# PENSION COMMITTEE

**TUESDAY, 29 SEPTEMBER 2015**

**10.30 am CC2, 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 Minutes of last meeting held on 27 July 2015 *(Pages 3 - 6)*

2 Apologies for absence

3 Disclosure of Interests

Disclosures 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.

4 Urgent items

Notification of items which the Chair considers to be urgent and proposes to take at the appropriate part of the agenda.

5 Draft Minutes of 8 September 2015 Pension Board *(Pages 7 - 16)*

6 Investment Strategy Review *(Pages 17 - 122)*

- The 'Big Picture' Economic and Market Outlook – Newton
- East Sussex Pension Fund Investment Performance Review – State Street
- East Sussex Pension Fund Annual Strategy Day – Hymans Robertson

7 Programme of Future Quarterly Meetings with Fund Managers *(Pages 123 - 126)*

8 Investment consultancy, actuarial and benefit consultancy services *(Pages 127 - 136)*

9a Officers' Report - Business Operations *(Pages 137 - 148)*

9b Officers' Report - General Update *(Pages 149 - 152)*

9c Officers' Report - Investment Manager Fees *(Pages 153 - 158)*

10 Pension Committee Forward Plan *(Pages 159 - 190)*

11 Any other non-exempt items previously notified under agenda item 4

12 Exclusion of the public and press

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).

13 Exempt minutes of the meeting held on 27 July 2015 *(Pages 191 - 192)*

14 Report on fund manager *(Pages 193 - 212)*

15 Any other exempt items previously notified under agenda item 4

PHILIP BAKER
Assistant Chief Executive
County Hall, St Anne's Crescent
LEWES BN7 1UE

21 September 2015

Contact Harvey Winder, 01273 481796,

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PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at Committee Room, County Hall, Lewes on 27 July 2015.

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PRESENT Councillors Richard Stogdon (Chair), Godfrey Daniel, Bob Standley and David Tutt

1 APOLOGIES FOR ABSENCE

1.1 Apologies for absence were received from Cllr Frank Carstairs.

2 DISCLOSURE OF INTERESTS

2.1 Cllr Godfrey Daniel declared a personal non-prejudicial interest as a scheme member of two East Sussex Pension Fund pensions.

2.2 Cllr Richard Stogdon declared a personal non-prejudicial interest as a trustee of funds managed by Ruffer.

3 URGENT ITEMS

3.1 There were none.

4 TERMS OF REFERENCE

4.1 The Committee considered its terms of reference, as agreed by the Governance Committee on 10 March 2015.

4.2 The Committee RESOLVED to note the terms of reference of the Pension Committee.

5 DRAFT PENSION BOARD MINUTES

5.1 The Committee considered the draft minutes of the Pension Board meeting held 10 July 2015.

5.2 The Committee RESOLVED to note the draft Pension Board minutes.

5a OFFICERS' REPORT - BUSINESS OPERATIONS

5a.1 The Committee considered a report by the Chief Finance Officer providing background information on the administration service provided to the Pension Fund by Orbis Business Operations.

5a.2 The Committee RESOLVED to note the report and its appendices.

5b OFFICERS' REPORT - GENERAL UPDATE

5b.1 The Committee considered a report by the Chief Finance Officer providing a general update on matters related to its activity.

5b.2 The Committee RESOLVED to note the report and its appendices.

## 6 REVIEW OF ANNUAL GOVERNANCE REPORTS AND PENSION FUND ACCOUNTS 2014/15

6.1 The Committee considered a report by the Chief Finance Officer summarising the position of the Pension Fund for 2014/15.

6.2 The Committee RESOLVED to:

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

## 7 INVESTMENT PERFORMANCE FOR THE FIRST QUARTER OF 2015

7.1 The Committee considered a report by the Chief Finance Officer providing an update on the performance of the Pension Fund investment portfolio and that of the individual managers for the quarter ending 31 March 2015.

7.2 The Chair agreed to table an updated version of the review of investment managers' performance for the quarter ending 30 June 2015.

7.3 The Committee RESOLVED to note the contents of the report, and the detailed analysis provided by Hymans Robertson as the fund advisor.

## 8 GOVERNANCE COMPLIANCE STATEMENT

8.1 The Committee considered a report by the Chief Operating Officer containing the Governance Policy Statement and the Compliance Statement to the Pension Regulator Code of Practice.

8.2 The Committee RESOLVED to approve:

1) the amendments to the Governance Policy Statement; and
2) the Compliance Statement to the Pension Regulator Code of Practice.

## 9 PENSION COMMITTEE FORWARD PLAN 2015/16

9.1 The Committee considered a report by the Chief Finance Officer setting out the proposed forward plan for the Pension Board and Pension Committee for 2015/16.

9.2 The Committee RESOLVED to note the report and its appendices.

## 10 EXCLUSION OF THE PUBLIC

10.1 The Committee RESOLVED to exclude the press and public from the meeting for the remaining agenda item on the grounds that if the press and public 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). It is considered that the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

11 INVESTMENT MANAGER (LAZARD) PERFORMANCE

11.1 The Committee considered a report by the Chief Finance Officer summarising the performance of Lazard, one of the East Sussex Pension Fund investment managers.

11.2 RESOLVED: The Committee was minded to agree recommendation B contained in the report.

[The full decision is set out in a confidential minute]

(The meeting ended at 1.00 pm)

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| | |
|---|---|
| Report to: | **Pension Committee** |
| Date: | **29 September 2015** |
| By: | **Chief Operating Officer** |
| Title: | **Draft Minutes of 8 September 2015 Pension Board** |
| Purpose: | **To consider the comments made by the Pension Board at its most recent meeting** |

**RECOMMENDATIONS:**

**The Committee is recommended to note the report.**

## 1. Background

1.1 A key objective of the Pension Board is to provide assistance to the Pension Committee. One of the ways in which the Pension Board carries out this objective is by considering and commenting on the reports due to go to the Pension Committee. A significant amount of time at each Pension Board meeting – which is held two to three weeks before each Pension Committee meeting – is dedicated to considering these Pension Committee reports.

1.2 The draft minutes of the Pension Board meeting contain a summary of the Pension Board's comments. It is recommended that the Pension Committee considers these comments as part of its decision making process.

1.3 The minutes of the 8 September 2015 Pension Board meeting are attached as Appendix 1. As they have not yet been formally agreed by the Board, they remain in draft form.

## 2. Conclusion and reasons for recommendations

2.1 The Committee is recommended to note the report.

**KEVIN FOSTER**
**Chief Operating Officer**

Contact Officers: Giles Rossington, Senior Democratic Services Adviser, 01273 335517
giles.rossington@eastsussex.gov.uk

Local Member(s):

All

Background Documents:

None

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PENSION BOARD

MINUTES of a meeting of the Pension Board held at CC1, County Hall, Lewes on 8 September 2015.

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

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

1 MINUTES OF THE MEETING HELD ON 10 JULY 2015

1.1 The minutes of the 10 July 2015 meeting were approved.

**Matters Arising:**

1.2 Brian Redman (BR) asked for clarification of 3.2 in the draft minutes: whether Pension Board (PB) members who are also members of the LGPS needed to declare this as an interest. Giles Rossington (GR) told members that his advice was that this should not be deemed a prejudicial interest. However, members were free to declare a personal interest if they wished.

1.3 BR asked, regarding 4b.5 in the minutes, why PB members had been told at their last meeting that an up to date report from Hymans was not available to view, when Pension Committee (PC) had received such a report at its meeting. Ola Owolabi (OO) told members that the report had been issued shortly after the last PB meeting. The report showed no significant change in the fund's position, other than some improvements. The report is now linked to the PC committee papers on the council's website. Marion Kelly (MK) apologised for not ensuring that the report was circulated to PB members when it was released.

1.4 BR also enquired about forecast administration costs (point 5b.3 in the minutes). Officers agreed to provide a brief update on this matter at the next PB meeting.

2 APOLOGIES FOR ABSENCE

2.1 There were none.

3 DISCLOSURE OF INTERESTS

3.1 There were no declarations of interest.

4 PENSION COMMITTEE AGENDA

4.1 MK explained that the planned PC strategy session was an annual deep-dive focusing on investment performance over the past year. The session also presented a training opportunity in terms of what makes an effective pension fund, with expert independent input. In general, performance over the past 12 months has been good, but PC members will still need to decide whether the fund needs to change its strategy. This may involve opting to receive additional training in order to better understanding some investment options (e.g. property) before making decisions on the strategy. The PC may also take the opportunity to exit agreements with specific Investment managers.

4.2 The Chair noted that he was encouraged by recent fund performance, and by the percentage of the Pension Fund that was actually funded. He also found it refreshing that so much of the debate around the East Sussex fund was conducted in public, including the PC strategy session, which PB members could attend should they wish. This openness is in contrast to the way in which many other Local Government schemes are managed.

4.3 Sue McHugh (SM) asked how the ultimate aims of the fund are agreed. MK told members that this is via the strategy. The degree to which the strategy needs to be altered will depend on the fund's performance. Given the recent good performance, there may be relatively little need to make major changes, although decisions may well need to be made around crystallising recent gains. Employers are consulted on strategic issues via the annual Employers' Forum, but there is also a key role to be played by employer representatives on the PB.

4.4 SM questioned whether PB, and hence employer representatives sitting as PB members, would have an input into any plans to vary the strategy. MK noted that PC was the decision-making body in terms of the strategy, although she was not anticipating any fundamental changes being made. However, MK recognised that it was important to engage with employers. In the future these may include offering the opportunity for employers within the scheme to adopt differing investment strategies. The Cheshire LGPS is currently exploring this idea, although it would inevitably lead to increased Investment fees.

4.5 SM noted that she did not think it was the case that employer objectives were out of line with the fund strategy, but it would be helpful to have a more explicit understanding of how the fund calculated and managed risk both in the short and longer term. DZ echoed this.

4.6 The Chair added that there was a significant employer interest in the triennial actuarial evaluation also. This was particularly so because an individual employer's pension deficit might be very different from the liability profile of the entire fund, meaning that their preferred investment strategy might be at odds with that of the best strategy for the fund as a whole.

4.7 Angie Embury (AE) asked whether PC members were trained to make these key strategic decisions. MK told the Board that there was a considerable body of experience on the PC, and that this would be reinforced by additional training, but during and around the strategy event. The Chair added that the PC also had access to independent expert input from Hymans.

4.8 BR queried why the training event was public when it had previously been flagged as a private session. MK responded that it had been decided to run this year's session in public, but other options might be explored for future events.

4.9 DZ stated that, although recent performance has been good, longer term performance has been less impressive. It is important to recognise this, given the long term nature of the Pension Fund. MK agreed, adding that the key point was why performance had improved in

recent years. OO pointed out that the fund was now working with a more diverse group of Investment Managers than in previous years.

4.10 Cllr Kevin Allen (KA) asked how it could be that the fund was consistently outperforming against its benchmark, but underperforming when compared with the 'Local Authority Universe'? MK responded that it must be borne in mind that the East Sussex fund is well-funded in comparison with most LGPS funds. Consequently, the East Sussex fund takes fewer investment risks than other funds, which may well result in lower than average returns in years where higher risk investment choices have tended to be successful. Measuring performance against the benchmark or against other LGPS schemes may therefore be less relevant than assessing performance against the fund's strategic objectives.

4.11 Considering the statistical information included in the presentations for PC, PB members noted that some of the data was hard to understand, particularly so for graphs with unlabelled axes. SM remarked that it was difficult for PB to advise PC when PB members could not possibly comprehend the data in question. The Chair recognised that PB was looking at presentation slides rather than the full presentation, and that there would almost certainly be additional explanation provided during the actual presentations to PC. However, in future, it was important that material to be shared with PB was presented in a more accessible format (e.g. that graphs were correctly labelled). Officers agreed to work with external advisors to ensure that this was the case with future presentations.

## 5a OFFICERS' REPORT - BUSINESS OPERATIONS

5a.1 Jason Bailey (JB) told the Board that the Business Operations report included information intended to contextualise the data. He would be interested to know if members found this helpful. JB also noted that it was not currently possible to report benchmarking information on scheme administration costs as this information has not yet been released by CIPFA.

5a.2 In response to a query from DZ on vacancies, JB told members that he has hopeful that the imminent move from Uckfield to Lewes would increase the recruitment pool. Two new staff members have recently been recruited, but there are still two vacancies; and it may well be that they team, even with its full complement of staff, is slightly understaffed.

5a.3 JB told the Board that there was a significant backlog of deferred benefits to be calculated. There was a resource issue here, and the team would struggle to make up this backlog with current staffing levels.

5a.4 JB stated that providing prompt responses was a priority – it was not acceptable that people should be left waiting for information, particularly as people may be under significant stress when they contact the team. It should be noted that the team does prioritise the most urgent requests. Also the planned introduction of member self-service will give members more flexibility in accessing their pension information.

5a.5 In response to a question on complaints from TW, JB told members that the team received very few complaints. It may be that many members are in fact quite relaxed about the time taken in answering queries, or are unaware of service targets.

5a.6 JB told the Board that there has been positive feedback from employers following the launch of Pensions Web, although more work needs doing within ESCC Business Operations Management to start processing in this way. Wendy Neller (WN) commented Pensions Web is up and running, feedback from employers to the Fund has been good, as an example B&HCC are utilising Pensions Web well. WN commented that it was important that ESCC, as one of the largest employers in the Fund start utilising the system as soon as possible in order to realise

efficiencies. This in-turn would reduce the need for additional recruitment and improve processes. WN commented in addition that it was important to realise other efficiency savings which could be made within the administration such as Pensions to Payroll interface and barcoding.

5a.7 KA commented that it seemed as if some slightly more realistic service targets were required. JB agreed, and noted that the targets used were probably based on industry-wide benchmarks identified some time ago . However, given current financial pressures, it did make sense to challenge whether the targets accurately reflect key performance areas.

5a.8 JB told members that the annual benefit statement had been produced to a challenging (statutory) timescale. The initial deadline had been missed, but this was not something likely to impact upon scheme members.

5a.9 The Chair commented that, despite the best efforts taken to make the annual benefit statement comprehensible, it was still an extremely complex document. DZ agreed, but noted the inherent complexity of the information that had to be presented.

5b OFFICERS' REPORT - GENERAL UPDATE

5b.1 **Cash Flow.** OO told members that the forecast cash flow for this financial year is currently very close to target.

5b.2 **National Update**. OO told members that there had been much discussion around pooled investments, with East Sussex playing an active role in national debates as well as talking with SE7 partners. The Government is expected to launch a new consultation in the near future, with schemes being asked to comment on proposals that will require them to show how they are reducing costs and working effectively with other schemes. There is the possibility that the Government will go beyond this and insist on formal pooling of schemes. This would potentially be accompanied by 'backstop legislation' obliging schemes which do not come forward with their own proposals to pool in any case. Therefore, even if schemes are not enthusiastic about pooling, they need to be active in exploring its potential or else risk being obliged to adopt a standard pooling arrangement.

5b.3 DZ noted that this seemed to run counter to moves to 'individualise' scheme strategies – e.g. offering bespoke strategies to each employer. MK commented that the focus was likely to be more on encouraging joint procurement of investments in particular asset classes as a way of reducing Investment Manager fees across the whole LGPS.

5b.4 The Chair added that London Boroughs have already formed a common investment vehicle. However this does risk reducing future flexibility.

5b.5 DZ commented that moving to a 'mega' LGPS fund would surely risk distorting the market. MK agreed, suggesting this may be why the Government has moved away from proposing a single Local Government fund in recent months. The Chair noted that, if funds were pooled, then it would be important to spread investment risk by using common investment vehicles; it is important that we recall the lessons learnt from the collapse of BCCI and the consequent exposure of some local authorities who had over-invested in a single product.

5b.6 TW asked whether fees could be reduced by doing more work in-house? MK responded by saying that it was possible to run passive investment in-house, but doing so would be likely to cost more than using an external provider. This might be different for pooled funds, but it was important to recognise that pooling arrangements were complex and took time to negotiate – for example, the London arrangements had taken four years to agree. There is little or no scope to manage active investments in-house. Whilst pooled funds might enable schemes to lever

savings in active investment costs, this would probably only be delivered by a significant scaling up – e.g. a single national fund for absolute return investments.

5b.7 **Exit Payment Cap.** OO also explained that the Government was currently consulting on an exit payment cap, limiting total payments to public sector employees leaving a post. MK commented that, although ostensibly designed to limit payments to very senior officers, the proposed £95K cap could also hit long-serving mid-managers.

5b.8 TW commented that the cap would make it more difficult for organisations to get rid of poorly performing managers. The Chair agreed, pointing out that it would be particularly difficult to dispense with Chief Executives in the future should organisations be effectively barred from offering an attractive exit-package.

5b.9 MK told members that an ESCC response to this consultation would be agreed by Governance committee. Unfortunately there has been a very short window to respond to this consultation, and many local authorities have not responded at all.

5c <u>OFFICERS' REPORT - INVESTMENT MANAGER FEES</u>

5c.1 OO told members that this report had been requested at the last PB meeting. It should be noted that the issue of Investment Manager fees has been examined closely by the Pension Fund Investment Panel in past years. It was difficult to benchmark the performance of individual Investment Managers because the size and complexity of investments undertaken by any given Manager varied so much both between and within schemes. It was also important to understand Investment Manager fees in the context of the recent significant increases in fund value.

5c.2 DZ argued that ESPS Investment Manager performance was actually not all that impressive given the fact that markets had been rising for several years. The scheme should look for an Investment Manager willing to work for considerably less than those currently contracted. It must also be borne in mind that, whilst the annual fees of any single Investment Manager might not seem excessive, over the past 5 years the scheme had paid £49.1m in fund manager fees; however, the fund value has increased by £744.1m over the same period.

5c.3 TW asked how we compare with other schemes. OO replied that we benchmark well in terms of fees as a percentage of total assets managed. DZ noted that this may be so, but this may only indicate that all schemes are being exploited by Investment Managers. MK commented that it was important here to distinguish between different types of Investment Manager. Fees for actively managed funds are much higher than for passive investments. This is particularly so in the instance of absolute return funds, where the complexity of mitigating the inherent risks involved in investing in equities is held to justify high fees. MK also noted that Investment Managers typically claim that they do not charge Local Authorities any more than they would any other investor.

5c.4 TW asked what the likely result would be if the ESPS unilaterally announced that it intended to reduce the fees it paid to one or more Investment Managers. The Chair thought it would be unlikely that Managers would accept a fee reduction in this way, or that alternative Managers would offer to run similar funds for much lower fees. It would not be in Investment Managers' interest to do so in response to a single scheme, so any action on behalf of Local Government schemes would need to be sector-wide.

5c.5 The Chair noted that Pension Committee would be discussing Investment Manager performance at its next meeting, particularly in relation to Lazard where it is anticipated that PC may opt to appoint an alternative Investment Manager or to allocate the assets currently managed by Lazard to other funds. Should the preferred course of action be to appoint a new Investment Manager, then there will be an opportunity to push for one which can offer significantly lower fees than those currently charged by Lazard.

5c.6 SM agreed that this represented some real opportunities. There was also the possibility that Investment Manager fees could be more intelligently linked to performance – e.g. performance above a benchmark rather than the current relatively crude system which tends to reward Investment Managers simply for operating in a rising market. The Chair noted that there was a risk in tying fees more closely to performance in that it might tend to encourage Managers to take imprudent investment risks in order to increase their fees.

5c.7 RESOLVED – that Pension Board recommends to Pension Committee that, should it opt to seek a new Investment Manager for the assets currently managed by Lazard, every effort should be made who can offer the scheme better value for money (i.e. charging lower fees than Lazard).

## 6 SUBSTITUTE MEMBERS ON THE PENSION BOARD

6.1 Members discussed whether they should recommend to Governance Committee that no substitutes should be permitted on the Pension Board; that all representatives should be permitted substitutes; or that substitutes should be allowed for only some representatives (i.e. the Trade Unions).

6.2 Marion Kelly pointed out that, whilst it would be relatively straightforward for some Pension Board members to nominate substitutes (e.g. the Unions and Brighton & Hove City Council); it would be considerably more difficult for the other members because they represent a number of organisations or individuals who would need to be canvassed before a substitute could be appointed. There would inevitably be an expense involved here. The Chair noted that Governance Committee should be made aware of any cost implications before making its final decision on this matter.

6.3 Councillor Brian Redman (BR) commented that allowing substitutes risked undermining the effectiveness of the Pension Board, as substitute members, even if they were fully trained, would not have been party to previous Board debates and would inevitably lack an understanding of the interpersonal dynamics that had developed between members. He therefore opposed having any substitutes.

6.4 Councillor Kevin Allen (KA) stated that his preferred option would be to permit substitutes. Brighton & Hove City Council could readily appoint an experienced substitute, and this would ensure that the council was represented should Cllr Allen be indisposed.

6.5 Angie Embury (AE) stated that Unison did not intend to appoint a substitute for her, but that she was content for other members to have substitutes.

6.6 Sue McHugh commented that it would be tricky to identify a substitute for her as the representative of 90+ employers, and doing so would involve a disproportionate amount of work for a very limited benefit. However, she had no objections to other members having substitutes.

6.7 Tony Watson stated that he saw no pressing need for substitute members, and thought that the issue could have been avoided had the Trade Unions lobbied harder for an additional employee representative on the Board. However he was not opposed to members having substitutes.

6.8 The Chair, Richard Harbord, stated that his personal preference was for there to be no substitutes. However, he was prepared to accept substitutes for all voting members provided it was understood that they were to be used only *in extremis* and were not to be viewed as alternates. All Board members agreed that should substitutes be permitted, they must not be viewed as alternates.

6.9 David Zwirek commented that his preference was for all members to be permitted substitutes. He would be content with only the Trade Union representatives having substitutes if this was the preferred option; but he could not support the position that no substitutes should be permitted, as it was essential that employees were represented should he be unable to attend a meeting.

6.10 Pension Board members were unable to agree unanimously on a position regarding substitutes, but did agree to refer the matter to Governance Committee, with all members agreeing to accept Governance Committee's decision.

6.11 **RESOLVED** – that Governance Committee be asked to determine definitively the issue of allowing substitutes on the Pension Board, bearing in mind the comments made by Pension Board members.

7 PENSION BOARD FORWARD PLAN 2015/16

14.1 PB members discussed their training requirements, agreeing that their preference was to have a biannual training day (where possible) alongside colleagues from the Pension Committee. Officers agreed to discuss this with Pension Committee members.

8 ANY OTHER BUSINESS

(The meeting ended at 12:15pm)

Richard Harbord
CHAIR

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Presentation on

# Global economic outlook

*Iain Stewart*
*August 2015*

NEWTON
Investment Management

A BNY MELLON COMPANY℠

For professional investors only

*Please read the important information at the back of this material*

# A perspective on investment returns

| End 1981 | United States | Q2 2015[1] |
|---|---|---|
| 12% | Fed funds rate | 0.25% |
| 14% | 10-year bond yield | 2.35% |
| $149 billion | Monetary base | $3.94 trillion |
| 10.7% | Profit margins (national accounts)[2] | 16.6%[4] |
| 7.8x | S&P cycle adjusted PE[3] | 27.3x |
| 5.8% | MSCI USA dividend yield | 2.0% |
| 27 | Average age of baby boomer | 59[4] |

## Characteristics for a lower return / volatile world

- Active, flexible approaches
- Emphasis on income
- Strategies that preserve capital and aim for asymmetry of return
- 'Return based' objectives

Notes:
[1] June 2015
[2] Calculated by the Bureau of Economic Analysis in the US in calculating the national accounts
[3] Used 10 years of earnings to remove the effect of the economic cycle from the PE calculation
[4] Data as at end Q1 2015
**Source:** Datastream, Bloomberg, US Census Bureau, Newton

Relevant solutions for a changed environment



NEWTON Investment Management

# How we see the outlook

| View | Evidence/implications | |
|---|---|---|
| • **Important structural trends[1] and too much debt** challenge growth in the global economy | • Growth expectations continue to fall<br>• Emergency interest rates still prevail<br>• Scale and scope and unsustainability of indebtedness | |
| • Unorthodox monetary policy has been much **more effective at raising financial asset prices than stimulating sustainable economic growth** | • Little evidence of sustained wealth effects on growth<br>• QE borrows demand from the future and overseas<br>• Appears to exacerbate deflationary trends | <br>State intervention |
| • Ultra-loose monetary policy is **not** costless.<br>• **The economic and financial market distortions created by such policies present clear risks for investors …**<br>• **… and at the same time lower expected return** | • Increasing income disparities, misallocation of capital, skewed incentives, 'currency wars'<br>• Policy settings encourage governments to "extend and pretend"<br>• Financial markets increasingly drive economies (*financialisation),* hunt for yield, serial bubbles | <br>Fire risks |
| • **Unattractive risk reward trade off** for most financial assets<br>• We continue to believe that this environment merits a **cautious approach** | • Further state interventions and underlying capital market illiquidity create potential for significant volatility (risk) | |

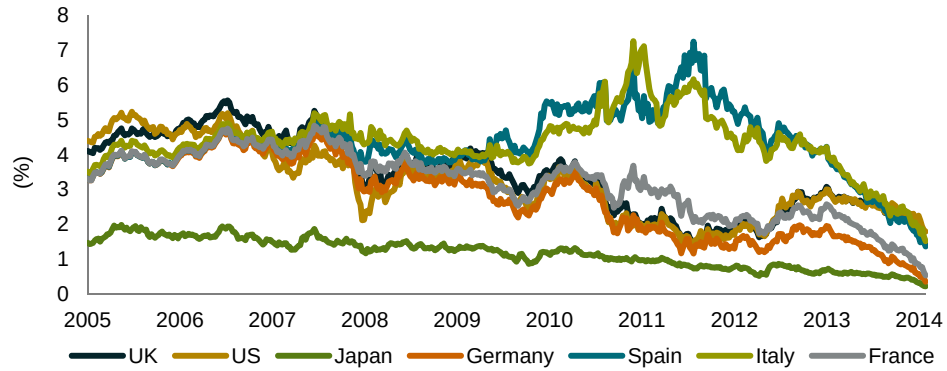
Note: [1] See Newton themes on debt, demography, technological change and globalisation (slide 10)



NEWTON Investment Management

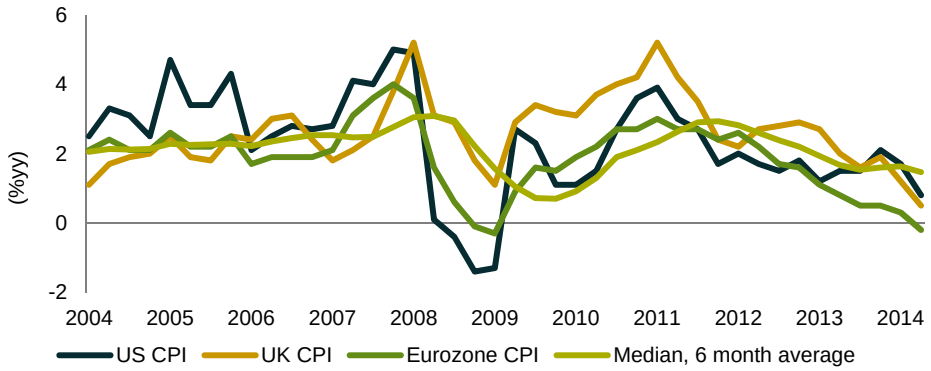
# Normalisation?

## Sovereign Bond yields



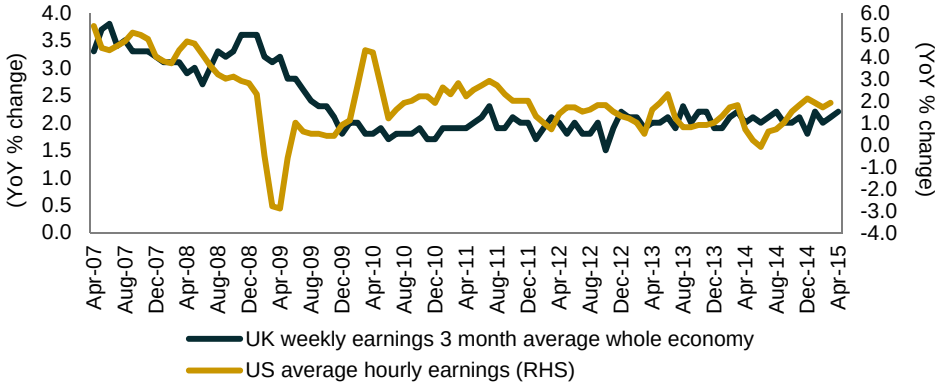

**Source:** Datastream, IMF, Newton, January 2015

## Inflation rates



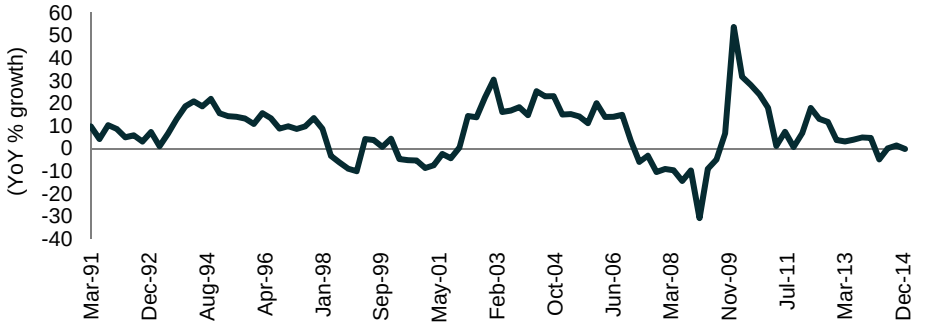

**Source:** Bloomberg, December 2014

## Incomes




**Source:** BAML, Bloomberg, Newton 31 March 2015

## Corporate profits




**Source:** BAML, Bloomberg, Newton 31 March 2015

All charts are for illustrative purposes only

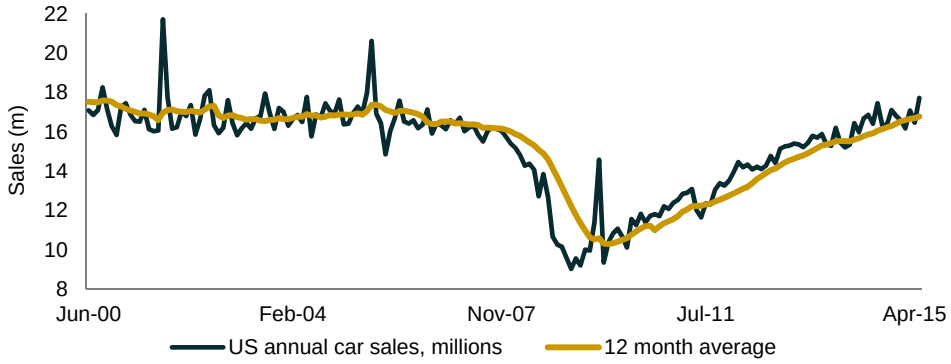
Little sign of escape velocity



NEWTON
Investment Management

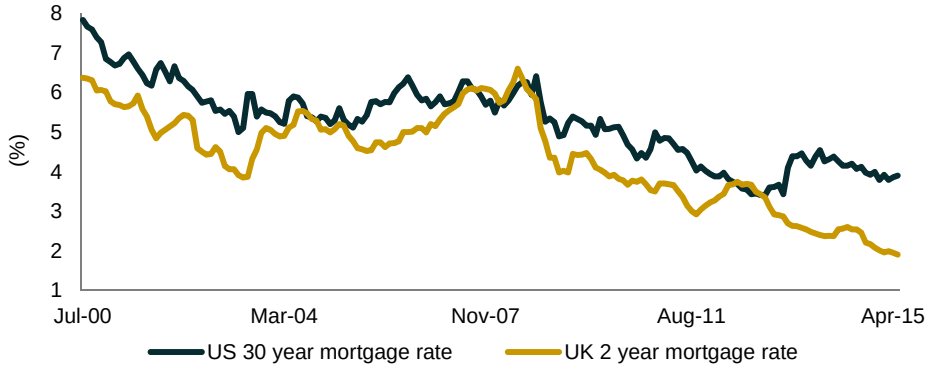
# Cheap money can inflate demand and asset prices …

## Cheap money can stimulate demand …




**Source**: Bloomberg, May 2015

## … as cheaper borrowing …




**Source:** Bloomberg, May 2015

## … lifts near-term spending capability

> **UK new car sales surge to 10-year high in 2014**
> …the percentage of private new car sales bought by consumers on finance provided through dealerships hit a new record high of **75.9%** in the twelve months to October.
>
> **BBC, 7 January 2015**

> **Mark Carney says UK housing market in widespread recovery**
> Mr Carney told the BBC's Andrew Marr programme that, looking at the UK as a whole, "we are now seeing house prices begin to recover, so it is a more generalised phenomenon.
>
> **bbc.co.ukFt.com, 16 February 2014**

## … and creates a short term wealth effect

> **Stock markets all around the world broke records**
> **What's driving all this euphoria?** It's simple: central banks. Europe's central bank has promised an economic stimulus measure, making investors giddy.
>
> **Reuters.com, 24 February 2015**

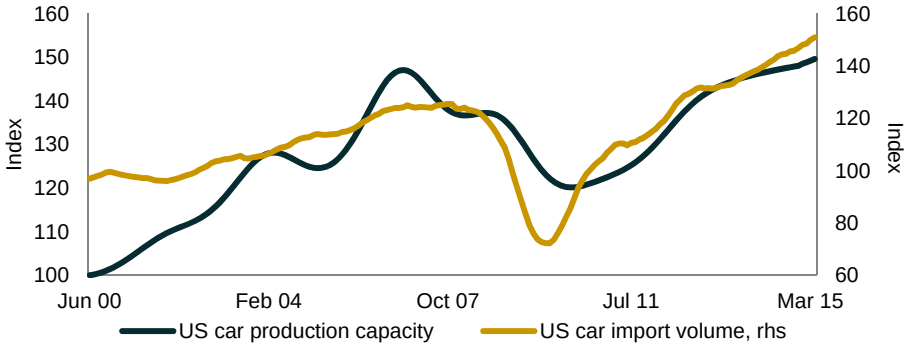
The wealth effect



NEWTON Investment Management

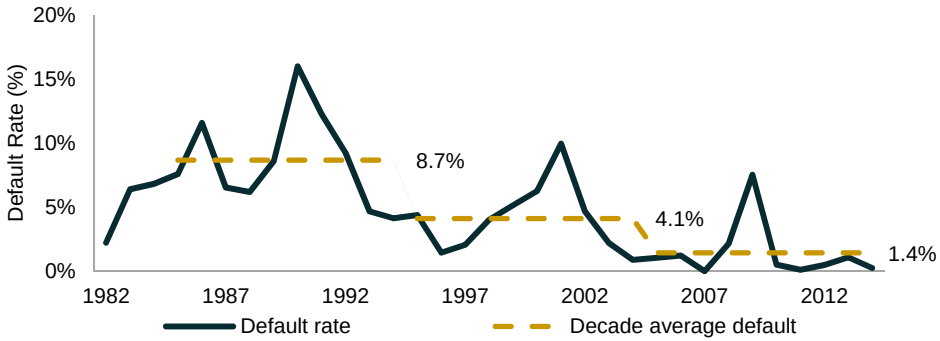
# It also inflates supply and liabilities ...

## cheap money stimulates supply ...




For illustrative purposes only.
**Source:** Bloomberg, April 2015

## ... fewer defaults means weaker businesses don't disappear




For illustrative purposes only.
**Source:** Bloomberg, 2014.

