

PENSION COMMITTEE

MONDAY, 27 FEBRUARY 2017

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 - 6*)
- 2 Apologies for absence
- 3 Disclosure of Interests
Disclosures by all Members present of personal interests in matters on the agenda, the nature of any interest and whether the Members regard the interest as prejudicial under the terms of the Code of Conduct.
- 4 Urgent items
Notification of items which the Chair considers to be urgent and proposes to take at the appropriate part of the agenda.
- 5 Pension Board Minutes (*Pages 7 - 12*)
- 6 Fund Performance - Schroder (*Pages 13 - 56*)
- 7 Quarterly Performance Report - Hymans Robertson (*Pages 57 - 80*)
- 8 External Audit Plan for East Sussex Pension Fund 2016/17 (*Pages 81 - 92*)
- 9 Investment Strategy Statement (ISS) (*Pages 93 - 110*)
- 10 Funding Strategy Statement (FSS) (*Pages 111 - 152*)
- 11 Asset Pooling - Passive Procurement (*Pages 153 - 154*)
- 12 Pension Administration Cost Analysis (*Pages 155 - 158*)
- 13 Officers' Report - Business Operations (*Pages 159 - 192*)
- 14 Pension Fund Budget for 2017/18 (*Pages 193 - 196*)
- 15 Forward Plan (*Pages 197 - 230*)
- 16 Any other non-exempt items previously notified under agenda item 4
- 17 Exclusion of the public and press
To consider excluding the public and press from the meeting for the remaining agenda item on the grounds that if the public and press were present there would be disclosure to them of exempt information as specified in paragraph 3 of Part 1 of the Local

Government Act 1972 (as amended), namely information relating to the financial or business affairs of any particular person (including the authority holding that information).

- 18 Governance: LGPS Investment Pooling - Inter Authority Agreement (*Pages 231 - 262*)
- 19 Any other exempt items previously notified under agenda item 4

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

17 February 2017

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PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at County Hall, Lewes on 30 November 2016.

PRESENT Councillors Richard Stogdon (Chair) Councillors
Frank Carstairs and David Tutt

LEAD MEMBERS Councillors David Elkin

ALSO PRESENT Phil Hall, Interim Chief Finance Officer
Brian Smith, Regional Operations Manager
Ola Owolabi, Head of Accounts and Pensions
Wendy Neller, Pensions Strategy and Governance Manager
Jason Bailey, Pension Services Manager
John Shepherd, Finance Manager (Pension Fund)
William Marshall, Hymans Robertson
Paul Potter, Hymans Robertson
William Bourne, Independent Adviser
Richard Harbord, Independent Chair, Pension Board
Harvey Winder, Democratic Services Officer

32 MINUTES

32.1 The Committee RESOLVED to agree the minutes of the meeting held on 8 September 2016 as a correct record.

33 APOLOGIES FOR ABSENCE

33.1 Apologies for absence were received from Cllrs Bob Standley and Michael Wincott.

34 DISCLOSURE OF INTERESTS

34.1 There were none.

35 URGENT ITEMS

35.1 There were no urgent items.

36 PENSION BOARD MINUTES

36.1 The Committee considered the draft minutes of the Pension Board meeting held on 3 November 2016.

36.2 The Committee RESOLVED to note the draft minutes

37 FUND PERFORMANCE - M & G INFRACAPITAL

37.1 The Committee received a presentation from the fund manager M & G Infracapital on their fund performance.

38 QUARTERLY PERFORMANCE REPORT - HYMANS ROBERTSON

38.1 The Committee considered a report by Hymans Robertson the performance of fund managers during the third quarter of 2016.

38.2 Hymans Robertson representatives reminded the Committee that the Fund is planning to hold a Environmental, Social and Governance (ESG) training day in early 2017. This is a follow up session to the one held earlier this year.

39 LGPS ASSET POOLING - ACCESS UPDATE

39.1 The Committee considered a report by the Interim Chief Finance Officer providing a summary of and the conclusions from the ACCESS Chairs meeting.

39.2 The Committees RESOLVED to:

1) note the report; and

2) approve the agreement of the Chairmen on the 2 September 2016 to initially rent the operator function, with a view in the medium term to wholly own the operator.

40 FUNDS ACTUARIAL VALUATION REPORT - DRAFT

40.1 The Committee considered a report by the Interim Chief Finance Officer setting out the draft results of the 2016 Actuarial Valuation of the East Sussex Pension Fund. Hymans Robertson also gave a presentation discussing the Fund's objectives and an introduction to the ALM analysis that will take place during 2017.

40.2 The Committee RESOLVED to note the report.

41a OFFICERS' REPORT - BUSINESS OPERATIONS

41a.1 The Committee considered a report by the Chief Operating Officer on the performance of the Business Operations team.

41a.2 The Committee RESOLVED to:

1) note the report; and

2) request a report at its next meeting on the comparative cost of pension administration both prior to and since Orbis began providing the service, taking into account developments in the nature of the service provided over that period.

41b OFFICERS' REPORT - GENERAL UPDATE

41b.1 The Committee considered a report by the Chief Finance Officer providing a general update on matters related to the Committee's activity.

41b.2 The Committee RESOLVED to note the report.

42 FORWARD PLAN

42.1 The Committee considered a report by the Chief Finance Officer setting out the Committee's proposed Forward Plan for 2016/17.

42. 2 The Committee RESOLVED to note the report.

43 EXCLUSION OF THE PUBLIC AND PRESS

43.1 The Committee RESOLVED to exclude the public and press from the meeting for the remaining items of the agenda on the grounds that if the public and press were present there would be disclosure to them of exempt information as specified in Category 1 of Part 1 of Schedule 12A to the Local Government Act 1972 (as amended), namely information relating to any individual; and Category 3 of Part 1 of Schedule 12A to the Local Government Act 1972 (as amended), namely information relating to the financial or business affairs of any particular person (including the authority holding that information).

44 EAST SUSSEX PENSION FUND - INDEPENDENT ADVISOR

44.1 The Committee considered a report by the Interim Chief Finance Officer on the extension of the Independent Advisor's current contract.

44.2 The Committee RESOLVED to agree an extension to the current term for the Independent Advisor to 31 December 2017.

The meeting ended at 1.40 pm.

Councillor Richard Stogdon
Chair

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PENSION BOARD

MINUTES of a meeting of the Pension Board held at County Hall, Lewes on 9 February 2017.

PRESENT Richard Harbord (Chair) Councillor Kevin Allen,
Angie Embury, Bernadette Carlyle, Sue McHugh and
Councillor Brian Redman

ALSO PRESENT Councillor David Elkin, Lead Member for Resources
Councillor Richard Stogdon, Pension Committee Chair
Brian Smith, Regional Operations Manager
Ola Owolabi, Head of Accounts and Pensions
John Shepherd, Finance Manager (Pension Fund)
Graham Devenish, Pensions Operation Manager
Harvey Winder, Democratic Services Officer

33 MINUTES

33.1 The Board agreed that the minutes were a correct record of the meeting held on 3 November 2016.

34 APOLOGIES FOR ABSENCE

34.1 Apologies for absence were received from Tony Watson.

35 DISCLOSURE OF INTERESTS

35.1 There were none.

36 URGENT ITEMS

36.1 There were none.

37 PENSION COMMITTEE AGENDA

37.1 The Board considered a report on the Pension Committee's agenda for its 27 February meeting. The reports were introduced by Ola Owolabi (OO), Head of Accounts and Pensions.

37.2 In reference to **Item 9: Investment Strategy Statement (ISS)**, the Chair invited representatives of Divest East Sussex to speak about their document titled "Managing Climate Risk: Proposed Additions for ESPF's new Investment Strategy".

37.3 Councillor Kevin Allen (KA) and Angie Embury (AE) questioned why under the section "How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments" the fund appears to be

excluded from divesting, boycotting or sanctioning foreign governments or UK defence industries when the funds' members may object to investing in UK defence industries. OO said that the wording was in line with the requirements of the LGPS Management & Investment of Funds Regulations 2016 which prohibits funds from being able to disinvest from UK defence industries and foreign governments for non-financial reasons.

37.4 KA said that the Pension Committee should consider acting as a front runner in reducing investment in fossil fuels if it can be done whilst upholding its fiduciary duty.

37.5 Sue McHugh (SM) said that the Pension Committee's fiduciary duty towards the ESPF means it cannot take a blanket decision to not invest in any industry without strong enough evidence that it will not impact negatively on investment returns. The financial risk sits with the ESPF and employers rather than individuals, so the Committee members should not take a decision that they might do in their capacity as an individual if it causes financial risk to the pension fund and its employers.

37.6 OO explained that the investment managers working on behalf of the ESPF will invest according to the Fund's beliefs as set out in the ISS. The Local Authority (LAPFF) has a strong ethical stance and also helps to guide where investments should be made on behalf of other local government pension funds.

37.7 SM asked, in reference to the section "Investment of money in a wide variety of investments", how much of the total value of all investments was in entities which are connected with East Sussex County Council (noting that the legal maximum was 5%). OO confirmed that no investments were in entities connected to the Council. He added that the viability of local investment had previously been looked at but none were found to yield a reasonable return.

37.8 AE asked how ACCESS fund pooling would affect the varied investment strategies of individual member funds. OO explained that all 11 funds will retain their strategies and invest in the same asset classes as decided by their respective Pension Committee. The difference will be that each asset class, e.g., absolute return or property, will be managed by a single investment manager – instead of 11 individual managers – who will invest on behalf of all of the ACCESS members that allocate funds into that asset class. This will deliver benefits of scale by reducing the investment manager fees.

37.9 The Chair asked what infrastructure projects ESPF is investing in. John Shepherd (JS) said that the 2% of the fund allocated to infrastructure is held by investment mutual funds that hold a portfolio of worldwide infrastructure investments, rather than holding a large stake in an individual infrastructure project.

37.10 In reference to **Item 10: Funding Strategy Statement (FSS)**, the Chair asked whether there was a significant difference between the new FSS and the previous strategy. OO confirmed that there was no significant difference but the employer contribution rate has reduced since the outcome of the triennial valuation and the FSS needed to be amended to reflect that.

37.11 Councillor Brian Redman (BR) questioned whether the salary growth projections up to 2019 in the triennial evaluation were an underestimate given the potential higher inflation and the increasing demand for public sector wage rises it will create. OO said that the projection took into consideration not just the next three years but also long term projections to help ensure that the ESPF will not be underfunded by 2019. The Chair added that the Institute of Fiscal Studies had recently reported that the percentage of GDP spent on the public sector had reached an all time low, there has been a retrenchment of the overall number of public sector workers in the past few years, and austerity is expected to continue for the next 6-8 years. This meant that it is unlikely that there would be an excessive increase in public sector pay.

However, the report also projected tax increases in the next few years, and AE suggested that this could put pressure on demands for pay increases.

37.12 In reference to **Item 11: Pension Fund Cost Analysis**, the Chair observed that it was difficult to know whether the pension administration was good value for money because of the imprecision of benchmarking. He added that there was not a lot of variation in the costs since 2012/13 but it appeared that performance was going in the right direction.

37.13 Brian Smith (BS), Head of Operations, said that the CIPFA benchmarks were a comparison of 38 local authorities that had volunteered their performance figures and were not a complete picture; however, they were the best available comparison.

37.14 In reference to **Item 14: Pension Fund Budget for 2017/18**, the Chair asked how the budget would remain exactly the same for the next financial year. OO explained that this would be achieved by renegotiating fees with investment managers and the increase in the value of the fund.

37.15 The Chair asked whether the budget outturn for this financial year would be in line with the budget projections. OO expected that there would be an underspend as the Guaranteed Minimum Pension (GMP) reconciliation money committed for 2016/17 will not be committed this year.

37.16 BR asked whether the £100,000 committed to GMP reconciliation this year would be carried over to next year. OO said the £100,000 will be reinvested into the fund and the £120,000 for 2017/18 was a separate amount.

37.17 The Chair said that the £66,000 reduction in actuarial fees next year would be due to the fact that there was a triannual valuation during 2016/17. The £30,000 reduction in specific actuarial work on behalf of employers would be for the same reason.

37.18 OO noted that there was an error in the variance in the cost of investment consultancy for 2017/18 which was £0 and not £8,000.

37.19 The Board RESOLVED

- 1) to note the Pension Committee reports; and
- 2) to recommend that the Pension Committee approve the Investment Strategy Statement (ISS) subject to the addition of an expanded description of how the ESPF influences investment managers to consider ESG factors when making investments.

38 EXTERNAL AUDIT PLAN FOR EAST SUSSEX PENSION FUND 2016/17

38.1 The Board considered a report on the External Audit Plan for East Sussex Pension Fund for 2016/17.

38.2 The Chair commented that a materiality of 1% of net assets seemed very high given that this equated to £27 million. He said it would make more sense to make it 1% of the pension administration costs. OO said that although the materiality level was high, non-trivial and trivial errors would still be recorded and reported by the external auditors. Furthermore, the materiality is classified as “creeping materiality”, so the £27 million trigger would be a cumulative figure of all errors discovered in the accounts, at which point the external auditor could issue a qualified opinion.

38.3 SM asked whether the external auditor was in a position to comment on investments and not just accounts. OO said that there were statutory requirements for the external auditor to discuss concerns about investments with pension fund officers, the Committee and the Pension Board.

38.4 The Board RESOLVED to note the report.

39 PENSION BOARD INSURANCE ARRANGEMENTS

39.1 The Board considered a report on the Pension Board Insurance Arrangements.

39.2 The Chair explained that although the Board did not take decisions, it could still be considered negligent if it failed in its duty to report breaches of the law to the Pension Fund Regulator. However, only two of 89 pension boards had so far opted to acquire an insurance premium to cover potential liability. He recommended that the Board defer this recommendation to the Committee until such time as more pension boards had opted for the insurance premium.

39.3 SM observed that as only Aon Risk Solutions was offering this insurance policy, the value of the asking price could not be verified against a market average. This made it more prudent to wait until the market matured.

39.4 The Board RESOLVED to:

- 1) note the report; and
- 2) defer the recommendation to the Pension Committee to approve the Pension Board Insurance premium for payment until the next meeting on 26 June 2017.

40 REPORTING BREACHES POLICY

40.1 The Board considered a report on the Reporting Breaches Policy.

40.2 The Chair observed that, in light of the legal advice about the potential risk to pension boards for failure to report breaches, all breaches, even those that the Monitoring Officer and Chief Finance Officer do not consider material, should be reported to the Board.

40.3 The Board resolved to:

- 1) note the report; and
- 2) recommend that all material and non-material breaches are reported to the Pension Board.

41 BUSINESS OPERATIONS SYSTEMS - UPDATE

41.1 The Board considered a report providing an update on the effectiveness of the current LGPS administration system used by Business Operations and market alternatives.

41.2 The Chair asked for confirmation that, in line with the Pension Committee's decision in March 2016, there was still an opportunity to activate the 3-year break clause in the contract with Heywood if necessary. BS confirmed that with the assistance of procurement, who will provide an independent view, a review of the alternative LGPS administration system provided by Civica would be completed by December 2017, allowing time for a procurement process to be completed before the 3-year break clause period is reached in March 2019.

41.3 The Board RESOLVED to note the report.

42 OFFICERS' REPORT - BUSINESS OPERATIONS

42.1 The Board considered a report providing an update on the work of the Business Operations Team.

42.2 Graham Devenish (GD), Pension Operations Manager, said that the Pension Regulator is recommending GMP reconciliation tolerance level of £2, although the impact this will have on individual scheme members will vary. There is also the possibility that scheme members may owe the Fund and in theory this money could be clawed back. The cost of pursuing individual cases to the nearest penny may cost ESPF more than accepting a tolerance level of £2. GD added that HMRC's deadline for closing their GMP records in December 2018 is very unlikely to change and only a limited service will continue after that date.

42.3 BR asked for clarity about whether the budget of £120,000 for 2017/18 will be sufficient to cover GMP reconciliation costs. GD said that ITM provided a stage 1 report for both Surrey and East Sussex at a lower cost due to the benefits of scale. The report compared a database of scheme members against HMRC records to find where there were mismatches; 15-20,000 people may be liable for GMP reconciliation but it is not clear yet the cost of this liability to ESPF. ITM's involvement in the process is expected to cost £160,000 for both funds, which is well within the ESPF budget for 2017/18 or £120,000.

42.4 BR asked why the audit, actuary and ICT costs were around 60-70% higher than the benchmark. BS clarified that the CIPFA ICT benchmarking was a year behind and did not account for the reduced costs realised by the new pension administration system procured in April 2016. The Chair said that the audit fee was only £19,000 and so the fact it was comparatively higher did not have a significant impact.

42.5 BR observed that the overall cost of actuarial work was considerable when taking into consideration the work performed by the actuary on the behalf of specific employers, which is recharged to the Fund. SM said that the process of having the actuary produce bespoke financial statements for employers that are then independently checked was inefficient and there was no national discount rate. OO said that the ongoing savings at district, borough and unitary authorities involved redundancies that might have pension implications and so it was necessary for the actuary to check for these.

42.6 The Board resolved to note the report.

43 OFFICERS' REPORT - GENERAL UPDATE

43.1 The Board considered a general update on pension issues.

43.2 The Board RESOLVED to note the report.

44 FORWARD PLAN

44.1 The Board considered its forward plan.

44.2 The Board RESOLVED to note the report.

45 EXCLUSION OF THE PUBLIC AND PRESS

45.1 The Board RESOLVED to exclude the public and press from the meeting for the remaining agenda item on the grounds that if the public and press were present there would be disclosure to them of exempt information as specified in paragraph 3 of Part 1 of the Local Government Act 1972 (as amended), namely information relating to the financial or business affairs of any particular person (including the authority holding that information).

46 PENSION COMMITTEE AGENDA - EXEMPT REPORT

46.1 The Board considered the exempt report of the Pension Committee agenda: LGPS Asset Pooling – ACCESS Inter Authority Agreement.

46.2 The Board RESOLVED to note the report.

The meeting ended at 12.04 pm.

Richard Harbord (Chair)
Chair

East Sussex Pension Fund

Schroder Real Estate Capital Partners

Representing Schroders:



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27 February 2017



Schroders

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- Market overview
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Business overview



Business overview

Schroder Real Estate Capital Partners (SRECaP)

- Managed indirect real estate mandates since 1997
- £3.5 billion under management as at 31 December 2016
- +£500 million traded in 2016
- Average purchase cost over five years +1.6%
- 23 segregated clients
- Two closed-ended continental European funds
- Two open-ended UK funds
- Six SRECaP Partnerships

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Source: Schroders, 31 January 2017.

Business overview

Team

Schroder Real Estate Capital Partners Team

Team (industry/Schroders experience)	Position	Responsibility
Graeme Rutter (23 years/10 years)	Head of SRECaP	Business management, portfolio management & strategy
Neil Turner (23 years/10 years)	Head of Indirect Investment	Portfolio management & strategy, Chair of Investment Committee
Patrick Bone (11 years/9 years)	Portfolio Manager	Portfolio management & strategy, fund monitoring
Naomi Green (16 years/0 years)	Portfolio Manager	Portfolio management & strategy, fund monitoring
Nick Prince (18 years/1 years)	Senior Fund Analyst	Fund monitoring & analysis, portfolio modelling, risk analysis
Alice Russell (1 years/1 years)	Fund Analyst	Fund monitoring & analysis, portfolio modelling, risk analysis
Marsha Reid* (26 years/21 years)	Fund Manager Assistant	Trade processing and risk monitoring
Jagjeet Kaur Saini* (5 years/5 years)	Fund Manager Assistant	Trade processing and risk monitoring

Source: Schroders, 31 January 2017. Numbers in brackets indicate years of experience/number of years with Schroders. * Real Estate Investment Support.

Market overview

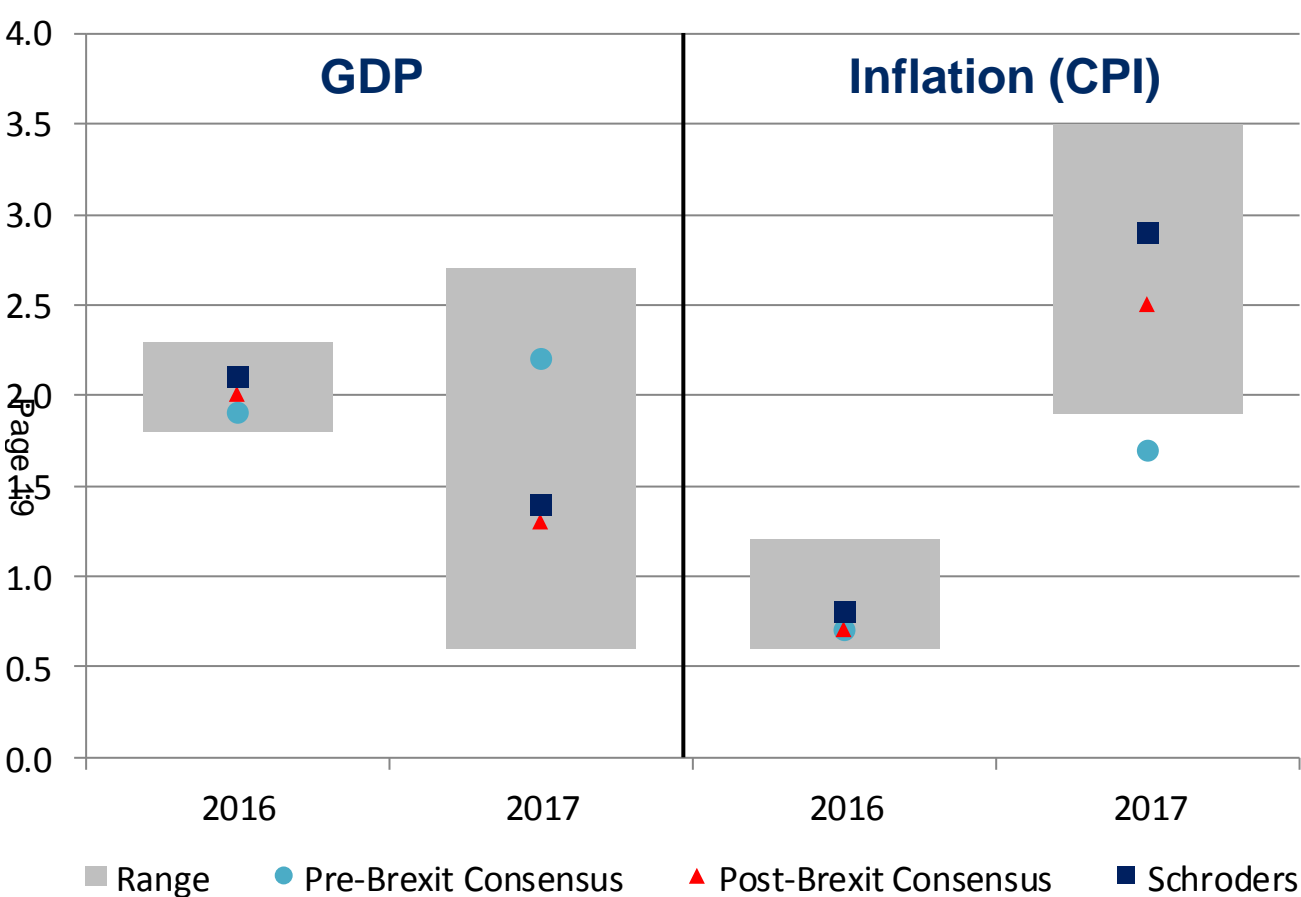


Schroders

Market overview

Economic growth is likely to slow in 2017 as inflation accelerates and investment declines

GDP and inflation %

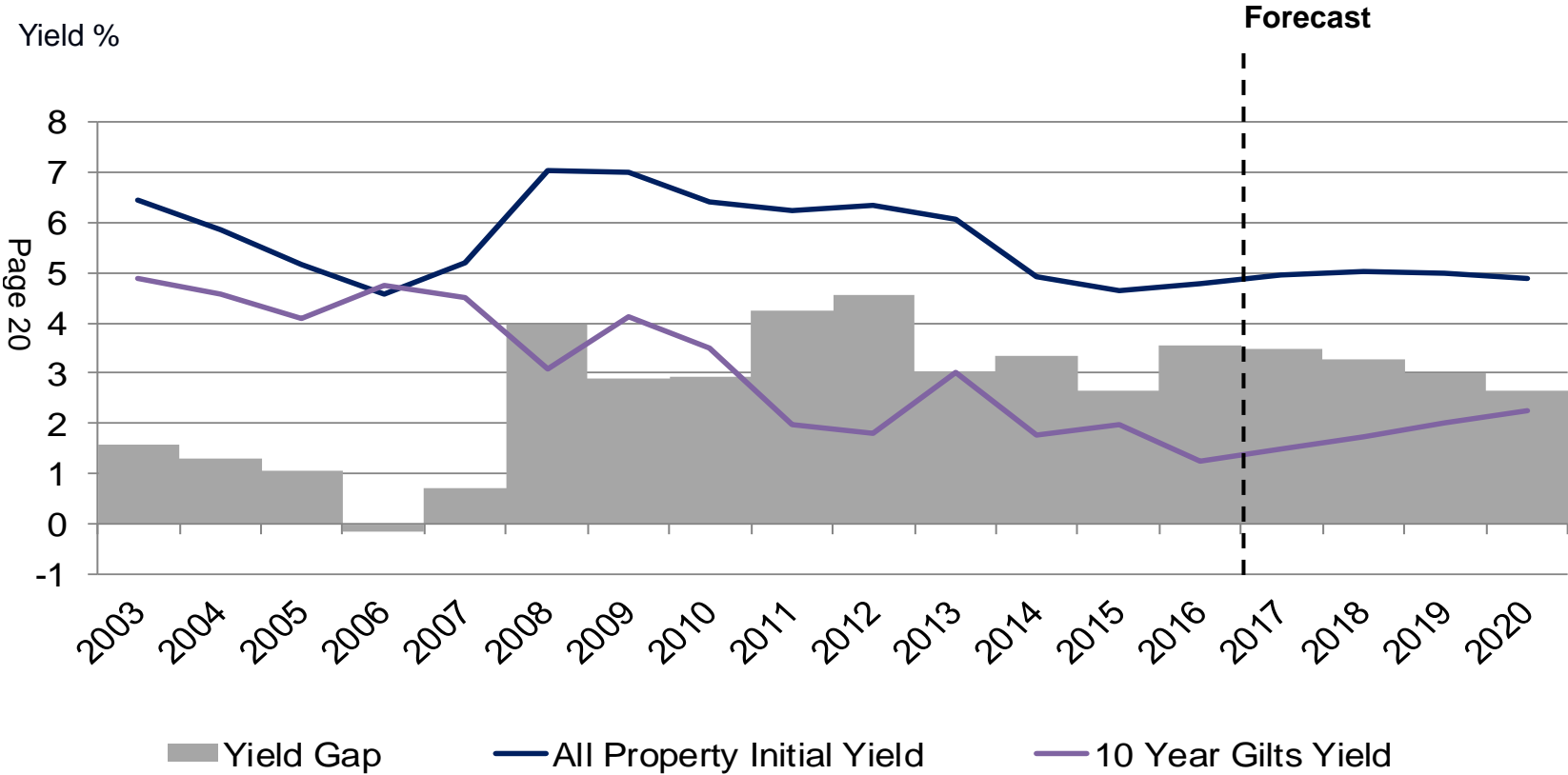


Source: Consensus Economics, Schroders. January 2017.

Market overview - real estate & gilts yields

Uncertainty over the economy means real estate yields are likely to track gilts

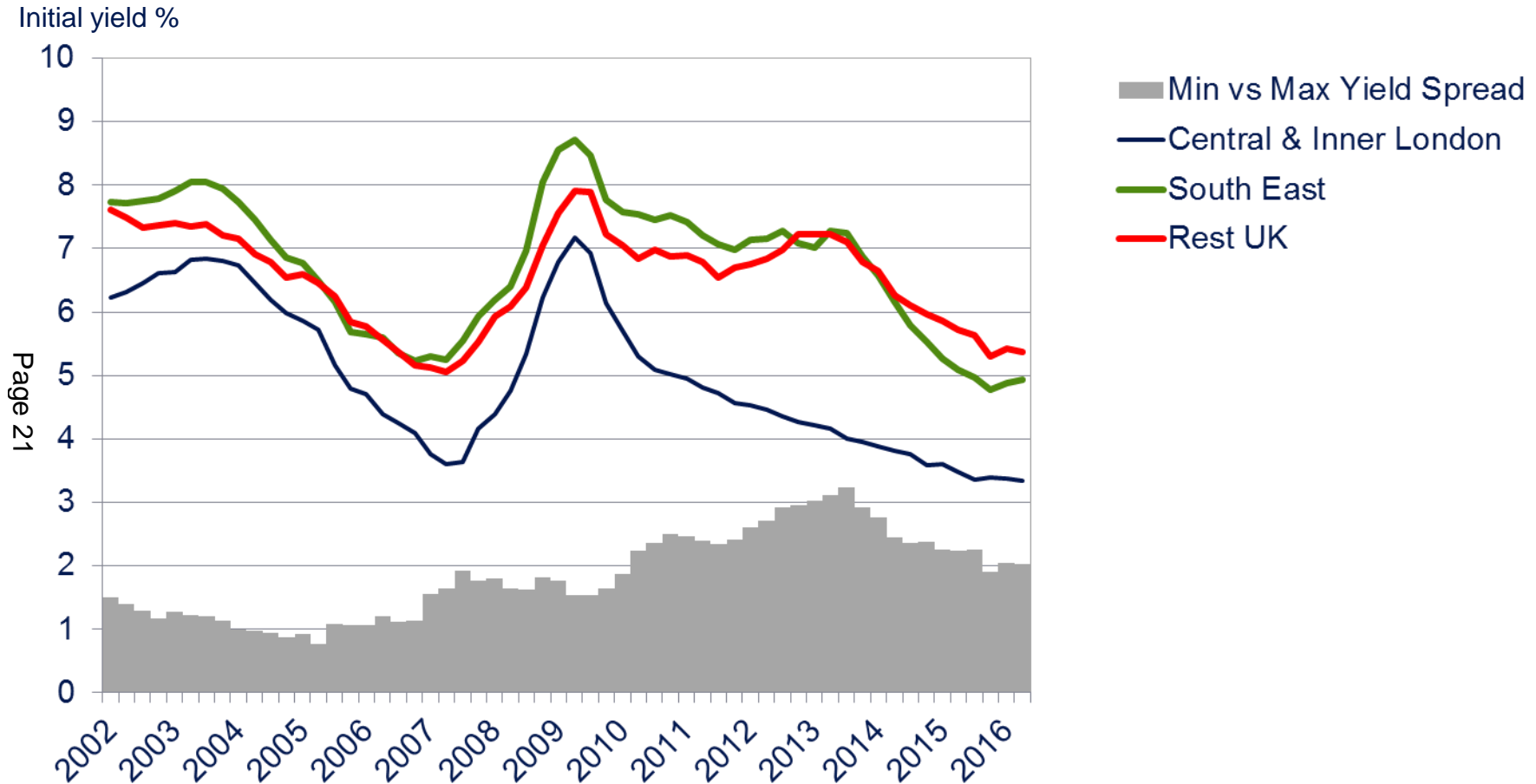
All Property Initial Yield vs 10 Year



Source: Datastream, MSCI, Schroders January 2017.

Market overview - UK office yields

Regional office markets have seen less yield compression than London



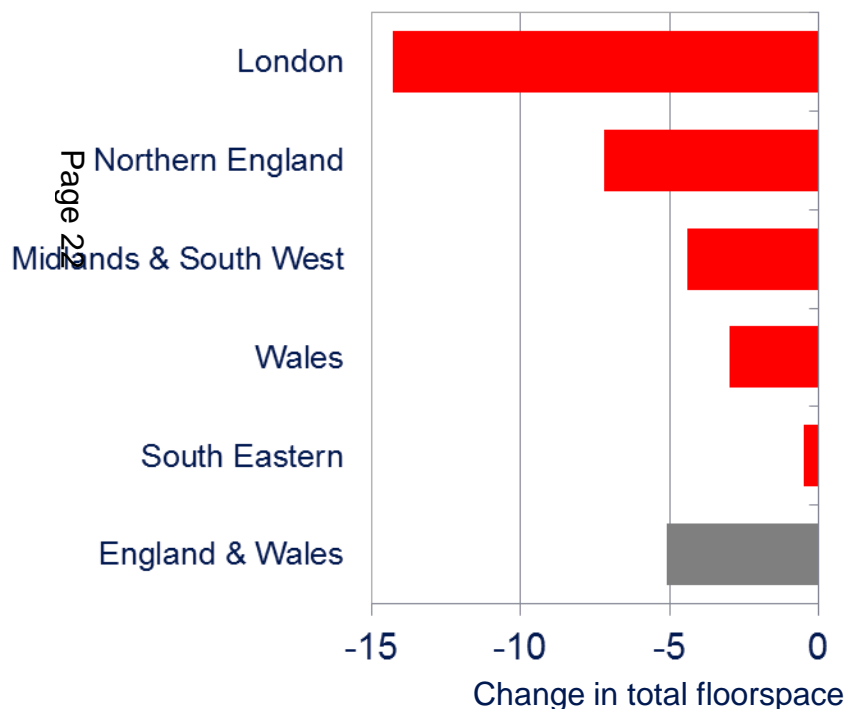
Source: MSCI / IPD Quarterly Index. September 2016.

Market overview - multi-let industrials

Rents underpinned by loss of stock and limited new development

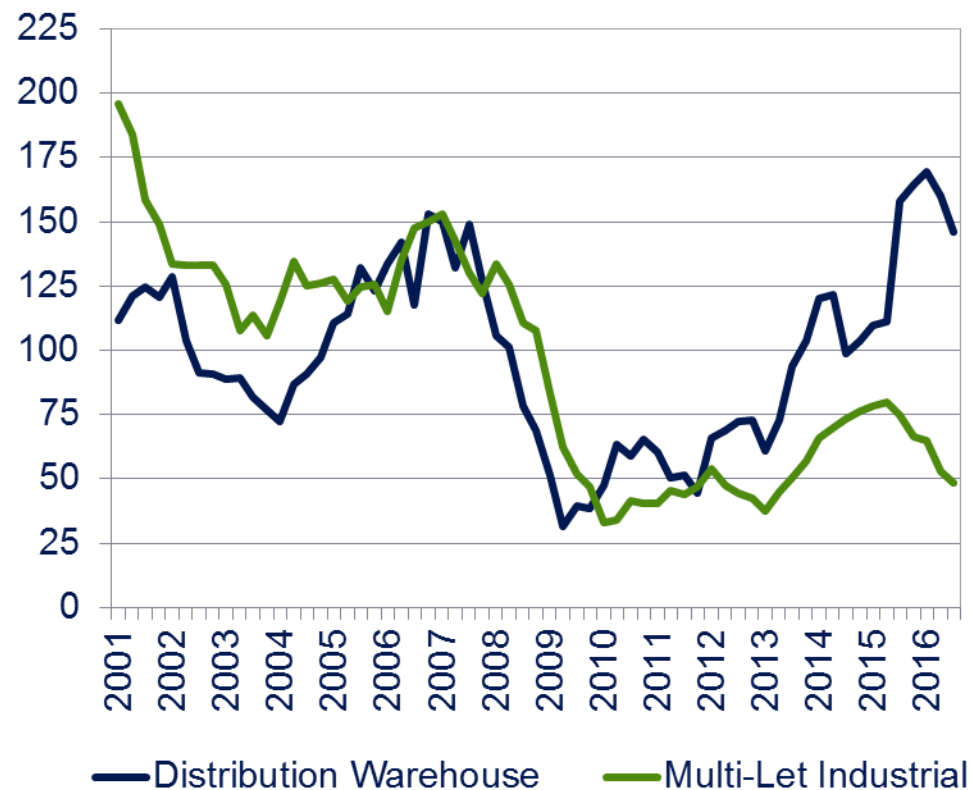
Change in industrial floorspace

2005-2015¹



Building starts

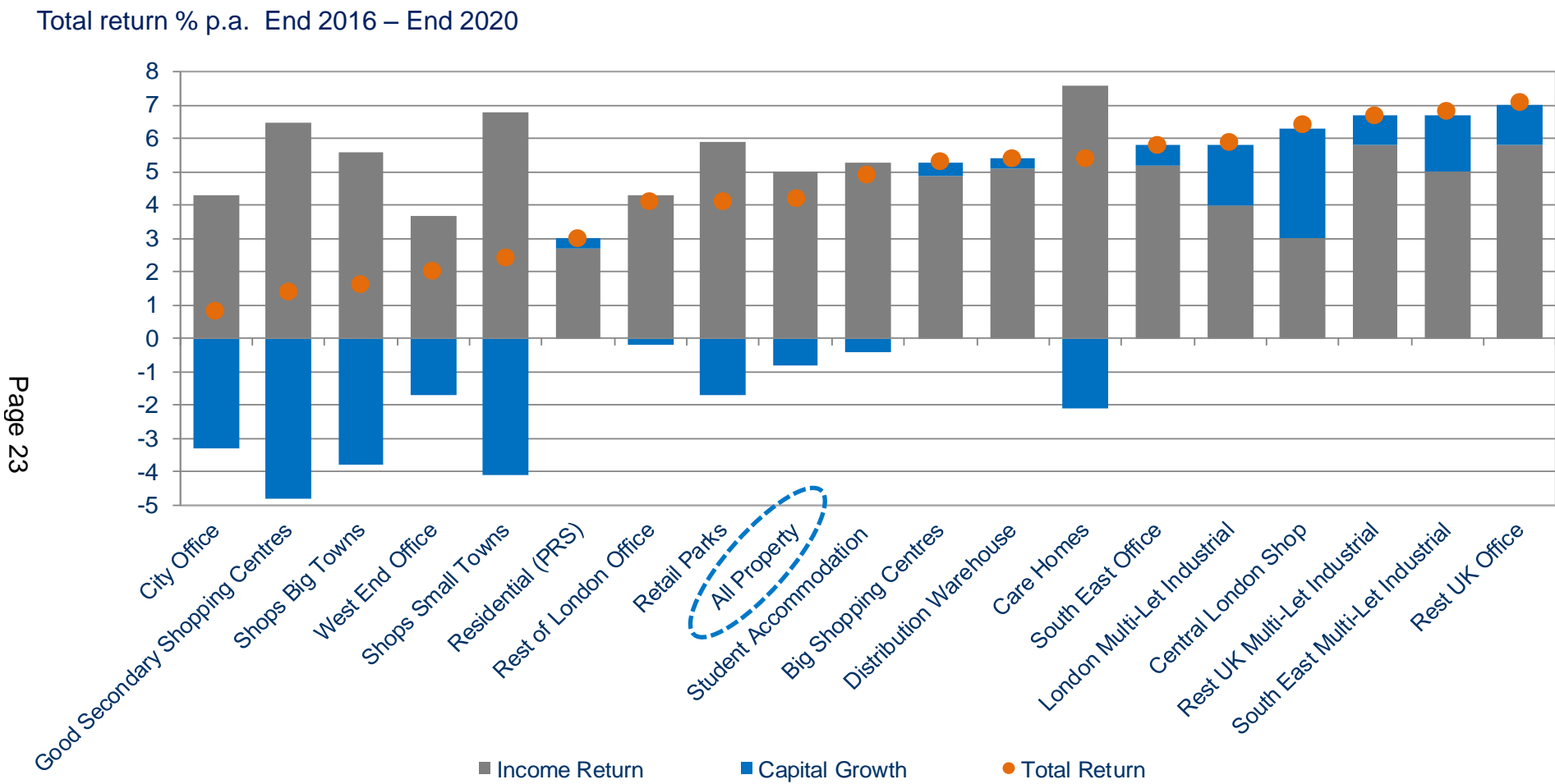
Annual rolling starts, long-term average = 100



Source: VOA, PMA. December 2016. Note. VOA data are the latest available. Data include multi-let industrial and distribution warehouse.

Market overview – In House sector forecasts

Forecast total returns: End 2016 – End 2020



Source: MSCI, Schroders. January 2017.

Note the forecasts should be regarded as illustrative of trends. Actual figures will differ from forecasts. Please see Important Information regarding forecasts.

Portfolio

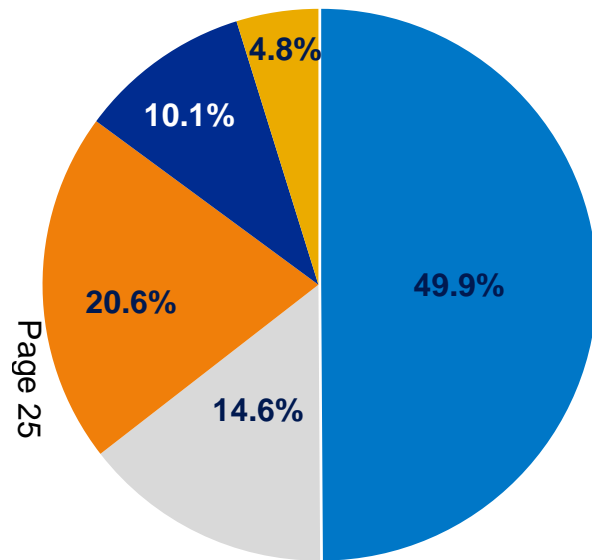


Schroders

Portfolio

East Sussex County Council Pension Fund, 31 December 2016

Breakdown by style and region



- Balanced - UK
- Balanced - UK (Partnership)
- Specialist - UK
- Specialist - UK (Partnership)*
- Cash

Portfolio statistics

Portfolio valuation	£330,035,552
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Number of investments	20
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Portfolio cash	£15,742,163
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% portfolio value	4.8%
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Portfolio cash net of all commitments / redemptions	£19,252,865
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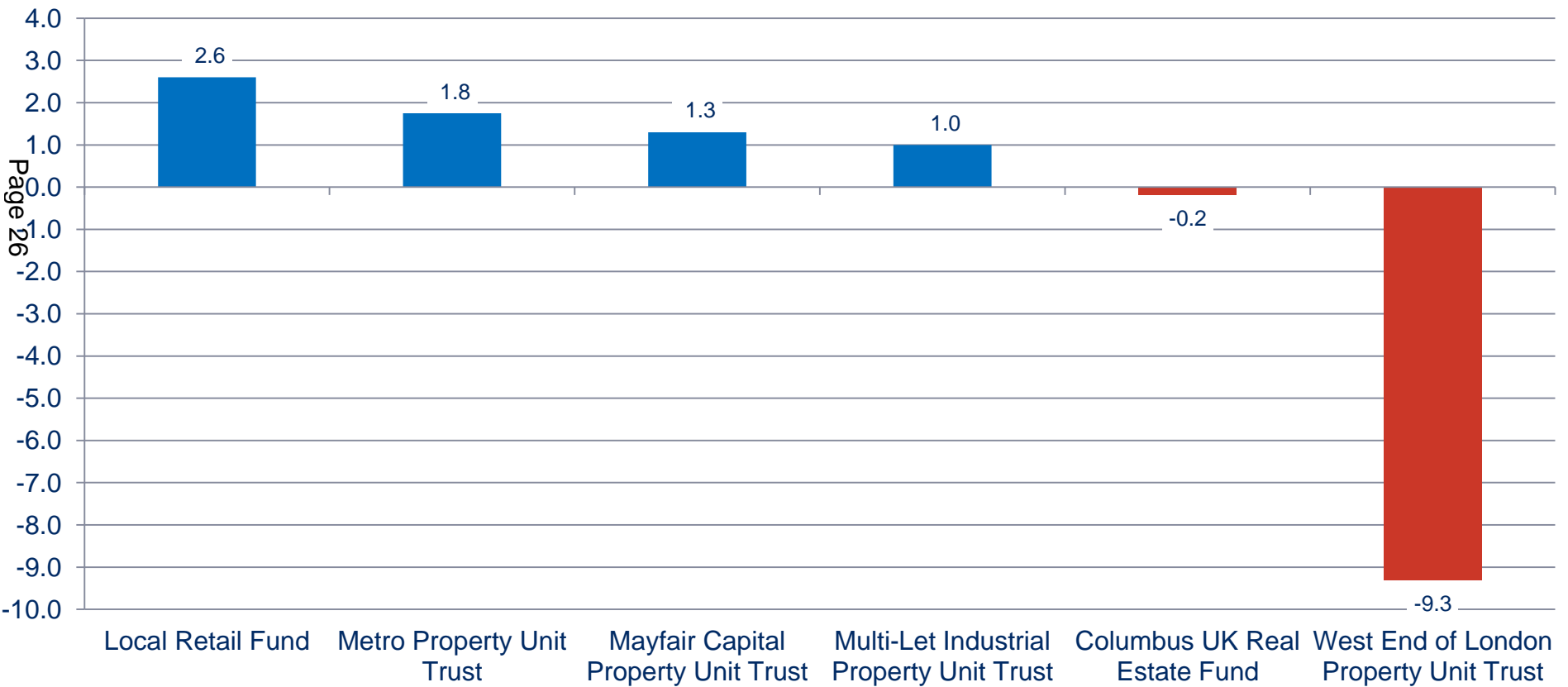
% portfolio value	5.8%
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*Includes Schroder Real Estate Real Income Fund
Source: Schroders, 31 December 2016

Portfolio

Transactional activity in Q4 2016

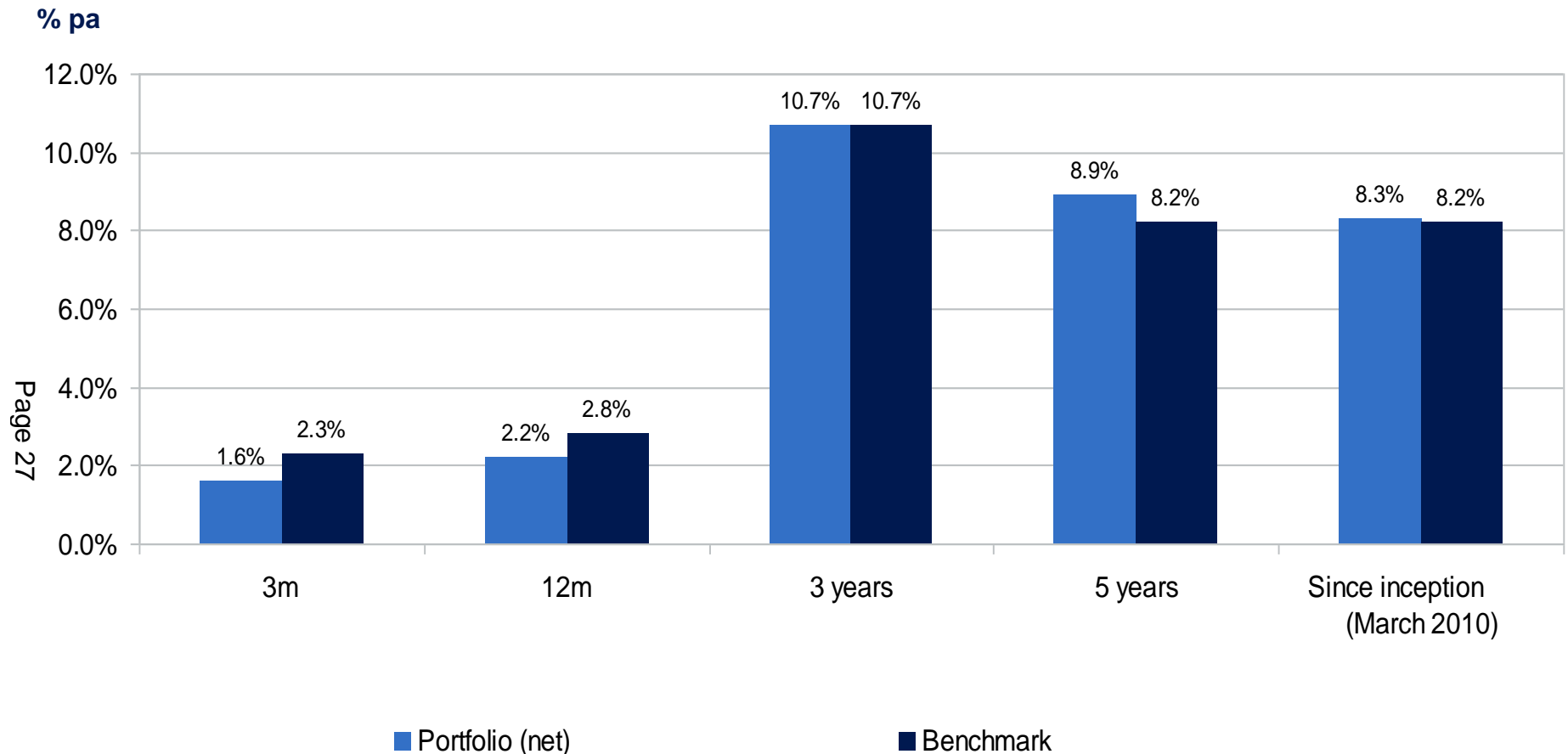
Net Investment (£ million)



Source: Schroders, 31 December 2016

Portfolio - performance to Q4 2016

Portfolio total returns versus benchmark, 31 December 2016



Source: Schroders, 31 December 2016.

