PENSION COMMITTEE

MONDAY, 16 MARCH 2020

10.00 AM COUNCIL CHAMBER - COUNTY HALL, LEWES

MEMBERSHIP - Councillor Gerard Fox (Chair)
Councillors Simon Elford, Nigel Enever, David Tutt and Trevor Webb

A G E N D A

1 Minutes *(Pages 3 - 12)*

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 13 - 24)*

6 Investment Report *(Pages 25 - 108)*

7 Triennial Valuation 2019, Funding Strategy Statement and Investment Strategy Statement *(To Follow)*

8 Pension Administration updates *(Pages 109 - 124)*

9 2020/21 Pension Fund Business Plan and Budget *(Pages 125 - 156)*

10 Pension Fund Risk Register *(Pages 157 - 170)*

11 External Audit Plan for the East Sussex Pension Fund 2019/20 *(Pages 171 - 188)*

12 Any other non-exempt items previously notified under agenda item 4

13 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).

14 Internal Audit Reports *(Pages 189 - 234)*

15 Pension Fund Breaches Log *(Pages 235 - 244)*

16 Employer Admissions and Cessations Report *(To Follow)*

17 Employer Cessation Report *(To Follow)*

18 Good Governance Review *(Pages 245 - 252)*

19 Any other exempt items previously notified under agenda item 4

PHILIP BAKER
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6 March 2020

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PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at County Hall, Lewes on 25 November 2019.

PRESENT	Councillors Gerard Fox (Chair) Councillors Simon Elford, Nigel Enever, David Tutt and Trevor Webb
ALSO PRESENT	Ray Martin, Independent Chair of the Pension Board Councillor Nick Bennett, Lead Member for Resources Kevin Foster, Chief Operating Officer Philip Baker, Assistant Chief Executive Ian Gutsell, Chief Finance Officer Michelle King, Interim Head of Pensions Wendy Neller, Pensions Strategy and Governance Manager Russell Wood, Principal Pensions Officer William Marshall, Investment Consultant, Hymans Robertson Paul Potter, Investment Consultant, Hymans Robertson Robert McInroy, Fund Actuary, Hymans Robertson Richard Warden, Fund Actuary, Hymans Robertson William Bourne, Independent Adviser Danny Simpson, Principal Auditor Harvey Winder, Democratic Services Officer

41 MINUTES

41.1 The Minutes of the meeting held on 23 September were agreed as a correct record subject to amending to note that Ben Fox and Robert McInroy, not William Marshal, were in attendance from Hymans Robertson.

42 APOLOGIES FOR ABSENCE

42.1 There were no apologies for absence.

43 DISCLOSURE OF INTERESTS

43.1 Cllr David Tutt declared a personal interest as the Leader of one of the East Sussex Pension Fund's employers, Eastbourne Borough Council.

44 URGENT ITEMS

44.1 The Committee RESOLVED to agree to consider a report on the Breaches Log as an urgent exempt item to be raised under item 22 (minute 61).

45 PENSION BOARD MINUTES

45.1 The Committee RESOLVED to note the draft minute of the most recent Pension Board meeting held on 11 November 2019.

46 QUARTERLY PERFORMANCE REPORT - HYMANS ROBERTSON

46.1 The Committee considered a quarterly performance report of the East Sussex Pension Fund (ESPF or the Fund) by the Fund's investment consultant, Hymans Robertson.

46.2 The Committee discussed how there is no agreed benchmark for fossil fuel exposure for absolute return, infrastructure and private debt asset classes due to the fact investment in these asset classes is based on individual investment managers' preferences rather than market indices.

46.3 The Committee RESOLVED to note the report.

47 FUND PERFORMANCE -- INVESTMENT MANAGER PRESENTATION: LONGVIEW PARTNERS

47.1 The Committee RESOLVED to defer this item to the next meeting.

48 ENVIRONMENTAL SOCIAL AND GOVERNANCE UPDATE

48.1 The Committee considered a report providing an update on Environmental, Social and Governance (ESG) matters.

48.2 The Committee's discussion included the following issues:

- Fossil fuel equities have traditionally benefited the fund by providing a stable income stream to the Fund, which helps to ensure the Fund has sufficient cash to pay out people's pension entitlements. Any plan for disinvestment from fossil fuels would need to consider how this income would be replaced, as well as any potential risk to the Fund caused by reducing the diversity of assets it holds.
- Whether the fossil fuel investments had become riskier over time, particularly in those oil companies that were continuing to invest in new potential exploration sites, and whether a similar return could now be achieved by disinvesting from fossil fuels without increasing the risk to the Fund.
- Whether there is value in rebalancing the Fund's portfolio away from passive index funds and towards either active equity funds that may not invest in fossil fuels or titled passive index funds that favour low carbon equities, taking into consideration the considerable additional cost to the Fund of both alternatives.

48.3 The Committee was advised that the ESG consultant would carry out a cost-benefit analysis of the Fund's fossil fuel exposure.

48.4 The Committee RESOLVED to:

1) note the motion agreed by Full Council attached as Appendix 1;

2) agree the draft ESG Statement of the East Sussex Pension Fund attached as Appendix 2;

3) agree the proposed specification for investment consultant advice on ESG investments attached as Appendix 3; and

4) agree to consider the progress of the investment consultant's work on ESG Investments as a standing item on future agendas.

49 COMPETITION AND MARKET AUTHORITY REPORT ON ENGAGEMENT WITH INVESTMENT CONSULTANTS

49.1 The Committee considered a report providing an update on the recent Competition and Market Authority Report on Engagement with Investment Consultants.

49.2 The Committee RESOLVED to:

1) note the report; and

2) approve the investment objectives set out in the report for the Fund's investment consultant (Hymans Robertson).

50 EMPLOYERS' TRIENNIAL VALUATION RESULTS AND DRAFT FUNDING STRATEGY STATEMENT

50.1 The Committee considered a report and presentation from Hymans Robertson on the Employers' Triennial Valuation Results and Draft Funding Strategy Statement.

50.2 The Committee's discussion included the following issues:

- The actuary highlighted the importance of accurate data for employers, particularly for small to medium organisations, due to the potential impact on funding levels and contribution rates that inaccurate pension data can have on these employers.
- It is difficult to draw firm conclusions about whether data quality at a whole Fund level has improved or deteriorated since the 2013 valuation. However, the actuary noted that data provided in relation to employer 'crystallisation events', such as cessation valuations, has deteriorated in some cases. These events involve more detailed data checks - there have been an increasing number of cases where the 2016 valuation data required a retrospective update to be made due to incorrect membership data supplied at that time.
- It was acknowledged that the increased number of employers and complexity of the recently introduced career average pension benefits means timely and accurate data provided by the pension administrator to the fund actuary is essential. The quality of data raises questions on the capacity of the pension administration service and a service based review of the pension administration service should consider whether there are enough skilled staff in place to maintain the data to an appropriate standard.
- Internal audit when questioned on why the breaches did not feature in their audit report highlighted that their reporting process is pitched at a high level. The Chair commented that the Internal Audit Report should highlight risks and issues within the pension administration service in sufficient detail to allow an effective scrutiny process. The annual internal audit findings on Orbis pension administration services should be a standing item on the board and committee agendas. Internal audit agreed to meet with the Chair to preview the 2019 audit findings.

50.3 The Committee RESOLVED to:

1) note the progress of the actuarial valuation including the update on the valuation membership data and employer contribution rates; and

2) agree the draft revised Funding Strategy Statement for consultation with Fund employers.

51 PENSION ADMINISTRATION UPDATES

51.1 The Committee considered a report providing an update on matters relating to Pensions Administration activities.

51.2 The Committee RESOLVED to

1) note the report; and

2) request confirmation via email whether the 258 outstanding employees have now received their Annual Benefit Statements.

52 DATA IMPROVEMENT PROGRAMME AND ANNUAL BENEFIT STATEMENT WORKING GROUP

52.1 The Committee considered a report providing an overview of the Data Improvement Programme and Annual Benefit Statement (ABS) working group.

52.2 The Committee RESOLVED to:

1) note the report;

2) approve the appointment of Hymans Robertson to undertake the Data Improvement Programme; and

3) recommend that the Service Level Agreement for the ESPF includes the preferred specifications for a pension administration system.

53 EMPLOYERS ADMISSION AND CESSATION REPORT

53.1 The Committee considered a report on the admission and cessation of employers to the East Sussex Pension Fund.

53.2 The Committee's discussion included:

- the complexity of admission negotiations with employers, for example, understanding their cash flow and assets to underwrite their pensions liabilities.
- The reasons why employers may choose to join and leave the ESPF are typically for business reasons. Only eligible employers are allowed into the Fund and do not have the discretion to join or leave the Fund due to satisfaction or dissatisfaction with the Fund; and
- The importance of holding accurate member data by the pension administrator when undertaking an actuarial calculation when required such as for a cessation calculation.

53.3 The Committee RESOLVED to:

1) note the report;

2) request the number of fund members in each employer that are currently in the process of having a cessation calculation calculated; and

3) request Monitoring Officer clarify the delegated functions to the Section 151 officer with regard to the admission of employers into the Fund.

54 INVESTMENT GOVERNANCE REVIEW

54.1 The Committee considered the Investment Governance Report produced by the Fund's Independent Advisor.

54.2 The Committee discussed the advantages of considering a risk register of investment risks.

54.3 The Committee RESOLVED to:

1) note the report;

2) approve the recommendations 1 to 9 of the Investment Governance Report set out in paragraph 2.5 of item 14;

3) request that the recommendations are reflected in the Investment Strategy Statement; and

4) request that an investment risk register and operational risk register are developed to sit beneath the main risk register, and request that the investment risk register is provided to the Committee as a standing item.

55 GENERAL UPDATE AND WORK PROGRAMME

55.1 The Committee considered a general update and its work programme.

55.2 The Committee RESOLVED to note the report.

56 EXCLUSION OF THE PUBLIC AND PRESS

56.1 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).

57 DATA IMPROVEMENT PROGRAMME AND ANNUAL BENEFIT STATEMENT WORKING GROUP - ADDITIONAL INFORMATION (EXEMPT)

57.1 The Committee considered additional exempt information in relation to the Data Improvement Programme and Annual Benefit Statement (ABS) working group report.

52.2 A summary of the discussion is set out in an exempt minute.

57.3 The Committee RESOLVED to note the report.

58 INVESTMENT GOVERNANCE REVIEW - ADDITIONAL INFORMATION (EXEMPT)

58.1 The Committee considered additional exempt information in relation to the Investment Governance Report produced by the Fund's Independent Advisor.

58.2 The Committee RESOLVED to note the report.

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

59.1 The Committee considered a report providing an update on the activities undertaken by the ACCESS Pool.

59.2 The Committee RESOLVED to note the report.

60 APPOINTMENT OF ADVISORS TO THE FUND

60.1 The Committee considered a report on the appointments of an Independent Advisor, Investment Consultancy, Actuarial and Benefit Consultancy Services and an Environmental Social and Corporate Governance (ESG) advisor.

60.2 The Committee RESOLVED to agree the recommendations as set out in the report.

61 ANY OTHER EXEMPT ITEMS PREVIOUSLY NOTIFIED UNDER AGENDA ITEM 4

61.1 Under exempt items, the Committee considered an urgent item providing an update on the Breaches Log and the Breaches Policy and Process and any future actions to review. This commenced with a verbal address by the Chair.

61.2 A summary of the discussion is set out in an exempt minute.

61.3 The committee RESOLVED to agree a number of actions which are set out in an exempt minute.

The meeting ended at 2.25 pm.

Councillor Gerard Fox (Chair)

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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PENSION BOARD

MINUTES of a meeting of the Pension Board held at County Hall, Lewes on 2 March 2020.

PRESENT	Ray Martin (Chair) Councillor Carmen Appich, Councillor Chris Collier, Stephen Osborn, Diana Pogson, Niki Palermo and Lynda Walker
ALSO PRESENT	Cllr Nick Bennett, Deputy Leader and Lead Member for Resources Kevin Foster, Chief Operating Officer Ian Gutsell, Chief Finance Officer Michelle King, Interim Head of Pensions Wendy Neller, Pensions Strategy and Governance Manager Russell Wood, Principal Pensions Officer Nigel Chilcott, Audit Manager Danny Simpson, Principal Auditor Harvey Winder, Democratic Services Officer Daniel Kanaris, Public Sector Senior Consultant, Aon Richard Warden, Fund Actuary, Hymans Robertson

31 MINUTES

31.1 The minutes of the previous meeting were agreed as a correct record.

32 APOLOGIES FOR ABSENCE

32.1 There were no apologies for absence.

33 DISCLOSURE OF INTERESTS

33.1 There were no disclosures of interest.

34 URGENT ITEMS

34.1 There were no urgent items.

35 PENSION BOARD - VERBAL UPDATE

35.1. The Board considered a verbal update on Pension Board activities.

35.2. The Chair welcomed Councillor Chris Collier as the new member of the Pension Board.

35.3. The Board thanked Michelle King and Wendy Neller for their service and wished them both good luck in their new roles.

35.4. Michelle King (MK) explained that the in-house training plan for the Pension Board and Committee for 2020 included an initial session on governance arrangements followed by a structured training programme of one day training sessions based on the Chartered Institute of Public Finance and Accounting (CIPFA) knowledge and skill framework. In addition, invitations to one-off training events put on by other organisations would be forwarded to Members seeking their interest in attendance. Board members could also sign up and complete modules of the CIPFA knowledge and skills framework training online. MK said officers would produce a formalised training plan for the Board and Committee members as part of the Good Governance review.

35.5. Harvey Winder (HW) confirmed that the Full Council had agreed to amend the quorum of the Pension Board to bring it into line with other committees of the Council. The quorum was now three of the voting members of the Pension Board including at least one member and one employer representative.

35.6. The Board RESOLVED to request that a list of websites where pension training is offered be circulated by email.

36 PENSION COMMITTEE AGENDA

36.1. The Board considered the draft agenda of the Pension Committee.

36.2. The Board RESOLVED to note the report.

37 PENSION ADMINISTRATION UPDATES

37.1. The Board considered a report on matters relating to Pension Administration activities.

37.2. Nick Weaver (NW) provided an overview of the priority plan for the Pensions Administration Team (PAT) for 2020. He explained that a major aim was to standardise, in line with CIPFA standards, the pension administration service provided by Orbis to the six administering authorities it provides services to. This included developing standardised Key Performance Indicators (KPIs) in the short term and eventually Service Level Agreements (SLAs) across the six authorities, although that would take time. He emphasised the importance of ensuring staff had the correct training and that sufficient in-house technical knowledge and expertise was available.

37.3. NW said that improving a pensions administration service and the data it holds takes time but is achievable. Daniel Kanaris (DK) added that the volume and complexity of work of PATs had increased considerably since the introduction of the career average earning pension and was an issue all 89 Local Government Pension Schemes (LGPS) are facing.

37.4. The Chair asked how data quality would be improved across the six funds Orbis supports.

37.5. NW explained that a data quality team was being established that would aim to improve data quality. The projects initiated by his predecessors were also helping, including the Data Improvement Programme, the work on Guaranteed Minimum Pension (GMP) Reconciliation, and engagement with employers. The need to re-procure a pension administration system was also approaching and Altair, provided by Aquila Heywood, had increasing competition from other providers.

37.6. The Chair asked what the PAT could do in future to improve employer engagement and the quality of data they provide, for example, publishing a rating and rankings table of employers to ‘name and shame’ those performing poorly.

37.7. NW agreed that this would be a good idea. In other authorities he had worked for, he had introduced initiatives such as offering training to employers that was free for those who turned up, but those who did not turn up were charged for it; and writing to school governors if there were concerns about a school’s provision of employer data.

37.8. The Chair said KPIs did not show whether activities were completed in good time or rushed at the last minute to hit the KPI target. He asked whether the PAT could demonstrate whether this was occurring in its reporting to the Board.

37.9. NW explained that he planned to implement different internal and external KPIs, for example, an internal KPI of 15 days and an external KPI for 20. This way if the internal KPI is missed it can be escalated internally to ensure it is resolved in time for the external KPI deadline. The external deadline is then met, and the customer is satisfied that they received their service in a timely manner.

37.10. The Chair noted that the number of undecided leavers under “status 2” on Altair was listed as approximately 800 in the report but had been higher in the Internal Audit report of the PAT. He understood this was because the PAT had been contacting employers who had members in status 2 to confirm their status, and in some case contacting the members directly.

37.11. NW agreed this represented progress but did not want to become complacent as many of those removed would have been easy wins, and 800 still remained in that status. Ultimately, the PAT would need to encourage a change in culture from employers so that they report data to the PAT in a more timely manner.

37.12. Councillor Gerard Fox (GF) asked how standards of the PAT could be maintained.

37.13. NW said that the SLA would help ensure standards are maintained across all six administering authorities.

37.14. The Board RESOLVED to note the report.

38 ANNUAL BENEFIT STATEMENT (ABS) WORKING GROUP & DATA IMPROVEMENT PROGRAMME UPDATE

38.1. The Board considered an update on the Annual Benefit Statement (ABS) Working Group and Data Improvement Programme.

38.2. MK confirmed that the Data Improvement Programme would be extended for three months and that further work to engage unresponsive employers was underway to ensure there was no ABS breach in 2020 due to lack of adequate employer data. MK added that a baseline of data quality from employers was being developed so that the extent to which employers comply with requests and improve their data can be measured. This will enable the Fund to potentially rate and name and shame employers.

38.3. Diana Pogson (DP) noted that March would be a critical month for the Programme as many of its milestones are meant to be achieved during that time.

The Board RESOLVED to note the report

39 TRIENNIAL VALUATION 2019, FUNDING STRATEGY STATEMENT AND INVESTMENT STRATEGY STATEMENT

39.1. The Board considered a report providing an update on the Fund's revised strategy statements and draft 2019 valuation report.

39.2. Richard Warden (RW) advised the Board that changes to the regulations around exit credits meant that the Funding Strategy Statement (FSS) would need to be revised again after 1 April to reflect the changes.

39.3. MK added that five exit credit payments had been made that had been risk assessed by the actuary and were seen to have no material effect on the Fund.

39.4. The Chair asked whether the fall in the stock markets due to Coronavirus had affected the funding level of the East Sussex Pension Fund (ESPF).

39.5. RW explained that the modelling for the triennial valuation had taken account of increases and decreases in the markets over the next three years, so the impact would depend on the ultimate extent and duration of the fall. The coronavirus could also have an effect on the liabilities of the fund if there was a significant increase in death rates amongst the elderly population.

39.6. MK added that there were also uncertainties in financial markets due to the US elections and potential of a no deal Brexit. Climate change and the Green Revolution also potentially effect both assets and liabilities, for example, companies benefitting from responding positively to market demands for greener services, and people living potentially living longer due to reduced pollution.

39.7. The Chair asked, in light of around 50% of assets being in equities, how much the 15% fall in the stock market had affected the Fund's valuation.

39.8. RW said there had been a 5-10% fall in the funding level and the actuary was tracking it.

The Board RESOLVED to note the report.

40 2019/20 BUDGET MONITORING

40.1. The Board considered a report on the 2019/20 forecast outturn for the Pension Fund against its budget.

40.2. The Board RESOLVED to note the report.

41 2020/21 PENSION FUND BUSINESS PLAN AND BUDGET

41.1. The Board considered a report on the 2020/21 business plan and budget for the East Sussex Pension Fund.

41.2. DP asked why there was a smaller budget for 2020/21 compared to 2019/20.

41.3. Russell Wood (RW) explained it was in part due to assets transferring to the custody of ACCESS and manager fees therefore being paid out by the ACCESS operator, Link. This meant that there was no direct invoice to the ESPF, although the fees were still paid. In addition, the cost of the Good Governance review and planned changes to the PAT team had not yet been modelled so were not included.

41.4. Lynda Walker (LW) asked when the cost of the Good Governance review would be known.

41.5. MK confirmed that it would be in time for the June Pension Committee meeting, along with the proposed cost of the PAT.

41.6. LW asked whether managers fees being paid by the Link meant there would no longer be transparency.

41.7. MK explained that Link would publish details of the fees paid and they can be circulated once available.

41.8. The Board RESOLVED to:

1) note the report; and

2) request that a comparison of the 19/20 and updated 20/21 budget is circulated to the Board when available.

42 PENSION FUND RISK REGISTER

42.1. The Board considered the Pension Fund Risk Register.

42.2. DP asked why the data cleansing risk score was the same pre and post mitigation.

42.3. MK said that this was because she did not want to pre-empt the data cleanse results from the data improvement project before reducing the risk relating to data cleansing.

42.4. Councillor Carman Appich (CA) asked whether it would be possible to withdraw from ACCESS if there were major concerns about LINK's performance.

42.5. MK said that ACCESS is a statutory pooled fund that all LGPS are required to be part of. To withdraw altogether would likely require the Secretary of State's permission. Alternatively, the Section 151 officer's role in ensuring the financial sustainability of the Fund under the Local Government Act 2003 could allow the ESPF to transfer to an alternative pooled fund.

42.6. CA asked to what extent other ACCESS members were involved in improving their Environmental, Social and Governance (ESG) investments.

42.7. Ian Gutsell (IG) explained that ACCESS was not signed up to the principle of responsible investment, unlike the ESPF. The ESPF is the ACCESS lead authority on ESG issues and work towards codifying ESG matters in ACCESS investment principles. GF added that individual funds could not choose their investment manager for assets pooled with ACCESS, this meant it requires collective agreement that investment managers with strong ESG credentials are chosen by the ACCESS operator for custody of the individual funds' assets. To date, the interest from the other Funds in ESG matters varied. LW said she would raise the matter via Unison.

42.8. The Board RESOLVED to note the report.

43 EXCLUSION OF THE PUBLIC AND PRESS

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

44 INTERNAL AUDIT REPORTS

44.1 The Board considered a report providing the outcome of Internal Audit reports of the ESPF.

44.2 A summary of the discussion is set out in an exempt minute.

44.3 The Board RESOLVED to note the report and make recommendations which are set out in an exempt minute.

45 PENSION FUND BREACHES LOG

45.1 The Board considered a report providing an update on the breaches log.

45.2 A summary of the discussion is set out in an exempt minute.

45.3 The Board RESOLVED to note the report and make recommendations which are set out in an exempt minute.

46 GOOD GOVERNANCE SCHEME ADVISORY BOARD REPORT

46.1 The Board considered a report providing an update on the Good Governance review.

46.2 The Board RESOLVED to agree the recommendations as set out in the report.

47 EMPLOYER ADMISSIONS AND CESSATIONS REPORT

47.1 The Board considered a report on the admission and cessation of employers to the East Sussex Pension Fund.

47.2 The Board RESOLVED to note the report.

The meeting ended at 1.15 pm.

Ray Martin (Chair)

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

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Report to: **Pension Committee**

Date of meeting: **16 March 2020**

By: **Chief Finance Officer**

Title: **Investment Report**

Purpose: **This report provides Members with an update on the investment activities undertaken by the East Sussex Pension Fund.**

RECOMMENDATION – The Committee is recommended to:

1) approve the Pension Fund Action Log and Workplan (Appendix 1);

2) note the Investment Strategy Review Initial Modelling for East Sussex Pension Fund (Appendix 2);

3) note the Quarterly Investment Report from the Investment Advisor, Hymans Robertson (Appendix 3);

4) note the ACCESS update (Appendix 4);

5) agree the recommendations in the report from the Investment Advisor, Hymans Robertson on Responsible Investment Collaboration as set out in paragraph 6.4.

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1. Background

1.1 Under the Local Government Pension Scheme (LGPS) Regulations, the Council is required to maintain a Pension Fund for its employees and other 'scheduled bodies' as defined in the Regulations. The Pension Committee is required to maintain an investment strategy statement to govern the East Sussex Pension Funds' ('the Fund') investments and receives a quarterly investment monitoring report, from its investment consultant, Hymans Robertson to monitor its investments.

1.2 The ACCESS Joint Committee has been established to conduct fiduciary oversight on arrangements relating to the collective investment vehicles to allow the administering authorities to pool their respective investments and meets quarterly.

2. Action Log and Investment Workplan

2.1 The Fund's Investment Consultant has been asked to provide and Action Log and Investment Workplan which will act as a reference point of all actions agreed at Pension Committee meetings. Unless otherwise stated, items in the action log are to be considered at the upcoming Committee meeting, or a comment provided explaining why the item is not to be covered at this time. This is included as Appendix 1.

2.2 For this first iteration, Hymans Robertson has included actions agreed at the November 2019 Committee meeting. Going forward, we will add agreed actions and remove actions once the Committee is in agreement that they have been completed. The Investment Workplan details the areas of work that are anticipated over the next 12 months, with corresponding ownership and estimated timescale for completion.

2.3 The below table provides ratings from Hymans Robertson of their prospects for markets over a period of around three years. Hymans Robertson will be providing these views on a quarterly basis, although they are not intended as tactical calls.

Asset Class	Current Quarter View	Previous Quarter View
Equities	Neutral to Cautious	Neutral to Cautious
Sterling Investment Grade Credit	Cautious	Cautious
Liquid Sub-Investment Grade Credit	Cautious to Negative	Cautious to Negative
Private Lending	Neutral to Cautious	Neutral to Cautious
UK Property	Cautious	Cautious
Long Lease Property	Neutral to Cautious	Neutral to Cautious
Gilts	Cautious to Negative	Cautious to Negative
Index-Linked Gilts	Cautious to Negative	Cautious to Negative

Overall ratings: Negative, Cautious, Neutral, Attractive, Positive

3. Investment Strategy Statement

3.1 Regulation 7(1) requires an administering authority to formulate an investment strategy which must be in accordance with guidance issued by the Secretary of State. Under Regulation 7(6) and (7), the statements must be published by 1st April 2017 and then kept under review and revised from time to time and at least every three years.

