PENSION BOARD

TUESDAY, 3 NOVEMBER 2015

10.00 AM COUNCIL CHAMBER, COUNTY HALL, LEWES

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

A G E N D A

1 Minutes of the meeting held on 8 September 2015 *(Pages 3 - 10)*

2 Apologies for absence

3 Disclosure of interests

4 Pension Committee Agenda *(Pages 11 - 80)*

- Note of Strategy Day Review on 29 September Pension Committee (including the Committee approval of fund manager mandate reallocation)
- Agenda for 24 November Pension Committee

5a Officers' Report - Business Operations *(Pages 81 - 84)*

5b Officers' Report - General Update *(Pages 85 - 110)*

- Investment Pooling and Collaboration

6 Pension Board Forward Plan 2015/16 *(Pages 111 - 140)*

- Joint Training Session – updates

7 Any other business

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26 October 2015

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PENSION BOARD

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

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 <u>OFFICERS' REPORT - BUSINESS OPERATIONS</u>

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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Report to: **Pension Board**

Date: **3 November 2015**

By: **Chief Operating Officer**

Title: **Pension Committee Agenda**

Purpose: **To consider and comment on the November Pension Committee agenda**

RECOMMENDATIONS

Pension Board is recommended to consider and comment on the 24 November 2015 Pension Committee items.

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1. Background

1.1 The agenda items for 24 November 2015 Pension Committee are here presented to the Pension Board for information. Where possible the relevant reports are also attached. Please see the appendices to this report.

1.2 A note containing a summary of the Strategy Day Review that took place at the 29 September Pension Committee and the Committee's approval of fund manager mandate reallocation is included in **Appendix 1**.

1.3 If Board members have any specific comments on any of these reports that they wish to be communicated to the Pension Committee, then they can do so. In any case, the draft Pension Board minutes will be circulated to Pension Committee members at or in advance of the forthcoming committee meeting.

2. Conclusion and recommendation

2.1 Pension Board members are requested to note the information contained in these reports, and to make any comments they may choose.

KEVIN FOSTER
Chief Operating Officer

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LOCAL MEMBERS

All

BACKGROUND DOCUMENTS

None

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A summary of the Strategy Review Day and Part 2 decision at Pension Committee, 29 September 2015

1. Strategy Review Day

Iain Stewart, Newton

Financial situation

1.1. The recent trend in investment returns has been characterised by high asset costs, more volatility and lower returns. This is evidenced by:

- historically low equity returns during December 2014, which were still low in May 2015;
- falling bond yields;
- a near record high Shiller PE rating – which correlates with lower equity returns – and median NYSE stock price.

1.2. The reason for this trend in investment returns is an economic climate that, since 2008, has been characterised by the continued following of a monetary policy in the developed world combined with excess capacity and high debt in the worldwide economy.

1.3. The monetary policy embarked on by developed countries was designed to drive economic growth by investing in financial markets. It involves central banks maintaining emergency interest rates and embarking on quantitative easing (QE).

1.4. This monetary policy has issues, because:

- It is a cyclical economic policy that should be used to kick-start economic recovery that is being used on a permanent basis to try to address structural economic issues, such as high debt and excess economic capacity.
- QE was meant to lower the cost of borrowing and increase consumption but it is based on an overly simplistic, domestic-based model that does not take into account global markets. However, in the context of the current financial climate it increases asset prices, but has a deflationary effect on the wider economy. Deflation can increase consumption but has a negative effect on indebted societies as it increases the cost of the debt.
- Maintaining low interest rates for a long period makes financial markets more unstable because it encourages speculation. Low interest rates increase the cost of safe assets and reduce their yields; this encourages people to invest in higher risk assets – such as corporate bonds – in search of higher returns. High risk assets become problematic if interest rates rise as they are more difficult to sell.

1.5. There are other issues with the current economic climate, including:

- A lot of credit has come via marketplace lending as banks have invested less capital into the economy since 2008.
- The current economic climate encourages companies to increase their value by investing capital into stock buyback rather than investing in productivity. In the short term this raises the value of the company as it increases stock prices – upon which its value is gauged – but it is not a sensible long term strategy.

- Asset valuations have risen – even several years after the last tranche of QE – but individual companies have begun to show signs of unravelling, for example, Glencore has lost 30% of its value on the UK stock market in recent weeks. Falling asset prices would not necessarily be a bad thing, as high asset prices only benefit the asset owner and demand is pushed elsewhere.
- Economies in the developing world– including China – now possess half of all debt and much of it has been misallocated, for example, on ill-thought out public infrastructure works and on building excess capacity. This debt burden was caused by a policy of currency devaluation designed to stimulate exports that has seen total debt increase by 40% worldwide since 2007. It was effective at stimulating developing economies for a while but is becoming problematic now that the economies have slowed.

Future outlook

1.6. Developments in the worldwide economy may include:

- China attempting to shift towards a more consumer-based economy (rather than export-based) – this will be difficult to do given the high amount of debt and the poor returns on equities. However, it is an opaque society so it is difficult to know with certainty what is going on. Some other emerging economies do look to be in better shape.
- A change from a monetary policy involving QE and low interest rates to a fiscal policy where governments print money and invest more in their domestic economies, such as in infrastructure.
- A gradual reversing of globalisation due to the introduction of protectionist policies to counteract the effects of high debt – signs of protectionism have begun to emerge in the developing world.
- A gradual shift in the percentage of company profits going towards capital (shareholders) rather than labour (workers). Over the past 20 years, returns to shareholders have been exceptionally high and real wages have stagnated. The Japanese government is already urging companies to pay staff higher wages.

Newton's strategy

1.7. The current financial environment does not favour an absolute return focussed investment strategy due to the high amount of risk in equities. However, Newton is confident it can still exceed its return strategy of "cash +4%" for the East Sussex Pension Fund (ESPF) in the next three to four years against this financial backdrop by adopting a strategy that emphasises patience.

1.8. Newton's current strategy involves:

- ensuring that the fund has low credit exposure – the return-seeking core is currently 38% of the total fund;
- holding high amounts of cash (21% of the fund) – in the long term this provides low returns, but in the short term it reduces credit exposure and allows speedy investment in lower risk/ high quality assets when the conditions are right;
- waiting for a better entry point into the equities market – the falling European stock markets could offer such an entry point;
- only buying securities directly, understanding why they have been purchased, and holding them to maturation – a lot of debt is issued with the expectation of keeping it to maturity, even though it is often sold early;
- mainly investing in European equities, with 15% from the US and 2% from Japan;

- holding 85% of cash in Sterling and the rest in Yen, Swiss Francs and the Dollar – the target is for 100% cash holdings in Sterling, as anything else is a risk;
- investing in precious metals in anticipation that they will rise in value once the economy becomes more inflationary.

1.9. This strategy would change if there was a sharp upwards movement in the equity market.

David Cullinan, State Street

Market environment

1.10. Market returns for 2014/15 have been strong:

- Bond annual returns were 20% for index-linked, 14.5% for UK government and 13% for UK corporations;
- There has been a noticeable equity risk premium over the last three years when compared to returns on bonds;
- Three quarters of all pension funds now have some investment in alternatives which now offer a return close to that of equities;
- Annual returns for property have recovered since 2008/9 and have been positive over the past seven years; the return over three years has been close to that of equities. Funds are largely allocated to direct or indirect UK property;
- The performance of assets in the pension scheme has been very good but it has been hurt by the cost of liabilities, i.e., the cost of purchasing the assets.

1.11. Over the past 20 years, there has been a modest equity risk premium: returns for UK and overseas equities have not been significantly higher than other asset classes, but they have had much higher variability of returns, i.e., they are more volatile. Consequently, there has been a long term trend towards diversifying the assets held by local government pension schemes (LGPS) away from equities. The amount of equities held has fallen from 75% to 60% of the value of the total fund, and the allocation in alternatives has increased from 1% to 11% (and is expected to rise to 15% in future years).

Performance of ESPF

1.12. The ESPF has a good diversity of asset classes and asset managers. The fund has a higher proportion of its value (30%) invested in alternative assets when compared to other LGPSs. The relative size of ESPF allows it to diversify its asset allocation and employ more asset managers.

1.13. The ESPF is performing very well, for example it has seen:

- A 15% return over the past 12 months compared to a benchmark of 11.9%.
- A relative return of 1.2% over the past five years compared to the benchmark; this represents an additional £170m added to the value of the fund.
- A high return at a low risk – compared to the median for LGPSs – over the previous three and 10-year periods both in absolute terms and relative to its benchmark.
- A performance against its benchmark of 0.3% over the past 20 years – which means it is ranked 23rd out of 89 LGPS funds.

1.14. The performance of asset managers, rather than the selection of asset classes, has added value to the ESPF. The allocation of funds to different asset classes has had 0-0.1%

impact on the value of the ESPF over the past 10 years. On the other hand, stock selection by asset managers has provided an additional 1.5% return in the past three years and 0.4% over the past 10 years. In 2015, stock selection – mainly in equities and bonds – had an impact on the benchmark of 1.5; the relative weighting of assets had an impact of 0.1. This picture is the same across all pension funds.

1.15. Looking at performance over the past 20 years is a useful exercise – even if the world has changed drastically – because it provides a good benchmark for what the fund should be aspiring to achieve. The average of 5% annual returns above inflation over the past 20 years is how the Pension Committee should judge the performance of the ESPF.

Linda Selman and William Marshall, Hymans Robertson

East Sussex Pension Fund strategy

1.16. The role of the Pension Committee should be to agree the long term strategy of the pension fund. The strategy should enable the pension fund to be self-sustaining and able to pay out benefits to its members.

1.17. The triennual evaluation of the ESPF – due to take place in March 2016 – is a very important activity as research shows that having a clear, deliverable strategy can help a pension fund achieve 1.2% extra returns per year.

1.18. The current ESPF pension strategy focuses on providing a balance between:

- generating returns;
- ensuring that there is sufficient protection against volatility; and
- ensuring the movability of funds so that they can be moved into assets that begin to perform well.

1.19. A lot of academic studies have been undertaken to look at what makes a good pension fund. The studies concluded that – whilst an element of luck can play its part – it is the possession of certain characteristics that dictate strong performance not the pension fund’s size. The characteristics include:

- A short manager roster – there is no added value in having lots of asset managers but you also need the right managers;
- Low manager turnover – funds should be patient as changing managers can cost up to 1% of the asset value;
- Simple structure – traditional asset classes should be chosen and ‘fads’ avoided, and the structure must match the beliefs of the fund;
- Rebalancing – if the fund is veering away from its agreed strategy, there should be sufficient discipline to make proactive moves in order to rebalance asset weightings;
- Internal management – fund managers should work out what their governance structures are and then put in place a strategy to match available resources. There is no optimal number of asset managers, as the right number depends on the governance budget available to manage the asset managers.

1.20. Pension fund strategies can permit different investment strategies for the various employers that are members of the fund. However, there are too many employers for all of them to have their own strategy so a balance needs to be struck.

1.21. Setting a performance benchmark for a strategy is an important tool for pension funds as it demonstrates the value of fund managers who are able to exceed their benchmark, and it helps to show to the Government the value of actively managed pension funds compared to passively managed.

Deciding on asset classes

1.22. A pension fund portfolio should aim to have a wide variety of assets and a smaller proportion of volatile assets, such as equities, so that any losses have a limited effect. This is because:

- The amount paid to pensioners increases as a fund matures which makes it less able to tolerate volatility and fluctuations in its value;
- It is difficult for assets to recover to their benchmark if they fall in value – an asset that falls in value by 50% in year one will have to double its performance during year two.

1.23. However, pension funds may still need to consider investing in more volatile, higher yield assets in order to remain self-funding when it has to contend with external factors such as:

- Growing inflation;
- Increasing life expectancy;
- a reduction in the number of contributing employees;
- the proportional cost of management fees that result from lower returns on investment.

1.24. Therefore, a pension fund strategy must strike a comfortable balance between investing in high yield/high risk assets that could potentially deliver 100% self-funding, but also significantly increase the risk of reductions in self-funding levels; and low yield/low risk assets that will not deliver 100% self-funding, but will not risk self-funding levels falling significantly.

1.25. LGPSs are able to invest more in higher risk assets, such as equities, than private pension funds because they have an implied covenant with the Government that they would be bailed out by public funds – although this has not been tested.

1.26. An Asset Liability Modelling (ALM) was undertaken during the triennual evaluation of the ESPF in 2013 to test the outcome of different strategies. The test concluded that there would be no material benefit in increasing the amount of equities held by the fund and, as a result, some of the risk contained in existing equities should be “taken off the table” by converting equities to index-linked bonds.

1.27. At the strategy day in May 2014 it was agreed that there should be a de-risking “trigger”. This was agreed as a 5% reduction in equities at the point at which the fund achieved 85% self-funding.

1.28. The trigger was reached on 11 March 2015 and 5% of the ESPF’s assets (£135m) were converted from equities to index-linked bonds. Based on the market fluctuations since then, this decision has added £20m to the fund’s value. The fund is currently at 77.8% funding.

Role of Pension Committee

1.29. The Pension Committee will need to agree a number of aspects of the strategy at the triennual evaluation in April 2016. It will need to consider:

- De-risking triggers for when the fund has a high level of funding to “lock down” risk;
- Re-risking triggers for when the fund has a low level of funding;
- The risk of over-triggering a fund making it more complex and costly;
- How governance arrangements are implemented effectively and efficiently;

- The investment structure, including active versus passive investments, the choice of benchmark and the level of diversification.

1.30. **ACTION**: The Pension Committee may want to agree the formal rebalancing process for when asset classes are over or under weight, including the trigger points and what action hitting a trigger should entail.

Ethical investments

1.31. The Law Commission Report places a fiduciary duty on pension fund trustees to take into account – when considering whether to invest in an asset – the financial impact of the investment and the non-financial impact. An investment can be excluded on non-financial grounds only if it fulfils two tests:

- trustees have good reason to think that scheme members would share their concerns; and
- not investing would not make the fund significantly worse off financially.

1.32. The case is often made by action groups that a key driver for not investing in fossil fuel companies is that they pose financial risk because they will not be able to extract all of the assets that they have on their books.

1.33. The ESPF is drafting a letter to respond to action groups; the Pension Committee agreed its general tone.

Pooling and collaboration

1.34. The Government is committed to requiring LGPSs to pool their funds. The purpose of the pooling is to achieve savings faster than through formal mergers, and because the aggregate LGPSs have not outperformed their benchmarks – calling the value of asset managers and individual fund investment strategies into question.

1.35. It is expected that pooled funds will have fixed fund managers, but individual funds will be able to choose which asset classes they invest in. Hymans Robertson has argued that this proposal does not currently seem to take into account the complexity of asset classes – which are more varied than just bonds, equities, properties and infrastructure.

1.36. The Government has indicated that it is looking for a significant saving from LGPSs, but has not indicated what it will be. In anticipation, funds have been making savings since the proposal was first announced in May 2013. Hymans Robertson has successfully argued that any savings should, therefore, be measured against May 2013 budgets.

1.37. The Government is asking local authorities to submit their proposals for pooling LGPSs by November 2015. The pooling proposals will be measured by their scale, savings and governance. Pooling proposals that can be delivered quickly and are not complex are more likely to be accepted.

1.38. There is no one size fits all pooling model and the 89 LGPSs could submit 89 different proposals. Some pension schemes have already engaged in pooling, such as the London Pension Collective Investment Vehicle (CIV), and Hymans Robertson is advising the Government to consider these models as benchmarks to measure other proposals against.

1.39. Pooling certain assets could deliver significant savings, for example, infrastructure accounts for less than one percent of asset investment, but substantial savings could be delivered if investment assets were pooled due to the high cost of investing in infrastructure. On the other hand, pooling passive equities will deliver virtually no savings due to the already low management fees.

1.40. There could also be pools for specific assets, for example, the London Pension CIV could take in assets from other portfolios where it already has the same investment strategy and the same investment manager.

1.41. If all funds are divided into five pools, as initially proposed, then that would mean that the ESPF, valued at £2.7bn, would have to pool with multiple pension funds – the South East 7 group of local authorities have a collective pension fund value of only £15bn. It is also unclear what effect pooling budgets will have on the localism agenda and the decision making powers of Pension Committees.

1.42. The system is unlikely to be in place before 2020 and the Government is expected to announce in February 2016 which models will be accepted, based on the proposals submitted in November. However, ESPF officers recognise that doing nothing is not an option and discussions have been going on to form an understanding of what might need to happen.

1.43. **ACTION:** The Committee will be advised whether this means that the Government is fettering its discretion and could be challenged on its decision.

2. Part 2 decision

2.1. At the annual strategy day in September 2015 the Committee confirmed their agreement to terminate Lazard's active global equity mandate. The target size of the mandate is 15% of the Fund. The proceeds of the termination are to be split equally between the Fund's existing passive global equity mandate with L&G and the passive RAFI equity mandate with State Street.

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East Sussex County Council

PENSION COMMITTEE

TUESDAY, 24 NOVEMBER 2015

10.30 AM COUNCIL CHAMBER, 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

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 Pension Board Minutes

6 Fund Performance - Longview (Global equities)

7 Quarterly Performance Report – Hymans Robertson

8 Pooling of LGPS Investment and Collaboration - Hymans Robertson

9 Statement of Investment Principles

10 Pension Fund Risk Register

11 Investment Consultancy and Actuarial Services contract - Verbal Update

12a Officers' Report - Business Operations

12b Officers' Report - General Update

13 Pension Committee Work Programme/Training
- Joint Training Session - updates

14 Any other items previously notified under agenda item 4

PHILIP BAKER
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LEWES BN7 1UE

16 November 2015

Contact Harvey Winder, 01273 481796,

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East Sussex Pension Fund

Review of Investment Managers' Performance for Third Quarter of 2015

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For and on behalf of Hymans Robertson LLP
October 2015

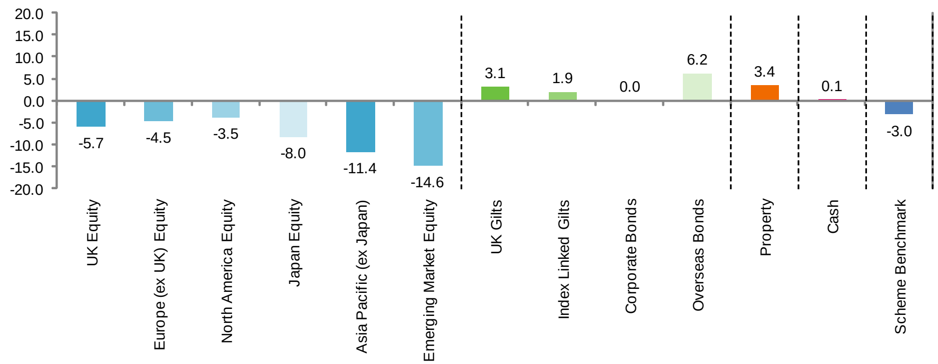
Contents

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

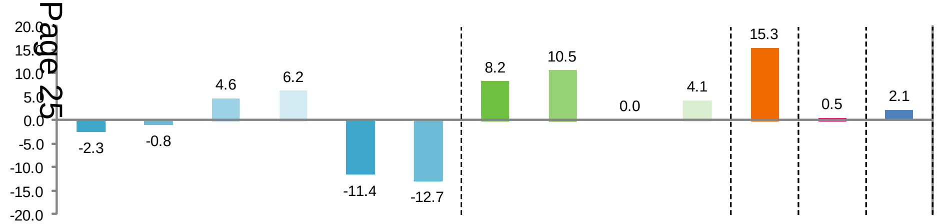
Historic Returns for World Market to 30 September 2015

Historic Returns - Chart 1 [1] [i]

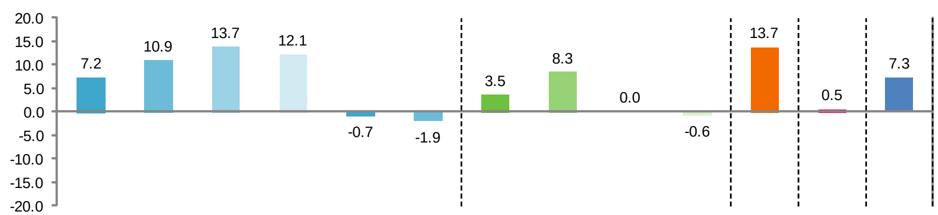
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Comment

Global equity markets recorded their worst three month returns in four years. In the UK the FTSE All Share index fell by 6.9%; in the US, the S&P 500 index fell by 4.1%. August was a particularly difficult month, with global equities falling by more than 5% and government bonds offering little in the way of a safe haven.

