Reed Elsevier were among the worst performers. The marginal allocation to high yield corporate debt also had a negative impact on overall Fund performance, affected in part by the weakened US dollar. Global bond yields rose over the quarter, driving prices downwards which negatively impacted the holdings in government bonds, specifically US and Australian sovereign debt. The Fund's gold exposure continues to detract with the precious metal down 12% this year, and the negative return exacerbated by Sterling strength against the US Dollar.

This was marginally offset by the Fund's marginal exposure to infrastructure in the UK and renewable energy which were incrementally positive overall. As the pound appreciated considerably against the US dollar, Japanese yen and the New Zealand dollar, the manager's decision to implement hedging against the strength of the Fund's base currency, drove performance.

[1] The Fund maintains a high level of derivatives protection. On a notional basis, 30% of the Fund is protected. The manager uses options to achieve this and so the delta adjusted equity exposure will vary with changing market levels.

Source: [i] Fund Manager, [ii] DataStream, Hymans Robertson

Asset Allocation ^{[1] [i]}



Performance Summary to 30 June 2015 ^[ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	-2.8	2.5	3.7	5.0
Benchmark	0.1	0.5	0.5	0.6
Relative	-2.9	2.0	3.2	4.4

* Inception date 06 May 2010.

M&G - Bonds

HR View Comment & Rating

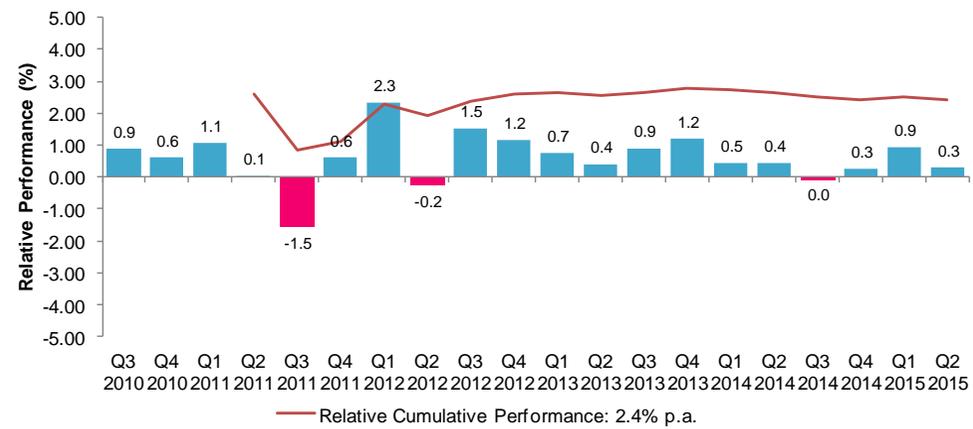


M&G is rated '5 - Preferred strategy' for fixed income.

No significant changes to report over the quarter to end June 2015.

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Relative Quarterly and Relative Cumulative Performance



Performance Attribution Comment

M&G does not allocate between the corporate bonds and the absolute return bonds which it manages. We have therefore provided estimates of performance based on the sizes of the allocation to each and have performance of the individual components. The current allocation of the M&G bond mandate is 60% to the traditional portfolio and 40% to the Alpha Opportunities fund.

The Alpha Opportunities fund delivered a positive absolute return of 0.4% over the quarter, ahead of the LIBOR benchmark by 0.3%. The corporate bond fund returned -5.3% during Q2, outperforming the benchmark by 0.3%. Aggregate performance from the two bond funds outperformed the composite benchmark during the second quarter of 2015. Over 12 months, 3 years and 5 years, aggregate relative performance was ahead of the benchmark.

Performance Summary to 30 June 2015 ^{[1] [2]}

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	-3.2	5.5	6.8	6.8
Benchmark	-3.5	4.0	3.9	4.3
Relative	0.3	1.5	2.8	2.4

[1] The longer term performance figures shown are for bonds only. Performance of the holding in the M&G property fund is no longer shown.

Source: [1] DataStream, Hymans Robertson

M&G - Bonds - Performance Attribution

Performance Attribution Performance [i]

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		UK Corporates	Alpha Opportunities Fund	Total
3 Months (%)	Absolute Benchmark	-5.3	0.4	-3.2
		-5.6	0.1	-3.5
	Relative	0.3	0.3	0.3
12 Months (%)	Absolute Benchmark	8.2	1.6	5.5
		7.8	0.5	4.0
	Relative	0.4	1.1	1.5
3 Years (% p.a.)	Absolute Benchmark	7.9	5.1	6.8
		7.1	0.5	3.9
	Relative	0.8	4.6	2.8
5 Years (% p.a.)	Absolute Benchmark	8.3	4.7	6.8
		7.6	0.6	4.3
	Relative	0.7	4.1	2.4

Source: [i] DataStream, Hymans Robertson



Schroders - Property

HR View Comment & Rating



There were no significant changes to report over the quarter to 30 June 2015.

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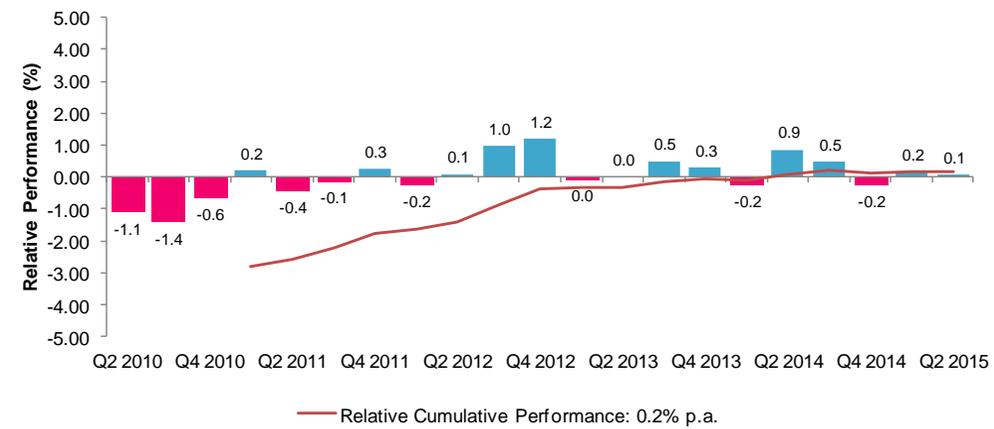
Performance Attribution Comment

The Schroders property mandate marginally outperformed the benchmark over the quarter returning 3.4% in absolute terms. The mandate remains ahead of benchmark since inception.

Throughout the second quarter of 2015, the property market continued to deliver strong capital growth. The office sector drove market performance due to continuing rental growth. The Industrial sector also delivered positive absolute performance, with the Industrial Property Investment Fund in particular outperforming the IPD benchmark.

On the other hand, retail funds lagged the benchmark over the quarter, although the manager's strategy is to reduce holdings in this area.

Relative Quarterly and Relative Cumulative Performance



Performance Summary to 30 June 2015 ^[i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	3.4	16.1	12.3	9.3
Benchmark	3.3	15.5	10.8	8.9
Relative	0.1	0.5	1.4	0.4

* Inception date 20 Feb 2010.

Summary of Benchmarks

Summary of Benchmarks

	Total Fund		Adams Street - Private Equity		Cash account		HarbourVest - Private Equity		L&G - 5yr ILG		L&G - Global Equities	
	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %
Global Equity	38.0	0.6	-	-	-	-	-	-	-	-	100.0	0.0
UK Equity	12.0	-2.0	-	-	-	-	-	-	-	-	-	-
Fixed Interest	3.5	0.5	-	-	-	-	-	-	-	-	-	-
Index-Linked Gilts	5.0	0.2	-	-	-	-	-	-	100.0	0.0	-	-
UK Property	10.0	1.1	-	-	-	-	-	-	-	-	-	-
Infrastructure	2.0	0.3	-	-	-	-	-	-	-	-	-	-
Private Equity	5.5	0.1	100.0	0.0	-	-	100.0	0.0	-	-	-	-
Absolute Return Funds	20.0	-1.3	-	-	-	-	-	-	-	-	-	-
Cash	0.0	1.6	-	-	100.0	0.0	-	-	-	-	-	-
UK Financing Fund	1.0	-0.6	-	-	-	-	-	-	-	-	-	-
Absolute Return Bonds	3.0	-0.5	-	-	-	-	-	-	-	-	-	-
Proportion of Total Assets	-	-	2.8	0.2	0.0	1.0	2.8	-0.1	5.0	0.2	8.0	-0.4

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Summary of Benchmarks (Cont.)

Summary of Benchmarks

	L&G - UK Equities		Lazard - Global Equities		Longview - Global Equity		M&G - Bonds		M&G - Infrastructure Fund		M&G - UK Financing Fund	
	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %
Global Equity	-	-	100.0	-1.3	100.0	0.0	-	-	-	-	-	-
UK Equity	100.0	0.0	-	-	-	-	-	-	-	-	-	-
Fixed Interest	-	-	-	-	-	-	62.6	-1.3	-	-	-	-
Index-Linked Gilts	-	-	-	-	-	-	-	-	-	-	-	-
UK Property	-	-	-	-	-	-	-	-	-	-	-	-
Infrastructure	-	-	-	-	-	-	-	-	100.0	0.0	-	-
Private Equity	-	-	-	-	-	-	-	-	-	-	-	-
Absolute Return Funds	-	-	-	-	-	-	-	-	-	-	-	-
Cash	-	-	0.0	1.3	-	-	-	-	-	-	-	-
UK Financing Fund	-	-	-	-	-	-	-	-	-	-	100.0	0.0
Absolute Return Bonds	-	-	-	-	-	-	37.5	1.3	-	-	-	-
Proportion of Total Assets	12.0	-2.0	15.0	-0.4	5.0	1.2	6.5	0.0	1.0	0.5	1.0	-0.6

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Summary of Benchmarks (Cont.)

Summary of Benchmarks

	Newton - Absolute Return		Ruffer - Absolute Return		Schroder - Property		State Street - Fundamental Indexation		UBS - Infrastructure	
	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %
Global Equity	-	-	-	-	-	-	100.0	0.0	-	-
UK Equity	-	-	-	-	-	-	-	-	-	-
Fixed Interest	-	-	-	-	-	-	-	-	-	-
Index-Linked Gilts	-	-	-	-	-	-	-	-	-	-
UK Property	-	-	-	-	100.0	-3.7	-	-	-	-
Infrastructure	-	-	-	-	-	-	-	-	100.0	0.0
Private Equity	-	-	-	-	-	-	-	-	-	-
Absolute Return Funds	100.0	0.0	100.0	0.0	-	-	-	-	-	-
Cash	-	-	-	-	0.0	3.7	-	-	-	-
UK Financing Fund	-	-	-	-	-	-	-	-	-	-
Absolute Return Bonds	-	-	-	-	-	-	-	-	-	-
Proportion of Total Assets	10.0	-0.9	10.0	-0.4	10.0	1.6	10.0	0.3	1.0	-0.2

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Benchmarks Summary Comment

The main points to note from this table are:

- The L&G global equity mandate and the Lazard global equity mandate are benchmarked against the FTSE All World Index. Longview is benchmarked against a similar index (the MSCI All Countries). The FTSE All World Index covers around 2800 global firms, with a large or mid size market capitalisation and constitutes around 90%-95% of the world's investible markets. The index focuses on around 45 different countries, including 24 in the so called developed markets, and 21 in the emerging markets. The approximate allocations of the index to the regional stock markets is as follows: 7% UK, 53% US, 15% Europe, 6% Asia (ex Japan), 9% Japan and 10% emerging markets.
- M&G does not allocate between the corporate bonds and the absolute return bonds which it manages. The target shown is an assumed target based on the size of the initial allocation of the Fund made to the M&G Alpha Opportunities fund (absolute return bonds).



