PENSION COMMITTEE

THURSDAY, 8 SEPTEMBER 2016

10.00 AM COMMITTEE ROOM, COUNTY HALL, LEWES

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

A G E N D A

1 Minutes *(Pages 3 - 4)*

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 *(Pages 5 - 10)*

6 Fund Performance - Newton

- Presentation by Newton

7 Quarterly Performance Report - Hymans Robertson *(Pages 11 - 48)*

- Statement of Investment Beliefs
- Private Equity
- Investment Strategy Roadmap / potential business plan

8 Environmental, Social, Governance and Investment *(Pages 49 - 76)*

- Presentations by Hymans Robertson and the Local Authority Pension Fund Forum (LAPFF)

9 Petition - Divest East Sussex Pension Fund from Fossil Fuels *(Pages 77 - 86)*

10 Statement of Investment Principles *(Pages 87 - 112)*

11a Officers' Report - Business Operations *(Pages 113 - 132)*

- Proposed new KPIs for Pension Administration

11b Officers' Report - General Update *(Pages 133 - 230)*

- Employers Forum 2016 itinerary.

12 Pension Committee Forward Plan *(Pages 231 - 264)*

13 Any other items previously notified under agenda item 4

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31 August 2016

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PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at County Hall, Lewes on 18 July 2016.

PRESENT	Councillors Richard Stogdon (Chair) Councillors Frank Carstairs, Bob Standley, David Tutt and Michael Wincott
ALSO PRESENT	Marion Kelly, Chief Finance Officer Ola Owolabi, Head of Accounts and Pensions Wendy Neller, Pensions Strategy and Governance Manager John Shepherd, Finance Manager (Pension Fund) William Bourne, Independent Adviser William Marshal, Hymans Robertson Paul Potter, Hymans Robertson

1 MINUTES

1.1 The Committee RESOLVED to agree the minutes of the previous meeting as a correct record.

2 APOLOGIES FOR ABSENCE

2.1 There were none.

3 DISCLOSURE OF INTERESTS

3.1 There were none.

4 URGENT ITEMS

4.1 There were no urgent items.

5 INDEPENDENT AUDITOR'S (KPMG) REPORT TO THOSE CHARGED WITH GOVERNANCE AND ANNUAL REPORT 2015/16

5.1 The Committee considered a report by the Chief Finance Officer on the Independent Auditor's (KPMG) report to those charged with governance on Pension Fund Annual Report 2015/16.

5.2 The Committee RESOLVED to:

(1) Note the Independent Auditor's (KPMG) report; and

(2) Approve the Pension Fund Annual Report for publication.

The meeting ended at 2.33 pm.

Councillor Richard Stogdon
Chair

PENSION BOARD

MINUTES of a meeting of the Pension Board held at County Hall, Lewes on 4 August 2016.

PRESENT	Richard Harbord (Chair) Councillor Kevin Allen, Angie Embury, Sue McHugh, Councillor Brian Redman and Tony Watson
ALSO PRESENT	Marion Kelly, Chief Finance Officer Ola Owolabi, Head of Accounts and Pensions Brian Smith, Regional Operations Manager Jason Bailey, Pension Services Manager Wendy Neller, Pensions Strategy and Governance Manager John Shepherd, Finance Manager (Pension Fund) Harvey Winder, Democratic Services Officer

10 MINUTES

10.1 The Board agreed that the minutes were a correct record of the meeting held on 12 May 2016.

11 APOLOGIES FOR ABSENCE

11.1 There were no apologies for absence.

11.2 It was noted that David Zwirek had resigned as a scheme member representative meaning that there was currently a vacancy on the Board. A new GMB member is expected to be nominated to this position in due course.

12 DISCLOSURE OF INTERESTS

12.1 There were none.

13 PENSION COMMITTEE AGENDA

13.1. This item was introduced by Ola Owolabi (OO).

13.2. In reference to **Item 9 Petition – Divest East Sussex Pension Fund from fossil fuels** Councillor Brian Redman (BR) said that during his time as a member of the Pension Fund Investment Panel, the Panel had worked actively to ensure that investment managers working for the East Sussex Pension Fund (ESPF) influenced the companies in which they had invested ESPF funds to behave in an ethical way.

13.3. BR said that he had been to a Local Authority Pension Fund Forum (LAPFF) meeting in December in Bournemouth and had been reassured that the issue of ethical investment for Local Government Pension Schemes (LGPS) was being taken seriously by the Forum – a considerable amount of the meeting was spent on the matter. BR was confident that ethical behaviour would benefit the companies themselves as they could absorb the costs of behaving more ethically whilst being reassured that investors would still be willing to invest in them. He recommended that other Board members attend the next LAPFF meeting in December.

13.4. Councillor Kevin Allen (KA) welcomed the appearance of the issue of fossil fuel disinvestment on the Pension Committee's agenda. KA informed the Board that the issue of fossil fuel disinvestment had been debated at the Brighton & Hove City Council (BHCC) Full Council meeting. He speculated that had the notice of motion been as straightforward as the one that passed at Hastings Borough Council it would have been passed (in the event, it was not). He said that individual councillors will continue to receive requests to endorse disinvestment and the Board should take disinvestment seriously, provided that it does not interfere with the ESPF administering authority's fiduciary duties. KA added that it was important that the petitioners were informed of this fiduciary duty. Marion Kelly (MK) said that the issue of disinvestment was higher on the priority list of LGPSs than it had been 10 years ago.

13.5. Sue McHugh (SM) recommended that any analysis of the value in fossil fuel disinvestment ought to include a quantified cost to the ESPF of disinvestment – be it over the short or long term. SM felt that only presenting the argument that investment allowed the ESPF to influence the ethical behaviour of companies was unlikely to be sufficient to convince people of the value of investing in those companies. OO confirmed that the ESPF's investment consultant (Hymans Robertson) had been approached to provide analysis of the costs of disinvestment for the Pension Committee meeting in September. MK added that it was a complex task to calculate the financial outcome of disinvestment.

13.6. The Chair said that it was right that the ESPF embraced the principle of ethical investment. However, he cautioned that a policy of disinvestment was complicated by the need to ensure that employers and council tax payers were not adversely affected; the fact that the Fund invests in large multinational companies that may produce products considered by others to be unethical – such as alcohol and tobacco; and the fact that large multinationals may have a complex web of subsidiary companies, some of which may behave unethically. The Chair added that pension fund members in Canada were involved in an $18bn class action law suit for lost earnings through tobacco disinvestment.

13.7. Councillor Richard Stogdon (RS) the Chair of the Pension Committee said that the Committee would consider the issue of disinvestment carefully, but he cautioned that it would be difficult for the Committee to justify to the 69,000 members in the ESPF the underperformance of the Fund compared to its neighbouring pension funds – should that be an outcome of disinvestment. RS reiterated the Chair's concern over the difficulty in deciding what is and is not an ethical company; and he added that disinvestment carried the additional risk of reducing the spread of investments and making the Fund more susceptible to market fluctuations.

13.8. KA said that he understood analysis had been undertaken, and was available online, of the extent to which the LGPSs invested in fossil fuels. KA said that the website showed that some funds have performed well despite reducing investment in fossil fuel, in particular Lancashire County Pension Fund.

13.9. In reference to **Item 10 – Statement of Investment Principles**, the Board was satisfied that there had been no major changes to the Statement of Investment principles over the last year.

13.10. The Board RESOLVED to note the report.

14 REVIEW OF FUND MANAGERS FEE ARRANGEMENTS

14.1. This Item was introduced by OO.

14.2. Angie Embury (AE) questioned whether the increase in investment management fees of 2% in 2015/16 offered value for money when the ESPF fund value had only increased by 1%. OO said that these increases needed to be considered in terms of their monetary value; the increase in fees had been £0.2m but this had led to an increase in the fund value of £24.9m in 2015/16.

14.3. AE asked whether there was a breakdown available of the assets held by ESPF that showed the transaction costs of those assets, as this was available in Holland and UNISON had conducted a breakdown of its own pension fund investment transactions. OO explained that analysing the cost to the fund of each transaction fee would be very complex given how the cost of transacting private equities was very varied. However, the Investment Management Agreement (IMA) between ESPF and investment managers includes an agreement of the acceptable range of transaction charges the investment manager should be willing to pay when buying or selling assets. The ESPF's external auditor, KPMG, has access to these agreements.

14.4. The Chair asked whether the external auditor looked for any evidence of unnecessary 'churn' of equities as this would indicate that investment managers were making additional money through transaction fees. He added that he did not expect there to be any evidence of this kind of behaviour. OO said that KPMG only look at ESPF. However, the complexity and variety of the market and the funds' strategies means that it would be very difficult to meaningfully compare two different funds, for example, they may be investing in equities with higher transaction costs, or investing in more long term equities and so would make fewer transactions.

14.5. AE suggested that transaction fees could be lowered if ESPF invested more in passive managers than active managers, even if that resulted in lower returns. MK said that active fund managers do not have a high amount of churn as they more often than not opt for long term equities, and the ESPF strategy is to opt for long term equities. Passive managers, on the other hand, have more churn because they are looking to replicate the performance of the markets.

14.6. SM asked for confirmation that the figures in appendix 1 – showing the value of each investment managers' portion of the ESPF – took account of the transaction costs. MK confirmed that the value of the fund was net of the cost of the transaction fees, and the fees paid to the investment managers did not include the transaction fees.

14.7. SM noted that the investment managers were being paid regardless of performance and asked if there was any value in a fee structure for investment managers that incentivised performance. The Chair observed that the idea of incentivised payments had been around for a long time but had not always been successful due to the fact that they encouraged investment managers to take unnecessary risks.

14.8. MK said that at the moment it was difficult to negotiate lower fees because investment managers operate on the principle that they won't provide lower fees than those that they provide to other LGPS. However, the ACCESS pooling group may have sufficient negotiating power to reduce fees in the future.

14.9. The Board RESOLVED to 1) note the report; and 2) request a report to be circulated by email providing a breakdown of the number of transactions investment managers make on a quarterly basis.

15 PROGRESS REPORT ON THE 2016 ACTUARIAL VALUATION

15.1. This item was introduced by OO.

15.2. OO said that the actuarial valuation timetable called for the submission of employer data, accounting data, and membership data to the actuary (Hymans Robertson) by 29 July 2016 and that both the employer and accounting data had been supplied. OO advised that this deadline would now slip due to the membership data and passed to Jason Bailey (JB) to update the Board. JB advised that the reason for the delay was the discovery of 13,000 validation queries regarding the membership data. JB said that the vast majority of the queries resulted from differences between the software suppliers (that supply the new universal data capture software used by LGPSs) and the actuarial firms regarding the data specification; this was a national issue affecting all LGPS funds as the triennial valuation is the same date for all funds (though some actuarial firms may take a slightly different approach to validation) and beyond Orbis Business Operation's control.

15.3. JB was confident that this discovery of the 13,000 validation queries was related to validation differences rather than incorrect data being held on the pensions data; and the queries were now being processed by Orbis Business Operations – with 8,000 already processed – prior to the submission to the actuary, so the quality of the data will be higher when it is submitted.

15.4. The Chair expressed concern that the difference in the data being asked for and being supplied had not been noticed during the testing period. He asked for confirmation that this would not come at a cost to the ESPF; JB said that it would not.

15.5. The Chair said that it was critical that this issue did not affect the availability of the draft employer results in time for the Employers' Forum on 18 November, as failure to reach this milestone would cause reputational damage to the administrative authority of the ESPF. Tony Watson (TW) added that this would affect the credibility of the ESPF. JB said that he was confident that the actuary's draft results would be available before then. Wendy Neller (WN) added that the actuary has advised that the delay in the submission of 'clean' membership data by up to three weeks will impact the agreed timescales for the delivery of the initial whole fund valuation results; this was scheduled to be issued during September, but is now expected to move to October. The time that the Fund has to discuss the results with the actuary in detail in relation to each employer will consequently be reduced. WN advised that delivery of membership data on a date later than 19 August 2016 will further impact the valuation timescales.

15.6. The Board RESOLVED to note the report.

16 LEGAL POSITION OF PENSION BOARDS

16.1 This item was introduced by the Chair.

16.2 The Chair explained that the opinion of James Goudie QC regarding the legal status of pension boards does not affect how the East Sussex Pension Board has been set up. However, a considerable number of other pension boards were exercising the functions of the pension committee, i.e., the management and administration of their pension fund; and were constituted as if they were local authority committees, i.e., the members of the boards were local authority elected members rather than scheme member and employer representatives.

16.3 The Board RESOLVED to note the report.

17a OFFICERS' REPORT - BUSINESS OPERATIONS

17a.1 This item was introduced by Brian Smith (BS) and JB.

17a.2 The Chair asked why the current result for the key performance indicator (KPI) "the number of estimates provided within the specified timescale of 7 days" had fallen. JB said that this was due to a 50% increase in the volume of LGPS requests in June. JB added that the KPI itself was more stringent than the industry average of 10-20 days, and the volume of requests for estimates was expected to fall as the self-service facility become available online later in the year.

17a.3 BS said the new KPIs were more customer focussed and more in line with the industry standard for other schemes, meaning that they were no longer targeted at 100% compliance. However, achieving them would still ensure that the pension fund administration service was one of the highest performing in the country. The first data would be available in November 2016.

17a.4 BR asked whether the new KPIs were in line with CIPFA standards. JB said that CIPFA does not publish nationally agreed KPIs and different pension funds tended to adopt different KPIs. There is, however, a reasonable consistency in some areas – for example, the timescales for the calculation of spouse's benefits within five days. JB said that it was questionable whether it was necessary to have a KPI target of 100% with a stringent timescale for items that had no material impact on members, and that this could lead to an increase in resourcing requirement.

17a.5 The Chair asked for assurance that the new KPIs had been set rationally and not low enough that they could be comfortably achieved each month. JB said that activity 10 and 11 – ‘Employer survey satisfaction’ and ‘Member survey satisfaction’ would give a clear indication of how the service was performing.

17a.6 AE asked whether the recruitment issues in the pension administration team had been resolved. JB said that they had been following the recruitment of four new graduates, and the team was now looking to recruit an apprentice through East Sussex County Council’s apprentice scheme.

17a.7 The Board RESOLVED to note the report.

17b OFFICERS' REPORT - GENERAL UPDATE

17b.1 This item was introduced by OO.

17b.2 OO added that the Government has informed ACCESS that it cannot form a joint committee as part of its operator structure and so must look at a Common Investment Vehicle (CIV) alternative. OO said ACCESS could either build its own CIV – which would require significant time and investment – or rent from two possible organisations currently being considered. OO said that the Chairs of ACCESS will meet to consider and agree the preferred option on 2 September 2016 with an expectation that it will be in place by April 2018. SM asked why only two organisations were being considered. OO understood that there were only two organisations with sufficient resources to accommodate a CIV for ACCESS, which will have in excess of £30bn of assets.

17b.3 The Chair asked when the Government would respond to the ACCESS proposal that was submitted on 15 July. OO said that the Government had indicated that feedback would take place at the end of September. The Chair was sceptical about this deadline given that the Government was on recess and would soon be embarking on the Conservative Party Conference, so there would be little time to analyse the submissions.

17b.4 KA asked why – in the letter to Marcus Jones MP – the ACCESS group expected to achieve savings only “eventually”. OO said that the savings projections were based on analysis by Hymans Robertson; he confirmed that ESPF was expected to benefit from these savings.

17b.5 KA expressed concern that there seemed to be no prospect of maintaining local decision making and accountability once the pension funds are pooled into ACCESS. KA said it was vital that Marcus Jones MP addresses this concern when he responds to the ACCESS Chair’s letter submitted alongside their proposals on 15 July 2016. The Chair observed that this issue had been raised previously and there had been little apparent sympathy. RS shared KA’s view and added that, in effect, the elected Pension Committee’s role would be handed over to an unelected organisation. AE added that local accountability was part of Unison’s campaign around pension fund pooling.

17b.6 The Board RESOLVED to 1) note the report; 2) request that a draft of the Pension Board’s annual report be circulated to the Board prior to its presentation at the Employers’ Forum

18 PENSION BOARD FORWARD PLAN 2016/17

18.1 This item was introduced by OO.

18.2 The Board RESOLVED to 1) note the report; and 2) request a future update on the progress of the actuary valuation at its November meeting.

19 ANY OTHER BUSINESS

19.1 There was none.

The meeting ended at 11.55 am.

Richard Harbord
Chair

East Sussex Pension Fund

Review of Investment Managers' Performance for Second Quarter of 2016

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Prepared By:

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For and on behalf of Hymans Robertson LLP
August 2016

Agenda Item 7

Hymans Robertson LLP

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.

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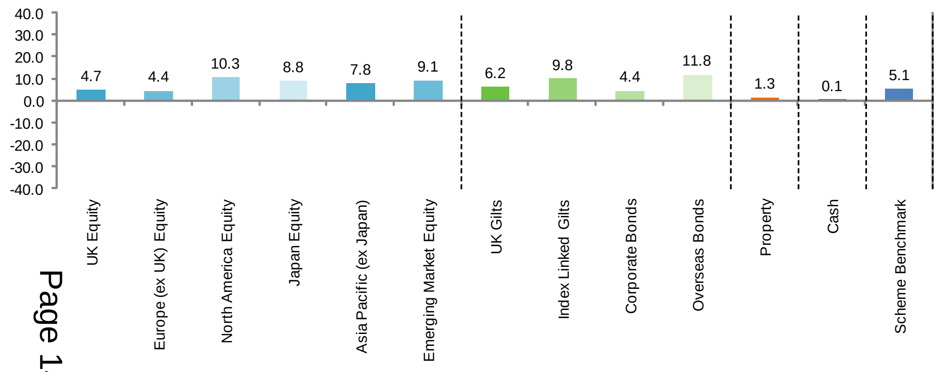
Hymans Robertson LLP

Historic Returns for World Market to 30 June 2016

Historic Returns - Chart 1 [1] [i]

3 Months (%)



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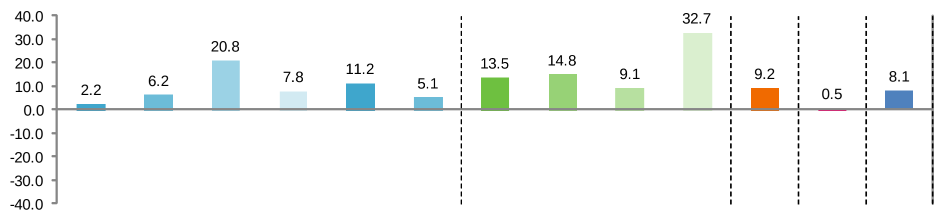
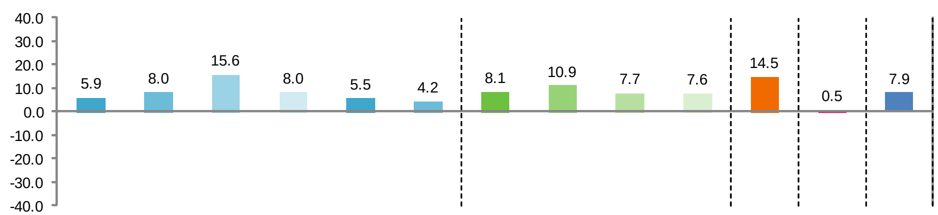
12 Months (%)



3 Years (% p.a.)



Comment

Economic data and business surveys suggested that global growth held up reasonably well in Q2. Oil prices continued to rebound from the lows of December 2015, with Brent Crude rising $10 over the quarter to finish June at just under $50 a barrel. However, the economic outlook was clouded by the UK's surprise vote to "Leave" the EU. The immediate response of forecasters was to revise down GDP growth expectations, particularly in the UK, where the consensus forecasts suggest next to no growth next year. The most significant market response to the vote was a collapse in sterling, which fell almost 10% in trade-weighted terms in two days.

In response, Governor Carney of the Bank of England shares the market's gloom about the short-term economic outlook for the UK and suggested that interest rates would be cut over the summer. Elsewhere, major central banks held firm on their monetary policies over the quarter. In April, the Federal Reserve voted to maintain interest rates at 0.5%, despite indicators suggesting an improving US labour market, and the Bank of Japan surprised markets by not adding to the current quantitative easing programme.

Global equity markets inched higher over the quarter, recovering quickly from an initial downturn after the referendum vote. In local currency terms the FTSE All-World Index rose 0.5%; the total return in sterling terms was 8.8%. In the UK, the relatively strong performance of the FTSE All Share reflected the substantial proportion of earnings that are generated overseas among the leading companies.

Key events during the quarter included:

· The "Leave" vote in the EU referendum and subsequent political fallout caught investors by surprise.

· Governor Carney hinted at possible cuts to UK interest rates over the summer. Interest rates were cut by 0.25% on 4 August.

· Oil prices continued to rebound from the lows of December 2015, with Brent Crude finishing June at almost $50 a barrel.

· Precious metals continued their strong start to 2016, benefitting from the threat of interest rates staying "lower for longer" and wider global economic concerns.

Equities

· The strongest sectors relative to the FTSE All World Index were Oil & Gas (+8.0%) and Healthcare (+4.8%); the weakest were Technology (-3.4%) and Financials (-2.7%).

· In local currency terms, the UK was the strongest performer during the quarter; while Japan was again the weakest.

Bonds and currencies

· UK gilts yields fell (prices rose) as demand for safe haven assets soared in the wake of the "Brexit" vote. US treasury and German Bund yields also fell, but lagged the rally in UK gilts.

· Sterling credit spreads widened a little over the quarter as an upward spike in the last week unwound earlier tightening.

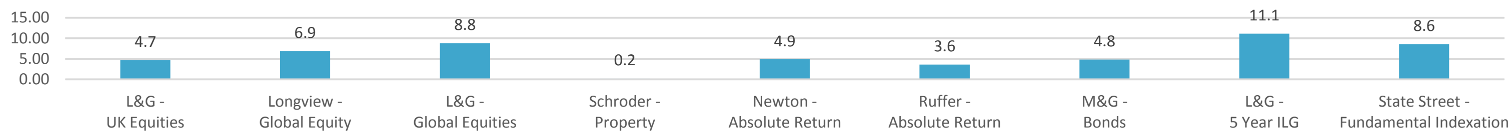
· Sterling depreciated sharply in the week following the referendum after what had been a period of relative stability. The Yen was the strongest of the major currencies.

[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.

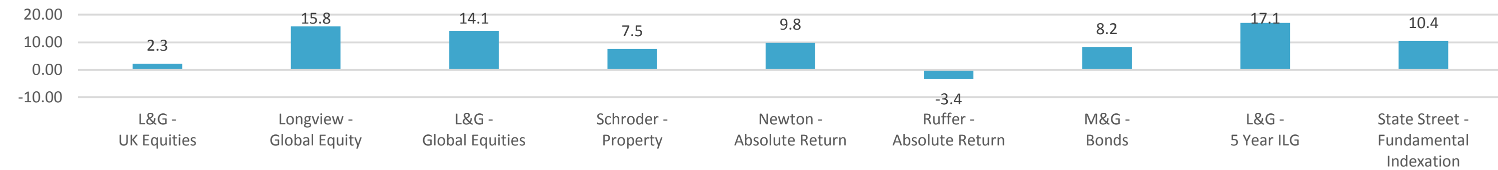
Source: [i] DataStream, Fund Manager, Investment Property Databank Limited

Summary of mandate absolute performance to 30 June 2016

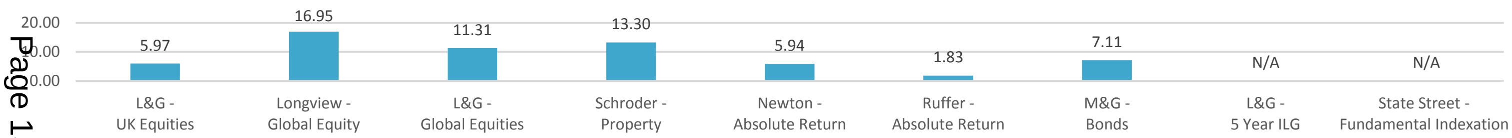
3 Month Absolute Performance (%)



12 Month Absolute Performance (%)



3 Year Absolute Performance (%)



Comments

This is a new page to your report. It sets out the absolute returns of each of the Fund's mandates over 3 month, 12 month and 3 year periods. It aims to give an indication of the role that each mandate has in the Fund's investment structure (i.e. typically to either generate growth, provide diversification or to give some protection) and how well the mandate has performed this role over the time periods shown.

Growth (Equities)
Over the long term, high absolute returns are expected to be achieved on the Fund's growth assets, albeit that the volatility of these mandates is therefore relatively large. Over each of the time periods show, the Fund's equities have achieved this performance objective, generating strong absolute returns.

Diversification/Income oriented (Property/Absolute Return)
The Fund's property has generated strong returns and good diversification over the past 1 and 3 years. Over the quarter, performance was behind other asset classes, reflecting much of the uncertainty following the EU referendum. The Fund's absolute return mandates have, on aggregate, generated growth for the Fund, but performance has been mixed between the managers.

Protection (bonds)
The Fund's bonds have performed strongly over the time periods shown, reflecting the fall in yields over recent years. These bonds have provided liquidity in times of market stress and have partially helped protect the increase in value placed on the Fund's liabilities.

Fund Asset Allocation and Performance

Valuation Summary

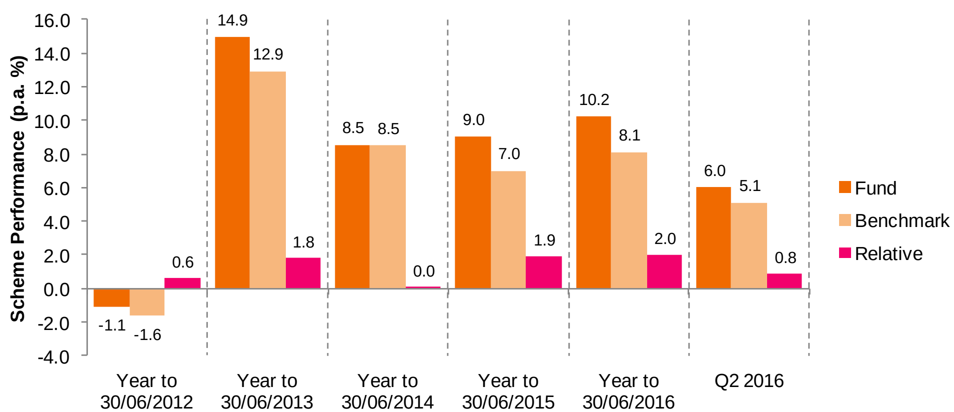
Asset Class	Value (£m) Q1 2016	Value (£m) Q2 2016	Actual Proportion %	Target Proportion %	Re-balancing range %	Difference
Global Equity	1079.3	1169.5	39.8	38.0	45.0 - 55.0	1.8
UK Equity	261.2	273.5	9.3	12.0		-2.7
Fixed Interest	112.5	120.3	4.1	3.5	2.5 - 4.5	0.6
Index-Linked Gilts	147.3	163.7	5.6	5.0	4.0 - 6.0	0.6
Property	332.0	330.9	11.3	10.0	7.0 - 13.0	1.3
Infrastructure	49.5	51.0	1.7	2.0	0.0 - 4.0	-0.3
Private Equity	167.9	180.2	6.1	5.5	3.5 - 7.5	0.6
Absolute Return Funds	493.9	514.0	17.5	20.0	17.0 - 23.0	-2.5
Cash	55.6	58.2	2.0	0.0	-2.0 - 2.0	2.0
UK Financing Fund	8.5	8.6	0.3	1.0	0.0 - 2.0	-0.7
Absolute Return Bonds	67.4	68.1	2.3	3.0	2.0 - 4.0	-0.7
Total Current	**2775.1**	**2938.1**	**100.0**	**100.0**		

Fund performance [1]

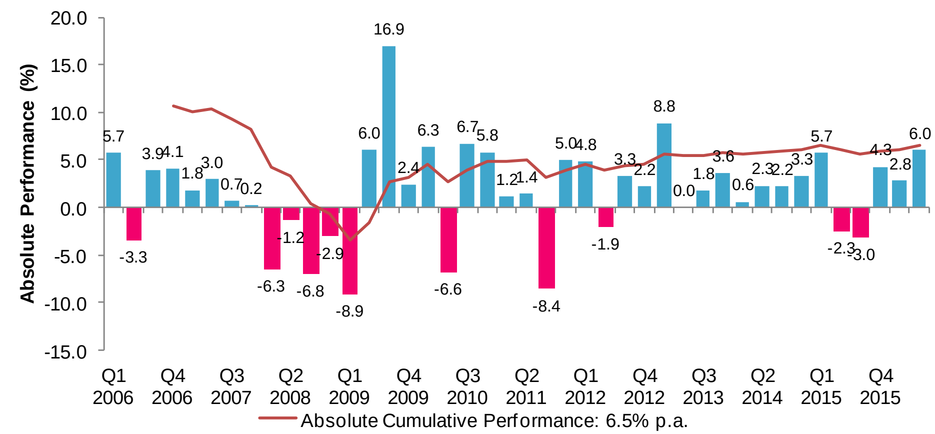
The Fund outperformed the aggregate benchmark during the second quarter of 2016, returning 6.0% in absolute terms. Over the 12 month period the Fund delivered a positive absolute return of 10.2% ahead of benchmark by 2.0%.

At a manager level, Newton and Ruffer's Absolute Return funds outperformed over the quarter whilst Longview's Global Equity mandate detracted from overall relative returns.

Performance Summary [i]



Absolute Quarterly and Absolute Cumulative Performance [ii]



[1] 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					●
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

Summary Comment

There were no changes to manager ratings over the second quarter of 2016. We will continue to monitor developments closely.

The Fund continues to be underweight to UK Equities and both the absolute return funds. Property, Global Equity and cash are overweight.

Performance versus WM Local Authorities [2] [i]

	3 months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	2.8	1.6	7.4	7.3
WM average Local Authority	2.2	0.6	6.6	7.1
Relative	0.6	1.0	0.8	0.2

[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 31 March 2016.

Source: [i] WM/State Street

Manager Structure

Manager Valuations [1]

Manager	Value (£m) Q1 2016	Value (£m) Q2 2016	Actual Proportion %	Target Proportion %	Difference %
L&G - Global Equities	414.9	451.4	15.4	15.5	-0.1
Longview - Global Equity	180.9	193.2	6.6	5.0	1.6
State Street - Fundamental Indexation	483.5	525.0	17.9	17.5	0.4
L&G - UK Equities	261.2	273.5	9.3	12.0	-2.7
Newton - Absolute Return	253.6	264.5	9.0	10.0	-1.0
Ruffer - Absolute Return	240.3	249.5	8.5	10.0	-1.5
L&G - 5yr ILG	147.3	163.7	5.6	5.0	0.6
M&G - Bonds	180.0	188.4	6.4	6.5	-0.1
Schroder - Property	333.3	331.8	11.3	10.0	1.3
M&G - Infrastructure Fund	28.7	28.6	1.0	1.0	-0.0
UBS - Infrastructure	20.7	22.5	0.8	1.0	-0.2
Adams Street - Private Equity	88.6	94.4	3.2	2.8	0.5
HarbourVest - Private Equity	79.3	85.9	2.9	2.8	0.2
M&G - UK Financing Fund	8.5	8.6	0.3	1.0	-0.7
Cash account	54.3	57.3	1.9	0.0	1.9
Total	**2775.1**	**2938.1**	**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]

Period	Measure	L&G - 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	8.8	6.9	8.6	4.7	4.9	3.6	11.1	4.8	0.2	6.0
	Benchmark	8.7	8.6	8.6	4.7	0.1	0.1	11.1	4.0	0.1	5.1
	Relative	0.1	-1.5	0.0	0.0	4.8	3.5	0.0	0.8	0.1	0.8
12 Months (%)	Absolute	14.1	15.8	10.4	2.3	9.8	-3.4	17.0	8.2	7.5	10.2
	Benchmark	13.8	13.3	10.3	2.2	0.5	0.5	17.0	7.7	7.2	8.1
	Relative	0.2	2.3	0.1	0.1	9.2	-3.9	0.0	0.5	0.4	2.0
3 Years (% p.a.)	Absolute	11.3	17.0	8.0	6.0	5.9	1.8	9.9	7.1	13.3	9.3
	Benchmark	11.2	10.6	8.0	5.9	0.5	0.5	9.9	5.4	12.5	7.9
	Relative	0.1	5.8	0.0	0.1	5.4	1.3	0.0	1.6	0.7	1.3
10 Years (% p.a.)	Absolute	9.9	17.7	N/A	5.1	5.8	5.0	N/A	6.5	9.0	6.6
	Benchmark	9.9	10.0	N/A	4.9	0.6	0.6	N/A	4.8	8.6	5.9
	Relative	0.1	7.0	N/A	0.2	5.2	4.4	N/A	1.6	0.4	0.7

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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. Total fund performance was provided by WM until 31 March 2016, including private market returns. Thereafter, total fund performance is calculated excluding private market investments.

Source: [i] DataStream, Hymans Robertson

Performance Summary (net of fees)

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

		L&G - 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	8.8	6.8	8.6	4.7	4.8	3.4	11.0	4.7	0.1	5.9
	Benchmark	8.7	8.6	8.6	4.7	0.1	0.1	11.1	4.0	0.1	5.1
	Relative	0.1	-1.7	0.0	0.0	4.6	3.3	-0.1	0.7	0.0	0.8
12 Months (%)	Absolute	13.9	15.1	10.4	2.2	9.2	-4.2	16.7	7.8	7.3	9.9
	Benchmark	13.8	13.3	10.3	2.2	0.5	0.5	17.0	7.7	7.2	8.1
	Relative	0.1	1.6	0.0	0.0	8.6	-4.7	-0.3	0.1	0.1	1.6
3 Years (% p.a.)	Absolute	11.2	16.2	7.9	5.9	5.3	1.0	9.6	6.7	13.1	8.9
	Benchmark	11.2	10.6	8.0	5.9	0.5	0.5	9.9	5.4	12.5	7.9
	Relative	0.0	5.1	-0.1	0.1	4.8	0.5	-0.3	1.3	0.5	0.9
10 Years (% p.a.)	Absolute	9.8	17.0	N/A	5.0	5.2	4.2	N/A	6.3	8.8	6.4
	Benchmark	9.9	10.0	N/A	4.9	0.6	0.6	N/A	4.8	8.6	5.9
	Relative	0.0	6.4	N/A	0.1	4.6	3.6	N/A	1.5	0.2	0.5

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[1] We have estimated net returns based on each manager's expected fee levels. The table shows since inception returns in place of three year and ten year performance for some of the managers, if the mandate has been in place for a shorter period. Total fund performance was provided by WM until 31 March 2016, including private market returns. Thereafter, total fund performance is calculated excluding private market investments.