The economic slowdown in China dominated the headlines during the quarter, with the country's economy growing at its slowest rate in over six years. In August, the benchmark interest rate was cut for the fifth time since November 2014.

An increase in short-term interest rates in the US had been widely anticipated at the start of the quarter, but developments in China shifted expectations. Many commentators are now anticipating that the first US rate rise will be pushed into 2016. However, the US economy continued to be robust, with falling unemployment and upward revisions to growth forecasts. The chairman of the Federal Reserve suggested, at the end of the quarter, that a US rate rise was still likely before the end of 2015.

Key events during the quarter included;

Global Economy

· Short-term interest rates were unchanged in the UK, US, Eurozone and Japan;
· Headline inflation in the US, Eurozone and UK remained close to zero;
· The VIX volatility index spiked on 'Black Monday', more than double the historic average since Jan 1990 as equity markets collapsed;
· Oil prices slid back to their lows of early 2015, dipping under $50 per barrel;
· Commodity prices suffered their biggest quarterly decline since 2008.

Equities

· The strongest sectors relative to the FTSE All World Index were Utilities (+7.6%) and Consumer Services (+5.1%); the weakest were Basic Materials (-11.4%) and Oil & Gas (-9.9%);
· Emerging market equities struggled; local currency weakness compounded the falls for UK investors.

Bonds and currencies

· Sterling fell against the Dollar, Euro and Yen, largely reversing gains made during the preceding quarter;
· UK gilt yields fell (prices rose), with nominal yields falling further than real yields.

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

Source: [i] DataStream, Fund Manager, Investment Property Databank Limited

Fund Asset Allocation and Performance

Valuation Summary [1]

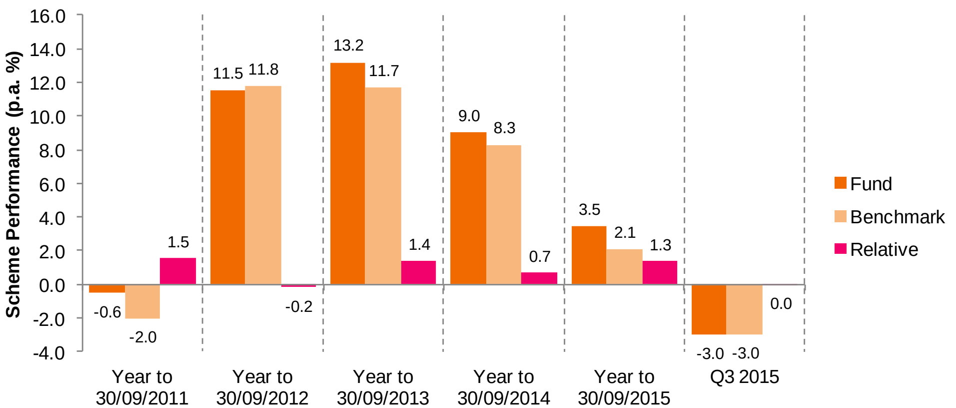
Asset Class	Values (£m) Q2 2015	Q3 2015	Actual Proportion %	Target Proportion %	Difference %
Global Equity	1038.2	951.6	36.5	38.0	-1.5
UK Equity	267.4	252.2	9.7	12.0	-2.3
Fixed Interest	107.0	107.4	4.1	3.5	0.6
Index-Linked Gilts	139.8	143.0	5.5	5.0	0.5
Property	299.2	306.9	11.8	10.0	1.8
Infrastructure	61.3	43.9	1.7	2.0	-0.3
Private Equity	151.0	162.0	6.2	5.5	0.7
Absolute Return Funds	501.4	483.2	18.5	20.0	-1.5
Cash	44.1	79.2	3.0	0.0	3.0
UK Financing Fund	10.6	10.6	0.4	1.0	-0.6
Absolute Return Bonds	67.8	66.7	2.6	3.0	-0.4
Total Current	**2687.9**	**2606.8**	**100.0**	**100.0**	

Fund performance [2]

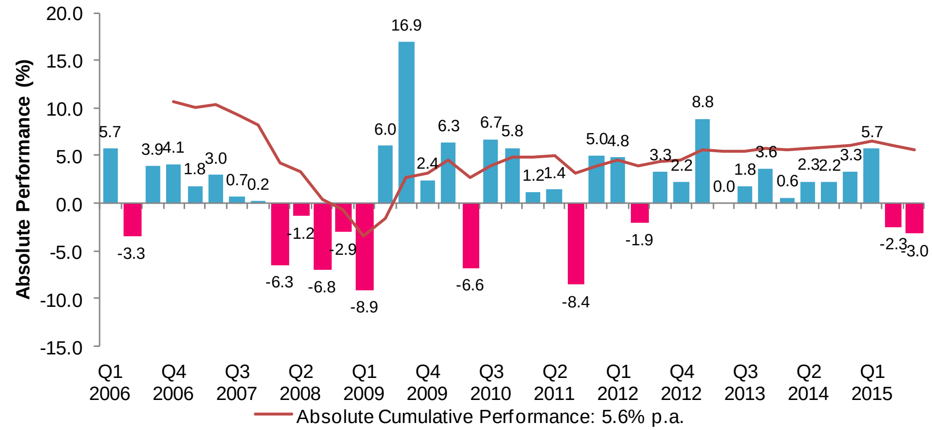
The Fund was in line with the aggregate benchmark during the third quarter of 2015, returning -3.0% in absolute terms. Over the twelve month period to end September 2015, the Fund delivered an absolute return of 3.5%, versus a benchmark return of 2.1%.

At a manager level the Longview global equity mandate outperformed over the quarter. However, this was offset by underperformance from Lazard and both the Absolute Return Funds.

Performance Summary [i]



Absolute Quarterly and Absolute Cumulative Performance [ii]



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

Source: [i] Hymans Robertson, [ii] Hymans Robertson

Summary of Mandates

Manager Summary [1]

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

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

Key:- - Replace - On-Watch - Retain

Manager Summary Comment

There were no changes to manager ratings over the third quarter of 2015. Following agreement by the trustees to terminate the Lazard mandate, a transition will take place in the fourth quarter, with the proceeds transferred into the existing L&G and State Street passive equity mandates.

The Fund continues to be underweight UK equity and due to the significant decline in global equity markets is now underweight global equity. Property and cash remain overweight and the absolute return funds remain underweight. There was no transition activity during the quarter.

Performance versus WM Local Authorities [2] [i]

	3 months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	-2.3	9.8	11.1	9.4
WM average Local Authority	-2.4	8.3	10.8	9.7
Relative	0.1	1.4	0.3	-0.3

[1] Ruffer does not have a specific performance target, we have assumed a proxy for measurement purposes. Ruffer's stated objective is to 'preserve capital over rolling 12 month periods', and to grow the portfolio at a higher rate than could be expected from depositing the cash in a UK bank (net of fees), [2] Performance is shown as at 30 June 2015.

Source: [i] WM/State Street

Manager Structure

Manager Valuations [1]

Manager	Value (£m) Q2 2015	Q3 2015	Actual Proportion %	Target Proportion %	Difference %
L&G - Global Equities	205.6	193.6	7.4	8.0	-0.6
Lazard - Global Equities	392.9	358.3	13.7	15.0	-1.3
Longview - Global Equity	168.0	162.2	6.2	5.0	1.2
State Street - Fundamental Indexation	277.0	255.4	9.8	10.0	-0.2
L&G - UK Equities	267.4	252.2	9.7	12.0	-2.3
Newton - Absolute Return	243.3	240.1	9.2	10.0	-0.8
Ruffer - Absolute Return	258.1	243.1	9.3	10.0	-0.7
L&G - 5yr ILG	139.8	143.0	5.5	5.0	0.5
M&G - Bonds	174.8	174.1	6.7	6.5	0.2
Schroder - Property	310.7	320.8	12.3	10.0	2.3
M&G - Infrastructure Fund	41.1	22.8	0.9	1.0	-0.1
UBS - Infrastructure	20.2	21.1	0.8	1.0	-0.2
Adams Street - Private Equity	78.8	85.1	3.3	2.8	0.5
HarbourVest - Private Equity	72.3	76.9	2.9	2.8	0.2
M&G - UK Financing Fund	10.6	10.6	0.4	1.0	-0.6
Cash account	27.4	47.4	1.8	0.0	1.8
Total	**2687.9**	**2606.8**	**100.0**	**100.0**	0.0

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

Performance Summary (gross of fees)

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

		L&G - Global Equities	Lazard - Global Equities	Longview - Global Equity	State Street - Fundamental Indexation	L&G - UK Equities	Newton - Absolute Return	Ruffer - Absolute Return	L&G - 5yr ILG	M&G - Bonds	Schroder - Property	Total Fund
3 Months (%)	Absolute	-5.8	-8.7	-3.3	-7.8	-5.7	-0.8	-5.7	2.3	-0.3	3.3	-3.0
	Benchmark	-5.8	-5.8	-6.0	-7.9	-5.7	0.1	0.1	2.3	0.6	3.0	-3.0
	Relative	0.0	-3.0	2.9	0.1	0.0	-0.9	-5.8	0.0	-0.9	0.3	0.0
12 Months (%)	Absolute	0.7	-2.1	12.5	-3.4	-2.2	1.3	2.5	6.1	2.9	14.7	3.5
	Benchmark	0.6	0.6	-0.1	-3.5	-2.3	0.5	0.5	6.0	2.4	14.4	2.1
	Relative	0.1	-2.7	12.6	0.1	0.1	0.8	2.0	0.0	0.5	0.3	1.3
3 Years (% p.a.)	Absolute	10.0	7.5	15.0	2.0	7.4	2.9	6.9	N/A	5.0	13.0	8.5
	Benchmark	9.9	9.9	4.9	2.0	7.2	0.5	0.5	N/A	3.0	11.7	7.3
	Relative	0.1	-2.2	9.6	0.0	0.1	2.5	6.4	N/A	1.9	1.1	1.1
10 Years (% p.a.)	Absolute	7.5	6.4	N/A	N/A	4.5	4.6	5.2	N/A	5.8	9.5	6.0
	Benchmark	7.5	8.2	N/A	N/A	4.3	0.6	0.6	N/A	4.2	9.0	5.5
	Relative	0.0	-1.6	N/A	N/A	0.2	4.0	4.6	N/A	1.5	0.4	0.5

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

Source: [i] DataStream, Hymans Robertson

Performance Summary (net of fees)

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

		L&G - Global Equities	Lazard - Global Equities	Longview - Global Equity	State Street - Fundamental Indexation	L&G - UK Equities	Newton - Absolute Return	Ruffer - Absolute Return	L&G - 5yr ILG	M&G - Bonds	Schroder - Property	Total Fund
3 Months (%)	Absolute	-5.8	-8.8	-3.4	-7.8	-5.7	-0.9	-5.9	2.2	-0.4	3.2	-3.1
	Benchmark	-5.8	-5.8	-6.0	-7.9	-5.7	0.1	0.1	2.3	0.6	3.0	-3.0
	Relative	0.0	-3.2	2.7	0.1	0.0	-1.1	-6.0	-0.1	-1.0	0.2	-0.1
12 Months (%)	Absolute	0.6	-2.8	11.8	-3.4	-2.2	0.7	1.7	5.9	2.5	14.5	3.1
	Benchmark	0.6	0.6	-0.1	-3.5	-2.3	0.5	0.5	6.0	2.4	14.4	2.1
	Relative	0.0	-3.3	11.9	0.0	0.1	0.2	1.2	-0.2	0.2	0.1	1.0
3 Years (% p.a.)	Absolute	9.9	6.8	14.3	1.9	7.3	2.3	6.1	N/A	4.6	12.7	8.1
	Benchmark	9.9	9.9	4.9	2.0	7.2	0.5	0.5	N/A	3.0	11.7	7.3
	Relative	0.0	-2.8	9.0	-0.1	0.1	1.9	5.6	N/A	1.6	0.9	0.8
10 Years (% p.a.)	Absolute	7.4	5.8	N/A	N/A	4.4	4.0	4.4	N/A	5.6	9.3	5.9
	Benchmark	7.5	8.2	N/A	N/A	4.3	0.6	0.6	N/A	4.2	9.0	5.5
	Relative	0.0	-2.2	N/A	N/A	0.1	3.4	3.8	N/A	1.3	0.2	0.3

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

Source: [i] Fund Manager, Hymans Robertson

Legal and General - UK and Global Equities

HR View Comment & Rating

In September LGIM announced that Chad Rakvin will succeed Ali Toutounchi as Global Head of Index Funds. Rakvin was recruited from Northern Trust in 2013 to lead LGIM's index funds expansion in the US. Toutounchi will work through a handover period with Rakvin and will continue to be involved with LGIM in a strategic and advisory capacity. Julian Harding, Director of Index Fund Management in the UK is leaving LGIM and Colm O'Brien, who joined from Irish Life in 2012, will take over his responsibilities. Eve Finn, who joined LGIM in 2009, expands her role from engaging with clients on LDI de-risking solutions to a much broader, newly created role as Head of Portfolio Solutions.

In our view Harding was a good manager who understood the UK market very well and his departure is an unfortunate consequence of these changes. Rakvin and O'Brien have plenty of relevant investment experience but have also had much less time at LGIM and less involvement with the UK market than the individuals they are replacing. Notwithstanding the incidence of change in senior personnel at LGIM, we see no reason to question the continuity of the business at this point and maintain our rating of LGIM's passive capability at '5 - Preferred Manager'.

Performance Attribution Comment

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

The UK equity fund delivered a negative absolute return of -5.7% over the quarter. Over the 3 year period, fund performance remains positive and is broadly in line with the benchmark.

The global equity mandate also performed in line with the benchmark over Q3, delivering an absolute return of -5.8%. Long term performance remains broadly in line with the FTSE All World Index at both 3 years and since the mandate's inception.

L&G UK Fund Performance [i]

	3 months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-5.7	-2.2	7.4	4.5
Benchmark	-5.7	-2.3	7.2	4.3
Relative	0.0	0.1	0.1	0.2

* Inception date 21 November 2007

L&G Global Fund Performance [ii]

	3 months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-5.8	0.7	10.0	7.5
Benchmark	-5.8	0.6	9.9	7.5
Relative	0.0	0.1	0.1	0.1

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

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

Legal and General - 5 year ILG

HR View Comment & Rating

Rating				
Replace		On Watch		Retain ●

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

We continue to rate the manager '5 - Preferred Manager' for passive fixed income

Performance Summary - Table [i]

	3 Months (%)	Since Inception* (%)
Fund	2.3	6.1
Benchmark	2.3	6.0
Relative	0.0	0.0

* Inception date 11 Mar 2015.

Performance Attribution Comment

Over the quarter and since inception, Legal & General's 5 year index linked gilts fund performed in line with the benchmark, delivering a positive absolute return of 2.3% over the last 3 months.

Source: [i] DataStream, Hymans Robertson

State Street - Fundamental Indexation

HR View Comment & Rating

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

There were no relevant business issues reported over the period.

Performance Summary - Table

	3 Months (%)	12 Months (%)	Since Inception* (%)
Fund	-7.8	-3.4	2.0
Benchmark	-7.9	-3.5	2.0
Relative	0.1	0.1	-0.0

* Inception date 06 Aug 2013.

Performance Attribution Comment

State Street's fundamental indexation fund performed slightly ahead of benchmark during the third quarter of 2015, returning -7.8% in absolute terms. Since inception, the fund is broadly in line with the benchmark.

RAFI moderately underperformed the equivalent cap weighted index in Q3 2015 as the value style underperformed; performance also lags the index in the year to date but RAFI remains true to its 'contrarian' principles e.g. overweight to Energy, Utilities, Europe and Japan and underweight to Health Care, Technology and the US.

Lazard - Global Equity

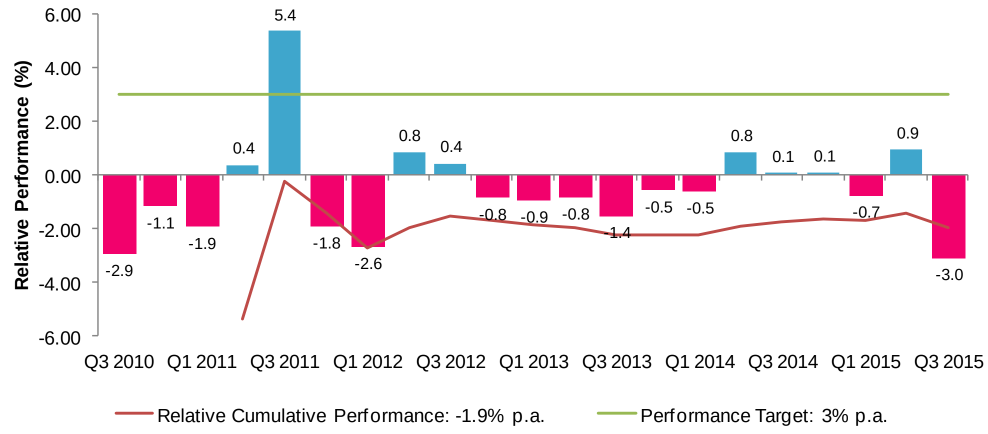
HR View Comment & Rating

There were no relevant business issues reported over the quarter to 30 September 2015.

We continue to rate Lazard's Global Thematic Equity strategy at '2 Sell – review options'. We are still comfortable with Lazard's structure as an independent team focused on a single, unconstrained strategy and building portfolios with low turnover based on the portfolio managers' long term views. Unfortunately we have lost confidence in the Lazard team's ability to execute this approach effectively.

The Fund's mandate with Lazard is due to be terminated during Q4.

Relative Quarterly and Relative Cumulative Performance [i]



Performance Attribution Comment

The Global Equity strategy underperformed the benchmark over the quarter by 3%, returning -8.7% in absolute terms. Over all longer periods considered, the mandate remains behind the benchmark.

The biggest detractor over the quarter was the mandate's Oil and Gas theme as commodity prices fell (oil prices fell by 24% and gas prices fell by 15%) significantly affecting the performance of the industry. At stock level, there was a struggle to maintain profitable production. The National Platforms theme also had a significant negative impact over the quarter as Chinese shares were suspended and Hong Kong shares were sold off. Specifically, the mandate's exposure to Hong Kong Exchanges and Clearing, which operates the stock market and derivatives market in Hong Kong, detracted as the number of transactions in the market fell. Additionally the Information Systems theme negatively impacted on performance. The mandate's underweight positioning to utilities and other traditional defensive stocks and consumer staples also detracted. However, Lazard maintained this position in the belief that the utilities sector will begin to decline when interest rates rise and that consumer staples sector will suffer as competition diminishes.

Performance Summary to 30 September 2015 [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	-8.7	-2.1	7.5	6.4
Benchmark	-5.8	0.6	9.9	8.2
Relative	-3.0	-2.7	-2.2	-1.6

* Inception date 26 May 2010.