Performance Calculation Explanation

Geometric vs Arithmetic Performance

Hymans Robertson are among the investment professionals who calculate relative performance geometrically as follows:

$$\left(\left(1 + \text{Fund Performance} \right) / \left(1 + \text{Benchmark Performance} \right) \right) - 1$$

Some industry practitioners use the simpler arithmetic method as follows:

$$\text{Fund Performance} - \text{Benchmark Performance}$$

The following example illustrates the shortcomings of the arithmetic method in comparing short term relative performance with the longer term picture:

Period	Arithmetic Method			Geometric Method			Difference
	Fund Performance	Benchmark Performance	Relative Performance	Fund Performance	Benchmark Performance	Relative Performance	
Quarter 1	7.00%	2.00%	5.00%	7.00%	2.00%	4.90%	0.10%
Quarter 2	28.00%	33.00%	-5.00%	28.00%	33.00%	-3.76%	-1.24%
Linked 6 months			-0.25%			0.96%	-1.21%
6 Month Performance	36.96%	35.66%	1.30%	36.96%	35.66%	0.96%	0.34%

Using the arithmetic method

If fund performance is measured quarterly, there is a relative underperformance of 0.25% over the six month period.

If fund performance is measured half yearly, there is a relative outperformance of 1.30% over the six month period.

Using the geometric method

If fund performance is measured quarterly, there is a relative outperformance of 0.96% over the six month period.

If fund performance is measured half yearly, an identical result is produced.

The geometric method therefore makes it possible to directly compare long term relative performance with shorter term relative performance.



Report to: **Pension Committee**
Date: **27 July 2015**
By: **Chief Operating Officer**
Title: **Governance Compliance Statement**
Purpose: **The Local Government Pension Scheme Regulations provides the statutory framework from which the Administering Authority is required to prepare a Fund Governance Statement. The regulations require that an Administering Authority after consultation with such persons as they consider appropriate, prepare, maintain and publish a written statement.**

RECOMMENDATIONS – The Pension Committee is requested to approve:

- 1. the amendments to the Governance Policy Statement attached as Appendix 1;**
 - 2. the Compliance Statement to the Pension Regulator Code of Practice attached as Appendix 2.**
-

1. Introduction

1.1 The Local authority pension funds are required to publish and keep under review a Governance Compliance Statement. The Governance Compliance Statement of the East Sussex Pension Fund is comprised of the Compliance to Statutory Guidance Statement and a Governance Policy Statement. The Public Services Pensions Act 2013 (The Act) introduces a new framework for the governance and administration of public service pension schemes. The Act has a material impact on existing governance arrangements in the Local Government Pension Scheme (LGPS), which are enforced by changes to the LGPS regulations.

1.2 As a result of the Act, The Pensions Regulator has introduced codes of practice covering specific areas relating to public sector pension schemes. The changes to the LGPS regulations and introduction of the Pensions Regulator code of practice 14 and changes in the Scheme of Delegation (approved by County Council on 10 March 2015 establishing the Pension Committee and agreeing its Terms of Reference) require revisions to the existing East Sussex Pension Fund Governance Compliance Statement.

2. Regulatory Requirement of the Governance Compliance Statement

2.1 In order to further strengthen its governance structure the East Sussex Pension Fund Governance Compliance Statement is made up from two documents:

- The Compliance to Statutory Guidance Statement;
- The Governance Policy Statement.

2.2 The relevant regulation requiring this statement is Regulation 55 of the Local Government Pension Scheme Regulations 2013 (as amended). The Governance Compliance Statement must include the following information:

- The delegation arrangements (from the administering authority to a Committee and/or officers);
- The frequency of any meetings, terms of reference, structure and operational procedures of the delegation;
- Whether the Board/Committee includes representatives of employing authorities (including non LGPS employers) and members.

The Statement must include details of the terms, structure and operational procedures relating to the Local Pension Board.

3. The Compliance Statement to the Pensions Regulator Code of Practice 14

3.1 The Public Services Pensions Act 2013 introduces the framework for the governance and administration of public service pension schemes and provides an extended regulatory oversight by the Pensions Regulator. The Regulator is required to issue one or more codes of practice, covering specific matters relating to public service pension schemes. The codes of practice set out the legal requirements for public sector pension schemes in respect of those specific matters.

3.2 The Code of Practice number 14 (the Code) was issued on 1 April 2015. It sets out practical guidance and standards of conduct and practice expected of those who exercise functions with regard to the governance and administration of public sector pension schemes. The Code consists of four parts:

- Governing the scheme
- Managing risks;
- Administration;
- Resolving issues.

3.3 Each of the four parts includes examples of what the administering authority must do, and a compliance statement to the Code is attached as Appendix 2 to this report.

4. Conclusion and reasons for recommendations

4.1 The Committee is requested to agree the amendments to the Governance Policy Statement and the Compliance Statement to the Pension Regulator Code of Practice, which will further strengthen the Pension Fund governance structure.

KEVIN FOSTER
Chief Operating Officer

Contact Officers: Ola Owolabi, Head of Accounts and Pensions, 01273 482017
ola.owolabi@eastsussex.gov.uk

Local Member(s): All

Background Documents

The Pension Regulator Code of practice number 14: Governance and Administration of Public Sector Pension Schemes

Appendices:

Appendix 1: Governance Policy Statement

Appendix 2: Compliance Statement to the Pension Regulators Code of Practice 14

EAST SUSSEX PENSION FUND

GOVERNANCE POLICY STATEMENT

June 2015

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Governance Policy Statement

Introduction

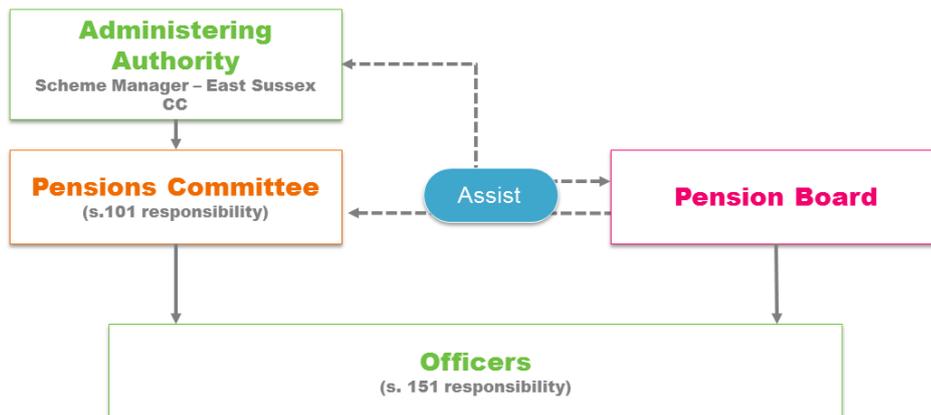
1. This is the Governance Policy Statement of the East Sussex Pension Fund, which is managed by East Sussex County Council, the Administrating Authority (Scheme Manager) on behalf of all the relevant employer bodies in the Fund. All Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish and keep under review a Governance Compliance Statement.
2. The Governance Compliance Statement of the East Sussex Pension Fund is comprised from the Compliance to Statutory Guidance Statement and a Governance Policy Statement. The Public Services Pensions Act 2013 (The Act) introduces a new framework for the governance and administration of public service pension schemes. The Act has a material impact on existing governance arrangements in the Local Government Pension Scheme (LGPS), which are enforced by changes to the LGPS regulations.
3. As a result of the Act, The Pensions Regulator has introduced codes of practice covering specific areas relating to public sector pension schemes. The changes to the LGPS regulations and introduction of the Pensions Regulator code of practice 14 and changes in the Scheme of Delegation approved by County Council on 14 October 2014 require revisions to the existing East Sussex Pension Fund Governance Compliance Statement.
4. As Administering Authority, East Sussex County Council is the designated statutory body responsible for administering the East Sussex Pension Fund of behalf of the constituent Scheduled and Admitted Bodies in the relevant area. The Local Government Pension Scheme Regulations specify that, in investing the Fund's money, regard must be given to the need for diversification and for proper advice obtained at reasonable intervals.

Governance of East Sussex Pension Fund

5. East Sussex County Council operates a Cabinet style decision-making structure. Under the Constitution, the Pension Committee has delegated authority to exercise the powers of the County Council in respect of the pensions of all employees of the Council (except teachers), including the approval of the pension fund admission agreements. It also has authority for the management of the pension fund. The pension fund governance focuses on:
 - The effectiveness of the Pension Fund Committee, the Board and officers to which delegated function has been passed, including areas such as decision making processes, knowledge and competencies.
 - The establishment of policies and their implementation.
 - Clarity of areas of responsibility between officers and Pension Fund Committee/Board members.
 - The ability of the Pension Fund Committee/Board and officers to communicate clearly and regularly with all stakeholders.
 - The ability of the Pension Fund Committee/Board and officers to ask for the appropriate information and advice and to interpret that information in their supervision and monitoring of the Scheme in all areas.
 - The management of risks and internal controls to underpin the framework.

The Overall responsibility for the governance of the Local Government Pension Scheme and for the approval of this document resides with the Pension Fund Committed.

The East Sussex Pension Fund



Responsibilities of the East Sussex Pension Board

6. To help to ensure that the East Sussex Pension Fund is managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.
7. To provide assistance to East Sussex County Council as the Administering Authority and the LGPS Scheme Manager in securing compliance with:
 - LGPS Regulations and any other legislation relating to the governance and administration of the LGPS
 - requirements imposed in relation to the LGPS by the Pensions Regulator
 - the agreed investment strategy
 - any other matters as the LGPS regulations may specify.
8. The role of the Board will be oversight of these matters and not decision making.

Frequency of meetings of the East Sussex Pension Committee/Board.

9. The Pension Board meets at least 4 times a year. The full term of reference are publicly available as part of the County Council constitution.

Operational Procedures of the Pension Committee/Board.

10. The Pension Fund Committee/Board receives and reviews quarterly reports from all its Investment Fund Managers and the independent Investment Adviser, Hymans Robertson. The Committee/Board is also advised by an additional Independent Advisor. In addition, the Committee/Board is advised by the County Council's Chief Finance Officer (in their capacity as the Council's designated Treasurer). The Committee/Board also receives an annual report from the Fund's independent performance measurement provider which reviews the long-term performance of the

East Sussex Pension Fund

Fund and of each of the Investment Fund Managers in relation to their targets. The Committee also holds a separate Annual Strategy Meeting at which it reviews the overall investment strategy of the Fund.

11. To secure effective and efficient governance and administration of the LGPS for the East Sussex Pension Fund by:
 - Considering decisions taken by the Pensions Committee, or any identified issues raised by Board members and other relevant parties, and to ensure that appropriate procedures are carried out.
 - Retaining an overview of LGPS policy and strategy and performance information and the performance review timetable.
 - Making representations and recommendations to the Pensions Committee as appropriate.
 - Considering and responding to any SoS / Responsible Authority performance data concerning the local fund.