2.2 The current Investment Strategy Statement (ISS) has not been updated by the Fund's advisors at the date of this report to Committee. However, given that the asset liability modelling may amend the current strategic asset allocation, and more specifically the Fund's approach to active and passive investment management, it may be practicable to defer the approval of the ISS until after the completion of the asset liability modelling and confirmation of the Strategic Asset Allocation. Other considerations that will impact the ISS and which have not been agreed by Committee include articulating the Fund's policy on how social, environmental or corporate governance considerations are taken into account in respect of the selection, non-selection, retention and realisation of investments; and its policy on the exercise of rights (including voting rights) attaching to investments. The Environmental, Social and Governance (ESG) considerations, action log and workplan will be discussed later in this report in Section 6 Responsible Investment Collaboration. The outcomes of the action log and workplan will serve to update the ISS for approval by Committee in June 2020.

3.2 Notwithstanding, the Fund's Triennial Valuation concludes at the end of this month, and results of which demonstrate the Fund has improved its funding level to 108% (92%: 2016 Triennial Valuation). This improved funding level brings cashflow risks arising from reduced employer contribution rates. The recently commissioned asset liability modelling exercise will confirm the strategic asset allocation over the next triennium and support the determination of the optimal investment strategy for the Fund which takes into account the need for working capital and income. Hymans Robertson include within these reports a slide pack to explain the investment strategy view process and initial results based on the outcome of the 2019 valuation results. This process is illustrated in Appendix 2.

4. Quarterly Performance Report

4.1 The Quarterly Performance Report is attached as Appendix 3. As Table 1 shows since the last quarter, the valuation of the Fund increased from £3.878bn to £3.909bn (an increase of £0.031bn) in the main due to a strong performance in equities. The total return of the Fund was slightly behind the benchmark over the quarter to 31 December 2019, noting that the benchmark performance of each mandate reflects the updated benchmarks agreed at by the Pension Committee in September 2018.

4.2 Following quarter-end, equity markets have been extremely volatile, driven mostly by concerns over the economic impact of coronavirus fears. Given already subdued levels of global growth, the virus could be a potential source of disruption in the first half of 2020. China represents c16% of World GDP and contributes c35% of global economic growth. Central banks have sought to stabilise economies; the US Federal Reserve in particular has reduced interest rates by 0.5%, the largest cut for a decade. This however had the initial impact of spooking equity markets, which fell further on the news. Whilst the equity falls this year may prove to be a short-term market correction, the upcoming US election and Brexit outcome point to 2020 being more volatile a year than 2019.

4.3 As Table 1 illustrates in the quarter ending 31 December 2019, (Q4, 2019) the top contributors to relative performance were M&G Absolute Return Credit and Longview. Conversely, the main detractors to relative performance were Adams Street, Harbourvest (Private Equity Managers) and UBS Infrastructure. The remaining UBS investments performed broadly in line with its respective benchmarks.

4.4 In relation to Growth, Income and Protection asset allocations, the Fund allocation to Income is underweight at the end of Q4, 2019, however this will be address as part of the strategic asset allocation modelling later this year. Further drawdowns into infrastructure and real estate debt will address this over time. M&G Alpha Opportunities was also underweight at an underlying fund level however no action is proposed at the current time. The Fund's Protection allocation is overweight, following a further fall in gilt yields and also as a result of holding cash (0.9)% of asset allocation.

4.5 Since the end of the last quarter there have been developments around the potential for a Coronavirus (COVID 19) epidemic. The Fund has spoken to its advisors around the implications of this and the current stock market volatility.

4.6 Further to this it is important to remember that in contrast to the wider pensions market the LGPS is a very long term holder of assets. Whilst the news surrounding coronavirus can be alarming, the Fund has a diverse investment strategy designed to withstand market volatility over the long term and Hymans Robertson is not proposing any short term strategic changes in response to coronavirus at this stage.

4.7 Below is a table showing market returns for year to date and the past 12 months. The 12 month column demonstrates that recent equity falls should be considered in the context of a very strong year for equities in 2019:

Index	Year-to-date	12 months
FTSE All Share	-11.1	-1.1
FTSE North America	0.0	16.7
FTSE Europe (ex UK)	-5.5	7.9
FTSE Japan	-6.7	5.0
FTSE Pacific (ex Jap)	-3.5	4.5
FTSE Emerging Markets	-5.0	5.1
FTSE RAFI	-6.3	4.1
FTSE Index-Linked Gilts (Over 5Y)	6.9	13.7
iBoxx Corporate Bonds (Over 10Y)	3.5	16.2

The above equity returns are in Sterling terms. In local currency terms, overseas regional equity returns are lower; a fall in Sterling during 2020 has helped to partially offset losses for (unhedged) UK investors.

5. ACCESS updates

Operator Performance

5.1 The Ruffer Absolute Return sub-fund was launched on 4 December with two ACCESS authorities, Kent and East Sussex, migrating their pre-existing Ruffer mandates in-specie into the Ruffer Absolute Return Fund, from one Northern Trust custody account to another.

5.2 The Ruffer Multi Strategies Fund (RMSF) was part of this in-specie transfer. During the transfer, Ruffer discovered that RMSF was an ineligible asset for the new structure. The transfer of RMSF was therefore reversed and the asset returned to East Sussex's segregated account at NT, ensuring that the economic exposure for East Sussex, as a whole, remained the same. The RMSF was subsequently sold and ACCESS will simultaneously gain exposure to the same strategy through the purchase of the Ruffer Illiquid Multi Strategies Fund (RIMSF); a vehicle that is eligible for the new structure and already held in the ACCESS portfolio.

5.3 East Sussex's economic exposure to this strategy has therefore remained (and will continue to remain) the same as if the in-specie transfer of RMSF had been completed. The difference is that instead of close to 100% of East Sussex's exposure being held through ACCESS, for a short period of time its Ruffer portfolio was held around 95% through ACCESS and the balance through its segregated portfolio. The issue appears to have been caused by a failure to include the Ruffer Multi-Strategy Fund within the original portfolio listing signed-off by Ruffer and provided to Link. East Sussex was notified of the matter by Ruffer on the 17 December and received an email from Link a day later. The matter was discussed at the Officer Working Group (OWG) on 19 December and the meeting highlighted the requirement for a report on this matter. This report was published to East Sussex on 31 January 8 weeks after the transfer took place.

5.4 The eligibility of potential assets migrating into the ACS needs to be established prior to any transition. The absence of the Ruffer Multi-Strategy Fund from the original portfolio listing promoted an inaccurate understanding of the actual situation. Going forward, to mitigate a recurrence of this issue Link's onboarding procedures have now been updated to ensure asset eligibility and to track portfolio changes. A dry-run process, including depositary sign-off prior to launch, has also been added.

Sub-Fund Launches

5.5 As reported previously to the Committee, it was intended that Link, on behalf of ACCESS Authorities, would launch a series of sub-funds representing those mandates which met criteria set by the Joint Committee relating to scale, commitment and value for money. The table below shows the progress made:

Asset Class	1	2	3	3a	4a	4b	5a	5b	Sub Total	TBC	Total
Global equities	1	5	1	1			4		**12**		**12**
UK equities		2				1	1		**4**		**4**
EM equities										1	**1**
Fixed income			1			1		3	**5**	3	**8**
Balanced										4	**4**
Diversified growth					3				**3**		**3**
Total Sub Funds	**1**	**7**	**2**	**1**	**3**	**2**	**5**	**3**	**24**	**8**	**32**
Total £bn	**1.7**	**7.3**	**1.6**	**0.5**	**1.3**	**0.4**	**1.9**	**0.9**	**15.6**	**6.2**	**21.8**

5.6 Since the last Committee meeting in November East Sussex has transferred the Fund's Ruffer, Newton (absolute return managers) and M&G (investment grade fixed income) mandates within tranche 4A and tranche 4B. This puts the East Sussex total investment with ACCESS Authorised Contractual Scheme (ACS) at £1.3bn with £1.6bn sitting with the ACCESS passive manager. East Sussex currently has 1 mandate the M&G Alpha Opportunities Fund awaiting to be transferred into the ACS this has not been assigned a tranche as there are some technical difficulties to be resolved.

ACCESS Investor Day

5.7 The Second ACCESS investor day will take place at the Royal Horseguards Hotel, Westminster on 2 April, the same venue as that used for the previous event. The results of the survey conducted after the inaugural event have been considered and, where appropriate, incorporated in the design for this occasion. A formal programme is being developed with Link.

5.8 As in 2019, six Investment Managers will be presenting on the day which will be split into two distinct themes. In the morning, there will presentations from Baillie Gifford, Newton and Ruffer. The afternoon session will be attributed to Equities and will feature BlackRock, JO Hambro and Schroders. Both sittings will end with a panel discussion. It is likely that Royal London and M&G will be invited to present at the next event in October.

Joint Committee

5.9 The Joint Committee met on 9 March 2019. The full agenda has been included in Appendix 4.

6. Responsible Investment Collaboration

UK Stewardship Code 2020

6.1 In October 2019, the Financial Reporting Council launched its updated UK Stewardship Code. This follows the publication of a draft Code and a consultation on the proposed changes earlier in 2019. The new Code aims to improve stewardship practices and sets a substantially higher standard, reflecting the changing expectations of investors since the Code was last revised in 2012.

6.2 The revised Code seeks to raise standards for asset owners and managers, extending to establishing clear stewardship objectives, integration of stewardship in investment strategies, and adhering to clearer and more elaborate reporting requirements.

6.3 The Code comprises a set of 12 'apply and explain' principles for asset managers and asset owners, and six principles for service providers, including investment consultants. This sets high stewardship standards for asset owners and asset managers, and for service providers that support them.

6.4 The Fund signed up to the UK Stewardship code in June 2019. The revised Code came into effect on 1 January 2020 and the Fund would need to submit a Stewardship report that meets the Financial Reporting Council's ("FRC") reporting expectations by 31 March 2021 for the Fund to remain listed as a signatory to the Code. The report attached as Appendix 5 discusses in more detail the future expectations and requirements on the Fund of being a signatory to the Code. The report recommends that the Committee:

1. invite a representative from the UN Principles of Responsible Investment (UNPRI) to present at a Committee meeting so that the Committee can hear directly from the UNPRI of the main benefits and demands of signing up; and
2. agree that Hymans Robertson produces a draft Stewardship Report by the second half of 2020 to allow time for the Committee to consider the Report in detail and make amendments as necessary.

United Nations Principles of Responsible Investment (UNPRI)

6.5 The UNPRI is the world's leading proponent of responsible investment. It works to understand the investment implications of ESG factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. The UNPRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

6.6 The UNPRI encourages investors to use responsible investment to enhance returns and better manage risks but does not operate for its own profit; it engages with global policymakers but is not associated with any government; it is supported by, but not part of, the United Nations. The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice.

6.7 The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. They have attracted a global signatory base representing a majority of the world's professionally managed investments.

6.8 The paper attached as Appendix 5 discusses in more detail the future expectations and requirements on the Fund of being a signatory to the UNPRI.

7. Conclusion and reasons for recommendation

7.1 Investments are regularly monitored to ensure that the Fund's strategic asset allocation set out in the Fund's ISS is being complied with and to keep the Committee informed of any significant concerns with the investment managers, retained to implement the Fund's strategic asset allocation.

IAN GUTSELL
Chief Finance Officer

Contact Officer: Michelle King, Interim Head of Pensions
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1 Action Log and Investment Workplan

Introduction

This paper is addressed to the Officers and Pensions Committee ("the Committee") of the East Sussex Pension Fund ("the Fund"). The intention is for this paper to bring together all investment issues relating to the Fund.

This first section will be prepared on a quarterly basis and act as a summary of current investment priorities and proposed work to be carried out. It provides the following:

- A list of actions agreed at Committee meetings; and
- An Investment Workplan detailing areas of work expected over the following 12 months.

It should not be released or otherwise disclosed to any third party except with our prior written consent, in which case it should be released in its entirety. We accept no liability to any other party unless we have accepted such liability in writing.

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

Prepared by:-

Paul Potter, Partner
Ben Fox, Investment Consultant

February 2020
For and on behalf of Hymans Robertson LLP

General Risk Warning

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

Action Log

The action log is a reference point of all actions agreed at Pension Committee meetings. Unless otherwise stated, items in the action log are to be considered at the upcoming Committee meeting, or a comment provided explaining why the item is not to be covered at this time.

For this first iteration, we have included actions agreed at the November 2019 Committee meeting. Going forward, we will add agreed actions and remove actions once the Committee are in agreement that they have been completed.

Action	Owner	Current Position	Comments
Evolve the format of the Committee's investment papers into a single larger document covering actions, priorities and supporting papers for decision-making.	Hymans Robertson		Included in meeting pack – agenda item 6
Include '£' amounts for the benchmark fossil fuel exposure in the quarterly report	Hymans Robertson		Included in the meeting pack – agenda item 6
Conduct an asset liability modelling exercise based on 2019 cashflows and present the results at the next Committee meeting	Hymans Robertson		Included in the meeting pack – agenda item 6
Consider the steps required to remain a signatory to the UK Stewardship Code and, if the Committee wish to remain a signatory, agree a timetable for preparing the necessary paperwork	Pension Committee / Officers / Hymans		Included in the meeting pack – agenda item 6
Establish a Working Party tasked with discussing strategic aspects of the Fund and identify two dates for the Working Party to meet	Pension Committee		
Test the current arrangements for implementing agreed strategic changes for the Fund and also test the arrangements with ACCESS when up and running	Officers		
Review the quarterly report provided by Hymans and consider any potential changes	Pension Committee / Officers / Hymans		
Review the manager performance benchmarks and targets paper produced by Hymans in 2018	Pension Committee		
Engage with ACCESS partners to agree measures to mitigate concerns over pool governance	Officers		
Develop an investment risk register to link in to the main risk register	Officers		

Investment Workplan

The Investment Workplan details the areas of work that are anticipated over the next 12 months, with corresponding ownership and estimated timescale for completion.

Item	Comment	Action	Responsibility	Timescale
Strategy				
Strategic Asset Allocation	• Funds strategic asset allocation needs to be considered following the 2019 actuarial valuation	• Complete asset liability modelling exercise • Agree strategic asset allocation • Implement agreed changes	• Hymans Robertson to provide analysis and recommendation • Officers to implement agreed changes	First half 2020
Private market commitments	• The Committee has agreed to invest amounts equivalent to £235m into infrastructure and £60m into real estate debt	• Recommend funds for future commitments • Meet capital call requests as they are made	• Hymans Robertson • Officers	Ongoing
Structure				
Rebalancing	• Protection allocation in breach of upper limit • Income allocation in breach of lower limit • M&G Alpha Opps holding in breach of lower limit	• No action proposed at this time due to imminent strategy review and liquidity constraints. • Drawdowns into infrastructure and real-estate debt will increase income allocation	n/a	n/a
Equity Structure	• Consider the Fund's active allocation and possible integration of an ESG-focused manager	• Once strategic asset allocation agreed, recommend equity structure and managers	• Hymans Robertson to provide recommendation	Q2 2020

Managers				
UBS Climate Aware Fund	• The Committee has previously agreed to commit a further 5% of Fund assets to the UBS Climate Aware Fund	• Consider whether to proceed as previously agreed, or drop the intended investment, as part of the equity structure recommendation	• Hymans Robertson to provide recommendation	Q2 2020
ESG				
UK Stewardship Code	• Consider the Fund becoming a signatory to the revised UK Stewardship Code	• Understand the requirements under the UK Stewardship Code with a view to the Fund signing up	• Hymans Robertson to advise on requirements	Q1 2020
UN PRI	• Consider the Fund becoming a signatory to the UN Principles of Responsible Investment (PRI)	• Understand the requirements under the PRI with a view to the Fund signing up	• Hymans Robertson to advise on requirements	Q1 2020
Transition Pathway Analysis	• Understand the Fund's equity resilience to a transition to a low carbon economy	• Conduct the transition pathway analysis on the Fund's active equity holdings with Longview	• Hymans Robertson / Officers to conduct	First half 2020

2 Market Outlook

Core Asset Class Views: Summary

The slowdown in global growth is forecast to abate in 2020, though any potential rebound is expected to be modest, with 2019's slowdown perhaps reflecting a return to a lower long-term trend. While industrial momentum remains weak, labour markets, and hence consumers, have remained relatively resilient. Risks of an escalation in trade tensions between the US and China have eased, but uncertainty is likely to remain high and re-escalation represents a major downside risk to the outlook. Geopolitical risks have also increased as relations between the US and Iran deteriorate.

Valuations in equity and credit markets continue to look more optimistic than this outlook warrants. This is not a new picture and we recognise that risk assets could continue to rise amid globally accommodative monetary policy and a partial easing in trade tensions. However, further evidence of a global industrial recovery might be required to sustain any rise.

Even if the downturn in global growth may soon be over, we retain a degree of caution, holding a little more cash than usual as a result. We continue to prefer equities to property in growth-orientated portfolios and would advocate diversifying credit portfolios, avoiding any overweight and potentially trimming liquid speculative-grade exposures.

Asset Class	Current Quarter View	Previous Quarter View
Equities	Neutral to Cautious	Neutral to Cautious
Sterling Investment Grade Credit	Cautious	Cautious
Liquid Sub-Investment Grade Credit	Cautious to Negative	Cautious to Negative
Private Lending	Neutral to Cautious	Neutral to Cautious
UK Property	Cautious	Cautious
Long Lease Property	Neutral to Cautious	Neutral to Cautious
Gilts	Cautious to Negative	Cautious to Negative
Index-Linked Gilts	Cautious to Negative	Cautious to Negative

Overall ratings: Negative, Cautious, Neutral, Attractive, Positive

The ratings are intended to give a guide to our views on the prospects for markets over a period of around three years; although they are updated quarterly, they are not intended as tactical calls. The ratings reflect our expectations of absolute returns and assume no constraints on investment discretion. In practice, they need to be interpreted in the context of the strategic framework within which individual funds are managed. The property rating ignores purchase transaction costs, i.e. relevant for current holders of property.

The table below provides a high-level overview of our key observations for each asset class.

Asset Class	Comment
Equities	• Consensus earnings growth forecasts of +9% for global equities look optimistic unless the economic data picks up and the global trade negotiations result in positive action. • Global valuations have moved marginally into 'neutral – unattractive' territory but there remains a wide regional disparity, with US valuations expensive by historic companions. • Equity sentiment was significantly boosted last year by the shift to more accommodative monetary policies and, although there are currently no signals of this changing, a move back towards a tightening bias would likely impact equity market sentiment.
Sterling Investment Grade Credit	• Sterling and global corporate spreads are now below long-term median levels and the very low level of underlying yields will likely limit absolute returns from here. • The continued search for yield remains a positive technical in the short-term. • We continue to prefer floating-rate credit assets, such as Asset Backed Securities, as we think underlying risk-free returns will be better for floating-rate assets than fixed rate.
Liquid Sub-Investment Grade Credit	• Debt affordability continued to drift lower in 2019 while high yield spreads tightened, touching a level they have rarely ventured below. • Continued underperformance of leveraged loans has improved their relative value versus high yield bonds, though loan spreads are also well below their post-crisis median levels. • Defaults have picked up in 2019 and downgrades are increasingly outnumbering upgrades.
Private Lending	• The direct lending market continues to offer an illiquidity premium over the traded market. • We also expect private corporate spreads to more closely follow the broadly-syndicated loans market than the high yield market. • There has been some deterioration in covenants but, in general, the key maintenance financial test covenants remain in place.
UK Property	• Property yields remain close to historic lows and appear stretched relative to equities although remain attractive relative to government bonds. • With annual rental growth continuing a downward trend and capital growth turning negative during 2019, we expect muted returns from UK commercial property over the short to medium term.
Long Lease Property	• On an absolute basis, long lease property valuations appear less attractive than wider property market but this market is supported by stronger fundamental and technical drivers.

Infrastructure	• Evidence from proprietary indicators suggests that valuations remain high. • Technical drivers remain strong and investor demand is high. The uncertain economic outlook is a positive fundamental for long-term infrastructure assets.
Gilts	• Lower forecasts for UK growth and inflation in 2020 improves the near-term fundamental support for gilts markets, particularly conventional gilts. • Nominal yields remain well below our assessment of neutral levels at all maturities. Without further yield compression, absolute returns are extremely low.
Index-Linked Gilts	• Index-linked gilt yields remain significantly below equivalent US yields and the BoE's long-term assessment. • Some narrowing of the RPI/CPI wedge is baked into pricing but uncertainty around the future of RPI inflation including the planned government's consultation poses a risk to current valuations of longer-dated index-linked gilts.
Cash Strategies	• This feels like a sensible time to hold more cash than usual to try and exploit better buying opportunities in the future.

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East Sussex Pension Fund

Investment Strategy Review

Initial modelling results

- Paul Potter, Partner
- Ben Fox, Investment Consultant

- March 2020

HYMANS ROBERTSON

Addressee and scope

- This presentation is addressed to the Pensions Committee of the East Sussex Pension Fund (“the Fund”). It should not be disclosed to any other third parties without our prior written permission and then only in full. We accept no liability to third parties unless expressly accepted in writing.
- Our work in connection with the investment strategy review complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work.
- The assumptions and limitations in our analysis and modelling are contained within the Appendix to this presentation.

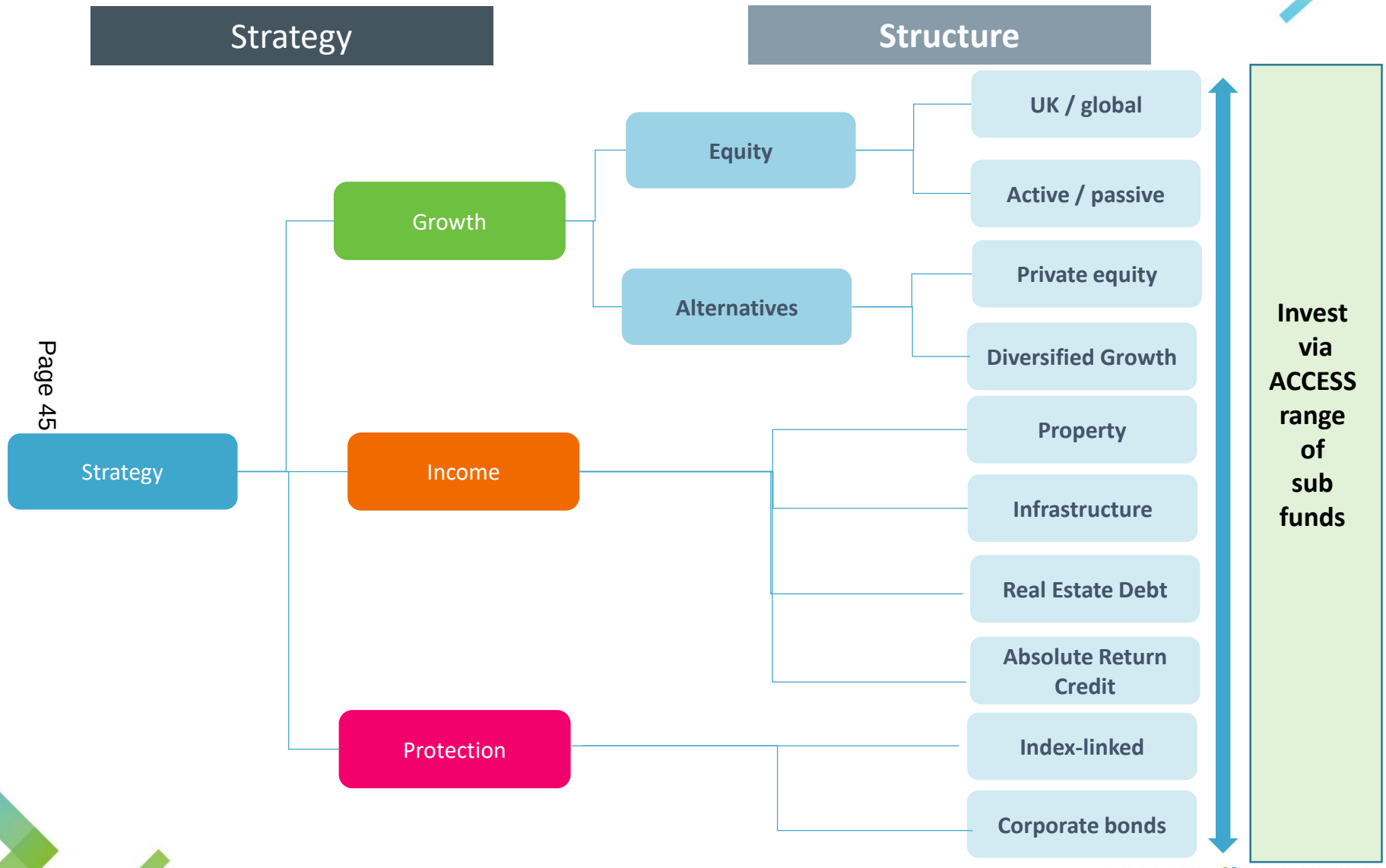
Agenda

- Background to setting investment strategy
- Asset liability modelling
- Analysis and results
- Initial conclusions