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

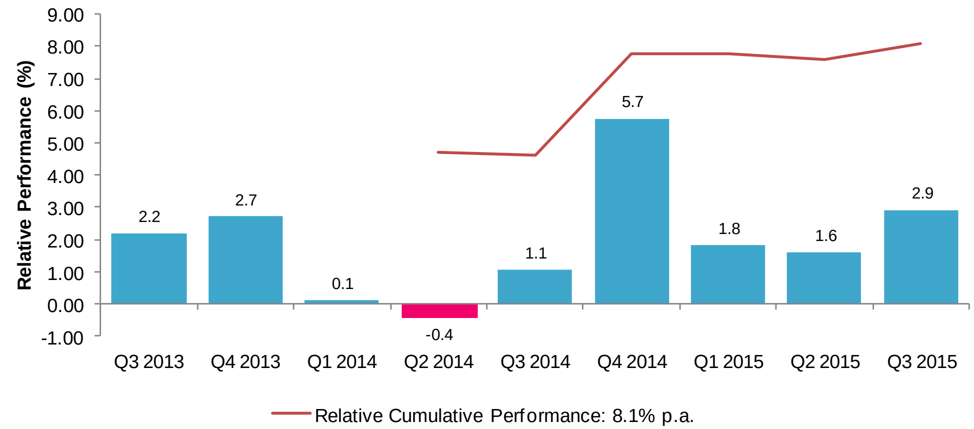
Longview - Global Equity

HR View Comment & Rating

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

There were no relevant business issues reported over the period.

Relative Quarterly and Relative Cumulative Performance [i]



Performance Attribution Comment

Although the quarter saw equity markets fall significantly, Longview's global equity mandate outperformed the benchmark by 2.9%. Over the longer term, the fund has outperformed the benchmark since inception delivering an absolute return of 15% p.a.

Stock selection in the Information Technology sector and the mandate's zero exposure to Energy and Commodoties sectors all contributed to the outperformance over the quarter. Individual holdings Imperial Tobacco, Advanced Auto Parts and Fidelity National Information Services performed well over the quarter and had a positive impact on relative performance. Advanced Auto Parts, the automotive replacement parts retailer announced revenue growth over the quarter which in turn improved the company's earnings per share. Imperial Tobacco reported stable profitability over the quarter and continues to benefit from dividend sustainability. IT company, Fidelity National benefitted due to the announcement of their plans to acquire Sunguard, an American multi national company.

Over the quarter, detractors included stock selection within the Consumer Discretionary and Industrials sectors and individual holdings in Parker Hannifin, Viacom and Emerson Electric. Viacom posted poor quarterly results for the third quarter and underperformed as TV viewing ratings fell. Within the Industrials sector, Emerson Electric and Parker Hannifin suffered due to weakness in the industrial economy as growth in the sector declined.

Performance Summary to 30 September 2015 [ii]

	3 Months (%)	12 Months (%)	Since Inception* (%)
Fund	-3.3	12.5	15.0
Benchmark	-6.0	-0.1	4.9
Relative	2.9	12.6	9.6

* Inception date 16 Apr 2013.

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

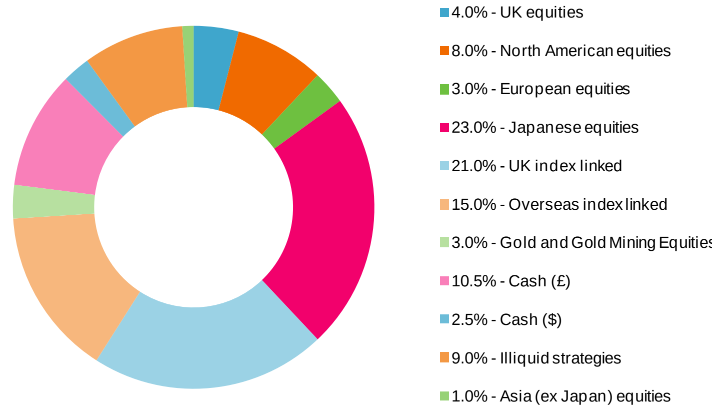
Ruffer - Absolute Return

HR View Comment & Rating

In Q1 2015 Ruffer asked investors to approve the inclusion of new illiquid strategies, designed to provide protection against the tail-risk associated with credit markets. The team have now implemented this change and it has been a challenging period for the strategy this year. We continue to support the Ruffer approach to absolute return investing but are mindful of style divergence.

There were no significant changes over the third quarter to end September 2015.

Asset Allocation



Performance Attribution Comment

Ruffer's Absolute Return Fund underperformed the Libor benchmark by 5.8% over the quarter to 30th September, returning -5.7% in absolute terms. Over 12 months, 3 years and since inception the mandate outperformed.

As equity markets fell over the quarter, the mandate was badly affected and the protection strategies did not manage to offset the scale of the equity losses. In particular, exposure to Japanese equities had the biggest negative impact on performance due to it's liquid nature within the otherwise illiquid Asian market. However, Ruffer is confident that the losses were not due to domestic issues and believes that the Japanese market will regain momentum. The manager subsequently added to its Japanese holdings. The mandate's option contracts (in place to hedge risks should equity and bond markets fall sharply together) also detracted in spite of providing strong protection in August as markets fell. The value of the options then decreased in September as market volatility receded.

The mandate's exposure to the Japanese yen provided a small positive contribution to relative performance, as the yen appreciated over the quarter. Exposure to the US dollar also had a positive impact on performance as it appreciated amidst expectations the Fed would increase US rates. Ruffer's new Illiquid Multi Strategies Fund also contributed to performance as the nature of the vehicle seeks to benefit from rising volatility and widening credit spreads. UK index linked gilt contributed as yields fell causing prices to rise.

Performance Summary to 30 September 2015 [i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	-5.7	2.5	6.9	5.2
Benchmark	0.1	0.5	0.5	0.6
Relative	-5.8	2.0	6.4	4.6

* Inception date 06 May 2010.

Source: [i] DataStream, Hymans Robertson

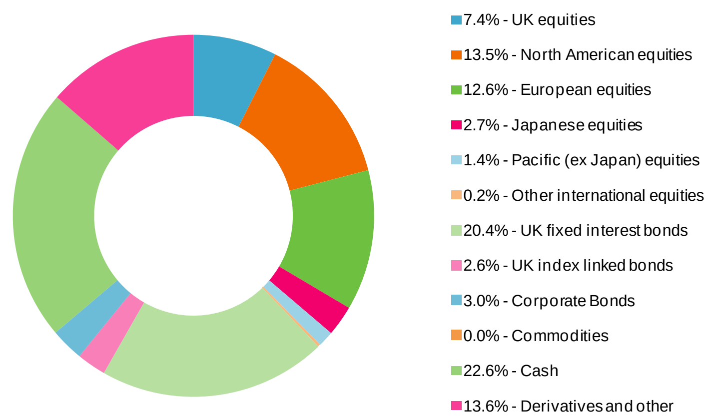
Newton - Absolute Return

HR View Comment & Rating

We rate Newton at ‘5 - Preferred Manager’. The Real Return Fund is an unconstrained multi-asset strategy that seeks to generate a return through both dynamic asset allocation and security specific selection. We like the unconstrained nature of the Newton approach and the real focus on downside protection. It is this focus on risk as the loss of capital rather than a measure of portfolio volatility that distinguishes ‘absolute return’ managers such as Newton. While the approach draws on a range of inputs from various investment staff in the wider Newton team, we believe that the success or otherwise of the strategy is heavily reliant on the head of the team, Iain Stewart, and there is therefore a high level of key man risk. As at the end of the third quarter the Real Return strategy had assets under management of £12.6bn. Capacity is a consideration due to the portfolio investing in single stock names, however at this level Newton do not believe this is a concern.

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

Asset Allocation [1] [i]



Performance Attribution Comment

The Real Return underperformed the LIBOR +4% target by 0.9% over the quarter, returning -0.8% in absolute terms. Over 12 months and 3 years the Fund lags the LIBOR +4% target but since inception is in line with the target.

The third quarter of 2015 proved difficult for equity markets globally and volatility peaked to a level not seen since 2008. With equities making up the majority of the mandate's return-seeking investments, this sector had an overall negative impact on performance. Exposure to the telecommunications sector also detracted with Danish company, TDC affected by the European regulator's decision to prevent the company's planned market consolidation. Japanese multinational, Softbank affected the mandate's performance as it decision to increase it's investment in Sprint, the declining wireless carrier was viewed sceptically by the market.

The biggest contributor to performance over the quarter were the derivative protection positions held in the mandate. The manager's direct equity index protection helped cushion the losses made within the equity markets, acting as an insurance for the fund. Protection futures held against the FTSE 100 and S&P 500 also protected the mandate's positioning. Portfolio holdings in tobacco manufacturers Reynolds American and British American Tobacco also had a positive impact on relative performance. The mandate also benefitted from individual holdings in technology stocks Microsoft and Accenture.

Performance Summary to 30 September 2015 [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	-0.8	1.3	2.9	4.6
Benchmark	0.1	0.5	0.5	0.6
Relative	-0.9	0.8	2.5	4.0

* Inception date 06 May 2010.

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

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

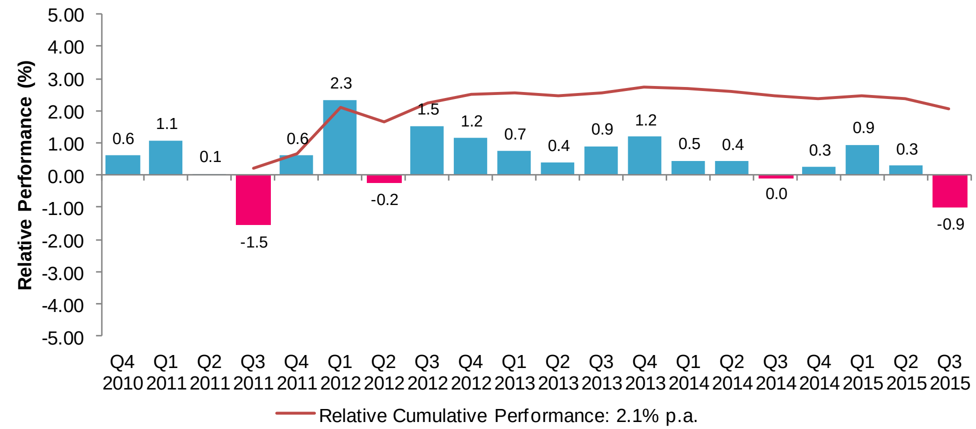
M&G - Bonds

HR View Comment & Rating

M&G is rated ‘5 – Preferred Manager' for fixed income.

There were no significant changes to report over the quarter to end September 2015.

Relative Quarterly and Relative Cumulative Performance



Performance Attribution Comment

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

The Alpha Opportunities fund delivered a negative absolute return of -1.5% over the quarter, lagging the LIBOR benchmark by -1.6%. The corporate bond fund returned 0.5% during the third quarter, underperforming its benchmark by 0.5%. Aggregate performance from the two bond funds underperformed the composite benchmark during the quarter. Over 12 months, 3 years and 5 years, aggregate relative performance remains ahead of the benchmark.

Performance Summary to 30 September 2015 [1] [i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	-0.3	2.9	5.0	5.9
Benchmark	0.6	2.4	3.0	3.7
Relative	-0.9	0.5	1.9	2.1

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

Source: [i] DataStream, Hymans Robertson

M&G - Bonds - Performance Attribution

Performance Attribution Performance [i]

		UK Corporates	Alpha Opportunities Fund	Total
3 Months (%)	Absolute	0.5	-1.5	-0.3
	Benchmark	1.0	0.1	0.6
	Relative	-0.5	-1.6	-0.9
12 Months (%)	Absolute	4.6	0.3	2.9
	Benchmark	4.6	0.5	2.4
	Relative	0.0	-0.2	0.5
3 Years (% p.a.)	Absolute	5.8	3.7	5.0
	Benchmark	5.3	0.5	3.0
	Relative	0.5	3.2	1.9
5 Years (% p.a.)	Absolute	7.2	3.9	5.9
	Benchmark	6.6	0.6	3.7
	Relative	0.6	3.4	2.1

Source: [i] DataStream, Hymans Robertson

Schroders - Property

HR View Comment & Rating

Schroder has announced that Portfolio Manager Tony Doherty has resigned from the property multi-manager team to take up a position at LGIM. Schroder had recently undertaken a review of the resourcing requirements for their indirect property business with the consequence that Jennifer Murray, a portfolio manager with responsibility for both separate account clients and SIRE (the Schroder Indirect Real Estate Fund) left the business. Whilst we concluded that no immediate change in rating was necessary, we noted that a further loss of personnel from the team would prompt a review.

Doherty's resignation was completely unexpected to Schroder given the previous change and places a significant resource constraint on the team. In particular, this leaves Rutter as the sole senior fund manager on the team and consequently with significant additional portfolio management and client responsibilities in the immediate short term. There is an increased risk that opportunities for/threats to portfolios may be missed with consequence that future performance will suffer. Whilst Schroder will recruit to fill this gap and have some ability to draw on other internal resource, these changes will not be immediate.

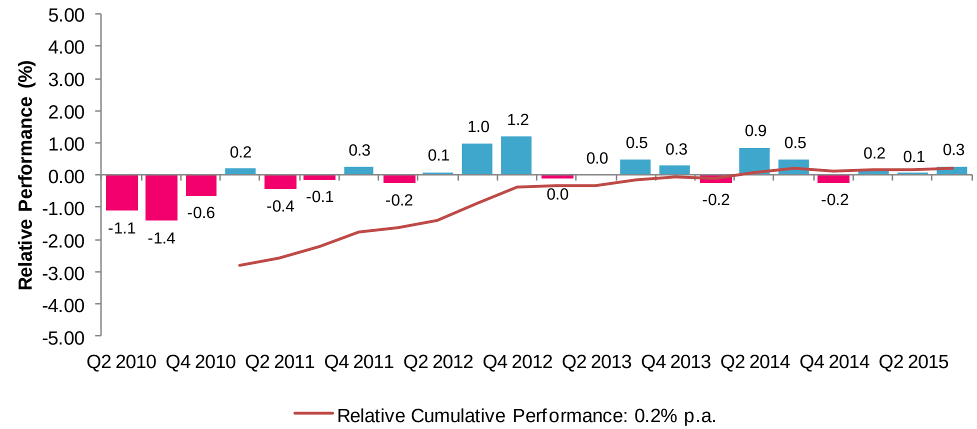
Given the increased risk that this change places on portfolios, we are downgrading our rating of Schroder's indirect property management capabilities to "3 -On Watch". We will consider how Schroder address this resourcing issue before any further change to the rating is made. However, we recognise that in light of historic performance concerns, some clients may wish to use this as a catalyst for a broader review of Schroder.

Performance Attribution Comment

The property mandate returned 3.3% in absolute terms over the quarter, outperforming the benchmark by 0.3%. The mandate remains ahead of benchmark over all longer periods considered.

The property market continued to outperform equity markets throughout the third quarter of 2015. The Industrial and London Office sectors delivered solid absolute performances, with the Industrial Property Investment Fund and West End of London Property Unit Trust outperforming the IPD benchmark. Retail funds continued to underperform over the quarter, specifically with the Henderson UK Retail Warehouse Fund lagging the IPD benchmark.

Relative Quarterly and Relative Cumulative Performance



Performance Summary to 30 September 2015 [i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	3.3	14.7	13.0	9.5
Benchmark	3.0	14.4	11.7	9.0
Relative	0.3	0.3	1.1	0.4

* Inception date 20 Feb 2010.

Source: [i] DataStream, Hymans Robertson

Summary of Benchmarks

Summary of Benchmarks

	Total Fund		Adams Street - Private Equity		Cash account		HarbourVest - Private Equity		L&G - 5yr ILG		L&G - Global Equities	
	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %
Global Equity	38.0	-1.5	-	-	-	-	-	-	-	-	100.0	0.0
UK Equity	12.0	-2.3	-	-	-	-	-	-	-	-	-	-
Fixed Interest	3.5	0.6	-	-	-	-	-	-	-	-	-	-
Index-Linked Gilts	5.0	0.5	-	-	-	-	-	-	100.0	0.0	-	-
UK Property	10.0	1.8	-	-	-	-	-	-	-	-	-	-
Infrastructure	2.0	-0.3	-	-	-	-	-	-	-	-	-	-
Private Equity	5.5	0.7	100.0	0.0	-	-	100.0	0.0	-	-	-	-
Absolute Return Funds	20.0	-1.5	-	-	-	-	-	-	-	-	-	-
Cash	0.0	3.0	-	-	100.0	0.0	-	-	-	-	-	-
UK Financing Fund	1.0	-0.6	-	-	-	-	-	-	-	-	-	-
Absolute Return Bonds	3.0	-0.4	-	-	-	-	-	-	-	-	-	-
Proportion of Total Assets	**-**	-	**2.8**	0.5	**0.0**	1.8	**2.8**	0.2	**5.0**	0.5	**8.0**	-0.6

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Summary of Benchmarks (Cont.)

Summary of Benchmarks

	L&G - UK Equities		Lazard - Global Equities		Longview - Global Equity		M&G - Bonds		M&G - Infrastructure Fund		M&G - UK Financing Fund	
	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %
Global Equity	-	-	100.0	-5.0	100.0	0.0	-	-	-	-	-	-
UK Equity	100.0	0.0	-	-	-	-	-	-	-	-	-	-
Fixed Interest	-	-	-	-	-	-	62.6	-0.9	-	-	-	-
Index-Linked Gilts	-	-	-	-	-	-	-	-	-	-	-	-
UK Property	-	-	-	-	-	-	-	-	-	-	-	-
Infrastructure	-	-	-	-	-	-	-	-	100.0	0.0	-	-
Private Equity	-	-	-	-	-	-	-	-	-	-	-	-
Absolute Return Funds	-	-	-	-	-	-	-	-	-	-	-	-
Cash	-	-	0.0	5.0	-	-	-	-	-	-	-	-
UK Financing Fund	-	-	-	-	-	-	-	-	-	-	100.0	0.0
Absolute Return Bonds	-	-	-	-	-	-	37.5	0.9	-	-	-	-
Proportion of Total Assets	**12.0**	-2.3	**15.0**	-1.3	**5.0**	1.2	**6.5**	0.2	**1.0**	-0.1	**1.0**	-0.6

Summary of Benchmarks (Cont.)

Summary of Benchmarks

	Newton - Absolute Return		Ruffer - Absolute Return		Schroder - Property		State Street - Fundamental Indexation		UBS - Infrastructure	
	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %
Global Equity	-	-	-	-	-	-	100.0	0.0	-	-
UK Equity	-	-	-	-	-	-	-	-	-	-
Fixed Interest	-	-	-	-	-	-	-	-	-	-
Index-Linked Gilts	-	-	-	-	-	-	-	-	-	-
UK Property	-	-	-	-	100.0	-4.3	-	-	-	-
Infrastructure	-	-	-	-	-	-	-	-	100.0	0.0
Private Equity	-	-	-	-	-	-	-	-	-	-
Absolute Return Funds	100.0	0.0	100.0	0.0	-	-	-	-	-	-
Cash	-	-	-	-	0.0	4.3	-	-	-	-
UK Financing Fund	-	-	-	-	-	-	-	-	-	-
Absolute Return Bonds	-	-	-	-	-	-	-	-	-	-
Proportion of Total Assets	**10.0**	-0.8	**10.0**	-0.7	**10.0**	2.3	**10.0**	-0.2	**1.0**	-0.2

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Benchmarks Summary Comment

The main points to note from this table are:

- The L&G global equity mandate and the Lazard global equity mandate are benchmarked against the FTSE All World Index. Longview is benchmarked against a similar index (the MSCI All Countries). The FTSE All World Index covers around 2800 global firms, with a large or mid size market capitalisation and constitutes around 90%-95% of the world's investible markets. The index focuses on around 45 different countries, including 24 in the so called developed markets, and 21 in the emerging markets. The approximate allocations of the index to the regional stock markets is as follows: 7% UK, 55% US, 16% Europe, 6% Asia (ex Japan), 8% Japan and 8% emerging markets.
- M&G does not allocate between the corporate bonds and the absolute return bonds which it manages. The target shown is an assumed target based on the size of the initial allocation of the Fund made to the M&G Alpha Opportunities fund (absolute return bonds).