The portfolio's returns are calculated on the basis that units in open-ended funds are valued at their mid price and closed-ended funds at their NAV price.

Benchmark is the AREF / IPD UK Quarterly Property Fund Indices All Balanced Funds Weighted Average.

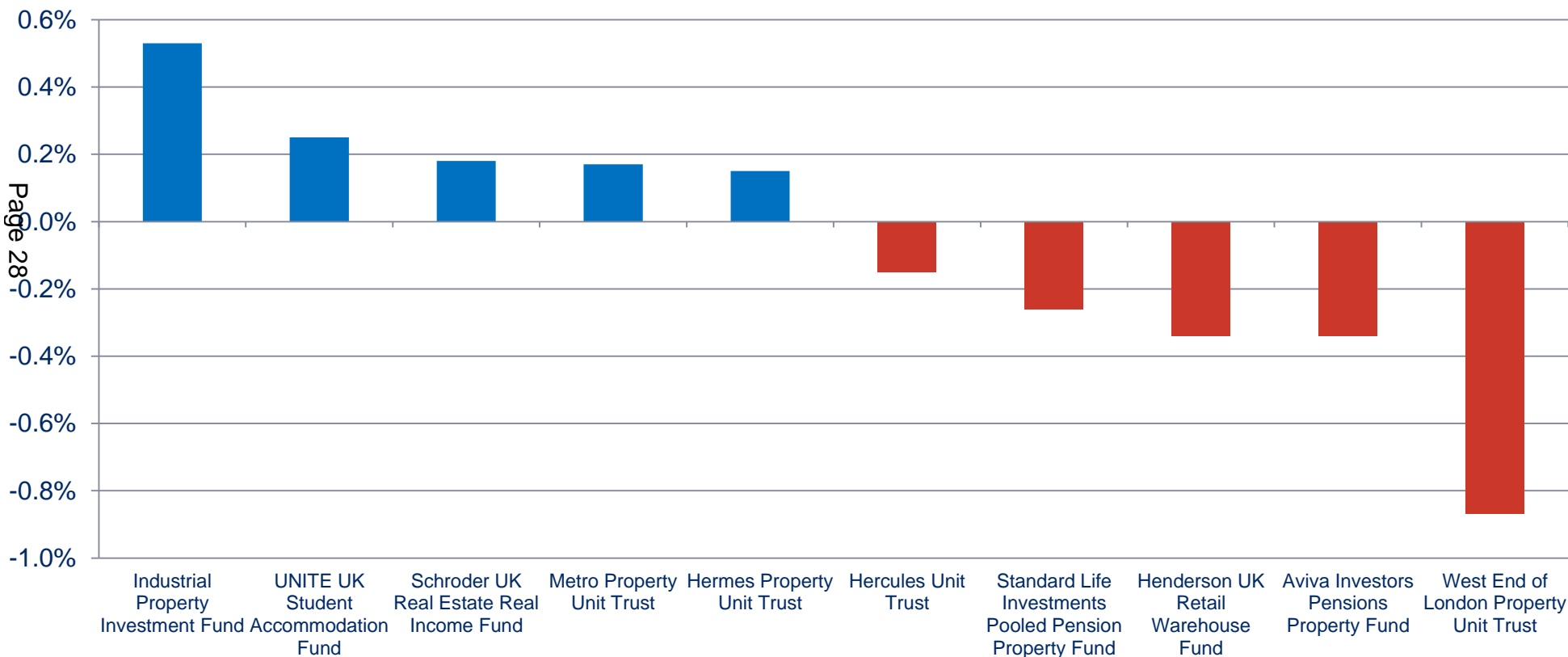
Past performance is not a guide to future performance and may not be repeated.

Please refer to the Important Information at the back of this document regarding past performance.

Portfolio

Performance attribution, one year to 31 December 2016

Total return attribution relative to benchmark* by top and bottom five contributors

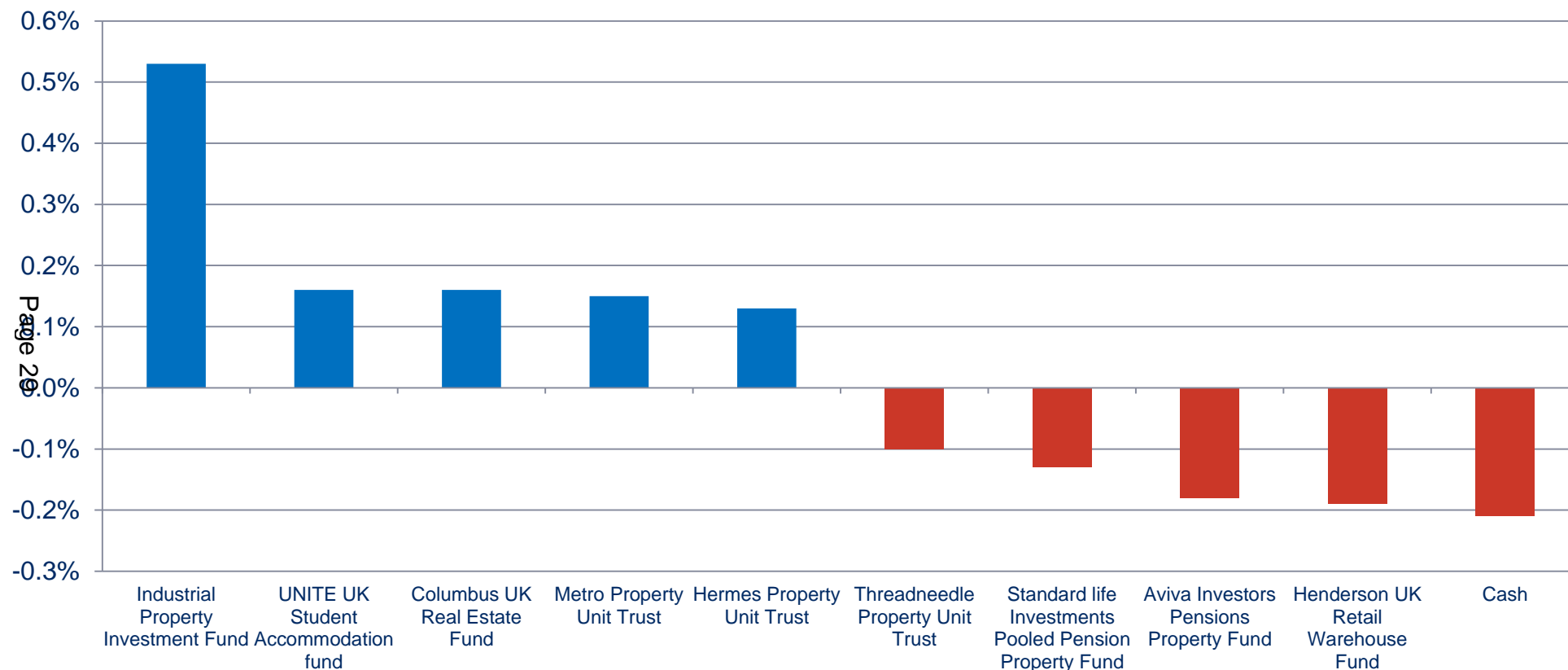


*Benchmark is AREF/IPD UK Pooled Property Fund Indices All Balanced Funds Weighted Average. Attribution is presented gross of fees.
Source: Schroders and AREF/IPD UK Pooled Property Fund Indices, 31 December 2016. Past Performance is not a guide to future performance and may not be repeated.
Please refer to the Important Information at the back of this document regarding past performance.

Portfolio

Performance attribution, three years to 31 December 2016

Total return attribution relative to benchmark* by top and bottom five contributors



*Benchmark is AREF/IPD UK Pooled Property Fund Indices All Balanced Funds Weighted Average. Attribution is presented gross of fees.

Source: Schroders and AREF/IPD UK Pooled Property Fund Indices, 31 December 2016. Past Performance is not a guide to future performance and may not be repeated. Please refer to the Important Information at the back of this document regarding past performance.

Strategy

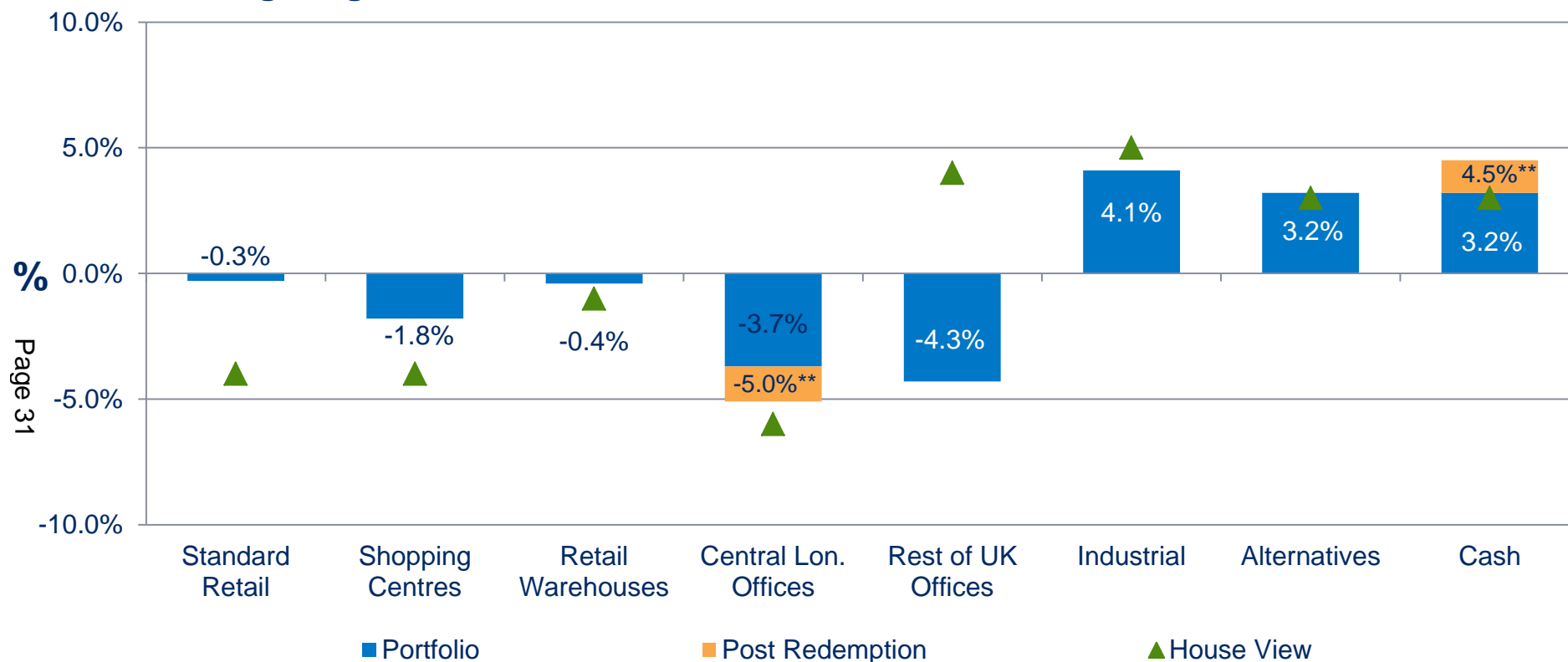


Schroders

Strategy

Portfolio sector weightings

UK sector weightings relative to benchmark*



*Benchmark AREF / IPD UK Quarterly Property Fund Index – All Balanced Funds Weighted Average.

**The underweight position to central London office widens to -5.0% and the cash overweight increases to 4.5% following the completion of the sale of units in the West End of London Property Unit Trust via the redemption process.

Data subject to rounding.

Source: Schroders 31 December 2016

Strategy

Summary

- Reduce exposure to central London and weaker core funds
- Invest proceeds into preferred sectors i.e. regional office and industrial funds, stronger core funds
- Target higher / more defensive income generating investments
- Consider opportunities in new strategies
- Exploit opportunities to buy discounted units in the secondary market
- Continue to return accumulating income

Source: Schroders, January 2017.

New opportunities



New opportunities

Residential development land fund – capital play with regeneration benefits

- Generate value through opportunistic acquisition and repositioning of mainly brownfield land in the UK to create development sites with residential planning consent that are sold to house builders
- Opportunity underpinned by growing UK population and significant shortage of new dwellings
- The fund will seek to gain or improve residential planning consents in situations where:
 - Sites have lapsed residential planning consents;
 - Sites are allocated in the adopted or emerging Local Plan for residential use;
 - Sites are subject to supplementary planning documents such as masterplans or development briefs;
 - Sites are presently in other (mainly commercial) uses where there is a strong case for a change of use. For example through Permitted Development; or
 - Where a local authority is unable to demonstrate a five year housing supply, or old commercial buildings/sites which are past economic repair and if the authority has sufficient employment space.
- Anticipated 12%-15% IRR and 1.5x equity multiple
- Given Schroder Product Development Committee approval 20th Jan 2017
- Access – exclusive Schroder client fund.



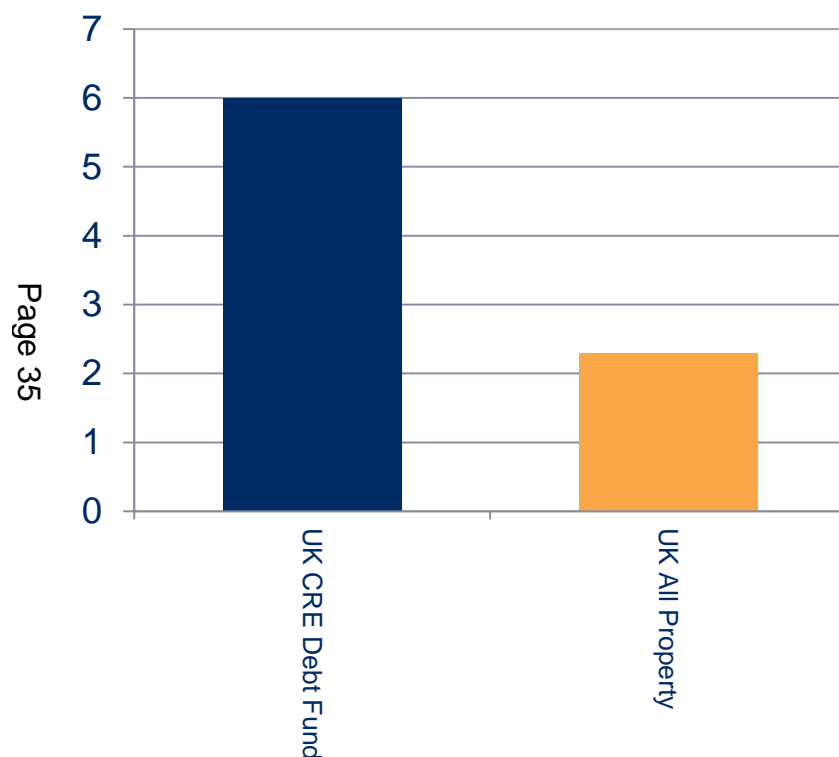
Source: Schroders. January 2017.

New opportunities

Real estate debt – predictable income streams

Forecast returns end 2015 - end 2020

% total returns

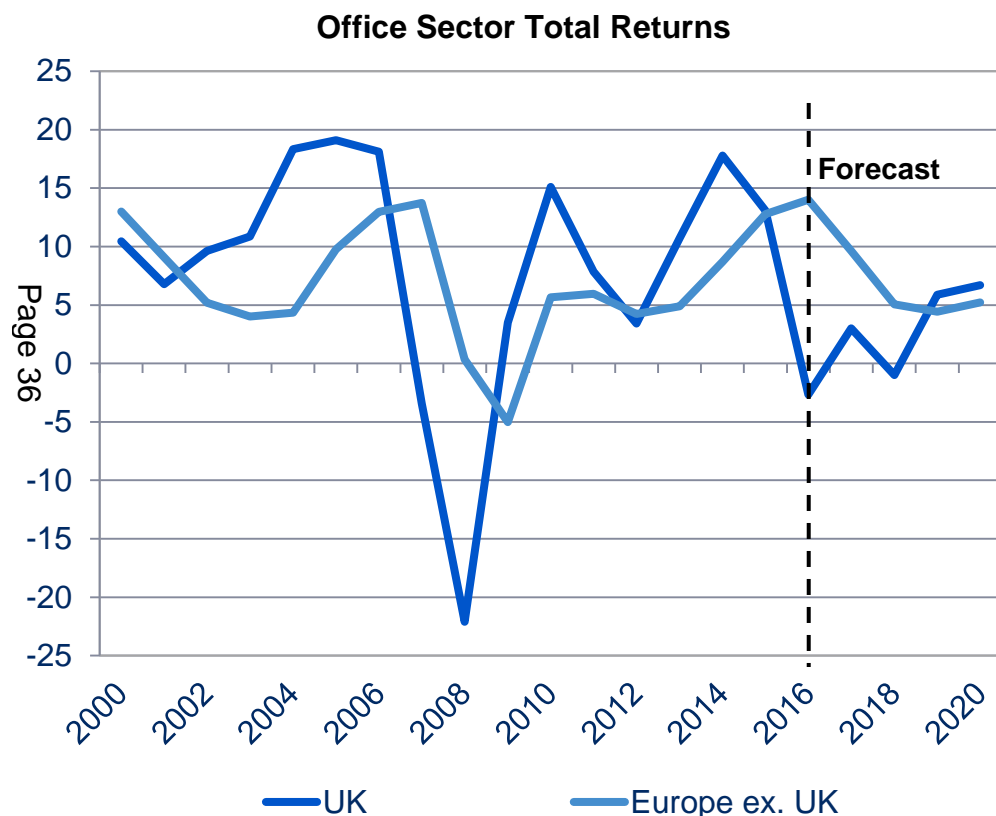


- Attractive absolute and risk adjusted returns in a forecast low return environment
- Debt is considered less risky than equity:
 - Returns are derived from a fixed coupon
 - The ranking of debt in the capital structure is higher than equity
- In the run up to Brexit there are likely to be fewer lenders outside of the senior debt space and margins are expected to rise
- Debt funds do not have to pay Stamp Duty and therefore costs of entry are lower
- Returns will perform differently to traditional commercial real estate
- Access – exclusive Schroder client fund

Source: Schroders, PMA. December 2016.

New opportunities

International real estate – enhanced returns and diversification



- Investment case:
 - Continental Europe is likely to out-perform UK through 2016-2018
 - Diversification
 - Lack of correlation with UK
- Consider using listed securities to access some markets
- Considerations include:
 - Regional weightings
 - Benchmarks
 - Currency
- Access to be confirmed (either third party or exclusive Schroder client funds)

Source: Schroders. December 2016. The forecasts should be regarded as illustrative of trends. Actual figures will differ from forecasts

New opportunities

Residential fund – alternative real asset

- Strong demand for new housing stock emanates from changing demographics leading to imbalances within the characteristics of housing supply and demand
 - Traditionally the sector has been out of favour with institutional investors
 - Multiple investment strategies available such as: PRS; affordable and social housing; serviced apartments; and equity release. Niche managers exist to exploit distinct strategies following the partnership model
 - Performance underpinned by residential values, income growth can correlate with inflation.
- Access – exclusive Schroder client fund

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Source: The Business Desk; s106 Affordable Housing, October 2016.

LGPS pooling



LGPS pooling

What is the impact of LGPS pooling on real estate?

- Assuming a 7% allocation to real estate, LGPS hold around £15 billion of real estate. This is less than 3% of the UK real estate investment market (source: IPF).
- LGPS ownership is principally via direct and indirect exposure to UK real estate. There is currently limited exposure to listed and international real estate.
- Looking ahead long term, pooling will create larger pools with an increased allocation to direct investment. A greater allocation to international real estate is also likely. The overall quantum is unlikely to change rapidly and therefore the overall market impact will be small.
- There will be a role for indirect unlisted funds, particularly where:
 - Long term performance prospects are attractive
 - Additional diversification is required
 - Exposure to specialist sectors and/or managers is required
 - Transition costs are high

Source: Schroders, January 2017.

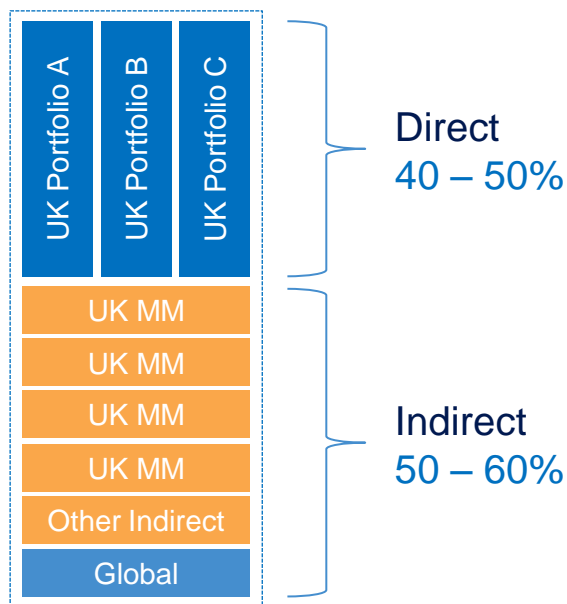
LGPS pooling

When will allocations change?

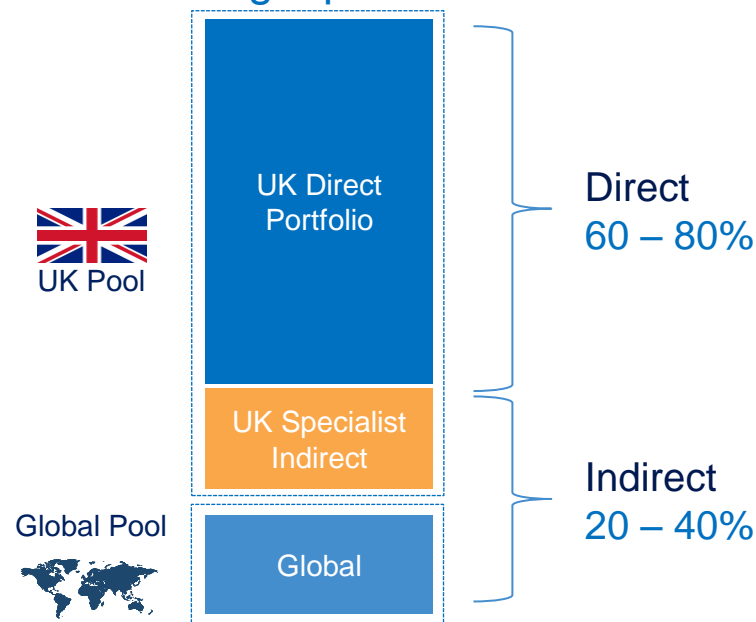
- Pools are not expected to change allocations rapidly because:
 - Pool governance is likely to take precedence during 2016 and 2017
 - Transaction costs will be high if pools redeem unlisted funds *en masse*
 - New allocations will be via direct accounts (for UK exposure) and pooled funds/ listed real estate (specialist/ international), but will take time to build up
- The transition period could take 5-10 years for illiquid asset classes such as real estate

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Inherited portfolio (illustrative)



Target portfolio



Source: Schroders, Hymans Robertson, 2016.

LGPS pooling

How to invest in real estate - Pros and cons

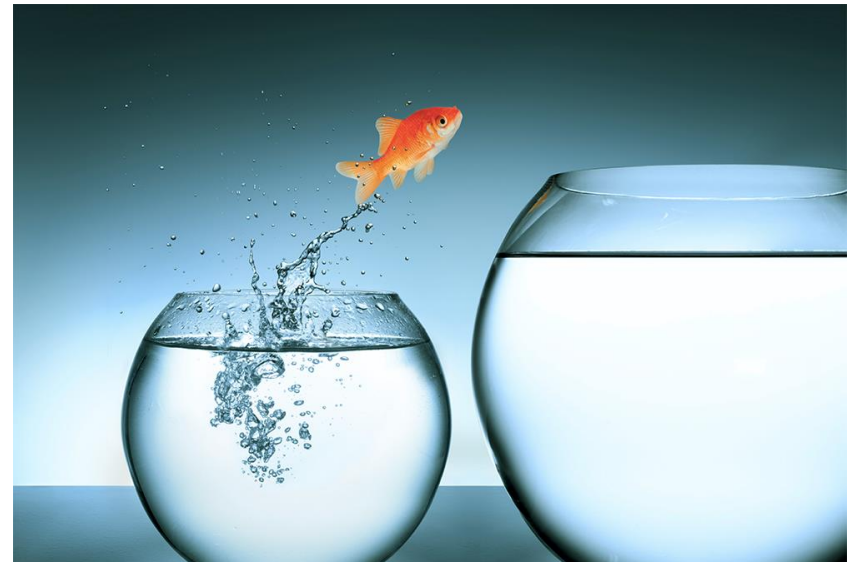
	Direct investment	Balanced funds	F of F / PMM / SRECaP	Listed
Liquidity	✗	✗ ✓	✗ ✓	✓
Diversification	✗	✓	✓ ✓	✓ ✓ ✓
Transaction costs	✗	✗ ✓	✗ ✓	✓ ✓ ✓
Management costs	✗	✗ ✗	✗ ✗ ✗	✗ ✗
Control	✓ ✓ ✓	✗	✗ ✓	✗
Volatility	✗ ✗ ✗	✓	✓ ✓ ✓	✗ ✗ ✗
Specialist management	✗	✗	✗ ✓	✗ ✓
Access to large lots	✗	✓	✓	✓
Correlation with other asset classes	✓	✓	✓	✗

LGPS pooling

Transitioning from indirect to direct real estate - considerations

- Market timing
- Cost of implementation
- Cash drag
- Phasing
- Direct acquisitions / portfolio fit

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Source: Schroders, January 2017.

LGPS pooling

How is Schroders responding to LGPS pooling?

- Schroders manages circa £2.4 billion of real estate for over 40 LGPS through:
 - Separate account mandates
 - Pooled balanced funds such as Schroder UK Real Estate Fund
 - Specialist funds such as WELPUT (central London offices)

- We will continue to offer investment propositions which seek to offer:
 - Strong performance
 - Excellent client management
 - Excellent value for money

- In exchange for large scale LGPS commitments Schroders will offer highly competitive fees for:
 - Schroder UK Real Estate Fund
 - Direct and indirect separate account UK and European mandates
 - Listed global real estate

Source: Schroders, January 2017.

Summary



Summary

■ Business overview

- Mature business with significant scale

■ Team

- Experienced team with extensive market knowledge

■ Market overview

- GDP expected to slow in 2017 driven by weakening consumer spending growth. Inflation is rising.
- Annual returns of sub 5% are forecast for All UK Property over the next 5 years
- Investment opportunities exist in some sectors and segments

■ Portfolio

- Costs associated with repositioning the portfolio away from CL office and towards preferred sectors of the market has driven recent underperformance
- Outperformance of the benchmark over three years, five years and since inception
- Portfolio well positioned to benefit from defensive, higher income returning investments

■ Strategy

- Sell down exposure to central London offices and weaker core funds
- Invest proceeds into preferred sectors and stronger core funds
- Consider new opportunities

Source: Schroders, January 2017.

Appendices



Portfolio – underlying investments

Legal & General Managed Fund – 10.4% of portfolio value

- £2.95 billion core, balanced managed fund (income is reinvested rather than distributed).
- Diversified exposure through 77 assets with an average lot size of £20.1 million
- Short term (Q4) longer term (10 years) outperformance
- The fund has some strong, prime assets and a good long term outperformance but holds relatively high levels of cash (10.4%)



Apex Plaza, Reading

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West Cross Industrial Park, Brentford

Performance to Q3 2016	Q4 2016	12m	3yrs	5yrs	10yrs
Fund return	2.4	1.7	9.9	8.1	3.1
Benchmark*	2.3	2.8	10.7	8.2	2.2

Source: Schroders, MSCI, 31 December 2016. *Benchmark is AREF/IPD UK Quarterly Property Fund Indices All Balanced Fund Weighted Average.

Portfolio – underlying investments

Industrial Property Investment Fund – 10.1% of portfolio value

- Sector specialist industrial fund
- £1.3 billion NAV with over 200 properties
- Managed by L&G with Jones Lang LaSalle
- Targets multi-let industrial estates with a South-East bias
- Additional value from change of planning use
- Very strong performance track record, outperforming both its peer group benchmark and the portfolio's benchmark



Stacey Bushes, Milton Keynes



Trafford Park, Manchester

Performance to Q3 2016	Q4 2016	12m	3yrs	5yrs	10yrs
Fund return	2.1	8.4	18.9	14.5	5.8
Benchmark*	2.3	2.8	10.7	8.2	2.2

Source: Schroders, MSCI, 31 December 2016. *Benchmark is AREF/IPD UK Quarterly Property Fund Indices All Balanced Funds Weighted Average.

Portfolio – underlying investments

BlackRock UK Property Fund – 8.2% of portfolio value

- £3.2 billion core, balanced fund
- Diversified exposure through 229 assets. Low gearing with LTV of 3.4%. Distribution yield 3.4% per annum.
- Recent weak returns, although longer term performance (10 years) matches benchmark.
- Positioned defensively with favourable sector allocations (underweight central London office) and overweight to alternatives (GP surgeries / student accommodation)



Birmingham Business Park

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Exchange shopping centre, Putney

Performance to Q3 2016	Q4 2016	12m	3yrs	5yrs	10yrs
Fund return	1.9	2.5	9.5	7.8	2.2
Benchmark*	2.3	2.8	10.7	8.2	2.2

Source: Schroders, MSCI, 31 December 2016. *Benchmark is AREF/IPD UK Quarterly Property Fund Indices All Balanced Fund Weighted Average.

Portfolio – underlying investments

Standard Life Investments Pooled Pensions Property Fund – 8.1% of portfolio value

- The 2nd largest balanced fund in the AREF / IPD Quarterly Index (NAV £3 billion)
- Diversified exposure with 72 assets¹, 9.0% void rate². No gearing. Income reinvested rather than distributed (managed fund)
- Structure misaligned with our House View: overweight central London office, shopping centres. Underweight industrial and alternatives

Page 50
Some redemption pressure following EU referendum vote. Fair value adjustment made to NAV which has since been removed



County Mall, Crawley



100 Cheapside, London

Performance to Q4 2016	Q4 2016	12m	3yrs	5yrs	10yrs
Fund return	2.4	-0.5	9.3	7.3	2.1
Benchmark*	2.3	2.8	10.7	8.2	2.2

Source: Schroders, MSCI, 31 December 2016. *Benchmark is AREF/IPD UK Quarterly Property Fund Indices All Balanced Fund Weighted Average.

¹ includes 5 JV's / indirect holdings

² Void rate is including developments. The void rate on standing investments is 4.4%

Portfolio – underlying investments

Metro Property Unit Trust¹ – 8% of portfolio value

- SRECaP partnership fund, set up in 2013
- Identified a strong fund manager at Hermes (capacity constrained from investing further in the Hermes PUT)
- Structured best market terms for a new fund, exclusively for our clients
- Set clear investment guidelines and parameters
- Initial investments predominantly in office sector outside of London

Excellent track record of outperformance



The Great Hall, Tunbridge Wells



Bursom Industrial Estate, Leicester

Performance to Q4 2016	Q4 2016	12m	3yrs	5yrs
Fund return	2.1	4.2	11.2	9.4
Benchmark*	2.3	2.8	10.7	8.2

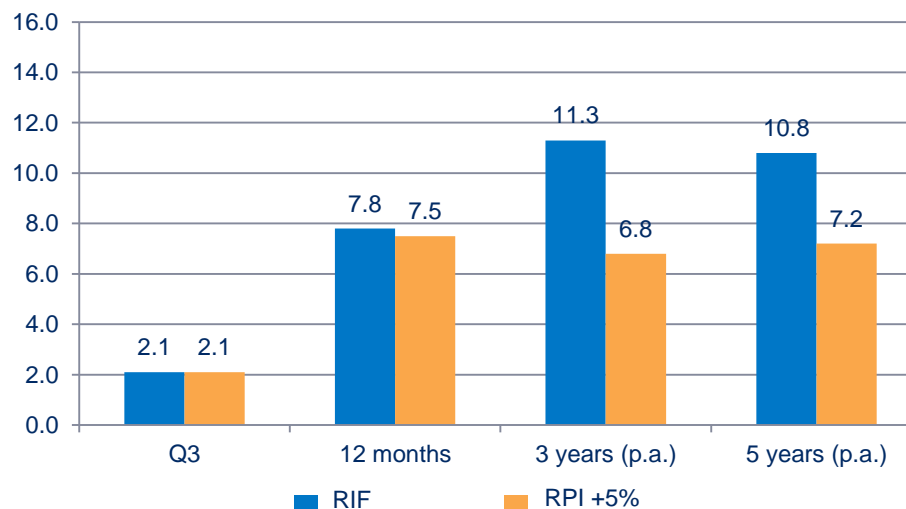
Source: Schroders, MSCI, 31 December 2016. * Benchmark is AREF/IPD Quarterly Property Fund Indices – All Balanced Funds Weighted Average. ¹ Schroder managed fund.

Portfolio - underlying investments

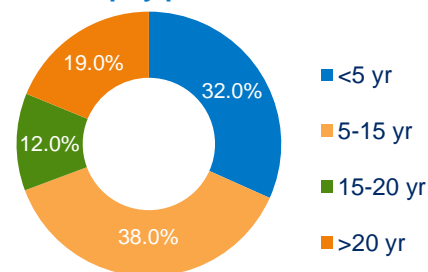
Schroder Real Estate Real Income Fund (RIF)¹ – 5.6% of portfolio value*

- **High income return**
- Less volatile than broad real estate market
- Driven by a relatively high initial yield (6.0%)
- **Income growth**
- 45% leases with RPI linked leases or fixed uplifts provides core rental growth
- Open market rent reviews capture strong fundamentals of real estate portfolio
- **Demographic and structural growth drivers**
- Diversified portfolio of alternative investments with defensive characteristics of long and stable leases, strong cash flow provision and favourable demographics is supportive of resilient investor and occupational demand

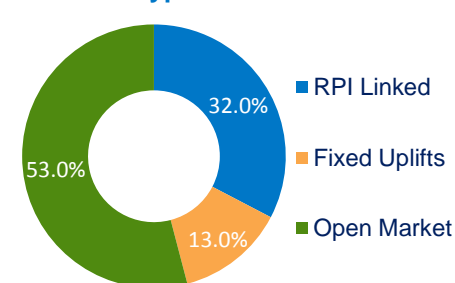
Net of fees, set up costs and transaction costs (%)



Lease expiry profile*



Lease type*



Please refer to Important Information regarding past performance.

RPI (Retail Price Index) for periods of less than one year have used the 12 month annual number as the basis of the benchmark measure. Since inception RPI uses actual inflation rate since April 2011. Performance figures are calculated on a NAV to NAV basis plus income distributed and are net of fees. Returns for periods of longer than one year have been annualised. Fund inception date: March 2011.

¹ Schroder Managed Fund

*5.9% post commitments and redemptions

**Lease expiry profile and lease type data refers to 30 September 2016.

Curriculum vitae

Graeme Rutter, MRICS – Head of Schroder Real Estate Capital Partners

- Twenty one years investment experience
- Joined Schroders in 2007
- Previously Fund Manager responsible for Morley (now Aviva) Fund Management's property multi-manager team
- 1998 – 2004 Director, Investment Agency, Savills
- Commenced his career at Weatherall Green & Smith specialising in valuation
- Member of the Royal Institution of Chartered Surveyors (MRICS), holder of the IMC and a corporate finance representative under the SFA
- Chairman of the Association of Real Estate Funds (AREF) Investor Committee; Chairman of the Investment Property Forum (IPF) Indirects Working Group; member of the MSCI UK Real Estate Advisory Group
- BSc (Hons) Geography University of Bristol, Diploma in Land Economy (Commendation) University of Aberdeen



Lyndon Bolton – Client Director

- Client Director in UK Institutional Sales and Client Service team. Executive Director 2001. Founder member of UK Account Management Team in January 2000. Director 1998. Joined Schroders in 1994 as Assistant Director, Head of Pooled Funds Account Management Team
- GT Management, 1990-1994, Head of UK Institutional Marketing and Client Service. Putnam International Advisors Ltd, 1988-1990, Director of European Marketing. Baillie Gifford & Co. Ltd, 1985-1988, Marketing Director. Investment career commenced in 1985
- MA (Hons) in Mediaeval History, University of St. Andrews



Curriculum vitae

Naomi Green – Fund Manager, Schroder Real Estate Capital Partners

- Fifteen years investment experience
- Joined Schroders in April 2016
- Previously Senior Property Analyst at Alecta Investment Management. Responsible for investment strategy, analysis and co-management of direct and indirect UK / European real estate portfolios
- 2004-2006 Senior Research Analyst at Henderson Global Investors, commenced career as a Research Analyst at JLL in 2000
- Member of the Investment Property Forum and Society of Property Researchers
- Holder of Investment Management Certificate (IMC), IPF Diploma – Investment Education Programme
- MSc Social Research Methods and Statistics, City University London, BSc (Hons) Psychology, City University London



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East Sussex Pension Fund

Review of Investment Managers' Performance for Fourth Quarter of 2016

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For and on behalf of Hymans Robertson LLP
February 2017

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

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Review of Investment Managers' Performance for Fourth Quarter of 2016

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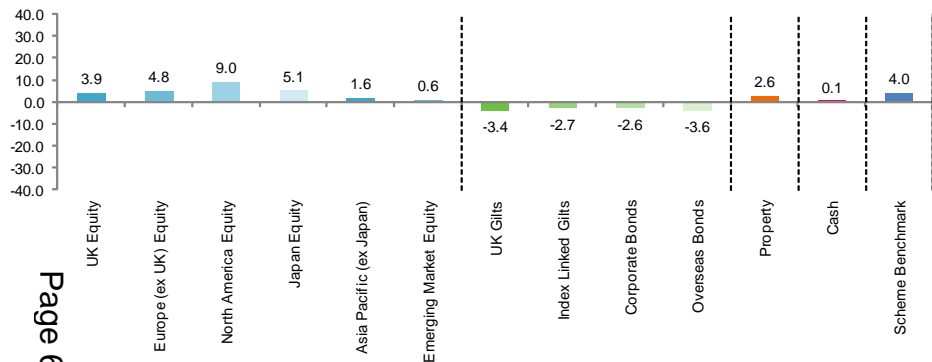
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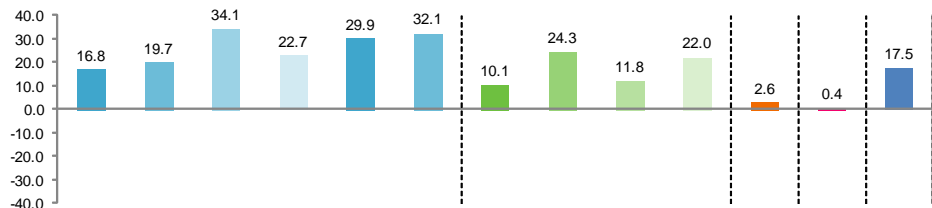
Historic Returns for World Market to 31 December 2016

Historic Returns - Chart 1 ^[1]

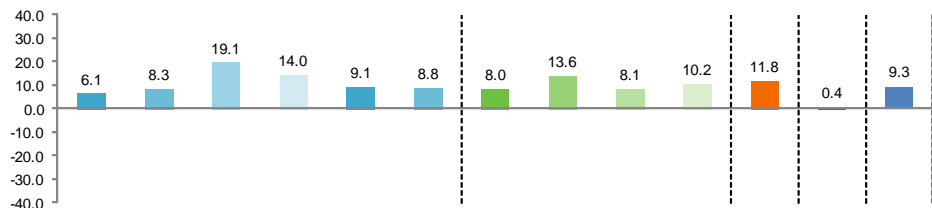
3 Months (%)



12 Months (%)



3 Years (% p.a.)



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

Comment

A resilient post-referendum performance from the UK economy and some fiscal easing has lowered expectations that the Bank of England will cut interest rates again in the short term.

The US economic background was buoyant – reported GDP growth in Q3 was the strongest for two years. As almost universally expected, the Federal Reserve raised US interest rates in December.

Brent crude rose from \$49 to \$57 per barrel over the quarter, as OPEC and non-OPEC oil-producing nations agreed at the end of November to cut production of oil by 600,000 barrels per day.

Gilt yields rose for most of the quarter as further monetary easing seemed less likely. 30-year gilt yields rose from 1.5% p.a. to 2.1% p.a. in mid-December, before falling a little by the year-end. There was a smaller rise in long-dated index-linked gilts, and so the cost of inflation protection increased.

US Treasury Bond yields moved sharply higher following the Presidential election. In mid-December, 10-year yields reached 2.6% p.a., the highest level for over two years.

In general, yield spreads in global credit markets narrowed further. However, UK investment-grade credit spreads, which had tightened considerably in Q3, were little changed over the quarter.

Sterling fell another 5% in trade-weighted terms at the start of Q4, but recovered some ground later as an interest rate cut seemed less likely and investors' concerns about a hard Brexit eased a little.

Higher interest rates supported the US dollar, which was the strongest of the major currencies over the quarter. The yen was the weakest, suffering from a sharp swing in sentiment after the US election.

Global equities also responded positively to the election after a subdued start to the quarter. US equities reached new all-time highs, but the strongest local currency performance came from Japan, where the market was boosted by currency weakness and better-than-expected economic growth.

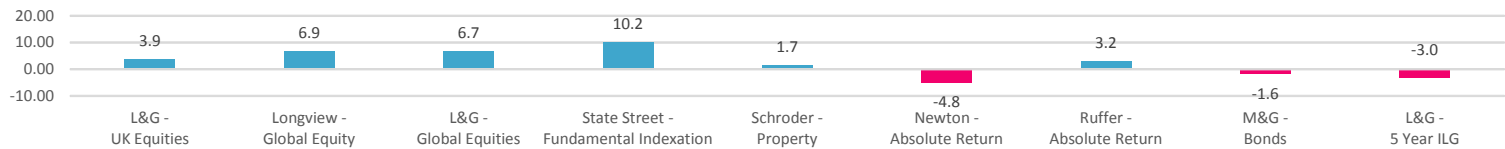
Emerging market equities bucked the trend – dipping sharply in the wake of the US election and falling over the quarter as a whole – amid concerns over Trump's protectionist stance.

The strongest performing global equity sectors over the quarter were Financials – viewed as the main beneficiaries of higher rates in 2017 – and Oil & Gas – reacting to rising oil prices. It was a relatively poor quarter for defensive areas such as Healthcare, Consumer Goods and Utilities.

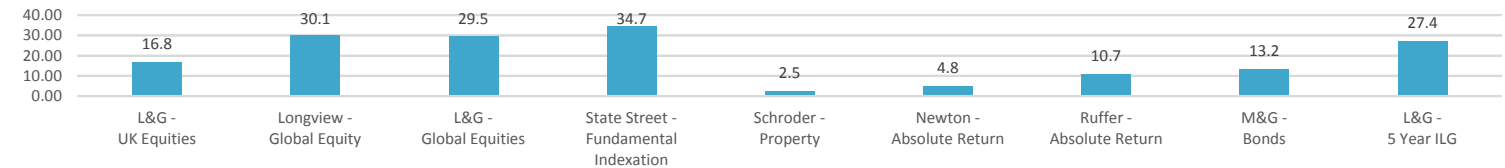
UK property stabilised after the third-quarter downturn. Capital values, as reflected in the IPD UK Monthly Index, rose a little in October and November.

Summary of mandate absolute performance to 31 December 2016

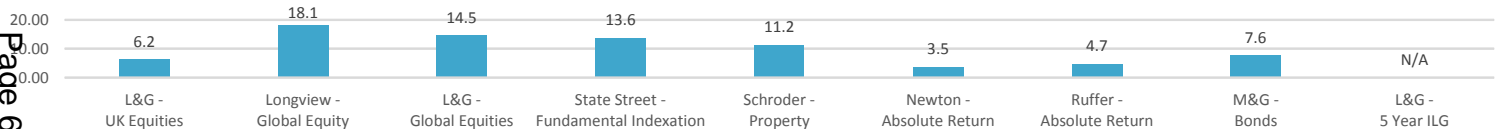
3 Month Absolute Performance (%)



12 Month Absolute Performance (%)



3 Year Absolute Performance (%)



Comments

This page 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)

Growth assets have strengthened over the quarter, in particular, global equities have delivered absolute returns of c.7%. This has contributed to returns over longer time periods with Longview Global equities performing well over the past 12 months, returning 30.1%.

Diversification/Income oriented (Property/Absolute Return)

Equities provided growth throughout the quarter. Newton underperformed the LIBOR benchmark this quarter whilst Ruffer produced a positive return.