Source: [i] Fund Manager, Hymans Robertson

Legal and General - UK and Global Equities

HR View Comment & Rating

LGIM announced in June that Michael Marks will become its new Chief Operating Officer (COO), replacing Simon Thompson. Marks joins from BlackRock, where he spent 28 years, most recently as its Co-Head of Client Solutions.

We continue to rate LGIM '5 - Preferred Manager' for passive equities.

L&G UK Fund Performance [i]

	3 months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	4.7	2.3	6.0	5.1
Benchmark	4.7	2.2	5.9	4.9
Relative	0.0	0.0	0.1	0.2

* Inception date 21 November 2007

Performance Attribution Comment

Both the Legal and General Global and UK equity mandates performed broadly in line with their benchmarks over the first quarter of 2016, as expected from passive mandates.

The UK equity fund delivered a positive absolute return of 4.7%, and long term fund performance remains positive and broadly in line with the benchmark at both 12 months, 3 years and since the mandate's inception. UK equities continue to lag Global markets.

The Global equity fund delivered a positive absolute return of 8.8%, slightly ahead of the benchmark. Over all longer periods considered, fund performance remains positive and broadly in line with the FTSE All World Index.

L&G Global Fund Performance [ii]

	3 months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	8.8	14.1	11.3	10.0
Benchmark	8.7	13.8	11.2	9.9
Relative	0.1	0.2	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

LGIM announced in June that Michael Marks will become its new Chief Operating Officer (COO), replacing Simon Thompson. Marks joins from BlackRock, where he spent 28 years, most recently as its Co-Head of Client Solutions.

We continue to rate LGIM '5 - Preferred Manager' for passive fixed income.

Performance Summary - Table [i]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	11.1	17.0	9.9
Benchmark	11.1	17.0	9.9
Relative	-0.0	0.0	0.0

* Inception date 11 Mar 2015.

Performance Attribution Comment

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

The fund delivered a positive absolute return of 11.1% over the quarter. Significant volatility in equity markets due to the EU referendum drove investors to favour the defensive qualities of government bonds, causing yields to fall and prices to rise.

Source: [i] DataStream, Hymans Robertson

State Street - Fundamental Indexation

HR View Comment & Rating

State Street announced in July that it had completed its acquisition of GE Asset Management, which demonstrates State Street's ambitions to grow its active management business. However we do not expect this to have any effect on its large passive management business and therefore we have no concerns over this deal. In addition, Lorenzo Garcia has joined the passive team from BlackRock as Head of Institutional and Retail Portfolio Management.

We continue to rate the manager '5 - Preferred Manager'.

Performance Summary - Table

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	8.6	10.4	8.0
Benchmark	8.6	10.3	8.0
Relative	0.0	0.1	-0.0

* Inception date 06 Aug 2013.

Performance Attribution Comment

Over the quarter, State Street's Fundamental Indexation Fund performed marginally ahead of its benchmark returning a positive absolute value of 8.6%. The fund remains in line with the benchmark over the longer term.

RAFI performed broadly in line with market cap-weighted global equities within the RAFI index. Overweights to Oil and Gas and the UK, Canada and Brazil were positive contributors, but were off-set by underweights to Financials, Healthcare and Consumer Goods relative to the market cap index.

Longview - Global Equity

HR View Comment & Rating

There were no significant changes to report over the quarter to 30 June 2016.

We continue to rate the manager '5 - Preferred Manager' for global equity.

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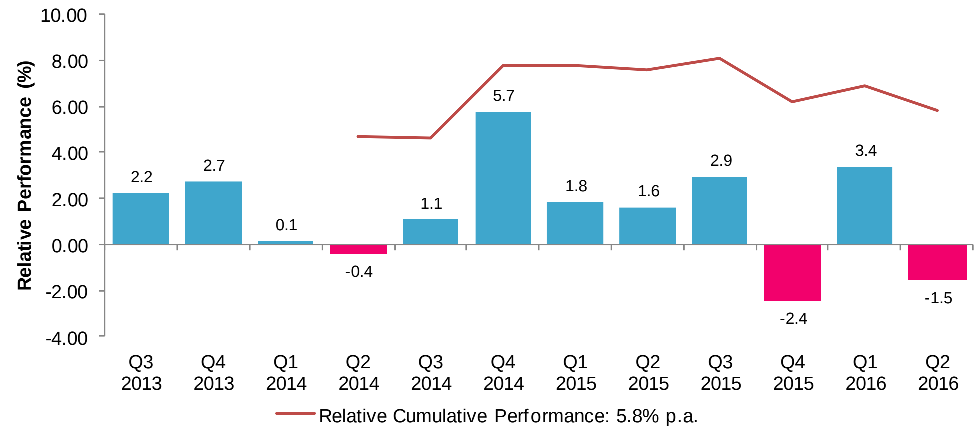
Relative Quarterly and Relative Cumulative Performance [i]



Performance Attribution Comment

Longview's Global Equity fund returned 6.9% over the quarter, underperforming the benchmark by -1.5%. The fund remains ahead of the benchmark over all longer time periods.

Sector allocation was the biggest detractor to overall performance with a zero allocation to the Energy sector proving detrimental as oil prices stabilised. At stock level Delphi Automotive and Continental detracted from returns. Many automotive companies saw share prices fall due to fears that the EU referendum may negatively impact car sales within Europe. Fears of a slowing UK economy due to the EU referendum impacted UK dependent business' with the portfolio's holding in Lloyds also detracting from relative performance. Two thirds of Lloyds business is focused on UK mortgages.

Exposure to US pharmaceutical company Pfizer was the highest individual contributor as the share price rose following news that the planned merger with Allergen was no longer taking place. Compass group also outperformed as they benefited from the weakness in Sterling relative to global currencies. Stock selection within the IT and Healthcare sectors also contributed to relative performance.

Despite the market volatility following the EU Referendum, Longview remain confident that uncertainty should subside and earnings growth should improve. Uncertainty and volatility helps generate more stock-specific investment opportunities for the manager and Longview continue to find interesting stocks to invest in.

Performance Summary to 30 June 2016 [ii]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	6.9	15.8	17.7
Benchmark	8.6	13.3	10.0
Relative	-1.5	2.3	7.0

* Inception date 16 Apr 2013.

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

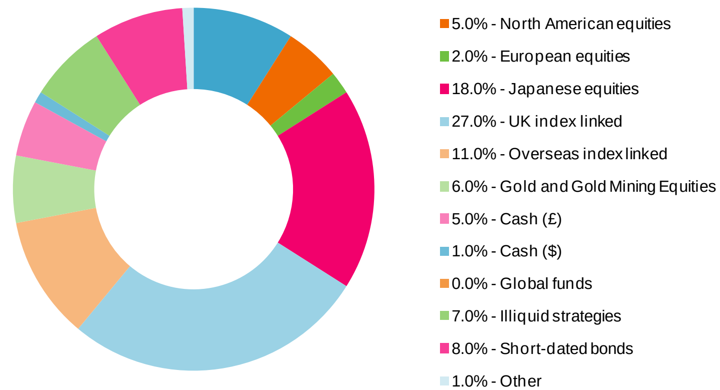
Ruffer - Absolute Return

HR View Comment & Rating

There were no significant business changes over the quarter.

We continue to rate Ruffer '5 - Preferred Manager'.

Asset Allocation



Performance Attribution Comment

Ruffer's Absolute Return Fund returned 3.6% over the quarter, comfortably ahead of its benchmark. Over the 12 month period, the Fund underperformed but continues to outperform over all longer periods considered.

The fund has a significant allocation to index-linked bonds, both in the UK and abroad, and this was the largest positive contributor to returns over the quarter as the EU Referendum outcome and continued concerns over global economic growth prospects led to a significant fall in yields, driving prices upwards. The uncertainty surrounding the vote also benefited the Fund's gold allocations (6% of the Fund) where prices rose as investors sought a 'safe haven' from riskier assets such as equities.

Outperformance was partially offset by the fund's allocation to Japanese equities, largely its bank and insurance company holdings which were already weak due to the fiscal and monetary problems faced by the government and questions over their ability to support the financial system. Financial stocks also had a negative impact on performance as the reduced likelihood of interest rate rises affected banks and insurance companies.

Performance Summary to 30 June 2016 [i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	3.6	-3.4	1.8	5.0
Benchmark	0.1	0.5	0.5	0.6
Relative	3.5	-3.9	1.3	4.4

* Inception date 06 May 2010.

Source: [i] DataStream, Hymans Robertson

Newton - Absolute Return

HR View Comment & Rating

During the quarter Newton announced that Peter Hensman had transferred into the Real Return team from the Global Research Team. Hensman's role is to support Iain Stewart in providing the macroeconomic inputs into the strategy, a role that was previously held by James Harries who left the firm late last year.

We continue to rate Newton '5 - Preferred Manager'.

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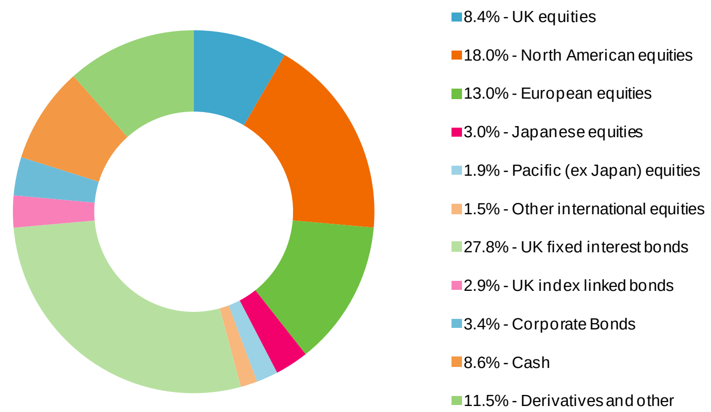
Asset Allocation [1] [i]



Performance Attribution Comment

The fund generated an absolute return of 4.9% over the second quarter of 2016, outperforming its benchmark. Over the longer term, the fund continues to outperform.

Equity markets throughout the world fell and then steadied over the quarter due to uncertainty surrounding the EU Referendum. Sterling plummeted by 10% against most major currencies reaching its lowest level in 30 years against the US Dollar and 10-year gilt yields fell to record lows, driving prices upwards, as they became a "safe haven".

The fund's return seeking portfolio continues to outperform broad global equities over the year to date. The fund's selective approach to equities has proved beneficial with strong performance from consumer goods/services and utilities. The fund's allocation to alternatives (infrastructure, convertible bonds and renewable-energy assets) also provided a positive contribution to performance. Gold has continued to play a vital role in the fund's strategy and was up 15% over the quarter.

The manager sold the last of the fund's Financial holdings, the Israeli Bank Hapoalim despite the bank displaying solid growth. Newton believes that emerging market-focused businesses should be avoided given the global backdrop.

Performance Summary to 30 June 2016 [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	4.9	9.8	5.9	5.8
Benchmark	0.1	0.5	0.5	0.6
Relative	4.8	9.2	5.4	5.2

* Inception date 06 May 2010.

[1] The Fund maintains a high level of derivatives protection. On a notional basis, 25% of the Fund's equity positions are protected.

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

M&G - Bonds

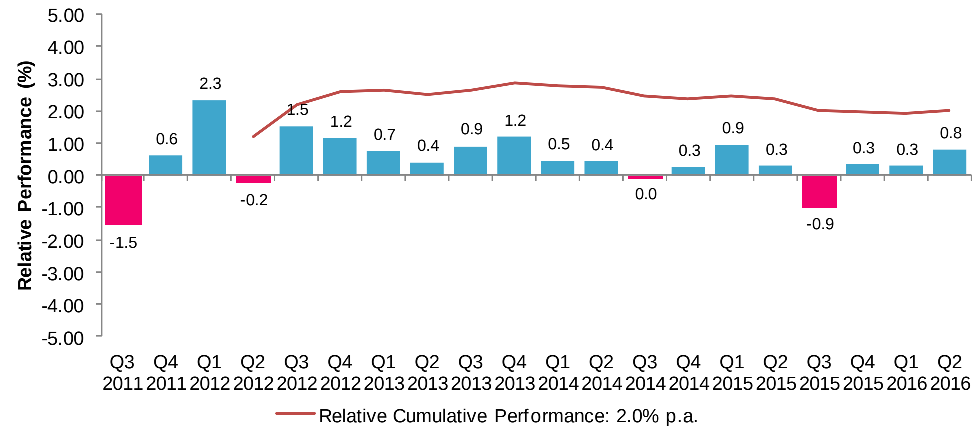
HR View Comment & Rating

Rating				
Replace		On Watch		Retain ●

There were no significant changes to report in the quarter to end June 2016.

We continue to rate M&G '5 - Preferred Manager' for fixed income.

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 for the Fund. We have therefore provided performance estimates based on the sizes of the allocation to each. The current allocation of the M&G bond mandate is c.60% to the traditional portfolio and c.40% to the Alpha Opportunities fund.

During the second quarter of 2016, the Alpha Opportunities fund returned 1.2%, outperforming its cash benchmark by 1.0%. The Corporate Bond fund also delivered positive returns and outperformed its benchmark by 0.6%.

Corporate bonds performed strongly over the quarter, supported by the rebounding commodity sector and positive decisions from central banks. The European Central Bank announced plans of a corporate bond buying programme in April which was a welcome surprise for investors. Following the EU referendum vote in June, yields have fallen on the whole, driving prices upwards.

Aggregate performance of the two funds was positive and outperformed the aggregate benchmark by 0.8%. The aggregate performance remains comfortably ahead of benchmark over all longer periods considered.

Performance Summary to 30 June 2016 [1] [i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	4.8	8.2	7.1	7.3
Benchmark	4.0	7.7	5.4	5.2
Relative	0.8	0.5	1.6	2.0

[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]

Period	Measure	UK Corporates	Alpha Opportunities Fund	Total
3 Months (%)	Absolute	7.0	1.2	4.8
	Benchmark	6.3	0.1	4.0
	Relative	0.6	1.0	0.8
12 Months (%)	Absolute	12.7	1.2	8.2
	Benchmark	12.2	0.5	7.7
	Relative	0.4	0.6	0.5
3 Years (% p.a.)	Absolute	9.8	2.9	7.1
	Benchmark	9.3	0.5	5.4
	Relative	0.5	2.4	1.6
5 Years (% p.a.)	Absolute	9.8	3.7	7.3
	Benchmark	9.1	0.5	5.2
	Relative	0.6	3.1	2.0

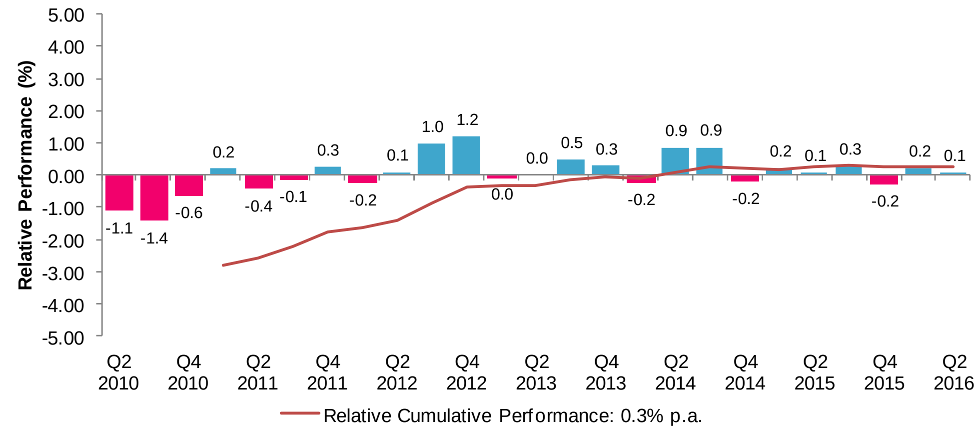
Source: [i] DataStream, Hymans Robertson

Schroders - Property

HR View Comment & Rating

Schroder RECaP is a business that experienced considerable personnel change during the second half of 2015, with four departures from the team of six. This resulted in a change in our rating to '3 - On Watch' in August 2015. A further risk, that we have raised with you and the manager previously, relates to LGPS pooling. Two thirds of the RECaP's assets under management are managed on behalf of Local Government Pension Scheme. There is considerable uncertainty as to what, if any, demand there will be for fund of fund property managers (and therefore RECaP's business) in a post-pooling world. We continue to monitor them with a rating of '3 - On Watch'.

Relative Quarterly and Relative Cumulative Performance



Performance Attribution Comment

The property portfolio returned 0.2% over the quarter, ahead of the IPD benchmark by 0.1%. The fund remains ahead of the benchmark over all longer periods considered.

Exposure to multi-let industrials, the strongest performing sector, through the allocation to the Industrial Property Investment Fund boosted the portfolio's performance. In addition, the Lothbury Property Trust and the West End of London Property Unit Trust contributed positively to performance. Following the result of the EU Referendum, property valuations are being caveated by valuers in light of the short-term uncertainty, suggesting they are a less reliable indicator of the price that could be achieved. The caveats are expected to remain in place for at least a few months. The benchmark is a peer group index and some property funds, including 2 of the underlying funds: Standard Life Pooled Property Fund (PPF) & L&G Managed Property Fund (MPF), have introduced a downward "fair value adjustment" (FVA) to reflect this uncertainty. Both funds made a -5% adjustment to their respective Net Asset Values at the end of June, which impacted performance of both the portfolio and the peer group benchmark index. A further -5% (totalling FVA of 10%) was implemented by L&G after the quarter end and then amended back to -7.5% in total before the end of July; unless it is removed before the end of September this additional 2.5% will hurt performance in Q3. As a result, both of these funds were the largest negative contributors to relative performance.

The Aviva property fund also received a large amount of redemptions, which impacted the liquidity of the fund. This has resulted in Aviva suspending dealing and deferring redemption requests on the fund until properties can be sold and the amount of cash held in the Trust increases.

Performance Summary to 30 June 2016 [i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	0.2	7.5	13.3	9.0
Benchmark	0.1	7.2	12.5	8.6
Relative	0.1	0.4	0.7	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	1.8	-	-	-	-	-	-	-	-	100.0	0.0
UK Equity	12.0	-2.7	-	-	-	-	-	-	-	-	-	-
Fixed Interest	3.5	0.6	-	-	-	-	-	-	-	-	-	-
Index-Linked Gilts	5.0	0.6	-	-	-	-	-	-	100.0	0.0	-	-
UK Property	10.0	1.3	-	-	-	-	-	-	-	-	-	-
Infrastructure	2.0	-0.3	-	-	-	-	-	-	-	-	-	-
Private Equity	5.5	0.6	100.0	0.0	-	-	100.0	0.0	-	-	-	-
Absolute Return Funds	20.0	-2.5	-	-	-	-	-	-	-	-	-	-
Cash	0.0	2.0	-	-	100.0	0.0	-	-	-	-	-	-
UK Financing Fund	1.0	-0.7	-	-	-	-	-	-	-	-	-	-
Absolute Return Bonds	3.0	-0.7	-	-	-	-	-	-	-	-	-	-
Proportion of Total Assets	**-**	-	**2.8**	0.5	**0.0**	1.9	**2.8**	0.2	**5.0**	0.6	**15.5**	-0.1

Summary of Benchmarks (Cont.)

Summary of Benchmarks

	L&G - UK Equities		Longview - Global Equity		M&G - Bonds		M&G - Infrastructure Fund		M&G - UK Financing Fund		Newton - Absolute Return	
	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %
Global Equity	-	-	100.0	0.0	-	-	-	-	-	-	-	-
UK Equity	100.0	0.0	-	-	-	-	-	-	-	-	-	-
Fixed Interest	-	-	-	-	62.6	1.3	-	-	-	-	-	-
Index-Linked Gilts	-	-	-	-	-	-	-	-	-	-	-	-
UK Property	-	-	-	-	-	-	-	-	-	-	-	-
Infrastructure	-	-	-	-	-	-	100.0	0.0	-	-	-	-
Private Equity	-	-	-	-	-	-	-	-	-	-	-	-
Absolute Return Funds	-	-	-	-	-	-	-	-	-	-	100.0	0.0
Cash	-	-	-	-	-	-	-	-	-	-	-	-
UK Financing Fund	-	-	-	-	-	-	-	-	100.0	0.0	-	-
Absolute Return Bonds	-	-	-	-	37.5	-1.3	-	-	-	-	-	-
Proportion of Total Assets	**12.0**	-2.7	**5.0**	1.6	**6.5**	-0.1	**1.0**	0.0	**1.0**	-0.7	**10.0**	-1.0

Summary of Benchmarks (Cont.)

Summary of Benchmarks

	Ruffer - Absolute Return		Schroder - Property		State Street - Fundamental Indexation		UBS - Infrastructure	
	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	-0.3	-	-	-	-
Infrastructure	-	-	-	-	-	-	100.0	0.0
Private Equity	-	-	-	-	-	-	-	-
Absolute Return Funds	100.0	0.0	-	-	-	-	-	-
Cash	-	-	0.0	0.3	-	-	-	-
UK Financing Fund	-	-	-	-	-	-	-	-
Absolute Return Bonds	-	-	-	-	-	-	-	-
Proportion of Total Assets	**10.0**	-1.5	**10.0**	1.3	**17.5**	0.4	**1.0**	-0.2

Benchmarks Summary Comment

The main points to note from this table are:

The L&G global equity mandate is benchmarked against the FTSE All World Index. Longview is benchmarked against a similar index (the MSCI All Countries). The FTSE All World Index covers around 2800 global firms, with a large or mid size market capitalisation and constitutes around 90%-95% of the world's investible markets. The index focuses on around 45 different countries, including 24 in the so called developed markets, and 21 in the emerging markets. The approximate allocations of the index to the regional stock markets is as follows: 7% UK, 55% US, 15% Europe, 6% Asia (ex Japan), 8% Japan and 9% emerging markets.

M&G does not allocate between the corporate bonds and the absolute return bonds which it manages. The target shown is an assumed target based on the size of the initial allocation of the Fund made to the M&G Alpha Opportunities fund (absolute return bonds).

Performance Calculation Explanation

Geometric vs Arithmetic Performance

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

((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.

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Investment beliefs

Introduction

This paper is addressed to the Pensions Committee ("the Committee") of the East Sussex Pension Fund ("the Fund"). It discusses investment beliefs and follows on from initial discussions that took place at the Annual Strategy day in July. This paper should not be released or otherwise disclosed to a third party except as required by law or with our prior written consent, in which case it should be released in its entirety. We accept no liability to any third party unless we have expressly accepted such liability in writing.

Background

Good governance

A number of studies have been carried out to help define what makes a good pension fund. Many of these studies have cited clarity of objectives, focus on investment strategy and understanding and managing key risks as being core attributes – all of which we agree with. However, one other feature often cited, but often overlooked by decision makers, is having a well-defined set of investment beliefs in place.

Investment beliefs

Beliefs are, by definition, unique to each pension committee or trustee body. They reflect the way in which committees (explicitly or implicitly) translate a fund's objectives into its actual investment arrangements. For example, you can have two funds, with broadly similar characteristics and objectives, but very different investment arrangements e.g. the extent of their use of diversification, active and passive management, regional equity exposures, approach to environmental, social and governance matters etc. all because the committees' beliefs are very different.

Having a well-defined set of investment beliefs offers a number of advantages, including:

1. **Clarity of why each mandate is held and the role it performs in the Fund's arrangements** – this clarity is of benefit to committees and the underlying members. It also offers a basis for framing external communication on investment strategy which is of particular relevance where decisions are subject to public scrutiny.

2. **Prioritisation** - having identified which investment decisions are most important, advice can be sought and meetings scheduled around these key priorities.

3. **Long-term thinking** - having a set of stated beliefs, committees are better able to avoid being unduly influenced by short-term market noise and "fads".

4. **Consistency, both of advice and decision-making** – meaning all decisions are reached using the same consistent framework.

5. **Continuity of derstanding in decision-making** – having a decision making framework based on a set of beliefs allows decisions to be contextualised which is particularly valuable if there is regular turnover of committee members, i.e. the committee may not "own" the decision on a certain element of the investment strategy, but as they own the framework, they can better understand why the decision was taken.

There is no right answer when it comes to setting beliefs, with each scheme's beliefs being unique, depending on their specific circumstances and their trustees' views. A scheme's beliefs should be revisited on a regular basis to ensure they remain appropriate. It is also important that these beliefs are reflected in the underlying portfolio of assets and in the scheme's ways of working. In the remainder of this paper we discuss what we believe are the Fund's investment beliefs.

Fund specific

At the July meeting, we introduced the concept of investment beliefs to the Committee. Taking on board some of the initial comments from that meeting, we have prepared a draft set of investment beliefs based on our experience of working with you and the nature of the Fund's underlying investments. These are set out below:

Draft beliefs

Belief: Clear and well defined objectives are essential to achieve future success

The Committee is aware that there is a need to generate a sufficient level of return from the Fund's assets, while at the same time having a clear understanding of the potential risks and ensuring there is sufficient liquidity available to pay members' benefits as they fall due.

Belief: Strategic asset allocation is a key determinant of risk and return, and thus is typically more important than manager or stock selection

The Committee understands that having the appropriate strategy in place is a key driver of the Fund's future success. As a result, priority is given to more strategic investment matters.

Belief: Funding and investment strategy are linked

The Committee understands that a number of funding related aspects feed into investment strategy decisions, including maturity, sponsor covenant and level of required return. Given this, actuarial and investment matters, most notably setting investment strategy, are looked at in tandem by the Committee.

Belief: Long term investing provides opportunities for enhancing returns

The Committee believes that investors with long term time horizons are typically less constrained by liquidity requirements and able to better withstand periods of price volatility. As a long term investor, the Fund may choose to gain additional compensation by investing in assets that are illiquid (e.g. property, infrastructure and private equity) or may be subject to higher levels of volatility (a premium return is required for any such investments). Having this long-term focus also helps the Fund tolerate periods of active manager underperformance when the manager's investment style is out of favour with the market.

Belief: Equities are expected to generate superior long term returns

The Committee believes that, over the longer term, equities are expected to outperform other liquid assets, in particular government bonds. The Committee is therefore comfortable that the Fund maintains a significant allocation to equities in order to support the affordability of contributions..

Belief: Alternative asset class investments provide diversification

The Committee believes that diversification across asset classes can help reduce the volatility of the Fund's overall asset value and improve its risk-return characteristics. The Committee believes that investing across a range of asset classes (including, but not restricted to, equities, bonds, absolute return funds, infrastructure and property) will provide the Fund with diversification benefits.

Belief: Fees and costs matter

The Committee recognises that fees and costs reduce the Fund's investment returns. The Committee considers the fees and costs of its investment arrangements to ensure the Fund is getting value for money and to minimise, as far as possible, any cost leakages from its investment process.

Beliefs: Rebalancing can add value

Academic studies show that regular rebalancing can help add value over the long-term. As a result, the Fund has put in place agreed tolerance ranges for their liquid assets, with the intention that assets will be rebalanced, at least towards target, should these ranges be breached.

Belief: Active management can add value but is not guaranteed
The Committee recognises that certain asset classes can only be accessed via active management. The Committee also recognises that active managers may be able to generate higher returns for the Fund (net of fees), or similar returns but at lower volatility, than equivalent passive exposure. The Committee will aim to minimise excessive turnover in its active managers. By carefully selecting and monitoring active managers and recognising that periods of underperformance will arise, the Committee seeks to minimise the additional risk from active management, and continue to monitor active managers to ensure their mandates remain appropriate for the Fund.

Belief: Passive management has a role to play in the Fund's structure
The Committee recognises that passive management allows the Fund to access certain asset classes (e.g. equities) on a low cost basis and when combined with active management can help reduce the relative volatility of the Fund's performance.

Belief: Choice of benchmark index matters
The Committee recognises that, for each asset class, there is a range of benchmark indices that they could use. As a result, the Committee focus on the benchmark's underlying characteristics and consider how they may be appropriate for the Fund.

Belief: Environmental, social and corporate governance ('ESG') issues can have a material impact on the long term performance of its investments
The Committee recognises that ESG issues can impact the Fund's returns and reputation. Given this, the Committee aims to be aware of, and monitor, financially material ESG-related risks and issues through the Fund's investment managers. The Committee commits to an ongoing development of its ESG policy to ensure it reflects latest industry developments and regulations.

Summary

This paper set out our views on your investment beliefs. At your September meeting, we will gather your thoughts on these beliefs. Taking on board your comments and feedback, we will work with the Officers to prepare a finalised set of beliefs that can then be published on the Fund's website.

We look forward to discussing this paper with the Committee at the forthcoming meeting.

William Marshall, Partner
Paul Potter, Partner

For and on behalf of Hymans Robertson LLP

August 2016

Risk Warning

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

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Update on Private Markets Programmes

Addressee

This note is addressed to the Officers and Pension Committee ("Committee") of the East Sussex Pension Fund ("the Fund"). It reviews the Fund's private market investments and discusses the requirement for further commitments over the next year.

The paper should not be released or otherwise disclosed to any third party except as required by law or regulatory obligation or without our prior written consent. We cannot be held liable for any loss incurred by a third party relying on this paper without such permission.

Background

Despite the LGPS pooling exercise, it is important for the Committee to maintain the Fund's private markets programme and to continue allocations to regular vintage year funds. Solutions for investing in private equity through the ACCESS Pool may not be available for a few years yet so the need for maintaining private market allocations remains for the Fund.

Private equity

The Fund established the private equity programme in 2003 and has been committing assets in a gradual way since then. Adams Street and HarbourVest were selected to manage the Fund's private equity investments in 2003 following an extensive search for suitable "gate keepers". Private equity investment, given its illiquid, long-term nature, dictates that the Fund will need to maintain a lengthy relationship with these managers requiring extensive due diligence at the outset. We are pleased to report that both managers remain highly rated by our manager research team.

The Fund has an allocation of 5.5% to private equity in its strategic benchmark. As at 30 June 2016, the value invested in private equity amounted to 6.1% of total assets, broadly in line with the strategic benchmark allocation. The gradual investment cycles over which private equity funds tend to operate mean that any target allocation can only be maintained within a broad range.

The portfolio now includes investments in 41 private equity funds, including the specialist allocation to the Cleantech sector via the HarbourVest Cleantech and Cleantech II funds.

Commitments to date

The table overleaf provides a breakdown of the Fund's private equity portfolio. As at 31 March 2016, the Fund had committed £319m to these funds (of which approximately £233m has been drawn and invested). The amounts committed to each fund were fixed in either US dollar or Euro terms during the commitment phase of each fund. The committed amount (and the net asset values) will therefore fluctuate with the Sterling exchange rates in both currencies.

The net asset value of drawn down and invested assets was approximately £168m at 31 March 2016, equivalent to 6.1% of the Fund. The value of undrawn commitments was £87m at 31 March 2016. There have also been total distributions equivalent to £159m.

The Fund's private equity portfolio, after 13 years of investment, has reached the point where its holdings in the more mature funds (vintage year 2003) have drawn down the vast majority of the committed sums and are now in the distribution phase of returning cash to investors. Table 1 shows this; the most mature funds are listed at the top of each section and are characterised by their higher percentage of capital drawn down (fourth column) and higher cash distributions (last column) relative to the initial commitment.

The more mature funds represent a fairly significant proportion of the Fund's current exposure to private equity. To help counterbalance this expected reduction in exposure to these funds, the Fund has continued to commit to new funds which are more immature and are yet to draw down the majority of commitments.

Manager	Fund	Accounting valuations as at 31/03/2016				
		Commitment (millions)	Outstanding Commitment (millions) [1]	Capital Drawdown (millions) [1]	Market Value (millions) [2]	Cumulative Distributions (millions) [1]
Adams Street	2003 Non US Fund	$32.00	$1.44	$30.560	£6.11	$39.19
	2005 Non US Fund	$11.00	$0.54	$10.456	£3.62	$8.64
	2007 Non US Fund	$13.50	$1.09	$12.407	£6.83	$6.97
	2008 Non US Fund	$11.50	$2.35	$9.148	£6.15	$3.58
	2009 Non US Developed Markets Fund	$6.75	$1.84	$4.914	£2.89	$1.72
	2009 Non US Emerging Markets Fund	$1.50	$0.30	$1.202	£0.97	$0.07
	2010 Non US Developed Markets Fund	$6.70	$2.05	$4.650	£2.74	$1.46
	2010 Non US Emerging Markets Fund	$1.70	$0.48	$1.222	£1.03	$0.06
	2011 Non US Developed Markets Fund	$6.00	$2.12	$3.876	£2.25	$1.16
	2011 Non US Emerging Markets Fund	$1.50	$0.50	$0.995	£0.82	$0.09
	2013 Non US Developed Markets Fund	$11.50	$6.80	$4.704	£3.06	$0.49
	2013 Non US Emerging Markets Fund	$2.90	$1.82	$1.077	£0.81	$0.00
	2014 Global Fund	$29.00	$18.92	$10.078	£6.68	$0.89
HarbourVest	HIPEP 4 Europe	9.00 €	0.32 €	8.685 €	£1.42	13.20 €
	HIPEP 5 Europe	23.40 €	1.17 €	22.230 €	£9.80	21.12 €
	HIPEP 6 Europe	22.00 €	5.28 €	16.720 €	£14.05	4.55 €
	HIPEP 7 Europe	$18.50	$14.85	$3.654	£2.49	$0.27
Sub-total non US					**£71.74**	
Adams Street	2003 US Fund	$32.00	$1.60	$30.400	£8.21	$35.16
	2007 US Fund	$11.50	$0.82	$10.684	£5.73	$8.65
	2007 Direct Fund	$2.00	$0.11	$1.887	£1.19	$2.00
	2008 US Fund	$9.50	$1.27	$8.234	£5.03	$6.40
	2008 Direct Fund	$2.00	$0.13	$1.871	£1.39	$1.95
	2009 US Fund	$6.75	$1.45	$5.295	£3.73	$2.33
	2009 Direct Fund	$0.75	$0.05	$0.701	£0.50	$0.52
	2010 US Fund	$8.40	$2.54	$5.863	£4.34	$2.12
	2010 Direct Fund	$3.40	$0.27	$3.135	£2.33	$1.54
	2011 Direct Fund	$3.00	$0.40	$2.601	£2.38	$0.94
	2011 US Fund	$7.50	$3.12	$4.376	£3.45	$0.85
	2013 US Fund	$14.40	$8.04	$6.365	£4.16	$0.45
	Co-Investment Fund II	$4.00	$0.62	$3.382	£2.18	$3.68
HarbourVest	HarbourVest Partners VII - Buyout	$16.50	$0.91	$15.593	£3.90	$19.65
	HarbourVest Partners VII - Mezzanine	$3.00	$0.18	$2.820	£0.59	$3.02
	HarbourVest Partners VII - Venture	$8.50	$0.19	$8.309	£3.30	$8.98
	HarbourVest Partners VIII - Buyout	$12.00	$1.02	$10.980	£4.72	$9.75
	HarbourVest Partners VIII - Mezzanine	$1.90	$0.10	$1.796	£0.57	$1.56
	HarbourVest Partners VIII - Venture	$4.60	$0.12	$4.485	£2.70	$3.56
	HarbourVest Partners IX - Venture	$11.00	$2.92	$8.085	£6.30	$1.76
	HarbourVest Partners IX - Buyout	$22.00	$10.29	$11.715	£7.64	$2.80
	HarbourVest Partners IX - Credit Opps	$3.50	$1.56	$1.943	£1.17	$0.61
	HarbourVest CleanTech	$23.00	$1.84	$21.160	£14.78	$1.23
	HarbourVest CleanTech II	$32.00	$22.72	$9.280	£5.77	$0.20
Sub-total United States					**£96.06**	
Total					**£167.79**	

[1] Figures are based on latest available manager's statements to Hymans Robertson and Northern Trust statements

[2] Northern Trust 31 March 2016 IFRS valuation figures (all in Sterling terms)

Further commitments

We propose that the Fund continues to commit to new private equity funds in order to maintain the target allocation. Both Adams Street and HarbourVest launch suitable funds on a regular basis.