## ... and high valuation encourages new entrants

"**Early bird investors swoop on opportunities for pre-IPO funding**
… as wealthy individuals compete with hedge funds and traditional asset managers for access to the hottest tech start-ups' final investment rounds before they go public…investors who wait for tech companies to go public before taking a stake could miss out on the lion's share of the gains. "

**The ft.com, 4 July 2014**

"**The world's most valuable start up? Uber eyes $50bn valuation from next fundraising round**
Chinese manufacturer Xiaomi is currently the world's most valuable startup after it was valued at $45bn in its most recent round of funding … may even be considering a $3bn purchase of Nokia's Here mapping business. "

**CityAM, 15 May 2015**

## ... but cheap money also inflates liabilities

"**Europe's low bond yields hit pensions**
Falling yields could lead to lower pension fund solvency ratios, which means liabilities outweigh assets … The gaps could force companies to make cash contributions to funds, it said. "

**ft.com, 9 October 2014**

"**The reality of generation rent**
... 69% of 20-45-year-old non-homeowners are cutting back on their spending to save for a deposit. "

**Natcen.ac.uk, April 2014**

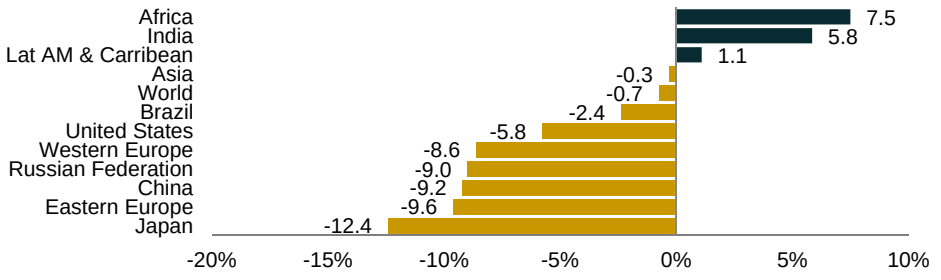
Unintended consequences



NEWTON Investment Management

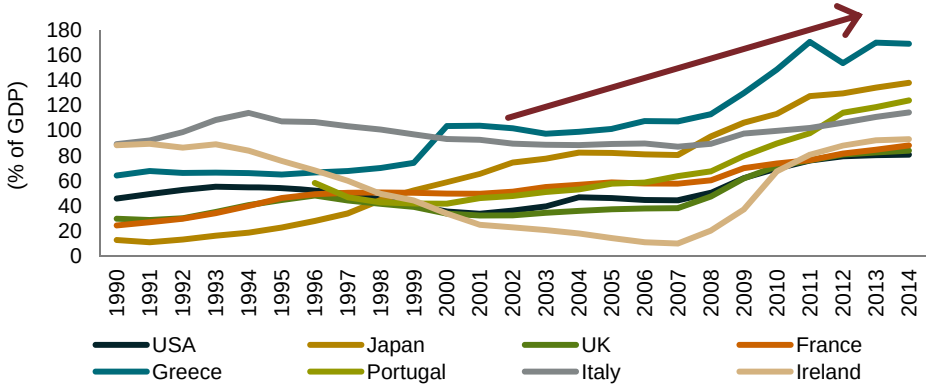
# Newton's perspective

## Change in the ratio of the working-age population (15-64 year olds) to the total population between 2010 and 2050



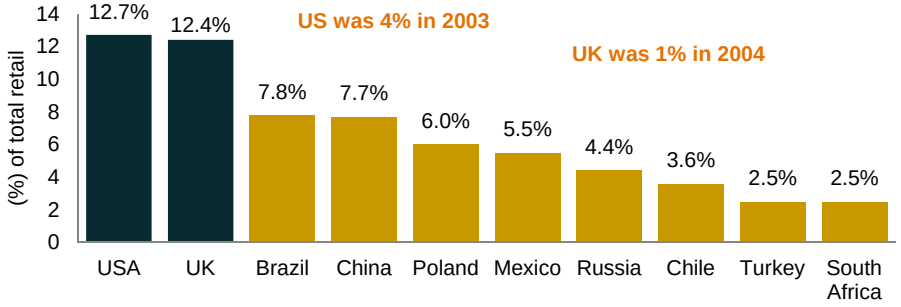

**Source:** UN World Population Projects, 2010

## Government net debt as % of GDP




For illustrative purposes only
**Source**: BAML, Bloomberg, Datastream, Newton, 31 January 2015 unless otherwise stated

## eCommerce as % of total retail (2013)




**Source:** Euromonitor, Centre for Retail Research, yStats.com, Forrester Research, select GEM markets in yellow 2013

State intervention

GLOBAL REALIGNMENT

"

**Protectionism rising as growth slows**
According to the Global Trade Alert report the number of protectionist measures introduced in 2013 exceeded those in 2009... G20 economies had introduced more than 450 protectionist measures, an average of one every 23 hours.

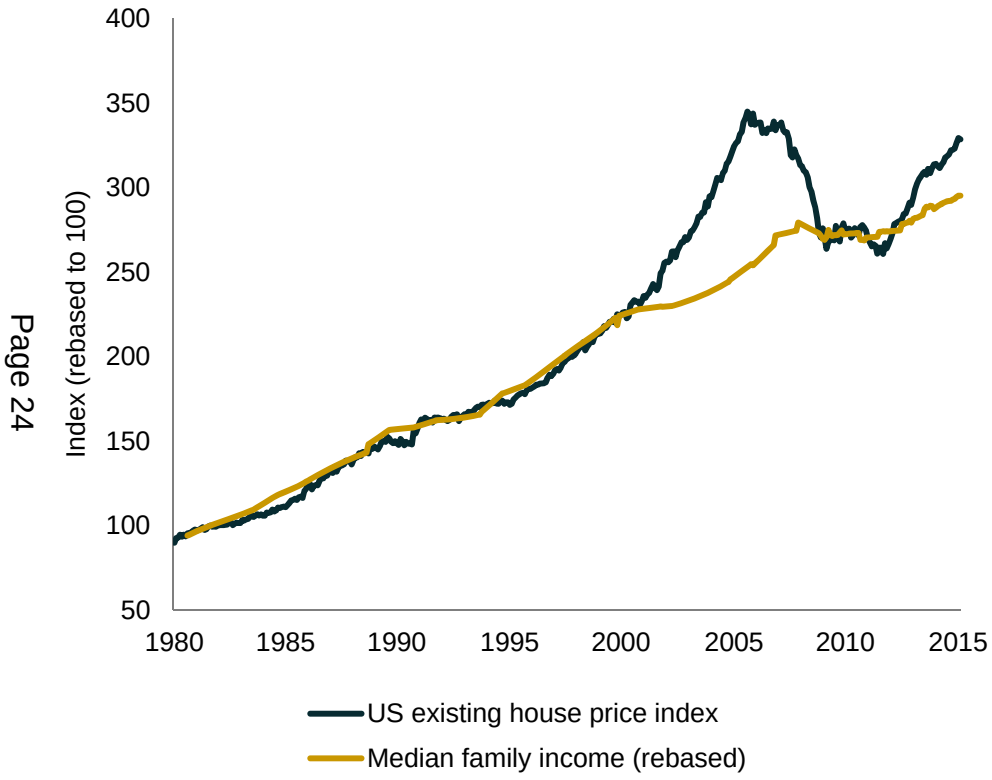
**FT.com, 12 November 2014**

"

Structural headwinds are outweighing policy action

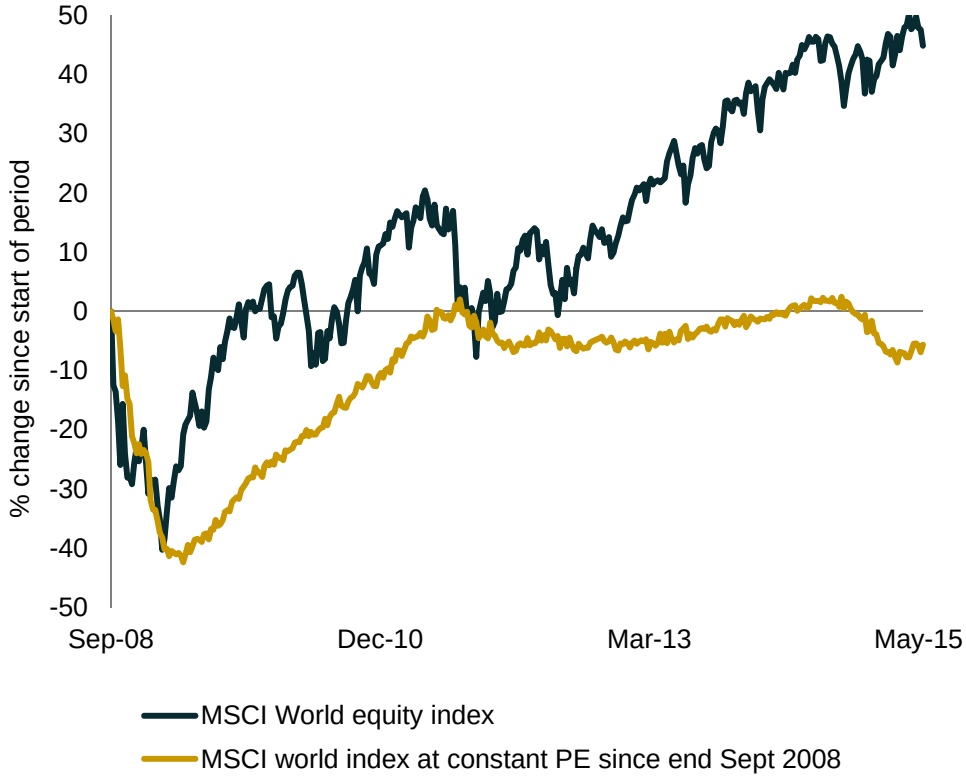
# Capital gains run ahead of earnings

## House prices rise faster than wages




For illustrative purposes only
**Source**: Thomson Reuters Datastream, March 2015

## Equity prices rise without earnings growth




**Source**: Thomson Reuters Datastream, June 2015

Mean-reversion can be swift



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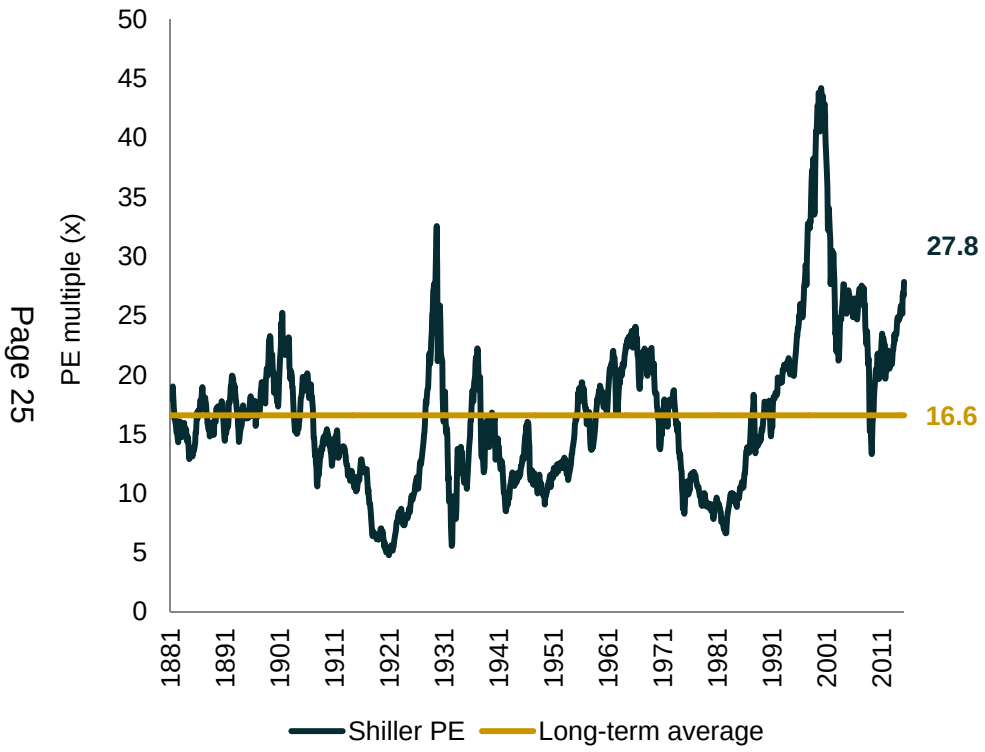
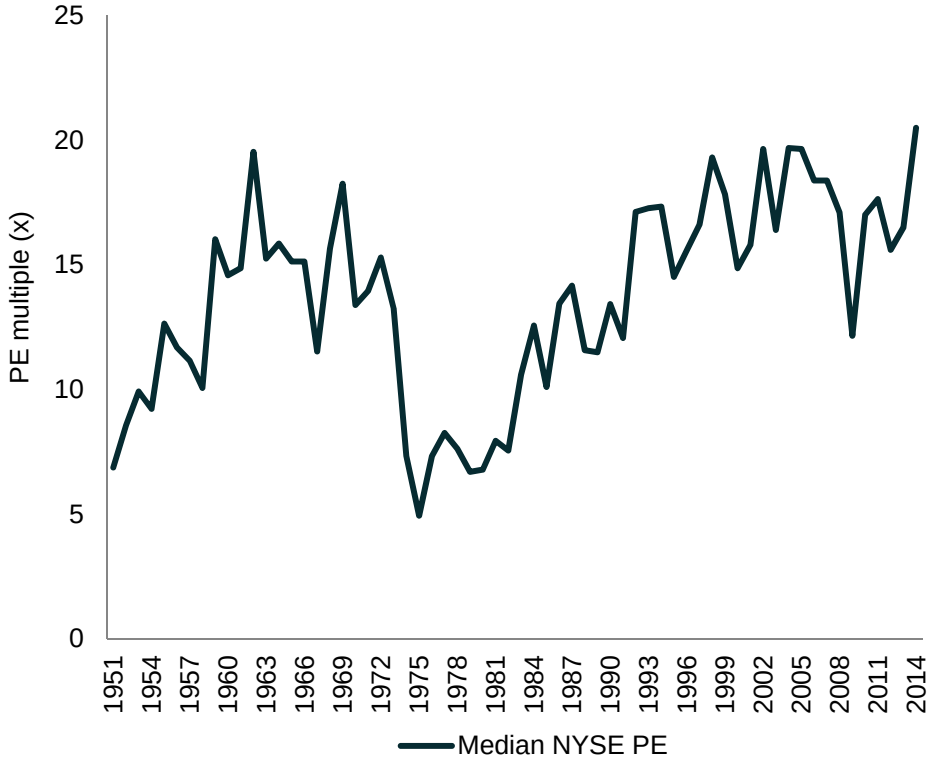
# Equity market valuation

## Shiller PE




For illustrative purposes only
**Source**: Robert Shiller, Yale University as at 28 February 2015
http://www.econ.yale.edu/~shiller/data.htm Accessed March 2015

## Median NYSE stock PE




For illustrative purposes only
**Source:** Kenneth French, Dartmouth University as at 31 December 2014
http://mba.tuck.dartmouth.edu/pages/faculty/ken.french/datalibrary.html#BookEquity
Mid-year annual data. Accessed March 2015.

Mean-reversion can be swift



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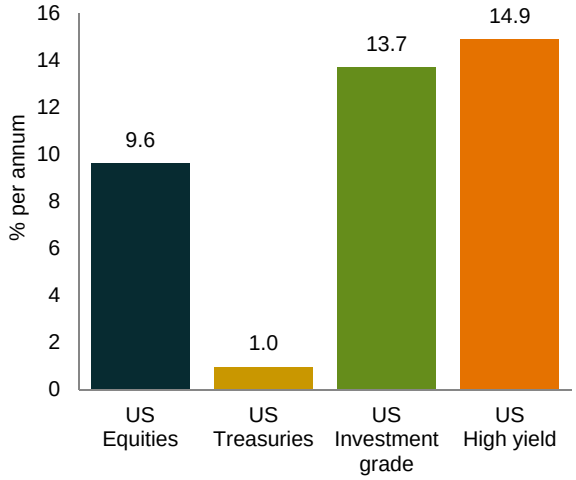
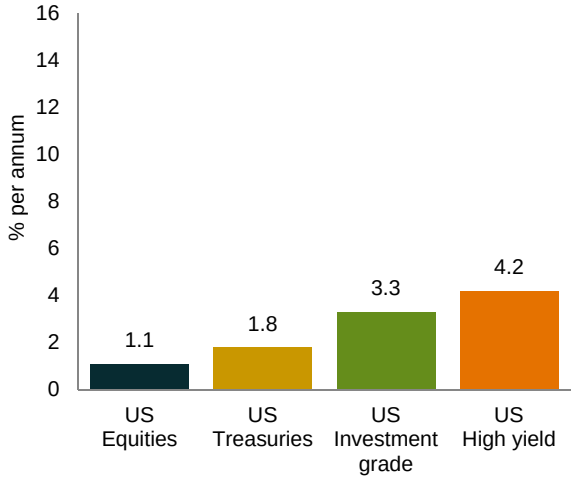
# Expected returns

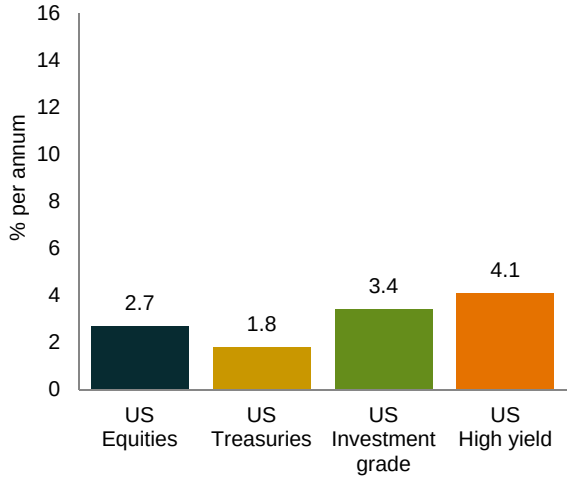
## December 2008




## December 2014




## May 2015



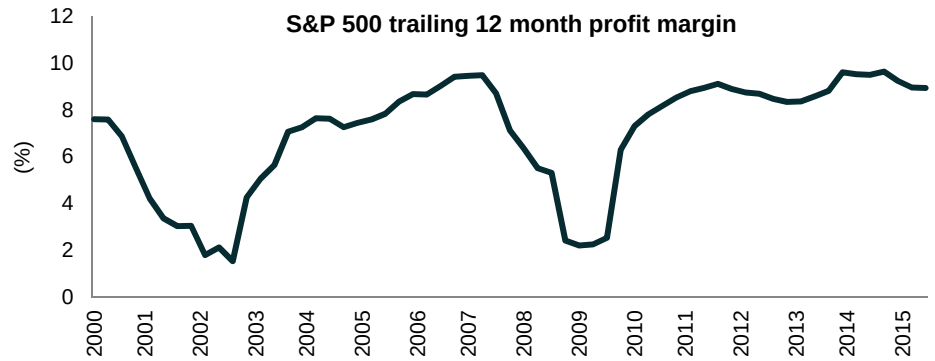

## Methodology

- Our expected returns show the nominal asset class returns likely to be generated in the medium term assuming that markets revert to ‘fair value’. We avoid forecasts, aiming to provide an unbiased view on prospects
- The medium term is assumed to be seven years; a period sufficiently long enough to encapsulate a business/financial cycle, but still relevant for the typical investor
- We have based our equity fair value estimate on an adjusted dividend yield, to allow for the increased use of share buybacks. The expected return generated allows for ratings change, dividends and dividend growth
- The projected returns for Treasuries assume that Treasury yields tend to revert towards a backward looking average of the Fed funds rate, which we find to be a stronger anchor than potential nominal GDP growth
- Corporate bonds are assumed to maintain a spread above Treasuries and face defaults and recoveries in line with the norm of the last 25 years

**Source:** Newton, May 2015. Indices used: MSCI USA, Barclays US Aggregate Government, Barclays US Aggregate Corporate and Barclays US Aggregate Corporate High Yield

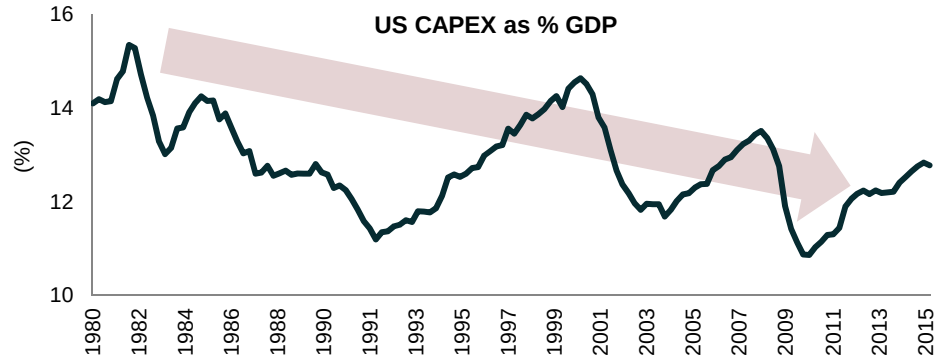
# Policy distortions
## capital misallocation

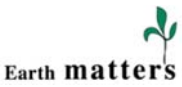
### Peak margins?

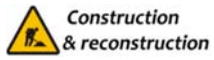



**Source**: Bloomberg, 30 June 2014

### … at expense of long term cash flow

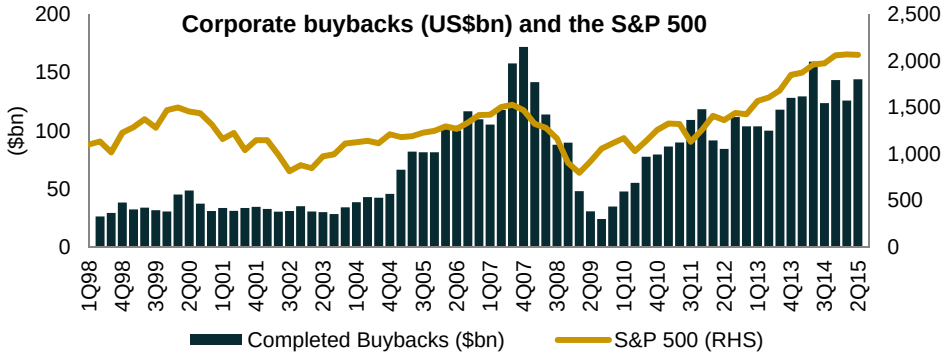





For illustrative purposes only
**Source**: Bloomberg, 31 March 2015

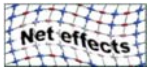
### Misallocation of capital; shorten investment horizon …




**Source**: Bloomberg, FactSet , 30 June 2014

### And governments!

**Source**: www.arbroath.blogspot.com



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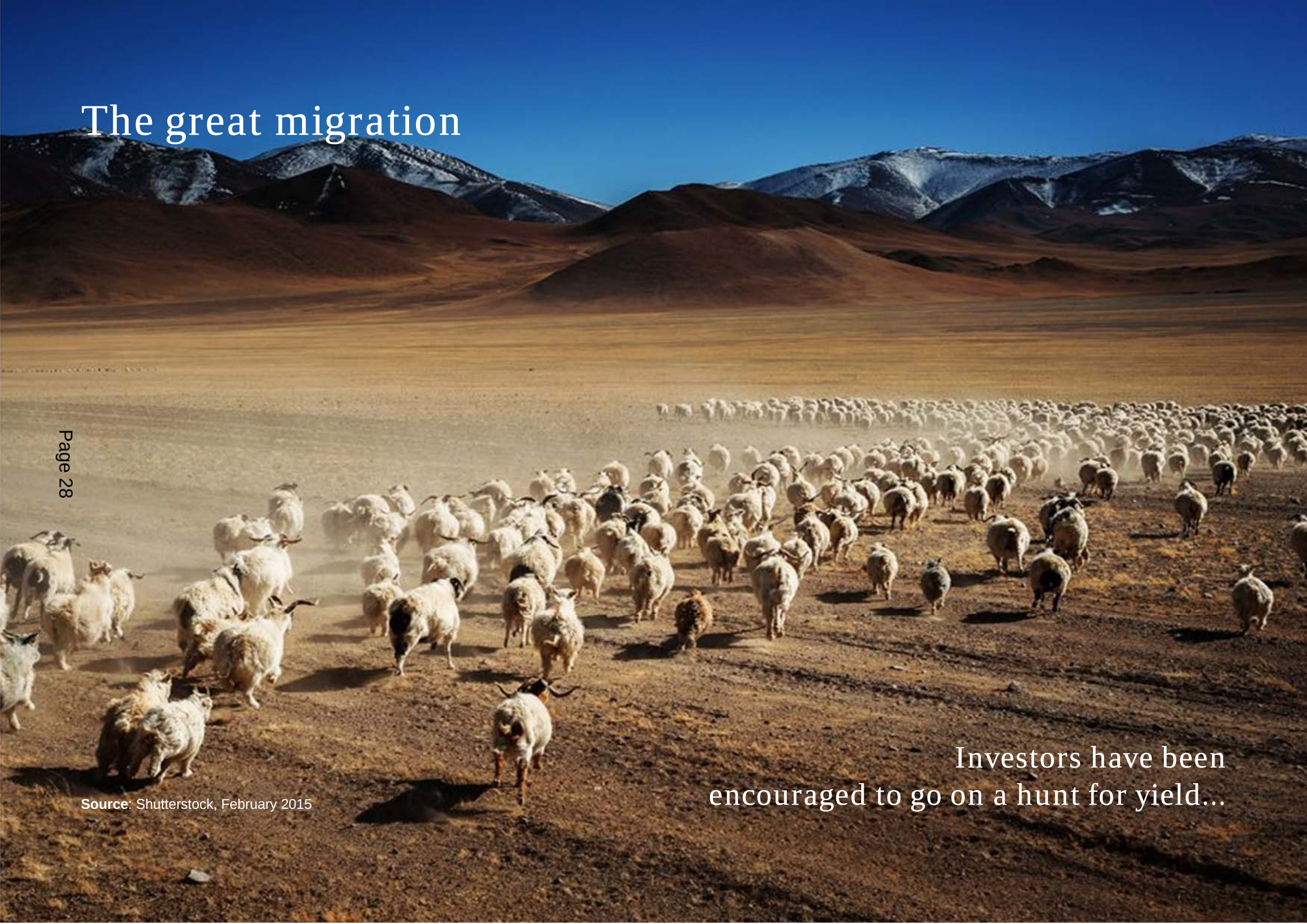
# The great migration



Investors have been encouraged to go on a hunt for yield...

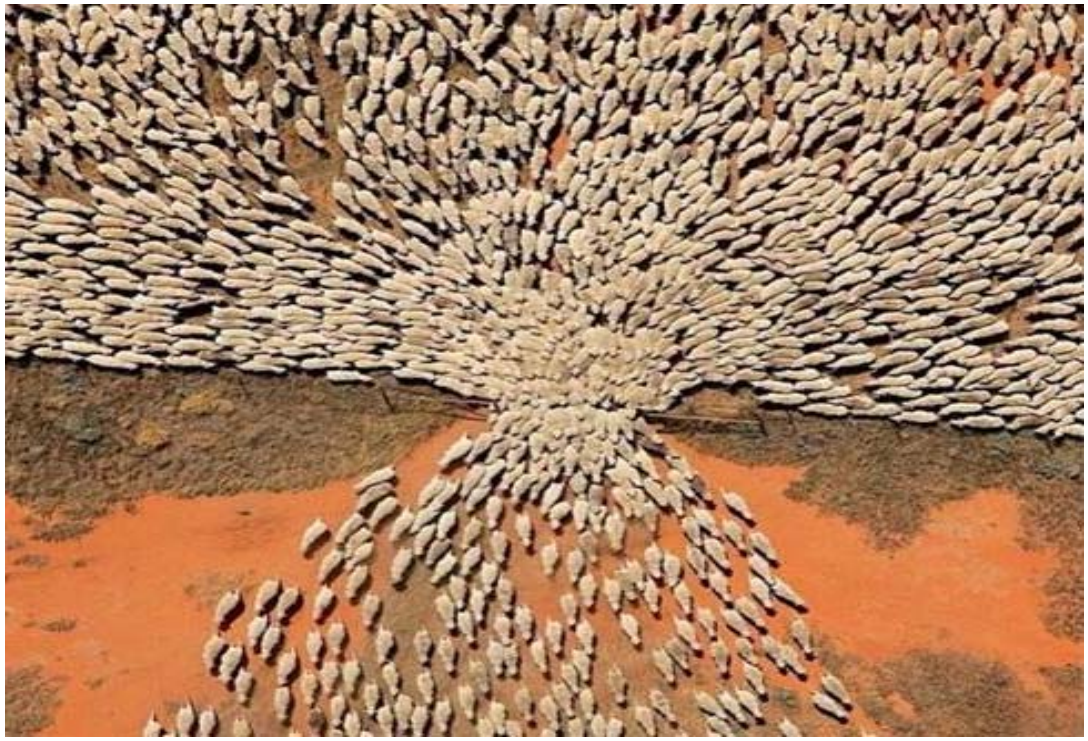
**Source**: Shutterstock, February 2015

# Investors have been herded into riskier assets

State intervention

FINANCIALISATION

## Post-crisis developments likely narrow the exit when the herd retreats



- Post-crisis bank regulation
- Increased market vs bank financing
- State-sponsored asset purchases (QE)
- Corporates incentivised to buy back equity
- Innovation (explosion in derivatives that replicate asset classes)

**Source**: Shutterstock, February 2015

Illiquidity threatens volatility

# Policy distortions

## Spot the difference

### One dollar bill

### "One Dollar Bill"

"[Andy Warhol's] first hand-painted dollar bill canvas, One Dollar Bill (Silver Certificate), from 1962, sold … at Sotheby's London **for $32.8m**, the biggest price fetched so far for a contemporary artwork at a busy week of sales there."

**Artnet.com, 1 July 2015**

When fiat money gets debased, money flows into non-monetary assets

**Source**: Shutterstock, September 2015

# Reference section

# Newton Real Return Strategy

Absolute return strategy following a unconstrained multi-asset approach

One-month LIBOR +4%[1] p.a. is the nominal long-term objective (gross of fees)

Seeking to deliver a real return with a volatility level between that of bonds and equities, through:

**Security selection**

**Asset type flexibility**

**Emphasis on capital preservation**

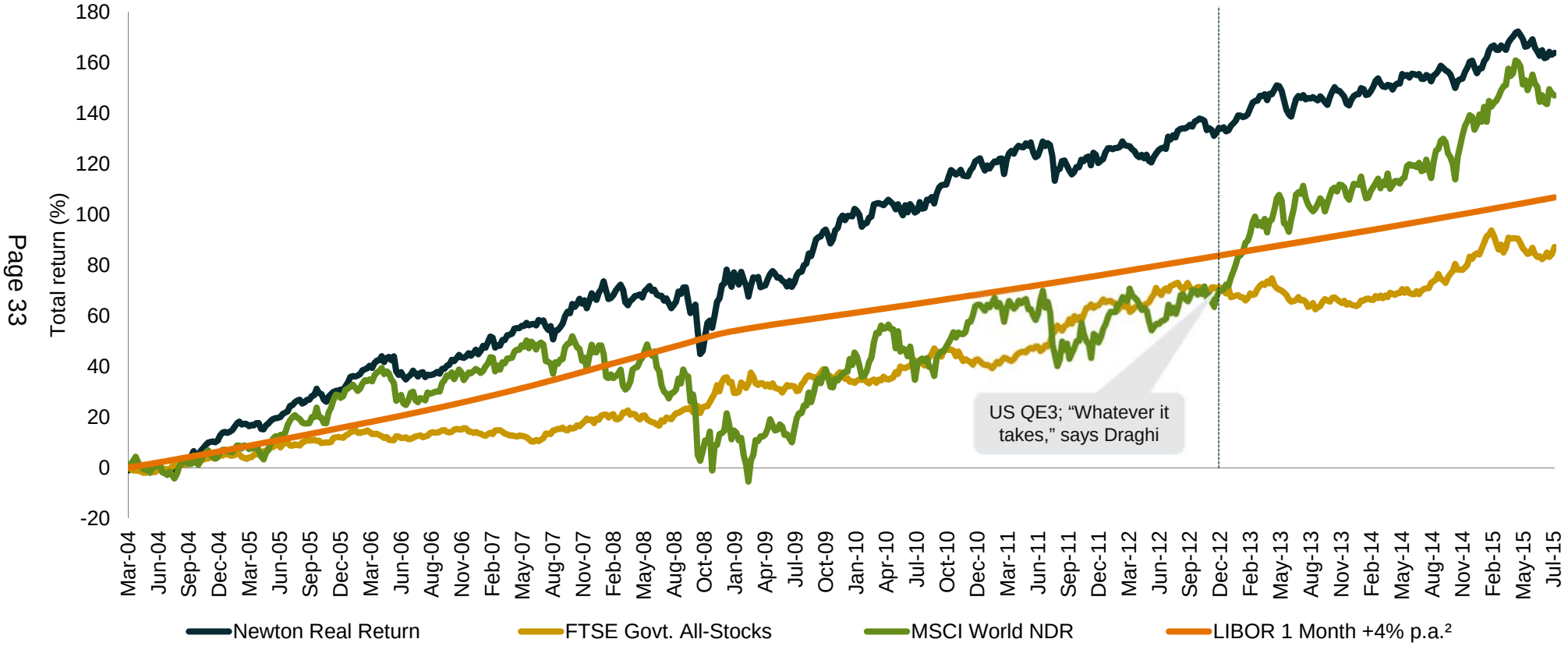
Note: [1]1 month LIBOR +4% is used as a comparative index for this strategy. The strategy does not aim to replicate either the composition or the performance of the comparative index. This performance aim is not a guarantee, may not be achieved and a capital loss may occur. Funds which have a higher performance aim generally take more risk to achieve this and so have a greater potential for the returns to be significantly different than expected.

Simple, transparent approach

# Newton Real Return Fund (GBP)

## Performance since inception[1] to 31 July 2015

### Investment results




Notes:
[1] Re-launched to new mandate 31 March 2004 (close of business)
[2] 1 month LIBOR +4% is used as a comparative index for this strategy. The strategy does not aim to replicate either the composition or the performance of the comparative index.
**Source:** Lipper, weekly data, total return, gross of management fees, gross income reinvested. Figures are based on sterling returns
Comparisons are made to demonstrate correlation only and are for illustrative purposes only.



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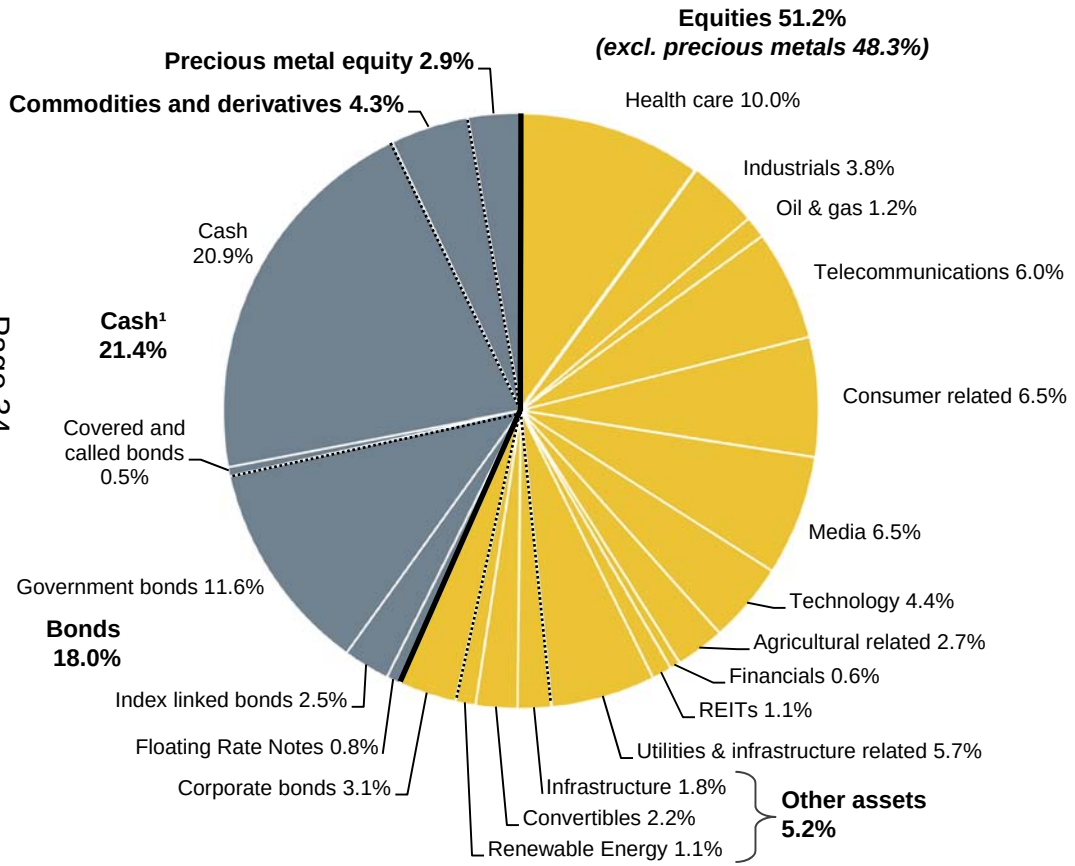
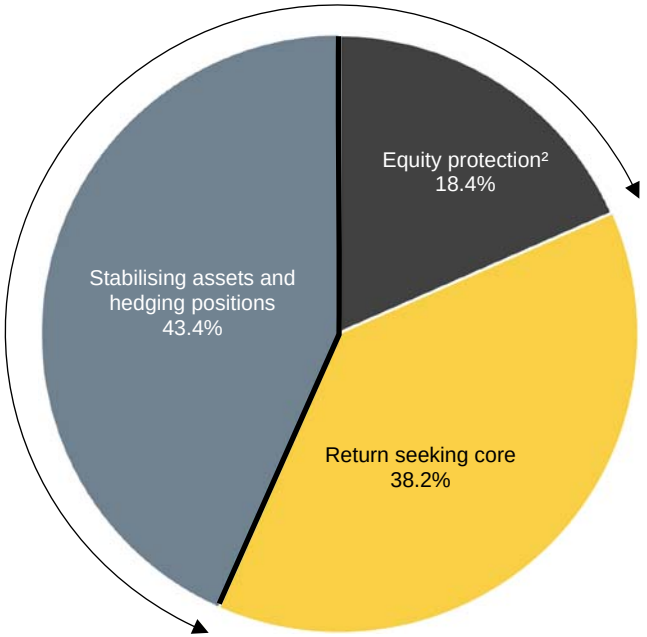
# Newton Real Return Fund (GBP)

## Positioning at 31 July 2015

### Gross exposure (57% return seeking core)




### Net exposure (38% return seeking core)




Notes:
[1] Cash, cash equivalents, currency hedges, and covered/called bonds
[2] Delta adjusted derivative exposure
Source: Newton, 31 July 2015

Balancing participation and capital preservation



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# Important information

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Your capital may be at risk. The value of investments and the income from them can fall as well as rise and investors may not get back the original amount invested. Past performance is not a guide to future performance. Portfolio holdings are subject to change at any time without notice and should not be construed as investment recommendations.