Protection (bonds)

Gilt yields rose over the last quarter of 2016 as monetary easing policies seemed less likely to be extended. This had a negative impact on the absolute value of the Fund's bond holdings. However, over the longer term, the M&G bond mandates and the Legal & General Index Linked Gilt fund have delivered strong returns.

Fund Asset Allocation and Performance

Valuation Summary

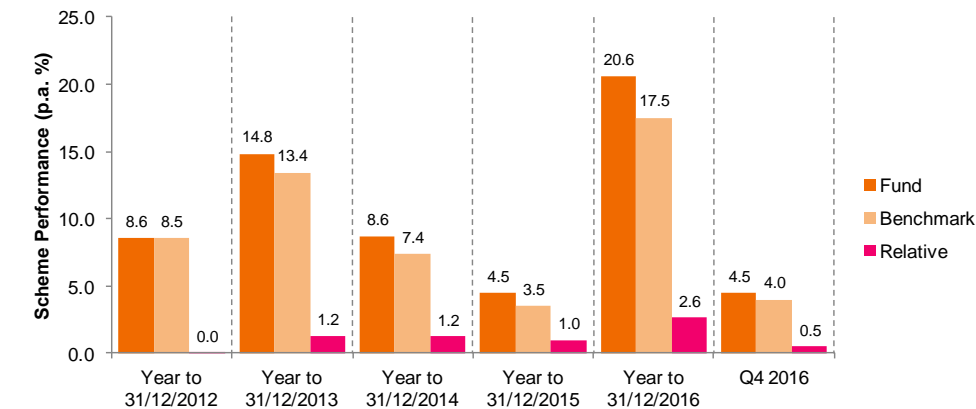
Asset Class	Value (£m)		Actual Proportion %	Target Proportion %	Re-balancing range %	Difference	
	Q3 2016	Q4 2016					
Global Equity	1268.9	1374.0	42.4	38.0	45.0 - 55.0	-2.5	4.4
UK Equity	294.9	306.4	9.5	12.0			
Fixed Interest	130.6	125.5	3.9	3.5	2.5 - 4.5		0.4
Index-Linked Gilts	181.6	176.2	5.4	5.0	4.0 - 6.0		0.4
Property	324.5	330.0	10.2	10.0	7.0 - 13.0		0.2
Infrastructure	51.0	59.1	1.8	2.0	0.0 - 4.0	-0.2	
Private Equity	185.5	197.0	6.1	5.5	3.5 - 7.5		0.6
Absolute Return Funds	527.9	573.5	17.7	20.0	17.0 - 23.0	-2.3	
Cash	63.9	21.5	0.7	0.0	0.0 - 2.0		0.7
UK Financing Fund	8.3	5.5	0.2	1.0	0.0 - 2.0	-0.8	
Absolute Return Bonds	70.5	71.5	2.2	3.0	2.0 - 4.0	-0.8	
Total Fund	3107.5	3240.2	100.0	100.0			

Fund performance [1]

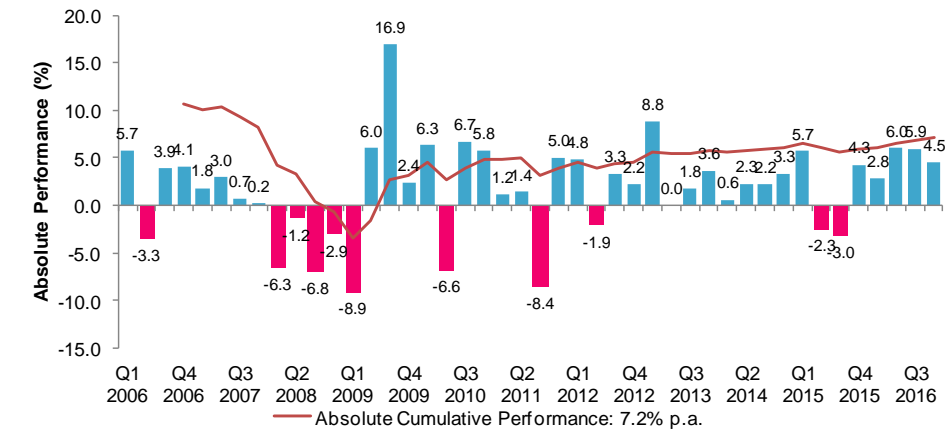
Over the quarter, the Fund delivered a return of 4.5%, ahead of the aggregate benchmark by 0.5%. The Fund remains ahead of the aggregate benchmark over all longer periods.

Newton's Absolute Return Fund and Schroders Property fund underperformed relative to their benchmarks. However, this was partially offset by the outperformance of Longview's global equity mandate, M&G bond portfolio and Ruffer's Absolute Return Fund.

Performance Summary [i]



Absolute Quarterly and Absolute Cumulative Performance [iii]



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

* 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 quarter. We will continue to monitor developments closely.

The Fund remains overweight to Global Equities and cash. UK Equity and the Absolute Return Funds continue to be underweight.

All asset classes are within their re-balancing range therefore we do not propose any rebalancing activity.

[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)

Manager Structure

Manager Valuations ^[1]

Manager	Value (£m)		Actual Proportion %	Target Proportion %	Difference %
	Q3 2016	Q4 2016			
L&G - Global Equities	489.5	522.2	16.1	15.5	0.6
Longview - Global Equity	206.6	220.5	6.8	5.0	1.8
State Street - Fundamental Indexation	572.9	631.3	19.5	17.5	2.0
L&G - UK Equities	294.9	306.4	9.5	12.0	-2.5
Newton - Absolute Return	268.5	280.5	8.7	10.0	-1.3
Ruffer - Absolute Return	259.4	293.0	9.0	10.0	-1.0
L&G - 5yr ILG	181.6	176.2	5.4	5.0	0.4
M&G - Bonds	201.1	197.8	6.1	6.5	-0.4
Schroder - Property	324.5	330.0	10.2	10.0	0.2
M&G - Infrastructure Fund	28.8	35.1	1.1	1.0	0.1
UBS - Infrastructure	22.1	24.0	0.7	1.0	-0.3
Adams Street - Private Equity	96.6	104.6	3.2	2.8	0.5
HarbourVest - Private Equity	88.9	92.3	2.8	2.8	0.1
M&G - UK Financing Fund	8.3	5.5	0.2	1.0	-0.8
Cash account	63.9	21.5	0.7	0.0	0.7
Total	3107.5	3241.0	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 (net of fees)

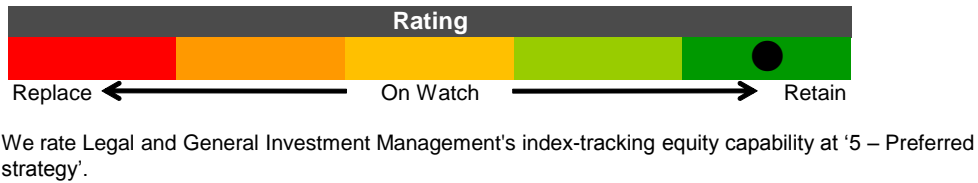
Performance Summary (net of fees) [1] [i]

		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 Benchmark	6.7 6.6	6.8 6.4	10.2 10.2	3.9 3.9	-4.9 0.1	3.0 0.1	-3.1 -3.0	-1.7 -2.4	1.6 2.3	4.4 4.0
	Relative	0.0	0.3				2.9		0.7		0.4
				0.0	0.0	-5.0		-0.1		-0.6	
12 Months (%)	Absolute Benchmark	29.4 29.3	29.3 28.7	34.6 34.8	16.8 16.8	4.2 0.4	9.9 0.5 9.4	27.0 27.4	12.8 9.2	2.3 2.8	20.3 17.5
	Relative	0.1	0.5		0.0	3.7			3.3		2.3
				-0.2				-0.3		-0.5	
3 Years (% p.a.)	Absolute Benchmark	14.4 14.4	17.4 13.7	13.5 13.7	6.1 6.1	2.9 0.5	3.9 0.5	11.2 11.5	7.2 5.7	10.9 10.7	10.7 9.3
	Relative	0.0	3.2		0.1	2.4	3.4		1.4	0.3	1.3
				-0.2				-0.3			
10 Years (% p.a.)	Absolute Benchmark	11.5 11.5	18.8 12.8	12.6 12.8	6.0 5.9	4.1 0.5	4.9 0.5	N/A N/A	6.4 4.7	8.3 8.2	6.6 6.0
	Relative		5.3		0.1	3.5	4.4	N/A	1.7	0.1	0.6
		0.0		-0.1							

[1] We have estimated net returns based on each manager's expected fee levels. 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. In Q2 2016, total fund performance was calculated excluding private market investments. Q3 and Q4 2016 total fund performances have been calculated using estimated valuations for private market investments.

Legal and General - UK and Global Equities

HR View Comment & Rating



There were no significant developments over the quarter.

L&G UK Fund Performance [i]

	3 months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	3.9	16.8	6.2	6.1
Benchmark	3.9	16.8	6.1	5.9
Relative	0.0	0.0	0.1	0.2

* Inception date 21 November 2007

Performance Attribution Comment

Both the Legal & General equity funds performed in line with their respective benchmarks over the quarter, as expected from passive mandates.

The UK fund returned 3.9% over the quarter. Over all longer periods considered, the mandate remains broadly in line with its benchmark. The UK equity market continues to lag its global counterpart.

The Global equity fund returned 6.7% over the last quarter of 2016, in line with its benchmark. Over the 12 month, 3 year periods and since inception, the fund remains broadly in line with the benchmark.

L&G Global Fund Performance [ii]

	3 months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	6.7	29.5	14.5	11.6
Benchmark	6.6	29.3	14.4	11.5
Relative	0.0	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



There were no significant changes to report over the quarter to end December 2016

Performance Summary - Table [i]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	-3.0	27.4	11.5
Benchmark	-3.0	27.4	11.5
Relative	0.0	0.0	0.0

* Inception date 11 Mar 2015.

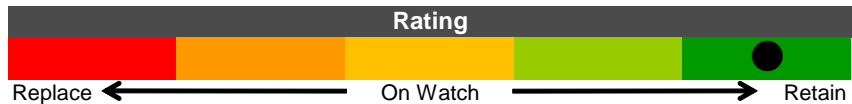
Performance Attribution Comment

The Index Linked Gilt fund delivered a negative performance over the quarter, in line with its benchmark. Over the 12 month period and since its inception, the fund remains in line with benchmark.



State Street - Fundamental Indexation

HR View Comment & Rating



We rate State Street's market cap and fundamental index-tracking equity capability at '5 – Preferred strategy'.

John Tucker has been appointed as Global Investments Chief Operating Officer, a newly created role. Tucker was previously Co-Head of Global Equity Beta Solutions ("GEBS") in the Americas with Mike Feehily as the other co-head. As a result of Tucker's promotion, Feehily will become the sole head of GEBS in the Americas, with Karl Schneider announced as his deputy. We do not believe any of these changes will have a negative effect on any passive equity portfolios.

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Performance Attribution Comment

State Street's Fundamental Indexation Global Equity Fund returned 10.2% over the last quarter of 2016, broadly in line with its benchmark. Over all longer periods considered, the fund remains broadly in line with benchmark.

Performance Summary - Table

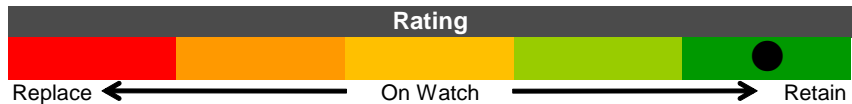
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	10.2	34.7	13.6	12.7
Benchmark	10.2	34.8	13.7	12.8
Relative	-0.0	-0.1	-0.1	-0.1

* Inception date 06 Aug 2013.



Longview - Global Equity

HR View Comment & Rating



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

There were no significant developments over the quarter.

Performance Attribution Comment

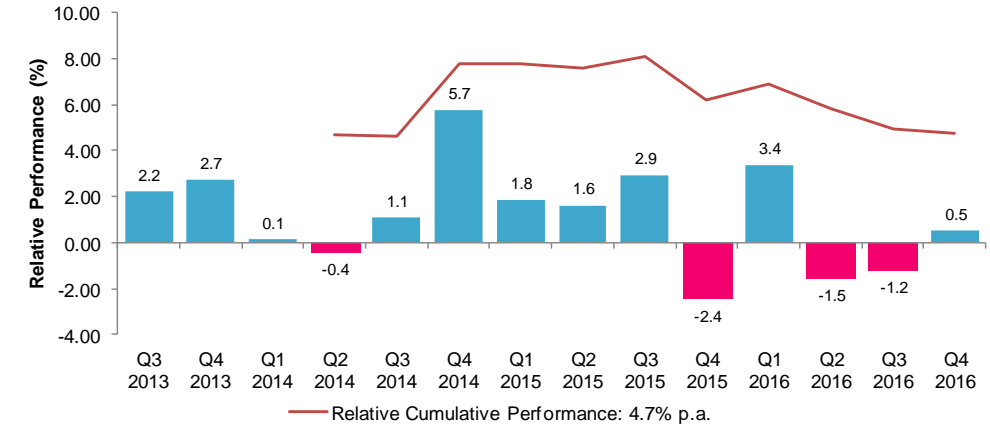
Longview's global equity portfolio outperformed by 0.5% over the quarter, returning 6.9% in absolute terms. Over the 12 month, 3 year periods and since inception, the fund remains ahead of the benchmark.

The portfolio's zero exposure to lower quality and more interest rate sensitive stocks within the Financials sector detracted from relative performance over the quarter as Trump's unexpected election prompted speculation that his government would scale back regulation. The overweight position to Healthcare also detracted amidst the uncertainty of the presidential election. Individual holding Zimmer Biomet Holdings, was the largest detractor as a temporary shortage of stock halted revenue growth. Willis Towers Watson also negatively contributed to performance as growth figures underperformed budget. Another detractor was Thermo Fisher Scientific which underperformed, primarily due to the defensive nature of the company and market belief that Trump's proposed tax cuts will not impact their already low tax rates.

The main drivers of performance over the quarter included the portfolio's overweight exposure to the Consumer Staples sector as rising interest rates had a positive impact on the expensive sector. Wells Fargo performed well over the quarter due to the belief that they will benefit from the expected rise in interest rates. Bank of New York Mellon also benefitted from this expectation as well as higher revenues. Time Warner, the media company, also contributed to performance as the company was bid for by AT&T, the telecommunications conglomerate to create the world's largest vertically integrated content and distribution company.

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

Relative Quarterly and Relative Cumulative Performance [i]



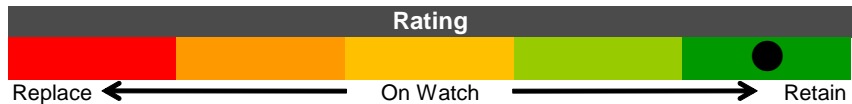
Performance Summary to 31 December 2016 [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	6.9	30.1	18.1	19.4
Benchmark	6.4	28.7	13.7	12.8
Relative	0.5	1.1	3.9	5.9

* Inception date 16 Apr 2013.

Ruffer - Absolute Return

HR View Comment & Rating



Ruffer has appointed Clemmie Vaughan as CEO, effective from 1 April 2017, taking over from current joint CEO and CIO, Henry Maxey. Maxey, who took up the joint position five years ago when Jonathan Ruffer moved to Executive Chairman, will now be wholly dedicated to the CIO role, and will continue to lead Ruffer's investment process. Jonathan Ruffer remains as Executive Chairman. Vaughan has been at Ruffer for over 10 years, and is currently head of the firm's private client department and a member of the executive committee and management board. We are cautiously supportive of this change as it will allow Maxey to devote more of his time to the investment side of the business.

We continue to rate Ruffer's Absolute Return Fund '5 - Preferred Strategy'.

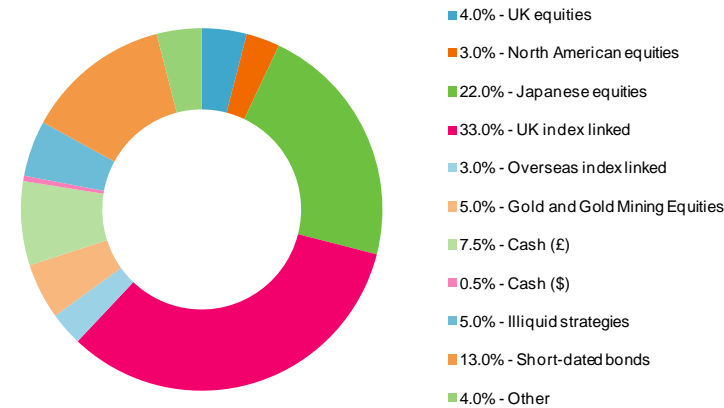
Performance Attribution Comment

The absolute return fund outperformed its cash benchmark by 2.9% over the quarter. Over all longer time periods considered, the fund remains ahead of benchmark and ahead of its target (4% p.a. gross of fees over 5 years)

Despite a difficult year, the fund's Japanese equities and in particular, banks and life assurance holdings benefitted from bond yields rising sharply over the quarter. Individual holdings such as Resona Bank and Dai-ichi Life were some of the main contributors to performance. On a more global scale, equity holdings in banking, industrials and oil also drove performance as these sectors outperformed the broader market over the quarter. The fund also benefitted from the manager's interest rate option positions which protected the fund against rising bond yields (falling prices).

This outperformance was partially offset by the fund's exposure to gold which underperformed amidst the appreciating US dollar and rising bond yields. The fund's UK index-linked bonds also detracted over the quarter as the value of longer maturity bonds fell.

Asset Allocation



Performance Summary to 31 December 2016 [i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	3.2	10.7	4.7	5.7
Benchmark	0.1	0.5	0.5	0.5
Relative	3.1	10.2	4.2	5.2

* Inception date 06 May 2010.

Source: [i] DataStream, Hymans Robertson

Newton - Absolute Return

HR View Comment & Rating



Susan Noble was appointed as Chair of the Board of Directors as of 1 January 2017. In addition, former CEO Helena Morrissey stepped down from the Board of Directors during the quarter and has subsequently joined Legal & General Investment Management as Head of Personal Investing.

We continue to rate Newton's Real Return Fund '5 - Preferred manager'.

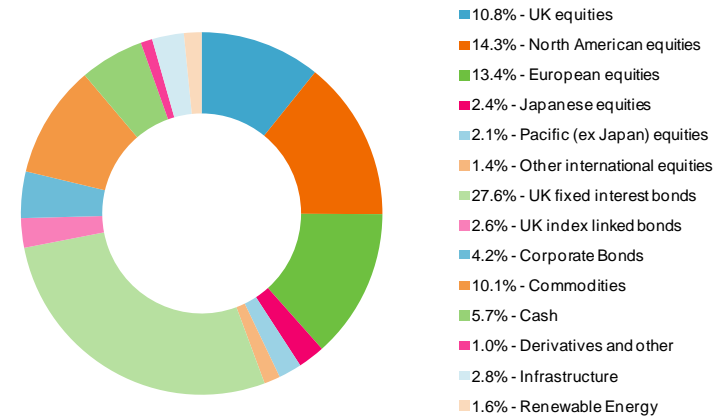
Performance Attribution Comment

Newton's Real return fund delivered a return of -4.8% over the quarter, lagging the benchmark return by -4.8%. The fund remains comfortably ahead of the benchmark over the longer period and ahead of the target return over 12 months and since inception.

Following Donald Trump's unexpected election victory, US bond and other 'safe haven' asset prices fell which negatively impacted performance of the fund over the quarter. The equity holdings within the fund were also affected as they are stable in nature (utilities, consumer staples etc) and ultimately underperformed the global equity indices. This was due to increased investor demand in sectors which are positioned to benefit from rising longer-term interest rates such as financials. The fund's currency hedging strategy was impacted by the depreciation of sterling against other global currencies, specifically the US dollar which appreciated over the quarter. Exposure to gold and government bonds was also detrimental for the fund.

However, the fund's overseas investments contributed to relative performance due to the weaker sterling. Another contributor was the fund's active currency strategies.

Asset Allocation ^[i]



Performance Summary to 31 December 2016 ^[ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	-4.8	4.8	3.5	4.7
Benchmark	0.1	0.4	0.5	0.5
Relative	-4.8	4.3	3.1	4.1

* Inception date 06 May 2010.

M&G - Bonds

HR View Comment & Rating



There were no significant changes to report during the quarter to 31 December 2016.

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

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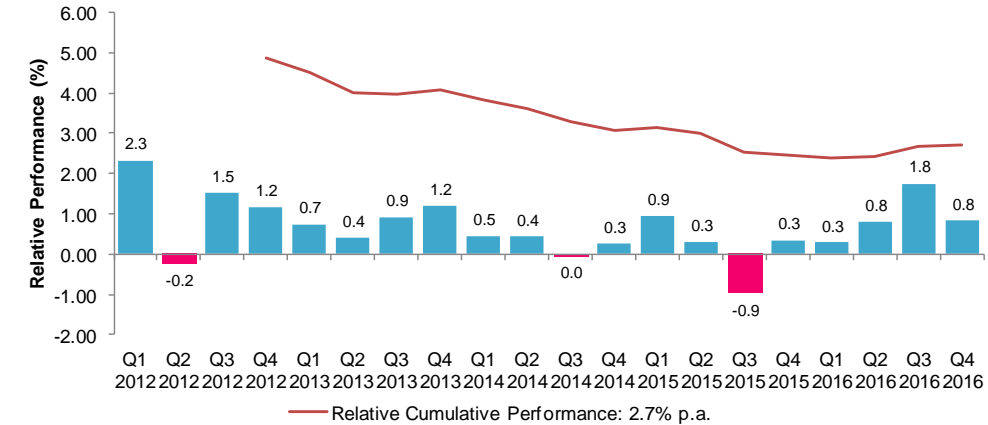
Performance Attribution Comment

M&G does not allocate between the corporate bonds and the absolute return bonds portfolios 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.

The Alpha Opportunities fund returned 1.4% in absolute terms over the quarter, ahead of its benchmark of 0.1%. Over the longer term, the fund continues to comfortably outperform the benchmark. The Corporate Fund outperformed its benchmark over the quarter, returning -3.3% in absolute terms.

Aggregate performance of the two funds was positive and outperformed the aggregate benchmark by 0.8%. The aggregate performance is ahead of benchmark over the longer periods of three and five years.

Relative Quarterly and Relative Cumulative Performance



Performance Summary to 31 December 2016 ^[1] ^[2]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	-1.6	13.2	7.6	7.7
Benchmark	-2.4	9.2	5.7	4.9
Relative	0.8	3.7	1.8	2.7

[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.

M&G - Bonds - Performance Attribution

Performance Attribution Performance [i]

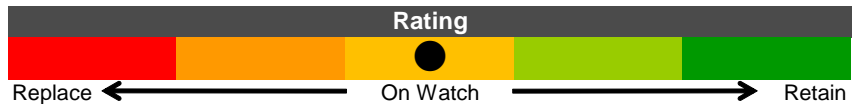
		UK Corporates	Alpha Opportunities Fund	Total
3 Months (%)	Absolute	-3.3	1.4	-1.6
	Benchmark	-3.9	0.1	-2.4
	Relative	0.7	1.4	0.8
12 Months (%)	Absolute	17.3	6.7	13.2
	Benchmark	14.6	0.4	9.2
	Relative	2.4	6.2	3.7
3 Years (% p.a.)	Absolute	10.6	3.1	7.6
	Benchmark	9.7	0.5	5.7
	Relative	0.8	2.6	1.8
5 Years (% p.a.)	Absolute	9.3	5.2	7.7
	Benchmark	8.4	0.5	4.9
	Relative	0.9	4.7	2.7

Source: [i] DataStream, Hymans Robertson



Schroders - Property

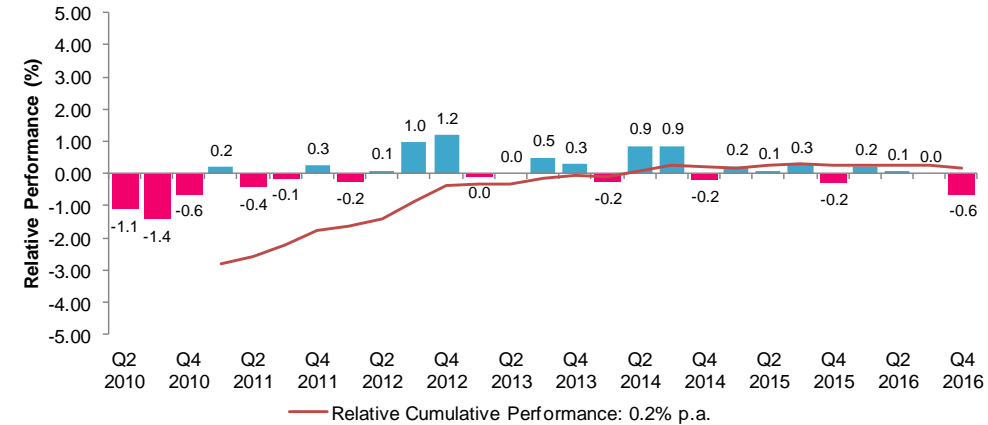
HR View Comment & Rating



There were no business developments over the quarter to 31 December 2016.

We continue to rate Schroders RECaP at '3 - On Watch'.

Relative Quarterly and Relative Cumulative Performance



Performance Attribution Comment

The property fund underperformed the IPD All Balanced Fund benchmark over the quarter, delivering 1.7% in absolute terms. Over the 12 month period, the fund continues to lag the benchmark but has outperformed over the 3 year period and since inception.

Exposure to London offices was the main detractor for the property portfolio over the quarter, with the West End of London P.U.T the main individual detractor. This was due to further valuation reductions and partial sales at a 9% discount to the valuation. Schroders, having sold off some of their holdings in this P.U.T, believe that London offices have been and will continue to be the worst affected in the wake of the EU referendum. Another detractor over the quarter was dealing costs due to the high level of transactions within the fund (£6.7m of purchases and £13.9m of sales).

Exposure to the industrial and alternative sectors (non core sectors, such as student accommodation) was positive for relative performance as both outperformed over the quarter. The strongest contributor to Q4 performance was the Schroder Real Estate Real Income Fund (SRERIF) as a result of its holdings in the alternative sectors. The Legal & General Managed Property Fund also had a positive impact on performance.

Performance Summary to 31 December 2016 [i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	1.7	2.5	11.2	8.5
Benchmark	2.3	2.8	10.7	8.2
Relative	-0.6	-0.3	0.5	0.3

* Inception date 20 Feb 2010.

Summary of Alternative Funds

Adams St	2003 Non US Fund	HarbourVest	HIPEP 4 Europe	M&G	Infracapital
	2003 US Fund		HIPEP 5 Europe		UK Financing Fund
	2005 Non US Fund		HIPEP 6 Europe	UBS	International Infrastructure Fund
	2007 Direct Fund		HIPEP 7 Europe		
	2007 Non US Fund		HarbourVest Partners VII - Buyout		
	2007 US Fund		HarbourVest Partners VII - Mezzanine		
	2008 Direct Fund		HarbourVest Partners VII - Venture		
	2008 Non US Fund		HarbourVest Partners VIII - Buyout		
	2008 US Fund		HarbourVest Partners VIII - Mezzanine		
	2009 Direct Fund		HarbourVest Partners VIII - Venture		
	2009 Non US Developed Markets Fund		HarbourVest Partners IX - Venture		
	2009 Non US Emerging Markets Fund		HarbourVest Partners IX - Buyout		
	2009 US Fund		HarbourVest Partners IX - Credit Opps		
	2010 Direct Fund		HarbourVest CleanTech		
	2010 Non US Developed Markets Fund		HarbourVest CleanTech II		
	2010 Non US Emerging Markets Fund				
	2010 US Fund				
	2011 Direct Fund				
	2011 Non US Developed Markets Fund				
	2011 Non US Emerging Markets Fund				
	2011 US Fund				
	2013 Non US Developed Markets Fund				
	2013 Non US Emerging Markets Fund				
	2013 US Fund				
	2014 Global Fund				
	Co-Investment Fund II				



Performance Summary (gross of fees)

Performance Summary (gross 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 Benchmark	6.7 6.6	6.9 6.4	10.2 10.2	3.9 3.9	-4.8 0.1	3.2 0.1	-3.0 -3.0	-1.6 -2.4	1.7 2.3	4.5 4.0
	Relative	0.0	0.5		0.0		3.1	0.0	0.8		0.5
				0.0		-4.8				-0.6	
12 Months (%)	Absolute Benchmark	29.5 29.3	30.1 28.7	34.7 34.8	16.8 16.8	4.8 0.4	10.7 0.5	27.4 27.4	13.2 9.2	2.5 2.8	20.6 17.5
	Relative	0.2	1.1		0.0	4.3	10.2	0.0	3.7		2.6
				-0.1						-0.3	
3 Years (% p.a.)	Absolute Benchmark	14.5 14.4	18.1 13.7	13.6 13.7	6.2 6.1	3.5 0.5	4.7 0.5	11.5 11.5	7.6 5.7	11.2 10.7	11.0 9.3
	Relative	0.1	3.9		0.1	3.1	4.2	0.0	1.8	0.5	1.6
				-0.1							
10 Years (% p.a.)	Absolute Benchmark	11.6 11.5	19.4 12.8	12.7 12.8	6.1 5.9	4.7 0.5	5.7 0.5	N/A N/A	6.6 4.7	8.5 8.2	6.8 6.0
	Relative	0.1	5.9		0.2	4.1	5.2	N/A	1.9	0.3	0.8
				-0.1							

[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. In Q2 2016, total fund performance was calculated excluding private market investments. Q3 and Q4 2016 total fund performances have been calculated using estimated valuations for private market investments.

Source: [i] Fund Manager, 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		-	-	-	-	-	-	-	-	100.0	0.0
UK Equity	12.0	-2.5	-	-	-	-	-	-	-	-	-	-
Fixed Interest	3.5	0.4	-	-	-	-	-	-	-	-	-	-
Index-Linked Gilts	5.0	0.4	-	-	-	-	-	-	100.0	0.0	-	-
UK Property	10.0	0.2	-	-	-	-	-	-	-	-	-	-
Infrastructure	2.0	-0.2	-	-	-	-	-	-	-	-	-	-
Private Equity	5.5	0.6	100.0	0.0	-	-	100.0	0.0	-	-	-	-
Absolute Return Funds	20.0	-2.3	-	-	-	-	-	-	-	-	-	-
Cash	0.0	0.7	-	-	100.0	0.0	-	-	-	-	-	-
UK Financing Fund	1.0	-0.8	-	-	-	-	-	-	-	-	-	-
Absolute Return Bonds	3.0	-0.8	-	-	-	-	-	-	-	-	-	-
Proportion of Total Assets	-	-	2.8	0.5	0.0	0.7	2.8	0.1	5.0	0.4	15.5	0.6

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	-2.5	5.0	1.8	6.5	-0.4	1.0	0.1	1.0	-0.8	10.0	-1.3



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		0.0	-		-	-		-
Infrastructure	-		-	-		-	-		-	100.0		0.0
Private Equity	-		-	-		-	-		-	-		-
Absolute Return Funds	100.0		0.0	-		-	-		-	-		-
Cash	-		-	-		-	-		-	-		-
UK Financing Fund	-		-	-		-	-		-	-		-
Absolute Return Bonds	-		-	-		-	-		-	-		-
Proportion of Total Assets	10.0	-1.0		10.0	0.2		17.5	2.0		1.0	-0.3	

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: 6% UK, 56% 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:

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

Some industry practitioners use the simpler arithmetic method as follows:

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

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

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

Using the arithmetic method

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

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

Using the geometric method

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

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

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



Report to: **Pension Committee**

Date: **27 February 2017**

By: **Interim Chief Finance Officer**

Title of report: **External Audit Plan for East Sussex Pension Fund 2016/17**

Purpose of report: **To inform the Committee of the content of the Pension Fund external audit plan for 2016/17**

RECOMMENDATIONS

The Committee is recommended to approve the External Audit Plan for the East Sussex Pension Fund for 2016/17.

1. Background

1.1 The Plan confirms the core external audit fee as £26,607. This is unchanged from the 2015/16 fee. The fee is based on a number of assumptions, including the Council providing the auditors with complete and materially accurate financial statements, with good quality supporting working papers, within agreed timeframes. The audit fee is charged to the Pension Fund and not to the Council itself.

2. Supporting Information

2.1 The attached Pension Fund external audit plan set out in more detail the work the external auditors will conduct in order to audit the Pension Fund's 2016/17 accounts. The Plan reflects relevant issues that have arisen as a result of the 2015/16 Pension Fund accounts audit and other work carried out by KPMG.

2.2 KPMG initial assessment has not identified any significant risks that are specific to the Pension Fund. Areas of audit focus either due to their size, level of judgement or their influence on other balances within the financial statements are:

- Fraud risk from management override of controls (required by ISAs).

3. Conclusion and reasons for recommendations

3.1 KPMG overall audit approach remains similar to last year with no fundamental changes. Officers will continue to liaise with KPMG to ensure that their work is delivered as efficiently and effectively as possible and that internal and external audit plans are complementary and make best use of audit resources. The Plan was considered by the Pension Board at its 9 February 2017 meeting.

PHIL HALL

Interim Chief Finance Officer

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

Local Member(s): All
Background Documents
None

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External Audit Plan 2016/2017



East Sussex County Council Pension Fund

January 2017

Financial Statement Audit



There are no significant changes to the Code of Practice on Local Authority Accounting in 2016/17, which provides stability in terms of the accounting standards the Authority need to comply with.

Materiality

Materiality for planning purposes has set at **£27 million** for the Pension Fund, which equates to 1% of Net Assets.

We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance and this has been set at **£1.35 million**.

Significant risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error have been identified as:

- Fraud risk from management override of controls (required by ISAs)

See pages **4 to 8** for more details.

Logistics



Our team is:

- Phil Johnstone - Director
- Scott Walker - Manager
- Sana Naqvi – Assistant manager

More details are on **page 7**.

Our work will be completed in four phases from January to September and our key deliverables are this Audit Plan and a Report to those charged with Governance as outlined on **page 6**.

Our fee for the audit is £ 26,607 (£ 26,607 2015/2016) for the Pension Fund see **page 5**.

Introduction

Background and Statutory responsibilities

This document supplements our Audit Fee Letter 2016/17 presented to you in April 2016, which also sets out details of our appointment by Public Sector Audit Appointments Ltd (PSAA).

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014 and the National Audit Office's Code of Audit Practice.

Our key objective, is to audit/review and report on your:

— *Financial statements*: Providing an opinion on your accounts.

The audit planning process and risk assessment is an on-going process and the assessment and fees in this plan will be kept under review and updated if necessary.

Acknowledgements

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

Financial Statements Audit

Our financial statements audit work follows a four stage audit process which is identified below. Appendix 1 provides more detail on the activities that this includes. This report concentrates on the Financial Statements Audit Planning stage of the Financial Statements Audit.





Financial Statements Audit Planning

Our planning work takes place during January to February 2017. This involves the following key aspects:

- Risk assessment;
- Determining our materiality level; and
- Issuing this audit plan to communicate our audit strategy.

Risk assessment

Professional standards require us to consider two standard risks for all organisations. We are not elaborating on these standard risks in this plan but consider them as a matter of course in our audit and will include any findings arising from our work in our ISA 260 Report.

- **Management override of controls** – Management is typically in a powerful position to perpetrate fraud owing to its ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Our audit methodology incorporates the risk of management override as a default significant risk. In line with our methodology, we carry out appropriate controls testing and substantive procedures, including over journal entries, accounting estimates and significant transactions that are outside the normal course of business, or are otherwise unusual.
- **Fraudulent revenue recognition** – We do not consider this to be a significant risk for Pension Funds as there are limited incentives and opportunities to manipulate the way income is recognised. We therefore rebut this risk and do not incorporate specific work into our audit plan in this area over and above our standard fraud procedures.

The diagram opposite identifies, significant risks and other areas of audit focus, which we expand on overleaf. The diagram also identifies a range of other areas considered by our audit approach.



Materiality

We are required to plan our audit to determine with reasonable confidence whether or not the financial statements are free from material misstatement. An omission or misstatement is regarded as material if it would reasonably influence the user of financial statements. This therefore involves an assessment of the qualitative and quantitative nature of omissions and misstatements.

Generally, we would not consider differences in opinion in respect of areas of judgement to represent 'misstatements' unless the application of that judgement results in a financial amount falling outside of a range which we consider to be acceptable.

Materiality for planning purposes has been set at £27 million which equates to 1% of Net Assets.

We design our procedures to detect individual errors. This is £20.25 million for the year ended 31 March 2016, and we have some flexibility to adjust this level downwards.

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

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

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

We propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.35 million.

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

Other matters

Our audit team

Our audit team will be led by Phil Johnstone (Director) and Scott Walker (Audit Manager) providing continuity at a senior level. Appendix 2 provides more details on specific roles and contact details of the team.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but also in ensuring the audit team are accountable to you in addressing the issues identified as part of the audit strategy. Throughout the year we will communicate with you through meetings with the finance team and the Scrutiny Committee for Audit, Best Value and Community Services. Our communication outputs are included in Appendix 1.

Independence and Objectivity

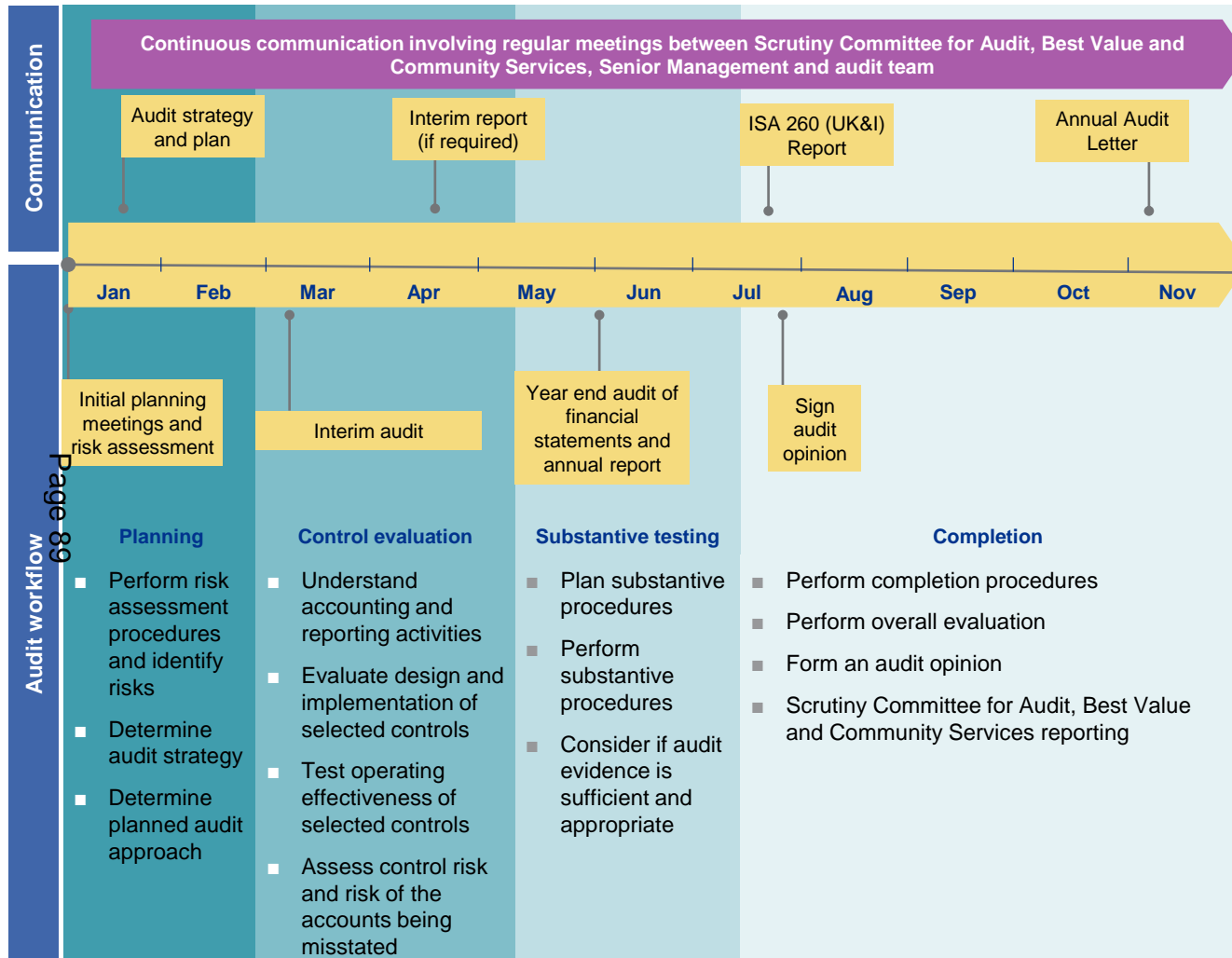
Auditors are also required to be independent and objective. Appendix 3 provides more details of our confirmation of independence and objectivity.

Audit fee

Our Audit Fee Letter 2016/2017 presented to you in April 2016 first set out our fees for the 2016/2017 audit. This letter also sets out our assumptions. We have not considered it necessary to make any changes to the agreed fees at this stage.

The planned audit fee for 2016/17 is £26,607 for the Pension Fund (2015/16 £26,607).

Appendix 1: Key elements of our financial statements audit approach



Driving more value from the audit through data and analytics

Technology is embedded throughout our audit approach to deliver a high quality audit opinion. Use of Data and Analytics (D&A) to analyse large populations of transactions in order to identify key areas for our audit focus is just one element. We strive to deliver new quality insight into your operations that enhances our and your preparedness and improves your collective 'business intelligence.' Data and Analytics allows us to:

- Obtain greater understanding of your processes, to automatically extract control configurations and to obtain higher levels assurance.
- Focus manual procedures on key areas of risk and on transactional exceptions.
- Identify data patterns and the root cause of issues to increase forward-looking insight.

We anticipate using data and analytics in our work around key areas such as accounts payable and journals. We also expect to provide insights from our analysis of these tranches of data in our reporting to add further value from our audit.



Your audit team has been drawn from our specialist public sector assurance department. Our audit team were all part of the East Sussex County Council Pension Fund audit last year.



Page 90

Name	Phil Johnstone philip.johnstone@kpmg.co.uk
Position	Director
	<p>'My role is to lead our team and ensure the delivery of a high quality, valued added external audit opinion.</p> <p>I will be the main point of contact for the Scrutiny Committee for Audit, Best Value and Community Services, Chief Executive and Executive Directors.'</p>



Name	Scott Walker Scott.walker@kpmg.co.uk
Position	Manager
	<p>'I provide quality assurance for the audit work and specifically any technical accounting and risk areas.</p> <p>I will work closely with Phil to ensure we add value.</p> <p>I will liaise with the Chief Finance Officer, Director of Finance and the Finance Team'</p>



Name	Sana Naqvi sana.naqvi@kpmg.co.uk
Position	Assistant Manager
	<p>'I will be responsible for the on-site delivery of our work and will supervise the work of our audit assistants.'</p>

Appendix 3: Independence and objectivity requirements

Independence and objectivity

Professional standards require auditors to communicate to those charged with governance, at least annually, all relationships that may bear on the firm's independence and the objectivity of the audit engagement partner and audit staff. The standards also place requirements on auditors in relation to integrity, objectivity and independence.

The standards define 'those charged with governance' as 'those persons entrusted with the supervision, control and direction of an entity'. In your case this is the Scrutiny Committee for Audit, Best Value and Community Services.

KPMG LLP is committed to being and being seen to be independent. APB Ethical Standards require us to communicate to you in writing all significant facts and matters, including those related to the provision of non-audit services and the safeguards put in place, in our professional judgement, may reasonably be thought to bear on KPMG LLP's independence and the objectivity of the Engagement Lead and the audit team.

Further to this auditors are required by the National Audit Office's Code of Audit Practice to:

- Carry out their work with integrity, independence and objectivity;
- Be transparent and report publicly as required;
- Be professional and proportional in conducting work;
- Be mindful of the activities of inspectorates to prevent duplication;
- Take a constructive and positive approach to their work;
- Comply with data statutory and other relevant requirements relating to the security, transfer, holding, disclosure and disposal of information.

PSAA's Terms of Appointment includes several references to arrangements designed to support and reinforce the requirements relating to independence, which auditors must comply with. These are as follows:

- Auditors and senior members of their staff who are directly involved in the management, supervision or delivery of PSAA audit work should not take part in political activity.

- No member or employee of the firm should accept or hold an appointment as a member of an audited body whose auditor is, or is proposed to be, from the same firm. In addition, no member or employee of the firm should accept or hold such appointments at related bodies, such as those linked to the audited body through a strategic partnership.
- Audit staff are expected not to accept appointments as Governors at certain types of schools within the local authority.
- Auditors and their staff should not be employed in any capacity (whether paid or unpaid) by an audited body or other organisation providing services to an audited body whilst being employed by the firm.
- Auditors appointed by the PSAA should not accept engagements which involve commenting on the performance of other PSAA auditors on PSAA work without first consulting PSAA.
- Auditors are expected to comply with the Terms of Appointment policy for the Engagement Lead to be changed on a periodic basis.
- Audit suppliers are required to obtain the PSAA's written approval prior to changing any Engagement Lead in respect of each audited body.
- Certain other staff changes or appointments require positive action to be taken by Firms as set out in the Terms of Appointment.

Confirmation statement

We confirm that as of January 2017 in our professional judgement, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Engagement Lead and audit team is not impaired.



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This report is addressed to the Authority and has been prepared for the sole use of the Authority. We take no responsibility to any member of staff acting in their individual capacities, or to third parties. We draw your attention to the Statement of Responsibilities of auditors and audited bodies, which is available on Public Sector Audit Appointments's website (www.psaa.co.uk).

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

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

Report to: **Pension Committee**

Date: **27 February 2017**

By: **Interim Chief Finance Officer**

Title of report: **Investment Strategy Statement (ISS)**

Purpose of report: **This report cover the new Investment Strategy Statement the East Sussex Pension Fund.**

RECOMMENDATIONS – The Committee is requested to approve the Investment Strategy Statement (ISS).

1. Background

1.1 The LGPS - Management & Investment of Funds Regulations were laid before parliament on 23rd September and came into force from 1st November 2016. These regulations remove many of the investment restrictions imposed on LGPS funds, introduce a prudential framework for investment decision making, introduce a Power of Direction for the Secretary of State to intervene in the investment function of an Administering Authority if deemed necessary, and require all funds to publish a new Investment Strategy Statement (ISS) by 1st April 2017. This statement will replace the Statement of Investment Principles (SIP).

1.2 In order to comply with the regulations, administering authorities must take proper advice. They should also explain the extent to which the views of their Pension Board and other interested parties who they consider may have an interest will be taken into account when making an investment decision based on non-financial factors and must explain the extent to which non-financial factors will be taken into account in the selection, retention and realisation of investments.

