



PENSION COMMITTEE

FRIDAY, 15 JUNE 2018

10.15 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 (*Pages 7 - 14*)
- 6 Quarterly Performance Report - Hymans Robertson (*Pages 15 - 62*)
 - Update on investment strategy
- 7 Fund Performance - (presentation by HarbourVest Partners)
- 8 Pension Fund Securities Lending Programme (*Pages 63 - 74*)
- 9 Pension Fund 2017/18 Annual Report (*Pages 75 - 138*)
- 10 Internal Audit Pension Fund Strategy (*Pages 139 - 152*)
- 11 Annual Review of the Pension Fund Policies (*Pages 153 - 194*)
- 12 Officers' Report - Pensions Governance and Administrations (*Pages 195 - 198*)
- 13 Forward Plan (*Pages 199 - 230*)
- 14 Any other non-exempt items previously notified under agenda item 4
- 15 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).

- 16 Local Government Pension Scheme (LGPS) Pooling - ACCESS update (*Pages 231 - 314*)
- 17 Pension Employers - update (*Pages 315 - 326*)
- 18 Any other exempt items previously notified under agenda item 4

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7 June 2018

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PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at County Hall, Lewes on 26 February 2018.

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

ALSO PRESENT Richard Harbord, Independent Chair
Ian Gutsell, Chief Finance Officer
Ola Owolabi, Head of Pensions
Wendy Neller, Pensions Strategy and Governance Manager
John Shepherd, Finance Manager (Pension Fund)
Russell Wood, Principal Pensions Officer
William Bourne, Independent Adviser
Paul Potter, Hymans Robertson
William Marshall, Hymans Robertson
Harvey Winder, Democratic Services Officer

49 MINUTES

49.1 The Committee agreed the minutes of the meeting held on 27 November 2017.

50 APOLOGIES FOR ABSENCE

50.1 There were no apologies for absence.

51 DISCLOSURE OF INTERESTS

51.1 Cllr Richard Stogdon declared a personal, non-prejudicial, interest as the trustee of a private Trust fund managed by Ruffer.

52 URGENT ITEMS

52.1 There were no urgent items.

53 PENSION BOARD MINUTES

53.1 The Committee considered the draft minutes of the Pension Board meeting held on 8 February 2018.

53.2 The Committee RESOLVED to note the draft minutes.

54 QUARTELY PERFORMANCE REPORT - HYMANS ROBERTSON

54.1 The Committee considered the following reports by Hymans Robertson:

- Quarter 4 monitoring report

- New Manager Rating System
- Stock Lending
- Fund Review – Pantheon Global Infrastructure III

54.2 The Committee RESOLVED to:

1) Note the reports; and

2) agree to invest in the Pantheon Global Infrastructure III Fund in order to help fulfil the proposed increase in the East Sussex Pension Fund's commitment in infrastructure and private equity from 2% to 4%.

55 FUND PERFORMANCE - LONGVIEW PARTNERS

55.1 The Committee received a presentation from the investment fund manager Longview Partners.

56 CARBON FOOTPRINT MEASUREMENT - TRUCOST

56.1 The Committee received a presentation by Trucost on its Carbon Footprint Measurement of the East Sussex Pension Fund.

56.2 The Committee RESOLVED to request that the data on LGIM Global and LGIM UK be revised.

57 PASSIVE INVESTMENT TRANSITION - UBS

57.1 The Committee received a presentation on the transition of the East Sussex Pension Fund's passive investments to UBS.

57.2 The Committee expressed significant concern about the cost of transitioning passive funds to UBS, including the new Life Climate Aware World Equity Fund.

57.3 The Committee RESOLVED to note the presentation.

58 INVESTMENT STRATEGY STATEMENT

58.1 The Committee considered an updated Investment Strategy Statement.

58.2 The Committee noted that the cost of establishing a sub-fund within ACCESS – which would be necessary in the event of not agreeing to undertake stock lending – was not available for consideration.

58.3 The Committee RESOLVED to defer this item until more information on the cost of not undertaking stock lending is provided.

59 LOCAL GOVERNMENT PENSION SCHEME (LGPS) POOLING - ACCESS UPDATE

59.1 The Committee considered a report on the progress of the ACCESS pooled fund.

59.2 The Committee RESOLVED to note the report.

60 EXTERNAL AUDIT PLAN - EAST SUSSEX PENSION FUND

60.1 The Committee considered a report on the proposed External Audit Plan for the East Sussex Pension Fund.

60.2 The Committee RESOLVED to note the report.

61 COMMUNICATIONS POLICY STATEMENT

61.1 The Committee considered a report on the Communications Policy Statement 2018/19.

61.2 The Committee RESOLVED to approve the Communications Policy Statement 2018/19.

62 INTERNAL AUDIT REPORT - PENSION FUND GOVERNANCE AND INVESTMENTS

62.1 The Committee considered a report by Internal Audit on Pension Fund Governance and Investments.

62.2 The Committee RESOLVED to note the report.

63 EAST SUSSEX PENSION FUND 2017/18 BUDGET MONITORING AND 2018/19 BUDGET REPORT

63.1 The Committee considered the East Sussex Pension Fund 2017/18 Budget monitoring and 2018/19 Budget report.

63.2 The Committee RESOLVED to:

1) note the 2017/18 Budget Monitoring; and

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

64 OFFICERS' REPORT - PENSIONS GOVERNANCE AND ADMINISTRATIONS

64.1 The Committee considered a report providing a general update on pension governance and administrations.

64.2 The Committee RESOLVED to note the report.

65 WORK PROGRAMME

65.1 The Committee considered a report on its work programme.

65.2 The Committee RESOLVED to note the report.

66 EXCLUSION OF THE PUBLIC AND PRESS

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

67 PENSION EMPLOYERS - UPDATE

67.1 The Committee considered a report on employer members of the East Sussex Pension Fund.

67.2 The Committee RESOLVED to note the report.

The meeting ended at 3.10 pm.

Councillor Richard Stogdon (Chair)
Chair

PENSION BOARD

MINUTES of a meeting of the Pension Board held at County Hall, Lewes on 8 May 2018.

PRESENT Richard Harbord (Chair), Councillor Kevin Allen,
Angie Embury, Rezia Amin, Stephen Osborn and
Councillor Brian Redman

ALSO PRESENT Councillor David Elkin, Lead Member for Resources
Councillor Richard Stogdon, Chair of the Pension Committee
Ian Gutsell, Chief Finance Officer
Ola Owolabi, Head of Pensions
Nigel Chilcott, Audit Manager
Wendy Neller, Pensions Strategy and Governance Manager
Danny Simpson, Principal Auditor
Russell Wood, Principal Pensions Officer
Harvey Winder, Democratic Services Officer

62 MINUTES

62.1 The minutes of the previous meeting were agreed subject to amending paragraph 47.5 to read:

“Angie Embury (AE) suggested that investment in climate aware funds should be a requirement and asked whether that was the case. OO said that it was at the Pension Committee’s discretion whether or not to invest but there were a number of advantages in doing so.”

63 APOLOGIES FOR ABSENCE

63.1 Apologies for absence were received from Diana Pogson and Sue McHugh (substitute: Stephen Osborn).

63.2 The Chair welcomed Rezia Amin as the new employee representative on the Board

64 DISCLOSURE OF INTERESTS

64.1 There were no disclosures of interest.

65 URGENT ITEMS

65.1 There were no urgent items.

66 PENSION COMMITTEE AGENDA

66.1. The Board considered the agenda and reports of the Pension Committee’s next meeting.

66.2. Ola Owolabi (OO), Head of Pensions, informed the Board that the Pension Committee agenda comprised mainly of items being considered by the Board in its own right, which was why there were no Committee items included as appendices of this report.

66.3. The Board RESOLVED to:

1) note the report;

2) request that the Hyman's Robertson Quarterly Performance report and Stock Lending presentation by Northern Trust be circulated to the Board by email.

67 PENSION FUND 2017/18 ANNUAL REPORT

67.1. The Board considered a draft of the Pension Fund 2017/18 Annual Report.

67.2. OO explained that the Annual Report was still in draft form and subject to the receipt of data from the East Sussex Pension Fund's (ESPF) custodian, Northern Trust. He said that the external auditors, KPMG, will audit the Annual Report prior to it being approved by the Pension Committee at its next meeting on 16th July 2018.

67.3. Councillor Richard Stogdon (RS), Chair of the Pension Committee, asked whether the Fund actuary's claim that there is a 66% chance the Fund will be fully funded in 20 years was overly pessimistic considering that the most recent triennial evaluation had concluded that it was nearly at full funding already.

67.4. The Chair said that the funding level can vary depending on how it is calculated, for example, using the Government's actuary's figures would give the ESPF a funding rate of 114%. He also said that the Fund could well be self-funding in 2 years but liabilities could outstrip contributions in the long term so that in 20 years it was no longer self-funding. OO added that the Fund's actuary (Hymans Robertson) is very prudent and different actuaries may give a different funding figure.

67.5. Stephen Osborn (SO) observed that the markets were in the midst of the longest 'bull run' in history and that when it comes to an end there could be a negative impact on the Fund's assets.

67.6. SO asked whether the £3m reduction in investment manager fees from £7.6m in 2017/18 to £4.6m in 2018/19 would be offset by transition costs and other one off fees. OO said that there are some transition costs but taking these into account still results in a net reduction in fees due to ACCESS delivering economies of scale.

67.7. SO asked why some pension funds in ACCESS are looking at longer time periods before receiving savings through pooling. OO explained that some funds have lot more liquid assets that can be pooled immediately and see a reduction in investment manager costs, for example, the movement of ESPF £1.6bn of passive investments to UBS had seen ESPF costs for passive fund managers halved. Those funds with greater illiquid assets such as infrastructure and private equity cannot pool them immediately and so will see less benefit in the short term. OO explained that the cost of investment managers would decrease from £7.6m to £4.6m during 2018/19 as a large part of fees would be paid through ACCESS rather than directly to fund managers, along with transition costs and operator costs.

67.8. SO asked whether the fees deducted by some managers at source (and therefore not included in the £7.6m figure) would be similar following the transfer of those assets to ACCESS. OO said that fees deducted at source tend to be for managers of illiquid assets such as private

equity, as they are not yet transferring into the ACCESS pool the fees deducted at source are expected to stay the same but could change in the future.

67.9. Angie Embury (AE) asked whether there are any employers that are persistently paying pension contributions late. OO said that he would clarify which employers were making late payments.

67.10. The Chair observed that it can be a sensitive and difficult task to reclaim overpaid pensions following the death of a scheme member, but the figure for 2017/18 of £1k of write-off showed that the process was being handled effectively.

67.11. The Chair asked whether investment managers report back to ESPF about voting, governance and engagement activities with companies. OO said that the Fund has always empowered managers to vote in accordance with the Investment Strategy Statement (ISS) and they generally have let the Fund know how they voted. However, it will now be mandatory for them to report back to the Fund and make their voting decisions public.

67.12. The Chair asked whether the fact that investment managers generally vote with companies' management was an issue. OO said that the Local Authority Pension Fund Forum (LAPFF) provides Funds with its viewpoints on proposed votes. The Fund will then forward these viewpoints to investment managers ahead of the vote.

67.13. AE asked for the number of scheme members over the age of 55 who withdrew their pension pot following a change in regulations. OO said that the ability to withdraw a lump sum was initially thought to become popular but most scheme members were advised to consider their options. He thought the number who have done so was zero but would clarify.

67.14. The Chair asked what type of organisations the five new employers who have joined the ESPF were. Wendy Neller (WN), Pension Strategy and Governance Manager, explained that they were either admitted bodies or academies and that none of them have had financial difficulties as far as she was aware.

67.15. The Board RESOLVED to note the report and request the following to be circulated by email:

- 1) a list of employers that were making late payments;
- 2) the number of scheme members who withdrew their pension as a lump sum at 55.

68 DRAFT INTERNAL AUDIT PENSION FUND STRATEGY AND INTERNAL AUDIT REPORTS

68.1. The Board considered a report containing the draft East Sussex Pension Fund Internal Audit Strategy and two recently completed Internal Audit reports on the ESPF.

68.2. Danny Simpson (DS), Principal Auditor, said that the current strategy was three years old and it was felt necessary that a new Internal Audit Strategy for the ESPF needed to be developed that could be applied to the two sovereign organisations in Orbis (East Sussex County Council and Surrey County Council) that are responsible for managing pension funds, subject to the approval of their respective committees. The strategy was currently a draft at the consultation stage. DS said that the main change from the existing strategy was the addition of an audit of the ACCESS pooling process. He said that it was prudent to have this as a separate audit for now but as it became part of business as usual it may be subsumed into the more general governance and investments audit. He confirmed that it was proposed that the other audits would carry on as before.

68.3. The Chair observed that Pensions Regulator requires that pension funds hold 11 common data sets for all scheme members. He said it would be useful for internal audit to carry out an audit of these data sets to confirm whether or not they adhered to the Pensions Regulator's requirements. Nigel Chilcott (NC), Senior Audit Manager, agreed that Internal Audit would look into including regulatory compliance as an area for audit.

68.4. Councillor Brian Redman (BR) asked whether the internal audit team audited the whole of Orbis and how costs were shared between the two sovereign organisations comprising Orbis. NC said that the Internal Audit Strategy would be for the East Sussex Pension Fund (of which Brighton & Hove City Council is a member) and that there would be a very similar, but separate Strategy for Surrey's pension fund.

68.5. Ian Gutsell (IG), Chief Finance Officer explained that there is an integrated internal audit team for Orbis. All members of this team work under the Orbis banner but are employed by their sovereign organisations. It is an integrated service that delivers the internal audit function across the three organisations and has an integrated pooled budget; the team then charges respective individual organisations for their internal audit work. This means that there is no additional cost for any of the three organisations for internal audit compared to if internal audit was provided in-house, and the pooled arrangements in fact deliver some efficiency savings. All three organisations' section 151 officers sign off their respective internal audit strategies.

68.6. BR asked whether there are plans in the future to sell-off Orbis as a business separate from local authority control. IG said there were no plans to do so.

68.7. In introducing the Pension Fund Administration Internal Audit report, NC said that this has received reasonable assurance and that there were no areas of improvement deemed to be high risk. In addition, assurance had been obtained that all required actions from the previous review in this area had been completed by the relevant responsible officers.

68.8. The Chair asked whether Internal Audit checks whether actions have been implemented on an individual basis, or whether they are checked when the next audit is carried out. NC explained that implementation dates for actions for improvement are agreed as part of each audit. For all high priority actions, internal audit will seek confirmation that they have been implemented as part of the ongoing action tracking process. In addition, any audits that receive minimal (and sometimes partial) assurance are subject to a follow-up review in their own right. However, where medium or low priority actions are agreed and the audit opinion is better than partial assurance checks to confirm they have been implemented will be completed as part of the next audit. Failure to implement agreed actions would result in reports to the Pension Board and Audit Committee.

68.9. In relation to the External Control Assurance review which received substantial assurance, the Chair asked whether investment managers are required to provide specific information for this review. NC explained that investment managers are required to obtain and provide external independent assurance on how robust their administrative and accounting control procedures are in accordance with regulations. OO added that some investment managers are also audited by their own internal audit function and all have to report separately to the Financial Conduct Authority (FCA).

68.10. The Board RESOLVED to

1) note the reports; and

2) recommend that internal audit consider an audit of the common data sets provided to the Pensions Regulator

69 2018 ANNUAL BENEFIT STATEMENT EXERCISE - UPDATE

69.1. The Board considered a report on the progress of the planned production of Annual Benefit Statements for 2018 ahead of the 31 August deadline.

69.2. OO said that it is critical that the deadline for completion is not missed as it has been for the past three years. He said that despite one or two outstanding issues the Orbis Business Operations team has indicated confidence in meeting the deadline. Deferred members should receive their statements 2 months before the deadline as they are not dependent on end of year (EOY) returns from employers.

69.3. The Chair asked how many additional EOY returns had been received from employers since the 26 April, particularly since the deadline was 30 April. OO said that he believed the number had gone up.

69.4. The Chair said it was concerning that there were 105 contacts but 134 employers and suggested that employers need to all have a responsible person for ensuring that duties around the EOY returns deadlines are met. OO said that where officers have details of a contact they will chase them and offer to provide them with help.

69.5. IG observed that officers are well aware that the deadline cannot be missed this year and that they are working very hard to ensure they meet requirements. Progress is being made against the Production Plan set out in appendix 1 and that the Board would be updated on progress on a monthly basis until the 31 August deadline.

69.6. RS asked whether there are any concerns about major employers, including East Sussex County Council, providing EOY returns. OO said that there are weekly updates with the Pension team to track missing returns with relevant support from the Governance team. The Chair requested that information on employer EOY returns be provided in the monthly progress updates.

69.7. BR asked whether the ESPF is not already aware of how much employers contribute based on their monthly contributions. WN said that employers are required to provide monthly contributions to the pension scheme on the 19th of each month, but that the final employer contributions are calculated based on the EOY returns, which takes until 31st May.

69.8. The Chair said that the data quality of deferred members can be poor as it is not always easy to keep track of them as they move on to other employment, but it is still a requirement to collect this data.

69.9. The Board RESOLVED to:

1) note the report;

2) request monthly updates on the progress of the annual benefit statement exercise, including confirmation of any outstanding EOY returns from employers.

70 OFFICERS' REPORT - BUSINESS OPERATIONS

70.1. The Board considered a report providing an update on the performance and activities of Orbis Business Operations in relation to the ESPF.

70.2. The Chair asked for clarification as to why the draft Pension Fund Annual Report recorded that three complaints were received but that the Key Performance Indicators (KPIs) here recorded that there were none. OO said that he would seek clarification.

70.3. BR expressed concern that there was no indication of the potential liabilities to the ESPF of GMP reconciliation even though the number of cases where the tolerance was greater than £2 was known, following ITM's previous work. He also questioned why the tender requested bids based on tolerance levels of £1-3 when ITM had already identified the number of cases with a tolerance level of £2. He noted that £500,000 had originally been earmarked for GMP reconciliation but £29,000 had been spent to date. He, along with the Chair, requested assurance that there would not be further expenditure beyond the next stage. The Chair also noted that there would have been considerable internal cost for the project.

70.4. OO said that Business Operations had received assurance from the Procurement team that the contract with JTL would cover the remainder of the GMP process. The contract is on behalf of five pension funds so there is a significant incentive for JTL to deliver the desired results within the deadline. He confirmed that ITM would transfer the data they had produced to date to JTL.

70.5. The Chair asked whether it would have been more economically viable to have procured the GMP Reconciliation process as a single contract rather than breaking it into three stages. OO said that it had not been clear at the start what amount of work would have been required to complete the process, so a single procurement may not have been cost effective.

70.6. The Board RESOLVED:

1) note the report;

2) request a report on GMP reconciliation at the end of the process including the full costs, evaluation of the success of the process, and lessons learned.

71 OFFICERS' REPORT - GENERAL UPDATE

71.1. The Board considered a general update on matters related to the ESPF.

71.2. The Chair asked whether employers had seen a draft of the Memorandum of understanding (MOU) due to be issued by ESPF to its employers as part of the changes brought about by the General Data Protection Regulations (GDPR). He also asked whether all 134 employers would sign up for it in time for the 25 May introduction of GDPR rules.

71.3. WN said that the MOU would be a statement informing employers of the GDPR changes and would not require them to sign it, although it was not yet complete so had not been sent to employers.

71.4. In regards to the Breaches Log, the Chair observed that for Churchill to have not been paying over pension contributions for some of its members appeared to be very concerning. OO agreed that it was definitely a breach of the law. He said that it had involved an administrative error whereby a handful of employees' and employer contributions had been collected by Churchill but not passed on to ESPF. The company had been informed about the breach and that it was to be reported, and were asked to consider ways of improving their payment system to ensure that these errors are picked up in future. He said that the company employs some 200 people so there is a monthly fluctuation in the amount of money coming to the Fund due to people leaving and joining their workforce (which comprised mainly of cleaners).

71.5. Rezia Amin (RA) asked how long this issue had occurred for and whether employees knew. OO said that it had gone on for a few years but that employees had not reported it as

they had not been receiving annual benefit statements setting out their pension contributions. WN said that they would receive statements in the future.

71.6. BR asked why it had not previously been picked up by Orbis Business Operations that employers were not providing these contributions. WN said that Churchill is an admitted body so Business Operations was aware of the individuals who were on the company's payroll, however, monthly payment statements do not include a breakdown so it was not clear that the employee contributions were not included for certain individuals. The breach had not been identified as part of previous EOY returns, which do include breakdowns, due to staff not following up on the procedures in place to identify missing contributions.

71.7. WN said that she was confident that all of the outstanding contributions can be identified and retrieved through the annual reconciliation process.

71.8. RA asked whether there would be any penalties applied to Churchill. WN said that they were considering applying interest to the owed monies.

71.9. RA asked if any of these staff had been TUPE'd to Churchill from East Sussex County Council in the past 2-3 years. OO said that he would produce the relevant figures for circulation.

71.10. RA asked how individual employees had been affected financially. WN confirmed that they would not have been affected as the deductions were made to the employees each month by Churchill but had just not been paid on to the Fund.

71.11. The Board RESOLVED to:

1) note the report;

2) provide figures for the number of employees TUPE'd from the Council to Churchill in recent years.

72 PENSION FUND POLICIES - DISCRETIONARY POLICY STATEMENT, PENSION FUND CESSATION POLICY AND ADMINISTRATION STRATEGY STATEMENT

72.1. The Board considered three recently updated pension fund policies.

72.2. OO confirmed that the Board had seen previous iterations of two of the policies but not the Pension Fund Cessation Policy.

72.3. The Chair requested that in future updated policies include tracked changes so that the Board can see clearly what is being changed.

72.4. BR asked in relation to the Pension Fund Cessation Policy why the new policy replaced previous policies on employer termination from 1 April 2017, i.e., a year ago. WN explained that this back dated from the publication date of the most recent triennial evaluation, which would have effected employer's share of the Fund – the issue that the policy deals with.

72.5. The Chair observed that it could be controversial that employers leaving the fund whilst in surplus would not be entitled to payments but it is correct for the cessation policy to seek payment where the employer was in deficit. OO said that the purpose of the policy is to protect the Fund. Where a leaving employer has a deficit the Fund's actuary would become involved to make sure employers leave the fund amicably. He said that any notification of a cessation would be reported to the Pension Committee for decision as it may involve the transfer of assets or cash out of the Fund.

72.6. The Board RESOLVED to note the report.

73 PENSION FUND RISK REGISTER

73.1. The Board considered the risk register for the ESPF.

73.2. The Chair asked whether risk number 28 around the timeline for an FCA submission was related to ACCESS. OO confirmed that it was and that a couple of emerging issues had delayed the original submission date of 28 April. It was now planned that the FCA submission would be made within the next few weeks.

73.3. The Board RESOLVED to note the report.

74 FORWARD PLAN

74.1. The Board considered its forward plan.

74.2. The Chair encouraged Board members to raise any topics they may wish to be considered at the joint training sessions so that everyone would gain from the sessions.

74.3. The Board RESOLVED to note the report.

75 EXCLUSION OF THE PUBLIC AND PRESS

75.1 The Board agreed to exclude the press and public.

76 LOCAL GOVERNMENT PENSION SCHEME (LGPS) POOLING - ACCESS UPDATE

76.1 The Board considered a report providing an update on the activities undertaken by the ACCESS pool group.

76.2 The Board agreed to exclude the press and public for the duration of this item due to it containing exempt information under paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, namely information relating to financial and business affairs of an individual.

76.3 The Board RESOLVED

1) to note the report;

2) to request a report on the governance arrangements for ACCESS once they have been finalised.

The meeting ended at 12.30 pm.

Richard Harbord
Chair

East Sussex Pension Fund

Review of Investment Managers' Performance for First Quarter of 2018

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For and on behalf of Hymans Robertson LLP
June 2018

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Capital Market Outlook

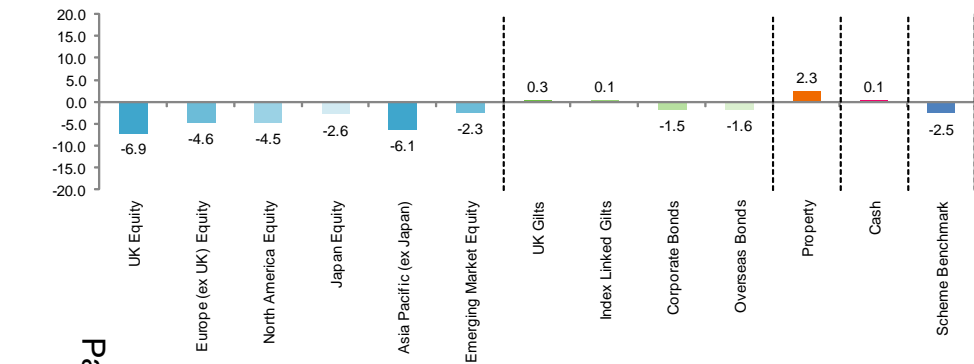
	December 2017	March 2018	Comment
Index-linked gilts	Cautious to Negative	Cautious to Negative	Again our view remains unchanged. Inflation protection remains very expensive, particularly in the UK where the demand for index-linked gilts is greater than the supply. We expect real yields to closely follow nominal yields over 2018, with higher levels of inflation already baked into pricing. Any 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	Our view remains unchanged. Although yields rose over the quarter, valuations still remain unattractive relative to historic levels. Demand for gilts to hedge pension and insurance liabilities remains strong.
Sterling non-government bonds	Cautious	Cautious	A buoyant economic background has driven yield spreads to historically low levels. Room for further spread tightening is limited, leaving coupon income the main source of return. ABS spreads have declined, although the end of the Term Funding Scheme should see renewed borrowing in this market.
Equities	Neutral to Cautious	Neutral to Cautious	Earnings growth continues to emerge although equity valuations remain high relative to history even after recent market falls. Sentiment has been hit by concerns over valuation levels and the return of equity volatility after the abnormally low levels of 2017.
UK Property	Neutral to Attractive	Neutral to Attractive	Yields are still low, but provide a reasonable buffer relative to gilts and IG bonds. We have a strategic preference for long lease property given the security of the contractual rental growth, which becomes increasingly attractive as inflation ticks up. However, yields here are c.1% lower than core property, so there is no expected return advantage.
Infrastructure	Neutral to Attractive	Neutral to Attractive	There is evidence that managers may be finding it more difficult to secure deals. Our valuation assessment is predicated on managers who are able to secure core infrastructure assets on current income yields of 5-7% p.a. by focussing on deals with a degree of complexity.
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.



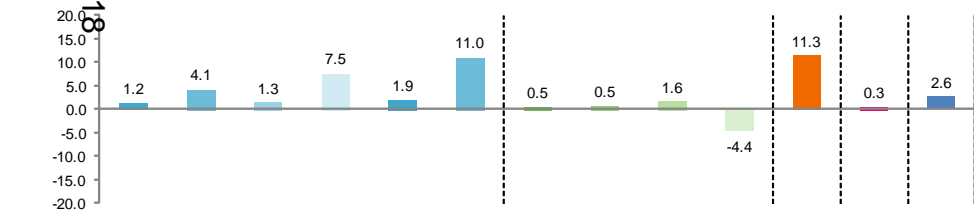
Historic Returns for World Market to 31 March 2018

Historic Returns - Chart 1 ^[1]

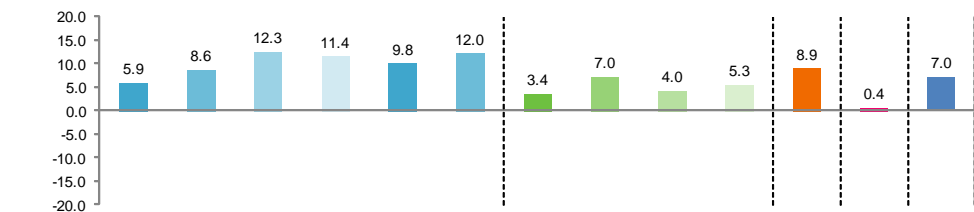
3 Months (%)



12 Months (%)



3 Years (% p.a.)



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

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

Comment

Q4 economic data confirmed that global growth remained buoyant through to the year-end yet the UK continues to lag behind its peers. Japan continued its longest streak of growth since 1989, although initial estimates suggest growth had eased very slightly in Q4, as it had in the US and Eurozone.

Survey evidence suggested that growth remained robust into the new year, although the outlook was clouded by early skirmishes in what might develop into a trade war between the US and China.

Underlying inflation rates remained relatively stable in the major economies, although investors were briefly unsettled by higher-than-expected US wage growth in January. UK CPI inflation fell from 3% to 2.7% in February. Even so, there is speculation that interest rates may rise in May. The US Federal Reserve, under a new Chairman, continued to tighten policy gradually raising rates by another 0.25%.

Global economic momentum and inflation concerns helped to push government bond yields higher at the start of the year. Inflation concerns receded later, particularly outside the US. Long-dated gilt yields fell over the quarter, although 10-year yields rose.

Yen was the strongest of the major currencies, although sterling also rose 2% in trade-weighted terms.

Oil prices pushed higher – Brent crude reached a three-year high of \$70 a barrel. The impact of rising US production was tempered by declines in Venezuela, prospects of renewed US sanctions on Iran and strong demand. In contrast, industrial metals prices fell sharply – relevant indices were down 7%.

Buoyant global growth supported credit markets at the start of the year. Yield spreads narrowed further in January, but ended the quarter higher as concerns grew about tighter monetary policy and rising trade tension.

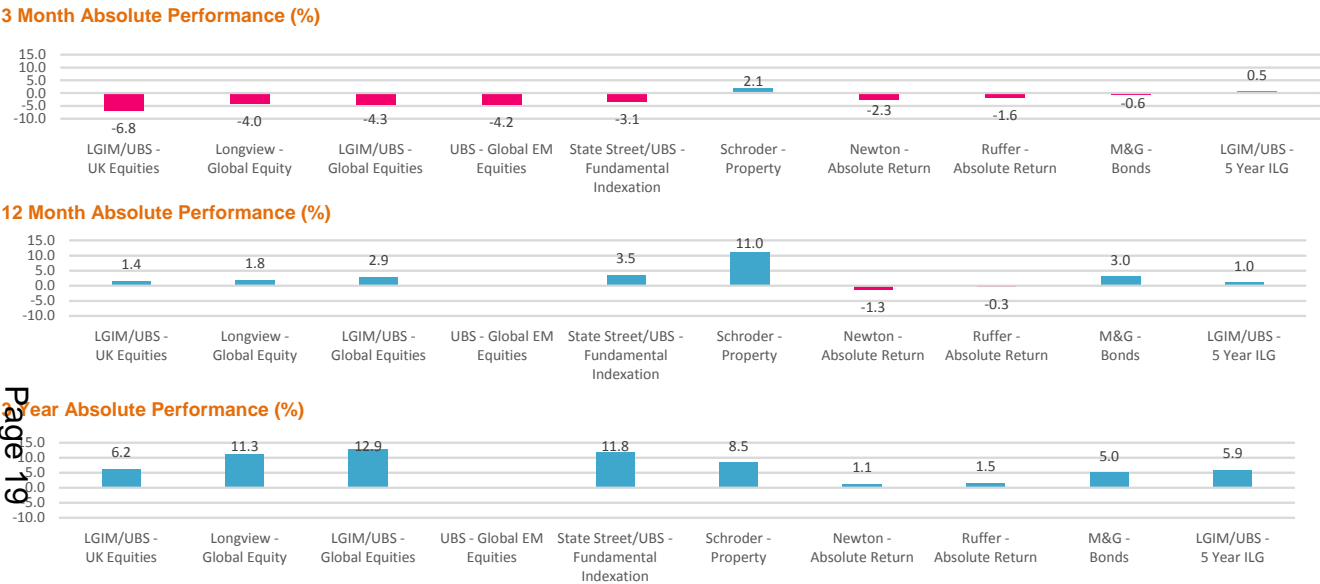
Similar factors drove equity returns. Global indices rose strongly in January, but fell over the quarter as a whole. Sterling's strength further reduced returns to UK investors. The best regional performance came from Emerging Markets, extending the relative momentum of 2016 and 2017. Sterling's strength contributed to the underperformance of the UK market, because of the significance of foreign earnings.

Technology remained investors' favourite sector, although the current travails of Facebook were putting this position under threat as the quarter closed. Telecommunications was the worst performer – rising US rates may be undermining what is a preferred area for income investors.

The turn of the year brought little change for the UK commercial property market. Capital values and rents nudged higher. Again, this was driven primarily by strong growth in Industrials, although there are some signs that the sector's rental growth may be flagging.

Summary of mandate absolute performance to 31 March 2018

Performance Summary ^[1]



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 delivered negative results over the first quarter of 2018 due to the volatility in global equity markets. The equity mandates continue to deliver strong returns over the one year and three year periods.

Diversification/Income oriented (Property/Absolute Return)

Gilt yields rose over the quarter (prices fell) and given the sell off in equity markets, the absolute return funds detracted and underperformed their LIBOR benchmarks. Property returns were positive over the quarter due to Schroder's exposure to the industrials sector which continued to strengthen.

Protection (Bonds)

Over the first quarter of 2018, gilt yields rose which negatively impacted the absolute value of the Fund's bond holdings. Over the longer term, the bond funds have delivered positive absolute returns.

[1] LGIM/ UBS ILG, Global Equities and UK Equities funds and State St/ UBS Fundamental Indexation funds combine historical performance of the previous managers and since inception performance of the new UBS funds.



Fund Asset Allocation and Performance

Valuation Summary

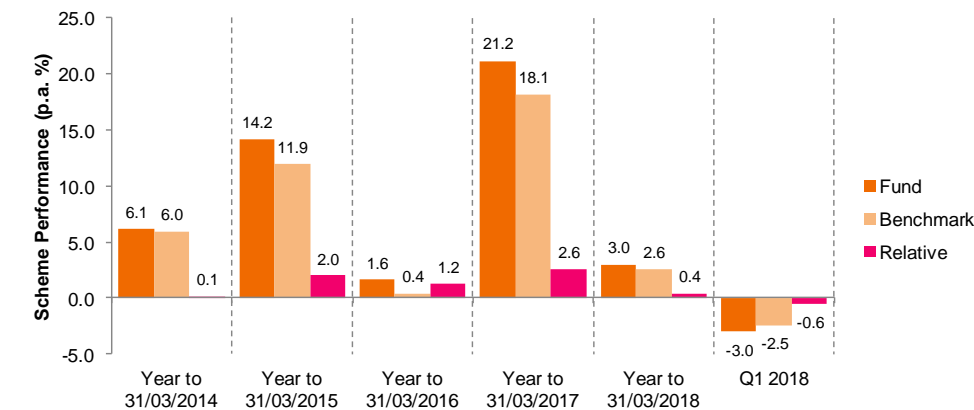
Asset Class	Value (£m)		Actual Proportion %	Target Proportion %	Re-balancing range %	Difference
	Q4 2017	Q1 2018				
Global Equity	1485.4	1415.5	41.8	40.0	45.0 - 55.0	1.8
UK Equity	347.8	324.0	9.6	10.0		-0.4
Fixed Interest	134.3	132.7	3.9	3.5	2.5 - 4.5	0.4
Index-Linked Gilts	180.7	181.0	5.3	5.0	4.0 - 6.0	0.3
Property	357.7	362.8	10.7	10.0	7.0 - 13.0	0.7
Infrastructure	21.6	19.0	0.6	2.0	0.0 - 4.0	-1.4
Private Equity	185.1	182.8	5.4	5.5	3.5 - 7.5	-0.1
Absolute Return Funds	639.8	625.0	18.5	20.0	17.0 - 23.0	-1.5
Cash	66.6	65.6	1.9	0.0	0.0 - 2.0	1.9
UK Financing Fund	1.4	1.0	0.0	1.0	0.0 - 2.0	-1.0
Absolute Return Bonds	74.6	74.6	2.2	3.0	2.0 - 4.0	-0.8
Total Client	3495.2	3384.1	100.0	100.0		

Fund performance [1]

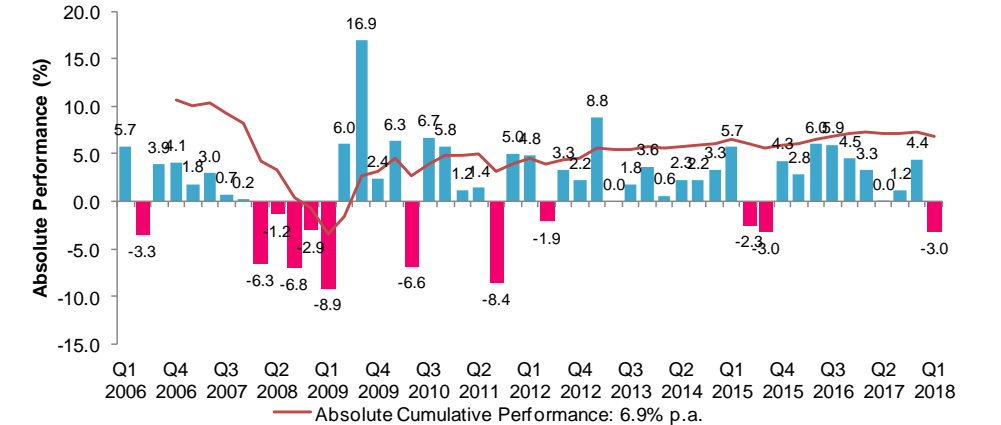
Over the quarter to end March 2018, the Fund returned -3.0%, underperforming the benchmark by 0.6%. Over the longer time periods considered, the Fund has outperformed the aggregate benchmark.

The relative underperformance was driven entirely by the Fund's absolute return mandates. Ruffer and Newton both underperformed their cash benchmarks, as equity and credit markets sold off during the quarter. Longview and Schroders both outperformed their benchmarks, which partially offset the underperformance from the absolute return managers.