Any reference to a specific security, country or sector should not be construed as a recommendation to buy or sell this security, country or sector.

Compared to more established economies, the value of investments in Emerging Markets may be subject to greater volatility due to differences in generally accepted accounting principles or from economic or political instability.

The value of overseas securities will be influenced by fluctuations in exchange rates.

Where the portfolio has exposure to hedge funds, gold, private equity and property via publicly quoted transferable securities, there are additional risks associated with these sectors.

The opinions expressed in this document are those of Newton and should not be construed as investment advice.

This performance aim is not a guarantee, may not be achieved and a capital loss may occur. Funds which have a higher performance aim generally take more risk to achieve this and so have a greater potential for the returns to be significantly different than expected.

Where an index is used as a comparative index, this strategy does not aim to replicate either the composition or the performance of the comparative index. Where representative data is used this is for illustrative purposes only.

Where Newton Funds are referenced you should read the Prospectus and the Key Investor Information Document (KIID) for each fund in which you want to invest. The Prospectus and KIID can be found at www.bnymellonim.com

Comparisons are made to demonstrate correlation only and are for illustrative purposes only.

Except where specifically noted, performance is stated gross of management fees. The impact of management fees can be material. A fee schedule providing further detail is available on request.



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160 Queen Victoria Street
London EC4V 4LA
Tel: 020 7163 9000

Registered in England No. 1371973.
www.newton.co.uk

Registered office: as above.
Both firms are authorised and regulated by the Financial Conduct Authority, are members of the IA and are Bank of New York Mellon Companies[SM]

**BNY Mellon Fund Managers Limited**

BNY Mellon Centre
160 Queen Victoria Street
London EC4V 4LA
Tel: 020 7163 9000

Registered in England No. 1998251

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Global Services

# East Sussex Pension Fund Investment Performance Review 2014/15

Period ending 31st March 2015
Meeting 29th September 2015
David Cullinan

East Sussex Pension Fund

STATE STREET

Limited Access

# Agenda

Section 1 – Market Environment

Section 2 – Performance Relative to Benchmark

Section 3 – Performance Relative to Local Authority Universe

Section 4 – Supplementary Analyses

Summary

Appendix



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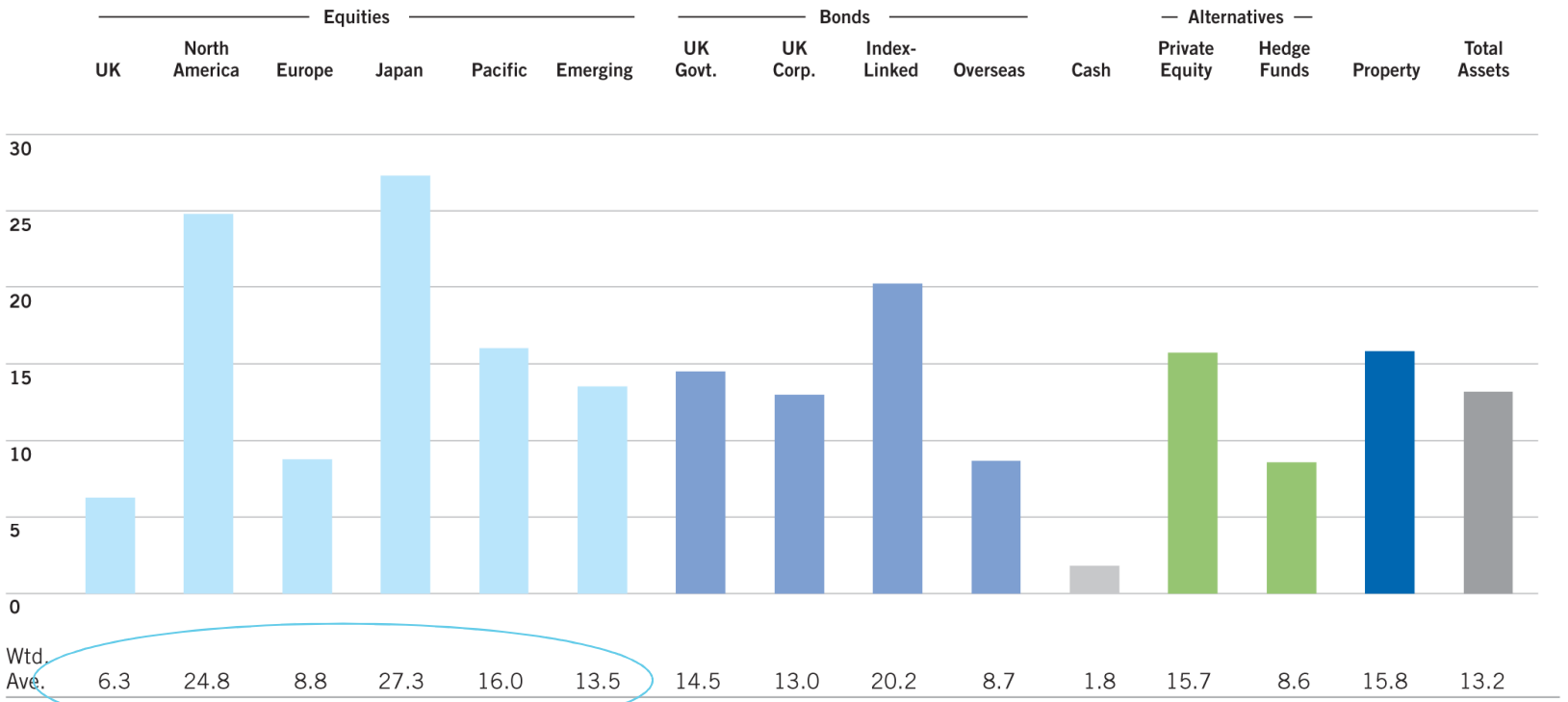
# 2014/2015 Market Returns (%)




Source: State Street Global Services Performance Services, 2015.

Past performance is not a reliable indicator of future results.

Allocation Between UK and Overseas Important





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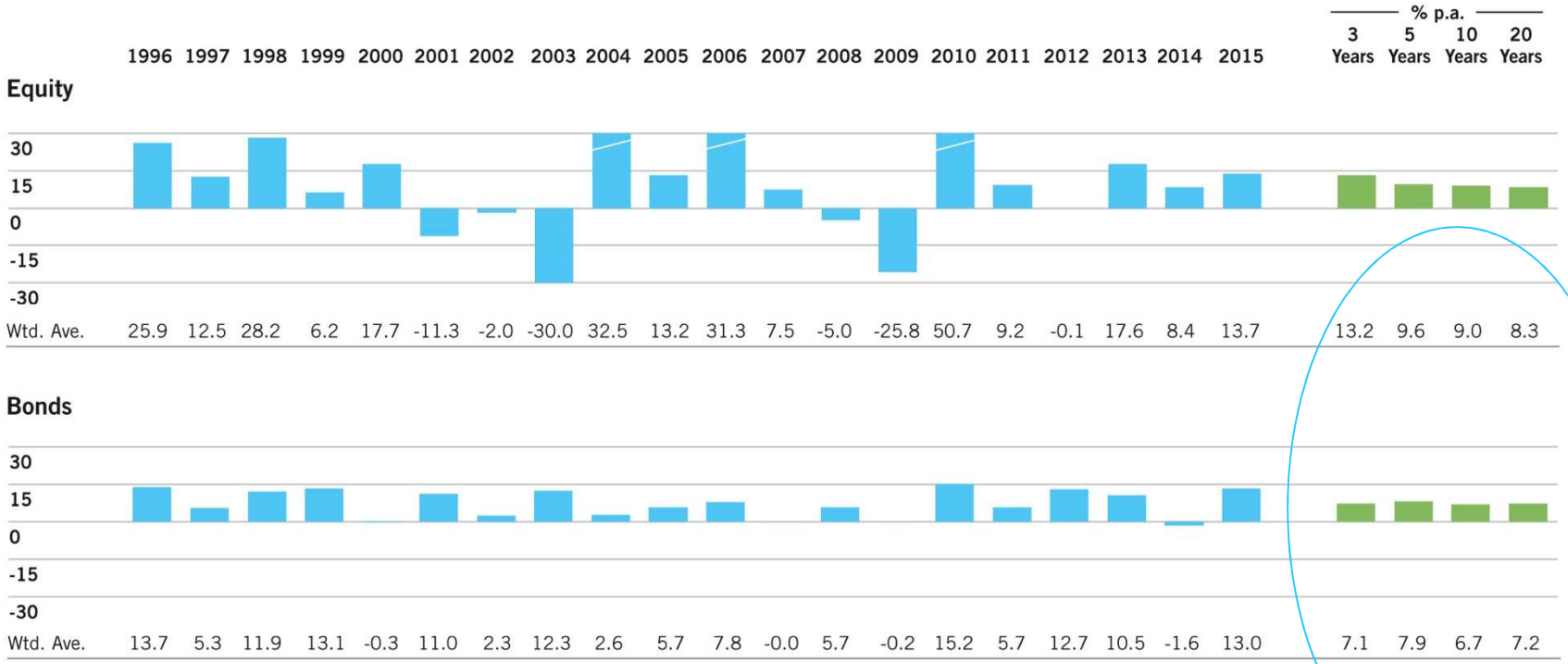
# Long Term Market Performance

## Annual Returns (%)




* Source: State Street Global Services Performance Services, 2015.

Past performance is not a reliable indicator of future results.

"Equity risk premium" in evidence





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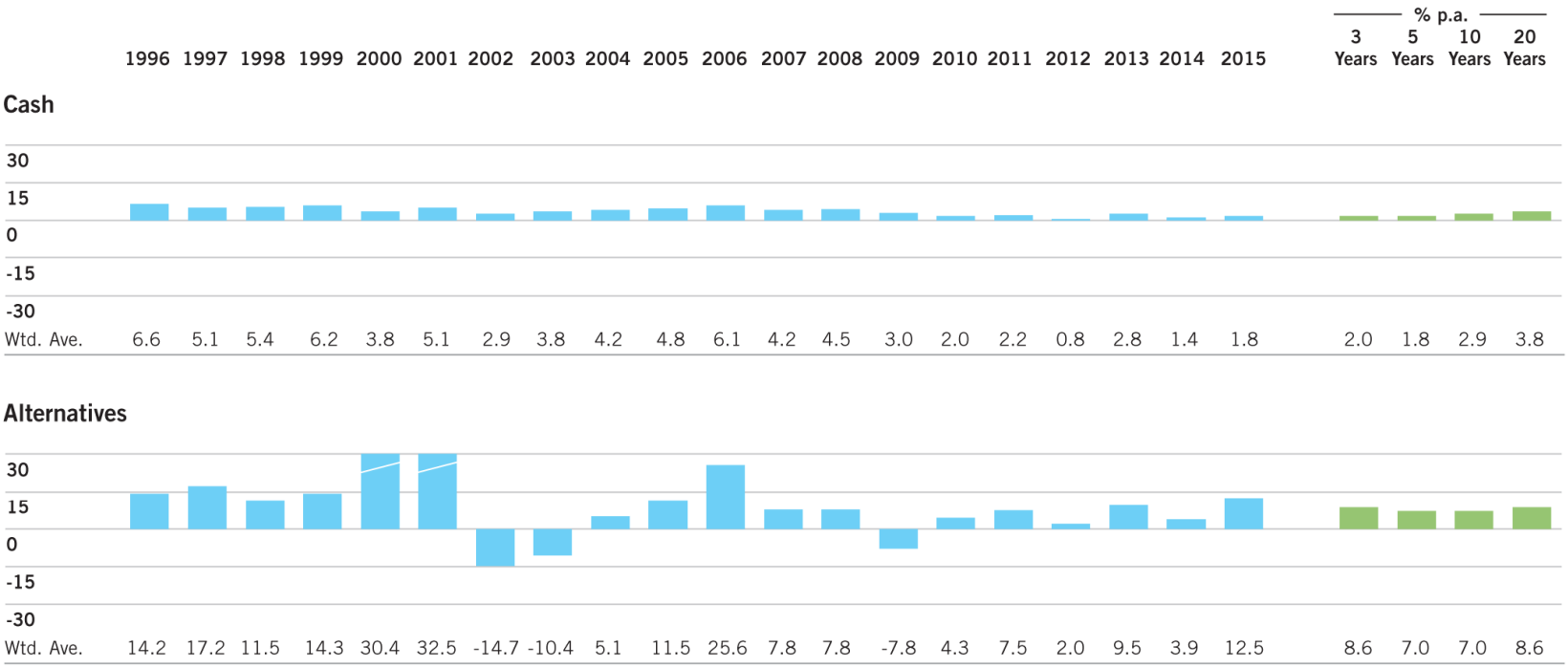
# Long Term Performance

## Annual Returns (%)




* Source: State Street Global Services Performance Services, 2015.

Past performance is not a reliable indicator of future results.



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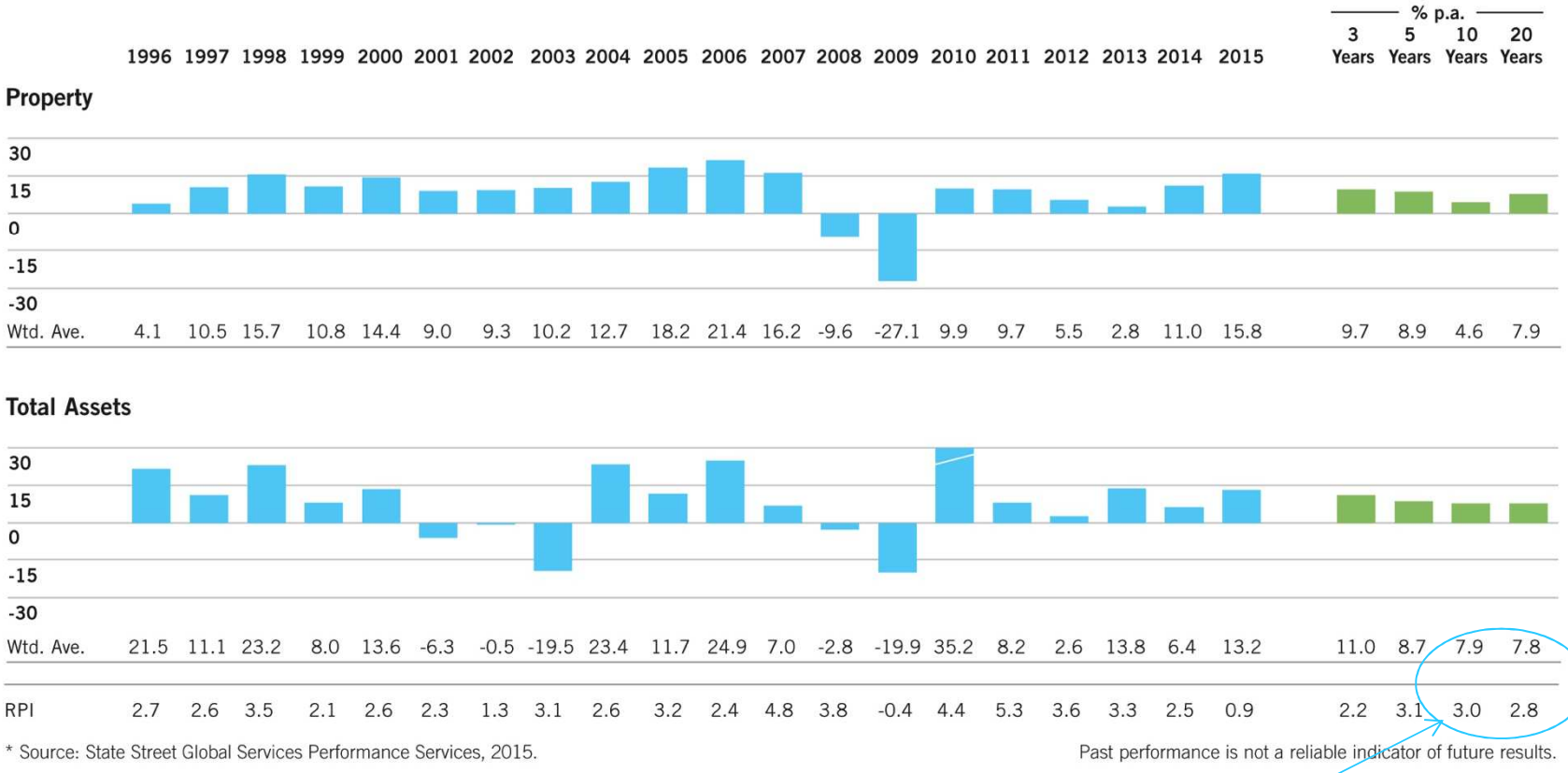
# Long Term Performance

## Annual Returns (%)




* Source: State Street Global Services Performance Services, 2015.

Past performance is not a reliable indicator of future results.

5%p.a. over inflation





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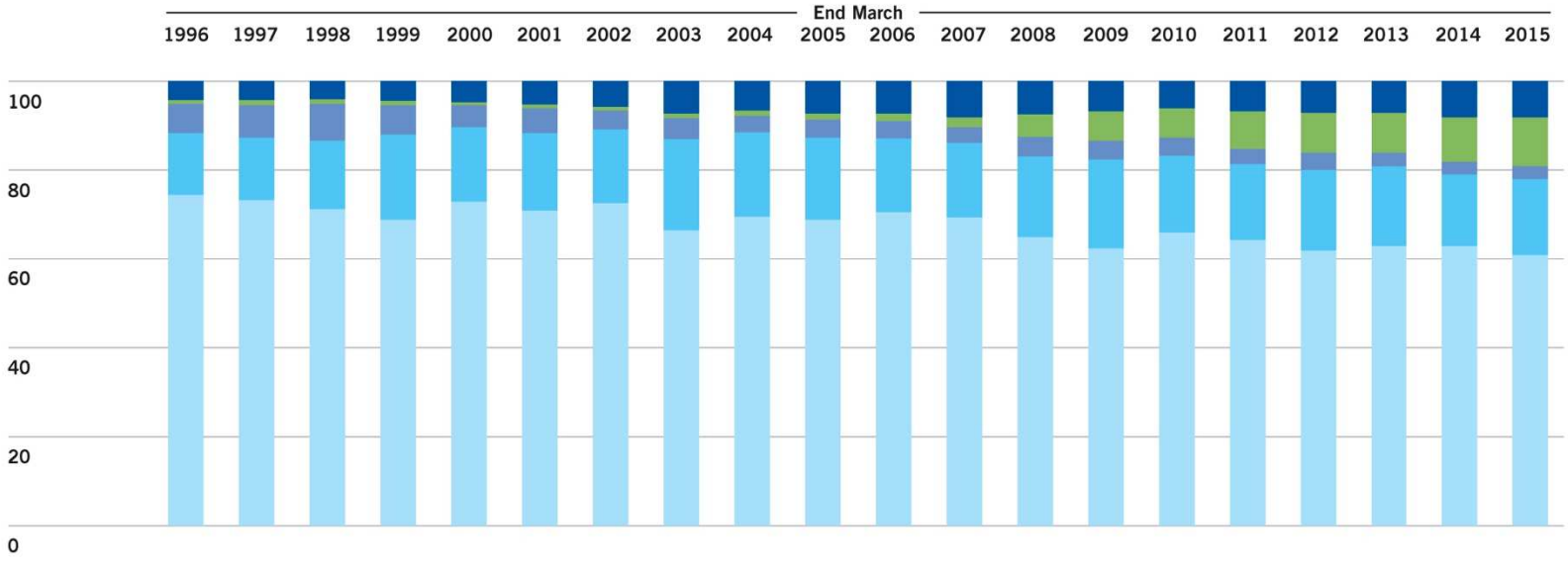
# Longer Term Asset Allocation (%)




| | 1996 | 1997 | 1998 | 1999 | 2000 | 2001 | 2002 | 2003 | 2004 | 2005 | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Equities | 75 | 73 | 71 | 69 | 73 | 71 | 73 | 66 | 70 | 69 | 70 | 69 | 65 | 62 | 66 | 64 | 62 | 63 | 63 | 61 |
| Bonds | 14 | 14 | 15 | 19 | 17 | 17 | 17 | 21 | 19 | 19 | 17 | 17 | 18 | 20 | 17 | 17 | 18 | 18 | 16 | 17 |
| Cash | 7 | 7 | 8 | 7 | 5 | 6 | 4 | 5 | 4 | 4 | 4 | 4 | 4 | 4 | 4 | 3 | 4 | 3 | 3 | 3 |
| Alternatives** | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 1 | 2 | 2 | 5 | 7 | 7 | 9 | 9 | 9 | 10 | 11 |
| Property | 4 | 4 | 4 | 4 | 5 | 5 | 6 | 7 | 7 | 7 | 7 | 8 | 7 | 7 | 6 | 7 | 7 | 7 | 8 | 8 |

** Includes Pooled Multi-Asset from March 2010.

* Source: State Street Global Services Performance Services, 2015.

Past performance is not a reliable indicator of future results.





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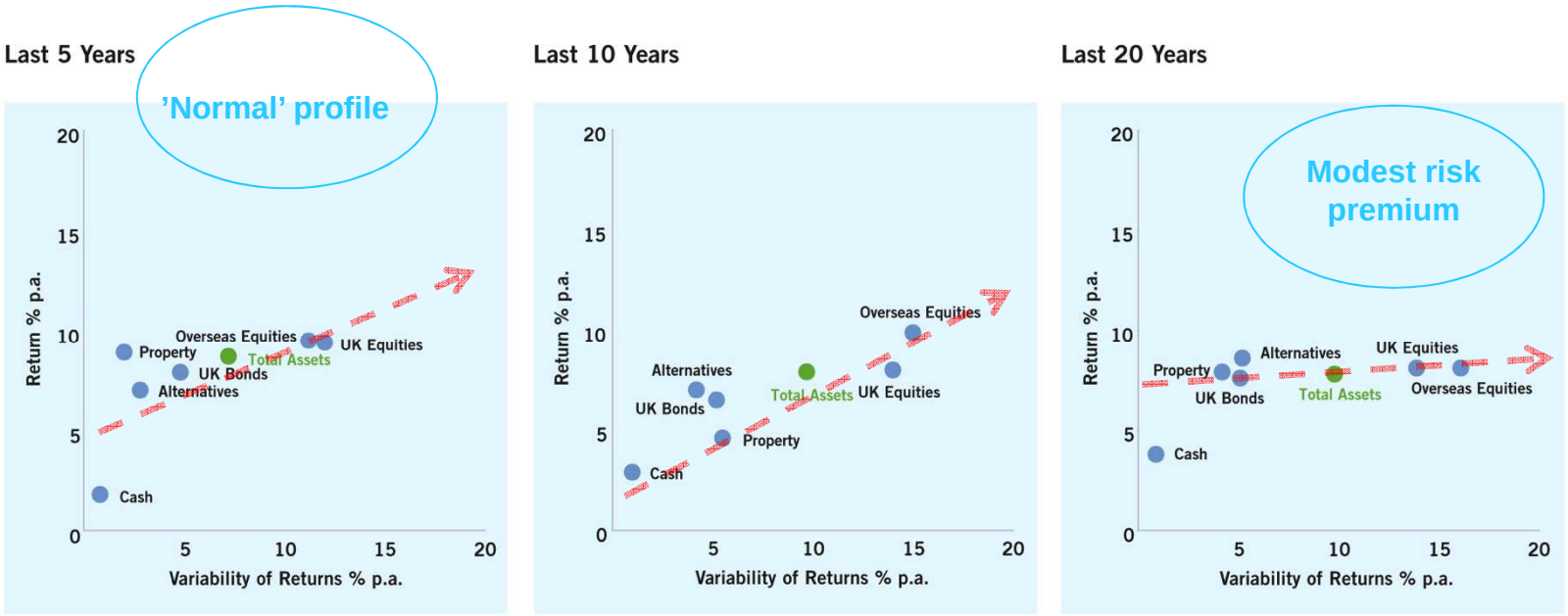
# Long Term Risk and Return




* Source: State Street Global Services Performance Services, 2015.

Past performance is not a reliable indicator of future results.





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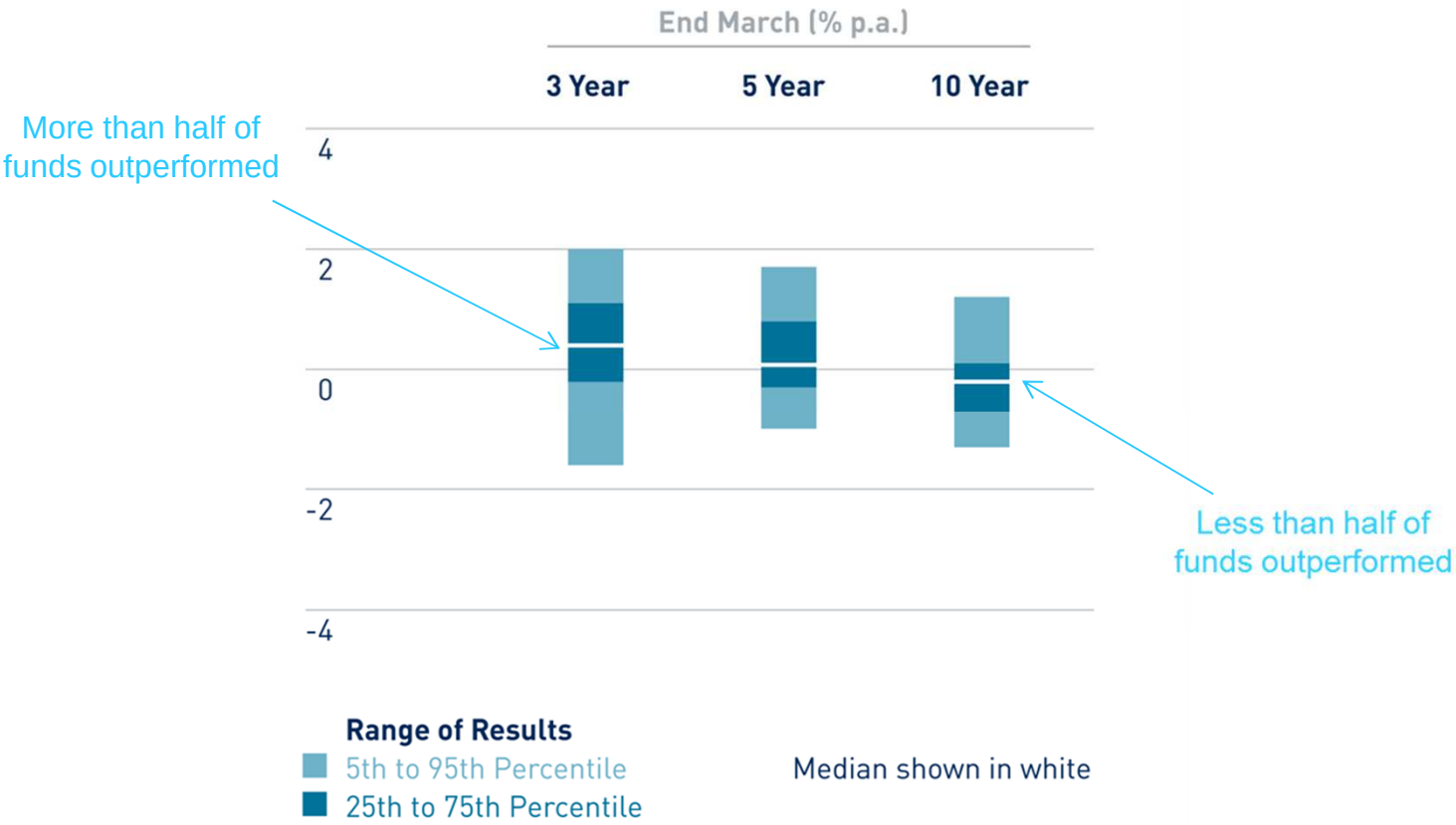
# Performance Relative to Benchmark





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# Section 2

## Performance Relative to Benchmark

# Fund Structure

| Manager | Mandate | Benchmark | Outperformance Target (rolling 3 yrs) |
|---|---|---|---|
| L&G | UK Equity | FTSE All Share | passive |
| L&G | Global Equities | FTSE All World | passive |
| SSgA | Global Equities (Fundamental) | FTSE AW RAFI 3000 | passive |
| Lazard | Global Equities | FTSE All World | 3% (gross) R3 |
| Longview | Global Equities | MSCI All Countries World | 3% pa |
| M&G | Bonds | Customised | 0.75% pa (net) |
| M&G | (Financing) | GBP 3 Month LIBOR | outperform |
| L&G | Index Linked | FTSE A Index-Linked Over 5 yrs | |
| Northern Trust | Cash | GBP 1 Month LIBID | |
| Harbourvest | Private Equity | MSCI All Countries World | outperform |
| Adam Street | Private Equity | MSCI All Countries World | outperform |
| M&G | Absolute Return (Alpha ops) | GBP 3 Month LIBOR | 2% pa |
| Newton | Absolute Return | GBP 3 Month LIBOR | 4% (gross) R5 |
| Ruffer | Absolute Return | GBP 3 Month LIBOR | 4% (gross) R3 |
| UBS | Infrastructure | GBP 3 Month LIBOR | 4% pa |
| M&G | Infrastructure | GBP 3 Month LIBOR | 4% pa |
| Schroders | Property | IPD All Balanced Fund Index | 0.75% (net) |





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# Fund Benchmark

| From 1/3/15 | Weight % | Benchmark Indices |
|---|---|---|
| **Total Equity** | **50.5** | |
| UK Equities | 12.0 | FTSE All Share |
| Global Equities | 30.5 | FTSE All World |
| Global Equities | 8.0 | FTSE AW RAFI 3000 |
| **UK Bonds** | **9.5** | |
| Corporate Bonds | 3.5 | 50% iBoxx £ Non Gilts<br>50% iBoxx £ Non Gilts Over 15 yrs |
| UK Financing Fund (M&G) | 1.0 | GBP 3 Month LIBOR |
| Index-Linked | 5.0 | FTSE A Index-Linked Over 5 yrs |
| **Alternative Assets** | **30.0** | Composite |
| Private Equity | 5.0 | MSCI AC World |
| Absolute Return | 23.0 | GBP 3 Month LIBOR |
| Infrastructure | 2.0 | GBP 3 Month LIBOR |
| **Property** | **10.0** | IPD Balanced Pooled Property |





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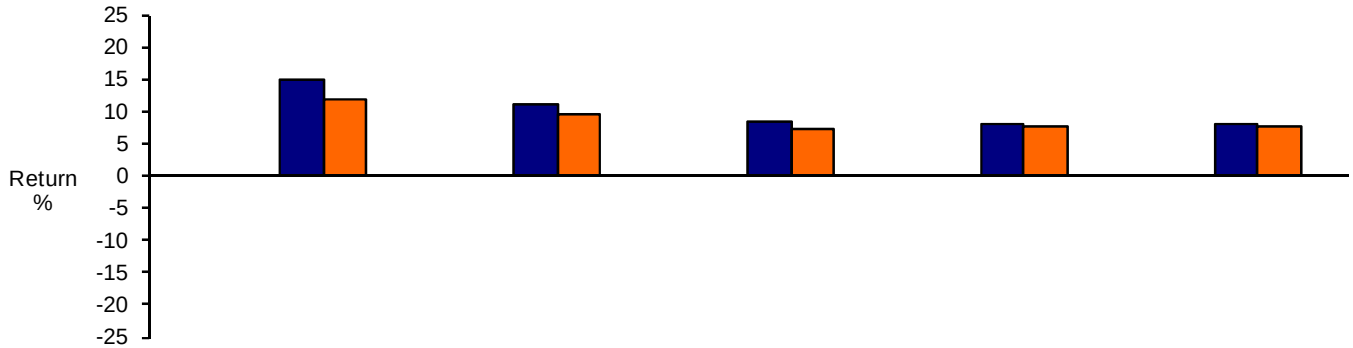
# Total Fund Performance




| | 12 Months | 3 Years % pa | 5 Years % pa | 10 Years % pa | 20 Years % pa |
|---|---|---|---|---|---|
| Fund | 15.0 | 11.2 | 8.4 | 7.9 | 8.1 |
| Benchmark | 11.9 | 9.5 | 7.2 | 7.5 | 7.5 |
| Relative Return | 2.7 | 1.6 | 1.2 | 0.4 | 0.6 |





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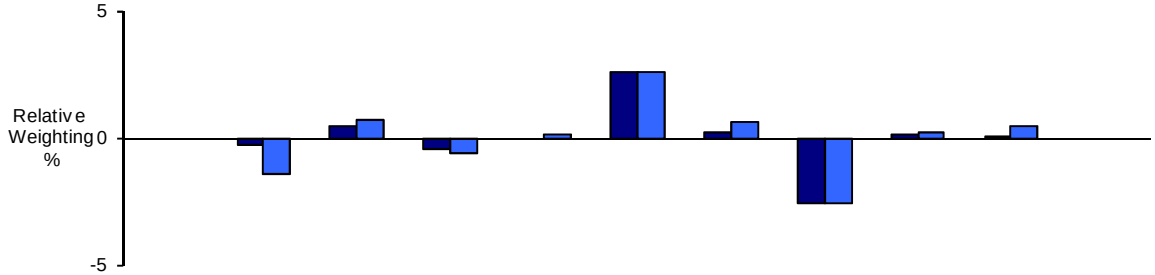
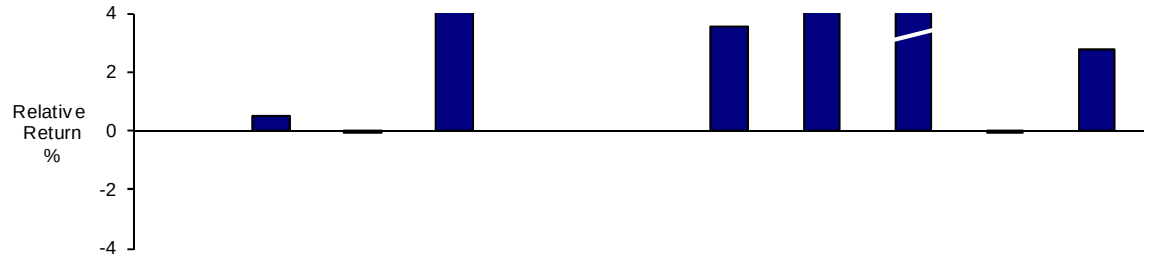
# Latest Year Attribution- by Asset Class

| | Total Equity | UK Bonds | M&G UK CO | UK IL | Cash | Private Eq | Total Hedge | Infra' | Property | Total Fund |
|---|---|---|---|---|---|---|---|---|---|---|
| **Asset Allocation** | | | | | | | | | | |
| |  | | | | | | | | | |
| Fund Start | 55.2 | 3.9 | 0.5 | | 2.6 | 5.2 | 20.4 | 2.1 | 10.0 | 100.0 |
| Fund End | 49.1 | 4.2 | 0.4 | 5.3 | 2.6 | 5.7 | 20.1 | 2.2 | 10.5 | 100.0 |
| BM Start | 55.5 | 3.5 | 1.0 | | | 5.0 | 23.0 | 2.0 | 10.0 | 100.0 |
| BM End | 50.6 | 3.5 | 1.0 | 5.1 | | 5.1 | 22.7 | 2.0 | 10.0 | 100.0 |
| Impact | - | - | 0.1 | - | -0.3 | - | 0.3 | - | - | 0.1 |
| **Stock Selection** | | | | | | | | | | |
| |  | | | | | | | | | |
| Fund | 15.7 | 17.2 | 4.9 | 7.1 # | 1.0 | 23.2 | 9.1 | 18.0 | 18.5 | 15.0 |
| Benchmark | 15.1 | 17.3 | 0.6 | 4.2 # | | 19.0 | 0.6 | 0.6 | 18.6 | 11.9 |
| Impact | 0.3 | - | - | 0.1 | | 0.2 | 1.6 | 0.3 | - | 2.5 |





