PENSION COMMITTEE

MONDAY, 26 FEBRUARY 2018

10.00 am COMMITTEE ROOM - COUNTY HALL, LEWES

MEMBERSHIP - Councillor Richard Stogdon (Chair)
Councillors Stuart Earl, Simon Elford, Gerard Fox and David Tutt

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 *(To Follow)*

6 Quartely Performance Report - Hymans Robertson *(Pages 7 - 38)*
- Quarter 4 monitoring report
- New Manager Rating System
- Stock Lending

7 Fund Performance - Longview Partners *(To Follow)*

8 Carbon Footprint Measurement - Trucost *(To Follow)*

9 Passive Investment Transition - UBS *(To Follow)*

10 Investment Strategy Statement *(Pages 39 - 58)*

11 Local Government Pension Scheme (LGPS) Pooling - ACCESS update *(Pages 59 - 66)*

12 External Audit Plan - East Sussex Pension Fund *(Pages 67 - 80)*

13 Communications Policy Statement *(Pages 81 - 88)*

14 Internal Audit Report - Pension Fund Governance and Investments *(Pages 89 - 100)*

15 East Sussex Pension Fund 2017/18 Budget monitoring and 2018/19 Budget report *(Pages 101 - 106)*

16 Officers' Report - Pensions Governance and Administrations *(Pages 107 - 116)*

17 Work Programme *(Pages 117 - 148)*

18 Any other items previously notified under agenda item 4

19 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).

20 Pension Employers - Update *(Pages 149 - 160)*

21 Any other exempt items previously notified under agenda item 4

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

16 February 2018

Contact Harvey Winder, Democratic Services Officer,
01273 481796
Email: harvey.winder@eastsussex.gov.uk

PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at County Hall, Lewes on 27 November 2017.

PRESENT	Councillors Richard Stogdon (Chair) Councillors Simon Elford, Gerard Fox and David Tutt
LEAD MEMBERS	Councillors David Elkin
ALSO PRESENT	Ian Gutsell, Chief Finance Officer Ola Owolabi, Head of Pensions Brian Smith, Regional Operations Manager Jason Bailey, Lead Pensions Manager Wendy Neller, Pensions Strategy and Governance Manager Steve Tidy, Stretegic Procurement Manager Russell Wood, Principal Pensions Officer William Marshall, Hymans Robertson Paul Potter, Hymans Robertson William Bourne, Independent Adviser Harvey Winder, Democratic Services Officer

30 MINUTES

30.1 The Committee RESOLVED to agree the minutes subject to the addition of the following to paragraph 21.2:

"4) request that Hymans Robertson provide a report on whether there is a viable low carbon equity fund that could achieve the same or better rate of return compared to other passively managed equity funds."

31 APOLOGIES FOR ABSENCE

31.1 There were no apologies for absence.

32 DISCLOSURE OF INTERESTS

32.1 There were no disclosures of interest.

33 URGENT ITEMS

33.1 There were no urgent items.

34 PENSION BOARD MINUTES

34.1 The Committee RESOLVED to note the Pension Board's minutes.

35 QUARTERLY PERFORMANCE REPORT - HYMANS ROBERTSON

35.1 The Committee considered a report by Hymans Robertson comprising:

a) the quarter 2 performance report of East Sussex Pension Fund's (ESPF)

b) a review of private market investments;

c) Proposed equity allocations.

35.2 The Committee RESOLVED to:

1) note the reports;

2) agree to maintain the current private equity allocation of 5.5% by continuing to commit to the Fund's current managers, HarbourVest and Adams Street, in 2018;

3) agree to increase the target infrastructure allocation from 2% to 4% in the short term with a view to increasing this further post pooling; and

4) agree to increase target private debt allocation from 1% to 3% - by committing in the short term to M&G's Debt Solutions Fund (DSF) and also additional commitments as required

5) agree to increase the allocation to Longview from the current level of 5% to 7% of the Fund.

36 PASSIVE INVESTMENT MANAGEMENT - UBS

36.1 The Committee received a presentation from the passive investment manager, UBS

37 ENVIRONMENTAL, SOCIAL AND GOVERNANCE (ESG) - UPDATE

37.1 The Committee considered a report providing an update on ESG issues.

37.2 The Committee RESOLVED to:

1) approve a revised East Sussex Pension Fund Investment Beliefs subject to the amendment of the first investment belief to read:

"Climate change presents a financial risk to the future investment returns from the Fund. However, t*he impacts of climate change on the returns from the fund in the future are unknown and the Fund will continue to monitor the risk associated with investment in fossil fuels."*

2) approve the cost (i.e., £10,000) of conducting/measuring the Fund carbon footprint.

38 LOCAL GOVERNMENT PENSION SCHEME (LGPS) POOLING - ACCESS UPDATES

38.1 The Committee considered an update on LGPS Pooling.

38.2 The Committee RESOLVED to note the report.

39 MARKET ANALYSIS OF PENSIONS ADMINISTRATION SYSTEM

39.1 The Committee considered a report providing market analysis of Pensions Administration Systems.

39.2 The Committee RESOLVED to:

1) note the report;

2) request that a restricted tender process for the pension administration system commences in January 2019 in order that a new contract is in place by the end of the current contract in April 2021.

40 ANNUAL BENEFIT STATEMENT UPDATE

40.1 The Committee considered a report providing an update on the Annual Benefit Statement exercise carried out by Business Operations on behalf of the East Sussex Pension Fund.

40.2 The Committee RESOLVED to:

1) note the report; and

2) request to consider the report due for consideration by the Pension Board on the lessons learned from the 16/17 Annual Benefit Statement exercise; and

3) to request that the report identifies process changes for the 2018 Annual Benefit Statement exercise in order to be assured that sufficient changes have been made.

41 GUARANTEED MINIMUM PENSION (GMP) RECONCILIATION UPDATE

41.1 The Committee considered a report providing an update on the progress of the GMP exercise.

41.2 The Committee RESOLVED to:

1) note the report;

2) agree that a mini-tender exercise is conducted to identify an operator to conduct the next stage of the GMP reconciliation exercise; and

3) agree to approve delegated responsibility to the Chief Finance Officer in consultation with the Chair for the purposes of completing the mini-tender

42 OFFICERS' REPORT - BUSINESS OPERATIONS

42.1 The Committee considered a report providing an update on pension administration services provided by Orbis Business Operations.

42.2 The Committee RESOLVED to:

1) note the report; and

2) note the intention to engage with other local authority pension teams on the implications of the Brewster judgement.

43 ACCESS OPERATOR PROCUREMENT

43.1 The Committee considered a report providing an update on the procurement of an operator for the ACCESS pool.

43.2 The Committee RESOLVED to:

1) note the report;

2) agree to approve delegated responsibility to the Chief Finance Officer in consultation with the Chair for the contract approval with the successful ACCESS Operator;

3) agree that once the contract for the Operator has been prepared, the East Sussex County Council seal can be affixed to the legal documents

44 OFFICERS' REPORT - GENERAL UPDATE

44.1 The Committee considered a general update report.

44.2 The Committee RESOLVED to note the report.

45 WORK PROGRAMME

45.1 The Committee considered its work programme.

45.2 The Committee RESOLVED to:

1) note the report; and

2) request an East Sussex Pension Fund budget monitoring report for the February 2018 meeting.

46 EXCLUSION OF THE PUBLIC AND PRESS

46.1 the Committee RESOLVED to exclude the public and press from the meeting for the remaining agenda items 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).

47 EAST SUSSEX PENSION FUND: INDEPENDENT ADVISOR

47.1 The Committee considered a report on the contract of the Independent Advisor to the East Sussex Pension Fund.

47.2 The Committee RESOLVED to agree an extension to the current contract of the Independent Advisor to 31 December 2018.

48 ASSET POOLING – PASSIVE INVESTMENT PROCUREMENT

48.1 The Committee considered a report on the procurement of passive investments within the ACCESS pool.

48.2 The Committee RESOLVED to:

1) note that ACCESS has completed the procurement of UBS Passive Investment Management as the pool-wide passive investment manager;

2) approve the transfer of Passive Investments with both State Street and Legal & General to the UBS Passive Investment Management; and

3) Agree the re-allocation of passive mandate including the UBS Life Climate Aware World Equity Fund in two tranches of 5%.

The meeting ended at 2.10 pm.

Councillor Richard Stogdon
Chair

East Sussex Pension Fund

Review of Investment Managers' Performance for Fourth Quarter of 2017

Prepared By:

Paul Potter - Partner
Email: paul.potter@hymans.co.uk
William Marshall - Partner
Email: william.marshall@hymans.co.uk
Kirsty Moffat - Investment Analyst
Email: kirsty.moffat@hymans.co.uk

For and on behalf of Hymans Robertson LLP
February 2018

Contents

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

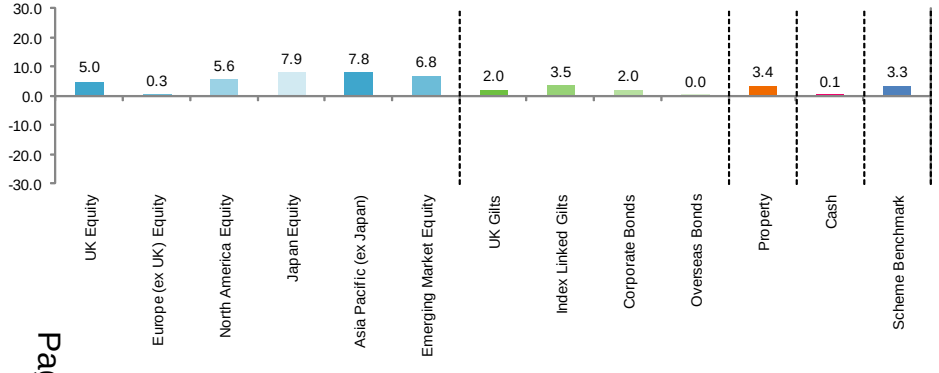
Capital Market Outlook

	September 2017	December 2017	Comment
Index-linked gilts	Cautious to Negative	Cautious to Negative	Inflation protection remains very expensive, particularly in the UK where the demand for index-linked gilts is greater than the supply. We expect real yields to closely follow nominal yields over 2018, with higher levels of inflation already baked into pricing. Any potential increase of cash rates earlier than expected has the potential to impact the short-end of the curve, however, ongoing demand for index-linked gilts by UK institutions should continue to dampen the potential for real yields to rise.
Conventional gilts	Cautious to Negative	Cautious to Negative	Valuations remain unattractive relative to historic levels. With probably just as much, if not more, Brexit uncertainty, we don't see the BoE raising rates much in the short-term. Demand for gilts to hedge pension and insurance liabilities remains strong.
Sterling non-government bonds	Cautious	Cautious	Marginal tightening of spreads over the quarter leaves valuations below longer-term averages and underlying interest rates are low. However, positive macro-economic conditions and strong corporate earnings continues to support current spreads.We continue to prefer the floating nature of ABS, which would fare better should yields start to rise given the lack of duration risk.
Equities	Neutral to Cautious	Neutral to Cautious	Earnings growth continues to emerge although equity valuations remain high relative to history. We have seen a resurgence in earnings over the last three quarters, but further momentum is still required to justify current prices. Low implied volatility means structured equity and outright downside protection may provide alternative predictable return solutions.
UK Property	Neutral to Attractive	Neutral to Attractive	Yields are still low, but provide a reasonable buffer relative to gilts and IG bonds. Expectations on rents are mixed. Some sub-sectors, prime industrial in particular, are experiencing higher rental growth due to tight supply whilst other sectors continue to be burdened by structural vacancies eg. High Street retail outside of Central London. We have a preference for long lease property given the security of the contractual rental growth which becomes increasingly attractive as inflation ticks up.
Infrastructure	Neutral to Attractive	Neutral to Attractive	Many core assets are highly bid. Nevertheless, active managers are managing to secure core assets on yields up to 7% by focusing on deals with a degree of complexity or on deals where they have a competitive edge.
Absolute Return Strategies	Neutral	Neutral	We expect absolute return strategies to continue to deliver low single-digit returns. Active currency and interest rate calls may remain challenging given the lack of political predictability. Cash provides flexibility to capture more attractive buying opportunities.

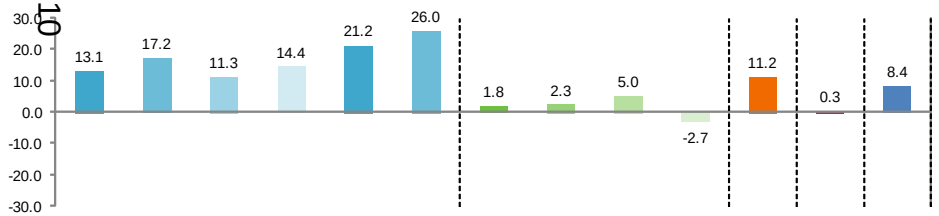
Historic Returns for World Market to 31 December 2017

Historic Returns - Chart 1 [1] [i]

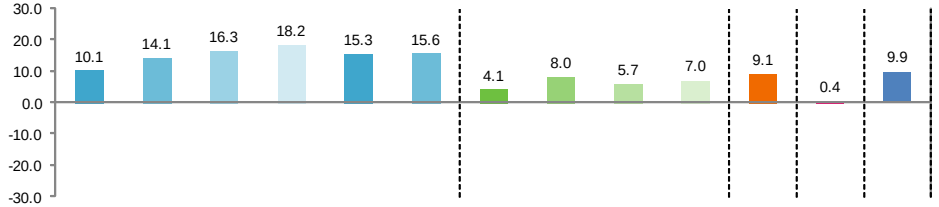
3 Months (%)



12 Months (%)



3 Years (% p.a.)



Comment

Q3 data confirmed continued robust growth in the US, Eurozone and Japan. UK growth in Q3 was ahead of estimates, but remains sluggish at 0.4%. Survey evidence suggested the global economy maintained momentum in the final quarter.

'Core' inflation (i.e. excluding food and energy) was stable across most developed economies. However, headline UK CPI inflation rose above 3% for the first time in 6 years.

Oil reached its highest price since 2015; Brent crude finished the year at $67 a barrel. Industrial metals were again strong – broad sector indices rose over 30% in 2017.

The Bank of England's Monetary Policy Committee increased interest rates by 0.25% p.a. to 0.5% p.a. in November. There was little surprise about the tightening of monetary policy announced elsewhere – a tapering of quantitative easing in the Eurozone and another US interest rate rise.

There were no significant exchange rate movements among the major currencies over the period. Sterling was barely changed in trade weighted terms.

Long-dated gilt yields drifted lower over the quarter, finishing 2017 little changed from the end of 2016.

Credit spreads finished close to end September levels; sentiment recovered quickly from a wobble in the high yield market.

Yields on emerging market debt indices drifted a little higher. US dollar weakness further undermined returns during the quarter, but was unwound by the end of the year.

Global equity indices had another strong quarter, bolstered by a continued positive economic outlook. Sentiment was also boosted by the agreement of significant reductions to US corporate tax rates, although the relative performance of the US equity market was unexceptional over the quarter.

Japan, enjoying its longest economic expansion since the 1990s, led the regional equity rankings. European equities underperformed – euro strength is seen as likely to depress future profits growth.

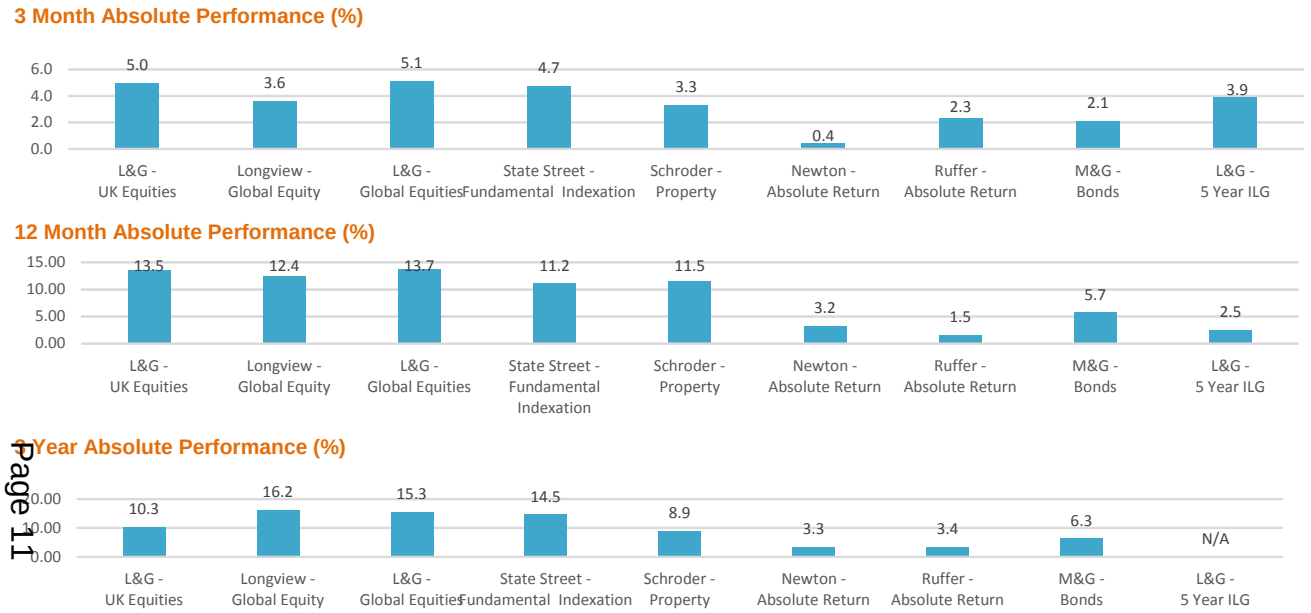
Defensive stocks – Healthcare, Telecommunications and Utilities – lagged. The best performers were typical beneficiaries of economic strength – Basic Materials, Technology and Consumer Services.

UK commercial property values continued to edge higher. The industrial sector continues to outstrip both office and retail sectors in terms of both total return and rental growth.

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

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

Summary of mandate absolute performance to 31 December 2017



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)
The Fund's equity mandates continued to deliver strong absolute returns over the quarter ended 31 December 2017 due to positive global economic outlook. The equity mandates delivered strong returns over the one year and three year periods.

Diversification/Income oriented (Property/Absolute Return)
Gilt yields fell slightly over the quarter (causing prices to rise) and the absolute return funds also benefitted from strong equity returns. As a result, both Newton and Ruffer outperformed their LIBOR benchmarks over the quarter. Property returns continued to be supported by strong rental income flows.

Protection (Bonds)
Over the fourth quarter of 2017, gilt yields fell slightly but over the year, were broadly unchanged. This had a positive impact on the absolute value of the Fund's bond holdings, in particular the index-linked gilts held with LGIM.

Fund Asset Allocation and Performance

Valuation Summary

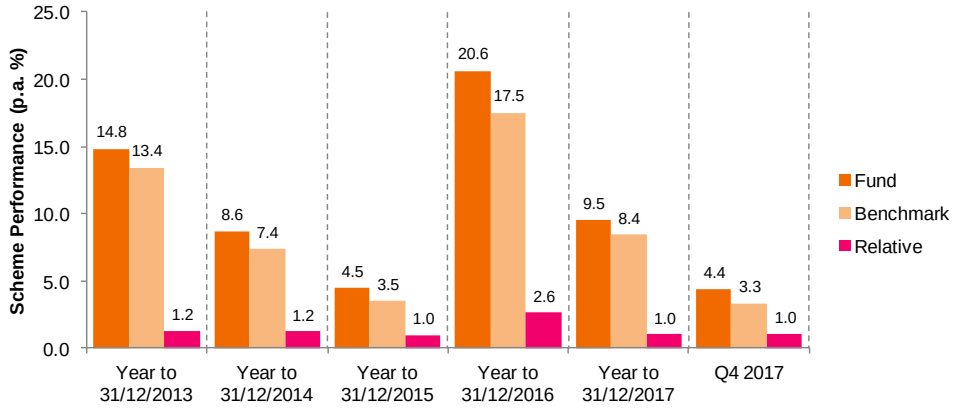
Asset Class	Value (£m) Q3 2017	Value (£m) Q4 2017	Actual Proportion %	Target Proportion %	Re-balancing range %	Difference
Global Equity	1473.2	1485.4	42.5	38.0	45.0 - 55.0	4.5
UK Equity	331.4	347.8	10.0	12.0		-2.0
Fixed Interest	130.7	134.3	3.8	3.5	2.5 - 4.5	0.3
Index-Linked Gilts	174.0	180.7	5.2	5.0	4.0 - 6.0	0.2
Property	348.6	357.7	10.2	10.0	7.0 - 13.0	0.2
Infrastructure	24.2	21.6	0.6	2.0	0.0 - 4.0	-1.4
Private Equity	189.9	185.1	5.3	5.5	3.5 - 7.5	-0.2
Absolute Return Funds	576.1	639.8	18.3	20.0	17.0 - 23.0	-1.7
Cash	52.2	66.6	1.9	0.0	0.0 - 2.0	1.9
UK Financing Fund	1.5	1.4	0.0	1.0	0.0 - 2.0	-1.0
Absolute Return Bonds	73.9	74.6	2.1	3.0	2.0 - 4.0	-0.9
Total Client	**3375.5**	**3495.2**	**100.0**	**100.0**		

Fund performance [1]

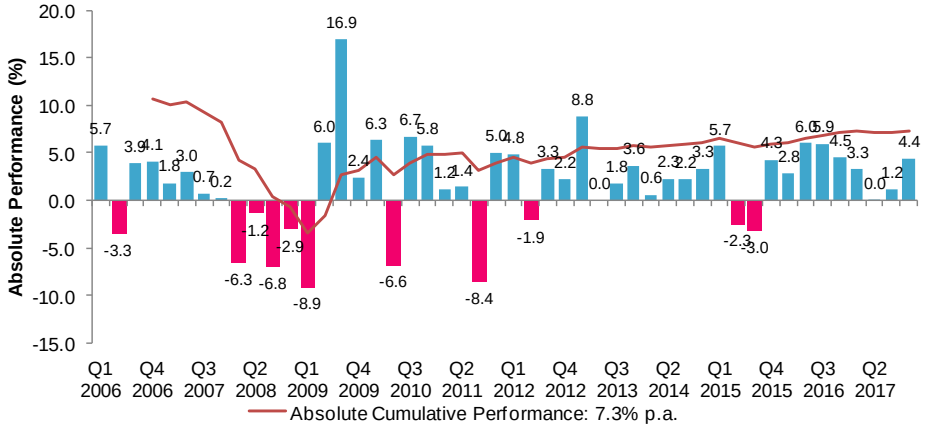
Over the quarter to end December 2017, the Fund returned 4.4%, ahead of the aggregate benchmark. Over the longer time periods considered, the Fund has outperformed the aggregate benchmark.