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 *
Longview - Global Equity	Active	16 Apr 2013	MSCI ACWI (GBP)	+3% (gross of fees) over rolling 3 year periods	<div><div></div><div></div><div></div><div></div><div></div></div>
UBS - Fundamental Indexation	Passive	07 Feb 2018	FTSE RAFI All-World 3000	Track Index	<div><div></div><div></div><div></div><div></div><div></div></div>
UBS - Global EM Equity Fund	Passive	21 Feb 2018	FTSE All World Emerging Index	Track Index	<div><div></div><div></div><div></div><div></div><div></div></div>
UBS - World Equity Fund	Passive	21 Feb 2018	FTSE All World	Track Index	<div><div></div><div></div><div></div><div></div><div></div></div>
UBS - UK Equity Fund	Passive	17 Jan 2018	FTSE All Share	Track Index	<div><div></div><div></div><div></div><div></div><div></div></div>
Newton - Absolute Return	Absolute return	06 May 2010	Libor	+4% (gross of fees) over 5 years	<div><div></div><div></div><div></div><div></div><div></div></div>
Ruffer - Absolute Return	Absolute return	06 May 2010	Libor	+4% (gross of fees) over 5 years	<div><div></div><div></div><div></div><div></div><div></div></div>
M&G - Bonds	N/A	01 Jan 1997	Bespoke	+0.8% (gross of fees) for corporate bonds only	<div><div></div><div></div><div></div><div></div><div></div></div>
UBS - Over 5 year IL Gilt Fund	Passive	14 Feb 2018	FTSE A Index-linked Gilts Over 5 Years	Track Index	<div><div></div><div></div><div></div><div></div><div></div></div>
Schroder - Property	Fund of Funds	20 Feb 2010	IPD All Balanced Funds	0.75% p.a. (net of fees) over rolling 3 year periods	<div><div></div><div></div><div></div><div></div><div></div></div>

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

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

Summary Comment

There have been no new developments with managers over the quarter that would result in a change in rating. However, there were some notable changes at Longview, Newton and Ruffer that are described in further detail on each respective manager page. We will continue to monitor developments closely.

During the quarter, the Fund transferred all passive assets with L&G and State Street to UBS.

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

Manager Structure

Manager Valuations ^[1]

Manager	Value (£m)		Actual Proportion %	Target Proportion %	Difference %	
	Q4 2017	Q1 2018				
L&G - Global Equities	593.8	0.0	0.0	0.0		0.0
Longview - Global Equity	246.1	236.0	7.0	7.0	-0.0	
State Street - Fundamental Indexation	645.5	0.0	0.0	0.0		0.0
UBS - Fundamental Indexation	0.0	612.0	18.1	17.5		0.6
UBS - Global EM Equity Fund	0.0	59.2	1.7	1.5		0.2
UBS - World Equity Fund	0.0	508.3	15.0	14.0		1.0
L&G - UK Equities	347.8	0.0	0.0	0.0		0.0
UBS - UK Equity Fund	0.0	324.0	9.6	10.0	-0.4	
Newton - Absolute Return	316.6	308.5	9.1	10.0	-0.9	
Ruffer - Absolute Return	323.2	316.5	9.4	10.0	-0.6	
L&G - 5yr ILG	180.7	0.0	0.0	0.0		0.0
M&G - Bonds	208.7	207.4	6.1	6.5	-0.4	
UBS - Over 5 year IL Gilt Fund	0.0	181.0	5.3	5.0		0.3
Schroder - Property	357.7	362.8	10.7	10.0		0.7
M&G - Infrastructure Fund	0.0	0.0	0.0	1.0	-1.0	
UBS - Infrastructure	21.6	19.0	0.6	1.0	-0.4	
Adams Street - Private Equity	97.6	96.1	2.8	2.8		0.1
HarbourVest - Private Equity	87.5	86.7	2.6	2.8	-0.2	
M&G - UK Financing Fund	1.4	1.0	0.0	1.0	-1.0	
Cash account	66.6	65.6	1.9	0.0		1.9
Total	3495.0	3384.1	100.0	100.0		0.0

Summary Comment

The Fund remains underweight to UK Equities and both the absolute return funds, although these positions are likely to have reduced slightly following quarter end. Global Equity and cash were overweight. All asset classes were within their re-balancing range.

The Committee has agreed to increase the allocation to infrastructure and private debt to 4% and 3% respectively. This is to be funded from the Fund's absolute return mandates.

[1] The Fund retains a small cash position to service the commitments made to the private equity portfolio and the infrastructure funds.



Performance Summary (net of fees)

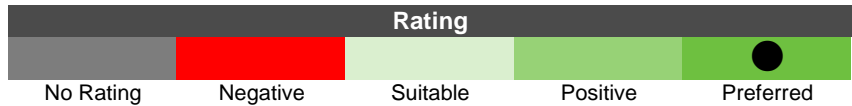
Performance Summary (net of fees) [1] [i]

		Longview - Global Equity	UBS - Fundamental Indexation	UBS - Global EM Equity Fund	UBS - World Equity Fund	UBS - UK Equity Fund	Newton - Absolute Return	Ruffer - Absolute Return	M&G - Bonds	UBS - Over 5 year IL Gilt Fund	Schroder - Property	Total Fund
3 Months (%)	Absolute Benchmark	-4.1 -4.5	-2.4 -2.5	-4.2 -4.2	-2.3 -2.3	-7.3 -7.3	-2.5 0.1	-1.8 0.1	-0.7 -0.8	5.4 5.4	2.0 1.9	-3.2 -2.5
	Relative	0.4	0.0	0.0	0.0	0.0	-2.6	-1.9	0.0	0.0	0.1	-0.7
12 Months (%)	Absolute Benchmark	1.2 2.4	N/A N/A	N/A N/A	N/A N/A	N/A N/A	-1.9 0.3	-1.1 0.3	2.6 1.1	N/A N/A	10.8 10.1	2.6 2.6
	Relative	-1.2	N/A	N/A	N/A	N/A	-2.3	-1.5	1.5	N/A	0.7	0.1
3 Years (% p.a.)	Absolute Benchmark	10.6 10.2	N/A N/A	N/A N/A	N/A N/A	N/A N/A	0.5 0.4	0.7 0.4	4.6 3.0	N/A N/A	8.3 8.1	7.6 7.0
	Relative	0.4	N/A	N/A	N/A	N/A	0.1	0.3	1.6	N/A	0.2	0.6
10 Years (% p.a.)	Absolute Benchmark	15.3 11.2 3.7	N/A N/A	N/A N/A	N/A N/A	N/A N/A	3.4 0.5 2.9	4.1 0.5 3.5	6.6 4.7 1.8	N/A N/A	8.6 8.4	7.3 6.6
	Relative		N/A	N/A	N/A	N/A				N/A	0.2	0.6

[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. 3 month returns for UBS funds are since inception.

UBS - UK Equity

HR View Comment & Rating



We rate UBS UK Equity as 'Preferred'.

There were no significant developments over the quarter.

Performance Summary to 31 March 2018 ^[1]

	Since Inception* (%)
Fund	-7.3
Benchmark	-7.3
Relative	0.0

* Inception date 17 Jan 2018.

Performance Attribution Comment

During the quarter, the Fund switched all passive equity holdings with L&G to UBS. Since the assets were transferred, UBS has matched the benchmark on both the UK and global equity funds.

Following a sustained period of strong returns, equity markets sold off sharply in the first quarter of 2018. This was, in part, driven by concerns from investors that central banks may increase rates quicker than had originally been anticipated. However, markets have largely recovered since quarter end.

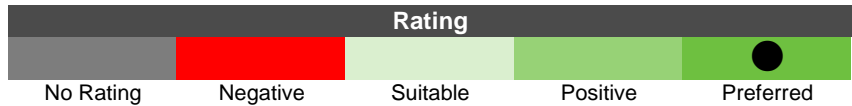
[1] Benchmark: FTSE All Share

Source: ^[i] Fund Manager



UBS - World Equity

HR View Comment & Rating



We rate UBS Fundamental Indexation at 'Preferred'.

There were no significant developments over the quarter.

Performance Summary to 31 March 2018 ^[1] ^[i]

	Since Inception* (%)
Fund	-2.3
Benchmark	-2.3
Relative	0.0

* Inception date 21 Feb 2018.

Performance Attribution Comment

During the quarter, the Fund switched all global equity holdings with L&G to UBS. Since the assets were transferred, UBS has matched the benchmark, returning -2.3%.

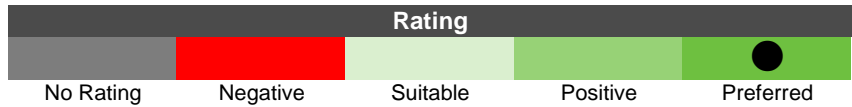
[1] Benchmark: FTSE All World

Source: [i] Fund Manager



UBS - Fundamental Indexation

HR View Comment & Rating



We rate UBS Fundamental Indexation at 'Preferred'.

There were no significant developments over the quarter.

Performance Summary to 31 March 2018 ^[1] ^[i]

	Since Inception* (%)
Fund	-2.4
Benchmark	-2.5
Relative	0.0

* Inception date 07 Feb 2018.

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Performance Attribution Comment

During the quarter, the Fund switched the passive RAFI holdings with State Street to UBS. Since the assets were transferred, UBS has broadly matched the benchmark.

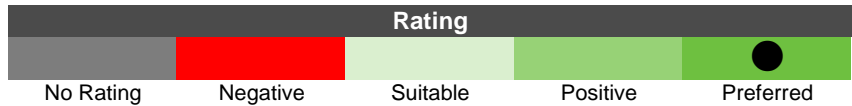
[1] Benchmark: FTSE RAFI All World 3000

Source: [i] Fund Manager



UBS - Global Emerging Markets Equity

HR View Comment & Rating



We rate UBS Fundamental Indexation at 'Preferred'.

There were no significant developments over the quarter.

Performance Summary to 31 March 2018 ^[1] ^[i]

	Since Inception* (%)
Fund	-4.2
Benchmark	-4.2
Relative	0.0

* Inception date 21 Feb 2018.

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Performance Attribution Comment

During the quarter, the Fund switched all passive equity holdings with L&G to UBS. Since the assets were transferred, UBS has matched the benchmark on the emerging market equity fund.

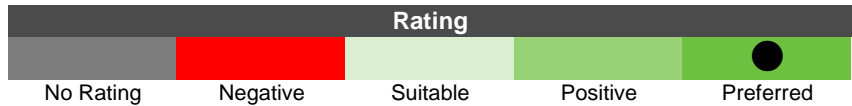
[1] Benchmark: FTSE All World Emerging Index

Source: [i] Fund Manager



UBS 5 year IL Gilt

HR View Comment & Rating



We rate UBS 5 year IL Gilt Tracker Fund at 'Preferred'.
There were no significant developments over the quarter.

Performance Summary to 31 March 2018 ^[i]

	Since Inception* (%)
Fund	5.4
Benchmark	5.4
Relative	0.0

* Inception date 14 Feb 2018.

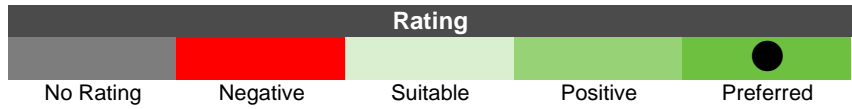
Performance Attribution Comment

During the quarter, the Fund switched all passive index-linked gilt holdings with L&G to UBS. Since the assets were transferred, UBS has matched the benchmark, returning 5.4%.

Source: ^[i] Fund Manager

Longview - Global Equity

HR View Comment & Rating



We rate Longview's Global Equity strategy at 'Preferred.' Longview's flexible style and concentrated 35 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.

During the quarter, Longview announced that founder and co-CEO Ramzi Rishani is to retire at the end of 2018, with Alastair Graham taking over the CIO role, in addition to his Head of Research responsibilities. We do not believe these changes will have a material impact on the way in which research is undertaken and performed. We have for some time felt that Alistair Graham had become the key figure in the investment process, with Rishani's focus more on running the business. For these reasons, we are maintaining the current 'Preferred' rating, although will be monitoring the handover of responsibilities and the new team structure later in the year.

Performance Attribution Comment

During the first quarter of 2018, Longview's Global Equity mandate returned -4.0%, outperforming the MSCI World benchmark by 0.9%. Over all longer periods considered, the fund remains ahead of benchmark.

The main contributors over the quarter were WW Grainger, Thermo Fisher Scientific and HCA Healthcare. Industrial supplies distributor, WW Grainger, saw another period of strong performance, exceeding expectations, largely driven by sales growth. Thermo Fisher Scientific and HCA also outperformed, with the latter issuing quarterly dividends at the end of January.

Exposure to WPP, Wells Fargo and Sodexo marginally offset this outperformance over the quarter. Advertising company, WPP, reported its most disappointing set of earnings since the financial crisis, and management reported that it expects no sales growth in 2018, both of which caused a drag on performance. US Bank, Wells Fargo, underperformed following regulatory restrictions being imposed on the bank by the US federal reserve. Wells Fargo is prohibited from expanding beyond the \$1.95 trillion in assets that it had at the end of 2017 until it improves its governance and controls. Also, food services company, Sodexo, underperformed after management announced that profit margins for the year would be less than expected.

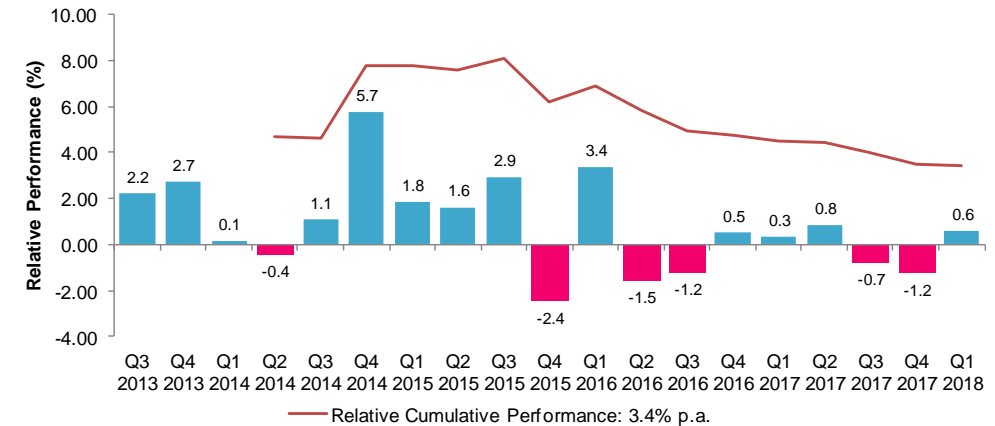
Source: [i] Fund Manager

Performance Summary to 31 March 2018

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	-4.0	1.8	11.3	16.0
Benchmark	-4.5	2.4	10.2	11.2
Relative	0.6	-0.5	1.0	4.3

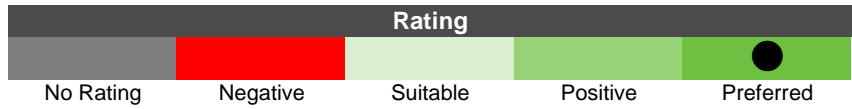
* Inception date 16 Apr 2013.

Relative Quarterly and Relative Cumulative Performance [i]



Ruffer - Absolute Return

HR View Comment & Rating



Ruffer has announced that Trevor Bradley, a portfolio manager and member of its Management Board will be leaving the firm. We understand that the decision was mutual and Bradley is currently on gardening leave and is not moving to join another asset management firm, at least initially. We are comfortable with this departure due to the structure within Ruffer. However, we note that he was a member of Ruffer's leadership team so his departure is significant. That said, we do not believe it warrants a review of the rating.

Performance Summary to 31 March 2018

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	-1.6	-0.3	1.5	4.9
Benchmark	0.1	0.3	0.4	0.5
Relative	-1.7	-0.7	1.1	4.3

* Inception date 06 May 2010.

Performance Attribution Comment

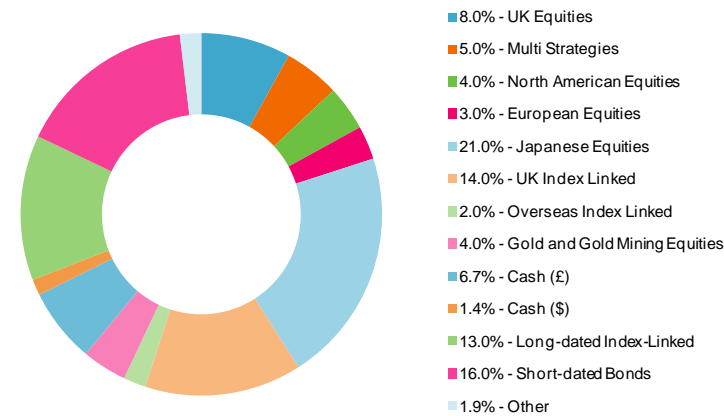
The Ruffer Absolute Return Fund returned -1.8% over the quarter compared to its cash benchmark return of 0.1% and has failed to "preserve capital" over the last 12 months.

The re-emergence of volatility to equity markets and the upheaval this brought has somewhat validated the manager's recent bearish outlook and the use of VIX call options (volatility strategy) as a protection against sharp falls in equity markets. Almost 50% of the portfolio was exposed to equity markets at the start of Q1.

The fund's sizable holding in Japanese equities was the largest detractor over the quarter with other equity holdings and interest rate protection also hurting performance. Equity protection and volatility strategies performed positively and did offer some protection from the fall in equities initially during February, and Ruffer locked in profits, but markets continued to fall in March.

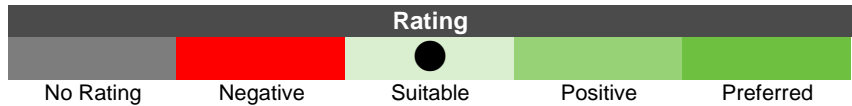
In outlook terms, Ruffer believe the recent market events offer further evidence to their central hypothesis of an impending downturn. Protecting capital in this environment will be their major aim and thus explains their continued defensive positioning.

Asset Allocation



Newton - Absolute Return

HR View Comment & Rating



We rate Newton's Absolute Return strategy as 'Suitable - On Watch'.

During the quarter Ian Clark, a member of the Real Return team with a focus on equities resigned and will leave the business in August 2018. This is a further negative development in the team which has seen Iain Stewart reduce his role. Whilst Clark was not a named portfolio manager for the fund, his departure is significant as he was regarded as the equity expert in the team, which utilise individual stocks for the majority of their equity holdings. It is also further example of turnover at the firm. Our conviction in the strategy has reduced over recent quarters and will monitor how the team re-organises to account for Clark's upcoming departure.

Performance Attribution Comment

The fund returned -2.3% over the quarter, well behind the target return, albeit during what was a tough period for more traditional 'directional' multi-asset funds such as Newton. Longer term performance has been disappointing with the fund losing value over 12 months and only registering positive returns of 1.1% p.a. over a 3 year period – well short of the Libor +4% p.a. target return.

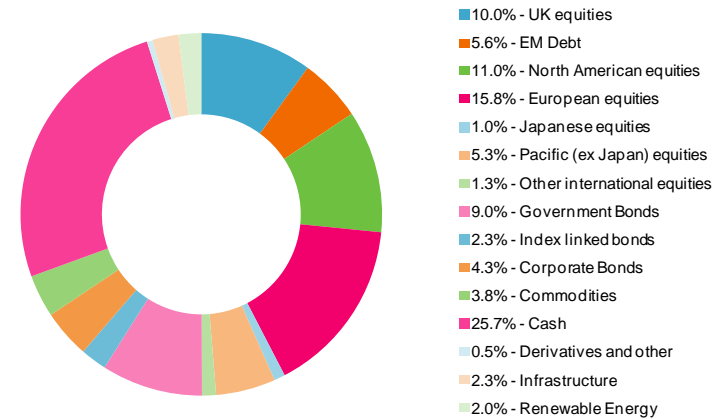
Underperformance for the period was driven primarily by equity holdings. Smaller allocations to listed infrastructure funds and precious metals were also detractors. Government bond holdings were broadly flat over the period. The fund's protective derivative positions, designed to insulate the portfolio from sharp falls in equity valuations, performed positively due to bouts of volatility experienced over the quarter. The fund also profited from positions in futures and put options over the quarter; short index futures were beneficial.

Performance Summary to 31 March 2018

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	-2.3	-1.3	1.1	4.0
Benchmark	0.1	0.3	0.4	0.5
Relative	-2.4	-1.7	0.7	3.5

* Inception date 06 May 2010.

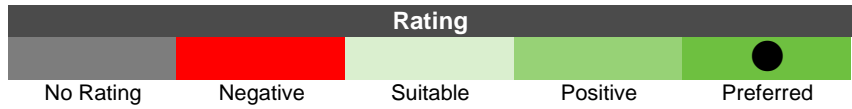
Asset Allocation [1]



Source: [1] Fund Manager

M&G - Bonds

HR View Comment & Rating



We rate M&G Bonds at 'Preferred'.

M&G plan to re-open the Alpha Opportunities Fund to investors in Q2 2018. Having grown assets fairly quickly, the fund has been hard closed for just over 12 months. The team wanted to ensure that they were able to invest effectively in a range of market conditions with the existing AuM of €10bn. Over the last 12 months, the team are of the view that they have been able to effectively actively manage the portfolio, and continue to deliver on the stated performance objective, with the existing capacity. They have therefore taken the decision to re-open the fund in the belief that they can manage the Fund with an increased size of assets. There is no change to the process, or team, or underlying assets in which the Fund can invest. We will closely monitor levels of inflows to the Fund.

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 narrowed as credit markets sold off alongside equities.

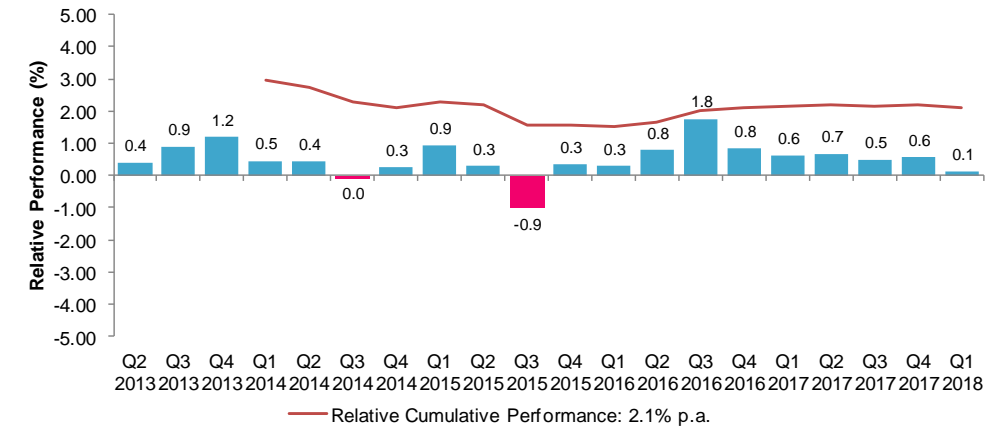
Aggregate performance of the two funds was -0.6%, marginally ahead of benchmark. The aggregate performance is comfortably ahead of benchmark over the longer periods of three and five years.

Performance Summary to 31 March 2018

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	-0.6	3.0	5.0	N/A
Benchmark	-0.8	1.1	3.0	N/A
Relative	0.1	1.9	1.9	N/A

* Inception date 01 Jan 1997.

Relative Quarterly and Relative Cumulative Performance



M&G - Bonds - Performance Attribution

Performance Attribution Performance [i]

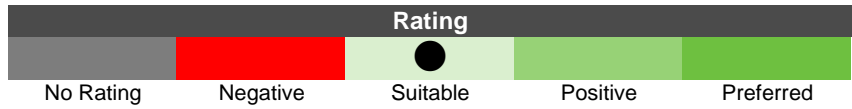
		UK Corporates	Alpha Opportunities Fund	Total
3 Months (%)	Absolute Benchmark	-1.1	0.2	-0.6
		-1.3	0.1	-0.8
	Relative	0.2	0.1	0.1
12 Months (%)	Absolute Benchmark	2.8	3.4	3.0
		1.6	0.3	1.1
	Relative	1.2	3.1	1.9
3 Years (% p.a.)	Absolute Benchmark	5.7	3.7	5.0
		4.4	0.4	3.0
	Relative	1.2	3.3	1.9
5 Years (% p.a.)	Absolute Benchmark	7.2	3.9	6.0
		6.2	0.4	3.8
	Relative	0.9	3.5	2.1

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.

Performance Summary to 31 March 2018

	3 Months (%)	12 Months (%)	3 Years (% p.a.)	Since Inception* (%)
Fund	2.1	11.0	8.5	8.9
Benchmark	1.9	10.1	8.1	8.4
Relative	0.2	0.9	0.4	0.4

* Inception date 20 Feb 2010.

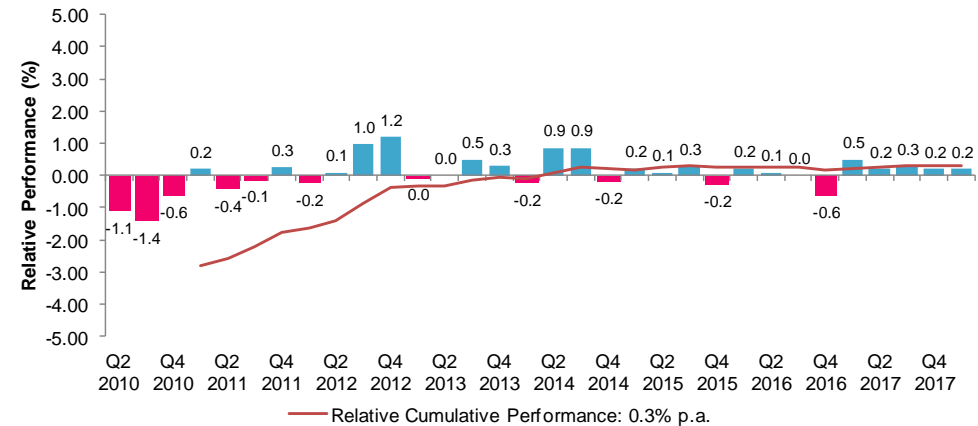
Performance Attribution Comment

Schroder's property portfolio outperformed the IPD benchmark over the quarter to end March 2018, returning 2.1%. Over all longer periods considered, it has outperformed the benchmark.

As per last quarter, the strongest contributor to performance in Q1 was the Industrial Property Investment Fund. The Metro Property Unit Trust, Schroder UK Real Estate Fund and Mayfair Capital Property Unit Trust also added to performance.

The largest detracting fund was the UK Retail Warehouse Fund, due to slowing demand across the retail sector. The Aviva Investors Pensions Property Fund also detracted as a result of exit costs incurred in selling down exposure the fund. Schroders decided to sell the fund after a sustained period of poor performance.

Relative Quarterly and Relative Cumulative Performance



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				
	2017 Global Fund				
	Co-Investment Fund II				

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Performance Summary (gross of fees)

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

		Longview - Global Equity	UBS - Fundamental Indexation	UBS - Global EM Equity Fund	UBS - World Equity Fund	UBS - UK Equity Fund	Newton - Absolute Return	Ruffer - Absolute Return	M&G - Bonds	UBS - Over 5 year IL Gilt Fund	Schroder - Property	Total Fund
3 Months (%)	Absolute	-4.0	-2.4	-4.2	-2.3	-7.3	-2.3	-1.6	-0.6	5.4	2.1	-3.0
	Benchmark	-4.5	-2.5	-4.2	-2.3	-7.3	0.1	0.1	-0.8	5.4	1.9	-2.5
	Relative	0.6	0.0	0.0	0.0	0.0			0.1	0.0	0.2	
							-2.4	-1.7				-0.6
12 Months (%)	Absolute	1.8	N/A	N/A	N/A	N/A	-1.3	-0.3	3.0	N/A	11.0	3.0
	Benchmark	2.4	N/A	N/A	N/A	N/A	0.3	0.3	1.1	N/A	10.1	2.6
	Relative		N/A	N/A	N/A	N/A			1.9	N/A	0.9	0.4
		-0.5					-1.7	-0.7				
3 Years (% p.a.)	Absolute	11.3	N/A	N/A	N/A	N/A	1.1	1.5	5.0	N/A	8.5	8.0
	Benchmark	10.2	N/A	N/A	N/A	N/A	0.4	0.4	3.0	N/A	8.1	7.0
	Relative	1.0	N/A	N/A	N/A	N/A	0.7	1.1	1.9	N/A	0.4	0.9
10 Years (% p.a.)	Absolute	16.0	N/A	N/A	N/A	N/A	4.0	4.9	6.9	N/A	8.9	7.5
	Benchmark	11.2	N/A	N/A	N/A	N/A	0.5	0.5	4.7	N/A	8.4	6.6
	Relative	4.3	N/A	N/A	N/A	N/A	3.5	4.3	2.1	N/A	0.4	0.8

[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. 3 month returns for UBS funds are since inception.

Summary of Benchmarks

Summary of Benchmarks

	Total Fund		Adams Street - Private Equity		Cash account		HarbourVest - Private Equity		Longview - Global Equity		M&G - Bonds	
	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %
Global Equity	40.0	1.8	-	-	-	-	-	-	100.0	0.0	-	-
UK Equity	10.0	-0.4	-	-	-	-	-	-	-	-	-	-
International Equity	-	-	-	-	-	-	-	-	-	-	-	-
Fixed Interest	3.5	0.4	-	-	-	-	-	-	-	-	62.6	1.5
Index-Linked Gilts	5.0	0.3	-	-	-	-	-	-	-	-	-	-
UK Property	10.0	0.7	-	-	-	-	-	-	-	-	-	-
Infrastructure	2.0	-1.4	-	-	-	-	-	-	-	-	-	-
Private Equity	5.5	-0.1	100.0	0.0	-	-	100.0	0.0	-	-	-	-
Absolute Return Funds	20.0	-1.5	-	-	-	-	-	-	-	-	-	-
Cash	0.0	1.9	-	-	100.0	0.0	-	-	-	-	-	-
UK Financing Fund	1.0	-1.0	-	-	-	-	-	-	-	-	-	-
Absolute Return Bonds	3.0	-0.8	-	-	-	-	-	-	-	-	37.5	-1.5
Proportion of Total Assets	-	-	2.8	0.1	0.0	1.9	2.8	-0.2	7.0	0.0	6.5	-0.4



Summary of Benchmarks (Cont.)

Summary of Benchmarks

	M&G - Infrastructure Fund		M&G - UK Financing Fund		Newton - Absolute Return		Ruffer - Absolute Return		Schroder - Property		UBS - Fundamental Indexation	
	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %	Target %	Difference %
Global Equity	-	-	-	-	-	-	-	-	-	-	100.0	0.0
UK Equity	-	-	-	-	-	-	-	-	-	-	-	-
International 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	100.0	0.0	-	-	-	-
Cash	-	-	-	-	-	-	-	-	-	-	-	-
UK Financing Fund	-	-	100.0	0.0	-	-	-	-	-	-	-	-
Absolute Return Bonds	-	-	-	-	-	-	-	-	-	-	-	-
Proportion of Total Assets	1.0	-1.0	1.0	-1.0	10.0	-0.9	10.0	-0.6	10.0	0.7	17.5	0.6



Summary of Benchmarks (Cont.)

Summary of Benchmarks

	UBS - Global EM Equity Fund			UBS - Infrastructure			UBS - Over 5 year IL Gilt Fund			UBS - UK Equity Fund			UBS - World Equity Fund		
	Target %	Difference %		Target %	Difference %		Target %	Difference %		Target %	Difference %		Target %	Difference %	
Global Equity	100.0	-	-	-	-	-	-	-	-	-	-	-	100.0	-	-
UK Equity	-	-	-	-	-	-	-	-	-	100.0	0.0	-	-	-	-
International Equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Fixed Interest	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Index-Linked Gilts	-	-	-	-	-	-	100.0	0.0	-	-	-	-	-	-	-
UK Property	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Infrastructure	-	-	-	100.0	0.0	-	-	-	-	-	-	-	-	-	-
Private Equity	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Absolute Return Funds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Cash	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
UK Financing Fund	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Absolute Return Bonds	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Proportion of Total Assets	1.5	0.2		1.0	-0.4		5.0	0.3		10.0	-0.4		14.0	1.0	

Benchmarks Summary Comment

The main points to note from this table are:

- The UBS 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:

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

Some industry practitioners use the simpler arithmetic method as follows:

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

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

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

Using the arithmetic method

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

Using the geometric method

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

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



East Sussex Pension Fund

Update on investment strategy

- William Marshall, Partner
- 15 June 2018

Overview

The aim of this presentation is to

- Act as a scene setter for the annual strategy day on 16 July.
- Help identify key priorities and shape the agenda for the strategy day.

Strategic building blocks

To generate a target return broadly in line with equity markets. There may also be a target to do so at a lower volatility, particularly downside volatility than listed equities.

Growth

Objectives
and
beliefs

Protection

To act as a store of absolute value and act as source of liquidity and rebalancing capital in the event of extreme market moves

**Enhanced
yield**

To provide an income stream above the expected return on investment grade corporate bonds, potentially with a degree of inflation hedging.

Current investment strategy

	%
Equities	50
Private equity	5.5
Absolute Return	20*
Total Growth	75.5
Property	10
Infrastructure	2*
Private Debt	1*
Total Income	13
I L Gilts	5
Fixed Interest	6.5
Total Protection	11.5

Future increases in infrastructure and private debt targets (to 4% and 3% respectively) currently to be funded from Absolute Return.

Developments since last Valuation – March 2016

- March 2016 – funding level of 92% (1.8% above gilts)
- Strong returns from stock markets – significant rise in Fund asset value
- Contributions being paid in
 - Primary contribution 17.2%p.a. plus
 - Secondary contributions
- But changes in yields and inflation expectations too

Estimate of current funding level



Data as at close of business 22 May. Funding level estimated at circa 101%.
For reliances and limitations, see Appendix.

Experience since March 2016

Liabilities		£m	Assets		£m
Liability value as at 31 March 2016		3,011.7	Asset value as at 31 March 2016		2,771.4
Cost of benefits accruing		270.4	Contributions paid in		215.8
Benefit payments		(245.9)	Benefit payments		(245.9)
Interest on liabilities		266.6	Expected return on liability-matching assets		247.3
Impact of change in yields & inflation		262.6	Excess return on assets		602.3
Liability value as at 22 May 2018		3,565.4	Asset value as at 22 May 2018		3,590.9

Surplus/(deficit)		£m	
Surplus/(deficit) as at 31 March 2016		(240.3)	
Contributions (less benefits accruing)		(54.6)	
Interest on surplus/(deficit)		(19.3)	
Excess return on assets		602.3	
Impact of change in yields & inflation		(262.6)	
Surplus/(deficit) as at 22 May 2018		25.5	

Fund's objective

- *“main valuation objective is to hold sufficient assets in the Fund to meet the cost of members’ accrued benefits on the target funding basis and to set employer contributions which ensure long-term solvency....” (Fund’s March valuation report)*
- Objectives suggest “success”, however number of questions
 - What is an acceptable target range of contributions that the Fund would be willing to accept over the long-term
 - What level of expected return is needed to have confidence of working within this contribution range? “Steady state”
 - Is this achievable in a risk controlled way?