Performance Calculation Explanation

Geometric vs Arithmetic Performance

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

((1 + Fund Performance) / (1 + Benchmark Performance)) - 1

Some industry practitioners use the simpler arithmetic method as follows:

Fund Performance - Benchmark Performance

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

	Arithmetic Method			Geometric Method			Difference
Period	Fund Performance	Benchmark Performance	Relative Performance	Fund Performance	Benchmark Performance	Relative Performance	
Quarter 1	7.00%	2.00%	5.00%	7.00%	2.00%	4.90%	**0.10%**
Quarter 2	28.00%	33.00%	-5.00%	28.00%	33.00%	-3.76%	**-1.24%**
Linked 6 months			-0.25%			0.96%	**-1.21%**
6 Month Performance	36.96%	35.66%	1.30%	36.96%	35.66%	0.96%	**0.34%**

Using the arithmetic method

If fund performance is measured quarterly, there is a relative underperformance of 0.25% over the six month period.
If fund performance is measured half yearly, there is a relative outperformance of 1.30% over the six month period.

Using the geometric method

If fund performance is measured quarterly, there is a relative outperformance of 0.96% over the six month period.
If fund performance is measured half yearly, an identical result is produced.

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

Report to: **Pension Committee**

Date: **24 November 2015**

By: **Chief Operating Officer**

Title: **Statement of Investment Principles Review**

Purpose: **This report cover the review of Statements of Investment Principles for the East Sussex Pension Fund**

RECOMMENDATIONS – The Committee is requested to approve the revised Statement of Investment Principles that reflects the changes to the Governance arrangements and strategic asset allocation.

---

1. Introduction

1.1 Local Government Pension Scheme Regulations require East Sussex County Council, as the Administering Authority, to prepare, maintain and publish a number of Statutory Statements. This report focuses on the Statement of Investment Principles (SIP).

1.2 The Fund original SIP was published in 2000 and revisions have been made each year if required since then to reflect changes to the strategic asset allocation and investment management arrangements of the Fund.

2. Statement of Investment Principles

2.1 The SIP outlines the East Sussex Pension Fund investment objectives. The primary long term objective is to achieve and maintain a funding level at, or close to 100% of the Fund's estimated liabilities; and within this, to endeavour to maintain low and stable employers' contribution rates.

2.2 All pension funds are required to prepare, maintain and publish a Statement of Investment Principles (SIP). This document is designed to explain to fund members, employers and any other interested parties how the assets are managed and the factors that are taken into account in so doing. The latest version will be made available on the Council's website and a copy is attached at Appendix 1.

2.3 The Statement of Investment Principles (SIP) outlines the Fund's investment strategy, and how the risk and return issues have been managed relative to the Fund's investment objectives. It should be read in conjunction with the Funding Strategy Statement (FSS) which sets out how solvency and risks will be managed with regard to the underlying pension liabilities.

2.4 The SIP is reviewed regularly and covers the following areas:

- Decisions Makers - responsibilities of those involved in the running of the East Sussex Pension Fund. The decision makers include East Sussex County Council (as the Administering Authority), the Pension Committee, the Pension Board, the Independent Investment Advisor, the Chief Finance Officer, Investment Managers and the Fund Actuary.
- Risk and Reward - In order to generate sufficient returns on investments, Pension Funds are by nature required to take considered risks. The short-term and long-term risks identified by the Fund, and highlight any controls and processes put in place to mitigate the level of risk.

- Investment Principles - that the Fund is permitted to invest in, including the strategic allocation to asset classes, expected return on investments, and realisation of investments.
- Corporate Governance – Effective Engagement, which aims to enhance the quality of engagement between asset managers and companies to improve long-term risk-adjusted returns to shareholders.
- Corporate Governance – Social, Environmental and Ethical Issues, sets out the principles that the Fund has adopted in respect of the retention and realisation of investments on the grounds of social, environmental and ethical issues.
- Compliance with the Myners Principles - The Chartered Institute of Public Finance Accountancy (CIPFA) has published guidance on the application of the six Myners Principles to the Local Government Pension Scheme. The report addressed this, in particular concerning pension fund trustees and fund managers. Myners set out principles that he believed to be best practice for the governance of pension schemes, as follows–
    - Effective decision making
    - Clear objectives
    - Risk and liabilities
    - Performance assessment
    - Responsible ownership
    - Transparency and Reporting

The Fund has considered the six Myners Principles and is fully compliant.

3. Recent amendments to the Statement of Investment Principles

3.1 Major changes to the SIP that have occurred recently include -

- the creation of the Pension Committee;
- the creation of the Pension Board and
- the revised strategic asset allocation resulting in the 15% of the Fund, to be split equally between the Fund's existing passive global equity mandate with L&G and the passive RAFI equity mandate with State Street.

4. Conclusion and reasons for recommendations

4.1 The Committee is recommended to approve the revised Statement of Investment Principles that reflects the changes to the Fund's Governance arrangements, and the re-allocation of 15% mandate of the Fund, to be split equally between the Fund's existing passive global equity mandate with L&G and the passive RAFI equity mandate with State Street.

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

STATEMENT OF INVESTMENT PRINCIPLES

October 2015

Contents

STATEMENT OF INVESTMENT PRINCIPLES

1 Overall Responsibility

1.1 East Sussex County Council is the designated statutory body responsible for administering the East Sussex Pension Fund (Fund) on behalf of the constituent Scheduled and Admitted Bodies. The local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009 require administering authorities of pension funds to prepare and review, from time to time, a written statement setting out the investment policy for their Fund. Any material change in investment policy must be included in a revised Statement of Investment Principles (SIP) within six months of the change.

This SIP has been drafted to comply with these regulations and will be reviewed annually by the East Sussex Pensions Committee (Committee) and also the East Sussex Pension Board (Board).

The East Sussex Pension Fund Investment Panel (Panel) originally set out the extent to which the Fund complies with the six principles set out in the Chartered Institute of Public Finance and Accountancy's publication, `Investment Decision Making and Disclosure in the Local Government Pension Scheme 2009 – a guide to the application of the 2008 Myners Principles to the management of the LGPS funds`.

1.2 Investments will be monitored on a regular basis by the Committee acting on the delegated authority of the scheme mananger (East Sussex County Council). Although the scheme is a statutory one, the role of Committee members is similar to that of "trustees". Day to day operational decisions have been delegated to the Chief Finance Officer and all investments are managed by external investment fund managers.

1.3 Decision Makers regarding the East Sussex Pension Fund are -

- East Sussex County Council - is the Administering Authority and is responsible for managing the Fund in accordance with the Regulations.
- Pension Committee - this is County Council Committee, and it has full delegated authority to make decisions on Pension Fund matters. In particular it:
    - decides the Investment Principles;
    - determines the fund management structure;
    - reviews investment performance;
    - appoints and removes investment managers.
- Pension Board – while not a decision making body, the Pension Board has been set up to assist the Administering Authority in securing compliance with legislation and regulation and the effective and efficient governance of the Fund. The Board can make recommendations to the Pension Committee or report serious concerns directly to the Pensions Regulator.
- Independent Investment Advisor - this person is an experienced investment professional who provides independent advice to the Committee on all aspects of its business. Investment advice is received as required from the Advisers.
- East Sussex County Council – Chief Finance Officer - advises the Committee and ensures that it is informed of regulatory changes and new developments in the investment field and implements the Committee's decisions.
- Investment Managers - carry out the management brief approved by the Committee, within the agreed risk parameters, to achieve the agreed performance targets.
- The Fund's Actuary - calculates the solvency of the Fund and fixes the employers' contribution rates at a level that will aim to achieve 100% funding in the long-term. As part of this exercise assumptions will be made about future investment returns.

2 Objectives

2.1 Primary Objective

The primary objective of the Fund is to provide for members' pension and lump sum benefits on their retirement or for their dependants' benefits on death, before or after retirement, on a defined benefits basis.

In order that this primary objective can be achieved, the following funding and investment objectives have been agreed.

2.2 Funding Objectives – Ongoing Basis

To fund the Fund so that, in normal market conditions, the accrued benefits are fully covered by the actuarial value of the assets of the Fund and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

3 Investment Objectives

3.1 Funding objectives

The Committee will translate its objectives into a suitable strategic asset allocation benchmark for the Fund (the current asset allocation can be found on Page 4). The strategic benchmark is reflected in the investment structure and this comprises a mix of segregated and pooled (both active and passive) manager mandates. The Fund benchmark is set to be an appropriate balance between generating a satisfactory long-term return on investments whilst taking into account of market volatility and risk and the nature of the Fund's liabilities. The Committee monitors investment strategy relative to the agreed asset allocation benchmark.

3.2 Investment Managers

The investment managers appointed to manage the Fund's assets are summarised on page 4. The investment managers will be given full discretion over the choice of individual stocks against their respective benchmarks and are expected to maintain a diversified portfolio.

3.3 Kinds of investments to be held

The Fund may invest in quoted and unquoted securities of UK and overseas markets, including equities, fixed interest and index-linked bonds, cash and property (not direct), using pooled funds where agreed.

The Fund may also make use of contracts for differences and other derivates either directly or in pooled funds investing in these products, for the purpose of efficient portfolio management to hedge specific risks.

The current limits are set out in the Policy Guidelines for Investment (Page 4). The strategic asset allocation of the Fund includes a mix of asset types across a range of geographies in order to provide diversification of returns.

3.4 Balance between different kinds of investments

The asset allocation benchmark (see page 4) and performance target is based on consideration of the liability profile of the Scheme.

The appropriate balance is required between maximising the long-term return on investments and minimising short-term volatility and risk. Within each major market the investment managers will hold a diversified portfolio of stocks or will invest in pooled funds to achieve this diversification.

3.5 Risk

The adoption of an asset allocation benchmark (as described above) and the explicit monitoring of performance relative to a performance target, constrains the investment managers from deviating significantly from the intended approach, while permitting flexibility to manage the Fund in such a way as to enhance returns.

The appointment of more than one Investment Manager introduces a meaningful level of diversification of manager risk and provides some protection against one manager producing poor investment returns.

3.6 Expected return on investments

The investment performance achieved by the Fund over the long term is expected to exceed the rate of return assumed by the Actuary in funding the Fund on an ongoing basis.

3.7 Realisation of investments

The majority of assets held by the Fund are quoted on major stock markets and may be realised quickly if required. Property investments, which are relatively illiquid, currently make up a modest proportion of the Fund's assets and are all invested through property unit trusts or life funds. However some of the Fund's alternative assets in Private Equity and Infrastructure are invested via Fund of Fund managers and are of an illiquid nature to provide better performance in the long term.

3.8 Social, environmental and ethical considerations

Issues surrounding socially responsible investment have been considered and an 'Active Shareholder Approach' to encourage companies has been adopted to promote best ethical and environmental principles without jeopardising the investment performance of the Fund. When selecting investments for purchase, retention or sale, Fund Managers are able to invest in all companies, subject to the specific restrictions set out in the Policy Guidelines (page 8) in order to achieve their performance targets. But they have been encouraged to engage in constructive dialogue on behalf of the Fund and to use their influence to encourage companies to adopt best practice in all key areas of business. The key areas are:

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

3.9 Exercise of voting rights

Strong Corporate governance has been promoted and the Fund has delegated the exercise of its voting rights to the Fund Managers (subject to the Fund's guidelines) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The Fund Managers base their corporate governance policies on the Stock Exchange Combined Code and provide the Fund with a copy of their policy from time to time. The Fund Managers are encouraged to vote in line with its guidelines in respect of all resolutions at annual and extraordinary general meetings of companies. In February 2014 the Fund resolved to subscribe to the Local Authority Pension Fund Forum (LAPFF). LAPFF is the UK's leading collaborative shareholder engagement group. The Forum provides a unique opportunity for Britain's local authority pension funds to discuss investment issues and shareholder engagement.

3.10 Stock Lending

Within segregated mandates, the Committee has absolute discretion over whether stock lending is permitted. Currently the Fund has decided not to permit stock lending within any of its segregated investment mandates.

The manager(s) of pooled funds may undertake a certain amount of stock lending on behalf of unit holders in the fund. Where a pooled fund engages in this activity, the extent to which it does is disclosed by the manager. The Fund has no direct control over stock lending in pooled funds; nevertheless, it is comfortable that the extent and nature of this activity is appropriate to the circumstances of the Fund.

3.11 Additional Voluntary Contributions (AVCs)

Members have the opportunity to invest in AVC funds as detailed on page 7.

Investment Managers & Benchmarks

Manager	Asset Class	Actual as at 31/03/15 (%) [1]	Target allocation (%)
L&G [2]	UK and Global equity	17.8	27.5
Lazard [2]	Global equity	15.0	0.0
Longview	Global equity	6.4	5.0
State Street [2]	Fundamental Indexation	10.6	17.5
Newton	Absolute return	9.1	10.0
Ruffer	Absolute return	9.4	10.0
L&G	5 year Index linked gilts	5.3	5.0
M&G	Bonds	6.6	6.5
Schroder	Property	11.0	10.0
Adams Street / Harbourvest	Private equity	5.6	5.5
UBS / M&G	Infrastructure	2.0	2.0
M&G	Specialist Financing Fund	0.4	1.0
Northern Trust	Cash	0.8	0.0

[1] Where valuations weren't available at the valuation date estimates have been used

[2] Lazard were terminated in September 2015 with the allocation split between L&G and State Street

Policy Guidelines for Investment

1 Statutory Provisions

To act within the powers stipulated from time to time in statutory regulations or enactments. The principal regulations applicable to the Fund are the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998. An amendment to these regulations was introduced in 2003 to give extra flexibility to the prudential limits on certain types of investments.

Investments shall be limited as follows:-

(a) Not more than 10% of the Fund in unlisted securities issued by companies.

(b) Not more than 10% of the Fund in a single holding (excluding Gilts, Bank Deposits, LAMIT and Unit Trusts).

(c) Not more than 10% of the Fund to be deposited with an individual Bank, institute or person.

(d) Not more than 10% of the Fund to be lent internally or deposited with another local authority.

(e) Not more than 25% of the Fund is to be invested in unit trusts managed by a single manager.

(f) The Fund has adopted flexible higher limits within the LGPS regulations to invest in Life insurance contracts. The regulations provide for the maximum amount that can be invested in any single life insurance contract to be raised from 25% to 35%.

(g) Not more than 25% of the Fund may be transferred or agreed to be transferred under stock lending arrangements.

(h) The Fund has adopted flexible higher limits within the LGPS investment regulations to invest in partnership structures. The regulations provide for the maximum amount that can be invested in any single partnership to be raised from 2% to 5% and for investments in total across all partnerships from 5% to 15%.

The Regulations also emphasise that an administering authority shall have regard to the suitability of investments and the need for diversification of investments of fund money and for proper advice to be obtained at reasonable intervals.

2 Cash

The East Sussex Pension Fund's surplus cash is invested with the Fund's Custodian, Northern Trust. Only a minimal working cash balance is held by the Administering Authority to pay pension benefits. Any surplus cash is transferred to Northern Trust. The revised LGPS (Management and Investment of Funds) Regulations issued in December 2009, required Administering Authorities to set up a separate bank account from 1 April 2011. The East Sussex Pension Fund Bank Account has been operational since 1st April 2011. The monthly interest rate, earned by the County Council on its treasury cash balances, is used to calculate interest on the daily Pension Fund bank account balance.

3 Property

(a) Investment in property unit trusts may be made only if approved by the Pension Committee.

(b) No direct investment is to be made in property (land or buildings) unless the Pension Committee decides otherwise.

4 Derivatives

Managers may invest in financial futures and traded options in accordance with the limitations contained in guidelines drawn up by the Investment Adviser and approved by the Pension Committee.

5 Underwriting

Managers may seek and enter into underwriting opportunities for the Fund at their discretion.

6 Generally

Between meetings it is open to an individual manager who wishes to invest outside laid down policy to consult with the Chief Finance Officer for her direction.

Voting Guidelines

Issue	**Voting Guideline**
General	Continuing dialogue with companies. Vote on all UK issues. Companies are expected to demonstrate clear compliance with Cadbury and Greenbury principles unless they can show that there are mitigating circumstances.
Uncontroversial issues	Vote with Management.
Executive remuneration - Basic pay - Incentive payments	Must be visible. Market rate. Based on above average returns to shareholders.
Non-Executive Directors	Vote against re-appointment if failed to perform their duties.
Employment Contracts	Vote against contracts exceeding two years unless a longer period can be justified and abstain on those exceeding one year.
Political Donations	Vote against.
Share Incentive Schemes	Each proposal judged on its merits.

AVC Arrangements

The Fund is required to offer members an Additional Voluntary Contribution (AVC) fund in order that members can make additional pension provision. Following a review of the available AVC providers, Prudential were appointed to manage the AVC arrangements for the Fund in 1988. This appointment has been reviewed on a regular basis, taking account of factors including past investment performance, charges, flexibility, and the quality of administration.

Members may invest in the AVC funds during their employment. The AVC funds are maintained by Prudential, and are separate from the Fund's investments. At retirement, however, members can either take the AVC fund as a lump sum (subject to limits set by HMRC), an additional pension within the Fund, or as an annuity either with the AVC provider, or on the open market.

Investment Choices

Members must select the investment funds that their AVC funds are invested in. They are able to choose from a range of Prudential investment funds, with differing risk ratings, and are able to switch investment funds between the range of funds available. Prudential make no charge in respect of these switches, and there are no restrictions to the number of switches a member may make. Members are charged an Annual Management Charge (AMC) by Prudential, based on the value of their funds in each of the investment fund options they have selected. This charge is calculated on a daily basis, and deducted from the value of the members' funds monthly.

The current range of investment funds available to new members are:

Fund Name	Investment Type	Risk Rating	AMC (% of fund value)
Prudential With-Profits Fund (Default Fund)	Full range of investments – including shares, bonds, cash & property – provides smoothed growth through a range of reversionary and terminal bonuses	Lower to Medium	n/a – special charges apply
Prudential Deposit Fund	Cash	Minimal	n/a - Monthly interest rate declared net of charges
Prudential Retirement Protection Fund	UK Government Bonds	Lower	0.65%
Prudential Discretionary Fund	UK & Overseas shares, bonds, property, alternative assets & cash	Medium	0.75%
Prudential Property Fund	UK Commercial property	Medium	0.75%
Prudential Overseas Equity Passive Fund	Company shares in major world markets in proportion to each region's economic importance	Medium to Higher	0.65%
Prudential UK Equity Passive Fund	UK Company shares	Higher	0.65%
Prudentially Socially Responsible Fund	UK Company shares meeting fund's socially responsible criteria	Higher	0.75%

Lifestyle Option

A Lifestyle option is available. This automatically switches investments from higher to lower risk investment funds in the 8 years leading up to the member's Normal Retirement Age (65):

Fund	Years to Retirement								
	8	7	6	5	4	3	2	1	0
Prudential UK Equity (Passive) Fund	100.0%	87.5%	75.0%	62.5%	50.0%	37.5%	25.0%	12.5%	0.0%
Prudential Retirement Protection Fund	0.0%	12.5%	25.0%	37.5%	50.0%	62.5%	75.0%	87.5%	100.0%

Funds closed to new investors

As a result of the 2008 review a number of investment funds were deselected. Rather than require the members invested in these funds to switch funds it was decided that existing contributors to these funds only were able to continue to add contributions. The funds are not, however, available to new investors. These closed funds are:

Fund Name	Investment Type	Risk Rating	AMC (% of fund value)
Prudential Cash Fund	Cash	Minimal	0.75%
Prudential Fixed Interest Fund	British Government Gilts and Sterling Fixed Interest Company Bonds	Lower	0.75%
Prudential Index Linked Fund	British Government Index Linked Gilts	Lower	0.75%
Prudential Global Equity Fund	UK and Overseas Company shares	Medium to Lower	0.75%
Prudential International Equity Fund	Company shares in major overseas equity markets	Medium to Higher	0.75%
Prudential UK Equity (Active) Fund	UK Company Shares managed on a “Fund of Funds” basis	Higher	0.75%

Withdrawal Penalties

Prudential introduced withdrawal penalties in 2012. These apply in respect of new AVC members where their first AVC contribution is received after 18 August 2012, and who take their AVC benefits within 5 years of starting the AVC. The withdrawal penalty operates on a sliding scale, based on the length of time that the member has held the AVC on their withdrawal:

Year of Withdrawal	During Year 1	During Year 2	During Year 3	During Year 4	During Year 5	After 5 Years
Reduction Factor	15%	10%	8%	6%	5%	0%

The withdrawal penalty does not apply in respect of members who die in service, or who are retired with a Tier 1 ill-health pension.