2. Investment Strategy Statement (ISS)

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

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

2.3 Regulation 7(1) requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State. The ISS must include:

- A requirement to invest money in a wide variety of investments;
- The authority's assessment of the suitability of particular investments and types of investments;
- The authority's approach to risk, including the ways in which risks are to be measured and managed;
- The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- The authority's policy on the exercise of rights (including voting rights) attaching to investments.

3. Conclusion and reasons for recommendations

3.1 Under Regulation 7(6) and (7), the statements must be published by 1st April 2017 and then kept under review and revised from time to time and at least every three years. Under transitional arrangements, key elements of the 2009 Regulations relating to investment policies will continue in force until such time that the Investment Strategy Statement under Regulation 7 is published.

PHIL HALL

Interim Chief Finance Officer

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

Local Member(s): All

Background Documents

None



Investment Strategy Statement

February 2017

Introduction and background

This is the Investment Strategy Statement (“ISS”) of the East Sussex Pension Fund (“the Fund”), which is administered by East Sussex County Council, (“the Administering Authority”). The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (“the Regulations”).

The ISS has been prepared by the Pension Committee (“the Committee”) having taken advice from the Fund’s investment adviser, Hymans Robertson LLP. The Committee acts on the delegated authority of the Administering Authority.

The ISS, which was approved by the Committee on 27 February 2017, is subject to periodic review at least every three years and without delay after any significant change in investment policy. The Committee has consulted on the contents of the Fund’s investment strategy with such persons it considers appropriate.

The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. The ISS should be read in conjunction with the Fund’s Funding Strategy Statement (dated 01 April 2017).

The suitability of particular investments and types of investments

The primary objective of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependants, on a defined benefits basis. This funding position will be reviewed at each triennial actuarial valuation, or more frequently as required.

The Committee aims to fund the Fund in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund’s assets 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 and/or inflation increases.

The Committee has translated its objectives into a suitable strategic asset allocation benchmark for the Fund. This benchmark is consistent with the Committee’s views on the appropriate balance between generating a satisfactory long-term return on investments whilst taking account of market volatility and risk and the nature of the Fund’s liabilities.

The Fund carries out an asset liability modelling exercise in conjunction with each actuarial valuation. A number of different contribution and investment strategies are modelled and the future evolution of the Fund considered under a wide range of different scenarios. The Committee consider the chances of achieving their long term funding target and also consider the level of downside risk in the various strategies by identifying the low funding levels which might emerge in the event of poor outcomes.

This approach helps to ensure that the investment strategy takes due account of the maturity profile of the Fund (in terms of the relative proportions of liabilities in respect of pensioners, deferred and active members), together with the level of disclosed surplus or deficit (relative to the funding bases used).

In addition, the Committee monitors investment strategy on an ongoing basis, focusing on factors including, but not limited to:

- Suitability given the Fund’s level of funding and liability profile
- The level of expected risk

- Outlook for asset returns

The Committee also monitors the Fund's actual allocation on a regular basis to ensure it does not notably deviate from the target allocation and has implemented a rebalancing policy Appendix B.

To help clearly define the strategic approach adopted by the Committee it has set out its investment beliefs Appendix C

Investment of money in a wide variety of investments

Asset classes

The Fund may invest in quoted and unquoted securities of UK and overseas markets including equities and fixed interest and index linked bonds, cash, property and commodities either directly or through pooled funds. The Fund may also make use of contracts for differences and other derivatives either directly or in pooled funds investing in these products for the purpose of efficient portfolio management or to hedge specific risks.

The Committee reviews the nature of Fund investments on a regular basis, with particular reference to suitability and diversification. The Committee seeks and considers written advice from a suitably qualified person in undertaking such a review. If, at any time, investment in a security or product not previously known to the Committee is proposed, appropriate advice is sought and considered to ensure its suitability and diversification.

The Fund's target investment strategy is set out below. The table also includes the maximum percentage of total Fund value that it will invest in these asset classes. In line with the Regulations, the authority's investment strategy does not permit more than 5% of the total value of all investments of fund money to be invested in entities which are connected with that authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007".

Table 1: Fund allocation

Asset class	Target allocation %	Maximum invested* %	Role within the Strategy
Listed equities	50.0	55.0	Growth Assets
Absolute Return	20.0	23.0	Growth Assets
Private Equity	5.5	7.5	Growth Assets
Property	10.0	13.0	Income Assets
Infrastructure	2.0	4.0	Income Assets
UK Financing Fund	1.0	2.0	Income Assets
Index-Linked Gilts	5.0	6.0	Protection Assets
Fixed Interest Bonds	3.5	4.5	Protection Assets
Absolute Return Bonds	3.0	4.0	Protection Assets
Cash	0.0	2.0	Protection Assets
Total	100.0		

*The maximum invested figures are based on the rebalancing ranges agreed by the East Sussex Pension Committee within its rebalancing policy.

Restrictions on investment

The Regulations have removed the previous restrictions that applied under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. The Committee's approach to setting its investment strategy and assessing the suitability of different types of investment takes account of the various

risks involved and a rebalancing policy is applied to maintain the asset split close to the agreed asset allocation target. Therefore it is not felt necessary to set additional restrictions on investments.

Managers

The Committee has appointed a number of investment managers all of whom are authorised under the Financial Services and Markets Act 2000 to undertake investment business.

The Committee, after seeking appropriate investment advice, has agreed specific benchmarks with each manager so that, in aggregate, they are consistent with the overall asset allocation for the Fund. The Fund's investment managers will hold a mix of investments which reflects their views relative to their respective benchmarks. Within each major market and asset class, the managers will maintain diversified portfolios through direct investment or pooled vehicles. The manager of the passive funds in which the Fund invests holds a mix of investments within each pooled fund that reflects that of their respective benchmark indices.

The approach to risk, including the ways in which risks are to be measured and managed

The Committee is aware that the Fund has a need to take risk (e.g. investing in growth assets) to help it achieve its funding objectives. It has an active risk management programme in place that aims to help it identify the risks being taken and put in place processes to manage, measure, monitor and (where possible) mitigate the risks being taken. One of the Committee's overarching beliefs is to only to take as much investment risk as is necessary.

The principal risks affecting the Fund are set out below. We also discuss the Fund's approach to managing these risks and the contingency plans that are in place:

Funding risks

- Financial mismatch – The risk that Fund assets fail to grow in line with the developing cost of meeting the liabilities.
- Changing demographics – The risk that longevity improves and other demographic factors change, increasing the cost of Fund benefits.
- Systemic risk - The possibility of an interlinked and simultaneous failure of several asset classes and/or investment managers, possibly compounded by financial 'contagion', resulting in an increase in the cost of meeting the Fund's liabilities.

The Committee measures and manages financial mismatch in two ways. As indicated above, the Committee has set a strategic asset allocation benchmark for the Fund. This benchmark was set taking into account asset liability modelling which focused on probability of success and level of downside risk. The results from the 2016 analysis highlighted that the Fund - utilising its current stabilisation parameters for contributions – has a sufficiently high probability of success without being too prudent (71%). The downside risk measure (31% average funding level in the 5% of worst outcomes) highlights the wide range of future outcomes under the current stabilisation parameters. The Committee assesses risk relative to the strategic benchmark by monitoring the Fund's asset allocation and investment returns relative to the benchmark. The Committee also assesses risk relative to liabilities by monitoring the delivery of benchmark returns relative to liabilities.

The Committee also seeks to understand the assumptions used in any analysis and modelling so they can be compared to their own views and the level of risks associated with these assumptions to be assessed.

The Committee seeks to mitigate systemic risk through a diversified portfolio but it is not possible to make specific provision for all possible eventualities that may arise under this heading.

Asset risks

- Concentration - The risk that a significant allocation to any single asset category and its underperformance relative to expectation would result in difficulties in achieving funding objectives.
- Illiquidity - The risk that the Fund cannot meet its immediate liabilities because it has insufficient liquid assets.
- Currency risk – The risk that the currency of the Fund's assets underperforms relative to Sterling (i.e. the currency of the liabilities).
- Environmental, social and governance (“ESG”) – The risk that ESG related factors reduce the Fund's ability to generate the long-term returns.
- Manager underperformance - The failure by the fund managers to achieve the rate of investment return assumed in setting their mandates.

The Committee measure and manage asset risks as follows.

The Fund's strategic asset allocation benchmark invests in a diversified range of asset classes. The Committee has put in place rebalancing arrangements to ensure the Fund's “actual allocation” does not deviate substantially from its target. The Fund invests in a range of investment mandates each of which has a defined objective, performance benchmark and manager process which, taken in aggregate, help reduce the Fund's asset concentration risk. By investing across a range of assets, including liquid quoted equities and bonds, as well as property, the Committee has recognised the need for access to liquidity in the short term.

The Fund invests in a range of overseas markets which provides a diversified approach to currency markets; the Committee also assess the Fund's currency risk during their risk analysis. Details of the Fund's approach to managing ESG risks is set out later in this document.

The Committee has considered the risk of underperformance by any single investment manager and have attempted to reduce this risk by appointing more than one manager and having a large proportion of the Scheme's assets managed on a passive basis. The Committee assess the Fund's managers' performance on a regular basis, and will take steps, including potentially replacing one or more of their managers, if underperformance persists.

Other provider risk

- Transition risk - The risk of incurring unexpected costs in relation to the transition of assets among managers. When carrying out significant transitions, the Committee seeks suitable professional advice.
- Custody risk - The risk of losing economic rights to Fund assets, when held in custody or when being traded.
- Credit default - The possibility of default of a counterparty in meeting its obligations.
- Stock-lending – The possibility of default and loss of economic rights to Fund assets.

The Committee monitors and manages risks in these areas through a process of regular scrutiny of its providers, and audit of the operations it conducts for the Fund, or has delegated such monitoring and

management of risk to the appointed investment managers as appropriate (e.g. custody risk in relation to pooled funds). The Committee has the power to replace a provider should serious concerns exist.

A separate schedule of risks that the Fund monitors is set out in the Fund's Funding Strategy Statement.

The approach to pooling investments, including the use of collective investment vehicles and shared services

The Fund is a participating scheme in the ACCESS Pool. The proposed structure and basis on which the ACCESS Pool will operate was set out in the July 2016 submission to Government.

Assets to be invested in the Pool

The Fund's intention is to invest its assets through the ACCESS Pool as and when suitable Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government. They key criteria for assessment of Pool solutions will be as follows:

1. That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund
2. That there is a clear financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

At the time of preparing this statement the Fund has elected not to invest the following assets via the ACCESS Pool:

Table 2 – Assets held outside the pool

Asset class	Manager	% of Fund assets	Benchmark	Reason for not investing via the ACCESS Pool
Private Equity	Harbourvest Partners / Adam Street Partners	5.5%	MSCI All Countries World	Existing illiquid asset programmes will run off at normal lifecycle to avoid crystallising exit costs and loss of illiquidity premium earned.
Infrastructure	M & G Infracapital / UBS Infrastructure	2.0%	GBP 3 Month LIBOR	Existing illiquid asset programmes will run off at normal lifecycle to avoid crystallising exit costs and loss of illiquidity premium earned.
Operational cash	East Sussex County Council	0.0%	N/A	East Sussex Pension Fund needs to manage its 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.

Any assets not currently invested in the Pool will be reviewed at least every three years to determine whether the rationale remains appropriate, and whether it continues to demonstrate value for money. The next such review will take place no later than 2018.

Structure and governance of the ACCESS Pool

East Sussex is a member of the ACCESS pool along with the following 10 other pension funds:

Cambridgeshire	Kent
Essex	Norfolk
Hampshire	Northamptonshire
Hertfordshire	Suffolk
Isle of Wight	West Sussex

All eleven funds are committed to collaboratively working together to meet the criteria for pooling and have signed a Memorandum of Understanding to underpin their partnership. ACCESS is working to a project plan in order to create the appropriate means to pool investments. The first investments to be pooled in 2017 will be passively managed investments.

The ACCESS Funds have set out how they meet the pooling criteria, the pool's structure, governance arrangements and services to be shared in the submission made to the Government in July 2016, which is available on ACCESS's website <http://www.accesspool.org/>

How social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments

It is recognised that ESG factors can influence long term investment performance and the ability to achieve long term sustainable returns. The Committee consider the Fund's approach to responsible investment in two key areas:

- **Sustainable investment / ESG factors** – considering the financial impact of environmental, social and governance (ESG) factors on its investments.
- **Stewardship and governance** – acting as responsible and active investors/owners, through considered voting of shares, and engaging with investee company management as part of the investment process.

The Committee takes ESG matters very seriously and conducts a review of its policies in this area and its investment managers' approach to ESG.

At the present time the Committee does not take into account non-financial factors when selecting, retaining, or realising its investments.

The Committee understand the Fund is not able to exclude investments in order to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

To date, the Fund's approach to Social investments has largely been to delegate this to their underlying investment managers as part of their overall ESG duties.

The Fund does not hold any assets which it deems to be social investments.

The exercise of rights (including voting rights) attaching to investments

Voting rights

The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. Accordingly, the Fund's managers have produced written guidelines of their process and practice in this regard, which is considered as part of the appointment of an investment manager process. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under Regulation 7(2)(f).

Stewardship

The Committee understands that stewardship aims to promote the long term success of companies in such a way that the ultimate providers of capital also prosper. The Committee encourages its investment managers to formally agree to adhere to the Stewardship Code as published by the Financial Reporting Council. Asset manager signatories have been categorised in three tiers.

- **Tier 1** – Signatories provide a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary.
- **Tier 2** – Signatories meet many of the reporting expectations but report less transparently on their approach to stewardship or do not provide explanations where they depart from provisions of the Code.
- **Tier 3** – Significant reporting improvements need to be made to ensure the approach is more transparent. Signatories have not engaged with the process of improving their statements and their statements continue to be generic and provide no, or poor, explanations where they depart from provisions of the Code.

Investment Managers Stewardship Rating

Tier 1

- Legal and General Investment Managers
- State Street Global Advisors
- Newton Investment Management
- Ruffer LLP
- Schroder Investment Management Limited
- M & G Investment Management
- Longview Partners
- UBS Asset Management
- Northern Trust Global Investments

Tier 2

- None

Tier 3

- None

The Committee expects both the ACCESS Pool and any directly appointed fund managers to also comply with the Stewardship Code. In addition to the Fund's views on the Stewardship Code, the Fund believes in collective engagement and is a member of the Local Authority Pension Fund Forum (LAPFF), through which it collectively exercises a voice across a range of corporate governance issues.

Appendices

Appendix A – Rebalancing Policy

Appendix B – Investment Beliefs

DRAFT

Appendix A



Rebalancing Policy

February 2017

Appendix A

Rebalancing Ranges

The following ranges have been agreed by the committee to set as points as to which rebalancing should take place.

Asset class	Strategic target (%)	Range
Listed Equities	50.0	+/-5
Private Equity	5.5	+/-2
Absolute Return	20.0	+/-3
Property	10.0	+/-3
Infrastructure	2.0	+/-2
Growth Assets	87.5	+/- 5
Absolute Return Bonds	3.0	+/-1
Fixed Interest Bonds	3.5	+/-1
Index-Linked Gilts	5.0	+/-1
UK Financing Fund	1.0	+/-1
Cash	0.0	+/-2
Matching Assets	12.5	+/-5
Total	100.0	

Rebalancing for the Fund – General Rules

The following general rules will determine how a rebalancing process for the Fund will operate.

- **Rebalancing would apply only to equities, absolute return funds and bonds** - Due to the transaction costs and illiquidity associated with the other investments such as property, rebalancing for those asset classes will be considered on an annual/ad hoc basis;
- **Rebalancing would be monitored on a quarterly basis**
- **Each benchmark allocation would have a weighted tolerance range** – A tolerance range will be defined for growth and matching assets and each underlying mandate; these tolerance ranges will be used in determining when rebalancing will occur;
- **Cash holdings to be used for rebalancing**. Where possible any net investments or disinvestments should be used to manage allocations, for example, by investing any surplus cash into the most underweight asset class.

Appendix A

- **Rebalancing will occur at two levels; at the growth vs matching level, and at the mandate level –**
The rebalancing process will determine if rebalancing is required between growth and matching assets, and separately if rebalancing is required between asset classes. However, it is more important to be willing to incur transaction costs if necessary to rebalance between bonds and equities, for example, than switching between managers with similar mandates (eg. Longview and L&G global equities).
- **Rebalancing transactions will aim to rebalance allocations outwith their tolerance ranges to the midpoint (at least) of the tolerance range –** The mid-point of the tolerance range is the mid-point between a benchmark allocation and its upper or lower tolerance limit. Assuming an asset class with a 60% allocation and a 54%-66% tolerance range, the upper mid-point would be the halfway point between 60-66% (i.e. 63%). The lower mid-point would be the halfway point between 54% and 60% (i.e. 57%). Analysis suggests that this is the best way of balancing the impact of transaction costs against returns.

The allocations to private equity and infrastructure (and to a lesser extent property) will vary with general market movements and are not easily altered, due to the illiquid nature of the asset classes. Therefore we do not anticipate any rebalancing being carried out in relation to the Fund's private equity or infrastructure investments.

Appendix B



Investment Beliefs

February 2017

Appendix B

Fund specific investment beliefs

The Pension Committee have prepared a set of investment beliefs based on their experience of the workings of the Fund and the nature of the underlying investments held. These are set out below:

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: Government bonds provide liquidity and a degree of liability matching

Government bonds have characteristics that are similar to the assumptions used in valuing pension liabilities e.g. sensitive to changes in interest rates and (for index-linked) to changes in market-implied inflation. This makes them a suitable asset for reducing the Fund's funding risks. In addition, this asset class has proven to be highly

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liquid at times of market stress, enabling it to be used for rebalancing and to help meet any outflows that may fall due. Given this, the Committee hold a proportion of the Fund's assets in this asset class.

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. Choice of benchmark is particularly relevant for passive mandates where the manager's job is to track the index as closely as possible.

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.

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Report to: **Pension Committee**

Date: **27 February 2017**

By: **Interim Chief Finance Officer**

Title of report: **Funding Strategy Statement (FSS)**

Purpose of report: **This report covers the review of the Funding Strategy Statement (FSS) for the East Sussex Pension Fund.**

RECOMMENDATIONS – The Committee is requested to approve the Funding Strategy Statement (FSS).

1. Background

1.1 It is the responsibility of East Sussex County Council, acting in its capacity as Administering Authority to the East Sussex Pension Fund, to prepare, publish and maintain the Funding Strategy Statement having regard to guidance produced by the Chartered Institute of Public Finance and Accountancy (CIPFA) in a document entitled "Guidance on Preparing and Maintaining a Funding Strategy Statement".

1.2 Local Government Pension Scheme Regulations require each administering authority, after consultation to prepare, maintain and publish a written statement setting out their funding strategy.

1.3 The statement was prepared by the Council in collaboration with the Fund's Actuary, Hymans Robertson. The statement includes a policy on stabilising employer contribution rates. In 2016 there has been a review of the stabilisation approach adopted during previous valuations. This review concluded that continuing to use this method was still valid and would not result in significantly worse long-term benefits when compared to having no method of stabilisation. The revised statement is effective from 1 April 2017.

1.4 The statement is reviewed every three years in line with the valuation of the Fund, and the next valuation will be 31 March 2019. However, a revised statement can be issued in the interim if any significant or material change arises.

2. Funding Strategy Statement (FSS)

2.1 The purpose of the strategy statement is:

- to ensure the long-term solvency of the Fund, using a prudent long term view;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund;
- to reflect the different characteristics of different employers in determining contribution rates; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations

2.2 The statement sets out the key financial and demographic assumptions, staff turnover and retirements and future contribution rates. Adjustments to individual employer contribution rates are applied both through the calculation of employer-specific future service contribution rates and employer's asset share. The strategy sets out the key risks and controls. The risks identified link in with the Pension Fund Risk Register.

3. Consultation

3.1 In compliance with the Regulations, the FSS must be subject to consultation with the Fund's employers before publication, and this document has been circulated to all relevant interested parties for comment.

4. Conclusion and reasons for recommendations

4.1 The Committee is recommended to approve the Funding Strategy Statement (FSS) that reflects the outcome of the 2016 triennial valuation, and outlines how the Fund calculates employer contributions, what other amounts might be payable in different circumstances, and how this fits in with the investment strategy statement.

PHIL HALL

Interim Chief Finance Officer

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Local Member(s): All
Background Documents
None

East Sussex Pension Fund

DRAFT Funding Strategy Statement

January 2017

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DRAFT Funding Strategy Statement

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1 Introduction

1.1 What is this document?

This is the Funding Strategy Statement (FSS) of the East Sussex Pension Fund (“the Fund”), which is administered by East Sussex County Council, (“the Administering Authority”).

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson LLP, and after consultation with the Fund’s employers and investment adviser. It is effective from 1 April 2017.

1.2 What is the East Sussex Pension Fund?

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Administering Authority runs the East Sussex Fund, in effect the LGPS for the East Sussex area, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund’s assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration costs.

The roles and responsibilities of the key parties involved in the management of the Fund are summarised in [Appendix B](#).

1.3 Why does the Fund need a Funding Strategy Statement?

Employees’ benefits are guaranteed by the LGPS Regulations, and do not change with market values or employer contributions. Investment returns will help pay for some of the benefits, but probably not all, and certainly with no guarantee. Employees’ contributions are fixed in those Regulations also, at a level which covers only part of the cost of the benefits.

Therefore, employers need to pay the balance of the cost of delivering the benefits to members and their dependants.

The FSS focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. This statement sets out how the Administering Authority has balanced the conflicting aims of:

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

There are also regulatory requirements for an FSS, as given in [Appendix A](#).

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

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years) which can be found in an appendix to the formal valuation report;
- actuarial factors for valuing individual transfers, early retirement costs and the costs of buying added service; and
- the Fund's Statement of Investment Principles / Investment Strategy Statement (see Funding strategy and links to investment strategy [Section 4](#)).

1.4 How does the Fund and this FSS affect me?

This depends on who you are:

- A member of the Fund, i.e. a current or former employee, or a dependant: the Fund needs to be sure it is collecting and holding enough money so that your benefits are always paid in full.
- An employer in the Fund (or which is considering joining the Fund): you will want to know how your contributions are calculated from time to time, that these are fair by comparison to other employers in the Fund, and in what circumstances you might need to pay more. Note that the FSS applies to all employers participating in the Fund.
- An Elected Member whose council participates in the Fund: you will want to be sure that the council balances the need to hold prudent reserves for members' retirement and death benefits, with the other competing demands for council money.
- A Council Tax payer: your council seeks to strike the balance above, and also to minimise cross-subsidies between different generations of taxpayers.

1.5 What does the FSS aim to do?

The FSS sets out the objectives of the Fund's funding strategy, such as:

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

1.6 How do I find my way around this document?

In [Section 2](#) there is a brief introduction to some of the main principles behind funding, i.e. deciding how much an employer should contribute to the Fund from time to time.

In [Section 3](#) we outline how the Fund calculates the contributions payable by different employers in different situations.

In [Section 4](#) we show how the funding strategy is linked with the Fund's investment strategy.

In the [Appendices](#) we cover various issues in more detail if you are interested:

- A. The regulatory background, including how and when the FSS is reviewed,
- B. Who is responsible for what,
- C. What issues the Fund needs to monitor, and how it manages its risks,
- D. Some more details about the actuarial calculations required,
- E. The assumptions which the Fund actuary currently makes about the future,
- F. A [glossary](#) explaining the technical terms occasionally used here.

If you have any other queries, please contact East Sussex Pension Fund in the first instance.

2 Basic Funding issues

(More detailed and extensive descriptions are given in [Appendix D](#)).

2.1 What is each employer's contribution rate?

This is described in more detail in [Appendix D](#). Employer contributions are normally made up of two elements:

- a) the estimated cost of benefits being built up each year, after deducting the members' own contributions and including administration expenses. This is referred to as the "*Primary rate*", and is expressed as a percentage of members' pensionable pay; plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "*Secondary rate*". In broad terms, payment of the Secondary rate will aim to return the employer to full funding over an appropriate period (the "time horizon"). The Secondary rate may be expressed as a percentage of pay and/or a monetary amount in each year.

The rates for all employers are shown in the Fund's Rates and Adjustments Certificate, which forms part of the formal Actuarial Valuation Report. Employers' contributions are expressed as minima, with employers able to pay contributions at a higher rate. Account of any higher rate will be taken by the Fund actuary at subsequent valuations, i.e. will be reflected as a credit when next calculating the employer's contributions.

2.2 How does the actuary set the employer contribution rate?

In essence this is a three-step process:

1. Calculate the ultimate funding target for that employer, i.e. the ideal amount of assets it should hold in order to be able to pay all its members' benefits. See [Appendix E](#) for more details of what assumptions we make to determine that funding target;
2. Determine the time horizon over which the employer should aim to achieve that funding target. See the table in [3.3](#) and [Note \(c\)](#) for more details;
3. Calculate the employer contribution rate such that it has at least a given probability of achieving that funding target over that time horizon, allowing for different likelihoods of various possible economic outcomes over that time horizon. See [2.3](#) below, and the table in [3.3 Note \(e\)](#) for more details.

2.3 What different types of employer participate in the Fund?

Historically the LGPS was intended for local authority employees only. However over the years, with the diversification and changes to delivery of local services, many more types and numbers of employers now participate. There are currently more employers in the Fund than ever before, a significant part of this being due to new academies.

In essence, participation in the LGPS is open to public sector employers providing some form of service to the local community. Whilst the majority of members will be local authority employees (and ex-employees), the majority of participating employers are those providing services in place of (or alongside) local authority services: academy schools, contractors, housing associations, charities, etc.

The LGPS Regulations define various types of employer as follows:

Scheduled bodies - councils, and other specified employers such as academies and further education establishments. These must provide access to the LGPS in respect of their employees who are not eligible to join another public sector scheme (such as the Teachers Scheme). These employers are so-called because they are specified in a schedule to the LGPS Regulations.

It is now possible for Local Education Authority schools to convert to academy status, and for other forms of school (such as Free Schools) to be established under the academies legislation. All such **academies (or Multi Academy Trusts)**, as employers of non-teaching staff, become separate new employers in the Fund. As academies are defined in the LGPS Regulations as “Scheduled Bodies”, the Administering Authority has no discretion over whether to admit them to the Fund, and the academy has no discretion whether to continue to allow its non-teaching staff to join the Fund. There has also been guidance issued by the DCLG regarding the terms of academies’ membership in LGPS Funds.

Designating employers - employers such as town and parish councils are able to participate in the LGPS via resolution (and the Fund cannot refuse them entry where the resolution is passed). These employers can designate which of their employees are eligible to join the scheme.

Other employers are able to participate in the Fund via an admission agreement, and are referred to as ‘admission bodies’. These employers are generally those with a “community of interest” with another scheme employer – **community admission bodies** (“CAB”) or those providing a service on behalf of a scheme employer – **transferee admission bodies** (“TAB”). CABs will include housing associations and charities, TABs will generally be contractors. The Fund is able to set its criteria for participation by these employers and can refuse entry if the requirements as set out in the Fund’s admissions policy are not met. (NB The terminology CAB and TAB has been dropped from recent LGPS Regulations, which instead combine both under the single term ‘admission bodies’; however, we have retained the old terminology here as we consider it to be helpful in setting funding strategies for these different employers).

2.4 How does the employer contribution rate vary for different employers?

All three steps above are considered when setting contributions (more details are given in [Section 3](#) and [Appendix D](#)).

1. The **funding target** is based on a set of assumptions about the future, (e.g. investment returns, inflation, pensioners’ life expectancies). However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation.
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have an older membership profile, or do not have tax-raising powers to increase contributions if investment returns under-perform.
3. The **probability of achieving** the funding target over that time horizon will be dependent on the Fund’s view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

For some employers it may be agreed to pool contributions, see [3.4](#).

Any costs of non ill-health early retirements must be paid by the employer, see [3.6](#).

Costs of ill-health early retirements are covered in [3.7](#) and [3.8](#).

2.5 How is a deficit (or surplus) calculated?

An employer's "funding level" is defined as the ratio of:

- the market value of the employer's share of assets (see [Appendix D](#), section [D5](#), for further details of how this is calculated), to
- the value placed by the actuary on the benefits built up to date for the employer's employees and ex-employees (the "liabilities"). The Fund actuary agrees with the Administering Authority the assumptions to be used in calculating this value.

If this is less than 100% then it means the employer has a shortfall, which is the employer's deficit; if it is more than 100% then the employer is said to be in surplus. The amount of deficit or shortfall is the difference between the asset value and the liabilities value.

It is important to note that the deficit/surplus and funding level are only measurements at a particular point in time, on a particular set of assumptions about the future. Whilst we recognise that various parties will take an interest in these measures, for most employers the key issue is how likely it is that their contributions will be sufficient to pay for their members' benefits (when added to their existing asset share and anticipated investment returns).

In short, deficits and funding levels are short term measures, whereas contribution-setting is a longer term issue.

2.6 How does the Fund recognise that employer contribution rates can affect council and employer service provision, and council tax?

The Administering Authority and the Fund actuary are acutely aware that, all other things being equal, a higher contribution required to be paid to the Fund will mean less cash available for the employer to spend on the provision of services. For instance:

- Higher Pension Fund contributions may result in reduced council spending, which in turn could affect the resources available for council services, and/or greater pressure on council tax levels.
- Contributions which Academies pay to the Fund will therefore not be available to pay for providing education.
- Other employers will provide various services to the local community, perhaps through housing associations, charitable work, or contracting council services. If they are required to pay more in pension contributions to the LGPS then this may affect their ability to provide the local services at a reasonable cost.

Whilst all this is true, it should also be borne in mind that:

- The Fund provides invaluable financial security to local families, whether to those who formerly worked in the service of the local community who have now retired, or to their families after their death.
- The Fund must have the assets available to meet these retirement and death benefits, which in turn means that the various employers must each pay their own way. Lower contributions today will mean higher contributions tomorrow: deferring payments does not alter the employer's ultimate obligation to the Fund in respect of its current and former employees.
- Each employer will generally only pay for its own employees and ex-employees (and their dependants), not for those of other employers in the Fund.

- The Fund strives to maintain reasonably stable employer contribution rates where appropriate and possible. However, a recent shift in regulatory focus means that solvency within each generation is considered by the Government to be a higher priority than stability of contribution rates.
- The Fund wishes to avoid the situation where an employer falls so far behind in managing its funding shortfall that its deficit becomes unmanageable in practice: such a situation may lead to employer insolvency and the resulting deficit falling on the other Fund employers. In that situation, those employers' services would in turn suffer as a result.
- Council contributions to the Fund should be at a suitable level, to protect the interests of different generations of council tax payers. For instance, underpayment of contributions for some years will need to be balanced by overpayment in other years; the council will wish to minimise the extent to which council tax payers in one period are in effect benefitting at the expense of those paying in a different period.

Overall, therefore, there is clearly a balance to be struck between the Fund's need for maintaining prudent funding levels, and the employers' need to allocate their resources appropriately. The Fund achieves this through various techniques which affect contribution increases to various degrees (see [3.1](#)). In deciding which of these techniques to apply to any given employer, the Fund will consider a risk assessment of that employer using a knowledge base which is regularly monitored and kept up-to-date. This database will include such information as the type of employer, its membership profile and funding position, any guarantors or security provision, material changes anticipated, etc. This helps the Fund establish a picture of the financial standing of the employer, i.e. its ability to meet its long term Fund commitments.

For instance, where an employer is considered relatively low risk then the Fund will permit options such as stabilisation ([see 3.3 Note \(b\)](#)), a longer time horizon relative to other employers, and/or a lower probability of achieving their funding target. Such options will temporarily produce lower contribution levels than would otherwise have applied. This is permitted in the expectation that the employer will still be able to meet its obligations for many years to come.

On the other hand, an employer whose risk assessment indicates a less strong covenant will generally be required to pay higher contributions (for instance, with a higher funding target, and/or a shorter deficit recovery period relative to other employers, and/or a higher probability of achieving the target). This is because of the higher probability that at some point it will fail or be unable to meet its pension contributions, with its deficit in the Fund then falling to other Fund employers.

The Fund actively seeks employer input, including to its funding arrangements, through various means: see [Appendix A](#).

3 Calculating contributions for individual Employers

3.1 General comments

A key challenge for the Administering Authority is to balance the need for stable, affordable employer contributions with the requirement to take a prudent, longer-term view of funding and ensure the solvency of the Fund. With this in mind, the Fund's three-step process identifies the key issues:

1. What is a suitably (but not overly) prudent funding target?
2. How long should the employer be permitted to reach that target? This should be realistic but not so long that the funding target is in danger of never actually being achieved.
3. What probability is required to reach that funding target? This will always be less than 100% as we cannot be certain of future market movements. Higher probability "bars" can be used for employers where the Fund wishes to reduce the risk that the employer ceases leaving a deficit to be picked up by other employers.

These and associated issues are covered in this Section.

The Administering Authority recognises that there may occasionally be particular circumstances affecting individual employers that are not easily managed within the rules and policies set out in the Funding Strategy Statement. Therefore the Administering Authority may, at its sole discretion, direct the actuary to adopt alternative funding approaches on a case by case basis for specific employers.

3.2 The effect of paying lower contributions

In limited circumstances the Administering Authority may permit employers to pay contributions at a lower level than is assessed for the employer using the three step process above. At their absolute discretion the Administering Authority may:

- extend the time horizon for targeting full funding;
- adjust the required probability of meeting the funding target;
- permit an employer to participate in the Fund's stabilisation mechanisms;
- permit extended phasing in of contribution rises or reductions;
- pool contributions amongst employers with similar characteristics; and/or
- accept some form of security or guarantee in return for a lower contribution rate that would otherwise be the case.

Employers which are permitted to use one or more of the above methods will often be paying, for a time, contributions less than required to meet their funding target, over the appropriate time horizon with the required likelihood of success. Such employers should appreciate that:

- their true long term liability (i.e. the actual eventual cost of benefits payable to their employees and ex-employees) is not affected by the pace of paying contributions;
- lower contributions in the short term will be assumed to incur a greater loss of investment returns on the deficit. Thus, deferring a certain amount of contribution may lead to higher contributions in the long-term; and
- it may take longer to reach their funding target, all other things being equal.

Overleaf ([3.3](#)) is a summary of how the main funding policies differ for different types of employer, followed by more detailed notes where necessary.

[Section 3.4](#) onwards deals with various other funding issues which apply to all employers.

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3.3 The different approaches used for different employers

Type of employer	Scheduled Bodies			Community Admission Bodies		Transferee Admission Bodies
Sub-type	Major authorities	Colleges	Academies	Open to new entrants	Closed to new entrants	(all)
Funding Target Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)			Ongoing	“Gilts basis” - see Note (a)	Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Maximum time horizon – Note (c)	20 years	20 years	20 years	Future Working Lifetime		Shorter of: Future Working Lifetime of employees, and outstanding contract term
Probability of achieving target – Note (e)	66%	75%	66%	75% or 80% depending on employer risk	75%	See Note (e)
Primary rate approach	(see Appendix D – D.2)					
Secondary rate – Note (d)	Monetary Amount		% of payroll	Monetary amount		
Phasing of contribution changes	Eligible for stabilisation arrangement See Note (b)	Eligible for stabilisation arrangement See Note (b)	Eligible for stabilisation arrangement See Note (b)	3 years		none
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations					Particularly reviewed in last 3 years of contract
Treatment of surplus	Covered by stabilisation arrangement			Reduce contributions by spreading the surplus over the maximum time horizon		Reduce contributions by spreading the surplus over the remaining contract term.
New employer	n/a	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is generally assumed not to be possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (e.g. in the case of Town & Parish Councils), the cessation debt principles applied would be as per Note (i) .			Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (i) .		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.

Note (a) (Basis for CABs closed to new entrants)

In the circumstances where:

- the employer is an Admission Body but not a Transferee Admission Body, and
- the employer has no guarantor, and
- the admission agreement is likely to terminate, or the employer is likely to lose its last active member, within a timeframe considered appropriate by the Administering Authority to prompt a change in funding,

the Administering Authority has set a higher funding target (i.e. using a discount rate set equal to gilt yields and extending the allowance for future improvements in longevity), in order to protect other employers in the Fund. This policy will increase regular contributions and reduce, but not entirely eliminate, the possibility of a final deficit payment being required from the employer when a cessation valuation is carried out.

The Administering Authority also reserves the right to adopt the above approach in respect of those Admission Bodies with no guarantor, where the strength of covenant is considered to be weak but there is no immediate expectation that the admission agreement will cease.

Note (b) (Stabilisation)

Stabilisation is a mechanism where employer contribution rate variations from year to year are kept within a pre-determined range, thus allowing those employers' rates to be relatively stable. This stabilisation mechanism allows short term investment market volatility to be managed so as not to cause volatility in employer contribution rates, on the basis that a long term view can be taken on net cash inflow, investment returns and strength of employer covenant.

The Administering Authority, on the advice of the Fund Actuary, believes that stabilising contributions can still be viewed as a prudent longer-term approach. However, employers whose contribution rates have been "stabilised" should be aware of the risks of this approach and should consider making additional payments to the Fund if possible.

The current stabilisation mechanism applies if:

- the employer satisfies the eligibility criteria set by the Administering Authority (see table below) and;
- there are no material events which cause the employer to become ineligible, e.g. significant reductions in active membership (due to outsourcing or redundancies), or changes in the nature of the employer (perhaps due to Government restructuring) or changes in the security of an employer.

On the basis of extensive modelling carried out for the 2016 valuation exercise (see [Section 4](#)), the stabilised details are as follows:

Type of employer	Major authorities	Colleges	Academies
Max contribution increase in each of the next three years	0.5% p.a.	0.5% p.a. to 31 March 2020, then 1.0% p.a. thereafter	0.5% p.a.
Max contribution decrease in each of the next three years	0.5% p.a.	0.5% p.a. to 31 March 2020, then 1.0% p.a. thereafter	0.5% p.a.

The stabilisation criteria and limits will be reviewed at the 31 March 2019 valuation, to take effect from 1 April 2020.

Note (c) (Maximum time horizon)

The maximum time horizon starts at the commencement of the revised contribution rate (1 April 2017 for the 2016 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative time horizons, for example where there were no new entrants.

For employers with no (or very few) active members at this valuation, the deficit should be recovered by a fixed monetary amount over a period to be agreed with the body or its successor, typically not to exceed 3 years.

Note (d) (Secondary rate)

With the exception of Academies, the deficit recovery payments for each employer are typically expressed in monetary terms (as opposed to percentage of payroll). This is to avoid the situation where a stagnating or falling payroll results in insufficient deficit recovery payments being made over the three year period.

For certain employers, at the Administering Authority's discretion but currently including all Academies, these payments may instead be set as a percentage of salaries. However, the Administering Authority reserves the right to amend these rates between valuations and/or to require these payments in monetary terms instead, for instance where:

- the employer is relatively mature, i.e. has a large deficit recovery contribution rate (e.g. above 15% of payroll), in other words its payroll is a smaller proportion of its deficit than is the case for most other employers, or
- there has been a significant reduction in payroll due to outsourcing or redundancy exercises, or
- the employer has closed the Fund to new entrants.

Note (e) (Probability of achieving funding target)

Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum probability. A higher required probability bar will give rise to higher required contributions, and vice versa.

The way in which contributions are set using these three steps, and relevant economic projections, is described in further detail in [Appendix D](#).

Different probabilities are set for different employers depending on their nature and circumstances: in broad terms, a higher probability will apply due to one or more of the following:

- the Fund believes the employer poses a greater funding risk than other employers,
- the employer does not have tax-raising powers;
- the employer does not have a guarantor or other sufficient security backing its funding position; and/or
- the employer is likely to cease participation in the Fund in the short or medium term.

Note (f) (Regular Reviews)

Such reviews may be triggered by significant events including but not limited to: significant reductions in payroll, altered employer circumstances, Government restructuring affecting the employer's business, or failure to pay contributions or arrange appropriate security as required by the Administering Authority.

The result of a review may be to require increased contributions (by strengthening the actuarial assumptions adopted and/or moving to monetary levels of deficit recovery contributions), and/or an increased level of security or guarantee.

Note (g) (New Academy conversions)

At the time of writing, the Fund's policies on academies' funding issues are as follows:

- i. The new academy will be regarded as a separate employer in its own right and will not be pooled with other employers in the Fund. The only exception is where the academy is part of a Multi Academy Trust (MAT) in which case the academy's figures will be calculated as below but can be combined with those of the other academies in the MAT.
- ii. The new academy's past service liabilities on conversion will be calculated based on its active Fund members on the day before conversion. For the avoidance of doubt, these liabilities will include all past service of those members, but will exclude the liabilities relating to any ex-employees of the school who have deferred or pensioner status.
- iii. The new academy will be allocated an initial asset share from the ceding council's assets in the Fund. This asset share will be calculated using the estimated funding position of the ceding council at the date of academy conversion. The asset allocation will be based on market conditions and the academy's active Fund membership on the day prior to conversion.
- iv. The new academy's initial contribution rate will be calculated using market conditions, the council funding position and, membership data, all as at the day prior to conversion.
- v. As an alternative to (iv), the academy will have the option to elect to pay contributions at the ceding LEA rate plus 1% p.a. instead. However, this election will not alter its asset or liability allocation as per (ii) and (iii) above. Ultimately, all academies remain responsible for their own allocated deficit.

The Fund's policies on academies are subject to change in the light of any amendments to DCLG guidance. Any changes will be notified to academies, and will be reflected in a subsequent version of this FSS. In particular, policy (iv) and (v) above will be reconsidered at each valuation.

Note (h) (New Admission Bodies)

With effect from 1 October 2012, the LGPS 2012 Miscellaneous Regulations introduced mandatory new requirements for all Admission Bodies brought into the Fund from that date. Under these Regulations, all new Admission Bodies will be required to provide some form of security, such as a guarantee from the letting employer, an indemnity or a bond. The security is required to cover some or all of the following:

- the strain cost of any redundancy early retirements resulting from the premature termination of the contract;
- allowance for the risk of asset underperformance;
- allowance for the risk of a fall in gilt yields;
- allowance for the possible non-payment of employer and member contributions to the Fund; and/or
- the current deficit.

Transferee Admission Bodies: For all TABs, the security must be to the satisfaction of the Administering Authority as well as the letting employer, and will be reassessed on an annual basis. See also [Note \(i\)](#) below.

Community Admission Bodies: The Administering Authority will only consider requests from CABs (or other similar bodies, such as section 75 NHS partnerships) to join the Fund if they are sponsored by a Scheduled Body with tax raising powers, guaranteeing their liabilities and also providing a form of security as above.

The above approaches reduce the risk, to other employers in the Fund, of potentially having to pick up any shortfall in respect of Admission Bodies ceasing with an unpaid deficit.

Note (i) (New Transferee Admission Bodies)

A new TAB usually joins the Fund as a result of the letting/outsourcing of some services from an existing employer (normally a Scheduled Body such as a council or academy) to another organisation (a “contractor”). This involves the TUPE transfer of some staff from the letting employer to the contractor. Consequently, for the duration of the contract, the contractor is a new participating employer in the Fund so that the transferring employees maintain their eligibility for LGPS membership. At the end of the contract the employees revert to the letting employer or to a replacement contractor.

Ordinarily, the TAB would be set up in the Fund as a new employer with responsibility for all the accrued benefits of the transferring employees; in this case, the contractor would usually be assigned an initial asset allocation equal to the past service liability value of the employees’ Fund benefits. The quid pro quo is that the contractor is then expected to ensure that its share of the Fund is also fully funded at the end of the contract: see [Note \(j\)](#).

Employers which “outsource” have flexibility in the way that they can deal with the pension risk potentially taken on by the contractor. In particular there are three different routes that such employers may wish to adopt. Clearly as the risk ultimately resides with the employer letting the contract, it is for them to agree the appropriate route with the contractor:

i) Pooling

Under this option the contractor is pooled with the letting employer. In this case, the contractor pays the same rate as the letting employer, which may be under a stabilisation approach.

ii) Letting employer retains pre-contract risks

Under this option the letting employer would retain responsibility for assets and liabilities in respect of service accrued prior to the contract commencement date. The contractor would be responsible for the future liabilities that accrue in respect of transferred staff. The contractor’s contribution rate could vary from one valuation to the next. It would be liable for any deficit at the end of the contract term in respect of assets and liabilities attributable to service accrued during the contract term.

iii) Fixed contribution rate agreed

Under this option the contractor pays a fixed contribution rate and does not pay any cessation deficit.

The Administering Authority is willing to administer any of the above options as long as the approach is documented in the Admission Agreement as well as the transfer agreement. The Admission Agreement should ensure that some element of risk transfers to the contractor where it relates to their decisions and it is unfair to burden the letting employer with that risk. For example the contractor should typically be responsible for pension costs that arise from:

- above average pay increases, including the effect in respect of service prior to contract commencement even if the letting employer takes on responsibility for the latter under (ii) above; and
- redundancy and early retirement decisions.

Note (j) (Admission Bodies Ceasing)

Notwithstanding the provisions of the Admission Agreement, the Administering Authority may consider any of the following as triggers for the cessation of an admission agreement with any type of body:

- Last active member ceasing participation in the Fund (NB recent LGPS Regulation changes mean that the Administering Authority has the discretion to defer taking action for up to three years, so that if the employer acquires one or more active Fund members during that period then cessation is not triggered. The Fund will consider these on case by case basis);
- The insolvency, winding up or liquidation of the Admission Body;
- Any breach by the Admission Body of any of its obligations under the Agreement that they have failed to remedy to the satisfaction of the Fund;
- A failure by the Admission Body to pay any sums due to the Fund within the period required by the Fund; or
- The failure by the Admission Body to renew or adjust the level of the bond or indemnity, or to confirm an appropriate alternative guarantor, as required by the Fund.

On cessation, the Administering Authority will instruct the Fund actuary to carry out a cessation valuation to determine whether there is any deficit or surplus. Where there is a deficit, payment of this amount in full would normally be sought from the Admission Body; where there is a surplus it should be noted that current legislation does not permit a refund payment to the Admission Body.

For non-Transferee Admission Bodies whose participation is voluntarily ended either by themselves or the Fund, or where a cessation event has been triggered, the Administering Authority must look to protect the interests of other ongoing employers. The actuary will therefore adopt an approach which, to the extent reasonably practicable, protects the other employers from the likelihood of any material loss emerging in future:

- a) Where a guarantor does not exist then, in order to protect other employers in the Fund, the cessation liabilities and final deficit will normally be calculated using a "gilts cessation basis", which is more prudent than the ongoing basis. This has no allowance for potential future investment outperformance above gilt yields, and has added allowance for future improvements in life expectancy. This could give rise to significant cessation debts being required.
- b) Where there is a guarantor for future deficits and contributions, the details of the guarantee will be considered prior to the cessation valuation being carried out. In some cases the guarantor is simply guarantor of last resort and therefore the cessation valuation will be carried out consistently with the approach taken had there been no guarantor in place. Alternatively, where the guarantor is not simply guarantor of last resort, the cessation may be calculated using the ongoing basis as described in [Appendix E](#);

- c) Again, depending on the nature of the guarantee, it may be possible to simply transfer the former Admission Body's liabilities and assets to the guarantor, without needing to crystallise any deficit. This approach may be adopted where the employer cannot pay the contributions due, and this is within the terms of the guarantee.