Preferred balance can be different for each Fund

Lower contributions => Higher target returns => More risk



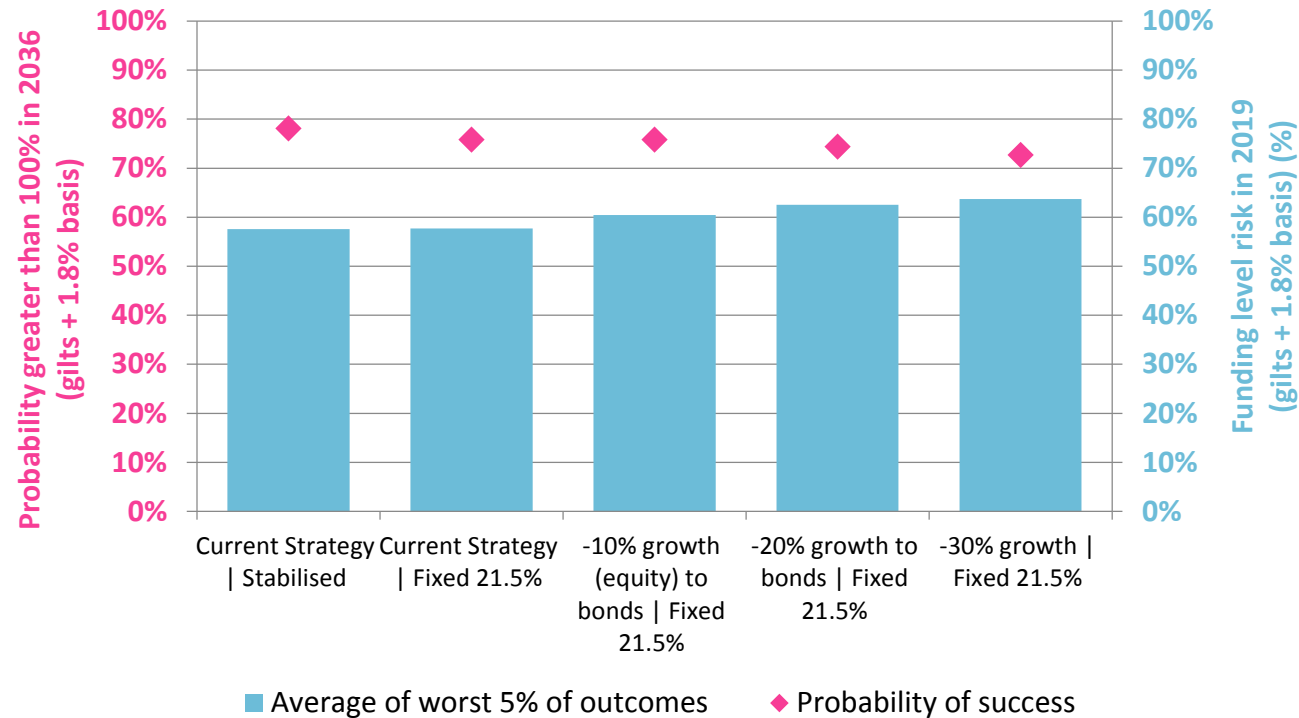
Higher contributions => Lower target returns => Less risk



Modelling - 2017 Annual Strategy Day

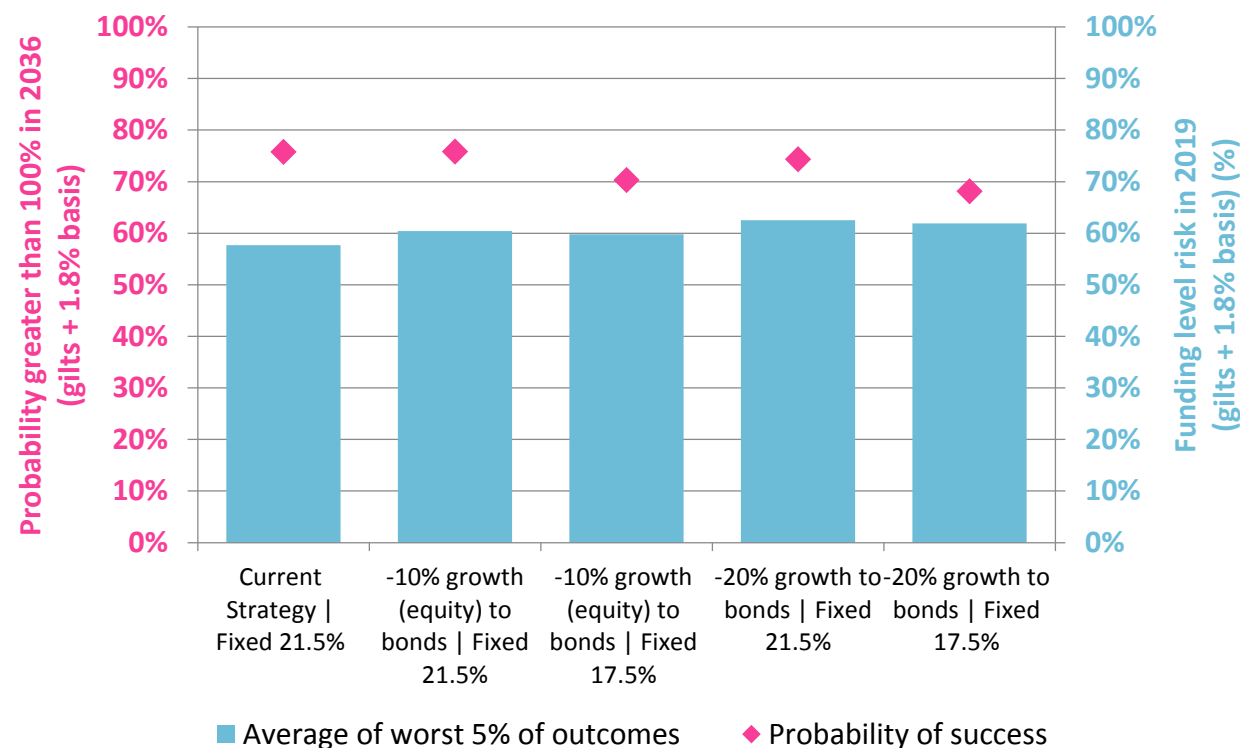
- Carried out with a projection date of 31 March 2017
 - Liability data from March 2016
 - Fund's asset value taken as at March 2017
 - Estimated funding position at March 2017
 - Long term asset returns assumptions calibrated as at March 2017
- Reminder – key metrics
 - Measuring chances of 'success' and risk
 - Varied fixed / target level of contributions (21.5% / 17.5%)
 - Varied investment strategy

Impact of varying the investment risk



- By moving to lower risk strategies, the chances of reaching full funding in 20 years falls only modestly ... but with a better funding position at the next valuation date under the worst 5% of outcomes.
- **But this assumes no future reductions in contributions.**
- This is because the total level of contributions over the period is very significant in aggregate.

Varying investment risk with lower contributions

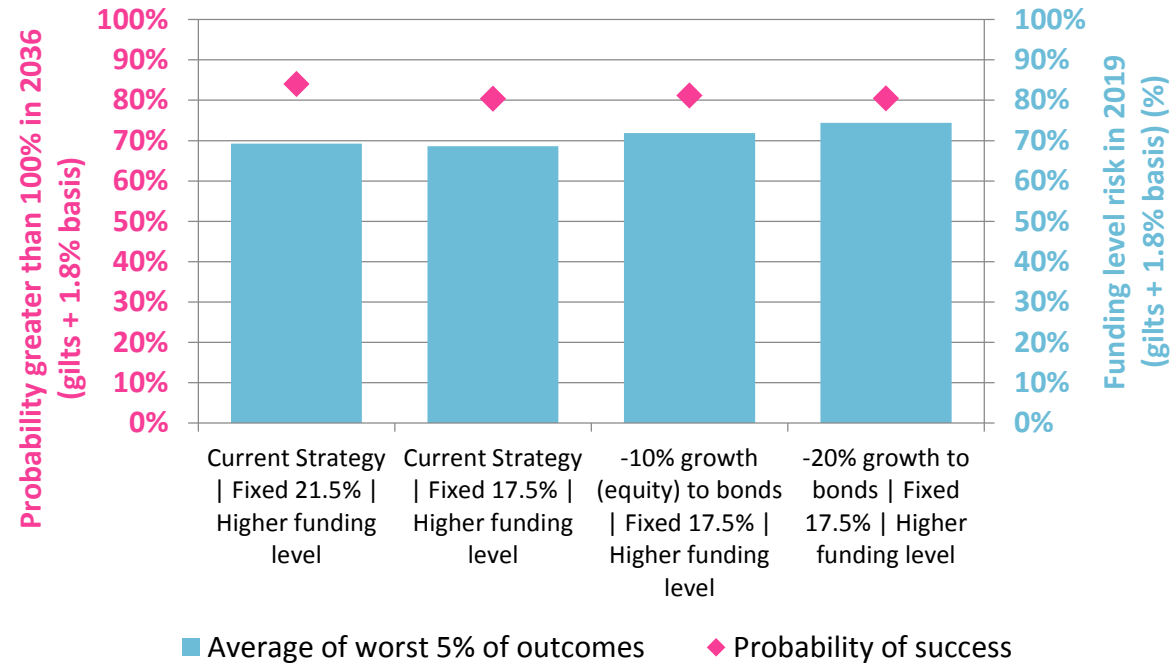


- If we assume, for example, a lower fixed target level of contributions (of 17.5% p.a.), the impact of any de-risking is greater.
- Chances of achieving the objective are reduced; improvements in downside risk are very modest.

Conclusions – Summer 2017

- Maintaining the current level of contributions (for the 20 year projection period) would allow for reductions of 20% or so in growth assets – whilst still maintaining a high chance of meeting the objective.
- However, on the basis that a lower level of contributions is likely to be preferred in the medium / long term, there was no strong case for any de-risking in the short term.
- Any de-risking should be very modest.
 - Planned changes to private debt / infrastructure / absolute return allocations

Higher funding level – 100/105%



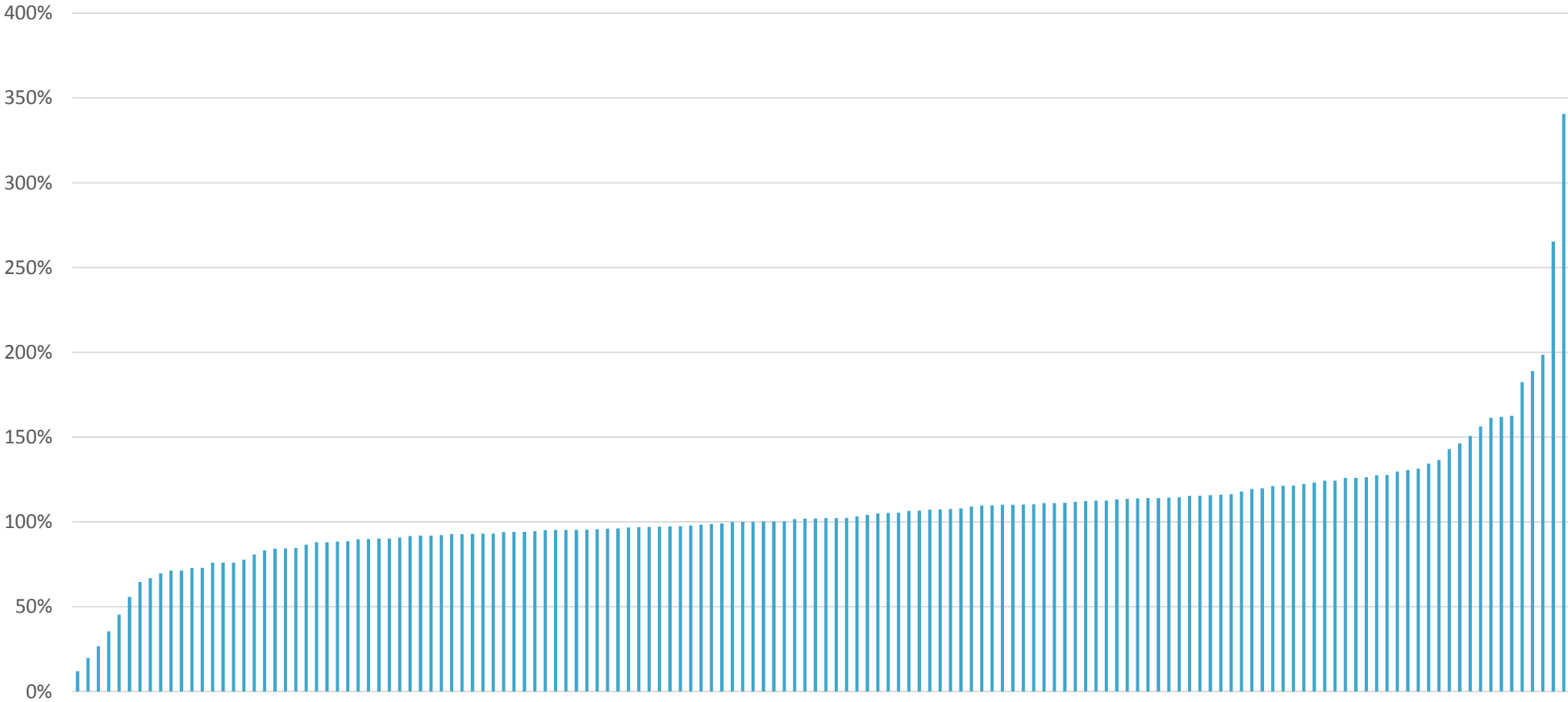
- The scope for de-risking would be greater - the Fund has a material improvement in chances of success.
- The Committee could then consider targeting a lower level of contributions in future in addition to carrying out a degree of de-risking
- Liaison with the Actuary will be necessary.

Issues to consider

- Next actuarial valuation due at March 2019 – contributions fixed until that date
- Should we return to setting funding level triggers for reducing risk?
- What might the Fund's long term target be for a 'steady state' position?
- What combination of investment strategy and contributions represents the preferred balance for the Committee?
- How would any reduction in risk be implemented within the Fund's asset allocation?
- Is there any immediate action?
- Are there any employer implications of de-risking?

Range of funding levels across employers

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At 31 March 2016, ignores outliers

Appendix

Funding level update - reliances and limitations



- The update is addressed to the East Sussex Pension Fund in their capacity as the Administering Authority and is provided to assist in monitoring certain funding and investment metrics. It should not be used for any other purpose. It should not be released or otherwise disclosed to any third party except as required by law or with our prior written consent, in which case it should be released in its entirety. Decisions should not be taken based on the information herein without written advice from your consultant. Neither I nor Hymans Robertson LLP accept any liability to any other party unless we have expressly accepted such liability in writing.
- The method and assumptions used to calculate the updated funding position are consistent with those disclosed in the documents associated with the last formal actuarial valuation, although the financial assumptions have been updated to reflect known changes in market conditions. The calculations contain approximations and the accuracy of this type of funding update declines with time from the valuation; differences between the position shown in this report and the position which a new valuation would show can be significant. It is not possible to assess its accuracy without carrying out a full actuarial valuation. This update complies with Technical Actuarial Standard 100.

Asset liability modelling - reliances, limitations and additional details (1)

Cash flows

In projecting forward the evolution of the Scheme, we have used estimated cash flows generated using our actuarial valuation system, based on information provided as part of the 2016 actuarial valuation of the scheme. Full details are set out in our original modelling work in relation to agreeing the contribution strategy. Please note that all reliances and limitations that applied to that report apply here too.

Cash flows have been generated in line with the scheme rules.

We have estimated future service benefit cash flows and projected salary roll for new entrants after the valuation date such that payroll remains constant in real terms (i.e. full replacement). There is a distribution of new entrants introduced at ages between 25 and 65, and the average age of the new entrants is assumed to be 40 years. All new entrants are assumed to join and then leave service at SPA, which is a much simplified set of assumptions compared with the modelling of existing members. The base mortality table used for the new entrants is an average of mortality across the LGPS and is not client specific, which is another simplification compared to the modelling of existing members. Nonetheless, we believe that these assumptions are reasonable for the purposes of the modelling given the highly significant uncertainty associated with the level of new entrants.

There are a number of different types of increases applied before and after retirement to benefits payable from the Scheme. We have made some simplifying assumptions when modelling the various types of increases.

As with all modelling, the results are dependent on the model itself, the calibration of the model and the various approximations and estimations used. These processes involve an element of subjectivity. No inferences should be drawn from the modelling results other than those confirmed by us in writing.

Reliances, limitations and additional details (2)

Asset Liability Model

In the modelling we have assumed that the Fund will undergo valuations every three years and a contribution rate will be set that will come into force one year after the simulated valuation date. For 'stabilised' contributions, the rate at which the contribution changes is capped and floored. There is no guarantee that such capping or flooring will be appropriate in future; this assumption has been made so as to illustrate the likely impact of practical steps that may be taken to limit changes in contribution rates over time. We have assumed that the Actuary to the Fund will make his or her calculations using broadly the same methodology as that currently used, but note that this is a source of uncertainty that we have not attempted to measure in the model other than where noted specifically.

Except where stated, we do not allow for any variation in actual experience away from the demographic assumptions underlying the cash flows. Variations in demographic assumptions (and experience relative to those assumptions) can result in significant changes to the funding level and contribution rates. We allow for variations in inflation (RPI or CPI as appropriate), inflation expectations (RPI or CPI as appropriate), interest rates, yield curves and asset class returns. Cash flows into and out of the Scheme are projected forward in annual increments and are assumed to occur in the middle of each Scheme year. Investment strategies are assumed to be rebalanced annually.

Unless stated otherwise, we have assumed that all contributions are made and not varied throughout the period of projection irrespective of the funding position. In practice the contributions are likely to vary especially if the funding level changes significantly.

Investment strategy is also likely to change with significant changes in funding level, but unless stated otherwise we have not considered the impact of this in order to focus on the high level investment strategy decision.

In allowing for the simulated economic scenarios, we have used suitable approximations for updating the projected cash flows. The nature of the approximations is such that the major financial and investment risks can be broadly quantified. However, a more detailed analysis is required to understand fully the implications and appropriate implementation of a very low risk or 'cash flow matched' strategy.

We would emphasise that the returns that could be achieved by investing in any of the asset classes will depend on the exact timing of any investment/disinvestment. In addition, there will be costs associated with buying or selling these assets. The model implicitly assumes that all returns are net of costs and that investment/disinvestment and rebalancing are achieved without market impact and without any attempt to 'time' entry or exit.

Reliances, limitations and additional details (3)

Economic Scenario Service

The distributions of outcomes depend significantly on the Economic Scenario Service (ESS), our (proprietary) stochastic asset model. This type of model is known as an economic scenario generator and uses probability distributions to project a range of possible outcomes for the future behaviour of asset returns and economic variables. Some of the parameters of the model are dependent on the current state of financial markets and are updated each month (for example, the current level of equity market volatility) while other more subjective parameters do not change with different calibrations of the model.

Key subjective assumptions are the average excess equity return over the risk free asset (tending to approximately 3% p.a. as the investment horizon is increased), the volatility of equity returns (approximately 18% p.a. over the long term) and the level and volatility of yields, credit spreads, inflation and expected (breakeven) inflation, which affect the projected value placed on the liabilities and bond returns. The market for CPI linked instruments is not well developed and our model for expected CPI in particular may be subject to additional model uncertainty as a consequence. The output of the model is also affected by other more subtle effects, such as the correlations between economic and financial variables.

Our expectation (i.e. the average outcome) is that long term real interest rates will gradually rise from their current low levels. Higher long-term yields in the future will mean a lower value placed on liabilities and therefore our median projection will show, all other things being equal, an improvement in the current funding position (because of the mismatch between assets and liabilities). The mean reversion in yields also affects expected bond returns.

While the model allows for the possibility of scenarios that would be extreme by historical standards, including very significant downturns in equity markets, large systemic and structural dislocations are not captured by the model. Such events are unknowable in effect, magnitude and nature, meaning that the most extreme possibilities are not necessarily captured within the distributions of results.

Given the context of this modelling, we have not undertaken any sensitivity analysis to assess how different the results might be with alternative calibrations of the economic scenario generator.

We would be happy to provide fuller information about the scenario generator, and the sensitivities of the results to some of the parameters, on request.

Reliances, limitations and additional details (4)

Expected Rate of Returns and Volatilities

The following figures have been calculated using 5,000 simulations of the Economic Scenario Service, calibrated using market data as at 31 March 2017. All returns are shown net of fees. Percentiles refer to percentiles of the 5,000 simulations and are the annualised total returns over 5, 10 and 20 years, except for the yields which refer to the (simulated) yields in force at that time horizon.

		Annualised total returns											Inflation	17 year real yield	17 year yield
		Index Linked Gilts (short dated)	Corporate Bonds (short dated)	UK Equity	Overseas Equity	Private Equity	Property	Diversified Growth Fund	Infrastructure Equity	High yield debt	Senior loans	Absolute return fund (near 0 duration)			
5 years	16th %ile	-1.3%	-0.2%	-4.5%	-6.4%	-7.3%	-4.3%	-2.8%	-6.2%	0.1%	1.3%	1.0%	1.5%	-2.3%	1.1%
	50th %ile	0.3%	1.2%	3.6%	3.4%	4.5%	1.4%	2.5%	2.5%	2.9%	3.9%	2.2%	2.9%	-1.4%	2.4%
	84th %ile	2.1%	2.5%	12.4%	13.7%	17.8%	8.0%	8.3%	11.8%	5.1%	5.8%	3.3%	4.4%	-0.5%	4.0%
10 years	16th %ile	-0.6%	0.7%	-1.4%	-2.7%	-3.1%	-2.2%	-0.5%	-3.0%	1.5%	2.2%	1.5%	1.7%	-1.9%	1.4%
	50th %ile	0.9%	2.0%	4.6%	4.3%	5.6%	2.4%	3.3%	3.3%	3.5%	4.2%	2.8%	3.0%	-0.7%	3.0%
	84th %ile	2.5%	3.1%	10.9%	11.8%	14.9%	7.3%	7.3%	10.2%	5.2%	6.2%	4.3%	4.6%	0.5%	5.1%
20 years	16th %ile	0.3%	1.9%	1.3%	0.1%	0.4%	0.0%	1.5%	-0.2%	3.0%	3.5%	2.5%	1.9%	-0.8%	2.1%
	50th %ile	1.8%	3.3%	5.9%	5.5%	6.8%	3.7%	4.5%	4.6%	4.8%	5.5%	4.1%	3.1%	0.8%	4.0%
	84th %ile	3.7%	4.9%	10.6%	11.2%	13.7%	7.6%	7.6%	9.8%	6.6%	7.6%	6.0%	4.6%	2.3%	6.3%
Volatility (Disp) (1 yr)		4%	4%	16%	18%	29%	14%	12%	20%	7%	6%	3%	1%		

The current calibration of the model indicates that a period of outward yield movement is expected. For example, over the next 20 years our model expects the 17 year maturity annualised real (nominal) interest rate to rise from -1.7% (1.7%) to 0.8% (4.0%).

Report to: **Pension Committee**

Date: **15 June 2018**

By: **Chief Finance Officer**

Title of report: **Pension Fund Securities Lending Programme**

Purpose of report: **To provide the Pension Committee further Securities lending analysis and seek securities lending participation that will generate an additional income stream for the Fund within approved risk parameters**

RECOMMENDATIONS - The Pension Committee is recommended to:

- 1) approve the East Sussex Pension Fund's participation in the Securities lending programme; and**
 - 2) approve the Fund's participation in and compliance with the future ACCESS Pool Securities lending policy.**
-

1. Background

1.1 Security lending (also known as stock lending) is a long established way to generate additional income for the pension fund within accepted risk parameters. Given the extensive variety of securities within the East Sussex Pension Fund (ESPF), consideration should be given to taking advantage of this additional income stream.

2. Supporting Information

2.1 Securities lending is the act of loaning equity, bond or other securities to another investor via a brokerage firm.

- The borrower provides collateral - in the form of highly liquid securities - against what they have borrowed (in case they don't return the loaned securities).
- The terms of the loan are set out in a securities lending agreement which details the term of the loan, the lenders fee and the nature of the collateral.

2.2 Securities lending is a permitted and regulated activity in most of the world's major securities markets but can only be conducted for specific purposes. When a security is loaned, the title of the securities transfers to the borrower, this means that the borrower has the advantages of becoming the full legal and beneficial owner of the securities, without purchasing it. The borrower receives all coupon and/or dividend payments, and all voting rights. The dividends or coupons must be passed back to the lender in the form of a "manufactured dividend".

3. Practical Implementation

3.1 In order to implement such a programme, a pension fund needs to own a sought after portfolio with the right markets and securities. It is considered that the East Sussex Pension Fund owns such a portfolio.

3.2 With regard to implementing a programme of securities lending, there are advantages to using the Fund's existing global custodian (Northern Trust) and these include the ease of getting started and a certain level of indemnification that may be provided by the custodian. The Global Custodian has existing securities lending programme and a large demand from its current list of borrowers. A significant number of Northern Trust's international securities lending clients are Local Government Pension Scheme (LGPS) funds including the ACCESS Pool, so Northern Trust is experienced in this sector.

3.3 A formal security lending policy report and recommendation will be presented to the ACCESS Pool Joint Committee for consideration at its future meeting. A Securities Lending Update/FAQ produced by our custodian - Northern Trust is attached as Appendix 1.

4. Key Risks and Mitigations

What are the Risks of Lending?	How Lending Risks are Mitigated
Borrower credit risk - Securities 'lending' involves a transfer of legal title to the borrower's name. The lender therefore has a credit exposure to the borrower.	Counterparty Management - The agent will have rigorous counterparty credit management. Lenders can select approved counterparties, set credit and concentration limits to spread risk.
Collateral Quality - all loans are collateralised. Collateral selection is a critical part of the lending programme. Whether to accept cash, fixed income and equities, and the quality of the collateral will determine the attractiveness of the lender to the borrower. There will be pressure to accept lower quality collateral in order to increase revenues.	Collateral Management – the lender (pension fund) has the right to determine the quality of the collateral that is acceptable. The lender must seek a balance between collateral quality demanded and the attractiveness of the portfolio to potential borrowers. For example, high quality Gilts will not be attractive to borrowers if high-quality fixed income is demanded as collateral.
Borrower default - if a borrower becomes insolvent and/or is unable to return a loan on demand.	Over-Collateralisation – Borrowers pledge collateral that exceeds the value of the securities on loan, typically by 102 to 105%. Lenders can raise this for lower quality collateral, such as equities, to 108% or more. Upon default, the agent will sell the collateral and re-purchase the loaned Securities in the market to make the lender whole.
Collateral Shortfall – if the borrower defaults and the collateral is insufficient to re-purchase the securities on loan in the market, then there will be a shortfall. This is relatively uncommon, and usually happens with lower-quality illiquid collateral that cannot be sold quickly.	Indemnification – Many agents and all custodian banks as agent lenders offer an indemnification against collateral insufficiency, and will pay the difference between the loan and collateral value in order to make the lender whole. They will mark-to-market the collateral on a daily basis in order to ensure positions are over-collateralised by the agreed haircut to mitigate this occurring.
Agent default - worst case. The borrower defaults and the collateral is insufficient to repurchase the loan and the agent (custodian bank) becomes insolvent, all on the same day. This has never happened, even with Lehman Brother's default, all the positions were closed within 72 hours.	Creditors – when engaged in an agency agreement, there is no credit exposure to the Securities lending agent per se. The only exposure would be in the marginal difference between the value of the loan and the shortfall that is not covered. The lender would then become a creditor to the agent.

5. Conclusion and reasons for recommendations

5.1 There is counterparty risk within the lending programme. However, the value of Securities lent will be fully collateralised and the net risk after this safeguard is regarded to be minimal. The Fund's investment consultant will advise on the specific lending agreement prior to implementation.

5.2 The Pension Committee is recommended to:

1) approve the East Sussex Pension Fund's participation in the Securities lending programme; and

2) approve the Fund's participation in and compliance with the future ACCESS Pool Securities lending policy.

IAN GUTSELL
Chief Finance Officer

Contact Officer: Ola Owolabi, Head of Pensions
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Background Documents
None

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Securities Lending Update

Prepared for Mercer, May 2018

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Head of Client Management
Securities Lending
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NORTHERN TRUST

QUESTIONS FROM EAST SUSSEX

DOES STOCK LENDING PRESENT ANY BARRIER TO THE FUND'S ABILITY TO APPLY FOR THE UK STEWARDSHIP CODE?

No. Principle 6 requires Institutional investors should have a clear policy on voting and disclosure of voting activity. The guidance, noted below, does not prohibit lending as long as the fund has an approach to lending and recalling stock. Additionally, the application of the code "is directed in the first instance to institutional investors, by which is meant asset owners and asset managers with equity holdings in UK listed companies." Therefore, a potential solution for the Fund is to not lend UK equities or instruct recalls over proxy record dates.

"Institutional investors should seek to vote all shares held. They should not automatically support the board.

If they have been unable to reach a satisfactory outcome through active dialogue then they should register an abstention or vote against the resolution. In both instances, it is good practice to inform the company in advance of their intention and the reasons why.

Institutional investors should disclose publicly voting records.

Institutional investors should disclose the use made, if any, of proxy voting or other voting advisory services. They should describe the scope of such services, identify the providers and disclose the extent to which they follow, rely upon or use recommendations made by such services

(Source: [https://www.frc.org.uk/getattachment/d67933f9-ca38-4233-b603-3d24b2f62c5f/UK-Stewardship-Code-\(September-2012\).pdf](https://www.frc.org.uk/getattachment/d67933f9-ca38-4233-b603-3d24b2f62c5f/UK-Stewardship-Code-(September-2012).pdf))"

DOES STOCK LENDING IMPACT ON THE FUND ABILITY TO VOTE AND ENGAGEMENT WITH MANAGERS?)

Whilst the ability to vote a proxy passes from the Beneficial Owner to the Borrower due to the transfer of title of the lent security, it does not impact the Fund's ability to vote and engage with managers. Northern Trust recognises the existence of a potential trade-off between lending revenues and the ability to vote proxies or participate in corporate events. Northern Trust, as a lending agent, is experienced in ensuring its clients are able to vote their stock whilst participating in the securities lending programme. There are a number of solutions we can provide to help achieve this, including the following:

- Buffer management – restricting a portion of lendable stocks or markets to allow for representative voting (e.g. a 1% buffer)
- "Contentious" vote recall – on a best efforts basis and upon client instruction, Northern Trust will recall stock for those instances where a client deems the vote contentious
- Total restriction – clients can advise which stocks they must vote in full - these stocks are restricted from the lending programme in their entirety.

- Value to vote – clients can set a limit of opportunity cost forgone from voting

Our clients tend to combine more than one of the above approaches to ensure suitable restrictions are in place. All of the above options allow for voting on securities not lent out or a portion held back for voting purposes. If the client wishes to vote on all securities they own whether in custody or out on loan, Northern Trust can reallocate or recall all securities from borrowers prior to record date to achieve this, on the basis of timely client instructions. Please note even with this instruction there is always a risk that not all stock out on loan is returned in time to vote but on a best efforts basis we will endeavor to meet the client's request.

Additionally, another potential solution for the client is that we are willing to engage with proxy service firms to integrate voting notification and requirements, and are always open to developing new securities lending approaches with clients. Through our global relationship with Broadridge Financial Solutions, a leading provider of investor communications, Northern Trust is developing an automated proxy monitoring and recall service for clients who wish to participate in securities lending and to vote proxies. This option may have a fee, in addition to the overall fee split, to support given the increased operational work associated with the solution and would be on a best efforts basis due to our reliance on timely notification of the proxy event and timely return of securities by a borrower.

We would work with the client to understand each of the above options and provide a revenue estimate for such options and their impact.

Finally, we would note that the Global Master Securities Lending Agreement (GMSLA) states that the borrower warrants they are not borrowing with the express intent to vote. Additionally, we believe that borrower agreements with their underlying clients generally have a similar clause, so this understanding is passed down the chain of ownership. Further supporting our current legal agreements, we are working with our borrowers to understand their stance on the UK Money Markets Code, which is endorsed by the Money Markets Committee of the Bank of England. This Code makes it clear that "It is accepted good practice in the market that securities should not be borrowed solely for the purpose of exercising the voting rights at, for example, an AGM or EGM (please see Chapter 4 of the attached document)." Thus far in our discussions with our borrowers, the responses have been positive that our UK borrowers have either signed up to the Code or are operating within the code guidance and are considering signing up to the Code.

IS STOCK LENDING CONSISTENT WITH THE FUND'S COMMITMENT TO RESPONSIBLE INVESTMENT AND BEING AN ENGAGED INVESTOR?

Securities Lending is a well-established investment activity. It is supported by Principle 6 of the Stewardship Code as well as by the Bank of England. Through Northern Trust's programme, the Fund has options to implement its voting requirements.

IS THERE ANY POSSIBILITY FOR LENT STOCKS TO BE USED FOR AGGRESSIVE AND ABUSIVE SHORT SELLING?

Whilst short selling is one reason borrowers borrow securities, there are numerous other reasons such as hedging activity, arbitrage trading, corporate events and fails management. With specific regard to short selling, there are various strategies involved including funds that have a market neutral strategy, a

long/short strategy, a dedicated short bias strategy, various arbitrage strategies, event driven strategies and macro driven strategies to name a few. As a borrower is not required to disclose their trading strategy at the point of trade, it is difficult to determine with certainty if lent stock from a Beneficial Owner is used for short selling.

Further, there are numerous academic studies that support short selling. The study of modern short selling began with Edward Miller in 1977 in his study published in *The Journal of Finance* titled, "Risk, Uncertainty, and Divergence of Opinion" who found that constraints against a group of investors, namely short sellers, leads to an inefficient market and more positive biases on stock prices. According to Boehmer and Wu in 2012 in their study published in *The Review of Financial Studies* titled, "Short Selling and the Price Discovery Process", short selling leads to better price discovery, as prices are closer to the correct fair market value when short sellers are more active. They also found no evidence that short sellers destabilise or manipulatively trade. Regulators generally agree with the view that short selling is beneficial to investors, including the International Organisation of Securities Regulators (IOSCO) who in a 2008 media release stated,

"short selling plays an important role in the market for a variety of reasons, such as providing more efficient price discovery, mitigating market liquidity, facilitating hedging and other risk management activities and, importantly, limiting upward market manipulations"

We would be happy to provide additional examples of academic and/or regulator studies if necessary.

QUESTIONS FROM HAMPSHIRE

I WONDERED WHETHER JESSICA WOULD COMMENT ON THE FEE AGREEMENT IN COMPARISON TO THE MARKET?

In our view, the fee split proposal of 85/15 is favourable in comparison to the market.

IN ADDITION IS THERE ANYTHING IN THAT IF THE FEE WE PAY IS TOO LOW, MAY NORTHERN TRUST BE OF THE OPINION THAT THERE IS LESS VALUE IN LENDING OUR STOCKS, THAN IF WE PAID A HIGHER FEE?

Northern Trust, as securities lending agent, apportions securities lending opportunities among clients in the Global Securities Lending Programme through an automated loan allocation system. In apportioning loan opportunities, the loan allocation system takes into consideration objective factors such as the relative size of clients' holdings, prior loan activity, existing loan allocations and security availability. The loan allocation system is intended to provide impartial allocation of loan opportunities among our clients and to comply with relevant US and UK laws and regulations. Internally, the governance and methodology of the loan allocation system are subject to periodic review and monitoring by the appropriate Northern Trust committees and may be subject to periodic IT and corporate audit or compliance reviews. Externally, Northern Trust's applicable regulators (such as the US Federal Reserve, US Department of Labor and UK Prudential Regulatory Authority) have authority to review at their discretion Northern Trust's Global Securities Lending Programme, including the loan allocation system.

The clients' fee split is not a factor in the allocation system.

IF WE PAID A HIGHER FEE COULD WE POSSIBLY HAVE MORE STOCK OUT ON LOAN, AND AS A RESULT GAIN A GREATER RETURN FROM STOCK LENDING?

No, see above.

QUESTION FROM NORTHAMPTONSHIRE

CAN AN INVESTMENT MANAGER RECALL STOCK DIRECTLY FROM A CUSTODIAN OR DOES THE CLIENT NEED, IN THIS CASE LINK THE OPERATOR, TO DO THIS ON THEIR BEHALF?

Northern Trust would consider a process where the investment manager instructs us directly for recalls; however, we would like to understand the manager's expected recall activity. If the Fund is considering giving this level of authority to an investment manager, we would urge the Fund to consider limiting the authority to proxy voting only. Additionally, we will also accept an authorised instruction from the Operator, Link, so long as the Fund has given Link that authorisation.

Additionally, whilst the ability to vote a proxy passes from the Beneficial Owner to the Borrower due to the transfer of title of the lent security, it does not impact the Fund's ability to vote and engage with managers. Northern Trust recognises the existence of a potential trade-off between lending revenues and the ability to vote proxies or participate in corporate events. Northern Trust, as a lending agent, is experienced in ensuring its clients are able to vote their stock whilst participating in the securities lending programme. There are a number of solutions we can provide to help achieve this, including the following:

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Finally, another potential solution for the client is that we are willing to engage with proxy service firms to integrate voting notification and requirements, and are always open to developing new securities lending approaches with clients. Through our global relationship with Broadridge Financial Solutions, a leading provider of investor communications, Northern Trust is developing an automated proxy monitoring and recall service for clients who wish to participate in securities lending and to vote proxies. This option may have a fee, in addition to the overall fee split, to support given the increased operational work associated with the solution and would be on a best efforts basis due to our reliance on timely notification of the proxy event and timely return of securities by a borrower.



We would work with the client to understand each of the above options and provide a revenue estimate for such options and their impact.

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Evaluations are based on the asset allocation, actual historical spread and on-loan figures provided to Northern Trust. Consequently, as changes in these factors occur and as trading patterns of the portfolio managers' shift, actual earnings generated in Securities Lending may be impacted.

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April 2018

Report to: **Pension Committee**

Date: **15 June 2018**

By: **Chief Finance Officer**

Title of report: **Draft Pension Fund Annual Report – 2017/18**

Purpose of report: **To provide the Pension Committee members/representatives with the draft 2017/18 Pension Fund Annual Report**

RECOMMENDATIONS - The Pension Committee is recommended to -

- 1) note the Draft Annual Report, and financial performance of the Pension Fund, which will be submitted for final audit in June 2018;**
 - 2) note that the audited Pension Fund Annual Report will be presented to the Pensions Committee for approval at its meeting on 16 July 2018.**
-

1. Background

1.1 There is a statutory requirement to prepare the pension fund accounts for each financial year, and there is also a requirement that the draft accounts be presented to Members for approval. The purpose of this report is to provide the Pension Committee with the draft Pension Fund's 2017/18 Annual Report, (Appendix 1) which are subject to audit. This report provides an overview of the year end financial position and the assets of the Pension Fund as at 31 March 2018.

2. Supporting Information

2.1 Accounting Requirements - The Pension Fund annual report/financial statements should be prepared in accordance with proper accounting practices set out in the Code of practice on local authority accounting in the UK (the Code). The Code requires authorities to account for pension funds in accordance with IAS26 Retirement benefit plans. IAS26 provides guidance on the form and content of the financial statements prepared by pension funds. It compliments IAS19 Employee Benefits which deals with the determination of the costs of retirement benefits in the financial statement of employers.

2.2 Annual Report Requirements - Local authorities responsible for administering a pension fund (scheme manager) forming part of the Local Government Pension Scheme (LGPS) are required by the LGPS Regulations to publish a pension fund annual report. The publication of the annual report is separate from the authorities own statutory accounts and contains financials statements in respect of pension fund. Authorities are required to publish the annual report by 1 December.

3. Conclusion and reasons for recommendations

3.1 The draft 2017/18 Pension Fund Annual Reports are subject to the normal audit of accounts process, commencing from 4th June 2018 and will forms part of the final audit programme for the Council. The External Auditor (KPMG) will provide an independent assessment of the Council's Pension Fund financial statements, systems, procedures and performance.