Membership of the Pension Board

12. In accordance with Regulation 107 of the LGPS Regulations 2014, a Local Pension Board must include an equal number of employer and member representatives with a minimum requirement of no less than four in total. In considering the size of the East Sussex Pension Board, the Council has taken into consideration number of factors including:
 - The size of the Council's existing Pension Fund governing arrangement and decision making process.
 - The number of scheme members, number and size of employers within the Fund and any collective arrangements in place for them to make decisions or provide input in relation to Fund matters;
 - The direct and indirect cost of establishing and operating the Board.
13. Composition of the East Sussex Pension Board - The Pension Board shall consist of 7 members as follows:
 - Employer representative x 3
 - Scheme member representative x 3
 - Independent Chair x 1

Membership of the Pension Committee

14. The County Council appoints five members to the Committee in accordance with political balance provisions. All members of the Committee have voting rights.
15. In relation to Pension Matters, the Committee consider directly all issues relating to pension administration, such as changes in benefit regulation, admission agreements, the Pension Fund Investments, etc.

Consultation with Employing Authorities

16. All employing bodies are kept informed of current pension issues, such as proposed changes in the regulations and their implications, by newsletter. They are encouraged to get in touch if they have questions.
17. In addition to these electronic briefings, the East Sussex Fund holds an annual employers forum to which all admitted bodies of the Fund are invited. This annual meeting covers both actuarial and investment issues and always contains a presentation from the Fund's Actuary. The District Councils receive feedback from their representatives on the Pension Board and are also briefed on pension matters bi-monthly by the Fund's Treasurer at meetings of the East Sussex Financial Officers Association. Update briefings to these meetings are also circulated by email to all other employers in the East Sussex Pension Fund.
18. All employees receive periodic newsletter update on pension issues, especially on any changes affecting benefits. These updates are shared with all employers.
19. More detail on the approach to communication is covered in the separate Pension Fund Communication Statement.

Contact Details

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Delegation of Functions

The following functions are delegated by the Administering Authority:

Scheme Administration

Governance Principles: Effective committee delegation; appropriate accountability; rigorous supervision and monitoring

Including, but not exclusively or limited to, record keeping, calculation of and payment of benefits, reconciliation and investment of contributions, preparation of annual accounts, and provision of membership data for actuarial valuation purposes.

The Administering Authority has responsibility for “Scheme Administrator” functions as required by HM Revenues and Customs (HMRC) under the Finance Act 2004.

Delegated to:

Pension Fund Committee (monitoring)

Chief Finance Officer (Pension Fund Governance and Investment implementation)

Funding

Governance Principles: Effective committee delegation; appropriate accountability; written plan policies

Including, but not exclusively or limited to, setting of the appropriate funding target for the Local Government Pension Scheme. The Chief Finance Officer shall be responsible for maintaining the Funding Strategy Statement (FSS). The Pension Fund Committee shall be responsible for approving the FSS.

Delegated to:

Pension Fund Committee (policy approval)

Chief Finance Officer (maintaining FSS and policy implementation)

Investment

Governance Principles: Effective committee delegation; appropriate accountability; written plan policies

Including, but not exclusively or limited to, setting of an appropriate investment strategy or strategies, selection of investment managers, setting of performance benchmarks and regular monitoring of performance. The Pension Fund Committee shall be responsible for maintaining the Statement of Investment Principles.

Delegated to:

Pension Fund Committee (strategy approval, manager selection, benchmarks, monitoring)

Chief Finance Officer (Pension Fund investment implementation)

Communications

Governance Principle: Effective information flow; written plan policies

Including setting of a communication strategy, issuing of benefit statements, annual newsletters, and annual report. The Pension Fund Committee shall be responsible for maintaining the Communications Policy.

Delegated to:

Pension Fund Committee (policy approval)

Chief Finance Officer (Pension Fund policy implementation)

Risk Management

Governance Principle: Effective committee delegation; appropriate accountability; written plan policies

Including the identification, evaluation and monitoring of risks inherent within the Local Government Pension Scheme. The Pension Fund Committee shall be responsible for approving the Risk Register. The Chief Finance Officer shall be responsible for maintaining the risk register.

Delegated to:

Pension Fund Committee (pension fund risk register approval)

Chief Finance Officer (maintaining the pension fund risk register)

Terms of Reference and Decision Making

Terms of Reference:

Governance Principle: Effective board delegation; written plan policies

The Pension Fund Committee Terms of Reference as approved by Full Council on 24 March 2015 are shown in **Appendix A** to this document.

Administration, Funding, Investment, Communications and Risk Management

In line with the Council's Constitution, the Pension Fund Committee shall oversee Pension Fund administration, funding, investment, communication, risk management and the overall governance process surrounding the Fund.

Structure of the Pension Fund Committee and representation:

Governance Principle: Effective committee delegation

The Pension Fund Committee shall be made up of:

5 County Councillors appointed by the Governance committee according to the political makeup of the council including the chairman. Decision making quorum of 3 members.

Decision Making:

Governance Principle: Effective committee delegation; rigorous supervision and monitoring

The Pension Fund Committee shall have full decision-making powers.

Each member of the Pension Fund Committee shall have full voting rights.

Operational Procedures

Frequency of Meetings:

Governance Principle: Effective board delegation; effective information flow

The Pension Fund Committee shall meet quarterly. The Pension Fund Committee shall receive full reports upon all necessary matters as decided by the Chief Finance Officer, and any matters requested by members of the Pension Fund Board. Provision exists for the calling of special meetings if circumstances demand.

Competencies, Knowledge and Understanding:

Governance Principle: Effective board delegation; appropriate accountability

Officers and Members of the Pension Fund Committee shall undertake training to ensure that they have the appropriate knowledge, understanding and competency to carry out the delegated function. It is recommended that such knowledge, understanding and competency are evaluated on an annual basis to identify any training or educational needs of the Officers and the Pension Fund Committee.

Reporting and Monitoring:

Governance Principle: Rigorous supervision and monitoring; effective information flow

i) Pension Board

The Pension Board is established by the administering authority to assist in securing compliance with the LGPS Regulations, any other legislation relating to the governance and administration of the scheme, and any requirements imposed by the Pensions Regulator.

The Pension Fund Committee shall:

- Provide the Pension Board with adequate resources to fulfil its role.
- Consider and respond to reports from the Pension Board within a reasonable period of time.

The Pension Board

The role of the Pension Board, as defined by Regulation 106 of the Local Government Pension Scheme Regulations 2013, is to assist the Administering Authority:

- to secure compliance with:
 - i) The scheme regulations;
 - ii) any other legislation relating to the governance and administration of the LGPS Scheme and any connected scheme;
 - iii) any requirements imposed by the Pensions Regulator in relation to the LGPS Scheme.
- to ensure the effective and efficient governance and administration of the LGPS Scheme.

Terms, Structure and Operational Procedures

The Pension Board's Terms of Reference as approved by Full Council on 24 March 2015 are shown in **Appendix B** to this document.

Review of Governance Policy Statement

Responsibility for this document resides with the Chief Finance Officer and will be reviewed by no less frequently than annually. This document will be reviewed if there are any material changes in the administering authority's governance policy or if there are any changes in relevant legislation or regulation.

Pension Committee terms of reference and membership

1. In accordance with the Local Government Pension Scheme Regulations and associated legislation, to exercise functions and responsibilities for dealing with the Pension Fund in conjunction with other bodies who contribute to the Fund.
2. To exercise the powers and duties of the County Council in respect of:
 - the pensions of all employees of the Council (except teachers), including the approval of pension fund admission agreements; and
 - management of the investment of the pension fund, receiving advice as appropriate from the Pension Board.
3. To make arrangements for the investment, administration and management of the Pension Fund.
4. To arrange for the appointment of investment managers and advisors.
5. To agree Policy Statements as required under the Local Government Pension Scheme regulations.
6. To agree the Investment Strategy having regard to the advice of the Fund's Managers and the Pension Board.
7. To set the Investment Policy and review the performance of the Pension Fund's external investment managers.
8. To determine the fund management arrangements and to appoint fund managers and fund advisers.
9. To decide on the admission and cessation of bodies to the Pension Fund.
10. To consider and agree actuarial variations.
11. To ensure that the Pension Fund administration is conducted in accordance with relevant legislation.
12. To appoint Additional Voluntary Contribution providers and to monitor their performance.

Membership

Five members appointed in accordance with political balance provisions.

Constitution and terms of reference of the East Sussex Pension Board

1. Introduction

- 1.1 The Public Service Pensions Act 2013 requires the establishment of a Pension Board with the responsibility for “assisting the Scheme Manager” in securing compliance with all relevant pensions law, regulations and directions – as well as the relevant Pension Regulator’s codes of practice. This role is one of providing assurance in and governance of the scheme administration.
- 1.2 The *scheme manager (East Sussex County Council – ESCC) will provide the necessary input into the Pension Board to support the Board to deliver on its assurance responsibilities. This may require their attendance at meetings at the request of the Board.
- 1.3 The terms of reference, membership of the Pension Board and any variations thereof are determined by the Scheme Manager, i.e. ESCC.

2. Objectives of the Pension Board

- 2.1 To help to ensure that the East Sussex Pension Fund (ESPF) is managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.
- 2.2 To provide assistance to East Sussex County Council as the LGPS Scheme Manager in securing compliance with:
 - LGPS Regulations and any other legislation relating to the governance and administration of the LGPS
 - requirements imposed in relation to the LGPS by the Pensions Regulator
 - the agreed investment strategy
 - any other matters as the LGPS regulations may specify.
- 2.3 To assist with securing effective and efficient governance and administration of the LGPS for the East Sussex Pension Fund by:
 - Seeking assurance that due process is followed with regard to Pension Committee, and any identified issues raised by Board members.
 - Retaining an overview of LGPS policy and strategy and business plan timetable.
 - Making representations and recommendations to the Pension Committee as appropriate.
 - Considering and, as required, responding to any Government / Responsible Authority performance data concerning the local fund.
- 2.4 The role of the Board will be oversight of these matters and not decision making.

3. Management and operation of the Pension Board

- 3.1 The Pension Board shall:
 - meet at least 4 times per year
 - have the power to establish sub committees or panels as required
 - agree a programme of training and development for its members.

- provide the Scheme Manager (ESCC) with such information as it requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest.
- ensure it effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.
- consider any issue raised by any Board Member in connection with the Board's work.
- produce an annual report outlining the work of the Board throughout the scheme year, which will help to –
 - inform all interested parties about the work undertaken by the Panel
 - assist the panel in reviewing its effectiveness and identifying improvements in its future operations.
- help to ensure that decisions made by ESCC are fully legally compliant, including consideration of cases that have been referred to the Pension Regulator and/or the Pension Ombudsman; recommending changes to processes, training and/or guidance where necessary;
- monitor administrative processes and supporting continuous improvements;
- ensure the scheme administrator supports employers to communicate the benefits of the LGPS Pension Scheme to scheme members and potential new members.