Under (a) and (b), any shortfall would usually be levied on the departing Admission Body as a single lump sum payment. If this is not possible then the Fund would look spread the payment subject to there being some security in place for the employer such as an indemnity or guarantee.

In the event that the Fund is not able to recover the required payment in full, then the unpaid amounts fall to be shared amongst all of the other employers in the Fund. This may require an immediate revision to the Rates and Adjustments Certificate affecting other employers in the Fund, or instead be reflected in the contribution rates set at the next formal valuation following the cessation date.

As an alternative, where the ceasing Admission Body is continuing in business, the Fund at its absolute discretion reserves the right to enter into an agreement with the ceasing Admission Body. Under this agreement the Fund would accept an appropriate alternative security to be held against any deficit, and would carry out the cessation valuation on an ongoing basis: deficit recovery payments would be derived from this cessation debt. This approach would be monitored as part of each triennial valuation: the Fund reserves the right to revert to a "gilts cessation basis" and seek immediate payment of any funding shortfall identified. The Administering Authority may need to seek legal advice in such cases, as the Body would have no contributing members.

3.4 Pooled contributions

From time to time, with the advice of the Actuary, the Administering Authority may set up pools for employers with similar or complementary characteristics. This will always be in line with its broader funding strategy.

Those employers which have been pooled are identified in the Rates and Adjustments Certificate.

3.5 Non ill health early retirement costs

It is assumed that members' benefits are payable from the earliest age that the employee could retire without incurring a reduction to their benefit (and without requiring their employer's consent to retire). (**NB** the relevant age may be different for different periods of service, following the benefit changes from April 2008 and April 2014). Employers are required to pay additional contributions ('strain') wherever an employee retires before attaining this age. The actuary's funding basis makes no allowance for premature retirement except on grounds of ill-health.

Certain employers, all of which are subject to the stabilisation mechanism, pay an additional 0.75% of pay per annum to meet expected non-ill health early retirement strain costs. Non stabilised employers (and stabilised employers choosing not to pay the additional 0.75% p.a. of pay) are required to pay additional contributions ('strain') wherever an employee retires before attaining retirement age.

3.6 Ill health early retirement costs

In the event of a member's early retirement on the grounds of ill-health, a funding strain will usually arise, which can be very large. Such strains are currently met by each employer, although individual employers may elect to take external insurance (see [3.8](#) below).

3.7 External ill health insurance

If an employer provides satisfactory evidence to the Administering Authority of a current external insurance policy covering ill health early retirement strains, then:

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- the employer's contribution to the Fund each year is reduced by the amount of that year's insurance premium, so that the total contribution is unchanged, and
- there is no need for monitoring of allowances.

The employer must keep the Administering Authority notified of any changes in the insurance policy's coverage or premium terms, or if the policy is ceased.

The Fund intends to offer ill health insurance to a subset of employers in the Fund. This is likely to be for smaller employers (e.g. CABs and academies) who are typically less able to cope with large and unexpected strain costs. The Fund will be contacting these employers in due course.

3.8 Employers with no remaining active members

In general an employer ceasing in the Fund, due to the departure of the last active member, will pay a cessation debt on an appropriate basis (see [3.3](#), [Note \(j\)](#)) and consequently have no further obligation to the Fund.

Thereafter it is expected that one of two situations will eventually arise:

- a) The employer's asset share runs out before all its ex-employees' benefits have been paid. In this situation the other Fund employers will be required to contribute to pay all remaining benefits: this will be done by the Fund actuary apportioning the remaining liabilities on a pro-rata basis at successive formal valuations;
- b) The last ex-employee or dependant dies before the employer's asset share has been fully utilised. In this situation the remaining assets would be apportioned pro-rata by the Fund's actuary to the other Fund.
- c) In exceptional circumstances the Fund may permit an employer with no remaining active members to continue contributing to the Fund. This would require the provision of a suitable security or guarantee, as well as a written ongoing commitment to fund the remainder of the employer's obligations over an appropriate period. The Fund would reserve the right to invoke the cessation requirements in the future, however. The Administering Authority may need to seek legal advice in such cases, as the employer would have no contributing members.

3.9 Policies on bulk transfers

This section covers bulk transfer payments into, out of and within the Fund. Each case will be treated on its own merits, but in general:

- The Fund will not pay bulk transfers greater than the lesser of (a) the asset share of the transferring employer in the Fund, and (b) the value of the past service liabilities of the transferring members;
- The Fund will not grant added benefits to members bringing in entitlements from another Fund unless the asset transfer is sufficient to meet the added liabilities; and
- The Fund may permit shortfalls to arise on bulk transfers if the Fund employer has suitable strength of covenant and commits to meeting that shortfall in an appropriate period. This may require the employer's Fund contributions to increase between valuations.

4 Funding strategy and links to investment strategy

4.1 What is the Fund's investment strategy?

The Fund has built up assets over the years, and continues to receive contribution and other income. All of this must be invested in a suitable manner, which is the investment strategy.

Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice. The precise mix, manager make up and target returns are set out in the Statement of Investment Principles (being replaced by an Investment Strategy Statement under new LGPS Regulations), which is available to members and employers.

The investment strategy is set for the long-term, but is reviewed from time to time. Normally a full review is carried out as part of each actuarial valuation, and is kept under review annually between actuarial valuations to ensure that it remains appropriate to the Fund's liability profile.

The same investment strategy is currently followed for all employers.

4.2 What is the link between funding strategy and investment strategy?

The Fund must be able to meet all benefit payments as and when they fall due. These payments will be met by contributions (resulting from the funding strategy) or asset returns and income (resulting from the investment strategy). To the extent that investment returns or income fall short, then higher cash contributions are required from employers, and vice versa

Therefore, the funding and investment strategies are inextricably linked.

4.3 How does the funding strategy reflect the Fund's investment strategy?

In the opinion of the Fund actuary, the current funding policy is consistent with the current investment strategy of the Fund. The asset outperformance assumption contained in the discount rate (see Appendix [E3](#)) is within a range that would be considered acceptable for funding purposes; it is also considered to be consistent with the requirement to take a "prudent longer-term view" of the funding of liabilities as required by the UK Government (see Appendix [A1](#)).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in [Section 3](#) will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

4.4 How does this differ for a large stable employer?

The Actuary has developed four key measures which capture the essence of the Fund's strategies, both funding and investment:

- Prudence - the Fund should have a reasonable expectation of being fully funded in the long term;
- Affordability – how much can employers afford;
- Stewardship – the assumptions used should be sustainable in the long term, without having to resort to overly optimistic assumptions about the future to maintain an apparently healthy funding position; and
- Stability – employers should not see significant moves in their contribution rates from one year to the next, to help provide a more stable budgeting environment.

The key problem is that the key objectives often conflict. For example, minimising the long term cost of the scheme (i.e. keeping employer rates affordable) is best achieved by investing in higher returning assets e.g. equities. However, equities are also very volatile (i.e. go up and down fairly frequently in fairly large moves), which conflicts with the objective to have stable contribution rates.

Therefore, a balance needs to be maintained between risk and reward, which has been considered by the use of Asset Liability Modelling: this is a set of calculation techniques applied by the Fund's actuary to model the range of potential future solvency levels and contribution rates.

The Actuary was able to model the impact of these four key areas, for the purpose of setting a stabilisation approach ([see 3.3 Note \(b\)](#)). The modelling demonstrated that retaining the present investment strategy, coupled with constraining employer contribution rate changes as described in [3.3 Note \(b\)](#), struck an appropriate balance between the above objectives. In particular the stabilisation approach currently adopted meets the need for stability of contributions without jeopardising the Administering Authority's aims of prudent stewardship of the Fund.

Whilst the current stabilisation mechanism is to remain in place until 2020, it should be noted that this will need to be reviewed following the 2019 valuation.

4.5 Does the Fund monitor its overall funding position?

The Administering Authority monitors the relative funding position, i.e. changes in the relationship between asset values and the liabilities value, on a regular basis and reports this to the regular Pensions Committee meetings.

5 Statutory reporting and comparison to other LGPS Funds

5.1 Purpose

Under Section 13(4)(c) of the Public Service Pensions Act 2013 ("Section 13"), the Government Actuary's Department must, following each triennial actuarial valuation, report to the Department of Communities & Local Government (DCLG) on each of the LGPS Funds in England & Wales. This report will cover whether, for each Fund, the rate of employer contributions are set at an appropriate level to ensure both the solvency and the long term cost efficiency of the Fund.

This additional DCLG oversight may have an impact on the strategy for setting contribution rates at future valuations.

5.2 Solvency

For the purposes of Section 13, the rate of employer contributions shall be deemed to have been set at an appropriate level to ensure solvency if:

- (a) the rate of employer contributions is set to target a funding level for the Fund of 100%, over an appropriate time period and using appropriate actuarial assumptions (where appropriateness is considered in both absolute and relative terms in comparison with other funds); and either
- (b) employers collectively have the financial capacity to increase employer contributions, and/or the Fund is able to realise contingent assets should future circumstances require, in order to continue to target a funding level of 100%; or
- (c) there is an appropriate plan in place should there be, or if there is expected in future to be, a material reduction in the capacity of fund employers to increase contributions as might be needed.

5.3 Long Term Cost Efficiency

The rate of employer contributions shall be deemed to have been set at an appropriate level to ensure long term cost efficiency if:

- i. the rate of employer contributions is sufficient to make provision for the cost of current benefit accrual,
- ii. with an appropriate adjustment to that rate for any surplus or deficit in the Fund.

In assessing whether the above condition is met, DCLG may have regard to various absolute and relative considerations. A relative consideration is primarily concerned with comparing LGPS pension funds with other LGPS pension funds. An absolute consideration is primarily concerned with comparing Funds with a given objective benchmark.

Relative considerations include:

- 1. the implied deficit recovery period; and
- 2. the investment return required to achieve full funding after 20 years.

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Absolute considerations include:

1. the extent to which the contributions payable are sufficient to cover the cost of current benefit accrual and the interest cost on any deficit;
2. how the required investment return under “relative considerations” above compares to the estimated future return being targeted by the Fund’s current investment strategy;
3. the extent to which contributions actually paid have been in line with the expected contributions based on the extant rates and adjustment certificate; and
4. the extent to which any new deficit recovery plan can be directly reconciled with, and can be demonstrated to be a continuation of, any previous deficit recovery plan, after allowing for actual Fund experience.

DCLG may assess and compare these metrics on a suitable standardised market-related basis, for example where the local funds’ actuarial bases do not make comparisons straightforward.

Appendix A – Regulatory framework

A1 Why does the Fund need an FSS?

The Department for Communities and Local Government (DCLG) has stated that the purpose of the FSS is:

*“to establish a **clear and transparent fund-specific strategy** which will identify how employers’ pension liabilities are best met going forward;*

*to support the regulatory framework to maintain **as nearly constant employer contribution rates as possible**;*
and

*to take a **prudent longer-term view** of funding those liabilities.”*

These objectives are desirable individually, but may be mutually conflicting.

The requirement to maintain and publish a FSS is contained in LGPS Regulations which are updated from time to time. In publishing the FSS the Administering Authority has to have regard to any guidance published by Chartered Institute of Public Finance and Accountancy (CIPFA) (most recently in 2016) and to its Statement of Investment Principles / Investment Strategy Statement.

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

A2 Does the Administering Authority consult anyone on the FSS?

Yes. This is required by LGPS Regulations. It is covered in more detail by the most recent CIPFA guidance, which states that the FSS must first be subject to “consultation with such persons as the authority considers appropriate”, and should include “a meaningful dialogue at officer and elected member level with council tax raising authorities and with corresponding representatives of other participating employers”.

In practice, for the Fund, the consultation process for this FSS was as follows:

- a) A draft version of the FSS was issued to all participating employers on 23 January 2017 for comment;
- b) Comments were requested within 30 days;
- c) There was an Employers Forum on 18 November 2016 at which questions regarding the funding strategy could be raised and answered;
- d) Following the end of the consultation period the FSS was updated where required and then published, on [DATE]

A3 How is the FSS published?

The FSS is made available through the following routes:

- Published on the website, at <https://www.eastsussex.gov.uk/yourcouncil/pensions/guides-and-leaflets>
- A copy sent by e-mail to each participating employer in the Fund;
- Copies made available on request.

A4 How often is the FSS reviewed?

The FSS is reviewed in detail at least every three years as part of the triennial valuation. This version is expected to remain unaltered until it is consulted upon as part of the formal process for the next valuation in 2019.

It is possible that (usually slight) amendments may be needed within the three year period. These would be needed to reflect any regulatory changes, or alterations to the way the Fund operates (e.g. to accommodate a new class of employer). Any such amendments would be consulted upon as appropriate:

- trivial amendments would be simply notified at the next round of employer communications,
- amendments affecting only one class of employer would be consulted with those employers,
- other more significant amendments would be subject to full consultation.

In any event, changes to the FSS would need agreement by the Pensions Committee and would be included in the relevant Committee Meeting minutes.

A5 How does the FSS fit into other Fund documents?

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues, for example there are a number of separate statements published by the Fund including the Investment Strategy Statement. In addition, the Fund publishes an Annual Report and Accounts with up to date information on the Fund.

These documents can be found on the web at <https://www.eastsussex.gov.uk/yourcouncil/pensions/guides-and-leaflets>.

Appendix B – Responsibilities of key parties

The efficient and effective operation of the Fund needs various parties to each play their part.

B1 The Administering Authority should:-

1. operate the Fund as per the LGPS Regulations;
2. effectively manage any potential conflicts of interest arising from its dual role as Administering Authority and a Fund employer;
3. collect employer and employee contributions, and investment income and other amounts due to the Fund;
4. ensure that cash is available to meet benefit payments as and when they fall due;
5. pay from the Fund the relevant benefits and entitlements that are due;
6. invest surplus monies (i.e. contributions and other income which are not immediately needed to pay benefits) in accordance with the Fund's Statement of Investment Principles/Investment Strategy Statement (SIP/ISS) and LGPS Regulations;
7. communicate appropriately with employers so that they fully understand their obligations to the Fund;
8. take appropriate measures to safeguard the Fund against the consequences of employer default;
9. manage the valuation process in consultation with the Fund's actuary;
10. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));
11. prepare and maintain a FSS and a SIP/ISS, after consultation;
12. notify the Fund's actuary of material changes which could affect funding (this is covered in a separate agreement with the actuary); and
13. monitor all aspects of the fund's performance and funding and amend the FSS and SIP/ISS as necessary and appropriate.

B2 The Individual Employer should:-

1. deduct contributions from employees' pay correctly;
2. pay all contributions, including their own as determined by the actuary, promptly by the due date;
3. have a policy and exercise discretions within the regulatory framework;
4. make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
5. notify the Administering Authority promptly of all changes to its circumstances, prospects or membership, which could affect future funding.

B3 The Fund Actuary should:-

1. prepare valuations, including the setting of employers' contribution rates. This will involve agreeing assumptions with the Administering Authority, having regard to the FSS and LGPS Regulations, and targeting each employer's solvency appropriately;
2. provide data and information as required by the Government Actuary's Department to carry out their statutory obligations (see [Section 5](#));

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3. provide advice relating to new employers in the Fund, including the level and type of bonds or other forms of security (and the monitoring of these);
4. prepare advice and calculations in connection with bulk transfers and individual benefit-related matters;
5. assist the Administering Authority in considering possible changes to employer contributions between formal valuations, where circumstances suggest this may be necessary;
6. advise on the termination of employers' participation in the Fund; and
7. fully reflect actuarial professional guidance and requirements in the advice given to the Administering Authority.

B4 Other parties:-

1. investment advisers (either internal or external) should ensure the Fund's SIP/ISS remains appropriate, and consistent with this FSS;
2. investment managers, custodians and bankers should all play their part in the effective investment (and dis-investment) of Fund assets, in line with the SIP/ISS;
3. auditors should comply with their auditing standards, ensure Fund compliance with all requirements, monitor and advise on fraud detection, and sign off annual reports and financial statements as required;
4. governance advisers may be appointed to advise the Administering Authority on efficient processes and working methods in managing the Fund;
5. legal advisers (either internal or external) should ensure the Fund's operation and management remains fully compliant with all regulations and broader local government requirements, including the Administering Authority's own procedures;
6. the Department for Communities and Local Government (assisted by the Government Actuary's Department) and the Scheme Advisory Board, should work with LGPS Funds to meet Section 13 requirements.

Appendix C – Key risks and controls

C1 Types of risk

The Administering Authority has an active risk management programme in place. The measures that it has in place to control key risks are summarised below under the following headings:

- financial;
- demographic;
- regulatory; and
- governance.

C2 Financial risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning the valuation of liabilities over the long-term.	<p>Only anticipate long-term returns on a relatively prudent basis to reduce risk of under-performing.</p> <p>Assets invested on the basis of specialist advice, in a suitably diversified manner across asset classes, geographies, managers, etc.</p> <p>Analyse progress at three yearly valuations for all employers.</p> <p>Inter-valuation roll-forward of liabilities between valuations at whole Fund level.</p>
Inappropriate long-term investment strategy.	<p>Overall investment strategy options considered as an integral part of the funding strategy. Used asset liability modelling to measure 4 key outcomes.</p> <p>Chosen option considered to provide the best balance.</p>
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	<p>Stabilisation modelling at whole Fund level allows for the probability of this within a longer term context.</p> <p>Inter-valuation monitoring, as above.</p> <p>Some investment in bonds helps to mitigate this risk.</p>
Active investment manager under-performance relative to benchmark.	<p>Quarterly investment monitoring analyses market performance and active managers relative to their index benchmark.</p>
Pay and price inflation significantly more than anticipated.	<p>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</p> <p>Inter-valuation monitoring, as above, gives early warning.</p> <p>Some investment in bonds also helps to mitigate this</p>

Risk	Summary of Control Mechanisms
	<p>risk.</p> <p>Employers pay for their own salary awards and should be mindful of the geared effect on pension liabilities of any bias in pensionable pay rises towards longer-serving employees.</p>
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies	An explicit stabilisation mechanism has been agreed as part of the funding strategy. Other measures are also in place to limit sudden increases in contributions.
Orphaned employers give rise to added costs for the Fund	<p>The Fund seeks a cessation debt (or security/guarantor) to minimise the risk of this happening in the future.</p> <p>If it occurs, the Actuary calculates the added cost spread pro-rata among all employers – (see 3.9).</p>

C3 Demographic risks

Risk	Summary of Control Mechanisms
Pensioners living longer, thus increasing cost to Fund.	<p>Set mortality assumptions with some allowance for future increases in life expectancy.</p> <p>The Fund Actuary has direct access to the experience of over 50 LGPS funds which allows early identification of changes in life expectancy that might in turn affect the assumptions underpinning the valuation.</p>
Maturing Fund – i.e. proportion of actively contributing employees declines relative to retired employees.	Continue to monitor at each valuation, consider seeking monetary amounts rather than % of pay and consider alternative investment strategies.
Deteriorating patterns of early retirements	<p>Employers are charged the extra cost of non ill-health retirements following each individual decision.</p> <p>Employer ill health retirement experience is monitored, and insurance is an option.</p>
Reductions in payroll causing insufficient deficit recovery payments	<p>In many cases this may not be sufficient cause for concern, and will in effect be caught at the next formal valuation. However, there are protections where there is concern, as follows:</p> <p>Employers in the stabilisation mechanism may be brought out of that mechanism to permit appropriate contribution increases (see Note (b) to 3.3).</p>

Risk	Summary of Control Mechanisms
	For other employers, review of contributions is permitted in general between valuations (see Note (f) to 3.3) and may require a move in deficit contributions from a percentage of payroll to fixed monetary amounts.

C4 Regulatory risks

Risk	Summary of Control Mechanisms
Changes to national pension requirements and/or HMRC rules e.g. changes arising from public sector pensions reform.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>The results of the most recent reforms were built into the 2013 valuation. Any changes to member contribution rates or benefit levels will be carefully communicated with members to minimise possible opt-outs or adverse actions.</p>
Time, cost and/or reputational risks associated with any DCLG intervention triggered by the Section 13 analysis (see Section 5).	Take advice from Fund Actuary on position of Fund as at prior valuation, and consideration of proposed valuation approach relative to anticipated Section 13 analysis.
Changes by Government to particular employer participation in LGPS Funds, leading to impacts on funding and/or investment strategies.	<p>The Administering Authority considers all consultation papers issued by the Government and comments where appropriate.</p> <p>Take advice from Fund Actuary on impact of changes on the Fund and amend strategy as appropriate.</p>

C5 Governance risks

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements) or not advised of an employer closing to new entrants.	<p>The Administering Authority has a close relationship with employing bodies and communicates required standards e.g. for submission of data.</p> <p>The Actuary may revise the rates and Adjustments certificate to increase an employer's contributions between triennial valuations</p> <p>Deficit contributions may be expressed as monetary amounts.</p>
Actuarial or investment advice is not sought, or	The Administering Authority maintains close contact

Risk	Summary of Control Mechanisms
is not heeded, or proves to be insufficient in some way	<p>with its specialist advisers.</p> <p>Advice is delivered via formal meetings involving Elected Members, and recorded appropriately.</p> <p>Actuarial advice is subject to professional requirements such as peer review.</p>
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body.	<p>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</p> <p>Community Admission Bodies' memberships are monitored and, if active membership decreases, steps will be taken.</p>
An employer ceasing to exist with insufficient funding or adequacy of a bond.	<p>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</p> <p>The risk is mitigated by:</p> <p>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible (see Notes (h) and (j) to 3.3).</p> <p>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</p> <p>Vetting prospective employers before admission.</p> <p>Where permitted under the regulations requiring a bond to protect the Fund from various risks.</p> <p>Requiring new Community Admission Bodies to have a guarantor.</p> <p>Reviewing bond or guarantor arrangements at regular intervals (see Note (f) to 3.3).</p> <p>Reviewing contributions well ahead of cessation if thought appropriate (see Note (a) to 3.3).</p>

Appendix D – The calculation of Employer contributions

In [Section 2](#) there was a broad description of the way in which contribution rates are calculated. This Appendix considers these calculations in much more detail.

All three steps above are considered when setting contributions (more details are given in [Section 3](#) and [Appendix D](#):

1. The **funding target** is based on a set of assumptions about the future, eg investment returns, inflation, pensioners' life expectancies. However, if an employer is approaching the end of its participation in the Fund then its funding target may be set on a more prudent basis, so that its liabilities are less likely to be spread among other employers after its cessation of participation;
2. The **time horizon** required is, in broad terms, the period over which any deficit is to be recovered. A shorter period will lead to higher contributions, and vice versa (all other things being equal). Employers may be given a lower time horizon if they have a less permanent anticipated membership, or do not have tax-raising powers to increase contributions if investment returns under-perform;
3. The required **probability of achieving** the funding target over that time horizon will be dependent on the Fund's view of the strength of employer covenant and its funding profile. Where an employer is considered to be weaker, or potentially ceasing from the Fund, then the required probability will be set higher, which in turn will increase the required contributions (and vice versa).

The calculations involve actuarial assumptions about future experience, and these are described in detail in [Appendix E](#).

D1 What is the difference between calculations across the whole Fund and calculations for an individual employer?

Employer contributions are normally made up of two elements:

- a) the estimated cost of ongoing benefits being accrued, referred to as the "Primary contribution rate" (see [D2](#) below); plus
- b) an adjustment for the difference between the Primary rate above, and the actual contribution the employer needs to pay, referred to as the "Secondary contribution rate" (see [D3](#) below).

The contribution rate for each employer is measured as above, appropriate for each employer's funding position and membership. The whole Fund position, including that used in reporting to DCLG (see section 5), is calculated in effect as the sum of all the individual employer rates. DCLG currently only regulates at whole Fund level, without monitoring individual employer positions.

D2 How is the Primary contribution rate calculated?

The Primary element of the employer contribution rate is calculated with the aim that these contributions will meet benefit payments in respect of members' **future** service in the Fund. This is based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

The Primary rate is calculated separately for all the employers, although employers within a pool will pay the contribution rate applicable to the pool as a whole. The Primary rate is calculated such that it is projected to:

1. meet the required funding target for all future years' accrual of benefits*, excluding any accrued assets,
2. within the determined time horizon (see [note 3.3 Note \(c\)](#) for further details),

3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

* The projection is for the current active membership where the employer no longer admits new entrants, or additionally allows for new entrants where this is appropriate.

The projections are carried out using an economic modeller developed by the Fund's actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes meeting the employer's funding target (by the end of the time horizon) is equal to the required probability.

The approach includes expenses of administration to the extent that they are borne by the Fund, and includes allowances for benefits payable on death in service and on ill health retirement.

D3 How is the Secondary contribution rate calculated?

The combined Primary and Secondary rates aim to achieve the employer's funding target, within the appropriate time horizon, with the relevant degree of probability.

For the funding target, the Fund actuary agrees the assumptions to be used with the Administering Authority – see [Appendix E](#). These assumptions are used to calculate the present value of all benefit payments expected in the future, relating to that employer's current and former employees, based on pensionable service to the valuation date only (i.e. ignoring further benefits to be built up in the future).

The Fund operates the same target funding level for all employers of 100% of its accrued liabilities valued on the ongoing basis, unless otherwise determined (see [Section 3](#)).

The Secondary rate is calculated as the balance over and above the Primary rate, such that the total is projected to:

1. meet the required funding target relating to combined past and future service benefit accrual, including accrued asset share (see [D5](#) below)
2. within the determined time horizon (see [3.3 Note \(c\)](#) for further details)
3. with a sufficiently high probability, as set by the Fund's strategy for the category of employer (see [3.3 Note \(e\)](#) for further details).

The projections are carried out using an economic modeller developed by the Fund Actuary Hymans Robertson: this allows for a wide range of outcomes as regards key factors such as asset returns (based on the Fund's investment strategy), inflation, and bond yields. The measured contributions are calculated such that the proportion of outcomes with at least 100% solvency (by the end of the time horizon) is equal to the required probability.

D4 What affects a given employer's valuation results?

The results of these calculations for a given individual employer will be affected by:

1. past contributions relative to the cost of accruals of benefits;
2. different liability profiles of employers (e.g. mix of members by age, gender, service vs. salary);
3. the effect of any differences in the funding target, i.e. the valuation basis used to value the employer's liabilities;
4. any different time horizons;

5. the difference between actual and assumed rises in pensionable pay;
6. the difference between actual and assumed increases to pensions in payment and deferred pensions;
7. the difference between actual and assumed retirements on grounds of ill-health from active status;
8. the difference between actual and assumed amounts of pension ceasing on death;
9. the additional costs of any non ill-health retirements relative to any extra payments made; and/or
10. differences in the required probability of achieving the funding target.

D5 How is each employer's asset share calculated?

The Administering Authority does not account for each employer's assets separately. Instead, the Fund's actuary is required to apportion the assets of the whole Fund between the employers, at each triennial valuation.

This apportionment uses the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an actuarial technique known as "analysis of surplus".

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers, to the extent that employers in effect share the same investment strategy. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund actuary does not allow for certain relatively minor events, including but not limited to:

1. the actual timing of employer contributions within any financial year;
2. the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the analysis of surplus, which is split between employers in proportion to their liabilities.

The methodology adopted means that there will inevitably be some difference between the asset shares calculated for individual employers and those that would have resulted had they participated in their own ring-fenced section of the Fund.

The asset apportionment is capable of verification but not to audit standard. The Administering Authority recognises the limitations in the process, but it considers that the Fund actuary's approach addresses the risks of employer cross-subsidisation to an acceptable degree.

Appendix E – Actuarial assumptions

E1 What are the actuarial assumptions?

These are expectations of future experience used to place a value on future benefit payments (“the liabilities”). Assumptions are made about the amount of benefit payable to members (the financial assumptions) and the likelihood or timing of payments (the demographic assumptions). For example, financial assumptions include investment returns, salary growth and pension increases; demographic assumptions include life expectancy, probabilities of ill-health early retirement, and proportions of member deaths giving rise to dependants’ benefits.

Changes in assumptions will affect the measured funding target. However, different assumptions will not of course affect the actual benefits payable by the Fund in future.

The combination of all assumptions is described as the “basis”. A more optimistic basis might involve higher assumed investment returns (discount rate), or lower assumed salary growth, pension increases or life expectancy; a more optimistic basis will give lower funding targets and lower employer costs. A more prudent basis will give higher funding targets and higher employer costs.

E2 What basis is used by the Fund?

The Fund’s standard funding basis is described as the “ongoing basis”, which applies to most employers in most circumstances. This is described in more detail below. It anticipates employers remaining in the Fund in the long term.

However, in certain circumstances, typically where the employer is not expected to remain in the Fund long term, a more prudent basis applies: see [Note \(a\)](#) to [3.3](#).

E3 What assumptions are made in the ongoing basis?

a) Investment return / discount rate

The key financial assumption is the anticipated return on the Fund’s investments. This “discount rate” assumption makes allowance for an anticipated out-performance of Fund returns relative to long term yields on UK Government bonds (“gilts”). There is, however, no guarantee that Fund returns will out-perform gilts. The risk is greater when measured over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

Given the very long-term nature of the liabilities, a long term view of prospective asset returns is taken. The long term in this context would be 20 to 30 years or more.

For the purpose of the triennial funding valuation at 31 March 2016 and setting contribution rates effective from 1 April 2017, the Fund actuary has assumed that future investment returns earned by the Fund over the long term will be 1.8% per annum greater than gilt yields at the time of the valuation (this was 1.6% at the 2013 valuation). In the opinion of the Fund actuary, based on the current investment strategy of the Fund, this asset out-performance assumption is within a range that would be considered acceptable for the purposes of the funding valuation.

b) Salary growth

Pay for public sector employees is currently subject to restriction by the UK Government until 2020. Although this “pay freeze” does not officially apply to local government and associated employers, it has been suggested that they are likely to show similar restraint in respect of pay awards. Based on long term historical analysis of the membership in LGPS funds, and continued austerity measures, the salary increase assumption at the 2016 valuation has been set to be a blended rate combined of:

1. 1% p.a. until 31 March 2020, followed by
2. Retail Prices Index (RPI) per annum thereafter.

This is a change from the previous valuation, which assumed a flat assumption of RPI plus 1.0% per annum. The change has led to a reduction in the funding target (all other things being equal).

c) Pension increases

Since 2011 the consumer prices index (CPI), rather than RPI, has been the basis for increases to public sector pensions in deferment and in payment. Note that the basis of such increases is set by the Government, and is not under the control of the Fund or any employers.

As was the case at the previous valuation, we derive our assumption for RPI from market data as the difference between the yield on long-dated fixed interest and index-linked government bonds. This is then reduced to arrive at the CPI assumption, to allow for the “formula effect” of the difference between RPI and CPI. At this valuation, we propose a reduction of 1.0% per annum. This is a larger reduction than at 2013, which will serve to reduce the funding target (all other things being equal). (Note that the reduction is applied in a geometric, not arithmetic, basis).

d) Life expectancy

The demographic assumptions are intended to be best estimates of future experience in the Fund based on past experience of LGPS funds which participate in Club Vita, the longevity analytics service used by the Fund, and endorsed by the actuary.

The longevity assumptions that have been adopted at this valuation are a bespoke set of “VitaCurves”, produced by the Club Vita’s detailed analysis, which are specifically tailored to fit the membership profile of the Fund. These curves are based on the data provided by the Fund for the purposes of this valuation.

It is acknowledged that future life expectancy and, in particular, the allowance for future improvements in life expectancy, is uncertain. There is a consensus amongst actuaries, demographers and medical experts that life expectancy is likely to improve in the future. Allowance has been made in the ongoing valuation basis for future improvements in line with the 2013 version of the Continuous Mortality Investigation model published by the Actuarial Profession and a 1.25% per annum minimum underpin to future reductions in mortality rates. This is a similar allowance for future improvements to that made in 2013.

The approach taken is considered reasonable in light of the long term nature of the Fund and the assumed level of security underpinning members’ benefits.

e) General

The same financial assumptions are adopted for most employers, in deriving the funding target underpinning the Primary and Secondary rates: as described in [\(3.3\)](#), these calculated figures are translated in different ways into employer contributions, depending on the employer’s circumstances.

The demographic assumptions, in particular the life expectancy assumption, in effect vary by type of member and so reflect the different membership profiles of employers.

Appendix F – Glossary

Actuarial assumptions/basis	The combined set of assumptions made by the actuary, regarding the future, to calculate the value of the funding target . The main assumptions will relate to the discount rate , salary growth, pension increases and longevity. More prudent assumptions will give a higher target value, whereas more optimistic assumptions will give a lower value.
Administering Authority	The council with statutory responsibility for running the Fund, in effect the Fund's "trustees".
Admission Bodies	Employers where there is an Admission Agreement setting out the employer's obligations. These can be Community Admission Bodies or Transferee Admission Bodies. For more details (see 2.3).
Covenant	The assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term.
Designating Employer	Employers such as town and parish councils that are able to participate in the LGPS via resolution. These employers can designate which of their employees are eligible to join the Fund.
Discount rate	The annual rate at which future assumed cashflows (in and out of the Fund) are discounted to the present day. This is necessary to provide a funding target which is consistent with the present day value of the assets. A lower discount rate gives a higher target value, and vice versa. It is used in the calculation of the Primary and Secondary rates .
Employer	An individual participating body in the Fund, which employs (or used to employ) members of the Fund. Normally the assets and funding target values for each employer are individually tracked, together with its Primary rate at each valuation .
Funding target	The actuarially calculated present value of all pension entitlements of all members of the Fund, built up to date. This is compared with the present market value of Fund assets to derive the deficit . It is calculated on a chosen set of actuarial assumptions .
Gilt	A UK Government bond, ie a promise by the Government to pay interest and capital as per the terms of that particular gilt, in return for an initial payment of capital by the purchaser. Gilts can be "fixed interest", where the interest payments are level throughout the gilt's term, or "index-linked" where the interest payments vary each year in line with a specified index (usually RPI). Gilts can be bought as assets by the Fund, but their main use in funding is as an objective measure of solvency.
Guarantee / guarantor	A formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

Letting employer	An employer which outsources or transfers a part of its services and workforce to another employer (usually a contractor). The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer. A letting employer will usually be a local authority, but can sometimes be another type of employer such as an Academy.
LGPS	The Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements. The LGPS is divided into 101 Funds which map the UK. Each LGPS Fund is autonomous to the extent not dictated by Regulations, e.g. regarding investment strategy, employer contributions and choice of advisers.
Maturity	A general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.
Members	The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).
Primary contribution rate	The employer contribution rate required to pay for ongoing accrual of active members' benefits (including an allowance for administrative expenses). See Appendix D for further details.
Profile	The profile of an employer's membership or liability reflects various measurements of that employer's members , ie current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc. A membership (or liability) profile might be measured for its maturity also.
Rates and Adjustments Certificate	A formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation . This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.
Scheduled Bodies	Types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, academies, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).
Secondary contribution rate	The difference between the employer's actual and Primary contribution rates . In broad terms, this relates to the shortfall of its asset share to its funding target . See

[Appendix D](#) for further details.

Stabilisation

Any method used to smooth out changes in employer contributions from one year to the next. This is very broadly required by the LGPS Regulations, but in practice is particularly employed for large stable employers in the Fund. Different methods may involve: probability-based modelling of future market movements; longer deficit recovery periods; higher discount rates; or some combination of these.

Valuation

An actuarial investigation to calculate the liabilities, future service contribution rate and common contribution rate for a Fund, and usually individual employers too. This is normally carried out in full every three years (last done as at 31 March 2016), but can be approximately updated at other times. The assets value is based on market values at the valuation date, and the liabilities value and contribution rates are based on long term bond market yields at that date also.

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Report to: **Pension Committee**

Date: **27 February 2017**

By: **Interim Chief Finance Officer**

Title of report: **Asset Pooling – Passive Procurement**

Purpose of report: **To update the Committee of the procurement of passive investments within ACCESS.**

RECOMMENDATIONS – The Committee is requested to note the content of the report.

1. Background

1.1 On the 15th July 2016, the ACCESS pooling proposals were submitted to DCLG, comfortably in advance of the required deadline. The submission to DCLG set out an intention for a “quick win” from consolidating passive mandates, assuming passive assets currently held in Life Policies will be considered to be within the Pool.

1.2 Life Policies remain an agreement between the participating authority and the appointed external investment manager(s), with selection focusing on value for money through competitive fees, efficiency of performance and consideration of transition costs. ACCESS, working through the National LGPS Frameworks procurement vehicle has completed the construct of a Multi-Provider Framework. ACCESS has now commenced a “mini” tender process within this framework.

2. Key Findings and “mini” tender process.

2.1 The Passive Framework documentation provides useful information, which can be applied against ACCESS Funds current arrangements, such as “ceiling prices” from each of the four passive providers on the Framework. This information indicates:-

- That all funds currently holding passive mandates will make savings against any of the four providers on the Framework.
- The July plan estimated a pool level savings target of £4m and is a reasonable expectation of the outcome of the “mini” tender process.

2.2 Feedback regarding the other LGPS Pools passive tender exercises suggests that ACCESS is the largest passive investment tender within the LGPS.

2.3 East Sussex (50% of fund assets) is the largest user of passive investments within ACCESS, and currently use two providers (LGIM and State Street) due to legacy arrangements reflecting the 2009 Investment Regulation, Schedule A limitations on Life Policies (35%) and counter party risk considerations.

2.4 The “mini” tender requires the ACCESS Authorities to determine the requirement for a single or multi lot process. A single lot tender is much cleaner and simpler as it concentrates the £9.8bn assets under management with a single manager with the expectation of driving prices significantly lower than the ceiling prices. A multi lot process will require both a single lot tender and a parallel multi lot tender to be run, in order to ensure clarity of bids and comparison of outcomes.

3. Conclusion and reasons for recommendations

3.1 The passive procurement framework plans for a quick win from consolidating passive mandates and assumes passive assets currently held in Life Policies will be considered to be within the Pool. Life Policies will remain an agreement between the participating authority and the appointed external investment manager(s), which 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

PHIL HALL

Interim Chief Finance Officer

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Local Member(s): All
Background Documents
None

Report to: **Pension Committee**

Date: **27 February 2017**

By: **Interim Chief Finance Officer**

Title of report: **Pension Fund - Cost Analysis**

Purpose of report: **This report covers the analysis of pension fund costs over the last few years.**

RECOMMENDATIONS – The Committee is requested to note the Pension Fund Cost

1. Background

1.1 Any costs of administering pension fund have the potential to take resources away from scheme members' pensions, and it is therefore important for the Fund to be transparent about administration costs and to ensure that the costs represent value for money. This report aimed to provide detailed information on ESPF scheme administration costs - to provide a baseline for these costs, examine which administrative overhead expenses placed the greatest burden on the fund, and to allow for a more informed discussion about action that could be taken by the Committee or by the Board to ensure value for money in the efficient operation of pension fund business.

1.2 In February 2016 the Pension Fund Committee agreed a budget in respect of the Pension Fund's investment and administration expenses for the 2016/17 financial year. The production of an annual budget is in accordance with a recommendation of best practice set out in the CIPFA Principles for Investment Decision Making in the Local Government Pension Scheme.

1.3 Appendix A (below) provides analysis of the Pension Fund costs incurred since 2012/13 (the last full year of the previous SERCO contract for pensions administration) and the future budget projection.

2. Oversight and Governance Support

2.1 The total budget on ongoing expenditure for this service is approximately £680k (Appendix A). The largest component of the cost is the staff time spent on oversight and governance, and it is expected that the pension's investment team and other support services costs will be on budget. Since 2012/13 there has been a shift in the profile of expenditure, with less being spent on investment consultants and more on in-house staff. Over the period the complexity of governance has increased, with the number of employers within the Fund rising from 73 in 2012 to 109 now. Other variations to charges were due to impact of the triennial valuation and changes in the level of expenditure on the following core activities-

- CIPFA Pension Network, LAPFF, Club Vita, LGPC etc.
- Hymans Actuarial Fees
- Hymans Investment consultancy costs and independent advisor costs
- Commissioning work for expert advice on investment pooling
- External audit of the Annual Report
- Legal work commissioned for the fund
- Investment performance monitoring service, etc.

3. Costing Analysis – Business Operations

3.1 In respect of charges applicable to the delivery of Pensions Administration by Business Operations, these can be attributed to two primary aspects; staffing and systems.

3.2 Despite a 15% increase in membership numbers since 2012/13 and modest wage inflation, staffing costs have reduced over the period that SE Shared Services, later developed into Orbis, has delivered the services, from £806K in 2013/14 to a forecast £740K in 2016/17. This has been achieved in spite of the requirement to deliver a new CARE scheme from April 2014 alongside the existing final salary protections and the resultant complexities around implementation and ongoing service delivery. Business Operations have optimised staff resources with a mix of experienced and highly knowledgeable LGPS experts supplemented by an intake of trainees who have been trained to initially deliver the more straightforward aspects of the Administration.

3.3. The systems costs during the period have remained relatively stable but, as the Committee will be aware, the new integrated contractual arrangement from April 2016 will deliver savings over the course of the next two years, as well as bringing technological enhancements such as online access to member records. Following a one off licensing and integration cost in 2016/17, the future cost savings can be demonstrated with the forecasted cost for 2017/18 and which would be replicated in further years.

3.4 GMP Reconciliation costs. The amount allocated to the budget for 2016/17 was based on the proposal offered by the organisation commissioned to conduct the initial GMP analysis on behalf of the East Sussex fund. Business Operations is proposing to utilise the new National LGPS Framework for administration support services, expected to launch very shortly, to procure GMP reconciliation services and it is therefore anticipated this spend will be incurred in 2017/18.

3.5 The full CIPFA Benchmarking analysis report is provided within the Officer Report – Business Operations (presented at this meeting), which shows the Total Cost Per Member as follows -

2012/13	£ 16.99
2013/14	Did not participate
2014/15	£ 16.36
2015/16	£ 15.90

4. Conclusion and reasons for recommendations

4.1 The aims of this report were to inform the Committee about the range and scale of costs that the pension fund has to incur, in particular staff salary, internal costs, administrative costs, expenditure on professional/consultancy services, managing funds and the costs associated with having trustees.

PHIL HALL

Interim Chief Finance Officer

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Local Member(s): All
Background Documents
None

Pension Fund – Costs Analysis

Description	Actuals				Budget	
	SERCO	SESS	SESS	ORBIS	ORBIS	ORBIS
	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
	£000	£000	£000	£000	£000	£000
Administration						
Orbis Finance Support Services	21.4	23.9	46.3	53.9	40.0	40.0
Orbis Business Operations Support Services	-	805.7	749.6	711.8	740.0	740.0
SERCO Contract	1,022.3	9.6	-	-	-	-
Heywood plus Hosting of Heywood system	-	287.8	289.0	299.3	340.0	200.0
GMP	-	-	-	-	-	100.0
PensionWeb	-	-	-	60.0	30.0	30.0
Third Party Payments	-	-	-	-	-	-
Other Income	-	-	-	-	-	-
Total	1,043.7	1,127.0	1,084.9	1,125.0	1,150.0	1,110.0
Oversight and Governance						
Accounts and Pensions	178.2	201.2	213.4	235.9	200.0	200.0
Investment Consultants	215.7	140.4	147.5	167.3	135.0	135.0
Subscriptions (LAPFF, CIPFA, etc.)	14.0	31.9	39.1	50.6	35.0	40.0
Actuarial Fees	156.7	171.7	100.1	136.7	186.0	120.0
Pension Board	-	-	-	10.0	10.0	10.0
Investment Pooling	-	-	-	-	50.0	100.0
Other Supplies & Services	74.8	91.6	73.6	76.6	64.0	55.0
Third Party Payments	164.4	107.3	153.9	117.7	180.0	150.0
Other Income	- 150.5	- 113.6	- 155.2	- 113.6	- 180.0	- 150.0
Total	653.3	630.5	572.4	681.2	680.0	660.0
Description	2012/13	2013/14	2014/15	2015/16	2016/17	2017/18
Scheme Membership Numbers	64,024	67,627	69,151	72,748	74,731	76,000
Cost per Member	£16.99	N/A	£16.36	£15.90	-	-

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Report to: Pension Committee

Date of meeting: 27 February 2017

By: Chief Operating Officer

Title: Officers' Report – Business Operations

Purpose: Update on current administration themes in relation to the service provided to the Pension Fund by Orbis Business Operations

RECOMMENDATIONS

The Committee is recommended to consider and note the updates provided in the report

1 Introduction

1.1 Business Operations within Orbis has prepared this summary of topical administration areas that may be of interest to the Committee. This report is provided for information and subjects are presented in alphabetical order and not perceived importance.

2 New Key Performance Indicators (KPIs)

2.1 The Board and Committee previously agreed to Business Operations proposals for an updated set of KPIs to provide full transparency of the scale of the scheme administration and to provide assurance of key standards and deadlines being met.

2.2 The new KPIs were operational from 1 October 2016 and Appendix 1 shows the individual months performance levels for Quarter 3 of 2016/17.

2.3 The performance levels of the team over Quarter 3 are generally high, though the Committee is invited to comment on any areas of concern. A number of low priority tasks fell below previous levels in November and this is primarily a result of the temporary office disruption caused by the fire at County Hall. None of the reduced turnaround times for this set of tasks is likely to have any detrimental impact on scheme members.

3 CIPFA Benchmarking Exercise 2016

3.1 The Committee will be aware that the East Sussex pension fund participates in a Local Government Pension Scheme (LGPS) administration benchmarking exercise on an annual basis in order to provide some assurance that the costs of administration are consistent with other local authority funds. The assessment is based on a review date of 31 March and the full 2016 report is attached as Appendix 2.

3.2 CIPFA has consulted widely with funds over the last few years to ensure there is a consistency of approach in the nature of the data being measured. The data elements are well defined in the completion of the questionnaire CIPFA provide and it is reasonable therefore to assume that the comparisons being made are valid, in spite of differences in the organisational structure of fund administrations.

3.3 A total of 38 of the 100 or so local authority funds (including Scottish funds) participated in the exercise and the average size of membership of the funds taking part was approximately 100,000. The membership of the East Sussex fund on 31 March was 70,820. It is reasonable to assume that those funds who choose to take part will, in the main, be the ones who consider their costs are competitive.