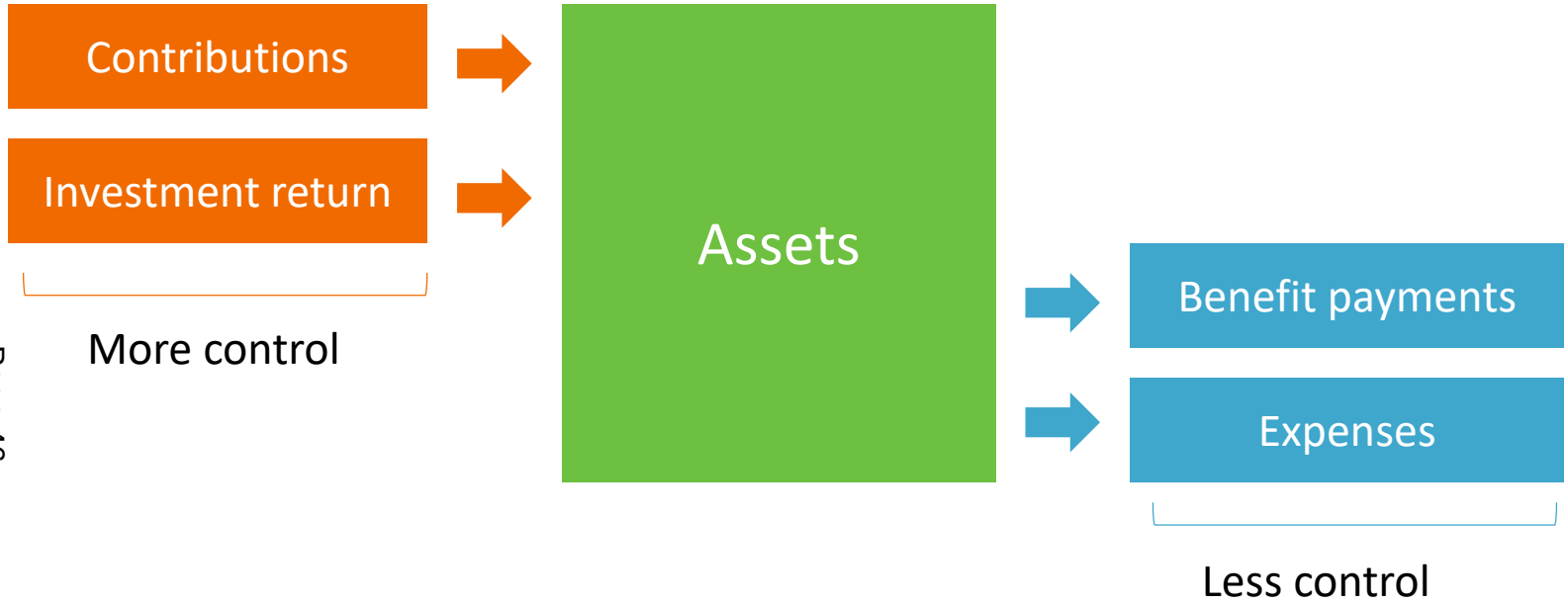
Setting the investment strategy

- **Stage 1 - high level decision**
  - Establishes broad level of risk and expected return
  - Based on long term funding objectives
  - Consistency with contribution strategy
  - Growth / Income versus Protection
  - Most important investment decision with the greatest impact on the Fund
- **Stage 2 – detailed allocations / mandates**
  - Specific allocations within each component of the Fund
  - Potential allocations to new asset classes
  - Use of active and passive management
  - Nature of investment manager mandates
  - Liaison with ACCESS on fund launches

Reminder - strategy and structure



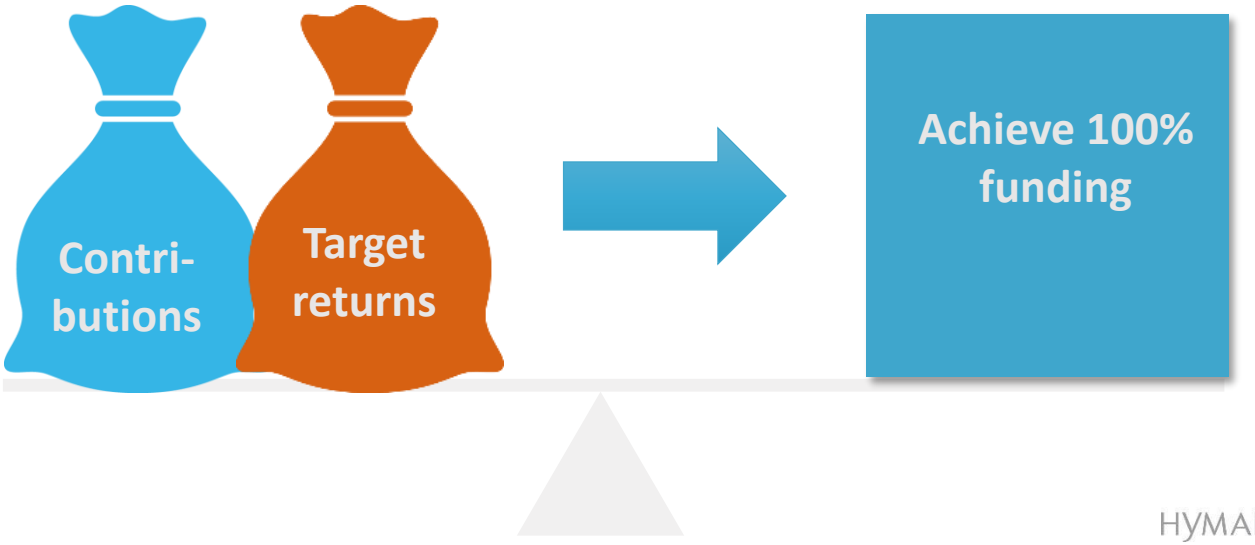
Meeting your obligations



There are only two sources of funding for meeting the benefits

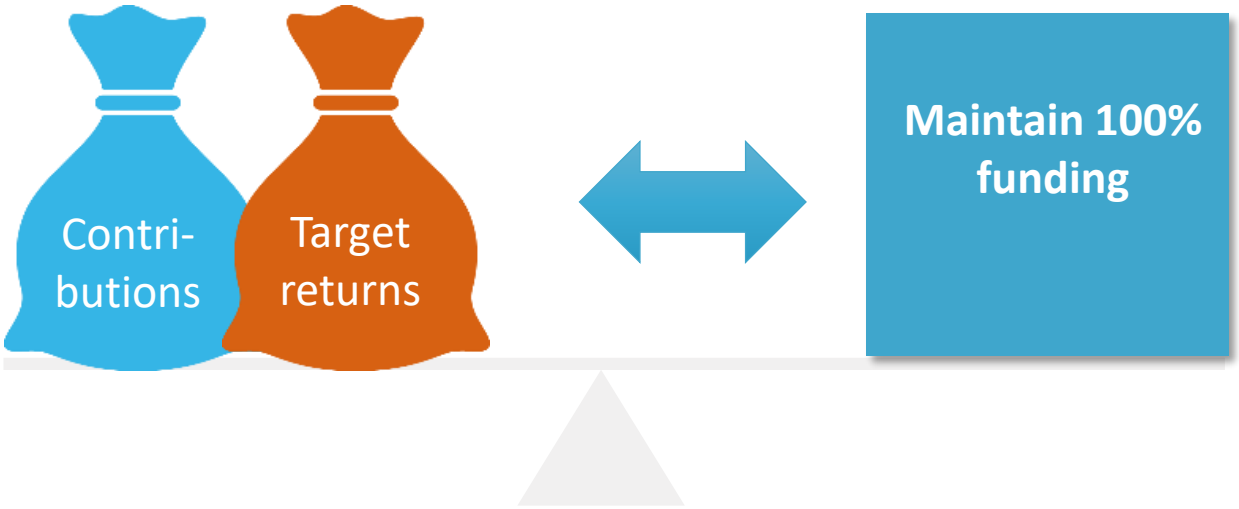
Objectives - when you have a deficit

- Your medium term objective
  - Close the deficit and get to a fully funded position
    - Pay in contributions towards the deficit
    - Take an appropriate level of investment risk
  - "To be fully funded by the year 20XX"



Objectives - when you are fully funded

- The 'steady state' is a balance between
  - An affordable level of ongoing contributions
  - An appropriate level of investment risk



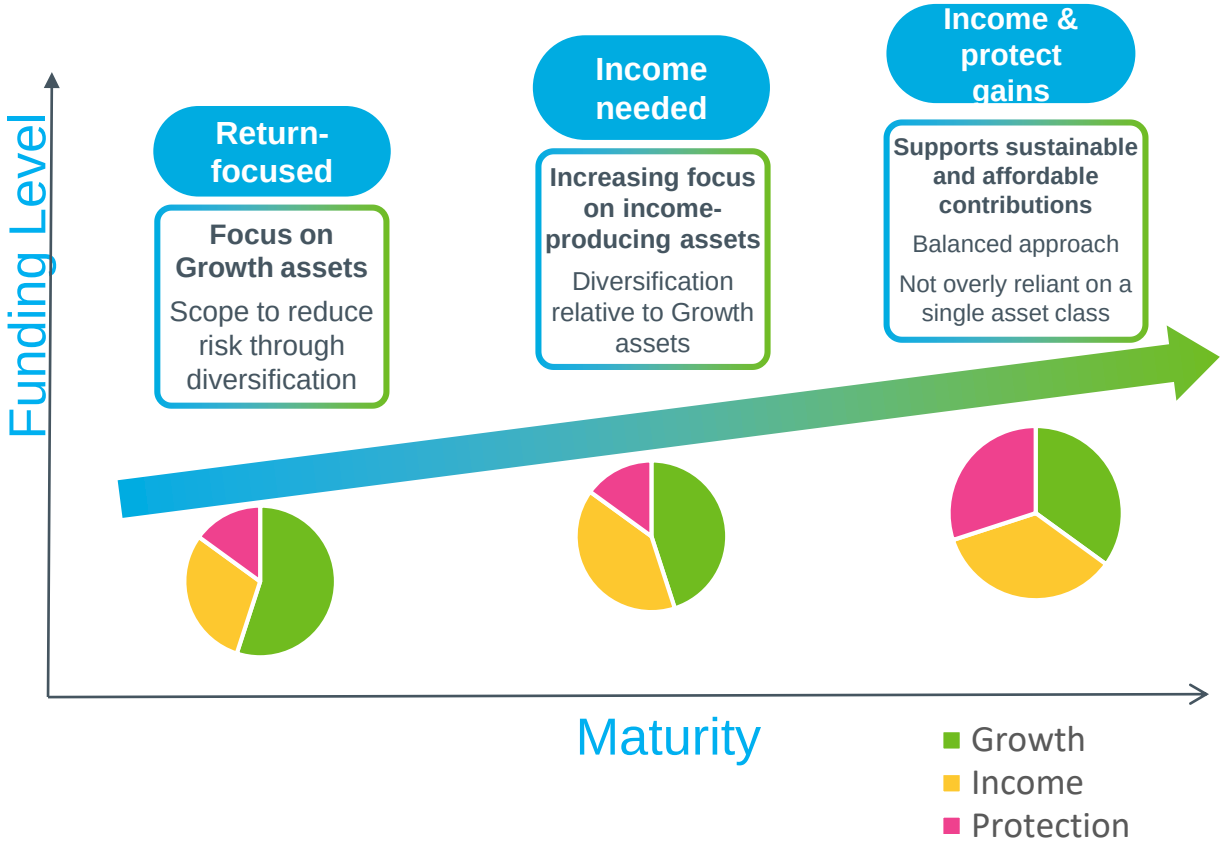
Designed to maintain the fully funded position

May involve taking less investment risk

Current investment strategy

	%
Equities	40.0
Private equity	5.5
Diversified Growth	21.0
Total Growth	66.5
Property	10.0
Infrastructure	4.0
Private Debt	3.0
Absolute Return Credit	8.0
Total Income	25.0
Corporate bonds	3.5
Index Linked Gilts	5.0
Total Protection	8.5

Likely evolution of the strategy
Seeking greater predictability over time



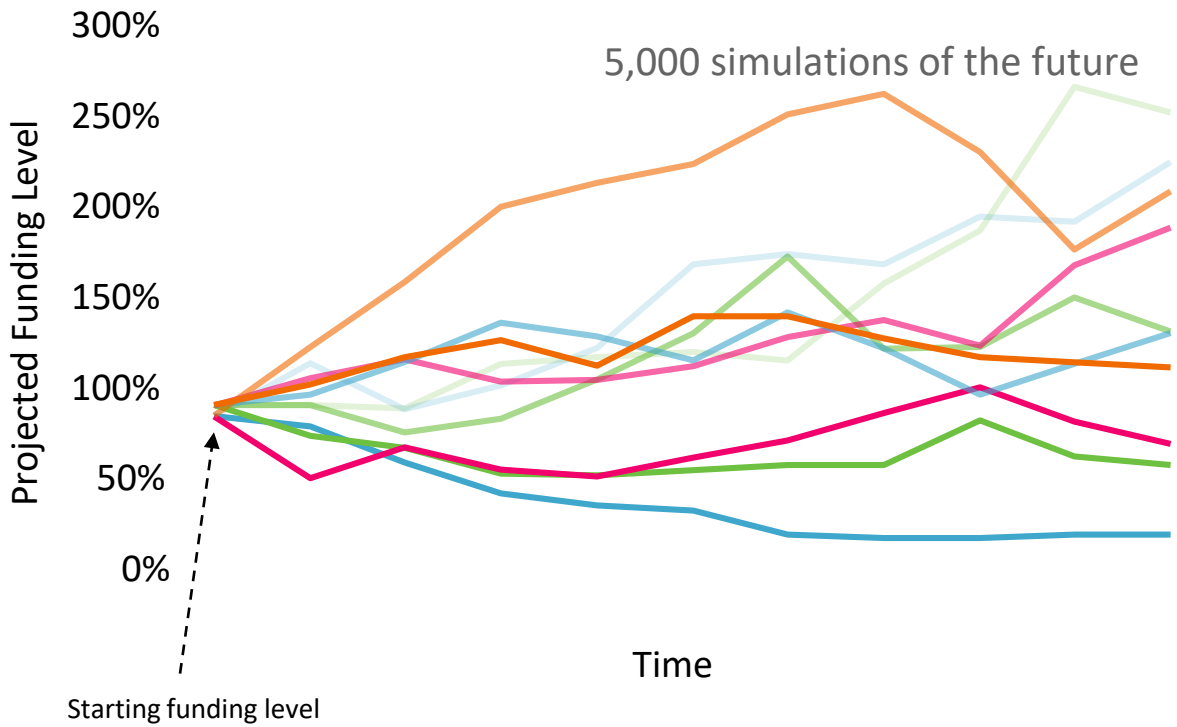
Maturity - key aspect of funding journey

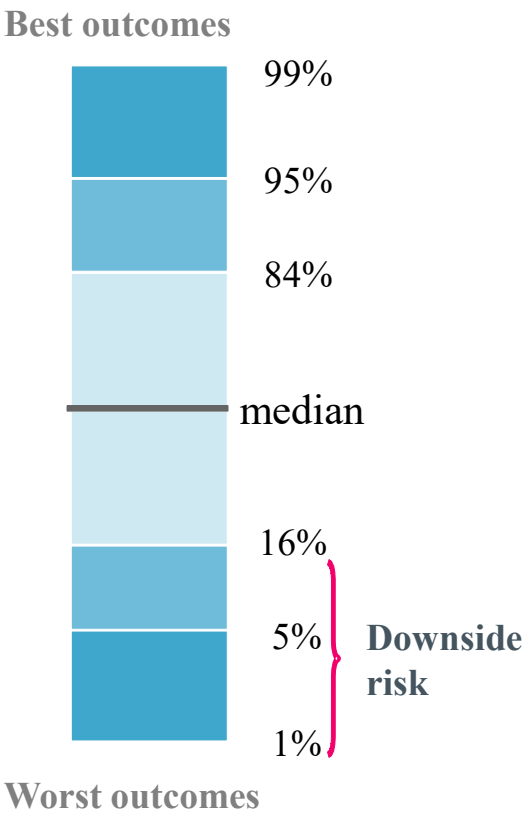
Asset Liability Modelling

- a brief reminder of what it is

Asset Liability Modelling

We project forward a range of potential outcomes…. funding levels, deficits, etc.





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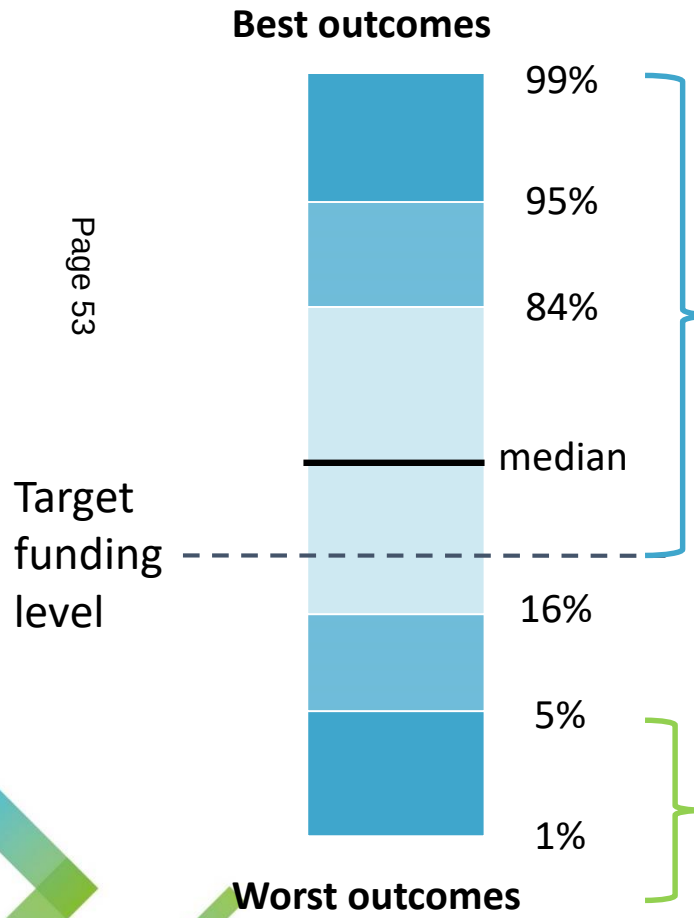
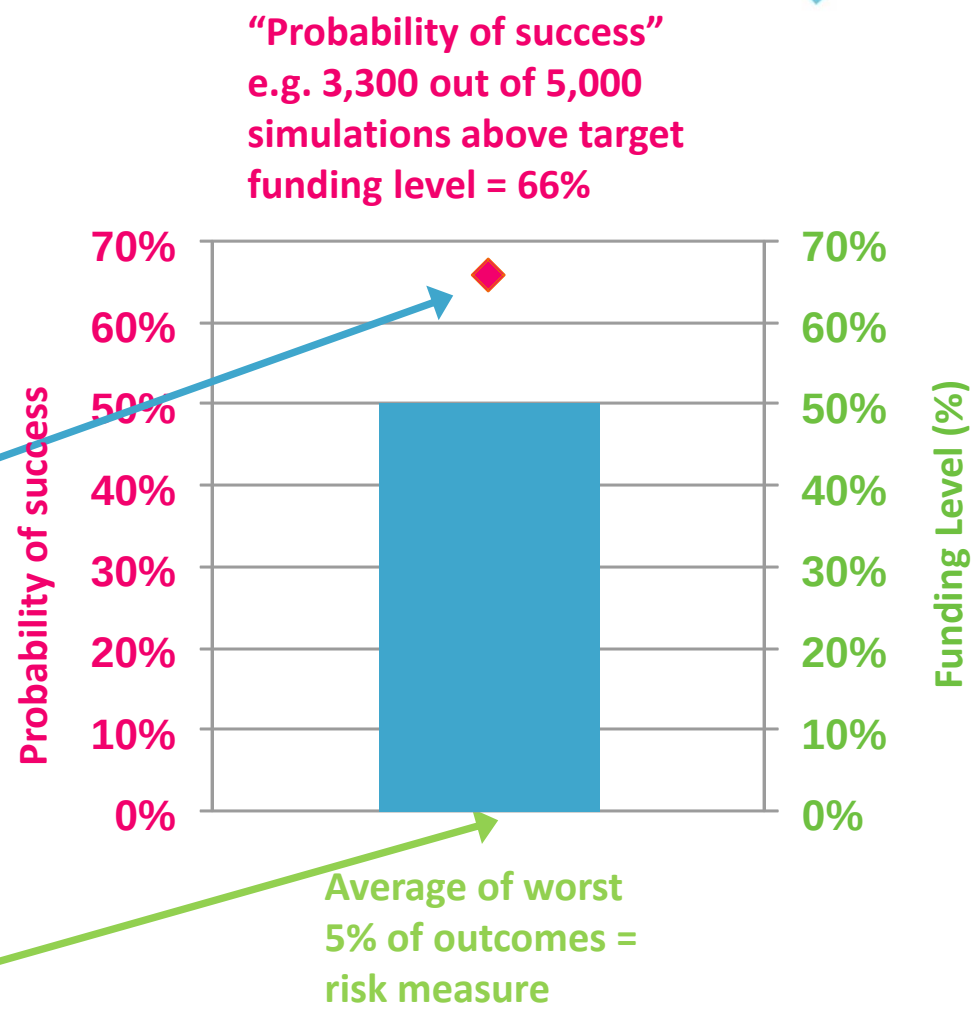
Presenting the results





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Investment strategies modelled

Asset class	Current	-20% Growth to Income and Protection	-10% Growth to Income	-10% Growth to Protection	+10% equity	Income focus
Equities	40.0	30.0	35.0	35.0	50.0	40.0
Private Equity	5.5	5.5	5.5	5.5	5.5	5.5
Diversified Growth	21.0	11.0	16.0	16.0	16.0	11.0
Total Growth	**66.5**	**46.5**	**56.5**	**56.5**	**71.5**	**56.5**
Property	10.0	10.0	10.0	10.0	10.0	10.0
Infrastructure	4.0	7.0	7.0	4.0	4.0	8.0
Real Estate Debt	3.0	8.0	8.0	3.0	3.0	9.0
Absolute Return Credit	8.0	10.0	10.0	8.0	3.0	8.0
Total Income	**25.0**	**35.0**	**35.0**	**25.0**	**20.0**	**35.0**
UK Corporate Bonds	3.5	8.5	3.5	8.5	3.5	3.5
Index Linked Gilts	5.0	10.0	5.0	10.0	5.0	5.0
Total Protection assets	**8.5**	**18.5**	**8.5**	**18.5**	**8.5**	**8.5**

These detailed allocations do <u>not</u> represent recommendations – they are used at this point to help assess the impact of high level changes to the shape of the Fund

Contributions

- Future contribution rates will be set by the Actuary – we have not modelled the expected future movement in contributions

- But using fixed contribution rates allows us to consider the implications of different investment strategies - under varying contribution burdens on employers - over the longer term

- We have modelled three levels of fixed long term contribution rates:-

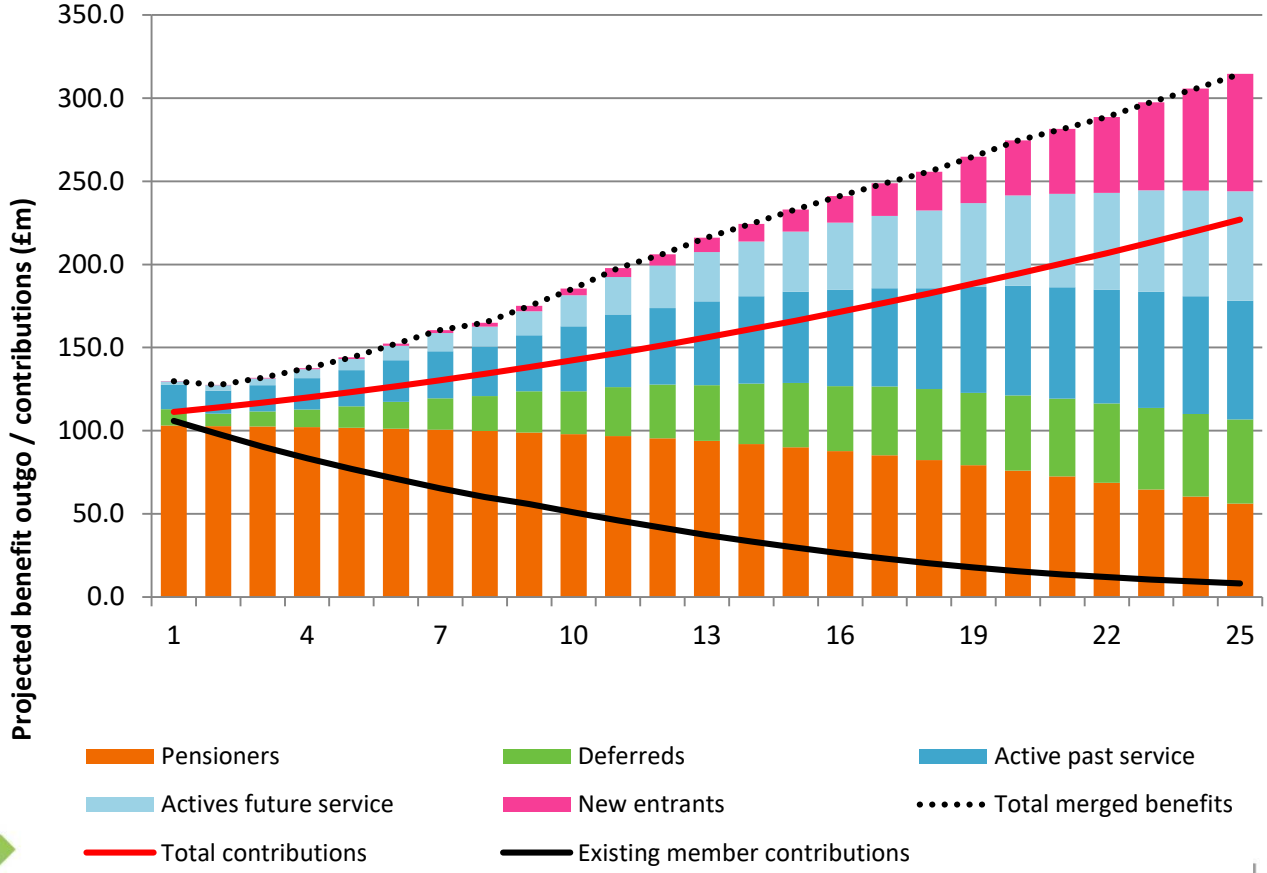
	Fixed rate (as a % of payroll)		
Employer	20.3%	18.3%	16.3%