4. Membership - composition of the Pension Board

4.1 The Pension Board shall consist of:

- a) **3 employer representatives** - employer representatives that can offer the breadth of employer representation for the ESPF. (Regulation 107 of the Pension Act permits elected members to sit on a local pension board. However, under Regulation 107(3), elected members or officers of ESCC (as the Scheme Manager), who are responsible for the discharge of any function under the Principal 2013 Regulations, may not sit on the Pension Board.)
- b) **3 scheme member representatives** - member representatives nominated to ensure a broad representation of scheme membership (active, deferred, and pensioners).
- c) **1 Independent Chair**

4.2 The Pension Board shall be chaired by an Independent Chair.

5. Appointment of members of the Pension Board

5.1 The appointment process has been approved by the Governance committee

5.2 All appointments to the Board shall be by the Governance Committee under delegated authority from the County Council, including the Independent Chair and Vice Chair.

6. Term of office

6.1 The term of office for Board members shall be 4 years or such time as resolved by the Governance Committee. The Governance Committee may agree an extension to terms of office up to a further 2 years after which there shall be a further appointment process. Reappointment of existing members is permitted.

- 6.2 A Board member who wishes to resign shall submit their resignation in writing to the Pension Board Chair. A suitable notice period must be given, of at least 1 month, to enable a replacement member to be found.
- 6.3 The role of the Pension Board members requires the highest standards of conduct and the Code of Conduct of the East Sussex County Council will apply to the Board's members. The County Council's Standards Committee will monitor and act in relation to the application of the Code.
- 6.4 Poor performance will result in corrective action being taken, and in exceptional circumstances the removal of the Board member, which will be in accordance with the Code of Conduct of the East Sussex County Council.

7. Independent Chair

- 7.1 The Independent Chair will be the independent member appointed for a term of 4 years by Governance Committee or such time as resolved by the Governance Committee. A job description approved by the Committee will be used to identify the candidate best suited to the role.
- 7.2 It will be the role of the Chair to -
- Settle with officers the agenda for a meeting of the Board
 - Manage the meetings to ensure that the business of the meeting is completed
 - Ensure that all members of the Board show due respect for process and that all views are fully heard and considered
 - Strive as far as possible to achieve a consensus as an outcome
 - Ensure that the actions and rationale for decisions taken are clear and properly recorded.
- 7.3 Removal of the independent chair will be in accordance with the Code of Conduct of the East Sussex County Council and the County Council's Standards Committee decision.

8. Support arrangements

- 8.1 ESCC will provide secretariat, administrative and professional support to the Pension Board and as such will ensure that:
- meetings are timetabled for at least four times per year
 - adequate facilities are available to hold meetings
 - an annual schedule of meetings is produced
 - suitable arrangements are in place to hold additional meetings if required papers are distributed 7 days before each meeting except in exceptional circumstances
 - minutes of each meeting are normally circulated 7 working days following each meeting.

9. Expert advice and information

- 9.1 The Board will have access to professional advice and support provided by officers of East Sussex Pension Fund and, via them and where appropriate, advisers to the East Sussex Pension Fund.
- 9.2 Insofar as it relates to its role, the Pension Board may also:
- request information and reports from the Pension Committee or any other body or officer responsible for the management of the Fund

- examine decisions made or actions taken by the Pension Committee or any other body or officer responsible for the management of the Fund.
- access independent professional advice from actuaries, other independent advisers, and investment managers as required, where there are major decisions, i.e., investment strategy, triennial valuation, etc.,
- access to professional advice regarding non major decisions will require the approval of the Pension Committee for additional resources.

10. Knowledge and Skills

10.1 Board members will be required to have the 'capacity' to carry out their duties and to demonstrate a high level of knowledge and of their role and understanding of:

- the scheme rules
- the schemes administration policies
- the Public Service Pensions Act (i.e. being conversant with pension matters relating to their role).

10.2 A programme of updates and training events will be organised. Board members will be encouraged to undertake a personal training needs analysis or other means of identifying any gaps in skills, competencies and knowledge relating to Pension Board matters.

11. Minutes

11.1 The minutes and any consideration of the Pension Board shall be submitted to the Pension Committee.

12. Standards of Conduct

12.1 The main elements of East Sussex County Council's Code of Conduct shall apply to Board members.

13. Access to the Public and Publication of Pension Board information

13.1 Members of the public may attend the Board meeting and receive papers, which will be made public in accordance with the Access to Information Rules in East Sussex County Council's Constitution.

13.2 Up-to-date information will be posted on the East Sussex Pension Fund website showing:

- Names and information of the Pension Board members
- How the scheme members and employers are represented on the Pension Board
- Responsibilities of the Pension Board as a whole
- Full terms of reference and policies of the Pension Board and how it operates.

14. Expense reimbursement, remuneration and allowances

14.1 All Pension Board members will be entitled to claim travel and subsistence allowances for attending meetings relating to Pension Board business (including attending training) at rates contained in the Members' Allowances Scheme in the East Sussex Council's Constitution. The Chair's remuneration will be agreed on appointment. All costs will be recharged to the Pension Fund.

15. Accountability

15.1 The Pension Board collectively and members individually are accountable to the Scheme Manager (ESCC), the Pensions Regulator, and the National Scheme

Advisory Board. The National Scheme Advisory Board will advise the Responsible Authority (in the case of the LGPS the DCLG) and the Scheme Manager (in this case East Sussex County Council). The Pensions Regulator will report to the Responsible Authority (again, DCLG) but will also be a point of escalation for whistle blowing or similar issues.

- 15.2 In addition the Pension Board will continue to provide regular updates to the Pension Committee governance process. ESPF officers will be responsible for the contractual arrangements.

16. Decision Making Process

- 16.1 Employer representatives and scheme member representatives have voting rights albeit the Board is expected to operate on a consensus basis.
- 16.2 In the event of an equal number of votes being cast for or against a proposal there shall be no casting vote but the proposal shall be considered to have been rejected. The scheme manager shall be alerted when a decision is reached in this manner.

17. Attendance and quorum

- 17.1 Four of the voting members of the Pension Board shall represent the quorum for Board meetings to discharge business. The Chair or Vice Chair must be present for any meeting to proceed.
- 17.2 Advisors and co-opted persons do not count towards the quorum.

18. Conflicts of Interest

- 18.1 The Public Service Pensions Act 2013 requires that members of the Pension Board do not have conflicts of interests. As such all members of the Pension Board will be required to declare any interests and any potential conflicts of interest in line with legal requirements in the Public Service Pensions Act 2013 and the Pension Regulator's code. These declarations are required as part of the appointment process, as well as at regular intervals throughout a member's tenure.

East Sussex Pension Fund

Governance compliance and the Pensions Regulator's code of practice

The role of the local pension board is to –

- Secure compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme that is connected with it;
- Secure compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator;
- Ensure any breach of duty is considered and followed under the scheme's procedure for reporting to the Pensions Regulator and to the Scheme Manager
- Such other matters as the scheme regulations may specify.
- Assist the Scheme Manager (East Sussex County Council) to ensure the effective and efficient governance and administration of the scheme.

This statement sets out how the local pension board of the East Sussex Pension Fund is complying with these requirements and in particular the guidance from the Scheme Advisory Board and the Pensions Regulator.

Establishment of the local pension board

Requirement	Full Compliance	Position
Local pension board to be established by 1 April 2015	Local Pension Board terms of reference agreed and approved by the Council	The Local Pension Board terms of reference were agreed and approved at the full council meeting on the 2 December 2014. Amendments to the terms of reference were approved at the 24 March 2015 Full Council meeting after the final regulations for the pension board were released. These documents can be found on the East Sussex County Councils website https://democracy.eastsussex.gov.uk/ieListMeetings.aspx?CommitteeId=150 .
Expenses of the local pension board are part of the expenses of administration of the pension fund	Provision has been made in the accounting procedures to identify the costs incurred in the establishment and operational costs of the local pension board	<i>Appropriate code/gl has been identified with SAP (cc2160 & 20161) to enable proper accounting procedures, and to identify the costs incurred in the establishment and operational costs of the local pension board</i>
Local Pension Board to have equal number of scheme member representatives and employer representatives which is no fewer than 4 in total.	The terms of reference will provide for an equal number of scheme member representatives and employer representatives which is no less than 4 in total	The East Sussex Pension Board terms of reference have stipulated the number of scheme member and employer representatives at 7 in total. The Pension Board shall consist of 7 members as follows: <ul style="list-style-type: none"> • Employer representative x 3 • Scheme member representative x 3 • Independent Chair x 1

Requirement	Full Compliance	Position
Determine the manner and terms by which members of the local pension board are appointed.	The manner and terms by which members of the local pension board are clearly set out.	The manner and terms of appointment to the East Sussex Pension Board were agreed at the full council meeting on the 2 December 2014. Amendments to the manner and terms of appointment were approved at the 24 March 2015 Full Council meeting after the final regulations for the pension board were released. These documents can be found on the East Sussex County Councils website https://democracy.eastsussex.gov.uk/ieListMeetings.aspx?CommitteeId=150 .
The administering authority must be satisfied that persons appointed to the local pension board do not have a conflict of interest.	The administering authority will have a conflict of interest policy and procedure in order to identify and manage actual and potential conflicts of interest	Documented on the initial meeting papers all members were made aware of Conflicts of Interest on induction training. A register of interest will be compiled. This will be maintained by democratic services.
The administering authority must have regard to guidance issued by the Secretary of State	The administering authority will have knowledge and access of the LGPS Advisory Board website (http://www.lgpsboard.org) and regularly check for updates and alerts.	The officer(s) responsible for regularly checking the LGPS Advisory Board website and any other methods by which the Fund is kept informed of any guidance issued is the Head of Pensions and Accounts and Pensions Strategy and Governance Manager.

The Pensions Regulator's Code of Practice

Requirement	Full Compliance	Position
Governing the scheme		
<p>A member of the local pension board must be conversant with the scheme rules and any document recording policy about the administration of the scheme adopted by the administering authority</p>	<p>A training strategy has been adopted and a training plan drafted in which there is provision for informing local pension board members of the LGPS rules, regulations and the Fund's documents and recording policy.</p>	<p>The East Sussex Pension Board has undertaken an initial training session prior to their first meeting and completed a training needs questionnaire. This has formed the basis for the Training Strategy. At the beginning of each meeting they will receive additional training based on the East Sussex Pension Board's requirements. This will be review on an ongoing basis.</p>
<p>A member of the local pension board must have knowledge and understanding of the law relating to pensions and other matters which are prescribed in the regulations</p>	<p>A training strategy has been adopted and a training plan drafted in which there is provision for informing local pension board members of the law relating to pensions and matters prescribed in regulations.</p>	<p>The East Sussex Pension Board has undertaken an initial training session prior to their first meeting and completed a training needs questionnaire. At the beginning of each meeting they will receive additional training based on the East Sussex Pension Board's requirements. This will be review on an ongoing basis.</p>

Requirement	Full Compliance	Position
The administering authority should establish and maintain policies and arrangements for acquiring and retaining knowledge and understanding	A training strategy has been adopted and a training plan drafted to establish the arrangements for local pension board members to acquire and retain knowledge and understanding.	The East Sussex Pension Board has undertaken an initial training session prior to their first meeting and completed a training needs questionnaire. At the beginning of each meeting they will receive additional training based on the East Sussex Pension Board's requirements. This will be review on an ongoing basis.
The administering authority should designate a person to take responsibility for ensuring that a framework is developed and implemented.	A training strategy has been adopted that contains details of the person designated to take responsibility for ensuring that a framework is developed and implemented	<p>The East Sussex Pension Board has undertaken an initial training session prior to their first meeting and completed a training needs questionnaire. At the beginning of each meeting they will receive additional training based on the East Sussex Pension Board's requirements. This will be review on an ongoing basis.</p> <p>The officer responsible for the framework development and implementation is the Pensions Strategy and Governance Manager</p>
Local pension board members should be familiar with the AVC options offered	Information of the AVC options are provided to the local pension board members	The AVC options provided to members of the scheme will be reviewed on a triennial basis by the East Sussex Pension Board as part of their rolling programme.