We would wish to confirm with the managers the level of commitments which are required – given their expectations of the rate of draw down and distributions from all of the current investments.

Adams Street

The following Adams Street funds are available for investment within the next year.

Fund	Description	Timing	Comments
Global Fund 2016	Adams St's flagship fund of funds ('FoF') including all sub-strategies	2016 Global Fund will close in late November 2016. 2017 Global Fund will open in December 2016.	**This is equivalent to the core US / Non-US strategy that the Fund has invested in historically with Adams Street.**
US Small Market Buyout	FoF focused on US Small buyouts and co-investments	December 2016	Specialist sub-strategy.
Venture Innovation Fund	FoF focused on venture capital	October 2016	Specialist sub-strategy.
ASP Capital VI	Direct fund focused on venture/ growth equity investments in IT and healthcare	Summer 2017	Specialist sub-strategy
Private Credit Fund	Direct fund focused on diversified US mid-market sponsored transactions. Shorter time frame than other funds.	Second half of 2017	We may consider separately in relation to any allocation to private debt.
GSF 6 Secondaries	Direct secondary transactions.	Launches in 2017.	Specialist sub-strategy

Our preference at this stage is to consider a new commitment to the Global Fund as this is a convenient way of capturing exposure across a range of opportunity areas and is consistent with how the Fund has invested historically with Adams Street.

HarbourVest

The following HarbourVest funds are available for investment within the next year.

Fund	Description	Timing	Comments
Fund X Buyout and Venture	US focused. 80% primary investments with the balance secondary and direct co-investments. Targets of $1.25bn and $750m respectively.	Late 2016	**These are the manager's core US funds.**
HIPEP VIII	50% Europe, 35% Asia, 15% ROW. 80% primary investments with the balance secondary and direct co-investments. Target $1bn	Launches in September 2016.	**This is the manager's core non-US fund.**
HCF IV – Direct Co-Investment Fund	Global fund, target of $1.0bn.	March 2017	Specialist sub-strategy
HarbourVest Asia VIII	Asia only. 80% primary investments with the balance secondary and direct co-investments. Target $400m.	Launches in September 2016. Due to close April 2017.	Specialist sub-strategy
Real Assets III	Global secondaries in real assets (energy, infrastructure agriculture, timber). Target $500m	December 2016	Separate strategy for alternative assets.
Global Fund 2016	60% US, 30% Europe, 10% Asia. 50% primary, 35% secondary, 15% directs. Target $400m.	December 2016	-

Our preference at this stage is to focus on the core vehicles – Fund X and HIPEP VIII. The ability to broaden the private equity exposure through more specialist funds might be pursued within asset pooling.

Infrastructure

The Fund's Infrastructure investment program was established in early 2008. Infrastructure funds operate in much the same way as for a private equity fund in that any target exposure can only be achieved gradually.

The Fund's infrastructure portfolio is much simpler than for the Fund's private equity - it consists of allocations to two funds; the M&G Infracapital Fund and the UBS International Infrastructure Fund. As at 30 June 2016, the infrastructure portfolio formed 1.7% of the Fund's assets, marginally underweight to the Fund's target of 2.0%. Of the original £56m committed to the overall portfolio, around £3m is yet to be drawn down by the managers as at the 31 March 2016.

Unlike with private equity, the Fund has not appointed managers to provide a constant supply of eligible fund-of-fund vehicles. Both investments are in direct funds which own underlying infrastructure assets and were invested in on an opportunistic basis. Accessing infrastructure will change significantly once asset pooling is implemented. In the meantime, we will look to recommend any suitable direct funds which will help to maintain the Fund's allocation in the interim.

Next steps

We propose that the Committee review the progress of the private market programmes on an annual basis, looking at a summary of outstanding commitments, fund performance and the level of future commitments required (using data supplied by the managers).

We propose asking the managers to provide input on commitment requirements in the short term in order to inform a decision on commitments in 2016.

Prepared by:-
William Marshall, Partner
Paul Potter, Partner
Kirsty Morrish, Investment Analyst
August 2016

For and on behalf of Hymans Robertson LLP

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Potential business plan for reviewing the Fund’s investment arrangements

Introduction

This paper is addressed to the Officers and Pension Committee (“Committee”) of the East Sussex Pension Fund (“the Fund”). It should not be released or otherwise disclosed to any third party except as required by law or regulatory obligation or without our prior written consent. We cannot be held liable for any loss incurred by a third party relying on this paper without such permission.

Background

At the Fund’s Annual Strategy Day held on 18 July, the forward-looking investment sessions focused heavily on:-

- Setting objectives
- Investment beliefs
- Reviewing high level investment strategy
- Detailed asset allocation and manager mandates
- Policies in relation to ESG factors.

In the table below, we have set out a provisional timetable showing how each of these issues is likely to be addressed by the Officers and Committee over the next two years. We have considered how each item needs to tie in with:-

- The actuarial valuation being carried out as at March 2016, which will involve setting long term funding objectives. We will work closely with our actuarial colleagues in this regard.
- The development of the ACCESS asset pooling arrangements, which may place constraints on the way in which the Fund is able to invest in future, and is likely to change the Committee’s manager monitoring arrangements in the long-term.

Business plan

At this stage, we anticipate that the following items will be explored by Officers and Advisers - and subsequently addressed by Committee at the relevant quarterly meetings. There may need to be some flexibility in light of the modelling options which are ultimately considered and the uncertainty over the pace at which asset pooling ‘solutions’ will be agreed and become available.

Table 1: Draft business plan

Meeting	Action
Q3 2016	• Formalise a Statement of Investment Beliefs. • Agree a formal policy on the Fund's approach to ESG. • Review private markets exposure
Q4 2016	• Confirm the long term funding objectives in conjunction with the actuarial valuation. • Specify the investment objectives for the asset liability modelling work. • Consider a potential 'steady state' target asset allocation. • Follow up on the agreed ESG approach
Q1 2017	• Consider the merits of offering one or more alternative employer strategies. • Agree the Fund's new Investment Strategy Statement (ISS). • Consider the structure options to be made available within the ACCESS pool – and the implications for the current investments.
Q2 2017	• Consider the mechanisms for implementing any future de-risking or re-risking. • Annual review of the private markets programme. • Annual review of the Fund's investment beliefs • Investment structure follow up
July 2017	• Investment strategy day
Q3 2017	• Review the allocations within equities (including active / passive split). • Review the benchmarks / guidelines for future bond mandates within ACCESS pool. • Annual review of the Fund's ESG approach
Q4 2017	• Review the allocations to alternative asset investments within the context of the ACCESS pool. • Structure follow up from Q3 meeting
Q1 2018	• Prepare for transferring into ACCESS pool • Annual review ISS
Q2 2018	• Annual review of the private markets programme. • Annual review of the Fund's investment beliefs

We anticipate that the Committee will wish to continue meeting with investment managers until asset pooling has been implemented. Other ad-hoc items will also arise for specific meeting agendas. There is also the chance that the Fund may create ongoing workstreams depending on what decisions are taken in respect of issues such as policy on ESG, offering alternative investment strategies, etc.

It should be possible to use the Annual Strategy Day in summer 2017 to confirm the decisions on high level investment strategy which have been developed in H1 2017 - and address the significant number of manager structure items implied in the business plan.

We look forward to discussing this plan with the Committee.

Prepared by:-
Paul Potter, Partner
William Marshall, Partner
August 2016

For and on behalf of Hymans Robertson LLP

General Risk Warning

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

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East Sussex Pension Fund: Responsible Investment

- William Marshall
- Paul Potter
- August 2016

HYMANS ROBERTSON

Agenda

- Background
- Fund’s approach
- Key themes
- Potential next steps

HYMANS ROBERTSON

What is responsible investment?

Responsible investment is an approach to investment that explicitly acknowledges the relevance to the investor of environmental, social and governance factors, and of the long-term health and stability of the market as a whole. It recognises that the generation of long-term sustainable returns is dependent on stable, well-functioning and well governed social, environmental and economic systems.

UNPRI, What is responsible investment?

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

Ethical investment is different

- Ethical Investment is an approach to investment that seeks to directly impose the beliefs of the investor on assets held through the imposition of exclusions or limitations.

- The difference between Responsible Investment and Ethical Investment is the difference between “Value” and “Values”

Material environmental, social and governance factors

ENVIRONMENTAL	SOCIAL	GOVERNANCE
Climate Change	Stakeholder relations	Board Structure
Resource scarcity	Supply Chains	Accounting & Audit
Water Availability	Working Conditions	Executive remuneration
Greenhouse Gas emissions	Diversity issues	Bribery & Corruption
Pollution	Health & Safety	Shareholder rights
Energy efficiency	Population Growth	Transparency

Differentiate between systemic and operational risks

ESG - Timeframe matters

Systemic risks:
Potential long term impact, but can be influenced by shorter term changes

Operational risks:
Potential shorter-term impact

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RI in equities

Can be divided into two main strands:

Sustainable Investment

- Understanding the level of ESG analysis carried out by managers, and the integration of this analysis into the research/portfolio construction process
- More relevant for certain investing styles than others – the more concentrated and long-term/lower turnover the approach, the more relevant ESG analysis becomes (doesn't apply to passive)

Governance & Stewardship

- Investors, as owners of the underlying businesses, have a responsibility to act as effective stewards of these companies; clients, as ultimate owners, should accordingly monitor managers' behaviour
- Applicable to all equity managers, although managers with bigger shareholdings and influence (such as passive managers) arguably have a greater responsibility

RI in fixed income

- Ethical investing – mainly driven by negative screens (alcohol, armaments etc.)
- Bond investors no voting rights so arguably less impact on governance and stewardship than equity investors however engagement does occur
- Role is protecting client's interests as creditors – covenant change, input to re-structuring
- Bond managers responsible investment policies generally have evolved from their equity model
- Sustainable investing – driven by positive screens focussing on products/services with positive social benefit e.g. social housing
- Key is knowing the level of E, S and G taken into account in the decision making process – how much weight is applied to these factors?
- Some managers assign an 'ESG score' as input to credit analysis, others adopt a more informational approach

RI in real estate

- Property has a visible impact on the environment, consuming resources in both its construction and ongoing use
- Legislation from 1 April 2018 impacting the ability to let property with an EPC rating of F or G
- Responsible Property Investment can reduce the costs of occupation, thereby making buildings more attractive to potential tenants
  - Resource usage
  - Energy procurement
  - Waste reduction
- Sustainability characteristics of a building/portfolio can be measured
  - Global Real Estate Sustainability Benchmark (GRESB)
  - Building Research Establishment Environmental Assessment Method (BREEAM)

Responsible Property Investment document

Myners Principle 5: Responsible ownership

"Trustees should adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents.

A statement of the scheme's policy on responsible ownership should be included in the Statement of Investment Principles.

Trustees should report periodically to members on the discharge of such responsibilities."

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Institutions for occupational retirement provision

- Environmental, social and governance factors as referred to in the UN Principles for Responsible Investment are important for the investment policy and risk management systems of IORPs. Member States **should require IORPs to explicitly disclose where these factors are considered in investment decisions and how they are part of their risk management system**.

- IORPs should, as part of their risk management system, produce a risk assessment for their activities relating to pensions. That risk assessment should also be made available to the competent authorities and should, where relevant, include, inter alia, **risks related to climate change, use of resources, the environment, social risks, and risks related to the depreciation of assets due to regulatory change ('stranded assets').**

Wording from 2016 IORPII

Law Commission Report & Fiduciary Duty

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

Law Commission
Reforming the law

Financial factors

Non-financial factors

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

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

Fund's focus to date

- Regularly considered by Pensions Committee
  - Last discussed at Q1 2016 Committee meeting; and
  - Annual strategy day
- Agreed policy in place (SoIP) and Myners
- Collective engagement: Fund a member of Local Authority Pension Fund Forum
- Fund's managers have signed up to UNPRI and UK Stewardship Code

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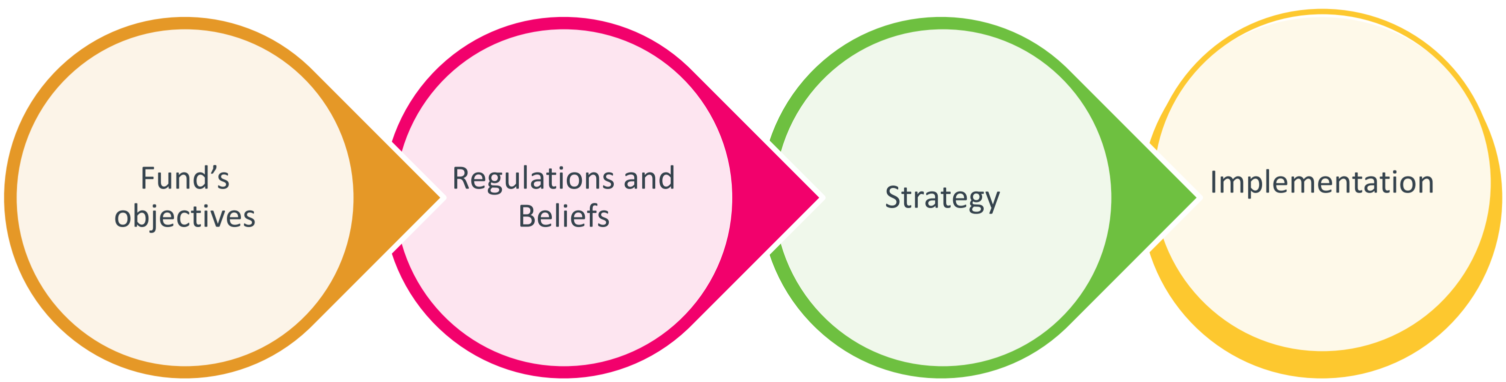
Fund focus going forward

- Focus of today
- Focus on Fund's key objectives
- Agree procedures and policies for future success



Topical item: stranded assets

MPS' PENSION FUND AT RISK FROM FOSSIL FUEL INVESTMENTS

17 February 2015, The Guardian

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

NewsShopper 5 May 2015

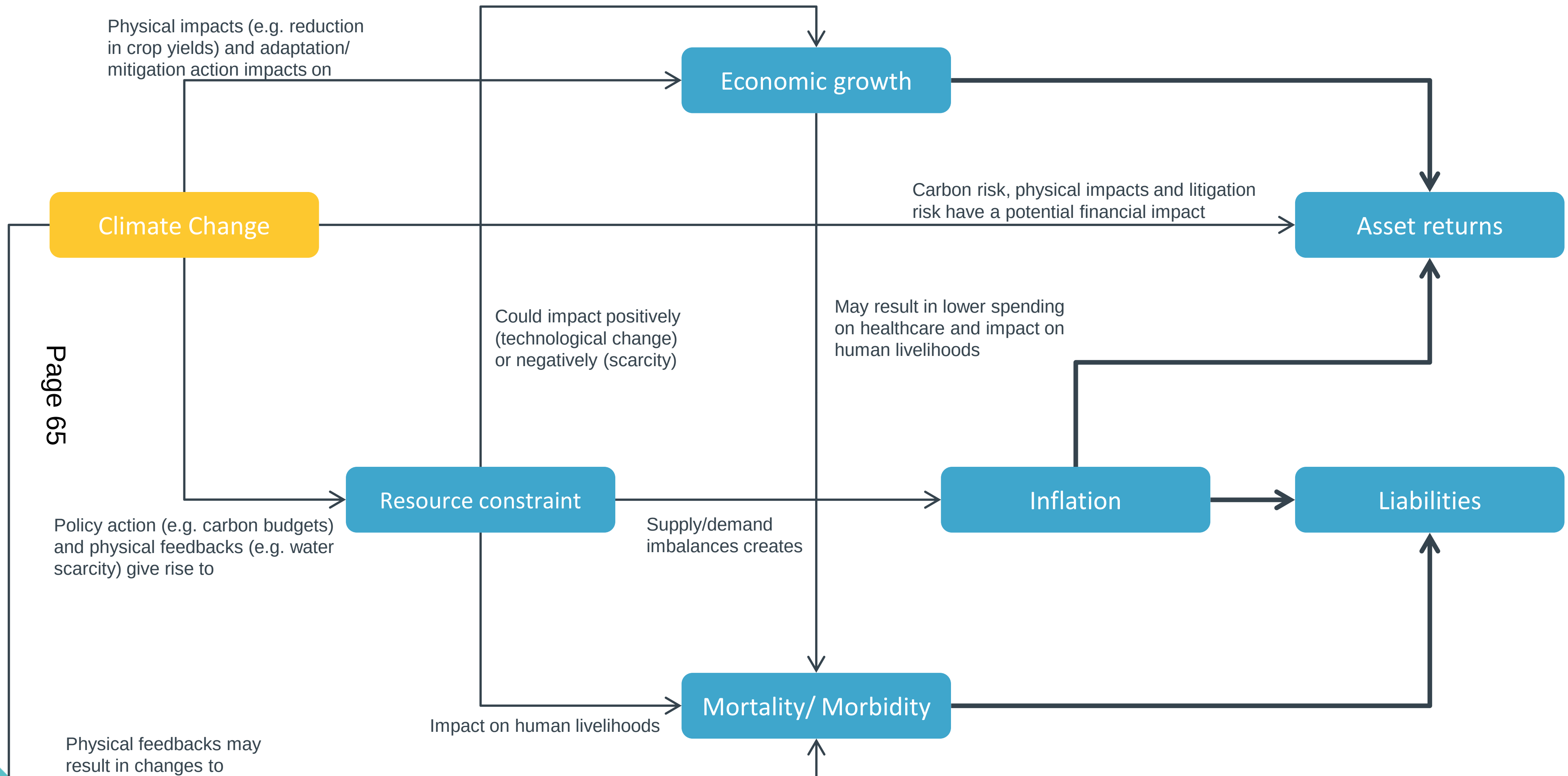
EXPOSED: THE WORST (AND BEST) UK SCHEMES FOR MITIGATING CLIMATE CHANGE RISK

Professional Pensions 28 Apr 2015

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

Professional Pensions 14 May 2015

How climate change could affect pension schemes



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In simple terms

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Natural Environment | **Real Economy** | **Financial Economy**

COP21

- 21st Conference of the Parties to the United Nations Framework Convention on Climate Change. Aimed to set a new international agreement on climate change to reduce carbon dioxide emissions ("CO_2") and keep global warming below 2°C

- The agreement (not legally binding):
  - Target a temperature rise of below 2°C up to 2100
  - Emissions should peak as soon as possible
  - All countries will aim to achieve carbon neutrality in the second half of this century
  - Framework to measure, monitor & verify carbon reduction to improve transparency
  - Countries will submit updated reduction plans every 5 years
  - $100bn per year from developed countries will be donated to support adaption and migration in least developed countries and small island developing states

- Possible implications for investors:
  - Increased regulation - identification of vulnerable industries is important
  - Introduction of new government policies - e.g. new law in France for most asset owners to disclose their carbon footprint
  - Increased focus from media & potential for continued lobbying for divestment of fossil fuels

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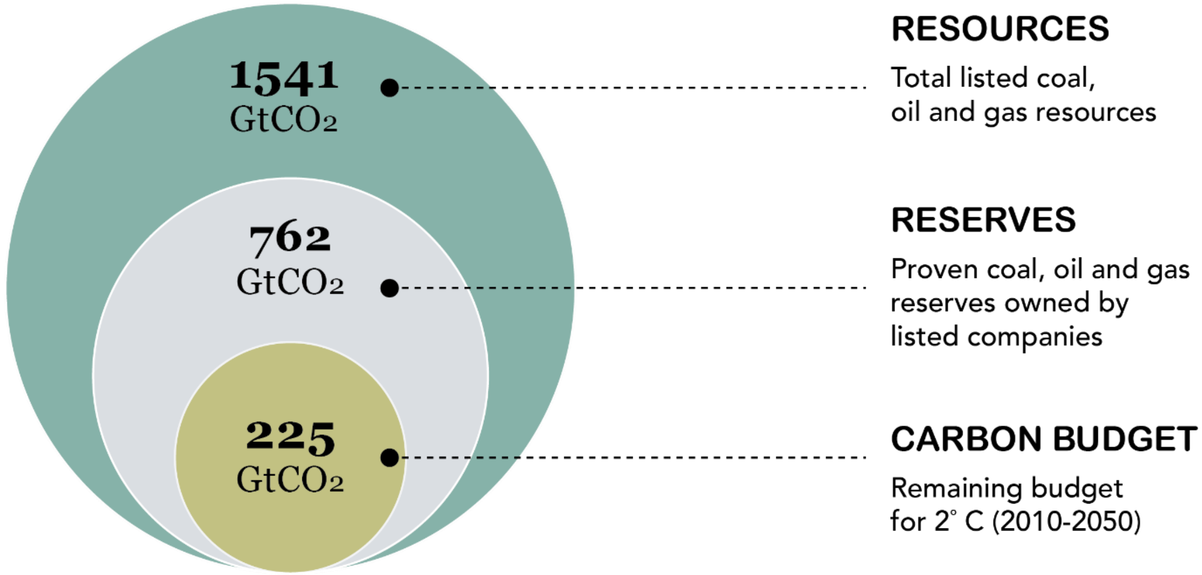
ESG - Current issue: Carbon risk

Carbon Tracker Initiative



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- If we stay within the carbon budget, some fossil fuel reserves will have to stay in the ground and have no value: “Stranded assets”
- UK target to cut carbon emissions by at least 80% of 1990 levels by 2050.
- COP21 (Paris, December 2015): Limit temperature rise to 2% up to 2100.

What can the Fund do?

1. Understand how carbon risk could affect investments
2. Understand their carbon footprint and impact on future investment returns, risks and opportunities
3. Potentially take action to manage carbon risk

Divest	• Remove exposure to potentially compromised investments • Strong lobby from organisations such as 350.org • Focus only on equities?
Tilt	• Ex-fossil fuels indices offers an option for passive investors • Can bias portfolios positively
Engage	• Asset ownership conveys responsibilities on investors • Engagement can influence corporate behaviour • Will we see more active investors in future?

4. Challenge managers on how they factor in the risks/opportunities (dealing with obsolescence is not new)

If it can be measured, it can be managed

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Client case study

- External challenge from group of members/press coverage
- Trustees have:
  - Listened to both sides of the argument
  - Agreed not to disinvestment
  - Developed a set of investment & responsible investment beliefs
  - Agreed to disclose details of fund holdings
  - Reviewing benefits of becoming a signatory to UNPRI
  - Reviewed manager disclosures and increasing reporting
  - Challenge <u>all</u> their managers as part of monitoring process
  - Looking to develop an engagement policy
  - Training on other forms of active and passive management

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Next steps

Range of options to consider

Core practice	Active practice	Leading
Develop statement of investment beliefs Engagement with investment managers on ESG policies Regular reporting on manager voting and engagement activities Periodic training on responsible investment issues	Understanding/report on potential ESG risk exposures e.g. carbon ESG factors considered in some investment decisions, e.g. manager selection Support for broader industry initiatives, e.g. UK stewardship code, UNPRI Ongoing training e.g. carbon tilt passive Polices in place for key matters ESG form part of managers' review process	ESG issues embedded in all investment decision making Active engagement with investee companies for value enhancement Collaboration with other investors to create change

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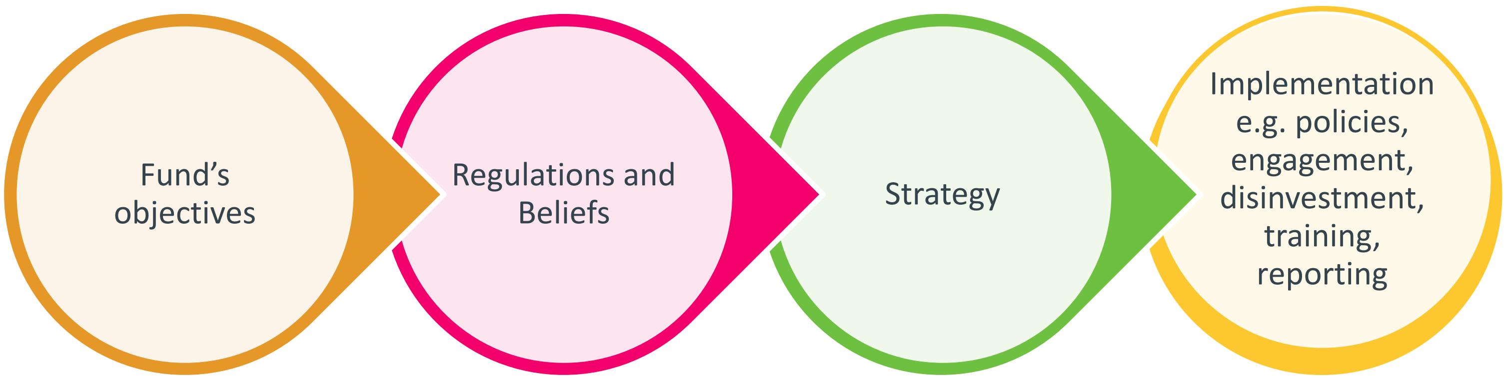
Focus on objectives and beliefs



- Develop implementation plan
- Feed into pooling agenda

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Thank you

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Agenda Item 9

Report to:	**Pension Committee**
Date of meeting:	**8 September 2016**
By:	**Chief Finance Officer**
Title:	**Petition – Divest East Sussex Pension Fund from Fossil Fuels**
Purpose:	**To consider the receipt of a petition relating to the divestment of East Sussex Pension Fund investment from Fossil Fuels.**

RECOMMENDATION

The Committee is recommended to agree that the Fund should continue to seek to use its influence as a corporate investor to positively influence companies' behaviour and reserve the right to apply ethical or environmental criteria on a case by case basis where relevant and appropriate.

---

1. Background

1.1 The Council has received a petition headed '*Divest East Sussex Pension Fund from Fossil Fuels*'. The petition contains approximately 400 signatures and was presented to the Chairman at Full Council on 12 July 2016 (Appendix 1). The wording of the petition is as follows:

> *"We are asking East Sussex County Council to move their money: divest from companies which threaten the environment, and actively commit to investing further in low-carbon assets and renewable energy within the next five years."*

1.2 Additionally, a campaign has accompanied the petition with messages having been sent by post to the Leader, Pension Committee Chairman, and e-mail to Pension Committee members (Appendix 2). A leaflet (Appendix 3) entitled 'How is Your Pension Fund Invested and is it safe' has been distributed widely. The leaflets identify the campaigners as the Climate Forest Row and Eastbourne & District Friends of the Earth, with the Lead Petitioner as Fossil Free Hastings.

1.3 The Pension Committee is responsible for deciding East Sussex Pension Fund ('the Fund') investment policy and is therefore the appropriate body to consider this petition. The Pension Board assists the Pension Committee in its work and so is also able to consider the petition and submit any comments to the Committee.

2. Proposals and Details

2.1 Institutional investors generally and Local Government Pension Funds in particular are facing increasing scrutiny of their investments in companies involved in the extraction and trading of fossil fuels (e.g. oil, coal and gas). This follows increasing public awareness of the issues of climate change and global warming, along with their associated economic and environmental impacts.

2.2 Locally, some ESCC fund members have aligned themselves with national campaigns seeking to persuade Pension Fund managers to disinvest in companies in the fossil fuel sector. Campaigns of this nature have typically provided a common narrative for individuals or organisations to use when approaching pension funds. The LGPS has also received many direct approaches from various groups on this issue. In April 2016, for example, Hastings Borough Council passed a unanimous fossil fuel divestment motion (Appendix 2).

3. The Fund's approach to ethical investments

3.1 The current investment strategy of the Fund is detailed in the Statement of Investment Principles (SIP) approved by the Pension Committee on 24 November 2015. Our approach is broadly in line with that of other LGPS funds, i.e., to secure the best realistic return over the long-term; to meet pension commitments, within an acceptable level of risk, by ensuring there is diversification across all asset classes; and to keep employer contribution rates stable. The Fund pursues this strategy by appointing expert specialist investment managers who are given an unconstrained ability to invest within their individual mandates.

3.2 The SIP also details the Fund's policy on socially responsible investments. The Fund has chosen to permit its investment managers to adopt a policy of socially responsible investment, providing that they treat the financial interests of scheme members as paramount and their investment policies are consistent with the standards of care and prudence required by law.

3.3 The Fund requires its investment managers to be active in their constructive shareholder engagement with companies regarding socially responsible investment issues; the proactive engagement of fund managers with these companies has been shown to influence positive change. The Fund did not to interfere in the day-to-day investment decisions of the Fund's investment managers, and chooses not to actively invest or disinvest from companies solely or largely for social, ethical or environmental reasons.

3.4 From the Fund's perspective, simply disinvesting from a particular category or group of companies is likely to reduce the Fund's ability to secure the best realistic return over the long-term whilst keeping employer contributions as low as possible. Furthermore, it denies the opportunity for the Fund to influence companies' environmental, human rights and other policies by positive use of shareholder power, a role the Fund takes very seriously. The Fund has reserved the right to apply ethical or environmental criteria to investments where relevant and appropriate on a case by case basis.

4. Local Authority Pension Fund Forum

4.1 The Fund is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF is a coalition of 68 LGPS Funds that engages directly with companies on behalf of their member funds. LAPFF actively considers the question of environmental, social and governance (ESG) investments, and in particular issues relating to: labour practices, wage equality, the arms trade, tobacco and the environmental impact of major oil companies.

4.2 The East Sussex Fund currently addresses ESG and ethical investment issues both at a fund level and collectively through LAPFF. The Fund believes active engagement with investee companies is the best way to bring about desirable change whilst managing overall investment risk issues. The approach of direct and collaborative engagement contrasts with the approach of blanket divestment advocated by the campaigners. Once an asset owner divests, their ability to influence both the short and long-term direction of individual companies and the national and international energy sector is severely curtailed.

5. Conclusion and recommendations

5.1 The cornerstone of the Fund's policy on ethical investment – as set out in its SIP – is its interpretation of the Fund fiduciary duty and legal position regarding its duty towards ethical investment. The Committee does take into account ethical, environmental, governance and other non-commercial policies when considering investments generally and when selecting fund managers. The Fund should continue to seek to use its influence as a corporate investor to positively influence companies' behaviour and reserves the right to apply ethical or environmental criteria on a case by case basis where relevant and appropriate. This approach is considered the best way to bring about positive change whilst securing the best realistic return over the long-term to meet the Fund's future commitments to beneficiaries whilst keeping employer contributions as low as possible.

MARION KELLY
Chief Finance Officer

Contact Officer: Ola Owolabi, Head of Accounts and Pensions
Tel. No. 01273 482017
Email: Ola.Owolabi@eastsussex.gov.uk

BACKGROUND DOCUMENTS

None

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Appendix 1

Governance Services
Democratic Services

M E M O R A N D U M

TO: Chief Operating Officer

FROM: Assistant Chief Executive, Governance Services

DATE: 12 July 2016

Petition presented at County Council on 12 July 2016

The following petition was presented to the Chairman before the Council meeting today:

Councillor O'Keeffe
Calling on the County Council to divest the East Sussex Pension Fund from fossil fuels

Can you let me know as soon as possible please what action you propose to take on the petition. If a report to the Lead Member for Resources or the Pension Committee is appropriate I will notify the lead petitioner and relevant Members to let them know what is happening and which meeting they will be invited to attend. If that is not appropriate, and you write to the lead petitioner and relevant Member to explain the situation, please could you copy me in.

Thank you for your help.

Kind regards

Simon Bailey
DSO
X81935
E. simon.bailey@eastsussex.gov.uk

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APPENDIX B

Please quote:
Your reference:
Date: 19th July 2016
Please ask for: Cllr Peter Chowney
Telephone direct: 01424 451066
E-mail: cllr.peter.chowney@hastings.gov.uk
Web: www.hastings.gov.uk

Hastings Borough Council

Councillor Peter Chowney
Aquila House, Breeds Place
Hastings, East Sussex TN34 3UY

Councillor R Stogdon
Chair, East Sussex Pension Fund
St Anne's Crescent
Lewes
BN7 1SD

Dear Councillor Stogdon

At its April meeting, Hastings Council unanimously adopted the following resolution:

"Hastings Borough Council pledges:

- To develop and implement a Responsible Investment Policy through which it will:

  a) Divest from direct ownership and any commingled funds that include fossil fuel public equities and corporate bonds within 5 years;

  b) Set out an approach to quantifying and addressing climate change risks affecting all other investments, and

  c) Focus future investments in property and other assets on areas that minimise climate change risk and continue to reduce the council's carbon footprint

- To work with other District and Borough councils in East Sussex to encourage and assist them to adopt Responsible Investment Policies with the same scope."