IAN GUTSELL
Chief Finance Officer

Contact Officer: Ola Owolabi, Head of Pensions
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Background Documents

None

East Sussex Pension Fund Annual Report and Accounts

2017/2018

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1. Introduction

Local Government Pension Scheme

The Local Government Pension Scheme (LGPS) is a statutory pension scheme, whose rules are governed by Parliament in accordance with the Public Services Pensions Act 2013. The rules of the scheme are provided in the Local Government Pension Scheme Regulations that came into force from 1 April 2014 and provide the statutory basis within which the Scheme can operate. Separate transitional regulations provide the link between the old and new scheme provisions.

Although a national pension scheme, mainly set up for the benefit of local government employees, the LGPS is in fact administered locally. The LGPS is open to all non teaching employees of the County Council, District and Borough Councils and Unitary Authorities in East Sussex, as well as Colleges of Further Education, Academies, Town and Parish Councils and a small number of charitable organisations who have applied to be treated as “admission bodies”. In addition, the LGPS allows employees of private contractors to participate in the Scheme where they are providing a service or assets in connection with the functions of a scheme employer, in accordance with the specific requirements of the LGPS Regulations. The scheme is not open to teachers or fire fighters, as these groups of employees have separate pension schemes.

A summary of the provisions of the scheme is given below.

Currently within the East Sussex Pension Fund there are 132 participating employers. A full list of participating employers is given at note 29.

Administering Authority Responsibilities

East Sussex County Council has a statutory responsibility to administer and manage the East Sussex Pension Fund on behalf of all the participating employers of the Fund in East Sussex, and in turn the past and present contributing members, and their dependents.

The Fund receives contributions from both employees and employers, as well as income from its investments. All of these elements put together then meet the cost of paying pensions, as well as the other benefits of the pension scheme. As part of its responsibilities as the administering authority the County Council is responsible for setting investment policy and reviewing the performance of the Fund's external investment managers.

The County Council has entered in to a partnership arrangement with Surrey County Council known as Orbis to undertake the day to day functions associated with the administration of the LGPS. The main services provided by Orbis include maintenance of scheme members' records, calculation and payment of retirement benefits including premature retirement compensation, transfers of pension rights, calculation of annual pension increases and the provision of information to scheme members, employers and the Fund's Actuary.

Although the day to day work associated with administering the LGPS has been passed to Orbis, the County Council takes its statutory responsibility very seriously. It has therefore set up procedures to ensure that Orbis undertake the work associated with the administration of the LGPS in accordance with an agreed service specification. The County Council also ensures that all the participating employers within the East Sussex Pension Fund are aware of their own responsibilities, as well as any changes to the provisions of the Scheme that may be introduced.

A major responsibility of the County Council as the administering authority is to undertake a valuation of the Pension Fund's assets and liabilities (triennial valuation). The main purpose of this exercise is to assess the size of the Fund's current and future liabilities against the Fund's assets, and then set the employer contribution to the Fund for each participating employer for the following three year period. The most recent actuarial valuation of the Fund was carried out as at 31 March 2016. In addition to the triennial valuation of the Pension Fund, the County Council also receives requests each year from scheme employers to obtain appraisal reports from the Fund actuary, to enable them to comply with requirements of the Financial Reporting Standards FRS102 or IAS19. The provision of these reports, however, falls outside of the functions of the County Council as an administering authority.

It is important to note that ultimate responsibility for both the administration of the Pension Fund and the investment of all monies associated with the Fund remains with East Sussex County Council, as administering authority for the East Sussex Pension Fund. The County Council has in place an established annual employers' pension forum, to update and involve all the participating employers of the East Sussex Pension Fund, which is always well attended.

Changes affecting the LGPS, and future developments

In line with the Public Service Pensions Act 2013, the East Sussex Pension Fund set up a Pensions Board. The Pension Board consists of 3 Employer representatives, 3 Scheme member representatives and an independent chair. The Board met for the first time in July 2015 and meets no less frequent than four times a year:

Additional information about the Pension Board, agendas and minutes of the Board's meetings are available at: <https://democracy.eastsussex.gov.uk/mgCommitteeDetails.aspx?ID=374>

Information and updates about any future developments in the scheme are contained on the Pension Fund's dedicated member website: <http://www.eastsussexpensionfund.org/>.

LGPS Investment Pooling

The Government is encouraging LGPS Funds to work together to put forward plans to “pool investments to significantly reduce costs, while maintaining investment performance.” In response eleven like-minded LGPS Funds (including East Sussex) are working together under the name of ACCESS (A Collaboration of Central, Eastern and Southern Shires). Individually the participating funds have a strong performance history and potential for substantial benefits for a group of successful like-minded authorities collaborating and sharing their collective expertise. Collectively the ACCESS Pool has significant scale with assets of £43bn, managed on behalf of c3,000 employers and c900,000 members. It is the Government's expectation that the asset pools are formed in order for assets to begin being transferred from individual LGPS Funds from 1 April 2018. ACCESS contains the following other funds:

- | | | |
|-------------------|---------------------|-------------------|
| 1. Cambridgeshire | 5. Norfolk | 8. Hertfordshire |
| 2. Kent | 6. Essex | 9. Suffolk |
| 3. Hampshire | 7. Northamptonshire | 10. Isle of Wight |
| 4. West Sussex | | |

ACCESS's collaboration was based on pooling investments via a Collective Investment Vehicle (CIV) that would be administered and maintained by a third party Operator. The eleven participating authorities have a clear set of objectives and principles that will drive the decision-making and allow participating authorities to continue to help shape the design of the Pool.

Objectives

2. Enable participating authorities to execute their fiduciary responsibilities to Local Government Pension Scheme (LGPS) stakeholders, including scheme members and employers, as economically as possible.
3. Provide a range of asset types necessary to enable those participating authorities to execute their locally decided investment strategies as far as possible.
4. 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.

Principles



Progress to date

ACCESS authorities have appointed UBS to manage its passive mandates (approx. £11b). The indicative saving of £5.2m per annum exceeds the estimated saving projection of £4m per annum stated in our July 2016 submission.

The ACCESS authorities have appointed Link Fund Solutions (Link) as the pool's Financial Conduct Authority (FCA) authorised Operator. The appointment means 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. With the procurement phase completed, the implementation phase of the project is in train and progressing well.

There is a robust management of the Operator contract and the Operator Company is held to account by the administering authorities participating in the pool via the Joint Committee. To support the governance arrangements, ACCESS is setting up the ACCESS Support Unit (ASU) which will manage the Operator contract against specified KPIs and provide technical and secretariat support services to the Joint Committee (JC) and Officer Working Group (OWG).

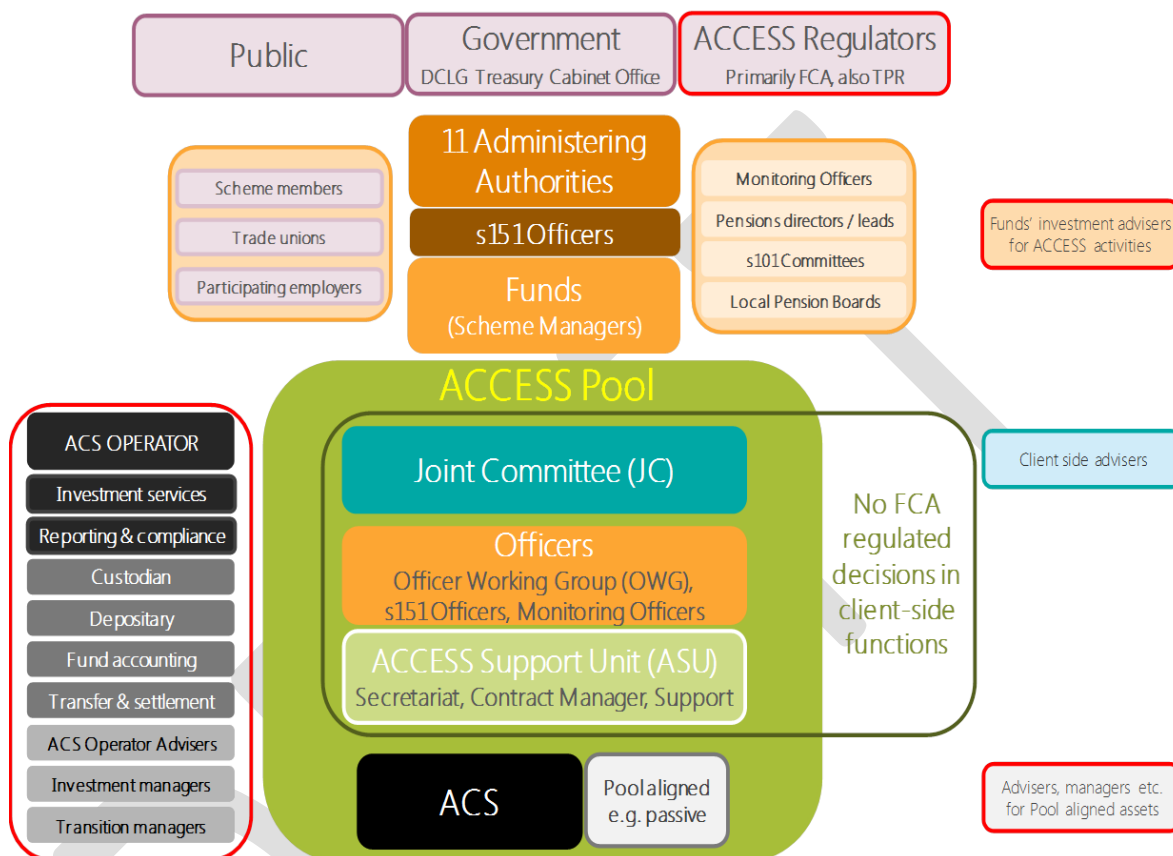
Local decision making (including strategic asset allocation) remains and the roles and responsibilities associated with the Pool and those which remain with the Administering Authority are clearly defined to ensure democratic accountability and that authorities continue to meet their fiduciary responsibilities.

The potential for greater savings in the longer term remains 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 new ways of investing in illiquid assets, including infrastructure.

In addition to the savings in investment management fees due to the reduction in manager numbers and an increase in mandate size, there are other tangible benefits from pooling including a governance dividend (potential for reduced risk due to manager diversification achieved at pool level) and tax savings for funds moving from pooled funds to segregated mandates in the pool's tax transparent ACS. For some asset classes such as global equities tax savings alone are material relative to additional costs of implementing pooling.

ACCESS Governance Structure

The diagram below sets out the overarching ACCESS governance arrangements.



Elected Members continue to be fully engaged in the Pooling initiative. The Joint Committee has appointed a Chairman (Cllr Andrew Reid, Suffolk County Council) and Vice-Chairman (Cllr Richard Stogdon, East Sussex County Council).

2. Management and financial performance report

Scheme management and advisers

Responsibility for the East Sussex Pension Fund is delegated to the County Council's Pension Committee Members with support from the East Sussex Pension Board. The Pension Board comprises members representing employers and members in the Fund with an independent chairman. The Pension Committee receives advice from the County Council's Chief Finance Officer, Actuary, Investment Consultants and an independent Investment Adviser.

2017/18 Pension Committee Members

East Sussex County Councillors:

Richard Stogdon (Chairman)
Gerard Fox
Stuart Earl

Simon Elford
David Tutt

2017/18 Pension Board Members

Independent Chairman:

Richard Harbord

Employer Representative:

Councillor Kevin Allen
Councillor Brian Redman
Sue McHugh

Brighton & Hove City Council
Districts & Borough Councils
Educational Bodies

Member Representative:

Angie Embury
Rezia Amin
Diana Pogson

Active & Deferred
Active & Deferred
Pensioners

FUND MANAGERS:

Longview Partners
Prudential M&G
UBS Infrastructure

Adams Street Partners
Newton
Ruffer
UBS Passive

Harbourvest
Panthéon
Schroders

CUSTODIAN:

Northern Trust

AVC PROVIDER:

Prudential

ACTUARY:

Hymans Robertson
20 Waterloo Street
Glasgow
G2 6DB

LEGAL ADVISORS:

Appointed from National LGPS Framework for Legal Services

BANKERS TO THE FUND:

NatWest Bank

TREASURER:

Ian Gutsell
Chief Finance Officer (Section 151
Officer)
East Sussex County Council

HEAD OF PENSIONS:

Ola Owolabi

AUDITOR:

KPMG

SCHEME ADMINISTRATOR:

East Sussex County Council

ADMINISTRATION PROVIDER:

Orbis Business Operations

INVESTMENT ADVISER:

Hymans Robertson

INDEPENDENT ADVISER:

William Bourne

Contact Addresses:

Investments

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Pensions Investment Manager
Orbis Finance
County Hall
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(01273) 336120

LGPS policy or statutory requirements

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Strategy and Governance Manager
Orbis Finance
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St Anne's Crescent
Lewes, BN7 1UE
(01273) 481904

Day-to-Day Matters

Brian Smith
Orbis Business Operations South
County Hall
St Anne's Crescent
Lewes, BN7 1UE
(01273) 337450

Risk management

Risk management is the process of identifying risks, evaluating their likelihood and potential impact and determining the most effective methods of controlling or responding to them. The Fund's approach is to manage risk rather than eliminate it entirely.

Risk is identified and managed as follows:

Management Risk:

A significant risk is the potential insolvency of scheme employers, leaving outstanding liabilities in the Fund. To this end the Fund requires all admission bodies that wish to join the Fund to be guaranteed by a scheme employer(s) or to provide a bond to protect the Fund in the event of insolvency. In the monitoring of employers, consideration is given to the Funding Strategy Statement (FSS) which outlines the Fund's approach to how employer liabilities are measured and one of the aims of the FSS is to reduce the risk from employers defaulting on its pension obligations. The Fund monitors the financial sustainability of the scheme employers and takes this into account in the valuation exercise. Some funding risks can be mitigated by the Investment Strategy and the funding and investment strategies focus on the expected real returns from the assets, thus mitigating the effect of inflation on the value of the pension liabilities.

Risks include the non-payment of contributions by employers and processes are in place to ensure that contributions are reconciled regularly and late payers are reported. The operational risks of using third party suppliers are monitored through the annual review of Internal Control Reports

Benefits Administration Risk:

Relates mainly to the inability of the Fund to meet its obligations and pay benefits accurately and on time as agreed with employers or under statute. These could include non- or late payment of members' benefits, incorrect calculation of benefits, breach of Data Protection Regulations and the failure to comply with Freedom of Information Act requests or Disclosure of Information requirements

All of the above could lead to adverse publicity, loss of reputation and ultimately statutory fines. In addition, the Fund is dependent on a sole supplier of pension administration software. There are processes in place to mitigate administration risks.

Internal Control Framework:

Internal controls and processes are in place to manage administration, financial and other operational risks. The East Sussex County Council's Internal Audit assesses the Fund's internal control processes in order to provide independent assurance that adequate controls are in place.

Investment risk:

Investment risk is regularly considered by Members and Officers, advised by the East Sussex Pension Fund (ESPF) Investment Consultants. The annual investment strategy meeting reviews the current ESPF strategy and looks at risk in more detail. The main investment risks to the Fund are from interest rates, inflation and market volatility.

The ESPF Investment Strategy Statement (see page 59), sets out the governance requirements for the ESPF and it is reviewed annually by members. The Pension Fund receives external assurance reports from Investment Managers and the Custodian, detailing their internal control systems, scrutinised by their external auditors. Each report is reviewed when available and the conclusion of each was that the control procedures are suitably designed and operated during the 12 month period under review.

Financial performance

Analytical Review

The following tables provide a brief review of the major movements in the Fund Account and the Net Assets Statement for the financial year. More detail is provided in the Investment Policy and Performance report on pages 11 to 17.

Fund Account

Net (Contributions)/withdrawals
Management Expenses
Return on Investments
Net Increase in Fund

2016/17 £000	2017/18 £000
(5,970)	32,081
13,591	13,330
(578,699)	(86,348)
(571,078)	(40,937)

Net Asset Statement

Bonds
Equities
Pooled Funds
Cash
Other
Total Investment Assets
Non-Investment Assets
Net assets of the fund available to fund benefits at the year end.

2016/17 £000	2017/18 £000
478,519	497,920
341,077	363,116
2,373,593	2,377,402
134,212	133,789
7,411	3,545
3,334,812	3,375,772
7,631	7,608
3,342,443	3,383,380

Analysis of pension contributions

The table below shows the number of primary pension contributions received late in the financial year 2017/18.

Month	Payments Due	Payments Received Late
April	129	6
May	130	3
June	129	7
July	132	7
August	129	7
September	131	4
October	131	10
November	132	8
December	132	7
January	132	4
February	132	6
March	132	4

No interest was charged on any of the late payments.

Forecasts

The following tables show the forecasts and outturn for the Fund Account and the Net Asset Statement.

Fund Account	2016/17		2017/18		2018/19
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Contributions	(131,600)	(130,372)	(133,500)	(131,416)	(136,900)
Payments	122,400	124,402	157,100	163,497	133,200
Administration expenses	1,450	1,037	1,110	1,005	1,086
Oversight and governance costs	680	743	660	673	733
Investment expenses:					
fees invoiced to the fund	8,850	7,775	8,850	7,541	4,650
fees deducted at source	-	4,036	-	4,111	-
Net investment income	(30,500)	(42,669)	(44,400)	(37,799)	(39,300)
Change in market value	(203,200)	(536,030)	(197,600)	(48,549)	(231,700)
Net increase in the Fund	(231,920)	(571,078)	(207,780)	(40,937)	(268,231)

Contributions and payments are based on current expectations; the administration and investment management expenses are based on current budgets; and the net investment income and change in market value are based on the long term forecast returns for each asset class.

Net Asset Statement	2016/17		2017/18		2018/19
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Equities	1,831,300	2,158,436	2,307,400	2,190,268	2,341,400
Bonds	457,500	478,519	510,100	497,920	530,800
Property	347,000	321,767	348,500	344,411	373,000
Alternatives	246,500	234,467	253,700	205,839	222,700
Cash	80,400	134,212	104,800	133,789	135,800
Other	7,100	7,411	7,900	3,545	3,800
Total Investment Assets	2,969,800	3,334,812	3,532,400	3,375,772	3,607,500

The forecasts for total investment assets are based on the actual figures multiplied by the historic long term returns for each asset class used. Net contributions, less administration and investment management expenses and oversight and governance costs, are added to the Cash figure to reflect new money into the Fund. The forecasts do not take into account potential additions or disposals of investments within these asset classes during the period as potential changes are not known with any degree of certainty. The asset class and historic long term returns are as follows:

Asset Class	Long Term Forecast Return
Equities	6.9%
Bonds	6.6%
Property	8.3%
Alternatives	8.2%
Cash	3.6%
Total Fund	6.8%

Management Expenses

	2016/17		2017/18		2018/19
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Orbis Finance Support Services	40	37	40	57	51
Orbis Business Operations Support Services	770	970	970	909	935
Supplies and Services	440	30	100	39	100
Administration total	1,250	1,037	1,110	1,005	1,086
Oversight and governance costs					
Orbis Finance Support Services	200	229	200	193	263
Supplies and Services	480	529	460	477	470
Third Party Payments	180	133	150	119	150
Other Income	(180)	(148)	(150)	(116)	(150)
Oversight and governance total	680	743	660	673	733
Investment Management					
Investment expenses:					
fees invoiced to the fund	8,850	7,775	8,850	7,541	4,650
fees deducted at source	-	4,036	-	4,111	-
Investment Management Total	8,850	11,811	8,850	11,652	4,650
Management Expenses Total	10,780	13,591	10,620	13,399	6,469

Pension overpayments

	2014/15		2015/16		2016/17		2017/18	
	Number	Value £000	Number	Value £000	Number	Value £000	Number	Value £000
Overpaid Pensioners	40	22	44	34	73	61	52	52
Recoveries	31	14	38	23	45	30	41	42
Write Off	1	1	-	-	2	4	3	1
Outstanding	8	7	6	11	26	27	8	9

3. Investment policy and performance

Bodies which the fund is member, subscriber or signatory

Pensions and Lifetime Savings Association

Local Authorities Pension Fund Forum

CIPFA Pensions Network

Club Vita

Local Government Association (LGPC)

Local Government Pension Scheme National Framework for Passive Investments, Legal Services, Actuarial and Investment Consultants

Current Investment Arrangements

The Pension Committee ("the Committee"), in working towards the Fund's long-term objectives, agreed to make modest changes to the Fund's asset allocation and investment manager structure over the course of the financial year to 31 March 2018. In addition, the Fund has introduced its Investment Strategy Statement, in line with the new investment regulations.

At the beginning of 2018, in conjunction with the ACCESS pool, the Fund transferred all its passive holdings (with State Street and Legal & General) to UBS Asset Management ("UBS")

When considering the investment portfolio, diversification is one of the most important issues that the Committee considers as a wider spread of investments will tend to reduce risk. For example, any investment in equities is spread across many stocks, across a wide range of industries and across a number of countries. If a particular company, industry or country has a period of poor returns, this should have a limited impact on the portfolio.

The Fund's investments are very well diversified, as a way of controlling risk. This applies in two ways:-

1. Asset Allocation

Although the benchmark is heavily weighted towards equities (as the asset class expected to provide the highest return over the medium to long term), there is a significant exposure to property and infrastructure ("real" assets with a different performance cycle to equities) and a small exposure to bonds (which more closely "match" the value placed on the Fund's liabilities). The allocation to absolute return mandates provides further diversification. Uniquely, within these latter mandates, the managers have the flexibility to alter asset allocation between a wide range of asset classes. Within equities, diversification is achieved by investing in different markets across the world and using different benchmarks which provides exposure to many different stocks and sectors.

Over the course of the year, the Fund has continued to develop its governance arrangements, developing its set of Investment beliefs, progressing its approach to environmental, social and governance issues and appointing Trucost to monitor the Fund's carbon footprint across its equity holdings.

2. Manager Structure

The Fund employs a number of managers with differing styles and management approaches. This is a deliberate policy to avoid over-dependence on the fortunes of a single manager and to concentrate on managers' particular areas of expertise. All managers are expected to maintain well diversified portfolios. The Fund's structure is broadly as follows:

- In February 2018, UBS became the Fund's largest single equity manager; the majority of the assets are managed passively against UK and Global equity market benchmarks. The allocation to the UBS All World Equity Fundamentally Weighted Index Fund offers additional diversification from the market capitalisation based passive management approach. The Fund has one active global equity manager (Longview). The Committee maintains the belief that a blend of active and passive management of equity mandates offer the most efficient way to access world equity markets.
- The two absolute return managers are expected to add diversification away from the Fund's other mandates, due to their flexible and unconstrained management approach.
- A single property manager is employed (Schroders); however, the "fund of fund" approach provides manager diversification within the underlying holdings.
- Corporate bonds and absolute return bonds are managed by M&G. Index-linked bonds are managed by UBS.
- The Fund's allocations to infrastructure and unquoted equities are currently divided between four managers, two within each asset class.

The objective is to seek to ensure:

1. each active manager adds value, net of the fees which it charges;
2. each manager brings something different - specialist skills or a different approach to investment - to the mix.

In this way, the Fund seeks to achieve an appropriate return and added value over the medium term, but in a risk controlled fashion

Independent Advisor's report

The Fund receives formal advice on investment matters from its actuarial and investment consultants. My role as Independent Advisor is primarily to act as a separate source of insight to Officers and Committee members, and to challenge service providers. Our collective objective is to invest the Fund's assets so that it can pay members' pensions in full and on time. There is also a governance aspect to my remit, in that I am able to provide stakeholders with some assurance that the Fund is being appropriately and properly managed.

2018 is the ninth year of rising prices in asset markets, propelled largely by the major central banks' decision to print money to avert disaster after the 2008/9 financial crisis. That has been of great benefit to the value of the Fund's assets, which have risen from £1.4bn in 2009 to £3.4bn today. It has also depressed bond yields, which has had the effect of increasing the actuarial valuation of the Fund's liabilities. Overall these trends have benefited the Fund and the funding ratio, which stood at 92% at the last valuation in 2016, is now likely to be even closer to full funding.

It has been clear for some time that the central banks' loose monetary policy could not continue indefinitely. In the past 12 months, despite the benign global economic background, equity market indices have stopped rising and the 10 year gilt (UK Government bond) yield has almost doubled from a low of 0.75% in 2017. High asset valuations leave little room for further expansion and the threats to economic growth globally are growing. The Fund is to some extent protected, both by the prudence of the actuarial assumptions and by its diversified asset allocation policy, but stakeholders should brace themselves for less favourable market conditions.

As the Fund approaches full funding, the question arises whether to 'de-risk' and lock in the valuation gains on the asset side, or whether to maintain the level of risk and look in due course to reduce employers' contributions. The current level reflects underpayments in recent years and the smoothing mechanism, and, if the funding level continues to improve, employers may anticipate an end to the increases and perhaps even a reduction for some as secondary contributions fall away.

The Fund's increasing maturity makes it likely that net cashflow will deteriorate. In 2017 pension payments slightly exceeded contributions, which is not untypical of the average LGPS fund, and investment income comfortably covered the shortfall. In future the Fund may need to pay more attention to ensuring that investment income is sufficient to cover any negative cashflow.

Over the next 12 months, under the Government's direction to all funds within the LGPS, the Fund will transfer the majority of its assets to the management of the ACCESS pool. ACCESS has been set up to keep the additional costs to the Fund as low as feasible, while benefiting from economies of scale. The additional layer of decision-making will inevitably involve increased complexity, and it will be important that the Committee is able to monitor performance and hold the decision-makers to account through effective governance processes. I am aware from experience elsewhere that where services are shared, this can be a considerable challenge.

The Fund is in a good position today and there is every reason to believe that it will be able to pay out pensions on time as it was designed to do. However, there is considerable uncertainty ahead, both because the market environment is changing and also because of pooling. I attend every Committee meeting and I see that Committee members, supported by Officers, consider in detail the courses of action before them. There can never be a guarantee that the route they opt for will turn out to be the best one but, in my view, they are performing their duties appropriately, conscientiously and according to the regulations.

Voting

The Fund expects its investment managers to monitor investee companies, engage with company management where necessary and report on voting, governance and engagement activity.

Active mandate

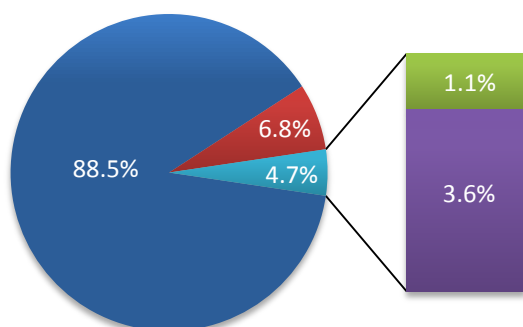
Longview is currently responsible for the Fund's actively managed equity mandate. The table below summarises the combined voting statistics for the Fund's Global equity mandate over the quarter:

Number of vote-able meetings	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ DNV	1 Year*	With management	Against management
34	548	88.5%	6.8%	1.1%	3.6%	92.3%	7.7%

* This shows votes cast in relation to the frequency of vote on executive compensation where a specific time period is required

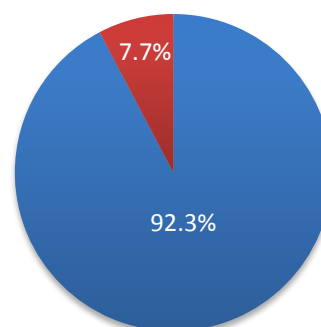
Voting Instruction

■ For ■ Against ■ Abstain/ withheld/ DNV ■ 1 year



With/Against Management

■ With management ■ Against management



Votes were withheld in six cases relating to the election of board directors. Longview voted against management on 42 proposals covering a range of issues. As requested by the Fund, Longview voted against any proposal to authorise political donations.

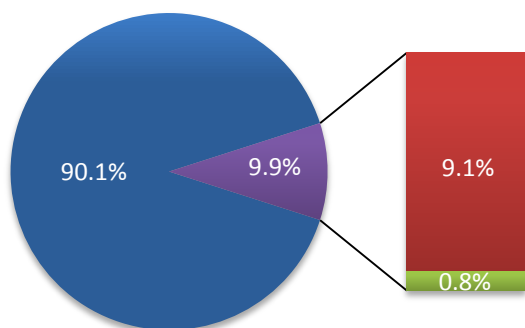
Passive mandates

Following the transfer of assets from Legal & General and State Street, UBS is now responsible for the Fund's passively managed equity mandates. The table below summarises the combined voting statistics over the year for the regions that the Fund's equity mandate is invested in. We note that the Fund has not been invested with UBS over the full year.

Meetings voted	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ DNV	With management	Against management
3,427	42,265	90.2%	9.1%	0.8%	91.9%	8.1%

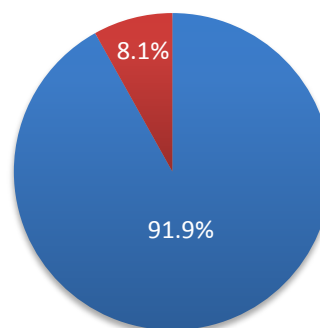
Voting instruction

■ For ■ Against ■ Abstain/ withheld/ DNV



With/ against management

■ With management ■ Against management



UBS voted against management on 3,409 proposals covering a range of issues.

Custodian

A specialist provider of Custodian Services, Northern Trust, is employed by the East Sussex Pension Fund.

The responsibilities of the Custodian are:

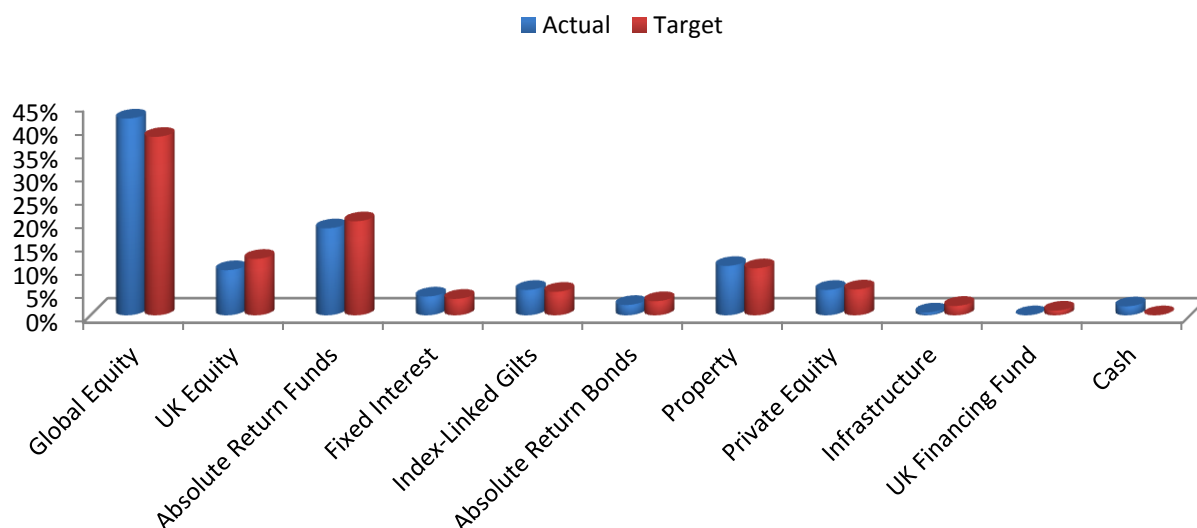
- Collection of investment income.
- Arranging for the custody of the schemes assets in compliance with the custody agreement.
- Providing quarterly valuations of the schemes assets, details of all transactions and investment accounting.
- Responsibility for cash management and investing the daily cash balances in a "Triple A" rated cash pool.

Asset allocation

Mandate	Value (£m)	Proportion (%)		Value (£m)	Proportion (%)	
	Q1 2016	Actual	Target	Q1 2017	Actual	Target
Equities						
Active						
Longview - Global Equity	233.2	7.0%	5.0%	236.1	7.0%	5.0%
Passive						
UBS - Global Equities	-	-	-	567.8	16.8%	15.5%
UBS - Fundamental Indexation	-	-	-	611.0	18.1%	17.5%
UBS - UK Equities	-	-	-	325.7	9.6%	12.0%
L&G - Global Equities	516.3	15.5%	15.5%	-	-	-
State Street - Fundamental Indexation	657.4	19.7%	17.5%	-	-	-
L&G - UK Equities	354.4	10.6%	12.0%	-	-	-
Total Equities	1,761.3	52.8%	50%	1,740.6	51.5%	50.0%
Absolute Return						
Newton	285.9	8.6%	10.0%	308.4	9.1%	10.0%
Ruffer	292.6	8.8%	10.0%	317.0	9.4%	10.0%
Total Absolute Return	578.5	17.4%	20.0%	625.4	18.5%	20.0%
Bonds						
UBS - 5yr ILG	-	-	-	181.0	5.4%	5.0%
M&G - Bonds	200.9	6.0%	6.5%	207.1	6.1%	6.5%
L&G - 5yr ILG	179.6	5.4%	5.0%	-	-	-
Total Bonds	380.5	11.4%	11.5%	388.1	11.5%	11.5%
Other Investments						
Schroder - Property	327.9	9.8%	10.0%	353.3	10.5%	10.0%
M&G - Infrastructure Fund	14.0	0.4%	1.0%	0	0.0%	1.0%
UBS - Infrastructure	22.8	0.7%	1.0%	19.0	0.6%	1.0%
Adams Street - Private Equity	101.6	3.0%	2.8%	96.1	2.8%	2.8%
HarbourVest - Private Equity	89.8	2.7%	2.7%	86.7	2.6%	2.7%
M&G - UK Financing Fund	5.2	0.2%	1.0%	1.0	0.0%	1.0%
Cash account	53.2	1.6%	0.0%	65.6	1.9%	0.0%
Total Other Investments	614.5	18.4%	18.5%	621.7	18.4%	18.5%
Total	3,334.8	100.0%	100.0%	3,375.8	99.9%	100.0%

Set out below is the Fund's strategic target and actual allocations at the end of the 2017/18 financial year.

Asset allocation of strategic target versus actual by asset class



Investment performance

The Fund delivered an absolute return of 2.3% over the twelve month period to 31 March 2018, underperforming its customised benchmark by 0.2%. Note 30 on page 58 gives further detail on the total fund performance.

Actual and benchmark performance for each of the Fund's mandates is provided in the table below, over 12 months 3 years and 5 years^[1]. Results are considered by the Investment Panel on a quarterly basis and the Fund members on an annual basis as part of this report.

Mandate	1 year			3 year (p.a.)			5 year (p.a.)		
	Fund	Benchmark	Relative*	Fund	Benchmark	Relative*	Fund	Benchmark	Relative*
Equities									
Longview - Global	1.2%	2.4%	-1.2%	10.5%	10.2%	0.4%	15.1%	11.0%	4.1%
UBS - Global	-3.9%	-3.9%	0.0%	N/A	N/A	N/A	N/A	N/A	N/A
UBS - Fundamental Indexation	-3.7%	-3.6%	-0.1%	N/A	N/A	N/A	N/A	N/A	N/A
L&G - UK	-6.8%	-6.8%	0.0%	N/A	N/A	N/A	N/A	N/A	N/A
Absolute Return									
Newton	-1.8%	0.4%	-2.2%	0.8%	0.6%	0.2%	2.2%	0.6%	1.6%
Ruffer	-0.3%	0.4%	-0.7%	1.6%	0.6%	1.1%	3.6%	0.6%	3.0%
Bonds									
L&G - 5yr ILG	2.8%	2.7%	0.1%	N/A	N/A	N/A	N/A	N/A	N/A
M&G – Corporate	2.7%	1.6%	1.1%	5.5%	4.4%	1.1%	7.1%	6.2%	0.9%
M&G - Absolute Return	3.7%	0.4%	3.3%	3.5%	0.6%	2.9%	3.6%	0.6%	3.10%
Other Investments									
Schroder – Property	10.9%	10.1%	0.8%	8.1%	8.4%	-0.3%	11.0%	11.5%	-0.5%
UBS – Infrastructure	-4.9%	0.4%	-5.3%	3.4%	0.6%	2.8%	1.7%	0.6%	1.1%
Adams Street - Private Equity	5.2%	2.4%	2.8%	12.1%	9.2%	2.9%	13.0%	10.1%	2.9%
HarbourVest - Private Equity	6.3%	2.4%	3.9%	13.7%	10.4%	3.3%	13.2%	11.3%	1.9%
M&G - UK Financing Fund	5.4%	0.4%	5.0%	4.8%	0.6%	4.2%	4.8%	0.5%	4.3%
Cash account	-8.1%	0.2%	-8.3%	-3.2%	0.3%	-3.5%	-1.8%	0.3%	-2.2%

*Relative performance is calculated on a geometric basis as opposed to the simpler arithmetic method the geometric method makes it possible to directly compare long term relative performance with shorter term relative performance.

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

The Funding Strategy Statement was reviewed during the year to reflect funding principles agreed for the 2016 actuarial valuation, with the new version signed off in February 2017. The new funding principles applied to employer contributions payable from 1 April 2017.

Contribution rates payable by participating employers over the year to 31 March 2017 were set at the 2013 valuation in line with the principles summarised in the Funding Strategy Statement dated March 2014. Similarly, the approach used to set asset allocations for new bodies, to calculate the bond requirements for admitted bodies and to determine any cessation debts payable by exiting employers has been in line with that Funding Strategy Statement.

The Fund monitors the change in the funding position at a whole Fund level on a regular basis.

The next review of the Funding Strategy Statement will take place over the 2019/20 year.

An analysis of fund assets as at the reporting date

	UK £m	Non-UK £m	Global £m	Total £m
Equities	427	422	1,187	2,036
Bonds	478	26	88	592
Property (direct holdings)	-	-	-	-
Alternatives	345	-	216	561
Cash and cash equivalents	92	42	18	152
Other	-	-	35	35
Total	1,342	490	1,544	3,376

An analysis of investment income accrued during the reporting period

	UK £000	Non-UK £000	Global £000	Total £000
Equities	1,616	5,264	-	6,880
Bonds	1,820	129	-	1,949
Property (direct holdings)	-	-	-	-
Alternatives	10,750	-	18,167	28,917
Cash and cash equivalents	128	264	-	392
Other	-	60	-	60
Total	14,314	5,717	18,167	38,198

In the above tables:

'Alternatives' are taken to mean holdings in private equity, hedge funds, pooled property funds, infrastructure funds and derivatives.