These contribution rates do NOT represent options from the 2019 Actuarial Valuation

These long term fixed rates could represent relatively high rates by the end of the 20 year projection period

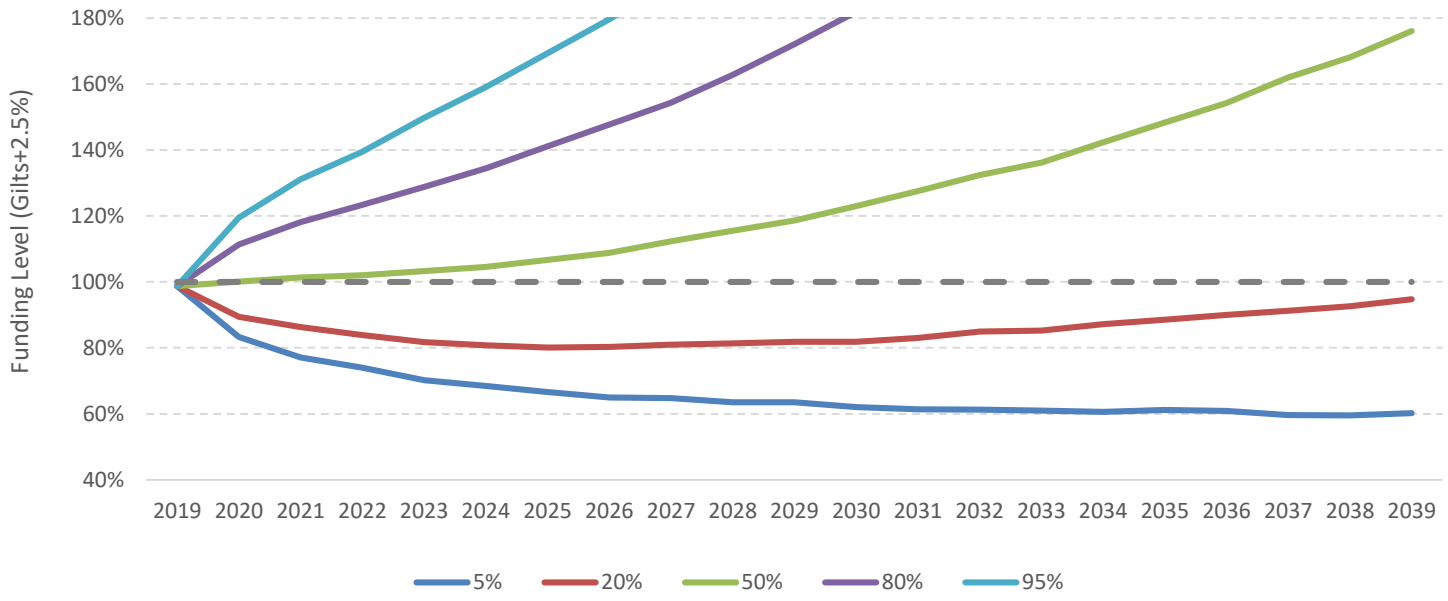
Potential evolution of cash flow

- Under the current contribution rate (fixed), the cash flow position remains negative but does not deteriorate markedly for a number of years
  - Ignores any pre-payment of contributions



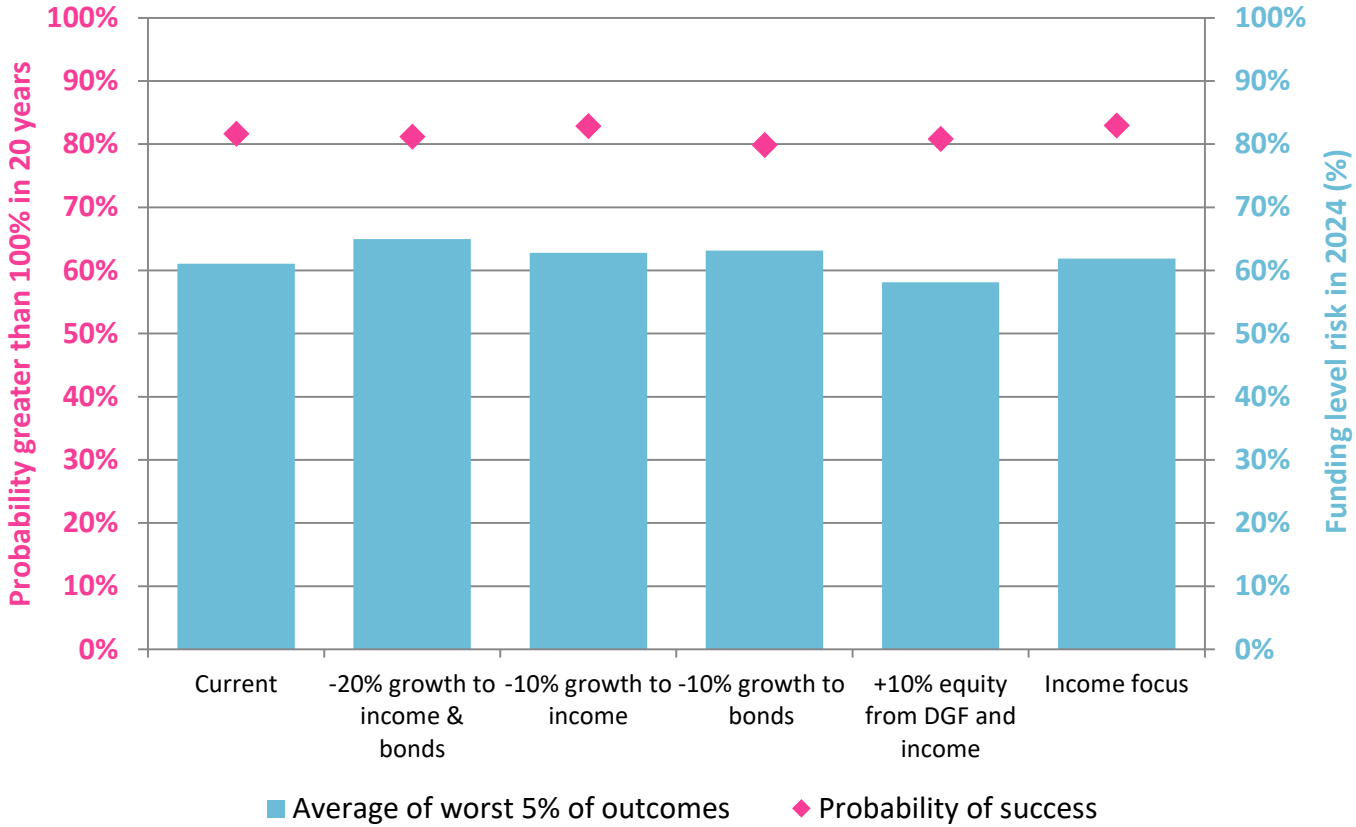
Analysis and results

Projected Funding Level



- Modelling based on the 4% discount rate agreed as part of the actuarial valuation
- Current asset allocation
- Fixed contributions: 20.3%

Fixed contributions of 20.3%



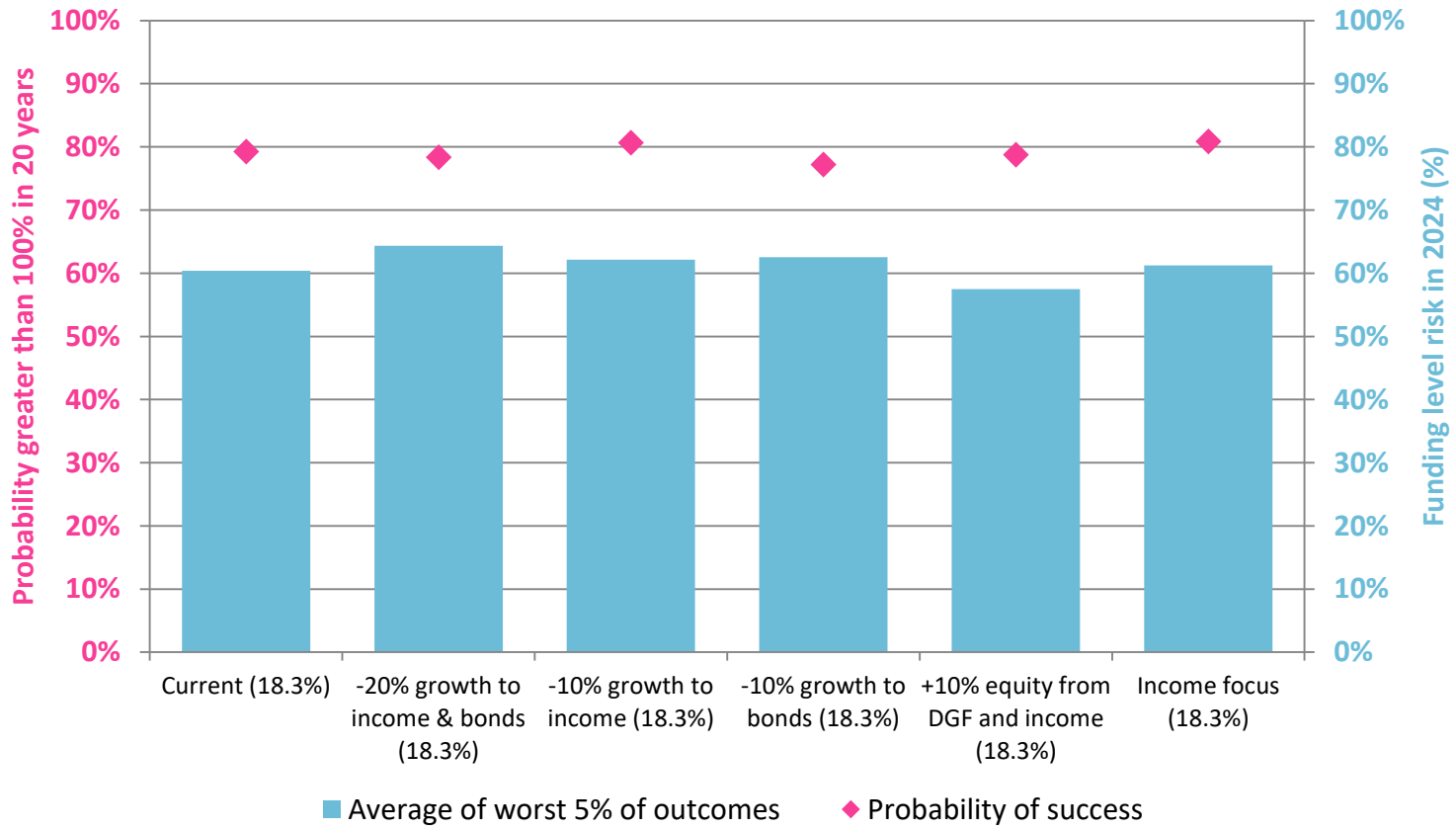
- Modelling based on the 4% discount rate agreed as part of the actuarial valuation

Initial comments

- The funding level is expected to increase over time (median)
- Maintaining the current level of contributions over the whole projection period gives a high chance of ‘success’ under all strategies
- This is not surprising as it represents a very large amount of cash being paid into the Fund with much less reliance on investment returns
- Switches from growth to income assets improve both the probability of being fully funded in future and the level of downside risk
- This reflects the benefits of diversification and expected returns from the income assets
- Switches into low risk bonds reduce the probability of being fully funded but provide slightly more downside protection

Targeting lower contribution rates

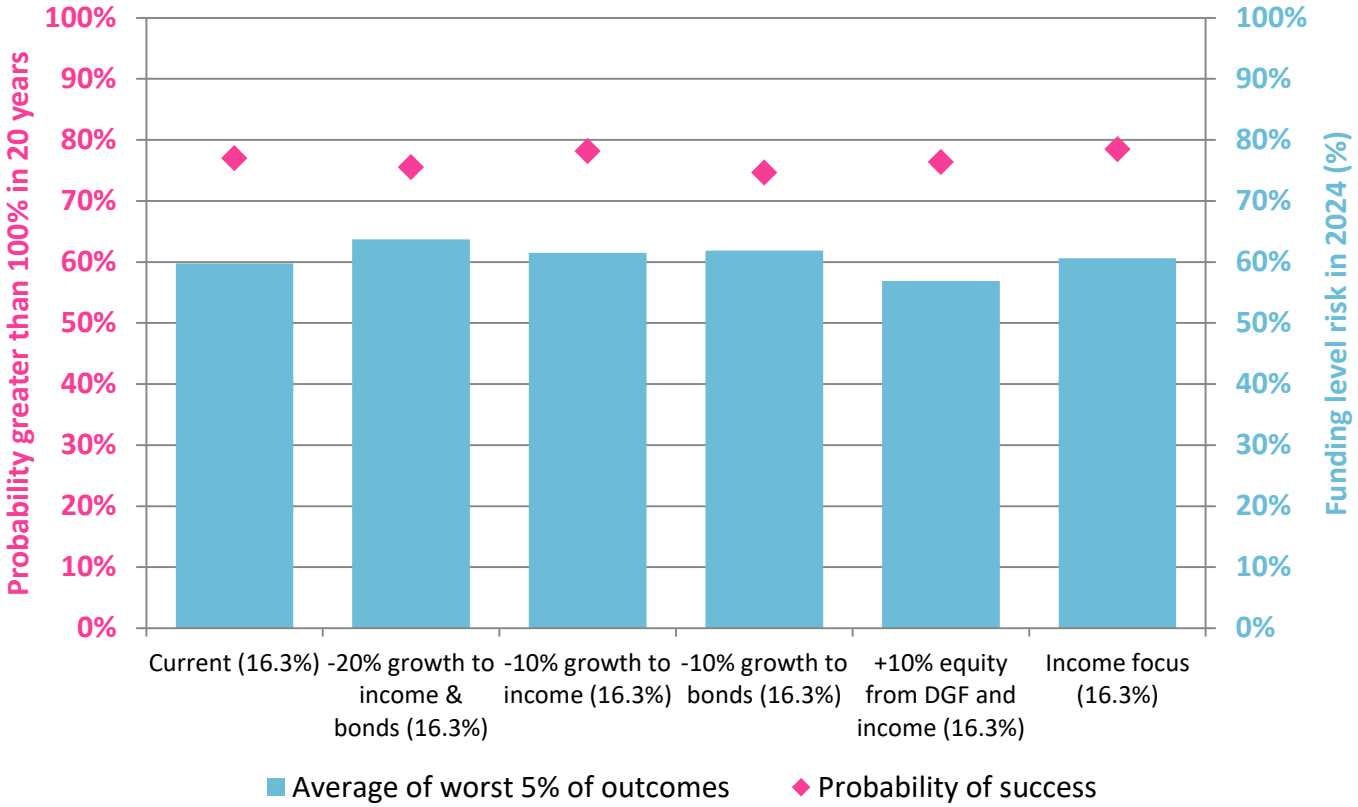
Fixed contributions of 18.3%



- Modelling based on the 4% discount rate agreed as part of the actuarial valuation

Targeting lower contribution rates

Fixed contributions of 16.3%



- Modelling based on the 4% discount rate agreed as part of the actuarial valuation

Initial conclusions

- As lower levels of contribution rate are targeted, the chances of being fully funded in future reduce for all strategies – as less cash is being paid in
- Even under a fixed long term contribution rate of 16.3%, the probability of success under all scenarios is at least 70%

- Switches into Income assets are generally most attractive from a risk / return perspective – improving downside risk and maintaining high chances of success
  - However, the illiquidity of some of the Income Assets – and the constraints and sensitivities inherent in modelling newer asset classes - need to be considered

- At higher funding levels, there may be some attraction in de-risking – into low risk bonds

Climate change analysis

Modelling scenarios

- The analysis is based on three scenarios representing how governments and businesses might respond to climate risk in future. We also allow for the potential impact on longevity according to our Club Vita analysis. For each scenario we consider how future economic variables (inflation, interest rates, investment returns, etc) could differ to our current default assumptions, and show the resulting evolution of the funding level.
- **Head in the Sand**
- A range of disastrous outcomes resulting from a total lack of response to climate risk - Global crop failures, influx of new diseases, severe temperature fluctuations resulting in harsh flu epidemics. Antibiotic resistance rises as new discoveries are limited.
- **Challenging times**
- Some adaptation achieved - "Peak oil flow" is reached constraining economies of the future. Increasing fuel prices, constrained government finances, difficulty obtaining access to imported foods. More/less severe for lower/higher socio-economic groups.
- **Green revolution**
- Rapid technological advances leading to positive adaption to climate change. Healthier lifestyles prevail (walking, cycling, etc), diets improve with less processed food consumption, homes protected against extreme temperatures.

In the following charts we show the scenarios that reflect each of these environments based on the ALM analysis from the earlier section of this report. This is based on the current investment and contribution strategy. We have then summarised the potential impact on funding level based on each of the 3 sets of climate related scenarios.

Economic, financial and longevity impacts

Head in the sand

	3 years	10 years	20 years
GDP growth	↑	↓	↓↓
Inflation	↔	↑	↑
Global equity returns	↑	↓	↓↓
Credit spreads	↔	↑	↑↑
Nominal gilt yield	↑	↔	↓
Real gilt yield	↑	↓	↓↓

Longevity impact

Challenging times

	3 years	10 years	20 years
GDP growth	↔	↓	↓
Inflation	↔	↑	↑
Global equity returns	↑	↓↓	↓
Credit spreads	↔	↑↑	↑
Nominal gilt yield	↑	↓	↓
Real gilt yield	↔	↓↓	↓

Longevity impact

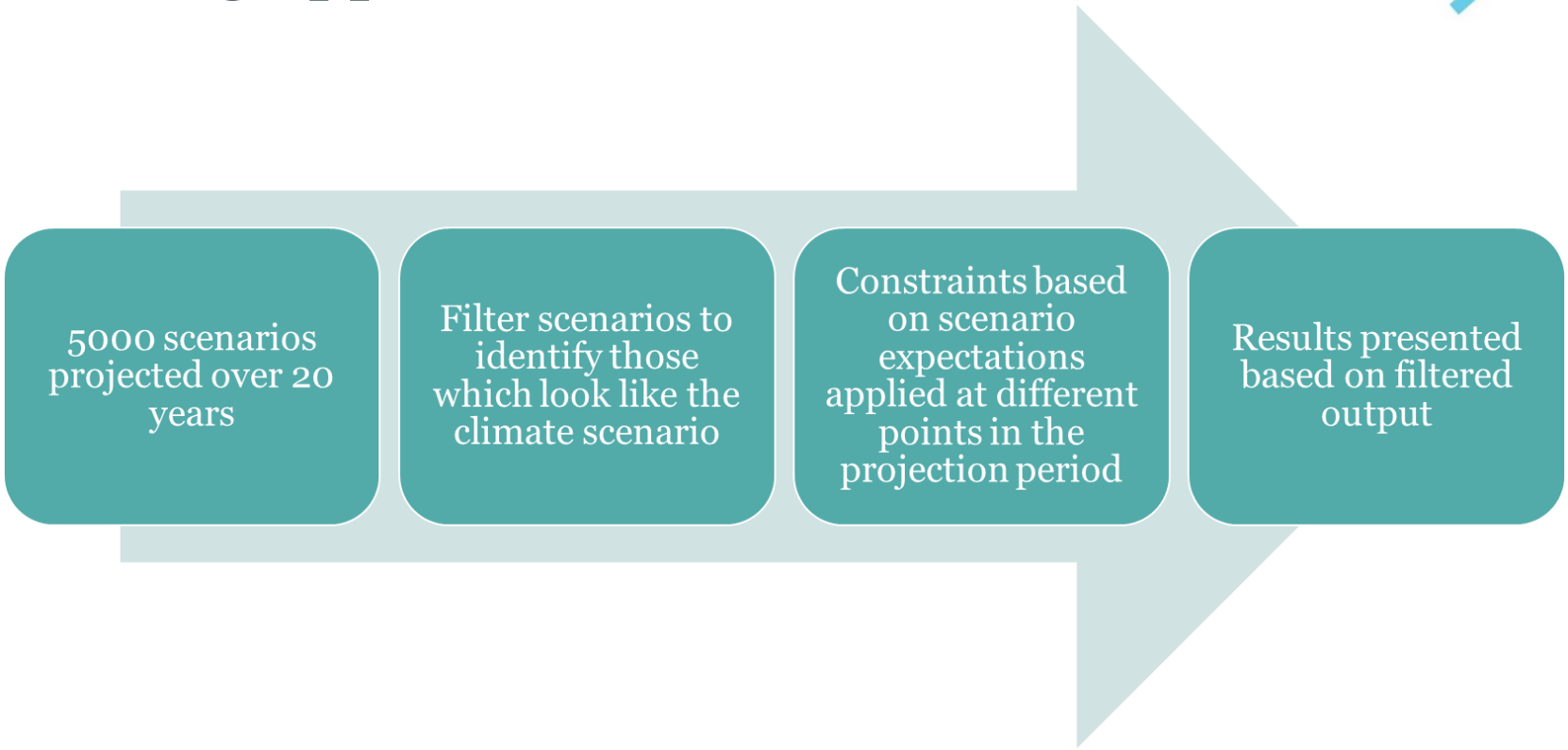
Green revolution

	3 years	10 years	20 years
GDP growth	↓	↔	↔
Inflation	↑	↑	↔
Global equity returns	↓↓	↔	↑
Credit spreads	↑↑	↑	↔
Nominal gilt yield	↑	↑	↔
Real gilt yield	↔	↔	↔

Longevity impact

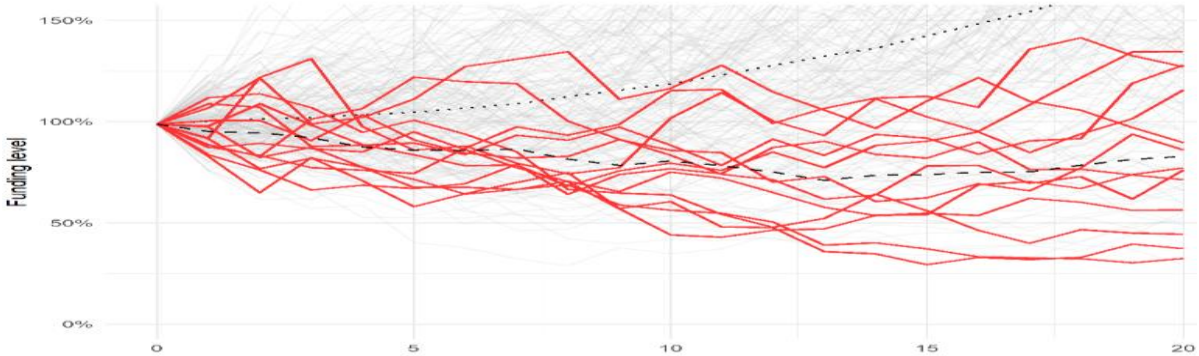
Source for longevity impact: Club Vita- Hot and Bothered?