Ruffer's Absolute Return Fund outperformed its benchmark over the quarter, as did the M&G bonds, Newton Absolute Return and the Schroder property portfolio. Offsetting this slightly was Longview's Global Equity mandate which underperformed its benchmark.

Performance Summary [i]



Absolute Quarterly and Absolute Cumulative Performance [ii]



[1] Total Fund return is estimated. Historical returns are backdated with WM figures.

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

Summary of Mandates

Manager Summary [1]

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

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

Key:- No Rating - Negative - Suitable - Positive - Preferred

Summary Comment

Over the quarter to 31 December 2017, there were no changes to our views on your investment managers. We will continue to monitor developments closely. We have made some changes to our manager ratings system. These changes aim to bring a greater granularity on our degree of conviction for managers and their funds. Under the new rating system there has been a change to the Newton rating. Please see the separate paper on the new ratings system for more details.

The Fund continued to be underweight to UK Equities and both the absolute return funds. Global Equity and cash were overweight. All asset classes were within their re-balancing range. Market movements in 2018 will have impacted on relative allocations.

Post quarter end, the Fund began to transition all of its passive funds to UBS. UBS was selected by the ACCESS pool to hold all the passive funds of the LGPS Funds within the pool.

[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) Q3 2017	Q4 2017	Actual Proportion %	Target Proportion %	Difference %
L&G - Global Equities	565.0	593.8	17.0	15.5	1.5
Longview - Global Equity	238.0	246.1	7.0	5.0	2.0
State Street - Fundamental Indexation	670.2	645.5	18.5	17.5	1.0
L&G - UK Equities	331.4	347.8	10.0	12.0	-2.0
Newton - Absolute Return	287.7	316.6	9.1	10.0	-0.9
Ruffer - Absolute Return	288.5	323.2	9.2	10.0	-0.8
L&G - 5yr ILG	174.0	180.7	5.2	5.0	0.2
M&G - Bonds	204.6	208.7	6.0	6.5	-0.5
Schroder - Property	348.6	357.7	10.2	10.0	0.2
M&G - Infrastructure Fund	2.2	0.0	0.0	1.0	-1.0
UBS - Infrastructure	22.0	21.6	0.6	1.0	-0.4
Adams Street - Private Equity	98.2	97.6	2.8	2.8	0.0
HarbourVest - Private Equity	91.7	87.5	2.5	2.8	-0.2
M&G - UK Financing Fund	1.5	1.4	0.0	1.0	-1.0
Cash account	52.2	66.6	1.9	0.0	1.9
Total	**3375.5**	**3495.0**	**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]

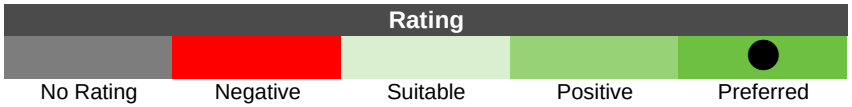
		L&G - Global Equities	Longview - Global Equity	State Street - Fundamental Indexation	L&G - UK Equities	Newton - Absolute Return	Ruffer - Absolute Return	L&G - 5yr ILG	M&G - Bonds	Schroder - Property	Total Fund
3 Months (%)	Absolute	5.1	3.4	4.7	5.0	0.3	2.1	3.8	2.1	3.2	4.3
	Benchmark	5.1	4.9	4.8	5.0	0.1	0.1	3.9	1.6	3.1	3.3
	Relative	0.0	-1.4	0.0	0.0	0.1	2.0	-0.1	0.5	0.1	1.0
12 Months (%)	Absolute	13.6	11.7	11.1	13.5	2.6	0.7	2.2	5.4	11.2	9.2
	Benchmark	13.9	13.2	11.3	13.1	0.3	0.3	2.5	3.3	10.2	8.4
	Relative	-0.3	-1.4	-0.2	0.3	2.3	0.4	-0.3	2.0	1.0	0.7
3 Years (% p.a.)	Absolute	15.2	15.5	14.4	10.2	2.7	2.6	7.9	5.9	8.6	11.2
	Benchmark	15.3	14.6	14.6	10.1	0.4	0.4	8.3	4.0	8.4	9.9
	Relative	-0.1	0.8	-0.1	0.1	2.3	2.2	-0.3	1.9	0.2	1.2
10 Years (% p.a.)	Absolute	11.8	17.2	12.3	8.8	3.9	4.5	N/A	6.6	8.6	6.9
	Benchmark	11.8	12.9	12.4	8.6	0.5	0.5	N/A	4.7	8.4	6.1
	Relative	0.0	3.8	-0.1	0.1	3.4	3.9	N/A	1.8	0.2	0.8

[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. From Q3 2016 to Q3 2017 total fund performances have been calculated using estimated valuations for private market investments. From Q4 2017 total fund performance has been provided by Northern Trust.

Source: [i] DataStream, Hymans Robertson

Legal and General - UK and Global Equities

HR View Comment & Rating



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

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	5.0	13.5	10.3	6.5
Benchmark	5.0	13.1	10.1	6.3
Relative	0.0	0.4	0.2	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 5.0% over the quarter, in line with its benchmark. Over all longer periods considered, the mandate remains broadly ahead of its benchmark. The UK equity market continues to lag its global counterpart in the long-term.

The Global equity fund returned 5.1% over the fourth quarter of 2017, broadly 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	5.1	13.7	15.3	11.9
Benchmark	5.1	13.9	15.3	11.8
Relative	0.0	-0.1	0.0	0.0

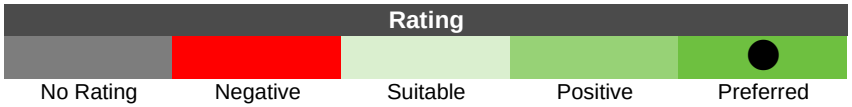
* Inception date 11 May 2010 (since restructure of Fund)

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

Hymans Robertson LLP

Legal and General - 5 year ILG

HR View Comment & Rating



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

There were no significant developments over the quarter.

Performance Summary [i]

	3 Months (%)	12 Months (%)	Since Inception* (% p.a.)
Fund	3.9	2.5	8.3
Benchmark	3.9	2.5	8.3
Relative	-0.0	-0.0	0.0

* Inception date 11 Mar 2015.

Page 17

Performance Attribution Comment

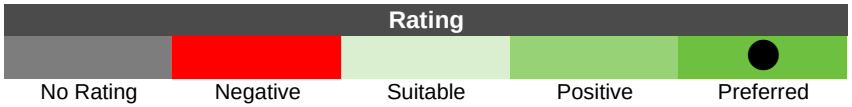
The Index-Linked Gilt fund delivered a positive performance of 3.9% over the quarter (in line with its benchmark) as yields fell, causing prices to rise. Over the 12 month period and since its inception, the fund remains in line with benchmark.

Source: [i] DataStream, Hymans Robertson

Hymans Robertson LLP

State Street - Fundamental Indexation

HR View Comment & Rating



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

There were no significant developments over the quarter.

Performance Summary

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	4.7	11.2	14.5	12.4
Benchmark	4.8	11.3	14.6	12.4
Relative	-0.0	-0.1	-0.0	-0.1

* Inception date 06 Aug 2013.

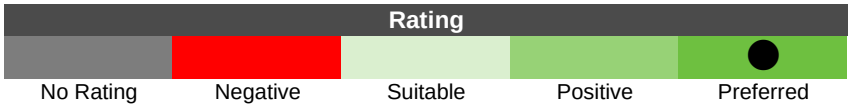
Performance Attribution Comment

State Street's Fundamental Indexation Global Equity Fund returned 4.7% over the second quarter of 2017, broadly in line with its benchmark, as expected from a passively managed fund. Over all longer periods considered, the fund remains broadly in line with benchmark.

Hymans Robertson LLP

Longview - Global Equity

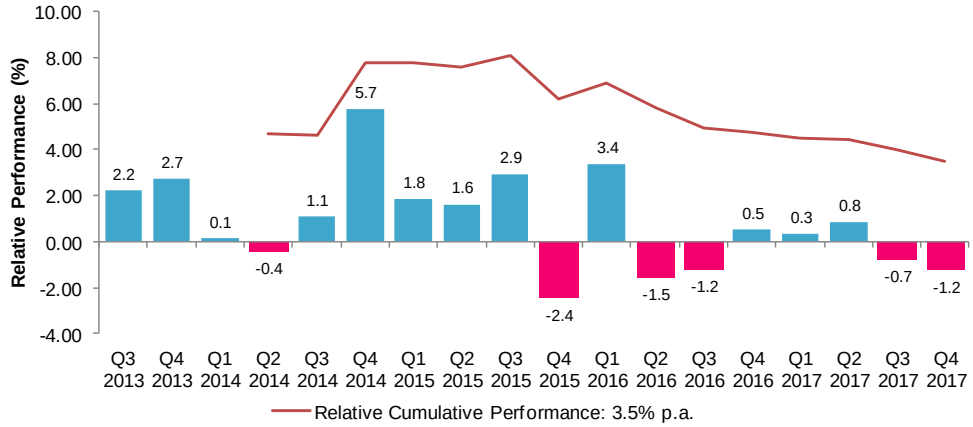
HR View Comment & Rating



We rate Longview's Global Equity strategy at 'Preferred.' Longview's flexible style and concentrated 30-40 stock portfolio has performed exceptionally well over an extended period. Longview's focus on less cyclical companies and sectors has served it well for much of the recent past. The fund retains a significant bias to US equity, with c.80% exposure to listed US equity (albeit lower when analysed by revenue) and zero exposure to the Far East / Japan. Nonetheless, we continue to have confidence in Longview's ability to manage its relative and absolute risk profile.

There were no significant developments over the quarter.

Relative Quarterly and Relative Cumulative Performance [i]



Performance Attribution Comment

During the fourth quarter of 2017, Longview's Global Equity mandate returned 3.6%, underperforming the benchmark by 1.2%. Over the 12 month period, the portfolio was behind benchmark but since inception, it is comfortably ahead of benchmark

WW Grainger, Dollar General, and Parker Hannifin were amongst the largest contributors over the quarter, owing partly to the strong US economy and corporate tax cuts. Holdings in industrial supplies distributor, WW Grainger contributed to outperformance as the company's sales continue on an upward trajectory. Discount retailer, Dollar General, also contributed due to strong sales figures over the period to end December 2017. Industrial company, Parker Hannifin, reported strong performance this period. The performance of all three companies also benefited from a strong US economy and corporate tax cuts.

Conversely, the main detractors over the quarter were Willis Towers Watson, Sanofi and AON. As Willis Towers Watson already has a lower domestic tax rate, the US tax cut did not impact the company. This meant that on a relative basis, the company detracted. Similarly, Aon is on a lower domestic tax rate so will not benefit from the corporate tax cuts in the US and has experienced disappointing growth for the quarter. Sanofi's diabetes treatments continued to decline, which contributed to the company's weaker than expected revenue for the period.

Performance Summary to 31 December 2017 [ii]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	3.6	12.4	16.2	17.9
Benchmark	4.9	13.2	14.6	12.9
Relative	-1.2	-0.8	1.4	4.4

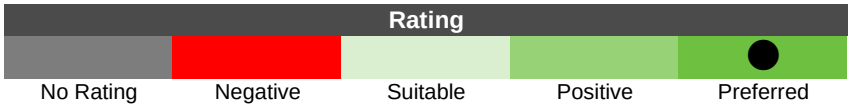
* Inception date 16 Apr 2013.

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

Hymans Robertson LLP

Ruffer - Absolute Return

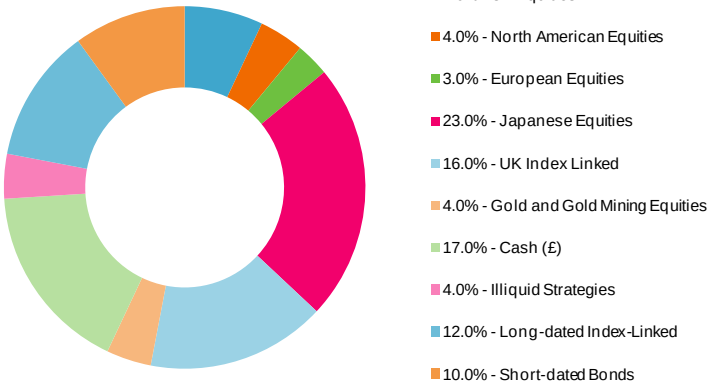
HR View Comment & Rating



We rate Ruffer Absolute Return Fund at 'Preferred'.

There were no significant developments over the quarter.

Asset Allocation



Performance Attribution Comment

The Ruffer Absolute Return Fund returned 2.3% over the quarter compared to its 7 day LIBOR benchmark of 0.1%, resulting in an outperformance of 2.2%.

During Q4, the fund's long-held strategic positions in both Japanese equities and index-linked gilts provided solid returns and were the main drivers of performance, and assisted the 12 month return. The fund's option protection strategies were the largest detractor, which was an expected development given the strong market conditions of Q4. The portfolio's holding in short-dated index-linked gilts was cut, roughly by half, in expectation of prices falling at the short-end of the curve as rates rose.

As global growth and asset returns continued to strengthen, Ruffer finished the year on a better note after uninspiring returns over 2017. Market sentiment and focus on a low yield environment was not beneficial to the portfolio's positioning, and index-linked gilt holdings and the manager's stock selection in particular have constrained returns over the year.

Ruffer continue to highlight the wide range of geopolitical risks currently affecting the world and suggest that current buoyant asset markets do not price in these dangers. This sentiment explains their commitments to keeping hold of their protective strategies.

Performance Summary to 31 December 2017 [i]

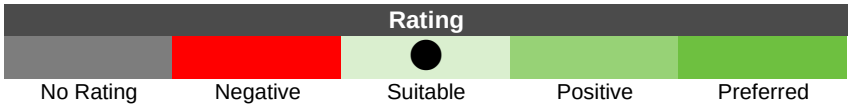
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	2.3	1.5	3.4	5.3
Benchmark	0.1	0.3	0.4	0.5
Relative	2.2	1.2	3.0	4.7

* Inception date 06 May 2010.

Source: [i] DataStream, Hymans Robertson

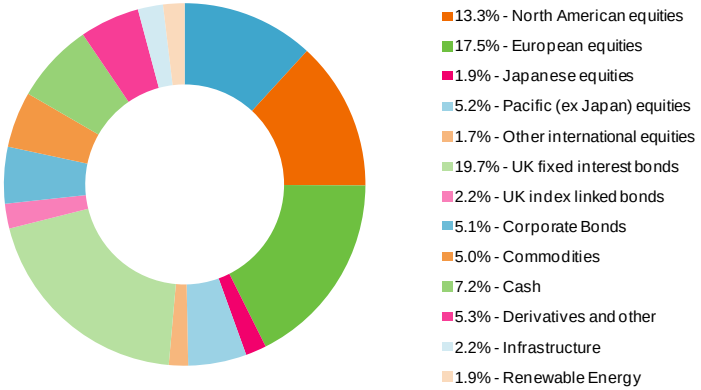
Newton - Absolute Return

HR View Comment & Rating



We rate Newton's strategy at 'Suitable - On Watch'. Newton has announced that Iain Stewart is to step back from the fund's day-to-day portfolio management in Q3 2018 to focus on its macroeconomic input. Suzanne Hutchins and Aron Pataki have been named as lead portfolio managers on the fund and will lead the strategy when Stewart steps back. In addition, Paul Brain, Newton's Head of Fixed Income, has been named as a member of the Real Return team. Finally, Matthew Brown will devote his full time to the strategy, following the decision for him to give up portfolio management duties on another multi-asset strategy. We view Stewart's change of role as a negative development and feel that under the new system, the 'Suitable' rating is the most appropriate given that Stewart will still be involved in the fund. We do not believe anything more negative is warranted at this stage. To reflect our concerns however, the 'Suitable' rating will be flagged as being 'On Watch' and we will meet with the Real Return team (including Paul Brain) during the first half of 2018 for a further update before re-assessing the rating.

Asset Allocation [i]



Performance Attribution Comment

The fund delivered a positive return of 0.4% over the quarter, 0.3% ahead of benchmark, but 0.7% behind the fund's LIBOR+4% p.a. performance objective. The fund has lagged this target return over 12 months and 3 years.

The fund continues to rely on its equity allocation to drive returns, and they added to absolute performance over Q4, with notable contributors in the fund's holdings in the technology sector. The fund's foreign currency hedging positions also added value over the period, as a basket of global currencies depreciated against Sterling.

The fund's protective derivative positions, designed to insulate the portfolio from sharp falls in equity valuations, detracted from returns as global equity markets continued their upward trend. The fund's allocation to equities in the Utility sector also had a detrimental impact on performance, with Centrica selling off in the face of price caps being introduced into the energy-supply market.

In terms of portfolio activity, the manager introduced several new holdings over the quarter, particularly in the Technology and Defence sectors. These new positions were offset by a number of sales over the period, meaning the overall exposure to return seeking assets has stayed broadly constant. The team anticipate that equity markets are not likely to accelerate higher, given the bull run of the last two years. Despite the fact that headline valuations look expensive, the manager believes attractive opportunities are still available at stock level.

Performance Summary to 31 December 2017 [ii]

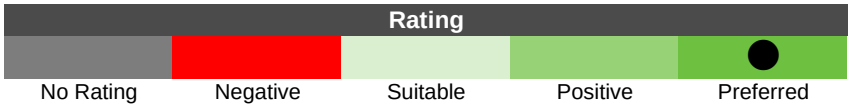
	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	0.4	3.2	3.3	4.5
Benchmark	0.1	0.3	0.4	0.5
Relative	0.3	2.9	2.9	4.0

* Inception date 06 May 2010.

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

M&G - Bonds

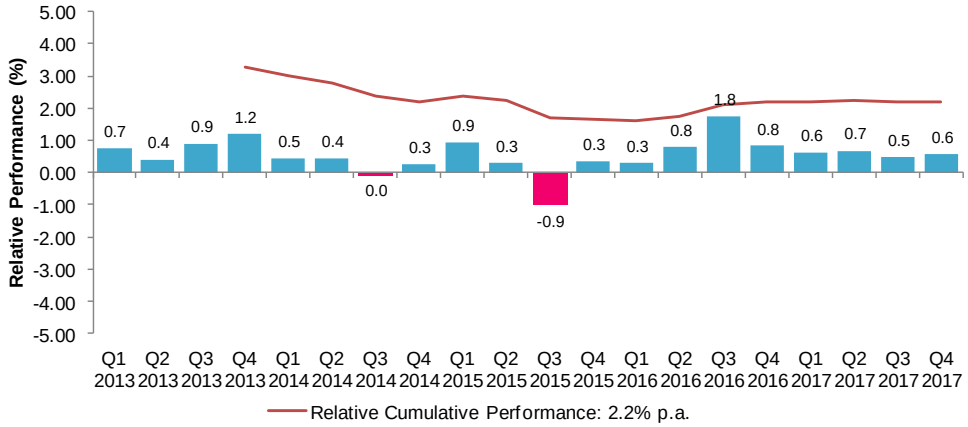
HR View Comment & Rating



We rate M&G bonds at 'Preferred'.