'Other' denotes assets not falling into any other category, such as investments in vehicles where the underlying investments may comprise of assets of more than one type.

'Global' holdings are those that include an element of both overseas and UK listed assets.

Investments in pooled funds have been allocated to categories based on the nature and domicile of the underlying assets.

4. Administrative management performance

Key administration performance indicators

Performance Indicator	Impact	Measure	Target %	Achieved by Fund %
Calculation of spouses benefits	Medium	within 5 days	90%	96%
Deferred benefit notifications	Low	within 25 days	95%	99%
Transfers in request values	Low	within 10 days	90%	98%
Transfers in request payment	Low	within 10 days	90%	99%
Transfers out request values	Low	within 25 days	90%	98%
Transfers out request payment	Low	within 25 days	90%	97%
Refunds	Low	within 10 days	95%	99%
Payment of lump sums	High	within 5 days	95%	95%
Estimates provided (Employer)	Medium	within 7 days	95%	93%
Death notification acknowledged, recorded and documentation dispatched	Medium	within 5 days	95%	99%

	2016/17	2017/18
Number Of Complaints	13	4

Financial indicators of administrative efficiency

Unit Costs Per Member	East Sussex Pension Fund		Benchmark Unit Costs
	2016/17	2017/18	
Excluding investment management expenses	24.98	23.10	35.80
Including investment management expenses	190.79	188.51	190.83

Key staffing indicators

At 31 March 2018 staffing numbers within Orbis – Business Operations were 16.9 full time equivalent members of staff.

This provides the fund with a staff to fund member ratio of 1:4,390.

With an average cases per member of staff of 1:443

Membership

The East Sussex Pension Fund was established in 1974 to cover the future pension entitlement of all eligible employees of the County Council and former District Councils. The Fund excludes provision for teachers, police officers and fire-fighters, for whom separate arrangements exist. A number of other bodies also participate in the Scheme. These include Parish and Town Councils, Further Education Colleges, Academy Schools, Police and Fire Authorities (non-uniformed staff only) and Admitted Bodies. Admitted Bodies are those which are able to apply for membership of the Scheme under the Regulations. If the Pension Fund Committee agrees to the application, an Admission Agreement is drawn up admitting the body into the Scheme.

Note 28 to the accounts provide a list of all organisations currently contributing to the Fund. It includes their contribution rates, expressed as a percentage of employees' pensionable pay, and additional annual payments for those participating bodies which would otherwise have a shortfall in contributions by the end of the recovery period.

Below is a summary of the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some deferred members and pensioners).

	Active	Ceased	Total
Scheduled body	95	23	118
Admitted body	37	23	60
Total	132	46	178

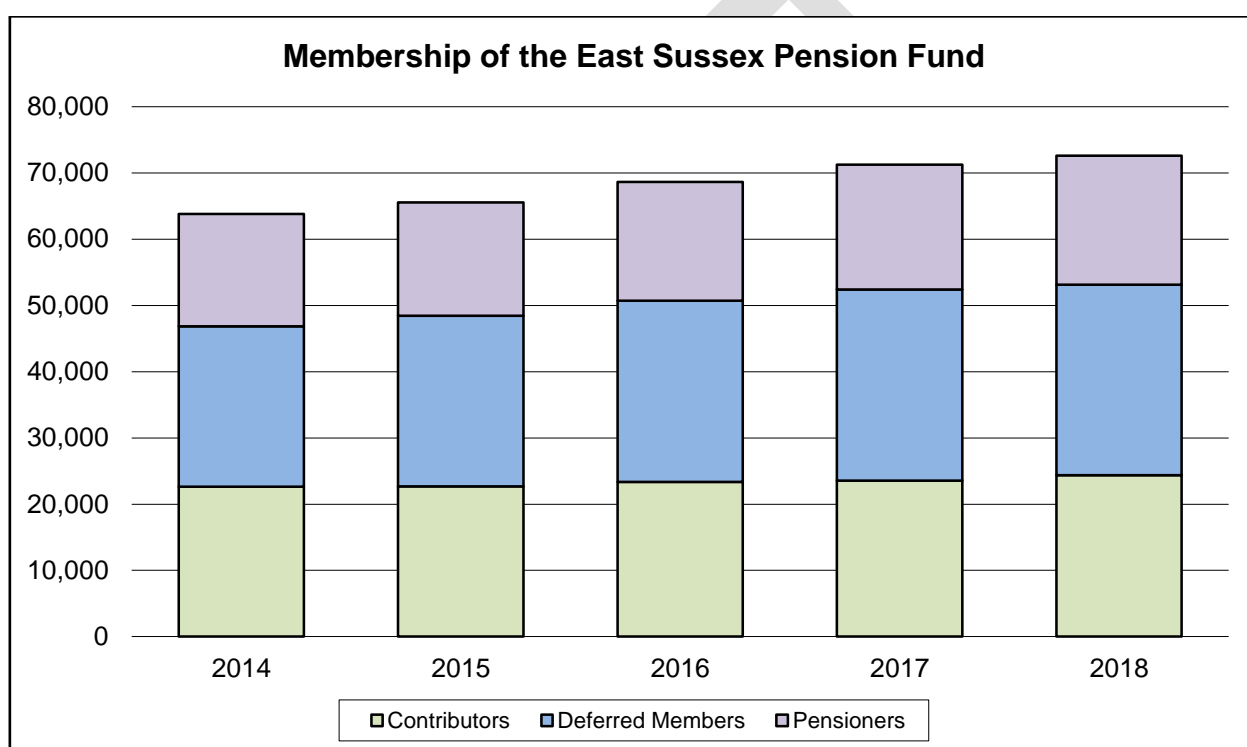
During 2017/18 the number of contributing members within the Pension Fund increased by 3.9% from 23,567 to 24,365. In summary, the number of members contributing to the Scheme is:

	2016/17	2017/18
East Sussex County Council	8,252	8,157
Scheduled Bodies	14,937	15,808
Admitted Bodies	378	400
Total	23,567	24,365

The number of pensioners in receipt of payments from the Fund increased from 18,812 to 19,597 (or 4.2%).

The following table and bar chart provide a summary of contributing members, pensioners in payment and deferred pensioners over the last five years:

	March 2014	March 2015	March 2016	March 2017	March 2018
Active Members (contributors)	22,649	22,688	23,367	23,567	24,365
Pensioners (Inc. dependents)	16,993	17,117	17,942	18,812	19,475
Deferred Members	24,173	25,757	27,344	28,853	28,775



5. Scheme administration report

East Sussex County Council is the Administering Authority for the East Sussex Pension Fund and the Scheme administration is the responsibility of their Chief Finance Officer. The costs of administering the Scheme are charged to the Pension Fund. The administration of the scheme uses the Altair system to support the complex requirements of the Local Government Pension Scheme. The Pension Fund website eastsussexpensionfund.org provides scheme members and employers access to up to date information on the Local Government Pension Scheme. Alongside this website East Sussex County Council also provides information on their website around how the Pension Fund is governed eastsussex.gov.uk/jobs/workingateastsussexcountycouncil/pensions/default.htm.

The County Council has entered in to a partnership arrangement with Surrey County Council known as Orbis to undertake the day to day functions associated with the pension's administration of the LGPS.

The Accounts and Pensions team and Orbis staff assist the Chief Finance Officer in their statutory duty to ensure that the Pension Scheme remains solvent and is administered effectively, adhering to the Local Government Pension Scheme Regulations in order to meet any current and future liabilities.

The Pensions Administration Team at Orbis comprises of 16.9 full time equivalent staff that provide a wide range of services including:

- administration of the affairs of East Sussex Pension Fund and also provision of services in connection with the pensions of teachers and uniformed fire officers;
- calculation of pensions and lump sums for retiring members of the Local Government Pension Scheme and provision of early retirement estimates;
- administration of new starters in the Scheme;
- calculation of service credit calculations, outgoing transfer value calculations and divorce estimates for the Local Government and Fire Brigade Schemes;
- collection of employee and employer contributions to be invested into the Local Government Pension Scheme;
- maintenance of the database of pension scheme members and provision of annual benefit statements and deferred benefit statements;
- calculation of deferred pensions and refunds for early leavers;
- undertaking the annual pension increase exercise;
- calculation of widows and dependants benefits for retired and active members;
- dealing with the administration of in-house AVCs;

A team of 4.4 full time equivalent staff in Accounts and Pensions provide support to the Chief Finance Officer in their statutory role in relation to governance, accounting and investment related activities for the Pension Fund, including:

- production of newsletters for active and retired members;
- preparation of Pensions Fund Committee and Board reports relating to administration related issues;
- working with Pension Fund employers to assist them in understanding and managing the cost of participation in the Local Government Pension Scheme;
- liaison with the Actuary to provide information for the triennial valuation, annual accountancy disclosures and ad hoc costings for employers and prospective employers;
- preparation of the Pension Fund Accounts for inclusion in East Sussex County Council's Statement of Accounts;
- preparation of the Annual Report and Accounts of the Pension Fund;
- liaison with External and Internal Audit;
- day-to-day accounting for the Pension Fund;
- completion of statistical and financial returns for Government and other bodies;
- co-ordination of the production of FRS102/ IAS19 information for employers;
- preparation of Pension Fund Committee and Board reports relating to investments and accounting issues;
- co-ordination of reports for Quarterly Pension Fund meetings and the Pension Fund's Annual Meeting;
- liaison with Investment Managers, Advisers and Actuary;

- appointment of Investment Managers, Advisers and Actuary;
- monitoring and Review of Investment Managers, Advisers and Actuary;
- preparation of the Statement of Investment Principles and Funding Strategy Statement;
- allocation of Cash to Investment Managers;
- rebalancing of Investment Managers to their asset allocations;
- investment of Pension Fund surplus cash balances;
- calculation of interest on all Managers' cash held by the Pension Fund;
- reconciliation of all Managers' purchases, sales and dividends received.

Internal Dispute Resolution Procedure

The LGPS is required by statute to make arrangements for the formal resolution of any disagreements on matters in relation to the scheme that may arise between, the managers of the Scheme and the, active, deferred and pensioner members of their representatives.

There is access to a two stage dispute resolution procedure. This procedure consists of an initial application to the person or persons appointed by the individual's employer to consider the matter. If the complainant is still dissatisfied with the decision they then have the right to refer the matter to the County Council to consider the matter under dispute. The person appointed for this role in the East Sussex Pension Fund is the Assistant Chief Executive.

In addition to the dispute procedure the Social Security Act 1990 and the Pensions Act 1995 have created a framework of national organisations to control occupational and personal pension schemes, to which LGPS members have access.

The following table summarises the number of disputes made through the Fund's Internal Dispute Resolution Procedure at each stage of appeal:

	2017/18
First Stage	5
Upheld	
Declined	5
Ongoing	-
Second Stage	3
Upheld	-
Declined	3
Ongoing	

6. Actuarial report on funds

An Actuarial valuation is carried out by the Fund's actuary, in particular, to test future funding or current solvency of the Pension Fund's assets against its liabilities. In the case of the LGPS the Actuary values the Fund's assets and liabilities every three years.

The underlying principle of the Fund is to ensure that employer contribution rates are set at a level to attain 100% funding, as certified by the Fund's actuary, whilst keeping the employer contribution rate as stable as possible. The purpose of the valuation exercise is to ensure that sums are put aside on a regular and managed basis to meet liabilities in the future. The Fund's liabilities are essentially the benefits promised to fund members (past and current contributors) and to members' dependent on their death.

From an employee perspective, members' benefits are currently guaranteed by statute and therefore not directly related to the Fund's assets. In this respect the employer is responsible for making contributions to meet any shortfall.

The latest actuarial valuation of the fund was carried out as at 31 March 2016 and set the employer contribution rates from 1 April 2017 to 31 March 2020. The full valuation report can be downloaded from the Fund's website and is discussed in some detail in the Funding Strategy Statement. The actuary has also provided a report on the Fund which can be seen in Note 19 to the Pension Fund Accounts on page 49.

The common contribution rate for employers at the 2016 valuation was a primary rate of 17.2% and a secondary rate of £14.997m (17/18), £17.643m (18/19) and £20.396m (19/20). Average employee contributions rate is 6.1%.

Between the 2013 and 2016 valuation the funding position improved:

- **Assets:** Although the Fund is not 100% funded on the Actuary's assumptions, the Fund exceeded its asset performance objectives over the period by £190m.
- **Actual membership experience:** The membership experience of the Fund has differed to the assumptions made at the 2013 valuation which has a positive impact of £138m. This was mainly due to a lower than expected number of early retirements and lower than expected salary increases.

It is important to note that significant valuation shortfalls are rarely funded in one go. The Council's strategy is to phase in its own contribution rate increases over three years, with the view of recovering the deficit over 20 years. The Council produces a Funding Strategy Statement which explains how it intends to meet those liabilities over the longer term. This is available on the Fund's website.

The next actuarial valuation will be carried out as at 31 March 2019.

7. Governance Arrangements

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.

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 is 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:-

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.

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 aims 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 (current and new) 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.

ACCESS Pool Joint Committee

The ACCESS Pool operates a Joint Committee which has been set up through an Inter Authority Agreement (IAA) which was formalised and executed by each Individual Authority between May and June 2017 and came into effect on

the 31 July 2017 at the first formal Joint Committee meeting. The role of Joint Committee which has one representative from each fund is to:

- Ensure pool delivers value for money
- Appointment and termination of the Operator
- Ensures pool meets needs of individual funds e.g. sub-funds the operator must provide to support individual fund strategies
- Set pool level policies e.g. sharing of costs
- Monitor Operator performance against KPIs
- Monitor investment performance

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 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

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.

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.

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.

Four training sessions were held in 2016/17 and it is proposed that further joint sessions for the Board and Committee will be held in 2017/18.

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

Business Plan

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 127 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.

This Business Plan (BP) provides an overview of the Fund's key objectives for 2016/17. The key high level objectives of the fund are summarised as:

- Optimise Fund returns consistent with a prudent level of risk
- Ensure that there are sufficient resources available to meet the investment Fund's liabilities, and
- Ensure the suitability of assets in relation to the needs of the Fund.

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 Pensions. He is supported in this role by the Pensions Strategy and Governance Manager, and the Pensions Investment Manager.

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.

Committee membership and attendance

During the year ended 31 March 2018 there were 4 meetings of the Pension Committee, 4 meetings of the Pension Board and one annual employer's forum.

Member attendance at committee meetings during 2017/18

2017/18 Pension Committee Members		
		Nos. of meetings attended
East Sussex County Councillors:	Richard Stogdon (Chairman)	4/4
	David Tutt	4/4
	Stuart Earl	2/4
	Simon Elford	4/4
	Gerard Fox	4/4

Member attendance at Board meetings during 2017/18

2017/18 Pension Board Members		
		Nos. of meetings attended
Independent Chairman:	Richard Harbord	4/4
Employer Representative:		
Brighton & Hove City Council	Councillor Kevin Allen	4/4
Districts & Borough Councils	Councillor Brian Redman	3/4
Educational Bodies	Sue McHugh	4*/4
Employee Representative:		
Active & Deferred	Angie Embury	4/4
Active & Deferred	Bernadette Carlyle**	3/4
	Rezia Amin**	-/-
Pensioners	Tony Watson***	2/2
	Diana Pogson***	1/1

*Simon Osborn substituted for Sue McHugh at the November meeting of the Board

**Bernadette Carlyle resigned from the board in February 2018 and was replaced by Rezia Amin in March 2018

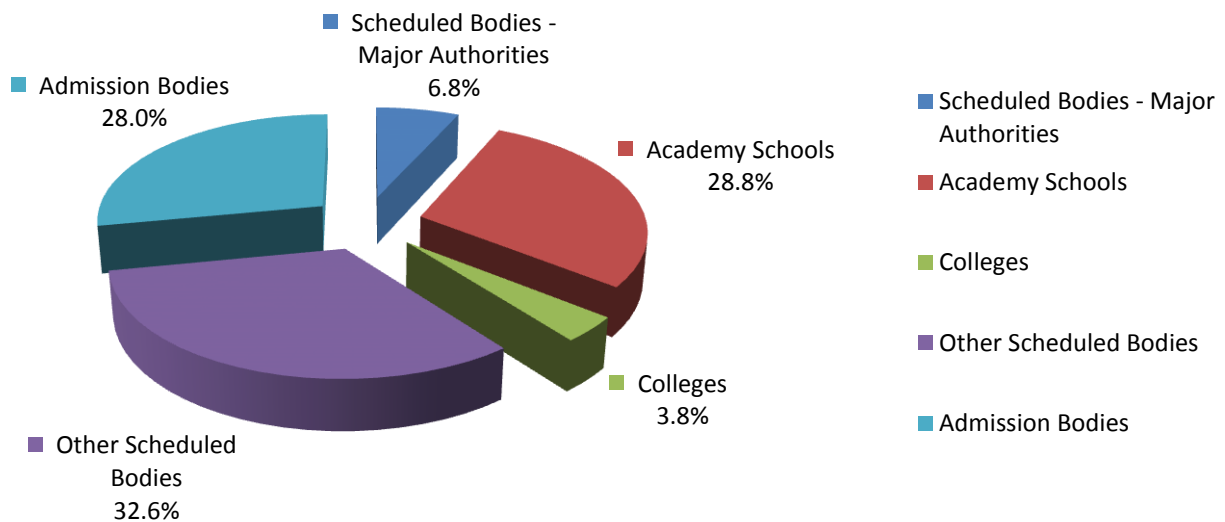
*** Tony Watson left the Pension Board in September 2017 and was replaced by Diana Pogson in January 2018

Employer statistics by Employer type

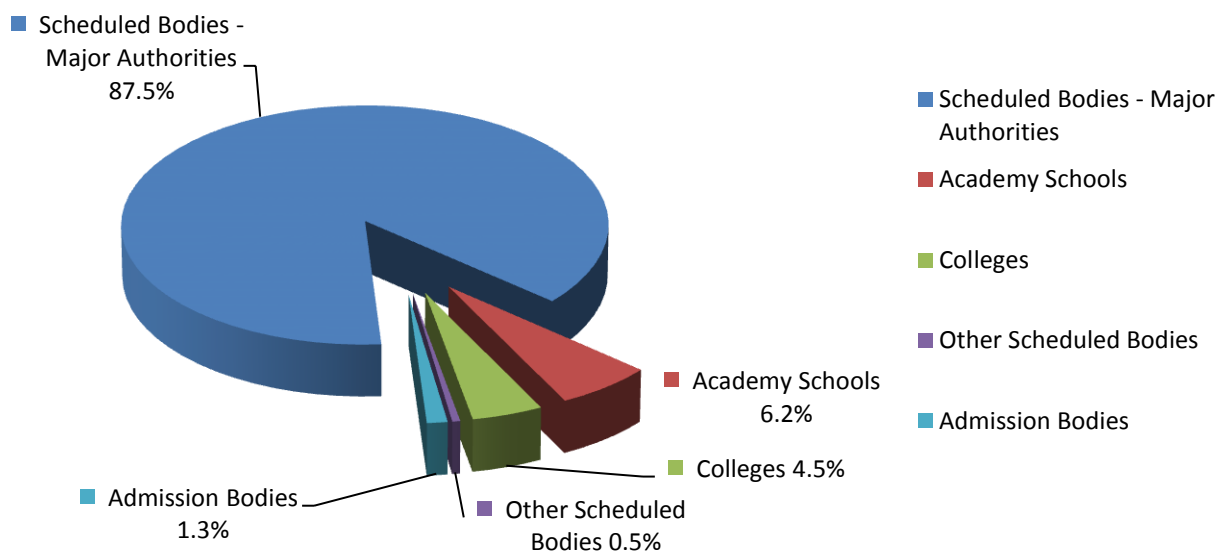
Employer Type	Number of Employers as a percentage of total	Percentage of total fund membership	Number of Employers in Group
Scheduled Bodies - Major Authorities	6.8%	87.5%	9
Academy Schools	28.8%	6.2%	38
Colleges	3.8%	4.5%	5
Other Scheduled Bodies	32.6%	0.5%	43
Admission Bodies	28.0%	1.3%	37

Note - all percentages have been rounded to the nearest one decimal place

Number of Employers as a percentage of total



Percentage of total fund membership



Regulatory Framework

The Annual Report

The Local Government Pension Scheme Regulations 2013 require administering authorities to prepare a document known as “the pension fund annual report”. From 1 April 2014, this report must contain information about the fund on the following:

- The management and financial performance during the year;
- The authority’s investment policy and a review of performance of the fund assets;
- Administration arrangements;
- A statement by the Actuary of the assets, liabilities and funding level at the most recent valuation;
- The current version of the Governance Compliance Statement;
- The Fund Account and Net Asset Statement and supporting notes and disclosures in accordance with proper practices;
- The current version of the Investment Strategy Statement (which has replaced the Statement of Investment Principles);
- The current version of the Communications Statement;
- The current version of the Funding Strategy Statement; and
- Other material considered appropriate.

The Scheme and benefits available

The Local Government Pension Scheme is a statutory scheme, established by an Act of Parliament, the Superannuation Act 1972 and, since April 2014 the Public Service Pensions Act 2013. The Local Government Pension Scheme Regulations 2013 came into force on 1 April 2014. Membership of the LGPS is open to all employees of local authorities except teachers, fire-fighters and police, who have their own separate schemes. . It is also open to employees of other employees specified within the legislation.

The LGPS is a registered public service pension scheme under Chapter 2 of Part 4 of the Finance Act 2004 meaning that members receive tax relief on contributions. The Scheme complies with the relevant provisions of the Pension Schemes Act 1993, the Pensions Act 1995 and the Pensions Act 2004.

The LGPS meets the government's standards under the automatic enrolment provisions of the Pensions Act 2008.

Pensions and entitlements are still fully protected in law. The Scheme is open to all eligible employees under age 75, whether they work full-time or part-time. All members of the scheme can choose to leave at any time.

8. Fund account, net assets statement and notes

a. East Sussex Pension Fund Account

2016/17		Notes	2017/18	
£000	£000		£000	£000
	Dealings with members, employers and others directly involved in the fund			
	Contributions	7		
(93,918)	From Employers		(95,189)	
<u>(27,900)</u>	From Members		<u>(28,902)</u>	
(121,818)				(124,091)
(8,554)	Transfers in from other pension funds	8		<u>(7,325)</u>
<u>(130,372)</u>				<u>(131,416)</u>
120,776	Benefits	9		123,905
3,626	Payments to and on account of leavers	10		<u>39,592</u>
<u>124,402</u>				163,497
(5,970)	Net (additions)/withdrawals from dealings with members			32,081
13,591	Management expenses	11		13,330
	Returns on investments			
(43,060)	Investment income	12		(38,198)
391	Taxes on income	13a		399
(536,030)	Profit and losses on disposal of investments and changes in the market value of investments	14a		<u>(48,549)</u>
(578,699)	Net return on investments			(86,348)
(571,078)	Net increase in fund during the year			(40,937)
(2,771,365)	Add opening net assets of the scheme			<u>(3,342,443)</u>
(3,342,443)	Closing net assets of the scheme			(3,383,380)

b. Net Assets Statement for the year ended 31 March 2018

31 March 2017 £000		Notes	31 March 2018 £000
3,198,119	Investment assets	14	3,242,925
4,161	Other Investment balances	21	2,256
(1,680)	Investment liabilities	22	(3,198)
134,212	Cash deposits	14	133,789
3,334,812	Total net investments		3,375,772
10,703	Current assets	21	10,704
(3,072)	Current liabilities	22	(3,096)
3,342,443	Net assets of the fund available to fund benefits at the year end.		3,383,380

The fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 20.

Treasurers Certificate

I certify that the accounts of the East Sussex Pension Fund provide a true and fair view of the Pension Fund at 31 March 2018 and of the movements for the year then ended.

Ian Gutsell

Chief Finance Officer (Section 151 Officer)

Business Services Department

c. Notes to the East Sussex Pension Fund Accounts for the year ended 31 March 2018

1: Description of fund

The East Sussex Pension Fund ("the fund") is part of the Local Government Pension Scheme and is administered by East Sussex County Council. The County Council is the reporting entity for this pension fund.

The following description of the fund is a summary only. For more detail, references should be made to the East Sussex Pension Fund Annual Report 2017/18 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations.

a) General

The scheme is governed by the Public Service Pensions Act 2013. The fund is administered in accordance with the following secondary legislation:

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It is a contributory defined benefit pension scheme administered by East Sussex County Council to provide pensions and other benefits for pensionable employees of East Sussex County Council, the district councils in East Sussex County and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and Fire fighters are not included as they come within other national pension schemes.

b) Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme.

Organisations participating in the East Sussex Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund
- Admitted bodies, which are other organisations that participate in the fund under an admission agreement between the fund and the relevant organisation. Admitted bodies include voluntary, charitable and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 132 employer organisations within East Sussex Pension Fund including the County Council itself, as detailed below:

East Sussex Pension Fund	31 March 2017	31 March 2018
Number of employers with active members	127	132
Number of employees		
County Council	8,252	8,157
Other employees	15,315	16,413
Total	23,567	24,570
Number of pensioners		
County Council	8,402	8,708
Other employers	10,410	10,889
Total	18,812	19,597
Deferred pensioners		
County Council	13,685	13,558
Other employers	15,168	15,695
Total	28,853	29,253

c) Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the fund in accordance with The LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2017. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016. Currently, employer contribution rates range from 6.7% to 44.5% of pensionable pay.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final Pensionable salary	Each year worked is worth 1/60 x final Pensionable salary
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off -tax Free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the scheme became a career average scheme, whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index.

There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the East Sussex Pension Fund Website.

2: Basis of preparation

The Statement of Accounts summarises the fund's transactions for the 2017/18 financial year and its position at year-end as at 31 March 2018. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2017/18 which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 19 of these accounts.

The Pension Fund publishes a number of statutory documents, including an Investment Strategy Statement, a Funding Strategy Statement, Governance Policy Statement, Communications Policy Statement, Employers Contributions, and Statements of Compliance. Copies can be obtained by contacting the Council's Accounts and Pensions team or alternatively are available from - <http://www.eastsussex.gov.uk>

3: Summary of significant accounting policies

Fund account – revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see notes 8 and 10).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their Additional Voluntary Contributions (see below) to purchase additional scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

Bulk (group) transfers are accounted for on a receipts basis in accordance with the terms of the transfer agreement.

c) Investment income

i) Interest income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination. Income includes the amortisation of any discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iii) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

iv) Movement in the net market value of investments

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund account – expense items

d) Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

e) Taxation

The fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a fund expense as it arises.

f) Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Pension Fund discloses its management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses.

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pension's administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Investment management expenses

All investment management expenses are accounted for on an accruals basis.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

Where an investment manager's fee has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2016/17, £1.6m of fees is based on such estimates (2015/16: £1.0m).

Net assets statement

g) Financial assets

Financial assets are included in the net assets statement on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the fund becomes party to contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised by the fund.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

h) Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

i) Derivatives

The fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The fund does not hold derivatives for speculative purposes (see Note 15).

j) Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

k) Financial liabilities

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

l) Actuarial present value of promised retirement benefits

The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 20).

m) Additional voluntary contributions

East Sussex Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 23).

n) Contingent assets and contingent liabilities

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes.

4: Critical judgements in applying accounting policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using International Private Equity and Venture Capital Valuation Guidelines 2012. The value of unquoted private equities at 31 March 2018 was £182.8 million (£191.3 million at 31 March 2017).

Pension fund liability

The pension fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used in line with accepted guidelines and in accordance with IAS 19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

Use of Financial Instruments

The Fund uses financial instruments to manage its exposure to specific risks arising from its investments. In applying the accounting policies set out within the notes that accompany the financial statements the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the financial statements are based around determining a fair value for the alternative investments shown in the Net Asset Statement. It is important to recognise valuations for these types of investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements that involve many factors.

5: Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the Net assets statement at 31 March 2018 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. A firm of consulting actuaries is engaged to provide the fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, for the 2016 Valuation the actuary advised that: <ul style="list-style-type: none">• A 0.2% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £101 million (3%).• A 0.2% increase in benefit increases and CARE revaluation would increase the value of liabilities by approximately £91 million (3%).• A change in methodology from peaked to non-peaked longevity would increase the liability by approximately £94 million (3%).
Debtors	At 31 March 2018, the fund had a balance of sundry debtors of £1.5 million. The fund makes allowance for doubtful debts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable.	Where the expectation is different from the original estimate, such difference will affect the carrying value of receivables.
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £182.8 million. There is a risk that this investment may be under or overstated in the accounts depending on use of estimates applied in the valuation models by the fund managers.

6: Events after the balance sheet date

There have been no events since 31 March 2018, and up to the date when these accounts were authorised that require any adjustments to these accounts.

7: Contributions Receivable

	2016/17 £000	2017/18 £000
By category		
Employee's contributions	27,900	28,902
Employer's contributions		
Normal contributions	87,505	81,427
Deficit recovery contributions	5,030	13,083
Augmentation contributions	1,383	679
Total	121,818	124,091
By authority		
Scheduled bodies	74,461	77,156
Admitted bodies	4,098	3,572
Administrative Authority	43,259	43,363
Total	121,818	124,091

8: Transfers in from other pension funds

	2016/17 £000	2017/18 £000
Group transfers	-	-
Individual transfers	8,554	7,325
Total	8,554	7,325

9: Benefits payable

	2016/17 £000	2017/18 £000
By category		
Pensions	101,092	102,800
Commutation and lump sum retirement benefits	17,007	17,780
Lump sum death benefits	2,677	3,325
Total	120,776	123,905
By authority		
Scheduled bodies	68,685	70,040
Admitted bodies	3,134	3,997
Administrative Authority	48,957	49,868
Total	120,776	123,905

10: Payments to and on account of leavers

	2016/17 £000	2017/18 £000
Refunds to members leaving service	343	387
Group transfers	520	28,467*
Individual transfers	2,763	10,738
Total	3,626	39,592

* Brighton and Hove City College transferred to West Sussex County Council on the 1 April 2017 with assets of £28.467m

11: Management expenses

	2016/17	2017/18
	£000	£000
Administrative costs	1,037	1,005
Investment management expenses	11,811	11,652
Oversight and governance costs	743	673
Total	13,591	13,330

11a: Investment management expenses

	2016/17	2017/18
	£000	£000
Management fees	11,444	11,354
Custody fees	68	83
Transaction costs*	299	215
Total	11,811	11,652

*In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

During the year, the Pension Fund incurred management fees which were deducted at source for 2017/18 of £2.4m (£2.7m in 2016/17) on its private equity investments, fees of £0.3m (£0.6m in 2016/17) on its infrastructure investments and fees of £1.4m (£0.7m in 2016/17) on other mandates. These fees are deducted at the individual portfolio level rather than being paid directly by the Pension Fund.

12: Investment income

	2016/17	2017/18
	£000	£000
Income from bonds	2,559	1,949
Income from equities	6,656	6,864
Private equity income	147	49
Pooled property investments	10,287	10,750
Pooled investments - unit trusts and other managed funds	22,963	18,133
Interest on cash deposits	382	393
Class Actions	66	60
Total	43,060	38,198

13: Other fund account disclosures

13a: Taxes on income

	2016/17	2017/18
	£000	£000
Withholding tax – equities	(179)	(203)
Withholding tax – pooled	(212)	(196)
Total	(391)	(399)

13b: External audit costs

	2016/17	2017/18
	£000	£000
Payable in respect of external audit	27	27
Payable in respect of other services	-	-
Total	27	27

14: Investments

	2016/17 £000	2017/18 £000
Investment assets		
Bonds	478,518	497,920
Equities	341,077	363,116
Pooled Investments	1,820,986	1,828,109
Pooled property investments	321,767	344,411
Private equity/infrastructure	227,497	200,960
Commodities	4,930	4,487
Multi Asset	3,344	3,921
Derivative contracts:		-
Forward Currency Contracts	712	480
	3,198,831	3,243,404
Cash deposits with Custodian	134,212	133,789
Other Investment balances (Note 21)	3,449	1,777
Total investment assets	3,336,492	3,378,970
Investment Liabilities (Note 22)	(1,669)	(3,198)
Derivative contracts:		
Forward Currency Contracts	(11)	-
Total Investment Liabilities	(1,680)	(3,198)
Net investment assets	3,334,812	3,375,772

14a: Reconciliation of movements in investments and derivatives

	Market value 1 April 2017 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Market value 31 March 2018 £000
Bonds	478,518	281,469	(267,961)	5,894	497,920
Equities	341,077	118,567	(96,740)	212	363,116
Pooled investments	1,820,986	1,925,067	(1,943,746)	25,802	1,828,109
Pooled property investments	321,767	27,060	(29,319)	24,903	344,411
Private equity/infrastructure	227,497	23,073	(45,079)	(4,531)	200,960
Commodities	4,930	4,895	(5,071)	(267)	4,487
Multi Asset	3,344	5,359	-	(4,782)	3,921
	3,198,119	2,385,490	(2,387,916)	47,231	3,242,924
Derivative contracts					
■ Forward currency contracts	701	5,485	(8,713)	3,007	480
	3,198,820	2,390,975	(2,396,629)	50,238	3,243,404
Other investment balances:					
■ Cash deposits	134,212			(1,689)	133,789
■ Other Investment Balances	3,449				1,777
■ Investment Liabilities	(1,669)				(3,198)
Net investment assets	3,334,812			48,549	3,375,772

	Market value 1 April 2016	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2017
	£000	£000	£000	£000	£000
Bonds	429,154	42,918	(60,764)	67,210	478,518
Equities	290,442	84,564	(107,578)	73,649	341,077
Pooled investments	1,420,022	26,862	(5,670)	379,772	1,820,986
Pooled property investments	322,775	18,831	(21,089)	1,250	321,767
Private equity/infrastructure	216,898	21,915	(35,954)	24,638	227,497
Commodities	3,613	3,878	(3,109)	548	4,930
Multi Asset	1,585	5,617	-	(3,858)	3,344
	2,684,489	204,585	(234,164)	543,209	3,198,119
Derivative contracts					
■ Forward currency contracts	1,647	47,914	(39,295)	(9,565)	701
	2,686,136	252,499	(273,459)	533,644	3,198,820
Other investment balances:					
■ Cash deposits	79,131			2,386	134,212
■ Other Investment Balances	1,375				3,449
■ Investment Liabilities	(1,510)				(1,669)
Net investment assets	2,765,132			536,030	3,334,812

14b: Analysis of investments

	2016/17 £000	2017/18 £000
Bonds		
UK		
Corporate quoted	200,893	132,119
Public sector quoted	271,704	339,720
Overseas		
Public sector quoted	5,921	26,081
	478,518	497,920
Equities		
UK		
Quoted	51,161	59,570
Unquoted	3,627	958
Overseas		
Quoted	286,289	302,588
	341,077	363,116
Pooled funds - additional analysis		
UK		
Unit trusts	647,124	641,509
Overseas		
Unit trusts	1,173,862	1,186,600
	1,820,986	1,828,109
Pooled property investments	321,767	344,411
Private equity/infrastructure	227,497	200,960
Commodities	4,930	4,487
Multi Asset	3,344	3,921
Derivatives	712	480
	558,250	554,259
Cash deposits	134,212	133,789
Other investment balances (Note 21)	3,449	1,777
	137,661	135,566
Total investment assets	3,336,492	3,378,970
Investment Liabilities (Note 22)	(1,669)	(3,198)
Derivatives	(11)	-
Total Investment Liabilities	(1,680)	(3,198)
Net investment assets	3,334,812	3,375,772

14c: Investments analysed by fund manager

	Market value 31 March 2017		Market value 31 March 2018	
	£000	%	£000	%
Prudential M&G	128,577	3.9%	132,124	3.9%
East Sussex Pension Fund Cash	53,220	1.6%	65,515	1.9%
UBS Infrastructure Fund	22,850	0.7%	19,027	0.6%
Prudential Infracapital	13,952	0.4%	-	0.0%
Legal & General	1,050,300	31.4%	-	0.0%
M&G UK Financing Fund	5,234	0.2%	958	0.0%
Schroders Property	327,945	9.8%	353,310	10.5%
Harbourvest Strategies	89,752	2.7%	86,705	2.6%
Adams St Partners	101,559	3.0%	96,129	2.8%
M&G Absolute Return Bonds	72,335	2.2%	75,014	2.2%
Ruffer LLP	292,582	8.8%	316,959	9.4%
Newton Investment Management	285,931	8.6%	308,431	9.1%
Longview Partners	233,171	7.0%	236,143	7.0%
State Street Global Advisers	657,404	19.7%	-	0.0%
UBS Passive Funds	-	0.0%	1,685,457	50.0%
	3,334,812		3,375,772	

The following investments represent more than 5% of the investment assets of the scheme -

Security	Market Value 31 March 2017 £000	% of total fund	Market value 31 March 2018 £000	% of total fund
UBS Fundamental Index	-	0.0%	611,429	18.1%
UBS World Equity Index	-	0.0%	508,242	15.1%
UBS UK Equity Index	-	0.0%	325,708	9.6%
Newton Real Return (Pooled Fund)	285,931	8.6%	308,431	9.1%
UBS Over 5 year Index Gilt Linked	-	0.0%	180,995	5.4%
State Street Fundamental Index	657,404	19.7%	-	0.0%
L&G UK Equity Index	319,171	9.6%	-	0.0%
L&G North America Equity Index	310,596	9.3%	-	0.0%
L&G Over 5 year Index Gilt Linked	179,595	5.4%	-	0.0%

14d: Stock lending

The East Sussex Pension Fund has not operated a stock lending programme since 13th October 2008.