Climate change is a problem that affects all of us. Local authorities can do a lot to raise people's awareness of the issues, encourage them to adopt less environmentally damaging behaviours, and encourage local businesses that pursue more environmentally sustainable practices. But councils also need to look at their investment policies, both in terms of property investment and investment funds, to minimise investments in fossil fuels in particular. And this is not just a question of combating climate change, important though that is. Mark Carney, the Governor of the Bank of England, recently warned of the 'carbon bubble' whereby investors in fossil fuels risked huge losses, because the value of fossil fuel companies was based on the total value of their fossil fuel reserves, whereas, he said, 'the vast majority of fossil fuel reserves are unburnable', because the shift towards cleaner energy would mean that these reserves would never be extracted.

So by adopting a policy of divestment in fossil fuels, councils can not only help to limit climate change, but can also avoid the potential financial risk associated with such investments. Such a policy would be of particular impact if it were to be adopted by the East Sussex Pension Fund, so we would strongly urge you to adopt a similar policy to begin divestment in fossil fuels from pension fund investments.

Yours sincerely

Councillor Peter Chowney
Leader of the Council
Hastings Borough Council

Councillor Liam Atkins
Leader of the Opposition
Hastings Borough Council

Appendix 3

Appendix C

AFFIX STAMP HERE

TO: CLLR RICHARD STOGDON
C/O FOSSIL FREE HASTINGS
ORE PLACE FARMHOUSE
THE RIDGE
TN34 2RA

Calling all
East Sussex Local Government
Pension Scheme members

HOW IS YOUR PENSION FUND INVESTED AND IS IT SAFE?

Did you know your pension fund is invested in harmful fossil fuel industries?

FOSSIL FREE HASTINGS

...is a group of people calling on our local government to move investments out of companies that extract and explore for fossil fuels (oil, coal & gas).

On 13 April 2016, Labour and Conservative Councillors on Hastings Borough Council joined forces to pass a unanimous fossil fuels divestment motion, and urged East Sussex County Council to follow their lead.

If you'd like to play a further part in the campaign, large or small, we'd love to have you on board so drop us a line at: **fossilfreehastings@gmail.com**.

You can find us here: **facebook.com/fossilfreehastings** or here: **fossilfreehastings.wordpress.com**

"Smart investors can see that investing in companies that rely solely or heavily on constantly replenishing reserves of fossil fuels is becoming a very risky decision."

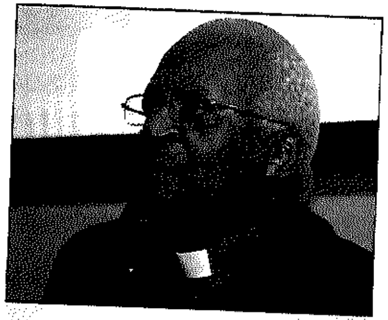
Professor Lord Stern
former World Bank Chief Economist

Hastings residents protest against investments in fossil fuels, 13 February 2016

East Sussex County Council, which holds your pension funds[1], has an estimated £172 million invested in fossil fuels – a threat to your pension.

Investing in the fossil fuel industry is damaging the balance of our climate

We know that to maintain a stable climate, we have to rapidly cut back on the fossil fuels we burn. Known fossil fuel reserves contain several times more coal, oil and gas than can safely be burned, but fossil fuel companies plan to use all these reserves and invest huge sums exploring for more.[2]



"It makes no sense to invest in companies that undermine our future."
Desmond Tutu

Investing in fossil fuels is financially risky

Remember the sub-prime mortgage crisis in the US that triggered the financial crash of 2008? Many establishment figures are warning us that fossil fuels could become the sub-prime assets of the future. The Governor of the Bank of England has warned that the vast majority of reserves are likely to be unburnable and has launched a major enquiry into this risk. Similarly, the President and the former Chief Economist of the World Bank and the UN's top climate change official have issued warnings that investments in fossil fuels could suffer dramatic losses in value. In 2015 HSBC advised its clients against investing in fossil fuel companies on the grounds that they will become "economically unviable."[3]

1 bit.ly/yourpensionfunds 2 http://bit.ly/notburn
3 http://bit.ly/warnhsbc

But the good news is...

Divestment removes exposure to these financial risks and sends a strong message to politicians and the industry that we urgently need to change how energy is generated and used

All over the world people are urging their institutions to "divest" (move their money away) from these damaging and financially risky fuels. The workplaces, universities, places of worship and local governments[4] that have already joined the UN-backed divestment campaign[5] include: the cities of Oslo, Seattle, San Francisco and Oxford; Glasgow University; the British Medical Association; the Rockefeller Brothers Fund; the World Council of Churches and the Quaker movement.

You can take action

As a member of the East Sussex Pension Fund, you can protect your pension - and add your voice to the call to divest from fossil fuels (and for a move to a cleaner sustainable energy system) – by emailing the Chair of the East Sussex Pension Fund Committee and asking him to divest the Fund from fossil fuels.

- **Write to the Chair of the Pension Fund Committee** here: act.350.org/letter/eastsussex/
- **Or fill in and send us the attached card** – we will deliver them all to the Chair of the East Sussex Pension Fund Committee
- **Spread the word** – discuss with your colleagues
- **Write to your County Councillor:** www.writetothem.com

Together we can send a strong message to the East Sussex Pension Fund Committee that it's time to move our money away from the problem and into the solutions.

4 gofossilfree.org/commitments 5 http://bit.ly/UNbacked

TO: CLLR RICHARD STOGDON
CHAIR OF THE EAST SUSSEX
PENSION FUND COMMITTEE

Dear Councillor Stogdon

I am a member of the East Sussex Local Government Pension Scheme. I believe the scheme's investments in fossil fuel companies are neither responsible nor financially prudent, and ask that the Pension Fund divest from holdings in these companies.

Additionally, I ask that the Pension Fund Committee consult members about how their pension fund is invested and revise the current responsible investment policy to more explicitly consider climate change-related investment risks.

I look forward to hearing from you on this matter.

Yours sincerely

____

Name: ______________________

Address or Email: ______________________

____

____

____

fossilfreehastings.wordpress.com

This brochure has been produced by Fossil Free Hastings, Climate Forest Row and Eastbourne & District Friends of the Earth.

Report to: **Pension Committee**

Date of meeting: **8 September 2016**

By: **Chief Finance Officer**

Title: **Statement of Investment Principles (SIP)**

Purpose: **This report provides Members with an annually updated Statement of Investment Principles (SIP) for the East Sussex Pension Fund.**

RECOMMENDATIONS

The Committee is recommended to agree the revised SIP which has been updated as required by regulations to reflect the changes made during the last 12 months.

---

1. Background

1.1 The Local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009 require administering authorities to produce a Statement of Investment Principles (SIP). The SIP gives a comprehensive description of the thinking behind the way in which the investments of the Fund are managed.

2. Supporting Information

2.1 The SIP for the East Sussex Pension Fund has now been refined a number of times and this latest version is fully updated to take account of all the revisions to the Investment Strategy agreed to date. There are no main changes in terms of asset allocation since the previous SIP, and an updated statement is attached as Appendix 1 to reflect the revisions to the Code.

2.2 There is also a requirement to report the Fund's compliance in line with the 6 Myners principles. These 6 principles are a re-presentation with a stronger emphasis on training and development of Members and officers, the involvement of and communication with stakeholders, performance management of the committee itself and of its advisors and a framework for measuring risk and the strength of the covenants of employers. Funds need to demonstrate compliance with these principles or explain the reasons why not.

2.3 The SIP should be revised within six months of any significant changes being agreed by the Pension Committee, to ensure it remains a true reflection of the investment policy of the Fund.

3. Investment Objectives

3.1 The Committee's main objective for the Fund is to ensure that the Fund's assets and the future contributions are invested in such a manner that the benefits due to members and their beneficiaries can be paid from the Fund as they arise. Also to maintain an appropriate funding level and to ensure growth above inflation in the value of the assets to control and minimise the level of costs passed on to council taxpayers by facilitating low and stable employer contribution rates in the long term. The Council remains the ultimate guarantor of the scheme members' benefits.

4. What do the regulations require?

Description	Pre 2016	Post 2016
Statement of Investment Principles ("SoIP")	Yes	No
Investment Strategy Statement ("ISS")	No	Yes

4.1 Investment strategy statement (ISS) - As part of revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, the new regulations propose to remove the existing schedule of limitations on investments. Instead, authorities will be expected to take a prudential approach, demonstrating that they have given consideration to the suitability of different types of investment, have ensured an appropriately diverse portfolio of assets and have ensured an appropriate approach to managing risk. The new ISS is expected to be implemented from April 2017.

5. Conclusion and reasons for recommendations

5.1 This document constitutes the SIP of the East Sussex Pension Fund. The SIP describes the investment policy that is being pursued by the Fund, and the Committee is asked to agree the revised SIP which has been updated as required by regulations to reflect the changes made during the last few months.

MARION KELLY
Chief Finance Officer

Contact Officer: Ola Owolabi, Head of Accounts and Pensions
Tel. No. 01273 482017
Email: Ola.Owolabi@eastsussex.gov.uk

Background Documents
None

EAST SUSSEX PENSION FUND

STATEMENT OF INVESTMENT PRINCIPLES

July 2016

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).

1.2 Investments will be monitored on a regular basis by the Committee acting on the delegated authority of the scheme manager (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.

Investment advice is received as required from the professional Investment Advisers.

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 derivate 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 5) 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 31/03/16 (%)*** [1]	***Target allocation (%)***
L&G	***UK and Global equity***	***24.4***	***27.5***
Longview	***Global equity***	***6.5***	***5.0***
State Street	***Fundamental Indexation***	***17.5***	***17.5***
Newton	***Absolute return***	***9.2***	***10.0***
Ruffer	***Absolute return***	***8.7***	***10.0***
L&G	***5 year Index linked gilts***	***5.3***	***5.0***
M&G	***Bonds***	***6.5***	***6.5***
Schroder	***Property***	***11.8***	***10.0***
Adams Street / Harbourvest	***Private equity***	***6.1***	***5.5***
UBS / M&G	***Infrastructure***	***1.7***	***2.0***
M&G	***Specialist Financing Fund***	***0.3***	***1.0***
Northern Trust	***Cash***	***2.0***	***0.0***

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

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.	√
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.	√
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 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 investment consultant 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 available 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 Statement of Investment Principals.	√
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 Statement of Investment Principals.	√
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 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 Statement of Investment Principals 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

4.	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.**		Fully Compliant
Key Issues:			
4.1	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.	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.	√
4.2	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.	The Agreements with fund managers explicitly state how the portfolio is to be managed, performance targets and measurement timescales.	√
4.3	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.	See Statement of Investment Principals.	√
4.4	The use of peer group benchmarks (such as the 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.	The Fund’s customised benchmark is determined by the Committee. The use of the Local Authority Average is for information purposes only.	√
4.5	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.	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.	√

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 monitored quarterly by the investment consultant.	√
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.	The Fund's performance is monitored quarterly by the investment consultant.	√
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 Statement of Investment Principals	√
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

			Fully Compliant
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**		
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 governance 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.	√

Agenda Item 11a

Report to:	**Pensions Committee**
Date of meeting:	**8 September 2016**
By:	**Chief Operating Officer**
Title:	**Officers' Report – Business Oprations**
Purpose:	**To provide an update on current administration themes in relation to the service provided to the Pension Fund by Orbis Business Operations**

RECOMMENDATIONS

The Committee is requested to 1) note the update provided; and 2) provide any feedback on the proposed changes to Key Performance Indicators which Business Operations wish to apply from Quarter 3 of 2016/17.

---

1 Review of Key Performance Indicators (KPIs)

1.1 The Board and Committee were previously advised that Business Operations were proposing to review the existing KPIs and present a document for consideration initially to the Board. The KPIs currently in use (which are shown as **Appendix 1**) have served their purpose in providing oversight to the Board and Committee but they were a legacy from a previous 3rd party contract agreement with SERCO and had not been reviewed for many years.

1.2 Preparation for the proposed new format included close consultation with members of the administration team who have direct dealing with the customer base as well as comments fed back from the Pensions Board members. Activities and measures were considered that directly affect the customer experience as well as statutory obligations. A review of other Pension Fund schemes (Essex, West Sussex, Kent, Gloucestershire, Hampshire, Surrey and LGSS) was also carried out, to compare measures and report formatting. The outcome of this exercise confirmed that there is no single "standard benchmark" for Local Government Pension Fund (LGPF) administration performance.

1.3. In order to provide full transparency of the scale of the scheme administration and to provide assurance of key standards and deadlines being met, it is proposed to introduce additional measures previously not incorporated in KPI's. Furthermore, a customer feedback section is now included allowing a sense check of how customers and employers rate the service. To ensure our measures and targets meet employers expectations, engagement will take place with employers through informal communications as part of the on-going partnership development and where possible opportunity will be leveraged more formally through employer forums, with the support of the Governance team. Feedback will be sought and where a common theme occurs, changes to the proposed format will be made. It is intended to commence the new reporting method from October.

1.4 The proposed format is shown as **Appendix 2**. The Board were supportive of the proposed revisions and the Committee is invited to feedback their views to Business Operations.

2 Scheme Member communications – Annual Benefit Statements

2.1 The Board and Committee have previously expressed an interest in being sighted on global member communications and will be aware that the statutory target date for production of annual benefit statements to scheme members is 31 August of each year.

2.2 The Committee may recall that administrators nationally found this target date challenging in 2015/16 because of the complexities of producing statements with both 'final salary' and 'career average' benefits for the first time following the changes to the LGPS on 1 April 2014. Business Operations expects the statements to be issued on or very near to the target date this year.

2.3 A revised format for the statements was introduced by Business Operations in 2015/16 aimed at providing more information but in a user friendly way. Feedback from scheme members at the time indicated that this change in format was welcomed and Business Operations intend to continue with the revised format for this year. We will continue to seek feedback from scheme members following the issue of the statements. Copies of the 2015/16 statements for both active and deferred members are shown at **Appendices 3 and 4** and these have been updated for issue in 2016/17.

3. Valuation and Progress on EOY Returns from Employers

3.1 To ensure an accurate set of data is provided to the fund actuary to carry out the triennial valuation and to ensure timely issue of annual statements, employers were requested to provide their End of Year (EOY) returns by 30 April. Business Operations took a very pro-active approach to collection of the EOY returns this year given the importance for the valuation and I am pleased to report that only 4 very small employers (primarily Parish Councils with one member) have yet to provide their data submissions – the number of scheme members affected is six in total.

3.2 The vast majority of the EOY returns have been successfully processed and Business Operations submitted the initial valuation data to the actuary. A large number of data validation errors (13,000) were generated as a result of transitional issues with a new universal data capture agreed between the main Local Government Pension Scheme (LGPS) actuarial firms and software providers which prevented completion of a clean data submission to the Actuary by the original target date of 31 July. An extended submission date of 19 August was agreed with the actuary and all validation errors were subsequently resolved by this date.

4. Pensions Processes and Systems Audit Report

4.1 The Audit team has provided a summary **(see Appendix 5)** of the 2015/16 audit that was conducted at the end of the last calendar year. As indicated, a significant number of improvements have been implemented within Business Operations since the 2015/16 report was drafted and these will be reviewed in the 2016/17 report to be initiated in the Autumn – the results of which will be fed back to the Committee and Board.

4.2 The 2015/16 report will be considered as part of the Internal Audit Q1 report at the Audit, Best Value and Community Services Scrutiny Committee on 27 September.

5. Conclusion and reasons for recommendations

5.1 The Committee is requested to 1) note the update provided; and 2) provide any feedback on the proposed changes to Key Performance Indicators which Business Operations wish to apply from Quarter 3 of 2016/17.

Kevin Foster
Chief Operating Officer

Contact Officer: Jason Bailey Tel. No. 020 8541 7473
Email: jason.bailey@surreycc.gov.uk

<u>Background documents:</u>

None

Business Operations – Orbis South Pensions Team

KPIs – June 2016

Appendix 1

Pensions

	Item and target time	Target	Impact	Jan	Feb	Mar	Apr	May	June	Comments (Where target is Red)
	1. Full reconciliation of every suspense account within agreed timescales	100%	L	100%	100%	100%	100%	100%	100%	
	2. Calculation of spouses benefits within specification - 5 days	100%	M	64%	88%	100%	56%	92%	91%	Process improvements implemented in May to improve the initial response on notification
	3. Deferred benefit notifications within specified timescales -25 days	100%	L	96%	95%	97%	97%	98%	97%	Deferred backlog cleared by March
Transfers/ Interfunds I IN –	**4a.** Request values within specified timescales – 10dys	100%	L	96%	92%	96%	91%	96%	94%	
	4b. Request payment within specified timescales – 10 days	100%	L	100%	100%	100%	100%	100%	100%	.
Transfers/ Interfunds Out	**5a.** Provide quote within specified timescale - 25 days	100%	L	96%	95%	82%	69%	100%	93%	
	5b. Make payment within specified timescale – 25 days	100%	L	100%	100%	63%	100%	100%	n/a	
	6. Refunds - within specified timescales -10 days	100%	L	100%	97%	100%	100%	100%	97%	
	7a. Written complaints - acknowledged within 2 working days (2 days)	100%	H	1	0	0	0	0	0	
	7b. Written complaints - resolved and responded to within 5 working days (10 days for complex queries)	100%	H	0	0	0	0	0	0	
	8. Payslips despatched as per specification	100%	H	100%	100%	100%	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	96%	90%	91%	94%	96%	93%	
	11. Estimates provided within specified timescales – 7dys	100%	L	74%	89%	83%	80%	85%	79%	Large volume of Fire scheme estimates affecting delivery of LGPF estimates

Commentary

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

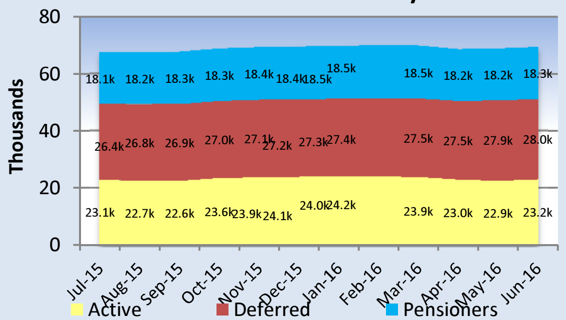
Initial Audit report received – Partial Assurance met

New team leader appointed in April 2016, bringing improved focus to task management.

Key Volume Processes For June

Changes (addresses, hours, change personal details): 484
New Employers 0
Nominations 141
Starters : 515

Number Of Pension Records By Status



East Sussex County Council

SURREY COUNTY COUNCIL

SE Shared Services

East Sussex Pensions Administation - Key Performance Indicators

	Activity	Measure	Impact	Target	Oct		Nov		Dec	
	Scheme members	Active, Deferred & Pensioners								
	New starters set up									
	Data quality	Meeting regulatory standards			Commencing Q4					
	Cost per member	Administration cost in CIPFA benchmarking		<lowest quartile	Report due for publication Oct 2016					
	ABS sent - Pensioners	Statutory deadline								
	ABS sent - Active	Statutory deadline		Due by 31 Aug						
	ABS sent - Deferred	Statutory deadline								
					Volume	Score	Volume	Score	Volume	Score
1a	Death notification acknowledged, recorded and documentation sent	within 5 days	M	95%						
1b	Award dependent benefits	within 5 days	H	95%						
2a	Retirement notification acknowledged, recorded and documentation sent	within 5 days	M	95%						
2b	Payment of lump sum made	within 5 days	H	95%						
3	Calculation of spouses benefits	within 5 days	M	90%						
4a	Transfers In - Values	within 10 days	L	90%						
4b	Transfers In - Payments	within 10 days	L	90%						
5a	Transfers Out - Quote	within 25 days	L	90%						
5b	Transfers Out - Payments	within 25 days	L	90%						
6a	Employer estimates provided	within 7 days	M	95%						
6b	Employee projections provided	within 10 days	L	95%						
7	Refunds	within 10 days	L	95%						
8	Deferred benefit notifications	within 25 days	L	95%						
9	Complaints received- Admin									
	Complaints received- Regulatory									
10	Employer survey satisfaction	Overall satisfaction		80%						
11	Member survey satisfaction	Overall satisfaction		80%						
12	Compliments received									

Appendix 2

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Working with East Sussex County Council

lgps 2014 for you, for now, for the future

East Sussex Pension Fund

<1> <2> <4>
<6>
<7>
<8>
<9>
<10>
<11>

Contact

ESCC.pensions@sesharedservices.org.uk

01825 744544

www.eastsussexpensionfund.org

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

Dear <1> <4>

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

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

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

Yours sincerely

Simon Pollock – Acting Head of Business Operations
East Sussex and Surrey County Council working in partnership

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

Full name	<3> <4>			**DOB**	<12>
Partnership status	<212>	**Employer**	<17>		
Date joined Fund	<18>	**Section of LGPS**	<19>	**Job Ref**	<15>

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

Standard benefit option			OR	**Maximum lump sum option**		
Annual Pension	£	<26>		**Reduced** Annual Pension	£	<71>
Lump Sum Retirement Grant For membership before 01/04/2008	£	<27>		**Increased** Lump Sum Retirement Grant	£	<72>

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

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

How your pension is calculated 3

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

Your Final Salary Pensionable Pay	£	<24>
Your CARE Pensionable Pay Main Section	£	<55>
Your CARE Pensionable Pay 50/50 Section	£	<56>

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

Your Final Salary (FS) Pension Scheme

For membership to 31/03/2008 of <78>	£	<76>
For membership from 01/04/2008 of <79>	£	<77>
Total FS Annual Pension ›	£	**<68>**
Lump Sum Retirement Grant based on membership to 31/03/2008	£	**<69>**

+

Your total CARE account

		per year
Opening balance at 01/04/2014*	£	<62>
Adjustment for cost of living at 01/04/2014*		<64>
2014/15 build up	£	<61>
Total CARE closing balance ** ›	£	**<66>**

* As 2014/15 is the first year of CARE these figures are intentionally zero.
** If you were over 65 on 31/03/2015 this figure includes the late retirement increase as at that date

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

Scheme year April 2014 to March 2015

			per year
	Your CARE Pensionable Pay Main Section / 49	£	<57>
+	**Your CARE Pensionable Pay 50/50 Section / 98*****	£	<58>
+	**Additional Pension Purchased*****	£	<59>
+	**Transfers in*****	£	<60>

*** If applicable

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

Annual Survivor's Pension	£	**<87>**
Death in service lump sum	£	**<32>**

Nomination details for death in service lump sum

<35>	<36>	<45>	<46>
<37>	<38>	<47>	<48>
<39>	<40>	<49>	<50>
<41>	<42>	<51>	<52>
<43>	<44>		

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

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

Your Normal Pension Age (NPA)		**<82>**	
Projected Final Salary Pension built up to NPA	£	<88>	pa
Projected CARE Pension built up to NPA	£	<84>	pa
Total Projected Annual Pension at NPA	£	**<83>**	pa
Total Projected Lump Sum Retirement Grant	£	**<86>**	
Projected Final Salary Survivor's Pension at NPA	£	<90>	pa
Projected CARE Survivor's Pension at NPA	£	<85>	pa
Total Projected Survivor's Pension at NPA	£	**<87>**	pa

Your membership history 7

Employer	Period from	Period to	Calendar length yrs/days	% Whole time	Period of membership yrs/days
<123>	<124>	<125>	<126>	<127>	<128>
<131>	<132>	<133>	<134>	<135>	<136>
<138>	<139>	<140>	<141>	<142>	<143>
<145>	<146>	<147>	<148>	<149>	<150>
<152>	<153>	<154>	<155>	<156>	<157>
<159>	<160>	<161>	<162>	<163>	<164>
<166>	<167>	<168>	<169>	<170>	<171>
<173>	<174>	<175>	<176>	<177>	<178>
<180>	<181>	<182>	<183>	<184>	<185>
<187>	<188>	<189>	<190>	<191>	<192>

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

Tax and your pension 8

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

Lifetime Allowance

The percentage of your Lifetime Allowance used by the present value of your standard LGPS benefits shown in this statement	<75> %

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

KEEP IT SAFE:
Remember this statement contains personal information

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

Section 1

Your personal and employment information as at 31 March 2015

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

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

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

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

Section 2

Your summary of total benefits as at 31 March 2015

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

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

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

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

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

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

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

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

Section 3

How your pension is calculated

YOU MUST CHECK the pay figures quoted in the statement. If you think the pay is incorrect contact your **EMPLOYER** as the pay figures quoted have been supplied by your employer.

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

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

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

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

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

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

Section 4

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

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

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

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

Total FS Annual Pension

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

Lump Sum Retirement Grant

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

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

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

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

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

Section 5

Value of death in service benefits as at 31 March 2015

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

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

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

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

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

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

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

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

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

If your NPA is after age 65 and you have FS benefits, these FS benefits will be subject to actuarial increase in respect of the period from age 65 to NPA. These increases are set by the Government Actuary's Department and are subject to review. The figures quoted in Section 6 do not include this actuarial increase **unless** you were over age 65 on 31 March 2015. If you retire after age 65 the rate of increase will be based on the factors in place at that time.

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

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

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

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

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

Section 7
Your membership history

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

Section 8
Tax and your pension

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

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

Appendix 4

East Sussex Pension Fund

East Sussex County Council

08 to 14

Local Government Pension Scheme (LGPS)

Deferred Benefit Statement 2015

<TITLE> <INITS> < SURNAME>
<ADD-LINE-1>
<ADD-LINE-2>
<ADD-LINE-3>
<ADD-LINE-4>
<ADD-LINE-5>
<POSTCODE>

Dear <TITLE> <SURNAME>

September 2015

YOUR PERSONAL DETAILS			
Date of birth	**<DOB >**	**NI Number**	**<NI-NUMBER>**
Date of leaving	**<DateLeft>**		

I am writing to advise you that your deferred benefits in the East Sussex Pension Fund increased by **1.2%** from **6 April 2015** as a result of the annual pensions increase award. This annual award is based on increases in the Consumer Prices Index for the twelve months ending in September 2014.

The figures below show the new value of your deferred benefits after the April 2015 increase has been applied. If you disagree with the calculation of your deferred benefits, or if any of your personal details shown above are incorrect, please contact ESCC Pensions as soon as possible. Their contact details are shown on page 4 of the notes which accompany this statement.

If you have received more than one statement because you had more than one job, you can add your benefits together to work out your total benefits.

BENEFIT	VALUE FROM 6 APRIL 2015
Annual pension	**£ <Pension2015>**
Automatic tax-free lump sum *	**£ <LumpSum2015>**
Your benefits are due for payment on an unreduced basis from**	**<ELIGDATE>**

Your statement shows the date that you can receive your deferred benefits without any reductions applied. This is the date you would first have been able to retire with unreduced benefits had you stayed in your former employment.

***** *If you became a member of the scheme on or after 1 April 2008 a tax-free lump sum will not be shown in the value of your deferred benefits – please refer to the attached notes for further information.*

*******If this date is after age 60, please see attached notes for further information on taking your benefits from age 60.*

Continued overleaf /…

DEATH IN DEFERMENT

If you die before your deferred benefits are due to be paid, a lump sum of five times the current value of your annual deferred pension will be paid as a death grant.

A pension will also be paid to your **husband**, **wife**, **civil partner** or, provided the relevant conditions have been met, a **cohabiting partner** in the event of your death. If you are not married or in a civil partnership and you would like the person you live with to receive a pension if you die, and you would like more information about the qualifying conditions, you can contact us or visit our website – our contact details are shown on page 4 of the attached notes.

The LGPS also provides for a pension to be paid to **children** up to the age of 18, or up to age 23 if the child is still in full time education or vocational training. If a child of any age is dependent on you because of a permanent disability, they may also be entitled to a child's pension.

LUMP SUM DEATH GRANT AS AT 6 APRIL 2015

Lump sum death grant	**£ <DthGr2015>**

The East Sussex Pension Fund has complete discretion to decide to whom any death grant will be paid, but will take full account of your wishes. **It is therefore important that you complete an *Expression of Wish form*.** If there are no beneficiaries shown in the box below we have not received a completed form from you.

If you want to name a beneficiary or beneficiaries or change your existing beneficiaries, a copy of the *Expression of Wish form* can either be downloaded from the pension fund website at: **www.eastsussexepensionfund.org** or you can contact ESCC Pensions – our contact details are shown on page 4 of the notes that accompany this statement.

EXPRESSION OF WISH FOR DEATH GRANT

	%
<SP-NAME>	<SP-GENERAL>
<CH-NAME[1]>	<CH-GENERAL[1]>
<CH-NAME[2]>	<CH-GENERAL[2]>
<CH-NAME[3]>	<CH-GENERAL[3]>
<CH-NAME[4]>	<CH-GENERAL[4]>
<DE-NAME[1]>	<DE-GENERAL[1]>
<DE-NAME[2]>	<DE-GENERAL[2]>
<DE-NAME[3]>	<DE-GENERAL[3]>
<DE-NAME[4]>	<DE-GENERAL[4]>

PENSION REFORM: Freedom and Choice

Over recent months there has been a great deal of information in the media about changes in pension legislation from 6 April 2015. Although these changes do not directly apply to the LGPS, they do have an impact on the options open to you as a deferred scheme member.

More information about Freedom and Choice can be found on pages 3 and 4 of the enclosed notes.

Yours sincerely

Simon Pollock – Acting Head of Business Operations
East Sussex and Surrey County Council working in partnership

Enclosed: Deferred Benefit Notes 2015

IMPORTANT – Please remember that this statement is issued as a guide. While every effort is made to ensure the accuracy of this information, the Pension Fund cannot guarantee the benefits quoted, as these will ultimately be determined at the time of payment.

East Sussex Pension Fund

East Sussex County Council

Local Government Pension Scheme (LGPS)
Deferred Benefit Statement 2015

08 to 14

How public sector pensions increase

Your deferred benefits are increased each year in line with the cost of living as measured by the Consumer Prices Index (CPI). The increase is based on changes in CPI over the previous 12 months ending in September.

This year's increase is 1.2% and took effect from 6 April 2015.

Unreduced payment of your deferred benefits

The accompanying statement shows the date that you could receive your deferred benefits without any early payment reductions applied - your normal retirement age. This is the date you would first have been able to retire with unreduced benefits had you remained in your former employment.

If you became entitled to deferred benefits because you elected to opt out of LGPS membership, your pension can only be paid if you have left the employment you were in at the time you made that election.

Early payment of deferred benefits at age 60 on a reduced basis

If the unreduced payment date of your deferred benefits is later than age 60, you can choose to have your benefits paid at any time from age 60 onwards. This will usually mean there will be an actuarial reduction applied to some or all of your benefits depending on whether any transitional protections apply to you (please see the section on page 2 entitled 'Transitional Protections'). It is important to note the reduction to your benefits would be permanent and would apply for the whole period that your pension is in payment.

As long as we have your current address, we will write to you shortly before your 60th birthday with details of the reduced benefits payable.

If you became entitled to deferred benefits because you elected to opt out of LGPS membership, your pension can only be paid if you have left the employment you were in at the time you made that election.

Early payment of deferred benefits on health grounds

If you have become permanently incapable of carrying out the duties of your former post because of ill-health, you can apply to have your deferred benefits paid early on health grounds, regardless of your age.

An independent registered medical practitioner chosen by your former employer would need to certify that you were permanently incapable of carrying out the duties of your former post to at least the age of 65.

If you want to apply for payment of your deferred benefits on health grounds, you will need to write to your former employer in the first instance.

Early payment of deferred benefits for other reasons

In exceptional circumstances, your former employer may allow you to claim payment of your deferred benefits between the ages of 55 and 60, although your benefits would be actuarially reduced to take into account the fact that they were being paid early. It is important to note that any reduction to your benefits would be permanent and would apply for the entire period your pension is in payment.

Your former employer may agree to the early payment of your benefits before age 60. They also have the option to waive any reductions to your benefits on compassionate grounds if you retire before your normal retirement age.

If you want to apply for the early payment of your deferred benefits before age 60, you should contact your former employer in the first instance. If you want your former employer to consider waiving any reductions on compassionate grounds, you should outline the reasons for your application and provide as much supporting information as you can to enable your case to be considered.

If you became entitled to deferred benefits because you elected to opt out of LGPS membership, your pension can only be paid if you have left the employment you were in at the time you made that election.

Transitional Protections

If you were a member of the LGPS on 30 September 2006, you may be entitled to receive some or all of your benefits before the age of 65 unreduced if you would have met the 85-year rule.

The 85-year rule allowed you to receive unreduced pension benefits if your age and scheme membership were equal to or more than 85. For example, if you were 60 and had been a member of the LGPS for 25 years, you met the 85-year rule because 60 + 25 = 85.

The 85-year rule has been removed from 1 October 2006 but there are the following levels of protection if you were a member of the LGPS on 30 September 2006.

- The 85-year rule has been removed for membership from 1 April 2008, not 1 October 2006.
- If you will be 60 or over and would have met the 85-year rule by 31 March 2016 if you had continued to be a member of the LGPS, your benefits will be protected.
- If you will be 60 or over and would have met the 85-year rule between 1 April 2016 and 31 March 2020 if you had continued to be a member of the LGPS, the reduction to your benefits that have built up for scheme membership from 1 April 2008 will not be as large as for other members.

Tax-free lump sum

If you joined the pension scheme after 31 March 2008, a tax-free lump sum will not be shown in the value of your deferred benefits. This is because there is no automatic right to a tax-free lump sum for scheme membership built up from 1 April 2008. However, at retirement, all members are given the option to exchange part of their pension for a tax-free lump sum. Please see the next section.

Exchanging part of your pension for a tax-free lump sum at retirement

When you retire you will be given the option to convert up to 25% of the overall value of your total pension scheme benefits to a lump sum. This means that you can choose to receive a larger tax-free lump sum and smaller pension. The conversion rate is currently £12 of lump sum (tax-free) for every £1 of annual pension given up.

What to do if you have re-joined the LGPS or another pension arrangement

If you re-join the LGPS with another employer you must tell your new LGPS pension fund that you have deferred benefits in the scheme. You will normally have 12 months to decide whether or not you want to have your deferred benefits combined with your new pension account.