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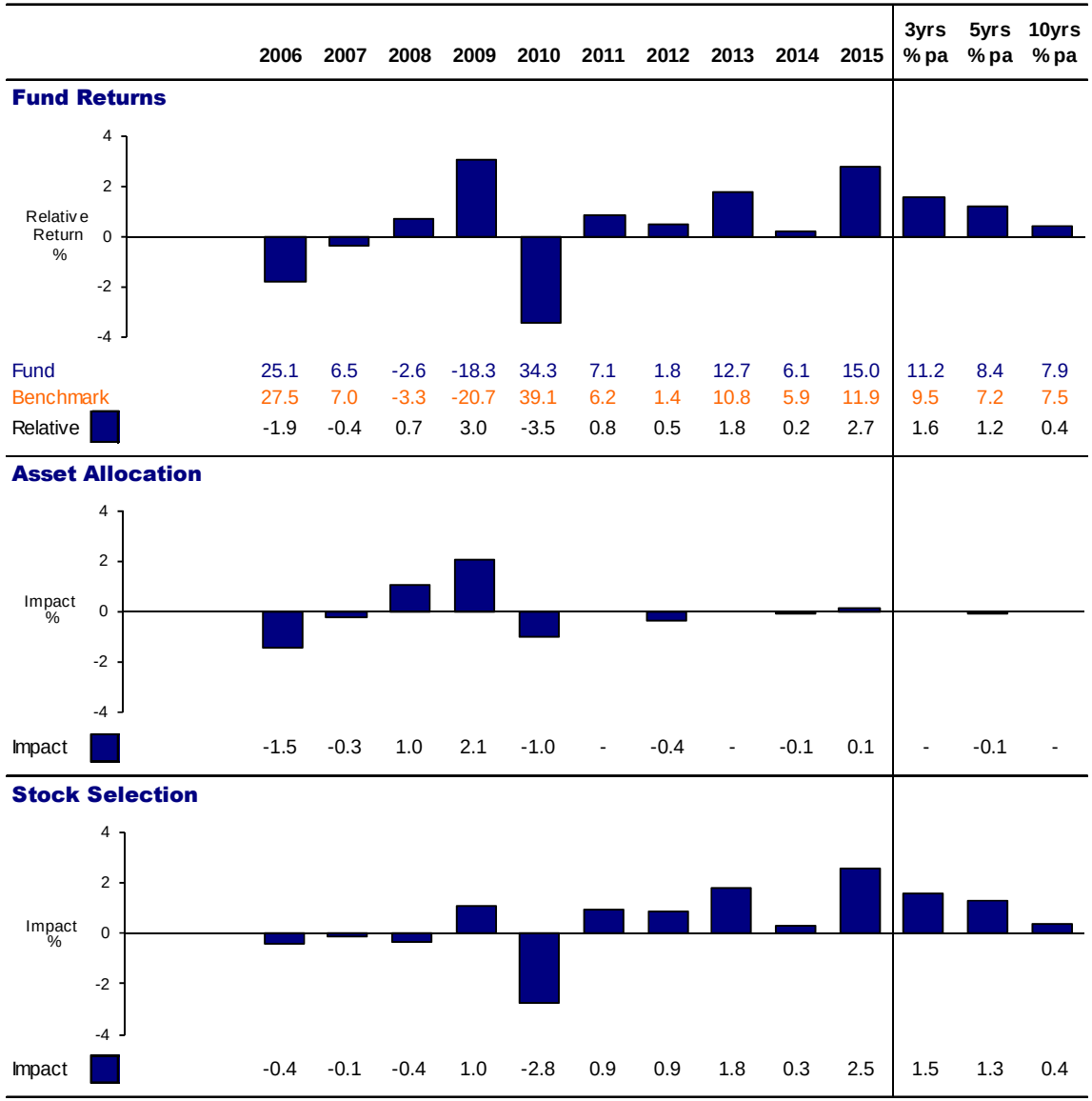
# Longer Term Performance




| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 3yrs % pa | 5yrs % pa | 10yrs % pa |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Fund Returns** | | | | | | | | | | | | | |
| Fund | 25.1 | 6.5 | -2.6 | -18.3 | 34.3 | 7.1 | 1.8 | 12.7 | 6.1 | 15.0 | 11.2 | 8.4 | 7.9 |
| Benchmark | 27.5 | 7.0 | -3.3 | -20.7 | 39.1 | 6.2 | 1.4 | 10.8 | 5.9 | 11.9 | 9.5 | 7.2 | 7.5 |
| Relative | -1.9 | -0.4 | 0.7 | 3.0 | -3.5 | 0.8 | 0.5 | 1.8 | 0.2 | 2.7 | 1.6 | 1.2 | 0.4 |
| **Asset Allocation** | | | | | | | | | | | | | |
| Impact | -1.5 | -0.3 | 1.0 | 2.1 | -1.0 | - | -0.4 | - | -0.1 | 0.1 | - | -0.1 | - |
| **Stock Selection** | | | | | | | | | | | | | |
| Impact | -0.4 | -0.1 | -0.4 | 1.0 | -2.8 | 0.9 | 0.9 | 1.8 | 0.3 | 2.5 | 1.5 | 1.3 | 0.4 |





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# Manager Summary

| | | Latest Year | | | 3 Years (%p .a.) | | | 5 Years (% p.a.) | | |
|---|---|---|---|---|---|---|---|---|---|---|
| Manager | Mandate | Portfolio | Benchmark | Relative | Portfolio | Benchmark | Relative | Portfolio | Benchmark | Relative |
| LGIM | UK Equity | 6.6 | 6.6 | 0.1 | 10.7 | 10.6 | 0.1 | 8.5 | 8.3 | 0.1 |
| LGIM | Global Equity | 19.2 | 19.2 | 0.0 | 14.2 | 14.2 | -0.0 | - | - | - |
| SSgA | Global Equity | 14.8 | 14.9 | -0.1 | - | - | - | - | - | - |
| Lazard | Global Equity | 19.6 | 19.2 | 0.3 | 12.9 | 14.2 | -1.1 | - | - | - |
| Longview | Global Equity | 27.5 | 18.4 | 7.7 | - | - | - | - | - | - |
| M&G | Bonds | 17.2 | 17.3 | -0.1 | 10.9 | 10.3 | 0.5 | 10.0 | 9.4 | 0.6 |
| LGIM | UK Index Linked | - | - | - | - | - | - | - | - | - |
| M&G | Financing | 4.9 | 0.6 | 4.3 | 4.8 | 0.6 | 4.2 | - | - | - |
| Norther Trust | Cash | 2.4 | 0.4 | 2.0 | 0.9 | 0.4 | 0.5 | 1.3 | 0.4 | 0.9 |
| Harbourvest | Private Equity | 20.1 | 19.0 | 0.9 | 10.8 | 14.1 | -2.9 | 11.3 | 10.0 | 1.2 |
| Adam Street | Private Equity | 26.0 | 19.0 | 5.9 | 15.3 | 14.1 | 1.1 | 12.1 | 10.0 | 1.8 |
| M&G | Absolute Return | 1.6 | 0.6 | 1.0 | 4.5 | 0.6 | 3.9 | 3.9 | 0.7 | 3.2 |
| Newton | Absolute Return | 6.9 | 0.6 | 6.4 | 6.1 | 0.6 | 5.5 | - | - | - |
| Ruffer | Absolute Return | 12.2 | 0.6 | 11.6 | 7.9 | 0.6 | 7.3 | - | - | - |
| UBS | Infrastructure | 1.5 | 0.6 | 0.9 | 3.7 | 0.6 | 3.1 | 6.0 | 0.7 | 5.2 |
| M&G | Infrastructure | 29.4 | 4.5 | 23.9 | 13.6 | 4.5 | 8.7 | 11.3 | 4.5 | 6.5 |
| Schroders | Property | 18.1 | 18.3 | -0.2 | 11.1 | 11.4 | -0.3 | 8.9 | 10.3 | -1.2 |

| Manager | Mandate | 10 Years (% p.a.) | | |
|---|---|---|---|---|
| | | Portfolio | Benchmark | Relative |
| M&G | UK Bonds | 6.7 | 5.6 | 1.1 |
| Northern Trust | Cash | 2.7 | 2.2 | 0.5 |
| Harbourvest | Private Equity | 10.5 | 9.6 | 0.8 |
| Adam Street | Private Equity | 13.1 | 9.6 | 3.1 |





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# Section 3

## Performance Relative to Local Authority Universe





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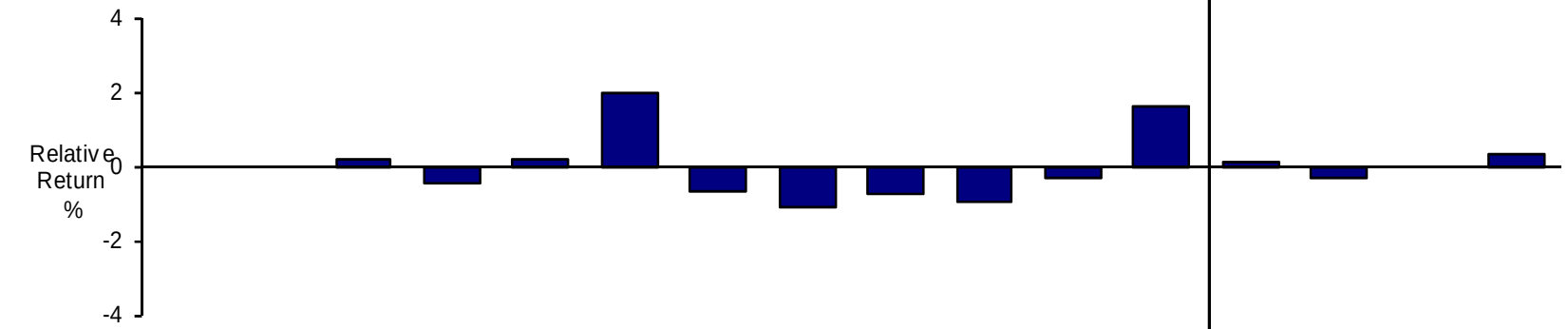
# Performance Relative to Local Authority Universe




| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 3yrs % pa | 5yrs % pa | 10yrs % pa | 20yrs % pa |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| Fund | 25.1 | 6.5 | -2.6 | -18.3 | 34.3 | 7.1 | 18 | 12.7 | 6.1 | 15.0 | 11.2 | 8.4 | 7.9 | 8.1 |
| Benchmark | 24.9 | 7.0 | -2.8 | -19.9 | 35.2 | 8.2 | 2.6 | 13.8 | 6.4 | 13.2 | 11.0 | 8.7 | 7.9 | 7.8 |
| Relative | 0.2 | -0.5 | 0.2 | 2.0 | -0.7 | -1.1 | -0.7 | -0.9 | -0.3 | 1.6 | 0.1 | -0.3 | 0.0 | 0.3 |
| Ranking | (44) | (65) | (37) | (31) | (59) | (76) | (77) | (74) | (59) | (22) | (44) | (67) | (50) | (23) |





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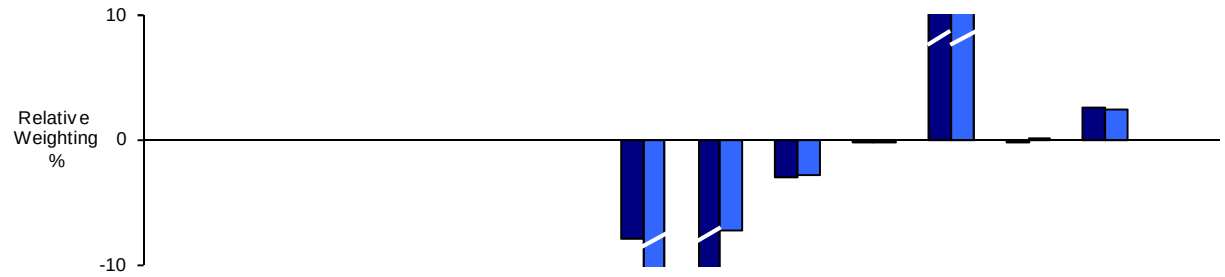
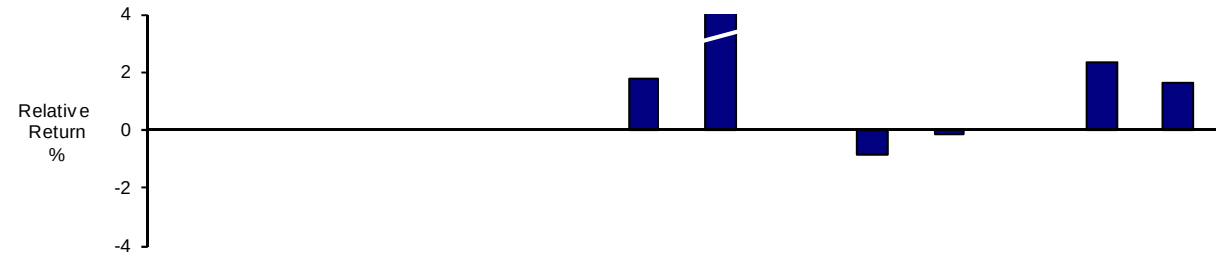
# Detailed Analysis of the Latest Year

**Asset Allocation**



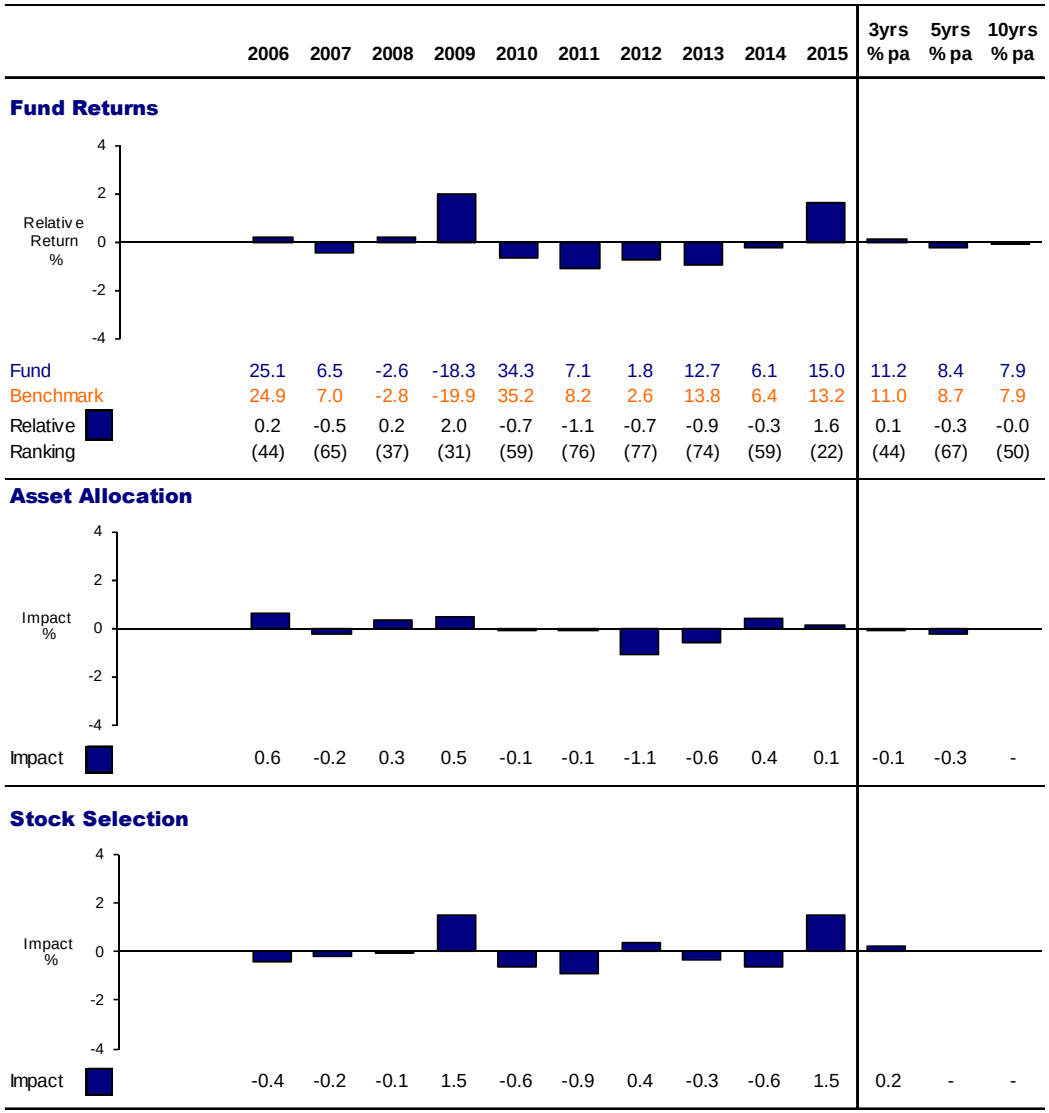

| | Total Equity | Bonds + IL | Multi Asset | Cash | Alt's | Curr Instr | Property | Total Fund |
|---|---|---|---|---|---|---|---|---|
| Fund Start | 55.2 | 4.5 | | 2.6 | 27.7 | | 10.0 | 100.0 |
| Fund End | 49.1 | 9.8 | | 2.6 | 28.0 | | 10.5 | 100.0 |
| BM Start | 63.1 | 16.4 | 3.1 | 2.9 | 7.0 | 0.0 | 7.4 | 100.0 |
| BM End | 61.5 | 17.1 | 2.8 | 2.7 | 7.9 | -0.0 | 8.1 | 100.0 |
| Impact | - | - | 0.1 | - | -0.1 | - | 0.1 | 0.1 |

**Stock Selection**




| | | | | | | | | |
|---|---|---|---|---|---|---|---|---|
| Fund | 15.7 | 20.5 | | 1.0 | 12.3 | -0.1 # | 18.5 | 15.0 |
| Benchmark | 13.7 | 13.0 | 10.2 | 1.8 | 12.5 | n/a | 15.8 | 13.2 |
| Impact | 1.0 | 0.4 | | - | -0.1 | | 0.2 | 1.5 |

# Long Term Attribution



| | 2006 | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 | 2015 | 3yrs % pa | 5yrs % pa | 10yrs % pa |
|---|---|---|---|---|---|---|---|---|---|---|---|---|---|
| **Fund Returns** | | | | | | | | | | | | | |
| Fund | 25.1 | 6.5 | -2.6 | -18.3 | 34.3 | 7.1 | 1.8 | 12.7 | 6.1 | 15.0 | 11.2 | 8.4 | 7.9 |
| Benchmark | 24.9 | 7.0 | -2.8 | -19.9 | 35.2 | 8.2 | 2.6 | 13.8 | 6.4 | 13.2 | 11.0 | 8.7 | 7.9 |
| Relative | 0.2 | -0.5 | 0.2 | 2.0 | -0.7 | -1.1 | -0.7 | -0.9 | -0.3 | 1.6 | 0.1 | -0.3 | -0.0 |
| Ranking | (44) | (65) | (37) | (31) | (59) | (76) | (77) | (74) | (59) | (22) | (44) | (67) | (50) |
| **Asset Allocation** | | | | | | | | | | | | | |
| Impact | 0.6 | -0.2 | 0.3 | 0.5 | -0.1 | -0.1 | -1.1 | -0.6 | 0.4 | 0.1 | -0.1 | -0.3 | - |
| **Stock Selection** | | | | | | | | | | | | | |
| Impact | -0.4 | -0.2 | -0.1 | 1.5 | -0.6 | -0.9 | 0.4 | -0.3 | -0.6 | 1.5 | 0.2 | - | - |





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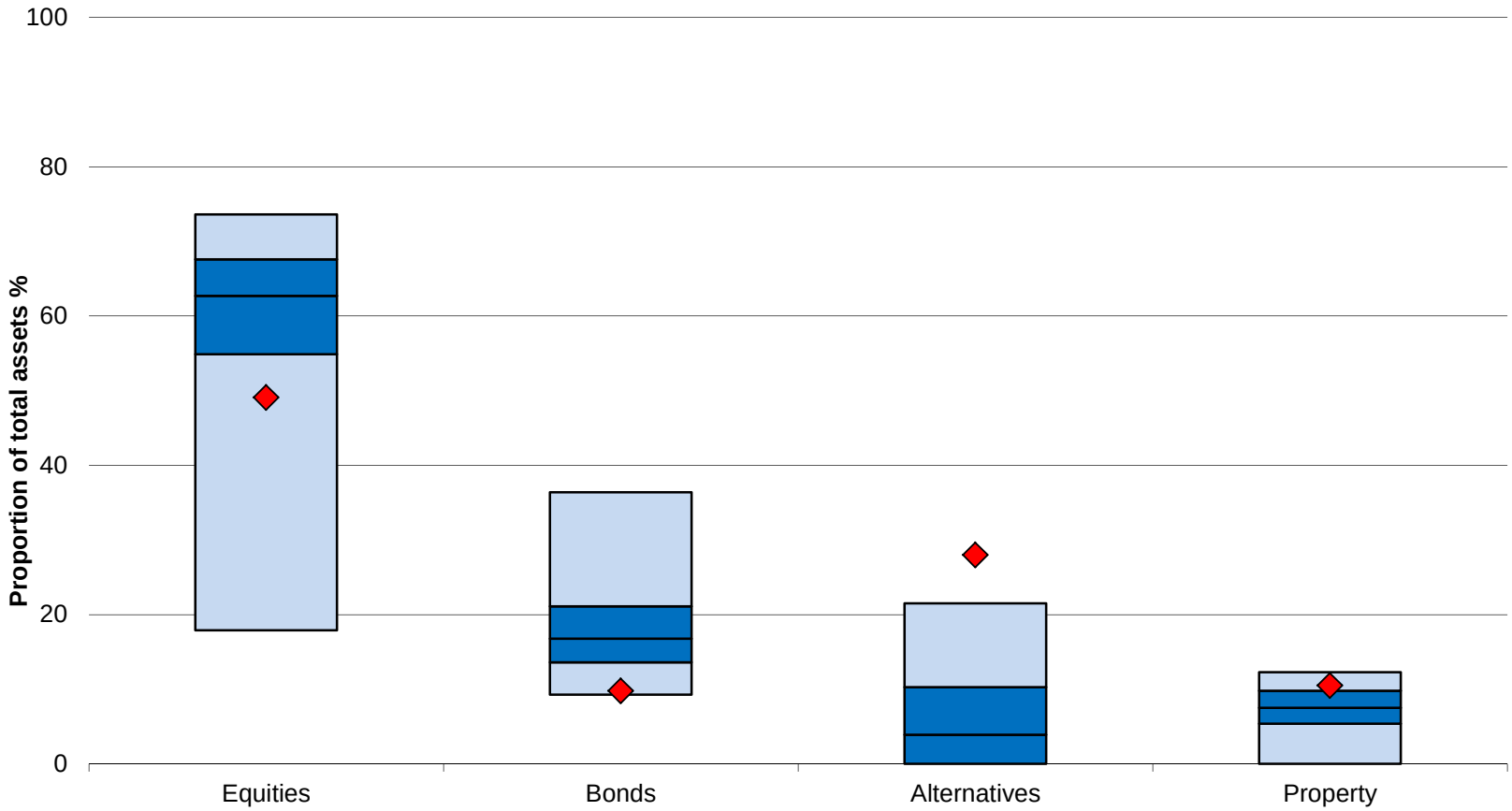
# Section 4

## Supplementary Analyses

# Asset Allocation Strategy





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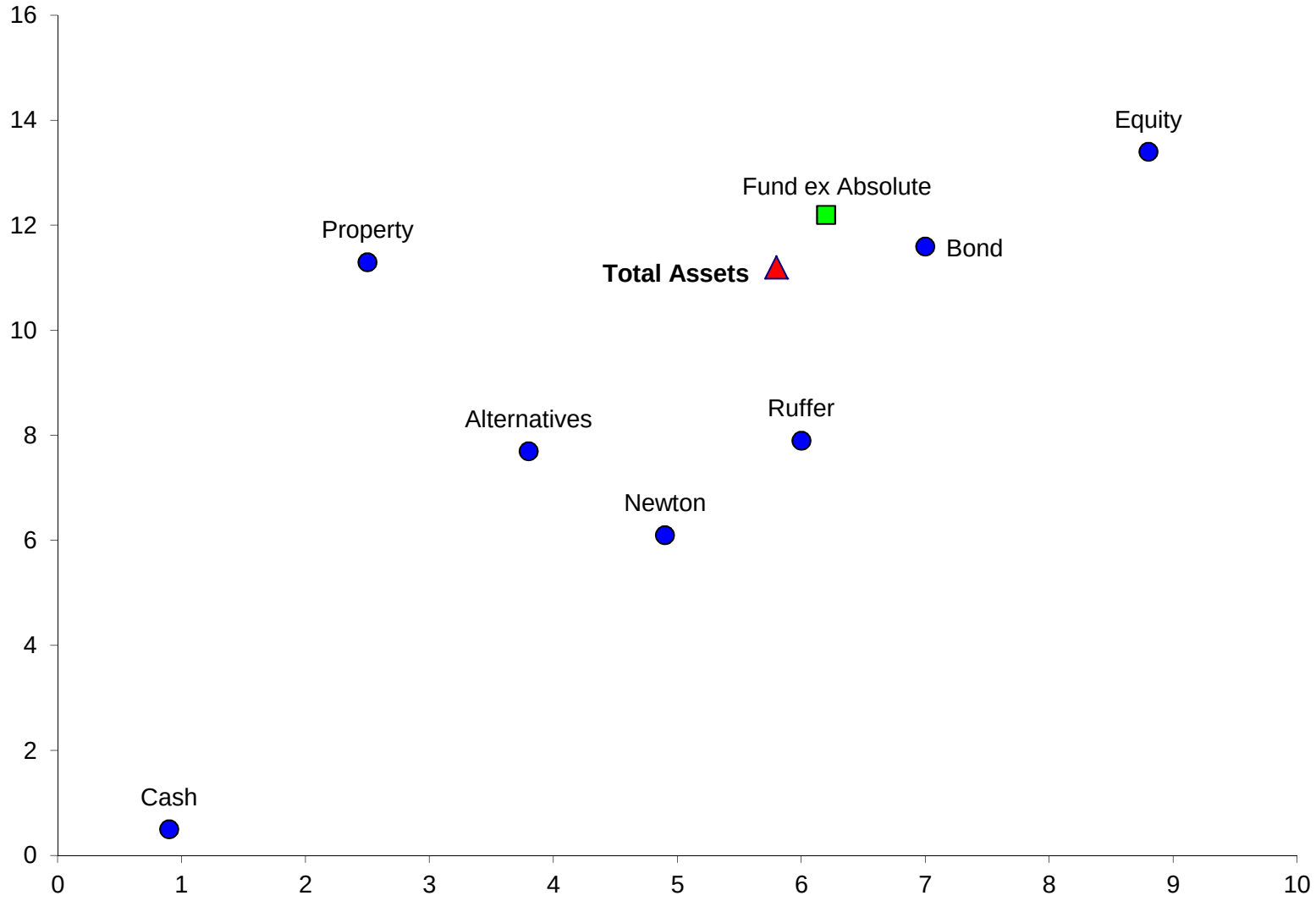
# Diversification





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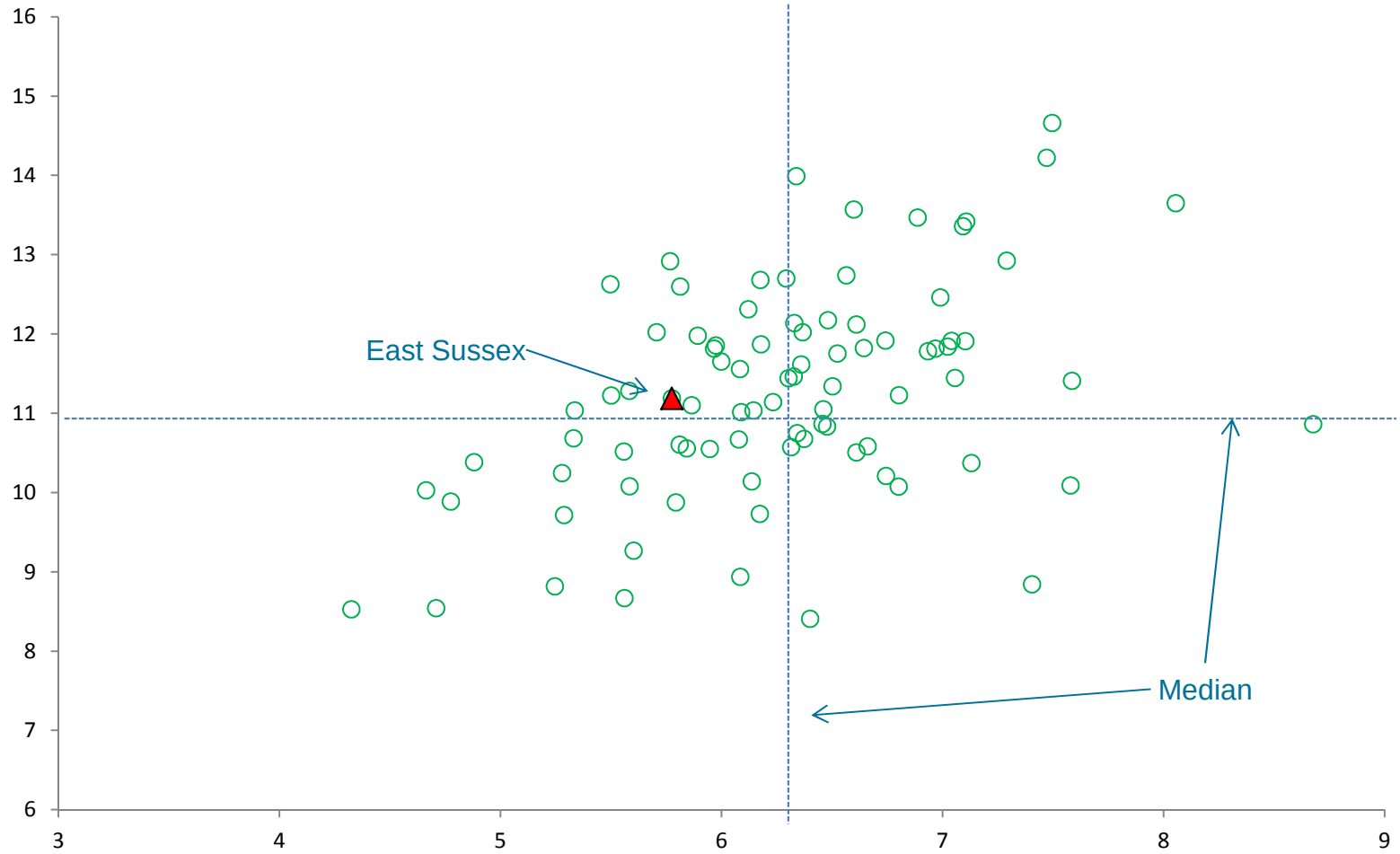
# Risk Adjusted “Absolute” Return – Latest Three Years





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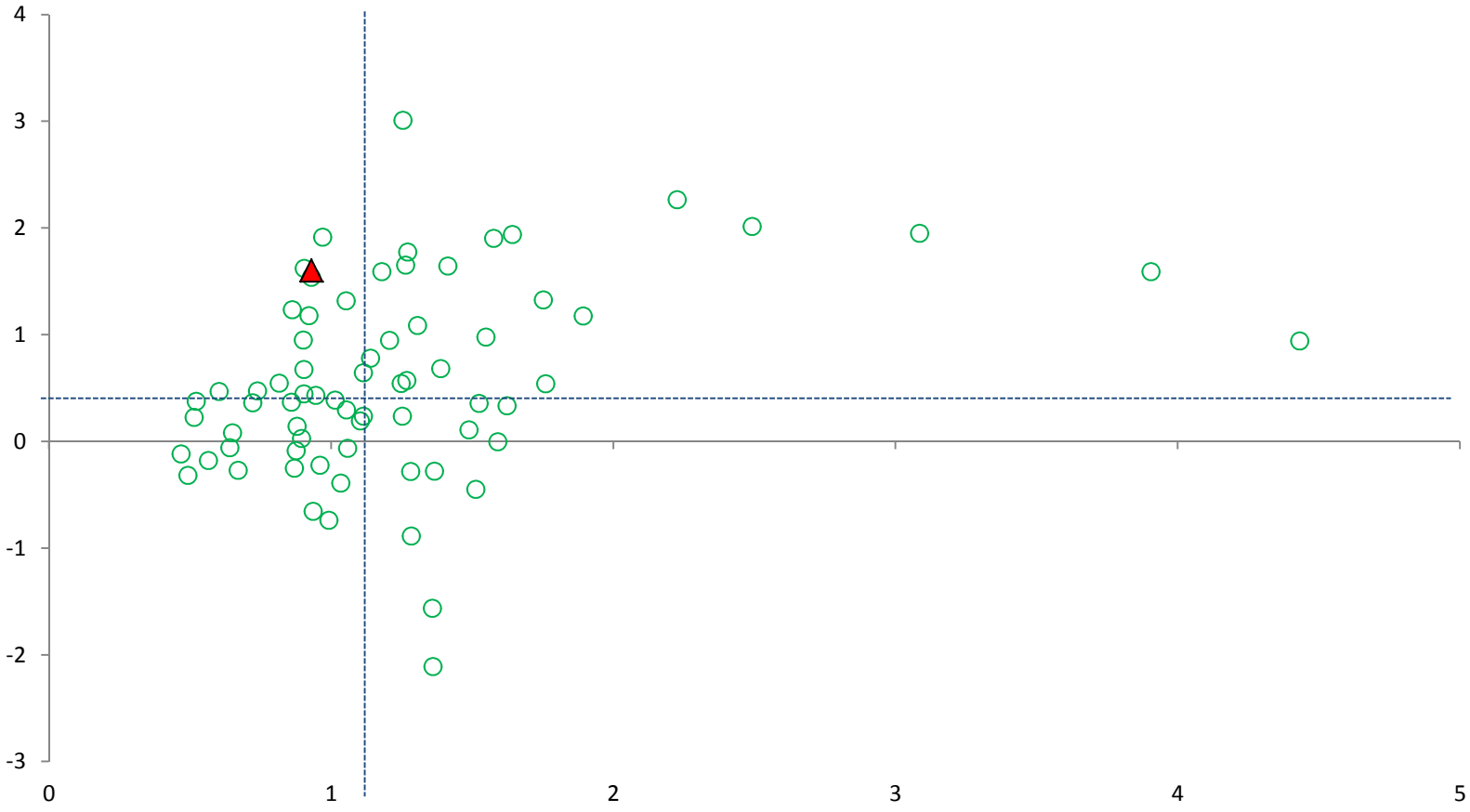
# Risk Adjusted “Relative” Return – Latest Three Years

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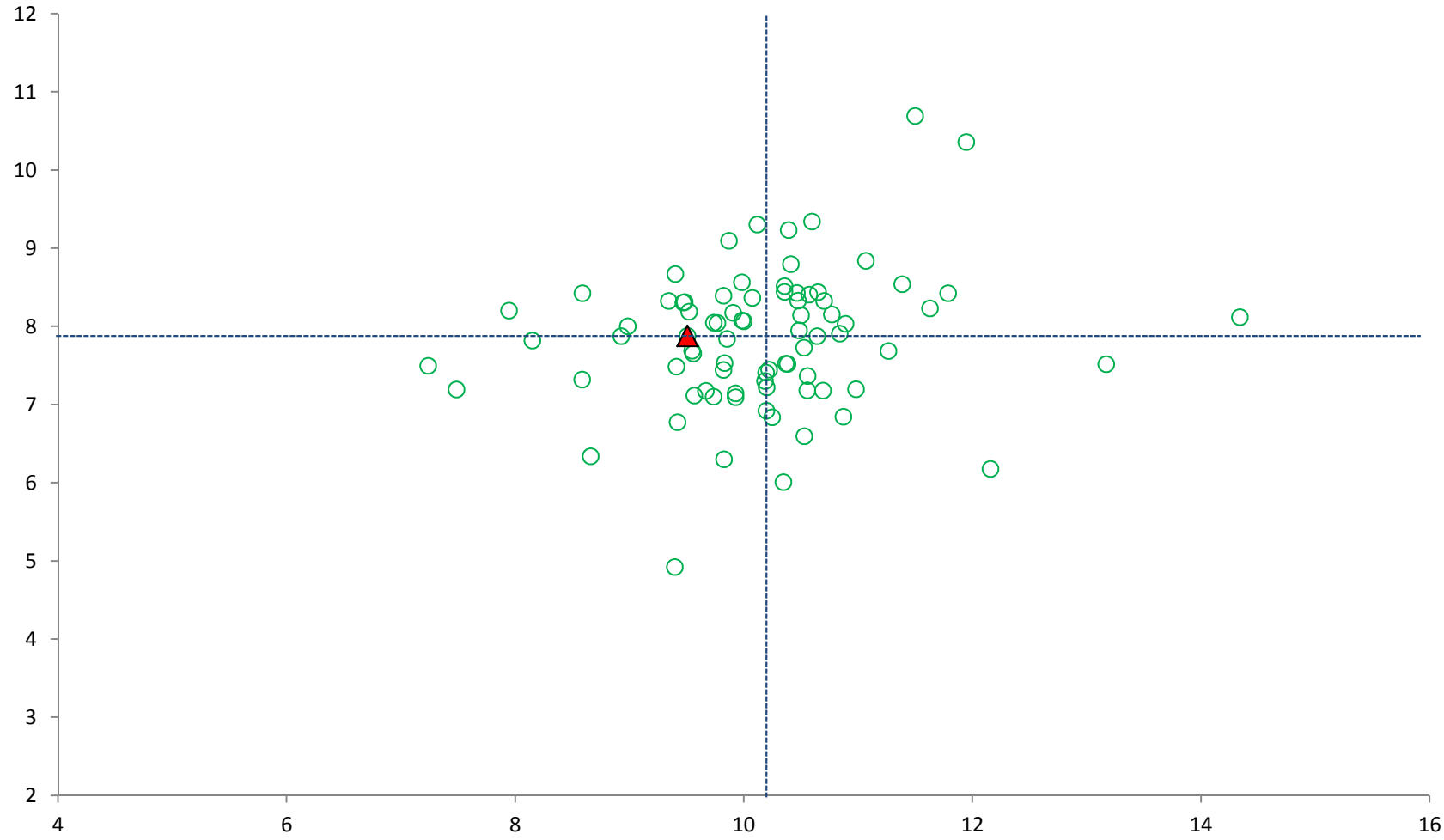
# Risk Adjusted “Absolute” Return – Latest Ten Years