No significant news to report in the quarter to end December 2017.

Relative Quarterly and Relative Cumulative Performance



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.

Over the quarter credit spreads tightened in the main but ended the quarter at September levels across major developed markets.

Aggregate performance of the two funds was positive and outperformed the aggregate benchmark by 0.4%. The aggregate performance is comfortably ahead of benchmark over the longer periods of three and five years.

Performance Summary to 31 December 2017 [1] [i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	5 Years (% p.a.)
Fund	2.1	5.7	6.3	6.4
Benchmark	1.6	3.3	4.0	4.1
Relative	0.6	2.4	2.2	2.2

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

Source: [i] DataStream, Hymans Robertson

M&G - Bonds - Performance Attribution

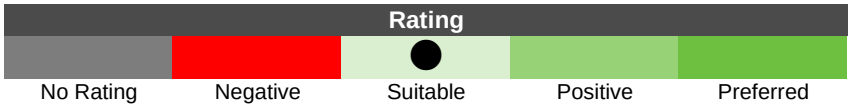
Performance Attribution Performance [i]

		UK Corporates	Alpha Opportunities Fund	Total
3 Months (%)	Absolute	2.9	0.8	2.1
	Benchmark	2.4	0.1	1.6
	Relative	0.4	0.7	0.6
12 Months (%)	Absolute	6.5	4.5	5.7
	Benchmark	5.1	0.3	3.3
	Relative	1.3	4.2	2.4
3 Years (% p.a.)	Absolute	7.6	4.1	6.3
	Benchmark	6.3	0.4	4.0
	Relative	1.3	3.7	2.2
5 Years (% p.a.)	Absolute	7.8	4.2	6.4
	Benchmark	6.8	0.4	4.1
	Relative	0.9	3.7	2.2

Source: [i] DataStream, Hymans Robertson

Schroders - Property

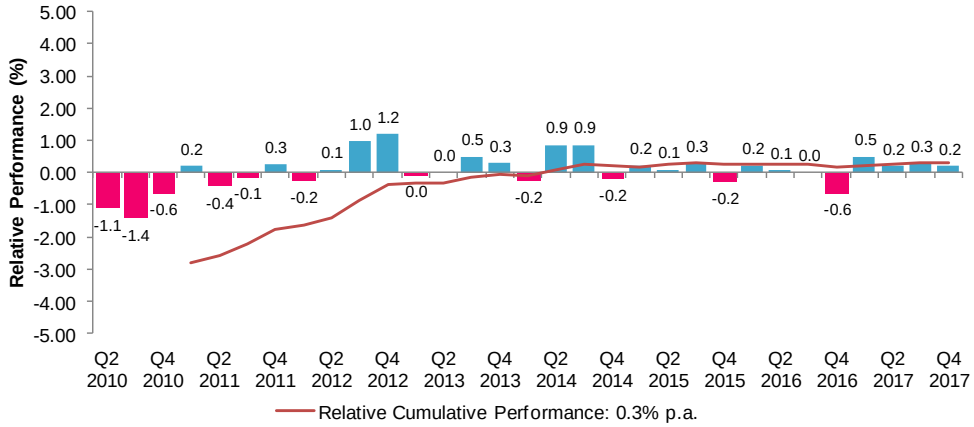
HR View Comment & Rating



We rate Schroders Property at 'Suitable - On Watch'.

There were no significant developments over the quarter.

Relative Quarterly and Relative Cumulative Performance



Performance Attribution Comment

Schroder's property portfolio outperformed the IPD benchmark over the quarter to end December 2017, returning 3.3% in absolute terms. Over all longer periods considered, it has outperformed the benchmark.

The main contributor over the quarter was the fund's allocation to the Industrials sector and in particular exposure to the Industrial Property Investment Fund (IPIF) which is also the strongest contributor for the portfolio over the year. Also, exposure to the Metro PUT, Mayfair Capital PUT and the Multi-Let Industrial PUT contributed to performance.

Cash held in the portfolio detracted over the quarter as did exposure to the Local Retail Fund and the Aviva Investors Pensions Limited. The portfolio is now underweight to the weaker parts of the retail sector such as shopping centres.

Given the strategic decision to disinvest from central London offices, the portfolio is now underweight which has proved fruitful as the sector has suffered as a result of the Brexit referendum. Looking ahead, Schroders are looking to increase their exposure to regional offices as they see more value there.

Performance Summary to 31 December 2017 [i]

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (% p.a.)
Fund	3.3	11.5	8.9	8.9
Benchmark	3.1	10.2	8.4	8.4
Relative	0.2	1.2	0.4	0.4

* Inception date 20 Feb 2010.

Source: [i] DataStream, Hymans Robertson

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		
	2007 Direct Fund		HIPEP 7 Europe	UBS	International Infrastructure Fund
	2007 Non US Fund		HIPEP 8		
	2007 US Fund		HarbourVest Partners VII - Buyout		
	2008 Direct Fund		HarbourVest Partners VII - Mezzanine		
	2008 Non US Fund		HarbourVest Partners VII - Venture		
	2008 US Fund		HarbourVest Partners VIII - Buyout		
	2009 Direct Fund		HarbourVest Partners VIII - Mezzanine		
	2009 Non US Developed Markets Fund		HarbourVest Partners VIII - Venture		
	2009 Non US Emerging Markets Fund		HarbourVest Partners IX - Venture		
	2009 US Fund		HarbourVest Partners IX - Buyout		
	2010 Direct Fund		HarbourVest Partners IX - Credit Opps		
	2010 Non US Developed Markets Fund		HarbourVest CleanTech		
	2010 Non US Emerging Markets Fund		HarbourVest CleanTech II		
	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	5.1	3.6	4.7	5.0	0.4	2.3	3.9	2.1	3.3	4.4
	Benchmark	5.1	4.9	4.8	5.0	0.1	0.1	3.9	1.6	3.1	3.3
	Relative	0.0	-1.2	0.0	0.0	0.3	2.2	0.0	0.6	0.2	1.0
12 Months (%)	Absolute	13.7	12.4	11.2	13.5	3.2	1.5	2.5	5.7	11.5	9.5
	Benchmark	13.9	13.2	11.3	13.1	0.3	0.3	2.5	3.3	10.2	8.4
	Relative	-0.2	-0.8	-0.1	0.4	2.9	1.2	0.0	2.4	1.2	1.0
3 Years (% p.a.)	Absolute	15.3	16.2	14.5	10.3	3.3	3.4	8.3	6.3	8.9	11.5
	Benchmark	15.3	14.6	14.6	10.1	0.4	0.4	8.3	4.0	8.4	9.9
	Relative	0.0	1.4	0.0	0.2	2.9	3.0	0.0	2.2	0.4	1.5
10 Years (% p.a.)	Absolute	11.9	17.9	12.4	8.8	4.5	5.3	N/A	6.9	8.9	7.2
	Benchmark	11.8	12.9	12.4	8.6	0.5	0.5	N/A	4.7	8.4	6.1
	Relative	0.0	4.4	-0.1	0.1	4.0	4.7	N/A	2.1	0.4	1.0

[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. From Q3 2016 total fund performances has 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	4.5	-	-	-	-	-	-	-	-	100.0	0.0
UK Equity	12.0	-2.0	-	-	-	-	-	-	-	-	-	-
Fixed Interest	3.5	0.3	-	-	-	-	-	-	-	-	-	-
Index-Linked Gilts	5.0	0.2	-	-	-	-	-	-	100.0	0.0	-	-
UK Property	10.0	0.2	-	-	-	-	-	-	-	-	-	-
Infrastructure	2.0	-1.4	-	-	-	-	-	-	-	-	-	-
Private Equity	5.5	-0.2	100.0	0.0	-	-	100.0	0.0	-	-	-	-
Absolute Return Funds	20.0	-1.7	-	-	-	-	-	-	-	-	-	-
Cash	0.0	1.9	-	-	100.0	0.0	-	-	-	-	-	-
UK Financing Fund	1.0	-1.0	-	-	-	-	-	-	-	-	-	-
Absolute Return Bonds	3.0	-0.9	-	-	-	-	-	-	-	-	-	-
Proportion of Total Assets	**-**	-	**2.8**	0.0	**0.0**	1.9	**2.8**	-0.2	**5.0**	0.2	**15.5**	1.5

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	1.8	-	-	-	-	-	-
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	-1.8	-	-	-	-	-	-
Proportion of Total Assets	**12.0**	-2.0	**5.0**	2.0	**6.5**	-0.5	**1.0**	-1.0	**1.0**	-1.0	**10.0**	-0.9

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**	-0.8	**10.0**	0.2	**17.5**	1.0	**1.0**	-0.4

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, 54% US, 15% Europe, 6% Asia (ex Japan), 9% Japan and 10% emerging markets. •
- M&G does not allocate between the corporate bonds and the absolute return bonds which it manages. The target shown is an assumed target based on the size of the initial allocation of the Fund made to the M&G Alpha Opportunities fund (absolute return bonds).

Performance Calculation Explanation

Geometric vs Arithmetic Performance

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

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

Some industry practitioners use the simpler arithmetic method as follows:

Fund Performance - Benchmark Performance

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

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

Using the arithmetic method

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

Using the geometric method

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

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

New Manager Rating System

Addressee

This paper is addressed to the Officers and Pension Committee ("the Committee") of the East Sussex Pension Fund ("the Fund"). We are making changes to the system we use for rating investment managers and their strategies. This note provides an overview of these changes, including the motivation for making them and the implications for clients. The paper should not be released or otherwise disclosed to any third party except as required by law or regulatory obligation or without our prior written consent. We cannot be held liable for any loss incurred by a third party relying on this paper without such permission.

Background

As a reminder, one of our Research Team's key responsibilities is to review and monitor the universe of investment managers across many asset classes, from which we make recommendations to clients. The old rating system was comprised of five different ratings, which varied according to the level of conviction the Research Team had in the manager's ability to meet its stated objectives (see Appendix).

New ratings system

From Q1 2018 we have moved to a new ratings system, summarised in this table:

Rating	Comment
Preferred	One of our highest rated strategies in the asset class.
Positive	We have a positive opinion on the strategy and believe it has a high possibility of reaching its objectives. But we believe there are superior strategies available.
Suitable	We believe the strategy is suitable for pension scheme investors from a regulatory perspective, but we have no strong view on its forward-looking prospects.
Negative	We have a negative outlook for the strategy relative to peers.

Summary of key changes

To give a little more colour to these new ratings the key changes to the ratings system are described below, along with the rationale for each change.

a) Greater granularity on our degree of conviction

The new ratings system has three favourable ratings ('Preferred', 'Positive' and 'Suitable') compared to the two afforded under the old system ('5 – Preferred' and '4 – Retain'). This allows the Research Team greater granularity to express their views on a particular strategy. The highest rating will still be referred to as 'Preferred' but we expect that the proportion of strategies with such a rating will fall as we move to a higher conviction approach where the bar will be set higher for a strategy to be assigned a 'Preferred' rating. A 'Positive' rating will be assigned where we have high conviction in the strategy's prospects but there are some minor issues that is preventing a 'Preferred' rating when compared to the wider peer group. The 'Suitable' rating is described below.

b) Introduction of a 'Suitable' rating

One of the most significant developments under this new ratings system is the introduction of a 'Suitable' rating. Strategies that have been assigned this rating are those regarded as being suitable for client investment from a regulatory perspective, but where we do not have a strong view, either positively or negatively, on its forward-

looking prospects. In such an instance, we will have higher rated strategies that we believe are stronger but do not have any reason to assign a lower rating.

In addition, the development of defined contribution ("DC") platforms over recent years has significantly increased the number of funds that self-select members can invest in. The inclusion of a 'Suitable' rating will allow a lighter touch due diligence process to be carried out on a fund more quickly and at a lower cost to clients than the full due diligence process.

c) Use of 'On Watch'

The old ratings system had a distinct '3 – On Watch' rating. The new system does not; instead, 'On Watch' will be deployed as an additional flag rather than a distinct rating. In practice, this means that were a significant event to happen to a 'Preferred' manager, we would highlight that this rating is currently 'On Watch' through our regular communication (such as quarterly monitoring reports) rather than having to downgrade the manager. This should prevent excessive (and unnecessary) changes in ratings relating to one-off events.

d) Removal of 'Sell' ratings

The two different sell ratings in the old ratings system are being condensed into one single rating, a 'Negative' rating', which indicates a negative outlook for the strategy's prospects. This change places greater emphasis on specific client circumstances. Under some circumstances it may still be appropriate for the client to remain invested in the strategy. The removal of the word 'sell' from the recommendation also affords greater flexibility to clients who are perhaps using the manager tactically and are willing to tolerate the risks of being invested in a strategy the Research Team has a negative outlook on. This makes a 'Negative' rated manager appropriate for some clients in exceptional circumstances.

Not Rated strategies

Funds that we do not actively research will be explicitly described as Not Rated. Such funds will usually be those that we have either screened out of our investment process or have carried out insufficient due diligence to form any opinion. This rating will be more applicable to funds that are available as self-select options, where the range of funds is quite wide. For not-rated strategies, we can undertake a bespoke lighter touch assessment where a client would like us to.

Migration from old ratings system

Preferred: Essentially equivalent to the old 5 rating. Most 5 rated strategies (but not necessarily all) have migrated to Preferred, but we expect the proportion of stategies with such a rating to decline in time as we focus our research resource on a more concentrated list of Preferred managers.

Positive: Essentially equivalent to the old 4 rating. Most 4 rated strategies have migrated to Positive, but many will migrate to Suitable (see below) in time.

Suitable: These strategies that we consider appropriate for client investment, but where we have a neutral view or no strong view on the capabilities of the manager to outperform. We will have typically carried out a lighter touch assessment and have identified no reason to assign a lower rating. We expect to use this rating frequently in DC schemes and for strategies used only by very small number of clients.

We may also use it for bespoke strategies that are offered by few asset managers where our goal is to identify managers capable of delivering the strategy rather than ranking managers from a wide universe.

Negative: This replaces both of the old Sell ratings, which will migrate to this new rating. Consistent with the old ratings, this reflects particular concerns about the manager or the process. In contrast to the old ratings system, we recognise explicitly that any decision to sell has to be made in the context of a client's overall investment arrangements.

Summary

Overall we believe the changes to the ratings system will allow us to apply higher conviction to our ratings, using a more granular approach. No action is required by clients. However should you have any questions regarding these changes then please do not hesitate to contact your client consultant.

Appendix

The old ratings system is summarised in the following table:

Rating	Recommendation	Comment
5	**Preferred**	Currently preferred high conviction strategy for the chosen asset class.
4	**Retain**	Minor concerns but remains a favoured strategy with a high probability of success.
3	**On Watch**	Retain but concerns are serious; meaningful risk of downgrade in coming months.
2	**Sell – Review Options**	Operationally sound but we have lost long-term confidence. Options and exit costs should be evaluated.
1	**Sell – Immediate**	Deterioration sufficiently serious for immediate, high priority exit.

Stock Lending

Addressee

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

Background

Stock lending has been carried out previously within the pooled passive fund investments which the Fund has held with State Street and Legal and General. However, it has not been carried out by the custodian in respect of the Fund's segregated equity mandate with Longview.

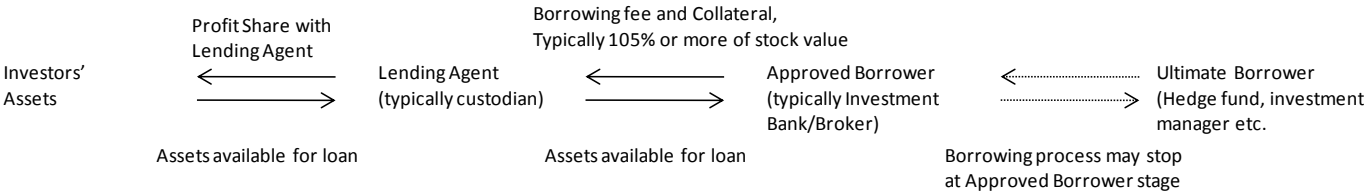
Going forward, it is intended that the sub funds being launched by the ACCESS pool will allow stock lending. It will also be carried out within the passive pooled investments with UBS. As a result, there is specific wording regarding stock lending included in the Fund's Investment Strategy Statement ("ISS").

This short paper is designed to provide a brief reminder on the nature and mechanics of stock lending, the potential risks to the Fund and how these are mitigated by the operator of the programme. In practice, the lending programme is managed by the relevant custodian.

What is stock lending?

Stock lending is an opportunity for pension funds, who are traditionally long-term investors, to extract a premium from their assets by providing liquidity to the market. Securities (mainly equities, though occasionally bonds) are lent to approved borrowers (typically investment banks/brokers) who pay a borrowing fee and who also transfer some form of collateral (typically cash or gilts) to mitigate the lender's credit exposure to the borrower.

Funds typically sub-contract the lending process to an agent, usually the investors' custodian, who has responsibility for recording details of stocks that have been lent and ensuring that risks are managed through the posting of collateral. An overview of the lending process is shown below:



Over time, stock lending programmes can generate an additional return of a few basis points on an investor's assets. However, the amount of income generated from stock lending varies over time depending upon the level of borrower demand, which is driven by a number of factors, including market activity and seasonality around dividend payments. Stock lending is carried out widely by local authority pension funds.

Why do people borrow stock?

Stock lending initially came about as a method to cover settlement failures, i.e. brokers would borrow stock to avoid incurring the costs and penalties associated with failed settlements. However, stock borrowing has become more widely used in the investment industry, with investors borrowing stocks to meet an array of short-term needs, including:

- Avoiding settlement failures;

- Facilitating tax arbitrage opportunities (i.e. where investors domiciled in different countries make mutually beneficial arrangements to take advantage of differences in tax laws). Such opportunities typically occur at the time of dividend payments; and
- Supporting short-selling and hedge fund strategies.

What are the risks involved?

The risks below are managed by the custodian operating the stock lending facility.

Risks	Mitigating the risk
Borrower risk - the risk of the borrower defaulting on a loan	The lender should only enter into stock lending agreements with borrowers they are comfortable lending to.
Intraday settlement risk – the risk of the securities which are lent being delivered to the borrower before collateral is received.	The lender can specify that collateral is received a day before the loan settles. On maturity of the loan, the lender should ensure that their shares are returned prior to or in conjunction with the collateral being released back to the borrower.
Legal risk – the risk that the contract in place does not provide sufficient protection to the lender in the event of the borrower defaulting.	In most cases, it is recommended that lenders seek professional advice when reviewing contracts. Any agreements signed with the borrower should adhere to commonly used market standard documentation.
Collateral risk – the risk that the value of the collateral the loan requires is below the replacement cost of the stocks on loan.	Collateral positions can be reviewed daily. The lender should ensure their collateral policy specifies the types of assets which can be used as collateral.
Cash collateral risk – the risk that on re-investment of the cash collateral, the lender suffers a loss.	The lender should be aware of the level of liquidity risk involved in the investment of cash collateral in the event of investments being sold at short notice. The lender's investment guidelines should provide an appropriate level of risk and return.
Operational risk – the risk of operational matters involved in the day-to-day running of the lending.	Agreements between the lender and borrower should clearly state which party takes responsibility for which operational risk and in what circumstances. All parties should ensure that robust procedures are developed in order to protect against such risks.
Other risks – any non-financial risks, such as ethical or reputational risks which can arise as a result of stock lending.	The lender should ensure stock lending conforms to their policies and investment objectives.

In addition:-

- The custodian operates a pooled facility for assets which are available for lending. This means that if a Fund's individual manager wishes to sell shares, then they can be supplied from the pool without impeding the manager's ability to trade.
- The lender receives payments from the borrower equivalent to any dividend payments made during the lending period.
- Voting rights are lost when stock is lent. Therefore, there may be instances when stock is recalled from the borrower in order to exercise voting.

The collapse of Lehman brothers in 2008 (a large counterparty at the time in the stock lending market) gave some comfort that risk management policies in the market are effective as there was very little disruption for participants and collateral arrangements worked well.

Summary

Stock lending programmes operated on a low risk basis for institutional pension funds have been a consistent if modest source of revenue for pension funds. The practice is intended as a permitted activity within ACCESS and we are comfortable that the Fund agrees to its use within the proposed sub funds.

Prepared by:-

Paul Potter, Partner
Kirsty Moffat, Investment Analyst
February 2018
For and on behalf of Hymans Robertson LLP

General Risk Warning

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

This page is intentionally left blank

Report to:	**Pension Committee**
Date:	**26 February 2018**
By:	**Chief Finance Officer**
Title of report:	**Investment Strategy Statement (ISS)**
Purpose of report:	**To inform the Committee of the review of the Fund's Investment Strategy Statement.**

RECOMMENDATION – The Committee is recommended to approve the updated Investment Strategy Statement (ISS)

1. Background

1.1 The Local Government Pension Scheme (LGPS) - Management & Investment of Funds removes many of the investment restrictions imposed on LGPS funds, and introduces 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 an Investment Strategy Statement (ISS).