If you are not a member of the LGPS in your new job, but you pay into an occupational pension scheme or a personal pension, it may be possible to transfer your deferred benefits to that pension scheme. Please note that some schemes also have time limits on accepting transfers in.

Legislative changes that took effect on 6 April 2015 have introduced additional options for members of Defined Contribution (DC) pension schemes. Please see the *Pensions - Freedom and Choice* section below for more information.

Pensions – Freedom and Choice

From 6 April 2015 changes in pensions legislation introduced greater flexibility for members of Defined Contribution (DC) pension schemes to access their pension savings from age 55. Known as flexible benefits, these new options include taking the entire fund as a lump sum, or taking a number of lump sums at different stages. The first 25% of any such payment would be tax free, the remainder would be taxed in the same way that any other income is taxed.

It is important you are aware that the Local Government Pension Scheme (LGPS) is a public sector Defined Benefit (DB) scheme and as such **the flexibilities being introduced under 'Freedom and Choice' do not apply to the LGPS.**

LGPS members more than a year below their normal pension age may elect to transfer their benefits to a Defined Contribution (DC) scheme and take advantage of these new flexibilities. Members who choose to transfer their benefits and claim their pension savings as a lump sum or series of lump sums from age 55 will be giving up access to the secure lifetime income provided by the LGPS, which may not be in their best interest.

New safeguards have been introduced to ensure that members are aware of the implications of giving up the guaranteed benefits offered by the LGPS and to protect pension funds from the adverse effects of large amounts being transferred out of the pension fund in a short period. More information about these safeguards can be found in the next section.

It may not be possible for a pension transfer to be completed if you are receiving a pension from the LGPS, or you are currently paying into the LGPS. Full details will be provided if you request a transfer value quotation.

Freedom and Choice - Safeguards

Safeguards for scheme members:

- Members whose LGPS benefits have a cash equivalent transfer value (CETV) of more than £30,000 will have to take independent financial advice before they will be permitted to transfer to a DC scheme
- There is no requirement for members whose LGPS benefits have a CETV of under £30,000 to obtain advice before a pension transfer can be completed, although it is recommended that they do so
- Pension Services will check and evidence that advice has been received from a suitably qualified independent financial adviser prior to authorising any transfer
- Members will be responsible for bearing the costs of obtaining Independent Financial Advice.

Safeguards for the Pension Fund:

- The Government will have the power to reduce CETV value factors for public sector pension funds if this protects the tax payer.

If you move – please keep in touch

It is important that you notify ESCC Pensions **in writing** each time you change your address so that you continue to receive your annual updates and so that we can contact you when your deferred benefits are due for payment. For your security, we are unable to accept your change of address by phone or email.

If you have any queries about your deferred benefit statement or if you would like further information, please contact ESCC Pensions - our contact details are shown below.

How to contact ESCC Pensions

You can contact ESCC Pensions in any of the following ways:

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

By phone: 01825 744544

By email: ESCC.pensions@sesharedservices.org.uk

Website: www.eastsussexpensionfund.org

Useful contacts

National member's website: More information about the LGPS is available from the national website for members of the LGPS at: **www.lgps.org.uk**

Independent Financial Advice: You can find details of independent financial advisers in your area by visiting the following website: **www.unbiased.co.uk**

The Department for Work and Pensions (DWP): The DWP provides a wide range of information about the State Pension, Pension Credit and other related benefits. You can contact them on 0800 731 7898 or visit their website at: **www.gov.uk**

Pensions Fund Processes and System 2015/16

The review of the East Sussex Pension Fund Processes and Systems is an annual review examining controls over the calculation and payment of pensions, transfers to and from the pension fund and the collection and recording of pension contributions (including contributions from other admitted bodies). This review formed part of the 2015/16 annual audit plan and was finalised during the first quarter of this financial year.

Whilst our review found that the key controls over areas such as the calculation of employee / employer contributions and pensioner payments were in place, a number of weaknesses in the administration of the Fund, undertaken by the Pensions Administration Team, meant that we were still only able to provide an opinion of **partial assurance**, unchanged from that issued in our previous audit of this system.

At the time of the audit, we found that the Pensions Administration Team had not undertaken appropriate action to address all known issues associated with backlogs in work and key activities. It is understood that staff shortages and loss of expertise within the service have impacted the ability of the Administration Team to cope with workloads but we been informed that that this is now being addressed by management. Workloads are currently mismatched against available resources and improvements need to be made in the routine monitoring of certain tasks.

Particular areas identified requiring further improvement were:

- Undertaking a reconciliation between SAP and the pensions system (Altair) to ensure the accuracy of personal data and in particular, home address information, to ensure annual benefit statements are only sent to the correct addresses;

- Resolving all previous instances where information had been sent to incorrect recipients, including directly contacting all members of the scheme affected by previous errors;

- Ensuring annual benefits statements are issued in a timely manner and in accordance with the guidance issued by the pension regulator;

- Taking urgent action to deal with specific backlogs and outstanding tasks relating to pension lump sum payments, transfer in quotes, combining of pension benefits and other pension choices.

All of the recommendations arising from the review have been agreed with management as part of a formal action plan for improvement and it is our understanding that, in a number of cases, immediate action is being taken to address the weaknesses identified. A full follow up review to confirm the progress made will be undertaken as part our 2016/17 audit plan.

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Report to: **Pension Committee**

Date of meeting: **8 September 2016**

By: **Head of Accounts and Pensions**

Title: **General Update**

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

RECOMMENDATIONS – The Committee is recommended to note the update.

---

1. Introduction

1.1 This report provides an update on matters relating to the Pension Board and Committee 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 2016/17 is that the fund will generate a surplus of £7.1m; 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 June 2016.

PENSION FUND DEALINGS WITH MEMBERS AND EMPLOYERS	Original 201617 £m	Projected Outturn 2016/17 £m	Variance £m
Employees Contributions	28.1	28.8	0.7
Employers Contributions	94.3	94.8	0.5
Deficit Recovery	5.2	5.2	-
Transfers In	4.0	5.2	1.2
TOTAL INCOME	**131.6**	**134.0**	**2.4**
Pensions Benefits Paid	(97.4)	(100.00)	(2.6)
Pensions Lump Sum Paid	(19.9)	(19.9)	-
Administration expenses	(2.1)	(2.1)	-
Transfers Out (excluding Probation transfer)	(5.1)	(4.2)	0.9
TOTAL EXPENDITURE	**(124.5)**	**(126.2)**	**(1.7)**
SURPLUS CASH	**7.1**	**7.8**	**0.7**

3. National Development - updates

Local Government Pension Scheme pooling and Funds Collaboration

3.1 The Committee at its meeting on 31st May 2016 considered the LGPS Investment Pooling report and authorises the Chief Operating Officer, in consultation with Chairman of the Pensions Committee, to submit the refined detailed response from the East Sussex Pension Fund and ACCESS Pool on the Government's consultation and pooling requirements. .

3.2 The Chairs of the LGPS committees of the administering authorities who have joined forces to establish the ACCESS pool, met on Monday 27th June to consider the ACCESS submission (Appendix 1) on pooling proposals to government, which was submitted to the Government on 15th July 2016.

3.3 Going forward, the ACCESS authorities will continue to place as much emphasis on delivering performance as delivering savings. Our work to date has identified material issues that government can help with. These include:

- Discussions with the FCA to avoid inappropriate regulatory capital requirements; and
- Minimising any tax charges on transfer of assets to pools – as our submission evidences, excessive transition costs could wipe out many years of savings and are one of the biggest risks affecting the pay-back period for our proposals.

3.4 The attached (Appendices 2 & 3) communications have been put together by the LGA in relation to employer and scheme member enquires about how pooling might affect them.

4. Employer Satisfaction Survey

4.1 The East Sussex Pension Fund on the 28th July 2016 invited Pension Fund employers to participate in an Employer Satisfaction Survey, focused in the main on the service provided to employers by the East Sussex Pension Fund - Pensions Governance team. We are pleased to advise that employers responded to the survey covering 85% of the Fund membership and to inform that the responses were positive.

5. 2016 Employer Forum

5.1 The East Sussex Pension Fund (ESPF) Employer Forum is scheduled for 18th November 2016 at the County Hall. The draft itinerary is attached as Appendix 4.

6. Pension Committee Agenda – November 2016

6.1 The draft agenda for the November 2016 Pension Committee meeting include the following-

- Internal dispute resolution procedure
- Internal Control Register
- Risk register
- CIPFA Benchmarking

7. Conclusion and reasons for recommendations

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

MARION KELLY
Chief Finance Officer

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

Background Documents:

None

Marcus Jones MP
Minister for Local Government
Department for Communities & Local Government
Fourth Floor, Fry Building
2 Marsham Street
London SW1P 4DF

Chairmen of the Participating Authorities in the ACCESS Pool

15th. July, 2016

Dear Minister

As Chairmen of the LGPS committees of the administering authorities who have joined forces to establish the ACCESS pool, we present our pooling proposals to government as required following guidance on pooling published in November 2015. We understand from DCLG (in a letter dated 8th June) that Ministers will provide confirmation that they are content for us to proceed. We will therefore not start establishing the formal structure of the Pool until we receive that confirmation from Ministers.

Highlights of our proposals include:

- Eventual projected **savings of £30m annually** based on further analysis of options for extracting savings following our provisional estimate of circa £21.8m in June. Allowing for future investment growth of 3-5% per annum, by year 10 this will be equivalent to annual savings of £40-50m which represents a significant proportion of the projected annual savings of £200-300m across all pools estimated by Project POOL. The savings will not be evenly distributed across the individual funds since some already have very low costs. In fact, some individual authorities could see their costs increase as a result of the extra layer of costs in running the pool.

- Plans for a **quick win of £4m per annum** from consolidating passive mandates.

- Potential for **greater savings** in the longer term as the ACCESS pool applies its leverage as one of the largest asset pools in the UK and collaborates with other pools to achieve further benefits of scale in investment management including more direct investment approaches in illiquid assets.

- A pool structure composed of an **FCA authorised Collective Investment Vehicle** (the Operator and ACS and other pooled investment vehicles to hold assets).

- A significant shift in governance arrangements with the **Operator responsible for selecting and contracting with managers** on behalf of the authorities participating in the pool.

- Preserving appropriate local decision making (including strategic asset allocation) and building into governance arrangements the critical role of elected members. A Joint Governance Committee will be established which will hold the Operator to account - ensuring **democratic accountability** and exercising authority's **fiduciary responsibilities.**

- Potential for an **increase in UK and global infrastructure** provided cost effective access to investment opportunities with the right risk / return profile emerge – ACCESS will support cross-pool collaboration efforts in developing arrangements that enable this.

A primary focus of government proposals is cost saving. International benchmarking experts CEM have assessed the current investment costs of ACCESS authorities. This has shown that current costs already compare favourably with larger international funds. This demonstrates the effectiveness of local authority procurement and the strength of current governance arrangements of the individual funds. By joining forces in a pool we will be able to apply even greater leverage to achieve additional savings.

However, it would be wrong to focus only on cost savings. Investment performance is key and can easily deliver greater benefits. Outperformance of a mere 0.1% (10 basis points) is worth £30m annually now, the same as the projected eventual annual cost savings. Going forward, the ACCESS authorities will continue to focus on using the best available investment managers to deliver superior investment performance.

Our work to date has identified barriers that government can help remove. These include:

- Discussions with the FCA to avoid inappropriate regulatory capital requirements; and

- Minimising any tax charges on transfer of assets to pools – as our submission evidences, excessive transition costs could wipe out many years of savings and are one of the biggest risks affecting the pay-back period for our proposals.

We would urge government to support the pools on these issues.

The ACCESS pool places great store on objective, evidence based decision making guided by a set of principles agreed by the participating authorities which has served us well to date and will continue to do so in future. We believe these proposals will meet government objectives and enable participating authorities to retain democratic accountability and exercise their primary fiduciary responsibility to LGPS stakeholders, including scheme members and employers, as economically as possible.

In her letter dated 8th June, Teresa Clay at DCLG confirmed that Ministers will confirm whether they are content for us to proceed "as soon as possible in the autumn". Given the short timescales, we would ask Ministers to confirm as a matter of urgency that they are content with our proposals so that we can commence implementation. Otherwise there is a risk that the government's timetable cannot be met.

We look forward to working with you over the summer to deal with any questions which arise and to ensure that expected progress is being made. We will not start establishing the formal structure of the Pool until we receive confirmation that Ministers are content for us to proceed. We look forward to your early response.

Yours sincerely,

The Chairmen of the Participating Authorities in the ACCESS Pool

Cambridgeshire County Council

East Sussex County Council

Essex County Council

Mark N. Kemp-Gee

Hampshire County Council

Hertfordshire County Council

Isle of Wight Council

J. E. Scholes

Kent County Council

Norfolk County Council

Northamptonshire County Council

Suffolk County Council

Jeremy C. Hunt

West Sussex County Council

ACCESS

Effective • Collective • Investment

The submission from

ACCESS

(A Collaboration of Central, Eastern & Southern Shires)

in response to the

LGPS: Investment Reform Criteria and Guidance

On behalf of

Cambridgeshire County Council

East Sussex County Council

Essex County Council

Hampshire County Council

Hertfordshire County Council

Isle of Wight Council

Kent County Council

Norfolk County Council

Northamptonshire County Council

Suffolk County Council

West Sussex County Council

ACCESS Pool objectives and principles

Participating authorities have a clear set of objectives and principles, set out below, that will drive the decision-making and allow participating authorities to help shape the design of the Pool.

Objectives

1. Enable participating authorities to execute their fiduciary responsibilities to Local Government Pension Scheme (LGPS) stakeholders, including scheme members and employers, as economically as possible.
2. Provide a range of asset types necessary to enable those participating authorities to execute their locally decided investment strategies as far as possible.
3. Enable participating authorities to achieve the benefits of pooling investments, preserve the best aspects of what is currently done locally, and create the desired level of local decision-making and control.

In order to achieve these objectives, the participating authorities have established the following guiding principles:

Principles

- The participating authorities will work collaboratively.
- Participating authorities will have an equitable voice in governance.
- Decision-making will be objective and evidence based.
- The Pool will use professional resources as appropriate.
- The risk management processes will be appropriate to the Pool’s scale, recognising it as one of the biggest Pools of pension assets in the UK.
- The Pool will avoid unnecessary complexity.
- The Pool will evolve its approach to meet changing needs and objectives.
- The Pool will welcome innovation.
- The Pool will be established and run economically, applying value for money considerations.
- The Pool’s costs will be shared equitably.
- The Pool is committed to collaboration with other Pools where there is potential to maximise benefits and minimise risk.

Contents

Please note:

Throughout this submission, in relation to Pool implementation and operation costs, the basis point (bps) costs have been expressed in terms of the total Pool assets of £33.5billion. In practice, the running cost fees are likely to apply only to the assets physically held and directly managed within the Pool (i.e. excluding direct property and Life Policies).

The participating authorities are grateful to the following sources who have been used to inform this submission:

- Aviva
- Baillie Gifford & Co.
- Capita
- CEM Benchmarking
- Cross Pool collaboration Group and other Pools
- Eversheds
- Friends Life
- Goldman Sachs
- Harbour Vest
- HSBC
- Hymans Robertson
- Mercer
- Nomura
- Partners Group
- Project POOL
- State Street
- Squires Patton Boggs
- Wellington Investment Management

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Criterion A: Asset Pools that achieve the benefits of scale

A1. The size of the Pool once fully operational.

a) Please state the total value of assets (£b) to be invested via the Pool once transition is complete (based on asset values as at 31.3.2015).

a)

The ACCESS Pool represents assets in total of £33.5b based on asset values as at 31.3.2015. The values contributed by each of the participating authorities are set out in the table below.

Authority	£b
Cambridgeshire County Council	2.3
East Sussex County Council	2.7
Essex County Council	4.9
Hampshire County Council	5.1
Hertfordshire County Council	3.5
Isle of Wight Council	0.5
Kent County Council	4.5
Norfolk County Council	2.9
Northamptonshire County Council	1.9
Suffolk County Council	2.2
West Sussex County Council	3.0
Total	33.5

- The total value of assets to be held within the Pool, once the transition is complete, will be around £31.8b. This assumes that, passive assets currently held in Life Policies will be considered to be within the Pool, although the Life Policies will remain an agreement between the participating authority and the appointed external investment manager(s). This will ensure value for money through competitive fees, avoid any unnecessary transition and oversight costs and overcome some technical issues associated with a Collective Investment Vehicle (CIV) holding a Life Policy.
- The majority of existing illiquid assets will be run off over their normal investment lifecycle in order to optimise their existing economic benefit. Future allocations will be invested through the Pool.
- A small proportion of assets remain permanently outside, as set out in A2.

A2. Assets which are proposed to be held outside the Pool and the rationale for doing so.

a) Please provide a summary of the total amount and type of assets that are proposed to be held outside of the Pool (once transition is complete, based on asset values at 31.3.2015).

b) Please attach an ANNEX for each authority that proposes to hold assets outside of the Pool detailing the amount, type, how long they will be held outside the Pool, reason and how it demonstrates value for money.

a)

The table on the following page sets out the assets that the participating authorities intend to hold permanently outside the Pool and the rationale for doing so.

In the future, it may be appropriate for participating authorities to hold additional assets, such as local targeted investments as set out in 3.12 of the *Local Government Pension Scheme: Investment Reform Criteria and Guidance,* outside the Pool.

Outside of Pool	Current Value (£m)	Rationale for holding outside
Direct property	1,600 (4.8% of Pool assets)	Four of the participating authorities in the Pool have existing direct portfolio allocations and each will hold these outside the Pool. The rationale for holding these outside are as follows: - The portfolios have been built to specific target requirements of the respective authorities including their risk and return requirements. - Direct portfolios are designed to account for target holding sizes, to reflect the total portfolio size and achieve the required levels of diversification. To move these holdings to part of a bigger direct portfolio would have significant cost implications, such as Stamp Duty Land Tax (SDLT), in order to reshape portfolios to meet new objectives which would be inconsistent with the value for money objective. - The cost analysis also shows that the direct mandates are the most competitive in terms of value for money. A Pool approach that met all the participating authorities' requirements would result in higher costs initially, given it would need to be a mix of direct and property fund holdings, until a more efficient solution can be developed. - Project Pool analysis showed that increasing direct mandate size does not result in incremental costs savings. This is expanded on in Annex 1.
Local investment	17 (0% of Pool assets)	One authority holds a small illiquid local investment that it intends to hold outside the Pool. The nature of this investment means that it would be impractical and inefficient to hold it inside the Pool. The investment is a joint venture with Cambridge University and will be held until there is no longer a locally decided strategic case for retaining the investment.
Operational cash	TBC	Participating authorities need to manage their cash flow to meet statutory liabilities, including monthly pension payroll payments, therefore, a reasonable level of operational cash will be required to maintain efficient administration of schemes and would be held outside the Pool. This will be reviewed by participating authorities on a regular basis.

b)

Annex 1 shows assets held permanently outside of the Pool (amount, type, how long they will be held outside the Pool, reason and how it demonstrates value for money) by the participating authority.

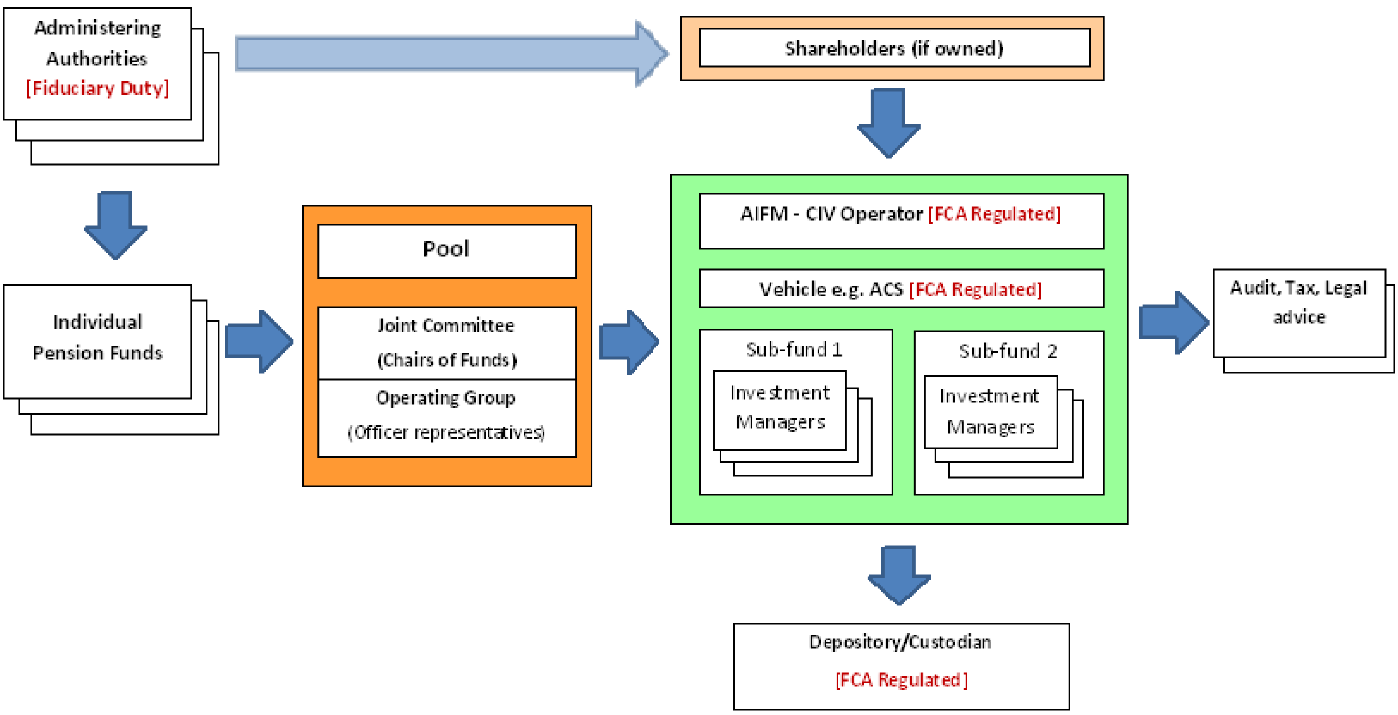
It should be noted, as set out in A1 a), that the participating funds have existing investments in illiquid closed ended vehicles. These illiquid assets will be run off over their normal investment lifecycle to avoid crystallising exit costs and loss of illiquidity premium earned. These are not shown within the Annex.

A3. The type of Pool including the legal structure. a) Please set out the type of Pool, including legal structure, and confirm that it has been formally signed off by all participating authorities: • Details of the FCA authorised structure that will be put in place, and has been signed off by the participating authorities. • Outline of tax treatment and legal position, including legal and beneficial ownership of assets. • The composition of the supervisory body. b) Please confirm that all participating authorities in the Pool have signed up to the above. If not, please provide in an Annex the timeline when sign-off is expected and the reason for this to have occurred post July submission date.

a)

The Pool proposes to utilise fully Financial Conduct Authority (FCA) regulated Collective Investment Vehicles (CIV) and an Alternative Investment Fund Manager (AIFM) to build and operate the collective investment scheme. This structure will be referred to as the Operator from this point, but, for the avoidance of doubt, consists of the CIV itself, the FCA authorised and regulated entity (the AIFM) and the FCA authorised and regulated depository.

This will be a separate external legal entity.



The Operator will be the legal owner of the underlying assets, creating a large single Pool. Consequently the nature of the assets owned by the participating authorities will change. Instead of having direct ownership of the underlying assets, participating authorities would hold shares or units in the CIV sub-funds and be beneficial owners. Whilst all participating authorities have agreed the type of legal entity, a decision has not yet been made about whether to rent or establish (build) an Operator.

It is critical that an informed choice is made between these options and further work will be undertaken with the intention of making a decision in September 2016. The decision will be based on ACCESS's objective and evidenced based approach, achieving long-term value for money, effective governance and the need to minimise complexity (see B4). However some initial commentary has been included in the following tables.

Rent an Operator from third party

Commentary	Considerations
The participating authorities would have investor rights as holders of shares / units in the Operator and would have a Service Agreement with the 'host' to regulate the terms on which the host would act as Operator. This removes the up-front costs associated with establishment and authorisation, but, there is a loss of control over the management of the Operator.	**Resource:** Participating authorities do not currently have the staff or capacity to run our own Operator. Paying a third party to provide a solution could help overcome this. **Market Capacity:** There is a risk of the lack of availability, experience and track record of suitable providers and the cost of employing the skilled individuals required to provide the client function. **Time:** As the Operator is an existing company, it would be responsible for the set up, but, it could still take up to one year to procure an Operator and then a further two years to build an Operator and sub-funds. **Cost:** Although set up costs will be borne by the Operator, there will still be procurement and legal costs associated with appointment. Research suggests that set up costs are around £1m (0.3 bps[1]) of Pool assets) with ongoing costs estimated at £3-5m p.a. (0.9-1.5 bps p.a.). This is covered in more detail in the response to B5. **Control:** Local and Pool decision-making and control will be via its contractual and practical relationship with the Operator. Once a contract is agreed, it will be difficult to change the service if the underlying requirements vary over time. The main recourse if the Pool is unhappy with the Operator is to replace them – which could be costly and complex and, in the interim, there is a risk that the Operator will be in a strong negotiating position. **Regulatory Capital:** No regulatory capital will be required from participating authorities but the cost of the Operator putting aside capital will be covered in their fee.

[1] Please note that throughout this submission in relation to Pool implementation and operation costs the basis point (bp) costs have been expressed in terms of the total Pool assets of £33.5b. In practice the running cost fees will likely apply only to the assets physically held and directly managed within the Pool (i.e. excluding direct property and Life Policies)

Establish (build) an operator

Commentary	Considerations
This is a significant undertaking and the amount of work, the upfront costs and the business evolution involved should not be underestimated. It does, however, give participating authorities maximum control over the direction of the Pool via their sponsorship and shareholder agreement with the Operator.	**Resource:** Participating authorities do not currently have the staff or capacity to run our own Operator; in particular, staffing the necessary senior regulated positions such as Chief Executive Officer (CEO), Chief Investment Officer (CIO) and Chief Risk Officer (CRO). This can be overcome through the recruitment of suitable staff to build and manage ACCESS's own Operator. **Market Capacity**: There is a risk in respect of the availability of suitable individuals and the cost of employing the skilled individuals required. **Time**: An application process with the FCA is likely to take six to nine months, plus the additional time to prepare the application. In addition time will be required to agree the detailed legal provisions around the relationship between participating authorities, appointments to positions within the Operator, consolidation plans, procurement and transition plans and negotiating contracts with new service providers. The London CIV took three years to put their current structure – which is not yet complete – in place and Friends Life took 18 months to implement a CIV. **Cost:** Research suggests that set up costs are around £1.5m - £1.7m (0.4 – 0.5 bps) but these are likely to be low due to first mover advantage. It is estimated that the costs are likely to be closer to £3-5m (0.9-1.5 bps). On-going costs are estimated at £3-5m (0.9-1.5 bps p.a.). This is covered in more detail in the response to C3. **Control:** Local and Pool decision-making and control will be via its contractual and practical relationship with the Operator. This relationship could be easier to manage and make reflective of the particular (and changing) circumstances of the participating authorities, their investments and the Pool's objective versus a rented solution. **Regulatory Capital:** Based on the current legal advice, regulatory capital of €10m will be required.

Participating authorities will invest through the most appropriate pooled vehicles for each sub-fund asset class taking into account factors such as the cost of investing (e.g. investment manager's fees, the cost of managing the vehicle and tax treatment). For example, it is assumed that:

- Actively managed listed assets will be accessed via an Authorised Contractual Scheme (ACS)
- Passive investments will be accessed via Life Policies (as the Funds in ACCESS currently use for passive investments).

Until a decision is made on the most appropriate pooled vehicle for the sub-fund asset classes, further details cannot be provided on the specifics around tax treatment.

It should be noted that whilst it is expected that the position will change, the current *Local Government Pension Scheme: Management and Investment of Funds* Regulations place an upper limit on the proportion of each Pension Fund that can be invested into a single CIV or a range of vehicles of the same description. Presently this would potentially prevent a participating authority from investing all or substantially all of their assets into a single (or limited number) of CIVs.

b)

All of the participating authorities have signed up to the legal structure set out above. Further stages of participating authority approval will be scheduled as the Pool develops.

A4. How the Pool will operate, the work to be carried out internally and services to be hired from outside.

Please provide a brief description of each service the Pool intends to provide and the anticipated timing of provision.

- To operate in-house (for example if the Pool will have internal investment management from inception):
- To procure externally (for example audit services):

Please indicate the extent to which the service allocations listed above are indicative at this stage and subject to alteration either during or after the implementation of the Pool.

The services listed in the tables on the following pages are indicative at this stage and subject to alteration either during or after the implementation of a pooling arrangement.

Internal (within participating authorities and within the main Pool)
Pension Fund Committees Set its asset allocation based on its own assets, liabilities and risk return requirements. Agree participating authorities' individual policies in their Investment Strategy Statement (ISS), such as decisions on stock lending and Responsible Investment (RI) Policies. Hold the Pool to account via representation on the ACCESS Joint Committee of Elected Members. Receive periodic reports on Operator's performance against agreed Key Performance Indicators (KPIs) and Service Level Agreement (SLA). Receive periodic reports on sub-fund values, transactions and investment performance. Account for its underlying assets (including accountancy and performance measurement), engage with its own auditors (internal and external) and as the beneficial owner, deal with other aspects of Pension Fund administration including procuring its own legal advice as relevant. **ACCESS Joint Committee of Elected Members** Ensure that the Pool meets the needs of individual authorities e.g. decisions on sub-funds that the Operator will be required to provide to support individual authorities strategies. Ensure the joint delivery of each of the participating authorities' individual policies in their ISS, such as decisions on stock lending and RI Policies, through the Pool's sub-fund structure. Ensure the pooling arrangements deliver value for money. Review delivery of services by Operator and third party providers against their contractual requirements via periodic reports on the Operator's performance against agreed KPIs and SLA. Receive periodic reports on sub-fund investment performance. Appoint and terminate services of the Operator, if rented or Directors if built. Set Pool level policies e.g. sharing of costs. Procure advice on behalf of the Pool. Provide direction for the ACCESS Officer Operating Group. **ACCESS Officer Operating Group** Provide information and advice to the ACCESS Joint Committee of Elected Members. Receive periodic reports on sub-fund values, transactions and investment performance and monitor. Review delivery of services by Operator and third party providers against their contractual requirements via periodic reports on the Operator's performance against agreed KPIs and SLA. Fulfill the required client function, with respect to the relationship between the Operator and the participating authorities as investors in the underlying pooled investments, including ensuring that nominated individuals are identified to perform the required role. Procure advice on behalf of the Pool.

External Functions

Operator (whether built or rented)

Provide investment management of the sub-funds in the CIV. These would, in turn, be delegated to external investment managers, but, the Operator will be responsible for selecting and contracting with managers on behalf of the authorities participating in the Pool.

Provide middle office functions, including trade processing, portfolio accounting, pricing and valuation, corporate actions and proxy voting, derivative servicing, data management and client (participating authority) and regulatory reporting.

Maintain separate risk and compliance functions. These could be outsourced to a compliance firm, however, the Operator will still hold overall responsibility to ensure compliance and ultimate responsibility in relation risk management.

Provide back office functions, including settlement management and reconciliation and income and tax reclaims.

Set up, administer and operate the sub-funds on a day-to-day basis, including obtaining the necessary FCA authorisations, creating and maintaining the required documents, appointment and oversight of auditors, obtaining any required legal or tax advice, the execution of relevant documents or contracts and regulatory compliance monitoring.

Put in place and manage the contractual relationships in order to fulfil the regulatory requirements of the Pool and underling investors, including appointing a depositary and putting in place custody and audit functions.

Be responsible for both the regulatory reporting that this role entails and for providing regular reporting on its key functions and responsibilities to the participating authorities.

Please note: If participating authorities choose to build their own Operator it may outsource some of these services. If participating authorities choose to rent an Operator, the host may outsource some of these services. In both scenarios, the Operator will still be required to demonstrate to the FCA that it has the systems and controls in place to effectively oversee its delegates.

External Investment Managers

As discretionary managers, the external investment managers will be responsible for the day-to-day decisions about the composition of the portfolios and entering into contracts with principals, intermediaries and other market participants.

A5. The timetable for establishing the Pool and moving assets into the Pool. Authorities should explain how they will transparently report progress against that timetable and demonstrate that this will enable progress to be monitored.

a) Please provide assurance that the structure summarised in A3 above will be in place by 01.04.2018 assuming: x, y and z (add caveats). If 'no' please state the expected date the structure will be in place and attach an ANNEX detailing the reasons for not being able to have the structure in place by 01.04.2018.

b) Please provide as an ANNEX a high level timetable for the establishment of the structure and transition of assets as well as the proposed methodology for reporting progress against this timetable.

c) Please provide as an ANNEX an outline of how you will approach transition over the years and where possible by asset class (any values given should be as at 31.3.2015.)

d) Based on the asset transition plan, please provide a summary of the estimated value of assets (in £b and based on values as at 31.3.2015 and assuming no change in asset mix) to be held within the Pool at the end of each 3-year period starting from 01.4.2018.

a)

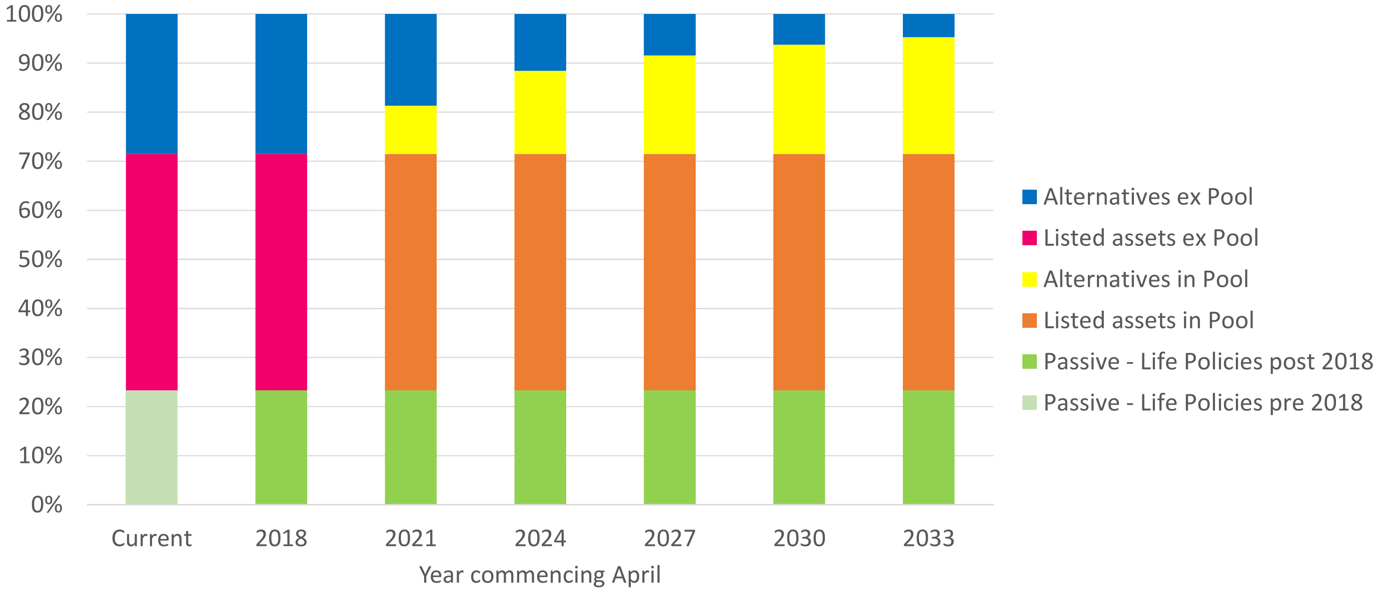
The intended approach to establishing the Pool, whether via a build or rent solution, is set out in the table below. This is indicative.