Modelling approach

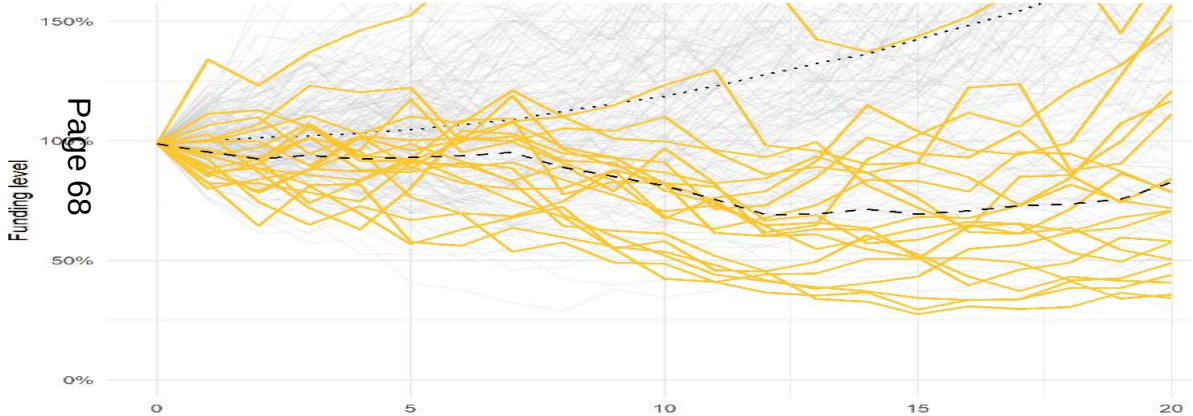


Designed to facilitate discussion

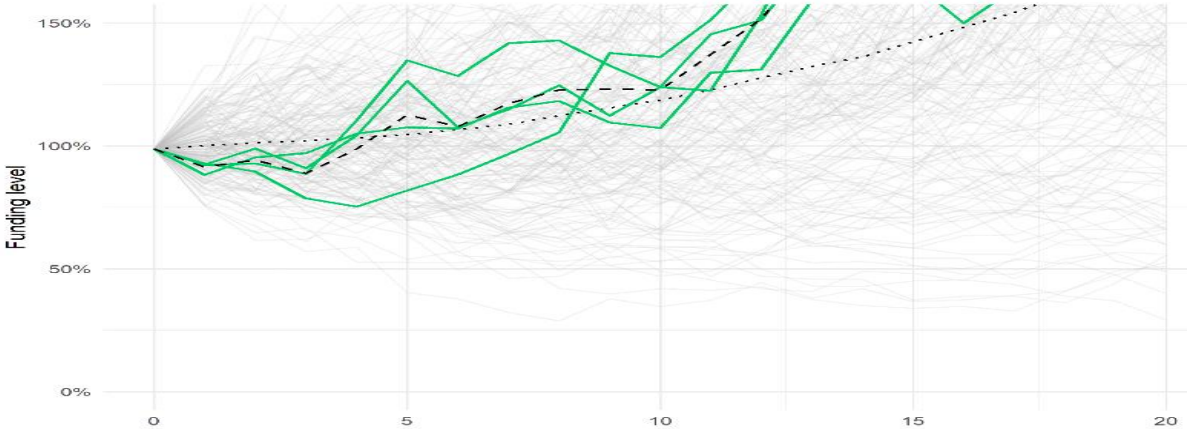
Results



Head in the sand

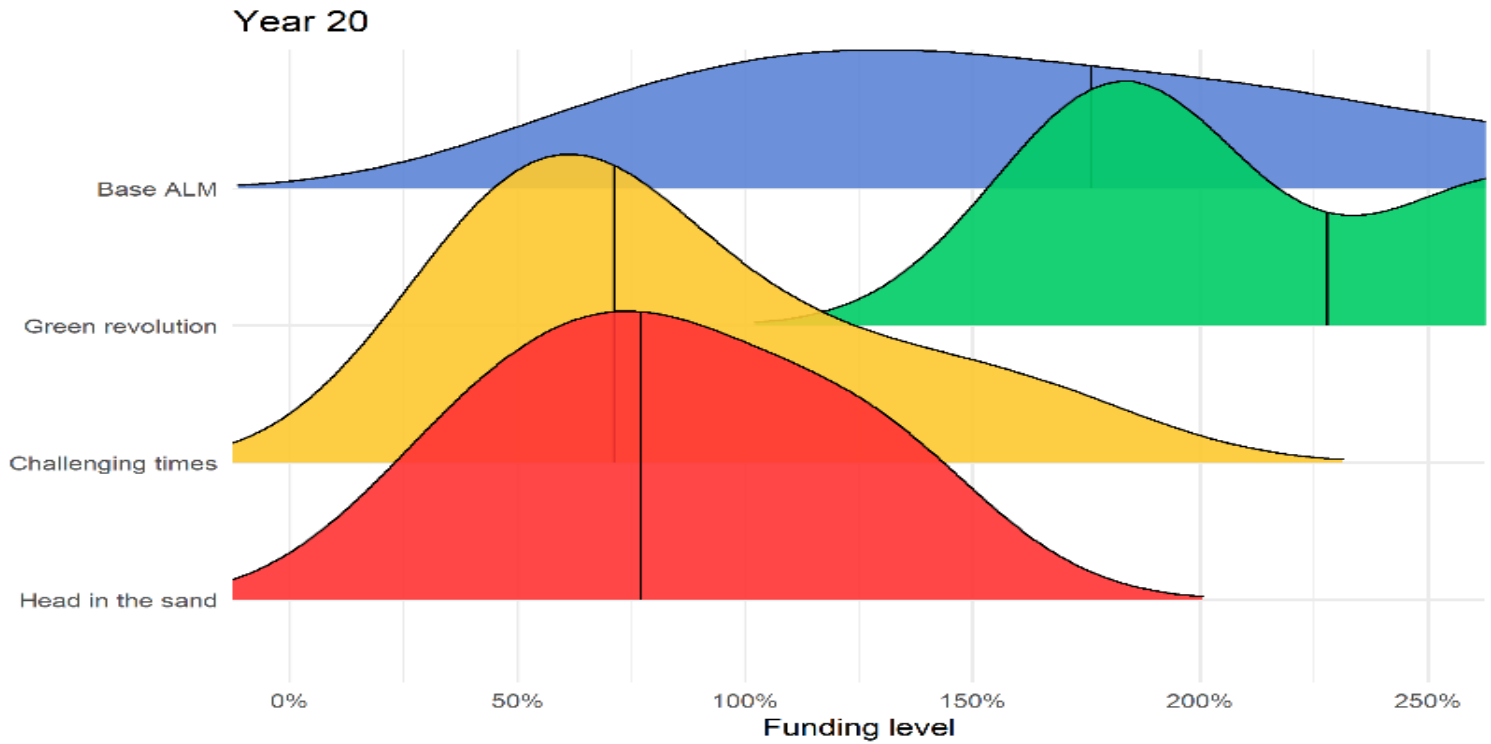


Challenging times



Green revolution

Results



- Based on 4% discount rate, current asset allocation, fixed contributions: 20.3%
- Significant downside risk to funding under some scenarios
- Designed to facilitate discussion

Appendix

Details of approach taken within the modelling (1)

The ALM combines the scheme's cashflows, an investment strategy including any hedging, contributions into the scheme and stochastic economic scenarios from our economic model (ESS) to create stochastic projections of the scheme's funding positions.

In projecting forward the evolution of the Scheme, we have used estimated cashflows generated using our actuarial valuation system, based on information provided as part of the 2019 actuarial valuation of the scheme including the scheme rules.

Except where stated, we do not allow for any variation in actual experience away from the demographic assumptions underlying the cashflows. 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 and asset class returns. Cashflows into and out of the Scheme are projected forward in annual increments, are assumed to occur in the middle of each year and do not allow for inflation lags. Investment strategies are assumed to be rebalanced annually.

We have estimated future service benefit cashflows 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.

In modelling some of the LGPS benefits, we have assumed;

- Salary growth is assumed to have a floor of 0% and to be modelled in line with inflation plus (or minus) any additions applied.
- S148 salaries / national average earnings is assumed NOT have a floor and is projected in line with our projections of national average earnings and valued in line with inflation plus any additions applied.
- Non-accruing and accruing CARE benefits increase in line with CPI (no floor).

Details of approach taken within the modelling (2)

ESS

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 assumptions include:-

- The average excess equity return over the risk free asset and its volatility which affects growth asset returns
- 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 gap between CPI and RPI. The market for CPI linked instruments is not well developed; this is based on our judgement.
- The output of the model is also affected by other more subtle effects, such as the correlations between economic and financial variables.
- We expect that long term real interest rates will gradually rise from their current low levels. Higher long-term yields would mean a lower value placed on liabilities and hence an improvement in the current funding position unless the scheme is fully hedged.

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.

A summary of economic simulations used is included further on in this document. 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.

Details of approach taken within the modelling (3)

Investment strategy and contributions

The investment strategies and contributions modelled have been agreed as part of the scoping process. The most important assumption for the assets is which asset class to use for each of the assets.

Investment strategy is 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.

The returns that could be achieved by investing in any of the asset classes will depend the exact timing of any investment/disinvestment, the costs associated with buying or selling these assets and liquidity of the asset classes. The model implicitly assumes that all returns are net of fees and ignores these other factors.

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.

Expected rates of return and volatilities 30 November 2019

The following figures have been calculated using 5,000 simulations of the Hymans Robertson Economic Scenario Service, calibrated using market data as at 30 November 2019. 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													
		Index Linked Gilts (medium)	Fixed Interest Gilts (medium)	UK Equity	Overseas Equity	Private Equity	Property	Infrastructure Equity	Diversified Growth Fund	Absolute Return Bonds (inv grade)	Senior Loans (sub inv grade)	Corporate bonds (median)	Inflation	17 year real yield	17 year yield
5 years	16th %'ile	-2.6%	-2.6%	-3.7%	-3.9%	-7.0%	-3.5%	-4.5%	-2.1%	1.2%	1.3%	-2.6%	1.5%	-2.7%	0.5%
	50th %'ile	0.3%	0.1%	4.0%	4.3%	5.2%	2.3%	4.3%	3.2%	2.3%	3.8%	0.4%	3.1%	-1.8%	1.6%
	84th %'ile	3.3%	2.9%	12.3%	12.4%	19.0%	8.9%	14.1%	8.7%	3.2%	5.8%	3.4%	4.6%	-0.9%	2.9%
10 years	16th %'ile	-2.2%	-1.4%	-1.4%	-1.4%	-2.8%	-1.6%	-1.7%	-0.4%	1.2%	1.8%	-1.2%	1.5%	-2.2%	0.8%
	50th %'ile	-0.1%	0.0%	4.3%	4.5%	5.6%	2.8%	4.6%	3.4%	2.4%	3.8%	0.5%	3.1%	-1.0%	2.3%
	84th %'ile	2.1%	1.4%	10.4%	10.5%	14.9%	7.4%	11.3%	7.3%	3.6%	5.6%	2.2%	4.9%	0.3%	4.0%
20 years	16th %'ile	-1.3%	-0.1%	0.9%	1.0%	0.2%	0.4%	0.9%	1.5%	2.0%	3.1%	0.3%	1.6%	-1.6%	1.2%
	50th %'ile	0.4%	0.7%	5.5%	5.5%	6.6%	3.8%	5.7%	4.3%	3.5%	4.8%	1.4%	3.1%	0.1%	3.2%
	84th %'ile	2.0%	1.5%	10.1%	10.0%	13.6%	7.4%	10.6%	7.3%	5.1%	6.8%	2.4%	4.7%	1.9%	5.7%
	Volatility (Disp) (1 yr)	7%	7%	17%	17%	29%	14%	20%	12%	2%	5%	9%	1%		

The 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 -2.2% (1.1%) to 0.1% (3.2%).

Thank you

HYMANS ROBERTSON

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East Sussex Pension Fund

Q4 2019 Investment Monitoring Report

Paul Potter, Partner
Ben Fox, Investment Consultant
Mark Tighe, Investment Analyst

Appendix 3

HYMANS ROBERTSON

Executive Summary

The table summarises the status of the key considerations for the Fund

	"RAG Status"	Comment	Action	Responsibility / Timescale
Strategic Allocation		Under review	Asset-liability modelling and strategic review to be conducted based on 2019 cashflows	Strategy review to be presented by Hymans at March 2020
Fund performance		Fund return ahead of benchmark over 3 years and 5 years	No action proposed	-
Manager Performance		Passive manager performance in line with benchmark Active manager performance ahead of benchmark over longer term; Ruffer, Schroders and M&G Absolute return Credit behind target	No action proposed	-
Manager Changes		Some changes at Schroders and M&G mentioned on slide 7. No concerns or actions needed	No action proposed	-
Detailed Asset Allocation		Income allocation in breach of lower limit M&G Absolute Return Credit in breach of lower limit	No action proposed. Drawdowns into infrastructure and real-estate debt will increase income allocation	Officers to respond to capital calls when made over coming years. DGFs to fund the capital calls

In line with expectations | Behind expectations, no action proposed | Behind expectations, action proposed

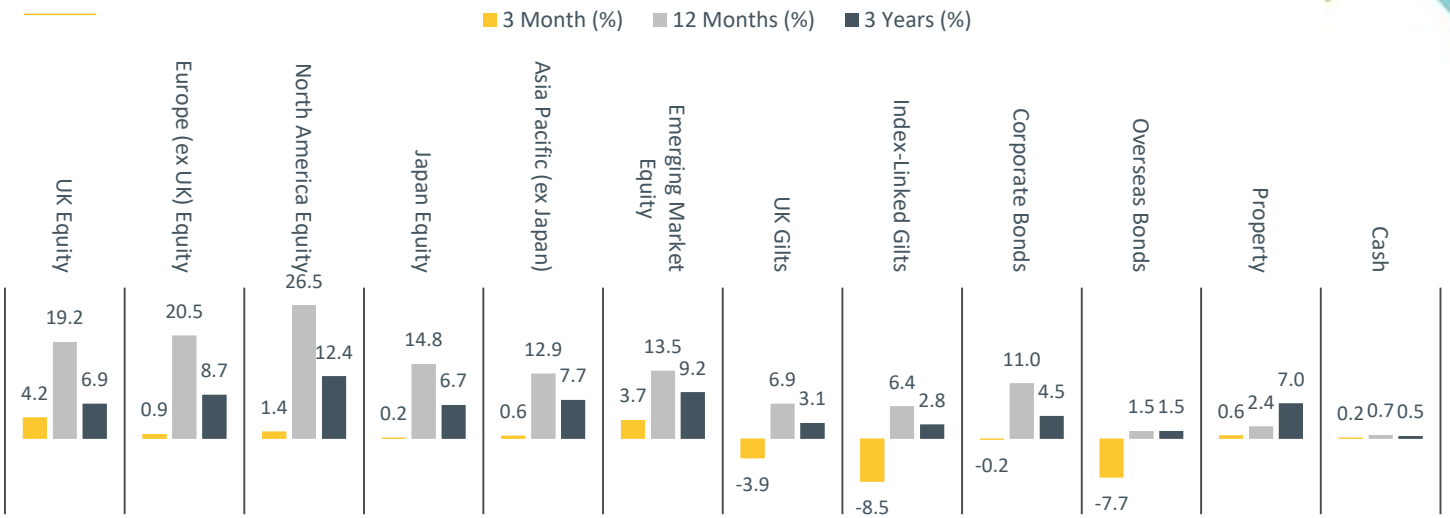
Market Background

US GDP growth continued to outperform developed market peers and Q3 expectations but has slowed on last year's robust pace. Eurozone growth also beat Q3 expectations as Germany narrowly avoided recession. UK GDP growth achieved a modest recovery in Q3, following a contraction in Q2.

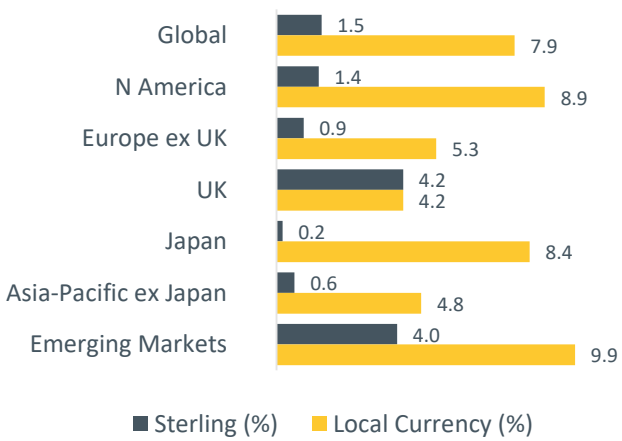
The Federal Reserve cut rates for the third time in three months in October, due to slowing global growth and weak inflation. The ECB cut rates to -0.5% and announced the restart of QE in November.

Sovereign bond yields rose across developed economies on trade progress and some improvements in economic data across various regions.

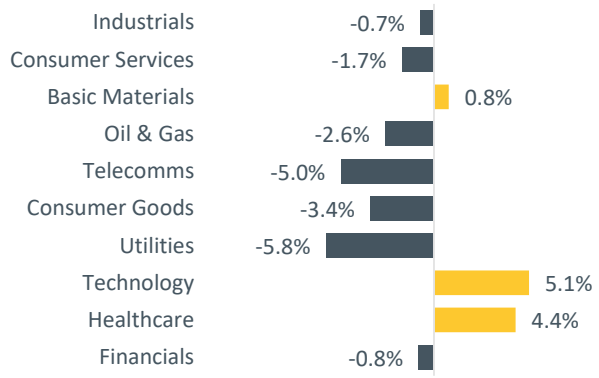
Historic returns for world markets [1]



Regional equity returns [2]



Global equity sector returns (%) [3]



[1] All returns are in Sterling terms. Indices shown (from left to right) are as follows: 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, FTSE Fixed Gilts All Stocks, FTSE Index-Linked Gilts All Maturities, iBoxx Corporates All Investment Grade All Maturities, JP Morgan GBI Overseas Bonds, MSCI UK Monthly Property Index; UK Interbank 7 Day. [2] FTSE All World Indices [3] Relative to FTSE All World Index.

Dashboard

- Top contributors to relative performance:
  - Longview
  - M&G Abs Return Credit
- Top detractors from relative performance:
  - Adams Street
  - Harbourvest
  - UBS Infrastructure

Key Actions

- Infrastructure investments expected to draw down capital over the next 3-4 years
- Fund has committed £60m to the M&G Real Estate Debt VI Fund, which started to draw down capital during Q2 2019. The Fund is now c.52% drawn.

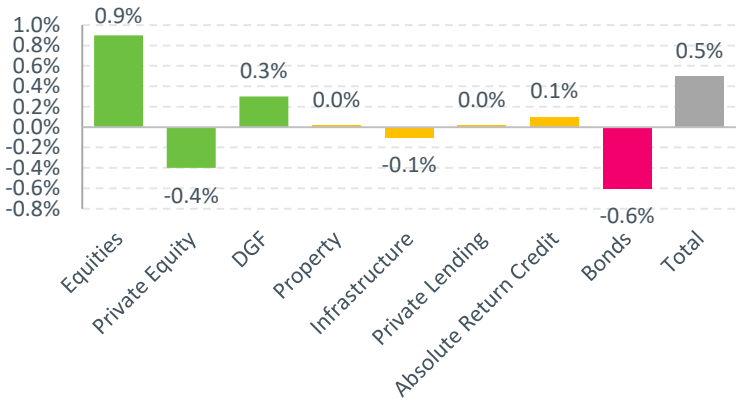
GrIP Allocation

- Allocation to income underweight. Further drawdowns into infrastructure and real estate debt will address this over time.
- M&G Absolute Return Credit also underweight at an underlying fund level.

Performance

Period	Performance (%)	Benchmark (%)	Relative to Benchmark (%)
Last 3 months	0.5	0.8	-0.3
Last 12 months	12.4	13.1	-0.7
Last 3 years (p.a.)	6.8	6.2	0.6
Last 5 years (p.a.)	9.0	7.8	1.1

3 Month Performance Attribution

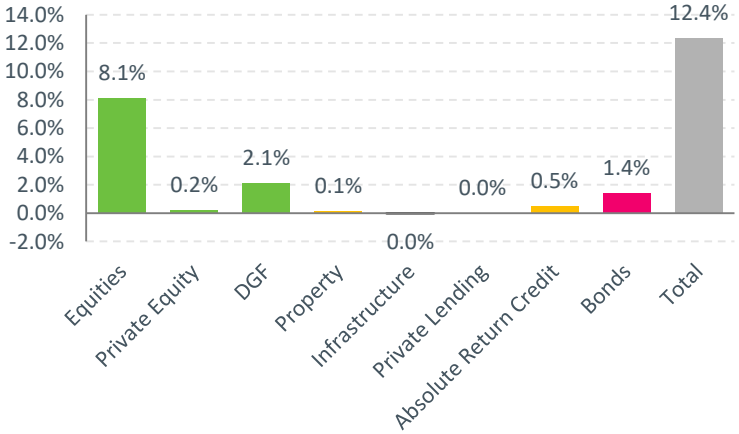


GrIP Allocation

GrIP	Actual	Benchmark	Relative	Rebalancing Range
Growth	71.6%	66.5%	5.1%	60.0% - 73.0%
Income	18.4%	25.0%	-6.6%	22.0% - 28.0%
Protection	9.1%	8.5%	0.6%	7.5% - 9.5%

Fund also has a 0.9% allocation to Cash at the end of the quarter

12 Month Performance Attribution



Key actions agreed previously

- Fund has committed £60m to the M&G Real Estate Debt VI Fund, which is expected to fully draw down over the next c12 months
- Fund has committed c£235m to infrastructure, which is expected to draw down over the next 3-5 years.

Allocation comment

- Absolute return mandates due to fund draw downs into infrastructure and private debt
- M&G Absolute Return Credit in breach of lower limit.

Asset Allocation

ACCESS POOL	Manager	Valuation (£m) Q3 2019	Valuation (£m) Q4 2019	Actual Proportion	Benchmark	Relative	Rebalancing Range
No*	UBS - Regional Equities	366.9	370.9	9.5%	8.0%	1.5%	36.0% - 44.0%
No*	UBS - Fundamental Index	465.2	470.7	12.0%	11.5%	0.5%	
No*	UBS - UK Equity	283.8	295.5	7.6%	7.0%	0.6%	
No*	UBS - Climate Aware	187.9	190.8	4.9%	5.0%	-0.1%	
No*	UBS - Global EM Equity	42.9	44.6	1.1%	1.5%	-0.4%	
Yes	Longview - Global Equity	298.7	307.8	7.9%	7.0%	0.9%	
No	Harbourvest - Private Equity	111.5	102.3	2.6%	2.8%	-0.1%	3.5% - 7.5%
No	Adams Street - Private Equity	128.1	115.9	3.0%	2.8%	0.2%	
No	Newton - Absolute Return	448.1	455.3	11.6%	10.5%	1.1%	19.0% - 23.0%
Yes**	Ruffer - Absolute Return	417.8	445.4	11.4%	10.5%	0.9%	
	Total Growth	**2,750.9**	**2,799.3**	**71.6%**	**66.5%**	**5.1%**	**60.0% - 73.0%**
No	Schroders - Property	366.1	364.2	9.3%	10.0%	-0.7%	8.0% - 12.0%
No	UBS - Infrastructure	16.9	14.7	0.4%	1.0%	-0.6%	2.0% - 6.0%
No	Pantheon - Infrastructure	26.9	26.3	0.7%	2.0%	-1.3%	
No	M&G - Infrastructure	14.5	18.4	0.5%	1.0%	-0.5%	
No	M&G - Private Debt	21.4	31.3	0.8%	3.0%	-2.2%	1.0% - 5.0%
No	M&G - UK Financing Fund	0.7	0.7	0.0%	0.0%	0.0%	
No	M&G - Absolute Return Credit	257.4	262.7	6.7%	8.0%	-1.3%	7.0% - 9.0%
	Total Income	**703.9**	**718.5**	**18.4%**	**25.0%**	**-6.6%**	**22.0% - 28.0%**
No	M&G - Corporate Bonds	150.5	148.9	3.8%	3.5%	0.3%	2.5% -4.5%
No*	UBS - Over 5 Year IL Gilt Fund	230.0	208.3	5.3%	5.0%	0.3%	4.0% -6.0%
	Total Protection	**380.4**	**357.2**	**9.1%**	**8.5%**	**0.6%**	**7.5% - 9.5%**
No	Cash	42.5	33.9	0.9%	0.0%	0.9%	0.0% - 2.0%
	Total Scheme	**3,877.7**	**3,908.9**	**100.0%**	**100.0%**		

*The UBS funds are provided to members of the ACCESS Pool but the funds themselves sit outside of the pool.
**The Ruffer fund transferred to the ACCESS Pool during Q4 2019

- UBS performed broadly in line with their respective benchmarks
- Longview outperformed its MSCI World benchmark, with stock selections in the Financial and Industrial sectors driving positive performance.
- Newton and Ruffer outperformed their cash-plus benchmark as equity markets delivered strong returns.

Manager performance – net of fees

	Last 3 months (%)			Last 12 months (%)			Last 3 years (% p.a.)			Since Inception (% p.a.)		
	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative	Fund	B'mark	Relative
Growth												
UBS - Regional Equities	1.1	1.1	**0.0**	22.5	22.5	**0.1**	-	-	-	9.8	9.7	**0.1**
UBS - Fundamental Index	1.1	1.2	**-0.1**	18.2	18.2	**-0.1**	-	-	-	6.8	6.9	**-0.1**
UBS - UK Equity	4.1	4.2	**-0.1**	19.2	19.3	**-0.1**	-	-	-	3.6	3.7	**0.0**
UBS - Climate Aware	1.5	1.2	**0.3**	23.1	23.0	**0.1**	-	-	-	10.5	10.4	**0.1**
UBS - Global EM Equity	3.8	4.0	**-0.2**	15.1	15.7	**-0.5**	-	-	-	1.8	2.1	**-0.3**
Longview - Global Equity	3.1	1.0	**2.1**	19.6	21.2	**-1.3**	11.7	9.7	**1.8**	15.1	11.7	**3.1**
Newton - Absolute Return	1.7	0.8	**0.8**	12.3	3.2	**8.8**	4.8	3.0	**1.8**	3.7	3.0	**0.6**
Ruffer - Absolute Return	0.9	0.8	**0.1**	5.9	3.2	**2.6**	1.0	3.0	**-2.0**	3.2	3.0	**0.1**
Income												
Schroders - Property	0.3	0.3	**0.0**	1.2	1.6	**-0.4**	6.3	6.1	**0.2**	7.8	7.4	**0.4**
M&G - Absolute Return Credit	2.0	0.9	**1.1**	6.8	3.7	**3.0**	3.4	3.5	**-0.1**	4.0	3.5	**0.5**
Protection												
M&G - Corporate Bonds	-0.9	-1.3	**0.4**	14.6	13.2	**1.2**	5.5	5.0	**0.5**	7.8	7.3	**0.5**
UBS - Over 5 Year IL Gilt Fund	-9.5	-9.4	**-0.1**	6.6	6.7	**-0.1**	-	-	-	5.7	5.7	**-0.1**
Total	**0.5**	**0.8**	**-0.3**	12.4	13.1	**-0.7**	6.8	6.2	**0.6**			

We have estimated net returns based on each manager's expected fee levels. 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 performance has been calculated using estimated valuations for private market investments. From Q4 2017 total Fund performance has been provided by Northern Trust. From Q4 2018, Northern Trust applied updated benchmarks across several of the Fund's managers, but this was not back-dated. The Longview investment moved into the ACCESS pool in Q1 2019. Performance has been estimated by chain linking returns before and after the transfer. Returns since the transfer have been taken from Link. Ruffer moved into the ACCESS pool in December 2019. Performance has been estimated by chain linking returns before and after the transfer.

There were no manager rating changes over the quarter.