Requirement	Full Compliance	Position
The administering authority should prepare and keep an updated list of the documents with which they consider pension board members need to be conversant.	An updated list of documents is maintained	A list of documents which are considered to be required for the East Sussex Pension Board to be conversant which is updated and maintained by the Pensions Strategy and Governance Manager.
Local pension board members are aware of their personal responsibilities in terms of knowledge and understanding	Local pension board members are aware of their personal responsibilities in terms of knowledge and understanding	The East Sussex Pension Board members will have a regular agenda item on training at each meeting and a framework will be developed to suit the needs of the Board, awareness was highlighted at the induction training. Responsible Officer: Pensions Strategy and Governance Manager.
Requirement	Full Compliance	Position
The administering authority should assist individual local pension board members to determine the degree of knowledge and understanding that is sufficient for them to effectively carry out their role, responsibilities and	A monitoring system / procedure should be contained in the training strategy and in place in order to assist the local pension board member to attain the level of knowledge and understanding that is sufficient for them to effectively carry out their role, responsibilities and duties as a pension board member	The East Sussex Pension Board has undertaken an initial training session prior to their first meeting and completed a training needs questionnaire. At the beginning of each meeting they will receive additional training based on the East Sussex Pension Board's requirements. This will be review on an ongoing basis. The officer(s) responsible for the framework development and implementation is the Pensions Strategy and Governance Manager.

Requirement	Full Compliance	Position
duties as a pension board member		
The administering authority should maintain individual training plans for local pension board members	Individual training records are kept and maintained of the learning activities of the local pension board members.	The Democratic Services team at East Sussex County Council will maintain a record of all training received by the East Sussex Pension Board members, these will be made available to board members on an individual basis.
Requirement	Full Compliance	Position
Local pension board members should invest sufficient time in their learning and development alongside their other responsibilities.	There is provision in the individual training plans to monitor and record attendance at training events and whether sufficient time is being invested in learning and development.	The Democratic Services team at East Sussex County Council will maintain a record of all training received by the East Sussex Pension Board members and will be reported back to the board at least half yearly.
The Pensions Regulator has provided an e-learning programme to help meet the needs of local pension board members	Local pension board members are required to complete the Pensions Regulator's e-learning programme but this is not in isolation and is supplemented by specific LGPS and related Fund learning activities	Board members were made aware of the e-learning programme in the induction training and encouraged to register. Regular reviews of progress will be carried out by the Pensions Strategy and Governance Manager.

Requirement	Full Compliance	Position
Publishing information about schemes		
The administering authority must publish information about the local pension board and keep that information up to date	Provision is made on the Council website or Fund website that is available for all scheme members to view	East Sussex County Council has a section on its website dedicated to the East Sussex Pension Board and the East Sussex Pension Fund Website detailing the members of the board and documentation relating to the Board. This will be maintained by the Pensions Strategy and Governance Manager and democratic services of the East Sussex County Council. http://www.eastsussexpensionfund.org/about-us/local-pension-board.aspx
The published information must include who the members of the local pension board are, their representative role and the matters falling within the local pension boards responsibility	Full details of the local pension board members, their representative role, their employment and job title (where relevant), any other relevant position and their terms of reference are available on the website	Information available on the East Sussex County Council website and East Sussex Pension Fund website http://www.eastsussexpensionfund.org/about-us/local-pension-board.aspx http://www.eastsussex.gov.uk/jobs/workingateastsussexcountycouncil/pensions/financial/default.htm
Requirement	Full Compliance	Position
The published information should include the local pension board appointment process	The appointment process will be published either as a separate piece of information or be contained within the terms of reference or as an appendix to the terms of reference	The appointment process was carried out by a selection process after the advertisement for the role's we considered approaches from the Union's, employers and utilising the experience of former pension committee members http://www.eastsussex.gov.uk/jobs/workingateastsussexcountycouncil/pensions/financial/default.htm

Requirement	Full Compliance	Position
<p>The administering authority should publish information about the local pension board's business</p>	<p>All board papers, agendas and minutes of meetings are available on the Council website or Fund website for all scheme members to view</p>	<p>East Sussex County Council and East Sussex Pension Fund has a section on its website dedicated to the East Sussex Pension Board detailing the members of the board and documentation relating to the Board. This will be maintained by the democratic services of the East Sussex County Council and the Pensions Strategy and Governance Manager. The website can be found here</p> <p>https://democracy.eastsussex.gov.uk/mgCommitteeDetails.aspx?ID=374</p> <p>http://www.eastsussexpensionfund.org/about-us/local-pension-board.aspx</p>
<p>The administering authority should consider any requests for additional information to be published to encourage scheme member engagement and promote a culture of transparency</p>	<p>There will be details on the Council website or Fund website informing scheme members who to contact if they wish to make any requests for further information to be published.</p> <p>There will be a procedure in place for determining what scheme member requests will be agreed and how the decision is communicated to the scheme member</p>	<p>The democratic services contact is named on the East Sussex Pension Board page and can be contacted by scheme members with requests for further information. This will then be brought to the attention of the board.</p>

Requirement	Full Compliance	Position
Managing Risks		
<p>The administering authority is required to have in place internal controls that include adequate systems, arrangements and procedures for the administration and management of the Fund</p>	<p>There are in place systems, arrangements and procedures to ensure that the scheme is being run in accordance with the scheme rules as set out in regulations. This will include a clear separation of duties, processes for escalation and decision making and documented procedures for assessing and managing risk, reviewing breaches of law and managing contributions to the scheme.</p>	<p>Responsible Officers:</p> <p>The Head of Accounts and Pensions</p> <p>Pensions Strategy and Governance Manager</p> <p>Finance Manager (Pension Fund)</p> <p>There is a risk register in place which will be regularly reviewed.</p> <p>The pensions administration is regularly audited by internal and external auditors.</p> <p>The pension's administration transactional services are within a shared service. The service is monitored against monthly key performance indicators and a Statement of Requirements is also in place.</p>

Requirement	Full Compliance	Position
Administration		
The administering authority must be able to demonstrate that they keep accurate, up to date and enduring records to be able to govern and administer the LGPS effectively	<p>There is in place a reliable pension administration software system for the purpose of keeping accurate and up to date scheme member data.</p>	<p><i>Heywood who is part of aquilaheywood</i> and is the current software provider in the provision of pension administration systems and its industry accepted. The East Sussex Pension Fund is utilising a PensionWeb system contracted with its actuarial and benefit consultants to improve data accuracy from employer's.</p>
The administering authority must ensure that scheme member data across all membership categories specified in the Record Keeping Regulations is complete and accurate and the data is subject to regular data evaluation	<p>There is in place a procedure for all membership categories to pass on information with regard to changes in their own circumstances</p> <p>There is in place a procedure for scheme employers to advise of changes in circumstances of their scheme members</p>	<p>All correspondence advising scheme members of pension entitlements contain references to advise the Fund of any changes in their personal circumstances. There is a facility on the Fund website for scheme members to advise of changes in their personal circumstances. Scheme employers advise the Fund of changes to scheme member's circumstances in a variety of ways (e-mail, telephone, forms) this will be enhanced with the introduction of PensionsWeb.</p>

Requirement	Full Compliance	Position
<p>The administering authority must keep specific data which will enable it to uniquely identify a scheme member and calculate pension benefits correctly</p>	<p>Scheme members have a unique identifier on the pension administration software system.</p>	<p>Scheme members are identified by NI number.</p> <p>The software system also allows identification by surname searching.</p>
<p>The administering authority should require participating employers to provide them with timely and accurate data</p>	<p>Processes are established which facilitates the transmission of complete and accurate data.</p> <p>Employers are aware of the importance of accurate and timely submission of data and have access to expertise in order to resolve queries.</p>	<p>There is an established process in place for the timely and accurate data from employers. This will be more formalised through the introduction of PensionsWeb.</p> <p>A drafting of a pension administration strategy statement is in place.</p>

Requirement	Full Compliance	Position
<p>The administering authority should seek to ensure that employers understand the main events which require information about members to be communicated</p>	<p>Processes are in place for employers to inform the administering authority in the event there is an event affecting a scheme member, such as –</p> <ul style="list-style-type: none"> • Joins or leaves the scheme • Changes their rate of contributions • Changes their name, address or salary • Changes their membership status • Transfers employment between scheme employers • Strike days or breaks in service • 50/50 membership <p>(This list is not exhaustive)</p>	<p>There is an established process in place for the timely and accurate data from employers. This will be more formalised through the introduction of PensionsWeb.</p> <p>A drafting of a pension administration strategy statement is in place.</p> <p>Instances of late submission are considered on a case by case basis. Financial penalties are deemed to be the last resort failing resolution.</p>

Requirement	Full Compliance	Position
<p>The administering authority should ensure that appropriate procedures and timescales are in place for scheme employers to provide updated information when member data changes</p>	<p>Processes are established which details the timely transmission of complete and accurate data</p>	<p>There is an established process in place for the timely and accurate data from employers. This will be more formalised through the introduction of PensionsWeb.</p> <p>A drafting of a pension administration strategy statement is in place.</p> <p>Instances of late submission are considered on a case by case basis. Financial penalties are deemed to be the last resort failing resolution.</p>
<p>The administering authority should be able to trace the flow of funds into and out of the scheme, reconcile these and keep records of transactions</p>	<p>There are audited processes in place that record transactions into and out of the Fund</p>	<p>The East Sussex Pension Fund has a separate bank account which all contributions and payments take place. These are recorded in the financial system (SAP) used by the fund. In addition to this the fund uses a master custodian to safeguard its assets and to collect and pay all investment related income and expense. The processes used to record these transactions are audited each year as part of the work performed by the internal audit team.</p>

Requirement	Full Compliance	Position
<p>The administering authority must keep records of pension board meetings and discussions and records of decisions made other than at a local pension board meeting that is later ratified.</p>	<p>Records are available that show decisions made and discussions at local pension board meetings and those that take place outside and are later ratified at a local pension board meeting</p>	<p><i>Records of pension board meetings and records of decisions made are available on the East Sussex County Council website and the East Sussex Pension Fund Website.</i></p> <p>http://www.eastsussex.gov.uk/jobs/workingateastsussexcountycouncil/pensions/financial/default.htm</p>
<p>The administering authority should retain records for as long as they are needed and have in place an adequate system and process for record retention</p>	<p>A policy on document retention is in place that includes the retention of local pension board papers and documents</p>	<p>This will be the responsibility of the democratic services officer. In line with East Sussex County Council retention policy.</p> <p>https://democracy.eastsussex.gov.uk/mgCommitteeDetails.aspx?ID=374</p>
<p>Where the administering authority has identified poor quality or missing data there should be a data improvement plan in place</p>	<p>A data improvement plan is in place which contains measures for the administering authority to monitor and a timeframe for attaining accurate data</p>	<p>A data improvement plan will be drafted where the need is identified.</p>
<p>The administering authority should reconcile member records with the</p>	<p>Scheme member records are reconciled with the relevant employers at least on an annual basis.</p> <p>Pension Administration software systems can identify</p>	<p>There is no formal procedure in place for reconciling scheme records with their relevant employers, however, contribution returns identify where scheme members have left or joined.</p>

Requirement	Full Compliance	Position
relevant employers and be able to identify those scheme members who are approaching retirement, those who are active members and those that are deferred members	scheme members approaching retirement, active members and deferred members.	The pensions administration software identifies scheme members
The administering authority must ensure that processes created to manage scheme member data are compliant with the Data Protection Act 1998 and data protection principles.	Data Protection Act is complied with and all relevant persons are aware of their responsibilities	Awareness of data protection requirements is communicated to Fund Officer's through internal procedures. Committee members and Board members are advised in their own information packs and within their relevant papers.