	Timeline
Formulate a detailed implementation plan	July 2016
Assessment of rent or build options	June-August 2016
Recommendation and Chairmen's decision on rent or build option	September 2016
Government agreement of ACCESS proposal	October 2016
Commence build or procurement of the Operator	October 2016
Finalise plan for initial manager consolidation	March 2017
Appoint Operator (if rented)	June 2017
Procure passive manager(s) using national framework	First half 2017
Agree Pool terms for passive assets	Mid 2017
Contracts and SLAs agreed with Operator	October 2017
FCA Authorisation granted for sub-funds	October 2017
Formulate plan for transition of liquid assets into sub-funds (including coordination with other Pools)	December 2017
Governance arrangements established	December 2017
Custody accounts set up	January 2018

	Timeline
Liquid assets manager selection completed	January 2018
Complete establishment of Operator (rented or built)	February 2018
Liquid asset transfer commences	April 2018

b)

The indicative timetable for transitioning assets into the Pool is shown in the chart below:



The table below reflects the following movements into the Pool:

Date (by)	Assets within the Pool (£b)
31/03/2021	£27.2
31/03/2024	£29.5
31/03/2027	£30.6
31/03/2030	£31.3
31/03/2033	£31.8

The intention of the Pool would be to employ a specialist transition manager to assist in the implementation of any transition into the Pool. As part of this service, the manager will be asked to prepare pre and post trade analysis that will allow the Pool to compare actual and estimated costs and also compare these with the initial estimates provided in this submission.

The Pool and participating authorities will publish information in respect of progress against the indicative (or revised) timetable, when appropriate, on a publicly accessible website, however information around transition is commercially sensitive and this must be considered in any public updates.

c)

The intended approach to transitioning each of the respective asset classes is set out in the table below. The speed at which assets move into the Pool is difficult to estimate and will depend greatly on the timetable for implementing the Pool investment options, participating authorities allocations to underlying asset classes and market conditions.

Asset	Value	Assumed timetable for transition to Pool
Passive - Life Policies	£7.8b	Part of Pool assets, but, existing holdings in Life Policies maintained. Fees negotiated at Pool level (e.g. via national framework). Work is already in progress to achieve this and expected to be completed with assets on Pool terms and part of Pool governance prior to April 2018.
Listed assets (equity, fixed income, balanced, diversified growth funds (DGF) and multi asset)	£20.2b	Pool solution to be developed. Intention to reduce the number of managers for all listed equity, fixed income and multi-asset to provide economies of scale with the aim of transferring assets to Pool by 2021.
Alternatives (private equity, timberland, infrastructure)	£1.7b	Pool solution to be developed. Existing illiquid asset programmes will run off at normal lifecycle to avoid crystallising exit costs and loss of illiquidity premium earned. Assumes new allocations made through Pool by 2021. In practice, commitments may continue for a period under existing arrangements, depending on the speed at which a Pool solution can be agreed.
Alternatives (indirect property)	£1.9b	Pool solution to be developed. Plan for indirect assets transitioned to Pool from 2021 to 2030.

From a risk and cost management perspective, the key areas of focus for transition purposes are the listed equity and fixed income assets.

To address this, the Pool will carefully plan and co-ordinate transition activity and engage the services of a specialist transition manager(s) to ensure that costs and risk is minimised as far as is possible.

The scale of the transition activity, within the Pool specifically and across the Local Government Pension Scheme (LGPS) generally, is unprecedented. It will, therefore, be important for Government and the Pools to co-ordinate the activity, potentially via the Cross Pool Collaboration group, to ensure the actual transition costs do not wipe out years of potential fee savings. **Transition costs have the potential to push out the breakeven point by which the Pool savings outweigh the costs of developing, running and implementing the solution. This must also be done without de-stabilising the market generally.**

The table below sets out some indicative costs of transitioning the respective assets classes moving into the Pool.

Asset	Transition Manager commission (bps)	Spread cost (half bid/ ask spread) (bps)	Tax (bps)	Market Impact / Opportunity cost (bps)	Total (bps)
Listed assets					
Large cap equity	1-3	5-7	4-8	15-35	24-53
Emerging Market equity	3-8	15	5-30	50-100	73-153
Government fixed income	2-10	2-40	0	10-60	14-110
Corporate fixed income	4-15	3-45	0	10-180	15-240
Alternatives					
Property (indirect)	?	150-700 (full spread)	0 for UK	?	150-700

Source: Goldman Sachs/Hymans Robertson

d)

See response to A5 b).

Criterion B: Strong governance and decision-making

B1. The governance structure for their Pool, including the accountability between the Pool and elected councillors and how external scrutiny will be used.

a) Please briefly describe the mechanisms within the Pool structure for ensuring that individual authorities' views can be expressed and taken account of, including voting rights.

b) Please list and briefly describe the role of those bodies and/or suppliers that will be used to provide external scrutiny of the Pool (including the Pensions Committee and local Pension Board).

a)

The LGPS Regulations provide that each of the participating authorities must maintain a Pension Fund within the LGPS and that the LGPS Administering Authority is responsible for managing and administering its Fund in relation to any person for whom it is the Administering Authority. Whatever arrangements are made to discharge the statutory responsibilities of the Administering Authority, each Administering Authority retains ultimate responsibility for the fulfilment of its statutory duties.

Consistent with the above, the Pool's overall objective is to enable participating authorities to execute their fiduciary responsibilities to LGPS stakeholders by providing the range of asset classes necessary to enable those authorities to execute their locally decided investment strategies, whilst enabling them to achieve benefits of pooling investments. These objectives will drive the governance structure adopted by ACCESS.

As set out previously in this response, the Pool will be governed by the ACCESS Joint Committee comprised of Elected Members under s.101 of the Local Government Act 1972. Each participating authority will select one representative, thereby ensuring that all members are represented in the governance of the Pool and can express their views. The detailed mechanisms for voting will be agreed by participating authorities in due course. The terms of reference of the Joint Committee would be set out in a Memorandum of Understanding (MoU) (or other similar document), whereby they would deal with issues such as membership, joining, withdrawal and the principles of the Joint Committee.

In line with ACCESS's principles, set out in the response to question B4, participating authorities will have an equitable voice in governance. It is intended that decision-making will be objective and evidence based and, therefore, the Joint Committee will work by consensus whenever possible and avoid the need for decisions to be voted on. The detailed mechanisms for voting will be agreed by participating authorities in due course and will be documented in the MoU (or other similar document).

Support, which will be formalised through an Operating Group for the Pool, will be provided to the elected members from each Authorities' s.151 Officer and their Pension Fund's Officers. Again, each participating authority will be represented by one officer, to ensure that the group considers the requirements of all members and the same guiding principles, as set out above, will be applied. The detailed mechanisms for voting will be agreed by participating authorities in due course and will be documented in the MoU (or other similar document).

Should the Pool build its own Operator:

- A Shareholder Board will also be required to oversee the running of the Operator. The participating authorities will select representatives to sit on the Board and execute their rights to ensure the good governance of the Operator.
- The Board of Directors of the Operator must hold meetings which review the extent to which the pooled vehicles are being run in line with their stated objectives and regulatory requirements and interrogate data and reports from any outsourced providers.

Although the Shareholder Board and Board of Directors would exist within a rental structure, they would not be Pool specific and, therefore, they would not form part of the Pool's governance structure.

In both scenarios, Operators are also expected to retain oversight of investment management and risk management functions.

b)

As set out above, the ACCESS Joint Committee of Elected Members will be responsible for holding the Operator to account. In doing so, they will be supported by the Officer Operating Group. Both groups may be supported by external experts and advisers on a co-opted, retained or as-required basis.

In turn, each participating authority's Elected Member and Officer representatives on the Joint Committee and Operating Group will be responsible for reporting back to their participating authority to ensure local scrutiny. Each participating authority will determine its own reporting arrangements to its Pension Committee, which could include its local Pension Board and other committees as agreed.

As a separate legal entity, the Operator will be responsible for ensuring that it has the appropriate control framework including the appointment of auditors and the use of external experts, such as non-executive Directors, independent advisors and consultants. This will need to be determined by the Operator as part of its creation or on-boarding to an existing supplier.

B2. The mechanisms by which authorities can hold the Pool to account and secure assurance that their investment strategy is being implemented effectively and that their investments are being well managed in the long term interests of their members.

a) Please describe briefly the type, purpose and extent of any formal agreement that is intended to be put in place between the authorities, Pool and any supervisory body.

b) If available please include a draft of the agreement between any supervisory body and the Pool as an ANNEX.

c) Please describe briefly how that agreement will ensure that the supervisory body can hold the Pool to account and in particular the provisions for reporting back to authorities on the implementation and performance of their investment strategy.

a)

As the legal entity responsible for its Pension Fund, each participating authority will be responsible for contracting with the Operator, which will be in the form of a Sponsorship Agreement.

The Sponsorship Agreement, which will define the responsibilities of each party, is a legal contract between the participating authority and the Operator.

If the participating authorities build and own the Operator, they will have a Shareholder Agreement, which will specify the shareholders right to appoint and dismiss Directors and management decisions that must be agreed by the Directors, such as the operating budget and any significant change to the company's core activities (e.g. developing an internal investment management function).

b)

Not yet available.

c)

For the purpose of the submission, a supervisory body is considered to be the Pool's governance structure (i.e. the ACCESS Joint Committee of Elected Members and the ACCESS Officer Operating Group).

On behalf of the participating authorities the Joint Committee will be responsible for the selection of the Operator and, as such, have the ultimate sanction of being able to change the Operator of the Pool.

As a regulated entity, the Operator will have to fulfill regulatory requirements for reporting to investors on the performance of investments in the Pool, which will provide individual Pension Funds with the necessary visibility of the performance of their investments. The Pool would receive reports from their Operator as specified in a Service Level Agreement.

The Officer Operating Group will review and monitor the service provided by the Operator and the extent to which they are meeting the requirements as set out in the Service Level Agreement.

B3. Decision-making procedures at all stages of investment, and the rationale underpinning this. Confirm that manager selection and the implementation of investment strategy will be carried out at the Pool level.

a) Please list the decisions that will be made by the authorities and the rationale underpinning this.

b) Please list the decisions to be made at the Pool level and the rationale underpinning this.

c) Please list the decisions to be made by the supervisory body and the rationale underpinning this.

a)

Individual participating authorities will retain their fiduciary responsibility for the management of their Pension Fund and the participating authorities will continue to be responsible for setting their investment objectives, risk assessments and the asset allocation.

Participating authorities will be responsible for governance decisions associated with their investments, such as decisions on stock lending and their Responsible Investment (RI) Policies, which will be set as part of each Pension Fund's Investment Strategy Statement (ISS).

The ACCESS Joint Committee of Elected Members will then be responsible for requesting the relevant sub-funds from the Operator.

The Operator will then be responsible for sub-fund implementation and (not withstanding comments made previously) investment review in line with their regulatory responsibilities.

b)

Please see the response to A4.

c)

Please see the response to A4.

For the purpose of the submission, a supervisory body is considered to be the Pools governance structure (i.e. the ACCESS Joint Committee of Elected Members and the ACCESS Officer Operating Group).

B4.	**The shared objectives for the Pool and any policies that are to be agreed between participants.**
a)	Please set out below the shared objectives for the Pool.
b)	Please list and briefly describe any policies that will or have been agreed between the participating authorities.
c)	If available please attach as an ANNEX any draft or agreed policies already in place.

a)

The participating authorities have a clear set of objectives and principles, agreed at the start of the collaboration and set out below. These will drive the decision-making and allow participating authorities to help shape the design of the Pool.

Objectives

1 Enable participating authorities to execute their fiduciary responsibilities to LGPS stakeholders, including scheme members and employers, as economically as possible.

2 Provide a range of asset types necessary to enable those participating authorities to execute their locally decided investment strategies as far as possible.

3 Enable participating authorities to achieve the benefits of pooling investments, preserve the best aspects of what is currently done locally, and create the desired level of local decision-making and control.

In order to achieve these objectives, the ACCESS authorities have established the following guiding principles:

Principles

- The participating authorities will work collaboratively.
- Participating authorities will have an equitable voice in governance.
- Decision-making will be objective and evidence based.
- The Pool will use professional resources as appropriate.
- The risk management processes will be appropriate to the Pool's scale, recognising it as one of the biggest Pools of pension assets in the UK.
- The Pool will avoid unnecessary complexity.
- The Pool will evolve its approach to meet changing needs and objectives.
- The Pool will welcome innovation.
- The Pool will be established and run economically, applying value for money considerations.
- The Pool's costs will be shared equitably.
- The Pool is committed to collaboration with other Pools where there is potential to maximise benefits and minimise risk.

b)

A Memorandum of Understanding (MoU) has been agreed and put in place by the participating authorities. The main purpose of this has been to facilitate the joint working to date on the development of the Pool including sharing of knowledge and resources and commissioning and meeting external costs incurred during the initial stages of the pooling process. This has been appended (Annex 2). As part of the next stage of this project, an updated or revised MoU (or other similar document) will be required to further progress the pooling work, in addition to a number of other policies including:

- Constitutional documentation on the structure and working of the Joint Committee and Operating Groups
- Pool approach to Responsible Investment (RI) and stewardship to the extent to which it will, as far as practically possible, support local Pension Fund RI policies as per the response to B6

The participating authorities will work together to develop the policies required to ensure the efficient running of the Pool.

c)

A copy of the MoU is attached as Annex 2.

B5. The resources allocated to the running of the Pool, including the governance budget, the number of staff needed and the skills and expertise required.

a) Please provide an estimate of the operating costs of the Pool (including governance and regulatory capital), split between implementation and on-going. Please list any assumptions made to arrive at that estimate. Please include details of where new costs are offset by reduced existing costs.

- Implementation costs £
- On-going costs £
- Assumptions
- Comments

b) Please provide an estimate of the staff numbers and the skills/expertise required, split between implementation and on-going. Please state any assumptions made to arrive at that estimate.

- Assumptions
- Comments

a)

Estimated costs of the Pool structure are as follows:

Implementation costs (excluding asset transition costs)

If the Pool decides to build an Operator, it is estimated that it will cost between £3-5m (0.9-1.5 bps) plus regulatory capital of €10m to implement. The regulatory capital will need to be met by the participating authorities. This is something that Government may be able to discuss with the FCA to avoid inappropriate and excessive capital requirements for LGPS Pools.

If the Pool decides to rent an Operator, it is estimated that it will cost in excess of £1m (0.3 bps) to implement. There will not be a direct regulatory capital requirements – although the costs of providing such capital will be reflected in on-going costs of renting the Operator.

On-going costs

Irrespective of whether the Pool decides to build or rent an Operator, it is estimated that it will cost between £3-5m p.a. (0.9-1.5 bps p.a.) to run, in short term[2]. The build and own option may cost less in the long term.

This estimate excludes custody, depositary and cost of regulatory capital and external investment manager fees.

Offset of existing costs:

It is considered that there will be very limited ability to offset the costs associated with the structure and pooling arrangements against existing costs.

- Some costs will simply transfer from participating authorities to the Pool (e.g. custody of vast majority of assets via the Pool) and, therefore, savings will be limited.

[2] Based on total Pool's assets including Life Policies. This represents circa 1.2-2bps of assets excluding c£8bn of passive investment in Life Policies.

- Some costs will be incurred once at Pool level, rather than multiple times by participating authorities, such as manager searches (for example, five searches a year at circa £25k would equate to £125k per annum).
- In some cases there may be additional costs for individual Pension Funds as a result of the Pooling arrangement (e.g. client function).

Assumptions

Detailed assumptions underlying the figures are outlined in the response to C4.

Implementation cost estimates

	Build	Rent
Time cost of staff at participating authorities supporting implementation	Including oversight of build of Operator and establishment of non-Operator elements of the Pool structure including Joint Governance Committee of Elected Members. **£330k**	Including senior officer support through implementation phase including establishing non-Operator elements of Pool governance and specifying third party requirements. **£150k**
Hiring professional staff for the Operator	In advance of launch date to obtain authorisation and establish operations, processes and governance. **£900k**	N/A **£0k**
Project Management	To manage project to tight timeframes up to 2018. **£300-450k**	To manage project to tight timeframes up to 2018. **£300k**
Legal Advice	On establishment, contracts and authorisation process etc. **£1,000k**	On procurement and contracts. **£200k**
Other External Advisory	Various external expertise required including technical investment advice, asset transition and governance. **£800k**	Various external expertise required including procurement, technical investment advice, asset transition and governance. **£375k**
Premises, IT and other non-staff costs	Costs assume that the majority of IT infrastructure and systems (risk measurement and monitoring) are procured. Building required systems could significantly increase the implementation costs. Excludes allowance for any IT interfaces with third parties. **£500k**	Potential cost of IT interfaces with third party suppliers not yet estimated.
Total (excluding transition costs)	**£3.9m (range £3-5m) (0.9-1.5 bps)**	**£1.0m (0.3 bps) (0.4 bps)**

Comments

1 **Regulatory capital:** Government has given feedback that the FCA policymakers may be willing to relax regulatory capital requirements given the 'closed' nature of the client / operator relationship – this is not at all like a retail investor situation where individual investors need protection. The Pool would welcome government support in making the case to FCA.

2 **Rent / build decision:** The Pool is currently undertaking detailed analysis and due diligence of the options. A recommendation for decision by members will be made in September 2016, as set out in A5.

3 **Materiality:** The payback period is more sensitive to potential asset transition costs and estimated investment manager fee savings than it is to the differing implementation costs according to whether the Pool rents or builds and owns the Operator. The payback period is also fairly insensitive to whether the implementation and running costs are nearer the lower or upper end of the estimated ranges quoted.

4 Please note that all the figures set out in this section and in response to C4 are indicative estimates and subject to change. In practice, some costs may be understated depending on the solution that is adopted.

b)

Details will be available following further consideration of the rent or build and own decision.

It is understood that the London CIV is expecting to run with circa 12 professional staff initially, but, potentially doubling within a few years. This implies staff costs of circa £2.4m per annum (if an annual salary range of £50-£150k is assumed). In addition, there will be a) non-staff costs (premises, IT); b) some third party supplier costs; and c) the non-Operator running costs (e.g. Pool governance and officer responsibilities out-with the Operator acting for the client side of the relationship); d) cost of providing regulatory capital. The Pool would expect total costs to exceed £3m per annum. This information has been used to corroborate estimates given in B5 a).

B6. How any environmental, social and corporate governance policies will be handled by the Pool. How the authorities will act as responsible, long-term investors through the Pool, including how the Pool will determine and enact stewardship responsibilities.

a) Please confirm there will be a written responsible investment policy at the Pool level in place by 01.4.2018.

- Confirmed YES/NO
- If no please attach an ANNEX setting out how the Pool will handle responsible investment and stewardship obligations, including consideration of environmental, social and corporate governance impacts.

a)

As set out in B4, one of the objectives of the Pool will be to enable participating authorities to execute their fiduciary responsibilities to LGPS stakeholders, including scheme members and employers, as economically as possible. Part of this responsibility will be to incorporate each participating authority's own views on Responsible Investment (RI) and to act as good asset owners through their stewardship approach. The Pool will agree and put in place a RI policy with the aim of allowing each individual authority to implement their own locally agreed approach to RI issues.

The Pool participates in the RI Cross Pool Group, developing understanding and sharing knowledge. The Cross Pool Group will develop resources to enable a further understanding of the financial implications of environmental, social and governance issues within the wider context of RI.

B7. How the net performance of each asset class will be reported publicly by the Pool, to encourage the sharing of data and best practice.

a) Please confirm that the Pool will publish annual net performance in each asset class on a publicly accessible website, and that all participating authorities will publish net performance of their assets on their own websites, including fees and net performance in each listed asset class compared to a passive index.

- Confirmed YES/NO
- If no please attach an ANNEX setting out how the Pool will report publically on its performance.

a)

The Pool and participating authorities will publish annual net performance in each asset class on a publicly accessible website, including fees and net performance in each listed asset class compared to a passive index, where the relevant index exists, or a suitable comparator index.

Once established, it is the intent of the participating authorities and the Pool to continue to use suitably qualified and independent third parties to allow clear and transparent reporting and scrutiny of the investment arrangements.

B8.	**The extent to which benchmarking is used by the authority to assess their own governance and performance and that of the Pool.**
a)	Please list the benchmarking indicators and analysis that the participating authorities intend to implement to assess their own governance and performance and that of the Pool.

a)

As part of the work in preparation for this submission, the participating authorities commissioned an independent third party (CEM Benchmarking) to carry out cost analysis and benchmarking of each participating authority's investment arrangements and the aggregate cost information at Pool level.

Once established, it is the intention of the participating authorities and the Pool to continue to apply benchmarking comparisons and analysis, using suitably qualified and independent third parties, to allow clear and transparent reporting and scrutiny of the investment arrangements which will inform decision making and allow efficient reporting against the set criteria on which the pooling arrangements are to be measured.

Criterion C: Reduced costs and excellent value for money

C1. A fully transparent assessment of investment costs and fees as at 31 March 2013.

a) Please state the total investment costs and fees for each of the authorities in the Pool as reported in the Annual Report and Accounts for that year ending 31.03.2013.

b) Please state the total investment costs and fees for each of the authorities in the Pool as at 31.03.2013 on a fully transparent basis.

c) Please list below the assumptions made for the purposes of calculating the transparent costs quoted.

a)

The participating authorities already provide transparent cost information as part of the regular accounting and reporting, in line with Chartered Institute of Public Finance and Accounting (CIPFA) guidance and which are subject to independent external audit.

In order to obtain consistent and comparable cost information, each authority has provided cost information to an independent third party (CEM Benchmarking) and these costs are provided under C1 b) below.

b)

The total combined investment costs for all eleven participating authorities in the Pool on a consistent basis are set out in the table below. These numbers have been prepared in conjunction with an independent third party (CEM Benchmarking), thus ensuring consistent and comparable cost information as far as is possible.

Where performance related fees apply, fees reflect performance of underlying mandates. In those cases, the added value generated by the Pension Funds' managers may result in higher fees.

It should also be noted that the change in costs from 2013 to 2015 also reflect the growth in asset values over the period (fee base of £27bn in 2013 and £33bn in 2015).

Total investment costs for the year ending 31/3/2013 were £131.1m on assets of £27bn.

Source of costs	Costs (£000s)	Costs (bps)
Asset management	122,999	45.6
Oversight, custody and other	8,069	3.0
Total	131,068	48.6

According to CEM Benchmarking analysis, the current costs of the ACCESS pool compare favourably to UK and international peer group funds, reflecting the effectiveness of historic public sector procurement.

c)

Assumptions

- Total costs exclude carry/performance fees for infrastructure, natural resources and private equity. Performance fees are included for the public market asset classes.
- Other costs do not include non-investment costs, such as pension administration. This is the standard approach used by CEM Benchmarking and has been consistently applied across all LGPS authorities in their July submissions.
- For some assets classes, there are underlying fee layers where actual information was not available and default assumptions have been used, based on CEM Benchmarking's database of costs. For example, for diversified Private Equity Fund of Funds, a default for management fees paid to the 'bottom layer' underlying managers of 165 bps (on amount fees are based on) was used.
- The fees on listed assets are calculated on assets under management while fees for some alternatives are based on commitment.

C2. A fully transparent assessment of current investment costs and fees, prepared on the same basis as 2015 for comparison, and how these will be reduced over time.

a) Please state the total investment costs and fees for each of the authorities in the pool as reported in the Annual Report and Accounts for that year ending 31.03.2015.

b) Please state the total investment costs and fees for each of the authorities in the pool as at 31.03.2015 on a fully transparent basis.

c) Please list below any assumptions made for the purposes of calculating the transparent costs quoted that differ from those listed in 1(c) above.

a)

The authorities provide transparent cost information as part of the regular accounting and reporting in line with CIPFA guidance which is subject to independent external audit.

In order to obtain consistent and comparable cost information, each authority has provided cost information to an independent third party (CEM Benchmarking) and these costs are provided under C2 b) below.

b)

The total combined investment costs for all eleven participating authorities in the Pool on a consistent basis are set out in the table below. These numbers have been prepared in conjunction with an independent third party (CEM Benchmarking) to ensure consistent and comparable cost information as far as is possible.

Where performance related fees apply, fees reflect performance of underlying mandates. In those cases, the added value generated by the Pension Funds' managers may result in higher fees.

It should also be noted that the change in costs from 2013 to 2015 also reflects the growth in asset values over the period (fee base of £27bn in 2013 and £33bn in 2015).

Total investment costs for the year ending 31/3/2015 were, therefore, £166.5m on assets of £33bn.

Source of costs	Costs (£000s)	Costs (bps)
Asset management	158,296	47.8
Oversight, custody and other	8,252	2.5
Total	166,548	50.3

According to CEM Benchmarking analysis, the current costs of the ACCESS pool compare favourably to UK and international peer group funds, reflecting the effectiveness of historic public sector procurement.

c)

Please see C1 c).

C3. A detailed estimate of savings over the next 15 years.

a) Please provide a summary of the estimated savings (per annum) to be achieved by each of the authorities in the Pool at the end of each 3-year period starting from 01.04.2018.

Total value of savings (per annum) estimated to be achieved by each of the authorities in the Pool as at

- 31.3.2021: £
- 31.3.2024: £
- 31.3.2027: £
- 31.3.2030: £
- 31.3.2033: £

b) Please list below the assumptions made in estimating the savings stated above (for example if you have used a standard assumption for fee savings in asset class please state the assumption and the rationale behind it).

c) Alternatively you may attach an ANNEX showing the assumptions and rationale made in estimating the savings shown.

a)

The estimated annual savings to be achieved by the participating authorities at the end of each three year period starting from 01/04/2018 are set out in the table below.

Savings are based on investment management fees and do not include the impact on operational costs associated with the new pooling structure.

The costs savings should be considered in the context of net of fees performance as a 10bps (0.1% of assets) difference in performance on a £33.5b asset pool would outweigh any potential cost saving. Using the best available investment managers to deliver strong investment performance is therefore potentially even more important.

There will be significant differences between participating authorities and Pools in the savings proposed and achieved depending on where they start from (asset allocation, prevailing fees, current approach to accessing different types of assets, etc.).

Savings have been calculated on two bases, as shown in the table below. Savings 1 assumes a saving on property assets based on a new managed account structure. Savings 2 assumes a more significant saving on property from moving to a more directly invested portfolio.

Date (by)	Estimated savings 1 (£m)	Estimated savings 2 (£m)
31.3.2021	13.6	13.6
31.3.2024	17.9	19.9
31.3.2027	21.0	24.3
31.3.2030	23.7	27.8
31.3.2033	26.5	30.6
	Estimated savings 1 (bps)	**Estimated savings 2 (bps)**
31.03.2033	8	9

b)

Assumptions

- Asset allocation remains unchanged.
- No asset growth has been applied. In the context of Project POOL when allowing for future investment growth of 3-5% per annum, by year ten (2028) the estimated annual savings will be equivalent to £40-50m which represents a significant proportion of the total year ten annual savings of £200-300m across all Pools, estimated by Project POOL.
- In deriving these savings, the starting point was to compare the eventual savings that the new Pool solution might achieve for each underlying asset class, once fully implemented (assumed by 2033). These have been mapped back to allow for the gradual transition of assets into the Pool, as shown in the response to A5 b) and assume the savings apply from the point the assets are invested through the Pool. In practice, some savings may only apply once the weight of assets in the Pool has been achieved.
- Whilst the savings on listed assets look lower than those on alternative assets, given the relative size of assets under management, this analysis is consistent with the conclusions drawn by Hymans Robertson as part of their *LGPS Structure Analysis* report to the Department for Communities and Local Government (DCLG). This analysis showed that one of the greatest potential for cost savings was through less expensive means of investing in alternative asset classes.[3] This was corroborated by the findings of Project POOL.
- Current costs are based on CEM Benchmarking data which reflects the average value of assets over the year from April 2014 to April 2015, while the asset figure is the value at April 2015.
- For consistency with CEM Benchmarking values the fees for some illiquid assets are based on commitments rather than invested assets.

3 https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/307926/Hymans_Robertson_report.pdf

- These savings need to be offset against the additional costs of asset transition, establishment and running the Pool which are covered in more detail in the response to C4.
- It is assumed that the cost savings that can be negotiated will be the same on both the potential rent or build options.
- The table below shows the savings per asset class (annual run rate savings by 2033). Cash is not included in the figures below.

Asset class	Assets on which current fee applies (£m)	Current cost (bps)	Estimated savings (bps)	Estimated Pool cost (bps)	Annual Saving (£m)	Rationale
Passive equity	5,199	8.9	7.4	1.5	3.8	Based on indicative fee levels procured by other pools.
Passive fixed income	2,293	3.8	2.3	1.5	0.5	Based on indicative fee levels procured by other pools.
Active equity	12,646	31.7	5	26.7	6.3	Current allocation has competitive fee base. Based on reduced number of mandates and increased manager mandate sizes of >£1bn. Supported by indicative quotes provided by managers in Project POOL for mandates of this size.
Active fixed income – traditional	2,698	24.1	5	19.1	1.3	Current allocation has low fee base. Based on reduced number of mandates and increased manager mandate sizes. Supported by indicative quotes provided by managers in Project POOL for mandates of this size.
Active fixed income –non traditional	701	43	0	43	0	Limited potential saving given mix of current strategies and existing fee arrangements.
Balanced	2,254	-	0	-	0	No savings assumed.

Asset class	Assets on which current fee applies (£m)	Current cost (bps)	Estimated savings (bps)	Estimated Pool cost (bps)	Annual Saving (£m)	Rationale
DGF / multi-asset	1,712	~ 60 DGF	5 on DGF	55	0.9	Based on reduced number of mandates and increased manager mandate sizes. Supported by indicative quotes provided by managers in Project POOL for mandates of this size.
Property (direct)	1,595	32.5	0	32.5	0	Current allocation remains outside the Pool - no savings assumed.
Savings 1 Property (directly managed account available to ACCESS pool funds)	1,380	112.8	32.8	80	4.5	Assume directly managed account containing pooled funds, tailored to meet needs of participating authorities. Removes fund of fund (FoF) fee layer and results in lower overall fee including underlying. Does not assume full move to direct fee levels.
Savings 2 Property (directly invested portfolio available to ACCESS Pool Pension Funds)	1,380	112.8	62.8	50	8.6	Assume move away from a funds approach to a directly invested property portfolio. Reflects the scale of the property assets in the pool at over £1bn.
Private Equity	1,794	214	39	175	7.1	Assume directly managed account containing pooled funds, tailored to meet needs of participating authorities.
Hedge Funds	648	177	5	172	0.3	Based on scale and negotiations. Supported by indicative quotes provided by managers in Project POOL for mandates of this size.

Asset class	Assets on which current fee applies (£m)	Current cost (bps)	Estimated savings (bps)	Estimated Pool cost (bps)	Annual Saving (£m)	Rationale
Infrastructure	517	110	35	75	1.8	Based on national platforms or equivalent. Supported by indicative quotes provided by managers in Project POOL and existing platforms such as Pension Infrastructure Platform (PIP).
Other	87	0.54	-	0.54	-	Small allocation with limited scope for savings.
Total Savings 1 **Total Savings 2**	**33,524** **33,524**				**26.5** **30.6**	**Excludes impact on other costs such as structural impact and governance.**

Source: CEM Benchmarking/ Hymans Robertson/ Project POOL

C4. A detailed estimate of implementation costs and when they will arise, including transition costs as assets are migrated into the pool, and an explanation of how these costs will be met.

a) Please provide a summary of estimated implementation costs, including but not limited to legal, project management, financial advice, structure set-up and transition costs. Please represent these costs in a table, showing when these costs will be incurred, with each type of cost shown separately. Please estimate (using information in Criteria C Section 3) the year in which the pool will break even (i.e. the benefits will exceed additional costs of pooling).

b) Please list below the assumptions made in estimating the implementation costs stated above (for example if you have assumed a standard cost for each asset class please state the assumption and the rationale behind it).

c) Alternatively you may attach an ANNEX showing the assumptions and rationale made in estimating the implementation costs shown.

d) Please explain how the implementation costs will be met by the participating authorities.

a)

Implementation Costs

Implementation costs (excluding transition costs) for a build Operator are set out in the table on the following page.

*The costs shown for 2018 are part year costs reflecting the change from 'implementation' to 'running' costs with the exception of External Advisory costs on matters such as transition of assets which could continue for a number of years beyond 2018.

	2016	2017	2018*	2019	2020	2021	2022	Total
Time cost of staff at participating authorities	£123.8k	£165k	£41.3k					**£330k**
Professional staff for the Operator	£337.5k	£450k	£112.5k					**£900k**
Project Management	£140.6k	£187.50k	£46.88k					**£375k (mid-point)**
Legal Advice	£250k	£500k	£250k					**£1,000k**
Other External Advisory (tax, transition, etc.)	£150k	£250k	£150k	£150k	£100k			**£800k**
Premises, IT and other non-staff costs	Nil	£400k	£100k					**£500k**
Total (excluding transition costs)	**£1,002k**	**£1,952k**	**£701k**	**£150k**	**£100k**			**£3,905k**

Transition Costs

The costs related to the transition of assets into the Pool are set out in the following tables.