3.4 The headline figure of the total cost of administration per scheme member is shown on page 5 of the report and indicates that the cost for East Sussex was **£15.90**, which compares favourably with a national average of **£18.37**. The bar charts on pages 6 to 10 of the report

illustrate that the total cost per member puts the East Sussex fund just outside the bottom quartile for overall costs.

3.5 Further analysis of the charts on pages 6 to 10 reveals more detail in that the staffing administration costs for East Sussex are amongst the lowest across all participating funds with a cost per member of **£5.34** - compared with the average of **£8.62**. Page 13 of the report also highlights that the number of joiners and leavers to the fund, which directly impacts resourcing requirements, is higher for East Sussex than the average which reinforces efficiency of staffing levels.

3.6 The main costs that are higher than average are IT administration costs which are **£ 3.69** per scheme member compared with the average of **£ 2.78**. It is important to note these costs are based on the IT system costs for 2015/16 which was prior to the new contractual arrangement negotiated by Business Operations agreed by the Pensions Committee in March 2016. This new arrangement will reduce the IT system costs in future years.

3.7 Page 28 of the report shows a time series analysis back to 2011 for the East Sussex fund, demonstrating a lower cost per scheme member in 2016 than each of the four previously measured years. This has been achieved despite the additional administration burden of the introduction of the 2014 CARE scheme.

4 GMP Reconciliation Update

4.1 The Committee was advised previously that HMRC will be closing their Guaranteed Minimum Pension (GMP) records in December 2018 and funds need to reconcile their GMP records against HMRC records before that date (assuming they wish to do so).

4.2 Business Operations has investigated the feasibility of recruiting specialist resource to consider carrying out this work in-house but there is a shortage of available skills in the market and this work will need to be offered externally.

4.3 Within the last couple of months, a national procurement framework for ancillary LGPS support services (including GMP reconciliation) has been established and Business Operations is working with procurement colleagues to present options to the Committee for approval for work to commence. The Committee will be updated on progress at future meetings.

5. Conclusions and reasons for recommendation

5.1 The Committee is recommended to consider and note the updates provided in the report.

KEVIN FOSTER

Chief Operating Officer

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

Email: jason.bailey@surreycc.gov.uk

East Sussex Pensions Administation - Key Performance Indicators 2016-17

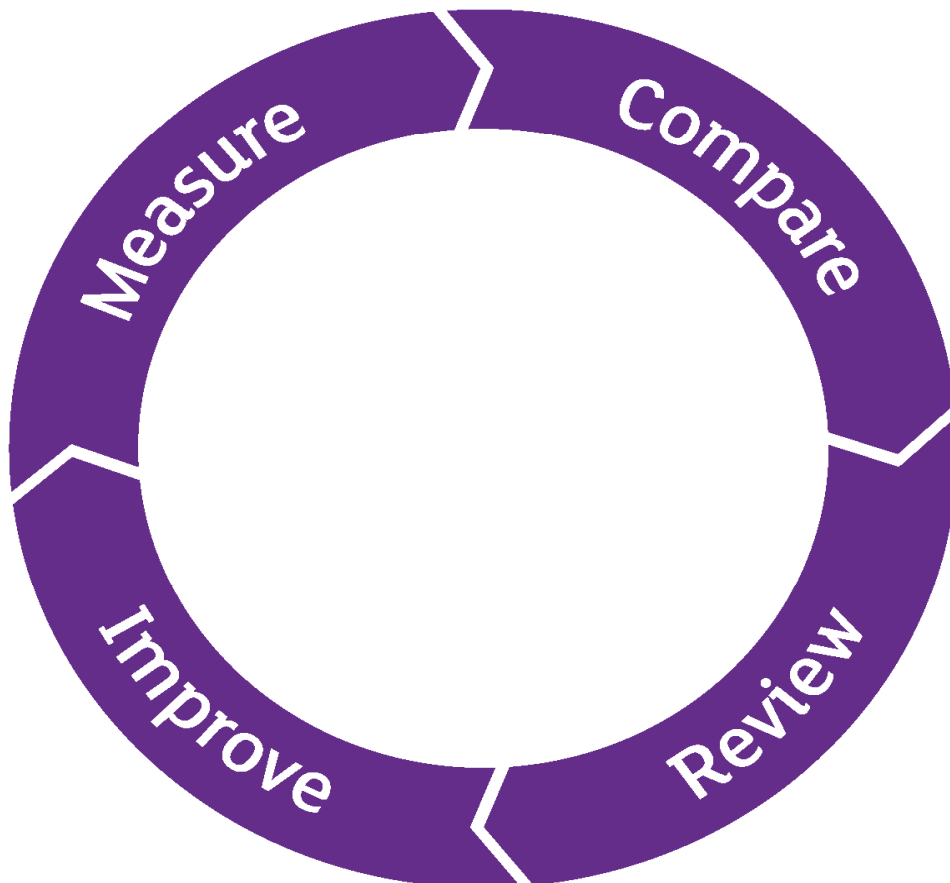
	Activity	Measure	Impact	Target	Oct		Nov		Dec		
	Scheme members	Pensioners, Active & Deferred			69,693		70,681		71,016		
	New starters set up				411		232		506		
	Data quality	Meeting regulatory standards			Commencing Q4						
	Cost per member	Administration cost in CIPFA benchmarking		<lowest quartile	Please see attached report						
	ABS sent - Councillors	Statutory deadline		Due by 31 Aug		Achieved					
	ABS sent - Active	Statutory deadline				13-Sep					
	ABS sent - Deferred	Statutory deadline				Achieved					
					Volume	Score	Volume	Score	Volume	Score	Commentary
1a	Death notification acknowledged, recorded and documentation sent	within 5 days	M	95%		100%		100%		100%	
1b	Award dependent benefits	within 5 days	H	95%	10	90%	20	95%	11	100%	
2a	Retirement notification acknowledged, recorded and documentation sent	within 5 days	M	95%	102	100%	97	95%	93	96%	
2b	Payment of lump sum made	within 5 days	H	95%	93	98%	89	98%	83	98%	
3	Calculation of spouses benefits	within 5 days	M	90%	10	94%	20	95%	11	100%	
4a	Transfers In - Quote (Values)	within 10 days	L	90%	20	90%	40	85%	35	83%	
4b	Transfers In - Payments	within 10 days	L	90%	15	100%	23	87%	34	97%	
5a	Transfers Out - Quote	within 25 days	L	90%	49	100%	43	86%	34	85%	
5b	Transfers Out - Payments	within 25 days	L	90%	7	86%	15	87%	17	94%	
6a	Employer estimates provided	within 7 days	M	95%	137	84%	75	99%	42	97%	Employee and Employer Requests split from November
6b	Employee projections provided	within 10 days	L	95%			70	84%	26	100%	
7	Refunds	within 10 days	L	95%	38	100%	45	100%	28	100%	
8	Deferred benefit notifications	within 25 days	L	95%	264	100%	180	81%	179	100%	
9	Complaints received- Admin				2		1		0		
	Complaints received- Regulatory				0		0		0		
10	Employer survey satisfaction	Overall satisfaction (V Satisfied/satisfied)		90%							
11	Member survey satisfaction	Overall satisfaction (Excellent/good)		90%	16	88%	9	100%	not yet available		
12	Compliments received								3		

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Information Services

pensions administration benchmarking club

2016 - East Sussex Final Report



PREFACE

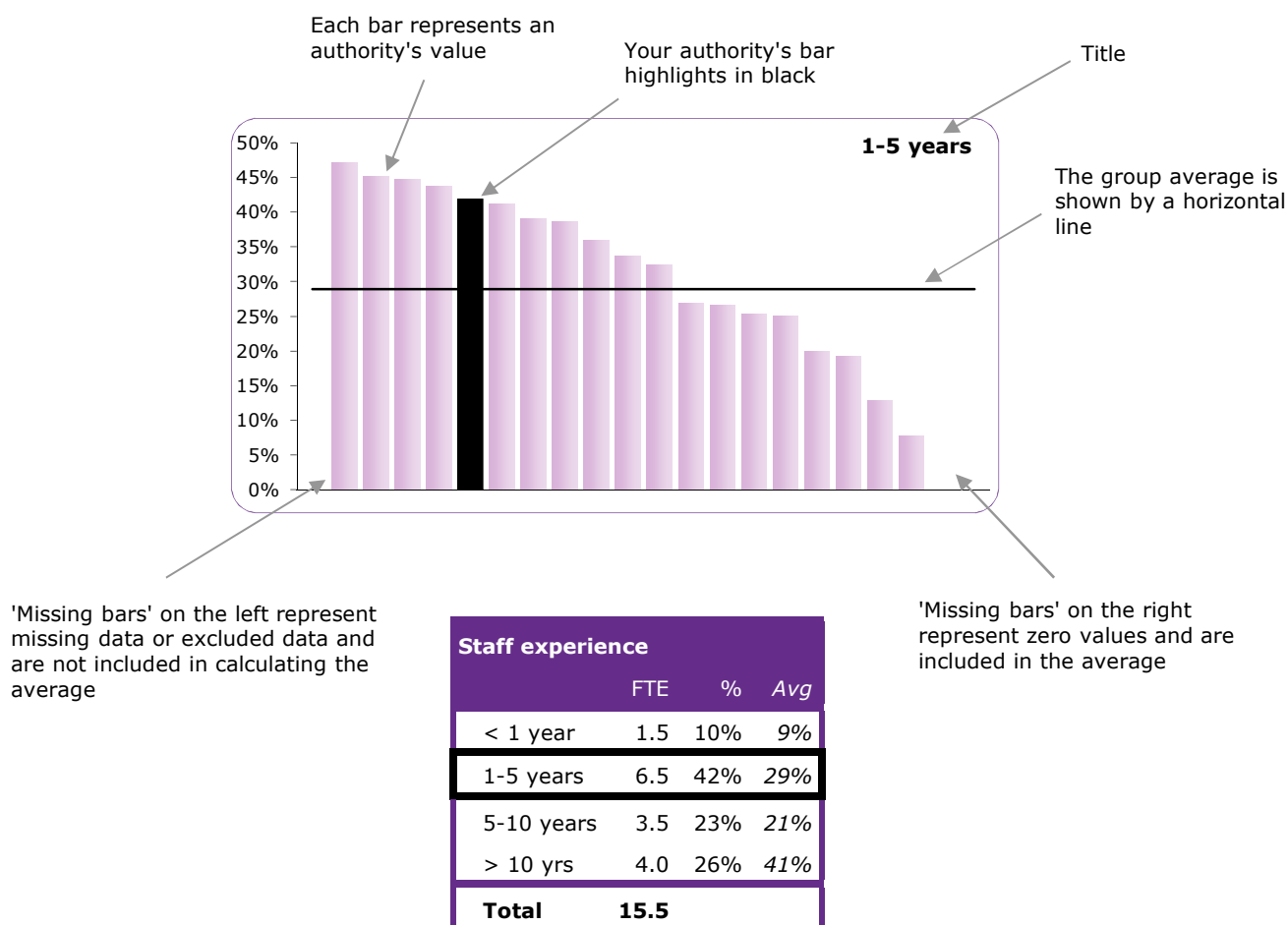
This report compares your data with the group of authorities specified on the title page.

Throughout the report your figures are shown in tables and in graphical form. If you are not familiar with our reports we hope this page will help you to better understand the way we present this data.

Averages: Almost all of our tables and charts compare your figure with a group average. The average is the unweighted mean value for the group. This average value ignores missing data, or data that we have excluded and for this reason sets of averages sometimes do not reconcile precisely.

Charts: We display a large amount of data on charts as this allows us to show the data for the entire group efficiently and gives far more information than a simple average (i.e. range of data, individual authority values etc.). Below we have annotated an example chart to help explain what they are showing.

Bar Charts: These are our standard method of displaying a full set of data



INTRODUCTION

This report compares your performance with the group of authorities specified on the title page. It is divided into the following sections.

	Page
1 Summary 2016	4
2 Cost Measures	5
3 Workload Measures	11
4 Staff Related Measures	22
5 Industry Standard Performance Indicators	26
6 Comparison by method of service delivery } <i>final reports</i>	27
7 Timeseries } <i>final reports only</i>	28

Section 1 - Summary 2016

This page provides a brief summary of the most salient aspects of the report.

Section 2 - Cost Measures

This section concentrates on cost/member ratios starting with total cost/member which is then broken down by staff costs, payroll costs, direct costs, overheads and income. Further analysis of direct costs and overheads is also provided in this section.

Section 3 - Workload Measures

The first measure of workload is the number of members in the scheme, which is shown along with a breakdown by class of membership. This is followed by an analysis of the number and type of LGPS employers.

Other workload measures include:

- Joiners and leavers with a full analysis of the various types of retirements
- Number of quotations provided and actual events processed
- AVCs, ARCs and Added years
- Appeals

Section 4 - Staff Related Measures

The measures included here are an analysis of staff numbers by pay band, sickness absence, pensions work experience, staff qualifications and staff turnover.

Section 5 - Industry Standard Performance Indicators

In this section we show how authorities perform against each of the LGPC performance indicators.

Section 6 - Comparison by Method of Service Delivery (final report only)

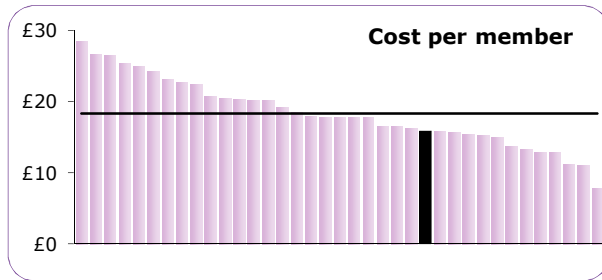
This shows members' costs and averages compared for in-house and externally managed pension schemes.

Section 7 -Timeseries (final report only)

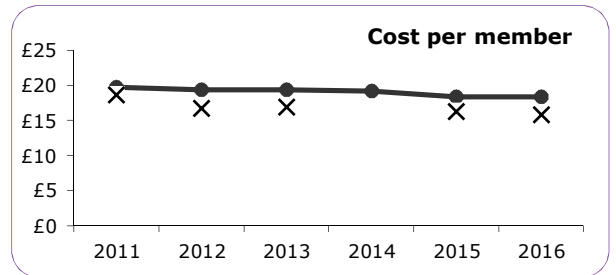
This shows the individual members' performance over time compared to the club average for cost per member, which is analysed over staff cost and other costs.

SECTION 1 - SUMMARY 2015/16

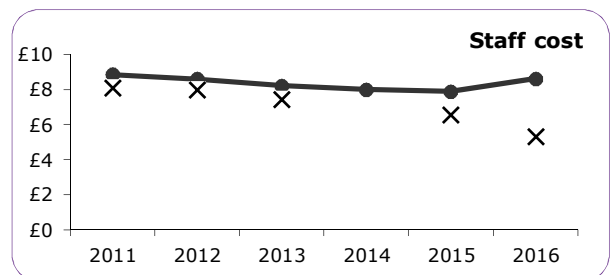
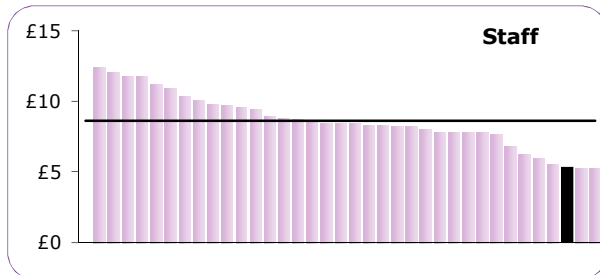
NET COST / MEMBER 2015/16



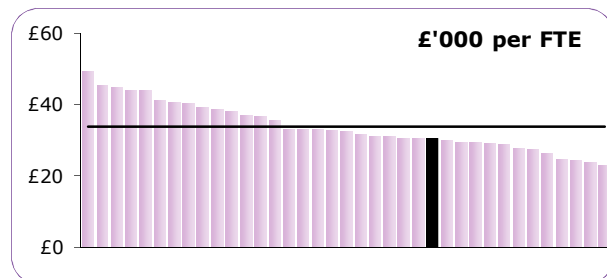
● Club average
X East Sussex



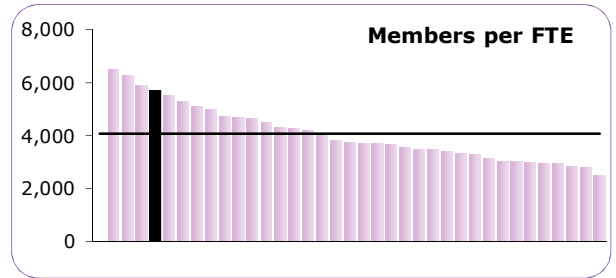
STAFF COST / MEMBER 2015/16



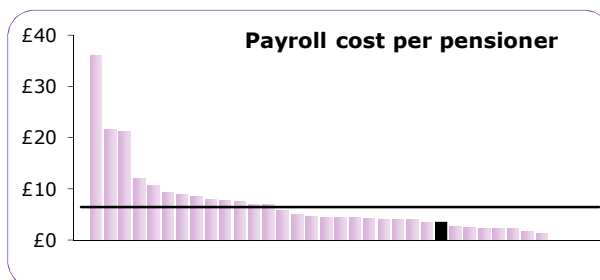
COST £'000 / FTE



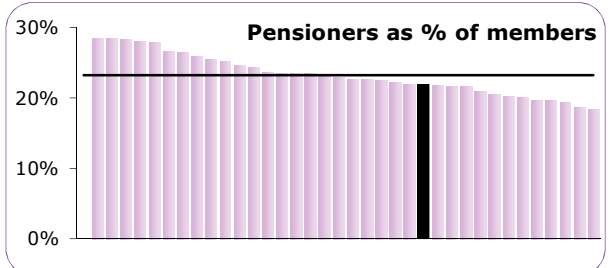
MEMBERS LGPS / ADMIN FTE



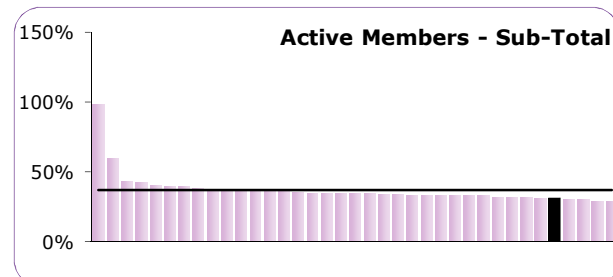
PAYROLL COST / PENSIONER



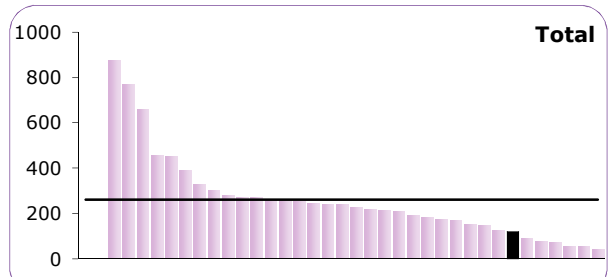
PENSIONERS AS A % MEMBERS



ACTIVES AS A % MEMBERS



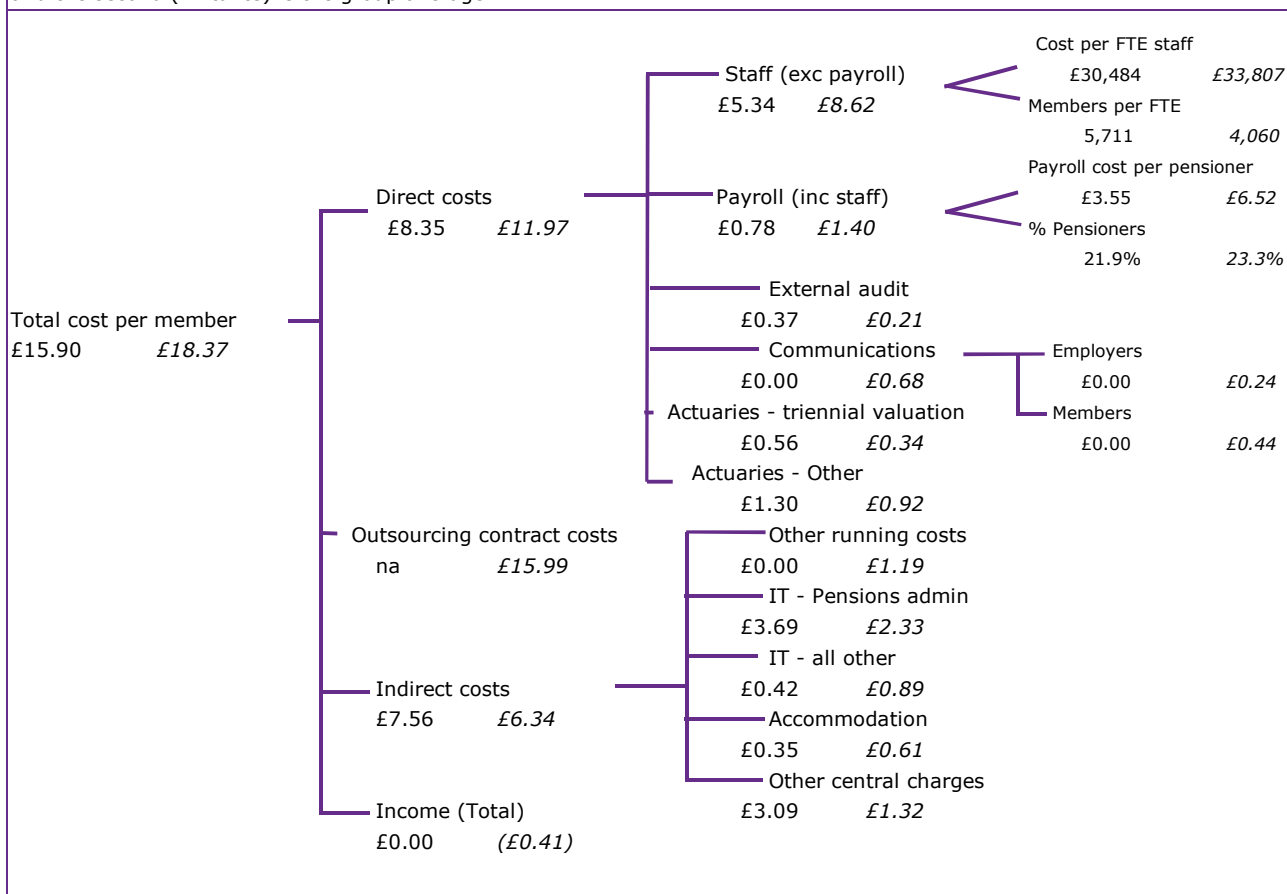
NUMBER OF LGPS EMPLOYERS



SECTION 2 - COST MEASURES

COST/MEMBER TREE 2015/16

This tree diagram analyses the cost per member. For each benchmark two figures are given the first being the authority's cost and the second (in italics) is the group average.



FTE staff	
Pension Section total	15.4
less	
IT staff	-
Payroll staff	1.0
Communications staff	-
Employing authority work	1.0
Work for other schemes	1.0
Other work	-
Admin of LGPS	12.4

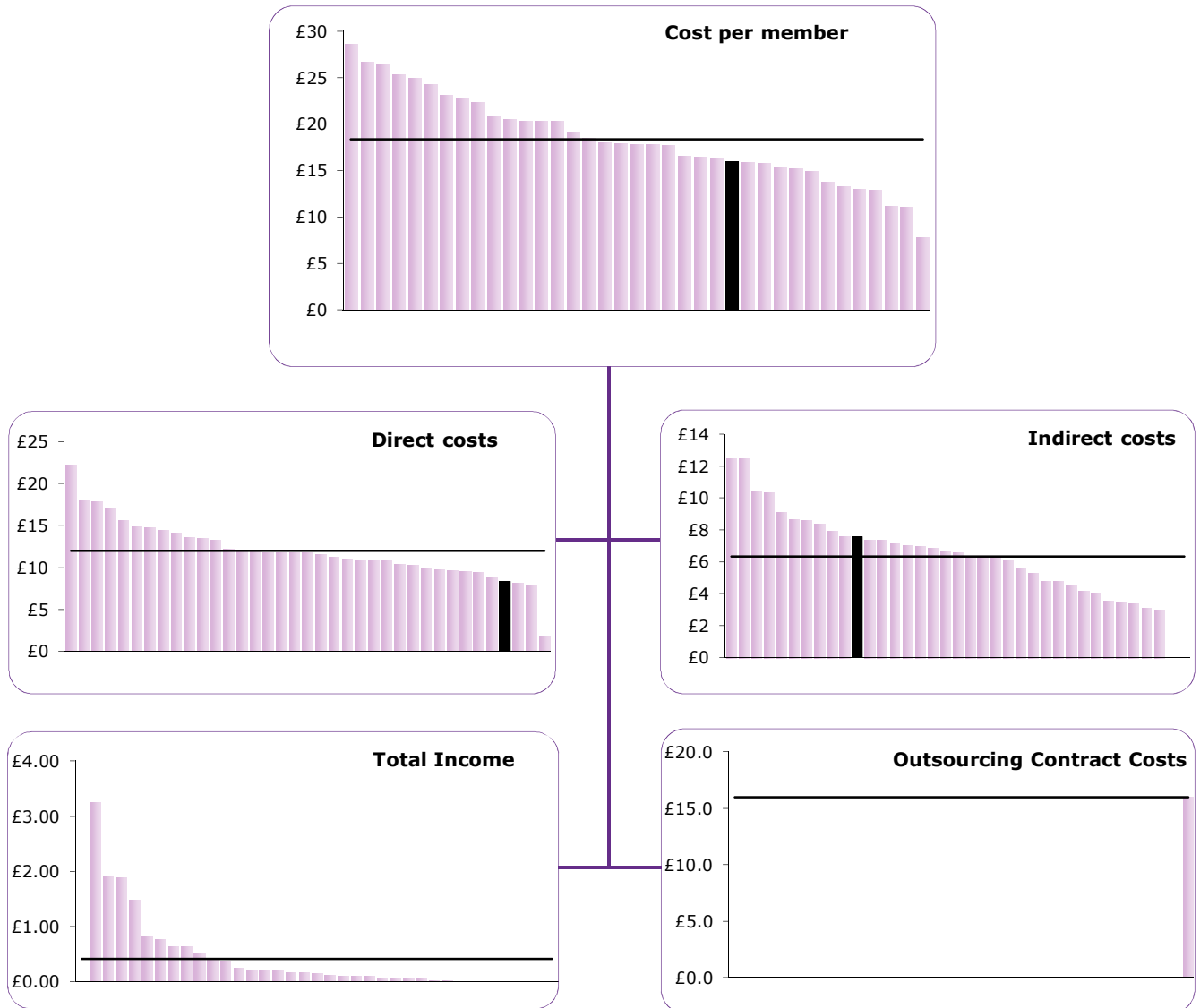
Net Costs £'000	
	£'000
Pension Section total	1,185
less	
Work for other schemes	34
Employing authority work	25
Other work	-
Admin of LGPS	1,126

Admin of LGPS costs		£ per member	Avg
	£'000		
Staff - administration	378	5.34	8.62
Staff - payroll	26	0.37	0.34
Payroll	29	0.41	1.06
Communications (Total)	-	-	0.68
Actuaries - triennial valuation	40	0.56	0.34
Actuaries - other	92	1.30	0.92
External audit	26	0.37	0.21
Total Direct Costs	591	8.35	11.97
Outsourcing costs	-	na	15.99
Other running costs	-	-	1.19
IT - Pensions admin	261	3.69	2.33
IT - All other	30	0.42	0.89
Accommodation	25	0.35	0.61
Other central charges	219	3.09	1.32
Total Indirect Costs	535	7.56	6.34
Gross Cost	1,126	15.90	18.74
Income - Members	-	-	(0.04)
Income - Employers	-	-	(0.14)
Income - Other	-	-	(0.23)
Total Income	-	-	(0.41)
Net Cost	1,126	15.90	18.37

Total Scheme Membership 70,820

*Outsourcing Contract Costs average only includes those members who have outsourcing costs.

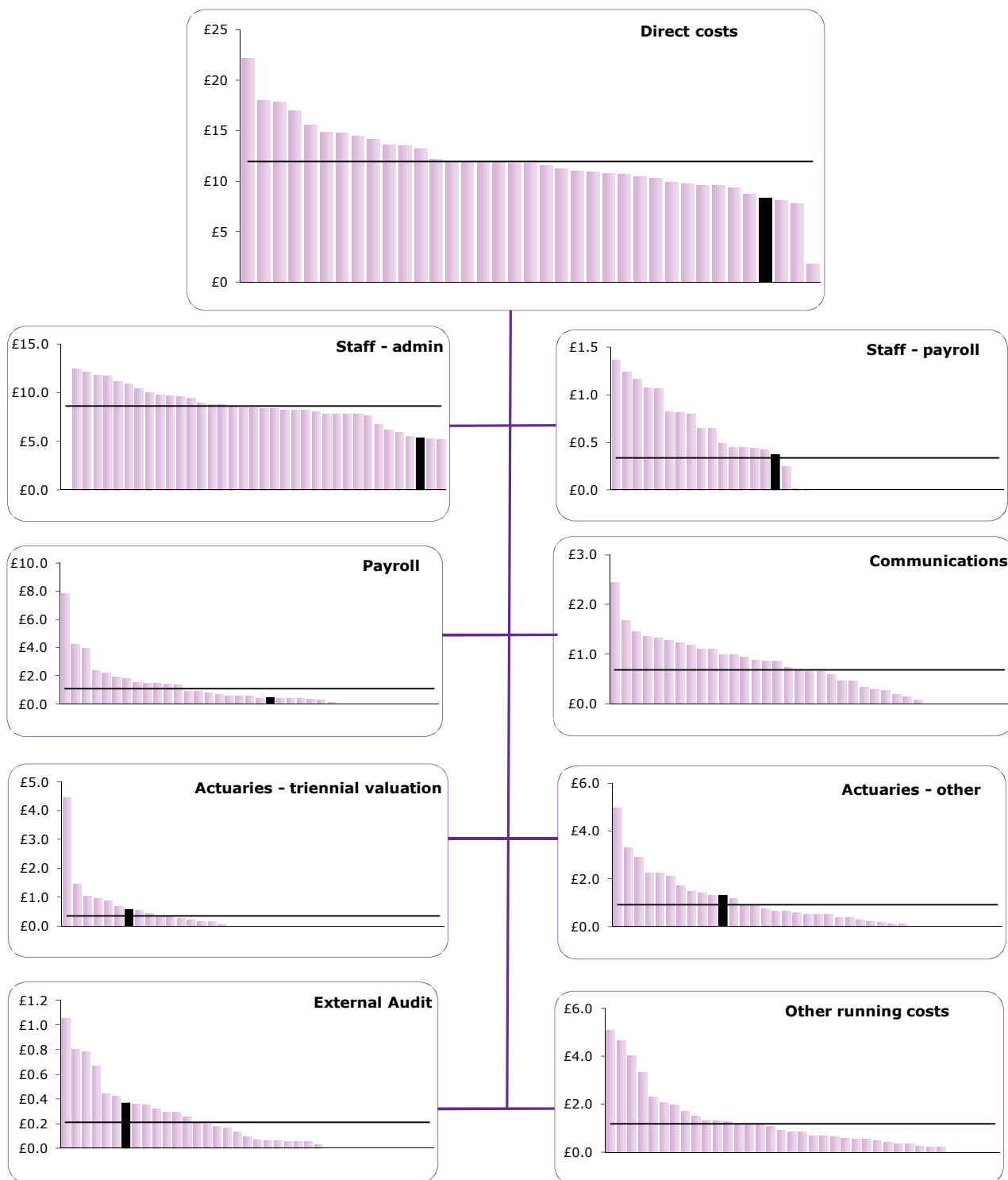
COST PER MEMBER 2015-16



Admin of LGPS costs		£ per member	Avg
	£'000		
Total Direct Costs	591	8.35	11.97
Outsourcing costs	-	na	15.99
Total Indirect Costs	535	7.56	6.34
Total Income	-	-	(0.41)
Net Cost	1,126	15.90	18.37

Total Scheme Membership	70,820
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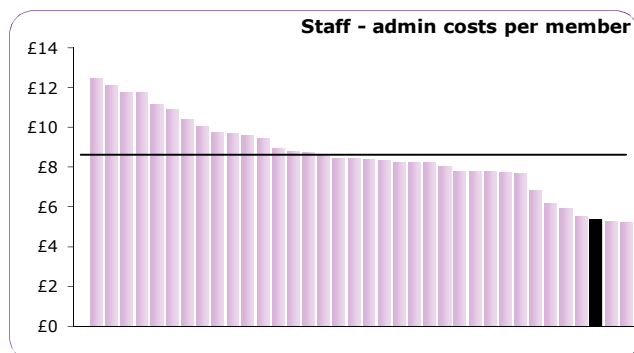
COSTS PER MEMBER - Direct costs 2015/16



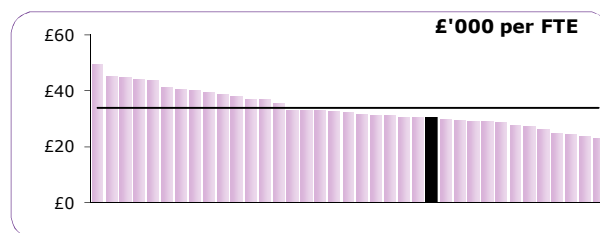
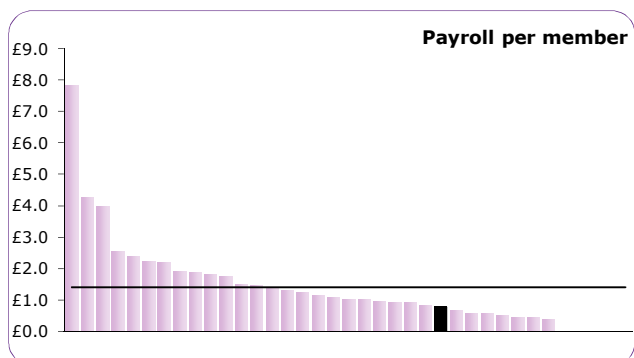
Direct costs	£'000	£ per member	Avg
Staff - admin	378	5.34	8.62
Staff - payroll	26	0.37	0.34
Payroll	29	0.41	1.06
Communications	-	-	0.68
Actuaries - triennial valuation	40	0.56	0.34
Actuaries - other	92	1.30	0.92
External audit	26	0.37	0.21
Total	591	8.35	11.97

DIRECT COSTS PER MEMBER - Staff and Payroll costs 2015/16

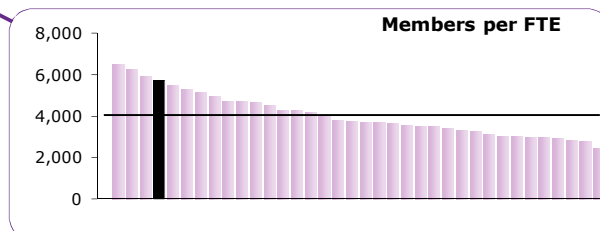
	£'000	£ per member	Avg
Staff - admin	378	5.34	8.62



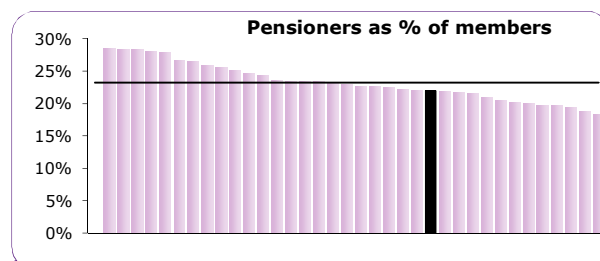
	£'000	£ per member	Avg
Payroll (combined)	55	0.78	1.40



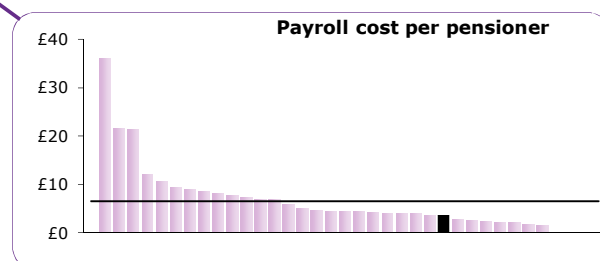
East Sussex 30.5 Avg 33.8



East Sussex 5,711 Avg 4,060

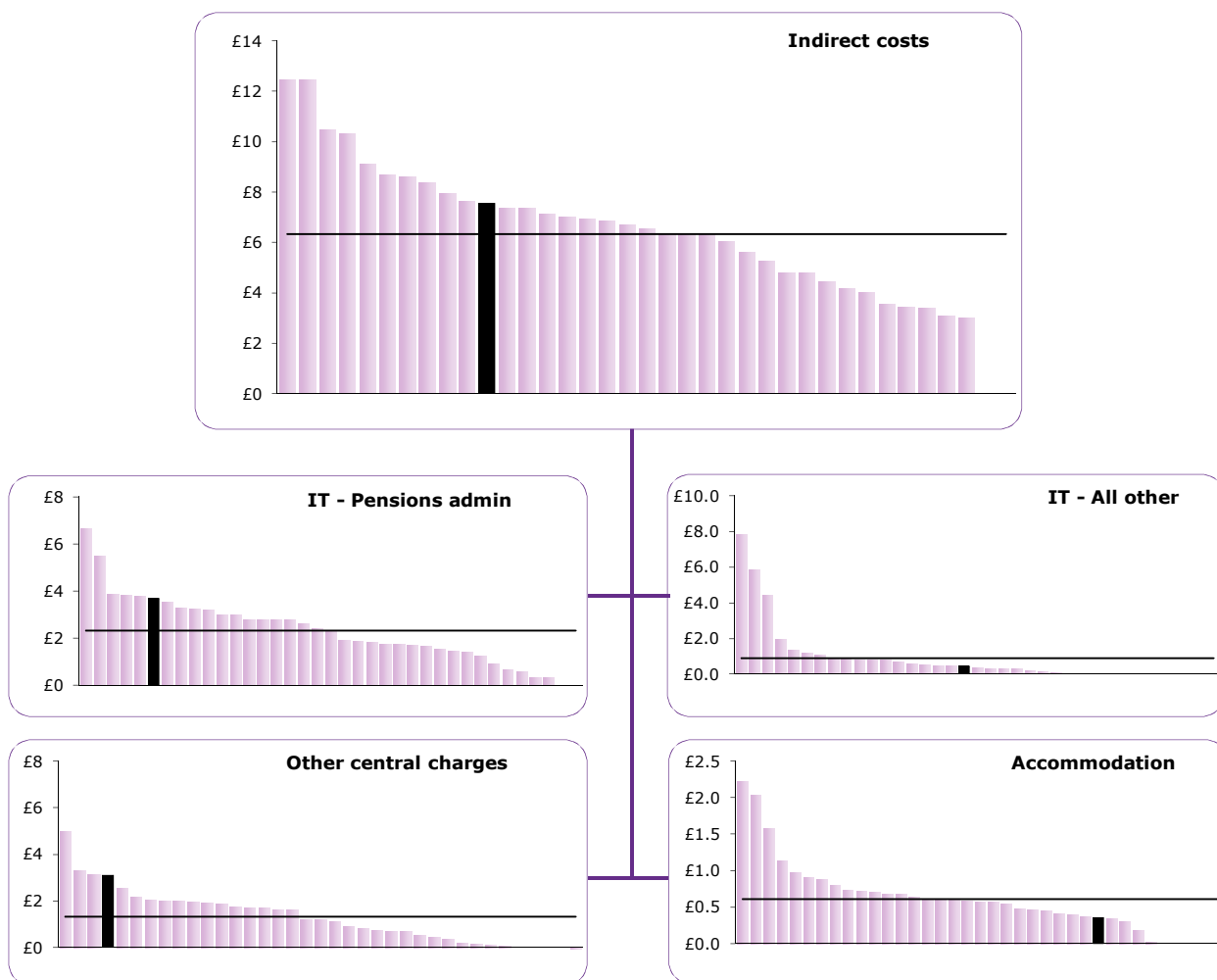


East Sussex 22% Avg 23%



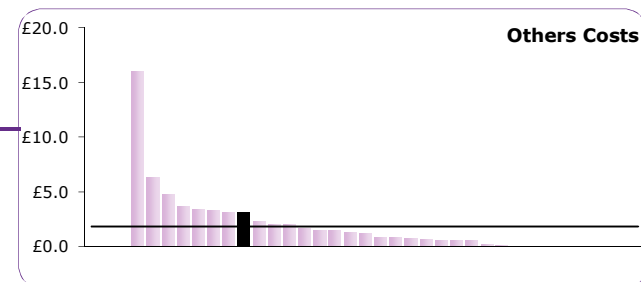
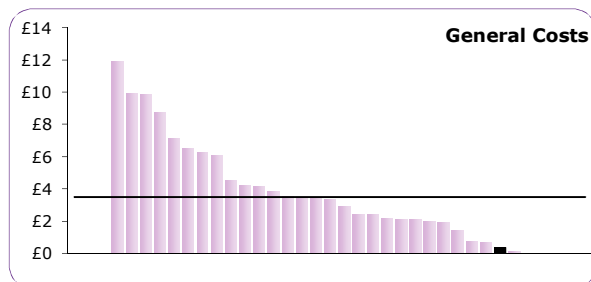
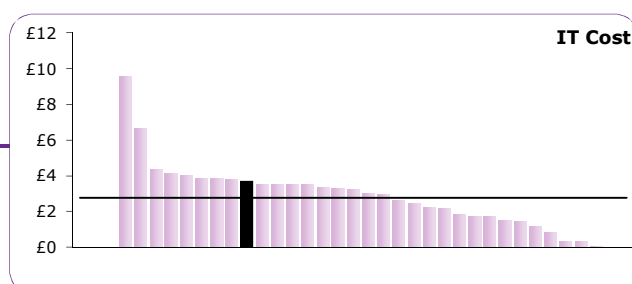
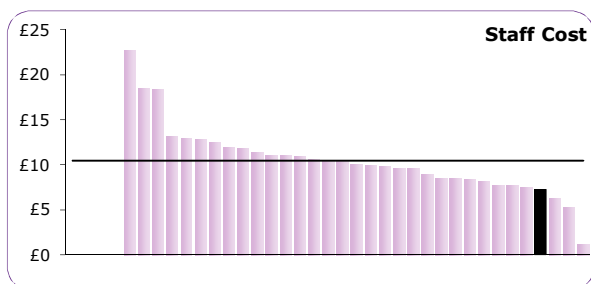
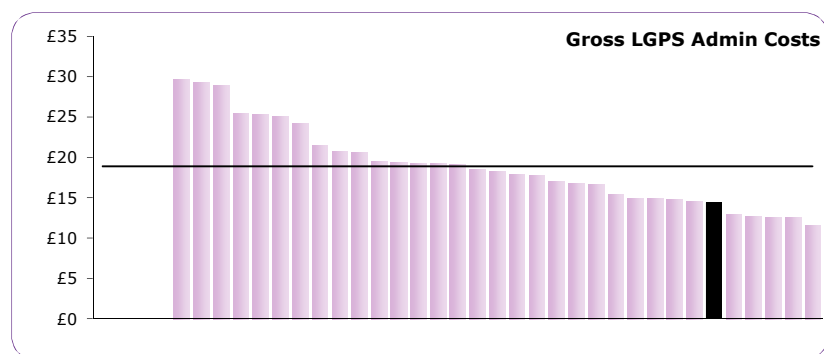
East Sussex 3.5 Avg 6.5

COSTS PER MEMBER - Indirect costs 2015/16



Indirect costs	£'000	£ per member	Avg
Other running costs	-	-	1.19
IT - Pensions admin	261	3.69	2.33
IT - All other	30	0.42	0.89
Accommodation	25	0.35	0.61
Other central charges	219	3.09	1.32
Total	535	7.56	6.34

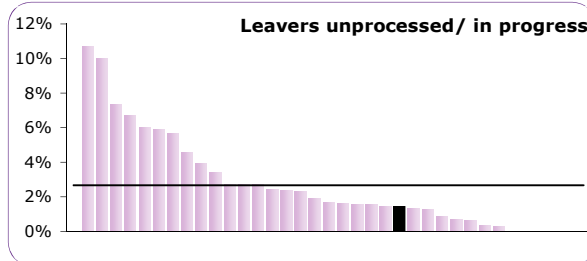
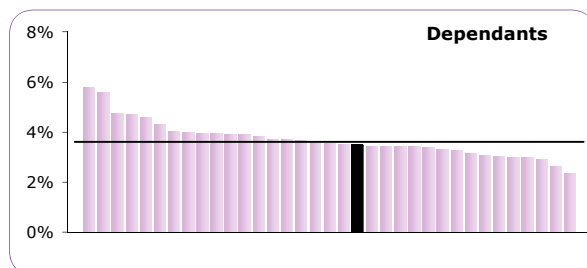
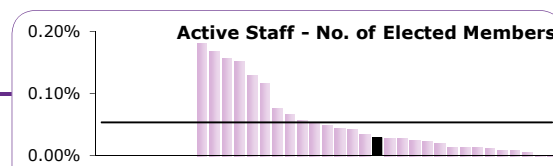
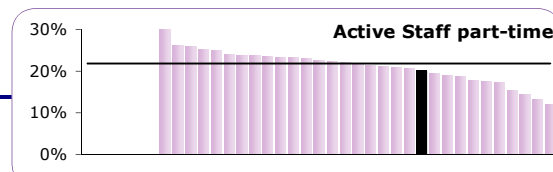
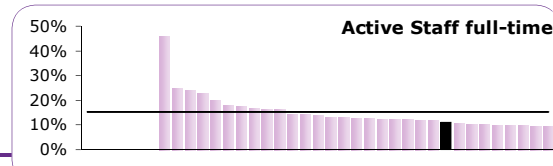
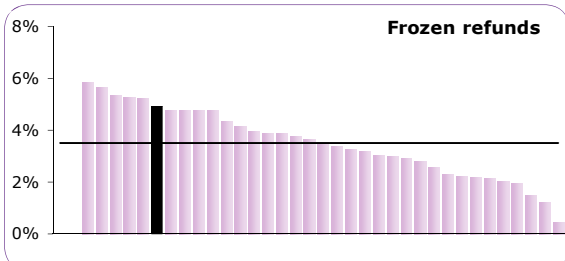
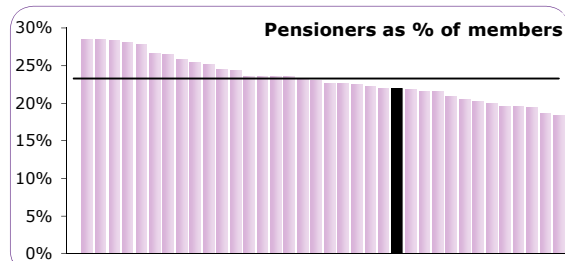
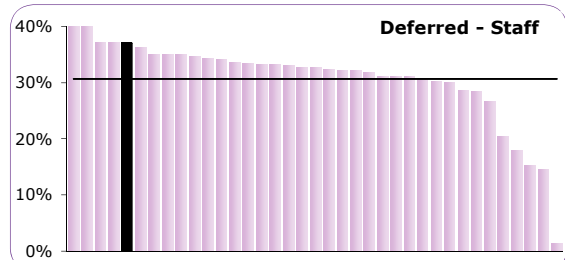
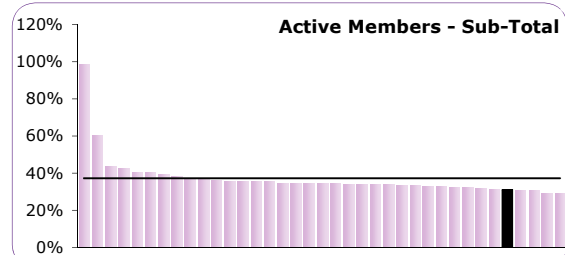
COSTS PER MEMBER - LGPS Administration Expenses Analysis 2015/16