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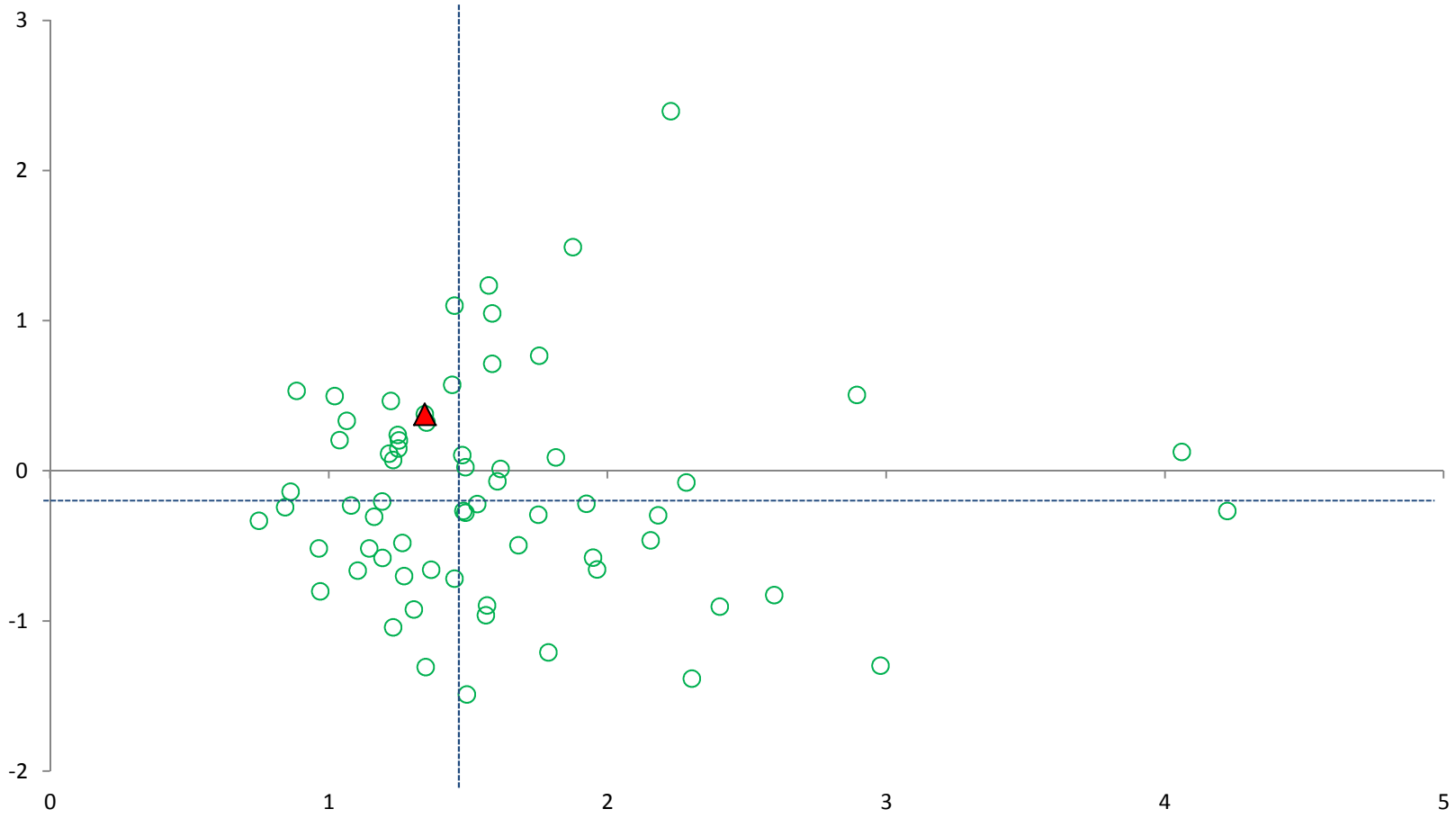
# Risk Adjusted “Relative” Return – Latest Ten Years





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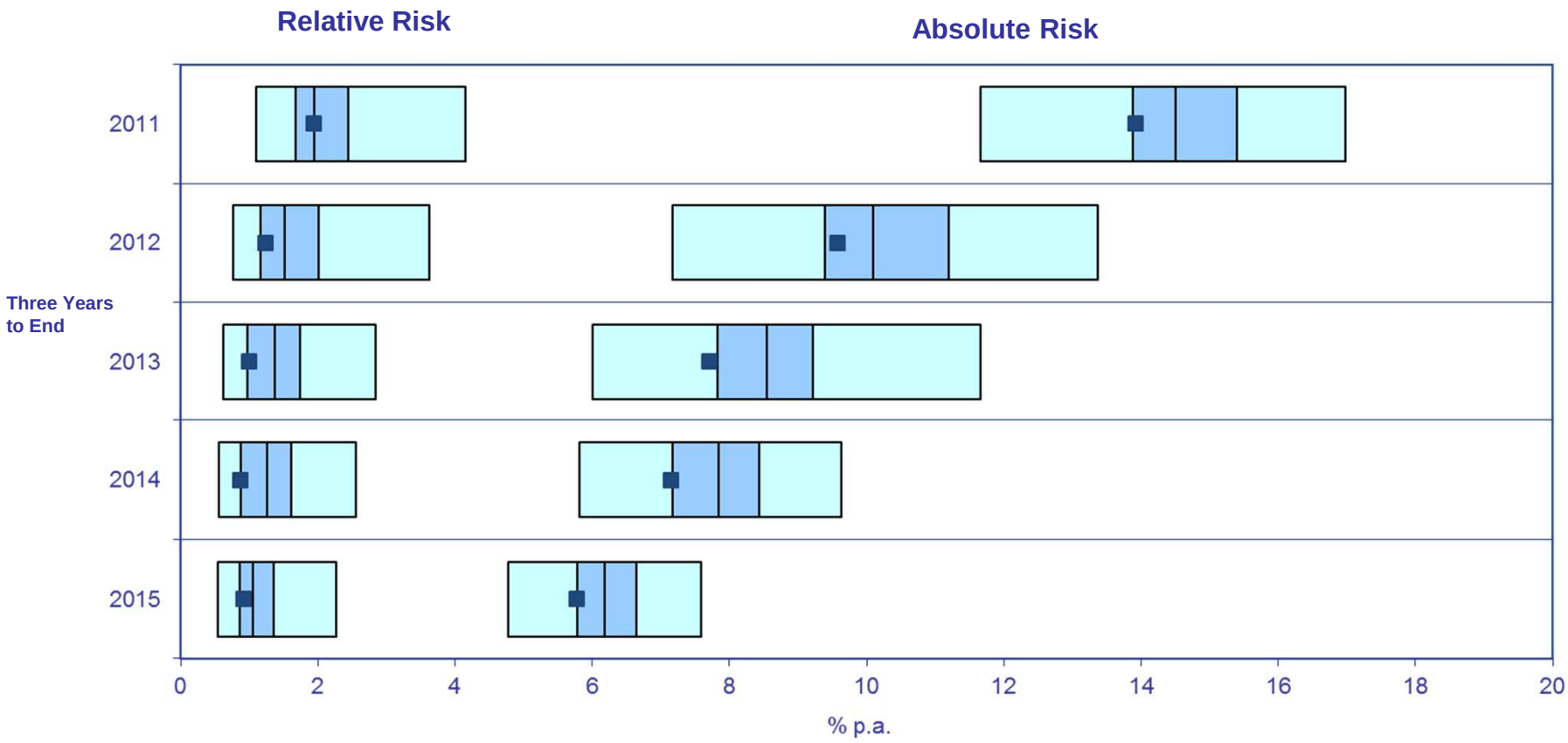
# Risk over Time





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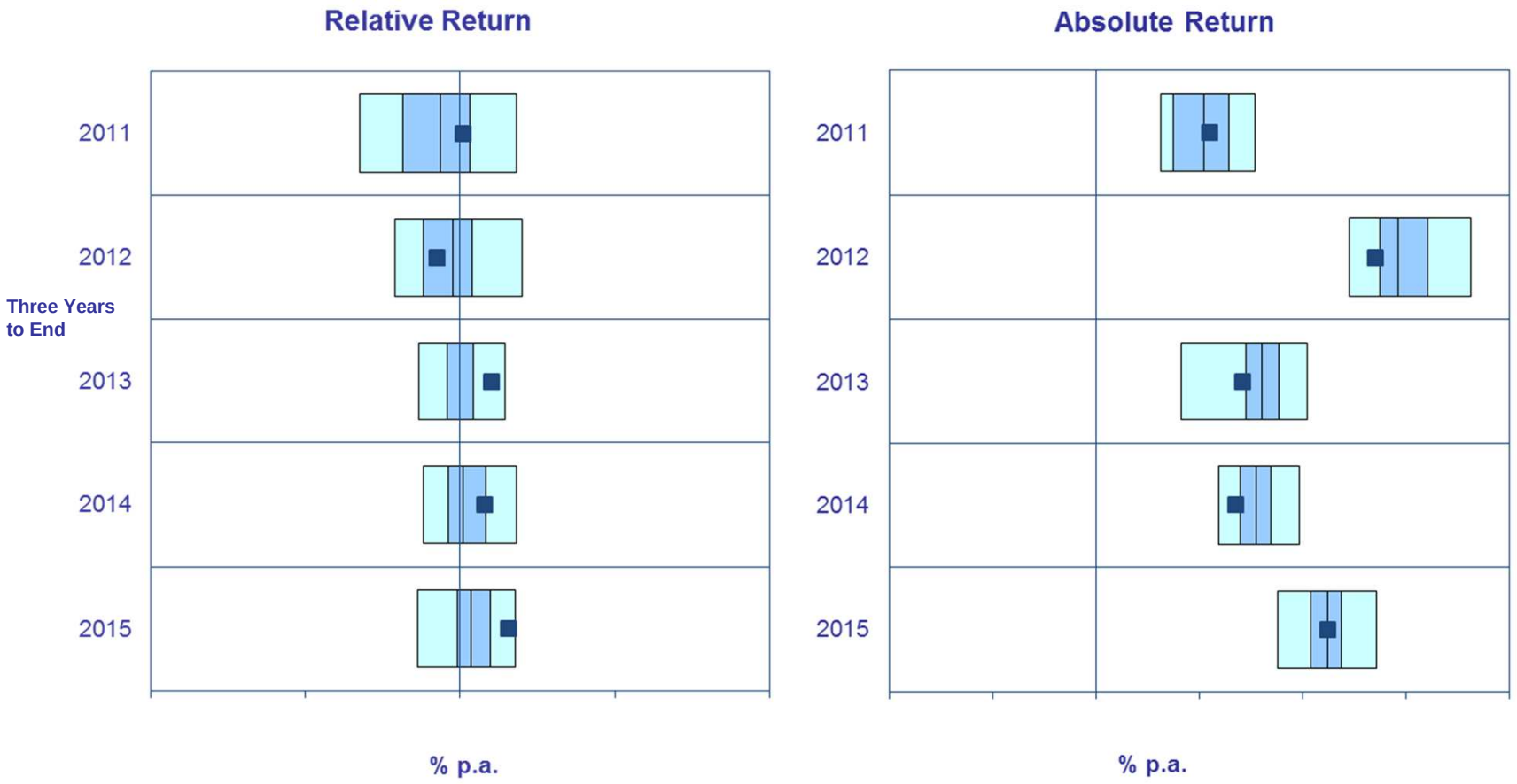
# Return over Time





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# Summary

- Another good year for the fund and sector.
- The fund returned 15%, outperforming both the benchmark and peer group average.
- The Fund has bettered its benchmark over all longer term time horizons.
- The Fund has performed modestly ahead of the peer group average over the long term and with a better risk adjusted profile.

# Appendix

# Total Fund Value Summary

| Values (GBP)'00 | Mandate | Value at 31/03/2014 | Transactions | Capital Gain / loss | Income | Value at 31/03/2015 | % *Fund* |
|---|---|---|---|---|---|---|---|
| LAZARD | Eq Glbl | 345,057 | 4,912 | 60,397 | 6,886 | 410,366 | 15 |
| SCHRODERS | Prop UK | 252,040 | 11,528 | 37,335 | 8,869 | 300,904 | 11 |
| SSGA | Eq Glbl | 253,705 | 0 | 37,471 | 0 | 291,176 | 11 |
| L&G UK EQ | Eq UK | 399,139 | -151,367 | 23,841 | 0 | 271,614 | 10 |
| RUFFER | Absolute | 230,823 | 1,100 | 25,155 | 3,011 | 257,078 | 9 |
| NEWTON | Absolute | 233,832 | 0 | 16,243 | 0 | 250,075 | 9 |
| L & G | Eq Glbl | 249,995 | -78,725 | 45,178 | 0 | 216,448 | 8 |
| LONGVIEW | Eq Glbl | 137,129 | 0 | 37,678 | 0 | 174,806 | 6 |
| L&G - IL | Bd IL | | 135,000 | 9,567 | 0 | 144,567 | 5 |
| M&G UK BONDS | Bd GBP Cpt | 98,081 | 44 | 16,872 | 0 | 114,997 | 4 |
| ADAMS STREET | Venture Cap | 68,206 | -491 | 17,568 | 0 | 85,283 | 3 |
| HARBOURVEST | Venture Cap | 60,974 | -1,808 | 12,097 | 0 | 71,264 | 3 |
| M&G ABS RET | Absolute | 66,653 | 1,537 | -491 | 1,537 | 67,699 | 2 |
| M&G INF | Infra | 31,621 | 543 | 7,073 | 1,901 | 39,237 | 1 |
| N TRUST | Cash | 23,001 | 1,902 | 458 | 111 | 25,362 | 1 |
| UBS | Infra | 20,415 | 1,067 | -464 | 714 | 21,018 | 1 |
| M&G FINANC | Absolute | 13,076 | -2,857 | 509 | 0 | 10,729 | 0 |
| Total Fund | | 2,483,747 | -77,613 | 346,488 | 23,031 | 2,752,622 | 100 |





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# Asset Class Performance

| | % of Asset Class | | % p.a. Return | | | |
|---|---|---|---|---|---|---|
| | At end 2013/14 | At end 2014/15 | 3 Yrs | 5 Yrs | 10 Yrs | 20 Yrs |
| **Equities** | **100** | **100** | | | | |
| UK Equities | 38.2 | 34.5 | 11.7 | 9.4 | 8.0 | 8.1 |
| Overseas Equities | 52.9 | 54.1 | 13.8 | 9.5 | 9.9 | 8.0 |
| North America | 18.5 | 13.3 | 18.4 | 14.0 | 10.0 | 9.2 |
| Continental Europe | 13.6 | 10.3 | 14.6 | 8.2 | 8.9 | 9.3 |
| Japan | 4.9 | 4.7 | 13.9 | 8.4 | 6.6 | 2.8 |
| Pacific ex Japan | 5.1 | 4.5 | 8.7 | 7.1 | 12.6 | 8.0 |
| Emerging Markets | 9.2 | 6.1 | 6.0 | 4.1 | 11.5 | - |
| Global ex UK | 1.6 | 15.2 | 16.0 | 11.3 | - | - |
| Global inc UK | 8.9 | 11.4 | 14.3 | 10.0 | - | - |
| **Bonds** | **100** | **100** | | | | |
| UK | 57.4 | 54.1 | 7.5 | 7.9 | 6.5 | 7.6 |
| Index-Linked | 22.3 | 24.4 | 8.5 | 10.3 | 8.3 | 8.2 |
| Overseas Bonds | 15.2 | 13.6 | 3.9 | 4.3 | 5.5 | 5.7 |
| Pooled | 5.0 | 7.8 | 5.5 | 5.8 | - | - |
| **Alternatives** | **100** | **100** | | | | |
| Private Equity | 55.5 | 54.5 | 10.9 | 9.6 | - | - |
| Hedge Funds | 29.2 | 27.4 | 6.5 | 4.9 | - | - |
| Other Alternatives | 15.4 | 18.1 | 4.8 | 3.3 | - | - |

* Source: State Street Global Services Performance Services, 2015.

Past performance is not a reliable indicator of future results.





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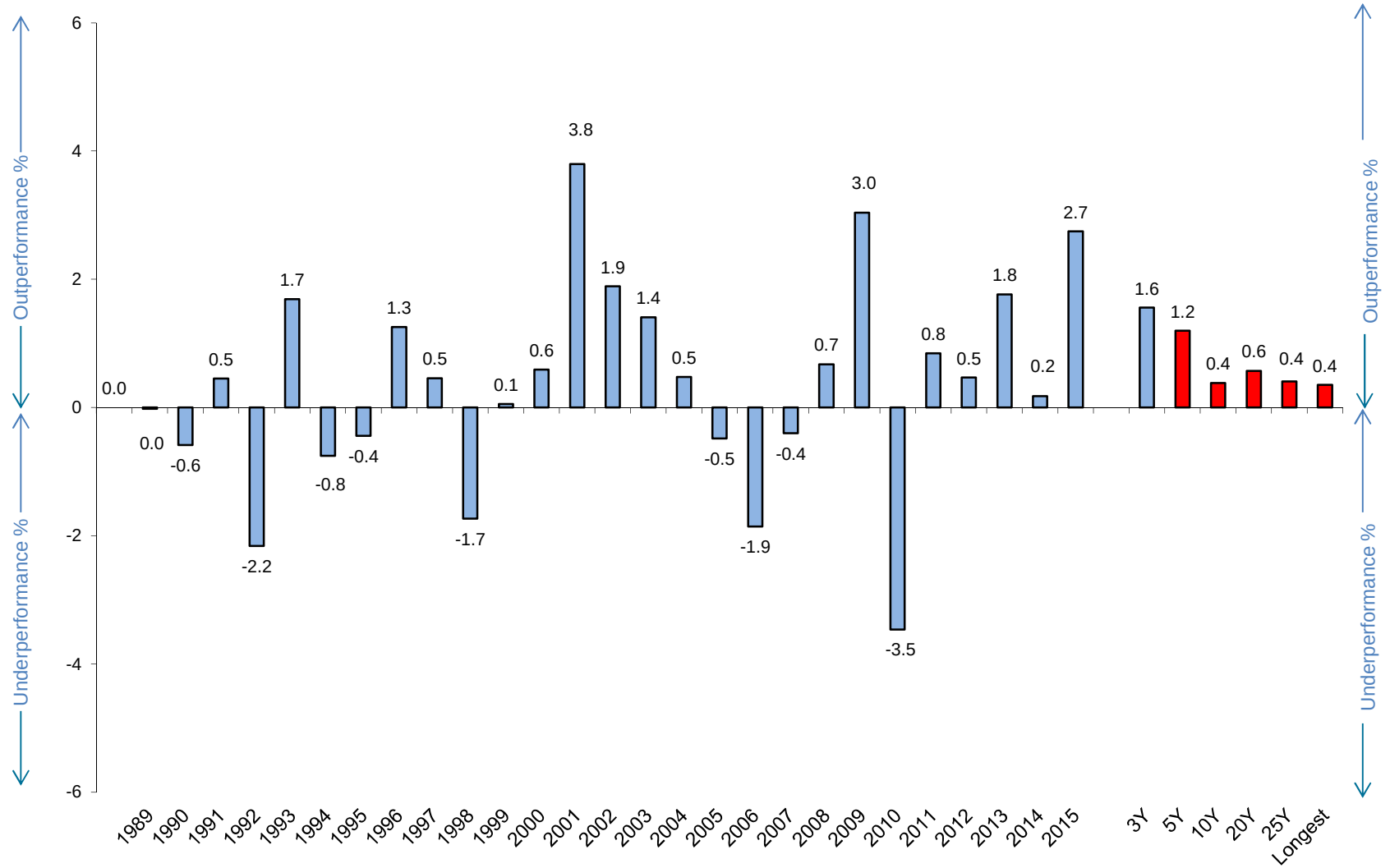
# Long Term Relative Returns - Benchmark





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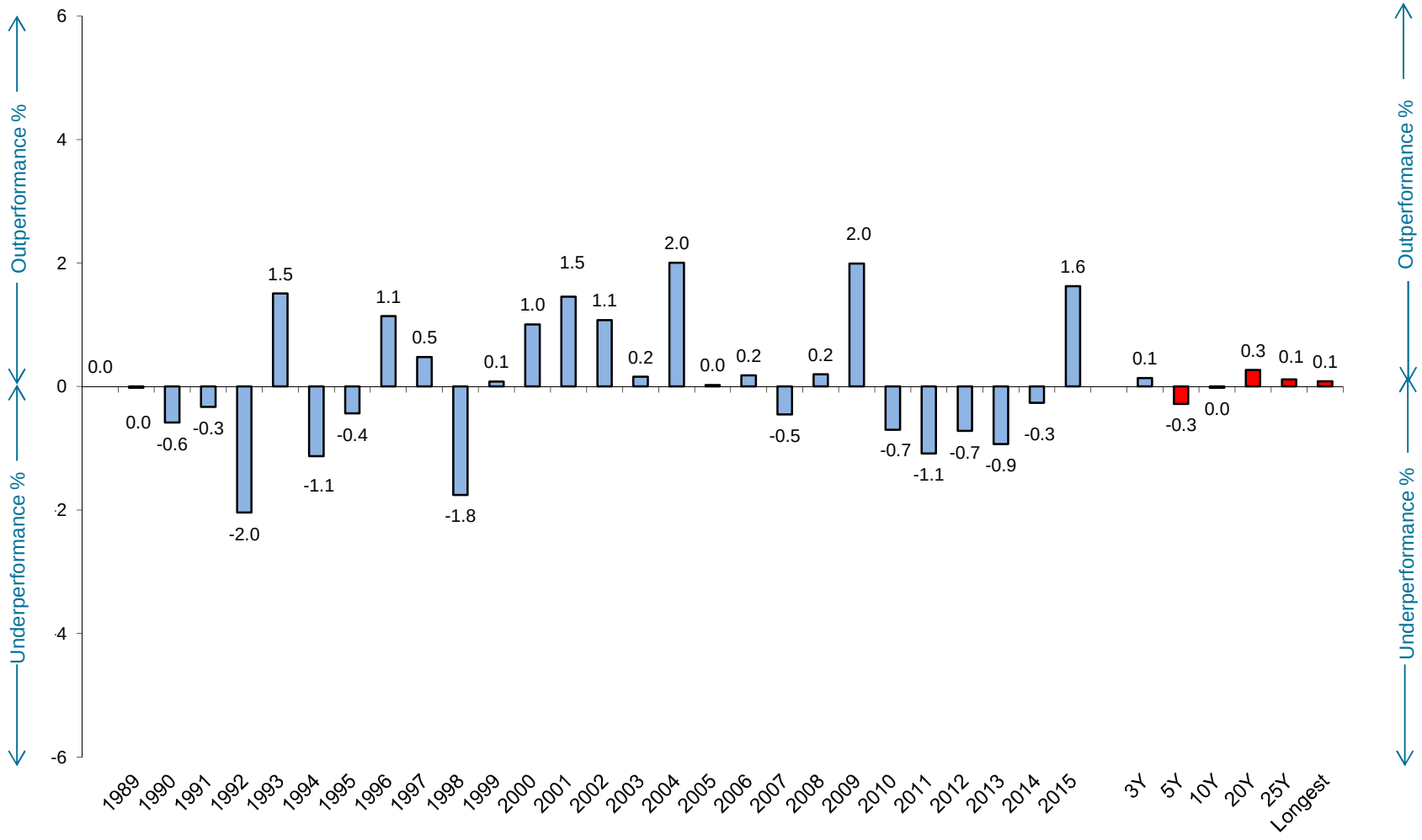
# Long Term Relative Returns - Universe





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# Contact details for further information

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E-mail: david.cullinan@statestreet.com





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# EAST SUSSEX PENSION FUND

## Annual strategy day



- Linda Selman, Partner
- William Marshall, Partner
- 29 September 2015



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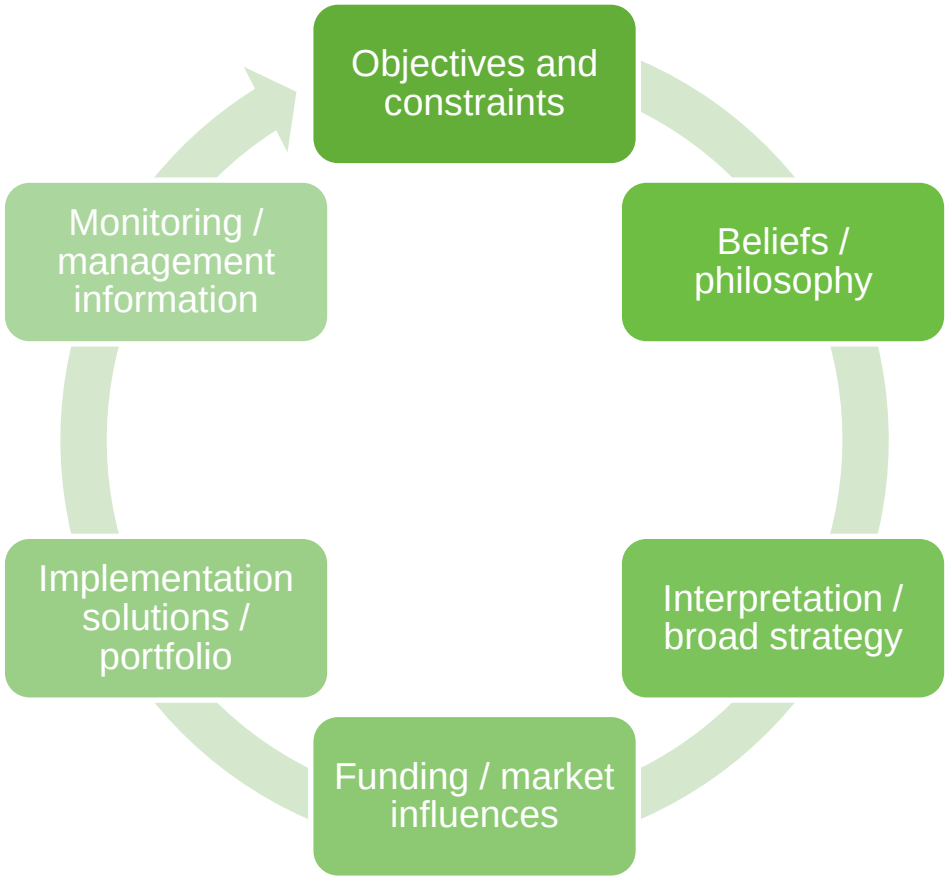
# Vision

Characteristics of top performing funds (or businesses more generally) tend to include:

- Clarity of what they are trying to achieve.
- Clear objectives and targets and vision of what success looks like.
- A clear understanding of the constraints they are working within.
- A philosophy / set of beliefs (in businesses this may extend to culture) that act as a filter on the "how" things are achieved.
- A clear line of sight from this philosophy / beliefs to the actions taken – in investment terms this is a clear line of sight from beliefs to the portfolio structure. This usually requires some kind of interpretation of the beliefs and what they mean in practice.
- As a result, an ability to explain why things are they way they are – or even to be in a position where they don't need to.
- They are dynamic in that they respond to changing conditions – whether that be market conditions, industry developments or funding level influencing the interpretation of objectives and beliefs into a portfolio or changing objectives or constraints impacting the portfolio structure.
- There are contingency plans – an element of hoping for the best, planning for the worst - in portfolio terms this can be translated into being as robust as is possible to a range of different economic scenarios (acknowledging that it is not possible to be fully robust to all potential outcomes).
- They are learning organisations in that they seek to improve, learn from experience (mistakes even) and don't shy away from realising there may be a better way. This involves a strong feedback loop looking at outcomes (good management information, including focus on leakages) and re-testing the inputs (the objectives, constraints, beliefs, interpretation and ultimately the portfolio).
- Lastly, a quote often used about success – "Success without a successor is a failure" – for sustainable success it needs to be successful across generations or eras.

A useful tool in developing this approach is a strategy manual which captures the why, what and how of strategy for the Fund and is a live, reference document for Officers, Committees and Advisors when assessing potential changes to, and performance of, the Fund. It should be a goal to develop a clear manual.

# Virtuous cycle




**Aim is to develop clear line of sight around cycle**

# Investment structure of top 10 LGPS funds 2005-12

| Characteristic | Implication | Caveat |
|---|---|---|
| Short manager roster | Reduced governance demands – time to focus on strategy | You need the right managers |
| Low manager turnover | Reduced costs (transitions) | You need the right managers and patience |
| Simple structure – equities, bonds and property | Reduced governance demands Avoid 'fads' | 'Fads ' may add value Rebalancing discipline required |
| Some internal management | Better governance and familiarity with the issues | You need the right internal resources |
| Evidence of rebalancing 2008-09 | Benefitted fully from equity recovery | Frequency and timing matters |



**2005-12 an unusual period in markets**
**Did these make the difference?**

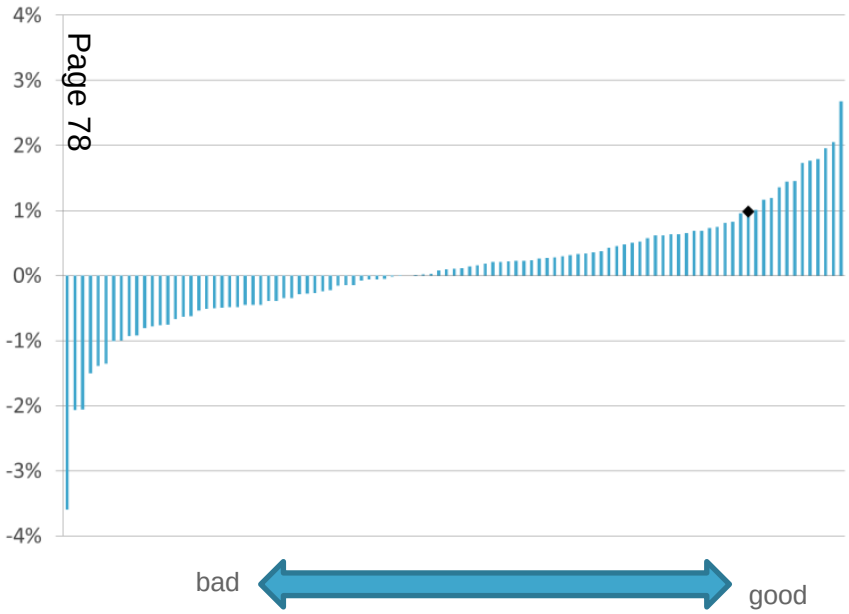
# What makes a good fund?

HYMANS ROBERTSON

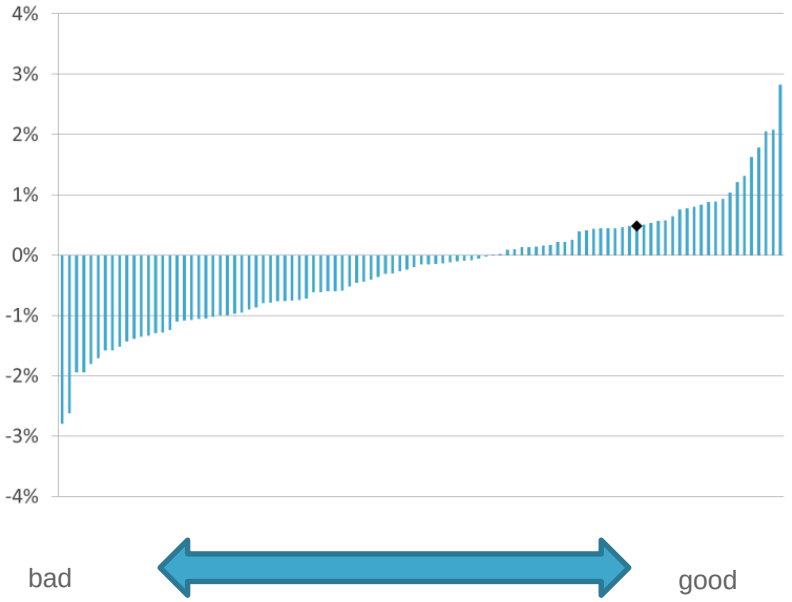
- A clear investment objective
- Clear and well understood investment beliefs
- A strategy that is aligned with those investment beliefs and objectives
- Avoid periods of very poor performance – they are difficult to recover from
- Over longer periods, this compounds to “above average” – there is no need to aim to shoot the lights out
- Employ discipline – you have a strategy, rebalance back to it when market moves  cause you to drift
- Prioritise strategic matters

# How does East Sussex look relative to its peers – performance relative to benchmark

## Over 3 years



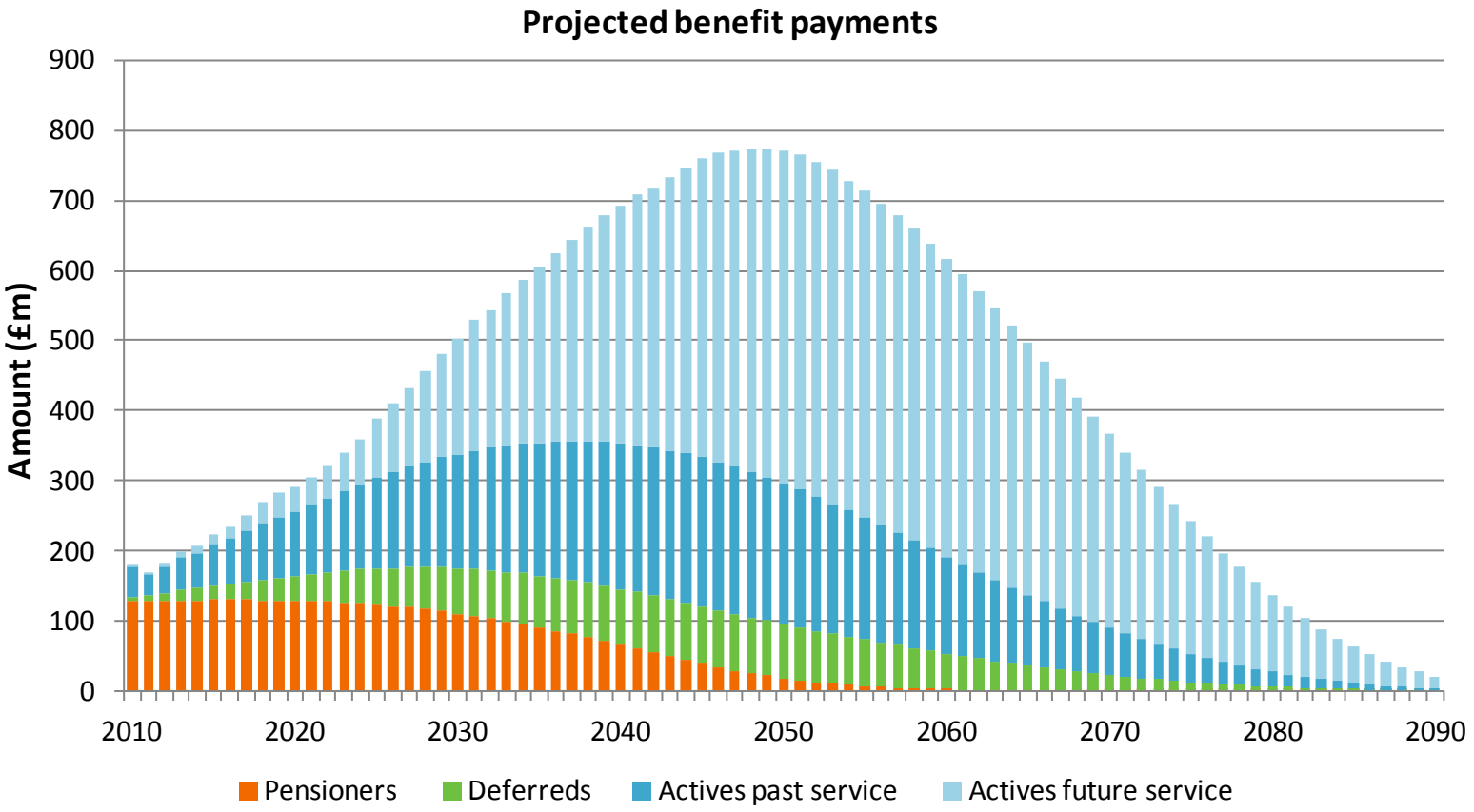

## Over 5 years




Outperformance relative to benchmark over 3 and 5 years (to 31 March 2014)

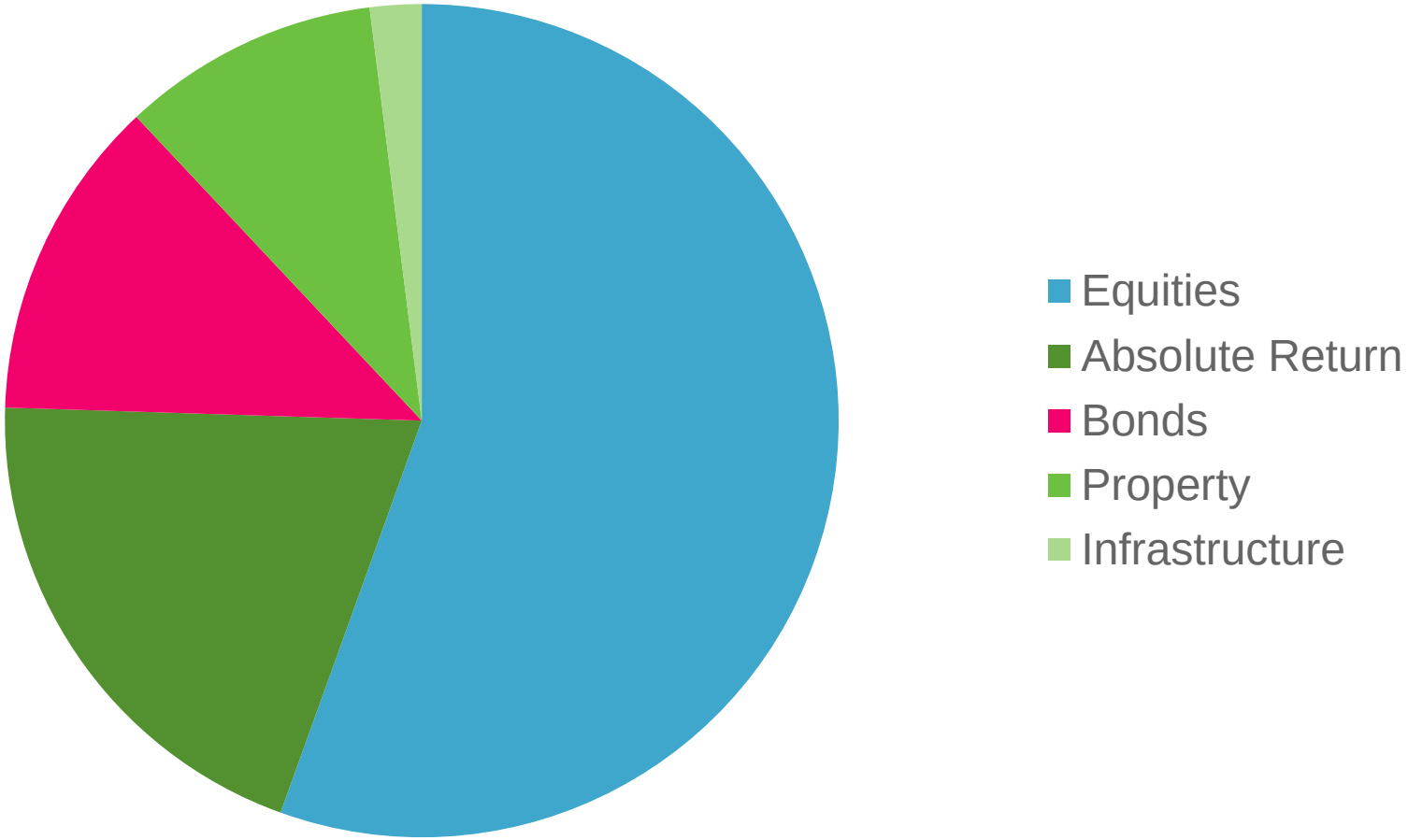
# SETTING INVESTMENT STRATEGY

# Ultimate objective – pay the benefits




- How much money do I need and how should it be invested in order to be able to meet the promised benefits?