Manager ratings

Manager	Mandate	Hymans Rating	RI Rating
UBS	Passive Equities	Preferred	Good
Longview	Active Equities	Preferred	Adequate
HarbourVest	Private Equity	Preferred	-
Adams Street	Private Equity	Preferred	-
Newton	Absolute Return	Suitable	Good*
Ruffer	Absolute Return	Positive	-
Schroders	Property	Suitable	-
UBS	Infrastructure	Preferred	-
InfraCapital	Infrastructure	Positive	-
Pantheon	Infrastructure	Preferred	-
M&G	Alpha Opportunities	Preferred	-
M&G	Corporate Bonds	Preferred	-
UBS	Index Linked Gilts	Preferred	-

*Based on our rating of Newton's equity funds

M&G business update

M&G Investments demerged in October 2019 from insurer Prudential, its owner since 1999. The new independent firm is listed on the London Stock Exchange and comprises both asset management and insurance divisions. With £340bn in assets under management it is the third largest listed asset manager in the UK. In December 2019, M&G have also announced that Chief Risk Officer, Margaret Ammon left the business in December 2019. She has been replaced on an interim basis by Head of Investment Risk, Nas Islam.

Since the de-merger, the existing business structure and processes have been under review and we think the creation of a single investment platform makes sense. It simplifies what previously was arguably a slightly disjointed structure and aligns with how M&G want to grow the business. The crossover between equities and credit research should allow greater coverage and more efficient ESG integration into the research process.

Schroders business update

Schroder has announced some changes to the team managing the Schroder Real Estate Fund (SREF), which makes up 7.5% of the Fund's mandate. Rupert Langdon, Deputy Fund Manager, has left the business by mutual consent after c18 months at Schroders. Investment Manager, Rob Cosslett has been promoted to Deputy Fund Manager on SREF as a direct replacement. Some further departures at the end of 2019 were Neil Meredith, a UK Asset Manager, retiring after 13 years at Schroders and Jourdan Rajwan, an Investment Manager, leaving to work in his family property business.

Jessica Berney remains lead Fund Manager of SREF and is in the process of recruiting a new investment manager to focus on UK industrial assets. Makoto Fukui has been appointed Head of Central London and Strategic Partnerships and a new Investment Analyst, Ele Castelli, will join the UK team on a permanent basis.

Our research management team have a meeting arranged with Nick Montgomery, Head of UK Real Estate Investment, and we will provide an update after the meeting.

Newton business update

As previously announced, Iain Stewart formally retired from Newton at the end of 2019. In addition, Newton announced that Andrew Parry joined over the quarter as Head of Sustainable Investment.

Source: Investment Managers, Hymans Robertson

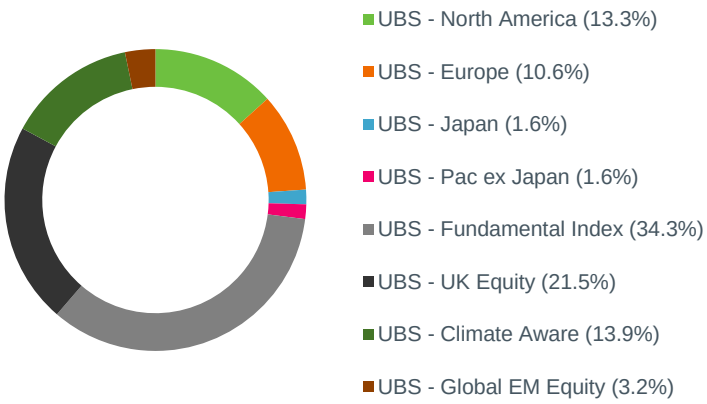
UBS Equities

- Benchmark: Various regional indices
- Target: Match benchmark over all time periods
- UBS have successfully tracked underlying benchmarks to date
- UBS Climate Aware Fund totalled £1.7bn at the end of December. The Committee has previously agreed to commit a further 5% of Fund assets (c£195m) to the Climate Aware Fund at a future date, depending upon the size of the UBS' fund. A further investment of £195m would equate to an overall holding of c20% of the fund.

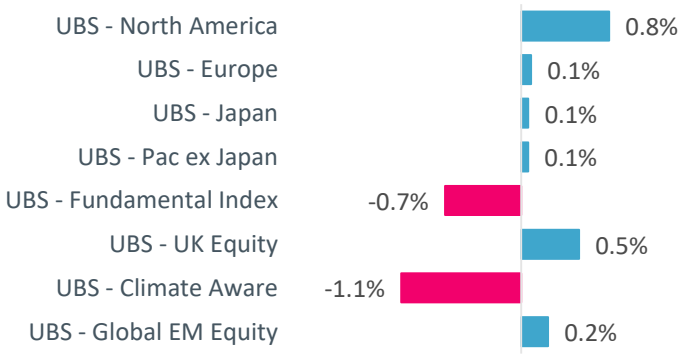
Fund performance vs benchmark

	Last 3 months (%)			Last 12 months (%)		
	Fund	B'mark	**Relative**	Fund	B'mark	**Relative**
UBS - North America	1.4	1.4	**0.0**	14.1	14.1	**0.0**
UBS - Europe	0.9	0.9	**0.0**	7.9	7.6	**0.3**
UBS - Japan	0.2	0.2	**0.0**	-1.1	-1.1	**0.0**
UBS – Asia Pac ex Japan	0.5	0.5	**0.0**	6.1	6.3	**-0.2**
UBS - Fundamental Index	1.1	1.2	**-0.1**	18.2	18.2	**-0.1**
UBS - UK Equity	4.1	4.2	**-0.1**	19.2	19.3	**-0.1**
UBS - Climate Aware	1.5	1.2	**0.3**	23.1	23.0	**0.1**
UBS - Global EM Equity	3.8	4.0	**-0.2**	15.1	15.7	**-0.5**

Fund Allocation



Fund Allocation Relative to Target



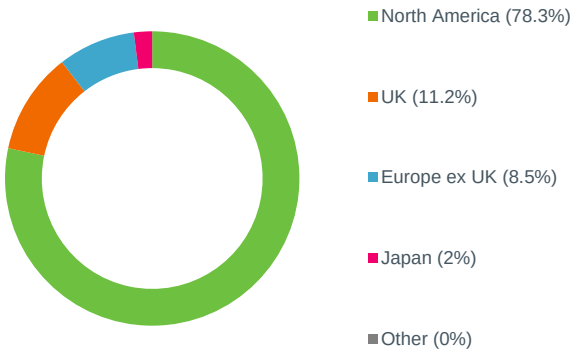
Longview Global Equities

- Benchmark: MSCI ACWI
- Target: Outperform benchmark by 3% (gross) p.a. over rolling 3 year periods
- Performance ahead of benchmark over longer time periods but slightly behind target
- Performance shown gross of fees
- This Fund transferred into the ACCESS Pool on 4 February 2019. Performance data until this date is taken from Longview and after this date from Link, the Access pool operator.

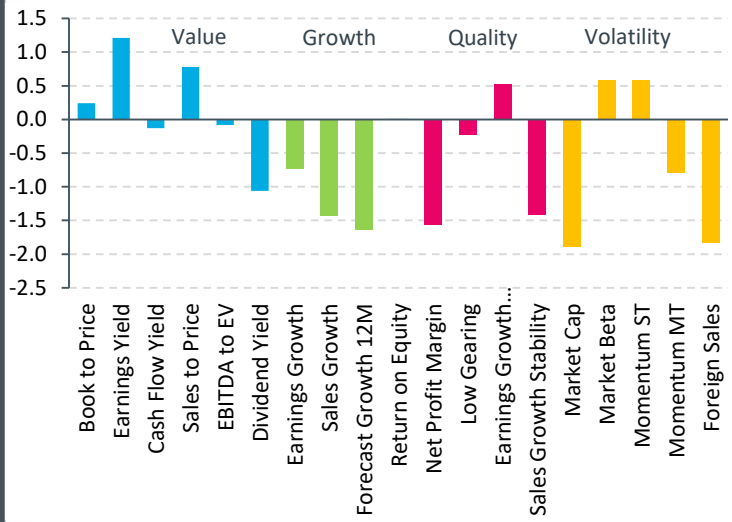
Fund performance vs benchmark

Period	Performance (%)	Benchmark (%)	Relative to Benchmark (%)	Target (%)	Relative to Target (%)
Last 3 months	3.2	1.0	**2.2**	1.7	**1.5**
Last 12 months	20.3	21.2	**-0.7**	24.2	**-3.1**
Last 3 years (p.a.)	12.3	9.7	**2.4**	12.7	**-0.3**
Last 5 years (p.a.)	14.6	11.9	**2.4**	14.9	**-0.3**

Country Allocation



Pooled Fund Skyline (as at 31 December 2019)



Performance Attribution – Top/Bottom 3 Sectors

Sector	Beginning Weight			Outperformance Source		
	Fund (%)	Index (%)	Difference (%)	Selection (%)	Allocation (%)	Total (%)
Financials	27.0	15.7	11.3	1.7	0.0	1.6
Industrials	13.6	11.1	2.4	0.9	0.0	0.9
Healthcare	21.8	12.8	9.0	0.4	0.5	0.8
Materials	0.0	4.4	-4.4	0.0	0.0	0.0
Consumer Discretionary	10.5	10.4	0.1	-0.6	0.0	-0.6
IT	10.2	16.9	-6.8	-1.1	-0.4	-1.5

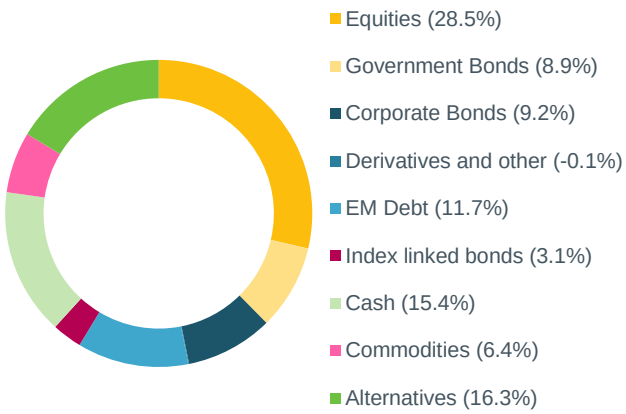
Newton Real Return Fund

- Benchmark: 3m LIBOR + 2.5% p.a.
- Target: 3-month LIBOR + 4% p.a. (gross) over rolling 5 years
- Performance ahead of benchmark over all time periods but behind target over 5 years.
- Performance shown gross of fees

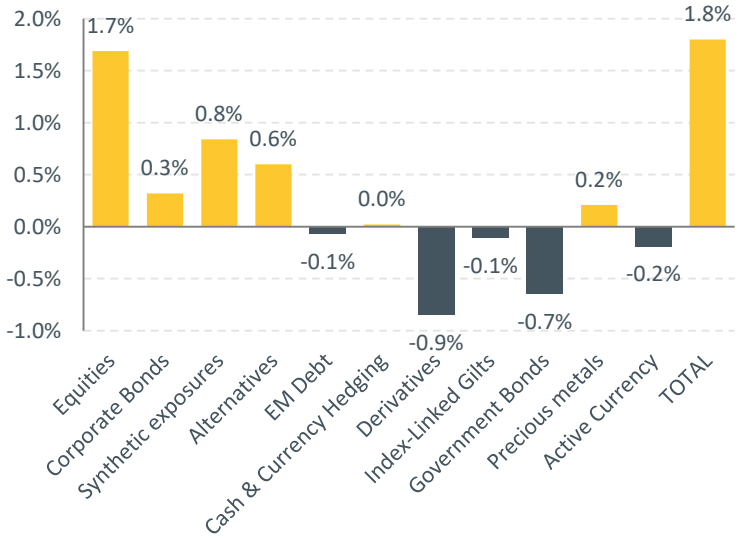
Fund performance vs benchmark/target

Period	Performance (%)	Benchmark (%)	Relative to Benchmark (%)	Target (%)	Relative to Target (%)
Last 3 months	1.8	0.8	**1.0**	1.2	**0.6**
Last 12 months	12.9	3.2	**9.7**	4.7	**8.2**
Last 3 years (p.a.)	5.4	3.8	**1.6**	5.3	**0.1**
Last 5 years (p.a.)	4.3	3.0	**1.3**	4.5	**-0.1**

Asset Allocation



Performance Attribution



Performance Attribution Explanation

The positive performance observed over the quarter is mostly attributed to global equity holdings within the portfolio, which benefitted from the widespread equity market rally in Q4. As the manager hedges the vast majority of fund's foreign currency exposure, positive returns from global equities were not depressed by the appreciation of Sterling.

Within equities, the majority of sectors delivered positive absolute returns, but Technology and Financials were the main drivers of performance. The allocation to corporate bonds also delivered positive returns due to the tightening of credit spreads (prices rising).

The fund's main detractor to performance came from the holdings in government bonds as yields rose over the quarter (prices fell). The derivatives holding also detracted, as would be expected in a rising equity market environment.

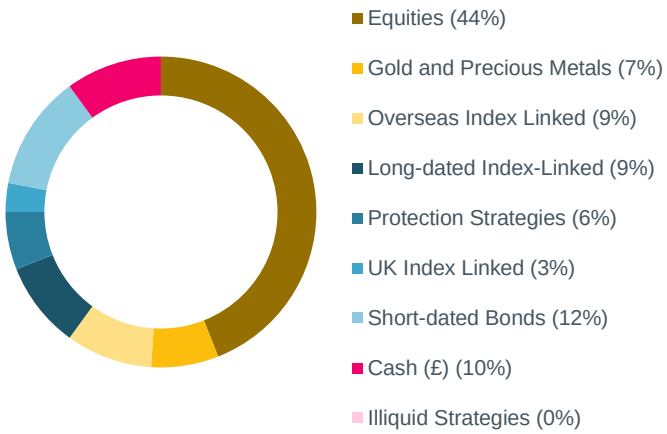
Ruffer Absolute Return Fund

- Benchmark: 3-month LIBOR + 2.5%
- Target: 3-month LIBOR + 4% p.a. (gross) over rolling 5 years
- Performance ahead of benchmark for all time periods considered other than 3 years
- Performance shown gross of fees
- This Fund transferred into the ACCESS Pool on 4 December 2019.

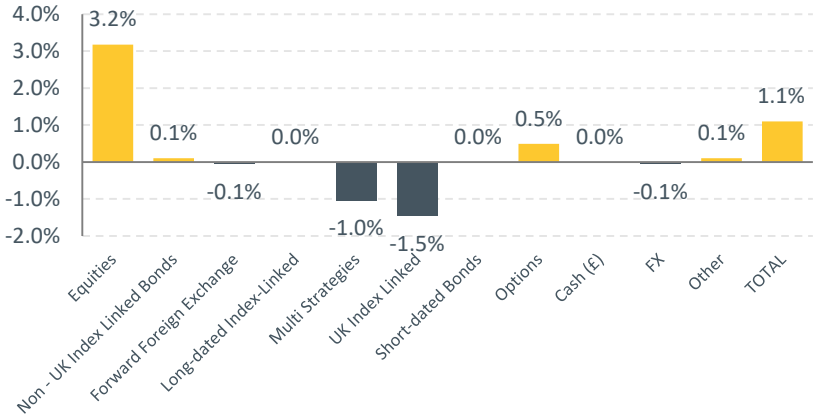
Fund performance vs benchmark/target

Period	Performance (%)	Benchmark (%)	Relative to Benchmark (%)	Target (%)	Relative to Target (%)
Last 3 months	1.1	0.8	**0.3**	1.2	**-0.1**
Last 12 months	6.7	3.2	**3.4**	4.7	**1.9**
Last 3 years (p.a.)	1.8	3.0	**-1.2**	4.5	**-2.6**
Last 5 years (p.a.)	2.8	3.0	**-0.2**	4.5	**-1.6**

Asset Allocation



Performance Attribution



Performance Attribution Explanation

The Fund benefited from another strong quarter for equity markets, which kept performance ahead of benchmark. In particular, exposure to the US healthcare sector was a strong performer.

The primary detractor of performance was the Fund's exposure to UK index linked bonds. Reduced fears of a global slowdown, combined with reduced political uncertainty in the UK caused bond prices to fall.

In addition, tightened spreads on corporate bonds resulting in losses on the multi strategies.

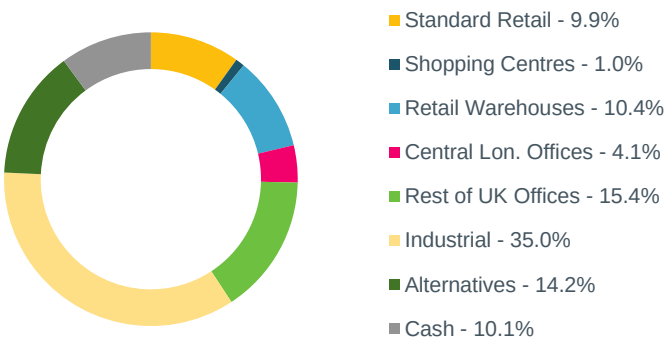
Schroders Property

- Benchmark: IPD All Balanced Funds
- Target: Outperform benchmark by 0.75% p.a. (net) over rolling 3 years
- Performance in line with benchmark over longer time periods, but behind target over all time periods
- Performance shown net of fees

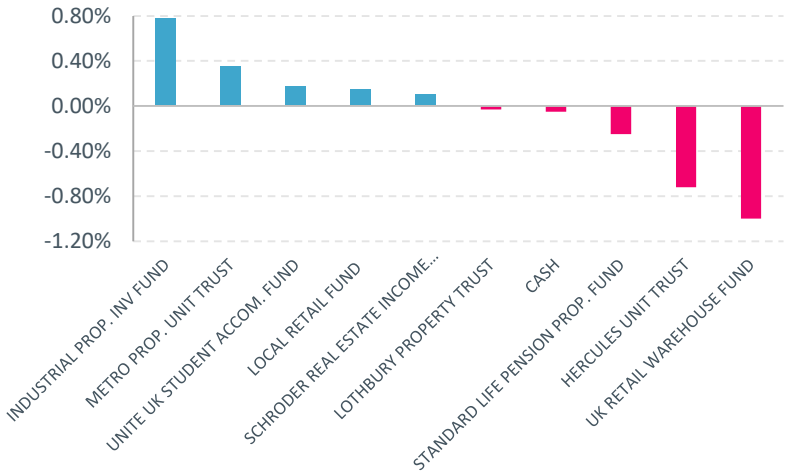
Fund performance vs benchmark/target

Period	Performance (%)	Benchmark (%)	Relative to Benchmark (%)	Target (%)	Relative to Target (%)
Last 3 months	0.3	0.3	**0.0**	0.5	**-0.2**
Last 12 months	1.2	1.6	**-0.4**	2.4	**-1.1**
Last 3 years (p.a.)	6.3	6.1	**0.2**	6.8	**-0.5**
Last 5 years (p.a.)	6.7	6.6	**0.0**	7.4	**-0.7**

Sector Allocation



Top 5/Bottom 5 Contributors (12 months)



Performance Attribution Explanation

The mandate performed in line with its benchmark, delivering an absolute return of 0.3%.

Performance mostly driven by rental income received from the underlying properties. Over the quarter, the manager actively reduced exposure to the Retail sector (which has been negatively affected by the recent consumer trend towards online retail) from 23% to 21% of the Fund.

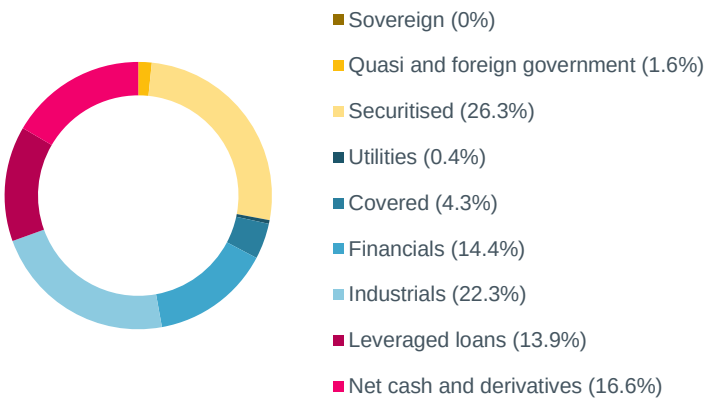
M&G Alpha Opportunities

- Benchmark: 3 Month Libor + 3%
- Target: 3 Month Libor + 5% (gross)
- Performance shown gross of fees

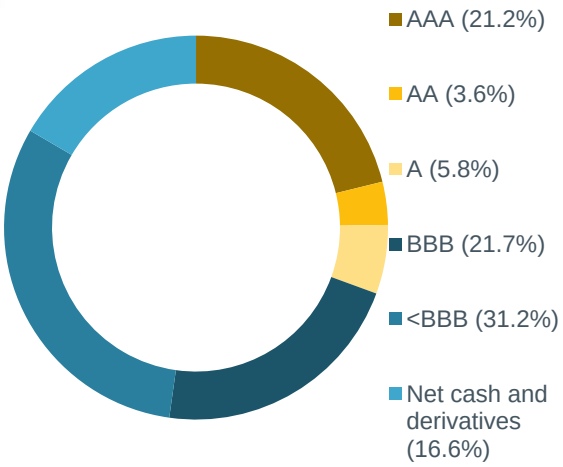
Fund performance vs benchmark/target

Period	Performance (%)	Benchmark (%)	Relative to Benchmark (%)	Target (%)	Relative to Target (%)
Last 3 months	2.1	0.9	**1.1**	1.4	**0.6**
Last 12 months	7.2	3.7	**3.3**	5.7	**1.4**
Last 3 years (p.a.)	3.8	3.5	**0.2**	5.5	**-1.7**
Last 5 years (p.a.)	4.0	3.5	**0.5**	5.5	**-1.4**

Sector Allocation



Credit Ratings



Performance Attribution Explanation

Credit spreads narrowed over the quarter which benefitted the fund. Corporate bond holdings in the Industrial and Financial sectors in particular performed well.

The fund does not have significant exposure to interest rates and so did not suffer from gilt yield increases like the wider corporate bond market.

Over the quarter, the manager opted to crystallise profits mainly through selling some of the longer duration assets which had performed particularly well. The proceeds were re-deployed into 'safer' higher rated credit assets.

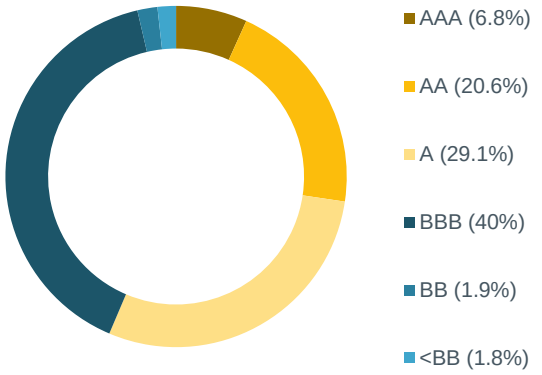
M&G Corporate Bonds

- Benchmark:
- 50% iBoxx Non-Gilts Over 15Y
- 50% iBoxx Non-Gilts
- Target: Outperform benchmark by 0.8% p.a. (gross)
- Performance shown gross of fees
- Performance ahead of benchmark and in line with target over 5 years
- M&G mandate has a marginally lower average credit quality than the benchmark

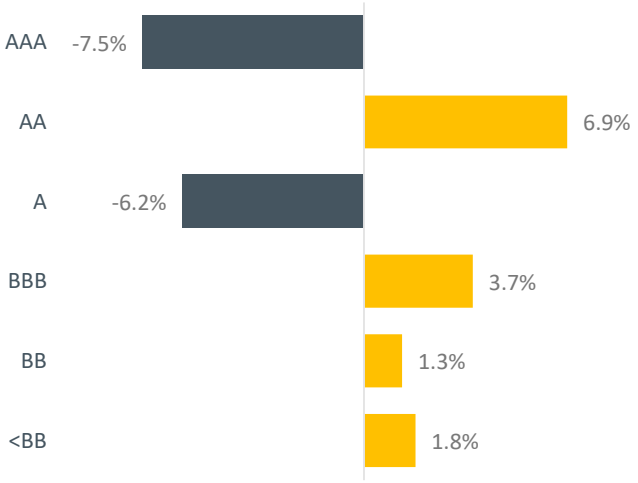
Fund performance vs benchmark/target

Period	Performance (%)	Benchmark (%)	Relative to Benchmark (%)	Target (%)	Relative to Target (%)
Last 3 months	-0.8	-1.3	**0.5**	-1.1	**0.3**
Last 12 months	15.0	13.2	**1.5**	14.0	**0.8**
Last 3 years (p.a.)	5.9	5.0	**0.9**	5.8	**0.1**
Last 5 years (p.a.)	6.8	5.7	**1.0**	6.5	**0.3**

Credit rating



Credit rating allocation relative to benchmark



Performance attribution relative to benchmark

Sector	Outperformance Source: Sector Selection (%)	Stock Selection (%)	Total (%)
Industrial	0.0	0.1	**0.2**
Financial	0.0	0.1	**0.1**
Securitized	0.0	0.0	**0.1**
Quasi & Foreign Government	0.0	0.1	**0.0**
Utility	-0.1	0.1	**0.0**
Covered	0.0	0.0	**0.0**
Sovereign	0.0	0.0	**0.0**

UBS Index-Linked Gilts

- Benchmark: FTSE Index-Linked Gilts Over 5 Years
- Target: Match benchmark
- Performance broadly matched benchmark since inception
- Real yields rose over the quarter resulting in negative performance for index-linked assets.