LGPS Administration Expenses		£ per member	
	£'000		Avg
Staff Costs	512	7.23	10.47
IT Costs	261	3.69	2.78
General Costs	25	0.35	3.50
Other Costs	219	3.09	1.85
Gross LGPS Admin Exp.	1,017	14.36	18.85
Gross LGPS Income	-	-	0.67
Net LGPS Admin Exp.	1,017	14.36	248.03

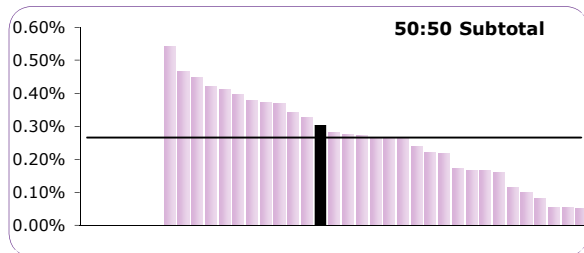
SECTION 3 - WORKLOAD MEASURES

COMPOSITION OF MEMBERS AS AT 31/3/2016



Composition of members				
	No.	%	Avg	Avg %
Active:				
- full-time	7,859	11.1%	17,825	15.1%
- part-time	14,158	20.0%	18,476	21.9%
- no. of elected Members	21	0.0%	38	0.05%
- sub-total	22,038	31.1%	35,339	37.2%
Deferred:				
- Staff	26,288	37.1%	30,930	30.7%
- Elected Members	48	0.1%	32	0.0%
Pensioners	15,496	21.9%	23,651	23.3%
Dependants	2,463	3.5%	3,946	3.6%
Frozen refunds	3,474	4.9%	3,250	3.5%
Leavers unprocessed/ in progress	1,013	1.4%	2,500	2.7%
Total	70,820		99,647	

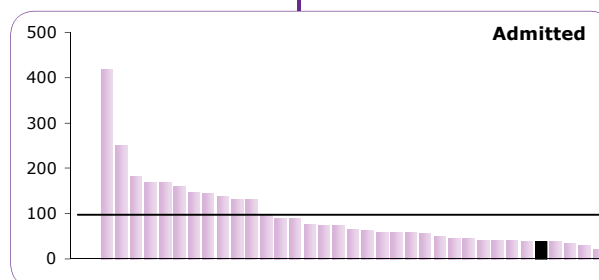
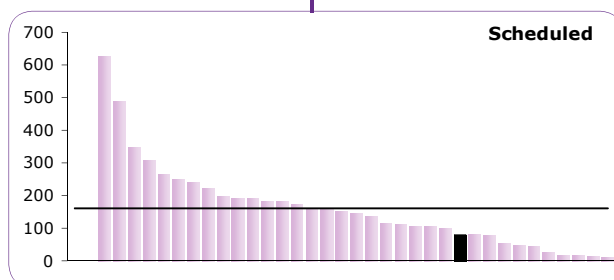
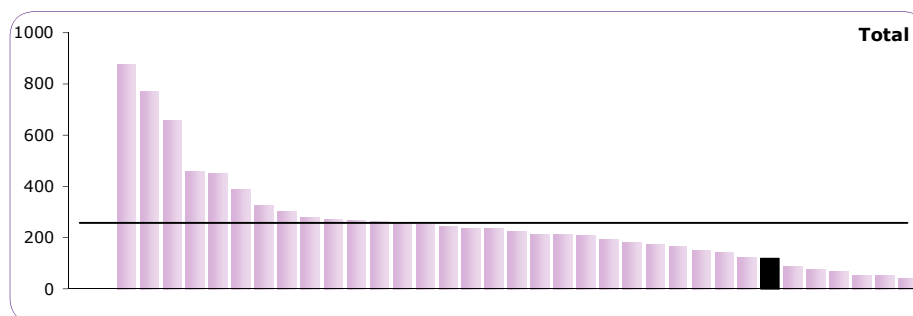
COMPOSITION OF MEMBERS AS AT 31/03/2016



Composition of active members

	No.	%	Avg
50:50	67	0.3%	0.3%

NUMBER OF LGPS EMPLOYERS AS AT 31/03/2016



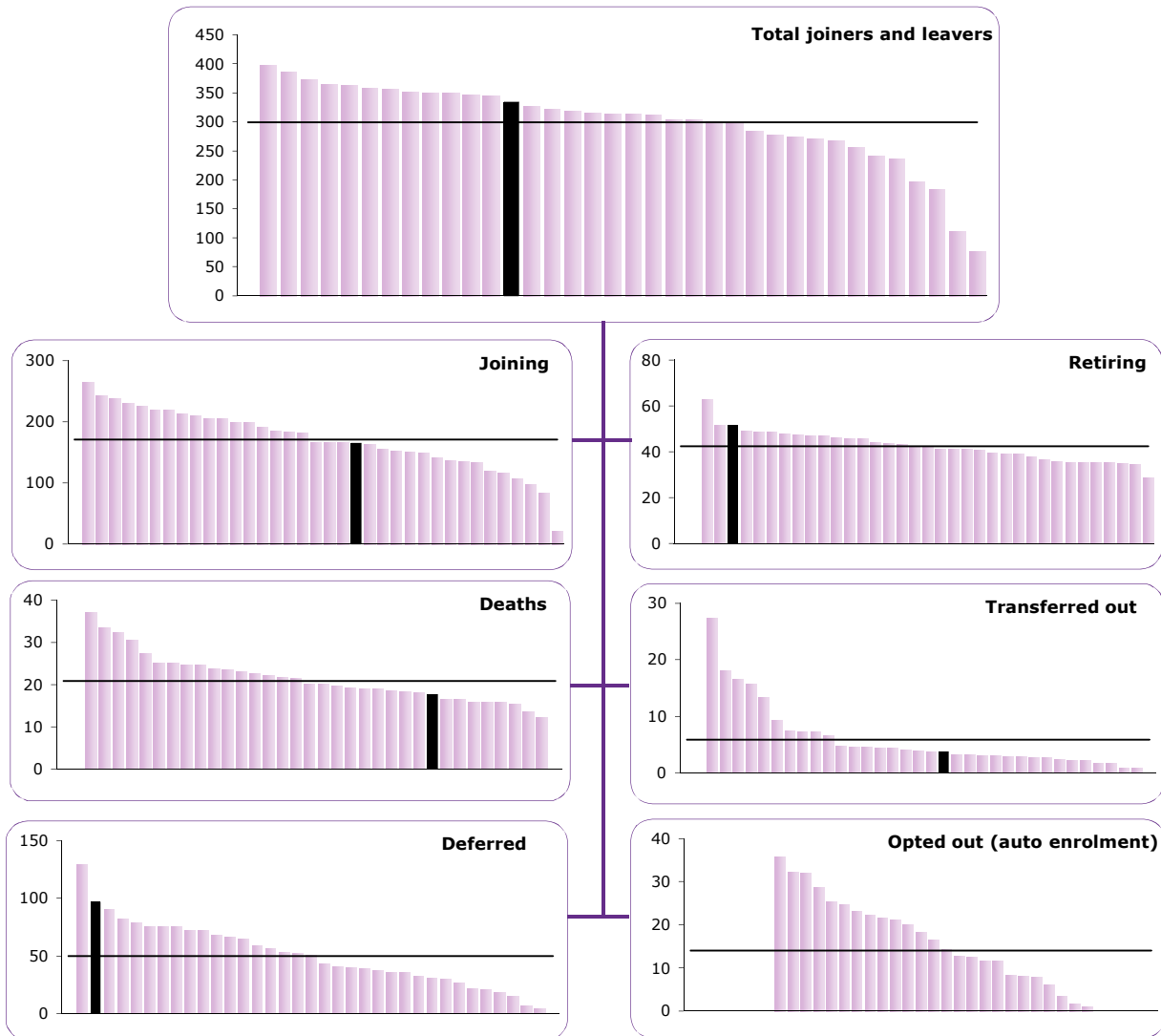
LGPS employers (31/3/16)

	No.	Avg	of which:	No.	%	Avg
Scheduled	82	162	Local Authorities	8	10%	10%
Admitted	39	97	Transferee	29	74%	43%
Total	121	259				

Employer changes 2015/16

	+/- Changes		Admitted		Leaving	
	No.	Avg	No.	Avg	No.	Avg
Scheduled	-	2	8	12	-	1
Admitted	-	1	4	8	-	29

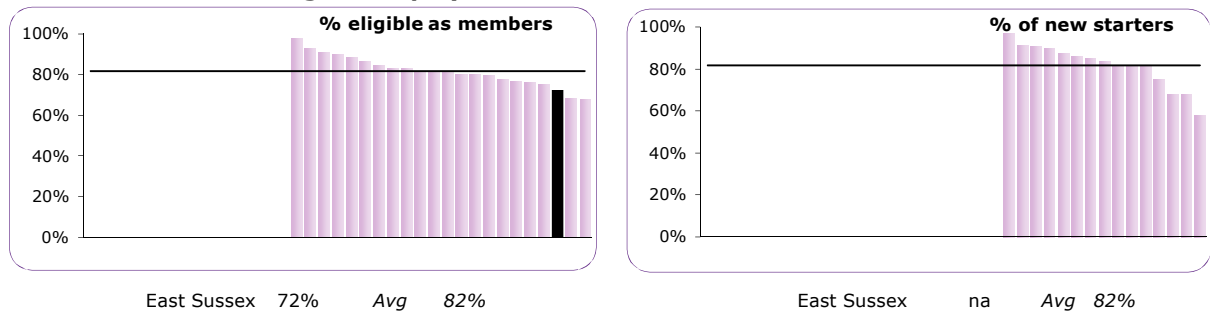
JOINERS & LEAVERS (per '000 active members)



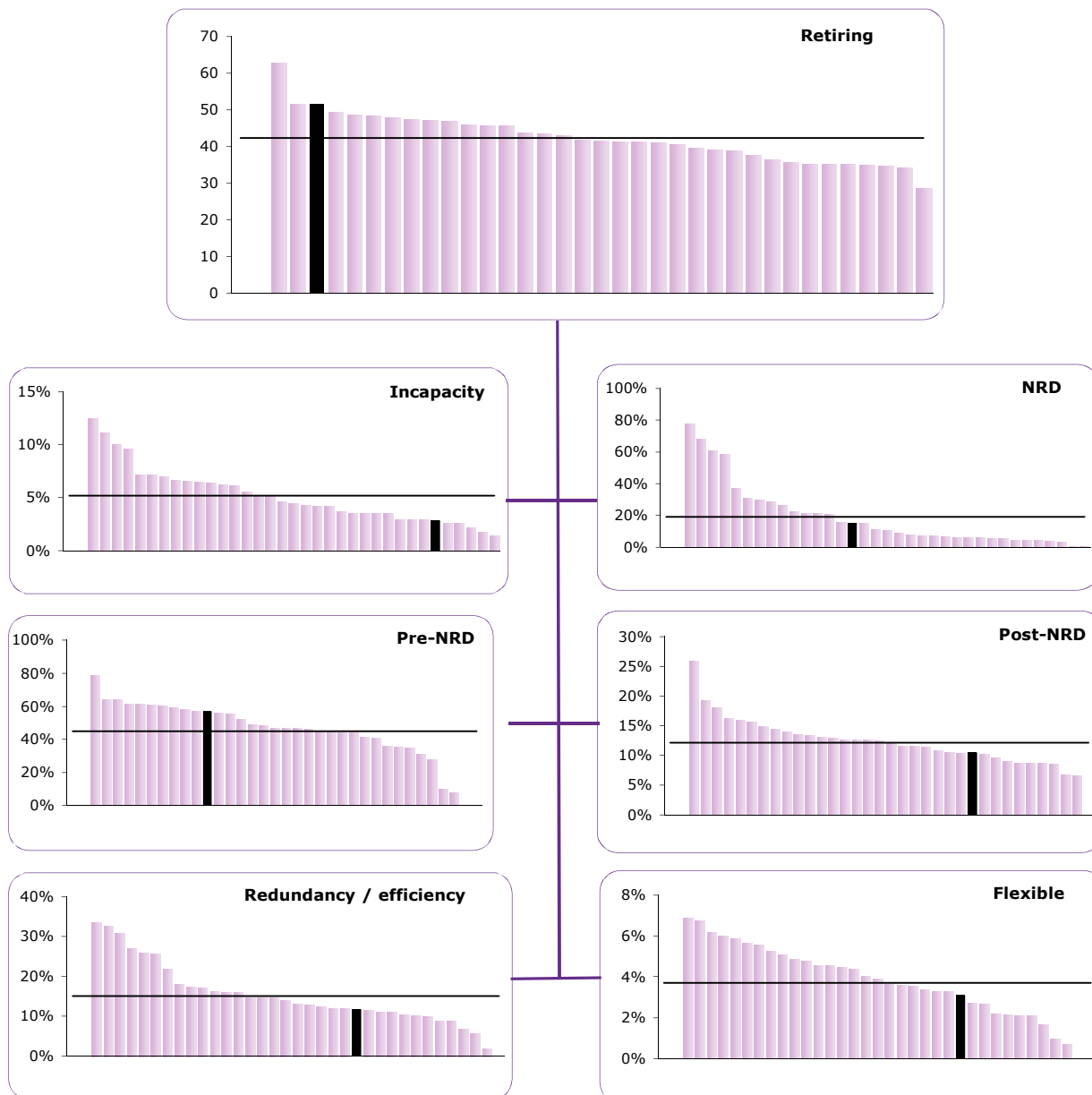
Joiners & leavers (per '000 active members)			
	No.	'000	Avg
Joining	3,641	165	171
Retiring	1,134	51	42
Deaths	389	18	21
Transferred out	82	4	6
Deferred	2,122	96	50
Opted out	-	-	14
Total	7,368	334	299

Active members	
	22,038

LGPS members as % eligible employees



RETIRING (per '000 active members)

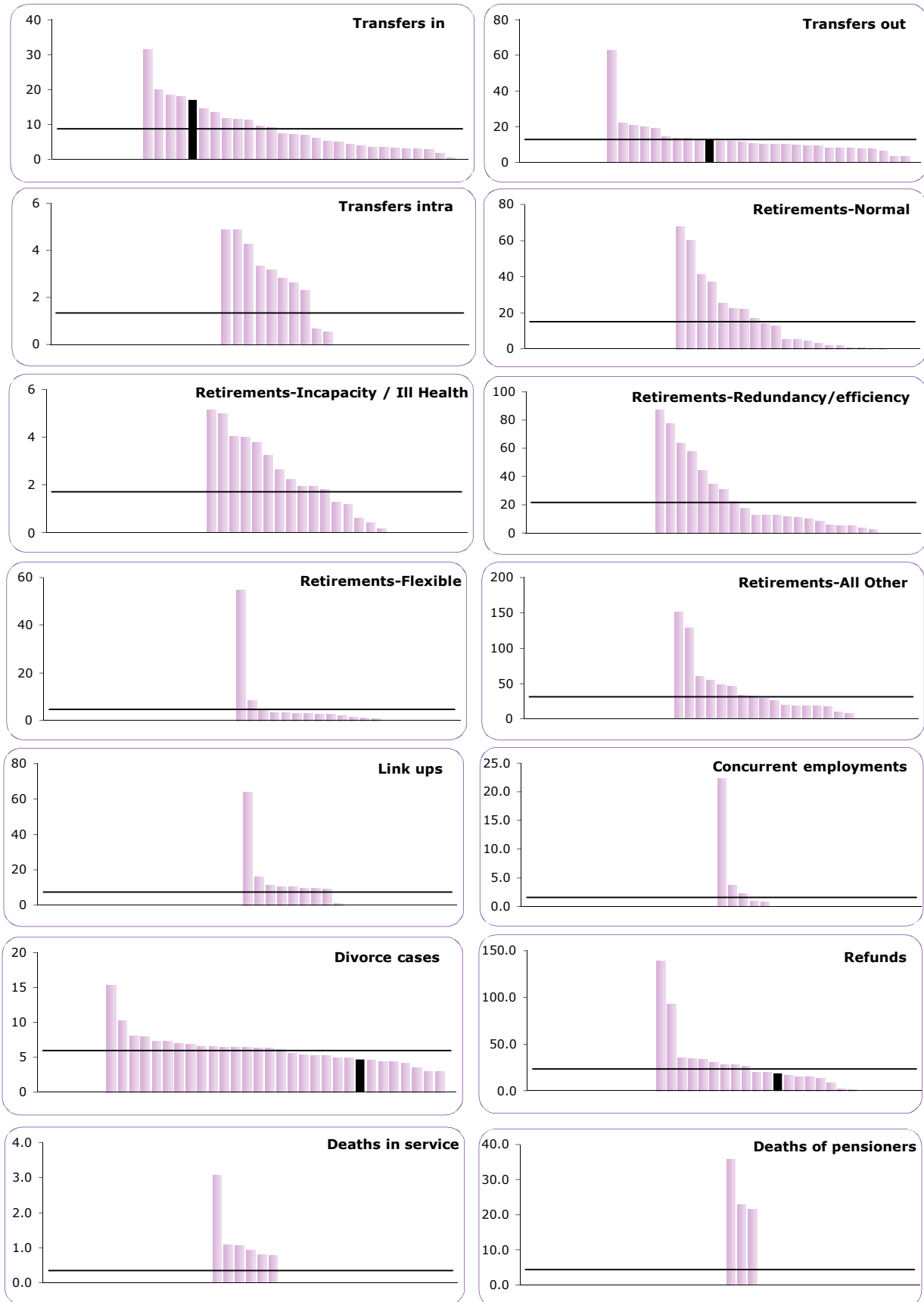


Retirements	No.	%	Avg
Incapacity	32	3%	5%
NRD	172	15%	19%
Pre-NRD	645	57%	45.0%
Post-NRD	118	10%	12%
Redundancy / efficiency	132	12%	15%
Flexible	35	3.1%	3.7%
Total	1,134		

Retiring (per '000 active members)			
	No.	'000	Avg
Retiring	1,134	51	42

Active members	
	22,038

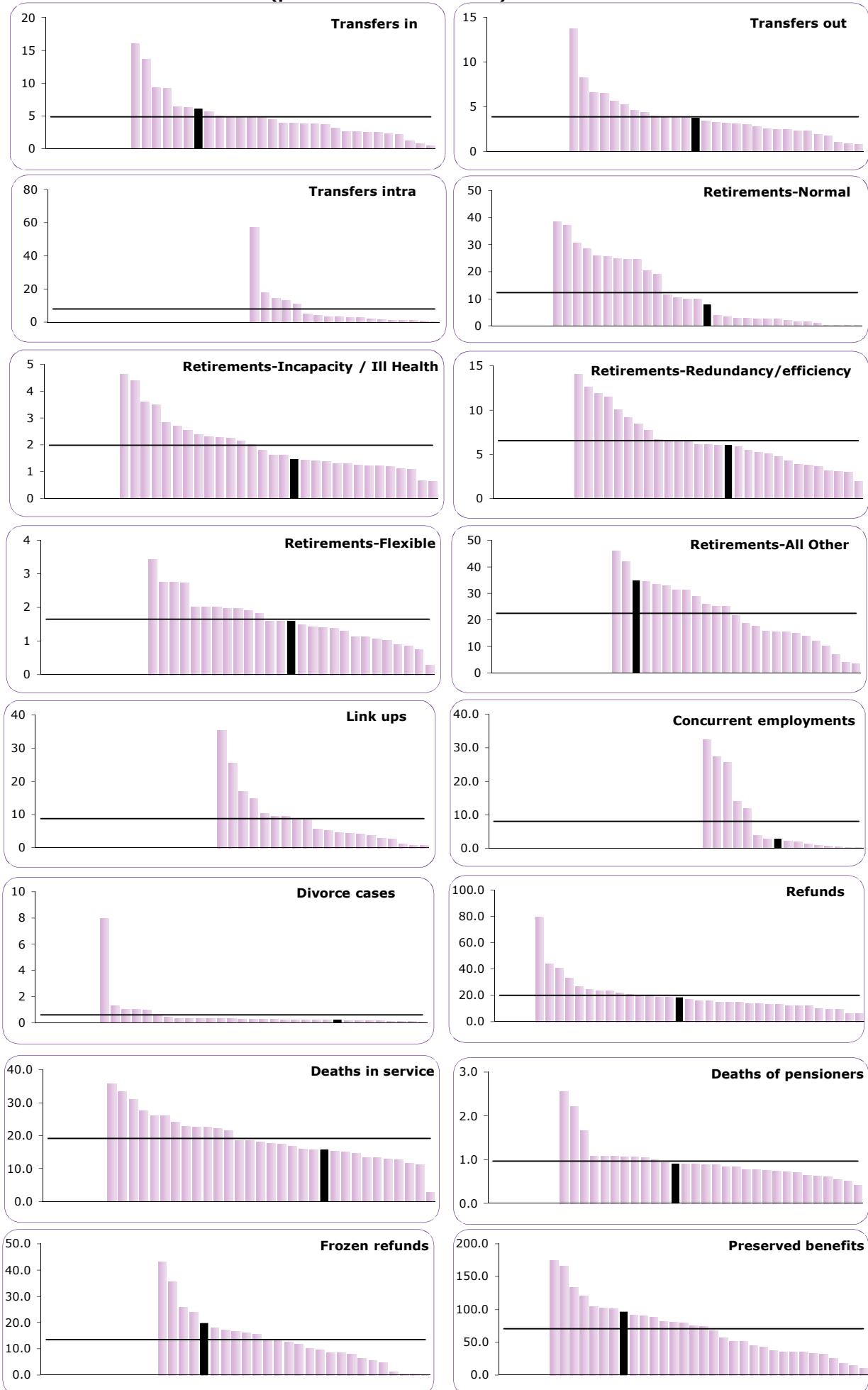
NUMBER OF QUOTATIONS PROVIDED (per '000 active members)



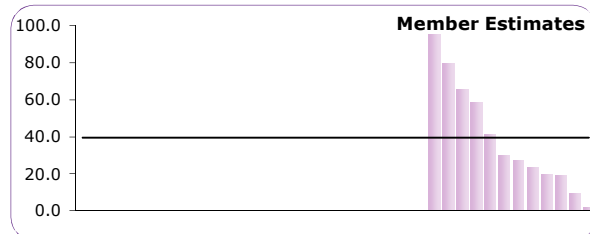
No of bulk transfers	No.	'000	Avg
TUPE -in	3	0	0
TUPE -out	1	0	0
Academies	4	0	0

Active members:		22,038		
Quotations provided		No.	'000	Avg
TUPE -in		3	0	0.0
TUPE -out		1	0	0.0
Academies		4	0	0.0
Retirements:				
- Normal		-	-	15.0
- Incapacity/ill-health		-	-	1.7
- Redundancy/efficiency		-	-	21.6
- Flexible		-	-	4.5
- All other		-	-	31.3
Transfers in		373	17	8.8
Transfers out		269	12	12.8
Transfers intra		-	-	1.3
Link ups		-	-	7.5
Concurrent employments		-	-	1.6
Refunds		401	18	23.3
Divorce cases		102	5	5.9
Deaths in service		-	-	0.4
Deaths of pensioners		-	-	4.5

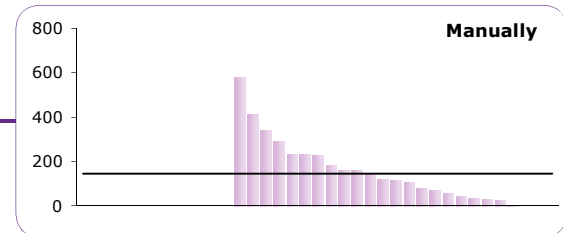
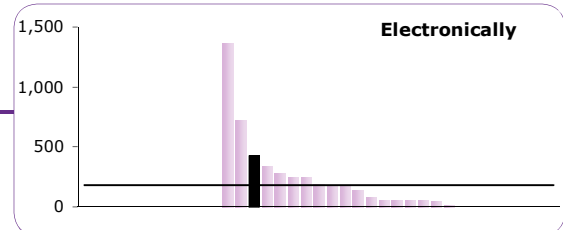
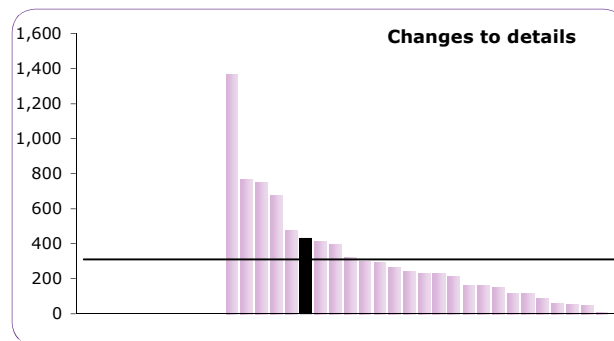
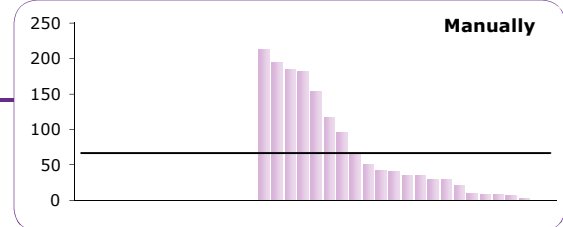
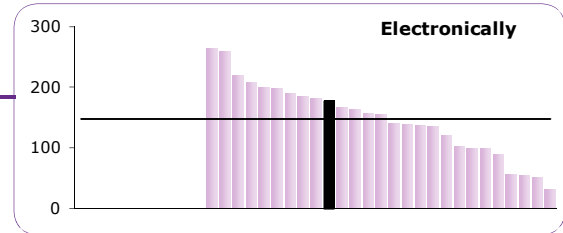
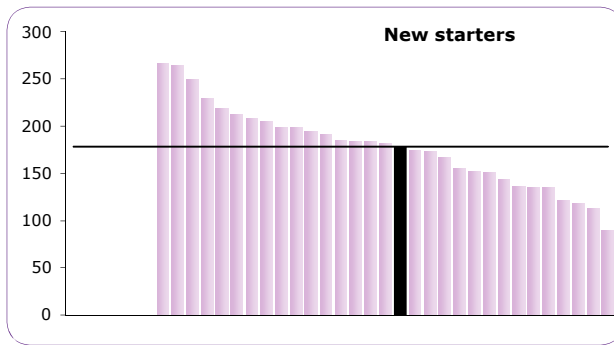
NUMBER OF ACTUAL EVENTS (per '000 active members)



Active members:	22,038		
Actual events	No.	'000	Avg
TUPE -in	3	0	0
TUPE -out	1	0	0
Academies	4	0	10
Retirements:			
- Normal	172	8	12
- Incapacity/ill-health	32	1	2
- Redundancy/efficiency	132	6	7
- Flexible	35	1.6	2
- All other	763	35	23
Transfers in	133	6	5
Transfers out	82	4	4
Transfers intra	-	na	8
Link ups	-	na	9
Concurrent employments	59	3	8
Refunds	401	18	20
Frozen refunds	435	19.7	13
Preserved benefits	2,122	96	71
Divorce cases	5	0	1
Deaths in service	344	15.6	19
Death of pensioners	20	1	1
Single Status / Job Evaluation	-	na	na
Members Estimates	-	na	39

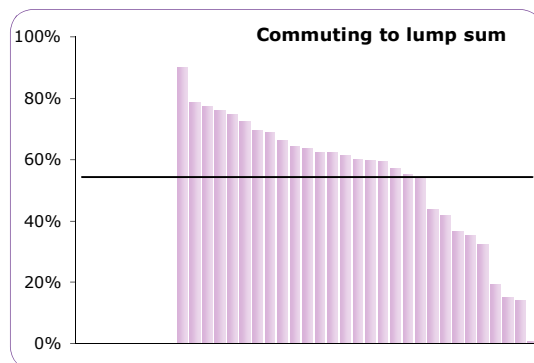


ACTUAL CALCULATIONS (per '000 active members)



RETIREMENTS

Retirements commuting to lump sum



Retirements commuting lump sum		
Number	% total	Avg
..	na	54%

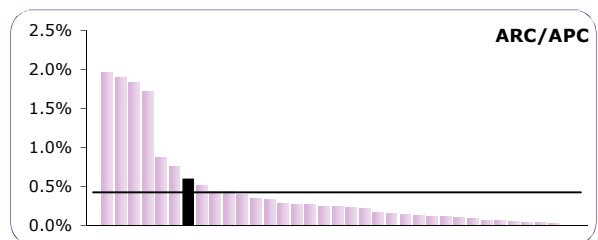
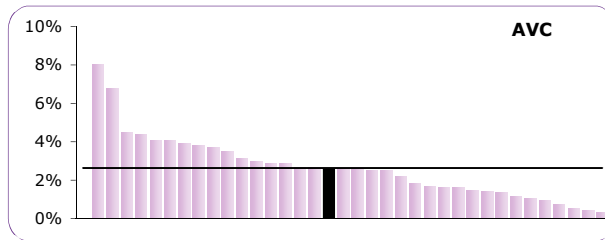
Active members

22,038

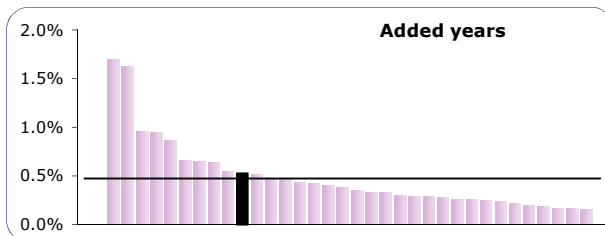
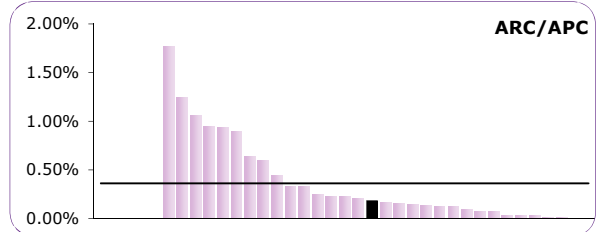
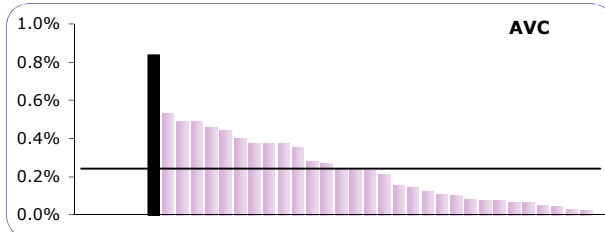
Actual calculations			
	No.	'000	Avg
New starters	3,929	178	178
- electronically	3,929	178	148
- manually	-	na	67
Changes to details	9,482	430	309
- electronically	9,482	430	180
- manually	-	0	146

AVCs, ARCs and Added years

% Currently contributing



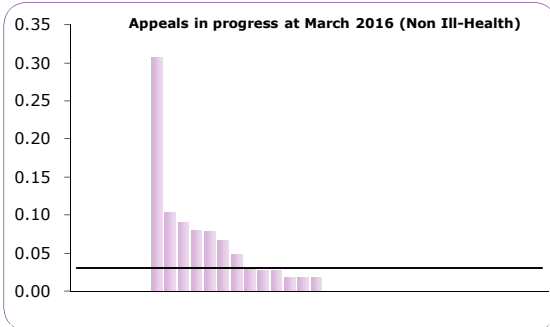
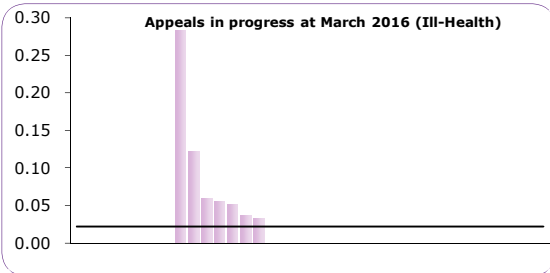
% New contributors this year



Contributors to AVCs and ARCS			
	No.	%	Avg
Currently contributing			
- AVC	564	2.56%	2.64%
- ARC/APC	132	0.60%	0.42%
- Added years	118	0.54%	0.47%
Total	814	3.69%	3.43%
New contributors this year			
- AVC	185	0.84%	0.24%
- ARC/APC	40	0.18%	0.36%
Total	225	1.02%	0.52%

Active members	
	22,038

APPEALS

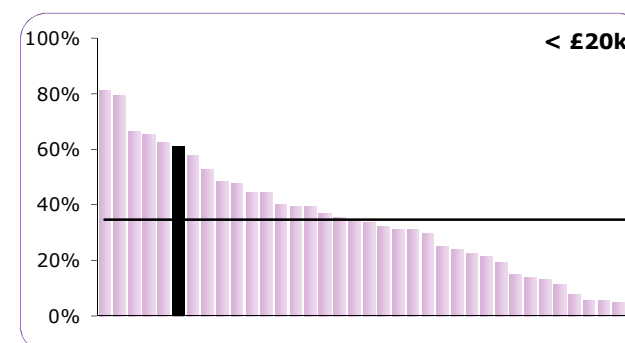
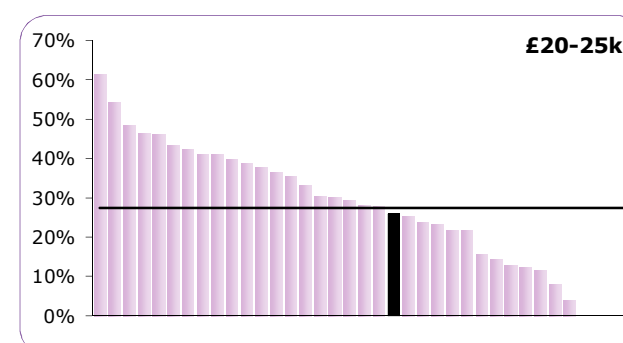
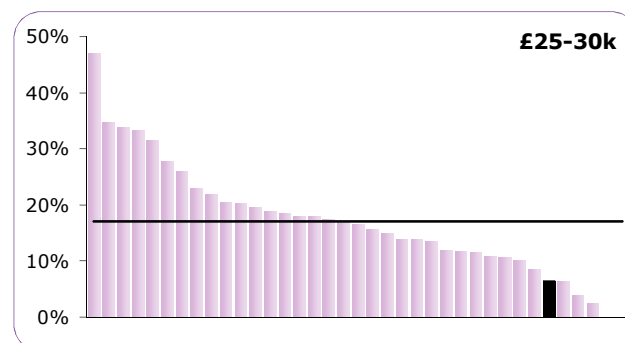
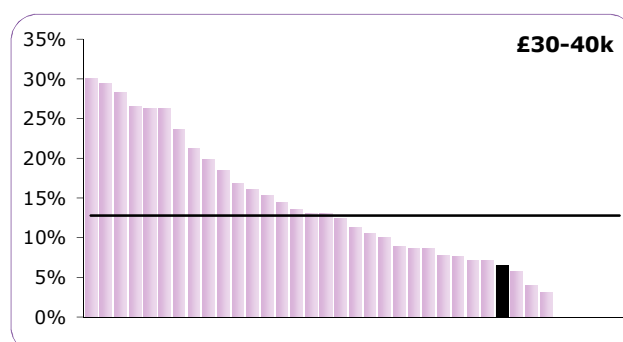
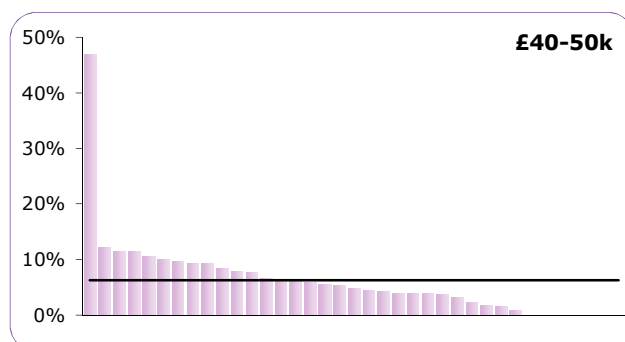
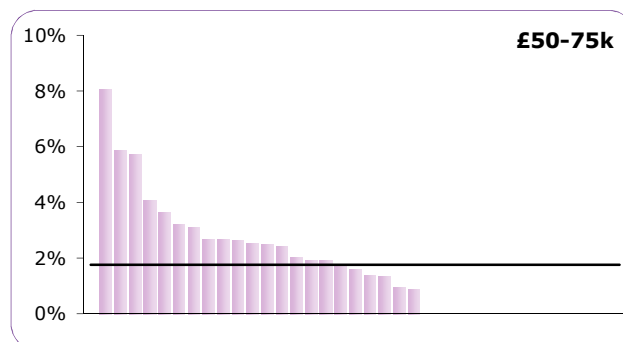
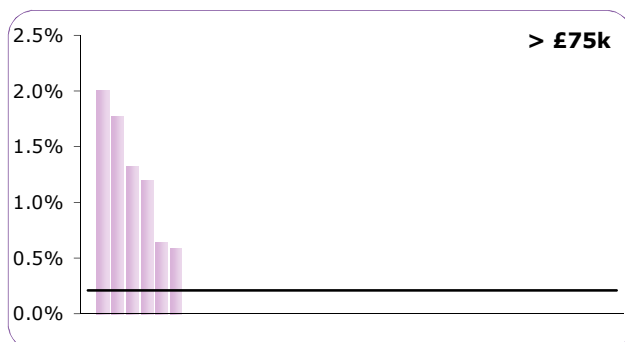


*Club total: This shows the total for all the Benchmarking Club members 2016

Number of appeals	No.	Per '000 members	Avg	Club* total
Ill-Health				
In progress at start of year	1	0.05	0.03	25
In progress at end of year	0	0.00	0.02	29
Non Ill-Health				
In progress at start of year	1	0.05	0.04	31
In progress at end of year	0	0.00	0.03	27
1st Stage				
Appeals in Progress - 03.15	1	0.05	0.03	27
New Appeals in Year	1	0.05	0.14	194
Appeals Withdrawn	0	0.00	0.01	7
Appeals Upheld	0	0.00	0.03	36
Appeals Not Upheld	2	0.09	0.11	156
Appeals in Progress - 03.16	0	0.00	0.03	22
2nd Stage				
Appeals in Progress - 03.15	1	0.05	0.02	14
New Appeals in Year	0	0.00	0.00	59
Appeals Withdrawn	0	0.00	0.00	-
Appeals Upheld	0	0.00	0.02	17
Appeals Not Upheld	1	0.05	0.05	53
Appeals in Progress - 03.16	0	0.00	0.01	(2)
Ombudsman Referrals				
Appeals in Progress - 03.15	0	0.00	0.01	8
New Appeals in Year	0	0.00	0.01	13
Appeals Withdrawn	0	0.00	0.00	1
Appeals Upheld	0	0.00	0.00	1
Appeals Not Upheld	0	0.00	0.01	10
Appeals in Progress - 03.16	0	0.00	0.01	4

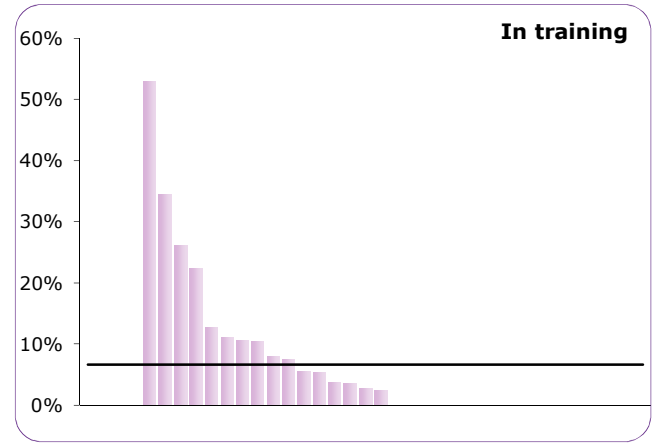
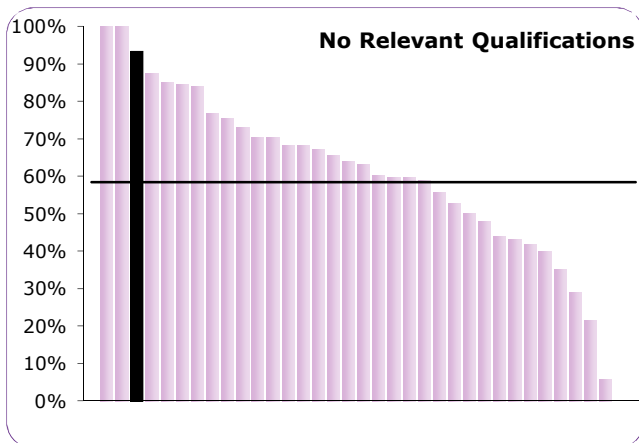
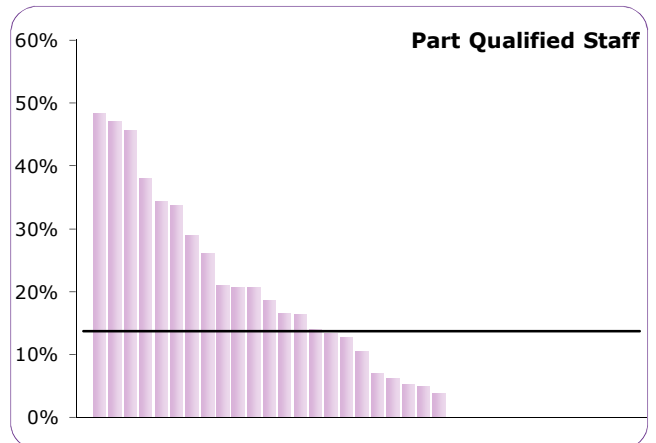
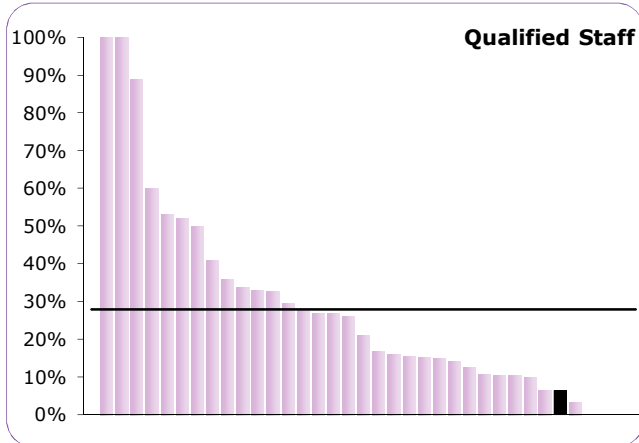
SECTION 4 - STAFF RELATED MEASURES

STAFF PAY



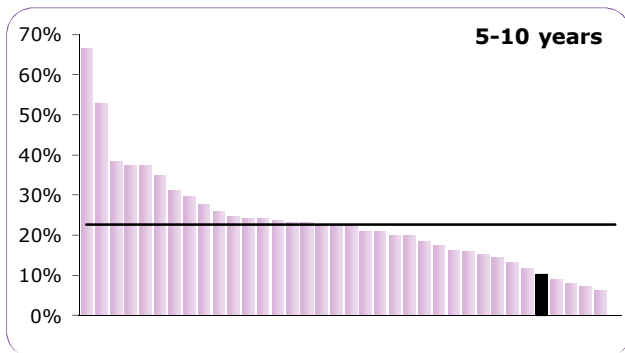
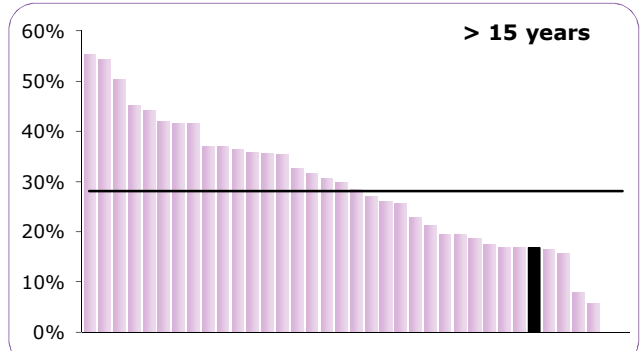
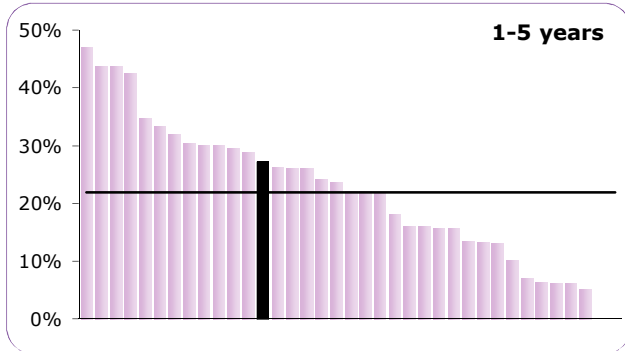
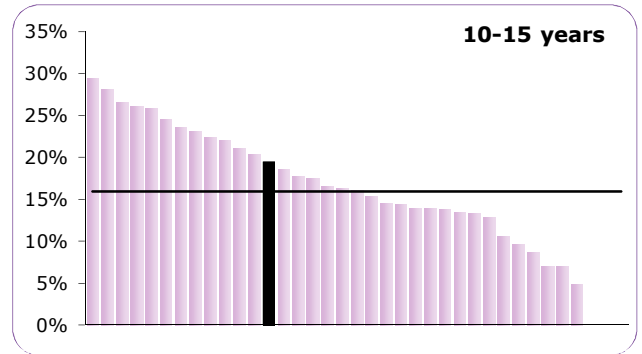
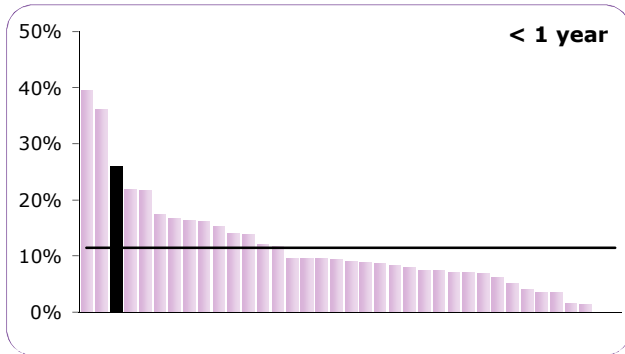
Staff pay			
	FTE	%	Avg
> £75k	0.0	0%	0.2%
£50-75k	0.0	0%	1.7%
£40-50k	0.0	0%	6.2%
£30-40k	1.0	6%	12.8%
£25-30k	1.0	6%	17.0%
£20-25k	4.0	26%	27.4%
< £20k	9.4	61%	34.7%
Total	15.4		