Requirement	Full Compliance	Position
<p>The administering authority should be able to demonstrate that records are kept in accordance with other relevant legislation</p>	<p>Evidence that key requirements are set out where applicable under the following legislation –</p> <ul style="list-style-type: none"> Pensions Act 1995 and 2004 Pensions Act 2008 and the Employers’ Duties (Registration and Compliance) Regulations 2010 Occupational Pension Schemes (Scheme Administration) Regulations 1996 Registered Pension Schemes (Provision of Information) Regulations 2006 Data Protection Act 1998 Freedom of Information Act 2000 	<p>Relevant pieces of legislation are complied with in relation to the Fund record keeping; this is verified by regular audits.</p>

Requirement	Full Compliance	Position
Maintaining Contributions		
<p>The administering authority should ensure there are effective policies and procedures in place to identify payment failures</p>	<p>All employers are aware of the payment deadlines</p> <p>Procedures and processes are in place to monitor the payment of contributions, record payments of contributions to the Fund, manage overdue contributions and identified payment failures are reported to a senior officer.</p>	<p>All new employers are made aware of their responsibilities to meet contribution payment deadlines at the outset. This could be by formal notification in a letter or contained in the admission agreement for those admitted bodies. Contribution payments are monitored on a monthly basis, where payment failures are identified the employer is contacted accordingly. Persistent failure is reported to the Pensions Strategy and Governance Manager.</p>
<p>Where the administering authority identify a payment failure they should follow a process to resolve issues quickly</p>	<p>A process is in place to –</p> <p>Investigate any apparent employer failure to pay contributions in accordance with the legal requirements</p> <p>Contact the employer promptly to alert them to a payment failure and seek a resolution.</p> <p>Enter dialogue to find the cause and circumstance for the payment failure</p> <p>Ask the employer to resolve the payment failure and take steps to avoid a future recurrence</p>	<p>A process is in place to –</p> <p>The Pensions Strategy and Governance Manager will investigate any apparent employer failure to pay contributions in accordance with the legal requirements and then;</p> <p>Contact the employer promptly to alert them to a payment failure and seek a resolution.</p> <p>Enter dialogue to find the cause and circumstance for the payment failure</p> <p>Ask the employer to resolve the payment failure and take steps to avoid a future recurrence</p>

Requirement	Full Compliance	Position
<p>The administering authority should maintain a record of investigations and communications in relation to payment failures</p>	<p>Records are maintained of investigations and communications (and outcomes) in relation to payment failures</p>	<p>Details in relation to payment failures are kept in the relevant employer file.</p>
<p>The administering authority should review processes or develop a new process which is able to detect situations where fraud may be more likely to occur and where additional checks may be appropriate.</p>	<p>This will be identified on the fund's risk register</p> <p>A regular review of processes to detect fraud is undertaken</p>	<p>Areas of risk of fraud and where they are likely to occur are maintained in the Fund's risk register. The risk register itself is regularly reviewed.</p>
<p>The administering authority must report payment failures which are likely to be of material significance to the regulator.</p>	<p>Responsible officers are aware of the requirement and there is a procedure in place for reporting payment failures to the regulator in accordance with the code of practice</p>	<p>The Pensions Strategy and Governance Manager will report payment failures to the regulator after determining, on a case by case basis, the action to be taken is a last resort.</p>

Requirement	Full Compliance	Position
Providing Information to scheme members		
Scheme regulations require the administering authority to provide an annual benefit statement	<p>Annual benefit statements are issued to each active, deferred pensioner and pension credit member.</p> <p>Statements must be issued no later than 5 months after the end of the Scheme year to which it relates</p>	Annual benefit statements are issued in accordance with time limits set out in the LGPS regulations.
The administering authority must provide scheme members with basic scheme information	The fund will have in place a communication policy which contains details of what information is provided to scheme members and the communication media.	<p>East Sussex Pension Fund has a communication policy which sets out what information is provided to scheme members and how it is communicated.</p> <p>http://www.eastsussex.gov.uk/NR/rdonlyres/B94C5CFE-9183-4D40-B2BE-E87621205085/0/StatementofInvestmentPrinciples2014.pdf</p>
Disclosure regulations make provision for scheme members and others to receive information that is relevant to their pension rights and scheme entitlements	<p>The fund will have in place a communication policy that sets out how and when it will communicate with any of the following “relevant persons”</p> <p>Active members</p> <p>Deferred members</p> <p>Pensioner members</p> <p>Prospective members</p> <p>Spouses, civil partners of members or prospective members</p>	<p>East Sussex Pension Fund has a communication policy which sets out what information is provided to scheme members and how it is communicated.</p> <p>http://www.eastsussex.gov.uk/NR/rdonlyres/B94C5CFE-9183-4D40-B2BE-E87621205085/0/StatementofInvestmentPrinciples2014.pdf</p>

Requirement	Full Compliance	Position
	<p>Other beneficiaries</p> <p>Recognised trade unions</p>	
<p>The administering authority should attempt to make contact with their scheme members and where contact is not possible carry out a tracing exercise to locate scheme members.</p>	<p>A tracing service has been engaged to trace scheme members where contact details are considered incorrect</p>	<p>All attempts through various sources are used to trace or locate scheme members.</p>
<p>Requests for information should be acknowledged if information requested cannot be immediately provided.</p>	<p>A customer service standard is in place that requires a written response to be provided within a specified timescale and where that response cannot be provided that a letter of acknowledgement is sent with an indicative response time.</p>	<p>Correspondence is responded to in accordance with East Sussex County Council standards.</p>

Requirement	Full Compliance	Position
Resolving Disputes		
The administering authority has in place an Internal Dispute Resolution Procedure	<p>An Internal Dispute Resolution Procedure is in place in accordance with the LGPS regulations and it clearly states the procedure and process to apply for a dispute to be resolved including –</p> <ul style="list-style-type: none"> Who it applies to Who the adjudicator is (stage 1) Who to contact with a dispute The information that an applicant must include How the final decision is reached How the dispute can be escalated if dis-satisfied The appropriate timescales 	<p>There is an internal dispute resolution procedure in place in accordance with the LGPS regulations.</p> <p>http://www.eastsussex.gov.uk/NR/rdonlyres/D4815C73-7F7D-4574-8BCE-D40FD1CB217D/0/DisputeResolutionProcedure.pdf</p>

Requirement	Full Compliance	Position
<p>The administering authority should be satisfied that those responsible for reporting breaches of the law are made aware of their legal requirements and the Pensions Regulator's guidance</p>	<p>The following are made aware and understand their responsibility to report breaches to the Pensions Regulator –</p> <ul style="list-style-type: none"> Officers Members of the local pension board Any person involved in the administration of the LGPS Scheme employers participating in the fund Professional advisers Any person who is otherwise involved in advising the fund 	<p>A reporting breaches policy will be drafted.</p> <p>Board members and other persons present were advised at the induction training day.</p>

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Report to: **Pension Committee**

Date: **27 July 2015**

By: **Head of Accounts and Pensions**

Title: **Pension Committee Forward Plan 2015/16**

Purpose: **This report sets out the Pension Fund Governance Forward plan for 2015-16. The Plan includes the key objectives for the Fund, and training strategy/plan for the Fund**

RECOMMENDATIONS – The Committee is recommended to note the Pension Board/Committee Forward Plan 2015/16.

1. Introduction

- 1.1 In the guidance document “Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012”, it is recommended that organisations have in place a business plan. The guidance recommends the plan set out formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration, scheme governance and decision-making.

2. Report Overview

- 2.1 The forward plan comprises of the following:
- a. Introduction
 - b. Key documents to be considered by the Board/Committee
 - c. Forward plan
 - d. Training strategy
 - e. Training plan

3. Conclusion and reasons for recommendations

- 3.1 The Committee is requested to note the Pension Fund Board/Committee Forward Plan 2015/16.

Contact Officers: **Ola Owolabi, Head of Accounts and Pensions, 01273 482017**
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Local Member(s): All

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EAST SUSSEX PENSION FUND

PENSION COMMITTEE/BOARD FORWARD PLAN 2015-16

June 2015

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Business Plan

1 Introduction

- 1.1 Under the Local Government Pension Scheme (LGPS) (Administration) Regulations 2013, the East Sussex County Council administer the Pension Fund for approximately 67,000 individuals employed by 108 different organisations. Underpinning everything we do is a commitment to putting our members first, demonstrating adherence to good practices in all areas of our business and controlling costs to ensure we provide outstanding value for money.
- 1.2 This Business Plan (BP) provides an overview of the Fund's key objectives for 2015/16. The key high level objectives of the fund are summarised as:
- Optimise Fund returns consistent with a prudent level of risk
 - Ensure that there are sufficient resources available to meet the investment Fund's liabilities, and
 - Ensure the suitability of assets in relation to the needs of the Fund.
- 1.3 A bespoke training strategy and plan for this administration will be added to the BP after agreement by Members at the Pension Committee in July.
- 1.4 The governance of the Fund is the responsibility of the Chief Finance Officer for the East Sussex County Council, the East Sussex Pension Committee, and the Pension Board. The day to day management of the Fund is delegated to Officers with specific responsibility delegated to the Head of Accounts and Pensions. He is supported in this role by the Pensions Strategy and Governance Manager, and the Finance Manager (Pension Fund).
- 1.5 The Pensions Committee aims to ensure the maximising of investment returns over the long term within an acceptable level of risk. Performance is monitored by asset performance being compared with their strategic benchmarks. This includes reviewing the Fund Managers' quarterly performance reports and discussing their strategy and performance with the Fund Managers.

2. KEY DOCUMENTS TO BE CONSIDERED BY THE PENSION BOARD

- 2.1 There are a number of key policy and strategy documents (Appendix 1) which the Local Government Pension Scheme (LGPS) Regulations require to be kept under regular review. These are listed below:

2.2 Annual Report

This report sets out the Pension Fund activities for the previous financial year. The Council is required to publish the report by December of each year to accompany an audited financial statement. Within the Annual Report are the following documents: Statement of Investment Principles, Funding Strategy Statement, Governance Compliance Statement, Communications Policy and Pension Fund accounts.