Fund performance vs benchmark/target

Period	Performance (%)	Benchmark (%)	Relative to Benchmark (%)
Last 3 months	-9.5	-9.4	**-0.1**
Last 12 months	6.6	6.7	**-0.1**
Since Inception (p.a.)	5.7	5.7	**-0.1**

HarbourVest and Adams Street Private Equity

- Benchmark: MSCI ACWI+1.5%
- Target: MSCI ACWI+3.0%
- All figures were provided by Harbourvest in USD and converted to GBP using 31 December exchange rate
- All figures were provided by Adams Street in USD and converted to GBP using 31 December exchange rate

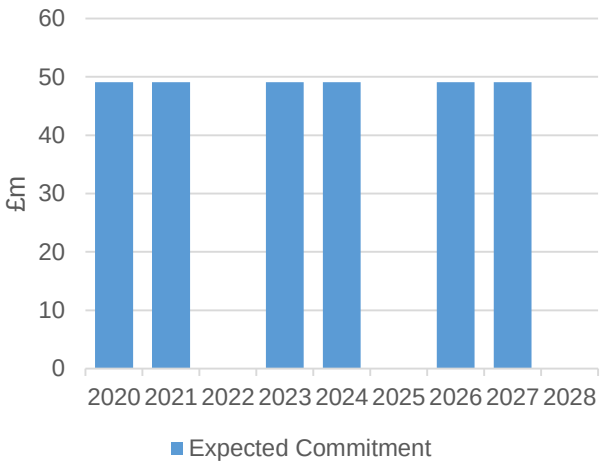
HarbourVest Market value and cashflow over quarter

	Market Value at start (£m)	Drawdowns over quarter (£m)	Distributions over quarter	Market Value at end
DEFAULT ISSUER VII CAYMAN BUYOUT FD	0.6		0.1	0.4
INTL PEP V - CAYMAN PSHP FD	3.4		0.3	2.6
INTL PEP VI - CAYMAN PSHP FUND	19.2	0.2	0.3	17.6
PARTNERS CAYMAN CLEANTECH FUND I	14.4		0.0	13.2
PARTNERS CAYMAN CLEANTECH FUND II	20.2		0.5	18.0
PARTNERS IX CAYMAN CREDIT OPP FUND	1.9		0.0	1.6
PARTNERS IX CAYMAN VENTURE FUND	10.9		0.2	9.3
PARTNERS IX-CAYMAN BUYOUT FUND	14.1		0.3	11.7
PARTNERS VII - CAYMAN MEZZANINE FD	0.1		0.0	0.1
PARTNERS XI AIF LP	2.5	0.9	0.0	3.1
PTRS VII - CAYMAN VENTURE FUND	1.2		0.1	1.1
PTRS VIII - CAYMAN BUYOUT FUND	2.7		0.2	2.3
PTRS VIII - CAYMAN MEZZANINE DEBT FD	0.2		0.0	0.2
PTRS VIII - CAYMAN VENTURE FUND	2.0		0.1	1.7
HIPEP IV SUPPLEMENTAL EUROPEAN FD	0.2		0.1	0.1
HIPEP VII (AIF) PARTNERSHIP FUND LP	12.9		0.2	11.2
HIPEP VIII (AIF) PARTNERSHIP FUND LP	6.1	0.9	0.0	6.5

Market value and cashflow over quarter

	Market Value at start	Drawdowns over quarter	Distributions over quarter	Market Value at end
ADAMS STREET DIRECT FUNDS	2.5	0.0	0.2	2.2
ADAMS STREET CO-INVESTMENT FUND II	1.6	0.0	0.0	1.6
ADAMS STREET PARTNERS 2014 GLOBAL FUND LP	23.8	0.4	0.7	21.5
ADAMS STREET PSHP FUNDS	31.2	0.0	0.5	28.1
ADAMS STREET FEEDER FUNDS	35.7	3.7	0.3	36.3
ADAMS STREET OFFSHORE COMPANY LIMITED FUNDS	31.2	0.0	0.7	27.4

HarbourVest Projected Future commitments to maintain target allocation*



*Provided by HarbourVest

Adams Street Projected Future commitments to maintain target allocation*

*Provided by Adams Street

Infrastructure

- Benchmark: CPI +2.0%
- Target: CPI+3%
- UBS Fund I is now winding down and paying capital back to investors. UBS Fund III is yet to draw down capital.
- The Pantheon fund is currently in ramp-up mode and 25% drawn as at quarter end.
- The Brownfield III fund is currently in ramp-up mode and 44% drawn as at quarter end.
- The Fund committed to the Greenfield II fund on 28 Jan 20 and the fund is yet to draw down capital.

UBS Commitment and distributions

UBS	Fund I	Fund III
Total Commitment ($m)	TBC	40.0
Commitment Drawn ($m)	TBC	0.0
Distributions ($m)	TBC	0.0
Outstanding Commitment ($m)	TBC	40.0
Market Value (£m)	14.7	0.0

Pantheon Commitment and distributions

Pantheon	
Total Commitment ($m)	117.0
Commitment Drawn ($m)	30.8
Distributions ($m)	1.5
Outstanding Commitment ($m)	86.2
Market Value (£m)	26.3

InfraCapital Commitment and distributions

InfraCapital	Brownfield III	Greenfield II
Total Commitment (£m)	42.0	20.0
Commitment Drawn (£m)	18.3	0.0
Distributions (£m)	0.2	0.0
Outstanding Commitment (£m)	23.7	20.0
Market Value (£m)	18.4	0.0

M&G Real Estate Debt

- Benchmark: 3m LIBOR +4%
- Objective: 3m LIBOR +5%
- The M&G REDF IV Fund is currently in ramp-up mode and 52% drawn at quarter end.

Commitment and distributions

Total Commitment (£m)	60.0
Commitment Drawn (£m)	16.6
Distributions (£m)	0.5
Outstanding Commitment (£m)	43.4

Fossil Fuel exposure

- The table shows the Fund's fossil fuel exposure at 31 December 2019
- The biggest contributions come from the Fund's holding in the passive UK and RAFI equity holdings
- This is a function of both the Fund's strategic allocation to these holdings and the higher fossil fuel exposure within these funds themselves.

	Actual Fossil Fuel Exposure (%)	Actual Fossil Fuel Exposure (£m)	Benchmark Fossil Fuel Exposure (%)	Relative (%)	Management Style
UBS - North America	5.9	10.8	5.9	0.0	Passive
UBS - Europe	6.2	9.1	6.3	-0.1	Passive
UBS - Japan	5.5	1.2	5.6	0.0	Passive
UBS - Pac ex Japan	10.6	2.3	11.0	-0.4	Passive
UBS - Fundamental Index	11.6	54.6	12.3	-0.7	Passive
UBS - UK Equity	16.4	48.5	16.5	-0.1	Passive
UBS - Climate Aware	5.6	10.6	6.9	-1.4	Passive
UBS - Global EM Equity	11.6	5.2	11.9	-0.3	Passive
Longview - Global Equity	0.0	0.0	6.9	-6.9	Active
Harbourvest - Private Equity*	1.2	1.3	6.9	-5.7	Active
Adams Street - Private Equity*	2.4	2.8	6.9	-4.5	Active
Newton - Absolute Return	1.4	6.4	-	-	Active
Ruffer - Absolute Return	1.7	7.7	-	-	Active
Schroders - Property	0.0	0.0	0.0	0.0	Active
UBS - Infrastructure	0.0	0.0	-	-	Active
Pantheon - Infrastructure*	0.0	0.0	-	-	Active
M&G - Infrastructure	0.0	0.0	-	-	Active
M&G - Private Debt	0.0	0.0	-	-	Active
M&G - UK Financing Fund	0.0	0.0	-	-	Active
M&G - Absolute Return Credit	0.4	1.0	-	-	Active
M&G - Corporate Bonds	8.7	13.0	10.6	-1.9	Active
UBS - Over 5 Year IL Gilt Fund	0.0	0.0	0.0	0.0	Passive
Cash	0.0	0.0	0.0	0.0	Active
Total Fund	**4.5**	**174.3**	-	-	

Market Background

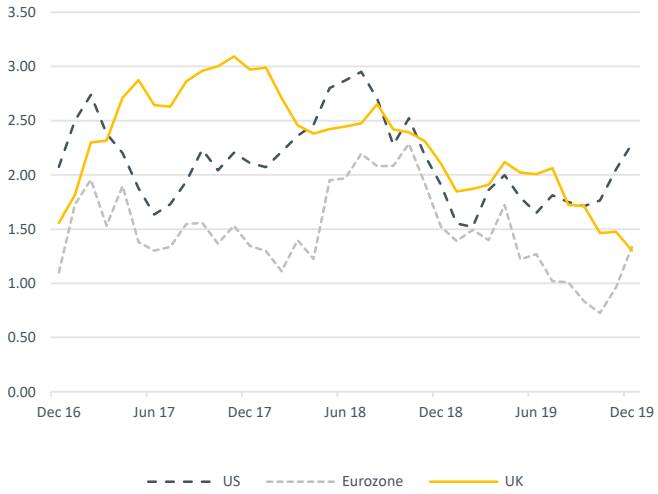
Investment-grade credit spreads tightened while rising underlying government bond yields weighed on returns in fixed rate markets. Speculative-grade markets outperformed investment-grade counterparts and high yield bonds outperformed leveraged loans.

A strong Q4 saw global equities deliver returns of 27% for 2019 in local currency terms. Sterling strengthened against major currencies as a lower perceived chance of a no-deal Brexit and the Conservative election victory removed some Brexit uncertainty.

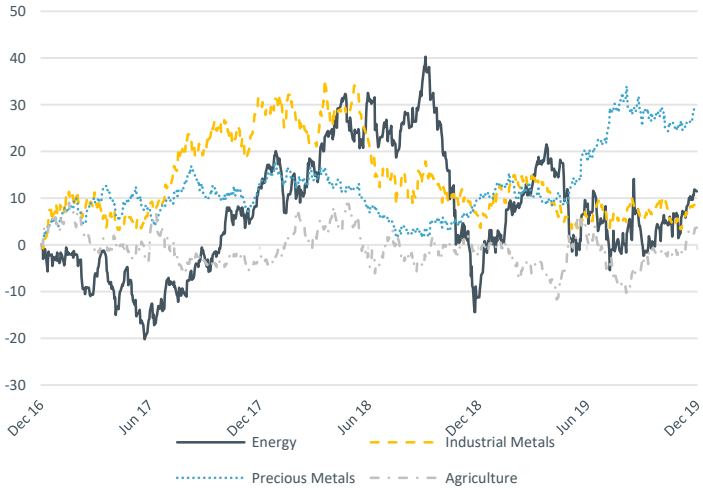
Emerging markets was the best performing region in Q4, given their greater sensitivity to the global trade environment. The UK was the laggard in local currency terms as the sharp rebound in Sterling weighed on the market's larger cap globally-exposed companies.

UK commercial property market returns continued to slow on a rolling annual basis, returning 2.1% in the 12 months to 31 December 2019, reflecting a sharp drop in comparison to recent years.

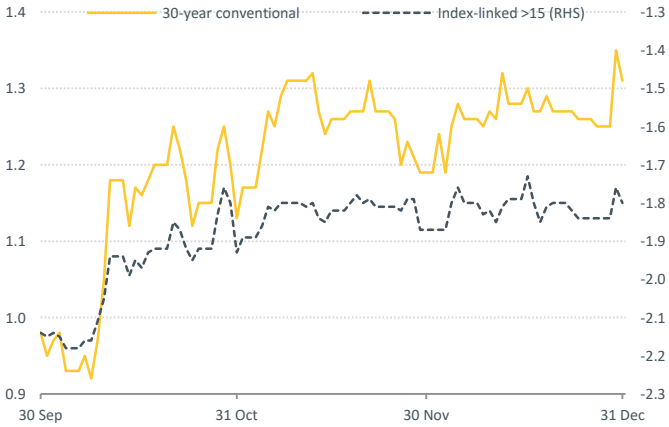
Annual CPI Inflation (% p.a.)



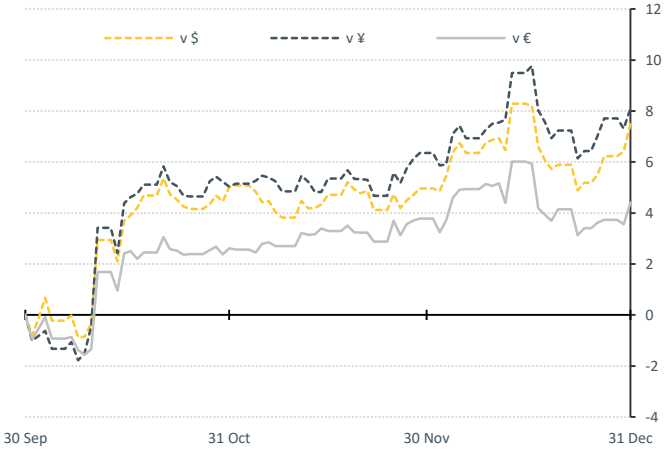
Commodity Prices



Gilt yields chart (% p.a.)



Sterling trend chart (% change)



Source: Reuters

This table sets out the benchmark and target for each mandate in which the Fund invests

Manager Benchmarks and Targets

Mandate	Benchmark	Target
UBS UK Equity	FTSE All-Share Index	FTSE All-Share Index
UBS North America	FTSE All World North America Index	FTSE All World North America Index
UBS European ex UK	FTSE All World Developed Europe ex-UK Index	FTSE All World Developed Europe ex-UK Index
UBS Japan	FTSE All World Japan Index	FTSE All World Japan Index
UBS Pacific ex Japan	FTSE All World Developed Asia Pacific ex-Japan Index	FTSE All World Developed Asia Pacific ex-Japan Index
UBS Emerging Markets	FTSE Emerging Index	FTSE Emerging Index
UBS Fundamental Indexation	FTSE RAFI All-World 3000	FTSE RAFI All-World 3000
UBS Climate Aware	FTSE Developed Index	FTSE Developed Index
Longview Equities	MSCI ACWI	MSCI ACWI + 3% p.a. (gross)
HarbourVest	MSCI All World + 1.5%	MSCI All World + 3% (gross)
Adams Street	MSCI All World + 1.5%	MSCI All World + 3% (gross)
Newton	LIBOR + 2.5% p.a.	LIBOR + 4% (gross)
Ruffer	LIBOR + 2.5% p.a.	LIBOR + 4% (gross)
Schroders Property	IPD All Balanced Index	IPD All Balanced Index +0.75% p.a. (net)
UBS Infrastructure	CPI + 2%	CPI + 3%
Infracapital Infrastructure	CPI + 2%	CPI + 3%
Pantheon Infrastructure	CPI + 2%	CPI + 3%
M&G RED VI	LIBOR + 4%	LIBOR + 5%
M&G Corporate Bonds	50% - iBoxx £ Non-Gilts Over 15 Year Index 50% - iBoxx £ Non-Gilts Index	Composite benchmark + 0.75% p.a. (net)
M&G Alpha Opportunities Fund	LIBOR + 3%	LIBOR + 5%
UBS Index-Linked Gilts	FTSE Gilt British Govt Index Linked Over 5 Year Index	FTSE Gilt British Govt Index Linked Over 5 Year Index

Source: Reuters

Manager Ratings

Manager	Mandate	Hymans Rating	RI Rating
UBS	Passive Equities	Preferred	Good
Longview	Active Equities	Preferred	Adequate
HarbourVest	Private Equity	Preferred	-
Adams Street	Private Equity	Preferred	-
Newton	Absolute Return	Suitable	Good*
Ruffer	Absolute Return	Positive	-
Schroders	Property	Suitable	-
UBS	Infrastructure	Preferred	-
InfraCapital	Infrastructure	Positive	-
Pantheon	Infrastructure	Preferred	-
M&G	Alpha Opportunities	Preferred	-
M&G	Corporate Bonds	Preferred	-
UBS	Index Linked Gilts	Preferred	-

Hymans Rating

Hymans Rating System	
Preferred	Our highest rated managers in each asset class. These should be the strategies we are willing to put forward for new searches.
Positive	We believe there is a strong chance that the strategy will achieve its objectives, but there is some element that holds us back from providing the product with the highest rating.
Suitable	We believe the strategy is suitable for pension scheme investors. We have done sufficient due diligence to assess its compliance with the requirements of pension scheme investors but do not have a strong view on the investment capability. The strategy would not be put forward for new searches based on investment merits alone.
Negative	The strategy is not suitable for continued or future investment and alternatives should be explored.
Not Rated	Insufficient knowledge or due diligence to be able to form an opinion.

Responsible Investment

Responsible Rating System	
Strong	Strong evidence of good RI practices across all criteria and practices are consistently applied.
Good	Reasonable evidence of good RI practices across all criteria and practices are consistently applied.
Adequate	Some evidence of good RI practices but practices may not be evident across all criteria or applied inconsistently.
Weak	Little to no evidence of good RI practices.
Not Rated	Insufficient knowledge to be able to form an opinion on.

Risk Warning

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

In some cases, we have commercial business arrangements/agreements with clients within the financial sector where we provide services. These services are entirely separate from any advice that we may provide in recommending products to our advisory clients. Our recommendations are provided as a result of clients' needs and based upon our independent research. Where there is a perceived or potential conflict, alternative recommendations can be made available.

Geometric v Arithmetic Performance

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

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

Some industry practitioners use the simpler arithmetic method as follows:

$$Fund\ Performance - Benchmark\ Performance$$

The geometric return is a better measure of investment performance when compared to the arithmetic return, to account for potential volatility of returns.

The difference between the arithmetic mean return and the geometric mean return increases as the volatility increases.

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AGENDA

ACCESS JOINT COMMITTEE

Monday, 9th March, 2020, at 11.00 am Ask for: **Joel Cook**

Committee Room 1 - Islington Town Hall Telephone **03000 416892**

Tea/Coffee will be available 15 minutes before the start of the meeting in the meeting room

Membership

Chair: Cllr Mark Kemp-Gee (Hampshire CC), **Vice-Chair: Cllr Susan Barker** (Essex CC), **Cllr Adrian Axford** (Isle of Wight),), **Cllr Jonathan Ekins** (Northamptonshire CC), **Cllr Gerard Fox** (East Sussex CC), **Cllr Jeremy Hunt** (West Sussex CC), **Cllr Judy Oliver** (Norfolk CC, **Cllr Terry Rogers** (Cambridgeshire CC), **Cllr Ralph Sangster** (Hertfordshire), **Cllr Charlie Simkins** (Kent CC) and **Cllr Karen Soons** (Suffolk CC)

UNRESTRICTED ITEMS

(During these items the meeting is likely to be open to the public)

1. Apologies/Substitutes

2. Declaration of interests in items on the agenda

3. Minutes of the meeting held on 9 December 2019 (Pages 1 - 4)

4. Meeting dates - 2020/2021

For Noting:

- 15 June 2020
- 7 September 2020
- 7 December 2020
- 8 March 2021

5. Governance Update (Pages 5 - 10)

6. Communications (Pages 11 - 14)

7. Business plan, budget & risk summary (Pages 15 - 24)

8. Motion to Exclude the Press and Public

PROPOSED that under Section 100A of the Local Government Act 1972 the press and public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraphs 3 & 5 of part 1 of Schedule 12A of the Act.

EXEMPT ITEMS

(During these items the meeting is likely to NOT be open to the public)

9.	Risk Register	(Pages 25 - 32)
10.	Investment update	(Pages 33 - 48)
11.	Sub-fund progress	(Pages 49 - 58)
12.	Contract Management update	(Pages 59 - 88)
13.	Link presentation (to follow)	
14.	SAB engagement	(Pages 89 - 118)
15.	Alternatives update	(Pages 119 - 120)

Joel Cook
Clerk to the Joint Committee
03000 416892

Friday, 28 February 2020

Responsible Investment Collaboration - Further Opportunities

Introduction

This paper has been prepared for the Officers and Pensions Committee ("Committee") of the East Sussex Pension Fund ("the Fund"). The paper summarises the recent changes to the UK Stewardship Code and sets out the future expectations and requirements on the Fund of being a signatory to the Code, and discusses the potential for signing up to the UN Principles of Responsible Investment ("PRI").

This paper should not be released or otherwise disclosed to any third party except with our prior written consent, in which case it should be released in its entirety. We accept no liability to any other party unless we have accepted such liability in writing.

Executive summary

The key points discussed in this paper are as follows:

- The requirements of being a signatory to the UK Stewardship Code have become tougher;
- The revised Code came into effect on 1 January 2020 and the Committee would need submit a report that meets the Financial Reporting Council's ("FRC") reporting expectations by 31 March 2021 for the Fund to remain listed as a signatory to the Code;
- There is no obligation for the Fund to be a signatory to the Code. However, we believe that signing up to the Code is strongly aligned with the views and beliefs of the Committee in relation to responsible investment;
- The UN Principles of Responsible Investment ("PRI") can be thought of as a 'club' of asset owners and investment managers, with the collective aim of promoting responsible investment;
- The requirements of the UN PRI do not appear to be overly onerous in terms of general principles. However, the issue is one of understanding why a member wants to join and what they can bring to the collaboration project, rather than meeting a strict set of qualifying criteria. We suggest the Committee consider what they want to contribute to the group before deciding to proceed; and
- In order to assist in this process, we recommend the Committee invite a representative from the PRI to present at a Committee meeting so that the Committee can hear directly from the PRI of the main benefits and demands of signing up.

UK Stewardship Code Changes

In October 2019, the Financial Reporting Council launched its updated UK Stewardship Code. This follows the publication of a draft Code and a consultation on the proposed changes earlier in 2019. The new Code aims to improve stewardship practices and sets a substantially higher standard, reflecting the changing expectations of investors since the Code was last revised in 2012.

The revised Code seeks to raise standards for asset owners and managers, extending to establishing clear stewardship objectives, integration of stewardship in investment strategies, and adhering to clearer and more elaborate reporting requirements.

The Code comprises a set of 12 'apply and explain' principles for asset managers and asset owners, and six principles for service providers, including investment consultants.

Key changes in the new Code

- There is an extended focus that includes asset owners, such as pension funds, and service providers, including investment consultants, as well as asset managers. This is aimed at helping align the approach of the whole investment community in the interest of end-investors and beneficiaries.
- Annual reporting on stewardship activity and outcomes. Signatories' reports should set out in detail:-
  - what has been done in the previous year;
  - what the outcome was;
  - the signatory's engagement with the assets they invest in;
  - the signatory's voting records; and
  - how they have protected and enhanced the value of their investments.

  This greater transparency will allow stakeholders to see how their interests are being served.
- Signatories will be expected to take ESG factors, including climate change, into account and to ensure their investment decisions are aligned with the needs of their clients. Signatories are expected to disclose the issues they have prioritised for assessing investments, prior to holding, monitoring through holding and exiting. This should include the ESG issues of importance to them. This change is in parallel with the recent changes to the Investment Regulations for Occupational Pension Schemes.
- Signatories are expected to explain how stewardship has been exercised across asset classes beyond listed equity such as fixed income, private equity and infrastructure, and in investments outside the UK.
- Signatories are required to explain their organisation's purpose, investment beliefs, strategy and culture and how these enable them to practice stewardship. They are also expected to show how they are demonstrating this commitment through appropriate governance, resourcing and staff incentives.
- There is also an expectation within the new Code for signatories to work in a collaborative fashion with regulators and industry bodies to identify and respond to the risk of market and systemic failure. Signatories are expected to show how they have worked with other stakeholders to promote continued improvement of the functioning of financial markets and outline the role they played in any relevant industry initiatives in which they have participated.
- Signatories are expected to explain how they escalate stewardship activities where necessary.

Next steps for the Fund

Responsible investment is an area of continually growing importance and an area of particular focus for the Fund. Both minimum standards and best practice are being driven higher and the changes to the Code certainly achieve this.

The Fund has previously been a signatory to the UK Stewardship Code. Although the requirements to remain a signatory of the revised Code will be tougher, and there is no obligation for the Fund to remain a signatory, we believe that signing up to the Code is strongly aligned with the views and beliefs of the Committee.

The Fund is currently a Tier 1 signatory to the Code. The new Code took effect from 1 January 2020. Organisations will remain signatories to the UK Stewardship Code until the first list of signatories to the 2020 Code is published. Existing signatories to the Code will need to submit a Stewardship Report that meets the FRC's reporting expectations by 31 March 2021, in order to continue to be listed as signatories to the UK Stewardship Code.

We believe that best practice in stewardship begins with strong governance structures and clearly defined objectives which are linked to the purpose of the organisation and reinforced through the culture and values of that organisation. We are also in favour of the increased transparency which we expect will benefit funds more widely in developing reporting and monitoring practices going forward.

We propose that a draft Report is prepared by the second half of 2020 in order to allow time for the Committee to consider the Report in detail and make amendments as necessary.

UN Principles for Responsible Investment ("PRI")

The UN PRI were developed by an international group of institutional investors to reflect the increasing relevance of environmental, social and corporate governance issues to investment practices. The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice.

The 6 principles are as follows:

- Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
- Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
- Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
- Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
- Principle 6: We will each report on our activities and progress towards implementing the Principles.

The UN PRI website suggests possible actions that demonstrate adherence to the principles. This provides an indication of the types of actions that the Committee would need to take in order to be satisfied that they comply with the UN PRI and demonstrate that the Fund operates within the spirit of the UN PRI. These potential actions are shown in Appendix 1.

In contrast to the Stewardship Code above, the PRI can essentially be thought of as a club of asset owners and investment managers, with the collective aim of promoting responsible investment. To that end, involvement is more about what members are interested in contributing to those aims rather than satisfying a strict set of criteria to qualify for acceptance. For that reason, we suggest that a helpful first step might be to invite a representative from the PRI to present at a future Committee meeting or training event. This will enable the Committee to hear directly from the PRI what the main benefits for the Fund would be from getting involved, and for the Committee to consider how they want to participate before deciding to sign up.