15: Analysis of derivatives

Objectives and policies for holding derivatives

Derivatives can be used to hedge liabilities or hedge exposures to reduce risk in the fund. Derivatives maybe used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the fund and the various investment managers.

a) Futures

The scheme's objective is to decrease risk in the portfolio by entering into futures positions to match assets that are already held in the portfolio without disturbing the underlying assets.

b) Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the fund's quoted equity portfolio is in overseas stock markets. The fund can participate in forward currency contracts in order to reduce the volatility associated with fluctuating currency rates.

c) Options

The fund wants to benefit from the potentially greater returns available from investing in equities but wishes to minimise the risk of loss of value through adverse equity price movements. The fund buys equity option contracts that protect it from falls in value in the main markets in which the scheme invests.

Open forward currency contracts

Settlement	Currency bought	Local value	Currency sold	Local value	Asset value	Liability value
		000		000	£000	£000
Up to 2 months	USD	1,135	GBP	(809)	-	-
Up to 2 months	EUR	180	GBP	(158)	-	-
Greater than 2 months	GBP	7,398	EUR	(8,322)	85	-
Greater than 2 months	GBP	48,396	JPY	(7,148,471)	395	-
					480	-
Net forward currency contracts at 31 March 2018						480
Prior year comparative						
Open forward currency contracts at 31 March 2017					712	(11)
Net forward currency contracts at 31 March 2017						701

16: Fair value – basis of valuation

The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques which represent the highest and best price available at the reporting date

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market-quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not Required	Not Required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not Required	Not Required
Futures and options in UK bonds	Level 1	Published exchange prices at the year-end	Not Required	Not Required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not Required	Not Required
Unquoted bonds	Level 2	Average of broker prices	Evaluated price feeds	Not Required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not Required
Overseas bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not Required
Pooled investments	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not Required

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled investments	Level 3	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequent potential impact on the closing value of investments held at 31 March 2018.

Asset Type	Assessed valuation range (+/-)	Values at 31 March 2017 £000	Value on increase £000	Value on decrease £000
Equities	18%	20,758	24,494	17,022
Pooled property investments	14%	344,411	392,629	296,193
Private Equity/Infrastructure	28%	200,960	255,219	146,701
Total		566,129	672,342	459,916

16a: Fair value hierarchy

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

Assets and liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Assets and liabilities at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

Level 3

Assets and liabilities at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

	Quoted market price	Using observable inputs	With Significant unobservable inputs	
Values at 31 March 2018	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss	809,092	1,869,959	566,130	3,245,181
Non-financial assets at fair value through profit and loss	0	0	0	0
Financial liabilities at fair value through profit and loss	0	-3,198	0	-3,198
Net investment assets	809,092	1,866,761	566,130	3,241,983

	Quoted market price	Using observable inputs	With Significant unobservable inputs	
Values at 31 March 2017	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
Financial assets at fair value through profit and loss	2,448,904	184,760	568,616	3,202,280
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-	(1,680)	-	(1,680)
Net investment assets	2,448,904	183,080	568,616	3,200,600

16b: Transfers between levels 1 and 2

During 2016/17 the fund has not transferred any financial assets between levels 1 and 2.

16c: Reconciliation of fair value measurements within level 3

Period 2017/18	Market value 1 April 2017	Transfers into Level 3	Transfers out of Level 3	Purchases during the year	Sales during the year	Unrealised gains/(losses)	Realised gains/(losses)	Market value 31 March 2018
Equities	19,352	-	-	7,901	(4,348)	(4,157)	2,010	20,758
Pooled property investments	321,767	-	-	27,060	(29,319)	13,891	11,013	344,412
Private Equity/Infrastructure	227,497	-	-	23,073	(42,386)	(33,676)	26,452	200,960
Total	568,616	-	-	58,034	(76,053)	(23,942)	39,475	566,130

Period 2016/17	Market value 1 April 2016	Transfers into Level 3	Transfers out of Level 3	Purchases during the year	Sales during the year	Unrealised gains/(losses)	Realised gains/(losses)	Market value 31 March 2017
Bonds	5,534	-	-	-	(5,607)	(386)	459	-
Equities	30,318	-	-	-	(8,748)	(2,496)	278	19,352
Pooled property investments	315,888	9,249	-	26,130	(31,032)	(8,662)	10,194	321,767
Private Equity/Infrastructure	216,898	-	-	21,915	(32,626)	316	20,994	227,497
Total	568,638	9,249	-	48,045	(78,013)	(11,228)	31,925	568,616

17: Financial instruments

17a: Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (including cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

31 March 2017			31 March 2018		
Market value Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000	Market value Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000
Financial Assets					
478,518	-	-	497,920	-	-
341,077	-	-	363,116	-	-
1,820,986	-	-	1,828,109	-	-
321,767	-	-	344,411	-	-
227,497	-	-	200,960	-	-
4,930	-	-	4,487	-	-
3,344	-	-	3,921	-	-
712	-	-	480	-	-
-	134,212	-	-	133,789	-
-	399	-	-	-	-
3,449	-	-	1,777	-	-
-	10,304	-	-	10,704	-
3,202,280	144,915	-	3,245,181	144,493	-
Financial liabilities					
(11)	-	-	-	-	-
(1,669)	-	-	(3,198)	-	-
-	-	(3,072)	-	-	(3)
(1,680)	-	(3,072)	(3,198)	-	(3,096)
3,200,600	144,915	(3,072)	3,241,983	144,493	(3,096)

17b: Net gains and losses on financial instruments

	31 March 2017 £000	31 March 2018 £000
Financial assets		
Fair value through profit and loss	543,255	51,065
Loans and receivables	2,340	(2,510)
Financial liabilities		
Fair value through profit and loss	(9,565)	(6)
Total	536,030	48,549

18: Nature and extent of risks arising from financial instruments

Risk and risk management

The fund's primary long-term risk is that the fund's assets will fall short of its liabilities (i.e. promised benefits payable to members). Therefore the aim of investment risk management is to minimise the risk of an overall reduction in the value of the fund and to maximise the opportunity for gains across the whole fund portfolio. The fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the fund manages its liquidity risk to ensure there is sufficient liquidity to

meet the fund's forecast cash flows. The fund manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the pension fund committee. Risk management policies are established to identify and analyse the risks faced by the fund's pensions operations. Policies are reviewed regularly to reflect changes in activity and in the market conditions.

a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The fund manages these risks in two ways:

- the exposure of the fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

The fund is exposed to share and derivative price risk. This arises from investments held by the fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses from shares sold short is unlimited.

The fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the fund to ensure it is within limits specified in the fund investment strategy.

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the fund's investment advisors, the fund has determined that the following movements in market price risk are reasonably possible for the 2018/19 reporting period:

Asset Type	Potential Market Movements (+/-)
Index Linked	9%
Other Bonds	8%
UK equities	17%
Global equities	18%
Absolute Return	13%
Pooled property investments	14%
Private Equity	28%
Infrastructure funds	20%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisors' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows.

Asset Type	Values at 31 March 2018 £000	Value on increase £000	Value on decrease £000
Index Linked	180,995	197,285	164,705
Other Bonds	207,133	223,075	191,191
UK equities	326,665	382,198	271,132
Global equities	1,411,750	1,665,865	1,157,635
Absolute Return	571,010	645,241	496,779
Pooled property investments	344,411	392,629	296,193
Private Equity	181,933	232,874	130,992
Infrastructure funds	19,027	22,832	15,222
Net derivative assets	480	480	480
Total assets available to pay benefits	3,243,404	3,762,479	2,724,329

Asset Type	Values at 31 March 2017 £000	Value on increase £000	Value on decrease £000
Index Linked	179,611	195,776	163,446
Other Bonds	200,893	218,973	182,813
UK equities	358,102	415,398	300,806
Global equities	1,396,045	1,647,334	1,144,758
Pooled property investments	514,204	581,049	447,357
Private Equity	321,767	366,814	276,720
Infrastructure funds	190,695	245,996	135,394
Absolute Return	36,802	44,162	29,442
Net derivative assets	701	701	701
Total assets available to pay benefits	3,198,820	3,716,203	2,681,437

Interest rate risk

The fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The fund's interest rate risk is routinely monitored by the Fund and its investment advisors in accordance with the fund's risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The fund's direct exposure to interest rate movements as at 31 March 2018 and 31 March 2017 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset type	As at 31 March 2017 £000	As at 31 March 2018 £000
Cash with Custodian	134,212	133,789
Cash balances	399	(3)
Fixed interest securities	200,893	227,951
Total	335,504	361,737

Interest rate risk sensitivity analysis

The fund recognises that interest rates can vary and can affect both income to the fund and the value of the net assets available to pay benefits. A 100 basis point (bps) movement in interest rates is consistent with the level of sensitivity applied as part of the fund's risk management strategy. The fund's investment adviser has advised that this is consistent with an annual one standard deviation move in interest rates, where interest rates are determined by the prices of fixed interest UK government bonds.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 BPS change in interest rates:

Asset type	Carrying amount as at 31 March 2018 £000	Potential movement on 1 % change in interest rates £000	Value on increase £000	Value on decrease £000
Cash and cash equivalents	133,789	-	133,789	133,789
Cash balances	(3)	-	(3)	(3)
Fixed interest securities	227,951	2,280	230,231	225,671
Total change in assets available	361,737	2,280	364,017	359,457

Asset type	Carrying amount as at 31 March 2017 £000	Potential movement on 1 % change in interest rates £000	Value on increase £000	Value on decrease £000
Cash and cash equivalents	134,212	-	134,212	134,212
Cash balances	399	-	399	399
Fixed interest securities	200,893	2,009	202,902	198,884
Total change in assets available	335,504	2,009	337,513	333,495

Income Source	Amount receivable as at 31 March 2018 £000	Potential movement on 1 % change in interest rates £000	Value on increase £000	Value on decrease £000
Cash deposits/cash and cash equivalents	393	1,338	1,731	(945)
Fixed interest securities	1,334	-	1,334	1,334
Total change in assets available	1,727	1,338	3,065	389

Income Source	Amount receivable as at 31 March 2017 £000	Potential movement on 1 % change in interest rates £000	Value on increase £000	Value on decrease £000
Cash deposits/cash and cash equivalents	382	1,346	1,728	(964)
Fixed interest securities	1,913	-	1,913	1,913
Total change in assets available	2,295	1,346	3,641	949

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK). The fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

The fund's currency rate risk is routinely monitored by the fund and its investment advisors in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

The following table summarises the fund's currency exposure as at 31 March 2018 and as at the previous period end:

Currency exposure - asset type	Asset value as at 31 March 2017 £000	Asset value as at 31 March 2018 £000
Overseas index linked	5,921	5,263
Overseas fixed interest	-	20,818
Overseas quoted securities	286,289	302,588
Overseas unit trusts	1,173,862	1,186,600
Total overseas assets	1,466,072	1,515,269

Currency risk – sensitivity analysis

Following analysis of historical data in consultation with the fund investment advisors, the fund considers the likely volatility associated with foreign exchange rate movements to be 10% (as measured by one standard deviation).

This assumes no diversification with other assets, and in particular, interest rates remain constant.

A 10% strengthening/weakening of the UK pound against the various currencies in which the fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Values at 31 March 2018 £000	Potential Market movement £000	Value on increase £000	Value on decrease £000
Overseas index linked	5,263	526	5,789	4,737
Overseas fixed interest	20,818	2,082	22,900	18,736
Overseas quoted securities	302,588	30,259	332,847	272,329
Overseas unit trusts	1,186,600	118,660	1,305,260	1,067,940
Total change in assets available	1,515,269	151,527	1,666,796	1,363,742

Currency exposure - asset type	Values at 31 March 2017 £000	Potential Market movement £000	Value on increase £000	Value on decrease £000
Overseas index linked	5,921	592	6,513	5,329
Overseas quoted securities	286,289	28,629	314,918	257,660
Overseas unit trusts	1,173,862	117,386	1,291,248	1,056,476
Total change in assets available	1,466,072	146,607	1,612,679	1,319,465

b) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the fund's financial assets and liabilities.

In essence the fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However the selection of high quality counterparties, brokers and financial institutions minimise credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipts that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

The fund believes it has managed its exposure to credit risk, and has had no experience of default or uncollectable deposits in recent years.

Summary	Asset value as at 31 March 2017 £000	Asset value as at 31 March 2018 £000
Money market funds		
NTGI Global Cash Fund	78,993	-
Short term bills and notes		
UK Treasury bills	50,033	36,097
Bank current accounts		
NT custody cash accounts	5,186	97,692
Total overseas assets	134,212	133,789

c) Liquidity risk

Liquidity risk represents the risk that the fund will not be able to meet its financial obligations as they fall due. The fund therefore takes steps to ensure that the pension fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments.

The fund has immediate access to its pension fund cash holdings and the fund also has access to an overdraft facility for short-term cash needs. This facility is only used to meet timing differences on pension payments. As these borrowings are of a limited short-term nature, the fund's exposure to liquidity risk is considered negligible.

All financial liabilities at 31 March 2018 are due within one year.

Refinancing risk

The key risk is that the fund will be bound to replenish a significant proportion of its pension fund financial instruments at a time of unfavourable interest rates. The fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

19: Funding arrangements

The latest actuarial valuation of the fund was carried out as at 31 March 2016. The purpose of the triennial valuation is to calculate the contribution rates required to be made by each employer participating in the fund which together with investment growth will be sufficient to meet the fund's future liabilities. The 2016 valuation shows the fund has a past service deficit, being 92% funded in respect of past liabilities. This compares with 81% funded at the 2013 valuation.

East Sussex Pension Fund ("the Fund")

Actuarial Statement for 2016/17

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated February 2017. In summary, the key funding principles are as follows:

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

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the

Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still around a 66% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund's assets, which at 31 March 2016 were valued at £2,771 million, were sufficient to meet 92% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £240 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers' contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund's funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	4.0%
Salary increase assumption	2.6%
Benefit increase assumption (CPI)	2.1%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.1 years	24.4 years
Future Pensioners*	23.8 years	26.3 years

*Figures assume members aged 45 as at the 2016 valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from East Sussex County Council, the Administering Authority to the Fund.

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities and there have been strong asset returns, particularly during 2016/2017. Both events are of broadly similar magnitude with regards to the impact on the funding position.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

20: Actuarial present value of promised retirement benefits

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2016/17 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the East Sussex Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

Present value of Promised Retirement Benefits

Year ended	31 March 2017	31 March 2018
Active members (£m)	1,717	1,867
Deferred pensions (£m)	930	925
Pensioners (£m)	1,612	1,548
Total	4,258	4,340

The promised retirement benefits at 31 March 2018 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2018 and 31 March 2017. I estimate that the impact of the change in financial assumptions to 31 March 2018 is to decrease the actuarial present value by £83m. There is no impact from any change in the demographic and longevity assumptions because they are identical to the previous period.

Financial assumptions

Year ended	31 Mar 2017 % p.a.	31 Mar 2018 % p.a.
Pension Increase Rate	2.4%	2.4%
Salary Increase rate	2.8%	2.8%
Discount Rate	2.6%	2.7%

Longevity assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.1 years	24.4 years
Future Pensioners*	23.8 years	26.3 years

*Future pensioners are assumed to be aged 45 at the latest formal valuation as at 31 March 2016.

Please note that the longevity assumptions have not changed since the previous IAS26 disclosure for the Fund.

Commutation assumptions

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2018	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% increase in pensions increase rate	8%	350
0.5% increase in salary increase rate	1%	58
0.5% decrease in discount rate	10%	433

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

21: Current assets

	31 March 2017 £000	31 March 2018 £000
Other Investment Balances		
Sales inc Currency	2,554	480
Investment Income Due	1,178	1,371
Recoverable Taxes	411	405
Managers Fee Rebate	18	-
Total	4,161	2,256

	31 March 2017 £000	31 March 2018 £000
Current Assets		
Contributions receivable from employers and employees	9,126	9,254
Sundry Debtors	1,178	1,450
Cash	399	-
Total	10,703	10,704

22: Current liabilities

	31 March 2017 £000	31 March 2018 £000
Investment Liabilities		
Purchases including currency	(11)	(1,846)
Managers Fees	(1,669)	(1,352)
Total	(1,680)	(3,198)

	31 March 2017 £000	31 March 2018 £000
Current Liabilities		
Pension Payments (inc Lump Sums)	(454)	(439)
Cash	-	(3)
Professional Fees	(65)	(84)
Administration Recharge	(1,314)	(1,300)
Sundry Creditors	(1,239)	(1,270)
Total	(3,072)	(3,096)

23: Additional voluntary contributions

	Market value 31 March 2017 £000	Market value 31 March 2018 £000
Prudential	15,772	15,923

The Pension Fund Scheme provides an Additional Voluntary Contribution (AVC) facility for scheme members. In 2017/18 some members of the pension scheme paid voluntary contributions and transfers in of £2.618m (£2.053m 2016/17) to Prudential to buy extra pension benefits when they retire. £3.434m was disinvested from the AVC provider in 2017/18 (£2.353m 2016/17). Contributions and benefits to scheme members are made directly between the scheme member and the AVC provider. The AVC funds are not, therefore, included in the Pension Fund Accounts.

24: Agency Services

The East Sussex Pension Fund pays discretionary awards to former employees on behalf of some employers in the Fund. The amounts paid are provided as a service and are fully reclaimed from the employer bodies. The sums are disclosed below.

	2016/17 £000	2017/18 £000
East Sussex County Council	4,979	4,891
Brighton & Hove City Council	2,306	2,330
West Sussex County Council*	3	985
Eastbourne Borough Council	349	331
Magistrates	239	240
Wealden District Council	188	183
Hastings Borough Council	180	171
Rother District Council	117	117
Mid-Sussex District Council	55	87
Lewes District Council	79	76
The Eastbourne Academy	6	56
South East Water	70	54
Brighton University	26	26
Westminster (used to be LPFA)	17	17
East Sussex Fire Authority	17	16
Capita Hartshead	15	16
Brighton and Hove City College*	10	-
London Borough of Camden	7	7
London Borough of Southwark	6	6
West Midlands Pension Fund	5	5
Torfaen Borough Council	3	4
Sussex University	-	3
Eastbourne Homes	2	3
Varndean College	2	2
London Borough of Ealing	2	2
Sussex Downs College	1	1
Newhaven TC	1	1
Mears Group PLC	12	-
Total	8,697	9,630

* Brighton and Hove City College transferred to West Sussex County Council on the 1 April 2017 East Sussex are still administering the Brighton and Hove City College members at the request of West Sussex until the records are transferred to their administrators.

25: Related party transactions

East Sussex County Council

The East Sussex Pension Fund is administered by East Sussex County Council. Consequently there is a strong relationship between the council and the pension fund.

Each member of the Pension Committee is required to declare their interests at each meeting.

The Treasurer of the Pension Fund and members of the County Council and the Pension Committee have no material transactions with the Pension Fund.

The Council incurred costs in administering the fund and charged £1.3m to the fund in 2017/18 (£1.3m in 2016/17). The Council's contribution to the fund was £43.4m in 2017/18 (£43.3m in 2016/17). All amounts due to the fund were paid in the year. At 31 March 2018 the Pension Fund bank account was in debit by £0.003m. The average invested throughout the year was £3.5m (£4.8 in 2016/17) and earned interest of £0.018m in 2017/18 (£0.028m in 2016/17).

25a: Key management personnel

The Chief financial officer of East Sussex County Council holds the key position in the financial management of the East Sussex Pension Fund.

	31 March 2017	31 March 2018
	£000	£000
Short-term benefits	10	17
Post-employment benefits	1	3
Other long-term benefits	-	-
Termination benefits	9	-
Total	20	20

26: Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2018 totalled £133.1m (31 March 2017: £82.0m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing, typically over a period of between four and six years from the date of each original commitment.

At 31 March 2018 the unfunded commitment was £84.1m for private equity, and £49.0m for infrastructure. The commitments are paid over the investment timeframe of the underlying partnerships. As these partnerships mature they are due to distribute capital back to investors. Commitments are made in US Dollars or Euros and the figures presented here are based on relevant Sterling exchange rates as at 31 March 2018.

Sussex Careers Limited – a Community Admission Body in the Fund until 12 November 2008, supplied careers advisory services on behalf of both East Sussex County Council and Brighton & Hove City Council. Sussex Careers is now in the process of being wound up, and its assets will be distributed to its creditors, including the Fund which is the major creditor. The Fund received an offer from Liquidator and has been advised by both external and internal legal advisors that the Fund should accept the offer of £144,000.00 made by the Liquidator, with the remainder of the balance being distributed to the other creditors with statutory interest. A report was sent to the Lead Member for Resources recommending the offer be accepted.

27: Contingent assets

Seventeen admitted body employers in the Fund hold insurance bonds to guard against the possibility of their being unable to meet their pension obligations. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default. In addition to these bonds, pension's obligations in respect of 14 other admitted bodies are covered by:

- 9 guarantees by local authorities participating in the Fund;
- 3 Parent company guarantee;
- 2 deposits held by East Sussex County Council

At 31 March 2018 the Fund has invested £260.7 million in private equity funds managed by Adams Street and HarbourVest. The Fund has also invested £14.4 million in the M&G UK Companies Financing fund and £23.7 million in the infrastructure funds managed by UBS.

Following Rulings given by the European Court of Justice, along with a number of other local authority pension funds, the East Sussex Pension Fund is pursuing the recovery of tax paid on certain dividends. If successful this may be of material benefit to the Fund. The amount which may be recoverable is not currently quantifiable.

28: Impairment losses

During 2017/18 the fund has not recognised any impairment losses.

29: East Sussex Pension Fund – Active Participating Employers

Employer Name	Primary Rate % of payroll 2017/18	Secondary Rate pa £(000)	Primary Rate % of payroll 2018/19	Secondary Rate pa £(000)	Primary Rate % of payroll 2019/20	Secondary Rate pa £(000)
Scheduled Bodies - Major Authorities						
Brighton and Hove City Council	17.1	3860	17.1	4635	17.1	5448
East Sussex County Council	17.85	5523	17.85	6369	17.85	7254
East Sussex Fire and Rescue Service	17.75	181	17.75	213	17.75	247
Eastbourne Borough Council	17.65	547	17.65	599	17.65	654
Hastings Borough Council	18.05	489	18.05	540	18.05	594
Lewes District Council	18.0	442	18.0	495	18.0	551
Rother District Council	18.05	506	18.05	550	18.05	596
University of Brighton	17.50	704	17.50	722	17.50	741
Wealden District Council	17.95	536	17.95	594	17.95	655
Other Scheduled Bodies						
Arlington Parish Council	21.6	-	22.1	-	22.6	-
Battle Town Council	17.4	4	17.4	5	17.4	6
Berwick Parish Council	21.6	-	22.1	-	22.6	-
Buxted Parish Council	21.6	-	22.1	-	22.6	-
Camber Parish council	21.6	-	22.1	-	22.6	-
Chailey Parish Council	21.6	-	22.1	-	22.6	-
Chalvington with Ripe Parish Council	21.6	-	22.1	-	22.6	-
Chiddingly Parish Council	21.6	-	22.1	-	22.6	-
Conservators of Ashdown Forest	17.4	13	17.4	15	17.4	17
Crowborough Town Council	17.4	11	17.4	12	17.4	14
Danehill Parish Council	21.6	-	22.1	-	22.6	-
Ditchling Parish Council	21.6	-	22.1	-	22.6	-
Ewhurst Parish Council	21.6	-	22.1	-	22.6	-
Fletching Parish Council	21.6	-	22.1	-	22.6	-
Forest Row Parish Council	17.4	3	17.4	3	17.4	4
Frant Parish Council	21.6	-	22.1	-	22.6	-
Hadlow Down	21.6	-	22.1	-	22.6	-
Hailsham Town Council	17.4	13	17.4	15	17.4	17
Hartfield Parish Council	21.6	-	22.1	-	22.6	-
Heathfield & Waldron Parish Council	17.4	4	17.4	5	17.4	5
Herstmonceux Parish Council	21.6	-	22.1	-	22.6	-
Hurst Green Parish Council	21.6	-	22.1	-	22.6	-
Icklesham Parish Council	21.6	-	22.1	-	22.6	-
Isfield Parish Council	21.6	-	22.1	-	22.6	-
Lewes Town Council	17.4	14	17.4	16	17.4	19
Maresfield Parish Council	17.4	1	17.4	1	17.4	1
Newhaven Town Council	17.4	5	17.4	6	17.4	6
Newick Parish Council	21.6	-	22.1	-	22.6	-
Peacehaven Town Council	17.4	8	17.4	9	17.4	10
Pett Parish Council	21.6	-	22.1	-	22.6	-
Plumpton Parish Council	21.6	-	22.1	-	22.6	-
Polegate Town Council	21.6	-	22.1	-	22.6	-
Ringmer Parish Council	21.6	-	22.1	-	22.6	-
Rye Town Council	17.4	2	17.4	2	17.4	2
Salehurst & Robertsbridge Parish Council	21.6	-	22.1	-	22.6	-
Seaford Town Council	17.4	6	17.4	7	17.4	8
Sussex Inshore Fisheries & Conservation Authority	21.6	-	22.1	-	22.6	-

Employer Name	Primary Rate % of payroll 2017/18	Secondary Rate pa £(000)	Primary Rate % of payroll 2018/19	Secondary Rate pa £(000)	Primary Rate % of payroll 2019/20	Secondary Rate pa £(000)
Telscombe Town Council	17.4	4	17.4	4	17.4	5
Uckfield Town Council	17.4	13	17.4	15	17.4	17
Wartling Parish Council	21.6	-	22.1	-	22.6	-
Westham Parish Council	17.4	1	17.4	2	17.4	2
Willingdon and Jevington Parish Council	17.4	2	17.4	2	17.4	2
Wivelsfield Parish Council	17.4	1	17.4	1	17.4	2
Academy Schools						
ARK Schools Hastings	20.1	-	20.6	-	21.1	-
ARK William Parker Academy	20.1	-	20.6	-	21.1	-
Aurora Academies Trust	20.9	-	20.9	-	20.9	-
Beacon Academy	22.5	-	23.0	-	23.5	-
Bexhill Academy	23.4	-	23.4	-	23.4	-
Bilingual Primary School	15.1	-	15.6	-	16.1	-
Breakwater Academy	17.5	-	17.5	-	17.5	-
Brighton Aldridge Community Academy	19.5	-	20.0	-	20.5	-
Burfield Academy (Hailsham Primary)	21.5	-	21.0	-	20.5	-
Cavendish Academy	21.0	-	21.0	-	21.0	-
City Academy Whitehawk	22.1	-	22.6	-	22.8	-
Diocese of Chichester Academy Trust	25.9	-	25.4	-	24.9	-
Eastbourne Academy	20.9	-	21.4	-	21.7	-
Gildredge House Free School	20.1	-	20.1	-	20.1	-
Glyne Gap Academy	22.9	-	22.4	-	21.9	-
Hailsham Academy	19.7	-	20.2	-	20.5	-
Hawkes Farm Academy	16.9	-	16.9	-	16.9	-
High Cliff Academy (Newhaven Primary)	21.5	-	21.0	-	20.5	-
Jarvis Brook Academy	15.0	-	15.0	-	15.0	-
King's Academy Ringmer	20.3	-	20.8	-	21.3	-
King's Church of England Free School	15.7	-	16.2	-	16.7	-
Ore Village Academy	18.7	-	19.0	-	19.0	-
Parkland Infant Academy	15.9	-	15.9	-	15.9	-
Parkland Junior Academy	15.2	-	15.2	-	15.2	-
Pebsham Academy (TKAT)	19.0	-	19.5	-	20.0	-
Phoenix Academy (Marshlands)	20.6	-	20.9	-	20.9	-
Portslade Aldridge Community Academy	20.4	-	20.4	-	20.4	-
Ratton Academy	21.6	-	-	-	-	-
Rye Academy	22.5	-	22.0	-	21.5	-
SABDEN Multi Academy Trust	25.1	-	24.6	-	24.1	-
Seaford Academy	21.9	-	21.6	-	21.6	-
Seahaven Academy	21.0	-	21.5	-	22.0	-
Shinewater Primary Academy	15.3	-	15.3	-	15.3	-
Sir Henry Fermor	15.3	-	15.3	-	15.3	-
The South Downs Learning Trust	12.7	-	12.7	-	12.7	-
The Southfield Trust	14.9	-	14.9	-	14.9	-
Torfield & Saxon Mount Academy Trust	22.1	-	22.6	-	23.1	-
University of Brighton Academies Trust	20.1	-	20.5	-	20.5	-
UTC@Harbourside	21.5	-	21.0	-	20.5	-
White House Academy	17.0	-	17.5	-	18.0	-
Colleges						
Bexhill 6th Form College	16.6	23	16.6	30	16.6	38
Brighton, Hove & Sussex Sixth Form College (BHASVIC)	17.2	21	17.2	29	17.2	38
City College Brighton & Hove	16.2	138	16.2	161	16.2	186

Employer Name	Primary Rate % of payroll 2017/18	Secondary Rate pa £(000)	Primary Rate % of payroll 2018/19	Secondary Rate pa £(000)	Primary Rate % of payroll 2019/20	Secondary Rate pa £(000)
Plumpton College	16.7	44	16.7	58	16.7	73
East Sussex College Group	-	-	17.2	117	17.2	171
Sussex Coast College	17.55	63	-	-	-	-
Sussex Downs College	17.4	3	-	-	-	-
Varndean Sixth Form College	17.5	12	17.5	19	17.5	25
Admission Bodies						
Accent Catering Services Ltd	0.0	-	0.0	-	0.0	-
Amey	0.0	-	0.0	-	0.0	-
Brighton and Hove CAB	28.7	-	28.7	-	28.7	-
Brighton Dome & Festival Limited	44.5	16	44.5	36	44.5	57
Brighton Dome & Festival Limited (BHCC)	20.7	-	20.7	-	20.7	-
Care at Home Services	0.0	-	0.0	-	0.0	-
Care Outlook Ltd	35.0	-	35.0	-	35.0	-
Care Quality Commission	41.6	59	41.6	143	41.6	231
Churchill Services	18.0	-	18.0	-	18.0	-
Civica ICT	14.3	-	14.3	-	14.3	-
De La Warr Pavilion Charitable Trust	43.7	61	43.7	132	43.7	207
East Sussex Energy, Infrastructure & Development Ltd (ESEIDL)	21.9	-	23.4	-	24.5	2
Eastbourne Homes - SEILL	21.9	-	21.9	-	21.9	-
Eastbourne Leisure Trust (Serco)	25.8	17	25.8	18	25.8	18
Grace Eyre	27.5	-	27.5	-	27.5	-
Halcrow Group Ltd	23.6	-	23.6	-	23.6	-
Hardings Catering Ltd	0.0	-	0.0	-	0.0	-
Hastings Business Operations Limited (HBOL)	23.6	-	27.1	-	27.6	4
Interserve Catering Services Ltd	0.0	-	0.0	-	0.0	-
ISS Ltd (WDC)	0.0	-	0.0	-	0.0	-
John O'Connor (ESCC)	0.0	-	0.0	-	0.0	-
Kier (WDC)	0.0	-	0.0	-	0.0	-
Mears Ltd (BHCC)	26.3	14	26.3	14	26.3	15
Mears Ltd (LDC)	33.9	-	33.9	-	33.9	-
MyTime	13.8	-	13.8	-	13.8	-
NSL Ltd (ESCC)	0.0	-	0.0	-	0.0	-
Optivo (AmicusHorizon)	39.2	554	39.2	879	39.2	1221
SCDA (Sussex Community Development Association Ltd)	26.4	-	26.4	-	26.4	-
Sopra Steria	31.9	-	31.9	-	31.9	-
Sussex Archaeological Society	38.6	57	38.6	82	38.6	108
Sussex County Sports Partnership	21.0	-	21.0	-	21.0	-
Sussex Housing & Care	35.9	133	35.9	101	35.9	67
Telent Technology Service Limited	24.9	-	24.9	-	24.9	-
Towner	11.5	-	11.5	-	11.5	-
Wave Leisure Newhaven Fort	18.0	-	18.0	-	18.0	-
Wave Leisure Trust Ltd	9.0	-	9.0	-	9.0	-
Wealden Leisure Ltd - BHCC	21.2	-	21.2	-	21.2	-
Wealden Leisure Ltd - PSC (Portslade Sports Centre)	12.3	-	12.3	-	12.3	-
Wealden Leisure Ltd - WDC	27.1	86	27.1	89	27.1	91
White Rock Theatres Hastings Ltd	6.7	-	6.7	-	6.7	-

30: Investment Performance

The County Council uses an independent Investment performance measurement service, provided by Pensions & Investment Research Consultants Ltd (PIRC) which measures the performance of the Fund compared with 58 other local authority pension funds. Pension Fund investment is a long term business so as well as showing the annual performance of the Fund, comparison to peers over longer periods is also detailed below.

Performance relative to the Fund's strategic benchmark

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	2.4	7.7	8.9	7.5
Benchmark	2.6	7.0	7.7	6.6
Relative	(0.2)	0.8	1.1	0.8

Investment performance relative to peer group

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	2.4	7.7	8.8	7.5
Local Authority Average	4.5	8.3	8.8	7.7
Relative	(2.0)	(0.6)	0.0	(0.2)

The Fund underperformed the (weighted) average local authority fund over the year by 2.0% (0.9% underperformance 2016/17), ranking the East Sussex Fund in the 86th percentile (49th 2016/17) in the local authority universe. Over three years the fund underperformed by 0.6% (0.7% outperformance 2016/17) and was placed in the 47th percentile (28th 2016/17). Over five years the fund performed in line (0.2% outperformance 2016/17) and was placed in the 40th percentile (37th 2016/17). Over ten years the fund years the fund underperformed by 0.2% (in line in 2016/17) and was placed in the 51st percentile (43rd 2016/17).

Relative performance is calculated on a geometric basis as follows:

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

As opposed to the simpler arithmetic method the geometric method makes it possible to directly compare long term relative performance with shorter term relative performance.

9. Pensions administration strategy report

The Local Government Pension Scheme Regulation 59(1) of the (Administration) Regulations 2013 covers the requirement for an administering authority to prepare a written statement of policies as it considers appropriate in the form of a Pensions Administration Strategy. The East Sussex Pension Fund Pension Administration Strategy is kept under review and revised to reflect changes to LGPS regulations and Fund policies.

The Pensions Administration Strategy document sets out a framework by way of outlining the policies and performance standards to be achieved when providing a cost-effective inclusive and high quality pensions administration service. In particular it sets out:

- The roles and responsibilities of both the Fund and the employers within the Fund.
- The level of service the Fund and employers will provide to each other
- The performance measures used to evaluate the level of service

This administration strategy statement will be reviewed in line with each valuation cycle and the next review will be as at 1 April 2020. All scheme employers will be consulted before any changes are made to this document. The latest version of this administration strategy statement will always be available on the ESCC website:

<https://www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/> and the ESPF website:
<http://www.eastsussexpensionfund.org/east-sussex-pension-fund/about-us/forms-and-publications/>

10. Funding strategy statement

The Funding Strategy Statement (FSS) focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. The FSS is prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013, CIPFA guidance and in collaboration with the Fund's actuary, Hymans Robertson LLP, after consultation with the Fund's employers and investment adviser. The FSS sets out how the Administering Authority has balanced the conflicting aims of:

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

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

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years);
- actuarial factors for valuing individual transfers, early retirement costs and costs of buying added service; and
- the Fund's Investment Strategy Statement

11. Investment strategy statement

The Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2016 require administering authorities of pension funds to prepare, maintain and publish a written statement setting out the investment strategy for their Fund they must consult with persons they deem appropriate when drawing up their statement. Any material change in investment strategy must be included in a revised Investment Strategy Statement (ISS). The statement also covers the extent to which social, environmental and ethical considerations (see below) are taken into account in the selection, retention and realisation of investments and a summary of the policy (if any) in relation to the exercise of the rights (including voting rights) attaching to investments. The East Sussex Pension Fund statement was first published in February 2017 when it replaced the Fund's Statement of Investment Principles. The statement is reviewed on a continuous basis to ensure it accurately reflects the Investment Strategy of the Fund (the latest version is available on the website).

Social, environmental and ethical considerations

The Fund keeps under review the issues surrounding socially responsible investment and has adopted an 'Active Shareholder Approach' to encourage companies to adopt best ethical and environmental principles without jeopardizing the investment performance of the Fund. When selecting investments for purchase, retention or sale, Fund Managers are able to invest in all companies, subject to their specific restrictions set out in the Fund's Policy Guidelines in order to achieve their performance targets. However they have been encouraged to engage in

constructive dialogue on behalf of the Fund and to use their influence to encourage companies to adopt best practice in all key areas of business. The key areas are:

- Corporate governance
- Employment standards
- Human rights

This Statement can be seen on the East Sussex County Council Website.

12. Communications policy statement

The Local Government Pension Scheme Regulations 2013 (Regulation 61) requires each pension fund administering authority to prepare and publish a policy statement setting out its approach to communicating with scheme members, representatives of members, prospective members and scheme employers.

The East Sussex Pension Fund policy statement sets out our existing communication activities.

This Policy can be seen on the East Sussex County Council Website.

<https://www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/>

DRAFT

13. External auditors report

Independent auditor's report to the members of East Sussex County Council on the pension fund financial statements published with the Pension Fund Annual Report

TO FOLLOW

For and on behalf of KPMG LLP, Statutory Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

July 2018

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Report to: Pension Committee

Date of meeting: 15 June 2018

By: Chief Operating Officer

Title: East Sussex Pension Fund Internal Audit Strategy

Purpose: To approve the East Sussex Pension Fund Internal Audit Strategy

RECOMMENDATIONS

The Committee is recommended to approve the Internal Audit Strategy for the East Sussex Pension Fund attached as Appendix 1

1. Background

- 1.1 The Council's Internal Audit Strategy for Pensions 2018/19 sets out the approach Internal Audit takes when planning its assurance on the effectiveness of controls over the East Sussex Pension Fund (ESPF). In particular it sets out the risks inherent in administering a large and complex scheme so that audit resources may be focussed on areas where these risks are highest.
- 1.2 Input has been sought from the Pension Board and officers involved in running the Scheme and their contributions have been fed into the Strategy.