# Current high-level investment strategy



# Why is strategy important?

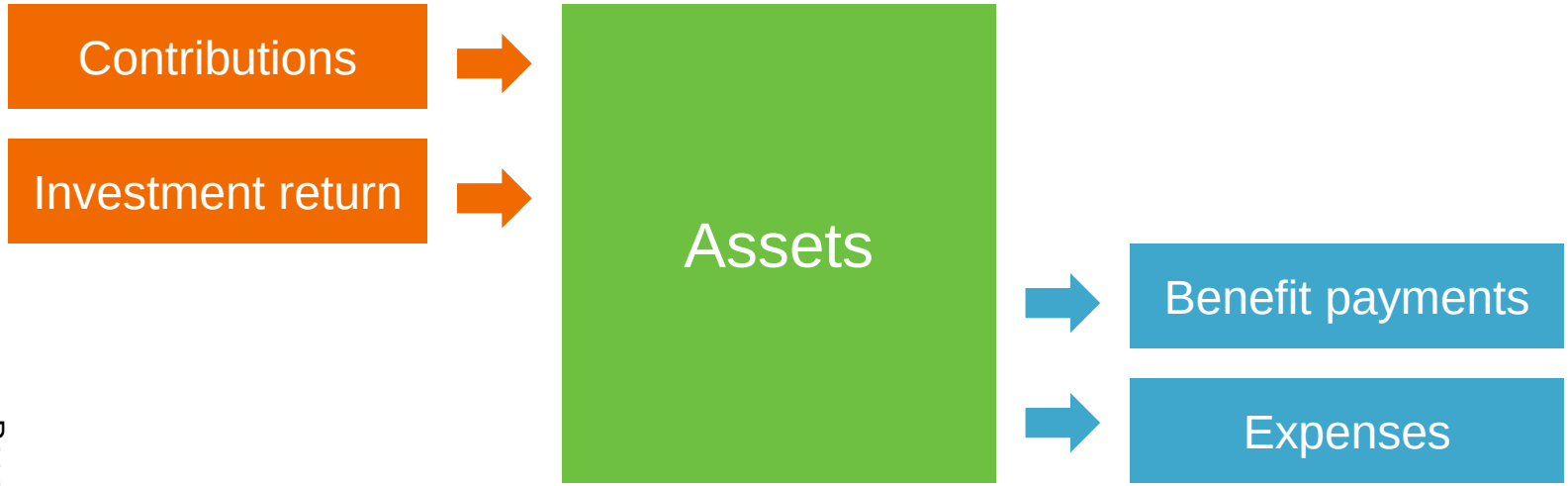
*"In the LGPS and other schemes where contributions are invested and managed to meet future liabilities, understanding investment risk and performance constitutes a major element of the role of finance professionals."*



*"In funded schemes, the decision-making body will need to relate the longer term liabilities of the fund to the strategy for the investment of its assets to generate cashflows."*

Source: CIPFA Knowledge and Skills Framework

# Meeting your obligations




Page 83

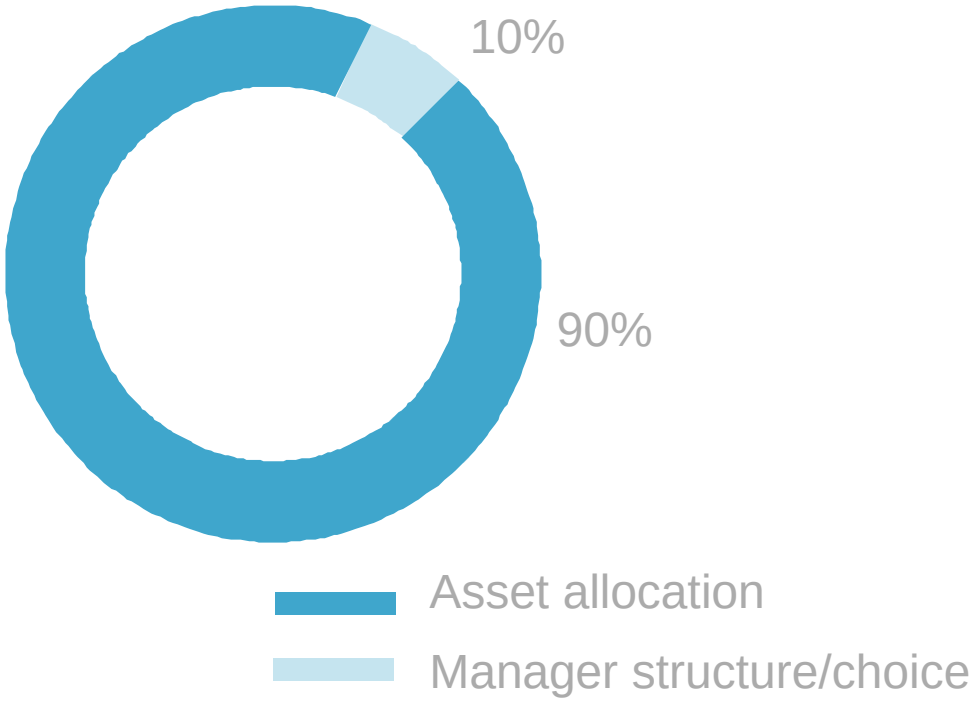
- Need to ensure that assets will be sufficient to meet all outgoings
  - Can vary amounts coming in (more contributions; higher return)
  - Little scope to change what is paid out

# Factors that influence strategy, include

- Contributions
- Funding objectives and risk tolerance
- Funding position
- Fund maturity
- Employer covenant
- Combination of one or more of the above

# Investment strategy – why it is important

Contribution to risk/ return

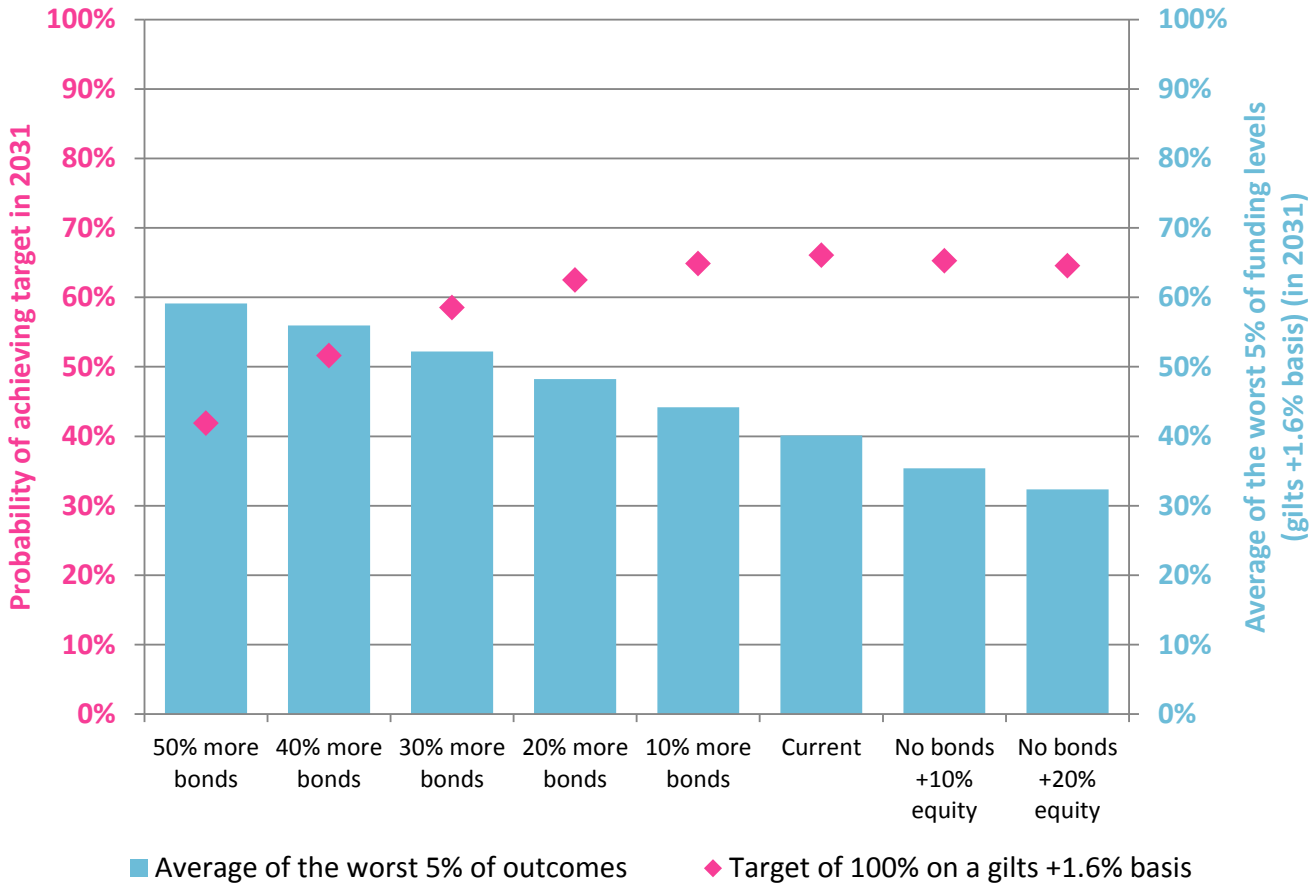



- Asset allocation - dominates risk and potential success
- Supports Myners' focus on strategy
- Agree high level strategy then think about structure of assets

# Observations from 2013 ALM

- Analysis supported strategy at the time
- Suggested no material benefit from adding to "growth" assets.
  - Adding equities would reduce diversification and probability of "success".
  - This does not preclude changing the mix of growth assets.
- There was potential scope to de-risk small amount for slight improvement in risk measure, however this also resulted in a small reduction in the probability of success

# Ongoing basis – probability of success versus risk at 2031




2013/14 Analysis

- Criteria for "success": 100% funding on ongoing basis by 2031.

# Changed market conditions 2013 - 14

- Funding level increased from 79% at the 2013 valuation to c 89% at May 2014
- De-risking discussed at Strategy Day (25 June 2014)
- Funding level fell back before action could be taken
- Trigger set at 85% for a 5% reduction in equities
- “3DAnalytics” introduced to allow Officers to monitor the position

# Last year's de-risking

- The funding level trigger of 85% was breached on 11 March 2015.
- LGIM were instructed to switch 5% of Fund assets (£135m) from the Fund's UK and Global equity holdings into the LGIM Over 5 Years Index Linked Gilt fund.
- The impact of this has been positive for the Fund as equity markets have fallen over the period since the de-risking took place. The table below looks at index returns for each of the funds involved over the period 11 March 2015 to 21 August 2015. It sets out the monetary impact of the de-risking.



| Fund | Index return 11/03 – 21/08 | Value added |
|---|---|---|
| L&G UK equity | -4.5% | -£3.7m |
| L&G Global equity | -7.6% | -£4.1m |
| L&G Over 5 Year Index Linked Gilts | 9.3% | +£12.6m |

# Strategy summary

- One of the most important investment decisions
- 2016 valuation opportune time to revisit existing arrangements
  - Fund and employer level
- Ensure governance arrangements are implement effectively and efficiently

After investment strategy, focus on investment structure aspects

# Investment structure

- Using the risk budget “efficiently”
- Factors include
  - Active versus passive
  - Level of diversification
  - Choice of benchmark
  - Ability to access asset classes
  - Market conditions

# Actual relative to benchmark

| Asset class | Actual weight % | Benchmark weight % | Over/under weight % | Approx £value |
|---|---|---|---|---|
| Global equities | 38.8 | 38.0 | | |
| UK equities | 10.1 | 12.0 | | |
| Private equity | 5.6 | 5.5 | | |
| Total equity | 54.5 | 55.5 | -1.0 | -£27m |
| Property | 11.5 | 10.0 | +1.5 | +£42m |
| Multi-asset | 21.0 | 23.0 | | |
| Infrastructure | 1.6 | 2.0 | | |
| Total alternatives | 22.6 | 25.0 | -2.4 | -£65m |
| Fixed Income | 4.0 | 3.5 | | |
| Index-linked gilts | 5.3 | 5.0 | | |
| UK Financing | 0.4 | 1.0 | | |
| Cash | 1.6 | 0.0 | | |
| Total bonds and cash | 11.3 | 9.5 | +1.8 | +£50m |

# Rebalancing

- Key part of “governance dividend”
- Selling assets that have outperformed to buy underperforming assets
- Cost implications must be understood
- Strategic rebalancing key priority
- Manager rebalancing second-order

# PERFORMANCE AND FEES

# WM PRESENTATION

# Manager mandates and objectives (listed)

| Manager | Mandate | Benchmark | Performance objective |
|---|---|---|---|
| Legal & General | Global equities | FTSE All World | Track index |
| Legal & General | UK equities | FTSE All Share | Track index |
| Legal & General | Index-linked gilts | FTSE IL Over 5yr index | Track index |
| Lazard | Global equities | FTSE All World | Outperform benchmark by c3%p.a. |
| State Street | Fundamental indexation | FTSE RAFI All World 3000 | Track index |
| Longview | Global equities | MSCI AC World | Outperform benchmark by c3%p.a. (indicative) |
| Newton | Absolute Return Fund | LIBOR | Outperform benchmark by 4%p.a. |
| Ruffer | Absolute Return Fund | LIBOR | Outperform benchmark by 4%p.a. |
| M&G | Bonds | Bespoke | Outperform benchmark by 0.8%p.a. (indicative) |
| Schroders | Property | IPD All Balanced funds | Outperform benchmark by 0.75%p.a. |

# Manager performance relative to benchmark

| | | 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 | -4.1 | -3.8 | -4.9 | -1.5 | -2.8 | 0.2 | -3.3 | -3.2 | 3.4 | -2.0 |
| | 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 | 0.9 | 1.6 | -0.1 | 0.1 | -2.9 | 0.1 | 0.0 | 0.3 | 0.1 | 0.9 |
| 12 Months (%) | Absolute | 10.3 | 10.7 | 21.1 | 6.5 | 2.7 | 2.5 | 11.5 | 3.7 | 5.5 | 16.1 | 9.4 |
| | Benchmark | 10.2 | 10.2 | 9.5 | 6.4 | 2.6 | 0.5 | 0.5 | 3.7 | 4.0 | 15.5 | 6.5 |
| | Relative | 0.1 | 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 | 13.7 | 12.4 | 18.6 | 6.7 | 11.2 | 3.7 | 8.8 | N/A | 6.8 | 12.3 | 10.9 |
| | Benchmark | 13.6 | 13.6 | 8.5 | 6.8 | 11.0 | 0.5 | 0.5 | N/A | 3.9 | 10.8 | 9.3 |
| | Relative | 0.1 | -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 | 9.2 | 8.6 | N/A | N/A | 5.4 | 5.0 | 6.7 | N/A | 5.9 | 9.3 | 7.1 |
| | Benchmark | 9.1 | 9.9 | N/A | N/A | 5.2 | 0.6 | 0.6 | N/A | 4.2 | 8.9 | 6.6 |
| | Relative | 0.1 | -1.1 | N/A | N/A | 0.2 | 4.4 | 6.1 | N/A | 1.6 | 0.4 | 0.5 |

# Manager fees – market rates

## Equities

| % p.a. | UK | N America | Europe (ex UK) | Japan | Asia (ex Japan) |
|---|---|---|---|---|---|
| Passive | 0.04 – 0.1 | 0.08 – 0.2 | 0.08 – 0.25 | 0.08 – 0.25 | 0.18 – 0.28 |
| Active | 0.45 – 0.65 | 0.5 – 0.8 | 0.5 – 0.8 | 0.5 – 1.0 | 0.6 – 1.0 |

Source: eVestment, individual managers

## Other asset classes

| % p.a | UK Bonds | UK index-linked | Infra (LP) | Infra. (FOF) | Private Equity (FOF) | Property (FOF) |
|---|---|---|---|---|---|---|
| Passive | 0.09 | 0.03 | n..a | n.a. | n.a. | n.a. |
| Active | 0.25 | 0.12 | 1.35 | 1.65 | 2.30 | 0.90 |

Source: CEM analysis 2013

# NEW IDEAS AND TOPICAL THEMES

# ESG – RESPONSIBLE INVESTMENT

# What is Responsible Investment?

*"Responsible investment isn't about changing the world; it's about understanding how the world is changing and how companies will be affected"*

Jane Ambachtsheer, Mercer

# What it is not

≠ ethical investment

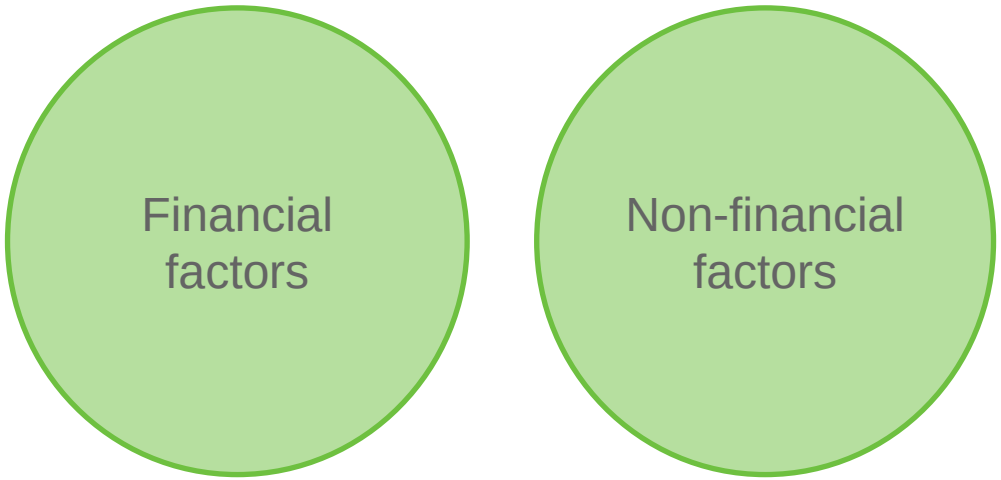
≠ values driven

≠ Shariah compliant

# Law Commission Report & Fiduciary Duty

- "The most important distinction is between the factors relevant to increasing returns or reducing risk (financial factors) and those which are not (non-financial factors)"

Law Commission
Reforming the law




**Test 1 -** Trustees should have good reason to think that scheme members would share their concerns

**Test 2 -** The decision should not involve a risk of significant financial detriment to the Fund

**MPS' PENSION FUND AT RISK FROM FOSSIL FUEL INVESTMENTS**

17 February 2015, The Guardian

**GREENWICH POLITICIANS SIGN OPEN LETTER URGING GREENWICH COUNCIL TO PULL £17M INVESTMENT FROM COMPANIES ASSOCIATED WITH FOSSIL FUELS**

NewsShopper 5 May 2015

**EXPOSED: THE WORST (AND BEST) UK SCHEMES FOR MITIGATING CLIMATE CHANGE RISK**

Professional Pensions 28 Apr 2015

**WEBSITE LAUNCHED TO HELP MEMBERS PRESSURE SCHEMES ON HIGH-CARBON ASSETS**

Professional Pensions 14 May 2015





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# POOLING AND COLLABORATION POST THE BUDGET

# Pooling and collaboration

- Budget (8 July) –

*'the government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments.'*

# LGPS Collectivisation

| Date | Initiative | Implication |
|---|---|---|
| **May 2013** | Brandon Lewis speech at NAPF LGPS conference | Fund merger – 5 groups nationally – seemed likely |
| **June-Sept 2013** | DCLG/LGA Call for Evidence | Consultation on objectives<br>1. Managing deficits<br>2. Investment efficiency |
| **Nov-Dec 2013** | DCLG commissions research from Hymans Robertson | Cost benefit analysis on 3 options including asset pooling<br>1. Savings can be achieved faster using pooling rather than merging funds<br>2. In aggregate the LGPS has not outperformed the benchmark |
| **May-July 2014** | Further DCLG consultation | Merger ruled out. Consulting on asset pooling and the greater use of passive |
| **July 2015** | Summer Budget pooling announcement | The LGPS needs to identify a viable, holistic solution which delivers significant savings within a defined time period |

# 2015 Budget - Mythbusters

- Active vs passive argument?
  - Government will not mandate passive investment
  - Need to improve poor performance, not “level down”
- Collectivisation means losing local control?
  - No. Strategy setting and accountability will remain local
- We need to find £xm in savings
  - Substantial demonstrable savings will be required
- Aim is 5 regional pools
  - No. Government open minded about alternatives
- Government trying to grab money for infrastructure
  - Not true. But pooling some LGPS money for infrastructure could be part of the overall package

# 2015 Budget – What does government want?

- Engagement by all
- Proposals on pooling with appropriate scale
- A clear picture of how various initiatives fit together
- Significant savings - quantified and evidenced
- Savings able to be monitored and enforced
- Explain governance for individual initiatives
- "pooling" is wider than CIVs – could be a mixture of CIVs, joint procurement, co-investment
- A fall back or default for underperformers?



Proposals must be "sufficiently ambitious"

# DIVERSIFICATION – OTHER ASSET CLASSES

# Tangible investment objectives

The investment strategy is best framed around achieving the desired balance between three broad objectives of any pension fund:

1. Delivering sufficient return to meet the funding target and target level of contributions - **“growth”**
2. Generating income required or structuring the assets to meet the Fund's income requirements – **“income”**
3. Employing investment strategies that provide some downside protection or diversification benefit to maintain stability in the level of contributions – **“protection”**

We expect that the emphasis will (and should) remain on generating return, but a better sense of other aspects increasingly important

**Growth**

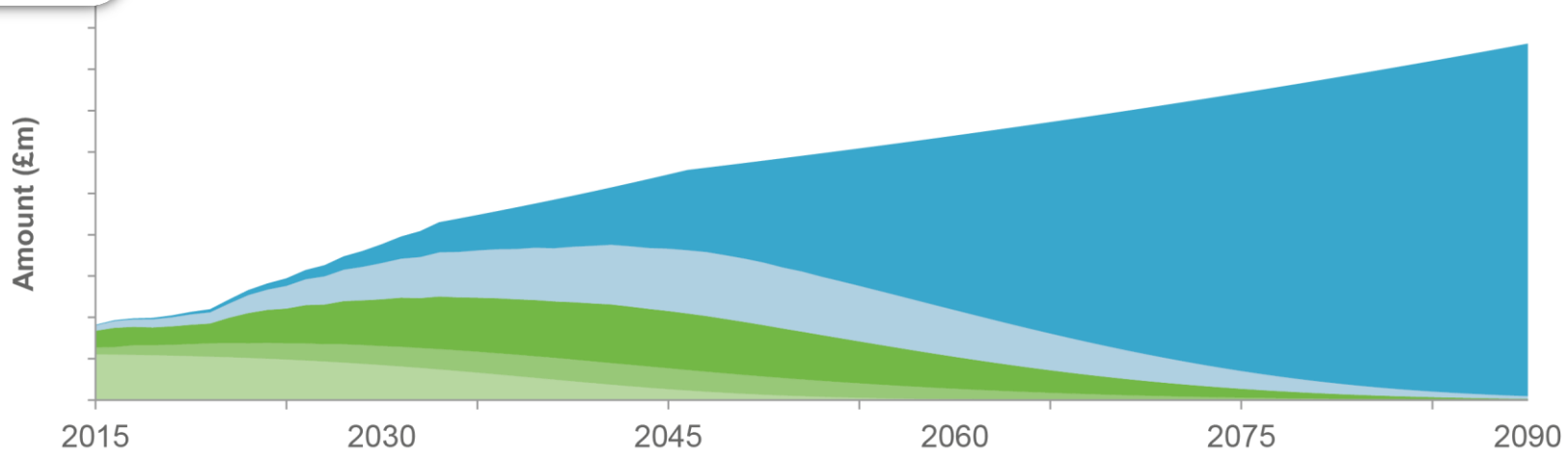
**Income**

**Protection**

# Populating the building blocks

| | Current exposure |
|---|---|
| **Growth** | Primarily<br><br>• Equities<br>• Private equity<br>• DGF |
| **Income** | Primarily<br><br>• Property<br>• Debt related investments<br>• DGF<br><br>Increasingly important as the Fund matures & deficits repaired |
| **Protection** | Primarily<br><br>• Index-linked gilts |

# Protection – the LGPS

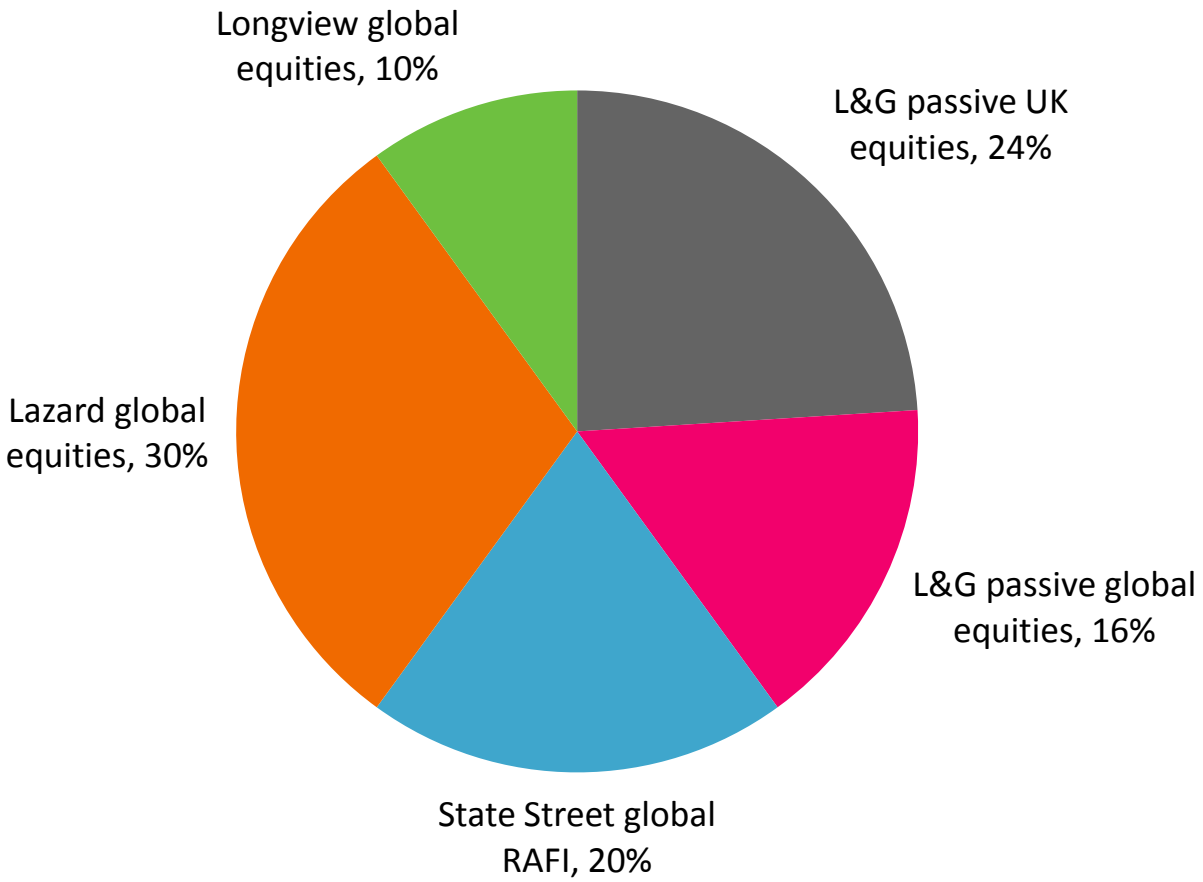



| | |
|---|---|
| **Priorities** | • Achieve affordability and stability<br>• Generate sufficient long-term real returns |
| **Market risks** | • Inflation (CPI/Uncapped)<br>• Growth assets |
| **Main forms of protection** | • **Growth asset diversification**<br>• **Income generating real assets**<br>• **Low risk liquid assets**<br>• **Inflation hedging** |

…your protection should reflect the Fund's priorities

# THE EQUITY PORTFOLIO

# Current portfolio allocation



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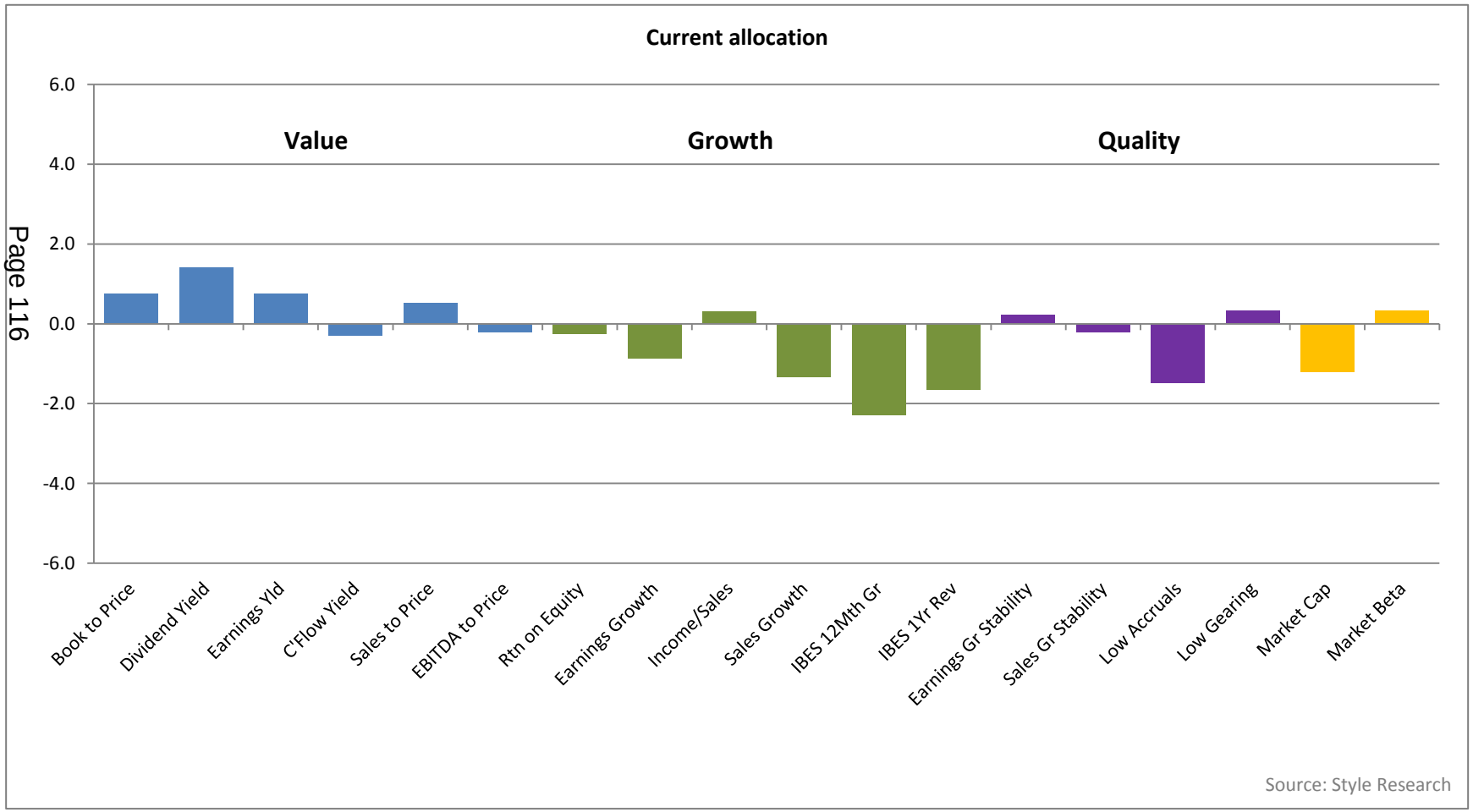
# Current portfolio style characteristics



# Equity portfolio observations

- Currently the portfolio has a moderate positive tilt towards stocks with “value” characteristics and a slightly stronger tilt away from stocks with “growth” characteristics compared to the benchmark;
- There is a modest tilt away from quality measures and also a tilt towards smaller size stocks.

# Options

- See separate papers

# SUMMARY OF DECISIONS

# Summary

- What are we happy to retain and what do we want to change
- Confirm the decisions on rebalancing
- Confirm the decisions on the equity portfolio
- Agree priorities and training requirements
- Set timetable

# Thank you

Any questions?

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| | |
|---|---|
| Report to: | **Pension Committee** |
| Date: | **29 September 2015** |
| By: | **Chief Operating Officer** |
| Title: | **Programme of Future Quarterly Meetings with Fund Managers** |
| Purpose: | **The Committee to consider the frequency with which the fund managers are scheduled or requested to attend meetings.** |

**RECOMMENDATIONS**

**The Pension Committee is requested to agree the proposed programme of meeting Fund Managers**

## 1. Introduction

1.1 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 for growth and diversify investment strategy.

1.2 The Committee at its 27 July 2015 meeting considered a paper on the strategy for meeting with the East Sussex Pension Fund managers, and agreed that managers to be seen once every three years, should be changed to two years. 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.

## 2. Investment Managers and Governance

2.1 The Fund has a total of 13 distinct investment managers / mandates (including two private equity managers). It is recommend that 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.

2.2 A risk-based approach has always been taken to monitoring the fund managers' performance; for example, the active equity managers were seen more often than the passive manager. A key risk control is the monitoring of the managers, which is performed on behalf of the Fund by its adviser, Hymans. Hymans has specialist research teams to monitor fund managers, and Hymans reports its views and ratings on each manager to the Committee every quarter.

## 3. Proposed new programme of future quarterly meetings

3.1 The proposed new pattern is as follows, assuming fund managers are still engaged;

| | Fund Managers | Managers to be seen |
|---|---|---|
| 1 | Longview (Global equities) | once per year |
| 2 | Lazard (Global equities) | once per year |
| 3 | Ruffer (Absolute return) | once per year |
| 4 | Newton (Absolute return) | once per year |
| 5 | Schroder (property) | once per year |
| 6 | M&G (bonds | once per year |
| 7 | Adam Street | Once every two years |
| 8 | HarbourVest | Once every two years |
| 9 | Infracapital (M&G Infrastructure) | Once every two years |
| 10 | UBS (Infrastructure) | Once every two years |
| 11 | M&G (Financing Fund) | Once every two years |
| 12 | L&G (passive manager) | As necessary |
| 13 | State Street (passive manager) | As necessary |

3.2 This gives a proposed new programme attached as Appendix A below, with following options:

- Option 1 - Managers meeting arranged in line with classes of assets.
- Option 2 - Managers meeting arranged randomly but complies with agreed arrangements in Para 3.1 above.

3.3 It is helpful to plan the programme of meetings in advance so that the key fund manager can be invited to attend the meetings well in advance. Most trustee groups hold their meetings around the same point in the quarterly cycle, and therefore key managers are unlikely to be available to attend at short notice. However, should the Committee have any concerns about the performance of a particular manager, it would be appropriate to invite that manager to attend more quarterly meetings than indicated in the proposed programme shown above.