Two potential cost estimates have been modelled that reflect different levels of required trading relating to the potential overlap or retention of existing holdings on moving to the new target structure.

Depending on the proportion of assets traded (assumed to be between 30% and 70%), total estimated transition costs for liquid assets are between £17.5m (8bps) and £40.8m (19bps) of the value of assets being traded.

<u>Transition Costs 1 estimate – lower (30% trading)</u>

Asset class	UK Equity	Global equity	Fixed income – non traditional	Fixed income – traditional	Total
Value subject to transition (Pool assets)	£3.4bn	£8.7bn	£1.2bn	£2.8bn	**£16.1bn**
Number of managers	7	18	4	11	
Number of strategies	14	35	9	19	
Target number of managers	4	8	3	3	
Value of assets requiring transition	£2,429m	£6,711m	£800m	£2,358m	**£12,298m**
% of assets requiring trading	30%	30%	30%	30%	**30%**
Transition costs (bps)					
- Transition manager commission	2.0	2.5	7.4	7.4	
- Spread cost	6.0	7.4	22.2	22.2	
- Tax	25.0*	7.7	0	0	
- Total cost ex market impact	33.0	17.6	29.6	29.6	
Transition cost excluding market impact	**£4.8m**	**£7.1m**	**£1.4m**	**£4.2m**	**£17.5m**

* Assumes no stamp duty on assets transferring into Pool but still applies to traded asset purchases

Transition Costs 2 estimate – higher (70% trading)

Asset class	UK Equity	Global equity	Fixed income – non traditional	Fixed income – traditional	Total
Value subject to transition (Pool assets)	£3.4bn	£8.7bn	£1.2bn	£2.8bn	**£16.1bn**
Number of managers	7	18	4	11	
Number of strategies	14	35	9	19	
Target number of managers	4	8	3	3	
Value of assets requiring transition	£2,429m	£6,711m	£800m	£2,358m	**£12,298m**
% of assets requiring trading	70%	70%	70%	70%	**70%**
Transition costs (bps)					
- Transition manager commission	2.0	2.5	7.4	7.4	
- Spread cost	6.0	7.4	22.2	22.2	
- Tax	25.0*	7.7	0	0	
- Total cost ex market impact	33.0	17.6	29.6	29.6	
Transition cost excluding market impact	**£11.2m**	**£16.5m**	**£3.3m**	**£9.8m**	**£40.8m**

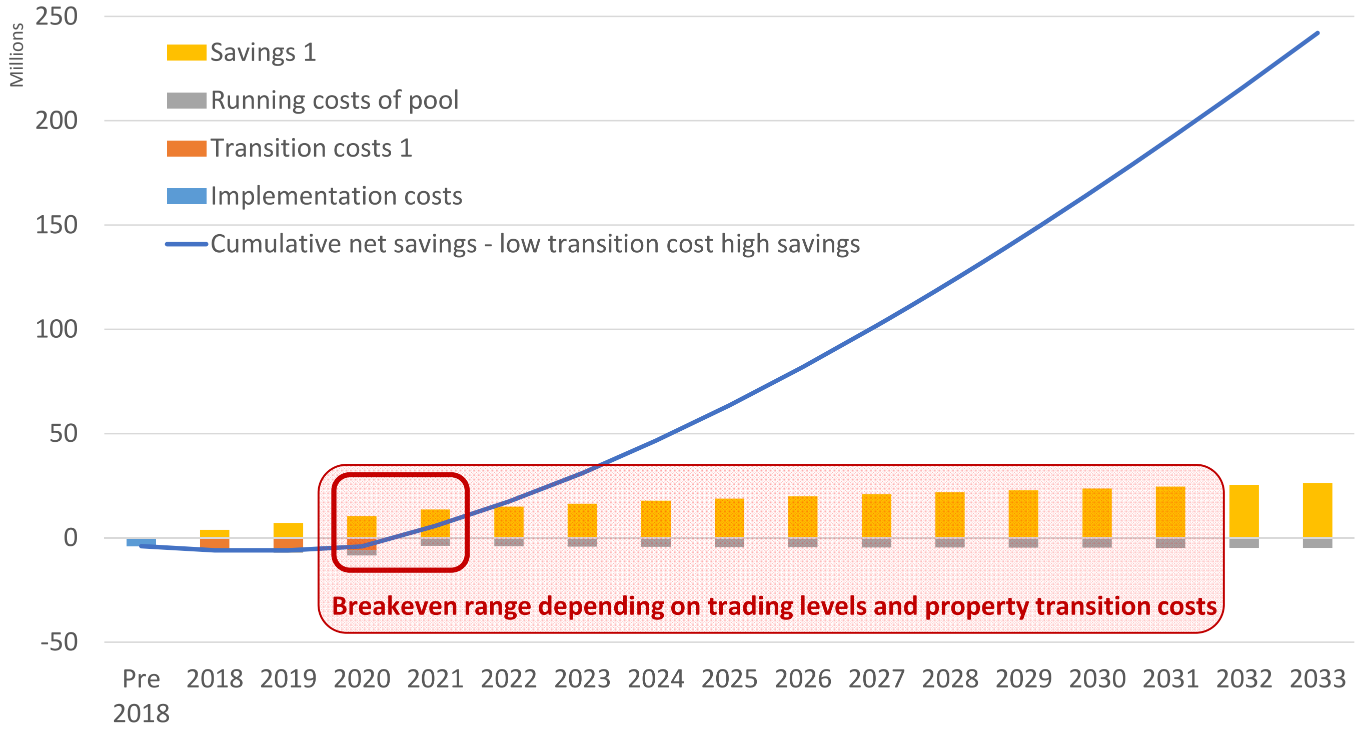
* Assumes no stamp duty on assets transferring into pool but still applies to traded asset purchases

Break Even

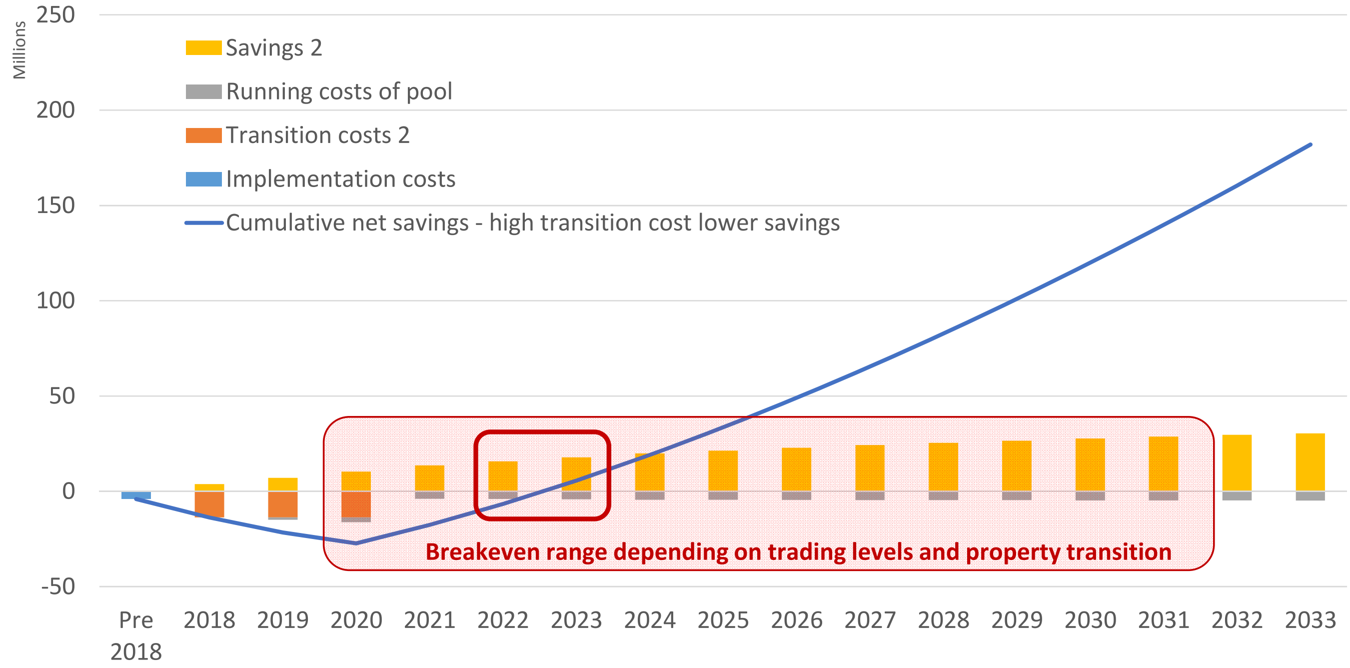
The timing of these costs will reflect the timing of the new investment options being available within the Pool and building a full transition plan to manage the risk and costs related to the transition. As indicated in the response to A5, the current proposal is that the listed assets requiring transition would be moved into the Pool between 2018 and 2021 and, therefore, costs would be incurred over this period.

The breakeven point for the savings of the Pool exceeding the expected costs is between 2021 and 2024 with the breakdown and timing of the relevant costs being shown in the charts below.

Depending on the agreed Pool solution, additional costs from transitioning property assets could push the breakeven point out by 2-8 years. This has been commented on as part of the assumptions. Additional costs related to market impact and implementation shortfall could have a similar impact on costs and the savings being achieved.



Millions
250
200
150
100
50
0
-50
Savings 1
Running costs of pool
Transition costs 1
Implementation costs
Cumulative net savings - low transition cost high savings
Breakeven range depending on trading levels and property transition costs
Pre 2018
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
2031
2032
2033



Millions
250
200
150
100
50
0
-50
Savings 2
Running costs of pool
Transition costs 2
Implementation costs
Cumulative net savings - high transition cost lower savings
Breakeven range depending on trading levels and property transition
Pre 2018
2018
2019
2020
2021
2022
2023
2024
2025
2026
2027
2028
2029
2030
2031
2032
2033

b)

Assumptions (implementation costs):

- Time cost of staff at participating authorities supporting implementation including oversight of build of Operator and establishment of non-Operator elements of the Pool structure including Joint Governance Committee of Elected Members (assuming eleven people per day at one day a week for 2½ years at £60k salary = £330k).
- Hiring professional staff in advance of launch date to obtain authorisation and establish operations, processes and governance (assuming five people for 1½ years at £100k salary plus recruitment costs of £150k = £900k).
- Project management (assumed as £150-225k per year for 2 years = £300-450k).
- Other external advisory over 2½ years (assuming tax advice at £200k, technical investment advice including asset transition of £500k, governance costs of £100k = £800k).
- It was assumed that all implementation costs, except Other External Advisory, cease in April 2018 – however, this will not be the case in practice.

Assumptions (transition cost):

- The costs reflect trading activity only. There is no allowance for additional costs that might be incurred on moving assets into the Pool resulting in change of beneficial owner.
- All costs are based on the midpoint of an indicative range provided by Goldman Sachs transition management, as set out in A5 c) and with verification from Hymans Robertson's transition research based on actual client transitions.
- UK equity tax cost assumes stamp duty not applied to assets on moving into Pool structure and applies only to traded asset purchases.
- Global equity cost assumes a split of 85% global developed and 15% emerging markets.
- Fixed income costs assume a split of 60% gilts / 40% corporate bonds as a proxy across traditional and non-traditional assets.
- Costs included for listed assets that the Pool expects to require to be traded only. For the purpose of the analysis some listed asset classes, such as Balanced, Diversified Growth Funds and Hedge Funds, would transition into the Pool with no costs required.
- Costs only include direct costs of transition and do not include the market impact or opportunity cost of the transition. This is a significant and highly variable element of the transition costs with cost ranges between +/- 15bps and 240 bps depending on the asset class, market and time period over which the transition is to be implemented.
- For illiquid assets, such as private equity and infrastructure the assumption is that existing closed ended holdings will wind down and new allocations made within the Pool resulting in no additional transition costs.
- For property, the expectation is that participating authorities with direct holdings will maintain these outside the Pool with no transactional costs. For the remaining property assets, the costs will depend on the eventual Pool solution, which is yet to be agreed. If there is a move from existing fund and fund of fund holdings to a broader managed fund approach it may be possible to retain the existing holdings with no additional costs. If the holdings need to be sold due to ownership issues, or

as part of the move to a more direct approach to investing there could be significant transaction costs which could be anywhere between 150-700bps. Given the property allocation could be in the region of £1.5bn, this could be a cost of £22.5m at the low end of the estimate up to £105m at the upper end, which could add between 2 and 8 years to achieving the breakeven point.

c)

Please refer to response to C4 b).

d)

The costs incurred as part of the set up and implementation of the solution will be met as follows:

- Advisory costs and project management up to September 2016 will be met by the participating authorities and are covered by the MoU such that costs are split equitably across the eleven authorities.
- Subsequent costs in relation to the set up and implementation of the Pool will be covered by a new MoU or related constitution with an agreed method of splitting the costs between the participating authorities. Costs will be met from current Pension Fund assets.
- The exception to this may be any requirement for regulatory capital, where the current understanding is that this needs to be paid by the Operator and needs to be financed by the participating authorities.
- The transition costs incurred will be met by the Pension Fund assets of the participating authorities. The mechanism for distributing these costs is to be confirmed and will depend on the method of transition. The Pool will work closely with specialist transition managers to develop a transition plan that looks to manage these costs and address how and when the costs are met by each participating authority.

C5. A proposal for reporting transparently against forecast transition costs and savings, as well as for reporting fees and net performance.

a) Please explain the format and forum in which the Pool and participating authorities will transparently report actual implementation (including transition) costs compared to the forecasts above.

b) Please explain the format and forum in which the Pool and participating authorities will transparently report actual investment costs and fees as well as net performance

c) Please explain the format and forum in which the Pool and participating authorities will transparently report actual savings compared to the forecasts above.

a)

The participating authorities commissioned an independent third party (CEM benchmarking) to carry out cost analysis and benchmarking of each authority's investment arrangements and the aggregate cost information at Pool level.

Once established, it is the intention of the authorities and the Pool to continue to carry out cost analysis using suitably qualified independent third parties, to allow clear and transparent reporting and scrutiny of the investment arrangements, which will inform decision-making and allow efficient reporting against the set criteria on which the pooling arrangements are to be measured.

The intention of the Pool would also be to employ a specialist transition manager to assist in the implementation of any transition into the Pool. As part of this service, the manager will be asked to prepare pre and post trade analysis that will allow the Pool to compare actual and estimated costs and also compare these with the initial estimates provided in this submission.

The Pool intends to publically disclose the Pool level costs on an annual basis.

b)

The Pool will ensure that performance costs and fee analysis is undertaken on a regular basis to ensure the good governance and operation of the Pool. This information will be publically disclosed on an annual basis and will include net of costs performance.

Participating authorities will also receive regular quarterly reporting from the Pool that will encompass performance, fee and cost information (trading, transaction and transition costs).

Performance of the underlying manager options and sub-funds will also be published on the Pool's website.

Regular reporting will also be provided specifically for the Joint Committee of Elected Members and Officer Operating Group.

c)

Relevant information on costs and savings are calculated and disclosed on a regular basis. The actual costs and savings can then be compared with the numbers provided in this submission.

This information will be made available to the relevant parties as set out in C5 b).

Criterion D: An improved capacity to invest in infrastructure

D1. The proportion of the total Pool asset allocation currently allocated to / committed to infrastructure, both directly and through funds, or "funds of funds"

a) Please state the Pool's committed allocation to infrastructure, both directly and indirectly, as at 31.3.2015.

b) Please state the Pool's target asset allocation to infrastructure, both directly and indirectly, as at 31.3.2015.

Please use the definition of infrastructure agreed by the Cross Pool Collaboration Group Infrastructure Sub-Group.

a)

For the purpose of this response, the definition below of Infrastructure as agreed by the Cross Pool Collaboration Group has been used.

> *Global infrastructure assets are the facilities and structures needed for the functioning of communities and to support economic development. For illustration purposes, key sectors for infrastructure include transportation networks, power generation, energy distribution and storage, water supply and distribution, communications networks, health, education facilities and social accommodation.*
>
> *Conventional commercial property is not normally included, but, where it forms part of a broader infrastructure asset, helps urban regeneration or serves societal needs, it may be. Infrastructure service companies would not normally be included.*
>
> *The development, construction and commissioning of infrastructure assets is included in the broad definition, but, such assets may not meet the needs of core infrastructure investors until operational, and such activities may be supported through other investment areas such as private equity.*
>
> Source: Cross Pool Collaboration Group - a group made up of LGPS Officer representatives from all proposed Pools.

Some of the participating authorities have serious concerns on the inclusion of social accommodation in this definition. Individual participating authorities will determine their own definition of infrastructure when they choose to make asset allocation decisions. Each of the participating authorities will assess which infrastructure assets are suitable and appropriate for their own Pension Fund's purposes; this may or may not include the sectors set out in the illustration.

In the context of the above definition and exclusions **participating authorities have £372m or 1.1% of total Pool assets invested in infrastructure assets**.

Fund	Target Asset Allocation
Cambridgeshire	5%
East Sussex	2%
Essex	6%
Hampshire	5%
Kent	1.5%
Suffolk	5%

b)

Please refer to D1 a).

D2. How the Pool might develop or acquire the capacity and capability to assess infrastructure projects, and reduce costs by managing any subsequent investments through the combined Pool, rather than existing fund, or "fund of funds" arrangements.

a) Please confirm that the Pool is committed to developing a collaborative infrastructure platform that offers opportunities through the utilisation of combined scale, to build capability and capacity in order to offer authorities (through their Pools) the ability to access infrastructure opportunities appropriate to their risk appetite and return requirements more efficiently and effectively.

b) Please confirm that the Pool is committed to continuing to work with all the other Pools (through the Cross Pool Collaboration Infrastructure Group) to progress the development of a collaborative infrastructure initiative that will be available to all Pools and include a timescale for implementation of the initiative.

a)

It is acknowledged that infrastructure can deliver attractive returns combined with lower volatility than publicly traded instruments. As long term investors, Pension Funds should benefit from a 'liquidity premium'. When considered as an investment asset class, infrastructure investments are normally expected to have most of the following characteristics

- Substantially backed by durable physical assets
- Long life and low risk of obsolescence
- Identifiable and reliable cash flow, preferably either explicitly or implicitly inflation-linked
- Revenues largely isolated from the business cycle and competition, for example, through long term contracts, regulated monopolies or high barriers to entry
- Returns to show limited correlation to other asset classes

Individual authorities will have further additional criteria they apply before making investments, such as current yield, time to income generation, management strength, risk mitigation measures, and amount of leverage.

The differential between the strategic allocation and actual investment for global infrastructure demonstrates the significant challenge in finding investments which will yield returns large enough and of appropriate profile, to justify their acquisition. There is a concern that even with current levels of investment, the capital available is outweighing the supply of infrastructure opportunities.

However, the Pool will work to provide opportunities that meet the underlying requirements of the participating authorities, noting that some of these may be local to the Pension Fund.

Notwithstanding the comments set out below, participating authorities are committed to investigating all options for providing the participating authorities with access to the most appropriate global infrastructure investments to match their asset allocations, including working with other LGPS authorities or Pools nationally to investigate the creation of a vehicle which will help make appropriate infrastructure investments more accessible to the LGPS at a lower cost.

It is acknowledged that smaller LGPS Pension Funds, such as the Isle of Wight within the ACCESS Pool, have not had sufficient scale to invest directly in infrastructure and, therefore, the higher fees levied by fund of fund arrangements make the net return to the investor insufficient to meet the Pension Fund's return targets. The economies of scale, which are derived from the pooling of assets, should deliver an opportunity for these funds to invest more directly and therefore lower the cost of investing.

To ensure success, such a vehicle should be designed to meet the specific needs of LGPS investors, given the distinctive nature of LGPS pension liabilities and risk appetite and it will take time to create a suitably diversified portfolio for investors.

In the short to medium term, this will mean providing the opportunity for participating authorities to move away from fund of fund arrangements to direct Investment, via an external investment manager.

Over the longer term, the establishment of a national vehicle could be an appropriate way for participating authorities to allocate to specialist infrastructure. ACCESS is working with other Pools on the feasibility of this approach. The work to date has established that any infrastructure collaboration across Pools should:

- Ensure that any collaborative investment in this area is made in the financial interests of the members of the Pension Funds, with no undue outside influence either at a local or national level.
- Leverage the combined buying power of the LGPS.
- Share and expand the internal expertise currently available within individual Pools to the benefit of all.
- Accept that, to be effective, we should play to our strengths and look to build collaborative strategic partnerships with the wider infrastructure investment management industry.
- Make the asset class accessible to all participating authorities within each Pool regardless of scale.
- Use the combine LGPS scale and expertise to improve governance rights and reduce the fee burden.

It must be acknowledged that ensuring the national vehicle is capable of delivering on the requirements of all LGPS Pension Funds could take up to fifteen years, before it is in a position where it could invest directly on behalf of the LGPS. The national vehicle's team will need to demonstrate that they have sufficient knowledge, expertise, experience and strategic partnership relationships within the infrastructure sector.

In the work carried out as part of Project POOL, the amount invested in infrastructure across the LGPS was estimated to be around £2bn, of which around £400m were invested on a fund of funds basis and £1.6bn through direct investments or direct fund allocations. The report, therefore, cited the potential for achieving significant savings through removing the fund of fund layer for some investors and investing more directly through in house teams or a more cost effective infrastructure platform. The level of fees within the participating authorities ranged from around 80bps to 150bps. The Pool will continue to look at potential models and platforms to access the asset class which meets the needs of the authorities.

This will include existing platforms where the Pool is aware of fees levels as low as 50bps, which would be a marked reduction in the existing level of fees, but any option would also need to deliver attractive returns net of fees.

b)

ACCESS is committed to continuing to work with all the other Pools (through the Cross Pool Collaboration Infrastructure Group) to progress the development of a collaborative infrastructure initiative that will be available to all Pools and include a timescale for implementation of the initiative.

c)

See response to D2 a).

D3.	**The proportion the Pool could invest in infrastructure, and their ambition in this area going forward, as well as how they have arrived at this position.**
a)	Please state the estimated total target allocation to infrastructure, or provide a statement of potential strategic investment, once the capacity and capability referred to in 2 above is in full operation and mature.
b)	Please describe the conditions in which this allocation could be realised.

a)

Short to medium term proposal on infrastructure

It is an important premise that LGPS asset allocation decisions must remain matters for each local Pension Fund, taking into consideration their own asset and liability profile and their own risk and return targets.

Decisions must not be influenced by other global Pension Fund investors or benchmark comparators.

In making any investment decision, Pension Funds must invest in the best interests of their scheme members and beneficiaries and, in the event of a conflict, in the sole interests of members and their beneficiaries.

In addition, the growing structural weight allocated to infrastructure at the same time that there is a shortage of large scale, long term, infrastructure assets, means that there is too much money chasing too few sizeable, high quality infrastructure assets and developments. It is widely reported that there is no shortage of Pension Fund capital seeking infrastructure investments in the UK or elsewhere and this could impact on costs and returns.

Therefore, the Government must not set targets for global, national or local infrastructure investment or remove the right from individual Pension Fund authorities to make their own decisions about strategic asset allocation. Investments must be made solely on the basis of infrastructure being an attractive investment for funds and nothing to do with political pressure.

Participating authorities do believe that, in the short to medium term there is potential for the Pool to increase their asset allocation to global infrastructure investments (the allocation will vary at individual fund level). This potential is predicated on a vehicle, or vehicles, being able to deliver improved access to the appropriate type of global infrastructure investment, at a lower cost than at present and which meets the objectives – particularly return and risk – of the underlying investors.

Longer term aim for infrastructure allocation

The participating authorities believe that, in the long-term, there is potential for authorities in the Pool to achieve asset allocation to global infrastructure investments to levels comparable to similar sized international funds, at around 5%. The allocation will vary at individual fund level. This potential is predicated on a vehicle, or vehicles, being able to deliver improved access to the appropriate type of global infrastructure investment, at a lower cost than at present and which meets the objectives of the underlying investors.

b)

Please see response to D3 a).

Annex 1 – assets to be held outside the Pool

This annex sets out the Fund specific responses in relation to the following criteria:

A2.	**Assets which are proposed to be held outside the Pool and the rationale for doing so.**
b)	Please attach an ANNEX for each authority that proposes to hold assets outside of the Pool detailing the amount, type, how long they will be held outside the Pool, reason and how it demonstrates value for money.

Each of the administering authorities within the Pool which holds direct property investments intends to hold these assets outside of the pool on a permanent basis.

Why should current direct property allocation be ex Pool
The authorities are pleased that the Government has acknowledged the potential quantum of costs associated with consolidation of existing direct property assets, as set out in detail within the Project POOL report. However we feel that it is important to understand the characteristics of property as an asset class, and therefore the rationale for holding an allocation permanently outside the pool.

The main reasons for investing in property are:

- Diversification away from equities
- Liquidity premium
- Scope for growth in capital value
- Long term income streams which match the long term liabilities fund shave
- Ability to select asset managers who can add value through skill

Although each property portfolio is managed with reference to a UK benchmark, the manner in which these strategies are implemented by the property investment managers will differ from portfolio to portfolio. The implications of the consolidation of two property portfolios is more significant given the underlying assets are not fungible. Whilst the underlying holdings in any given property portfolio may make sense given the circumstances of the mandate, pooling may begin to invalidate the reasons for holding assets. For example, one Fund may have a large allocation to central London offices, whilst another is more focused on managing smaller assets. Consolidation would imply the two portfolios fall under the control of a single manager which would result in change as the new manager would be expected to build a new portfolio with a unified strategy and appropriate sized assets, which could potentially impact on the rationale for the initial asset allocation by the respective funds. Specifically to property the transition cost from the old to the new portfolios would be significant with SDLT at 5% plus agents and legal fees. Importantly these transactions will occur over a period of time and not at transfer into any Pool.

This extends to transition risk. If a portfolio is wound down over a number of years, there is a risk of a disconnect between the assets held outside and within the Pool and therefore there is a risk that:

- The strategic investment allocation within the portfolio and control over liquidity is lost, which could compromise the level of investment return and potentially increase volatility.
- There is a doubling up of investment risk, as a result of the positioning of the new pooled investment being similarly under / overweight or has similar directional allocation to the assets.

remaining in the legacy portfolio. This could compromise the level of investment return and potentially increase volatility.

- The managers motivation to manage a portfolio with a long tail could be difficult and in the short term increase fees.

Direct property management fees comprise a number of elements. These have been summarised below alongside a suggestion as to whether these fees could be reduced by the creation of larger portfolios:

Fee bracket	Services covered	Benefits of size and scale?
Management Fees	Research and strategy development Transactions Portfolio accounting and record keeping (including valuations) Reporting and client relations	No No Potential Potential
Property Expenses	Property management including rent / service charge collection Service charge shortfalls Rent review / lease renewals Maintenance / repairs Property insurance Marketing of vacant property Project management	No No No No No No Potential
Transaction Costs	Stamp Duty Agency fees Legal, survey costs etc	No No No

Research by Project POOL also suggests that the size of the asset portfolio does not have a significant impact on fees. The table below shows average proposed investment management fee (p.a.) assuming different portfolio sizes:

	£250m	£500m	£1,000m	£2,000m
All observations	0.28%	0.27%	0.24%	0.23%
Lowest three observations	0.18%	0.18%	0.16%	0.14%

Assumptions:

- The costs of day to day property management (assumed at 0.05% p.a.) have been excluded. These costs may be partially, or wholly, recovered from tenants.
- Other costs will be incurred in the management of assets, either in respect of property expenses or transaction costs levied by third parties and would be incurred regardless of the means of access. These have been excluded from the above.
- Managers may be willing to offer lower fees for larger mandates due to the physical nature of the asset class there is likely to be a limit on the scale of any reduction. Adding value requires significant resource including market research, advice, dealing with occupiers and buildings and reporting and financial management.
- A willingness to pay a slightly higher fee may give a better net of fee performance eg by providing access to more experience asset managers and could represent the difference between an asset being let, or remaining vacant. Investment manager skill is a major determinant of returns.

Project POOL concluded that the potential level of savings is likely to be 0.05% to 0.10% p.a. However:

- There are a number of concerns associated with the potential consolidation of portfolios, as set out elsewhere.
- There would be costs associated with setting up an investment vehicle which could override this potential reduction.
- The cost analysis shows that the direct mandates are already the most competitive in terms of value for money.

A portfolio of £2-3bn would be among the largest in the UK. Portfolios are already at sufficient scale to ensure effective diversification of risk (can be achieved with ten to fifteen assets), and research by IPD, the largest UK provider of property benchmarking services, suggests that portfolio size does not improve performance:

	Average Return (p.a.)	Volatility of Return (p.a.)
Small < £120m	9.2%	9.5%
Medium > £120m <£1,020m	9.2%	9.7%
Large > £1,020m <£2,070m	9.1%	10.3%
Very Large > £2,070m	9.5%	10.9%
Average	9.2%	10.2%

As referenced above, investment manager skill is a major determinant of returns. The availability of high quality investment managers for a large mandate is untested. Given the significant one-off costs for transition of any assets to build a new portfolio (+5%) and the evidence of little to no potential fee reduction or investment performance improvement, there is no value for money basis to pool existing allocations to direct property portfolios.

Cambridgeshire County Council

Cambridgeshire County Council intend to hold the following assets outside the Pool.

Outside of Pool	Current Value (£m)	Rationale for holding outside
Local investment	17m	Cambridgeshire holds a small illiquid local investment. The nature of this investment means that it would be impractical and inefficient to hold inside the Pool. The investment is a joint venture with Cambridge University and therefore would be held until there is no longer a locally decided strategic case for retaining the investment.
Operational cash	TBC	Rationale for holding these assets outside the Pool is set out in the body of the submission under A2 b). This will be reviewed by Cambridgeshire County Council on a regular basis.

East Sussex County Council

East Sussex County Council intend to hold the following assets outside the Pool.

Outside of Pool	Current Value (£m)	Rationale for holding outside
Operational cash	TBC	Rationale for holding these assets outside the Pool is set out in the body of the submission under A2 b). This will be reviewed by East Sussex County Council on a regular basis.

Essex County Council

Essex County Council intend to hold the following assets outside the Pool.

Outside of Pool	Current Value (£m)	Rationale for holding outside
Direct property	542	Rationale for holding these assets outside the Pool is set out at the start of this Annex.
Operational cash	TBC	Rationale for holding these assets outside the Pool is set out in the body of the submission under A2 b). This will be reviewed by Essex County Council on a regular basis.

Hampshire County Council

Hampshire County Council intend to hold the following assets outside the Pool.

Outside of Pool	Current Value (£m)	Rationale for holding outside
Direct property	401	Rationale for holding these assets outside the Pool is set out at the start of this Annex.
Operational cash	TBC	Rationale for holding these assets outside the Pool is set out in the body of the submission under A2 b). This will be reviewed by Hampshire County Council on a regular basis.

Hertfordshire County Council

Hertfordshire County Council intend to hold the following assets outside the Pool.

Outside of Pool	Current Value (£m)	Rationale for holding outside
Operational cash	TBC	Rationale for holding these assets outside the Pool is set out in the body of the submission under A2 b). This will be reviewed by Hertfordshire County Council on a regular basis.

Isle of Wight Council

Isle of Wight Council intend to hold the following assets outside the Pool.

Outside of Pool	Current Value (£m)	Rationale for holding outside
Operational cash	TBC	Rationale for holding these assets outside the Pool is set out in the body of the submission under A2 b). This will be reviewed by Isle of Wight Council on a regular basis.

Kent County Council

Kent County Council intend to hold the following assets outside the Pool.

Outside of Pool	Current Value (£m)	Rationale for holding outside
Direct property	418	Rationale for holding these assets outside the Pool is set out at the start of this Annex.
Operational cash	TBC	Rationale for holding these assets outside the Pool is set out in the body of the submission under A2 b). This will be reviewed by Kent County Council on a regular basis.

Norfolk County Council

Norfolk County Council intend to hold the following assets outside the Pool.

Outside of Pool	Current Value (£m)	Rationale for holding outside
Currency hedging	TBC – no direct asset base	Currency hedging approach tailored around physical asset exposures. Options will be explored as to how this could be implemented within or alongside Pool assets.
Operational cash	TBC	Rationale for holding these assets outside the Pool is set out in the body of the submission under A2 b). This will be reviewed by Norfolk County Council on a regular basis.

Northamptonshire County Council

Northamptonshire County Council intend to hold the following assets outside the Pool.

Outside of Pool	Current Value (£m)	Rationale for holding outside
Operational cash	TBC	Rationale for holding these assets outside the Pool is set out in the body of the submission under A2 b). This will be reviewed by Northamptonshire County Council on a regular basis.

Suffolk County Council

Suffolk County Council intend to hold the following assets outside the Pool.

Outside of Pool	Current Value (£m)	Rationale for holding outside
Operational cash	TBC	Rationale for holding these assets outside the Pool is set out in the body of the submission under A2 b). This will be reviewed by Suffolk County Council on a regular basis.

West Sussex County Council

West Sussex County Council intend to hold the following assets outside the Pool.

Outside of Pool	Current Value (£m)	Rationale for holding outside
Direct property	216	Rationale for holding these assets outside the Pool is set out at the start of this Annex.
Operational cash	TBC	Rationale for holding these assets outside the Pool is set out in the body of the submission under A2 b). This will be reviewed by West Sussex County Council on a regular basis.