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 (the 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 LGPS funds are required to prepare, maintain and publish an ISS. This document is designed to explain how the assets are managed to fund members, employers and any other interested parties, including factors that are taken into account in so doing. The latest ISS will be made available on the Council's website and a copy is attached at Appendix 1. The attached ISS has been updated following the Committee resolution to –

- agree to maintain the current private equity allocation of 5.5% by continuing to commit to the Fund's current managers, HarbourVest and Adams Street, in 2018;
- agree to increase the target infrastructure allocation from 2% to 4% in the short term with a view to increasing this further post pooling;
- agree to increase target private debt allocation from 1% to 3% - by committing in the short term to M&G's Debt Solutions Fund (DSF) and also additional commitments as required; and
- agree to increase the allocation to Longview from the current level of 5% to 7% of the Fund.

2.3 In addition, the Fund is asked to re-consider its participation in a Stock lending programme managed by its global custodian. The Fund participation in stock-lending arrangements is also required as part of the LGPS ACCESS pool sub-fund requirement, and to be able to benefit from future improved pool returns. The Committee will ensure that robust controls are in place to protect the security of the Fund's assets before entering into any stock lending arrangements.

3. Conclusion and reasons for recommendations

3.1 Under Regulation 7(6) and (7), a Fund's ISS must be published, kept under review and revised from time to time and at least every three years.

3.2 The Committee is recommended to approve the revised ISS.

IAN GUTSELL
Chief Finance Officer

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

Background Documents
None

East Sussex Pension Fund

Investment Strategy Statement

February 2018

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 26 February 2018, 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.

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 considers the chances of achieving their long term funding target and also considers 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 A.

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

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
Private Debt	1.0	3.0	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.

At the November 2017 meeting the committee agreed to maintain its target allocation of 2% to infrastructure and 1% to private debt with an ambition to increase these when appropriate investments arise to 4% and 3% respectively. These increases will be at the expense of the current 20% allocation to Absolute Return mandates.

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.

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 reviews the demographic assumptions of the Fund every three years as part of its triennial valuation to mitigate the risk that any changes to longevity and other factors would have on the Fund.

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. The Fund believes that climate change poses material risks to the Fund but that it also presents positive investment opportunities.
- 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 assesses the Fund's currency risk during their risk analysis. Details of the Fund's approach to managing ESG risks are 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 Fund'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 Fund will participate in a Stock lending programme managed by its global custodian. It will recall securities or stocks lent out as part of the programme as requested to exercise its voting rights when required. The Fund will participate in any stock-lending arrangements in the future as part of the LGPS ACCESS pool. The Committee will ensure that robust controls are in place to protect the security of the Fund's assets before entering into any stock lending arrangements. The manager(s) of pooled funds may undertake a certain amount of stock lending on behalf of unit-holders. Where a pooled fund engages in this activity the extent is fully disclosed by the manager (unless the assets are invested in LGPS pooled arrangements in which case this will be delegated to the Pool Operator).

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	4.0%	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.
Private Debt	M & G	3.0%	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 2019.

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 2018 was the 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/

The "ACCESS Pool" is not a legal entity. However a Joint Committee (JC), comprising of elected Pension Committee Chairmen from each Administering Authority and supported by the Officer Working Group has been established via an Inter Authority Agreement. **T**he Chairmen had previously met on a shadow basis, as at February 2018, they have formally met four times as an established body on 31 July 2017, 2 October 2017, 13 December 2017 and 29 January 2018. Papers from previous and future ACCESS JC meetings papers can be found using the following link: https://democracy.kent.gov.uk/mgOutsideBodyDetails.aspx?ID=898

ACCESS has taken advice on its sub-fund design and developed a draft plan for consolidation of a significant portion of participating Authorities' liquid assets in the initial set of sub-funds. This sub-fund proposal will allow the Operator to make rapid progress in preparing and submitting an application for authorisation of the ACCESS ACS and a set of "pilot and pipeline" sub-funds.

Investments Under Pool Governance (Passive) - The value of assets to be held within the Pool includes passively managed assets which will be held in Life Policies. The Life Policies themselves will necessarily remain an agreement between the participating Authority and the appointed external investment manager. This was acknowledged as an accepted outcome by Government. All passive assets will therefore be held out-side the Authorised Contractual Scheme (ACS) and will not be managed or administered by the Pool Operator.

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 considers 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.

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 has formally agreed to adhere to the Stewardship Code as published by the Financial Reporting Council. A copy of the Fund's statement of compliance with the Stewardship code can be found on the Fund's website.

As part of its compliance with the Stewardship Code the Fund has adopted a set of Voting Intention Guidelines set out above. The Committee will publish an annual report of voting activity as part of the Fund's annual report.

The Committee expects its investment managers to be signatories or comply with 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

- UBS Asset Management
- Newton Investment Managment
- Ruffer LLP
- Schroder Investment Manangment Limited
- M & G Investment Managment
- Longview Partners
- 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

Appendix A

East Sussex Pension Fund

Rebalancing Policy

February 2018

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	*
Growth Assets	**85.5**	**+/- 5**
Absolute Return Bonds	3.0	+/-1
Fixed Interest Bonds	3.5	+/-1
Index-Linked Gilts	5.0	+/-1
Private Debt	1.0	*
Cash	0.0	+/-2
Matching Assets	**14.5**	**+/-5**
Total	**100.0**	

At the November 2017 meeting the committee agreed to maintain its target allocation of 2% to infrastructure and 1% to private debt with an ambition to increase these when appropriate investments arise to 4% and 3% respectively. These increases will be at the expense of the current 20% allocation to Absolute Return mandates. Any rebalancing will be consistent with this anticipated change.

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**

Appendix A

- **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.
- **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 (e.g. Longview and L&G global equities).
- **Rebalancing transactions will aim to rebalance allocations out with 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

East Sussex Pension Fund

Investment Beliefs

February 2018

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, financial risk of the employer 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.

Appendix B

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 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.

Appendix B

Belief: Climate change presents a financial risk to the future investment returns from the Fund.

The Committee recognises that climate change issues can impact the Fund's returns and reputation. The impacts of climate change on the returns of the Fund in the future are unknown at this point but the Committee recognises that they need to allocate sufficient time and resource to monitor the possible risks and also identify any investment opportunities which may become available as a result. The committee is aware that not all companies and sectors are affected in the same way by climate change

Belief: Close engagement with - and challenge to - the investment managers will improve understanding of these risks.

The Committee believes that investors with long term time horizons are more exposed to certain risks and requires that its investment managers are aware of and consider these when making investments. It is acknowledged that investment managers carry out detailed research on the prospects for individual companies and industries and have access to company management. The Committee meets with investment managers at their regular meetings and has the opportunity to discuss relevant developments in detail. To challenge investments to ensure these are being followed and that all relevant risks have been considered.

Belief: Individual stock selection decisions will be delegated to active managers but the Fund will retain the right to sell holdings in exceptional circumstances.

The Committee believes that it is the role of its active managers to do the necessary due diligence on each individual stock selection they make. The Committee requires that its active managers provide on request the investment rational for each investment that the have made. Where the Committee has determined through this engagement with the active manager that the risks posed by a stock outways the potential gain they will retain the right to instruct its active managers to sell those holdings. As a result, no restrictions are currently placed on the Fund's active investment managers.

Belief: The Fund will aim to collaborate with other investors where this is expected to have a positive impact

The Committee recognises that through active shareholder engagement it can get those companies it is invested in to improve their corporate behavior. Improvements made by these engagements lead to an increase in the long term value of the Fund's investments. The Committee believes that these can be maximized by collaborating with other like minded investors to increase the pressure for change and encourages improvements to be made.

Belief: The nature of the underlying benchmark is an important consideration, most notably for passive mandates.

The Committee understands that the underlying benchmark they set their investment managers will drive the behavior of the managers and the investment risks they will take. The Committee also recognises that for its passive mandates the manager will only buy the stocks within the benchmark they are tracking. The Committee is aware that to ensure it is investing in the way that meets the needs of the Fund it needs to ensure it provides suitable benchmarks for each investment mandate. Therefore, the choice of benchmark index by the Committee is very important, will continue to explore the potential for using low carbon indices.

This page is intentionally left blank

Report to:	**Pension Committee**
Date:	**26 February 2018**
By:	**Chief Finance Officer**
Title of report:	**Local Government Pension Scheme (LGPS) Pooling - ACCESS update**
Purpose of report:	**This report provides Members with an update on the activities undertaken by the ACCESS Pool group.**

RECOMMENDATION –

The Committee is recommended to consider and comment upon the activities undertaken by the ACCESS Pool.

1. Background

1.1 The East Sussex Pension Fund (ESPF) is a member of the ACCESS pool which is made up of eleven Shire Counties from the East, South East, and South of England. In its July 2016 submission to Government, ACCESS set out its plan to pool investments through a Collective Investment Vehicle (CIV) that would be administered and maintained by a third party operator. The operator would be collectively managed by the pension funds through a joint committee established by the Authorities and made up of one member from each authority.

2. Governance

2.1 Kent County Council has been appointed as the initial host authority, on behalf of the ACCESS local authorities, and will undertake the secretariat function.

2.2 A report to the ACCESS Joint Committee meeting on 29th January 2018, which will be circulated to the ACCESS Local Pension Board Chairmen on the work associated with the ACCESS pooling arrangement, is attached as Appendix 1.

2.3 The Pension Committee's future role will be to agree and approve the investment strategy for the Fund. However, the PC will no longer be able to appoint Fund managers directly and in the future; this role will be undertaken by the Operator who will appoint the managers in consultation with the JC. The asset allocation requirements of each Fund will be implemented by the JC who will instruct the Operator via a client function, to set up sub funds to meet the Funds' requirements. The Chair of the East Sussex Pension Committee will sit on the JC as the ACCESS Vice Chairman, alongside the other ten Chairmen of the ACCESS Funds.

3. Financial Implications

3.1 The costs incurred by the East Sussex Pension Fund up to the end of December 2017 was £70,000 for the ACCESS project; these costs include legal and project management fees but exclude officer time. The estimated implementation costs of establishing a CIV are estimated to be £50k per annum for the ESPF. Eventual savings for the ACCESS Pool are projected to be £30m annually. Allowing for investment growth of 3-5% per annum, by year 10 this will be equivalent to £40-50m.

8. Conclusion and reasons for recommendations

8.1 The Pension Committee is recommended to note the content of this report and the progress on pooling since the last report.

IAN GUTSELL
Chief Finance Officer

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

Local Member(s): All
Background Documents
None

LOCAL PENSION BOARD – ACCESS WORK UPDATE

Joint Governance Committee

Date: 29 January 2018

Report by: Officers Working Group

Subject:	**ACCESS update for the Local Pension Board Chairmen**
Purpose of the Report:	To provide an update to the Joint Committee on the work associated with the ACCESS pooling arrangement, which will be shared with the ACCESS Local Pension Board Chairmen.
Recommendations:	**The Joint Committee is asked to note and agree that the ACCESS progress report be circulated to the ACCESS Local Pension Board Chairmen.**
Enquiries to:	Name – Ola Owolabi Tel: (01273) 482017 Email: ola.owolabi@eastsussex.gov.uk

Reasons Why this Report is Not for Publication

This report is not for publication as it contains exempt information within Paragraph 3 of Part 1 of Schedule 12A to the Local Government Act 1972, being information relating to the financial or business affairs of any particular person (including the authority holding the information). Further, it is considered that, in all the circumstances, the public interest in maintaining this exemption outweighs the public interest in disclosing this information. While there may be a public interest in disclosing this information, namely that it would provide detailed information about ACCESS intentions for its investment management arrangements, it is felt that, on balance, this is outweighed by other factors in favour of maintaining the exemption, namely that these details are commercially sensitive.

1. Purpose.

1.1 To provide the Joint Committee with a briefing paper (this report) that will be circulated to the ACCESS Local Pension Board Chairmen on the work associated with the ACCESS pooling arrangement.

2. Background

2.1 In the summer 2015 budget the Chancellor announced the Government's intention to invite Administering Authorities to make proposals for pooling Local Government Pension Scheme (LGPS) investments. Following the Autumn Statement on 25 November 2015 the Ministry of Housing, Communities and Local Government (MHCLG) - formally know as DCLG published its criteria for pooling investments focusing on 4 elements:

a. Scale – it is the Government's desire that pools of assets are created with at least £25bn of assets per pool.
b. Strong Governance – authorities are charged with defining the mechanisms by which they can hold the pool to account.
c. Reduced costs – including estimated savings over the next 15 years.
d. Improved capacity to invest in infrastructure through pooling.

2.2 Subsequently the Government published revised LGPS Management and Investment of Funds Regulations that came into force on 1 November 2016. The Regulations include the power for the Secretary of State to direct a fund to change its investment strategy or direct that a fund's investment function is undertaken by another organisation if the Secretary of State determines that a fund is failing to act in accordance with guidance issued, including the guidance to pool investments according to the criteria above.

2.3 Following extensive work by the ACCESS Officer Working Group and its appointed technical advisors, Hymans Robertson, a joint submission was formulated in respect of the eleven ACCESS participating authorities.

3. ACCESS Pool Objectives and Principles

3.1 The Pool is not a merger of the eleven funds, but each participating authority will retain its distinct identity and the administering authorities will remain responsible for complying with the LGPS Regulations and pension legislation in respect of their members. Annual Statements of Accounts and triennial Actuarial Valuations will still be prepared for each individual pension fund and each fund will determine its own funding and investment strategy.

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

a. Enable participating authorities to execute their fiduciary responsibilities to Local Government Pension Scheme (LGPS) stakeholders, including scheme members and employers, as economically as possible.

b. Provide a range of asset types necessary to enable those participating authorities to execute their locally decided investment strategies as far as possible.
c. Enable participating authorities to achieve the benefits of pooling investments, preserve the best aspects of what is currently done locally, and create the desired level of local decision-making and control.

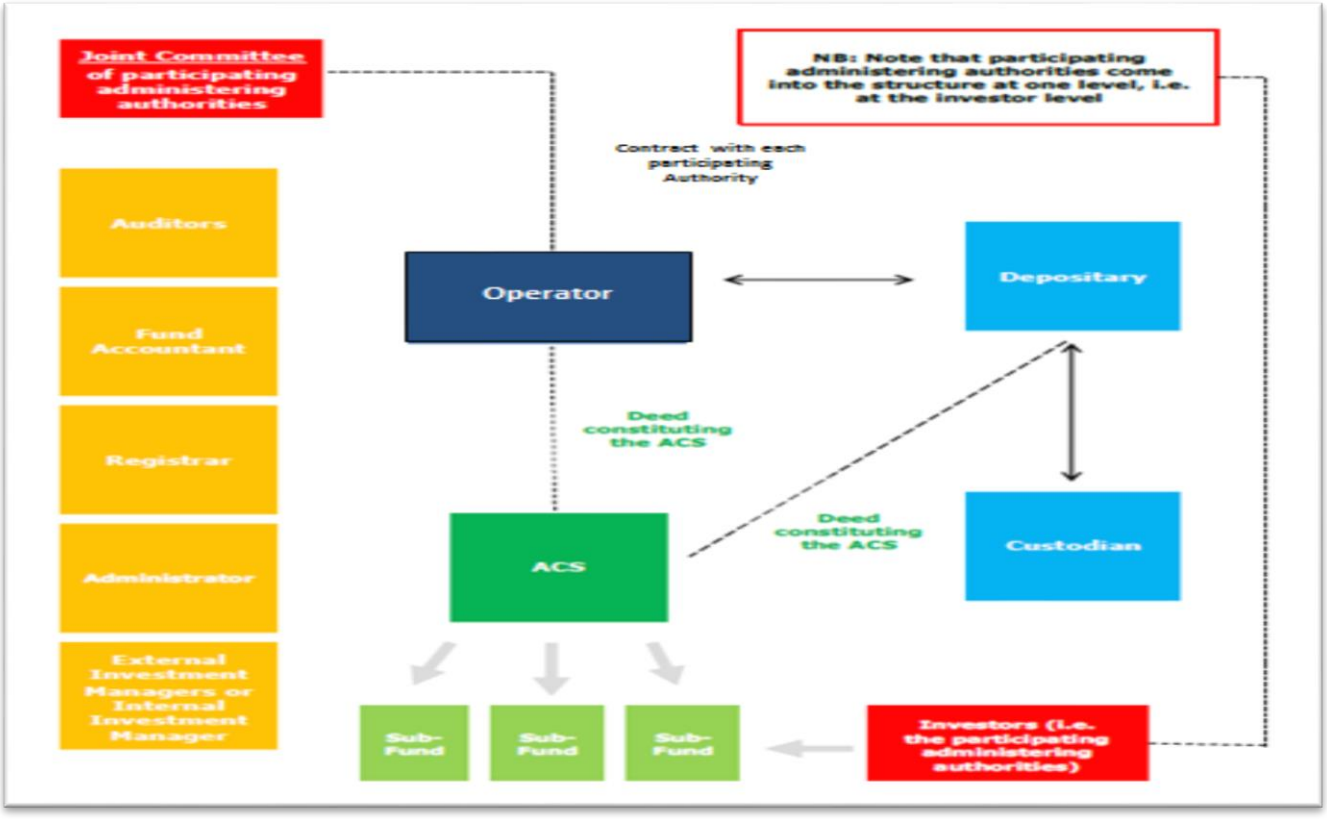
4 ACCESS Governance

4.1 The ACCESS Pool is not a legal entity. However a Joint Committee (JC), comprising of elected Pension Committee Chairmen from each administering authority and supported by the Officer Working Group has been established via an Inter Authority Agreement.

4.2 Kent County Council has been appointed as the initial host authority, on behalf of the ACCESS local authorities, and will undertake the secretariat function.

4.3 Whilst the Chairmen of the ACCESS Pension Fund Committees had previously met on a shadow basis, they have now formally met thrice as an established body on 31 July 2017, 2 October 2017, and 13 December 2017 respectively. Papers from previous and future ACCESS JC meetings papers can be found using the following link: https://democracy.kent.gov.uk/mgOutsideBodyDetails.aspx?ID=898

4.4 A Financial Conduct Authority (FCA) regulated Operator will provide the necessary infrastructure for establishing a pooling vehicle and to manage the Pool on behalf of the eleven funds. The diagram below illustrates the CIV Structure which has been adopted by the ACCESS pool -



4.5 The ACCESS pool has appointed an advisor to undertake a review of its current and proposed future governance arrangements to assist with definition of roles and responsibilities and to advise where there are overlaps and potential gaps, in accordance with accepted best governance practice.

4.6 The MHCLG have also requested an update on the status of the project and as such, ACCESS has completed the required 'questionnaire' providing a status update. A summary of the latest submitted MHCLG update is attached below as Appendix A.

5. Operator Procurement Progress

5.1 Some pools have chosen to "build" and own their own Operator Company and others have decided to "rent" using a third party provider. For ACCESS it was decided that the appropriate approach at the current time is to "rent". Although the rationale for the "build" or "rental" of an Operator is driven by each pool's circumstances, for example, the "build route" may be necessary for pools with in-house investment management capability. One of the key benefits of the solution adopted by ACCESS is that a third party service provider will perform the function of the Operator and they will then appoint the Depository, Custodian and other third party suppliers.

5.2 Following the conclusion of the evaluation phase of the procurement, the JC has considered the evaluation report and has approved the recommendation to appoint the bidder at its meeting on the 13 December 2017. This recommendation has been considered by the eleven ACCESS Administering Authorities and the final agreement is due to be completed in the next few weeks. .

5.3 ACCESS has taken advice on its sub-fund design and developed a draft plan for consolidation of a significant portion of participating authorities' liquid assets in the initial set of ACS sub-funds. This sub-fund proposal will allow the Operator to make rapid progress in preparing and submitting an application for authorisation of the ACCESS ACS and a set of "pilot and pipeline" sub-funds.

6. Passive Procurement

6.1 ACCESS Pool has completed a "mini" tender process within the framework to appoint a single provider to the ACCESS pool. Following competition, the ACCESS Funds have awarded a contract for their combined passive mandate to UBS Asset Management (UK) Limited. A recommendation was considered by the JC for ratification at its October meeting. The total assets under passive management for ACCESS will be £10.5bn.

7. Recommendation

7.1 The Joint Committee is asked to note and agree that the ACCESS work/progress report be circulated to the ACCESS Local Pension Board Chairmen.

Appendix A

Local Government Pension Scheme Pooling Progress Report (October 2017)

In the July 2016 Submission ACCESS authorities wrote to March Jones MP highlighting a number of benefits resulting from their pooling proposals. The below provide an update on progress.