3.4 The arguments in favour of seeing the managers include provision of valuable (and free) training and background information for Committee members which is useful not just in monitoring the existing managers, but helpful when selecting new managers and monitoring other managers; and it's particularly useful for new Committee members; without it they would not gain an understanding of how the Fund's money is managed or what each of the managers does.

## 4. Conclusion and reasons for recommendations

4.1 The Committee is requested to agree the frequency with which the fund managers are scheduled to attend the Committee meeting.

**KEVIN FOSTER**
**Chief Operating Officer**


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


LOCAL MEMBERS

All

BACKGROUND DOCUMENTS

None

**Appendix A**

**Option 1 - Managers meeting arranged in line with classes of assets.**

| Year | February | May | September | November |
|---|---|---|---|---|
| **2015** | | | | Ruffer (Absolute return) |
| | | | | Newton (Absolute return) |
| **2016** | Schroder (property) | Longview (Global equities) | Ruffer (Absolute return) | Adams Street |
| | M&G (bonds) | Lazard (Global equities) | Newton (Absolute return) | HarbourVest |
| **2017** | Schroder (property) | Ruffer (Absolute return) | Longview (Global equities) | Infracapital (M&G Infrastructure) |
| | M&G (bonds) | Newton (Absolute return) | Lazard (Global equities) | UBS (Infrastructure) |
| **2018** | M&G (Financing Fund) | Schroder (property) | Ruffer (Absolute return) | Longview (Global equities) |
| | Adams Street | M&G (bonds) | Newton (Absolute return) | Lazard (Global equities) |
| **2019** | Longview (Global equities) | L&G (passive manager) | Schroder (property) | Ruffer (Absolute return) |
| | Lazard (Global equities) | State Street (passive manager) | M&G (bonds) | Newton (Absolute return) |
| **2020** | Infracapital (M&G Infrastructure) | Longview (Global equities) | Ruffer (Absolute return) | Schroder (property) |
| | UBS (Infrastructure) | Lazard (Global equities) | Newton (Absolute return) | M&G (bonds) |

**Option 2 - Managers meeting arranged randomly**

| Year | February | May | September | November |
|---|---|---|---|---|
| **2015** | | | | Longview (Global equities) |
| | | | | Newton (Absolute return) |
| **2016** | Schroder (property) | Lazard (Global equities) | Longview (Global equities) | M&G (bonds) |
| | M&G (Financing Fund) | Ruffer (Absolute return) | Newton (Absolute return) | L&G (passive manager) |
| **2017** | UBS (Infrastructure) | Schroder (property) | Lazard (Global equities) | Longview (Global equities) |
| | Infracapital (M&G Infrastructure) | M&G (bonds) | Ruffer (Absolute return) | Newton (Absolute return) |
| **2018** | Schroder (property) | Longview (Global equities) | M&G (bonds | Lazard (Global equities) |
| | Adam Street | Newton (Absolute return) | HarbourVest | Ruffer (Absolute return) |
| **2019** | Lazard (Global equities) | M&G (bonds | Longview (Global equities) | Schroder (property) |
| | Ruffer (Absolute return) | State Street (passive manager) | Newton (Absolute return) | M&G (Financing Fund) |
| **2020** | Lazard (Global equities) | Schroder (property) | M&G (bonds | Longview (Global equities) |
| | Ruffer (Absolute return) | Adam Street | HarbourVest | Newton (Absolute return) |

| | |
|---|---|
| Report to: | **Pension Committee** |
| Date: | **29 September 2015** |
| By: | **Chief Operating Officer** |
| Title: | **Investment Consultancy, Actuarial and Benefit Consultancy Services.** |
| Purpose: | **The Committee to consider the appointment of service provider(s) regarding Investment Consultancy Services, and Actuarial and Benefit Consultancy Services.** |

**RECOMMENDATIONS**

**The Pension Committee is requested:**

**1) to note the report and agree nominations in respect of the Appointments Panel members; and**

**2) to decide if it wishes to delegate the decision to the Appointments Panel or receive a report from them.**

## 1. Introduction

1.1 All LGPS Funds are required to seek professional advisors, including the appointment of a suitably qualified Actuary. Hymans Robertson is currently contracted to provide Investment Consultancy, Actuarial and Benefit Consultancy services to the East Sussex Pension Fund, and appointed as the East Sussex Pension Fund Actuary.

1.2 The Pension Fund's currently has few third party service providers including-

| Description | Service | Contract end date |
|---|---|---|
| State Street Previously WM | Performance measurement firm | 31 December 2015 |
| Hymans Robertson | Investment Consultancy | 30 November 2015 |
| Hymans Robertson | Actuarial and Benefit Consultancy | 30 November 2015 |
| William Bourne | Investment Advisor | 31 December 2016* |

*6 months notice

1.3 The actuary (Hyman Robertson's) services include -

- The actuary's main functions include but not limited to:
  - Triennial actuarial valuation of the fund;
  - Certification of the contributions payable;
  - Certification of individual transfers;
  - Certification of bulk transfers for new admitted and scheduled bodies;

- Investment consultancy services include but not limited to:
  - Review of asset allocation, investment strategy/management structure;
  - Working with the Fund Actuary to undertake asset liability modelling as required;
  - Monitoring and reporting of investment managers and producing quarterly reports based on data provided by the performance measuring company or incorporating other third party reporting as may be required in a cost effective manner
  - Attendance at meetings as required;
  - Providing training to Members and officers as required, etc.

1.4 The Fund now needs review all its exiting ongoing service providers contact and also to appoint an investment, actuary and benefit consultant to support the Fund and its employers through the next triennial valuations.

## 2. National LGPS Procurement Framework

2.1 Ordinarily this would require the Fund to undertake a full EU procurement exercise. However, the fund will be using an established EU compliant National LGPS Frameworks to access the Investment Consultancy, Actuarial and Benefit Consultancy Services. The framework agreement provides a much quicker, more efficient, fully EU compliant procurement route for the appointment of investment, actuarial and benefit consultancy services provider. In the officers view all the leading firms who cover these areas are included in the framework.

2.2 The National LGPS Framework (press release attached as Appendix 2) will significantly reduce the time and cost associated with procurement by offering a facility that has already been competitively tendered. The frameworks can reduce procurement timescales from six to nine months to as little as four to six weeks, with significant reduction in procurement costs.

- Service Providers on the *Actuarial and Benefit Consultancy Services* framework include -
  - AON Hewitt
  - Barnett Waddingham
  - Hymans Robertson LLP
  - Mercer Limited
  - Price Waterhouse Coopers LLP

- Service Providers on the *Investment Consultancy Services* framework include –
  - Aon Hewitt
  - Deloitte Total Reward and Benefits
  - Hymans Robertson LLP
  - JLT Consulting
  - Mercer Limited

## 3. Key Appointment

3.1 The appointments of an Investment Consultant and an Actuary are key appointments for the Fund. The quality and timely provision of these services is critical to the Fund because the advice delivered often relates to sensitive situations for the Fund, Members, and participating employers. Many of the actuarial outputs are provided direct to Fund employers and therefore the reporting reflects directly on our relationship with those stakeholders. A summary of the procurement process and timeline for this contract is attached as Appendix 1.

## 4. Appointments Panel

4.1 Appointments Panel will be required to oversee the selection and appointment of service provider(s) regarding Investment Consultancy Services, and Actuarial and Benefit Consultancy Services. Members of the Panel will need to satisfy themselves as to the suitability of service providers and ensure a fair, open, and transparent appointments process that produces a quality outcome.

4.2 The Panel will report appropriately on the appointments made to the Pension Committee. It is envisaged that the Panel operate selection processes as a panel of two members, plus officers including the Chief Finance Officer. Alternatively the committee may wish to delegate the decision to the Panel.

## 5. Conclusion and reasons for recommendations

5.1 The Committee is requested to note the report and agree nominations in respect of the Appointments Panel.

**KEVIN FOSTER**
**Chief Operating Officer**


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


LOCAL MEMBERS

All

BACKGROUND DOCUMENTS

None

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# Appendix 1

| Proposed Timetable Investment, Actuarial and Benefit Consultancy Contract Procurement - ***Draft*** | | |
|---|---|---|
| **Description** | **Timeline/Dates** | **Comments** |
| Approval for procurement strategy | | |
| Department consultation / preparation of documents for mini competition | By end August 2015 | |
| Publish invitation to tender (ITT) for mini competition<br>*Under framework 3-4 weeks necessary* | Thursday<br>3 September 2015<br>(4 weeks) | Need to consider if there are any additional requirements to the standard specification? |
| Bids Returned | Thursday<br>1 October 2015<br>(subject to change)? | |
| Evaluate Tenders and Presentations from bidders.<br>Determine preferred bidder.<br>Refer to Finance/Legal<br>Make award recommendation | Thursday 1 October 2015 to Thursday 22 October 2015 | |
| Report to the Chief Finance Officer and Pension Committee | 22 October to 30 October 2015 | |
| Notice of Award<br>10 Day Cooling Off *(10 calendar days if award notification via email and must end on a working day 15 days if via letter)* | Thursday 30 October 2015 (10 days ends Monday 9 November 2015) | |
| Mobilisation Period | 9 November – 30 November 2015 | Need to consider if this amount of time is needed, and how much handover is planned. |
| Contract Start | 1 December 2015 | |

*Key dates*
*Sample dates – subject to change*

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Norfolk Pension Fund

National LGPS Frameworks

By LGPS Funds, for LGPS Funds

**National LGPS Investment Consultancy Procurement Framework launched**

A better way of securing investment consultancy advice is now available nationally to Local Government Pension Scheme funds and employing authorities through a new procurement framework.

This is the second framework produced under the National LGPS Frameworks collaboration, which is aiming to save time and money for LGPS funds by driving forward with a series of procurement frameworks. The Investment Consultancy Services framework follows the launch last July (2012) of the framework for Actuarial and Benefit Consultancy Services.

The fully OJEU compliant Investment Consultancy framework is now open for business to all LGPS Funds and employing authorities after the completion of thorough and extensive due diligence. It will help them procure Investment Consultancy services for their Fund far more effectively and efficiently, with just as much benefit for small funds as for large.

Using the framework saves LGPS Funds significant time and money by allowing quicker and more efficient procurement of high-quality and value for money investment consultancy services from a range of qualified providers.

Crucially, the framework enables LGPS Funds to leverage better prices while still supporting local decision making and service requirements.

The national LGPS procurement frameworks are a direct example of Funds collaborating effectively to deliver benefits both locally and nationally across the LGPS. They are a result of collaboration between local authorities and the LGPS, with the support of the Department for Communities and Local Government and the Local Government Association.

Discussions about the project are also ongoing with HM Treasury and Cabinet Office as part of the wider efficiency programme.

“Enterprising and effective collaborations like this are the type of approach we are keen to encourage", said Francis Maude. "I am excited about the opportunities the frameworks could create as part of the wider HM Treasury and Cabinet Office efficiency programme."

Local Government Minister Brandon Lewis added, "These frameworks provide a real opportunity to harness the combined buying power of the LGPS and achieve real savings in time and value for money"

An important principle for the founder Funds is that all LGPS Funds using the framework should benefit equally from the collaboration.

"This isn't about big Funds versus smaller Funds, or profiteering" said Nicola Mark, Head of the Norfolk Pension Fund, "It's about delivering something that all Funds can benefit from, making something we all need to do a lot better, faster and cheaper."

**Actuarial and benefit consultancy services framework already providing real benefits**

Launched in July 2012, the National LGPS Framework for Actuarial and Benefit Consultancy Services has significantly reduced the procurement timescale for LGPS Funds from six-nine months to as little as four-six weeks.

Procurement costs can be slashed by up to 90%, with Funds gaining real flexibility in the planning and running of their tender processes. You simply 'call-off' the framework to meet your requirements, using pre-agreed terms and conditions.

"I found the framework a much easier route through the tender process, and the documents were easy to follow" said Paul Campbell, Head of Investments and Treasury Management at Teesside Pension Fund.

**Custodian Services Framework coming soon**

Further frameworks are in the pipeline with custodian services next in line. Mercer has been appointed as the technical advisor to this framework and work is well underway for a planned launch in September 2013.

"We are pleased to support the groundbreaking work being done by National LGPS Frameworks. Mercer will draw upon the expertise of the custody specialists within our Mercer Sentinel® team to help the Framework Founders secure advantageous terms from the global custody industry for the benefit of all participating LGPS funds" said Ben Gunnee, Mercer Sentinel's European Director,

If you are interested in using one of the National LGPS Frameworks or would just like to find out more, please email NationalLGPSFrameworks@norfolk.gov.uk or call 01603 223950.

---

**Notes for Editors**

The following service providers have been appointed to the National LGPS Framework for Investment Consultancy Services:

- Aon Hewitt
- Deloitte Total Reward and Benefits Limited
- Hymans Robertson LLP
- JLT Investment Consulting
- KPMG
- Mercer Limited

Once again this National LGPS Framework is the outcome of collaboration between several LGPS Funds, including Buckinghamshire, Cambridgeshire, Croydon, Hackney, Lincolnshire, Norfolk and Northamptonshire. Procurement and legal support has been provided by specialists from Norfolk County Council.

For more information about the National LGPS Frameworks please contact us:

Tel – 01603 222139
Email – nationallgpsframeworks@norfolk.gov.uk

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| | |
|---|---|
| Report to: | **Pension Committee** |
| Date: | **29 September 2015** |
| By: | **Acting Head of Orbis Business Operations** |
| Title: | **Officers' Report – Business Operations** |
| Purpose: | **To provide an update on the administration service provided to the Pension Fund by Orbis Business Operations** |

**RECOMMENDATIONS**

**The Pension Committee is recommended to note the update provided and highlight any areas of particular interest for consideration at future Committee meetings.**

## 1 Introduction

1.1 Business Operations within Orbis have prepared this summary of topical administration areas that may be of interest to the Board. This report is provided for information and 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 monthly KPI reports for June and July are attached as **Appendix 1**.

2.2 Following feedback from members of both the Pension Board and the Pensions Committee, the KPI reports have been amended from those provided previously to incorporate the following additional information:-

A) Target task completion times – see column 1
B) Potential Impact – see new 'Impact' column and commentary on red status cases

2.3 It is hoped that this will make the summary report more meaningful for Board members in highlighting any areas of concern. The overall impact of performance below 100% target level on certain tasks is deemed to be low because of the numbers involved and the average actual task completion times. The principal reason for not meeting 100% target levels in all cases remains staff shortages and this is being addressed in two ways:-

- Ongoing recruitment to existing vacancies. This may be impacted (potentially positively) by the forthcoming relocation of the Pensions team from Uckfield to Lewes
- Review of staffing numbers to take place once CIFPA Benchmarking results are published (expected beginning of September). Benchmarking results will be provided to the Board.

## 3 Communications with members - Annual Benefit Statements 2015

3.1 As reported previously, the LGPS regulations introduced a timescale of 31 August 2015 for the production of annual benefit statements to active and deferred members. For active members, this was always going to be 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 Due to a combination of resource shortages and the complications with producing new year-end data, we have been unable to meet the 31 August target for 2015. Work is progressing

on the processing of year-end returns and a summary of the latest position is attached as Appendix 2.

3.3 Business Operations is aware that failure to complete the issuing of annual statements within the new statutory timescale will mean the requirement to report a breach to The Pensions Regulator. However, the LGA is aware that a significant number of local authority funds are facing a similar position and it is hoped they can reach an agreement with the Regulator for this first year of CARE statements. Appropriate plans will be put in place to ensure compliance in 2016.

3.4 We advised previously that a new user-friendly statement was being developed in conjunction with a number of local authority funds and this is attached as Appendix 3.

## 4 Pensions Administration system – Procurement - update

4.1 As reported previously, the Orbis procurement team are undertaking a joint procurement exercise to determine the most appropriate system to adopt when the current licensing contract expires in April 2016. Negotiations are still ongoing and Business Operations should be in a position to provide a decision summary at the next Board meeting.

## 5. Conclusion

5.1 The subject areas contained in this initial report are intended as background or 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

LOCAL MEMBERS

All

BACKGROUND DOCUMENTS

None

# Pensions – June 2015

## Critical Performance Monitoring

| | Item and target time | Target | Impact | Feb | Mar | Apr | May | June | Comments (Where target is Red) |
|---|---|---|---|---|---|---|---|---|---|
| | **1.** Full reconciliation of every suspense account within agreed timescales | 100% | L | 100% | 100% | 100% | 100% | 100% | |
| | **2.** Calculation of spouses benefits within specification - 5 days | 100% | M | 75% | 94% | 79% | 83% | 76% | Of a total of 17 cases, 4 missed target, by an average of 3.75 days. |
| | **3.** Deferred benefit notifications within specified timescales -25 days | 100% | L | 95% | 93% | 69% | 81% | 88% | Of a total of 197 cases, 23 missed target by an average of 31days |
| Transfers/ Interfunds I IN – | **4a.** Request values within specified timescales – 10dys | 100% | L | 100% | 94% | 95% | 97% | 94% | |
| | **4b.** Request payment within specified timescales – 10 days | 100% | L | 90% | 94% | 91% | 100% | 100% | |
| Transfers/ Interfunds Out | **5a.** Provide quote within specified timescale - 25 days | 100% | L | 100% | 95% | 100% | 97% | 100% | |
| | **5b.** Make payment within specified timescale – 25 days | 100% | L | 100% | 100% | 100% | 60% | 100% | |
| | **6.** Refunds - within specified timescales -10 days | 100% | L | 91% | 100% | 97% | 97% | 100% | |
| | **7a.** Written complaints - acknowledged within 2 working days (2 days) | 100% | H | 0 | 1 | 1 | 1 | 2 | |
| | **7b.** Written complaints - resolved and responded to within 5 working days (10 days for complex queries) | 100% | H | 0 | 0 | 1 | 1 | 1 | |
| | **8.** Payslips despatched as per specification | 100% | H | 100% | 100% | 100% | 99.93 % | 100% | |
| | **9.** Payroll accuracy - as specified | 100% | H | 100% | 100% | 100% | 100% | 100% | |
| | **10.** Payment of lump sums within specification -7days | 100% | M | 93% | 93% | 88% | 82% | 87% | Of a total of 113 cases, 15 missed target by an average of 6.2 days |
| | **11.** Estimates provided within specified timescales | 100% | L | 82% | 76% | 47% | 73% | 79% | Of a total of 165 cases, 35 missed target by an average of 6.7 days |



### Exception Commentary

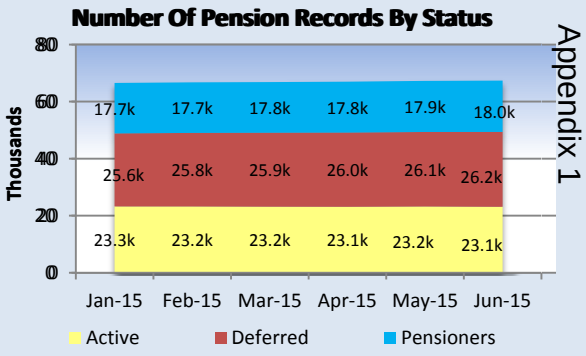
Items 2,3,10, 11; Case work has been carried out but delays to checking process continue.

Deferred benefits awaiting action remain virtually static, at 467, with the oldest case now 17 April 2014. Recruitment is underway to replace resigned and maternity positions – 1 FT offer made and accepted and 2 Temps in the pipeline, awaiting finalisation of recruitment process to employ them. 46 days holiday/sick absence recorded for month

**RAG Explanation**
**Green - 100% achievement**
**Amber - 90-99% Achievement**
**Red - Under 90% achievement**

### Key Volume Processes From 1/6/15

| | |
|---|---|
| Changes (addresses, hours, change personal details): | 255 (YTD 1278) |
| New Employers | 0 (YTD 0) |
| Nominations | 123 (YTD 366) |
| Starters : | 225 (YTD 889) |




Appendix 1

# Pensions – July 2015

## Critical Performance Monitoring

| | Item and target time | Target | Impact | Feb | Mar | Apr | May | June | July | Comments (Where target is Red) |
|---|---|---|---|---|---|---|---|---|---|---|
| | **1.** Full reconciliation of every suspense account within agreed timescales | 100% | L | 100% | 100% | 100% | 100% | 100% | 100% | |
| | **2.** Calculation of spouses benefits within specification - 5 days | 100% | M | 75% | 94% | 79% | 83% | 76% | 80% | Of a total of 20 cases, 4 missed target, by an average of 2.5 days. |
| | **3.** Deferred benefit notifications within specified timescales -25 days | 100% | L | 95% | 93% | 69% | 81% | 88% | 94% | |
| Transfers/ Interfunds I IN – | **4a.** Request values within specified timescales – 10dys | 100% | L | 100% | 94% | 95% | 97% | 94% | 94% | |
| | **4b.** Request payment within specified timescales – 10 days | 100% | L | 90% | 94% | 91% | 100% | 100% | 100% | |
| Transfers/ Interfunds Out | **5a.** Provide quote within specified timescale - 25 days | 100% | L | 100% | 95% | 100% | 97% | 100% | 100% | |
| | **5b.** Make payment within specified timescale – 25 days | 100% | L | 100% | 100% | 100% | 60% | 100% | 100% | |
| | **6.** Refunds - within specified timescales -10 days | 100% | L | 91% | 100% | 97% | 97% | 100% | 98% | |
| | **7a.** Written complaints - acknowledged within 2 working days (2 days) | 100% | H | 0 | 1 | 1 | 1 | 2 | 0 | |
| | **7b.** Written complaints - resolved and responded to within 5 working days (10 days for complex queries) | 100% | H | 0 | 0 | 1 | 1 | 1 | 0 | |
| | **8.** Payslips despatched as per specification | 100% | H | 100% | 100% | 100% | 99.93 % | 100% | 100% | |
| | **9.** Payroll accuracy - as specified | 100% | H | 100% | 100% | 100% | 100% | 100% | 100% | |
| | **10.** Payment of lump sums within specification -7days | 100% | M | 93% | 93% | 88% | 82% | 87% | 92% | |
| | **11.** Estimates provided within specified timescales | 100% | L | 82% | 76% | 47% | 73% | 79% | 88% | Of a total of 129 cases, 15 missed target by an average of 3.5 days |



## Exception Commentary

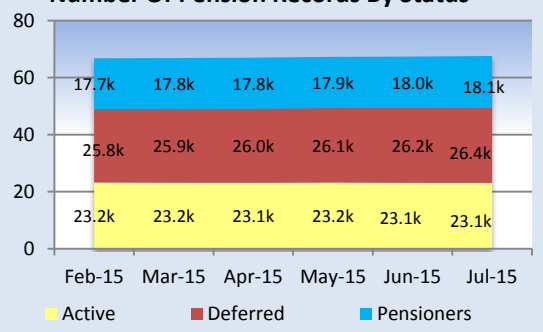
Improved performance across most measures.
Item 6 refers to single case.
Workshop held with SCC admin team to compare and align KPI measures for future design.
Deferred benefits awaiting action are now at 452, with the oldest case now being 23 April 2014.
Additional resource is still being recruited, (1 Perm & 2 Temps awaiting references) . 1 Resignation received, leaving 31 August 2015. Consequently further recruitment is now underway.
55 days holiday/sick absence recorded for month

**RAG Explanation**
**Green - 100% achievement**
**Amber - 90-99% Achievement**
**Red - Under 90% achievement**

## Key Volume Processes From 1/7/15

| | |
|---|---|
| Changes (addresses, hours, change personal details): | 289 (YTD 1,567) |
| New Employers | 1 (YTD 1) |
| Nominations | 146 (YTD 512) |
| Starters : | 389 (YTD 1,278) |

### Number Of Pension Records By Status



**SUMMARY OF BENEFIT STATEMENT PRODUCTION: STATUS AS AT 25 AUGUST 2015**

| Status | Number of Employers | Projected Date of Issue of Annual Statements | Comments |
|---|---|---|---|
| Year-End Return received and processing completed by Business Operations | 90 | Primary Run - Expected September | Includes ESCC and employers on ESCC payroll |
| Year-End Return received and in process by Business Operations | 11 | Secondary Run - Expected October | Includes Brighton and Hove CC as large number of queries. Also includes some late submissions. |
| Year-End Return received incomplete and with queries returned to employer | 3 | TBC | Statements dependant on responses from employer |
| Year-End Return not received | 2 | TBC | Statements dependant on responses from employer |

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Brought to you by

East Sussex County Council

lgps 2014 for you, for now, for the future

<title><initials> <surname>
<add1>
<add2>
<add3>
<add4>
<add5>
<Postcode>

East Sussex Pension Fund

**Contact**

ESCC.pensions@sesharedservices.org.uk

01825 744544

www.eastsussexpensionfund.org

ESCC Pensions Team, Tribune House, Bell Lane, Bellbrook Industrial Estate, Uckfield, East Sussex, TN22 1QL

Dear

I am pleased to send you your 2015 Annual Benefit Statement showing your benefits in the Local Government Pension Scheme (LGPS) to 31 March 2015.

The layout and the content have changed from previous years' statements so please read the notes on pages 4 to 6 carefully to make sure you understand the information the statement contains.

You should not base a decision to retire on the contents of this statement alone. Pension Services will calculate your exact entitlement when you retire based on your pensionable pay, membership and prevailing legislation at that time.

Yours sincerely

Simon Pollock – Acting Head of Orbis Business Operations

## Your personal and employment information as at 31 March 2015 1

| | | | | | |
|---|---|---|---|---|---|
| Full name | | | | DOB | |
| Partnership status | | Employer | | | |
| Date joined Fund | | Section of LGPS | | Job ref | |

## Your summary of total benefits as at 31 March 2015 2

| Standard benefit option | | | OR | Maximum lump sum option | | |
|---|---|---|---|---|---|---|
| Annual Pension | | £ | | Reduced Annual Pension | | £ |
| Lump Sum Retirement Grant<br>For membership before 01.04.2008 | | £ | | Increased Lump Sum Retirement Grant | | £ |

**These figures DO NOT include any reductions that would apply if your benefits are paid before your Normal Pension Age (NPA).**

NOTES | **Section 1** / **Section 2**: Page 4

## How your pension is calculated 3

**Please note:** The benefits calculated in this statement are based on the pay figures below, which have been supplied by your employer. It is important that you check these figures and contact your employer if you think that any of these pay figures are wrong.

| | | |
|---|---|---|
| **Your Final Salary Pensionable Pay** | | £ |
| **Your CARE Pensionable Pay Main Section** | | £ |
| **Your CARE Pensionable Pay 50/50 Section** | | £ |

## Your summary of total benefits on page 1 is made up of: 4

### Your Final Salary (FS) Pension Scheme

| | | |
|---|---|---|
| For membership to 31.03.2008 of | | |
| For membership from 01.04.2008 | | |
| **Total FS Annual Pension** | | £ |
| Lump Sum Retirement Grant based on membership to 31.03.2008 | | £ |

### Your total CARE account

| | | | |
|---|---|---|---|
| Opening balance at 01.04.2014* | £ | 0.00 |
| Adjustment for cost of living at 01.04.2014* | | none |
| 2014/15 build up | £ | |
| **Total CARE closing balance** | £ | |

* As 2014/15 is the first year of CARE these figures are intentionally zero as no opening balance can be recorded and any adjustment is applied on 1 April each year

## Your total CARE '2014/15 build up' is made up of:

### Scheme year April 2014 to March 2015

| | | | |
|---|---|---|---|
| | **Your CARE Pensionable Pay Main Section/49** | | £ |
| + | **Your CARE Pensionable Pay 50/50 Section/98**** | | £ |
| + | **Additional Pension Purchased**** | | £ |
| + | **Transfers in**** | | £ |

** If applicable

## Value of death in service benefits as at 31 March 2015 5

| | | |
|---|---|---|
| **Annual Survivor's Pension** | | £ |
| **Death in service lump sum** | | £ |

**Nomination details for death in service lump sum**

NOTES | Section 3: Page 4-5 | Section 4 / Section 5: Page 5-6

## Projections if you remain in the scheme until your Normal Pension Age (NPA) 6

| | | |
|---|---|---|
| **Your Normal Pension Age (NPA)** | | |
| **Projected Final Salary Pension built up to NPA** | | £ |
| **Projected CARE Pension built up to NPA** | | £ |
| **Total Projected Annual Pension at NPA** | | £ |
| **Total Projected Lump Sum Retirement Grant** | | £ |
| Projected Final Salary Survivor's Pension at NPA | | £ |
| Projected CARE Survivor's Pension at NPA | | £ |
| **Total Projected Survivor's Pension at NPA** | | £ |

## Your membership history 7

| Employer | Period from | Period to | Calendar length | % Whole time | Period of membership |
|---|---|---|---|---|---|

**Please note:** Only service up to 31/03/2014 is shown in this section because service is only used to calculate the final salary part of your pension. It is not used to calculate the new CARE pension from 01/04/2014.

## Tax and your pension 8

There are tax limits applicable to pension savings. The Lifetime Allowance (LTA) is the limit on the total value of pension benefits you can draw at retirement without incurring a tax charge. The LTA has been £1.25m since April 2014 and will reduce to £1m in April 2016.

### Lifetime Allowance

| | |
|---|---|
| **The percentage of your Lifetime Allowance used by the present value of your standard LGPS benefits shown in this statement** | |

NOTES | **Section 6** / **Section 7** / **Section 8**: Page 6

## KEEP IT SAFE: Remember this statement contains personal information

**These notes have been provided to explain your Annual Benefit Statement (ABS) 2015. They cannot cover every circumstance and in the event of any dispute, the appropriate legislation will prevail. They DO NOT confer any contractual or statutory rights**

## Section 1

### Your personal and employment information as at 31 March 2015

**Personal details**
If your name, date of birth or partnership status is incorrect, please email **ESCC.pensions@sesharedservices.org.uk** to advise us of the correct details.

**Employer at 31 March 2015 and Job Reference**
This is your employer as at 31 March 2015 and the specific job reference for your post. If you held more than one active post at this date then you will receive an ABS for each post. If you have left employment after 31 March 2015 you will receive a separate notification of benefits built up to your date of leaving.

**Date joined Fund**
This is the date you joined the Fund in this post with your current employer.

**Section of LGPS**
From 1 April 2015 there are two Sections to the LGPS, the Main and the 50/50. The Section you were in on 31 March 2015 is shown here.

## Section 2

### Your summary of total benefits as at 31 March 2015

**Annual Pension =** Total Value of Pension as at 31 March 2015, including Final Salary (FS) Pension (membership up to 31 March 2014) and Career Average Revalued Earnings (CARE) benefits (for membership from 1 April 2014).

**Lump Sum Retirement Grant =** Lump Sum in respect of membership up to 31 March 2008.

Subject to HMRC limits, you have the option to convert some standard pension to increase the tax free lump sum. Every £1 of pension converted increases the lump sum by £12.

**Reduced Annual Pension =** The present value of your reduced pension if you opt to maximise your lump sum.

**Increased Lump Sum Retirement Grant =** The present value of the maximum amount you can increase your tax free lump sum retirement grant to.

Please note that these figures are governed by HMRC limits. The maximum lump sum that you can receive will be calculated by Pension Services when you actually retire. The figures quoted do not include any in-house AVC fund.

This section shows your total benefits built up to 31 March 2015 including the benefits related to any added years, or additional pension purchased under a Added Regular Contribution (ARC), Additional Pension Contribution (APC) or Shared Cost APC (SCAPC) contract you had paid for up to that date.

**Your benefits may be reduced if paid before your Normal Pension Age (NPA) and any reduction applied is NOT reflected in your statement.**

## Section 3

### How your pension is calculated

**YOU MUST CHECK** the pay figures quoted in the statement. The pay figures quoted have been supplied by your employer. If you think the pay is incorrect and you are employed directly by ES County Council, or by another employer that uses ES Payroll services, you should contact ******. You should contact your employer directly if they do not use ES Payroll services.

**Your Final Salary (FS) Pensionable Pay**
If you became a member of the LGPS before 1 April 2014, your FS Pensionable Pay shown in this section as at 31 March 2015 has been provided by your employer.

If you joined the LGPS on or after 1 April 2014, the FS field on your statement will be shown as zero.

**Your CARE Pensionable Pay Main Section**
From 1 April 2014, your CARE benefits are calculated on your CARE Pensionable Pay during a scheme year as provided by your employer.

For a full explanation of FS and CARE Pensionable Pay and how any periods of authorised unpaid leave may affect it please visit the scheme website **www.lgps2014.org**

**Your CARE Pensionable Pay 50/50 Section**
If a figure is shown here it means that you have elected to be in the 50/50 Section. Your 50/50 Section CARE Pensionable Pay is split from your Main Section CARE Pensionable Pay so you can check the pension you have built up in each Section.

If you have been a member of both Sections of the scheme at different times during the scheme year, then figures will show in both CARE Pensionable Pay fields.

## Section 4

### Your summary of total benefits on page 1 is made up of:

This section shows separately the values of your FS benefits (if applicable) and your CARE benefits, although the FS and CARE benefits are calculated differently, they form a single pot, with both elements being linked and taken together.

**Your Final Salary (FS) Pension Scheme**
If you joined the LGPS on or after 1 April 2014, the FS Pension field on your statement will be shown as zero.

If you have FS benefits, they are calculated as follows:

**Total FS Annual Pension**

- For membership to 31 March 2008 = 1/80th of FS Pensionable Pay for each year of membership
- For membership from 1 April 2008 to 31 March 2014 = 1/60th of FS Pensionable Pay for each year of membership

**Lump Sum Retirement Grant**

- Based on membership up to 31 March 2008 = 3/80th of FS Pensionable Pay for each year of membership

**Your total CARE Account**
**Opening balance**
As the year ending 31 March 2015 was the first Scheme Year for the CARE scheme, your opening balance is shown as zero.

**Adjustment for the cost of living**
Your total CARE Pension will be adjusted each April in line with HM Treasury Revaluation Orders. As the adjustment to your benefits was made on 1 April 2015 it is **not included** in this statement.

**2014/15 build up**
For membership from 1 April 2014, you have built up benefits in the CARE scheme. Each scheme year you are a member your CARE Pensionable Pay will be divided by 49 if you are in the Main Section, or by 98 if you are in the 50/50 Section, and added to your pension account for that year.

**Additional Pension Purchased and Transfers in**
Any additional pension that you have purchased during the scheme year by paying Additional Pension Contributions (APCs) will be shown here. Any additional CARE pension purchased from a transfer in of previous pension rights will be shown in 'Transfers in'.

## Section 5

### Value of death in service benefits as at 31 March 2015

**Annual Survivor's pension**
A survivor's pension is paid if, when you die, you are married, have a civil partner or eligible cohabiting partner.

i. If your status is single, divorced, widowed/widowered or unknown, the Annual Survivor's Pension shown is based on the assumption that you are married or in a civil partnership at your date of retirement.
ii. If you have declared a cohabiting partner, the pension shown will be based on your post 5 April 1988 membership (plus any pre 6 April 1988 membership purchased by an Additional Survivor's Benefit Contribution (ASBC).
iii. If your status is held as married or in a civil partnership , the survivor's pension shown will be based on all your LGPS membership

Pensions may be payable to eligible children, however the rates of such pensions are not shown on your ABS.

If you leave the LGPS a survivor's pension is still payable when you die but it could be a lesser amount. If you have not kept the Fund updated with your partnership status, any eligible survivors' pensions would still be paid on receipt of the relevant marriage/civil partnership certificate or evidence of meeting the requirements for payment of a survivor's pension to a cohabiting partner.

The survivor's pension shown in this Section has been based on the total of your Final Salary Survivor's pension based on membership up to 31 March 2014, any added years being purchased, any Additional Regular Contributions (ARCs) that included a survivor's pension element and the survivor's pension due under the CARE scheme, but does NOT take account of any deductions due to a Pension Sharing Order.

**Death in Service Lump Sum**
If you die whilst an active member a death grant is payable. The amount payable would be three times your Assumed Pensionable Pay at the date of your death. IF you die whilst an active member and also have deferred benefits, a pension in payment and/or a suspended Tier 3 ill-health pension, the amount payable would be the greater of EITHER a) the aggregate of all death in service lump sums OR b) the aggregate of all death grants from the deferred, pension in payment or suspended Tier 3 ill health pension records.

**Nomination details for death in service lump sum**
Please check who you have nominated to receive any death grant that may become payable in the event of your death. If this section is blank we have no record of your nomination. If you would like to make a nomination, or change one we hold for you, please complete and return an 'Expression of Wish' Form that can be found on our website: **www.surreypensionfund.org**. You can nominate whoever you wish to receive the death in service lump sum but as this is an expression of wish it is not legally binding and payment of the lump sum is at the Fund's discretion.

## Section 6
### Projections if you remain in the scheme until your Normal Pension Age (NPA)

The date shown is that on which you meet your current individual NPA which is linked to your State Pension Age (SPA) with a minimum of age 65. This date may change if your SPA changes before your benefits are paid. Your NPA only applies to benefits Built up in the CARE scheme. NPA for benefits built up before 1 April 2014 is still 65.

If your NPA is after age 65 and you have FS benefits, these FS benefits will be subject to actuarial increase in respect of the period from age 65 to NPA. These increases are set by the Government Actuary's Department and are subject to review. The figures quoted in Section 6 do not include this actuarial increase. If you actually retire after age 65 the rate of increase will be based on the factors in place at that time.

Your projection of benefits is based on your CARE Pensionable Pay for the Scheme Year ending 31 March 2015. It assumes that your pay will not change to your NPA and does not assume any pay inflation or inflation under HM Treasury Revaluation Orders for future accrual under the CARE or FS scheme.