Death in Service

Members are also able to make AVC’s to provide additional life cover. These are separate from those contributions made to provide additional pension benefits.

Myners Six Principles – compliance statement.

Introduction

The Local Government Pension Scheme (LGPS) has a deserved reputation for applying and demonstrating the highest standards of governance. All LGPS funds were required from 2002 to comment on the application of and compliance with the original ten Myners Principles.

1. In response to the Treasury report *Updating the Myners Principles: A Response to Consultation* (October 2008) LGPS Administering Authorities will be required to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These principles have been adopted by CLG and replace the ten Myners principles published in 2001.
2. Administering Authorities will be required to report their approach to meeting the principles through the pension fund annual report on a 'comply or explain' basis.

Background

3. In 2000 the UK government commissioned a review of institutional investment in the United Kingdom. The review, published in March 2001, was undertaken by Paul Myners (now Lord Myners). The review was established mainly due to concerns that, by focusing primarily on industry-standard investment patterns, the behaviour of institutional investors, including occupational pension funds, was distorting economic decision making to the detriment of small and medium-sized companies.
4. Myners emphasised the importance of transparency and annual reporting. Consistent with these themes Myners recommended that pension schemes should set out in their statement of investment principles what they were doing to implement his ten 'best practice' principles and, where a given principles had not been adopted, an explanation of that decision.
5. In 2007, six years after the publication of the original investment principles, the government decided to assess the extent to which:
    - pension fund trustees or their equivalent had been applying the Myners principles
    - scheme governance and the quality of trusteeship had improved
    - key gaps identified previously had been addressed
6. It was clear that, in general, progress had not been uniform and that larger schemes had used their additional resources and access to advice to make more progress than the average smaller scheme. However, one area of more general weakness was the lack of willingness of trustees to asses and report on their own performance.
7. Local Authority schemes had made progress. The Government's findings, however, highlighted a greater 'trustee risk' facing local authority schemes, referring to election cycles as shortening the average tenure of a 'trustee' compared with other types of scheme. This raised concerns about a lack of continuity and expertise, which was mitigated to some extent by the professional advice received from officers of the administering authorities.
8. The government concluded that an updated set of principles would be most effective if the government and the pension fund industry developed flexible and overarching voluntary principles, rather than prescribing how pension funds should manage specific aspects of their business. The high-level principles will be the accepted code of practice applying to investment decision making and investment governance in local government pension funds throughout the United Kingdom. Administering Authorities will be required by regulation to report against these on a 'comply or explain' basis.
9. The following pages set out the Fund's response to the six Myners Principles.

PRINCIPLE 1

1	**Effective decision making** **Administering Authorities should ensure that:** • **Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation;** **And** • **Those persons or organisation have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.**		**Fully Compliant**
Key Issues:			
1.1	Each administering authority should have a designated group of elected members appointed to a Pension Committee to whom responsibility for the management and administration of the pensions fund has been assigned.	The East Sussex Pension Committee has responsibility for the management and administration of the pension fund. The administering authority is supported by a Pension Board, whose role is to assist them in securing compliance with legislation and regulation and the effective and efficient governance of the Fund.	√
1.2	The roles of the officers with responsibility for ensuring the proper running of the administering authority's and the Fund's business should be set out clearly. This should include the Chief Finance Officer. A framework for the Pension Committee's conduct of business should include a process for the declaration of conflicts of interest before each meeting and at other times as appropriate.	Members and officers are invited to make any declaration of personal or prejudicial interests that they may have in relation to items on the agenda at the beginning of each meeting.	√
1.3	Administering authorities are required to prepare, publish and maintain statements of compliance against a set of good practice principles for scheme governance and stewardship.	The administering authority has prepared, published and maintained a Governance Compliance Statement which sets out its compliance against good practice principles.	√
1.4	Guidance issued by CLG required each administering authority to publish a governance compliance statement in regard to each of the funds it controls. This statement shows the extent to which administering authorities comply with nine governance principles. These are set out in the CLG's *Local Government Pensions Scheme Governance Compliance Statutory Guidance.*	The administering authority has prepared, published and maintains a Governance Compliance Statement which sets out its compliance against good practice principles.	√
1.5	Wherever possible, appointments to the Pension Committee should be based on consideration of relevant skill, experience and continuity.	Normal practice (involving independent advice)	√
1.6	The Pension Committee should be governed by specific terms of reference, standing orders and operational procedures that define those responsible for taking investment decisions, including officers of the authority and/or external investment managers.	The Constitution of the County Council explains how we operate, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people (in addition, Statement of Investment Principle).	√
1.7	It is unlikely that decision on overall strategy and asset allocation can be delegated effectively, whereas day-to-day investment decisions are most likely to be taken by the investment manager, whether internal or external. The process by which such decisions are delegated and authorised should be described in the constitution and record of delegated powers relating to the Pension Committee, as well as in public documents for stakeholders, such as the statement of investment principles.	Statement of Investment Principles and Investment Mandate.	√

1.8	In describing that process, the roles of members, officers (whether as a monitoring control function or as the investment manager), external advisers and managers should be differentiated and specified.	Statement of Investment Principles.	√
1.9	The Pension Committee should ensure that it has appropriate skills, and is run in a way designed to facilitate, effective decision making. It should conduct skills and knowledge audits of its membership at regular intervals in relation to the scope of its work and the pension's issues that are most relevant. A statement should appear in the annual report.	The fund will adopt the knowledge and skills framework as a basis for the training and development of those involved in the pension scheme. The current Annual Report will include a statement which discloses the application of the framework and what training has been undertaken.	√
1.10	The Pension Committee should obtain proper advice at reasonable intervals from suitably qualified persons, including officers of the authority and external investment managers. The chief finance officer should assess the need for proper advice and recommend to the Pension Committee when such advice is necessary from an external advisor. The Pension Committee should ensure that it has sufficient internal resources and, where necessary, external resources to carry out its responsibilities effectively.	The Pension Committee's quarterly meetings are attended by the Fund's independent adviser. The Pension Committee is always supported by the Chief Finance Officer and their officers. The Pension Committee's training schedule is dictated by their need to carry out its responsibilities effectively.	√
1.11	The Chief Finance Officer should be given responsibility for the provision of the training plan for members to help them to make effective decisions and to ensure that they are fully aware of their statutory and fiduciary responsibilities, and regularly reminded of their stewardship role.	Elected members have legal responsibilities for the prudent and effective stewardship of LGPS pension funds and, in more general terms, have a clear fiduciary duty to participating employers; local tax payers and scheme beneficiaries, in the performance of their functions. This is covered in the Fund's Governance Policy Statement.	√
1.12	Papers and related documentation should be clear and comprehensive, and circulated to members of the Pension Committee sufficiently in advance of the meeting to allow them to be read and understood.	Papers are circulated to members at least 7 working days in advance of a meeting.	√
1.13	The chief finance officer should ensure that a medium term business plan is created for the pension fund, which should include the major milestones and issues to be considered by the Pension Committee. The business plan should contain financial estimates for the investment and administration of the fund, and include appropriate provision for training. The plan should be submitted to the Pension Committee for consideration.	The Pension Committee plans its investment strategy at its Annual Strategy Meeting. Effective decision on strategic asset allocation benchmarks for the medium term and sound corresponding manager appointments are the most crucial decisions. This reflects the core business planning activity of the Pension Committee. Budget estimates are prepared and monitored for administration and actuarial costs.	√
1.14	The fund's administration strategy documents should refer to all aspects of the Pension Committee's activities relevant to the relationship between the Pension Committee and the employing authorities.	Statement of Investment Principles, Annual Accounts, Website, Administrative publications – deal with these matters.	√

PRINCIPLE 2

2.	**Clear objectives** **An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.**		**Fully Compliant**
Key Issues:			
2.1	The Pension Committee should demonstrate that in setting an overall investment objective for the fund, it has considered: • the fund's liabilities in the context of the expected net contribution inflows; • the adequacy of the fund's assets to meet its liabilities as advised by the actuary; • the maturity profile of the fund's liabilities and its cash flow situation.	The East Sussex Fund's investment strategy is continuously reviewed. Subject to independent advice involving Asset/ Liability Studies as necessary and of course the results of the triennial valuation.	√
2.2	The Pension Committee should also demonstrate that it has sought proper advice, including from specialist, independent advisers where appropriate, as to how this might be expressed in terms of the expected or required annual return on the fund and how it should be measured against stated benchmarks.	The Pension Committee holds quarterly meetings, including an annual review of investment strategy.	√
2.3	The Pension Committee should consider its own appetite for risk and that of the employers in the fund when considering advice on the mix of asset classes and on active and passive investment mandates. In making asset allocation decisions the Pension Committee should consider all asset classes currently available to investors.	An investment strategy of lowest risk, but not necessarily the most cost effective in the long term, would be 100% investment in index linked government bonds. However, the fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from index-linked bonds. The administering authority's strategy recognises the relatively immature liabilities of the fund and the secure nature of most employers covenants. The same investment strategy is followed for all employers.	√
2.4	The use of peer group benchmarks should be for comparison purposes only and not to define the overall fund objective.	The Fund's performance is measured against its' customised benchmark and that of the WM Local Authorities Universe.	√
2.5	The chief finance officer and the Pension Committee will need to consider the general and strategic impact of the funding levels and employer contribution rates on council tax levels over time. The responsibility of the actuary to keep rates of employer contributions as constant as possible over time is the primary means of achieving this.	The primary objective of investment policy is the maximisation of the Fund's long-term return, consistent with the degree of risk appropriate for a pension fund, in order to minimise the level of employer contributions to the Fund whilst keeping the employer contribution rate as stable as possible.	√
2.6	The Pension Committee should consider the nature of the membership profiles and financial position of the employers in the fund and decide, on the advice of actuaries, whether or not to establish sub-funds with different investment objectives.	Regular dialogue is held with the Actuary. The Funding Strategy Statement (FSS) is reviewed following each valuation.	√

2.7	The Pension Committee should evaluate the split between equities and bonds in the light of the funds forecast liabilities before considering any other asset class. It should state the range of investments it is prepared to include in its asset allocation decision and give the reasons why some asset classes may have been excluded. The Pension Committee should have regard to the diversification and suitability of investments in reaching its asset allocation decisions. Strategic asset allocation decisions should receive a level of attention (and, where relevant, advisory or management fees) that fully reflect the contribution they can make towards achieving the fund's investment objectives.	Decisions reflect the Fund's own characteristics and consider a full range of investment asset classes, including alternative asset funds. The fund managers have discretion to position the fund around the customised benchmark within agreed control ranges set by the actuary consistent with the performance objectives of the fund	√
2.8	The Pension Committee should take proper advice, including from specialist, independent advisers where appropriate. The Pension Committee should appoint advisors in open competition and should set them clear strategic investment performance objectives. The Pension Committee should state clearly how their advisors' overall performance will be measured and the relevant short, medium and longer term performance measurement framework. All external procurement of advisors, investment managers and other services should be conducted within the EU Procurement Regulations and the administering authority's own procurement rules.	The Pension Committee is supported by an Independent Adviser whose appointment is subject to review. All Pension Fund procurements are run in line with the EU Procurement Regulations.	√
2.9	Understanding transaction-related costs should be a clear consideration in letting and monitoring a contract for investment management and, where appropriate, independent and expert advice should be taken on transaction costs, particularly in relation to transition management.	IMA / NAPF Level 2 Disclosure reports are received half yearly from the Fund's investment managers for monitoring the transaction related costs. Transition management is monitored by Hymans Robertson.	√

PRINCIPLE 3

3.	Risk and Liabilities • **In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of liabilities.** • **These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.**		**Fully Compliant**
Key Issues:			
3.1	The Pension Committee should set out an overall investment objective for the fund that: • represents its best judgement of what is necessary to meet the fund's liabilities given their understanding of the contributions likely to be received from employer(s) and employees • takes account of the Pension Committee's attitude to risk, and specifically its willingness to accept underperformance due to market conditions.	The primary objective of investment policy is the maximisation of the Fund's long-term return, consistent with the degree of risk appropriate for a pension fund, in order to minimise the level of employer contributions to the Fund, as set out in the S.I.P	√
3.2	The Pension Committee should be aware of its willingness to accept underperformance due to market conditions. If performance benchmarks are set against relevant indices, variations in market conditions will be built in, and acceptable tolerances above and below market returns stated explicitly.	Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.	√
3.3	Some benchmarks may also be stated in terms of absolute returns, in which case the Pension Committee must believe that a certain rate of return is acceptable and feasible, regardless of market conditions, from certain classes of asset.	The East Sussex Fund appointed 2 Absolute Return Fund Managers in February 2010.	√
3.4	The fund's Statement of Investment Principles should include a description of the risk assessment framework used for potential and existing investments.	See Risk section 3.5 in the Fund's S.I.P	√
3.5	Objectives for the overall fund should not be expressed in terms which have no relationship to the fund's liabilities, such as performance relative to other pension funds, or to a market index.	The use of the WM Local Authority Average is for information purposes only.	√
3.6	The Pension Committee should state whether a scheme specific benchmark has been considered and established and what level of risk, both active risk and market risk, is acceptable to it.	See S.I.P and Funding Strategy Statement	√
3.7	The Pension Committee should receive a risk assessment in relation to the valuation of its liabilities and assets as part of the triennial valuations. Where there is reasonable doubt about the valuation of liabilities and assets at any stage during the performance monitoring of the fund, the chief finance officer should ensure that a risk assessment is reported to the Pension Committee, with any appropriate recommendations for action to clarify and/or mitigate the risks.	The actuarial valuation is reported to the Pension Committee. The triennial valuation is also discussed at the Annual Employers Forum.	√

3.8	The Pension Committee should, at the time of the triennial valuations, analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities. The Pension Committee should also ask this question of its actuaries and other advisors during discussions on performance.	Regular discussions are held with the Actuary and the Investment advisers.	√
3.9	The Pension Committee should use reports from internal and external auditors to satisfy itself about the standards of internal control applied by the scheme to its administration and investment operations, as well as to the overall governance structure of the Pension Committee and its scheme of delegation. Ensuring effective internal control is an important responsibility of the chief finance officer.	The Pension Committee receives comment from the Fund's internal auditor as to standards of internal control applied by the scheme to its investment and administration operations and its governance structure. It also receives annual reports from the Fund's external auditor.	√
3.10	The Pension Committee should ensure that its investment strategy is suitable for its objectives and takes account of the ability to pay of the employers in the fund.	Regular discussions take place with the Actuary and an Annual Pension Fund Employers Forum is held each year.	√
3.11	The annual report of a pension fund should include an overall risk assessment in relation to each of its activities and factors expected to have an impact on the financial and reputational health of each fund. This could be done by summarising the contents of a regularly updated risk register. An analysis of the risks should be reported periodically to the Pension Committee, together with necessary actions to mitigate risk and assessment of any residual risk.	Regular monitoring, including the risk assessment of the Fund, is undertaken by Officers in conjunction with the Investment Advisers and the Actuary.	√

PRINCIPLE 4

<table>
<tr><td>4.</td><td colspan="2">Performance assessment
Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.
Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.</td><td>Fully Compliant</td></tr>
<tr><td colspan="3">Key Issues:</td><td></td></tr>
<tr><td>4.1</td><td>The Committee should:
explicitly consider, in consultation with their investment manager(s), whether the index benchmarks it has selected are appropriate, and in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies
if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection
consider explicitly for each asset class invested, whether active or passive management would be more appropriate given the efficiency, liquidity and level of transaction costs in the market concerned
where it believe active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving the managers the freedom to pursue genuinely active strategies.
Note - the term “benchmark” is used to describe the marker against which asset allocation and investment performance will be measured, as set for each portfolio or mandate.</td><td>The appropriateness of index benchmarks is discussed with the investment managers and investment advisors.

The appropriateness of active v passive management is considered when investment managers are reviewed.

The Fund’s managers have discretion to position the fund around the customised benchmark within agreed ranges set by the Committee consistent with the performance objectives of the fund.</td><td>√</td></tr>
<tr><td>4.2</td><td>The mandate represents the instruction to the manager as to how the investment portfolio is to be managed, covering the objective, asset allocation, benchmark flexibility, risk parameters, performance targets and measurement timescales.</td><td>The Agreements with fund managers explicitly state how the portfolio is to be managed, performance targets and measurement timescales.</td><td>√</td></tr>
<tr><td>4.3</td><td>It is important to recognise that the structure of the benchmark, the control parameters around each element, the risk margins set, and the performance target will all combine to drive the management of the investment portfolio.</td><td>See S.I.P</td><td>√</td></tr>
<tr><td>4.4</td><td>The use of peer group benchmarks (such as the CIPFA/WM Local Authority Pension Fund Investment Statistics) may not be appropriate for directing a mandate of a manager insofar as they infer a common asset liability structure or investment requirement. However, such benchmarks may be used for comparative information in measuring investment performance against other funds, as between managers, or for individual asset classes.</td><td>The Fund’s customised benchmark is determined by the Committee.