2.3 **Funding Strategy Statement**

This sets down the strategy for prudently meeting the Fund's future pension liabilities over the longer term, including the maintenance, as far as possible, of stable levels of employer contributions. It also identifies the key risks and controls facing the Fund and includes details of employer contribution rates following the Fund's triennial valuation.

2.4 **Statement of Investment Principles**

This document identifies the investment responsibilities of the various parties involved. For example, Pension Committee, Pension Board Officers, Investment Managers, Custodian, and Investment Advisors. It also details the Fund's investment policies and asset allocation approach as well as its compliance with the six Myners' investment principles. These six principles cover:

- Effective Decision Making;
- Clear Objectives;
- Risk and Liabilities;
- Performance Assessment;
- Responsible Ownership; and
- Transparency and Reporting.

2.5 **Communications Policy**

This details how the Fund provides information and publicity about the Pension scheme to its existing members and their employers and methods of promoting the Pension scheme to prospective members and their employers. It also identifies the format, frequency and method of distributing such information or publicity.

2.6 **Governance Compliance Statement**

This is a written statement setting out the administering authority's compliance with good practice governance principles. These principles are grouped within eight categories and are listed within the statement. The Fund's compliance against each of these principles is also detailed, including evidence of compliance and, if appropriate, reasons if there is not full compliance.

2.7 **Valuation Reports**

The Fund's actuary reviews and amends employer contribution rates every 3 years. The last actuarial valuation was based on Fund membership as at 31 March 2013.

2.8 **Administration Strategy**

Sets out standards and guidelines agreed between employers and ESCC to make sure the LGPS runs smoothly. The strategy is reviewed every 12 months and employers are informed of any revisions, which they can also comment on.

2.9 **Employers' Discretions Policy**

Regulations allow the County Council as the administering authority to choose how or whether to apply certain discretions for administering the scheme and the Pension Fund.

2.10 **Myners Compliance Statement**

Sets out the extent to which the fund complies with best practice principles.

PENSION BOARD – FORWARD/BUSINESS PLAN

	Documents recording policy about the administration of the scheme	Review - how often?	Date of Meeting	Contact Officer	Comments/Key Issue
1	Member booklets, newsletter, announcements and other key member and employer communications, which describe the Fund's policies and procedures (including any separate AVC guides) including documents available on the Fund's website	Annually			
2	Policies of the Administering Authority and/or Pension Committee, for example policies on:				
	· conflicts of interests	Annually			
	· record-keeping	Annually			
	· information to be published	As applicable			
	· data protection and freedom of information	Annually			
	· internal dispute resolution procedure	Annually			
	· reporting breaches	As applicable			
3	Governance compliance statement (as required by regulation 55 of the Regulations)	3 yrs (as applicable)			
4	Funding strategy statement (as required by regulation 58 of the Regulations)	3 Yrs			
5	Pension administration statement (as required by regulation 59 of the Regulations)	3 yrs			
6	Discretionary policy statement (as required by regulation 60 of the Regulations)	Annually			
7	Communications policy statement (as required by regulation 61 of the Regulations)	Annually			
8	Statement of investment principles (as required by	Annually			

PENSION BOARD – FORWARD/BUSINESS PLAN

	Documents recording policy about the administration of the scheme	Review - how often?	Date of Meeting	Contact Officer	Comments/Key Issue
	regulation 12 of the Investment Regulations)				
9	Internal controls risk register (for the purposes of section 249B of the 2013 Act)	Annually			
10	Fund’s actuarial valuation report and rates and adjustment certificate (as required by regulation 62 of the Regulations)	3 Yrs			
11	Accounting requirements relevant to the Fund	Annually			
12	Third party contracts and service level agreements (e.g. SharedServices, Heywood, Civica, etc.)	Annually			
13	Internal control report produced by third party service providers and investment managers	Annually			
14	Fund’s admission agreement and bond and related policies and guidance.	As applicable			
	Performance Management				
15	Fund’s annual report and accounts (as required by regulation 57 of the Regulations) including any summary report (as required by regulation 56 of the Regulations)	Annually			
16	Triennial Valuation Report	3 Yrs			
17	Valuation, Cessations, Admission policies	Annually			

PENSION BOARD – FORWARD/BUSINESS PLAN

	Documents recording policy about the administration of the scheme	Review - how often?	Date of Meeting	Contact Officer	Comments/Key Issue
18	Review how we compare with other authorities on the investment strategy	Annually			
19	Review how we manage				
	- The Advisor	Half-Yearly			
	- The Custodian	Annually			
	- Surrey partnership	Monthly			
	- Actuarial - Investment/Admin Consul	Twice a Year			
20	Risk register including comparing to others and agree where it goes	Annually			
21	Review fees arrangements and compare with others.	Annual/as Appropriate			
	Monitoring Arrangements and Reporting				
22	Officers update report	Quarterly			
23	Manager benchmarking e.g. WM, StateStreet	Annually			
24	ESPF/ESCC website review/updates	Quarterly			
25	Review the performance i.e.				
	- How we manage the Fund and Admin	Quarterly			
	- What employers can expect	Quarterly			

PENSION BOARD – FORWARD/BUSINESS PLAN					
	Documents recording policy about the administration of the scheme	Review - how often?	Date of Meeting	Contact Officer	Comments/Key Issue
26	Cash flow forecasting model and review cash rebalancing	As applicable			

East Sussex Pension Fund (ESPF)

Pension Board and Committee Training Strategy

1. Introduction - Target audience

1.1 Pensions Committee:

East Sussex County Council (Scheme Manager) operates a Pensions Committee (the “Pensions Committee”) for the purposes of facilitating the administration of the East Sussex Pension Fund, i.e. the Local Government Pension Scheme that it administers. Members of the Pensions Committee owe an independent fiduciary duty to the members and employer bodies in the Funds and the taxpayer. Such members are therefore required to carry out appropriate levels of training to ensure they have the requisite knowledge and understanding to properly perform their role.

1.2 Pension Board:

The Scheme Manager is also required to establish and maintain a Pension Board, for the purposes of assisting with the ongoing compliance of the Fund. The Pension Board is constituted under the provisions of the Local Government Pension Scheme (Governance) Regulations 2015 and the Public Service Pensions Act 2013. Members of the Pension Board should also receive the requisite training and development to enable them to properly perform their compliance role. This strategy sets out the requirements and practicalities for the training of members of both the Pensions Committee and the Pension Board. It also provides some further detail in relation to the attendance requirements for members of the Pension Board and in relation to the reimbursement of expenses.

The East Sussex Pension Funds’ objectives relating to knowledge and skills should be to:

- Ensure the pension fund is managed and its services delivered by Officers who have the appropriate knowledge and expertise;
- Ensure the pension fund is effectively governed and administered;
- Act with integrity and be accountable to its stakeholders for decisions, ensuring they are robust and are well based and regulatory requirements or guidance of the Pensions Regulator, the Scheme Advisory Board and the Secretary of State for Communities and Local Government are met.

To achieve these objectives:-

1.3 The East Sussex Pension Fund’s Pension Committee require an understanding of:

- Their responsibilities in exercising their delegated decision making power on behalf of East Sussex County Council as the Administering Authority of the East Sussex Pension Fund;
- The fundamental requirements relating to pension fund investments;
- The operation and administration of the pension fund;

- Controlling and monitoring the funding level; and
- Taking effective decisions on the management of the Fund.

1.4 East Sussex Pension Fund's Local Pension Board members must be conversant with-

- The LGPS Regulations and any other regulations governing the LGPS
- Any document recording policy about the administration of the Fund

And have knowledge and understanding of:

- The law relating to pensions; and
- Such other matters as may be prescribed

To achieve these objectives, the Fund will aim for full compliance with the CIPFA Knowledge and Skills Framework (KSF) and Code of Practice to meet the skills set within that Framework. Attention will also be given to any guidance issued by the (Shadow) Scheme Advisory board, the Pensions Regulator and guidance issued by the Secretary of State. Ideally, targeted training will also be provided that is timely and directly relevant to the Committee's and Board's activities as set out in the Fund's business plan.

Board members will receive induction training to cover the role of the East Sussex Pension Fund, Pension Board and understand the duties and obligations for East Sussex County Council as the Administering Authority, including funding and investment matters.

Also those with decision making responsibility in relation to LGPS pension matters and Board members will also:

- Have their knowledge assessed;
- Receive appropriate training to fill any knowledge gaps identified; and
- Seek to maintain their knowledge.

1.5 The Knowledge and Skills Framework

In an attempt to determine what constitutes the right skill set for a public sector pension finance professional the Chartered Institute of Public Finance and Accounting (CIPFA) has developed a technical knowledge and skills framework. This is intended as a tool for organisations to determine whether they have the right skill mix to meet their scheme financial management needs, and an assessment tool for individuals to measure their progress and plan their development.

The framework is designed so that elected members and officers can tailor it to their own particular circumstances. In total, there are six main areas of knowledge and skills that have been identified as the core technical requirements for those working in public sector pension finance or for Members responsible for the management of the Fund. These have been outlined in some detail in Appendix 1 and summarised below –

1. Pension Legislation & Governance Context
2. Pensions Accounting & Auditing Standards
3. Financial Services Procurement & Relationship Management
4. Investment Performance & Risk Management
5. Financial Markets & Products Knowledge
6. Actuarial Methods, Standards & Practices

1.6 Scheme Employers now have a greater need –

- Of being kept up to date of their increased responsibilities as a result the introduction of the CARE Scheme in the LGPS and the timeliness of providing data and scheme member information
- Of appreciating some of the determinations being made by the Pensions Ombudsman that impact directly on their decisions concerning ill-health retirement cases
- To be aware of the importance of having written discretion policies in place
- Of their representation role on the East Sussex Pension Board.

1.7 Application of the training strategy

This Training Strategy will set out how ESCC will provide training to representatives with a role on the Pension Committee, Pension Board members and Employers. Officers involved in the management and administration of the Fund will have their own sectional and personal training plans and career development objectives.

1.8 Purpose of training

The purpose of training is to:

- Equip members with the necessary skills and knowledge to be competent in their role;
- Support effective and robust decision making;
- Ensure individuals understand their obligation to act, and to be seen to act with integrity;
- Ensure that members are appropriately skilled to support the fund in achieving its objectives.

1.9 Summary

Officers will work in partnership with members to deliver a training strategy that will:

- Assist in meeting the East Sussex Pension Fund objectives;
- Support the East Sussex Pension Fund's business plans;
- Assist members in achieving delivery of effective governance and management;
- Equip members with appropriate knowledge and skills;
- Promote ongoing development of the decision makers within the East Sussex Pension Fund;
- Demonstrate compliance with the CIPFA Knowledge and Skills Framework;
- Demonstrate compliance with statutory requirements and associated guidance

2. Delivery of Training

2.1 Training plans

To be effective, training must be recognised as a continual process and centred on 3 key points

- The individual
- The general pensions environment
- Coping with change and hot topics

The basis of good training for a Fund is to have in place a training plan complemented by a training strategy or policy.

The training strategy supported by the plan will set out how, what and when training will be carried out.

Officers will with members conduct reviews of training, learning and development processes and identify gaps versus best practice.

2.2 Training resources

Public bodies such as the Local Government Association (LGA) and Actuarial, Benefit Consultants and Investment Consultants have been carrying out training sessions for LGPS Funds for many years. This means there is a vast readily available library of material to cover many different topics and subjects and the appropriate expert to deliver it.