STAFF QUALIFICATIONS



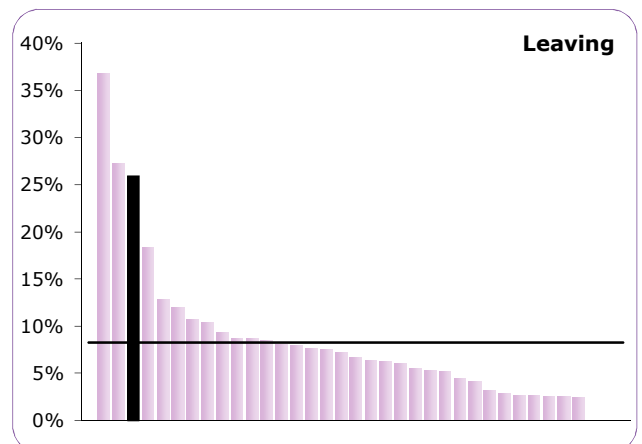
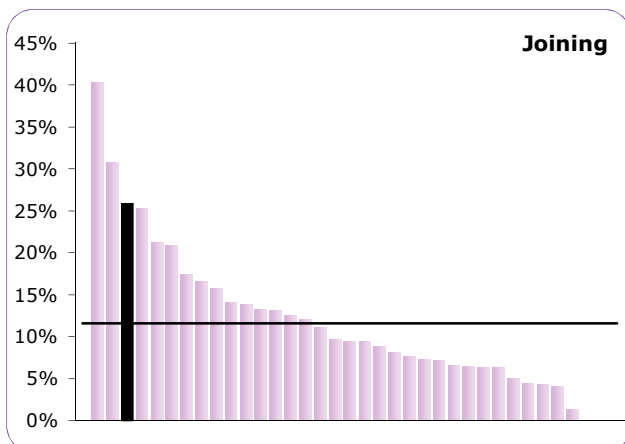
Staff qualifications			
	FTE	%	Avg
Qualified Staff	1.0	6%	28%
Part Qualified Staff	0.0	0%	14%
No Relevant Qualifications	14.4	94%	58%
Total	15.4		
Number in Training	0.0	0%	7%

STAFF PENSIONS EXPERIENCE



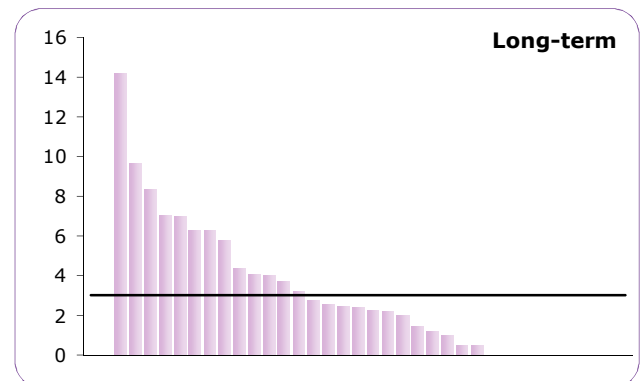
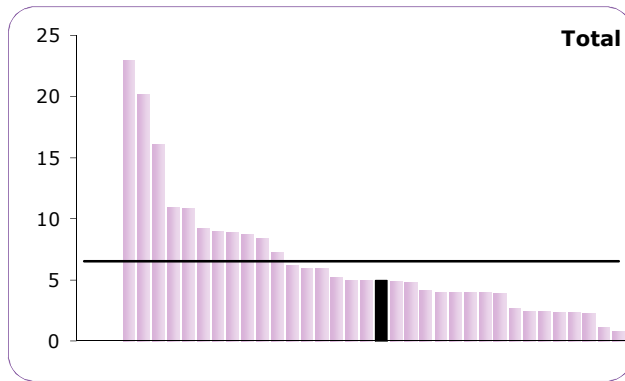
Staff experience			
	FTE	%	Avg
< 1 year	4.0	26%	11%
1-5 years	4.2	27%	22%
5-10 years	1.6	10%	23%
10-15 years	3.0	19%	16%
> 15 years	2.6	17%	28%
Total	15.4		

STAFF TURNOVER



Staff Turnover	FTE	% change	Avg
Staff at 1/4/2015	15.4		
+ Staff joining Pension section	4.0	26.0%	11.6%
- Staff leaving Pension section	4.0	26.0%	8.3%
Staff at 31/3/2016	15.4	0.0%	4.6%

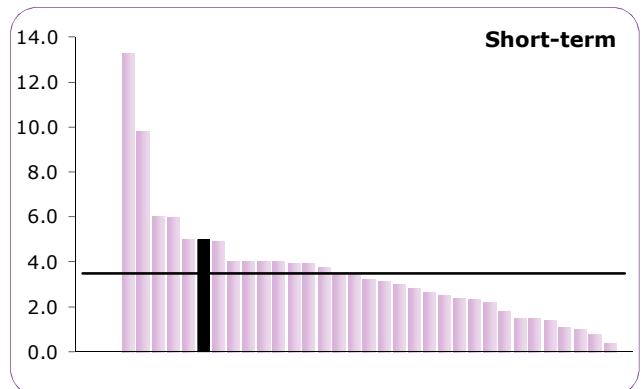
SICKNESS ABSENCE



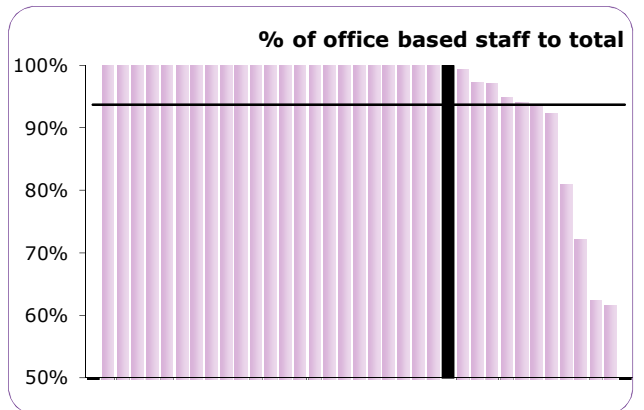
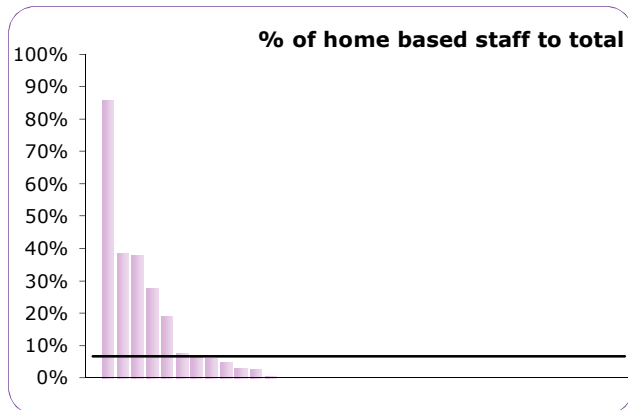
Sickness absence	Days/FTE	Avg
Long-term sickness	0.0	3.0
Short-term sickness	5.0	3.5
Total	5.0	6.5

Long-term sick (periods of sickness over 20 working days)

Short-term sick (periods of sickness of 20 days or less)



STAFF LOCATION

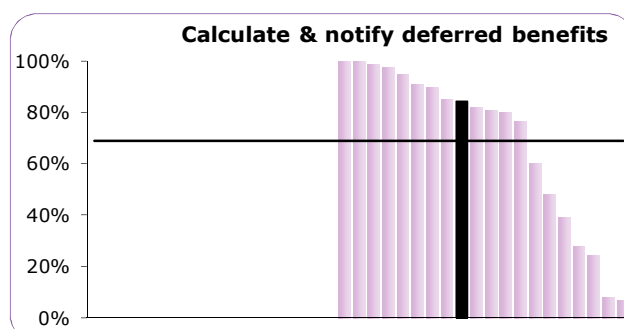
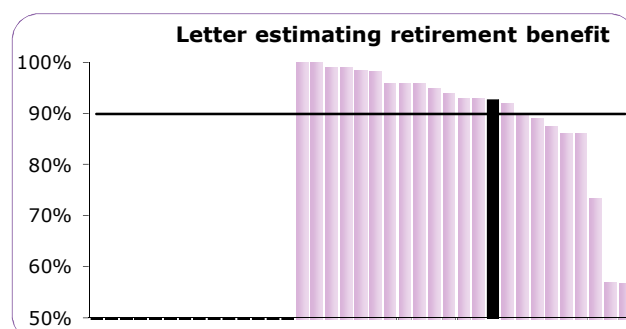
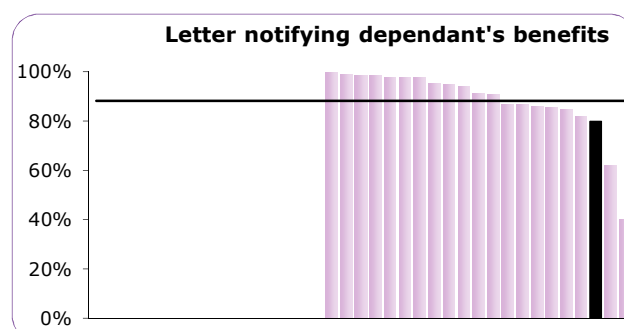
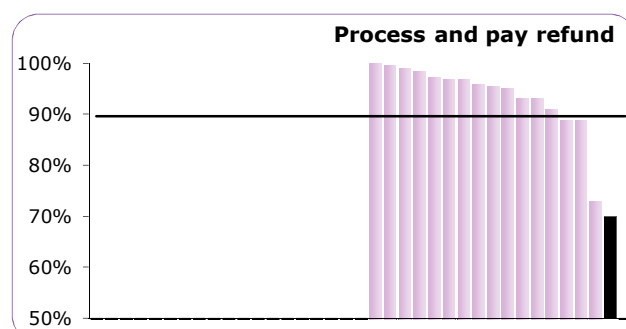
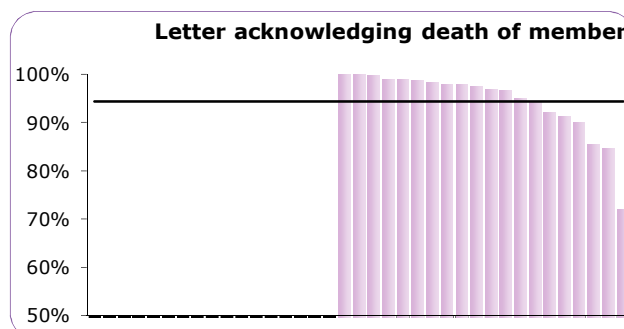
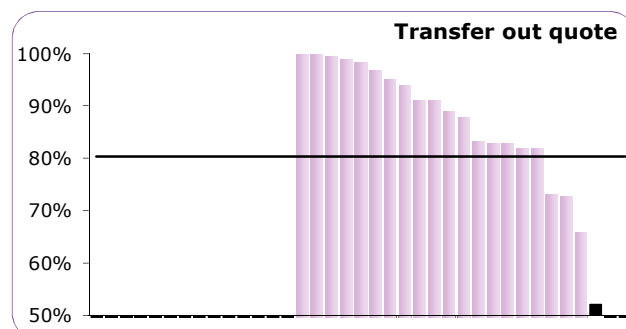
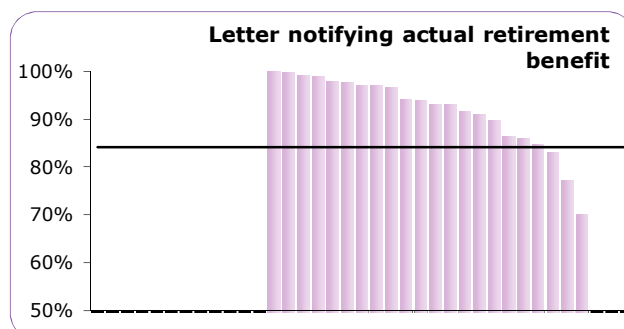
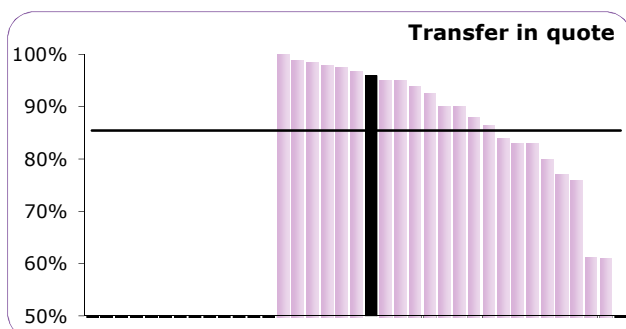


Staff location	FTE	Avg	% to total FTE	Avg
Home based	0.0	2.1	0%	7%
Office based	15.4	33.2	100%	94%
Total	15.4			

Office Based: Staff members who spend >50% of their contracted time working in the office

Home Based: Staff members who spend 50% of their contracted time working from home.

SECTION 5 - INDUSTRY STANDARD PI's



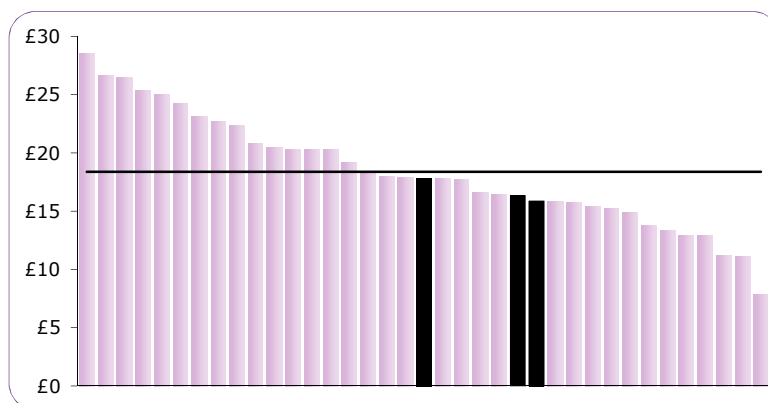
Industry Standard PI's	Target	Achieved	Avg
Letter detailing transfer in quote	10 days	96.0%	85.4%
Letter detailing transfer out quote	10 days	52.2%	80.3%
Process and pay refund	5 days	70.0%	89.6%
Letter notifying estimate of retirement benefit	10 days	92.7%	89.9%
Letter notifying actual retirement benefit	5 days	40.0%	84.1%
Process and pay lump sum retirement grant	5 days	40.0%	84.3%
Letter acknowledging death of member	5 days	n/a	94.3%
Letter notifying amount of dependant's benefits	5 days	80.0%	88.1%
Calculate and notify deferred benefits	10 days	84.5%	68.8%

SECTION 6 - COMPARISON BY METHOD OF SERVICE DELIVERY

COMPARISON OF OUTSOURCED/IN-HOUSE MEMBERS

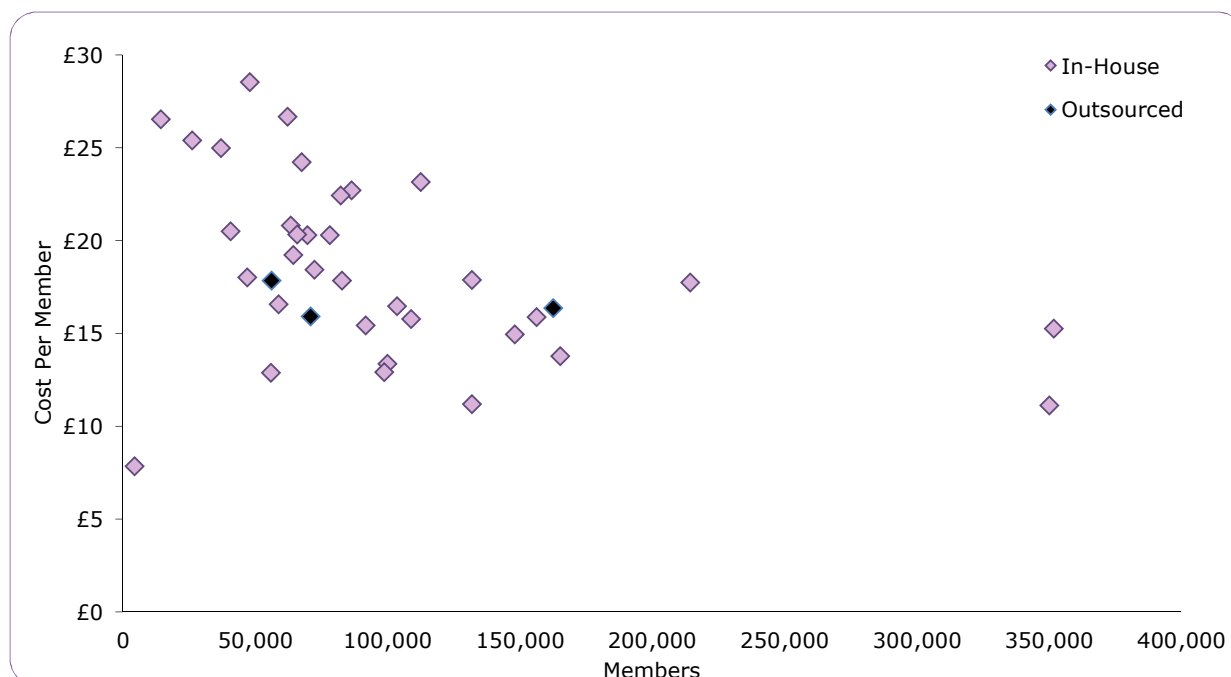
Total members with data:	38
Outsourced members:	3

LGPS ADMIN COST PER MEMBER (INCLUDING PAYROLL)



	Cost	Members	Cost per Member
East Sussex	£1,126	70,820	£15.90
Club average	£1,683	99,473	£18.37
Outsourced average	£1,595	96,455	£16.71
In-house average	£1,690	99,740	£18.52

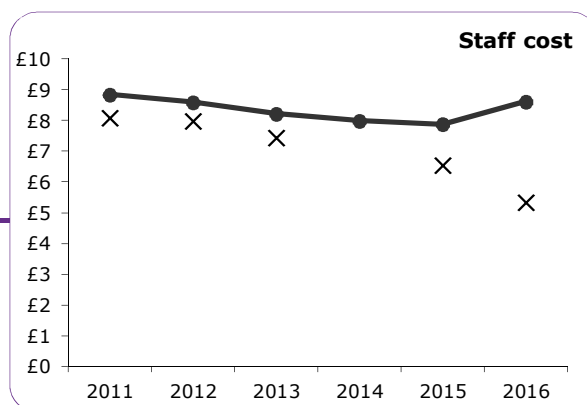
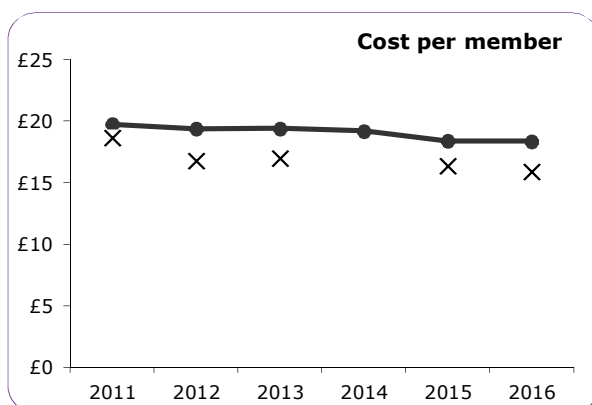
COST PER MEMBER COMPARED WITH NUMBER OF MEMBERS



SECTION 7 - TIMESERIES

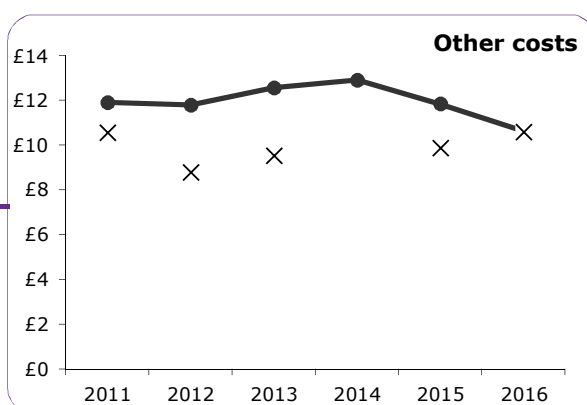
The 2016 averages are the actual club averages.

For previous years, the averages shown here are scaled up or down from the 2015 figure based on the average rate of change in each year. This is calculated using data from members who supplied figures in consecutive years, otherwise the simple average in each year would be distorted by changes in the composition of the club from year to year.



KEY:

● Club average
X East Sussex



Time series analysis						
	2011	2012	2013	2014	2015	2016
Members	57,166	59,199	61,577	..	69,098	70,820
Net cost (£'000)	1,066k	993k	1,046k	..	1,131k	1,126k
Cost per member	£18.65	£16.77	£16.99	..	£16.36	£15.90
Average	£19.75	£19.39	£19.40	£19.19	£18.41	£18.37
Staff cost	£8.10	£7.99	£7.45	..	£6.55	£5.34
Average	£8.85	£8.60	£8.22	£7.99	£7.88	£8.62
Other costs	£10.55	£8.78	£9.53	..	£9.85	£10.57
Average	£11.90	£11.79	£12.55	£12.90	£11.84	£10.61

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www.cipfa.org/services/benchmarking

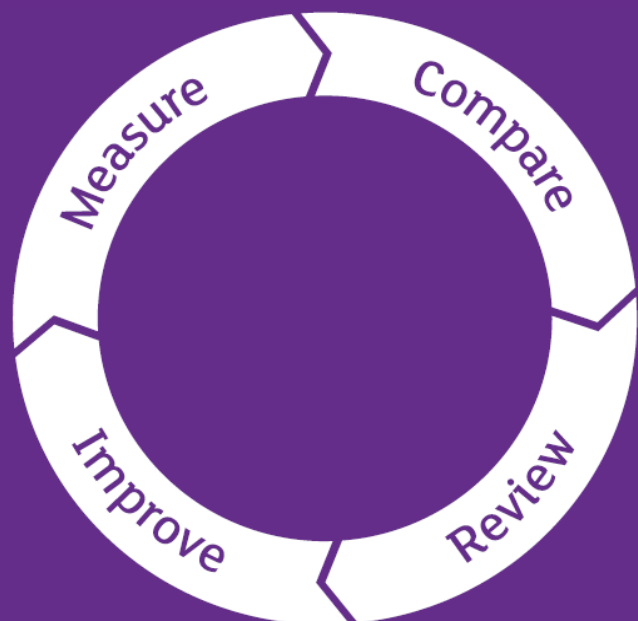
Contact us

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Report to: **Pension Committee**
 Date: **27 February 2017**
 By: **Interim Chief Finance Officer**
 Title of report: **Pension Fund Budget for 2017/18**
 Purpose of report: **This report outlines the 2017/18 budget for the Council's statutory function as the administering authority of the East Sussex Pension Fund.**

RECOMMENDATIONS

The Committee is required to approve the revenue budget for 2017/18 attached as Appendix 1 to this report.

1. Background

1.1 Under the Local Government Pension Scheme (LGPS) Regulations, the Council is required to maintain a Pension Fund for its employees and other 'scheduled bodies' as defined in the Regulations. The Regulations also empower the Fund to admit employees of other 'defined' (e.g. other public bodies) bodies into the Fund.

1.2 The proposed 2017/18 budget for the Pension Fund has been put together to assist in the management of the Fund, so that the Council is able to perform its role as the administering authority in a structured way. The Pension Committee is charged with meeting the duties of the Council in respect of the Pension Fund. Therefore it is appropriate that the Committee formally adopts an annual budget to assist with the discharge of its duties.

1.3 Expenditure for the Investment Management, Strategy & Pension Governance teams is included in the Business Services Department (BSD) budget and actual costs are invoiced to the Pension Fund at the end of the financial year. These expenses are a charge on the Pension Fund, and there is no direct charge to local authorities or other employer bodies for the costs detailed in this report.

1.4 The estimates do not incorporate any provision for investment fees earned by the alternative fund managers, and provision has been built into the budget for manager fees on £3.0 billion of assets.

2. East Sussex Pension Fund (ESPF) Budget – 2017/18

2.1 The budget outlined in this report will assist the Council in monitoring expenditure of the Fund's revenue budget in accordance with its requirement to manage resources effectively. The detail ESPF budget for 2017/18 is attached as Appendix 1. A comparison of the 2016/17 budget with the 2017/18 budget is shown below:

Description	2016/17	2017/18	Change
	Budget £000	Budget £000	
Pension Administration	1,250	1,110	(140)
Oversight and governance	680	660	(20)
Investment Management	8,850	8,850	-
Total	10,780	10,620	(160)

3. Analysis of Budget Movement

3.1 Pension Administration - The slight decrease in pension admin budget between 2016/17 and 2017/18 is primarily due to the anticipated savings from the change in provision of the hosting of the Heywoods Altair system which has moved from Heywoods to Surrey. The budget for the GMP reconciliation work has been taken forward as this work is now due to take place in 2017/18.

3.2 Oversight and governance – The changes in the oversight and governance budget is due to the resources set aside for commissioning work re the ongoing LGPS investment pooling initiative and a reduction in the investment consultant budget on the expectation that less work will be commissioned.

3.3 Investment Management - The Investment Strategy budget reflects potential for a fees reduction from current managers, and the increase in the value of the fund since 31 March due to the current market fluctuation. It is not possible to accurately estimate the fund investment management annual fees because they are linked to the market values of the assets being managed, which continually fluctuate.

4. Budget Monitoring

4.1 The budget will be monitored by officers with a quarterly report to the Pension Board throughout the year. Actual spend is detailed in the Annual Report and Accounts of the Pension Fund which are subject to external audit. As in previous years, the Pension Fund will participate in a number of benchmarking exercises during the year, which will provide a useful cost comparator with other LGPS funds.

5. Conclusion and recommendations

5.1 Pension Fund expenditure on investment and administration are a charge to the Pension Fund. There is no direct charge to local authorities or other employer bodies for the costs detailed in this report.

PHIL HALL

Interim Chief Finance Officer

Contact Officer: Ola Owolabi, Head of Accounts and Pensions

Tel. No. 01273 482017

Email: Ola.Owolabi@eastsussex.gov.uk

Local Member(s): All

BACKGROUND DOCUMENTS

none

Appendix A

2017/18 Pension Fund Revenue Budget

Description	2016/17 Budget £000	2017/18 Budget £000	Change £000	Narrative
Pension Administration				
Orbis Finance Support Services	40	40	-	Staff time in monitoring the administration of the Fund
Orbis Business Operations Support Services	770	970	200	Cost of the joint administration service, and reflects hosting the system by Business Operations
Administration System	340	-	(340)	Budget moved into the Orbis Business Operations Support Services
Guaranteed Minimum Pension	100	100	-	GMP Reconciliation work now due to take place in 2017/18
Administration total	1,250	1,110	(140)	
Oversight and governance costs				
Orbis Finance Support Services	200	200	-	Staff time spent on oversight and governance
Subscriptions	35	40	5	CIPFA Pension Network, LAPFF, Club Vita, LGPC etc.
Actuarial Fees	186	120	(66)	Outsource to contractors
Investment Consultancy	135	120	(15)	Outsource to contractors
Investment Pooling	50	100	50	Commissioning work for expert advice on investment pooling
External Audit Fee	29	29	-	External audit of the Annual Report
Internal Audit Fee	17	17	-	Control work performed by the Council's internal audit team
Legal Fees	10	10	-	Legal work commissioned for the fund
Performance Measurement Services	18	24	6	Investment performance monitoring service
Specific Actuarial Work*	180	150	(30)	Work performed by the actuary on the behalf of specific employers which is recharged to them
Other Income	(180)	(150)	30	Recovery of work provided by the actuary
Oversight and governance total	680	660	(20)	
Investment Management				
Investment Manager Fees	8,850	8,850	-	Fees paid to the investment managers
Investment Management Total	8,850	8,850	-	
Total PF Budget	10,780	10,620	-	

**Note – The fund occasional request specific work to be carried out the actuary on the behalf of specific employers, of which the full costs are recoverable from employers.*

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Report to: Pension Committee

Date of meeting: 27 February 2017

By: Interim Chief Finance Officer

Title: Forward Plan

Purpose: To update the Committee on its Forward plan

RECOMMENDATIONS – The Committee is recommended to consider and note the report

1. Background

1.1 The Principles for Investment Decision Making and Disclosure in the Local Government Pension Scheme in the United Kingdom 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. Supporting information

2.1 Attached as Appendix 1 is the Forward Plan for the Pension Board and Committee for 2016/17 which will assist the Committee with the Fund's governance arrangements, so that the Council is able to perform its role as the administering authority in a structured way. It also contains an updated training plan with a summary of both external and internal training events that Members and Officers can undertake in 2016/17.

Pensions Regulator Training Toolkit

2.2 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.

Joint Pension Board and Committee Training Session

2.3 The topics to be covered are detailed in Appendix 1. Following the successful joint training session on 26 January 2017, the next joint training session is scheduled to take place in June 2017.

3. Conclusion and reasons for recommendations

3.1 The Committee is requested to note the Pension Fund Board/Committee Forward Plan 2016/17.

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

Background documents:
None

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EAST SUSSEX PENSION FUND

PENSION COMMITTEE/BOARD FORWARD PLAN 2016-17

February 2017

Contents

Introduction	Page 3
Key documents to be considered	Page 3
Forward /Business Plan	Page 6
Pension Board/Committee Training Strategy	Page 10
Pension Board/Committee Training Plan	Page 17

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 out 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 (SIP)

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.

What do the regulations require?

Description	Pre 2016	From February 2017
Statement of Investment Principles ("SoIP")	Yes	No
<i>Investment Strategy Statement ("ISS")</i>	No	Yes

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 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.

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 2016.

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	November 2016	February 2017	June 2017	August 2017	November 2017	February 2018	May 2018	August 2018	November 2018	February 2019	May 2019
Item											
1	2016 LGPS Regs., and Investment Strategy Statement (ISS)- Guidance	2016/17 External Audit Plan – Pension Fund	Key member and employer communications	Governance Compliance Statement	Internal dispute resolution procedure	Policies of the administering Authority <ul style="list-style-type: none"> · 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	Policies of the administering Authority <ul style="list-style-type: none"> · conflicts of interests · record-keeping/meeting attendance · data protection and freedom of information 	Key member and employer communications
2	Internal Audit report - Pension Fund Governance and Investments	Reporting breaches	Discretionary policy statement	Statement of investment principles	Internal Control Register	Reporting breaches	Discretionary policy statement	Statement of investment principles	Internal Control Register	Reporting breaches	Discretionary policy statement

East Sussex Pension Fund

PENSION BOARD FORWARD/BUSINESS PLAN											
Date Item	November 2016	February 2017	June 2017	August 2017	November 2017	February 2018	May 2018	August 2018	November 2018	February 2019	May 2019
3	Risk register	Funding Strategy Statement	External Assurance Reports from Third Parties	Review on the investment strategy and Manager benchmarkin g	Risk register	Communicat ions policy statement	External Assurance Reports from Third Parties	Review on the investment strategy and Manager benchmarkin g	Risk register	Communicat ions policy statement	External Assurance Reports from Third Parties
4	Funds Actuarial Valuation Report - Draft	GMP Reconciliatio n - update	Annual Report	Investment/ Admin Consultant Performance	CIPFA Benchmarki ng	Investment/ Admin Consultant Performance	Annual Report	Investment/ Admin Consultant Performance	CIPFA Benchmarki ng	Investment/ Admin Consultant Performance	Annual Report
5		Business Operation Systems	Bulk Transfer, Cessations and Admission policies	Review on fee arrangement s			Bulk Transfer, Cessations and Admission policies	Review on fee arrangement s	Investment/ Admin Consultant Performance		Bulk Transfer, Cessations and Admission policies
6		Pension Board Insurance	Pension administrati on statement								

2. PENSION COMMITTEE – FORWARD/BUSINESS PLAN

PENSION COMMITTEE FORWARD/BUSINESS PLAN											
Date	November 2016	February 2017	July 2017	September 2017	November 2017	February 2018	May 2018	September 2018	November 2018	February 2019	May 2019
Item											
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	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update
3	Funds Actuarial Valuation Report-Draft results	2016/17 External Audit Plan – Pension Fund	Discretionary policy statement	Governance Compliance Statement	Risk register	Communications policy statement	Discretionary policy statement	Investment Strategy Statement	Risk register	Communications policy statement	Discretionary policy statement
4	ACCESS LGPS Pooling - update	Funding Strategy Statement	Bulk Transfer, Cessations and Admission policies	Investment/ Admin Consultant Performance	Pension Committee Forward/Training Plan	Investment Strategy Statement	External Assurance Reports from Third Parties	Governance Compliance Statement	Pension Committee Forward/Training Plan		External Assurance Reports from Third Parties
5	Investment Advisor Contract	Pension Admin Cost Analysis	Pension administration statement				Bulk, Transfer, Cessations and Admission policies	Investment/ Admin Consultant Performance			Bulk, Transfer, Cessations and Admission policies

PENSION COMMITTEE FORWARD/BUSINESS PLAN											
Date Item	November 2016	February 2017	July 2017	September 2017	November 2017	February 2018	May 2018	September 2018	November 2018	February 2019	May 2019
6		Investment Strategy Statement									

3. PENSION COMMITTEE FORWARD PLAN – Investment Strategy Day

PENSION COMMITTEE FORWARD/BUSINESS PLAN - Strategy Day		
Date Item	July 2017	July 2018
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.

Officers will with members conduct reviews of training, learning and development processes and identify gaps versus best practice.

2.2 Training resources

Public bodies such as the Local Government Association (LGA) and Actuarial, Benefit Consultants and Investment Consultants have been carrying out training sessions for LGPS Funds for many years. This means there is a vast readily available library of material to cover many different topics and subjects and the appropriate expert to deliver it.

2.3 Appropriate Training

As mentioned in 2.1 above it is best practice for a Fund to have in place a training strategy and training plan. This will help identify the Fund's objectives and indicate what information should be contained in the training material and presentation. For example, if the East Sussex Pension Fund records its aim for full compliance with the CIPFA Knowledge and Skills Framework (KSF) and Code of Practice to meet the skill set within the Framework, the content of training will meet the requirements of the KSF. This is particularly important if the East Sussex Pension Fund is monitoring the knowledge levels of Committee members or Board members, in which case the training must cover any measurement assessment being applied by the Fund in the monitoring knowledge levels.

2.4 Flexibility

It is recognised that a rigid training plan can frustrate knowledge attainment if it does not adapt for a particular purpose, there is a change in pension's law or new responsibilities are required of board members. Learning programmes will therefore include some flexibility so they can deliver the appropriate level of detail required.

2.5 E-Learning

The Pensions Regulator has available an online e-learning programme for those involved in running public service pension schemes. This learning programme is aimed at all public service schemes and whilst participation is to be encouraged, taking this course alone is very unlikely to meet with knowledge and understanding requirements of LGPS local pension board members.

3. Training deliverables

3.1 Suitable Events

It is anticipated that at least 1 day's annual training will be arranged and provided by officers to address specific training requirements to meet the Committee's forward business plan, all members will be encouraged to attend this event.

A number of specialist courses are run by bodies such as the Local Government Employers and existing fund manager partners, officers can provide details of these courses. There are a number of suitable conferences run annually, officers will inform members of these conferences as details become available. Of particular relevance are the National Association of Pension Funds (NAPF) Local Authority Conference, usually held in May, the LGC Local Authority Conference, usually held in September, and the Local Authority Pension Fund Forum (LAPFF) annual conference, usually held in December.

3.2 Training methods

There are a number of methods and materials available to help officers prepare and equip members to perform their respective roles. Consideration will be given to various training resources available in delivering training to members of Committee, Board, and officers in order to achieve efficiencies. These may include but are not restricted to:-

For Pension Committee and Pension Board Members	For Officers
<ul style="list-style-type: none"> • On site or off site • Using an Online Knowledge Portal or other e-training facilities • Attending courses, seminars and external events • Internally developed training days • Short sessions on topical issues or scheme-specific issues • Informal discussion and One to one • Shared training with other Funds or Frameworks • Regular updates from officers and/or advisors • A formal presentation 	<ul style="list-style-type: none"> • Desktop/work based training • Using an Online Knowledge Portal or other e-training facilities • Attending courses, seminars and external events • A workshop with participation • Short sessions on topical issues or scheme-specific issues • Informal discussion and One to one • Training for qualifications from recognised professional bodies (e.g. CIPFA, ACCA, etc.) • Internally developed sessions • Shared training with other Funds or Framework

3.3 Training material

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

4. Monitoring and Reporting

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

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

This training strategy will be reviewed on an ongoing basis by the Scheme Manager, taking account of the result from any training needs evaluations and any emerging issues. The Committee/Board will be updated with events and training opportunities as and when they become available and relevant to on-going pension governance

5. Risk

5.1 Risk Management

The compliance and delivery of a training strategy is a risk in the event of-

- Frequent changes in membership of the Pension Committee or Pension Board
- Poor individual commitment
- Resources not being available
- Poor standards of training
- Inappropriate training plans

These risks will be monitored within the scope of the training strategy to be reported where appropriate.

6. Budget

6.1 Cost

A training budget will be agreed and costs fully scoped.

6.2 Reimbursement of expenses

All direct costs and associated reasonable expenses for attendance of external courses and conferences will be met by the fund.

All reasonable expenses properly incurred by members of the Pensions Committee, and the Pension Board necessary for the performance of their roles will be met by the Funds, provided that the Scheme Manager's prior approval is sought before incurring any such expenses (other than routine costs associated with travelling to and from Pensions Board/Committee meetings) and appropriate receipts are sent to the Scheme Manager evidencing the expenses being claimed for.

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 2016-2018

The proposed Training Plan for East Sussex Pension Fund Committee/Board Members incorporate the ideas, themes and preferences identified in the Self Assessment of Training Needs along with upcoming areas where the Board/Committee will require additional knowledge. The Plan aims to give an indication of the delivery method and target completion date for each area. On approval, officers will start to implement this programme, consulting with Members as appropriate concerning their availability regarding appropriate delivery methods.

	PROPOSED DELIVERY METHODS							
TRAINING NEED	One-to-One Briefing with an officer	Members' Briefing Notes	Short Seminars (before Committee meeting)	Training Events (Internal & External Speakers)	External Conferences & Training Seminars	E-Learning (e.g. Webcasts, Videos)	KSF area (s)	COMPLETION TARGET DATE
GENERAL TRAINING								
General overview of LGPS - Induction <ul style="list-style-type: none"> Member's Role 	✓						1	Completed
Members individual needs on specific areas arising during the year <ul style="list-style-type: none"> Advisory Board e-learning 	✓	✓			✓	✓ ✓	1,3,4	As required – notify Head of Accounts and Pensions
Pre- committee meeting/agendas <ul style="list-style-type: none"> Specific investment Topics Services and providers 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 <ul style="list-style-type: none"> • 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 <ul style="list-style-type: none"> • Valuation Process • Knowledge of the valuation process and the need for a funding strategy • Implications for employers of ill health and outsourcing decisions • Importance of monitoring asset returns relative to liabilities 				✓			1,4,6	

	PROPOSED DELIVERY METHODS							
TRAINING NEED	One-to-One Briefing with an officer	Members' Briefing Notes	Short Seminars (before Committee meeting)	Training Events (Internal & External Speakers)	External Conferences & Training Seminars	E-Learning (e.g. Webcasts, Videos)	KSF area (s)	COMPLETION TARGET DATE
SPECIFIC ISSUES IDENTIFIED FROM MEMBERS SELF ASSESSMENTS								
General Pension Framework <ul style="list-style-type: none"> LGPS discretions & policies Implications of the Hutton Review 		✓	✓	✓	✓		1,6	
Pensions Legislation & Governance: <ul style="list-style-type: none"> Roles of the Pension Regulator, Pension Advisory Service & Pension Ombudsman in relation to the scheme Review of Myners principles and associated CIPFA & SOLACE guidance 		✓ ✓		✓ ✓			1,2,	
Pension Accounting & Auditing standards: <ul style="list-style-type: none"> Accounts & Audit regulations and the legislative requirements 			✓				1,2	

	PROPOSED DELIVERY METHODS							
TRAINING NEED	One-to-One Briefing with an officer	Members' Briefing Notes	Short Seminars (before Committee meeting)	Training Events (Internal & External Speakers)	External Conferences & Training Seminars	E-Learning (e.g. Webcasts, Videos)	KSF area (s)	COMPLETION TARGET DATE
Financial Services procurement: <ul style="list-style-type: none"> Current public procurement policy & procedures UK & EU procurement legislation 				✓ ✓			3,5,6	
Investment Performance & Risk Management: <ul style="list-style-type: none"> Monitoring asset returns relative to liabilities Myners principles of performance management Setting targets for committee and how to report against them 				✓ ✓ ✓	✓		3,5,6	Invite to be circulated to when relevant
Financial markets & products knowledge: <ul style="list-style-type: none"> Refresh the importance of setting investment strategy Limits placed by regulation on investment activities in 			✓	✓	✓		4 1 4	

	PROPOSED DELIVERY METHODS							
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 <ul style="list-style-type: none"> Understanding of the operations of the fixed income manager Understanding of Alternative asset classes 				✓			4,5,6	
Pension Administration - <ul style="list-style-type: none"> Shared service 		✓	✓	✓			2,6	
Actuarial methods, standards and practices: <ul style="list-style-type: none"> Considerations in relation to outsourcings and bulk transfers Triennial Valuation refresher 		✓ ✓					1 6	
CHAIRMAN TRAINING								
<ul style="list-style-type: none"> Fund Benchmarking Stakeholder feedback Appreciation of changes to scheme rules 	✓ ✓				✓		2 4 1,5	

	PROPOSED DELIVERY METHODS							
TRAINING NEED	One-to-One Briefing with an officer	Members' Briefing Notes	Short Seminars (before Committee meeting)	Training Events (Internal & External Speakers)	External Conferences & Training Seminars	E-Learning (e.g. Webcasts, Videos)	KSF area (s)	COMPLETION TARGET DATE
EXTERNAL SEMINARS AND CONFERENCES								
NAPF Local Govt Conference <ul style="list-style-type: none"> Refresher training Keeping abreast of current development 					✓ ✓		1,3,4,5	
LGC Investment Conference <ul style="list-style-type: none"> Fund Manager events and networking 					✓ ✓		1,2,3,4,5,6	

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;	14 June 2016	
The administering authority	14 June 2016	
The employers	14 June 2016	

Member/Representative Name:		
Subject/Description of training	Date completed	Suggested Further Action?
The Committee	14 June 2016	
The LPB	14 June 2016	
S151 officer	14 June 2016	
Conflicts of Interest and Reporting Requirements	14 June 2016	
Consideration of the Committee and Pension Board's responsibilities in the areas of;	14 June 2016	
Conflicts of interest		
Reporting breaches of the law	14 June 2016	
2016 Triennial Valuation refresher		
Funding principles and preparing for the 2016 valuation;	14 June 2016	
Valuation basics	14 June 2016	
Role of the PC & LPB	14 June 2016	
Purpose of the valuation / Funding Strategy Statement	18 July 2016	
2013 valuation overview	18 July 2016	
Whole fund and employer results	18 July 2016	
Contribution stability / Like for like results	18 July 2016	
Funding strategy	18 July 2016	
Employer risk / Employer specific funding objectives	18 July 2016	
Experience from 2013 to 2016	18 July 2016	
Markets (asset returns and yields)	18 July 2016	

Member/Representative Name:		
Subject/Description of training	Date completed	Suggested Further Action?
Longevity experience	18 July 2016	
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/Representative 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		
LGPS discretions & policies		
Safeguarding the Fund's Assets		
Developing Investment Strategies Statement		
Role of the Global Custodian – Northern Trust		
Pensions legislative & Governance		

AVAILABLE TRAINING AND CONFERENCES 2016 – 2017

Date	Conference/Event	Run By	Delegates/Cost
February 2017	Technical accounting workshops	CIPFA Pensions Network (CPN)	Free
27 February 2017	Local Pension Board Spring Seminar	CIPFA Pensions Network (CPN)	£100
2, 3 March 2017	Investment Seminar	Local Government Chronicle (LGC)	TBC
11 April 2017	LAPFF Business meeting	Local Authority Pension Fund Forum (LAPFF)	Free
May 2017	Local Authority Conference	Pension and Lifetime Savings Association (PLSA)	TBC
27 June 2017	LAPFF Business meeting	Local Authority Pension Fund Forum (LAPFF)	Free
28 June 2017	Local Pension Boards 2 years on	CIPFA Pensions Network (CPN)	£150
July 2017	Pension Fund Symposium	Local Government Chronicle (LGC)	TBC
September 2017	Investment Summit	Local Government Chronicle (LGC)	TBC
October 2017	Annual Local Government Pension Investment Forum	Informal	TBC
24 October 2017	LAPFF Business meeting	Local Authority Pension Fund Forum (LAPFF)	Free
November 2017	Local Authority Forum	Pension and Lifetime Savings Association (PLSA)	Free
6, 7, 8 December 2017	LAPFF Annual Conference	Local Authority Pension Fund Forum (LAPFF)	Free
30 January 2018	LAPFF AGM And Business meeting	Local Authority Pension Fund Forum (LAPFF)	Free

East Sussex Pension Fund

Date	Conference/Event	Run By	Delegates/Cost
On-Line Training			
www.thepensionsregulator.gov.uk	Pension Education Portal	Pensions Regulator	Free on-line
http://www.lgpsregs.org/	LGPS Regulations and Guidance	LGPS Regulations and Guidance	Free on-line
http://www.lgps2014.org/	LGPS 2014 members website	LGPS 2014 website	Free on-line
www.local.gov.uk	LGA website	Local Government Association	Free on-line

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	26 October 2016	26 January 2017
Topics	<ul style="list-style-type: none"> Pension Discretions Procurement process for services provided externally 	<ul style="list-style-type: none"> 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 	<ul style="list-style-type: none"> Valuation assumption setting Consistency of assumptions with investment beliefs 2016 valuation early warning Valuation timetable and next steps 	<ul style="list-style-type: none"> Triennial Valuations and Understanding Liabilities Roles of the Pension Regulator Pensions legislative & Governance 	<ul style="list-style-type: none"> LGPS discretions & policies Safeguarding the Fund's Assets Developing Investment Strategies Statement Role of the Global Custodian – Northern Trust

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