2. Supporting Information

- 2.1 The Strategy is based on the most recent guidance available: '*Good Practice Guidance: Gaining Assurance Over the Governance and Administration of Pension Funds, and Pension Fund Investment Management – A Guide for The Internal Auditor*', published by the Local Authority Working Group on the Audit of Investment Managers [LAWGAIM].
- 2.2 The Strategy will provide a framework for the detailed annual plan, which will be delivered in line with proper internal audit practices as required by the Public Sector Internal Audit Standards (PSIAS).

3. Conclusions and Reasons for Recommendation

- 3.1 The Pension Board is recommended to approve the Internal Audit Strategy for Pensions 2018/19.

KEVIN FOSTER
Chief Operating Officer

Contact Officers: Russell Banks Tel No. 01273 481447

BACKGROUND DOCUMENTS
None

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East Sussex

Local Government Pension Scheme

Internal Audit Strategy

2018/19

1. Introduction

- 1.1. The East Sussex Local Government Pension Scheme (The Scheme) is administered by East Sussex County Council. The Scheme provides retirement benefits for County Council employees, but members also include employees of Brighton & Hove City Council, the five borough and district councils in East Sussex and various universities, colleges, academies and other public bodies.
- 1.2. Orbis Internal Audit & Counter Fraud provides internal audit services to the East Sussex Pension Fund.

2. Objective

- 2.1. The objective of this Pension Fund Audit Strategy (The Strategy) is to provide the authority with a consistent, risk based approach to determining an internal audit programme for the Pension Fund, which takes maximum advantage of the available sources of internal and external assurance.
- 2.2. In March 2007, the Local Authority Working Group on the Audit of Investment Managers [LAWGAIM] and the County Chief Auditors Network [CCAN] published '*Good Practice Guidance: Gaining Assurance Over the Governance and Administration of Pension Funds, and Pension Fund Investment Management – A Guide for The Internal Auditor*'. Whilst this guidance is now some 11 years' old, no new guidance has been produced and this, therefore, remains the principal steer in establishing our Strategy. However, we acknowledge that there have been considerable changes to the pension environment and this Strategy has sought to recognise them. In particular, it is not yet clear what impact the introduction of pooling arrangements will have on the Fund.
- 2.3. The delivery of the Strategy contributes to the annual governance statement and seeks to provide assurance on the following aspects of pension fund activities:
 - Pension Fund investments, governance and strategy;
 - Pension Fund pooling arrangements
 - Pensions administration – processes and systems;
 - Internal controls of external fund managers.

3. Approach

- 3.1. This Strategy uses risk assessment as its foundation. On a periodic basis, existing risks will be reviewed in consultation with members, the Pension Board and management to identify any new risks. The risk assessment will consider the materiality and significance of the processes involved, any

negative factors such as problems or significant changes and any positive factors, which provide comfort or assurance. It should be borne in mind that the Pension Fund is a material and fundamental financial system in its own right and, as such, may be subject to a minimum level of coverage in order to meet any requirements of the Scheme's external auditors.

- 3.2. The outcome of this assessment will be an objective view of those areas of the business where the organisation requires assurance that risks are being managed effectively. Internal Audit will then use a number of potential sources to provide that assurance.
- 3.3. For externally managed investments, Internal Audit will make use of assurance reports from the investment managers, custodians and property managers. The highest level of assurance will be placed on annual reports that comply with the Institute of Chartered Accountants' AAF 01/06 "Assurance reports on internal controls of services organisations made available to third parties" and the UK Financial Reporting Council's Corporate Governance Code (or international equivalents). These documents may be used to gain assurance over external investment management activities. If such documents are not available or do not comply with these standards, reliance may still be placed on local management assurance processes. Additionally, depending on the level of risk identified, specific internal audit work may be required. Levels of testing will be varied, depending on risk.

4. Professional Standards

- 4.1. The audit of the pension fund will be carried out in accordance with the professional standards set out in the Public Sector Internal Audit Standards.

5. Reporting Arrangements

- 5.1. Internal Audit work will be reported in the following manner:
 - Terms of Reference, which are based on the risks outlined in Appendix A and include the scope of each audit, will be drafted and agreed with management;
 - A draft report will be issued to management for its comments and response to the issues and risks identified;
 - A final report that includes agreed actions and implementation dates will be published to management.
- 5.2. Audit work will be reported in four¹ separate reports to management:
 - Pension Fund Investments, Governance and Strategy;

¹ It is likely the work on pooling arrangements will be subsumed into the Investments, Governance and Strategy audit in future years.

- Pension Fund Pooling Arrangements
- Pensions Administration – Processes and Systems; and
- Pension Fund External Control Assurance.

5.3 The results of audit work on the Scheme will also be reported in:

- Progress reports to the Pension Board, Corporate Management Team and the Audit Committee; and
- The Annual Internal Audit Report and Opinion.

6. Timetable

6.1. The timetable, to which Internal Audit seeks to work, should allow a degree of flexibility, but should be broadly as follows:

Task	Audit Days			
	Q1	Q2	Q3	Q4
Review arrangements for the new pooled fund - Pension Fund ACCESS Pool				
Review effectiveness of management assurance processes – Pensions Governance and Investments				
Review effectiveness of management's use of annual reports from those involved in externally managed investments and the degree of assurance that can be taken – External Control Assurance				
Review effectiveness of management assurance processes – Pension Administration - Processes & Systems				

7. The Effect on Audit Planning and External Audit Relationship

7.1. The number and type of reviews undertaken will depend on which processes have been assessed as high risk, how long each process will take to document and test, and how much time is available for this work (bearing in mind the scope of Internal Audit's overall work for the authority). As a consequence, the Pension Fund will have its own audit plan, which will form part of the overall Audit Plan. In addition to planned work, we may carry out *ad hoc* work where the opportunity or need arises. This could include time spent updating the risk assessment and revising the plan. The National Fraud Initiative includes pension payments and the results of this may provide assurance, or indicate areas where further work may be needed.

- 7.2. The audit reviews will be scheduled over the year according to the assessed risk, with high risk areas covered more frequently than low risk areas. This may mean that some processes may be subject to internal audit work on a less regular basis than others.

Appendix A

1. Risks Arising From the Administration of Pension Funds and Pension Fund Management

- 1.1 Appendix A sets out the detailed risks to the Pension Fund. These risks have been identified from the Good Practice Guidance and have been supplemented by risks specific to the ESCC Pension Fund, identified by management and Internal Audit. They should not be regarded as exhaustive, and should be the subject of regular re-assessment.
- 1.2 Risk have been rated high, medium or low according to their inherent risk; i.e., their likelihood and impact if no management controls were in place. In practice, controls will be in place and it is the degree to which these can be relied upon to mitigate the risks, that audit work will be focussed on. Detailed audit coverage will consist of a review of these controls and the provision of assurance that they are being managed effectively.

2. Risks: Pension Fund Governance and Investments

2.1. Overall risks:

The Pension Fund is not managed effectively to ensure that its objectives are met for the benefit of all stakeholders and that account is taken of the impact of increased employer contributions on council taxpayers and/or service provision.

Assets managed by the Pension Fund or entrusted to third parties may not be held securely for the long-term benefit of Scheme members, and those charged with governance may therefore fail their members' objectives in saving for retirement.

2.2 Subsidiary risks:

Risk	Inherent Risk Rating
Fund objectives are not defined, agreed and supported by appropriate performance and risk management processes, to include consideration of fraud risk.	H
Inappropriate investment strategy is adopted.	H
Operational investment processes do not support investment strategy or fail to maximise investment returns.	H
Pooling arrangements may result in reduced control over the Fund, including investment decisions, resulting in financial loss.	H
Investment strategy decisions are not implemented in a timely manner.	H

Risk	Inherent Risk Rating
Performance of external advisors and service providers is not managed to maximise their contribution to the value of the Fund without placing excessive reliance upon them.	M
Lack of clarity in manager's reporting may result in poor value for money not being identified.	M
Fund assets are not sufficient to meet its obligations and liabilities, and consequently there is an adverse impact on the council tax payer/service provision.	H
Failure to maintain accurate accounting records and provide appropriate statutory reports including unqualified statutory accounts.	H
Failure to complete the triennial actuarial valuation in good time leading reputational damage and/or delays in collecting enhanced contributions.	H
Poor quality data leads to inaccurate actuarial valuation resulting in contribution requirements being underestimated and financial loss.	H
Failure to adhere to relevant statutory regulations including governance arrangements or updates to LGPS.	H
Failure to communicate adequately with all relevant stakeholders;	H
Those charged with the governance of the Fund and the Scheme are unable to fulfil their responsibilities effectively, including as a result of the loss of key skills or capacity.	H
Unsatisfactory or disrupted administration services due to unclear governance or ineffective monitoring arrangements.	H
The Pension Fund investment manager or custodian may not have the most appropriate organisational structure or control framework to ensure that services are delivered to clients in the most effective or ethical manner thereby protecting their long term interests.	H
Negligence or fraud by investment fund managers or custodian may result in losses to pension funds.	H
All risks to the integrity of data and appropriate disaster recovery may not have been identified, evaluated and managed.	M
Investment decisions and portfolio management (including property management) may not maximise client returns or be performed in accordance with agreements, guidelines and policies set by the client.	H
Use of Proxy voting by fund managers may not be in accordance with agreements and/or may expose the fund to reputational damage.	M
All Investment transactions may not be properly authorised, executed and allocated in a timely, cost effective and accurate manner.	H
Pension fund assets are not accounted for correctly, held securely, and any income or rights attributable to them are not actioned promptly or accurately and paid into the correct account.	H
Pension fund investments may not be valued accurately.	M

Risk	Inherent Risk Rating
Net cash flow reduction if large numbers of employees leave the Scheme.	H
Negative cash flow might cause the pension fund bank account to become overdrawn.	H

3. Risks: Pensions Administration – Processes and Systems

3.1. Overall risk:

Pensions administration does not ensure that all payments due to and from the fund, through the whole of the employee and employer lifecycle, are made and accounted for fully and accurately and in a timely fashion.

3.2 Key risks:

a) Scheme member lifecycle:

Risk	Inherent Risk Rating
New Scheme members (including transfers in) are not processed and recorded promptly, completely and accurately and in accordance with regulatory requirements and the Scheme's rules.	H
Life events relating to Scheme members (including transfers out, retirement, death and deferred membership) are not processed and recorded promptly, completely and accurately and in accordance with regulatory requirements and the Scheme's rules.	H
Regular Scheme member events (including normal and additional contributions to the fund, receipt of payments from the fund, and receipt of information) are not processed and recorded promptly, completely and accurately via the fund's bank account and in accordance with regulatory requirements and the Scheme's rules.	H

b) Admitted body (employer) lifecycle:

Risk	Inherent Risk Rating
New admitted bodies are not incorporated into the Scheme promptly, completely and accurately and in accordance with the Scheme's rules.	H
Admitted bodies, who leave the Scheme, are not processed and recorded promptly, completely and accurately and in accordance with regulatory requirements and the Scheme's rules.	H
Regular admitted body events (including the collection and payments of employers' and employees' contributions to the fund, and provision of information) are not processed and recorded promptly, completely and accurately and in accordance with regulatory requirements and the Scheme's rules.	H

3.3 Subsidiary risks applying to both members and admitted bodies:

Risk	Inherent Risk Rating
Fund administrators do not have sufficient resources or skills to process transactions effectively.	H
Monies or balances received are not completely, accurately or promptly processed into the Fund and recorded in the administration system; calculations of contribution requirements, transfer values, or other receivables, are inaccurate or are not made promptly.	H
Monies or balances paid are not authorised, completely, accurately or promptly processed from the Fund and recorded in the administration system; payments are made which are inaccurate or are made to ineligible or unauthorised individuals or organisations; calculations of regular payments, lump sums, transfer values, or other payments, are inaccurate or are not made promptly.	H
Standing data and permanent records are not accurate or do not reflect changes of circumstances, leading to data and/or regulatory breaches.	M
Information may not be provided to stakeholders accurately, or with the required timeliness (including annual benefit statements).	M
Unsanctioned, excessive or inappropriate costs and charges may be levied against the Fund, including charges of the administering body.	M
Costs charged to the scheme are unclear leading to reputational damage with key stakeholders.	H

3.4. Pensions administration systems – overall risk:

Physical and logical Pension Fund systems and data may not be secured against inappropriate access and maintained to ensure continuity of service for users.

3.5. Key risks:

Risk	Inherent Risk Rating
Physical and logical Pension Fund systems and data may not be secured against inappropriate access.	H
Physical and logical Pension Fund systems and data may not be maintained in an appropriate environment.	H
Maintenance (or lack of maintenance) of Pensions hardware and software may threaten the integrity or operation of the Fund.	H
Inability to respond to hardware or software issues which cause processing interruptions.	H

Risk	Inherent Risk Rating
Outsourced ICT activities are not managed and controlled adequately.	H
Inadequate disaster recovery or business continuity arrangements leading to a failure to provide the service/pay pensioners/record receipts and/or a loss of data.	H
System upgrades and/or patch management application introduces problems/errors etc. into the system.	M
System support or availability may be lost if the provider goes out of business.	L

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Report to: Pension Committee

Date of meeting: 15 June 2018

By: Chief Finance Officer

Title: Annual Review of the Pension Fund Policies

Purpose: To inform the Committee of the outcome regarding the annual review of the Pension Fund Policies

RECOMMENDATIONS - The Committee is recommended to:

- 1) note the Discretionary Pension Policy Statements and Administration Strategy Statement; and**
 - 2) Approve the Policy for Employers Leaving the Fund (Cessation Policy).**
-

1. Background

1.1 Under the Local Government Pension Scheme Regulations, the Pension Fund Committee, acting as the Administering Authority of the East Sussex Pension Fund ("the Fund"), is required to produce and maintain a number of key policy documents. These policies are subject to an annual review, and this report presents the latest version of these policies to be noted or approved by the Committee.

2. Supporting Information

2.1 The key policies to be noted or approved are set out as appendices to this report. The key issues with each policy, including any changes to the Policy is set out below.

Review of Discretionary Pension Policy Statements

2.2 Under The Local Government Pension Scheme (LGPS) Regulations 2013 each scheme employer is required to prepare and publish a written statement of its policy in relation to the exercise of its discretionary functions and send a copy of this statement to the administering authority. To support employers in the compliance of this regulation, the Fund provides a template of the statutory discretions requiring a policy.

2.3 The LGPS regulations require scheme employers to formulate and publish a policy. There has been no material change to the statements, (Appendix 1), which list the pension discretionary policies under the regulations covering -

- Statutory Admin Authority Discretions
- Non Statutory Admin Authority Discretions
- Statutory Employing Authority Discretions
- Non Statutory Employing Authority Discretions

Administration Strategy Statement

2.4 The Fund's Administration Strategy Statement is in compliance with LGPS Regulations 2013. The strategy is kept under review and revised to reflect changes to LGPS regulations, Fund policies, dates, fund value, increase in employers, etc. Material changes are subject to consultation with the employers, and variations must be agreed by the Pension Committee.

2.5 The Fund will monitor the requirements of this agreement and report its findings to the Pension Committee and Pension Board. The Fund provides a high quality pension service to members and employers, to ensure members receive their correct pension benefits. This is best achieved where the Fund and the employers are clear about their roles and responsibilities and work in partnership.

2.6 The attached document (Appendix 2) sets out a framework by way of outlining the policies and performance standards to be achieved when providing a cost-effective inclusive and high quality pensions administration service. In particular it sets out:

- The roles and responsibilities of both the Fund and the employers within the Fund;
- The level of service the Fund and employers will provide to each other;
- The performance measures used to evaluate the level of service.

Policy for Employers Leaving the Fund (Cessation Policy)

2.7 This is the policy (Appendix 3) of the Fund as regards the treatment of employers on termination of their participation in the Fund. It covers the methodology for calculation and payment of any deficit on leaving the Fund (via a “cessation valuation”). It has been prepared by the Administering Authority, in collaboration with the Fund’s Actuary, Hymans Robertson LLP. This policy applies to all past, current and future employers participating in the Fund.

2.8 The methodology set out in this policy is the Fund’s preferred treatment of exiting employers. Alternative arrangements for cessation valuations, including delaying the calculation or payment of a cessation debt beyond the date the last active leaves the Fund, will only be considered in exceptional circumstance, and must be agreed by the Council’s Section 151 Officer in consultation with the Chair of the Pension Committee. Exceptional circumstances will include situations where immediate payment of a cessation debt would result in an insolvency event for the exiting employer.

2.9 The main changes to the Cessation Policy include:

- Wording added to cover suspension notices in case the Fund decides to make use of them
- To help manage the Fund’s “risky employers”, and to reflect the general LGPS trend towards more flexible cessation management, section 3 now has an extra clause covering post cessation funding agreements (but only at the Fund’s discretion).
- Updates to allow for changes to assumptions at the 2016 valuation.

3. Conclusion and reasons for recommendations

3.1 The Committee is recommended to note the revised policy documents as set out in Appendices 1 & 2 and approve Appendix 3 (Policy for Employers Leaving the Fund (Cessation Policy)) to this report.

IAN GUTSELL
Chief Finance Officer

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Background Documents

Administering Authority Discretions - Statutory

Local Government Pension Scheme Regulations 2013 (and relevant earlier regulations)

Where a discretion reflects a similar discretion from an earlier set of regulations this has also been included and referenced in this section. For example the discretion to “decide to whom a death grant should be paid” is common to all sets of regulations and it is assumed that an administering would wish to maintain a consistent policy regarding its exercise, no matter under which set of regulations the member retired.

Regulation	Description	Existing Policy
30(8) of the LGPS Regulations 2013	<p>Whether to waive, in whole or in part, actuarial reduction on benefits accrued from 1 April 2014 only when a member voluntarily draws them before normal pension age in the event that the member’s former employer is no longer a scheme employer.</p> <p>Whether to waive, in whole or in part, actuarial reduction on benefits which a member draws on flexible retirement grounds.</p>	<p>No policy</p> <p>*to form as and when required</p>
55 of the LGPS Regulations 2013	To publish a Governance Compliance Statement in accordance with this regulation	<p>Available on the ESCC website</p> <p>https://www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/</p>
58 of the LGPS Regulations 2013	Decide on funding strategy for inclusion in funding strategy statement	<p>Available on the ESCC website</p> <p>https://www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/</p>
61 of the LGPS Regulations 2013	To publish a Communication Policy in accordance with this regulation	<p>Available on the ESCC website</p> <p>https://www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/</p>

Administering Authority Discretions - Statutory

Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014

This section contains the key discretions about which an administering authority should (and in some cases must) have a written policy statement. Where a discretion reflects a similar discretion from an earlier set of regulations this has also been included and referenced in this section.

Regulation	Description	Existing Policy
3(13) of the LGPS (Transitional Provisions and Savings) Regulations 2014 And 70(1) and 71(4)(c) of the LGPS (Administration) Regulations 2008 109 & 110(4)(b) of the LGPS Regulations 1997	Decide policy on abatement of pre 1 April 2014 element of pensions in payment following re-employment	Available on the ESCC website https://www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/
Schedule 2 para 1 of the LGPS (Transitional Provisions and Savings) Regulations 2014	Whether to “switch on” the 85 year rule for a member voluntarily drawing benefits on or after age 55 and before age 60 where the employer no longer exists . This applies under the Local Government Pension Scheme Regulations 2013 only (i.e. currently does not apply to the early payment of deferred benefits payable under earlier Regulations)	No policy *to form as and when required

Administering Authority Discretions - Statutory

Discretions in relation to the Local Government Pension Scheme (Benefits Membership and Contributions) Regulations 2007

This section contains discretions applicable to scheme members who ceased active membership on or after 1 April 2008 and before 1 April 2014. Where a discretion reflects a similar discretion from an earlier set of regulations this has also been included and referenced in this section. Discretions under these regulations which have a corresponding discretion in later regulations have been included under that set of regulations only.

Regulation	Description	Existing Policy
30(2) and 30A(3) of the LGPS (Benefits, Membership and Contributions) Regulations 2007	Consenting to the immediate payment of benefits for members aged between 55 and 60 where the member's former employer is no longer a scheme employer.	No policy *to form as and when required
30(5) and 30A(5) of the LGPS (Benefits, Membership and Contributions) Regulations 2007	To waive actuarial reduction where former employer is no longer a scheme employer.	No policy *to form as and when required

Administering Authority Discretions – non statutory

Local Government Pension Scheme Regulations 2013 (and relevant earlier regulations)

Where a discretion reflects a similar discretion from an earlier set of regulations this has also been included and referenced in this section. For example the discretion to “decide to whom a death grant should be paid” is common to all sets of regulations and it is assumed that an administering would wish to maintain a consistent policy regarding its exercise, no matter under which set of regulations the member retired.

Regulation	Description	Existing Policy
4(2)(b) of the LGPS Regulations 2013	Whether to agree to an admission agreement with a Care Trust, NHS Scheme employing authority or care Quality Commission	
3(5) and Schedule 2, Part 3 para 1 of the LGPS Regulations 2013	Whether to agree to an admission agreement with a body applying to be an admission body	Currently under delegation of powers with the CFO
Schedule 2, part 3, para 12(a)	Define what is meant by employed in connection with	
Schedule 2 Part 3 para 9(d) of the LGPS Regulations 2013	Whether to terminate a transferee admission agreement in the event of - insolvency, winding up or liquidation of the body - breach by that body of its obligations under the admission agreement - failure by that body to pay over sums due to the Fund within a reasonable period of being requested to do so	Covered in the FSS (p14).
16(1) of the LGPS Regulations 2013	Whether to turn down a request by a member to pay an Additional Pension Contribution or Shared Cost Additional Pension Contribution over a period of time where it would be impractical to	No policy

Regulation	Description	Existing Policy
	allow such a request (e.g. where the sum being paid is very small and could be paid as a single payment)	
16(10) of the LGPS Regulations 2013	Whether to require a satisfactory medical before agreeing to an application to pay an Additional Pension Contribution or Shared Cost Additional Pension Contribution	No policy
17(12) of the LGPS Regulations 2013	Decide to whom any AVC/Shared Cost AVC monies (including life assurance monies) are to be paid on death of the member	No policy
22(3)(c) of the LGPS Regulations 2013	Pension account may be kept in such form as is considered appropriate	
40(2), 43(2) and 46(2) of the LGPS Regulations 2013 17(5) to (8) of the Transitional Provisions and Savings Regulations) 23(2), 32(2) and 35(2) of the LGPS (Benefits, Membership and Contributions) Regulations 2007 38(1) and 155(4) of the LGPS 1997 Regulations E8 of the LGPS	Decide to whom a death grant should be paid	No policy

Regulation	Description	Existing Policy
Regulations 1995		
32(7) of the LGPS Regulations 2013	Whether to extend the time limits within which a member must give notice of the wish to draw benefits before normal pension age or upon flexible retirement	No policy
34(1) of the LGPS Regulations 2013 39 of the LGPS (Benefits, Membership and Contributions) Regulations 2007 49 and 156 of the LGPS Regulations 1997	Decide whether to commute small pension	No policy
36(3) of the LGPS Regulations 2013 56(2) of the LGPS (Administration) Regulations 2008 97(10) of the LGPS Regulations 1997	Approve medical advisors used by employers (for ill health benefits)	No policy
38(3) of the LGPS Regulations 2013 And 31(4) of the LGPS (Benefit, Membership and Contributions)	Decide whether a deferred beneficiary meets the criteria required to qualify for ill-health retirement in cases where the member's former employer is no longer a scheme employer.	

Regulation	Description	Existing Policy
Regulations 2007		
38(5) of the LGPS Regulations 2013 And 31(7) of the LGPS (Benefit, Membership and Contributions) Regulations 2007	Decide whether a suspended ill health tier 3 member meets the criteria for ill health retirement in cases where the member's former employer is no longer a scheme employer	
38(6) of the LGPS Regulations 2013	Decide whether a suspended ill health tier 3 member is unlikely to be capable of undertaking gainful employment before normal pension age because of ill health (where Employer has become defunct)	
49(1)(c) of the LGPS Regulations 2013 42(1)(c) of the LGPS (Benefits, Membership and Contributions) Regulations 2007	Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership	
54(1) of the LGPS Regulations 2013	Whether to set up a separate admission agreement fund	No policy
59 (1) and (2) of the LGPS Regulations 2013	Whether to have a written pensions administration strategy and, if so, the matters it should include	Being developed

Regulation	Description	Existing Policy
64 (2A) of the LGPS Regulations 2013	Whether to suspend, for up to 3 years, an employer's obligation to pay an exit payment where the employer is again likely to have active members within the specified period of suspension.	Contained within cessation policy
64(4) of the LGPS Regulations 2013	Whether to obtain revision of employer's contribution rate if there are circumstances which make it likely a Scheme employer will become an exiting employer	Contained in the FSS
68(2) of the LGPS Regulations 2013 80(5) of the LGPS 1997 Regulations	Whether to require employers to pay for pension strain when benefits are drawn early or with a reduced reduction.	Contained in the FSS
69(1) of the LGPS Regulations 2013	Decide frequency of payments to be made over to Fund by employers and whether to make an admin charge.	Contained within administration strategy statement
69(4) of the LGPS Regulations 2013	Decide form and frequency of information to accompany payments to the Fund	No policy however the Fund provides a template form for employers to use
70 of the LGPS Regulations 2013 And regulation 22(2) of the Transitional Provisions and Savings Regulations 2014	Whether to issue employer with notice to recover additional costs incurred as a result of the employer's level of performance	
71(1) of the LGPS Regulations 2013	Whether to charge interest on payments by employers which are overdue	Contained within the administration strategy statement

Regulation	Description	Existing Policy
76(4) of the LGPS Regulations 2013 And 60(8) of the LGPS (Administration) Regulations 2008 And 99 of the LGPS Regulations 1997	Decide procedure to be followed by admin authority when exercising its stage two IDRP functions and decide the manner in which those functions are to be exercised	
79(2) of the LGPS Regulations 2013 And 63(2) of the LGPS (Administration) Regulations 2008 And 105(1) of the LGPS Regulations 1997	Whether admin. authority should appeal against employer decision (or lack of a decision)	
80(1)(b) of the LGPS Regulations 2013 And regulation 22(1) of the Transitional Provisions and Savings Regulations 2014 And 64(1)(b) of the LGPS (Administration) Regulations 2008	Specify information to be supplied by employers to enable admin. authority to discharge its functions	Contained within the administration strategy statement
82(2) of the LGPS Regulations 2013	Whether to pay death grant due to personal representatives or anyone appearing to be beneficially entitled to the estate without	No policy

Regulation	Description	Existing Policy
52(2) of the LGPS (Administration) Regulations 2008 95 of LGPS Regulations 1997	need for grant of probate / letters of administration where payment is less than amount specified in s6 of the Administration of Estates (Small Payments) Act 1965	
83 of the LGPS Regulations 2013 52A of the LGPS (Administration) Regulations 2008	Whether, where a person (other than an eligible child) is incapable of managing their affairs, to pay the whole or part of that person's pension benefits to another person for their benefit.	No policy
98(1)(b) of the LGPS Regulations 2013	Agree to bulk transfer payment	No policy
100(6) of the LGPS Regulations 2013	Extend normal time limit for acceptance of a transfer value beyond 12 months from joining the LGPS (in agreement with the employer)	No policy
100(7) of the LGPS Regulations 2013	Allow transfer of non-club pension rights into the Fund	No policy (implied in the FSS)
105(2) of the LGPS Regulations 2013	Decide whether to delegate any administering authority functions under the Regulations	See Section 12, table 5 of Part 3 or ESCC Constitution
106(3) of the LGPS Regulations 2013	Decide whether to establish a joint local pension board once approval has been granted by the Secretary of State	Not applicable
106(6) of the LGPS Regulations 2013	Decide procedures applicable to the local pension board	
107(1) of the LGPS Regulations 2013	Decide appointment procedures, terms of appointment and membership of local pension board	See Section 1, table 5 of Part 3 or ESCC Constitution

Regulation	Description	Existing Policy
Schedule 1 of the LGPS Regulations 2013 17(9) of the Transitional Provisions and Savings Regulations 2014	Decide to treat child as being in continuous education or vocational training despite a break	No policy
Schedule 1 of the LGPS Regulations 2013 Regulation 17(9)(b) of the Transitional Provisions and Savings Regulations 2014 25 of the LGPS (Benefits, Membership and Contributions) Regulations 2007	Decide evidence required to determine financial dependence of cohabiting partner on scheme member or financial interdependence of cohabiting partner and scheme member	No policy

Administering Authority Discretions – non statutory

Local Government Pension Scheme (Transitional Provisions and Savings) Regulations 2014

This section contains the key discretions about which an administering authority should (and in some cases must) have a written policy statement. Where a discretion reflects a similar discretion from an earlier set of regulations this has also been included and referenced in this section.

Regulation	Description	Existing Policy
3(1) and Schedule 2 para 2(1) of the LGPS (Transitional Provisions and Savings) Regulations 2014	<p>In the event that a deferred member is drawing benefits early and that member's former employer is no longer a scheme employer, to determine whether;</p> <p>To waive any reductions that would apply to the member's service which is fully protected for the rule of 85 on compassionate grounds.</p> <p>To waive any reductions that would apply to the member's service which is not fully protected for the rule of 85 on any grounds whatsoever.</p>	Note – suggest a consistent approach here that ties in with LGPS 2014 Regulation 30(8)
Schedule 2, para 2(3) of the LGPS (Transitional Provisions and Savings) Regulations 2014	Whether to require any strain on Fund costs to be paid "up front" by employing authority if the employing authority "switches on" the 85 year rule for a member voluntarily retiring (other than flexible retirement) prior to age 60, or waives an actuarial reductions.	No policy

Regulation	Description	Existing Policy
<p>3(6), 4(6)(c), 8(4), 10(2)(a), 17(2)(b) of the LGPS (Transitional Provisions and Savings) Regulations 2014</p> <p>and 10 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007</p> <p>and Schedule 1 to the LGPS (Transitional Provisions) Regulations 2008</p> <p>and Regulation 23(9) to the LGPS Regulations 1997</p>	<p>Where member to whom regulation 10 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 applies (use of average of 3 years pay for final pay purposes) dies before making an election, whether to make that election on behalf of the deceased member. Or where a member has a certificate of protection in place in respect of a pay cut or restriction prior to April 2008 and dies before making an election to make an election on behalf of the member.</p>	No policy

Regulation	Description	Existing Policy
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10(9) of the LGPS (Transitional Provisions and Savings) Regulations 2014	Decide, in the absence of an election from the member within 12 months of ceasing a concurrent employment, which ongoing employment benefits from the concurrent employment which has ceased should be aggregated (where there is more than one ongoing employment)	No policy
15(1)(b) of the LGPS (Transitional Provisions and Savings) Regulations 2014 And 66(9) (b) and 66(9)(b) of the LGPS Regulations 1997	Allow late application to convert scheme AVCs into membership credit i.e. allow application more than 30 days after cessation of active membership (where AVC arrangement was entered into before 13 November 2001)	No policy
15(1)(c) of the LGPS (Transitional Provisions and Savings) Regulations 2014 And Schedule 1 of the LGPS (Transitional Provisions) Regulations 2008 And 83(5) of the LGPS Regulations 1997	Extend time period for capitalisation of added years contract	No policy

15(1)(d) of the LGPS (Transitional Provisions and Savings) Regulations 2014 And 28(2) of the LGPS (Administration) Regulations 2008	Whether to charge member for provision of estimate of additional pension that would be provided by the Scheme in return for transfer of in house AVC/SCAVC funds (where AVC/SCAVC arrangement was entered into before 1/4/14)	
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Administering Authority Discretions – non statutory

Discretions in relation to the Local Government Pension Scheme (Benefits Membership and Contributions) Regulations 2007

This section contains discretions applicable to scheme members who ceased active membership on or after 1 April 2008 and before 1 April 2014. Where a discretion reflects a similar discretion from an earlier set of regulations this has also been included and referenced in this section. Discretions under these regulations which have a corresponding discretion in later regulations have been included under that set of regulations only.

Regulation	Description	Existing Policy Located and Comments
27(5) of the LGPS (Benefits, Membership and Contributions) Regulations 2007 47(2) of the LGPS Regulations 1997 G11(2) of the LGPS Regulations 1995	Payment of a child's pension to another person	No policy

Administering Authority Discretions

Discretions in relation to the Local Government Pension Scheme (Administration) Regulations 2008

Regulation	Description	Existing Policy Located and Comments
45(3) of the LGPS (Administration) Regulations 2008 And 89(3) of the LGPS Regulations 1997	Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits	No policy

Administering Authority Discretions – non statutory

Discretions in relation to the Local Government Pension Scheme Regulations 1997 (The 1997 Pension Regulations) (some may continue to apply in relation to historical cases or councillors)

This section contains discretions applicable to scheme members who ceased active membership on or after 1 April 1998 and before 1 April 1995. Where a discretion reflects a similar discretion from an earlier set of regulations this has also been included and referenced in this section. Discretions under these regulations which have a corresponding discretion in later regulations have been included under that set of regulations only.

Regulation	Description	Existing Policy Located and Comments
47(1) of the LGPS Regulations 1997 G11(1) of the LGPS Regulations 1995	Apportionment of children's pensions	No policy
50 and 157 of the LGPS Regulations 1997	Commute benefits due to exceptional ill health	No policy
118 of the LGPS Regulations 1997	Retention of CEP where member transfers out for pre 1 April 2008 leavers	No policy
147 of the LGPS Regulations 1997	Discharge Pension Credit liability (in respect of Pension Sharing Orders for pre 1 April 2008 leavers)	No policy

Administering Authority Discretions – non statutory

Discretions in relation to the Local Government Pension Scheme Regulations 1995 (the “1995 Pension Regulations”)

This section contains discretions applicable to scheme members who ceased active membership before 1 April 1998. Where a discretion reflects a similar discretion from an earlier set of regulations this has also been included and referenced in this section. Discretions under these regulations which have a corresponding discretion in later regulations have been included under that set of regulations only.

Regulation	Description	Existing Policy Located and Comments
F7(1) of the LGPS Regulations 1995	Suspension of spouses' pensions during remarriage or cohabitation	No policy

East Sussex Pension Fund Administration Strategy Statement 2018

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Introduction

East Sussex County Council is the administering authority for the Local Government Pension Scheme (LGPS) on behalf of the employers participating in the LGPS through the East Sussex Pension Fund (the “Fund”). The LGPS is governed by statutory regulations.

This is the pension administration strategy of the Fund in relation to the Local Government Pension Scheme. The pension administration strategy is kept under review and revised to reflect changes to LGPS regulations and Fund policies. Changes are subject to consultation with the employers, variations must be agreed by the Fund

The Fund shall monitor the requirements of this agreement and report its findings to the East Sussex Pension Fund Pension Committee and Pension Board.

As at 31 March 2018 the Fund comprised 132 scheme employers with approximately 70,000 scheme members in relation to the LGPS. At the last assessment the value of the Fund was over £3.4bn

The Fund provides a high quality pension service to members and employers, to ensure members receive their correct pension benefits. This is best achieved where the Fund and the employers are clear about their roles and responsibilities and work in partnership.

This document sets out a framework by way of outlining the policies and performance standards to be achieved when providing a cost-effective inclusive and high quality pensions administration service. In particular it sets out:

- The roles and responsibilities of both the Fund and the employers within the Fund.
- The level of service the Fund and employers will provide to each other
- The performance measures used to evaluate the level of service

This administration strategy statement is an agreement between the Fund and employers.

Regulatory context

The LGPS is a statutory scheme, established by an Act of Parliament and governed by regulations. The most recent of such regulations, appertaining to administration are the LGPS (Administration) Regulations 2013. Regulation 59(1) of the (Administration) Regulations 2013 covers the requirement for an administering authority to prepare a written statement of policies as it considers appropriate in the form of a Pensions Administration Strategy. This regulation outlines the primary matters which should be covered to include:

- administration standards
- performance measures
- communication with scheme employers

In addition, Regulation 67 and 69 of the LGPS Regulations 2013 provide for employer and employee contributions to be paid over to the Fund. A breach of Regulation 69(1) can result in consequences for an employer, as stated in section 49(8) of the Pensions Act 1995.

Regulation 70 of the (Administration) Regulations 2014 covers the ability of an administering authority to recover additional costs arising from Scheme employers' level of performance. Furthermore, Regulation 71 of the same regulations allows the administering authority to apply interest on late payments by scheme employers. Some of these regulations may be referenced in the relevant sections of this administration strategy statement.

In carrying out their roles and responsibilities in relation to the administration of the Local Government Pension Scheme the administering authority and scheme employers will, as a minimum, comply with overriding legislation, including:

- Pensions Act 1995 and associated disclosure legislation;
- Freedom of Information Act 2000;
- Age Discrimination Act 2006;
- Data Protection Act 1998;
- Disability Discrimination Act 1995;
- Finance Act 2004; and
- Health and Safety legislation.

Where agreed, the administering authority and scheme employers will comply with local standards which go beyond the minimum requirements set out in overriding legislation. Such best practice standards are outlined in the section on timeliness set out below.

Roles and responsibilities

The quality of service to members depends on the supply of accurate and timely information.