The use of the WM Local Authority Average is for information purposes only.</td><td>√</td></tr>
<tr><td>4.5</td><td>Where active management is selected, divergence from a benchmark should not be so constrained as to imply index tracking (i.e. passive management) or so wide as to imply unconstrained risk.</td><td>The Fund’s managers have discretion to position the fund around the customised benchmark within agreed ranges set by the Committee consistent with the performance objectives of the fund.</td><td>√</td></tr>
</table>

4.6	Investment activity in relation to a benchmark should be monitored regularly to check divergence and any impact on overall asset allocation strategy.	The asset allocation versus the Fund's benchmark is reported quarterly to the Pensions Committee and the impact of positions is discussed with the Investment Managers. A detailed performance report is presented annually which covers asset and sector allocation and its impact on overall returns.	√
4.7	Investment returns should be measured to enable regular monitoring against bespoke and peer group benchmarks.	Performance is measured and considered by the Committee quarterly.	√
4.8	In addition to the overall fund returns the return achieved in each asset class should be measured so that the impact of different investment choices can be assessed (for example equities by country, fixed interest by country and type, property, private equity etc.)	Stock, sector, geography and asset class returns are considered by the Committee quarterly.	√
4.9	Although returns will be measured on a quarterly basis in accordance with the regulations, a longer time frame (typically three to seven years) should be used in order to: • assess the effectiveness of the fund management arrangements • review the continuing compatibility of the asset/liability profile	On-going reviews and an Annual Strategy Meeting to consider investment strategy.	√
4.10	Returns should be obtained from specialist performance measurement agencies independent of the fund managers.	The Fund's performance is calculated by the WM Company.	√
4.11	Investment manager returns should be measured against their agreed benchmark and variations should be attributed to asset allocation, stock selection, sector selection and currency risk all of which should be provided by an independent performance measurement agency.	Regular monitoring of performance targets, along with annual performance measurement reporting by the WM Company.	√
4.12	When assessing managers and advisers it is necessary to consider the extent to which decisions have been delegated and advice heeded by officers and elected members.	See S.I.P	√
4.13	The Committee should devise a performance framework against which to measure the cost, quality and consistency of advice received from its actuaries. It is advisable to market test the actuarial service periodically.	The cost and quality of the Fund's actuarial advice is reviewed regularly with a full procurement exercise necessary at least every 7 years.	√
4.14	Consultants should be assessed on a number of issues including the appropriateness of asset allocation recommendations (bearing in mind the nature of the liabilities), the quality of advice in choosing benchmarks and any related performance targets and risk profiles, the quality and appropriateness of the investment managers that are recommended, and the extent to which advisers are proactive and consistent in recommending subsequent changes.	Half Yearly Meetings are held with the Consultants and a scorecard system of monitoring performance is incorporated in the management agreement.	√

4.15	The process of self assessment involves both officers and members of the Committee reviewing a range of items, including manager selection, asset allocation decisions, benchmarking decisions, employment of consultants and best value outcomes. The objective of the reviews would be to consider whether outcomes were as anticipated, were appropriate, or could have been improved. This could include expected progress on certain matters, reviews of governance and performance and attendance targets. It should include standards relating to the administration of the Committee's business such as: • attainment of standards set down in CIPFA's knowledge and skills framework • achievement of required training outcomes • achievement of administrative targets such as target dates for issuing agendas and minutes.	Self Assessment forms a key part of the process of the Annual Strategy Meeting	√
4.16	The assessment of business performance should be included in the fund's annual report to its stakeholders.	It is (but will review if it needs to be explained).	√

PRINCIPLE 5

5.	**Responsible Ownership** **Administering authorities should:** • **adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents,** • **include a statement of their policy on responsible ownership in the statement of investment principles** • **report periodically to scheme members on the discharge of such responsibilities**		**Fully Compliant**
Key Issues:			
5.1	Policies regarding responsible ownership must be disclosed in the statement of investment principles which must be contained in the annual report.	A Statement of Investment Principles is published and contained in the annual report.	√
5.2	Responsible ownership should incorporate the Committee's approach to long term responsible investing including their approach to consideration of environmental, social and governance issues.	The fund's statement includes consideration of environmental, social and governance issues.	√
5.3	The Committee should discuss the potential for consideration of environmental, social and governance issues to add value, in accordance with its policies on responsible investing, when selecting investment managers and in discussing their subsequent performance. In addition the Committee should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company that is acceptable within the Committee's policy.	Environmental, social and governance issues are discussed as part of Investment Manager procurement exercises.	√
5.4	The Committee should ensure that investment consultants adopt the Institutional Shareholders' Committee (ISC) Statement of Practice relating to consultants. (The ISC's Statement of Principles on the responsibilities of shareholders and agents sets out best practice for institutional shareholders and/or agents in relation to their responsibilities in respect of investee companies, in that they will: • set out their policy on how they will discharge their responsibilities, clarifying the priorities attached to particular issues and when they will take action. • monitor the performance of, and establish, where necessary, a regular dialogue with investee companies • intervene where necessary • evaluate the impact of their engagement and report back to clients and beneficial owners)	The Fund's Investment Consultant, is aware of the ISC Statement of Practice relating to Consultants and is supportive of this.	√
5.6	Funds should also be aware of the November 2009 ISC Code on Responsibilities of Institutional Investors. This new code forms part of efforts to help investors become more effective in their dealings with companies in which they invest and sets out best practice with regard to monitoring companies, dialogue with company boards and voting at general meetings.	The Fund is a subscriber to the Local Authority Pension Fund Forum (LAPFF) in order to help implement these principles.	√

5.7	The United Nations Environment Programme Finance Initiative (UNEP FI) has published Principles of Responsible Investment (UNPRI) and has encouraged asset owners and asset managers to sign up and commit to the principles and regularly assess themselves against a comply or explain framework. The six principles can be found at http://www.unpri.org/principles/.	The East Sussex Fund's investment managers have signed up to UNPRI	√
5.8	It is important to ensure through the terms of an explicit strategy that an authority's policies are not overridden, negated or diluted by the general policy of an investment manager or house policy.	Specific policy exists for segregated holdings but has to be recognised that by definition, an individual clients wishes are diluted in a pooled fund.	√
5.9	Where the exercise of voting action is separated from the investment manager, authorities should ensure that the appropriate investment decision is taken into account by reference to those appointed to manage the investments. Authorities may use the services of external voting agencies and advisers to assist compliance in engagement.	The Investment Managers are responsible for voting.	N/A
5.10	Authorities may wish to consider seeking alliances with either other pension funds in general, or a group of local authority pension funds, to benefit from collective size where there is a common interest to influence a companies to take action on environmental, social and governance issues.	The East Sussex Pension Fund does this via the Local Authority Pension Fund Forum.	√

PRINCIPLE 6

6.	**Transparency and reporting.** **Administering authorities should:** • **act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives;** • **provide regular communication to scheme members in the form they consider most appropriate.**		**Fully Compliant**
Key Issues:			
6.1	Transparency is strengthened by a clear and well communicated governance framework. The Committee should ensure that its governance compliance statement is maintained regularly. It should actively challenge any non-compliance and be very clear about for its reasons for this, and be comfortable with the explanations given.	The Fund's Governance Compliance Statement is reviewed annually.	√
6.2	The Fund's Communication statement must set out the administering authority's policy on; • the provision of information and publicity about the scheme to members, representatives of members and employing authorities • the format, frequency and method of distributing such information or publicity • the promotion of the scheme to prospective members and their employing authorities	The Fund's Communication Policy statement covers available information, its format, frequency and distribution method and the promotion of the scheme to prospective members.	√
6.3	The Committee should have a comprehensive view of who its stakeholders are and the nature of the interests they have in the scheme and the fund. There should be a clearly stated policy on the extent to which stakeholders will take a direct part in the Committee's functions and on those matters on which they will be consulted or informed.	The number of stakeholders affected by the local management of the pension scheme is vast and it is accepted that it would be impractical to expect individual committee structures to encompass every group or sector that has an interest in the decisions that fall to be made under the scheme's regulations. The Fund has set up a Pensions Board which includes representatives from the major employers and employee and pensioner representatives. Communication/consultation – extends to Annual Employer meetings, and regular employer and employee briefings.	√
6.4	The Committee should seek examples of good practice from the published reports and communication policies of other pension funds. It should also share examples of its own good practice. The full range of available media should be considered and used as appropriate.	Officer's review published reports and communication policies of other pension funds, and shares examples of its own practice.	√
6.5	The Committee should compare regularly its annual report to the regulations setting out the required content and, if it does not comply fully with the requirements, should ensure that an action plan is produced to achieve compliance as soon as possible. However, the Committee will wish to ensure that the content is, if necessary, extended and presented in the way that is most useful and relevant to its many stakeholders. This may require a thorough review of its data capture and management processes to ensure as efficient an approach to production and use of data as possible.	The Annual Report sets out the regulations relating to the required content and demonstrates compliance against each point. The content of the annual report is reviewed regularly.	√

6.6	The funding strategy statement, the statement of investment principles and the governance compliance statement are core source documents produced by funds to explain their approach to investment and risks. With regard to the first two; It is unlikely that decisions on overall strategy and asset allocation can be delegated effectively whereas day-to-day investment decisions are most likely to be taken by the investment manager, whether internal or external. The process by which such decisions are delegated and authorised should be described. In describing that process, the roles of members, officers (whether as a monitoring control function or as the investment manager), external advisors and managers should be differentiated and specified. The process for monitoring the actions, decisions and performance of external advisers and managers should be clearly stated. The process by which the overall fund asset allocation has been determined should include reference to the assumptions as to future investment returns and to any asset/liability study undertaken. The mandates given to each manager should be described. Fee structures should include the scale of charges in operation, whether ad valorum or fixed, and any performance element built in, stating the implications for risk control. Although there is no requirement to provide copies of the SIP to members, a copy should be made available on request and its availability should be made clear in the publication process.	All of the Fund's policy documents cover these areas and are published on the Pension Fund's Website.	√
6.7	The governance compliance statement must include information on whether the administering authority delegates the whole or part of its function to a committee, a sub-committee or an officer of the administering authority. If it does delegate functions, the statement must include: • the frequency of any meetings, the terms of reference, structure and operational procedures of the delegation; • whether the committee or sub-committee includes representatives of employing authorities (including non-LGPS employers) or members, and if so, whether those representatives have voting rights.	The Pension Committee is comprised of five county councillors and is a delegated committee of the administering authority with clear terms of reference. This is covered in the Fund's Governance Policy and Governance Compliance Statement.	√
6.8	The governance compliance statement must include details to the extent to which a delegation (or absence of delegation) complies with CLG guidance. Where the statement does not comply with the guidance, the reasons for non-compliance.	The governace compliance statement is published on the Fund's website.	√
6.9	Where the statement does not comply with the guidance, the reasons for non-compliance.	The statement complies with the guidance.	√
6.10	A copy of the statement (or revised statement) must be sent to CLG.	The Governance Compliance Statement is included in the Annual Report.	√

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Report to: **Pension Committee**

Date: **24 November 2015**

By: **Chief Operating Officer**

Title: **Pension Fund Risk Register**

Purpose: **To consider the Pension Fund Risk Register**

RECOMMENDATIONS – The Committee is requested to approve the Pension Fund Risk Register

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1. Introduction

1.1 Risk management is the practice of identifying, analysing and controlling in the most effective manner all threats to the achievement of the strategic objectives and operational activities of the Pension Fund. It is not a process for avoiding or eliminating risks. A certain level of risk is inevitable in achieving the Fund objectives, but it must be controlled.

1.2 Effective risk management is an essential part of any governance framework as it identifies risks and the actions required to mitigate their potential impact. For a pension fund, those risks will come from a range of sources, including the funding position, investment performance, membership changes, benefits administration, costs, communications and financial systems. Good information is important to help ensure the complete and effective identification of significant risks and the ability to monitor those risks.

2. Risk Register.

2.1 The objectives of the Risk Register are to:

- identify key risks to the achievement of the Fund's objectives;
- consider the risks identified and assess their significance in terms of likelihood of the risk materialising and the severity of the impact/consequences if it does occur;
- assess the risk mitigation controls/procedures currently in place in terms of their effectiveness and consider whether further measures are required.

2.2 The Risk Register (Appendix 1) highlights the key risks in relation to the East Sussex Pension Fund, the current processes in place to mitigate the risk, and the planned improvements in place to provide further assurance. This incorporates the risk register of both the Investments Team and Pension Governance and Strategy.

3. Assessment of Risk

3.1. Risks are assessed in terms of the potential impact of the risk event should it occurs, and in terms of the likelihood of it occurring. These are then combined to produce an overall risk score. In terms of investment, the Fund has a diversified portfolio of assets to mitigate against downturns in individual markets, but market events may lead to a fluctuation in the Fund value, which demonstrates that if the markets as a whole crash, then there is little that mitigating actions can do.

3.2 In addition to the current mitigation in place, further actions are planned to provide a greater level of assurance, and the level of risk will be reviewed once these additional actions have been implemented.

3.3 Further risks are likely to arise from future decisions taken by the Pension Committee, and from changes in legislation and regulations. Where such new risks arise, they will be added to the risk register, assessed, and mitigation actions identified.

4. Conclusion and reasons for recommendations

4.1. Monitoring of the Risk Register will be an important role for the Pension Board, and future reports on the Risk Register will be taken to the Pension Board for consideration. Should the Pension Board identify specific concerns requiring policy changes, then reports will be brought to the Pension Committee for approval.

4.2. The Committee are asked to note and approve the Pension Fund Risk Register, and the actions proposed to mitigate risk.

KEVIN FOSTER
Chief Operating Officer

Contact Officers: Ola Owolabi, Head of Accounts and Pensions
Tel: 01273 482017
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LOCAL MEMBERS

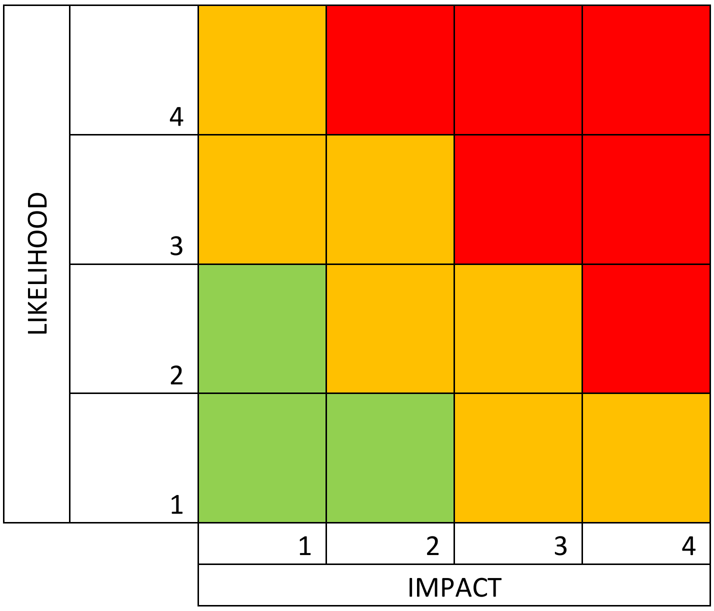
All

BACKGROUND DOCUMENTS

None

Appendix 1

The risk scores are calculated using the risk matrix below:



For the **likelihood**, there are four possible scores:

1 HARDLY EVER	2 POSSIBLE	3 PROBABLE	4 ALMOST CERTAIN
Has never happened No more than once in ten years Extremely unlikely to ever happen	Has happened a couple of times in last 10 years Has happened in last 3 years Could happen again in next year	Has happened numerous times in last 10 years Has happened in last year Is likely to happen again in next year	Has happened often in last 10 years Has happened more than once in last year Is expected to happen again in next year

For the **impact**, there are four possible scores, considered across four areas:

	1 NEGLIGIBLE (No noticeable Impact)	2 MINOR (Minor impact, Some degradation of non-core services)	3 MAJOR (Significant impact, Disruption to core services)	4 CRITICAL (Disastrous impact, Catastrophic failure)
SERVICE DELIVERY (Core business, Objectives, Targets)	Handled within normal day-today routines.	Management action required to overcome short-term difficulties.	Key targets missed. Some services compromised.	Prolonged interruption to core service. Failure of key Strategic project.

	1 NEGLIGIBLE (No noticeable Impact)	2 MINOR (Minor impact, Some degradation of non-core services)	3 MAJOR (Significant impact, Disruption to core services)	4 CRITICAL (Disastrous impact, Catastrophic failure)
FINANCE (Funding streams, Financial loss, Cost)	Little loss anticipated.	Some costs incurred. Minor impact on budgets. Handled within management responsibilities.	Significant costs incurred. Re-jig of budgets required. Service level budgets exceeded.	Severe costs incurred. Budgetary impact on whole Council. Impact on other services. Statutory intervention triggered.
REPUTATION (Statutory duty, Publicity, Embarrassment)	Little or no publicity. Little staff comment.	Limited local publicity. Mainly within local government community. Causes staff concern.	Local media interest. Comment from external inspection agencies. Noticeable impact on public opinion.	National media interest seriously affecting public opinion
PEOPLE (Loss of life, Physical injury, Emotional distress)	No injuries or discomfort.	Minor injuries or discomfort. Feelings of unease.	Serious injuries. Traumatic / stressful experience. Exposure to dangerous conditions.	Loss of life Multiple casualties

East Sussex Pension Fund
RISK REGISTER

Risk areas covered

1 Pension Fund Governance & Strategy
2 Pensions Administration
3 Pension Investments

Service Objectives

1 Ensure there are enough assets to cover liabilities in the long term
2 To prepare the final accounts for the Pension Fund to the agreed timetable
3 To monitor the external managers to ensure they are acting within the Investment Management Agreement (IMA)
4 To work in partnership with Orbis Business Operations to ensure an effective and efficient Pensions Administration Service is provided
5 To ensure that there is sufficient liquidity available to pay drawdowns on the Funds commitments and pensions due
6 To comply with statutory deadline

ID	Linked to Objective	Risk Area	Description of Risk: Source (Lack of-... Failure to -...)	Description of Risk: Consequences (Results in -... Leads to -...)	Existing Controls	Score: Likelihood	Score: Impact	Overall Risk Score
1	4	1,2	Payments of pensions contributions ● Non-collection ● Miscoding ● Non-payment	● If not discovered it effects employers FRS17/IAS19 & Valuation, final accounts cash flow in pension fund	● Employer contribution monitoring ● Additional monitoring at specific times ● SAP / Altair quarterly reconciliation ● Improved employer contribution forms ● Annual year end checks ● Pensions Web	**2**	**3**	**6**

2	4,6	2	Poor or inadequate delivery of Pensions Administration by service provider (Orbis -Business Operation), and achieving value for money	● Members of the pension scheme not serviced ● Statutory deadlines not met ● Employers dissatisfied with service being provided + formal complaint ● Complaints by members against the administration (these can progress to the Pensions Ombudsman) ● Damaged reputation ● Financial loss to fund from poor decision making process	● Key Performance Indicators ● Internal Audit ● Reports to Pension Board / Committee ● Service Review meetings with business operations management ● Awareness of the Pension Regulator Guidance ● Follow procurement rules ● Decisions supported by fully costed business case	**3**	**3**	**9**
3	2,3,4	1	Loss of key staff both Orbis Finance & Business Operations and loss of knowledge & skills	● Inability to deliver service ● Damaged reputation ● Pensioners not paid	● Diversified staff / team ● Look at other authorities with best practices to ensure Orbis positions still desirable ● Attendance at pension officers user groups ● Procedural notes which includes new systems as and when ● Section meetings / appraisals ● Succession planning	**2**	**2**	**4**
4	4	2	Paying pension benefits incorrectly	● Damaged reputation ● Financial loss ● Financial hardship to members	● Internal control through audit process ● Constant monitoring / checking ● In house risk logs ● SAP / Altair reconciliation ● Task management ● Vita cleansing	**2**	**3**	**6**
5	3	3	Custodian bank (Northern Trust) goes bust	● Inability to trade ● No reconciliation or accounting service ● Losses to cash account	● Service level agreement with termination clause ● Regular Meetings ● Regular reports SAS 70/AAF0106 ● Other Custodian options - review markets	**1**	**3**	**3**

6	1,3	3	Poor investment performance from managers	● Lower funding level ● Increase in employer contributions	● Performance measurement ● Managers report monthly ● Reporting to pensions committee and board ● Diversification across managers ● Independent Advisor ● Investment consultant	**2**	**3**	**6**
7	1,3,6	1,3	Responding to the Governments Investment Pooling Consultation	● Mandated into inappropriate investments ● Lower funding level ● Damaged reputation ● Increase in employer contribution ● Pay Pensions	● Engagement in Hymans Joint working Group ● discussions with South East 7 pension funds	**4**	**3**	**12**
8	1	1,3	Assets not enough to meet liabilities	● Lower funding level ● Increase in employer contributions	● Valuation ● Annual Investment Strategy Review ● Daily monitoring of funding level ● Investment Advisors	**3**	**3**	**9**
9	1	1	Required returns not met due to poor strategic allocation	● Damaged reputation ● Increase in employer contribution ● Pay Pensions	● Investment Advisors ● Triennial review ● Performance monitoring ● Annual Investment Strategy Review ● Reporting to Pensions Committee and Board ● Compliance with the Statement of Investment Principles ● Compliance with the Funding Strategy Statement	**2**	**3**	**6**
10	3	3	Non compliance of external fund managers	● Damaged reputation ● Financial loss	● FCA regulated ● Manager due diligence ● Investment Management Agreement ● Manager monitoring ● Report quarterly to Pension Committee ● Investment Advisors ● Additional managers meetings ● Termination clause	**2**	**2**	**4**

11	1	1	Financial/Accounting regulations (e.g. CIPFA) not adhered to / legal guidelines not followed	● ESCC may incur penalties ● Damaged reputation ● Qualified Annual Report	● Regulation of Fund Managers AAF 01/06 & SAS 70 & equivalents ● Contracts in place setting out parameters ● Internal staff are appropriately qualified and aware of policies and procedures ● Pension Fund managed in line with regulations ● Membership of CIPFA Pensions Network, NAPF, LAPFF etc.	**2**	**2**	**4**
12	1,3	1,2, 3	Fees and charges of investment managers, actuary and investment adviser are excessive and not proportionate.	● Not achieving value for money ● Financial hardship to members	● Both at tender stage and throughout the contracts, charges which are value for money are sought and challenged when appropriate. ● Fees and charges are identified in the Annual Financial Statement and specifically highlighted for the Pension Fund Board/Committee to consider.	**1**	**2**	**2**
13	3	1,2, 3	Personal gain (internal or external) through: ● Personal dealing ● Fraud or misappropriation of funds ● Fraud risk not being managed ● Manipulating share price	● Financial loss ● Damaged reputation	● Protocol regarding personal dealing ● Declaration of interests ● Investment Management ● Agreements with Fund Managers ● Vetting of new Fund Managers through tender process ● Access restricted regarding transfer of funds - authorised signatories required ● Regulation of Fund Managers ● Code of Conduct ● Separation of duties ● Internal & external audit ● Monthly reporting ● Reconciliation procedures	**1**	**3**	**3**

14	2	1	Financial Statements of Pension Fund incorrect or late	● Damaged reputation ● Qualified accounts	● Agreed timetable ● Externally audited ● Qualified and trained staff ● Closedown procedures ● Compliance with CIPFA code of Practice and IFRS	**2**	**3**	**6**
15	1,2,3,4	1	Governance of the pension fund	● Financial loss ● Damaged reputation ● Legal issues	● Governance compliance statement ● Pension Committee and Board reporting ● Monthly member letter ● Statement of Investment Principles ● Funding Strategy Statement ● Trained Committee members and officers	**1**	**3**	**3**
16	4	1,2	Communication with employers	● Damaged reputation ● Incorrect payments/receipts ● Maladministration	● Employer forum ● Annual employers meeting ● Pensions website ● Pension board representatives feedback	**2**	**2**	**4**
17	1,5	1,3	Maturing Fund	● Cash flow issues ● Increasing employer rates ● liquid investments	● Investment strategy ● Cash flow monitoring ● Discourage opt outs ● New scheme 50/50 option ● Communication	**2**	**2**	**4**

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Report to: **Pension Board**

Date: **3 November 2015**

By: **Acting Head of Orbis Business Operations**

Title: **Officers' Report – Business Operations**

Purpose: **An update on the administration service provided to the Pension Fund by Orbis Business Operations**

RECOMMENDATIONS - The Board is recommended to:

1) note the update provided; and

2) highlight any areas of particular interest for consideration at future Board 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 August are attached as **Appendix 1**.