2.3 Appropriate Training

As mentioned in 2.1 above it is best practice for a Fund to have in place a training strategy and training plan. This will help identify the Fund's objectives and indicate what information should be contained in the training material and presentation. For example, if the East Sussex Pension Fund records its aim for full compliance with the CIPFA Knowledge and Skills Framework (KSF) and Code of Practice to meet the skill set within the Framework, the content of training will meet the requirements of the KSF. This is particularly important if the East Sussex Pension Fund is monitoring the knowledge levels of Committee members of Board members, in which case the training must cover any measurement assessment being applied by the Fund in the monitoring knowledge levels.

2.4 Flexibility

It is recognised that a rigid training plan can frustrate knowledge attainment if it does not adapt for a particular purpose, there is a change in pension's law or new responsibilities are required of board members. Learning programmes will therefore include some flexibility so they can deliver the appropriate level of detail required.

2.5 E-Learning

The Pensions Regulator has available an online e-learning programme for those involved in running public service pension schemes. This learning programme is aimed at all public service schemes and whilst participation is to be encouraged, taking this course alone is very unlikely to meet with knowledge and understanding requirements of LGPS local pension board members.

3. Training deliverables

3.1 Suitable Events

It is anticipated that at least 1 day’s annual training will be arranged and provided by officers to address specific training requirements to meet the Committee’s forward business plan, all members will be encouraged to attend this event.

A number of specialist courses are run by bodies such as the Local Government Employers and existing fund manager partners, officers can provide details of these courses. There are a number of suitable conferences run annually, officers will inform members of these conferences as details become available. Of particular relevance are the National Association of Pension Funds (NAPF) Local Authority Conference, usually held in May, the LGC Local Authority Conference, usually held in September, and the Local Authority Pension Fund Forum (LAPFF) annual conference, usually held in December.

3.2 Training methods

There are a number of methods and materials available to help officers prepare and equip members to perform their respective roles. Consideration will be given to various training resources available in delivering training to members of Committee, Board, and officers in order to achieve efficiencies. These may include but are not restricted to:-

For Pension Committee and Pension Board Members	For Officers
<ul style="list-style-type: none"> • On site or off site • Using an Online Knowledge Portal or other e-training facilities • Attending courses, seminars and external events • Internally developed training days • Short sessions on topical issues or scheme-specific issues • Informal discussion and One to one • Shared training with other Funds or Frameworks • Regular updates from officers and/or advisors • A formal presentation 	<ul style="list-style-type: none"> • Desktop/work based training • Using an Online Knowledge Portal or other e-training facilities • Attending courses, seminars and external events • A workshop with participation • Short sessions on topical issues or scheme-specific issues • Informal discussion and One to one • Training for qualifications from recognised professional bodies (e.g. CIPFA, ACCA, etc.) • Internally developed sessions • Shared training with other Funds or Framework

3.3 Training material

Officers will discuss with members the material they think is most appropriate for the training. Officers can provide hand outs and other associated material.

4. Monitoring and Reporting

Each member of the Pensions Committee and Pension Board will inform the Scheme Manager of relevant training attended from time to time. A report will be submitted to the Pensions Committee annually highlighting the training and attendance of each member of the Pensions Committee and Pension Board.

Where the Scheme Manager has a concern that a member of the Pension Board is not complying with the requisite training or attendance requirements it may serve a notice on the Pension Board, requiring the Pension Board to take necessary action. The Pension Board shall be given reasonable opportunity to review the circumstances and, where appropriate, liaise with the Scheme Manager with a view to demonstrating that such member will be able to continue to properly perform the functions required of a member of the Pension Board.

This training strategy will be reviewed on an ongoing basis by the Scheme Manager, taking account of the result from any training needs evaluations and any emerging issues. The Committee/Board will be updated with events and training opportunities as and when they become available and relevant to on-going pension governance

5. Risk

5.1 Risk Management

The compliance and delivery of a training strategy is a risk in the event of-

- Frequent changes in membership of the Pension Committee or Pension Board
- Poor individual commitment
- Resources not being available
- Poor standards of training
- Inappropriate training plans

These risks will be monitored within the scope of the training strategy to be reported where appropriate.

6. Budget

6.1 Cost

A training budget will be agreed and costs fully scoped.

6.2 Reimbursement of expenses

All direct costs and associated reasonable expenses for attendance of external courses and conferences will be met by the fund.

All reasonable expenses properly incurred by members of the Pensions Committee, and the Pension Board necessary for the performance of their roles will be met by the Funds, provided that the Scheme Manager's prior approval is sought before incurring any such expenses (other than routine costs associated with travelling to and from Pensions Board/Committee meetings) and appropriate receipts are sent to the Scheme Manager evidencing the expenses being claimed for.

Proposed Members Training Plan for 2015-2017

The proposed Training Plan for East Sussex Pension Fund Committee/Board Members incorporate the ideas, themes and preferences identified in the Self Assessment of Training Needs along with upcoming areas where the Board/Committee will require additional knowledge. The Plan aims to give an indication of the delivery method and target completion date for each area. On approval, officers will start to implement this programme, consulting with Members as appropriate concerning their availability regarding appropriate delivery methods.

	PROPOSED DELIVERY METHODS							
TRAINING NEED	One-to-One Briefing with an officer	Members' Briefing Notes	Short Seminars (before Committee meeting)	Training Events (Internal & External Speakers)	External Conferences & Training Seminars	E-Learning (e.g. Webcasts, Videos)	KSF area (s)	COMPLETION TARGET DATE
GENERAL TRAINING								
General overview of LGPS - Induction <ul style="list-style-type: none"> Member's Role 	✓						1	Completed
Members individual needs on specific areas arising during the year <ul style="list-style-type: none"> Shadow Advisory Board e-learning 	✓	✓			✓	✓ ✓	1,3,4	As required – notify Head of Accounts and Pensions
Pre- committee meeting/agendas <ul style="list-style-type: none"> Specific investment Topics Services and providers 		✓ ✓	✓ ✓				2,3,4,5	

	PROPOSED DELIVERY METHODS							
TRAINING NEED	One-to-One Briefing with an officer	Members' Briefing Notes	Short Seminars (before Committee meeting)	Training Events (Internal & External Speakers)	External Conferences & Training Seminars	E-Learning (e.g. Webcasts, Videos)	KSF area (s)	COMPLETION TARGET DATE
<ul style="list-style-type: none"> • Procurement process for services provided externally • Performance measurement • Accounts and audit regulations • Role of internal and external audit • Fund responsibilities/ policy • Pension Discretions • Safeguarding the Fund's Assets 		<ul style="list-style-type: none"> ✓ ✓ ✓ ✓ ✓ ✓ ✓ 	<ul style="list-style-type: none"> ✓ ✓ ✓ ✓ ✓ ✓ ✓ 					
Pension Fund Forum <ul style="list-style-type: none"> • Valuation Process • Knowledge of the valuation process and the need for a funding strategy • Implications for employers of ill health and outsourcing decisions • Importance of monitoring asset returns relative to liabilities 				<ul style="list-style-type: none"> ✓ 			1,4,6	

	PROPOSED DELIVERY METHODS							
TRAINING NEED	One-to-One Briefing with an officer	Members' Briefing Notes	Short Seminars (before Committee meeting)	Training Events (Internal & External Speakers)	External Conferences & Training Seminars	E-Learning (e.g. Webcasts, Videos)	KSF area (s)	COMPLETION TARGET DATE
SPECIFIC ISSUES IDENTIFIED FROM MEMBERS SELF ASSESSMENTS								
General Pension Framework <ul style="list-style-type: none"> • LGPS discretions & policies • Implications of the Hutton Review 		✓	✓	✓	✓		1,6	
Pensions Legislation & Governance: <ul style="list-style-type: none"> • Roles of the Pension Regulator, Pension Advisory Service & Pension Ombudsman in relation to the scheme • Review of Myners principles and associated CIPFA & SOLACE guidance 		✓		✓			1,2,	
Pension Accounting & Auditing standards: <ul style="list-style-type: none"> • Accounts & Audit regulations and the legislative requirements 			✓				1,2	

East Sussex Pension Fund

	PROPOSED DELIVERY METHODS							
TRAINING NEED	One-to-One Briefing with an officer	Members' Briefing Notes	Short Seminars (before Committee meeting)	Training Events (Internal & External Speakers)	External Conferences & Training Seminars	E-Learning (e.g. Webcasts, Videos)	KSF area (s)	COMPLETION TARGET DATE
Financial Services procurement: <ul style="list-style-type: none"> • Current public procurement policy & procedures • UK & EU procurement legislation 				✓ ✓			3,5,6	
Investment Performance & Risk Management: <ul style="list-style-type: none"> • Monitoring asset returns relative to liabilities • Myners principles of performance management • Setting targets for committee and how to report against them 				✓ ✓ ✓	✓		3,5,6	Invite to be circulated to when relevant
Financial markets & products knowledge: <ul style="list-style-type: none"> • Refresh the importance of setting investment strategy • Limits placed by regulation on investment activities in 			✓	✓	✓		4 1 4	

	PROPOSED DELIVERY METHODS							COMPLETION TARGET DATE
	One-to-One Briefing with an officer	Members' Briefing Notes	Short Seminars (before Committee meeting)	Training Events (Internal & External Speakers)	External Conferences & Training Seminars	E-Learning (e.g. Webcasts, Videos)	KSF area (s)	
the LGPS <ul style="list-style-type: none"> Understanding of the operations of the fixed income manager Understanding of Alternative asset classes 				✓			4,5,6	
Pension Administration - <ul style="list-style-type: none"> Shared service 		✓	✓	✓			2,6	
Actuarial methods, standards and practices: <ul style="list-style-type: none"> Considerations in relation to outsourcings and bulk transfers Triennial Valuation refresher 		✓ ✓					1 6	
CHAIRMAN TRAINING								
<ul style="list-style-type: none"> Fund Benchmarking Stakeholder feedback Appreciation of changes to scheme rules 	✓ ✓						2 4 1,5	

TRAINING NEED	PROPOSED DELIVERY METHODS							COMPLETION TARGET DATE
	One-to-One Briefing with an officer	Members' Briefing Notes	Short Seminars (before Committee meeting)	Training Events (Internal & External Speakers)	External Conferences & Training Seminars	E-Learning (e.g. Webcasts, Videos)	KSF area (s)	
EXTERNAL SEMINARS AND CONFERENCES								
NAPF Local Govt Conference <ul style="list-style-type: none"> • Refresher training • Keeping abreast of current development 					✓ ✓		1,3,4,5	
LGC Investment Conference <ul style="list-style-type: none"> • Fund Manager events and networking 					✓ ✓		1,2,3,4,5,6	

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Key

The six areas covered within the CIPFA Knowledge and Skills Framework (KSF):

- | | |
|---|-------------|
| 1. Pension Legislation & Governance Context | KSF1 |
| 2. Pensions Accounting & Auditing Standards | KSF2 |
| 3. Financial Services Procurement & Relationship Management | KSF3 |
| 4. Investment Performance & Risk Management | KSF4 |
| 5. Financial Markets & Products Knowledge | KSF5 |
| 6. Actuarial Methods, Standards & Practices | KSF6 |

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