Eventual projected **savings of £30m annually**	ACCESS authorities **remain confident** that these savings can be delivered
Plans for a **quick win of £4m per annum** from consolidating passive mandates.	This estimate has been **exceeded** – with estimated savings of £5.2m from the successful procurement and appointment of UBS Global Asset Management.
Potential for **greater savings** in the longer term as the ACCESS pool applies its leverage as one of the largest asset pools in the UK and collaborates with other pools to achieve further benefits of scale in investment management including more direct investment approaches in illiquid assets.	Assets under management for the ACCESS authorities were **£40.6bn at 31 March 2017**, with the anticipated value of assets to be held under pool governance of £39bn. The ACCESS pool has maintained its position as **one of the largest asset pools in the UK**, and will be able to apply its leverage to achieve further benefits of scale.
A pool structure composed of an **FCA authorised Collective Investment Vehicle** (the Operator and ACS and other pooled investment vehicles to hold assets).	The ACCESS authorities are **nearing the final stages of appointing a fully regulated Operator** who will in turn set up the FCA authorised sub-funds for the individual funds to invest in.
A significant shift in governance arrangements with the **Operator responsible for selecting and contracting with managers** on behalf of the authorities participating in the pool.	The **Operator will be wholly responsible for selecting and contracting with managers**.
Preserving appropriate local decision making (including strategic asset allocation) and building into governance arrangements the critical role of elected members. A Joint Governance Committee will be established which will hold the Operator to account – ensuring **democratic accountability** and exercising authority's **fiduciary responsibilities.**	An **Inter Authority Agreement** has been signed by all ACCESS authorities, which has formally established the **Joint Committee** structure.
Potential for an **increase in UK and global infrastructure** provided cost effective access to investment opportunities with the right risk / return profile emerge – ACCESS will support cross-pool collaboration efforts in developing arrangements that enable this.	The ACCESS pool continues to be **fully engaged with the Cross Pool Infrastructure group** and individual funds continue to invest in and allocate towards infrastructure investments as appropriate.

This page is intentionally left blank

Report to:	**Pension Committee**
Date:	**26 February 2018**
By:	**Chief Finance Officer**
Title of report:	**External Audit Plan for East Sussex Pension Fund 2017/18**
Purpose of report:	**To inform the Committee of the content of the Pension Fund external audit plan for 2017/18**

RECOMMENDATION-

The Committee is recommended to consider and comment upon the External Audit Plan for the East Sussex Pension Fund for 2017/18.

1. Background

1.1 The Plan confirms the core external audit fee as £26,607. This is unchanged from the 2016/17 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 2017/18 accounts. The Plan reflects relevant issues that have arisen as a result of the 2016/17 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).
- Valuation of hard to price investments.

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 reported to the Pension Board on 8 February 2018.

IAN GUTSELL
Chief Finance Officer

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

Local Member(s): All
Background Documents
None

This page is intentionally left blank

External Audit Plan 2017/18

East Sussex County Council Pension Fund

February 2018

Headlines

Financial Statement Audit

There are no significant changes to the Code of Practice on Local Authority Accounting ("the Code") in 2017/18, which provides stability. Deadlines for producing and signing the accounts have advanced. We have considered the risk associated with this in our Audit Plan for the Council.

Pension fund significant risks

– **Valuation of hard to price investments:** The pension fund invests in a range of assets and funds, some of which are inherently harder to value due to there being no publicly available quoted prices. We will verify a selection of investments to third party information and confirmations

Other information

Logistics and team

Our team is led by Joanne Lees, Director and Charlotte Goodrich, Senior Manager.

Our work will be completed in four phases from February to July and our key deliverables are this Audit Plan, and a Report to Those Charged With Governance.

Fees

Our fee for the 2017/18 audit is £26,607 (£26,607 2016/2017). This is in line with the scale fees published by PSAA.

Acknowledgement

We thank officers and Members for their continuing help and cooperation throughout our audit.

Content

The contacts at KPMG in connection with this report are:

Joanne Lees
Director

Tel: **07833 747 074**
joanne.lees@kpmg.co.uk

Charlotte Goodrich
Senior Manager

Tel: **07789 971538**
charlotte.goodrich@kpmg.co.uk

This report is addressed to East Sussex County Council (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. PSAA issued a document entitled Statement of Responsibilities of Auditors and Audited Bodies summarising where the responsibilities of auditors begin and end and what is expected from audited bodies. We draw your attention to this document which is available on PSAA'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 Joanne Lees, 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 (0207 694 8981, 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 3H.

1. Introduction

Background and statutory responsibilities

This plan supplements our 2017/18 audit fee letter 2017/18 dated April 2017, which set out details of our appointment by PSAA.

Our statutory responsibilities and powers are set out in the Local Audit and Accountability Act 2014, the NAO's Code of Audit Practice and the PSAA Statement of Responsibilities.

Our audit has one key objective, requiring us to audit / review and report on your:

— **Pension Fund Financial statements:** Providing an opinion on your accounts. We also review the Annual Governance Statement and Narrative Report and report by exception on these; and

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.

Financial statements audit

Our financial statements audit follows a four stage process:

— Financial statements audit planning

— Control evaluation

— Substantive procedures

— Completion

Appendix 1 provides more detail on these stages. This plan concentrates on the Financial Statements Audit Planning stage.

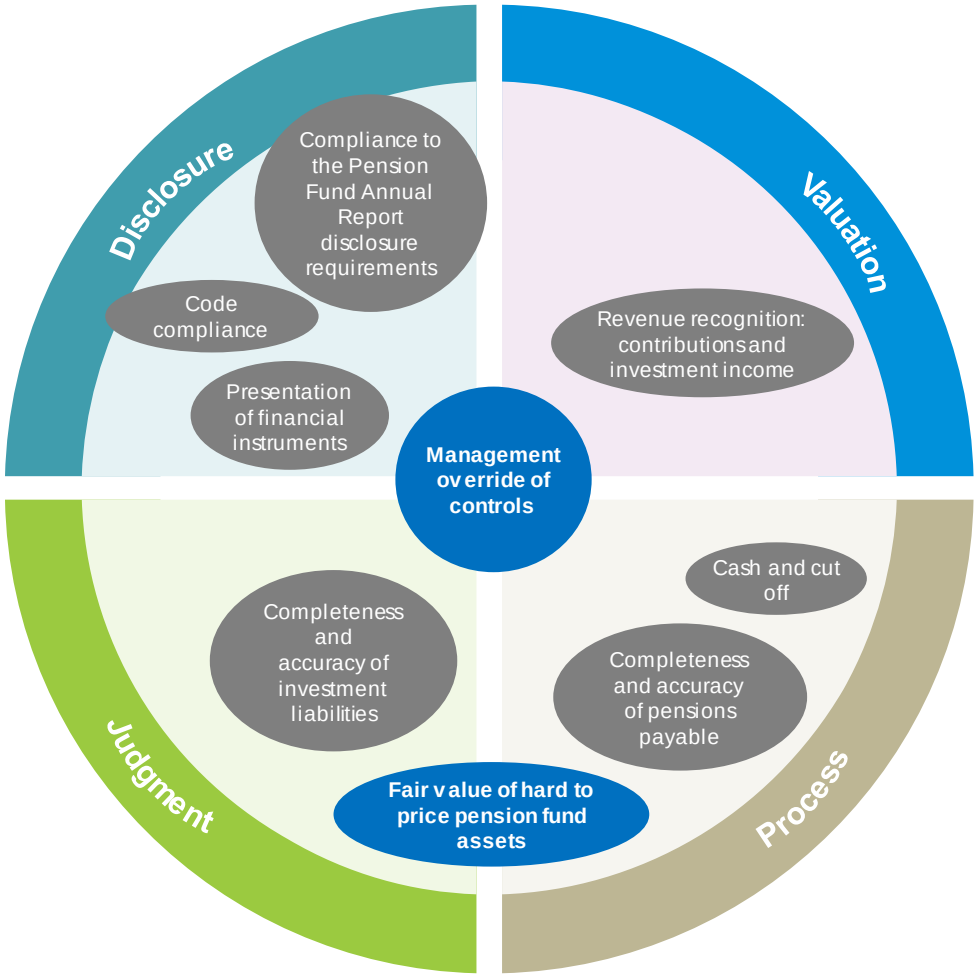
2. Financial statements audit planning

Pension Fund risk assessment

Professional standards require us to consider two standard risks. We are not elaborating on these standard risks in this plan but consider them as a matter of course 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 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 local authority 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.



Key: ● Significant risk ● Other areas considered

2. Financial statements audit planning

Pension Fund significant audit risks

Those risks requiring specific audit attention and procedures to address the likelihood of a material financial statement error in relation to the Pension Fund.

Valuation of hard to price investments
Risk: The Pension Fund invests in a wide range of assets and investment funds, some of which are inherently harder to value or do not have publicly available quoted prices, requiring professional judgement or assumptions to be made at year end. The pricing of complex investment assets may be susceptible to pricing variances given the assumptions underlying the valuation. **Approach:** We will independently verify a selection of investment asset prices to third party information and obtain independent confirmation on asset existence. We will test to what extent the Pension Fund has challenged the valuations reported by investment managers for harder to price investments and obtained independent assessment of those figures.

2. Financial statements audit planning

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.

For the Pension Fund materiality for planning purposes has been set at £33M which equates to 1% of 2016/17 net assets.

Reporting to those charged with governance

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee 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.

In the context of the Pension Fund we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.6M

If Management has corrected material misstatements identified during the audit, we will consider whether those corrections should be communicated to those charged with governance to assist it in fulfilling its governance responsibilities.

Our audit team

Your audit team has been drawn from our specialist public sector assurance department and is led by two key members of staff:

- **Jo Lees:** your Director has overall responsibility for the quality of the KPMG audit work and is the contact point within KPMG for the Scrutiny Committee for Audit, Best Value and Community Services, the Chief Executive and Finance Director.
- **Charlotte Goodrich:** your Senior Manager is responsible for delivery of all our audit work. She will manage the completion of the different elements of our work, ensuring that they are coordinated and delivered in an effective manner.

The core audit team will be assisted by other KPMG staff, such as risk, tax, clinical or information specialists as necessary to deliver the plan.

Reporting and communication

Reporting is a key part of the audit process, not only in communicating the audit findings for the year, but in ensuring that the audit team is 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. Our communication outputs are included in Appendix 1.

Independence and Objectivity

Auditors are required to be independent and objective. Appendix 2 provides more details of our confirmation of independence and objectivity.

4. Other matters

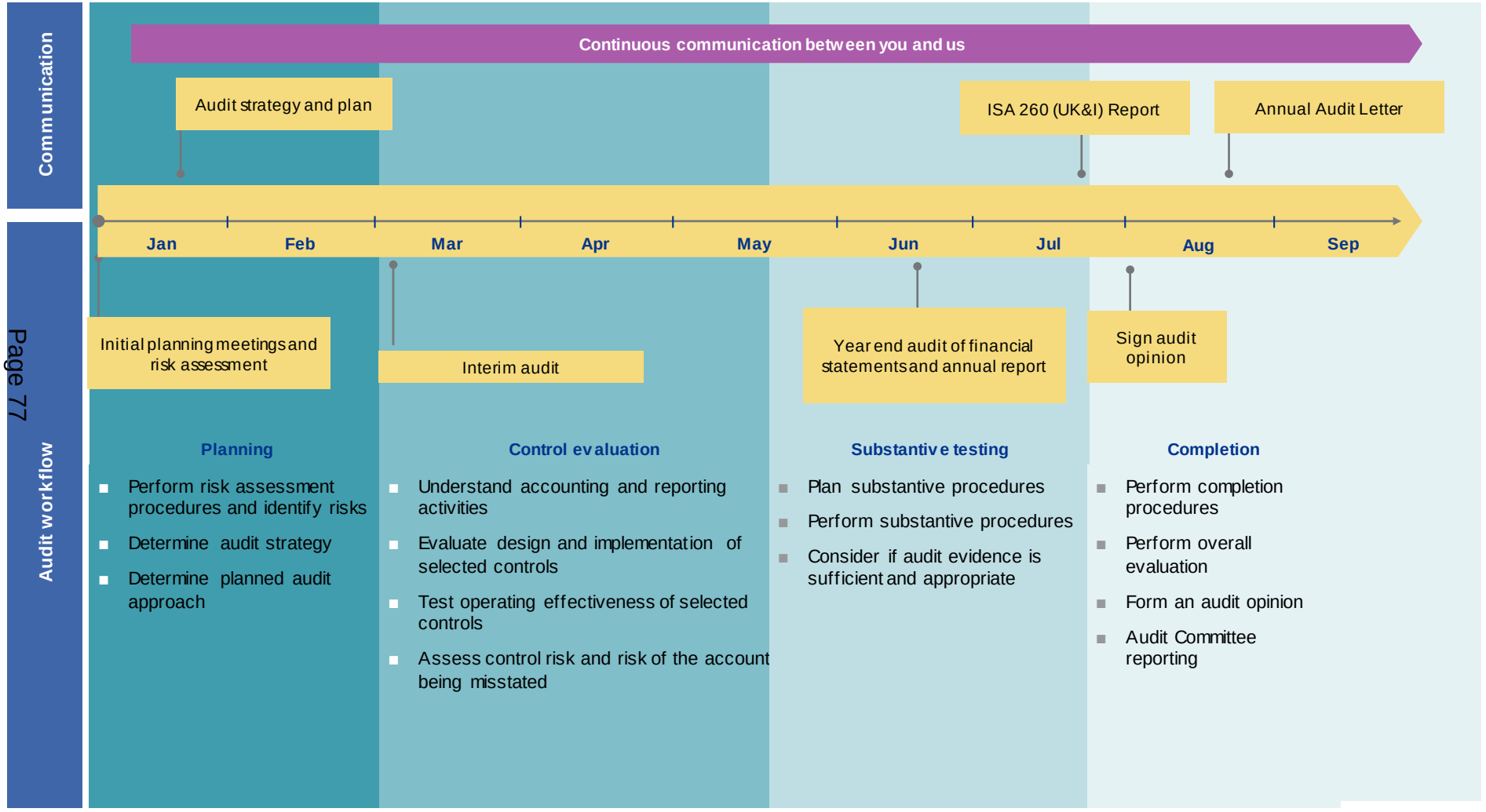
Audit fee

Our Audit Fee Letter 2017/2018 presented to you in April 2017 first set out our fees for the 2017/2018 audit. This letter also set out our assumptions. We have not considered it necessary to seek approval for any changes to the agreed fees at this stage.

Should there be a need to charge additional audit fees then this will be agreed with the S151 Officer and PSAA. If such a variation is agreed, we will report that to you in due course.

The planned audit fee for 2017/18 is £26,607 for the Authority (2016/17: £26,607).

Appendix 1: Key elements of our financial statements audit approach



Appendix 2: Independence and objectivity requirements

ASSESSMENT OF OUR OBJECTIVITY AND INDEPENDENCE AS AUDITOR OFEAST SUSSEX COUNTY COUNCIL

Professional ethical standards require us to provide to you at the planning stage of the audit a written disclosure of relationships (including the provision of non-audit services) that bear on KPMG LLP's objectivity and independence, the threats to KPMG LLP's independence that these create, any safeguards that have been put in place and why they address such threats, together with any other information necessary to enable KPMG LLP's objectivity and independence to be assessed.

In considering issues of independence and objectivity we consider relevant professional, regulatory and legal requirements and guidance, including the provisions of the Code of Audit Practice, the provisions of Public Sector Audit Appointments Ltd's ('PSAA's') Terms of Appointment relating to independence and the requirements of the FRC Ethical Standard and General Guidance Supporting Local Audit (Auditor General Guidance 1 – AGN01) issued by the National Audit Office ('NAO').

This Appendix is intended to comply with this requirement and facilitate a subsequent discussion with you on audit independence and addresses: General procedures to safeguard independence and objectivity; Breaches of applicable ethical standards; Independence and objectivity considerations relating to the provision of non-audit services; and Independence and objectivity considerations relating to other matters.

General procedures to safeguard independence and objectivity

KPMG LLP is committed to being and being seen to be independent. As part of our ethics and independence policies, all KPMG LLP partners, Audit Directors and staff annually confirm their compliance with our ethics and independence policies and procedures. Our ethics and independence policies and procedures are fully consistent with the requirements of the FRC Ethical Standard. As a result we have underlying safeguards in place to maintain independence through: Instilling professional values; Communications; Internal accountability; Risk management; and Independent reviews.

The conclusion of the audit engagement leader as to our compliance with the FRC Ethical Standard in relation to this audit engagement is subject to review by an engagement quality control reviewer, who is a partner not otherwise involved in your affairs.

We are satisfied that our general procedures support our independence and objectivity.

Independence and objectivity considerations relating to the provision of non-audit services

There have been no non-audit fees agreed in respect of our audit of the Pension Fund.

Independence and objectivity considerations relating to other matters

There are no other matters that, in our professional judgment, bear on our independence which need to be disclosed to those charged with governance.

Confirmation of audit independence

We confirm that as of the date of this report, in our professional judgment, KPMG LLP is independent within the meaning of regulatory and professional requirements and the objectivity of the Audit Director and audit staff is not impaired.

This report is intended solely for the information of the Audit Committee of the authority and should not be used for any other purposes.

We would be very happy to discuss the matters identified above (or any other matters relating to our objectivity and independence) should you wish to do so.

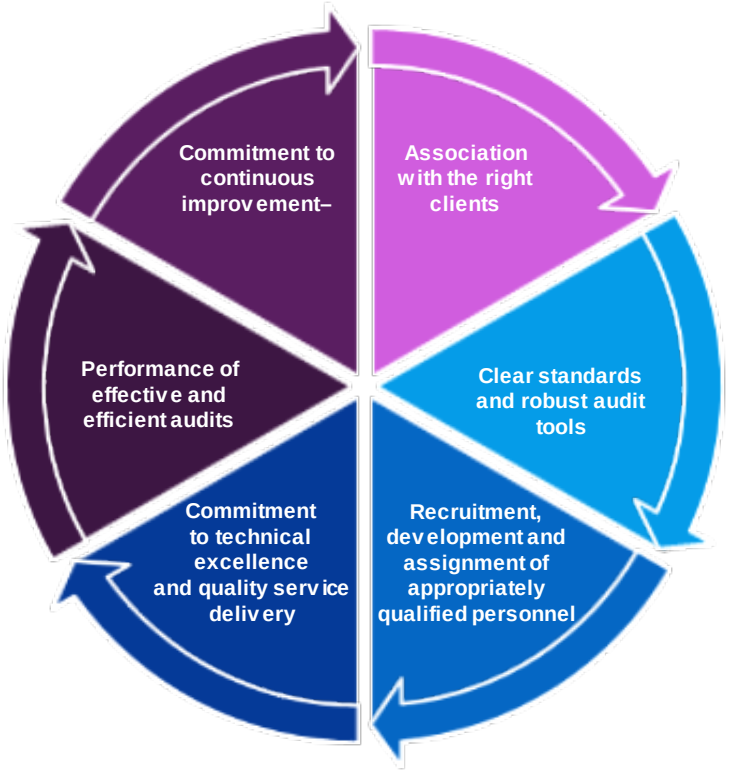
Appendix 3: Quality framework

Audit quality is at the core of everything we do at KPMG and we believe that it is not just about reaching the right opinion, but how we reach that opinion. To ensure that every partner and employee concentrates on the fundamental skills and behaviours required to deliver an appropriate and independent opinion, we have developed our global Audit Quality Framework

- Comprehensive effective monitoring processes
- Proactive identification of emerging risks and opportunities to improve quality and provide insights
- Obtain feedback from key stakeholders
- Evaluate and appropriately respond to feedback and findings

- Professional judgement and scepticism
- Direction, supervision and review
- Ongoing mentoring and on the job coaching
- Critical assessment of audit evidence
- Appropriately supported and documented conclusions
- Relationships built on mutual respect
- Insightful, open and honest two way communications

- Technical training and support
- Accreditation and licensing
- Access to specialist networks
- Consultation processes
- Business understanding and industry knowledge
- Capacity to deliver valued insights



- Select clients within risk tolerance
- Manage audit responses to risk
- Robust client and engagement acceptance and continuance processes
- Client portfolio management

- KPMG Audit and Risk Management Manuals
- Audit technology tools, templates and guidance
- Independence policies

- Recruitment, promotion, retention
- Development of core competencies, skills and personal qualities
- Recognition and reward for quality work
- Capacity and resource management
- Assignment of team members and specialists

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 Appointment's website (www.psaa.co.uk).

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

We are committed to providing you with a high quality service. If you have any concerns or are dissatisfied with any part of KPMG's work, in the first instance you should contact Joanne Lees, 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:	**26 February 2018**
By:	**Chief Finance Officer**
Title of report:	**Communications Policy Statement 2018/19**
Purpose of report:	**To provide an updated 2018/19 version of the East Sussex Pension Fund Communications Policy for consideration and approval.**

RECOMMENDATION -
The Committee is recommended to approve the Communications Policy Statement 2018/19

---

1. Background

1.1 The Local Government Pension Scheme (Administration) Regulations requires administering authorities to prepare, publish and maintain a policy statement setting out its communication strategy for communicating with:

- Scheme Members
- Members' Representatives
- Prospective members
- Employers participating in the Fund.

1.2 This report sets out the mechanisms used to meet the communication responsibilities, using the most appropriate communication methods for the audiences receiving the information. The policy requires an annual review to be carried out.