2.2 A slight increase in performance in a few areas is apparent and 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. As reported previously, the principal reason for not meeting 100% target levels in all cases remains staff shortages and recruitment to cover four vacant posts continues. It is hoped the forthcoming relocation of the Pensions team from Uckfield to Lewes will increase the capacity to attract experienced staff.

3 Communications with members - Annual Benefit Statements 2015

3.1 At the time of writing, the first tranche of Annual Benefit statements have been issued to scheme members, covering the majority of employers in the fund. Initial feedback regarding the new layout designed to present the information regarding both the 2008 Final Salary Scheme and the 2014 Care Scheme in a user-friendly way has been very positive.

3.2 The second tranche of 2015 statements covering the remaining employers is due to be issued at the beginning of November, in advance of the Pensions Regulator's final issue deadline of 30 November 2015. All employers in the fund have been advised of the current status of the statements relating to their members.

3.3 Business Operations will be putting plans in place to aim for completion of statements by 31 August in future years in line with statutory timescales.

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 being finalised and Business Operations now expect to provide a decision summary at the February Board meeting.

5 Personal taxation – Annual Allowance (AA)

5.1 Over the last few years the Government has taken a number of steps to increase tax revenue in relation to members' pension benefits, both through changes to the Lifetime Allowance and to the Annual Allowance (AA).

5.2 The AA is the annual limit on how much pension an individual can build up from all sources each year before they become subject to a tax charge. In the LGPS, benefits are measured for AA purposes between 1 April and the following 31 March each year. When it was introduced in its current format in the 2011/12 financial year, the AA was set at £ 50,000 but this was reduced to £ 40,000 with effect from 2014/15.

5.3 The AA rules do include provision to carry forward any unused allowance from the previous three financial years which meant that, until 2014/15, only a couple of members of the East Sussex fund were affected by the AA. The reduction in the AA from 2014/15 onwards has increased the numbers of members affected who will need to report a tax charge on their self assessment returns by 31 January 2016 and the cumulative effect of the reduction in the AA will be felt more keenly in future years. This will apply particularly to those members with long service and high incomes or promotions.

5.4 This is of course a personal taxation issue and should have no direct impact on the pension fund. It is not anticipated that the reduction in the AA will impact on the popularity of the LGPS at the present time.

6. Conclusion

6.1 The subject areas contained in this initial report are intended as background or the Board 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

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LOCAL MEMBERS

All

BACKGROUND DOCUMENTS

None

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

Pensions - August

Critical Performance Monitoring

	Item and target time	Target	Impact	Mar	Apr	May	June	July	Aug	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	94%	79%	83%	76%	80%	95%	
	3. Deferred benefit notifications within specified timescales -25 days	100%	L	93%	69%	81%	88%	94%	81%	Of 183 cases, 149 were completed with timescale.
Transfers/ Interfunds I IN –	**4a.** Request values within specified timescales – 10dys	100%	L	94%	95%	97%	94%	94%	100%	
Transfers/ Interfunds I IN –	**4b.** Request payment within specified timescales – 10 days	100%	L	94%	91%	100%	100%	100%	87%	Of 15 cases, 13 were completed within timescale. The 2 delayed cases were an average of 12 days late.
Transfers/ Interfunds Out	**5a.** Provide quote within specified timescale - 25 days	100%	L	95%	100%	97%	100%	100%	100%	
Transfers/ Interfunds Out	**5b.** Make payment within specified timescale – 25 days	100%	L	100%	100%	60%	100%	100%	100%	
	6. Refunds - within specified timescales -10 days	100%	L	100%	97%	97%	100%	98%	100%	
	7a. Written complaints - acknowledged within 2 working days (2 days)	100%	H	1	1	1	2	0	0	
	7b. Written complaints - resolved and responded to within 5 working days (10 days for complex queries)	100%	H	0	1	1	1	0	0	
	8. Payslips despatched as per specification	100%	H	100%	100%	99.93 %	100%	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%	88%	82%	87%	92%	94%	5 delayed cases each an average of 6 days late
	11. Estimates provided within specified timescales – 7days	100%	L	76%	47%	73%	79%	88%	95%	6 delayed cases each an average of 6.5 days late

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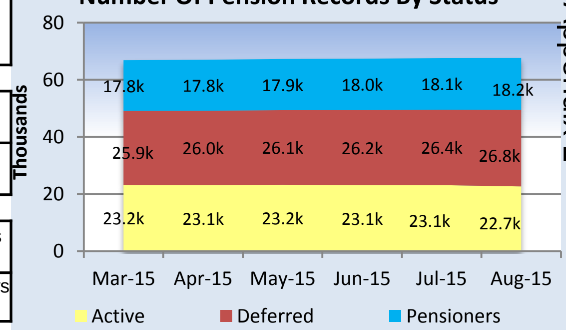
Exception Commentary

One of the delayed Transfer/Interfund In cases was completed after a wait of 490 days to receive the payment from the former employer.

Key Volume processes for August

Changes (addresses, hours, change personal details): 163 (YTD 1,730)
New Employers 1 (YTD 2)
Nominations 133 (YTD 650)
Starters : 65 (YTD 1,243)

Number Of Pension Records By Status



East Sussex County Council
SURREY COUNTY COUNCIL
SE Shared Services

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Report to: Pension Board

Date: 3 November 2015

By: Chief Operating Officer

Title: Officers' Report – General Update

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

RECOMMENDATIONS – The Board is recommended to note the update.

---

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 £4.9m; 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	29.0	1.6
Employers Contributions	87.5	89.5	2.0
Deficit Recovery	3.5	5.1	1.6
Transfers In	5.8	6.7	0.9
TOTAL INCOME	**124.2**	**130.2**	**6.1**
Pensions Benefits Paid	(97.7)	(97.8)	(0.1)
Pensions Lump Sum Paid	(17.4)	(20.2)	(2.8)
Administration expenses	(2.2)	(2.2)	0.0
Transfers Out (excluding Probation transfer)	(3.4)	(5.2)	(1.8)
TOTAL EXPENDITURE	**(120.7)**	**(125.4)**	**(4.7)**
SURPLUS CASH	**3.5**	**4.9**	**1.4**

3. National Development - updates

Local Government Pension Scheme pooling and Funds Collaboration

3.1 The government is aiming to have fewer, large pools of assets – preferably around six, but there is an understanding that the government is open to non-regional solutions if the evidence stacks up. The objective is to deliver further cost savings from running LGPS investments more efficiently.

3.2 The Chancellor's announcement places more emphasis on infrastructure investment as part of the current consultation. In addition to the expected primary criteria on pooling (governance, scale and savings) we might expect the criteria to make some explicit reference to making it easier and more cost effective to invest in infrastructure.

3.3 Officers are currently in discussion with other neighbouring authorities to consider the need to pool investment. Hymans has established a Joint Working Group (JWG) of which the fund is a participant to deliver evidence based, authoritative analysis of pooling options, and enables LGPS stakeholders to agree one or a small number of pooling options which satisfy the government's criteria. *(Attached as **Appendix 1** is the Hymans Robertson presentation on- Pooling of LGPS Investment and Collaboration).*

4. What is MiFID and its objective?

4.1 MiFID is the Markets in Financial Instruments Directive. The directive sets out conducts of business and organisational requirements for investment firms, authorisation requirements for regulated markets, regulatory reporting to avoid market abuse, trade transparency obligation for shares, and rules on the admission of financial instruments to trading. The aim was to strengthen the single market for investment services and activities, thereby harmonising investor protection and increasing competition in financial markets.

The MiFID II and its impact on LGPS investments

4.2 Under MiFID II local authorities will be defaulted to retail client status - currently they are professional clients. As a retail client the fund could be faced with a much reduced pool of asset managers and consultants willing to provide services, many may not deal with retail clients at all. There will be the opportunity to elect for professional client status. It is expected that MiFID II rules will come into effect for all investment firms from January 2017.

5. Annual Employers Forum –

5.1 This year's Annual Employers Pension Forum for the East Sussex Pension Fund which will be held at County Hall, Lewes on 20th November 2015. This is an opportunity to meet with representative on the newly constituted Pension Board and the Pension Committee members. In addition there will be a presentation by the Fund Investment Consultant on the Investment Performance, DCLG new initiative on Investment Pooling, Funds Collaboration ideas, and the Fund Actuary will provide an LGPS update.

6. Pension Fund – Risk Register

6.1 The Risk Register highlights the key risks in relation to the East Sussex Pension Fund, the current processes in place to mitigate the risk, and the planned improvements to provide further assurance. The Pension Committee at its next meeting will approve the Pension Fund Risk Register.

6.2 Monitoring of the Risk Register will be an important role for the Pension Board, and future reports on the Risk Register will be taken to the Pension Board for consideration before the Pension Committee for approval.

7. Conclusion and reasons for recommendations

7.1 The Board 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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HYMANS ROBERTSON

East Sussex Pension Fund

2015 Summer Budget: LGPS Investment Pooling Update

- Linda Selman
- William Marshall

- October 2015

PUBLIC SECTOR

The background

May 2013 — **June – Sept 2013** — **Nov – Dec 2013**

Brandon Lewis at NAPF	FT article	DCLG / LGA call for evidence	Hymans/CEM investment cost benchmarking	Hymans Research for DCLG
Fund merger seemed likely?	Criticism of LGPS inv. costs but bad data	Consultation objectives: 1) managing deficits; & 2) investment efficiency	First good data on investment costs + international comparisons	Cost analysis for specific options. Did not include proposals.

The background

HYMANS ROBERTSON

Jan 2014 | **Feb 2014** | **May/July 2014**

Jan 2014

SAB analysis of CfE responses & letter to minister

Themes:
-use of asset pooling?
-use of passive?
-use of in-house?
Consider options for managing deficits

Feb 2014

London Councils give London CIV green light

Collective Investment Vehicle for London Boroughs. Voluntary participation.

May/July 2014

DCLG consultation

Merger ruled out
Instead consulting on asset pooling and greater use of passive

Pre-election pause

Summer Budget 2015

“*pool investments to significantly reduce costs, while maintaining overall investment performance*”

“*sufficiently ambitious*” proposals

Oct 5 - Conservative Party Conference

"…we're going to work with councils to create .. half a dozen British wealth funds spread across the country,"

"It will save hundreds of millions in costs, and, crucially, they'll invest billions in the infrastructure of their regions."

Latest government thinking?

HYMANS ROBERTSON

Where we are now

- Fund merger
- Mandating passive
- Local decisions on manager choice
- Increased investment in infrastructure
- Pooling investments
- Local decisions on asset allocation

What government is looking for

- Pools with significant scale (c£30bn?)
- Significant savings (hundreds of millions annually?)
- More investment in (UK) infrastructure
- Explain how governance will work
- Expected savings quantified and evidenced
- Savings able to be monitored
- A fall back or default for non participants?
- A clear picture of how various initiatives fit together

Proposals must be “sufficiently ambitious”

Expected publication - November

- Statement of criteria (NOT consultation) for pooling proposals
  - Consultation is happening now ‘informally’ through discussions
- Consultation on
  - Investment Regulations
    - What needs to be liberalised to facilitate CIVs
  - Backstop legislation for funds not participating in pools
- Potentially a formal response on the last consultation

Working assumption: criteria for pooling

SCALE

+ simplicity

Current initiatives

Current initiatives – do they meet govt aims?

Initiative	Use / asset type	Scale / Participants
London CIV	Active and passive managers	Total assets £25bn+ Active equity £10-15bn Expected fee savings unknown London Boroughs mainly – others can buy?
Lancs / LPFA	Joined forces to -share resources (including in-house investments and liability management) -get greater scale (for fee reduction and co-investment)	Total assets c£10bn+ Other funds could participate/co-invest but not join governance? Examples of co-investment with others on infrastructure
Procurement / fee negotiation	Numerous examples of funds individually and jointly negotiating reduced fees on active and passive listed securities	Est fee savings TBC 2013 data out of date. Should be benchmark to 2013 when consultation started in earnest
Lothian / Falkirk	Joint investment initiative	Total assets c£5-6bn
PIP	Co-investment in infrastructure (directly)	Aiming for c£2-3bn assets initially Public and private sector participants
Procurement frameworks (National, SW, Croydon)	Advisors, custodians	Anecdotally, annual savings running into tens of millions

Other initiatives at early stage

Initiative	Use / asset type	Scale / Participants
Welsh CIV	CIV for use by Welsh funds – expected mainly for listed securities. Treasurers have been examining options for some time.	Total assets c£10b plus. Will this scale be sufficient for government or does it need to be wider?
Joint procurement	Passive management (equities)	Currently led by a small number of counties – could become a national initiative?
Fund mergers	Full merger	Current discussions between some small funds – not likely to generate adequately sized asset bases but may save on governance costs
Local and regional initiatives	TBC	TBC We are aware of a number of local regional groups exploring options for collaboration
Mutual investment management co	TBC Run by local authorities. Internal management.	Unknown.

Other joint ventures such as LGSS and Tri-boroughs do not currently involve investments, but they are likely to explore this.

Consider scale, expected total savings, how initiatives fit in broader picture & the combined effect

Objectives of the project coordinated by Hymans Robertson

Goals

…produce a well evidenced authoritative piece of work

…enable LGPS stakeholders to gather round one or a small number of options which satisfy the Government's criteria

…form a basis of discussion between LGPS and Government

HYMANS ROBERTSON

Objective: joined up proposal to government

Purpose – joined up proposal to government

- **Compare pooling models**
  e.g. 5x regional vs asset type pools
- Compare options within model
  e.g. CIV or procurement for passive
- Show how current & future initiatives **fit together**
- Show how **governance** would work including local vs pool decisions
- **Quantify** and evidence expected savings
- Gain broad base of support

Hymans' role

- Facilitation
- Ideas / review
- Project management
- Data analysis
- Quantification of benefits
- Liaison with government

Participants

c25 administering authorities

Clients and non-clients

Broad range of interests:
External / internal management
Procurement vs CIV approaches
Regional vs asset type pooling
Responsible investment

Credible, widely supported proposal

Local authorities own and draft the report

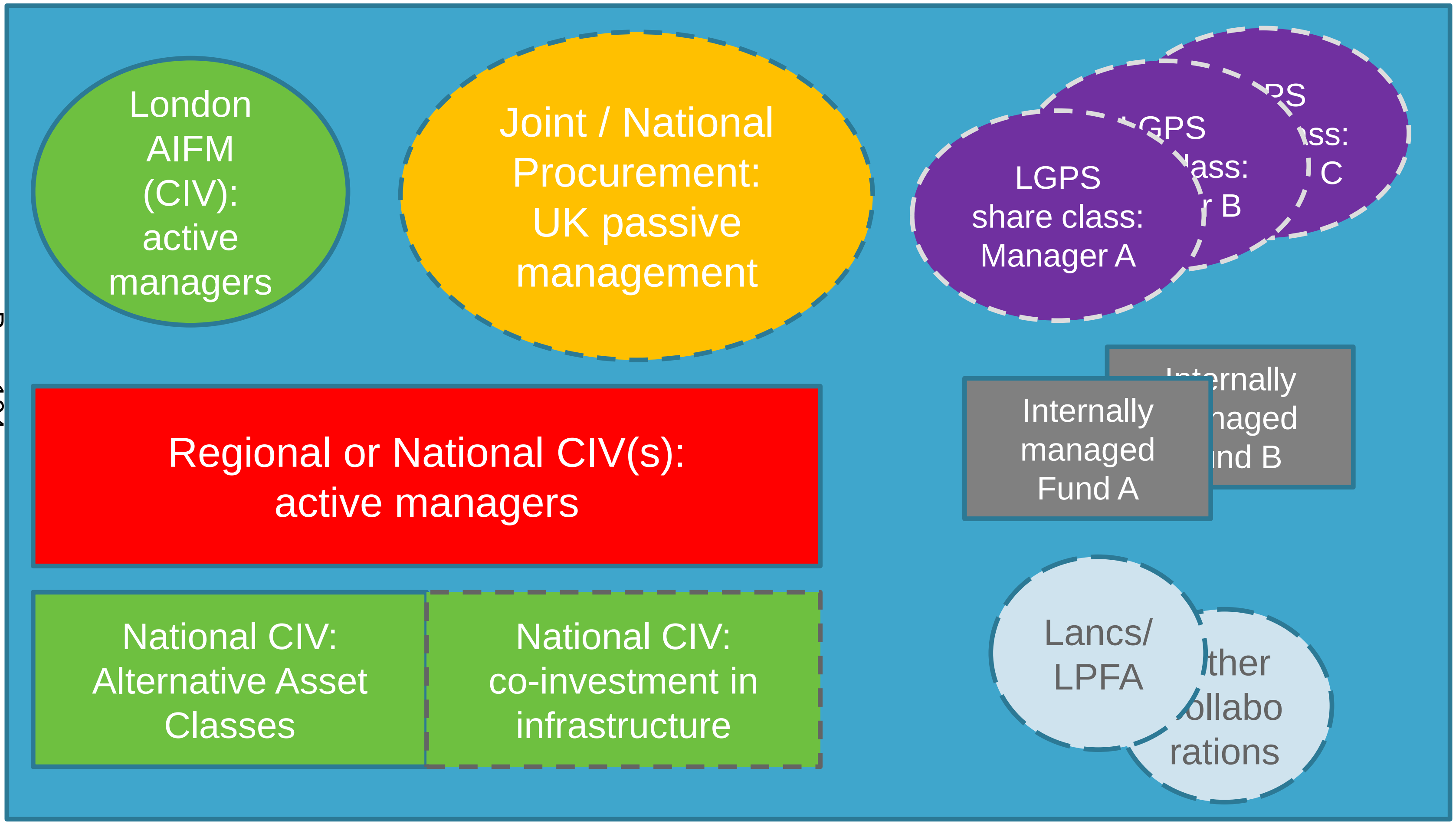
Local authorities speaking with one voice

Possible models for pooling

- 5 x regional pools
- 5 x mutual co (internal management)
- 5 x pools based on asset type
- Regional plus
- pools based on liabilities e.g. academies pool
- mixed economy?

Government starting point 5 x regional pools?