Employer duties and responsibilities are set out in the table below:

Employers – Pensions: Commitments / SLA	
Item	Expectations
New starters	Within 2 months of the employee joining, or such shorter period as required by any auto-enrolment obligations (generally this tends to be before or within six weeks of the employee's automatic enrolment date).
Change in member's details	Within 2 months of the event.
Early Leavers without entitlement to immediate benefits	<ul style="list-style-type: none"> • within 3 months of joining, refund through your payroll & notify the Fund • outside of 3 months of joining notify the Fund using the appropriate form for refund of contributions or Deferred Benefits
Opt Outs	Refund contribution through your payroll and notify the Fund.
Leavers with entitlement to immediate payment of benefits	<ul style="list-style-type: none"> • Notify the Fund using the relevant form as soon as possible once leaving date is confirmed. • Provide all appropriate information required by the Fund to enable payment of benefits within time scales provided above. <p>(All forms are available from the East Sussex County Council website Information for Employers pages) https://www.eastsussex.gov.uk/yourcouncil/forms/</p>
Disclosure Regulations	Great care must also be taken to avoid breaking the Disclosure Regulations. Consequently when a retirement takes place before NPA the latest form is to be received in the Office is no later than one month after the date of retirement. Where a retirement takes place on or after NPA, the Office must receive the form no more than ten working days after the date of retirement.
Death in service	Notify the Fund within 3 working days of all the information being gathered, for example birth and marriage certificates.

The Fund's duties and responsibilities are set out in the table below:

Business Operations – Pensions: Commitments / SLA	
Items	Expectations/SLA
Letters/emails from members (or member's representatives) answered or acknowledged	10 working days
New starters processed	10 working days from receipt of notification.
Changes in details processed	9 working days from receipt of request.
Calls to the Pensions Administration team answered in office hours	Calls answered within 3 rings.
Retirement	Our practice is that we pay the Lump sum normally within 10 days after date of retirement. We wait until post retirement to finalise the final pay figure, to ensure any changes are picked up.
Annual benefit statements for deferred members issued	31 August of each year (Statutory deadline)
Annual benefit statements for active members issued	31 August of each year (Statutory deadline)
Year End Return queries for employers issued	30 June
Pension savings statements issued if applicable	6 October (Statutory deadline)
Changes to bank details made	9 working days from receipt of request.
Estimates for divorce processed	<ul style="list-style-type: none"> Divorce proceeding started 6 weeks from receipt of PS02 form Divorce proceedings not started 3 months from receipt of PS02 form
Non-LGPS transfers into ESPF processed	10 Working days
Non-LGPS transfer out quotations processed	25 Working days

Non-LGPS transfer out payments processed	25 Working days
Internal and concurrent transfers processed	22 Days to complete
Refund payments made	10 Working days
Deferred benefits calculated	25 Working days
Pension quotations calculated	7 Working days
APC/SCAPC illustrations calculated	Members are referred to LGA's online calculator.
AVC amendments noted on members record	9 Working days
New retirement benefit options sent	10 Working days
New retirements processed for payment	7 Working Days
Deferred benefits processed for payment	7 Working days
Notification of a death processed	5 working days
Dependants' pensions processed for payment	5 Working days
Death grants processed for payment	5 working days
Tax-free retirement lump sum processed by pensions/ Accounts	10 working days of retirement date.

PROCEDURES FOR ENSURING COMPLIANCE WITH STATUTORY REQUIREMENTS AND LEVELS OF PERFORMANCE

Ensuring compliance is the responsibility of the administering authority and scheme employers. We will work closely with all scheme employers to ensure compliance with all statutory requirements, whether they are specifically referenced in the LGPS Regulations, in overriding legislation, in this Administration Strategy Statement. We will also work with them to ensure that overall quality and timeliness is improved as part of an agreed service development plan. Various means will be employed, in order to ensure such compliance and service improvement, seeking views from as wide an audience as possible. These include:

EXTERNAL PROVIDERS

The administering authority or scheme employers will ensure that any external service providers with responsibility for carrying out any functions relating to the administration of the Local Government Pension Scheme are aware of the standards to be met (such as external pension administration providers, payroll and HR providers). They will also be responsible for ensuring that those standards are met.

AUDIT

The East Sussex Pension Fund will be subject to annual audit of its processes and internal controls. The East Sussex Pension Fund and scheme employers will be expected to fully comply with any requests for information from both internal and approved external auditors. Any subsequent recommendations made will be considered by the East Sussex Pension Fund and where appropriate duly implemented (following discussions with scheme employers where necessary).

PERFORMANCE MONITORING

The East Sussex Pension Fund will monitor performance against specific tasks from the event date (e.g. date of leaving/retirement, etc) to date of the completion of the task. A part of this monitoring exercise we will include the monitoring of the performance of each scheme employer in the provision of all necessary data required by the administering authority enabling completion of each task. We will also monitor the performance of the administering authority in carrying out its responsibilities in relation to the scheme.

The East Sussex Pension Fund as the administering authority will regularly monitor performance by using a variety of information available to the Fund.

Communication

The Fund's Communications Policy Statement outlines how the Fund communicates with all stakeholders, including employers. The Communications Policy Statement can be found at: <https://www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/>

The Fund routinely provides information and resources for employers using the Fund's website and the Pension pages on the ESCC website which contain an up to date list of LGPS publications, forms, newsletters, ESFOA updates and minutes from the Pensions Board and Pensions Committee meetings.

The employers and member's websites can be found at:

Employers' website: <https://www.eastsussex.gov.uk/yourcouncil/pensions/members/>

Members' website: <http://www.eastsussexpensionfund.org/>

The Fund will communicate to employers on an ad hoc basis and as required in respect of matters relating to the LGPS. The Fund will also hold at least one employer forum each year which all employers will be invited to.

The Fund will notify the employer of changes to administrative procedures that may arise as a result of changes in pension scheme regulations and update standard documentation on the Fund's website.

The Fund will issue forms, newsletters, booklets and such other materials as are necessary in the administration of the LGPS, for members and the employers.

Employers should provide contact details at least annually, and whenever a named contact changes, on the Employer Authorisation form.

Employers may provide information about members to the Fund in a variety of ways, including electronic and paper forms or via PensionsWEB. Forms used must be up to date, and are available on the Fund's website.

Employer Contributions

Regulations 67 and 69 of the Local Government Pension Scheme Regulations 2013 require that every Scheme employer pay over both employee and employer contributions to the Fund.

Regulation 67(1) provides for employer contributions by stating that a Scheme employer must contribute to the appropriate fund the amount applicable for that authority as calculated in accordance with the actuarial valuation.

Regulation 69(1) provides for employee contributions by stating that every Scheme employer must pay to the appropriate administering authority on or before such dates falling at intervals of not more than 12 months as the appropriate administering authority may determine, all amounts received from employees.

Regulation 69(3) specifies that each payment must be accompanied by a statement and the Administering Authority may direct in what form and at what intervals. The East Sussex Pension Fund has determined the above date to be the 19th day of each calendar month, and should this be as non-working day, then the 1st working day before. Under the regulations the date on which any amount above is overdue, is the day after the date specified by the administering authority for payment. Each payment must be accompanied an LGPS31 form.

Employers can send their monthly payments by cheque to the Orbis Business Operations Accounts Receivable Team, or via BACS transfer into the Pension Fund bank Account.

Employers should send the completed LGPS31 remittance advice by email to ESCC.accounts@sesharedservices.org.uk to arrive before the payment. If payment is sent by cheque the completed LGPS31 form must accompany the cheque.

An LGPS31 form (see appendix) is provided to the employer before the beginning of each tax year, or upon entry to the Fund. It contains their unique SAP cost centre number. The LGPS31 provides instructions regarding how to make payment and includes the ESPF bank account details.

East Sussex Pension Fund has determined the following charges for failure to comply with the above statutory requirements:

1.	Non-receipt of payment by the deadline	1st instance	Warning
		2nd instance	£50 fine
2.	Non-receipt of LGPS31 form	1st instance	Warning
		2nd instance	£50 fine
3.	Multiple payments/LGPS31 forms received for a single employer, per month	£20.00 administration charge per additional payment	

Warnings for non-compliance will operate on a rolling 12 month basis, for example, should a warning have been issued and 10 months later there is a 2nd instance, a fine will apply. However, if it is 13 months later, another warning will be issued.

If an issue has not been resolved within 10 working days of a warning being issued, a fine will apply and the fund may take further action as appropriate regarding the failure to comply with the statutory requirements.

In addition to the above interest may be charged at 1% above base rate on any sum remaining unpaid for more than one month beyond the date on which it became due.

COSTS

The Fund's Actuary determines employer contribution rates for the three years following each triennial valuation. The rates and adjustments certificate provides details of all payments which are due from employers in the fund.

The costs of administration, including actuarial fees for the triennial valuation, are charged directly to the Fund. These administration costs are taken into account by the Fund's Actuary when assessing the employers' contribution rates.

Where additional actuarial or legal services are required by, or result from the actions of, the employer, the employer will be required to reimburse the Fund for the costs involved. Where appropriate, an estimate of these costs will be provided and the employer's agreement obtained before proceeding to instruct the service provider. Typical scenarios where costs may arise are where an employer outsources a service or for accounting reports required at year end.

If the Fund incurs interest charges as a result of a late notification of retirement from the employer, it may recharge to the employer the interest incurred on the late payment of the lump sum.

Employers may also be required to pay for additional work that is outside of business as usual, such as:

- Requesting the Fund undertake non-standard work
- Estimates which are in addition to the agreed allocation
- Requesting work to be completed earlier than the normal service standards.

The employer's agreement to the charge will be obtained prior to the work being carried out.

Consultation and review process

This administration strategy statement will be reviewed in line with each valuation cycle and the next review will be as at 1 April 2020. All scheme employers will be consulted before any changes are made to this document.

The latest version of this administration strategy statement will always be available on the ESCC website: <https://www.eastsussex.gov.uk/yourcouncil/pension-fund-policies/> and the ESPF website: <http://www.eastsussexpensionfund.org/east-sussex-pension-fund/about-us/forms-and-publications/>

Contact details

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ADMINISTRATION

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Policy for Employers

Leaving the Fund

EAST SUSSEX PENSION FUND

Effective: 1st April 2017

1. INTRODUCTION

This is the policy of the East Sussex Pension Fund (“the Fund”) as regards the treatment of employers leaving the Fund.

It has been prepared by the Administering Authority to the Fund, East Sussex County Council, in collaboration with the Fund’s actuary, Hymans Robertson LLP. This policy replaces all previous policies on employer termination and is effective from 1st April 2017.

These procedures and policies apply to employers participating in the Fund.

1.1 Regulatory Framework

The Local Government Pension Scheme Regulations 2013 outline the general framework for employees and employers participating in the Local Government Pension Scheme in England and Wales. The regulations that are relevant to employers leaving the scheme are as follows:

- Regulation 64 (1) & (2) – these regulations state that, where an employing authority ceases to be a scheme employer, the Administering Authority is required to obtain an actuarial valuation of the liabilities of current and former employees as at the termination date. Further, it requires the rates and adjustments certificate to be amended to show the revised contributions due from the ceasing employer.
- 64 (2a), (2B & 2C) – these regulations state that, where in the reasonable opinion of the administering authority an exiting employer might be expected to have one or more active members contributing, a “suspension notice” can be issued by the administering authority to that employer. Any such notice can suspend the exiting employer’s liability to pay any exit payment for a period of up to 3 years. During the period of any such notice the exiting employer is still required to make such contributions in respect of its liabilities as the administering authority reasonably requires.
- Regulation 64 (3) – this regulation states that in instances where it is not possible to obtain additional contributions from the employer leaving the Fund or from the bond/indemnity or guarantor, the contribution rate(s) for the appropriate Scheme employer (in the case of Transferee Admission Bodies) or remaining Fund employers may be amended.
- Regulation 64 (4) – this regulation states that where it is believed a scheme employer may cease at some point in the future the Administering Authority may obtain a certificate from the Fund actuary revising the contributions for that employer, with a view to ensuring that the assets and liabilities of the employer are broadly expected to be in balance when the admission agreement ends.

These regulations relate to all employers in the Fund.

1.2 Reviews of Policy

This policy will be reviewed at least every three years following triennial valuations or following changes in the Regulations pertaining to employers leaving the Fund.

It should be noted that this statement is not exhaustive and individual circumstances may be taken into consideration where appropriate. Any queries should be directed to Wendy Neller, Pensions Strategy and Governance Manager, in the first instance at Wendy.Neller@eastsussex.gov.uk or on 01273 481 904.

2. PRINCIPLES

2.1 Overriding Principles

The purpose of a cessation valuation is to determine the level of any surplus or deficit in an employer's share of the Fund as at the date the employer leaves the Fund. Unless the cost of doing so is deemed to outweigh the likely recovery to the Fund, the Fund will pursue an outgoing body (including the liquidator, receiver, administrator or successor body if appropriate) for any deficit. The Fund will also pursue any bond or indemnity provider and guarantor, for payment where appropriate.

It is the Fund's policy that the determination of any surplus or deficit on termination should aim to minimise, as far as is practicable, the risk that the remaining, unconnected employers in the Fund have to make contributions in future towards meeting the past service liabilities of current and former employees of employers leaving the Fund.

Section 4 of this document sets out the bases currently in use for cessation valuations. These bases may be updated or withdrawn at the discretion of the Administering Authority on the advice of the Fund Actuary and will expire no later than 31 March 2020.

2.2 Interaction with Funding Policy

It is the Fund's policy that each employer is responsible for the funding of all Fund benefits of its own members, including current and previous employees. The Funding Strategy Statement sets this out in more detail and addresses the issue of cross-subsidies between employers. Whilst employer contributions may be pooled in the interests of stability and administrative ease for the purpose of triennial funding valuations under Regulation 62, the individual funding position for each employer is tracked by the Actuary at each triennial valuation. Any cessation valuation will be carried out using assets and liabilities allocated to the employer at the last triennial valuation as a starting point. This position will be updated to allow for membership movements and market conditions as at the cessation date.

Note j of section 3 of the Funding Strategy Statement sets out funding policy for admission bodies leaving the Fund.

2.3 Principles for Determining Payment

East Sussex County Council will determine the deficit / surplus attributable to the employer on cessation having taken actuarial advice.

If the employer is in surplus, there is currently no mechanism by which this surplus can be repaid by the Fund. If an employer is aware that it will be leaving the Fund in future, it should alert the Administering Authority and request a valuation under Regulation 64 (4). If this valuation indicates that a surplus position is likely, then the Actuary will be able to advise the Administering Authority whether a contribution reduction (before the employer ceases) is appropriate.

If it is determined that there is a deficit and the employer is required to make a payment to the Fund, East Sussex County Council will advise the employer of the amount required.

The County Council will consider issuing a "suspension notice" where in its reasonable opinion the employer is likely to have one or more active members during the period of that notice. Where this is

the case the County Council will liaise with the employer, confirming any ongoing employer contributions required during the period that any “suspension notice” is in force.

The Fund’s policy is for any deficit on cessation to be recovered through a single lump sum payment to the Fund, where possible. The Fund may consider permitting an employer to spread the payment over an agreed period where it considers that this does not pose a material risk to the solvency of the Fund.

If the payment is to be spread, East Sussex County Council will consult with the Actuary to determine the appropriate payments to be made.

In the normal course of events (i.e. where the process below has been adhered to), the outgoing body will not be exposed to interest rate, investment or other funding risks after the cessation date. However the final deficit payment may be adjusted, at the Administering Authority’s discretion, by the addition of interest at the level of the base rate between the cessation date and the final payment date(s).

2.3 Post cessation funding agreement

The Administering Authority may, at its discretion, agree to set up a funding agreement with the ceasing employer which would allow it to continue to pay contributions towards its cessation deficit after the date of cessation. Depending on circumstances, the Administering Authority may allow the ceasing employer to be exposed to interest rate, investment or other funding risks during the course of the agreement.

Any such agreement would be tailored to the ceasing employer’s specific circumstances and be subject to the following principles:

- Demonstrable evidence e.g. such as financial accounts and forecasts and other business planning information, which shows that the employer is unable to meet the deficit payment as a single lump sum and allows the Administering Authority to form a view on the employer’s financial covenant.
- Contingent security being lodged by the employer in a form that is satisfactory to the Administering Authority to cover the amount of the deficit in the event of the employer becoming insolvent or otherwise ceasing trading.
- An appropriate time period set by the Administering Authority based on its assessment of the risk of the cessation debt not being met in full. It is very unlikely that the time period would exceed the longest period (currently 20 years) given to Fund employers to recover deficit, as set out in the Funding Strategy Statement
- A legally binding document outlining the terms of the agreement, signed by the Administering Authority and the ceasing employer (and any guarantor, if relevant).
- All costs (e.g. legal, actuarial, administrative) associated with setting up and running the agreement to be met by the ceasing employer.

3. PROCESS

3.1 Responsibilities of ceasing employers

An employer which is aware that its participation in the Fund is likely to come to an end must:

- advise the Fund, in writing, of the likely ending of its participation (either within the terms of the admission agreement in respect of an admission body (typically a 3 month notice period is required) or otherwise as required by the Regulations for all other scheme employers). It should be noted that this includes closed employers where the last employee member is leaving (whether due to retirement, death or otherwise leaving employment);
- provide any relevant information on the reason for leaving the Fund and, where appropriate, contact information in the case of a take-over, merger or insolvency;
- provide information, where appropriate, on the likelihood that it will have one or more active members contributing to the fund within the next three years; and
- provide all other information and data requirements as requested by East Sussex County Council which is relevant, including in particular any changes to the membership which could affect the liabilities (e.g. salary increases and early retirements) and an indication of what will happen to current employee members on cessation (e.g. will they transfer to another Fund employer, will they cease to accrue benefits within the Fund, etc.).

3.2 Responsibilities of Administering Authority

The Administering Authority will:

- gather information as required, including, but not limited to, the following:
 - details of the cessation - the reason the employer is leaving the Fund (i.e. end of contract, insolvency, merger, machinery of government changes, etc.) and any supporting documentation that may have an effect on the cessation;
 - complete membership data for the outgoing employer and identify changes since the previous formal valuation; and
 - the likely outcome for any remaining employee members (e.g. will they be transferred to a new employer, or will they cease to accrue liabilities in the Fund).
- identify the party that will be responsible for the employer's deficit on cessation (i.e. the employer itself, an insurance company, a receiver, another Fund employer, guarantor, etc.);
- commission the Fund actuary to carry out a cessation valuation under the appropriate regulation;
- where applicable, discuss with the employer the possibility of paying adjusted contribution rates that target a 100% funding level by the date of cessation through increased contributions in the case of a deficit on the cessation basis or reduced contributions in respect of a surplus;
- where applicable, liaise with the original ceding employer or guarantor and ensure it is aware of its responsibilities, in particular for any residual liabilities or risk associated with the outgoing employer's membership;

- where applicable liaise with the employer regarding the issue of a “suspension notice” under regulation 64 (2A), confirming any ongoing contributions to be made by the employer during the period that the “suspension notice” remains in force; and
- having taken actuarial advice, notify the employer and other relevant parties in writing of the payment required in respect of any deficit on cessation and pursue payment.

DRAFT

3.3 Responsibilities of the Actuary

Following commission of a cessation valuation by the Administering Authority, the Fund Actuary will:

- calculate the surplus or deficit attributable to the outgoing employer on an appropriate basis, taking into account the principles set out in this policy;
- provide actuarial advice to East Sussex County Council on how any cessation deficit should be recovered or where applicable “suspension notice” be applied, giving consideration to the circumstances of the employer and any information collected to date in respect to the cessation; and
- where appropriate, advise on the implications of the employer leaving on the remaining Fund employers, including any residual effects to be considered as part of triennial valuations.

4. CESSATION VALUATION BASIS

The following bases will apply from 1 April 2017 to 31 March 2020, the date by which the next valuation is signed off, unless otherwise withdrawn or updated by the Administering Authority on the advice of the Fund Actuary.

4.1 Gilts Discount Rate

The annualised gross redemption yield on the FTSE Actuaries Over 15 Years UK Gilts Index as at the date of cessation, rounded to the nearest 0.1% per annum.

4.2 Ongoing Discount Rate

The annualised gross redemption yield on the FTSE Actuaries Over 15 Years UK Gilts Index plus 1.8% per annum (calculated geometrically) at the date of cessation, rounded to the nearest 0.1% per annum.

4.3 Pension Increases

The pension increase assumption is determined in line with the Consumer Prices Index (CPI). The CPI assumption is based on the assumption for the Retail Prices Index (RPI) less 1.0% per annum.

RPI is calculated as the geometric difference between the annualised gross redemption yield on the FTSE Actuaries Over 15 Years UK Gilts Index and the annualised gross redemption yield on the FTSE Actuaries Over 15 Years Index-Linked Gilts (3% Inflation) Index as at the cessation date, rounded to the nearest 0.1% per annum.

4.4 Salary Increases (Where Applicable)

As determined in the most recent valuation of the Fund, assumed salary increases will be 0.6% per annum below RPI.

4.5 Post-Retirement Mortality

Post-retirement mortality for all members is determined in line with Club Vita analysis which is carried out on behalf of the Fund at the triennial formal valuation. These are a bespoke set of Vita Curves that are specifically tailored to the individual membership profile of the Fund. Future improvements are in line with CMI Projections assuming the current rate of improvements has reached a 'peak' and that a long term rate of 1.25% per annum will apply.

Further details are set out in the most recent formal valuation report of the Fund.

Under the gilts cessation basis, an allowance is made for further improvements to life expectancies by adjusting the value of liabilities upwards by 5%.

4.6 Other Demographic Assumptions

As set and outlined in the report on the most recent formal valuation of the Fund.

Report to: Pension Committee

Date of meeting: 15 June 2018

By: Chief Finance Officer

Title: Officers' Report - Pensions Governance and Administrations

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

RECOMMENDATION – The Committee is recommended to note the update.

1. Introduction

1.1 This report provides an update on matters relating to the Committee's activities.

2. National Development - updates

Local Government Pension Scheme pooling and Funds Collaboration

2.1. The ACCESS pool update has been provided through a separate report (Part 2) at this meeting.

3. General Data Protection Regulation (GDPR)

3.1 The General Data Protection Regulation (GDPR) has applied in the UK since 25 May 2018. GDPR is a major reform which will affect all organisations, including Local Government Pension Scheme (LGPS) administering authorities that hold and process personal data. The GDPR will replace current Data Protection Act 1998 (DPA) legislation and will bring about a considerable number of changes which organisations will be expected to implement and be able to comply with ahead of this date. The government has confirmed that the UK's decision to leave the EU will not affect the commencement of the GDPR.

3.2 The legislative changes will impact the way East Sussex County Council ("The Council") engages and interacts with its customers and places expectations on it which must be met. The intention of GDPR is to raise the levels of personal data security and privacy protections across all data processors and controllers. Advice obtained from the Council's legal services is that under GDPR, the Council will be a data controller for LGPS data, while the Orbis Business Operation services will be a data processor on behalf of East Sussex Pension Fund (ESPF) for LGPS administration.

3.3 The Fund circulated the Memorandum of Understanding (MoU) to the Pension Committee and Board members on 22 May 2018 and issued the MOU to participating employers on 25 May 2018. The document is also available on the East Sussex County Council website using the following link:

3.4 A privacy notice for members and beneficiaries of the Fund can be found on the [ESPF website](#).

4. Pensions Administration

4.1 The following items were presented to and considered by the Pension Board. A brief summary is provided below with any actions.

Performance Indicators

4.2 Certain activities during the January – March period fell short of target resulting in "red" status. Whilst most were low impact to the customer, during February, payment of lump sums was delayed in 11 cases by an average of 10 days. March delivered green status in this area.

GMP reconciliation

4.3 A progress report was provided detailing the records which had been successfully reconciled and those remaining outstanding. The Board was advised it was not possible at this

time to provide an indication of level of liability to the Pensions Fund due to the number of cases currently un-reconciled. The Committee will recall the requirement to commission a specialist organisation to carry out the next stage of reconciling the remaining complex cases directly with HM Revenues & Custom (HMRC). The Committee will also be aware that following the proposed mini tender exercise carried out by Procurement, and engagement with the Committee, JLT was selected to undertake this activity which we are pleased to advise has now commenced.

4.4 The Board was also advised that the exercise will require decisions to be made on certain analysis outcomes, with a range of examples of such scenarios listed in the Board report. Officers will invite Board and Committee Chairs to comment on such recommended decisions through email communication.

Annual benefit statement update

4.5 A separate report was considered which detailed progress on the production of the Annual Benefit Statements for 2018 in advance of the statutory deadline of 31 August. A plan was shared detailing the activities underway to support preparation and production of the active scheme member statements which relies on employers' end of year returns. At the request of the Board, a further update has since been provided with further progress on the status of returns. The Governance team has supported the Administration team to secure outstanding returns, which at time of writing showed an overall rate of 84%, representing 96% of total employees.

4.6 Further detail was provided relating to the data cleansing undertaken to prepare the deferred member statement production and accuracy of reaching the scheme members.

4.7 Active member statements will commence issuance in June. Invitations will be sent initially to scheme members who have registered for self service, with further phases during July and a final paper production in August. Statements for deferred members are expected to be produced by the end of July.

Recruitment – Pensions Lead Manager

4.5 The Board was advised that recruitment to the post of Lead Pension Manager, vacated by Jason Bailey on 20 April was underway. Since the Board met, we are pleased to report Michael Mann has been appointed to the role and will start in October following his notice period with current employer, the People's Pension. The Board was reassured that during this interim period, Rob Clarke, Head of Operations, will be responsible for the Administration teams.

5. Pension Committee Agenda

5.1 The next meeting of the Committee is scheduled for 16 July 2018, which is the Annual Investment Strategy Day. However, there will be an additional one-item Pension Committee meeting seeking approval of the Annual Report 2017/18 and the Independent Auditor's (KPMG) Report to those charged with governance.

5.2 The draft agenda for the 24 September 2018 includes:

- LGPS Pooling – ACCESS Pool Update;
- Annual review of the Fund's ESG approach
- Review on the investment strategy and Manager benchmarking

6. Conclusion and reasons for recommendations

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

IAN GUTSELL
Chief Finance Officer

Contact Officers: Ola Owolabi, Head of Pensions, 01273 482017
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Report to: Pension Committee

Date of meeting: 15 June 2018

By: Chief Finance Officer

Title: Forward Plan

Purpose: The updated report sets out the Pension Committee's Forward plan for 2018-19. The Plan includes key objectives for the Committee (and Board), training plan for the Board and Committee Members, and a Members' training log.

RECOMMENDATION – The Committee is recommended to note the content of this report.

1. Introduction

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 assist 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 '*ACCESS Pool Governance - Pension Committee/Board Roles; Pantheon Global Infrastructure; and Responsible Investment under the LGPS Pooling Agenda*' on 21st March 2018, the next joint training session is scheduled to take place on 26 September 2018. The proposed topics for the session will include - *Pension Administration - Understanding Best Practice; Interaction with HMRC; Merits and Dangers of Index Funds.*

5. Conclusion and reasons for recommendations

5.1 The Committee is recommended to note the Forward Plan.

IAN GUTSELL

Chief Finance Officer

Contact Officers: Ola Owolabi, Head of Pensions, 01273 482017
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EAST SUSSEX PENSION FUND

PENSION COMMITTEE/BOARD FORWARD PLAN 2018-19

June 2018

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Business Plan

1 Introduction

- 1.1 Under the Local Government Pension Scheme (LGPS) (Administration) Regulations 2013, the East Sussex County Council administers the Pension Fund for approximately 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 in July.
- 1.4 The governance of the Fund is the responsibility of the Chief Finance Officer for the East Sussex County Council, the East Sussex Pension Committee, and the Pension Board. The day to day management of the Fund is delegated to Officers with specific responsibility delegated to the Head of Accounts and Pensions. He is supported in this role by the Pensions Strategy and Governance Manager, and the Finance Manager (Pension Fund Investment).
- 1.5 The Pensions Committee aims to ensure the maximising of investment returns over the long term within an acceptable level of risk. Performance is monitored by asset performance being compared with their strategic benchmarks. This includes reviewing the Fund Managers' quarterly performance reports and discussing their strategy and performance with the Fund Managers.

2. KEY DOCUMENTS TO BE CONSIDERED BY THE PENSION BOARD

- 2.1 There are a number of key policy and strategy documents (Appendix 1) which the Local Government Pension Scheme (LGPS) Regulations require to be kept under regular review. These are listed below:
- 2.2 **Annual Report**
This report sets out the Pension Fund activities for the previous financial year. The Council is required to publish the report by December of each year to accompany an audited financial statement. Within the Annual Report are the following documents: Statement of Investment Principles, Funding Strategy Statement, Governance Compliance Statement, Communications Policy and Pension Fund accounts.

2.3 Funding Strategy Statement

This sets out the strategy for prudently meeting the Fund's future pension liabilities over the longer term, including the maintenance, as far as possible, of stable levels of employer contributions. It also identifies the key risks and controls facing the Fund and includes details of employer contribution rates following the Fund's triennial valuation.

2.4 Investment Strategy Statement (ISS)

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 were published and came into force on 1 November 2016. This requires the administering authority to have in place an Investment Strategy Statement (ISS), which replaces the current Statement of Investment Principles (SIP).

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 this statement, which was implemented from April 2017.

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	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	Joint Officers' Report – Governance and Business Operations
6	Forward Plan

2. PENSION BOARD – FORWARD/BUSINESS PLAN

PENSION BOARD FORWARD/BUSINESS PLAN				
Date	November 2017	February 2018	May 2018	September 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	Policies of the administering Authority <ul style="list-style-type: none"> · conflicts of interests · record-keeping/meeting attendance; · data protection and freedom of information 	Pension Fund 2017/18 Annual Report	Third party contracts
4	ESG report considered by the Committee in September	Risk register	Draft Internal Audit Pension Fund Strategy and Internal Audit Reports	Review on fee arrangements
5	Meeting the Training Requirements - Board Members	Communications policy statement	2018 Annual Benefit Statement Exercise – update	
6	Annual Benefit Statement - update		Pension Fund Policies – Discretionary Policy Statement, Administration Strategy Statement, and Pension Fund Cessation Policy.	
7	ESPF Customer Survey results		Pension Fund – Risk Register	
8	GMP Reconciliation - update			

Recurring items

Item	
1	Joint Officers' Report – Governance and Business Operations
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.

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

2.2 Training resources

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

2.3 Appropriate Training

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

2.4 Flexibility

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

2.5 E-Learning

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

3. Training deliverables

3.1 Suitable Events

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

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

3.2 Training methods

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

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

3.3 Training material

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

4. Monitoring and Reporting

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

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

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

5. Risk

5.1 Risk Management

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

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

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

6. Budget

6.1 Cost

A training budget will be agreed and costs fully scoped.

6.2 Reimbursement of expenses

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

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

7. Pensions Regulator Training Toolkit

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

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

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

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

Proposed Members Training Plan for 2018-2019

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

	PROPOSED DELIVERY METHODS							
TRAINING NEED	One-to-One Briefing with an officer	Members' Briefing Notes	Short Seminars (before Committee meeting)	Training Events (Internal & External Speakers)	External Conferences & Training Seminars	E-Learning (e.g. Webcasts, Videos)	KSF area (s)	COMPLETION TARGET DATE
GENERAL TRAINING								
General overview of LGPS - Induction <ul style="list-style-type: none"> Member's Role 	✓						1	Completed
Members individual needs on specific areas arising during the year <ul style="list-style-type: none"> Advisory Board e-learning 	✓	✓			✓	✓ ✓	1,3,4	As required – notify Head of Accounts and Pensions
Pre- committee meeting/agendas <ul style="list-style-type: none"> Specific investment Topics Services and providers Procurement process for 		✓ ✓ ✓	✓ ✓ ✓				2,3,4,5	

	PROPOSED DELIVERY METHODS							
TRAINING NEED	One-to-One Briefing with an officer	Members' Briefing Notes	Short Seminars (before Committee meeting)	Training Events (Internal & External Speakers)	External Conferences & Training Seminars	E-Learning (e.g. Webcasts, Videos)	KSF area (s)	COMPLETION TARGET DATE
services provided externally <ul style="list-style-type: none"> • Performance measurement • Accounts and audit regulations • Role of internal and external audit • Fund responsibilities/ policy • Pension Discretions • Safeguarding the Fund's Assets 		✓ ✓ ✓ ✓ ✓ ✓ ✓	✓ ✓ ✓ ✓ ✓ ✓ ✓					
Pension Fund Forum <ul style="list-style-type: none"> • Valuation Process • Knowledge of the valuation process and the need for a funding strategy • Implications for employers of ill health and outsourcing decisions • Importance of monitoring asset returns relative to liabilities 				✓			1,4,6	

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

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

	PROPOSED DELIVERY METHODS							
TRAINING NEED	One-to-One Briefing with an officer	Members' Briefing Notes	Short Seminars (before Committee meeting)	Training Events (Internal & External Speakers)	External Conferences & Training Seminars	E-Learning (e.g. Webcasts, Videos)	KSF area (s)	COMPLETION TARGET DATE
the LGPS <ul style="list-style-type: none"> Understanding of the operations of the fixed income manager Understanding of Alternative asset classes 				✓			4,5,6	
Pension Administration - <ul style="list-style-type: none"> Shared service 		✓	✓	✓			2,6	
Actuarial methods, standards and practices: <ul style="list-style-type: none"> Considerations in relation to outsourcings and bulk transfers Triennial Valuation refresher 		✓ ✓					1 6	
CHAIRMAN TRAINING								
<ul style="list-style-type: none"> Fund Benchmarking Stakeholder feedback Appreciation of changes to scheme rules 	✓ ✓				✓		2 4 1,5	

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

Key

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

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

EAST SUSSEX PENSION BOARD – TRAINING LOG

Member/Representative Name:

Subject/Description of training	Date completed	Suggested Further Action?
Benefit Structure		
Joining	22 February 2016	
Contributions	22 February 2016	
Benefits	22 February 2016	
Transfers	22 February 2016	
Retirement	22 February 2016	
Increasing benefits	22 February 2016	
Code of Practice		
About the code	22 February 2016	
Governing your scheme	22 February 2016	
Risk	22 February 2016	
Administration	22 February 2016	
Resolving issues	22 February 2016	
LGPS – Legislative and Governance context		
A recap on who does what in the LGPS focusing on the roles of;	14 June 2016 & 21st March 2018	
The administering authority	14 June 2016 & 21st March 2018	
The employers	14 June 2016 & 21st	

Member/Representative Name:		
Subject/Description of training	Date completed	Suggested Further Action?
	March 2018	
The Committee	14 June 2016 & 21st March 2018	
The LPB	14 June 2016 & 21st March 2018	
S151 officer	14 June 2016 & 21st March 2018	
Conflicts of Interest and Reporting Requirements	14 June 2016	
Consideration of the Committee and Pension Board's responsibilities in the areas of;	14 June 2016 & 21st March 2018	
Conflicts of interest		
Reporting breaches of the law	14 June 2016	
2016 Triennial Valuation refresher		
Funding principles and preparing for the 2016 valuation;	14 June 2016	
Valuation basics	14 June 2016	
Role of the PC & LPB	14 June 2016	
Purpose of the valuation / Funding Strategy Statement	18 July 2016	
2013 valuation overview	18 July 2016	
Whole fund and employer results	18 July 2016	
Contribution stability / Like for like results	18 July 2016	
Funding strategy	18 July 2016	
Employer risk / Employer specific funding objectives	18 July 2016	

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	21st March 2018	
Knowledge of Pension Fund Stakeholders		
Knowledge of Pension Fund Stakeholder Consultation and Communication		
Governance Policies	21st March 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	
The role of the Board/Committee within the ACCESS LGPS Pool;	26 September 2017	
Updates from the Pension Fund Regulator.	26 September 2017	
ACCESS Pool Governance - Pension Committee/Board Roles	21st March 2018	
Pantheon Global Infrastructure	21st March 2018	
Responsible Investment under the LGPS Pooling Agenda.	21st March 2018	

AVAILABLE TRAINING AND CONFERENCES 2018 – 2019

Date	Conference/Event	Run By	Delegates/Cost
12 October 2018	Schroders Trustee Training 2018 – Part 1	Schroders	Free
2 November 2018	Schroders Trustee Training 2018 – Part 2	Schroders	Free
26 September 2018	Introduction to the LGPS	CIPFA Pensions Network	Subscription
5 July 2018	AON Two-day LGPS training workshop	Aon	£300
30 July 2018	AON Two-day LGPS training workshop	Aon	£300
	Investment Summit	Local Government Chronicle (LGC)	TBC
	Annual Local Government Pension Investment Forum	Informal	TBC
	LAPFF Business meeting	Local Authority Pension Fund Forum (LAPFF)	Free
	Local Authority Forum	Pension and Lifetime Savings Association (PLSA)	Free
	LAPFF Annual Conference	Local Authority Pension Fund Forum (LAPFF)	Free
	LAPFF AGM And Business meeting	Local Authority Pension Fund Forum (LAPFF)	Free
On-Line Training			
www.thepensionsregulator.gov.uk	Pension Education Portal	Pensions Regulator	Free on-line

East Sussex Pension Fund

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	13 June 2017	26 September 2017	24 January 2018	21 March 2018	Xx September 2018
Topics	<ul style="list-style-type: none"> Environmental, Social and Governance (ESG) Training Day 	<ul style="list-style-type: none"> The role of the Board/Committee within the ACCESS LGPS Pool; Updates from the Pension Fund Regulator. 	<ul style="list-style-type: none"> Pension Fund Governance; Fund Assets - Carbon Footprint Measurement; Environmental, Social and Governance (ESG). 	<ul style="list-style-type: none"> ACCESS Pool Governance - Pension Committee/Board Roles Pantheon Global Infrastructure Responsible Investment under the LGPS Pooling Agenda. 	<ul style="list-style-type: none"> Pension Administration – Understanding Best Practice and Interaction with HMRC. Merits and Dangers of Index Funds.

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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