1.3 The document is attached as Appendix 1 to this report, and the Committee is asked to consider this and propose any amendments they may wish to make to the attached communication policy statement, taking into consideration how the Committee wants the fund to ensure effective communication between the Fund, scheme members and participating employers.

2. Communications Policy Statement

2.1 The overarching aim of the attached document is to maximise membership of the scheme through incrementally improving information and support to all members of the scheme and prospective joiners.

3. Conclusion and recommendations

3.1 There is a legal requirement under the Local Government Pension Scheme Regulations for a policy and its best practice to be refreshed on a regular basis. The updated 2018/19 version of the East Sussex Pensions Communications Policy statement was presented to the Board for comments on 8 February 2018 meeting.

3.2 The Committee is recommended to approve the Communications Policy Statement.

IAN GUTSELL
Chief Finance Officer

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

Background documents: None

Communications Policy Statement
East Sussex Pension Fund

1. The Communications Policy Statement covers the policy of East Sussex County Council in its role as the administering authority for the East Sussex Pension Fund as required under Regulation 61 of the Local Government Pension Scheme (Administration) Regulations 2013. Communication is at the heart of everything East Sussex Pension Fund does and it is the key to us achieving our administrative objectives.

2. There is now a greater awareness of pensions amongst the public than ever before resulting in an increased demand for information and this demand means that as a LGPS Fund we need to continue to be proactive in providing and delivering clear and timely communications.

3. All local government pension schemes are required to publish a statement on the approach of the Pension Fund to communication with members, prospective members and employing authorities.

4. The East Sussex Pension Fund liaises with over 130 employers and over 70,000 members.

Day to Day Responsibilities

5. The officer responsibility for the East Sussex Pension Fund rests with the Chief Finance Officer for East Sussex County Council (with the exception of the employees' benefits service). The Chief Finance Officer and Officers of the Pension Fund, who are part of Orbis (which is the shared service between East Sussex County Council, Brighton and Hove City Council and Surrey County Council), report to the East Sussex Pension Fund Pension Committee and East Sussex Pension Fund Pension Board. The day to day responsibility for pension governance, strategies, investment management and communication with employers rests with the Head of Pensions, who reports directly to the Chief Finance Officer.

6. Business Operations undertake the day to day functions associated with the administration of the LGPS for employees, with the day to day responsibility resting with the Head of Business Operations, who reports to the Chief Operating Officer of East Sussex County Council (all of whom form part of Orbis)

Overview of the Approach to Communication.

7. The East Sussex Pension Fund communicates with a wide variety of stakeholders, each with slightly different needs.

8. The Pension Fund maintains a dedicated web-page on the County Council's website and in addition a dedicated member's website known as the East Sussex Pension Fund website (ESPF). Regular communications are issued by the East Sussex Pension Fund to both employers and members of the Fund via periodic newsletters, E-mail Alerts, meetings and statements. Newsletters are communicated

electronically to all employers who are encouraged to disseminate to all relevant staff.

9. The Pension Fund also accepts electronic communication, e.g. by email, as well as the more traditional telephone and paper-based communications.

10. In addition to regular electronic or paper based updates, there is an annual pension forum for all Employers in the scheme hosted by the Administering Authority.

11. A dedicated customer telephone number, to handle the majority of member queries, is maintained by the Business Operations - Orbis.

12. We recognise that individuals may have specific needs in relation to formats or language. We can, and do, respond to this on a request basis. Demand is not high enough, however, to incur the cost of automatically preparing and maintaining such alternative formats etc.

Communication with Deferred and Active Members.

13. The core communication objective is that all active members, within all relevant employer organisations, are kept up to date with any changes in scheme benefits, can access scheme advice and have an awareness of the overall performance of the Investment Fund.

14. This is achieved by the following:

- Dedicated web-page on the County Council's and East Sussex Pension Fund web-site;
- Regular electronic or paper-based newsletters. For other employer bodies, this is dispatched to a lead contact (usually within the HR and Payroll function) with a request that it is shared with all relevant staff;
- Online annual benefit statement
- Notification of a dedicated customer query telephone line maintained by the Business Operations – Orbis;
- Maintenance and availability of Scheme Booklet;
- Advice on request about such matters as estimated retirement benefits etc.

Communication with Pensioners

15. The core communication objective is to ensure that pensioners are aware of the general performance of the Pension Fund (recognising this will not impact on pensions in payment) and any specific factors that do affect pensions in payment (e.g. annual pensions increase).

16. This is achieved by the following:

- Notification of pension increase posted to the home address;

- Clear detail on customer query contact routes on payslips posted to the home address;
- Access to the websites;
- Access to periodic road shows (advertised in payslips posted to the home address).

Communication with Prospective Members

17. The core communication objective is to ensure that all employee joiners, to all employers in the East Sussex Pension Fund, are made aware of the benefits of becoming a member of the Local Government Pension Scheme – and are assisted in the subsequent joining arrangements.

18. This is achieved by the following:
- Joiner information via all relevant employers, made available to all employee joiners;
- Access to customer query contact details;
- Access to the dedicated web-page and sites;
- Receipt of all information and opportunities afforded to existing active members as set out above.

Communication with all Relevant Employer Organisations

19. The core policy communication objective is to ensure that all employers are aware of the performance of the Investment Fund (given its impact on employer contribution rates); any scheme changes impacting on the employer's HR or workforce planning; any key discretions to be exercised by the individual employer; advice on the future valuation outlook; and advice and agreement on key frequent and annual data and financial transaction flows between the administering authority and individual employers. All this is in addition to the general pensions awareness employers will wish to maintain as a 'good employer'.

20. This is achieved by the following:
- Employee newsletters shared with all employers;
- Specific communications on scheme changes for employers;
- Quarterly summary reports to employers on the Investment Fund through ESFOA;
- Annual general meeting with all employers dealing with investment performance, actuarial insights and any scheme changes;
- Routine sharing of employers discretions exercised by ESCC as a preformed to enable other employers to consider their own approach.
- Direct access to the Actuary to the fund if required;
- Periodic road shows/seminars with individual groups of employers;
- Specific employer guide, both paper based and maintained on the websites;
- Briefings for groups of senior managers as requested including sharing of key committee papers produced;
- Briefings and sharing of information with union representatives.

Communication with the Pension Committee and the Pension Board

21. The core communication objective is to ensure all elected members are aware of the benefits of joining the LGPS to ensure the nominated members, in their committee roles and members of the Pension Board, are kept up to date on key investment or scheme issues.

22. This is achieved by the following:

- Providing relevant information on current issues at Pension Committee and Pension Board meetings.
- Periodic electronic briefing notes for the Pensions Committee and Pension Board on key issues and shared with all employers to share with the elected members or equivalent;
- Detailed periodic reports to the appropriate committee to agree, for example, official responses to consultation requests. Again, these are shared with all employees by employers to provide some pro forma guidance.
- Detailed and dedicated training for all Members of both the Pension Committee and Pension Board.

Communication between the Local Pension Board, Scheme Members and Employers

23. The Local Pension Board was established in April 2015 to assist the Committee in securing compliance with the scheme regulations and the effective and efficient governance and administration of the LGPS. It is made up of 3 scheme members' representatives and 3 scheme employers' representatives along with a non-voting independent chairman.

24. Pension Fund officers will provide professional support to the Pension Board, ensuring regular communication with members and employers through –

- Opportunity for members of the public to attend the Board meeting and receive papers, which will be made public in accordance with the Access to Information Rules in East Sussex County Council's Constitution.
- Up-to-date information will be posted on the East Sussex Pension Fund website with full terms of reference and policies of the Pension Board and how it operates.
- Officers ensuring that draft reports on investment, governance and administration matters are available for consideration.

Communication with other Key Stakeholders

25. These vary from ESCC, as the Administering Authority, Pension Fund Actuary, the Inland Revenue, and Orbis. The needs are different. The Administering Authority takes upon itself the responsibility to ensure the most effective and efficient communication processes with these other stakeholders to ensure proper and necessary business is conducted efficiently and effectively. In addition, the Administering Authority will seek to ensure proper and professional response to media queries.

Communication with Council Tax Payers

26. The core communication objective is to ensure that the Council Tax Payer are aware of the pension cost issues as part of the whole range of cost and service dynamics that the Council has to deal with. This is a matter for each individual council.

27. For ESCC, this is achieved by ensuring the pensions cost issues are a transparent part of the Council's wider approach to Reconciling Policy, Performance and Resources.

Conclusions and Performance Management

28. ESCC, as Administering Authority, takes its responsibility on behalf of all employees and employers in the scheme very seriously. Communication is vital with all key stakeholders. This is not just to ensure relative needs are recognised and met but to ensure a continued high confidence in the administration of the scheme in East Sussex.

29. Each communication channel will have an obvious performance measure in terms of inputs (e.g. annual pensions meetings are held annually or telephone calls are answered within 30 seconds or post enquiries are responded to within seven days). Most importantly, it is necessary to assess the quality of the communication.

Key contacts

30. As follows:

Wendy Neller
Pensions Strategy and Governance Manager
Business Services Department
East Sussex County Council
County Hall
St Anne's Crescent, Lewes
East Sussex
BN7 1UE
Tel: 01273 481904
Wendy.Neller@eastsussex.gov.uk

Ian Gutsell
Chief Finance Officer
Business Services Department
East Sussex County Council
County Hall
St Anne's Crescent, Lewes
East Sussex
BN7 1UE
Tel: 01273 418399
Ian.gutsell@eastsussex.gov.uk

Ola Owolabi
Head of Pensions
Business Services Department
East Sussex County Council
County Hall
St Anne's Crescent, Lewes
East Sussex
BN7 1UE
Tel: 01273 482017
Email: Ola.Owolabi@eastsussex.gov.uk

This page is intentionally left blank

Report to: **Pension Committee**

Date: **26 February 2018**

By: **Chief Finance Officer**

Title of report: **Internal Audit Report – Pension Fund Governance and Investments**

Purpose of report: **To provide the Committee with the outcome of the Pension Fund Governance and investments audit.**

RECOMMENDATION -
The Committee is recommended to note the report

---

1. Background

1.1 The review of Pension Fund Governance and Investments has been completed as part of the agreed annual audit plan for 2017/18. The audit report aims to provide assurance on the overall effectiveness of the system's controls and identifies areas of concern or weakness where improvements can be made.

2. Supporting Information

2.1 The East Sussex County Council has a statutory responsibility to administer and manage the East Sussex Pension Fund (ESPF) on behalf of all participating employers in East Sussex. The scheme provides retirement benefits for Council employees, employees of Brighton & Hove City Council, the five boroughs and district councils in East Sussex, together with various other scheduled and admitted bodies.

2.2 Responsibility for the overall direction of the Fund's investment policy lies with the Pension Committee. The Pension Board is there to assist the Scheme Manager in securing compliance and providing assurance in the governance of the scheme administration. Day to day management of the investments has been delegated to external fund managers, who report to the Pension Committee quarterly on their activities.

2.3 Based on the work completed as part of this review, the Internal Audit has assigned a **Reasonable Assurance** opinion in respect of Pension Governance and Investments. This opinion means that most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives. The attached Appendix 1 provides summary of the findings, potential risk implication, priority, and agreed action.

2.4 This is a combined audit for investments/governance and internal audit is able to give reasonable assurance that controls are operating effectively. The audit identified some areas for improvements as follows:

a. There are ineffectual communication and collaborative working practices in place between key teams.

b. For the third year in a row there have been delays in distributing annual benefit statements to scheme members. These delays represent a breach which was not reported to the pension regulator in a timely manner as outlined in the breaches policy.

c. The Fund communication policy is scheduled need to be reviewed.

3. Conclusion and recommendations

3.1 The report has been written on an exception basis, whereby only control weaknesses have been reported, and the audit has been conducted in conformance with Public Sector Internal Audit Standards and internal quality assurance systems.

IAN GUTSELL
Chief Finance Officer

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

Background Documents: None

Internal Audit Report

Pension Governance and Investments

Final Report

Assignment Lead: Ben Constable, Senior Auditor
Assignment Manager: Nick Lee, Principal Auditor
Assignment Ref: A3-004-69
Prepared for: East Sussex County Council
Date: 26 January 2018

Report Distribution List

- Ola Owolabi, Head of Accounts & Pensions
- Wendy Neller, Pensions Strategy & Governance Manager
- John Sheppard, Finance Manager – Pension Fund
- Russell Wood, Principal Pensions Officer
- Ian Gutsell, Chief Finance Officer

This audit report is written for the officers named in the distribution list. If you would like to share it with anyone else, please consult the Chief Internal Auditor.

Name of Authority - Internal Audit Key Contact Information
Chief Internal Auditor: Russell Banks, ☎ 01273 *481447,* russell.banks@eastsussex.gov.uk
Audit Manager: *Danny Simpson*, ☎ 01273 481952*,* ✉ danny.simpson@eastsussex.gov.uk
Anti-Fraud Hotline: ☎ 01273 481995, ✉ confidentialreporting@eastsussex.gov.uk

1. Introduction

1.1. East Sussex County Council (ESCC) has a statutory responsibility to administer and manage the East Sussex Pension Fund on behalf of all participating employers in East Sussex. The primary objective is to ensure assets held on behalf of the Fund are managed for the long term benefit of scheme members (in accordance with the rules of the scheme and the regulatory framework), maximising the Fund's growth whilst minimising investment risk.

1.2. An actuarial valuation was carried out by Hymans Robertson LLP valuing the Fund with assets of £2,771M and liabilities of £3,012M as at 31 March 2016, representing a funding level of 92%.

1.3. The Fund is made up of 127 employers with 23,567 employee members and 28,853 deferred members, as at March 2017.

1.4. As in previous years the audits for pension fund governance and investments have been combined.

1.5. The previous audit dated September 2016 gave an opinion of full assurance.

1.6. This audit is part of the agreed Internal Audit Plan for 2017/18.

1.7. This report has been issued on an exception basis whereby only weaknesses in the control environment have been highlighted within the main body of the report.

2. Scope

2.1. The scope of the audit was to ensure:

- All entries relating to the Fund have been accurately recorded in the general ledger in a timely manner;
- Monitoring arrangements over the pension fund and fund managers are suitable robust;
- Contributions and investment returns are received in full in a timely manner;
- Governance arrangements provide effective strategic oversight for the management and investment of the pension fund;
- Risk management arrangements are suitable robust;
- Stakeholders receive timely and accurate information;
- The pension fund is administered in accordance with best practice and legistlative requirements.

3. Audit opinion

3.1. **Reasonable Assurance** is provided in respect of Pension Governance and Investments. This opinion means that most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.

Appendix A provides a summary of the opinions and what they mean and sets out management responsibilities.

4. Basis of Opinion

4.1. We have been able to provide **Reasonable Assurance** over the controls surrounding the pension fund's governance and investment arrangements, because:

4.2. There is a robust framework in place for managing the Fund's investments, with regular monitoring and entries accurately recorded in the Council's finance system, SAP.

4.3. There is an established Pension Committee with assigned responsibility for making arrangements for the investment, administration and management of the Fund.

4.4. There is an established Pension Board with assigned responsibility to ensure that the Fund is managed and administered effectively and efficiently and complies with the Code of Practice.

4.5. There is a strong framework for managing the performance of Fund managers with regular performance updates provided to the Pension Board and Committee.

However, some areas for improvement have been identified:

4.6. There are ineffectual communication and collaborative working practices in place between key teams.

4.7. For the third year in a row there have been delays in distributing annual benefit statements to scheme members. These delays represent a breach which was not not reported to the pension regulator in a timely manner as outlined in the breaches policy.

4.8. The Fund communication policy is scheduled to be reviewed every February; this did not happen in 2017.

5. Action Summary

Risk Priority	Definition	No	Ref
High	Major control weakness requiring immediate implementation		
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources	2	1, 2
Low	Represents good practice but its implementation is not fundamental to internal control	1	3
	Total number of agreed actions	3	

6. Acknowledgements

6.1. We would like to thank all staff that provided assistance during the course of this audit.

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
1	**Collaborative Working** Ensuring statutory obligations are fulfilled is a key feature of governance and for the 3rd year in a row the deadline for the production of Annual Benefit Statements has been missed, Business Operations has responsibility for this process. Like many key deliverables for the Pension Fund the distribution of Annual Benefit Statements requires the input of many of the Fund's stakeholders. The lack of progress in meeting this statutory deadline highlights the need for better communication and collaborative working between key stakeholder groups, including improving the level of scrutiny over completion of key administrative tasks.	Without effective collaborative working there is a risk that statutory obligations are not met resulting in potential financial loss and reputation damage.	Medium	A Terms of Reference will be agreed setting out key principles and expected collaborative behaviour required to ensure effective governance and adminstaration of the Pension Fund.This will be led by the Pension Fund's Section 151 Officer and the Head of Accounts and Pensions, who will also receive regular reports concerning the delivery of key administrative tasks.
Responsible Officer:		Ian Gutsell (Chief Finance Officer)	**Target Date:**	31st March 2018

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
2	**Reporting Breaches** The breaches policy states that all breaches should be reported to the pension regulator as soon as reasonably practicable and no later than one month after becoming aware of the breach or potential breach. Despite this policy being in place, the recent breach relating to the delay in issuing Annual Benefit Statements to scheme members was not reported to the pension regulator in a timely manner as stipulated in the policy. It is acknowledged that improved collaborative working (as per Action 1) should help prevent further breaches occuring.	There is a risk of financial penalty and reputational damage if breaches are not reported in a timely manner and in accordance with agreed policy.	Medium	All staff involved in pension fund administration will be reminded of the requirement to report any potential breaches to the pension regulator in a timely manner as instructed in the breaches policy.
Responsible Officer:		Ian Gutsell (Chief Finance Officer)	**Target Date:**	28th February 2018

Ref	Finding	Potential Risk Implication	Priority	Agreed Action
3	**Communication Policy** A communication policy has been produced which promotes the importance of communication and how this will be managed between the various stakeholders. The policy is due to be reviewed annually and was included on the forward plan to be reviewed in February 2017; however this did not form part of the agenda and remains outstanding.	There is a risk of reputational damage or loss of confidence if key stakeholders are not effectively communicated with.	Low	The Pension Fund communication policy will be reviewed, updated and presented to the Pension Board at their next meeting.
Responsible Officer:		Wendy Neller (Pension Strategy & Governance Manager)	**Target Date:**	31st March 2017

Appendix A

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

Management Responsibilities

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

This report, and our work, should not be taken as a substitute for management's responsibilities for the application of sound business practices. We emphasise that it is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Report to:	**Pension Committee**
Date:	**26 February 2018**
By:	**Chief Finance Officer**
Title of report:	**East Sussex Pension Fund 2017/18 Budget monitoring and 2018/19 Budget report**
Purpose of report:	**To provide an update on the 2017/18 Budget Monitoring and seek approval for the 2018/19 budget for the East Sussex Pension Fund.**

RECOMMENDATION

The Committee is recommended to:

1) note the 2017/18 Budget Monitoring; and

2) approve the East Sussex Pension Fund Budget for 2018/19.

---

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 East Sussex Pension Fund budget is set separately from East Sussex County Council's budget. Regulation requires Pension Fund assets to be ring-fenced as the Fund is run on behalf of employers and scheme members, from a range of public, private and quasi-public organisations across east Sussex. All the costs (and efficiencies) of administering the pension fund are met by the Fund. The Fund is accountable to all its stakeholders (employers and members) via the Pensions Committee.

1.3 The proposed 2018/19 budget for the Pension Fund has been put together to assist in the management of the Fund, and the Council will be 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.

1.4 The estimates do not incorporate any provision for investment fees earned by the alternative fund managers.

2. 2017/18 Budget Monitoring

2.1 In February 2017 the Pension Fund Committee agreed a budget in respect of the Pension Fund's investment and administration expenses for the 2017/18 financial year. Appendix 1 (below) provides analysis of the Pension Fund expenditure to date and the 2017/18 projected outturn.

Description	2017/18 Budget £000	2017/18 Projected Outturn £000	Change £000
Pension Administration	1,110	1,075	(35)
Oversight and governance	660	729	69
Investment Management	8,850	7,388	(1,462)

Total	**10,620**	**9,192**	**(1,428)**

2.2 The projected underspend is mainly due to the renegotiated fee arrangements with our fund managers (i.e., including StateStreet, Newton), and a reduction of fees for our Private Equity managers (HarbourVest). Officers continue to have ongoing dialog with other fund managers in relation to our fee arrangements.

3. East Sussex Pension Fund (ESPF) Budget – 2018/19

3.1 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 2018/19 is attached as Appendix 2. A comparison of the 2017/18 budget with the 2018/19 budget is shown below:

Description	**2017/18 Budget £000**	**2018/19 Budget £000**	**Change £000**
Pension Administration	1,110	1,086	(24)
Oversight and governance	660	733	73
Investment Management (invoiced fees)	8,850	4,650	(4,200)
Total	**10,620**	**6,469**	**(4,151)**

Analysis of Budget Movement

3.2 Pension Administration - The slight decrease in pension admin budget between 2017/18 and 2018/19 is primarily due to efficiencies within the joint administration service. The budget for the on-going GMP reconciliation work is currently being determined, therefore, previous year budget has been assumed.