“Mixed” model



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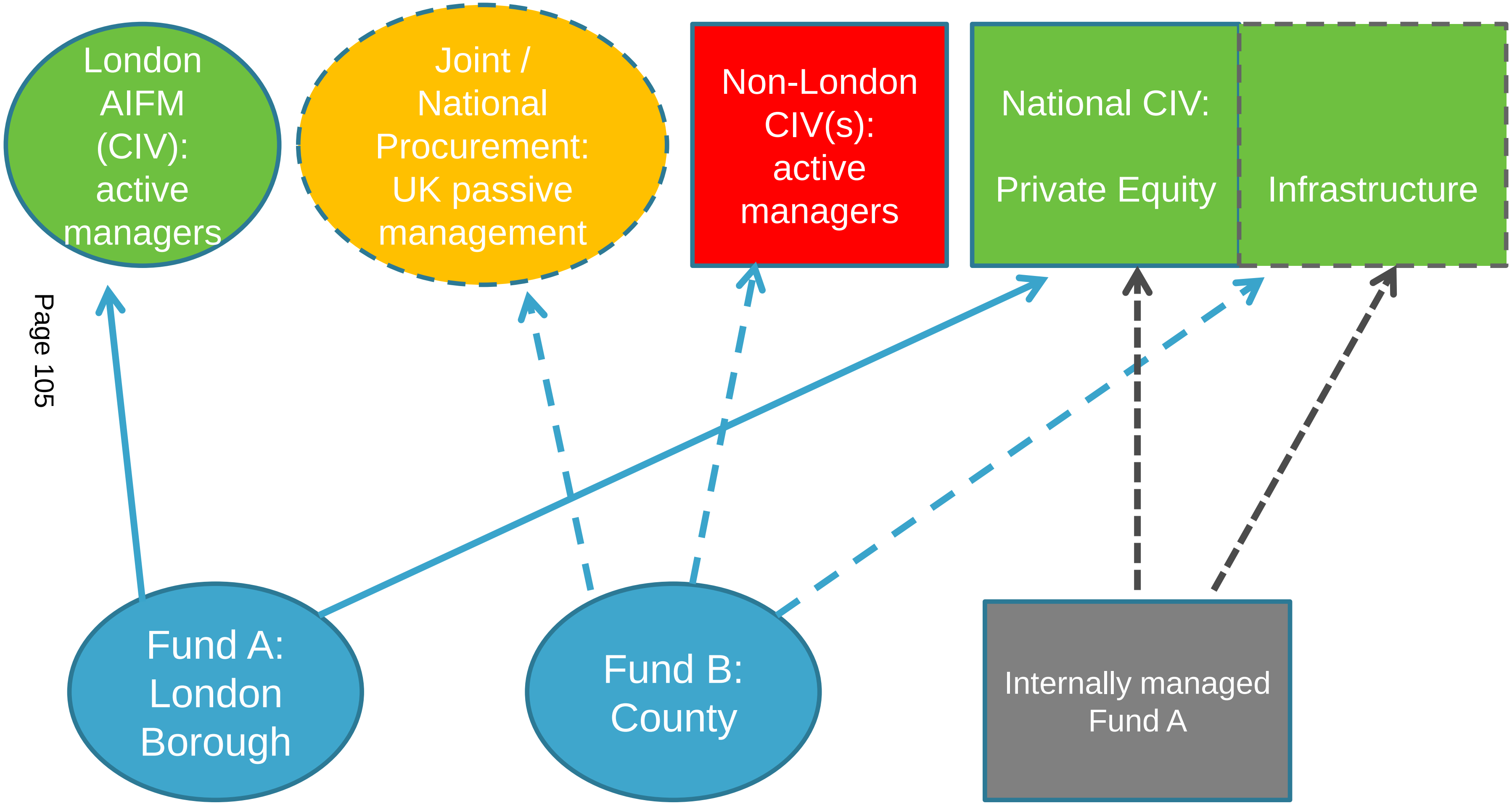
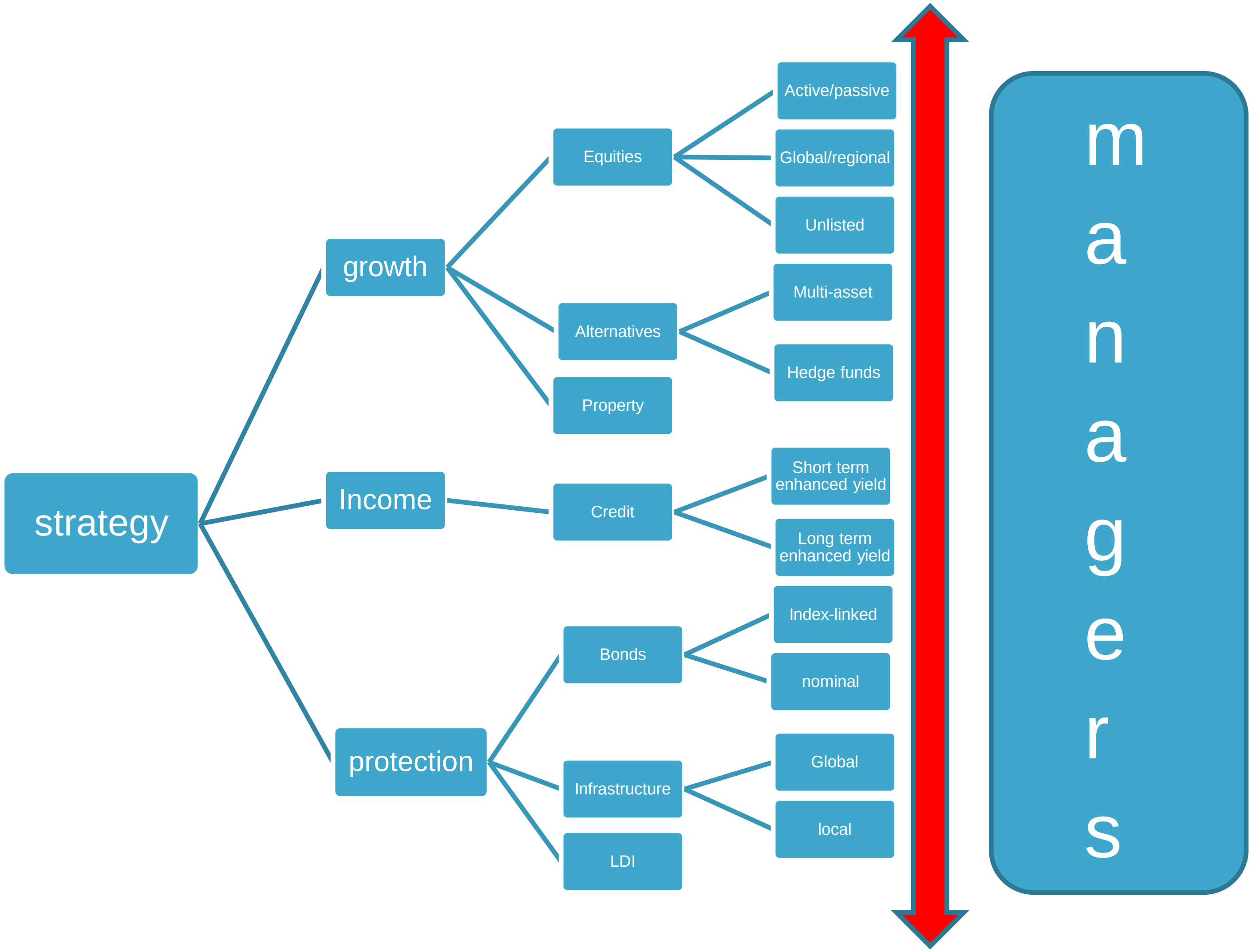
Will all example components meet government criteria in current / proposed form?

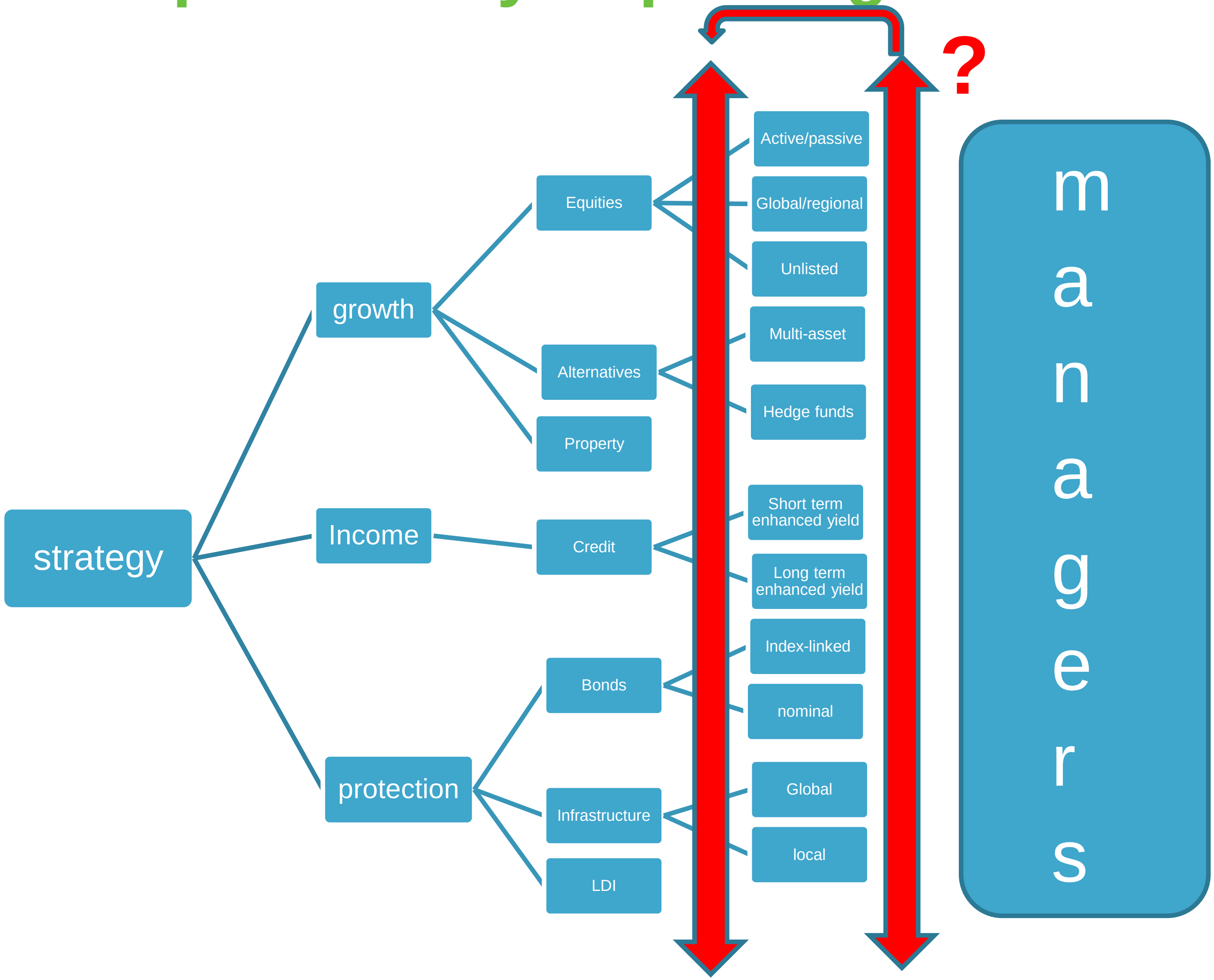
Mixed approach: individual funds choose building blocks to execute their strategy



Where does local decision-making end?



Where does practicality of pooling end?



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Summary - Current government thinking?

Issue	Views?
Any exemptions from pooling?	No?
Place of internally managed funds?	Continuing “as is” not likely? Scale required e.g. via collaboration?
Governance and governance dividend	Assumption more likely to get through CIV
Procurement instead of CIVs?	CIVs preferred? May be persuadable on passive?
Flexibility to invest outside of pools?	Some? Say 5% of assets? Local investments/specific liabilities
What decisions remain local?	Asset allocation to meet objectives. Not manager selection
Regional pools vs alternatives	Starting point regional – alternatives have to be better (eg more savings?)
Infrastructure investment	Looking for more investment (UK/regional)
Min pool size £30bn? Flexibility?	Example – infrastructure

What should funds be doing now?

- Speaking to/collaborating with other funds ✓
- Supporting established initiatives ✓
- Business as usual on investment ✓
- Establishing PE/infrastructure programmes for the first time ✗
- Spending a lot of money on establishing a CIV/pool ✗

Thank you

Any questions?

Report to: **Pension Board**

Date: **3 November 2015**

By: **Head of Accounts and Pensions**

Title: **Pension Board Forward Plan 2015/16**

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 Board is recommended to note the updated Pension Board/Committee Forward Plan, and the Joint Training Proposal.

---

1. Introduction

1.1 The Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 2012 recommends the forward 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 September 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 contain 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, and an updated training plan, with a summary of both external and internal training events that Members and Officers can undertake between 2015/16 and 2016/17

3. Joint Pension Board and Committee Training Session

3.1 The Board and Committee completed training need assessments have been reviewed and have helped in determining the content of an in-house training day. This training day will have a similar format as the induction training day held for the Board/Committee in June 2015, including external presenters.

3.2 Details of the topics to be covered are detailed within the Pension Board and Committee Forward/Training plan. The date of this training still needs to be agreed, and we are aiming for a date in the second half of January 2016 and the first half of April 2016.

4. Conclusion and reasons for recommendations

4.1 The Board is requested to note the Pension Board/Committee Forward Plan 2015/16.

KEVIN FOSTER
Chief Operating Officer

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LOCAL MEMBERS

All

BACKGROUND DOCUMENTS

None

EAST SUSSEX PENSION FUND

PENSION COMMITTEE/BOARD FORWARD PLAN 2015-16

October 2015

Contents

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 - Fund responsibilities/ policy	Member Training - Specific investment Topics	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 - Roles of the Pension Regulator	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 - Fund responsibilities/ policy	Member Training - Specific investment Topics	Member Training - Pension Discretions	Member Training - Safeguarding the Fund's Assets	Member Training - LGPS discretions & policies	Member Training - Roles of the Pension Regulator	Member Training - Review of Myners principles	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 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 • Using an Online Knowledge Portal or other e-training facilities • Attending courses, seminars and external events • Internally developed training days • Short sessions on topical issues or scheme-specific issues • Informal discussion and One to one • Shared training with other Funds or Frameworks • Regular updates from officers and/or advisors • A formal presentation	• Desktop/work based training • Using an Online Knowledge Portal or other e-training facilities • Attending courses, seminars and external events • A workshop with participation • Short sessions on topical issues or scheme-specific issues • Informal discussion and One to one • Training for qualifications from recognised professional bodies (e.g. CIPFA, ACCA, etc.) • Internally developed sessions • Shared training with other Funds or Framework

3.3 Training material

Officers will discuss with members the material they think is most appropriate for the training. Officers can provide hand outs and other associated material.

4. Monitoring and Reporting

Each member of the Pensions Committee and Pension Board will inform the Scheme Manager of relevant training attended from time to time. A report will be submitted to the Pensions Committee annually highlighting the training and attendance of each member of the Pensions Committee and Pension Board.

Where the Scheme Manager has a concern that a member of the Pension Board is not complying with the requisite training or attendance requirements it may serve a notice on the Pension Board, requiring the Pension Board to take necessary action. The Pension Board shall be given reasonable opportunity to review the circumstances and, where appropriate, liaise with the Scheme Manager with a view to demonstrating that such member will be able to continue to properly perform the functions required of a member of the Pension Board.

This training strategy will be reviewed on an ongoing basis by the Scheme Manager, taking account of the result from any training needs evaluations and any emerging issues. The Committee/Board will be updated with 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 • Member's Role	✓						**1**	Completed
Members individual needs on specific areas arising during the year • Advisory Board e-learning	✓	✓			✓	✓ ✓	**1,3,4**	As required – notify Head of Accounts and Pensions
Pre- committee meeting/agendas • Specific investment Topics • Services and providers • Procurement process for		✓ ✓ ✓	✓ ✓ ✓				**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**
services provided externally • Performance measurement • Accounts and audit regulations • Role of internal and external audit • Fund responsibilities/ policy • Pension Discretions • Safeguarding the Fund's Assets		✔ ✔ ✔ ✔ ✔ ✔ ✔ ✔	✔ ✔ ✔ ✔ ✔ ✔ ✔ ✔					
Pension Fund Forum • Valuation Process • Knowledge of the valuation process and the need for a funding strategy • Implications for employers of ill health and outsourcing decisions • Importance of monitoring asset returns relative to liabilities				✔			**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 • LGPS discretions & policies • Implications of the Hutton Review		✔	✔	✔	✔		**1,6**	
Pensions Legislation & Governance: • Roles of the Pension Regulator, Pension Advisory Service & Pension Ombudsman in relation to the scheme • Review of Myners principles and associated CIPFA & SOLACE guidance		✔ ✔		✔ ✔			**1,2,**	
Pension Accounting & Auditing standards: • 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: • Current public procurement policy & procedures • UK & EU procurement legislation				✔ ✔			**3,5,6**	
Investment Performance & Risk Management: • Monitoring asset returns relative to liabilities • Myners principles of performance management • Setting targets for committee and how to report against them				✔ ✔ ✔	✔		**3,5,6**	Invite to be circulated to when relevant
Financial markets & products knowledge: • Refresh the importance of setting investment strategy • Limits placed by regulation on investment activities in			✔	✔	✔		**4** **1** **4**	

TRAINING NEED	PROPOSED DELIVERY METHODS							
	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 • Understanding of the operations of the fixed income manager • Understanding of Alternative asset classes				✔			**4,5,6**	
Pension Administration - • Shared service		✔	✔	✔			**2,6**	
Actuarial methods, standards and practices: • Considerations in relation to outsourcings and bulk transfers • Triennial Valuation refresher		✔ ✔					**1** **6**	
CHAIRMAN TRAINING								
• Fund Benchmarking • Stakeholder feedback • Appreciation of changes to scheme rules	✔ ✔				✔		2 4 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 • Refresher training • Keeping abreast of current development					✔ ✔		**1,3,4,5**	
LGC Investment Conference • Fund Manager events and networking					✔ ✔		**1,2,3,4,5,6**	

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Key
The six areas covered within the CIPFA Knowledge and Skills Framework (KSF):

1. Pension Legislation & Governance Context **KSF1**
2. Pensions Accounting & Auditing Standards **KSF2**
3. Financial Services Procurement & Relationship Management **KSF3**
4. Investment Performance & Risk Management **KSF4**
5. Financial Markets & Products Knowledge **KSF5**
6. Actuarial Methods, Standards & Practices **KSF6**

AVAILABLE TRAINING AND CONFERENCES 2015 - 2016

Date	Conference/Event	Run By	Delegates/Cost
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
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

Date	Conference/Event	Run By	Delegates/Cost
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
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	Free

Date	Conference/Event	Run By	Delegates/Cost
		Management	
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
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	Free

Date	Conference/Event	Run By	Delegates/Cost
		(LAPFF)	
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
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 and Pension Commttee – Joint Training Session

The following proposed training will take the form of 2 half day sessions delivered jointly to the Pension Committee and Local Pension Board.

Session 1 – Janury 2016

LGPS – Legislative and Governance context

A recap on who does what in the LGPS focussing on the roles of;

- The administering authority
- The employers
- The Committee
- The LPB
- S151 officer
-

Conflicts of Interest and Reporting Requirements

Consideration of the Committee and Pension Board's responsibilities in the areas of;

- Conflicts of interest
- Reporting breaches of the law

Session 2 - April 2016

Benefit Structure

- An overview of how benefits are calculated an paid in the LGPS, including;
- Summary of the three benefit tranches
- Joining the Scheme
- Contributions
- Types of retirements
- Additional benefits including Additional Voluntary Contributions
- Death benefits

Key documents and Policies

A look at the Fund's key documents and policies, including;

- The annual report and accounts
- The Funding Strategy Statement
  The Statement of Investment Principles
- The Administration Strategy
- The Communications Strategy
- The Admissions Strategy
- Dealing with appeals under the Internal Dispute Resolution Procedure

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