When you leave the scheme your FS benefits will be based on your FS Pensionable Pay. See the LGPS member's website for the full 2008 pay definition www.lgps2014.org.

If you are paying contributions to buy added years, additional pension under a contract that commenced before 1 April 2014 (Added Regular Contributions – ARCs) or after 31 March 2014 (Additional Pension Contributions – APCs, or Shared Cost APCs) the projected benefits include the full amount you are buying. Any deductions due to an Annual Allowance Tax Charge or Pension Sharing Order are not included. The projection of benefits is based on the Section of the scheme you were a member of as at 31 March 2015.

**It is possible to take your benefits earlier than your NPA, from age 55 onwards, although a reduction would be applied for early payment. The figures in this statement DO NOT take account of the reductions that would apply.**

Survivor's pensions are generally based on all your scheme membership, however, some membership does not count towards the calculation of these benefits. See the notes on Section 5 for more information.

## Section 7
### Your membership history

This section shows your membership in the FS scheme – up to 31 March 2014. The table shows up to ten periods of membership, starting with the most recent. Any periods of membership in excess of this are not shown but have been included in calculating the figures set out in this statement.

## Section 8
### Tax and your pension

The Lifetime Allowance (LTA) is the limit on the total value of pension benefits you can draw from all pension arrangements without incurring a Lifetime Allowance Tax Charge. The standard LTA is currently £1.25m; from 6 April 2016 it will reduce to £1m.

If the percentage of standard LTA shown on your statement is greater than 100%, you may have to pay tax on the excess over the LTA when you take payment of your benefits. This may also be the case if you have other pension benefits (including in-house AVCs which are not included in this statement) that, when combined with your LGPS benefits, have a value exceeding the LTA.

| | |
|---|---|
| Report to: | **Pension Committee** |
| Date: | **29 September 2015** |
| By: | **Chief Operating Officer** |
| Title: | **Officers' Report – General Update** |
| Purpose: | **To provide a general update on matters related to the Committee's activity.** |

**RECOMMENDATIONS**

**The Pension Committee is recommended to note the report.**

## 1. Introduction

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

## 2. Report Overview

Cash Flow Forecast and Summary

2.1 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'. The projection for the fiscal year 2015/16 is that the fund will generate a surplus of £3.6m, the estimated cash flow position will be helped by higher employer pension contribution rates set at the last triennial valuation and payable since 1 April 2015. Table 1 below shows the cash projection to 31 March 2016.

| **PENSION FUND DEALINGS WITH MEMBERS AND EMPLOYERS** | **2015/16 £m** | **Forecast 2015/16 £m** | **Variance £m** |
|---|---|---|---|
| Employees Contributions | 27.4 | 27.4 | 0.0 |
| Employers Contributions | 87.5 | 89.2 | 1.7 |
| Deficit Recovery | 3.5 | 3.2 | (0.3) |
| Transfers In | 5.8 | 5.4 | 0.2 |
| **TOTAL INCOME** | **124.2** | **125.2** | **1.0** |
| Pensions Benefits Paid | (97.7) | (97.5) | 0.2 |
| Pensions Lump Sum Paid | (17.4) | (18.6) | (1.2) |
| Administration expenses | (2.2) | (2.2) | 0 |
| Transfers Out (excluding Probation transfer) | (3.4) | (3.3) | 0.1 |
| **TOTAL EXPENDITURE** | **(120.7)** | **(121.6)** | **(0.9)** |
| **SURPLUS CASH** | **3.5** | **3.6** | **0.1** |

## 3. National Development - updates

Local Government Pension Scheme pooled investments

3.1 The Chancellor has announced that the government will work with LGPS administering authorities to ensure that they pool investments "to significantly reduce costs, while maintaining overall investment performance". The announcement follows a previous consultation by the Department for Communities and Local Government, which seeks opinion on whether common

investment vehicles (CIVs) would achieve economies of scale for listed and alternative investments.

3.2 The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings, and it is expected that a consultation will be published later this year setting out detailed criteria for the proposals. However, it is believed that the government would also publish "backstop" legislation, which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments.

3.3 Officers are currently in discussion with other neighbouring authorities to consider the need to pool investment. In addition, the Scheme Advisory Board have arranged the opportunity for LGPS funds to put questions directly to government officials and to hear how the process will work leading up to draft legislation and onto implementation. Questions to be raised include –

- The objectives of the summer budget announcement on pooled investment in the LGPS?
- How much say will the administrative authorities have in the outcome?
- What will the criteria be and what will the back stop legislation look like?

Consultation on a public sector exit payment cap

3.4 The Government announced a consultation capping the total amount of redundancy and other exit payments (including employer pension costs) that can be made to individuals leaving the public sector to £95,000. This is in response to its concern over the increasing cost to the tax payer of financing early retirement packages in recent years. In terms of local government the proposal is that the £95,000 cap would include the aggregate of:

- pay in lieu of notice;
- redundancy payments (including any enhancements over and above statutory limits);
- other severance payments (including ex-gratia and special severance payments, whether or not as part of an Employment Tribunal claim);
- the employer cost of funding redundancy and efficiency retirements as well as other voluntary early retirements (i.e. "funding strain"); and
- pay in lieu of outstanding annual leave.

3.5 This consultation seeks views on the scope, level and design of this cap. The table below offers a summary of the key features of the government's proposal. The closing date for responses to the consultation was 27th August 2015.

## 4. Investment Manager Fees

4.1 In the light of the on-going consultation, pressures on fund managers to reduce their fees are growing and comparisons are difficult because fees vary according to different investment strategies. A separate report that considers this issue is attached.

## 5. Conclusion and reasons for recommendations

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

**KEVIN FOSTER**
**Chief Operating Officer**

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

LOCAL MEMBERS

All

BACKGROUND DOCUMENTS

None

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| | |
|---|---|
| Report to: | **Pension Committee** |
| Date: | **29 September 2015** |
| By: | **Chief Operating Officer** |
| Title: | **Officers' Report – Investment Manager Fees** |
| Purpose: | **To note the Pension Fund costs relating to the East Sussex Pension Fund (ESPF) investment management fees.** |

**RECOMMENDATIONS**

**The Pension Committee is recommended to note the report.**

## 1. Introduction

1.1 The reform programme which commenced after the publication of Lord Hutton's report (under the Independent Public Service Pension Committee), includes consultations on two important areas of some significance - cost management and governance reform. These are strongly related. For example there is some pressure on scheme members to pick up the balance of the costs of providing LGPS pensions and the need to be involved more in the decision making and running of the LGPS.

1.2 There is a drive by administrative authorities to reduce costs, and some of the focus has been on investment managers who have struggled, and there has been an appeal to managers that times are tough and managers need to do something to help administrative authorities through fees renegotiation.

## 2. ESPF Investment Manager fees

2.1 Fees paid to fund managers are often difficult to determine and there have been calls for greater transparency in how, and how much - fund managers are paid and the various fees they charge individual pension fund schemes.

2.2 While there are pressures on fund managers to reduce their charges in an environment of lower returns, comparisons are difficult because fees vary according to different investment strategies, and will sometimes not show up in published accounts, with disparities in the fees paid by the UK's local authority pension funds to their fund managers.

2.3 Over the last five years (Table 1), ESPF has paid £49.1m in fund manager fees; however, the fund value has increased by £744.1m over the same period.

| **Table 1.** | 2010/11 | 2011/12 | 2012/13 | 2013/14 | 2014/15 |
|---|---|---|---|---|---|
| Investment Management Fees | £7.8m | £9.2m | £10.0m | £10.6m | £11.5m |
| Increases in fees | - | £1.4m | £0.8m | £0.6m | £0.9m |
| % Increases in fees | - | 17% | 9% | 6% | 8% |
| | | | | | |
| ESPF Fund Value | £2.0b | £2.1b | £2.3b | £2.5b | £2.7b |
| Increases in value | - | £69.0m | £273.8m | £135.2m | £267.0m |
| % Increases in value | - | 3% | 13% | 9% | 11% |

*Key: (m – Million; b – Billion)*

2.4 Schemes which are able to reduce their investment costs – which compound over time, especially when assets swell – can get better value for their members and retain more of their funds. The fund has benchmarked its management fees against peers to check whether ESPF is receiving value for money (Appendix 1).

## 3. 2014/15 Investment Strategy and Manager Fees

3.1 The total cost of investment manager fees in 2014/15 was £11.5m. In addition to the management fees invoiced to the Fund this figure includes private equity and infrastructure fees which are deducted from the value of the assets. This is an increase of £0.9m on the £10.6m cost in 2013/14. The fee may be considered in the context of the increase in the value of the fund during 2014/15, which increased in value by £267.0m. The fee of £11.5m was therefore covered 23 times by the increase in value of the fund. Appendix 2 presents the fund value and fees paid, by manager/portfolio/asset class.

3.2 A feature of the ESPF investment strategy is to have 'the right tools for the right jobs', i.e., appropriate combination of growth/return seeking investments (i.e., equities) with matching/stabilising investments, (i.e. property, infrastructures, etc.).

3.3 In the case of equities it is important that we monitor the performance of active managers to ensure that the returns justify the higher fees paid to managers. Therefore we need to see a significant out performance of the benchmark to cover the high fees, although there may be an argument that the fee level is not as relevant as the return net of fees and the extent to which the investment objectives were met.

3.4 Further, a slight increase in the fees for alternatives management is as a result of the further implementation of the Investment Strategy to mitigate volatility risk. The strategic movement towards alternatives to achieve the funding strategy assumptions but reduce volatility has contributed towards a slightly higher fee structure for the fund.

## 4. Approaches to Managers

4.1 The ESPF has previously renegotiated fee arrangements with one of its fund managers (Lazard) and saved £0.456m. Officer's view is that taking into consideration the funds long-term relationship with managers; we should attempt fees re-negotiation, even though the best opportunity for negotiation is before the manager is appointed.

4.2 The Chief Finance Officer recently wrote to ten of the fund managers employed by the ESPF, requesting them to consider a fee reduction in respect of the fund, with a point that all Councils are facing reduced grant funding, severe cuts to services and that in this difficult environment, pension fund employers contribution rates have increased, which has put further pressure on employers within the East Sussex Pension Fund.

4.3 The responses from fund managers and reasons for their unwillingness to reduce fees includes - increases in mandatory complex reporting requirements, limited capacity within the fund, existing high demand for the product, their ability to achieve performance target that exceeded the agreed benchmark, and that current fees remain competitive.

## 5. Collective Investment Funds

5.1 The Council with its neighbouring authorities will be exploring options which we believe will give a better deal to the Council Tax payer and to scheme members. The options include a greater collaboration through greater use of Collective Investment Funds. In simple terms these are pooled investment funds will be a route through to reduced costs and overall improved investment returns. The fund has previously considered a move towards in-house asset management to reduce cost.

## 6. Conclusion

6.1 In the light of the on-going consultation, pressures on fund managers to reduce their fees are growing and comparisons are difficult because fees vary according to different investment strategies. The observations are that fund managers are more likely to be open to reducing fees where the mandate is large, or opportunity to 'pool' investments with larger authorities.

6.2 The Committee is recommended to note the report.

**KEVIN FOSTER**
**Chief Operating Officer**

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LOCAL MEMBERS

All

BACKGROUND DOCUMENTS

None

**Appendix 1**

**Management fees benchmark**

The fund has benchmarked its management fees against peers to check whether ESPF is receiving value for money.

| Administrative Authority | Fund Value at 31 March 2015 | Managers Fees | Comments |
|---|---|---|---|
| | £m | £m | |
| Surrey | 3,193.5 | 14.9 | Excludes £0.2m of custody |
| Norfolk | 2,948.9 | 13.1 | Excludes £0.1m of custody |
| East Sussex | 2,746.5 | 11.5 | Excludes £0.1m of custody |
| West Sussex | 2,972.7 | 10.4 | Excludes £0.2m of custody |

The above figures were obtained by contacting the relevant similar size authorities pensions fund managers/officers and from the individual administrative authorities published annual reports.

**Appendix 2**

| Manager | Portfolio | Class | Value 2014 £m | Value 2015 £m | Value increase £m | % increase | Fees 2014 £m | Fees 2015 £m | Fee increase £m | % increase |
|---|---|---|---|---|---|---|---|---|---|---|
| Lazard | Global Equities | Active | 344.9 | 410.2 | 65.3 | 18.9% | 1.7 | 1.8 | 0.1 | 5.88% |
| Longview | Global Equities | Active | 137.1 | 174.6 | 37.5 | 27.4% | 0.8 | 1.0 | 0.2 | 25.00% |
| Newton | Absolute Return | Active | 233.5 | 249.7 | 16.2 | 6.9% | 1.3 | 1.4 | 0.1 | 7.69% |
| Ruffer | Absolute Return | Active | 230.0 | 256.7 | 26.7 | 11.6% | 1.7 | 1.9 | 0.2 | 11.76% |
| Schroders | Property | Fund of Funds | 247.7 | 294.1 | 46.4 | 18.7% | 1.1 | 1.2 | 0.1 | 9.09% |
| M&G | Corporate Bonds | Active | 96.1 | 112.5 | 16.4 | 17.1% | 0.2 | 0.3 | 0.1 | 50.00% |
| | Absolute Return Bond | Active | 66.8 | 67.7 | 0.9 | 1.3% | 0.0 | 0.0 | 0.0 | 0.00% |
| | UK Financing Fund | Partnership | 12.9 | 10.6 | -2.3 | -17.8% | 0.0 | 0.0 | 0.0 | 0.00% |
| (Infracapital) | Infrastructure | Partnership | 31.6 | 39.2 | 7.6 | 24.1% | 0.5 | 0.5 | 0.0 | 0.00% |
| UBS | Infrastructure | Partnership | 22.0 | 22.1 | 0.1 | 0.5% | 0.3 | 0.3 | 0.0 | 0.00% |
| HarbourVest | Private Equity | Fund of Funds | 60.0 | 69.8 | 9.8 | 16.3% | 1.1 | 1.2 | 0.1 | 9.09% |
| Adams Street | Private Equity | Fund of Funds | 68.4 | 85.4 | 17.0 | 24.9% | 1.1 | 1.3 | 0.2 | 18.18% |
| Legal & General | Global Equities | Passive | 248.9 | 216.1 | -32.8 | -13.2% | 0.4 | 0.3 | -0.1 | -25.00% |
| | UK Equities | Passive | 398.5 | 270.9 | -127.6 | -32.0% | 0.2 | 0.2 | 0.0 | 0.00% |
| | Index linked Bonds | Passive | 0.0 | 144.3 | 144.3 | - | 0.0 | 0.0 | 0.0 | 0.00% |
| State Street | Global Equities | Passive | 253.3 | 290.7 | 37.4 | 14.8% | 0.1 | 0.1 | 0.0 | 0.00% |
| Blackrock | Transition manager | | 0.0 | 0.0 | 0.0 | 0.0% | 0.1 | 0.0 | -0.1 | -100.00% |
| | **Total Excluding Custody** | | **2,451.7** | **2,714.6** | **262.9** | **10.7%** | **10.6** | **11.5** | **0.9** | **8.49%** |
| Northern Trust | Custodian | | 23.0 | 25.3 | 2.3 | 10.0% | 0.1 | 0.1 | 0.0 | 0.00% |
| Other Assets | ESCC | | 4.8 | 6.6 | 1.8 | 37.5% | - | - | - | - |
| | **Total** | | **2,479.5** | **2,746.5** | **267.0** | **10.8%** | **10.7** | **11.6** | **0.9** | **8.41%** |

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|---|---|
| Report to: | **Pension Committee** |
| Date: | **29 September 2015** |
| By: | **Chief Operating Officer** |
| Title: | **Pension Committee Forward Plan** |
| Purpose: | **This updated report sets out the Pension Fund Forward plan for 2015-16. The Plan includes the key objectives for the Fund, and training strategy/plan for the Fund** |

**RECOMMENDATIONS**

**The Pension Committee is recommended to note the updated Forward Plan and Training Plan for 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 At the July 2015 Board/Committee meetings, representatives and members noted and approved the Forward Plan and Pensions Training Strategy, which incorporate the key themes on which training was to be focused throughout 2015/16.

2.2 This report presents to Members:

- An updated 2015/16 Forward Plan, which will assists members with the Fund Governance arrangement, so that the Council is able to perform its role as the administering authority in a structured way.

- An updated training plan, targeting training sessions at any identified knowledge gaps of the Board/Committee Members and Officers, with a summary of both external and internal training events that Members and Officers can undertake between 2015/16 and 2016/17

## 3. Conclusion and reasons for recommendations

3.1 The Committee is recommended to note the updated Forward Plan and Training Plan for 2015/16.

**KEVIN FOSTER**
**Chief Operating Officer**

Contact Officers: Ola Owolabi, Head of Accounts and Pensions
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LOCAL MEMBERS

All

BACKGROUND DOCUMENTS

None

# EAST SUSSEX PENSION FUND

# PENSION COMMITTEE/BOARD FORWARD PLAN 2015-16

**August 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 administers 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.

# 1. PENSION BOARD – FORWARD/BUSINESS PLAN

| PENSION BOARD FORWARD/BUSINESS PLAN | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Date** / **Item** | **November 2015** | **February 2016** | **May 2016** | **August 2016** | **November 2016** | **February 2017** | **May 2017** | **August 2017** | **November 2017** | **February 2018** | **May 2018** |
| 1 | Member Training – LGPS Scheme / Fund responsibilities / policy | Member Training - Roles of the Pension Regulator | Member Training - Procurement process for services provided externally | Member Training - Pension Discretions | Member Training - Safeguarding the Fund's Assets | Member Training - LGPS discretions & policies | Member Training - Specific investment Topics | Member Training - Review of Myners principles | Member Training - Accounts & Audit regulations | Member Training - Pension Admin - Business Ops | Member Training - Triennial Valuation refresher |
| 2 | Internal dispute resolution procedure | Polices of the administering Authority · conflicts of interests · record-keeping/meeting attendance · data protection and freedom of information | Key member and employer communications | Statement of investment principles | Internal dispute resolution procedure | Polices of the administering Authority · conflicts of interests · record-keeping/meeting attendance · data protection and freedom of information | Key member and employer communications | Governance Compliance Statement | Internal dispute resolution procedure | Polices of the administering Authority · conflicts of interests · record-keeping/meeting attendance · data protection and freedom of information | Key member and employer communications |
| 3 | Statement of investment principles | Reporting breaches | Pension administration statement | Investment strategy and Manager benchmark | Internal Control Register | Reporting breaches | Discretionary policy statement | Statement of investment principles | Internal Control Register | Reporting breaches | Discretionary policy statement |

| PENSION BOARD FORWARD/BUSINESS PLAN | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Date** / **Item** | **November 2015** | **February 2016** | **May 2016** | **August 2016** | **November 2016** | **February 2017** | **May 2017** | **August 2017** | **November 2017** | **February 2018** | **May 2018** |
| 4 | Risk register | Communications policy statement | Discretionary policy statement | Investment /Admin Consultant Performance | Risk register | Funding Strategy Statement | External Assurance Reports from Third Parties | Review on the investment strategy and Manager benchmarking | Risk register | Communications policy statement | External Assurance Reports from Third Parties |
| 5 | CIPFA Benchmarking | Investment/ Admin Consultant Performance | External Assurance Reports from Third Parties | Review on fee arrangements | CIPFA Benchmarking | Communications policy statement | Annual Report | Investment/ Admin Consultant Performance | CIPFA Benchmarking | Investment/ Admin Consultant Performance | Annual Report |
| 6 | | | Annual Report | Bulk Transfer, Cessations and Admission policies | Investment/ Admin Consultant Performance | Funds Actuarial Valuation Report | Bulk Transfer, Cessations and Admission policies | Review on fee arrangements | | | Bulk Transfer, Cessations and Admission policies |

# 2. PENSION COMMITTEE – FORWARD/BUSINESS PLAN

| PENSION COMMITTEE FORWARD/BUSINESS PLAN | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Date** / **Item** | **November 2015** | **February 2016** | **May 2016** | **September 2016** | **November 2016** | **February 2017** | **May 2017** | **September 2017** | **November 2017** | **February 2018** | **May 2018** |
| 1 | Member Training - LGPS Scheme / Fund responsibilities / policy | Member Training - Roles of the Pension Regulator | Member Training - Pension Discretions | Member Training - Safeguarding the Fund's Assets | Member Training - LGPS discretions & policies | Member Training - Review of Myners principles | Member Training - Specific investment Topics | Member Training - Pension Administration - Business Ops | Member Training - Triennial Valuation refresher | Member Training - Specific investment Topics | Member Training - Specific investment Topics |
| 2 | Hymans Robertson - Fund Managers performance monitoring report | Hymans Robertson - Fund Managers performance monitoring report | Hymans Robertson - Fund Managers performance monitoring report | Hymans Robertson - Fund Managers performance monitoring report | Hymans Robertson - Fund Managers performance monitoring report | Hymans Robertson - Fund Managers performance monitoring report | Hymans Robertson - Fund Managers performance monitoring report | Hymans Robertson - Fund Managers performance monitoring report | Hymans Robertson - Fund Managers performance monitoring report | Hymans Robertson - Fund Managers performance monitoring report | Hymans Robertson - Fund Managers performance monitoring report |
| 3 | Statement of investment principles | Communications policy statement | Pension administration statement | Review on the investment strategy and Manager benchmark | Risk register | Funds Actuarial Valuation Report | Discretionary policy statement | Statement of investment principles | Risk register | Communications policy statement | Discretionary policy statement |
| 4 | Risk register | | Discretionary policy statement | Investment/ Admin Consultant Performance | Funds Actuarial Valuation Report- Draft results | Funding Strategy Statement | Bulk Transfer, Cessations and Admission policies | Governance Compliance Statement | Pension Committee Forward/Training Plan | | External Assurance Reports from Third Parties |

| PENSION COMMITTEE FORWARD/BUSINESS PLAN | | | | | | | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| **Date** / **Item** | **November 2015** | **February 2016** | **May 2016** | **September 2016** | **November 2016** | **February 2017** | **May 2017** | **September 2017** | **November 2017** | **February 2018** | **May 2018** |
| 5 | Pension Committee Forward/Training Plan | | Bulk Transfer, Cessations and Admission policies | Statement of investment principles | Pension Committee Forward/Training Plan | Communications policy statement | Pension Committee Forward/Training Plan | Investment/Admin Consultant Performance | | | Bulk Transfer, Cessations and Admission policies |

## 3. PENSION COMMITTEE – FORWARD PLAN – Investment Strategy Day

| PENSION COMMITTEE FORWARD/BUSINESS PLAN - Strategy Day | | |
|---|---|---|
| **Date** / **Item** | **July 2016** | **July 2017** |
| 1 | External Audit and Annual Report Approval | External Audit and Annual Report Approval |
| 2 | Investment Strategy review day | Investment Strategy review day |

# 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.

Officer's 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 |
|---|---|
| • On site or off site<br>• Using an Online Knowledge Portal or other e-training facilities<br>• Attending courses, seminars and external events<br>• Internally developed training days<br>• Short sessions on topical issues or scheme-specific issues<br>• Informal discussion and One to one<br>• Shared training with other Funds or Frameworks<br>• Regular updates from officers and/or advisors<br>• A formal presentation | • Desktop/work based training<br>• Using an Online Knowledge Portal or other e-training facilities<br>• Attending courses, seminars and external events<br>• A workshop with participation<br>• Short sessions on topical issues or scheme-specific issues<br>• Informal discussion and One to one<br>• Training for qualifications from recognised professional bodies (e.g. CIPFA, ACCA, etc.)<br>• Internally developed sessions<br>• 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 evens 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<br>• Member's Role | ✔ | | | | | | **1** | Completed |
| Members individual needs on specific areas arising during the year<br>• Shadow Advisory Board e-learning | ✔ | ✔ | | | ✔ | ✔<br>✔ | **1,3,4** | As required – notify Head of Accounts and Pensions |
| Pre- committee meeting/agendas<br>• Specific investment Topics<br>• Services and providers | | ✔<br>✔ | ✔<br>✔ | | | | **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** |
| • Procurement process for services provided externally<br>• Performance measurement<br>• Accounts and audit regulations<br>• Role of internal and external audit<br>• Fund responsibilities/ policy<br>• Pension Discretions<br>• Safeguarding the Fund's Assets | | ✔<br>✔<br>✔<br>✔<br>✔<br>✔<br>✔<br>✔<br>✔ | ✔<br>✔<br>✔<br>✔<br>✔<br>✔<br>✔<br>✔<br>✔ | | | | | |
| Pension Fund Forum<br>• Valuation Process<br>• Knowledge of the valuation process and the need for a funding strategy<br>• Implications for employers of ill health and outsourcing decisions<br>• Importance of monitoring asset returns relative to liabilities | | | | ✔ | | | **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<br>• LGPS discretions & policies<br>• Implications of the Hutton Review | | ✔ | ✔ | ✔ | ✔ | | **1,6** | |
| Pensions Legislation & Governance:<br>• Roles of the Pension Regulator, Pension Advisory Service & Pension Ombudsman in relation to the scheme<br>• Review of Myners principles and associated CIPFA & SOLACE guidance | | ✔<br>✔ | | ✔<br>✔ | | | **1,2,** | |
| Pension Accounting & Auditing standards:<br>• Accounts & Audit regulations and the legislative requirements | | | ✔ | | | | **1,2** | |

| | 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:<br>• Current public procurement policy & procedures<br>• UK & EU procurement legislation | | | | ✔<br>✔ | | | **3,5,6** | |
| Investment Performance & Risk Management:<br>• Monitoring asset returns relative to liabilities<br>• Myners principles of performance management<br>• Setting targets for committee and how to report against them | | | | ✔<br>✔<br>✔ | ✔ | | **3,5,6** | Invite to be circulated to when relevant |
| Financial markets & products knowledge:<br>• Refresh the importance of setting investment strategy<br>• Limits placed by regulation on investment activities in | | | ✔ | ✔ | ✔ | | **4**<br>**1**<br>**4** | |

| | 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** |
| the LGPS<br>• Understanding of the operations of the fixed income manager<br>• Understanding of Alternative asset classes | | | | ✔ | | | **4,5,6** | |
| Pension Administration -<br>• Shared service | | ✔ | ✔ | ✔ | | | **2,6** | |
| Actuarial methods, standards and practices:<br>• Considerations in relation to outsourcings and bulk transfers<br>• Triennial Valuation refresher | | ✔<br>✔ | | | | | **1**<br>**6** | |
| **CHAIRMAN TRAINING** | | | | | | | | |
| • Fund Benchmarking<br>• Stakeholder feedback<br>• Appreciation of changes to scheme rules | ✔<br>✔ | | | | ✔ | | 2<br>4<br>1,5 | |

| | 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** |
| **EXTERNAL SEMINARS AND CONFERENCES** | | | | | | | | |
| NAPF Local Govt Conference<br>• Refresher training<br>• Keeping abreast of current development | | | | | ✔<br>✔ | | **1,3,4,5** | |
| LGC Investment Conference<br>• Fund Manager events and networking | | | | | ✔<br>✔ | | **1,2,3,4,5,6** | |



**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** |

**AVAILABLE TRAINING AND CONFERENCES 2015 - 2016**

| Date | Conference/Event | Run By | Delegates/Cost |
|---|---|---|---|
| 25 September 2015 | Introduction to LGPS | CIPFA Pensions Network (CPN) | Member subs - free |
| 6th October 2015 | Business Meeting | Local Authority Pension Fund Forum (LAPFF) | Free |
| 14 - 16 October 2015 | NAPF Annual Conference | NAPF | NAPF member - free |
| 6 October 2015 | LAPFF Business meeting | Local Authority Pension Fund Forum (LAPFF) | Free |
| October 2015 | Autumn technical update - collaboration across LGPS Funds | CIPFA Pensions Network (CPN) | Subscription |
| 20-22 October | Local Government Pension Investment Forum 2015 | IIR & IBC Finance | Free places for a maximum of 4 |
| 28 October 2015 | Introduction - objective-driven investing | Legal & General Investment Management | Free |
| 29 October 2015 | Advanced - objective-driven investing | Legal & General Investment Management | Free |
| 3 November 2015 | LAPFF Executive strategy meeting | Local Authority Pension Fund Forum (LAPFF) | Free |
| 5 November, 2015 | Current Investment Issues for Pension Funds | SPS Conferences | tbc |
| 5 November 2015 | Introduction - objective-driven investing | Legal & General Investment Management | Free |

| Date | Conference/Event | Run By | Delegates/Cost |
|---|---|---|---|
| 6 November 2015 | Advanced - objective-driven investing | Legal & General Investment Management | Free |
| 18 November 2015 | Introductory/refresher breakfast LDI seminars | Legal & General Investment Management | Free |
| 19 November 2015 | Trustee Training | Barnett Waddingham | £450 per place |
| 19 November 2015 | Local Authority Pension Fund Investment Strategies | SPS Conferences | TBC |
| 20 November 2015 | Pension Fund Forum | Hymans Robertson | Free |
| November 2015 | CPN annual conference | CIPFA Pensions Network (CPN) | Subscription |
| 3-4 December | LGC Transformation Summit | Local Government Chronicle (LGC) | £250 per place |
| 8 December 2015 | NAPF Trustee Conference | NAPF | NAPF member - free |
| 16 December 2015 | Introductory/refresher breakfast LDI seminars | Legal & General Investment Management | Free |
| 13 January 2016 | Introductory/refresher breakfast LDI seminars | Legal & General Investment Management | Free |
| January 2016 | Actuarial summit - 2016 Triennial Valuation | CIPFA Pensions Network (CPN) | TBC |
| 27 January 2016 | LAPFF AGM and Business meeting | Local Authority Pension Fund Forum (LAPFF) | Free |
| 4 February 2016 | Introduction - objective-driven investing | Legal & General Investment Management | Free |

| Date | Conference/Event | Run By | Delegates/Cost |
|---|---|---|---|
| 5 February 2016 | Advanced - objective-driven investing | Legal & General Investment Management | Free |
| February 2016 | Technical accounting workshops | CIPFA Pensions Network (CPN) | Subscription |
| 17 February 2016 | Introductory/refresher breakfast LDI seminars | Legal & General Investment Management | Free |
| 17 March 2016 | Local Authority Pension Fund Investment Issues | SPS Conferences | |
| 16 March 2016 | Introductory/refresher breakfast LDI seminars | Legal & General Investment Management | Free |
| 19 April 2016 | LAPFF Business meeting | Local Authority Pension Fund Forum (LAPFF) | Free |
| 21 April 2016 | Introduction - objective-driven investing | Legal & General Investment Management | Free |
| 22 April 2016 | Advanced - objective-driven investing | Legal & General Investment Management | Free |
| 28 April 2016 | Introduction - objective-driven investing | Legal & General Investment Management | Free |
| 29 April 2016 | Advanced - objective-driven investing | Legal & General Investment Management | Free |
| May 2016 | NAPF Local Authority Conference | NAPF | NAPF member - free |

| Date | Conference/Event | Run By | Delegates/Cost |
|---|---|---|---|
| 28 June 2016 | LAPFF Business meeting | Local Authority Pension Fund Forum (LAPFF) | Free |
| 21 September 2016 | Pension trustee and employer responsibilities | Eversheds | £499 |
| 18 October 2016 | LAPFF Business meeting | Local Authority Pension Fund Forum (LAPFF) | Free |
| 16 November 2016 | LAPFF Executive strategy meeting | Local Authority Pension Fund Forum (LAPFF) | Free |
| 17 November 2016 | Local Authority Pension Fund Investment Strategies | SPS Conferences | TBA |
| November 2016 | Actuarial Valuation presentation – results comparator/considerations | Hymans Robertson | Free |
| 7,8,9 December 2016 | LAPFF Annual Conference | Local Authority Pension Fund Forum (LAPFF) | Free |
| 31 January 2017 | LAPFF AGM and Business meeting | Local Authority Pension Fund Forum (LAPFF) | Free |
| | | | |
| **On-Line Training** | | | |
| www.thepensionsregulator.gov.uk | Pension Education Portal | Pensions Regulator | Free on-line |
| http://www.lgpsregs.org/ | LGPS Regulations and Guidance | LGPS Regulations and Guidance | Free on-line |

| Date | Conference/Event | Run By | Delegates/Cost |
|---|---|---|---|
| | | | |
| http://www.lgps2014.org/ | LGPS 2014 members website | LGPS 2014 website | Free on-line |
| www.local.gov.uk | LGA website | Local Government Association | Free on-line |

| PENSION BOARD FORWARD/BUSINESS PLAN | | | | | | |
|---|---|---|---|---|---|---|
| Date / Item | November 2015 | February 2016 | May 2016 | August 2016 | November 2016 | February 2017 |
| 1 | Member Training - LGPS Scheme / Fund responsibilities / policy | Member Training - Roles of the Pension Regulator, Pension Advisory Service & Pension Ombudsman in relation to the scheme | Member Training - Procurement process for services provided externally | Member Training - Pension Discretions | Member Training - Safeguarding the Fund's Assets | Member Training - LGPS discretions & policies |
| 2 | Internal dispute resolution procedure | Polices of the administering Authority<br>· conflicts of interests<br>· record-keeping/meeting attendance<br>· data protection and freedom of information | Key member and employer communications | Statement of investment principles | Internal dispute resolution procedure | Polices of the administering Authority<br>· conflicts of interests<br>· record-keeping/meeting attendance<br>· data protection and freedom of information |
| 3 | Statement of investment principles | Reporting breaches | Pension administration statement | Review on the investment strategy and Manager benchmarking | Internal Control Register | Reporting breaches |
| 4 | Risk register | Communications policy statement | Discretionary policy statement | Investment/Admin Consultant Performance | Risk register | Funding Strategy Statement |
| 5 | CIPFA Benchmarking | Investment/Admin Consultant Performance | External Assurance Reports from Third Parties | Review on fee arrangements | CIPFA Benchmarking | Communications policy statement |
| 6 | | | Annual Report | Bulk Transfer, Cessations and Admission policies | Investment/Admin Consultant Performance | Funds Actuarial Valuation Report |

| PENSION COMMITTEE FORWARD/BUSINESS PLAN | | | | | | |
|---|---|---|---|---|---|---|
| Date / Item | November 2015 | February 2016 | May 2016 | July 2016 | September 2016 | November 2016 |
| 1 | Member Training - LGPS Scheme / Fund responsibilities / policy | Member Training - Roles of the Pension Regulator, Pension Advisory Service & Pension Ombudsman in relation to the scheme | Member Training - Pension Discretions | Audit and Annual Report Approval | Member Training - Safeguarding the Fund's Assets | Member Training - LGPS discretions & policies |
| 2 | Hymans Robertson - Fund Managers performance monitoring report | Hymans Robertson - Fund Managers performance monitoring report | Hymans Robertson - Fund Managers performance monitoring report | Investment Strategy review day | Hymans Robertson - Fund Managers performance monitoring report | Hymans Robertson - Fund Managers performance monitoring report |
| 3 | Statement of investment principles | Communications policy statement | Pension administration statement | | Review on the investment strategy and Manager benchmarking | Risk register |
| 4 | Risk register | | Discretionary policy statement | | Investment/Admin Consultant Performance | Funds Actuarial Valuation Report-Draft results |
| 5 | Pension Committee Forward/Training Plan | | Bulk Transfer, Cessations and Admission policies | | Statement of investment principles | Pension Committee Forward/Training Plan |

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|---|---|---|---|---|---|
| Date / Item | May 2017 | August 2017 | November 2017 | February 2018 | May 2018 |
| 1 | Member Training - Specific investment Topics | Member Training -Review of Myners principles | Member Training - Accounts & Audit regulations | Member Training -Pension Administration - Business Ops | Member Training - Triennial Valuation refresher |
| 2 | Key member and employer communications | Governance Compliance Statement | Internal dispute resolution procedure | Polices of the administering Authority<br>· conflicts of interests<br>· record-keeping/meeting attendance<br>· data protection and freedom of information | Key member and employer communications |
| 3 | Discretionary policy statement | Statement of investment principles | Internal Control Register | Reporting breaches | Discretionary policy statement |
| 4 | External Assurance Reports from Third Parties | Review on the investment strategy and Manager benchmarking | Risk register | Communications policy statement | External Assurance Reports from Third Parties |
| 5 | Annual Report | Investment/Admin Consultant Performance | CIPFA Benchmarking | Investment/Admin Consultant Performance | Annual Report |
| 6 | Bulk Transfer, Cessations and Admission policies | Review on fee arrangements | | | Bulk Transfer, Cessations and Admission policies |

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|---|---|---|---|---|---|---|---|
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| 1 | Member Training - Specific investment Topics | Member Training -Review of Myners principles | Audit and Annual Report Approval | Member Training -Pension Administration - Business Ops | Member Training - Triennial Valuation refresher | Member Training - Specific investment Topics | Member Training - Specific investment Topics |
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| 3 | Funds Actuarial Valuation Report | Discretionary policy statement | | Statement of investment principles | Risk register | Communications policy statement | Discretionary policy statement |
| 4 | Funding Strategy Statement | Bulk Transfer, Cessations and Admission policies | | Governance Compliance Statement | Pension Committee Forward/Training Plan | | External Assurance Reports from Third Parties |
| 5 | Communications policy statement | Pension Committee Forward/Training Plan | | Investment/Admin Consultant Performance | | | Bulk Transfer, Cessations and Admission policies |

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