3.3 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 an increase in legal cost in dealing with employers issues.

3.4 Investment Management - The Investment Strategy budget allows for potential fee reductions from current managers but it also reflects the increase in the value of the fund since 31 March 2017 due to the current market valuations. The budget reflects the renegotiated fee arrangements with our fund managers and the subsequent fee savings for the East Sussex Fund. However as a result of LGPS asset pooling, the way in which fees will be paid by the East Sussex Fund will change as a result of assets being transferred to the ACCESS pool. As an example, the fees invoiced by Newton will be deducted at source, against the value of units in the Newton portfolio, rather than being invoiced to the East Sussex Fund.

3.5 Since the setting of the 2017/18 £8.850m investment management fees budget, reductions have been negotiated with Newton, HarbourVest and State Street. The ACCESS Pool has awarded a contract for the combined passive mandate to UBS Asset Management (UK) Limited, which is expected to result in savings in the region of £600k for the East Sussex Fund.

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 national LGPS benchmarking exercises during the year, which will provide a useful cost comparator with other LGPS funds.

5. Conclusion and recommendations

5.1 Pension Fund expenditures on investment and administration will be charged to the Pension Fund. There is no direct charge to local authorities or other employer bodies for the costs detailed in this report.

5.2 The Committee is recommended to:

1) note the 2017/18 Budget Monitoring; and

2) approve the East Sussex Pension Fund Budget for 2018/19.

IAN GUTSELL
Chief Finance Officer

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

Background Documents: None

Appendix 1

2017/18 Pension Fund Revenue - Projected Outturn

Description	2017/18 Budget £000	2017/18 Projected outturn £000	Change £000	Narrative
Pension Administration				
Orbis Finance Support Services	40	50	10	Staff time in monitoring the administration of the Fund
Orbis Business Operations Support Services	970	925	(45)	Cost of the joint administration service, and reflects hosting the system by Business Operations
Guaranteed Minimum Pension	100	100	-	On-going GMP Reconciliation work
Administration total	**1,110**	**1,075**	**(35)**	
Oversight and governance costs				
Orbis Finance Support Services	200	258	58	Staff time spent on oversight and governance
Subscriptions	40	40	-	CIPFA Pension Network, LAPFF, Club Vita, LGPC etc.
Actuarial Fees	120	90	(30)	Outsource to contractors
Investment Consultancy	120	95	(25)	Outsource to contractors
Investment Pooling	100	110	10	Commissioning work for expert advice on investment pooling
External Audit Fee	29	23	(6)	External audit of the Annual Report
Internal Audit Fee	17	19	2	Control work performed by the Council's internal audit team
Legal Fees	10	60	50	Legal work commissioned for the fund
Performance Measurement Services	24	24	-	Investment performance monitoring service
Other Expenses	-	10	10	Conferences, travel, etc.
Specific Actuarial Work*	150	150	-	Work performed by the actuary on the behalf of specific employers which is recharged to them
Other Income	(150)	(150)	-	Recovery of work provided by the actuary
Oversight and governance total	**660**	**729**	**69**	
Investment Management				
Investment Manager Fees	8,850	7,388	(1,462)	Fees paid to the investment managers
Total	**8,850**	**7,388**	**(1,462)**	
Total PF Budget	**10,620**	**9,192**	**(1,428)**	

**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.*

Appendix 2

2018/19 Pension Fund Revenue Budget

Description	2017/18 Budget £000	2018/19 Budget £000	Change £000	Narrative
Pension Administration				
Orbis Finance Support Services	40	51	11	Staff time in monitoring the administration of the Fund
Orbis Business Operations Support Services	970	935	(35)	Cost of the joint administration service, and reflects hosting the system by Business Operations
Guaranteed Minimum Pension	100	100	-	GMP Reconciliation work
Administration total	**1,110**	**1,086**	**(24)**	
Oversight and governance costs				
Orbis Finance Support Services	200	263	63	Staff time spent on oversight and governance
Subscriptions	40	36	(4)	CIPFA Pension Network, LAPFF, Club Vita, LGPC etc.
Actuarial Fees	120	90	(30)	Outsource to contractors
Investment Consultancy	120	100	(20)	Outsource to contractors
Investment Pooling	100	120	20	Commissioning work for expert advice on investment pooling
External Audit Fee	29	26	(3)	External audit of the Annual Report
Internal Audit Fee	17	19	2	Control work performed by the Council's internal audit team
Legal Fees	10	45	35	Legal work commissioned for the fund
Performance Measurement Services	24	24	-	Investment performance monitoring service
Other Expense	-	10	10	Conferences, travel, etc.
Specific Actuarial Work*	150	150	-	Work performed by the actuary on the behalf of specific employers which is recharged to them
Other Income	(150)	(150)	-	Recovery of work provided by the actuary
Oversight and governance total	**660**	**733**	**73**	
Investment Management				
Investment Manager Fees	8,850	4,650	(4,200)	Fees paid to the investment managers and a reduction in passive mandate fees.
Investment Management Total	**8,850**	**4,650**	**(4,200)**	
Total PF Budget	**10,620**	**6,464**	**(4,151)**	

**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.*

This page is intentionally left blank

Report to: **Pension Committee**

Date: **26 February 2018**

By: **Chief Operating Officer**

Title of report: **Officers' Report - Pensions Governance and Administrations**

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

RECOMMENDATION – The Committee is recommended to note the report

1. Background

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

2. Report Overview

Cash Flow Forecast and Summary

2.1 The East Sussex Pension Fund invests any surplus cash with the Fund's custodian, Northern Trust. Over the past 5 years, the East Sussex fund has been broadly cash flow 'neutral'. The estimate for the fiscal year 2017/18 is that the fund will generate a surplus of £4.6m; the estimated cash flow position will be helped by higher employer pension contribution rates set at the last triennial valuation and payable since 1 April 2016. The current/quarter three projected outturn is a deficit of £2.4m, i.e., a variation from estimate of £7.0m, mainly due to movement in the transfer 'In & Out' of the fund. In 2017/18 we had a total of 108 transfers out with and average value of £30k with 8 transfers above £100k at a total of £1.8m. Up to December 2017 the fund has had 98 transfers out at an average value of £65k with 20 transfers above £100k and a total value of £4.8m.Table 1 below shows the cash projection to 31 December 2017.

PENSION FUND DEALINGS WITH MEMBERS AND EMPLOYERS	**Original 2017/18 £m**	**Projected Outturn 2017/18 £m**	**Variance £m**
Employees Contributions	28.4	28.8	0.4
Employers Contributions	82.2	81.6	(0.6)
Deficit Recovery	14.1	12.6	(1.5)
Transfers In	8.8	7.9	(0.9)
TOTAL INCOME	**133.5**	**130.9**	**(2.6)**
Pensions Benefits Paid	(103.3)	(103.9)	(0.6)
Pensions Lump Sum Paid	(20.1)	(20.1)	0.0
Administration expenses	(1.8)	(1.8)	0.0
Transfers Out (excluding College transfer)	(3.7)	(7.5)	(3.8)
TOTAL EXPENDITURE	**(128.9)**	**(133.3)**	**(4.4)**
SURPLUS CASH	**4.6**	**(2.4)**	**(7.0)**

3. National Development - updates

Local Government Pension Scheme pooling and Funds Collaboration

3.1. The ACCESS pool update has been provided through a separate report to this meeting.

Markets in Financial Instruments Directive (MiFID II)

3.2 The Markets in Financial Instruments Directive II regime came into force on 3 January 2018. The new European Union rule, introduced in response to the financial crisis of 2007, regulates the provision of financial instruments to clients of financial service companies. East

Sussex Pension Fund has gone through the process and has successfully opted up to remain a professional client.

3.3 Following the recommendation at the Pension Committee meeting on 4 September 2017, which agrees to approve delegated responsibility to the Chief Finance Officer in consultation with the Chair for the purposes of completing the applications, the ESPF submitted relevant documentations to fund managers on Friday 22 September 2017 seeking election 'opt-up' to an elected Professional Client status,

4. Ministry of Housing, Communities and Local Government (MHCLG)

4.1 DCLG will in future be known as the Ministry of Housing, Communities and Local Government (MHCLG). Rishi Sunak MP has been appointed as Marcus Jones' successor with responsibilities for the scheme and its advisory board. Rishi Sunak was appointed Parliamentary Under Secretary of State at the Ministry of Housing, Communities and Local Government on 9th January 2018.

5. Appointment of a new Member Replacement and Vice Chairs

5.1 As a result of an employee representative resignation from the Pension Board, Pensioners were contacted directly through letter, advertisement in local newspapers and the Council's website, seeking an expression of interest. The appointment of a new scheme member representative on the Board has now been completed.

5.2 There is provision in the terms of reference of the Pension Board for a Vice Chair but this role has not yet been appointed to. Meetings of the Board cannot go ahead without the Chair or Vice Chair present, so there is a risk that a meeting of the Board would not be able to proceed if the Chair is unable to attend for any reason.

5.3 A Governance Committee report '*East Sussex Pension Board – Appointment of a Member Replacement and Vice Chairs*' is attached as Appendix 1. This report deals with the need to appoint a replacement for scheme member's representative on the Pension Board and to agree the nominations for a scheme member vice chair and employer vice chair, i.e., the Scheme Member nomination as Angie Embury and the employer nomination as Councillor Brian Redman.

6. Pensions Administration

6.1 The following items were presented to and considered by the Pension Board. A brief summary is provided for the benefit of the Committee along with any actions.

Annual benefit statement update

6.2 A report was considered outlining the planned production of the ABS's in 2018. The aim is for annual statements to be issued in a phased period between the end of May and end of July, well in advance of the statutory deadline of 31 August. Discussion took place focussed on activities that would assist in the timely delivery of the employers year-end returns as delays in this area would lead to the greatest risk of failing to deliver the ABS's within the statutory timeline. The Administration team confirmed employer engagement was starting in February this year and employers would be offered training support where appropriate to assist them in completing their responsibilities. Where there was risk of delayed returns, assistance would be sought from the Governance team and where applicable from elected members where existing employer relationships may help expedite delayed returns. (please see Appendices 2 & 3)

Preparing for General Data protection Regulation Compliance (GDPR)

6.3 A report was presented by the Information Governance Manager of ESCC providing assurance that the forthcoming legislation is unlikely to have a major effect on the underlying business of pension administration. This is primarily due to the statutory requirement to retain personal data in order to perform certain pension related services. The officer also confirmed that existing practises in the Administration function relating to data protection and breach reporting, fundamental requirements for the basis of the legislation, was robust.

Performance Indicators

6.4 Following a request by the Board at the previous meeting, various comparable administration performance indicators were provided as used by other Pension Funds, including Essex, Kent, Hants and W Sussex County Councils. Whilst the design and presentation of these reports varied somewhat, the performance targets for the East Sussex pension fund were shown to be broadly comparable with other County Council funds.

GMP reconciliation

6.5 An update report on the progress of this project was provided for consideration. Some debate took place around the remaining unreconciled cases, tolerance levels and the amount of liability expected. Further discussion took place on the additional costs of "phase 2" of the reconciliation exercise which would be required to investigate the remaining 15,000 queries. An action was taken for the Board to be provided with a more detailed list of unreconciled cases showing the effect of various tolerance levels. The administration team stressed that the remaining queries would still require some further investigation before any decisions could be made around acceptance of tolerance levels.

7. Pension Committee Agenda – 29 May 2018

7.1 The draft agenda for the 29 May 2018 Pension Committee meeting include the following

- LGPS Pooling – ACCESS Pool Update;
- Discretionary policy statement;
- External Assurance Reports from Third Parties;
- Bulk Transfer, Cessations and Admission policies.

8. Conclusion and reasons for recommendations

8.1 The Committee is recommended to note the general update regarding the Pension Fund activities**.**

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

Brian Smith, Head of Operations, 07791 423476
brian.smith@eastsussex.gov.uk

This page is intentionally left blank

Report to: **Governance Committee**

Date: **23 January 2018**

By: **Chief Operating Officer**

Title of report: **East Sussex Pension Board – Appointment of a Member Replacement and Vice Chairs**

Purpose of report: **To agree the appointment of Pension Board member replacement in compliance with the arrangements for administering the Local Government Pension Scheme (LGPS) in East Sussex; and to agree the appointment of two vice chairs**

RECOMMENDATIONS – The Governance Committee is recommended to agree:

1) the appointment of the Pension Board member replacement as set out in the report; and

2 the appointment of the two vice chairs as set out in the report.

1. Background

1.1 This report deals with the need to appoint a replacement for scheme member's representative on the Pensions Board and to agree the nominations for a scheme member vice chair and employer vice chair. The Council has established the Pension Board in compliance with the Local Government Pension Scheme (LGPS) regulations.

2. Pension Board appointment – member replacement

2.1 The Council received a letter of resignation from a scheme member representative, who, due to ill-health will not be able to carry out the role as required by the Pension Board terms of reference. Pensioners were immediately contacted through letter, advertisement within the local newspapers, and on the Council's website, seeking an expression of interest as scheme member's representative on the East Sussex Pension Board.

2.2 Following careful consideration by the interview panel on Friday 8 December 2017 and the selection of a successful candidate, the current and revised Pension Board members are as follows:

	Representing	**Organisation**	**Board Members**	**Revised Board Members**
1	Employer	University of Brighton	Sue McHugh	Sue McHugh
2	Employer	Wealden District Council	Cllr. Brian Redman	Cllr. Brian Redman
3	Employer	Brighton & Hove C. C.	Cllr. Kevin Allen	Cllr. Kevin Allen
4	Scheme Members	UNISON	Angie Embury	Angie Embury
5	Scheme Members	GMB	Bernadette Carlyle	Bernadette Carlyle
6	Scheme Members	Pensioners representative	Tony Watson	**Diana Pogson** ~*(replacing Tony Watson*)
7	Independent Chair	-	Richard Harbord	Richard Harbord

3. Vice Chair appointment

3.1 There is provision in the terms of reference of the Pension Board for a Vice Chair but this role has not yet been appointed to. Meetings of the Board cannot go ahead without the Chair or Vice Chair present, so there is a risk that a meeting of the Board would not be able to proceed if the Chair is unable to attend for any reason.

3.2 The Board agreed at its 16 November 2017 in order to maintain the balance between scheme members and employer representation that a scheme member vice chair and an employer vice chair would be nominated from the existing Board members, and that the role of vice chair would alternate between scheme member and employer at each meeting.

3.3 The Scheme Member nomination is Angie Embury and the employer nomination is Councillor Brian Redman.

4. Conclusion and reasons for recommendations

4.1 The Committee is recommended to agree the appointment of a Pension Board member replacement as set out in para 2.2 above, and agree the appointment of the two vice chairs as set out in para 3.3 above.

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

Local Member(s): All
Background Documents - None

Report to: **Pension Board**

Date: **8 February 2018**

By: **Chief Operating Officer**

Title: **Pensions Annual Benefit Statement update**

Purpose: **Provide the Board with an update on the planned production of Annual Benefit Statements in 2018**

RECOMMENDATION

The Board is recommended to consider and comment on the report

---

1 Introduction

1.1 This report has been prepared to inform the Board of the plan for the production of the 2018 Annual Benefit Statements (ABS's) to ensure the statutory deadline of 31 August 2018 is met. A high level production plan has been provided at **Appendix 1** which incorporates the lessons learnt from the 2017 exercise (see below). This production plan has previously been shared with the Pensions Regulator.

2 Active Members

2.1 **Appendix 1** sets out that the ABS's are scheduled to be delivered to scheme members over three phased production cycles – with the final production cycle being completed at the end of July, well in advance of the statutory deadline of 31 August 2018.

2.2 The Board may recall that ABS's were delivered online for the majority of scheme members in 2017 and this has proved a successful innovation with members having secure access to their statement 24/7. The online facility also provides scheme members with the ability to project "what if" scenarios using different retirement criteria. The aim is for 100% of statements for active members with a contact email address to be delivered online for 2018 – though members who wish to request a hard copy of the ABS will be able to do so.

2.3 The plan shown at Appendix 1 incorporates lessons learnt from the 2017 exercise as illustrated in the table below.

Issue Identified	Mitigation for 2018	Contingency
Some employers were late in submitting their End of Year (EOY) return to Business Operations in 2017 – the EOY return contains the key data required to produce the ABS.	More structured monitoring of the receipt of EOY returns will be carried out in 2018. Employers will be issued routine reminders and any returns not submitted by 31 May 2018 at the latest will be referred to the Governance and Strategy team to pursue compliance.	If any employer does not submit the EOY return by the dates requested their scheme members will be contacted individually to explain why it has not been possible to issue an ABS. It is hoped this scenario will not arise.
A small number of employers reported difficulties using the secure email system.	All employers will be requested to confirm receipt of the EOY template which will be issued via secure	Secure email must be used as this is the only approved method of secure data transfer but employers will

	email (Egress) to confirm they have successfully registered and this will be monitored	be offered individual support if they are experiencing any difficulties. Issues experienced in 2017 were identified as user error rather than any system faults.
The 2017 statements were issued in a very condensed period in August 2017.	The statements will be issued online in 2018 and delivery will be scheduled over three phases at the end of May, June and July.	There will be a 'sweep up' exercise carried out in August to identify any outstanding cases not completed in the 3 production cycles.

3 Deferred Members

3.1 The Board may recall that the statements to members in 2017 were issued two weeks late. This delay was primarily caused by the use of an external print provider without a fixed delivery date guaranteed in the contract.

3.2 As the issue of deferred member ABS's is not dependant on any EOY returns, the production of ABS's for 2018 has been brought forward within our business cycle to June 2018. In addition to the above, Business Operations has switched to an alternative print provider who offer a 48 hour production and posting process.

3.3 The combination of the earlier production date and the more responsive print provider should ensure that benefit statements will be issued well in advance of the statutory deadline of 31 August 2018.

3.4 As part of the 2017 exercise, deferred members were invited to register for the online portal to view their deferred member data. Members who have registered for the online portal will be contacted electronically to confirm that their deferred statement can be viewed online. As part of the 2018 exercise, members will be advised that the 2019 statements will only be available online (unless they specifically request a paper copy) and will be encouraged to register if they have not already done so.

3.4 As a separate exercise, Business Operations has recently carried out a screening exercise with a tracing agency to check the validity of the home addresses we hold for deferred members. Members for whom we hold no current address but for whom a possible forwarding address has been identified via the screening will be contacted and appropriate verification sought before records are updated. This exercise should increase the proportions of deferred members receiving an ABS.

KEVIN FOSTER
Chief Operating Officer

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

2018 Annual Benefit Statement Proposed Production Schedule

	February 2018	Mid March 2018	Early May 2018	End of May 2018	Mid June 2018	End of June 2018	Early July 2018	End of July 2018	Early August
End of Year (EOY) Return Submission from Employers	Issue EOY template to All Employers with accompanying guidance and offer of support. Deadline date of 30 April 2018 for submission of EOY return notified at that stage. Request to acknowledge receipt of requiements.	Reminder to Employers that EOY return required by 30 April 2018. Reiterate offer of support. Follow up any acknowledgements not received.	1st reminder to employers that EOY return now overdue.	2nd reminder to employers if required.	Personal contact from either Governance team/senior members of administration team with any employer with data still outstanding.		Determine any intervention action required with non-compliant employers		
Annual Benefit Statement Production – Active Members				1st Phased Upload of ABS to online portal and notification to scheme members following processing of EOY returns received		2nd Phased Upload of ABS to online portal and notification to scheme members		3rd and Final Upload of ABS to online portal and issue of any paper statements to members specifically requesting this.	Sweep up exercise for any estimated statements required where EOY return not provided

2018 Annual Benefit Statement Proposed Production Schedule

Annual Benefit Statement Production – Deferred Members	[redacted]	Prepare and extract data for deferred member statements.	Deferred member statements produced and issued via external print provider in June (48 hour turnaround)	[redacted]

Report to:	**Pension Committee**
Date:	**26 February 2018**
By:	**Chief Finance Officer**
Title of report:	**Work programme**
Purpose of report:	**The updated report sets out the Pension Fund Forward plan for 2018-19. The Plan includes key objectives for the Fund, training strategy/plan for the Fund and Member training log.**

RECOMMENDATION – The Committee is recommended to 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. Report Overview

2.1 This report contain an updated 2018/19 Forward Plan, which will assists members with the Fund Governance arrangement, so that the Council is able to perform its role as the administering authority in a structured way, and an updated training plan, with a summary of both external and internal training events that Members and Officers can undertake in 2018/19.

3. Pensions Regulator Training Toolkit

3.1 The Pensions Regulator has provided an on-line training resource to assist those involved with the public sector pension schemes. This is accessed via a "Trustee Toolkit" link on its website. It provides a set of seven modules covering the key themes in the Code of Practice on governance and administration of public service schemes.