Annex 2 – Memorandum of Understanding

Dated **2016**

CAMBRIDGESHIRE COUNTY COUNCIL

ESSEX COUNTY COUNCIL

EAST SUSSEX COUNTY COUNCIL

HAMPSHIRE COUNTY COUNCIL

HERTFORDSHIRE COUNTY COUNCIL

ISLE OF WIGHT COUNCIL

KENT COUNTY COUNCIL

NORTHAMPTONSHIRE COUNTY COUNCIL

NORFOLK COUNTY COUNCIL

SUFFOLK COUNTY COUNCIL

and

WEST SUSSEX COUNTY COUNCIL

ACCESS
Effective • Collective • Investment

ACCESS Pool Memorandum of Understanding

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nplaw
Public Sector Legal Expertise

nplaw
Norfolk County Council
County Hall
Martineau Lane
Norwich
Norfolk
NR1 2DH
ref nplaw/235531

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THIS AGREEMENT IS MADE ON THE DAY OF 2016

BETWEEN

(1) **CAMBRIDGESHIRE COUNTY COUNCIL** of Shire Hall, Castle Street, Cambridge, CB3 0AJ ("**Cambridge**");

(2) **ESSEX COUNTY COUNCIL** of County Hall, Market Road, Chelmsford CM1 1QH ("**Essex**");

(3) **EAST SUSSEX COUNTY COUNCIL** of County Hall, St Anne's Crescent, Lewes, East Sussex BN7 1UE ("**East Sussex**");

(4) **HAMPSHIRE COUNTY COUNCIL** of The Castle, Winchester, Hampshire SO23 8UJ ("**Hampshire**");

(5) **HERTFORDSHIRE COUNTY COUNCIL** of County Hall, Pegs Lane, Hertford SG13 8DQ ("**Hertfordshire**");

(6) **ISLE OF WIGHT COUNCIL** of County Hall, High St, Newport, Isle of Wight PO30 1UD ("**Isle of Wight**");

(7) **KENT COUNTY COUNCIL** of County Hall, Maidstone, ME14 1XQ ("**Kent**")

(8) **NORFOLK COUNTY COUNCIL** of County Hall, Martineau Lane, Norwich, NR1 2DH ("**Norfolk**");

(9) **NORTHAMPTONSHIRE COUNTY COUNCIL** of County Hall, Northampton NN1 1ED ("**Northants**")

(10) **SUFFOLK COUNTY COUNCIL** of Endeavour House, 8 Russell Road, Ipswich, Suffolk, IP1 2BX ("**Suffolk**");

and

(11) **WEST SUSSEX COUNTY COUNCIL** of County Hall North, West Street, Chichester, West Sussex, PO19 1RG ("**West Sussex**")

together "**the Parties**" and each individually "**the Party**"

1. BACKGROUND

1.1 The Parties as respective administering authorities of the Local Government Pensions Scheme ("**LGPS**") Cambridgeshire Pension Fund, Essex Pension Fund, East Sussex Pension Fund, Hampshire Pension Fund, Hertfordshire Pension Fund, Kent Pension Fund, Northamptonshire Pension Fund, Norfolk Pension Fund, Isle of Wight Pension Fund, Suffolk Pension Fund and West Sussex County Council Pensions for the purposes of the project described in this agreement ("**the Project**") and collectively referred to as the "**ACCESS Pool**" wish to collaborate in order to:

1.1.1 respond to the Chancellor of Exchequer's Summer Budget of 2015 and fulfil their respective obligations arising pursuant to the Department for Communities and Local Government's *Local Government Pension Scheme: Investment Reform Criteria and Guidance of November 2015*;

1.1.2 demonstrate their respective commitments to LGPS Multi-asset Pools ("**MAPs**"); and

1.1.3 meet their requirement to submit detailed proposals to Government by 15th July 2016 deadline.

Accordingly the Parties have agreed to work together to achieve the mission statement set out in Appendix A ("**Mission Statement**") and wish to record the basis on which they will collaborate on the Project.

This Memorandum of Understanding ("**MoU**") sets out:

1.1.4 the objectives of the Project;

1.1.5 the principles of collaboration;

1.1.6 interworking arrangements between Parties' officers for the purpose of developing subject to their Elected Members' consideration and approval a substantive ACCESS Pool response to the Government consultation referred to in clause 1.1;

1.1.7 the initial governance structures the Parties will put in place; and

1.1.8 the respective roles and responsibilities the Parties will have during the Project .

2. <u>KEY OBJECTIVES FOR THE PROJECT</u>

2.1 The Parties shall undertake the Project to achieve the Mission Statement in accordance with the principles set out in Appendix B to this MoU ("**Principles**").

3. PRINCIPLES OF COLLABORATION

3.1 The Parties agree to adopt the following behaviours when carrying out the Project ("**Behaviours**"):

3.1.1 collaborate and co-operate. The Parties will establish and adhere to the governance structure set out in this MoU to ensure that activities are delivered and actions taken as required;

3.1.2 be accountable. The Parties will take on, manage and account to each other for performance of the respective roles and responsibilities set out in this MoU;

3.1.3 be open. The Parties will communicate openly about concerns, issues or opportunities relating to the Project;

3.1.4 learn, develop and seek to achieve full potential. The Parties will share information, experience, materials and skills to learn from each other and develop effective working practices, work collaboratively to identify solutions, eliminate duplication of effort, mitigate risk and reduce cost;

3.1.5 adopt a positive outlook. The Parties will behave in a positive, proactive manner;

3.1.6 adhere to statutory requirements and best practice. The Parties will comply with applicable laws and standards including EU procurement rules, data protection and freedom of information legislation;

3.1.7 act in a timely manner. The Parties will recognise the time-critical nature of the Project and respond accordingly to requests for support;

3.1.8 manage stakeholders effectively;

3.1.9 deploy appropriate resources. The Parties will ensure sufficient and appropriately qualified resources are available and authorised to fulfil the responsibilities set out in this MoU. In particular the parties agree to make the contributions detailed in Appendix C to this MoU; and

3.1.10 act in good faith to support achievement of the Mission Statement, adherence to the Principles and compliance with these Behaviours.

4. PROJECT GOVERNANCE

4.1 Overview

The governance structure defined below provides a structure for the development and delivery of the Project.

4.2 Governance Aims

The following aims for the governance of the Project are agreed. The Project's governance will:

4.2.1 provide strategic oversight and direction;

4.2.2 be based on clearly defined roles and responsibilities at organisation, group and, where necessary, individual level;

4.2.3 align decision-making authority with the criticality of the decisions required;

4.2.4 be aligned with the Project (and may therefore require changes over time); and

4.2.5 provide coherent, timely and efficient decision-making.

4.3 Officer Working Group

4.3.1 The Officer Working Group consisting of the representatives of each of the Parties set out at clause 4.3.2 ("**the Officer Working Group**") will provide strategic and operational management of the Project. It will provide assurance to the Parties that the Mission Statement and Principles are being met.

4.3.2 The Officer Working Group shall have responsibility for the creation and execution of the Project plan and deliverables, and therefore it can draw technical, commercial, legal and communications resources as appropriate into the Officer Working Group. Each Party shall have a representative on the Officer Working Group with sufficient authority for the Officer Working Group to discharge its responsibilities. The initial named members are:

Pension Fund	REPRESENTATIVE	EMAIL ADDRESS
CAMBRIDGESHIRE	Mark Whitby	MWhitby@northamptonshire.gov.uk
EAST SUSSEX	Ola Owolabi	Ola.Owolabi@eastsussex.gov.uk
ESSEX	Kevin McDonald	Kevin.McDonald@essex.gov.uk
HAMPSHIRE	Andrew Boutflower	andrew.boutflower@hants.gov.uk
HERTFORDSHIRE	Patrick Towey	Patrick.Towey@hertfordshire.gov.uk
ISLE OF WIGHT	Jo Thistlewood	Jo.Thistlewood@iow.gov.uk
KENT	Nick Vickers	nick.vickers@kent.gov.uk
NORFOLK	Nicola Mark	Nicola.Mark@norfolk.gov.uk
NORTHAMPTONSHIRE	Paul Tysoe	PHTysoe@northamptonshire.gov.uk
SUFFOLK	Paul Finbow	paul.finbow@suffolk.gov.uk
WEST SUSSEX	Rachel Wood	rachel.wood@westsussex.gov.uk

4.3.3 Each Party may substitute or replace its initial above named representative as required.

4.3.4 The Officer Working Group shall meet monthly or as otherwise agreed from time to time.

4.3.5 Any Party may call a meeting of the Officer Working Group provided that at least ten business days' notice of a meeting of the Officer Working Group is given to all the Parties. A proposed agenda shall be attached to each notice.

4.3.6 A shorter period of notice of a meeting of the Officer Working Group may be given if at least three Parties agree in writing.

4.3.7 The quorum of any Officer Working Group meeting shall be 75% of the Parties.

4.3.8 No business shall be conducted at any Officer Working Group unless a quorum is present at the beginning of the meeting and at the time when there is to be voting on any business.

4.3.9 Parties may participate by telephone in any Officer Working Group meeting and shall be included for purposes of the quorum.

4.3.10 The Parties shall use their respective reasonable endeavours to ensure that any meeting of the Officer Working Group has the requisite quorum.

4.3.11 Where the Officer Working Group wishes to vote on any such matters it shall be resolved by a simple majority of those present or participating by telephone.

4.4 **Reporting**

Project reporting shall be undertaken at two levels:

4.4.1 **Officer Working Group:** Minutes and actions will be recorded for each Officer Working Group meeting highlighting: Progress on actions; issues being managed; issues requiring escalations and progress planned for the next period and circulated to the Parties promptly following each meeting. Any additional reporting requirement shall be at the discretion of the Officer Working Group.

4.4.2 **Organisational:** the Officer Working Group members shall be individually responsible for drafting any reports that their respective sponsoring organisations may require from time to time and obtaining any required Elected Member approvals.

5. Roles and responsibilities

5.1 The Parties shall undertake the roles and responsibilities required to deliver the Project as agreed at its commencement and from time to time.

5.2 For the purpose of such roles and responsibilities a Lead may be appointed by the Officer Working Group, being the party who has principal responsibility for undertaking the particular task or area of work as set out and instructed by the Officer Working Group. The Lead must act in compliance with the Mission Statement, Principles and Behaviours at all times.

6. Escalation

6.1 If a Party has any material issues, concerns or complaints about the Project, or any matter in this MoU, that Party shall notify the other Parties with a direct interest in such issues and those Parties shall then seek to resolve the issue by a process of consultation.

6.2 If any Party receives any formal inquiry, complaint, claim or threat of action from a third party (including, but not limited to, claims made by a supplier or requests for information made under the Freedom of Information Act 2000 (“**FOIA**”) in relation to the Project, the matter shall be referred to the Officer Working Group (or its nominated representatives) as soon as practicable and in any event within two

(2) business days of receipt. No action shall be taken in response to any such inquiry, complaint, claim or action, to the extent that such response would adversely affect any Party, without the prior approval of that Party (or its nominated representative). Each of the Parties shall provide all necessary assistance and cooperation as reasonably requested by the Officer Working Group to enable the Parties to comply with their respective obligations under FOIA.

6.3 No Party shall commence formal dispute resolution proceedings (to include litigation) until the Parties' designated representatives have attempted to resolve the dispute informally by discussing the problem and negotiating in good faith for a period of at least 15 business days.

7. INTELLECTUAL PROPERTY & PUBLICITY

7.1 The Parties intend that notwithstanding any secondment any intellectual property rights created in the course of the Project shall vest in the Party whose employee created them (or in the case of any intellectual property rights created jointly by employees of several Parties in the Lead noted in clause 5 above for the part of the Project that the intellectual property right relates to).

7.2 Where any intellectual property right vests in any Party in accordance with clause 7.1 above, that Party shall grant an irrevocable royalty-free licence to the other Parties to use that intellectual property for the purposes of the Project.

7.3 Unless otherwise directed by the Parties, the Officer Working Group shall be responsible for all press announcements and publicity in relation to the Project.

7.4 The Parties shall be entitled to publicise their involvement in accordance with any legal obligation upon the respective Party.

8. TERM AND TERMINATION

8.1 This MoU shall commence on the date of signature by each of the Parties, and shall expire on completion of the Project which shall be deemed to occur on the latter of the 15th July 2016 or the acceptance by the Department for Communities and Local Government of any clarifications required by it pursuant to the submission referred to in clause 1.1.3.

8.2 A Party may terminate its participation in the Project and agreement to this MoU by giving at least one months' notice in writing to the other Parties at any time.

8.3 On termination or expiry of this MoU, the following clauses shall continue in force: clauses 6, 7, 8, 9, 10, 11, 12 and 13.

9. VARIATION

9.1 This MoU, including the Appendices, may only be varied by written agreement of all the Parties.

10. CHARGES AND LIABILITIES

10.1 Except as otherwise provided including at clause 10.2, the Parties shall each bear their own costs and expenses incurred in complying with their obligations under this MoU.

10.2 The Parties agree to share the costs and expenses arising in respect of the Project between them in accordance with the Contributions Schedule [set out in Appendix C to this MoU][to be developed by the Officer Working Group and approved by the Parties within three months of the date of this MoU].

10.3 Each of the Parties shall remain liable for any losses or liabilities incurred due to their own or their employees' actions.

10.4 For the avoidance of doubt a Party's obligations pursuant to clause 10.2 in respect of funding for costs that have not been incurred by the Project at the date of that Party's termination in the Project shall cease upon the date of that Party's termination.

11. STATUS

11.1 The Parties enter into the MoU intending to honour all their obligations. Clauses 6, 7, 8, 9, 10, 11, 12 and 13 are legally binding. The other clauses of this MoU are not intended to be legally binding.

11.2 Nothing in this MoU is intended to, or shall be deemed to, establish any partnership or joint venture between the Parties, constitute either Party as the agent of the other Party, nor authorise any of the Parties to make or enter into any commitments for or on behalf of the other Parties.

11.3 Notwithstanding anything apparently or impliedly to the contrary in this MoU, in carrying out its statutory duties or functions the discretion of each of the Parties shall not be fettered, constrained or otherwise unlawfully affected by the terms of this MoU.

12. COUNTERPARTS

12.1 This MoU may be executed in any number of counterparts and by the Parties on separate counterparts, but shall not be effective until each Party has executed at least one counterpart. Each counterpart, when executed, shall be an original of this MoU and all counterparts shall together constitute one instrument.

12.2 Any notice given to a Party under or in connection with this MoU shall be in writing and shall be:

12.2.1 delivered by hand or by pre-paid first-class post or other next working day delivery service at its principal place of business as referred to in this MoU; or

12.2.2 sent by email to the address specified in clause 4.3.2.

13. GOVERNING LAW AND JURISDICTION

13.1 This MoU shall be governed by and construed in accordance with English law and, without affecting the escalation procedure set out in clause 6, each of the Parties agrees to submit to the exclusive jurisdiction of the courts of England and Wales.

APPENDIX A – ACCESS POOL MISSION STATEMENT

To establish a multi-asset pooling arrangement in order to:

1) Enable participating authorities to execute their fiduciary responsibilities to LGPS stakeholders, including scheme members and employers, as economically as possible.

2) Provide a range of asset types necessary to enable those participating authorities to execute their locally decided investment strategies as far as possible.

3) Enable participating authorities to achieve the benefits of pooling investments, preserve the best aspects of what is currently done locally, and create the desired level of local decision making and control.

APPENDIX B – Principles of the ACCESS Pool

1. The participating authorities will work collaboratively.

2. Participating authorities will have an equitable voice in governance.

3. Decision making will be objective and evidence based.

4. The pool will use professional resources as appropriate.

5. The risk management processes will be appropriate to the pool's scale, recognising it as one of the biggest pools of pension assets in the UK.

6. The pool will avoid unnecessary complexity.

7. The pool will evolve its approach to meet changing needs and objectives.

8. The pool will welcome innovation.

9. The pool will be established and run economically, applying value for money considerations.

10. The pool's costs will be shared equitably.

11. The pool is committed to collaboration with other pools where there is potential to maximise benefits.

APPENDIX C - Contributions

[INSERT DETAILS OF CONTRIBUTIONS (INCLUDING FINANCIAL, STAFFING, PREMISES, USE OF IT ETC) THAT THE PARTIES ARE WILLING TO COMMIT. THIS SHOULD ALSO INCLUDE ANY ARRANGEMENTS FOR CROSS-CHARGING AND OTHER PROJECT COSTS (FOR EXAMPLE ANY CONSULTANT'S COSTS THAT MAY NEED TO BE PAID)]

Q&A for LGPS employers
Investment reform

At the Summer Budget 2015 it was announced that the Government will work with Local Government Pension Scheme (LGPS) administering authorities to reform how LGPS investments are managed.

The LGPS is one of the largest public sector pension schemes in the UK. In England and Wales the LGPS is currently organised as 91 local pension funds, each with an administering authority responsible for the management of its assets and liabilities and the administration and payment of pensions to its local members.

The Government want the 91 LGPS pension funds to pool their assets into around six investment pools, each with assets of at least £25bn. It is hoped that this will drive down investment costs and develop the capacity and capability of the LGPS to become world leaders in infrastructure investment, thereby helping to drive growth in the UK economy.

LGPS pension funds in Scotland and Northern Ireland are not affected by the proposals, and their investments will continue to be managed in the same way that they are now.

The expectation is that the new investment pools will begin to be used for collective investment from April 2018 onwards.

The following questions and answers aim to help employers understand the changes:

Q1: Why is this happening?
A1: Across the LGPS in England and Wales the scheme holds £217bn of assets (2014/15 figure). These assets are currently held in 91 local pension funds and are used to pay the pensions of former members of the scheme and their dependants. The LGPS is one of the largest funded pension schemes in Europe.

The Government commissioned research which indicates that significant savings can be delivered by the creation of around six investment pools, each with assets of at least £25bn. Each LGPS administering authority will be obliged to join, or help create, an investment pool with other LGPS administering authorities. Savings will be achieved through economies of scale and increased bargaining power; investment costs will be reduced along with other costs for all types of investment used in the pool.

The Government is also keen for the LGPS to have the capacity and capability to be able to invest in infrastructure e.g. railway, road or other transport facilities or housing supply. Currently only a very small proportion of LGPS assets are invested in infrastructure. Investment in infrastructure is increasingly seen as a suitable option for pension funds as the investment is typically long term and can match the long term liabilities held by pension funds.

It is hoped that the development of investment pools will make it easier for LGPS funds to invest in infrastructure due to increased scale.

Q2: Will the changes affect my employer contribution rate?
A2: Not directly. As an employer you pay the balance of the cost of providing member benefits, after taking into account investment returns and employee contributions. Every three years, a qualified actuary calculates how much you should contribute to the scheme.

If the anticipated reduction to investment costs are realised and the current overall investment performance is maintained it is possible that this could impact positively on employer contribution rates. However, it is important to remember that other factors, such as changes to life expectancy, the profile of your workforce and the length of deficit recovery periods are the main drivers of your organisation's contribution rate.

In addition, it is expected that the anticipated cost savings will not materialise for a number of years due to the costs that will be incurred in implementing and moving assets into investment pools.

To ensure the long term sustainability of the scheme a cost management process is now in place in the LGPS in England and Wales for member benefits being built up from 1 April 2014 onwards. This will monitor the cost of the scheme to ensure it stays within agreed parameters as set by the Scheme Advisory Board and HM

Treasury. Should costs increase outside those parameters future changes to the scheme design may be required. Further information about the cost management process is available on the Scheme Advisory Board website - http://www.lgpsboard.org/images/PDF/Publications/CostControlMembsEmpsv2FINAL.pdf.

Q3: Who is responsible for deciding how a fund invests its assets and will this change?
A3: Each LGPS administering authority decides how the assets for that fund are to be invested in line with its agreed investment strategy and agreed approaches to risk, diversification and corporate governance.

This will not change when assets are invested via the new investment pools from April 2018.

Q4: Will the administration of the LGPS also be changing?
A4: No, the Government is only requiring LGPS administering authorities to pool the investment of their assets. There is no requirement for any change to the administration of the LGPS.

The LGPS administering authority that administers the scheme for your employees and ex-employees will not change as a result of these changes.

Q5: What is the timetable for investment reform?
A5: Administering authorities are required to submit their final proposals for investment pooling to Government by 15th July 2016. The final proposals are expected to confirm each authority's commitment to pooling and provide detail on how the arrangements they have made with other authorities will meet the criteria published by Government in November 2015.

The proposals, if assessed as meeting the criteria, will be taken forward with a view to the investment pools becoming operative from April 2018. Assets will start to be moved into investment pools from April 2018 with illiquid assets, such as property, taking longer to transition than others.

The Government is planning to introduce legislation to allow the Secretary of State to intervene in the investment function of an administering authority where it has not had sufficient regard to government guidance on pooling.

Q6: Where I can find out more information?
A6: Further information about investment reform is available on the LGPS Scheme Advisory Board website - www.lgpsboard.org/index.php/structure-reform/investment-pooling-2015.

If you wish to find out how the LGPS administering authority that administers the scheme for your employees and ex-employees plans to comply with the investment reform criteria you should contact them directly.

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Q&A for LGPS members
Investment reform

At the Summer Budget 2015 it was announced that the Government will work with Local Government Pension Scheme (LGPS) administering authorities to reform how LGPS investments are managed.

The LGPS is one of the largest public sector pension schemes in the UK. It is a nationwide pension scheme for people working in local government or working for other types of employer participating in the scheme. In England and Wales the LGPS is currently organised as 91 funds, each with an administering authority responsible for the management of its assets and liabilities and the administration and payment of pensions to its local members.

The Government want the 91 LGPS pension funds to pool their assets into around six investment pools in an effort to drive down investment costs and enable funds to develop the capacity and capability to become world leaders in infrastructure investment and help drive growth in the UK economy.

LGPS pension funds in Scotland and Northern Ireland are not affected by the proposals, and their investments will continue to be managed in the same way that they are now.

The expectation is that the new investment pools will begin to be used for collective investment from April 2018 onwards.

The following questions and answers aim to help you understand the changes:

Q1: Why is this happening?
A1: Across the LGPS in England and Wales the scheme holds £217bn of assets (2014/15 figure). These assets are currently held in 91 local pension funds and are used to pay the pensions of former members of the scheme and their dependants. The LGPS is one of the largest funded pension schemes in Europe.

The Government commissioned research which indicates that significant savings can be delivered by the creation of around six investment pools, each with assets of at least £25bn. Each LGPS administering authority will be obliged to join, or help create, an investment pool with other LGPS administering authorities. Savings will be achieved through economies of scale and increased bargaining power; investment costs will be reduced along with other costs for all types of investment used in the pool.

The Government is also keen for the LGPS to have the capacity and capability to be able to invest in infrastructure e.g. railway, road or other transport facilities or housing supply. Currently only a very small proportion of LGPS assets are invested in infrastructure and it is hoped that the creation of investment pools will make it easier for LGPS funds to invest in infrastructure due to increased scale.

Q2: Will the changes affect the amount of pension I receive?
A2: No, the LGPS is a defined benefit scheme which means that your pension benefits are based on your salary and how long you have been a member of the LGPS. The pension benefits you receive are not linked to investment returns.

To find out how your pension is calculated visit www.lgpsmember.org.

Q3: Will the amount of pension contributions I pay change?
A3: No, as a member of the LGPS the rate of contributions you pay is based on how much you are paid.

To find out how much the LGPS costs you visit www.lgpsmember.org.

Q4: Does this change who administers my pension benefits?
A4: No, the Government is only requiring LGPS administering authorities to pool the investment of their assets. There is no requirement for any change to the administration of the LGPS i.e. who calculates and pays your pension.

Your LGPS administering authority is determined by where you work or, if you have an LGPS pension or deferred LGPS pension, where you used to work. You can find the contact details for your LGPS administering authority at www.lgpsmember.org/contactfund.php.

Q5: Who is responsible for deciding how a fund invests its assets and will this change?
A5: Each LGPS administering authority decides how the assets for that fund are to be invested in line with its agreed investment strategy. This will not change when assets are invested via the new investment pools from April 2018.

Q6: Where can I find out more information?
A6: For information about how your administering authority plans to comply with the investment reform you should contact your LGPS administering authority. You can find their contact details at www.lgpsmember.org/contactfund.php.

Further information about investment reform is also available on the LGPS Scheme Advisory Board website - www.lgpsboard.org/index.php/structure-reform/investment-pooling-2015.

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LOCAL GOVERNMENT PENSION SCHEME (LGPS)

ANNUAL EMPLOYERS FORUM – EAST SUSSEX PENSION FUND

FRIDAY 18 NOVEMBER 2016, COUNCIL CHAMBER, COUNTY HALL, LEWES

AGENDA

10.00	**Introduction** *Marion Kelly - Chief Finance Officer*
10.05	**Chairman's Address** *Cllr Richard Stogdon - Chair of the East Sussex Pension Committee*
10.10	**Local Pension Board – "One Year On…."** *Richard Harbord - Chair of the East Sussex Pension Board*
10.30	**Current market environment (xxxxxxxx)**
11.00	**LGPS Investment Pooling, ACCESS** *Ola Owolabi, Head of Accounts and Pensions*
11.15	**Pensions Update** *Ian Colvin, Hymans Robertson*
11.45	**Coffee Break**
	Presentation from the Fund's Actuary :-
12.00	**2016 Valuation Update by the Fund's Actuary** *Richard Warden, Fund Actuary, Hymans Robertson*
13.00	**Lunch**
	Employer Surgeries
14.00	**Close**

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Report to: **Pension Committee**

Date of meeting: **8 September 2016**

By: **Chief Finance Officer**

Title: **Pension Committee Forward Plan 2016/17**

Purpose: **The updated report sets out the Pension Committee Forward Plan for 2016-17. The Plan includes the key objectives for the Fund, training strategy/plan for the Fund and Member training log.**

RECOMMENDATION

The Committee is recommended to note the report.

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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 This report contain an updated 2016/17 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 in 2016/17.

3. Pensions Regulator Training Toolkit

3.1 The Pensions Regulator has provided an on-line training resource to assist those involved with the public sector pension schemes. This is accessed via a "Trustee Toolkit" link on its website. It provides a set of seven modules covering the key themes in the Code of Practice on governance and administration of public service schemes.

3.2 The Regulator suggests that each module's tutorial should take no more than 30 minutes to complete. The modules will assist with meeting the minimum knowledge and understanding requirements in relation to the contents of the Code of Practice, but would not meet the knowledge and skills requirements in other areas such as Scheme regulations, the Fund's specific policies and the more general pension's legislation. Therefore, this toolkit should be used to supplement the existing training plans.

4. Joint Pension Board and Committee Training Session

4.1 The topics to be covered are detailed within the Pension Board and Committee Forward/Training plan. The third joint training session is scheduled to take place in *October 2016 (date to be confirmed).*

4. Conclusion and reasons for recommendations

4.1 The Committee is requested to note the Pension Committee Forward Plan 2016/17.

MARION KELLY

Chief Finance Officer

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

Background Documents:
None

EAST SUSSEX PENSION FUND

PENSION COMMITTEE/BOARD FORWARD PLAN 2016-17

July 2016

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 2016/17. 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 was 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 Investment).

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**	**May 2016**	**August 2016**	**November 2016**	**February 2017**	**May 2017**	**August 2017**	**November 2017**	**February 2018**	**May 2018**	**August 2018**	**November 2018**
1	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	Governance Compliance Statement	Internal dispute resolution procedure
2	Discretionary policy statement	Legal Status of the Pension Board	Internal Control Register	Reporting breaches	Discretionary policy statement	Statement of investment principles	Internal Control Register	Reporting breaches	Discretionary policy statement	Statement of investment principles	Internal Control Register
3	External Assurance Reports from Third Parties	Review on fee arrangements	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	Review on the investment strategy and Manager benchmarking	Risk register

PENSION BOARD FORWARD/BUSINESS PLAN

Date Item	May 2016	August 2016	November 2016	February 2017	May 2017	August 2017	November 2017	February 2018	May 2018	August 2018	November 2018
4	Annual Report		CIPFA Benchmarking	Communications policy statement	Annual Report	Investment/ Admin Consultant Performance	CIPFA Benchmarking	Investment/ Admin Consultant Performance	Annual Report	Investment/ Admin Consultant Performance	CIPFA Benchmarking
5	Internal dispute resolution procedure			Funds Actuarial Valuation Report	Bulk Transfer, Cessations and Admission policies	Review on fee arrangements			Bulk Transfer, Cessations and Admission policies	Review on fee arrangements	Investment/ Admin Consultant Performance
6				Pension administration statement							

2. PENSION COMMITTEE – FORWARD/BUSINESS PLAN

PENSION COMMITTEE FORWARD/BUSINESS PLAN											
Date / **Item**	**May 2016**	**September 2016**	**November 2016**	**February 2017**	**May 2017**	**September 2017**	**November 2017**	**February 2018**	**May 2018**	**September 2018**	**November 2018**
1	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
2	Discretionary policy statement	Statement of investment principles	Risk register	Funds Actuarial Valuation Report	Discretionary policy statement	Statement of investment principles	Risk register	Communications policy statement	Discretionary policy statement	Statement of investment principles	Risk register
3			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	Governance Compliance Statement	Pension Committee Forward/Training Plan
4			Pension Committee Forward/Training Plan	Communications policy statement	Pension Committee Forward/Training Plan	Investment/ Admin Consultant Performance			Bulk,Transfer, Cessations and Admission policies	Investment/ Admin Consultant Performance	
5				Pension administration statement							

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.

7. Pensions Regulator Training Toolkit

The Pensions Regulator has provided an on-line training resource to assist those involved with the public sector pension schemes. This is accessed via a "Trustee Toolkit" link on its website.

It provides a set of seven modules covering the key themes in the Code of Practice on governance and administration of public service schemes. Each module provides an option to complete an interactive tutorial online and an assessment to test knowledge. The modules are:

- Conflicts of interest
- Managing risk and internal controls
- Maintaining accurate member data
- Maintaining member contributions
- Providing information to members and others
- Resolving internal disputes
- Reporting breaches of the law.

The Regulator suggests that each module's tutorial should take no more than 30 minutes to complete. The modules will assist with meeting the minimum knowledge and understanding requirements in relation to the contents of the Code of Practice, but would not meet the knowledge and skills requirements in other areas such as Scheme regulations, the Fund's specific policies and the more general pensions legislation. Therefore, this toolkit should be used to supplement the existing training plans.

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**	

	PROPOSED DELIVERY METHODS							
TRAINING NEED	**One-to-One Briefing with an officer**	**Members' Briefing Notes**	**Short Seminars (before Committee meeting)**	**Training Events (Internal & External Speakers)**	**External Conferences & Training Seminars**	**E-Learning (e.g. Webcasts, Videos)**	**KSF area (s)**	**COMPLETION TARGET DATE**
the LGPS • 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	

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
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**	

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**

EAST SUSSEX PENSION BOARD – TRAINING LOG

Member/Representative Name: ………………………………………………………………….

Subject/Description of training	Date completed	Suggested Further Action?
Benefit Structure		
Joining	22 February 2016	
Contributions	22 February 2016	
Benefits	22 February 2016	
Transfers	22 February 2016	
Retirement	22 February 2016	
Increasing benefits	22 February 2016	
Code of Practice		
About the code	22 February 2016	
Governing your scheme	22 February 2016	
Risk	22 February 2016	
Administration	22 February 2016	
Resolving issues	22 February 2016	
LGPS – Legislative and Governance context		
A recap on who does what in the LGPS focusing on the roles of;		
The administering authority		
The employers		

Member/Representative Name: ………………………………………………………………….		
Subject/Description of training	**Date completed**	**Suggested Further Action?**
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		
2016 Triennial Valuation refresher		
Funding principles and preparing for the 2016 valuation;		
Valuation basics		
Role of the PC & LPB		
Purpose of the valuation / Funding Strategy Statement		
2013 valuation overview		
Whole fund and employer results		
Contribution stability / Like for like results		
Funding strategy		
Employer risk / Employer specific funding objectives		
Experience from 2013 to 2016		
Markets (asset returns and yields)		

Member/Representative Name: ………………………………………………………………..		
Subject/Description of training	**Date completed**	**Suggested Further Action?**
Longevity experience		
TPR's Public Sector Online Toolkit (7 modules)		
Conflicts of Interest		
Managing Risk and Internal Control		
Maintaining Accurate Records		
Maintaining Member Contributions		
Providing Information to Members and Others		
Resolving Internal Disputes		
Reporting Breaches of the Law		
TPR Code of Practice no. 14		
Governing Your Scheme		
Managing Risks		
Administration		
Resolving Issues		
Pensions Legislation		
The Legislative Framework for Pensions in the UK		
LGPS Regulations and Statutory Guidance		
LGPS Discretions		
Other Legislation		

Member/Repreresentative Name: …………………………………………………………………………………		
Subject/Description of training	**Date completed**	**Suggested Further Action?**
Pensions Governance		
Understanding National and Local Governance Structure		
Knowledge of Pension Fund Stakeholders		
Knowledge of Pension Fund Stakeholder Consultation and Communication		
Governance Policies		
Pension Administration		
Understanding Best Practice		
Interaction with HMRC		
Additional Voluntary Contributions		
The Role of the Scheme Employer		
Stewardship Report		
Pensions Accounting and Auditing Standards		
Understanding the Accounts and Audit Regulations		
The Role of Internal and External Audit		
Third Party Contracts		
Investment Performance and Risk Management		
Monitoring Assets and Assessing Long-Term Risk		
Myners Principles of Performance Management		
Awareness of Support Services		

Member/Representative Name: ……………………………………………………………………..		
Subject/Description of training	**Date completed**	**Suggested Further Action?**
Understanding Risk and Return of Fund Assets		
Understanding the Financial Markets		
LGPS (Management and Investment of Funds) Regulations		
HMRC and Overseas Taxation		
Procurement and Relationship Management		
Public Procurement Policy and Procedures		
Brief Overview of UK and EU Procurement Legislation		
How the Pension Fund Monitors and Manages its Outsourced Providers		
Additional Training		

AVAILABLE TRAINING AND CONFERENCES 2016 – 2017

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

Date	Conference/Event	Run By	Delegates/Cost
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

Joint Pension Committee and Pension Board Training Session
Members Training - Forward Plan

JOINT PENSION COMMITTEE AND PENSION BOARD - FORWARD PLAN					
Date	**22 February 2016**	**14 June 2016**	**18 July 2016**	**October 2016**	**November 2018**
Topics	• Pension Discretions • Procurement process for services provided externally	• LGPS – Legislative and Governance context; • Conflicts of Interest and Reporting Requirements; • Consideration of the Committee and Pension Board's responsibilities; • Conflicts of interest • 2016 Triennial Valuation	• Valuation assumption setting • Consistency of assumptions with investment beliefs • 2016 valuation early warning • Valuation timetable and next steps	• Roles of the Pension Regulator • Pension Administration - Business Ops • Review of Myners principles	• LGPS discretions & policies • Safeguarding the Fund's Assets

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