4. Joint Pension Board and Committee Training Session

4.1 The topics to be covered are detailed within the Pension Board and Committee Forward/Training plan. Following the successful joint training session covering '*Pension Fund Governance, ESG, and the Fund Assets - Carbon Footprint Measurement*' on 24 January 2018, the next joint training session is scheduled to take place on 21 March 2018. The proposed topics for the session will be on *Pension Administration - Understanding Best Practice and Interaction with HMRC*.

5. Conclusion and reasons for recommendations

5.1 The Board is requested to note the Pension Fund Board/Committee Forward Plan 2017/18.

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

This page is intentionally left blank

EAST SUSSEX PENSION FUND

PENSION COMMITTEE/BOARD FORWARD PLAN 2018-19

February 2018

Contents

Business Plan

1 Introduction

1.1 Under the Local Government Pension Scheme (LGPS) (Administration) Regulations 2013, the East Sussex County Council administers the Pension Fund for approximately 71,000 individuals employed by 130 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 2018/19. 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.

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 **Investment Strategy Statement (ISS)**

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 requires the administering authority to have in place an Investment Strategy Statement (ISS).

The ISS is a document that, under the new regulations, replaces and largely replicates, the previous SIP. Authorities are required to prepare and maintain an ISS which documents how the investment strategy for the Fund is determined and implemented. The ISS is required to cover a number of areas, specifically:

- The requirement to invest money across a wide range of investments.
- An assessment of the suitability of particular investments and investment types.
- The maximum percentage authorities deem should be allocated to different asset classes or types of investment, although limits on allocations to any asset class are not prescribed as is currently the case under the 2009 Regulations.
- The authority's attitude to risk, including the measurement and management of risk.
- The authority's approach to investment pooling.
- The authority's policy on social, environmental and corporate governance considerations.
- The authority's policy with regard to stewardship of assets, including the exercise of voting rights

The East Sussex Pension Committee has drawn up the Investment Strategy Statement (ISS) to comply with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and the accompanying Guidance on Preparing and Maintaining an Investment Strategy Statement. The Fund consulted its Actuary and Independent Financial Adviser in preparing the statement, which was updated for February 2018 Committee approval.

The ISS is subject to periodic review at least every three years and more frequently if there are any developments that impact significantly on the suitability of the ISS currently in place. Investment performance is monitored by the Committee on a quarterly basis and may be used to check whether actual results are in-line with those expected under the ISS.

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 COMMITTEE – FORWARD/BUSINESS PLAN

PENSION COMMITTEE FORWARD/BUSINESS PLAN					
Date	**November 2017**	**February 2018**	**May 2018**	**July 2018**	**September 2018**
Item					
1	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update	External Audit and Annual Report Approval	LGPS Pooling – ACCESS Pool Update
2	Asset Pooling – Passive Investment Procurement	Communications policy statement	Discretionary policy statement	Investment Strategy review day	Annual review of the Fund's ESG approach
3	ACCESS Operator Procurement	Reporting Breaches	External Assurance Reports from Third Parties		Review on the investment strategy and Manager benchmarking
4	Annual Benefit Statement - update/ GMP Reconciliation update	Investment Strategy Statement	Bulk,Transfer, Cessations and Admission policies		
5	Environmental, Social and Governance (ESG) – update				
6	Option appraisal of services offered by other administration system providers.	Pension Committee/Board Training Plan			
7.	East Sussex Pension Fund: Independent Advisor				

Recurring items

Item	
1	Pension Board Minutes
2	Quarterly Performance Report - Hymans Robertson
3	Fund Performance – Fund Manager Presentation
4	Officers' Report - Business Operations
5	Officers' Report - General Update
6	Forward Plan

2. PENSION BOARD – FORWARD/BUSINESS PLAN

PENSION BOARD FORWARD/BUSINESS PLAN				
Date	**November 2017**	**February 2018**	**May 2018**	**August 2018**
Item				
1	Pension Committee Agenda	Pension Committee Agenda	Pension Committee Agenda	Pension Committee Agenda
2	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update	LGPS Pooling – ACCESS Pool Update
3	Proposals for Vice Chair position	Polices of the administering Authority · conflicts of interests · record-keeping/meeting attendance · data protection and freedom of information	Annual Report	Third party contracts
4	ESG report considered by the Committee in September	Risk register		Review on fee arrangements
5	Meeting the Training Requirements - Board Members	Communications policy statement		
6	Annual Benefit Statement - update			
7	ESPF Customer Survey results			
8	GMP Reconciliation - update			

Recurring items

Item	
1	Officers' Report - Business Operations
2	Officers' Report - General Update
3	Forward Plan

East Sussex Pension Fund (ESPF)

Pension Board and Committee Training Strategy

1. Introduction - Target audience

1.1 Pensions Committee:

East Sussex County Council (Scheme Manager) operates a Pensions Committee (the "Pensions Committee") for the purposes of facilitating the administration of the East Sussex Pension Fund, i.e. the Local Government Pension Scheme that it administers. Members of the Pensions Committee owe an independent fiduciary duty to the members and employer bodies in the Funds and the taxpayer. Such members are therefore required to carry out appropriate levels of training to ensure they have the requisite knowledge and understanding to properly perform their role.

1.2 Pension Board:

The Scheme Manager is also required to establish and maintain a Pension Board, for the purposes of assisting with the ongoing compliance of the Fund. The Pension Board is constituted under the provisions of the Local Government Pension Scheme (Governance) Regulations 2015 and the Public Service Pensions Act 2013. Members of the Pension Board should also receive the requisite training and development to enable them to properly perform their compliance role. This strategy sets out the requirements and practicalities for the training of members of both the Pensions Committee and the Pension Board. It also provides some further detail in relation to the attendance requirements for members of the Pension Board and in relation to the reimbursement of expenses.

The East Sussex Pension Funds' objectives relating to knowledge and skills should be to:

- Ensure the pension fund is managed and its services delivered by Officers who have the appropriate knowledge and expertise;
- Ensure the pension fund is effectively governed and administered;
- Act with integrity and be accountable to its stakeholders for decisions, ensuring they are robust and are well based and regulatory requirements or guidance of the Pensions Regulator, the Scheme Advisory Board and the Secretary of State for Communities and Local Government are met.

To achieve these objectives:-

1.3 The East Sussex Pension Fund's Pension Committee require an understanding of:

- Their responsibilities in exercising their delegated decision making power on behalf of East Sussex County Council as the Administering Authority of the East Sussex Pension Fund;
- The fundamental requirements relating to pension fund investments;
- The operation and administration of the pension fund;

- Controlling and monitoring the funding level; and
- Taking effective decisions on the management of the Fund.

1.4 East Sussex Pension Fund's Local Pension Board members must be conversant with-

- The LGPS Regulations and any other regulations governing the LGPS
- Any document recording policy about the administration of the Fund

And have knowledge and understanding of:

- The law relating to pensions; and
- Such other matters as may be prescribed

To achieve these objectives, the Fund will aim for full compliance with the CIPFA Knowledge and Skills Framework (KSF) and Code of Practice to meet the skills set within that Framework. Attention will also be given to any guidance issued by the Scheme Advisory board, the Pensions Regulator and guidance issued by the Secretary of State. Ideally, targeted training will also be provided that is timely and directly relevant to the Committee's and Board's activities as set out in the Fund's business plan.

Board members will receive induction training to cover the role of the East Sussex Pension Fund, Pension Board and understand the duties and obligations for East Sussex County Council as the Administering Authority, including funding and investment matters.

Also those with decision making responsibility in relation to LGPS pension matters and Board members will also:

- Have their knowledge assessed;
- Receive appropriate training to fill any knowledge gaps identified; and
- Seek to maintain their knowledge.

1.5 The Knowledge and Skills Framework

In an attempt to determine what constitutes the right skill set for a public sector pension finance professional the Chartered Institute of Public Finance and Accounting (CIPFA) has developed a technical knowledge and skills framework. This is intended as a tool for organisations to determine whether they have the right skill mix to meet their scheme financial management needs, and an assessment tool for individuals to measure their progress and plan their development.

The framework is designed so that elected members and officers can tailor it to their own particular circumstances. In total, there are six main areas of knowledge and skills that have been identified as the core technical requirements for those working in public sector pension finance or for Members responsible for the management of the Fund. These have been outlined in some detail in Appendix 1 and summarised below –

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

1.6 Scheme Employers now have a greater need –

- Of being kept up to date of their increased responsibilities as a result the introduction of the CARE Scheme in the LGPS and the timeliness of providing data and scheme member information
- Of appreciating some of the determinations being made by the Pensions Ombudsman that impact directly on their decisions concerning ill-health retirement cases
- To be aware of the importance of having written discretion policies in place
- Of their representation role on the East Sussex Pension Board.

1.7 Application of the training strategy

This Training Strategy will set out how ESCC will provide training to representatives with a role on the Pension Committee, Pension Board members and Employers. Officers involved in the management and administration of the Fund will have their own sectional and personal training plans and career development objectives.

1.8 Purpose of training

The purpose of training is to:

- Equip members with the necessary skills and knowledge to be competent in their role;
- Support effective and robust decision making;
- Ensure individuals understand their obligation to act, and to be seen to act with integrity;
- Ensure that members are appropriately skilled to support the fund in achieving its objectives.

1.9 Summary

Officers will work in partnership with members to deliver a training strategy that will:

- Assist in meeting the East Sussex Pension Fund objectives;
- Support the East Sussex Pension Fund's business plans;
- Assist members in achieving delivery of effective governance and management;
- Equip members with appropriate knowledge and skills;
- Promote ongoing development of the decision makers within the East Sussex Pension Fund;
- Demonstrate compliance with the CIPFA Knowledge and Skills Framework;
- Demonstrate compliance with statutory requirements and associated guidance

2. Delivery of Training

2.1 Training plans

To be effective, training must be recognised as a continual process and centred on 3 key points

- The individual
- The general pensions environment
- Coping with change and hot topics

The basis of good training for a Fund is to have in place a training plan complemented by a training strategy or policy.

The training strategy supported by the plan will set out how, what and when training will be carried out.

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

2.2 Training resources

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

2.3 Appropriate Training

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

2.4 Flexibility

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

2.5 E-Learning

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

3. Training deliverables

3.1 Suitable Events

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

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

3.2 Training methods

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

For Pension Committee and Pension Board Members	For Officers
• On site or off site • Using an Online Knowledge Portal or other e-training facilities • Attending courses, seminars and external events • Internally developed training days • Short sessions on topical issues or scheme-specific issues • Informal discussion and One to one • Shared training with other Funds or Frameworks • Regular updates from officers and/or advisors • A formal presentation	• Desktop/work based training • Using an Online Knowledge Portal or other e-training facilities • Attending courses, seminars and external events • A workshop with participation • Short sessions on topical issues or scheme-specific issues • Informal discussion and One to one • Training for qualifications from recognised professional bodies (e.g. CIPFA, ACCA, etc.) • Internally developed sessions • Shared training with other Funds or Framework

3.3 Training material

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

4. Monitoring and Reporting

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

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

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

5. Risk

5.1 Risk Management

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

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

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

6. Budget

6.1 Cost

A training budget will be agreed and costs fully scoped.

6.2 Reimbursement of expenses

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

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

7. Pensions Regulator Training Toolkit

The Pensions Regulator has provided an on-line training resource to assist those involved with the public sector pension schemes. This is accessed via a "Trustee Toolkit" link on its website.

It provides a set of seven modules covering the key themes in the Code of Practice on governance and administration of public service schemes. Each module provides an option to complete an interactive tutorial online and an assessment to test knowledge. The modules are:

- Conflicts of interest
- Managing risk and internal controls
- Maintaining accurate member data
- Maintaining member contributions
- Providing information to members and others
- Resolving internal disputes
- Reporting breaches of the law.

The Regulator suggests that each module's tutorial should take no more than 30 minutes to complete. The modules will assist with meeting the minimum knowledge and understanding requirements in relation to the contents of the Code of Practice, but would not meet the knowledge and skills requirements in other areas such as Scheme regulations, the Fund's specific policies and the more general pension's legislation. Therefore, this toolkit should be used to supplement the existing training plans.

Proposed Members Training Plan for 2017-2018

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 • Member's Role	✔						**1**	Completed
Members individual needs on specific areas arising during the year • Advisory Board e-learning	✔	✔			✔	✔ ✔	**1,3,4**	As required – notify Head of Accounts and Pensions
Pre- committee meeting/agendas • Specific investment Topics • Services and providers • Procurement process for		✔ ✔ ✔	✔ ✔ ✔				**2,3,4,5**	

	PROPOSED DELIVERY METHODS							
TRAINING NEED	**One-to-One Briefing with an officer**	**Members' Briefing Notes**	**Short Seminars (before Committee meeting)**	**Training Events (Internal & External Speakers)**	**External Conferences & Training Seminars**	**E-Learning (e.g. Webcasts, Videos)**	**KSF area (s)**	**COMPLETION TARGET DATE**
services provided externally • Performance measurement • Accounts and audit regulations • Role of internal and external audit • Fund responsibilities/ policy • Pension Discretions • Safeguarding the Fund's Assets		✔ ✔ ✔ ✔ ✔ ✔ ✔ ✔	✔ ✔ ✔ ✔ ✔ ✔ ✔ ✔					
Pension Fund Forum • Valuation Process • Knowledge of the valuation process and the need for a funding strategy • Implications for employers of ill health and outsourcing decisions • Importance of monitoring asset returns relative to liabilities				✔			**1,4,6**	

	PROPOSED DELIVERY METHODS							
TRAINING NEED	**One-to-One Briefing with an officer**	**Members' Briefing Notes**	**Short Seminars (before Committee meeting)**	**Training Events (Internal & External Speakers)**	**External Conferences & Training Seminars**	**E-Learning (e.g. Webcasts, Videos)**	**KSF area (s)**	**COMPLETION TARGET DATE**
SPECIFIC ISSUES IDENTIFIED FROM MEMBERS SELF ASSESSMENTS								
General Pension Framework • LGPS discretions & policies • Implications of the Hutton Review		✔	✔	✔	✔		**1,6**	
Pensions Legislation & Governance: • Roles of the Pension Regulator, Pension Advisory Service & Pension Ombudsman in relation to the scheme • Review of Myners principles and associated CIPFA & SOLACE guidance		✔ ✔		✔ ✔			**1,2,**	
Pension Accounting & Auditing standards: • Accounts & Audit regulations and the legislative requirements			✔				**1,2**	

	PROPOSED DELIVERY METHODS							
TRAINING NEED	**One-to-One Briefing with an officer**	**Members' Briefing Notes**	**Short Seminars (before Committee meeting)**	**Training Events (Internal & External Speakers)**	**External Conferences & Training Seminars**	**E-Learning (e.g. Webcasts, Videos)**	**KSF area (s)**	**COMPLETION TARGET DATE**
Financial Services procurement: • Current public procurement policy & procedures • UK & EU procurement legislation				✔ ✔			**3,5,6**	
Investment Performance & Risk Management: • Monitoring asset returns relative to liabilities • Myners principles of performance management • Setting targets for committee and how to report against them				✔ ✔ ✔	✔		**3,5,6**	Invite to be circulated to when relevant
Financial markets & products knowledge: • Refresh the importance of setting investment strategy • Limits placed by regulation on investment activities in			✔	✔	✔		**4** **1** **4**	

	PROPOSED DELIVERY METHODS							
TRAINING NEED	**One-to-One Briefing with an officer**	**Members' Briefing Notes**	**Short Seminars (before Committee meeting)**	**Training Events (Internal & External Speakers)**	**External Conferences & Training Seminars**	**E-Learning (e.g. Webcasts, Videos)**	**KSF area (s)**	**COMPLETION TARGET DATE**
the LGPS • Understanding of the operations of the fixed income manager • Understanding of Alternative asset classes				✔			**4,5,6**	
Pension Administration - • Shared service		✔	✔	✔			**2,6**	
Actuarial methods, standards and practices: • Considerations in relation to outsourcings and bulk transfers • Triennial Valuation refresher		✔ ✔					**1** **6**	
CHAIRMAN TRAINING								
• Fund Benchmarking • Stakeholder feedback • Appreciation of changes to scheme rules	✔ ✔				✔		2 4 1,5	

	PROPOSED DELIVERY METHODS							
TRAINING NEED	**One-to-One Briefing with an officer**	**Members' Briefing Notes**	**Short Seminars (before Committee meeting)**	**Training Events (Internal & External Speakers)**	**External Conferences & Training Seminars**	**E-Learning (e.g. Webcasts, Videos)**	**KSF area (s)**	**COMPLETION TARGET DATE**
EXTERNAL SEMINARS AND CONFERENCES								
NAPF Local Govt Conference • Refresher training • Keeping abreast of current development					✔ ✔		**1,3,4,5**	
LGC Investment Conference • Fund Manager events and networking					✔ ✔		**1,2,3,4,5,6**	

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 & 24 January 2018	
The LPB	14 June 2016 & 24 January 2018	
S151 officer	14 June 2016 & 24 January 2018	
Conflicts of Interest and Reporting Requirements	14 June 2016 & 24 January 2018	
Consideration of the Committee and Pension Board's responsibilities in the areas of;	14 June 2016 & 24 January 2018	
Conflicts of interest		
Reporting breaches of the law	14 June 2016 & 24 January 2018	
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	

Member/Representative Name: ……..		
Subject/Description of training	**Date completed**	**Suggested Further Action?**
Experience from 2013 to 2016	18 July 2016	
Markets (asset returns and yields)	18 July 2016	
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	26 September 2017	
Managing Risks	26 September 2017	
Administration	26 September 2017	
Resolving Issues	26 September 2017	
Pensions Legislation		
The Legislative Framework for Pensions in the UK	26 January 2017	
LGPS Regulations and Statutory Guidance	26 January 2017	

Member/Representative Name: ……..		
Subject/Description of training	**Date completed**	**Suggested Further Action?**
LGPS Discretions	26 January 2017	
Other Legislation	26 January 2017	
Member/Representative Name: ……		
Subject/Description of training	**Date completed**	**Suggested Further Action?**
Pensions Governance		
Understanding National and Local Governance Structure	24 January 2018	
Knowledge of Pension Fund Stakeholders	24 January 2018	
Knowledge of Pension Fund Stakeholder Consultation and Communication	24 January 2018	
Governance Policies	24 January 2018	
Pension Administration		
Understanding Best Practice		
Interaction with HMRC		
Additional Voluntary Contributions	3 November 2017	
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		

Member/Representative Name: ……..		
Subject/Description of training	**Date completed**	**Suggested Further Action?**
Third Party Contracts		
Investment Performance and Risk Management		
Monitoring Assets and Assessing Long-Term Risk		
Myners Principles of Performance Management		
Awareness of Support Services		
Understanding Risk and Return of Fund Assets	18 July 2016	
Understanding the Financial Markets	3 November 2017	
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	13 June 2017	
Additional Training		
LGPS discretions & policies	26 January 2017	
Safeguarding the Fund's Assets	26 January 2017	
Developing Investment Strategies Statement	26 January 2017	
Role of the Global Custodian – Northern Trust	26 January 2017	
Pensions legislative & Governance	26 October 2016	

Member/Representative Name: ……..		
Subject/Description of training	**Date completed**	**Suggested Further Action?**
Environmental, Social and Governance (ESG)	13 June 2017 & 24 January 2018	
The role of the Board/Committee within the ACCESS LGPS Pool;	26 September 2017 & 24 January 2018	
Updates from the Pension Fund Regulator.	26 September 2017	

AVAILABLE TRAINING AND CONFERENCES 2017 – 2018

Date	**Conference/Event**	**Run By**	**Delegates/Cost**
30 January 2018	LAPFF AGM And Business meeting	Local Authority Pension Fund Forum (LAPFF)	Free
Part 1 - 23 February or 12 October	Pension fund trustee training	Schroder Investment Management Limited, London	Free
Part 2 - 16 March or 2 November	Pension fund trustee training	Schroder Investment Management Limited, London	Free
On-Line Training			
www.thepensionsregulator.gov.uk	Pension Education Portal	Pensions Regulator	Free on-line

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

Joint Pension Committee and Pension Board Training Session
Members Training - Forward Plan

JOINT PENSION COMMITTEE AND PENSION BOARD - FORWARD PLAN					
Date	**26 January 2017**	**13 June 2017**	**26 September 2017**	**24 January 2018**	**21 March 2018**
Topics	• LGPS discretions & policies • Safeguarding the Fund's Assets • Developing Investment Strategies Statement • Role of the Global Custodian – Northern Trust	• Environmental, Social and Governance (ESG) Training Day	• The role of the Board/Committee within the ACCESS LGPS Pool; • Updates from the Pension Fund Regulator.	• Pension Fund Governance; • Fund Assets - Carbon Footprint Measurement; • Environmental, Social and Governance (ESG).	• Pension Administration – • Understanding Best Practice and • Interaction with HMRC.

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank

Document is Restricted

This page is intentionally left blank