Should the Committee choose to sign the Fund up to the PRI, the only mandatory requirement is to publicly report on the Fund's responsible investment activity through the PRI's reporting framework. There is also an annual fee for joining the PRI, which is £3,009 for funds between $1-4.99bn and £6,528 for funds between $5-9.99bn. The Fund's current asset size is very close to the $5bn mark, depending on the prevailing exchange rate.

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

Prepared by:-

Paul Potter, Partner
Ben Fox, Investment Consultant
Mark Tighe, Investment Analyst

February 2020
For and on behalf of Hymans Robertson LLP

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

Appendix 1: United Nations Principles of Responsible Investment

Principle 1: We will incorporate ESG issues into investment analysis and decision-making processes.
Example of demonstration:

- Address ESG issues in investment policy statements.
- Support development of ESG-related tools, metrics, and analyses.
- Assess the capabilities of internal investment managers to incorporate ESG issues.
- Assess the capabilities of external investment managers to incorporate ESG issues.
- Ask investment service providers (such as financial analysts, consultants, brokers, research firms, or rating companies) to integrate ESG factors into evolving research and analysis.
- Encourage academic and other research on this theme.
- Advocate ESG training for investment professionals.

Principle 2: We will be active owners and incorporate ESG issues into our ownership policies and practices.
Example of demonstration:

- Develop and disclose an active ownership policy consistent with the Principles.
- Exercise voting rights or monitor compliance with voting policy (if outsourced).
- Develop an engagement capability (either directly or through outsourcing).
- Participate in the development of policy, regulation, and standard setting (such as promoting and protecting shareholder rights).
- File shareholder resolutions consistent with long-term ESG considerations.
- Engage with companies on ESG issues.
- Participate in collaborative engagement initiatives.
- Ask investment managers to undertake and report on ESG-related engagement.

Principle 3: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
Example of demonstration:

- Ask for standardised reporting on ESG issues (using tools such as the Global Reporting Initiative).
- Ask for ESG issues to be integrated within annual financial reports.
- Ask for information from companies regarding adoption of/adherence to relevant norms, standards, codes of conduct or international initiatives (such as the UN Global Compact).
- Support shareholder initiatives and resolutions promoting ESG disclosure.

Principle 4: We will promote acceptance and implementation of the Principles within the investment industry.
Example of demonstration:

- Include Principles-related requirements in requests for proposals (RFPs).
- Align investment mandates, monitoring procedures, performance indicators and incentive structures accordingly (for example, ensure investment management processes reflect long-term time horizons when appropriate).
- Communicate ESG expectations to investment service providers.
- Revisit relationships with service providers that fail to meet ESG expectations.
- Support the development of tools for benchmarking ESG integration.
- Support regulatory or policy developments that enable implementation of the Principles.

Principle 5: We will work together to enhance our effectiveness in implementing the Principles.
Example of demonstration:

- Support/participate in networks and information platforms to share tools, pool resources, and make use of investor reporting as a source of learning.
- Collectively address relevant emerging issues.
- Develop or support appropriate collaborative initiatives.

Principle 6: We will each report on our activities and progress towards implementing the Principles.
Example of demonstration:

- Disclose how ESG issues are integrated within investment practices.
- Disclose active ownership activities (voting, engagement, and/or policy dialogue).
- Disclose what is required from service providers in relation to the Principles.
- Communicate with beneficiaries about ESG issues and the Principles.
- Report on progress and/or achievements relating to the Principles using a comply-or-explain approach.
- Seek to determine the impact of the Principles.
- Make use of reporting to raise awareness among a broader group of stakeholders

Report to:	**Pension Committee**
Date of meeting:	**16 March 2020**
By:	**Chief Operating Officer**
Title of:	**Pension Administration updates**
Purpose:	**To provide an update to the Pension Committee on matters relating to Pensions Administration activities.**

RECOMMENDATION

The Committee is recommended to note the report

1. **Background**

1.1 The Pensions Administration Team (PAT) based within Orbis Business Services carries out the operational, day-to-day tasks on behalf of the members and employers of the East Sussex Pension Fund (ESPF) and for the Administering Authority. They also lead on topical administration activities, projects and improvements that may have an impact on members of the Local Government Pension Scheme (LGPS).

2. Key Performance Indicators

2.1 The Performance Report, for the period October 2019 to January 2020 can be found at **Appendix 1**. There was a spike in work volumes in January 2020, but work volumes are normally averaging around 500 - 600 Key Performance Indicator (KPI) related cases per month.

2.2 Only 43 cases out of 2,776 were over target during October to January, and all were processed within 10 days of their SLA deadline. No complaints were recorded during this period.

2.3 December saw performance above target for all areas and given that work volumes doubled in January, only employer and employee projections were slightly below target.

2.4 Reports are showing a steady increase in membership numbers, from 75,944 at the start of the period (October 2019) to 76,570 at the end of the period (January 2020).

3. Staffing Update

3.1 Two new recruits joined the team in January 2020. Unfortunately, one has recently resigned due to personal circumstances but there is currently a very strong temporary member of staff on the team who we hope will take the permanent vacancy.

4. Pensions Helpdesk

4.1 From 4 November 2019, the Pensions Helpdesk, located in Kingston, took over all telephone calls from the Lewes PAT. This has had a real benefit on the team, releasing capacity to focus on more complex cases and life events for members.

4.2 The Helpdesk handled 2,606 calls during the period October 2019 to January 2020, and averaged a first point fix of 84.33%, against a target of 85%.

5. Undecided Leavers

5.1 At the November meeting the Pension Board requested details of the number of undecided leaver records (status 2) broken down by Scheme Employer. This information can be found at **Appendix 2**.

5.2 Undecided leaver records are created when the PAT is made aware (usually via the end of year files from employers) that members have potentially left the Scheme but employers have not sent in the relevant leaver paperwork.

5.3 The PAT runs a report each month to check the status of undecided leaver records and leaver forms are requested.

5.4 Whilst members are in this status the liability of these records is unknown as they could become refunds, deferred benefits, transfers out, retirements or deaths. The PAT is working with the Fund Team to agree actions and engagement with employers.

6. Data Improvement Project

6.1 The PAT is supporting the work being carried out by Hymans Robertson relating to the data cleansing and 2020 Annual Benefit Statements (ABS).

7. Engagement and Education

7.1 The Engagement and Education Team have provided a number of draft documents to the Pension Fund for review/comment/sign off. These include Members Newsletter Autumn 2019, Employers Newsletter January 2020, Communications Plan and End of Year/Annual Benefit Statement (EOY/ABS) Plan.

7.2 We are working with the Fund team to enable the distribution of newsletters and the finalisation of critical annual processes, such as the Communications Plan and EOY/ABS Plan.

7.3 The Communications Plan and EOY/ABS Plan are being reviewed as a priority in order to commence the employer communications for the 2020 ABS.

8. Address Tracing

8.1 ITM has completed the electronic trace and are now carrying out the full trace on members who could not be traced in the electronic trace exercise.

8.2 The electronic trace results confirmed that 4,294 members now live at a new address, and these addresses have now been updated on Altair. The cost of the electronic trace for East Sussex was £6,915.90.

8.3 The full trace exercise is now underway, with an estimated cost of £20,052.25. The results for this typically take 10 – 12 weeks as this is a more lengthy process.

8.4 Further information can be found in the highlight report at **Appendix 3.**

9. Guaranteed Minimum Pension (GMP) Reconciliation

9.1 Mercer has now matched 100% of membership for the ESPF. They will implement the decisions made on the stalemate cases shortly, now that they have received the decision log from the ESPF. This should decrease any true GMP discrepancies still outstanding, currently at 6.42%.

9.2 HMRC will be sending the final Scheme Reconciliation Service cut off data imminently, but the exact date is not currently known. As soon as they receive this data, Mercer will then complete the final reconciliation reports and send these out to Funds.

9.3 HMRC has announced that it has reviewed the solution for automatically allocating payments received from pension schemes for individual members of their scheme. They will shortly be publishing details on the process all schemes will need to follow. This additional action will impact on the original timeline HMRC published for the issue of the final data cuts. Mercer is in communication with HMRC regarding the position with the CEP payments and the process they are rolling out. They will confirm the position once known.

9.4 More information can be found in the highlight report at **Appendix 4.**

10. iConnect

10.1 I-Connect, the employers digital monthly data capture system, is being rolled out by the PAT to the internal Orbis payroll providers at both Surrey County Council and East Sussex County Council. The implementation of this system will provide regular monthly returns from employers, supporting the need for improved and more frequent data. The implementation will be phased, with Surrey Pension Fund going first, closely followed by ESPF, to give a controlled and manageable delivery of this new system.

10.2 I-Connect need to carry out testing to make sure that the connectivity is working and set up the demonstration site.

10.3 User acceptance testing with the Pensions Team and i-Connect will be taking place within the next month. The Implementation Lead from i-Connect will be visiting at the time of the user acceptance testing to assist and meet with the main Surrey employer, who will be the first to go live, and similarly with East Sussex employers, who use East Sussex payroll as their provider, soon after.

10.4 The SAP file needs to be built so that the main Surrey and East Sussex employer can test and load the data from Payroll to i-Connect. A meeting has taken place with the internal SAP team and the main payroll provider, East Sussex, to discuss what is needed and these discussions are ongoing to ensure that the SAP extract file can be built within the necessary timescales.

10.5 The highlight report at **Appendix 5** provides further information.

11. System Review

11.1 Tom Lewis has been engaging with all pension funds regarding the procurement strategy of setting up a single supplier framework for the funds to call off. East Sussex have agreed to be named on the procurement for the Orbis Pension Administration System. This is due to go to open market on 9 March 2020.

11.2 This week the functional specification has been workshopped with internal stakeholders and amendments have been made. The procurement process is also going to include supplier demonstrations for bidders to demonstrate areas of the system that have been identified as key functionalities of pension administration.

11.3 The highlight report for this project can be found at **Appendix 6.**

KEVIN FOSTER
Chief Operating Officer

Contact Officer: Nick Weaver
Email: nick.weaver@surreycc.gov.uk

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East Sussex Pensions Administration - Key Performance Indicators 2019/20

	Activity	Measure	Impact	Target	Aug-19		Sep-19		Oct-19		Nov-19		Dec-19		Jan-20	
	Scheme members	Pensioners, Active & Deferred			75619		75775		75944		76266		76417		76570	
	New starters set up				241		339		356		645		382		358	
					Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score
1a	Death notification acknowledged, recorded and documentation sent	within 5 days	M	**95%**	11	100%	4	100%	4	100%	16	100%	9	100%	29	100%
1b	Award dependent benefits (Death Grants)	within 5 days	H	**95%**	9	100%	3	100%	11	100%	12	100%	2	100%	7	100%
2a	Retirement notification acknowledged, recorded and documentation sent	within 5 days	M	**95%**	84	96%	73	99%	73	93%	71	90%	62	100%	66	96%
2b	Payment of lump sum made	within 5 days	H	**95%**	122	96%	133	99%	111	100%	103	98%	63	96%	118	98%
3	Calculation of spouses benefits	within 5 days	M	**90%**	13	100%	11	100%	26	96%	14	100%	16	100%	23	100%
4a	Transfers In - Quote (Values)	within 10 days	L	**90%**	21	100%	14	93%	38	92%	21	100%	28	97%	54	99%
4b	Transfers In - Payments	within 10 days	L	**90%**	17	100%	15	94%	24	100%	21	100%	20	95%	33	100%
5a	Transfers Out - Quote	within 25 days	L	**90%**	25	100%	19	100%	32	100%	29	100%	19	100%	49	100%
5b	Transfers Out - Payments	within 25 days	L	**90%**	14	100%	14	94%	24	100%	13	100%	7	100%	25	96%
6a	Employer estimates provided	within 7 days	M	**95%**	48	91%	31	81%	34	92%	30	83%	50	96%	29	90%
6b	Employee projections provided	within 10 days	L	**95%**	27	97%	30	87%	34	77%	22	91%	19	95%	17	89%
7	Refunds	within 10 days	L	**95%**	45	100%	63	100%	43	100%	54	100%	67	98%	82	100%
8	Deferred benefit notifications	within 25 days	L	**95%**	92	100%	112	100%	175	99%	225	100%	157	100%	465	100%
	TOTAL TASKS COMPLETED				**528**		**522**		**629**		**631**		**519**		**997**	
9	Complaints received- Admin					0		0								
	Complaints received- Regulatory															
10	Employer survey satisfaction	Overall satisfaction (V Satisfied/satisfied)		90%												
11	scheme member satisfaction rating (from 1 Click email feedback)				56	80%										
12	Retiring Member survey satisfaction	Overall satisfaction (Excellent/good)		90%												
13	Compliments received					1		0								

OVERDUE CASES	RED-AMBER	AUG	SEPT	OCT	NOV	NOV
2a	Retirement notification acknowledged, recorded and documentation sent			**however these are all november diary cases do have been processed in time** 13 CASES OVERDUE BY AN AVERAGE OF 7 DAYS	8 overdue average of 1.75 days	
1b	Award dependent benefits (Death Grants)					
2b	Payment of lump sum made		2 CASES OVERDUE BY AVERAGE OF 1 DAY.			
3	Calculation of spouses benefits					
4a	Transfers In - Quote (Values)					
4b	Transfers In - Payments					
5b	Transfers Out - Payments					
6a	Employer estimates provided	5 cases late. 1 case by 3 days and the other 4 cases by 1 day	6 cases overdue by an average of 7 days	3 CASES OVERDUE BY AN AVERAGE OF 3 DAYS	5 overdue average of 4.6 days	3 tasks overdue by average of 2 days
6b	Employee projections provided		4 cases overdue by an average of 9 days	11 CASES OVERDUE BY AN AVERAGE OF 6 DAYS		2 tasks overdue by average of 5 days
8	Deferred benefit (DB5YE)	*71 100%*	*160 100%*	*12 100%*	*207 100%*	56 100% 11 100%

Scheme Employer	Number of undecided leaver records
East Sussex College Group	184
East Sussex County Council	175
Brighton and Hove City Council	61
ARK School Hastings	56
University of Brighton	51
UoBAT	51
East Sussex Fire & Rescue Svce	21
AURORA ACADEMY TRUST	14
Beacon Comm Academy Trust	14
Southfield Trust	13
Hawkes Farm Academy	12
Burfield Academy	11
Hailsham Academy (HCCAT)	10
Portslade Academy (PACA)	10
Chichester Academy Trust	9
Phoenix Academy	9
White House Academy	9
BI-LINGUAL SCHOOL (EX BHCC)	7
SABDEN	7
Optivo	7
Eastbourne Borough Council	6
Hastings Borough Council	6
Seaford Academy	6
Wealden District Council	5
Churchill Services	5
JOHN O'CONNER (ESCC)	5
Hailsham Town Council	3
Cavendish Academy	3
Eastbourne Academy	3
South Downs Learning trust	3
Torfield & Saxon Mount Academy	3
Crowborough Town Council	2
ARK William Parker Academy	2
Parkland Infant Academy	2
The Grace Eyre Foundation	2
Wealden Leisure (ex Wealden)	2
Lewes District Council	1
Rother District Council	1
Peacehaven Town Council	1
Bexhill 6th Form College	1
BHASVIC	1
Plumpton College	1
Varndean 6th Form College	1
Bexhill Academy	1
Brighton Aldridge Community Ac	1
Glyne Academy	1
Ore Primary Village Academy	1

Kings Academy Ringmer	1
Aquinas trust	1
Seahaven Academy	1
Gildredge House Free School	1
Sir Henry Fermor Academy	1
Shinewater Primary Academy	1
EBC Towner	1
Wave Leisure	1

Highlight Report – Address Tracing – Project Phase: In Delivery

Date of Report:	5 February 2020		
Period Covered	20 January 2020 – 5 February 2020		
Prepared by:	Chloe Painter		
Sponsor	Tom Lewis	**Customer**	Surrey, East Sussex, Hillingdon, Hammersmith & Fulham and Kensington & Chelsea Pension Funds
Proposed RAG Status	**Green**		
Projected Costs	£97,407.20 (Across all funds)	**Actual Cost**	Invoiced as of 14.01.20 £19,272.55 (Across all funds)

Commentary

ITM have completed the electronic trace and are now carrying out the full trace on members who could not be traced in the electronic trace exercise.

The electronic trace results confirmed that 4294 members now live at a new address, and these addresses have now been updated on Altair. The cost of the electronic trace for East Sussex was £6,915.90

The full trace exercise is now underway, with an estimated cost of £20,052.25. The results for this typically take 10 – 12 weeks as this is a more lengthy process.

Upcoming Milestones

Item	Due	Status
Electronic Trace completed and results returned from ITM	21st Nov	**Complete**
Decision from funds on approach to results	24th Jan	**Complete**
Decision from funds on next steps	24th Jan	**Complete**
Interface electronic results for funds on Altair	28 Feb	**Complete**
ITM carry out full trace	30 April	**On Schedule**

Board Actions

Key Risks

Item	RAG	Detail	Action/Update
Costs		ITM estimated a low cost for this work, however the results from the initial trace indicate that the proposed costs will be exceeded. The higher costs may have an impact on the funds agreeing to the full trace, and also	The funds do not have to agree to the full trace, however it is recommended they do in order to improve data quality. The options paper will outline the reason for the higher cost

		take the project costs above the procurement threshold, so this will also need to be addressed. .	

Key Issues

Item	Detail	Action/Update

Highlight Report – GMP – Project Phase: ESCC In delivery

Date of Report:	10th February 2020	**Upcoming Milestones**		
Period covered	25.01.2020 – 09.02.2020	**Item**	**Due** (* = estimated)	**Status**
Prepared by:	Kelly Sedgeman	Reconciliation process	31/01/20	Delayed
Proposed RAG Status	**Green**	Member rectification on admin system	31/03/20	TBC
Project Scope		Communicate with affected members	30/04/20	TBC
This project seeks to complete a GMP Reconciliation between the data held by the ESCC Fund and HMRC records from the point ITM (phase 1 contracted supplier) completed the initial bulk analysis and raised queries with HMRC. Phase 2 work will include Data gathering, member reconciliation and rectification work to be undertaken by the contracted supplier Mercer up until 100% completion.				

Project Summary

The guaranteed minimum pension reconciliation work has been in the delivery phase since September 2018 after it was contracted out to a chosen supplier, Mercer. This supplier has taken on 100% of the work with a designated team based both in the UK and India, with only minimal support required from the administration team should information be unavailable on the administration system, Altair.

The work has been progressing well and we are moving close to begin the reconciliation work and understanding the liability costs. The next steps are:

- Mercer have now matched 100% of membership for the ESCC Funds. They will implement the decisions made on the stalemate cases shortly, now that they have received decision log by the ESCC Pension Fund. This should decrease any true GMP discrepancies still outstanding, currently at 6.42%
- HMRC will be sending the final SRS cut of data imminently, but the exact date us not currently known. As soon as they receive this data, Mercer will then complete the final reconciliation reports and send these out to Funds.
- HMRC have announced that they have reviewed the solution for automatically allocating payments received from pension schemes for individual members of their scheme. They will shortly be publishing details on the process all schemes will need to follow. This additional action will impact on

the original timeline HMRC published for the issue of the final data cuts. Mercer are in communication with HMRC regarding the position with the CEP payments and the process they are rolling out. They will confirm the position once known.

Key Risks & Issues

Item	RAG	Detail	Action/Update
Delay in reconciliation process		There is a delay in sending the final cut of data from HMRC as explained above. There is no current date for when this will be sent, so it is unlikely that the reconciliation process will be completed in this financial year.	GMP cannot progress until HMRC release this information.

Highlight Report – i-Connect – Project Phase: In delivery

Date of Report:	10th February 2020
Period Covered	18.01.2020 – 09.02.2020
Prepared by:	Amy Wallace
Proposed RAG status	**Green**

Project Scope

To implement i-Connect, which is a system to manage data flow from the employer to administrator, across each fund as they come on board. Implementation will cover connectivity between Altair and i-Connect; creating administering authority central data store parameters, user profile, email preferences/configuration; creating workflow configuration; on boarding of employers/creation of employer profiles; creation of employer payrolls; execution of data cleansing reports and completion of standard acceptance tests.

Upcoming Milestones

Item	Due (* = estimated)	Status
Creation of payroll extract file	29/02/20	On schedule
Connectivity established with Altair	31/01/20	Complete
User Acceptance Testing with Pensions	25/02/20	On schedule
Engagement with employers - newsletter	29/02/20	On schedule

Project Summary

The implementation plan is underway. There was a delay with the testing due to VPN connectivity issues. However, colleagues in IT&D have resolved this issue and connectivity has now been established. Therefore implementation can now begin. The next steps are:

- I-Connect need to carry out testing to make sure that the connectivity is working and set up the demo site.
- User acceptance testing with the Pensions Team and i-Connect will be taking place within the next month. The Implementation Lead from i-Connect will be visiting at the time of the user acceptance testing to assist and meet with the main Surrey employer, who will be the first to go live.
- The SAP file needs to be built so that the main Surrey and East Sussex employer can test and load the data from Payroll to i-Connect. A meeting has taken place with the SAP team and main Surrey employer to discuss what is needed and these discussions are ongoing to ensure that the SAP extract file can be built within the necessary timescales.

Key Risks & Issues

Item	RAG	Detail	Action/Update
Go live timescales		The go live dates for i-Connect have been pushed back to June 2020 as there was a delay in signing the contracts.	June 2020 is a more manageable go live date as it avoids the busy end of year period for Payroll.
Resource level in ESCC Payroll Team		There is restricted resource in Mandy Clackson's team so it may pose an issue to change the monthly process, as the workload may increase initially.	Surrey Payroll will go live first and East Sussex should be able to use the same payroll extract file which will save some time. The go live date can be pushed back to a more convenient time if necessary.

Highlight Report – **New System.** – Project Phase Delivery.

Date of Report:	10 February 2020		
Period Covered	21 January – 10 February		
Prepared by:	Chloe Painter		
Sponsor	Tom Lewis	**Customer**	Pensions
Proposed RAG Status	**Green**		
Projected Costs		**Actual Cost**	

Commentary :

Tom Lewis has been engaging with all pension funds regarding the procurement strategy of setting up a single supplier framework for the funds to call off. East Sussex have agreed to be named on the procurement for the Orbis Pension Administration System. This is due to go to open market on 9 March 2020.

This week the functional specification has been workshopped with internal stakeholders and amendments have been made. The procurement process is also going to include supplier demos for bidders to demonstrate areas of the system that have been identified as key functionalities of pension administration. These demos will include:

- Calculations
- Portals for members, funds and employers
- Auto task allocation and workflow
- Payroll monthly data exchange
- Reporting, analytics and annual events

IT have been engaged for this project and are aware of the scale of work.

Sarah Spence has now joined the Pension Transformation Team and will be the Project Manager on this project.

Upcoming Milestones

Item	Due	Status
Business Case Sign Off	06/12/2019	**Complete**
SGB Sign Off	15/02/2020	**On Schedule**
Fund engagement regarding procurement dates.	15/02/2020	**On schedule**
Functional spec sign off	28/02/2020	**On schedule**
Procurement begins	09/03/2020	**On Schedule**

Board Actions

Up-Coming:

- SGB sign off
- Finalise agreement with funds for Surrey to procure on their behalf.
- Procurement exercise to begin

Key Risks and Issues in this period.

Item	RAG	Detail	Action/Update
Heywards Contract Length	**Amber**	**Heyward's only offer a 5 year contract for funds. This is longer than 3 1+1 we would like**	**Funds to be encouraged to enter full procurement for the system or if they do wish to extend on a 5 year with a 3 year break clause as per ESSC.**

Report to: **Pension Committee**

Date of meeting: **16 March 2020**

By: **Chief Financial Officer**

Title: **2020/21 Pension Fund Business Plan and Budget**

Purpose: **This report covers the 2020/21 business plan and outlines the budget for the East Sussex Pension Fund.**

RECOMMENDATION

The Committee is recommended to approve the business plan and budget for 2020/21

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1. Background

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

1.2 The proposed 2020/21 business plan and budget for the Fund has been put together to assist in the management of the Fund, and the Council will be able to perform its role as the administering authority in a structured way. The Pension Committee is charged with meeting the duties of the Council in respect of the Pension Fund. Therefore, it is appropriate that the Pension Committee formally adopts an annual business plan and budget to assist with the discharge of its duties.

1.3 The estimates do not incorporate any provision for investment fees earned by the alternative fund managers. The Fund is seeking confirmation around the costs for Fund officers and pension administration that will be charged to the Fund in the run up to the year end.

2. 2019/20 Budget Monitoring

2.1 In February 2019 the Pension Committee agreed a budget in respect of the Pension Fund's investment and administration expenses of £4.857m for the 2019/20 financial year.

Description	2019/20 Budget £000	2019/20 Projected Outturn £000	Change £000
Pension administration	1,081	952	129
Oversight and governance	776	1,167	(391)
Investment management (invoiced fees)	3,000	3,285	(285)
Total	**4,857**	**5,404**	**(547)**

2.2 The underspend on the pension administration costs is mostly due to Guaranteed Minimum Pension (GMP) Reconciliation costs for 2019/20 being lower than anticipated.

2.3 The projected overspend in oversight and governance is mainly due to work not budgeted for that has been requested by the Pension Committee these include but not limited to the Good Governance Project and Data Improvement Project. In addition to this a greater reliance has been put-on third-party providers due to vacancies in the Fund officer team.

2.4 The projected overspend within investment management is comprised of two components, higher than anticipated investment returns and delays in moving managers into the Authorised Contractual Scheme (ACS). As the investment manager fees are based on the assets under management when the managers increase the value of the assets, they are holding the fee increases. Some growth was factored into the calculations, but the Funds' performance has exceeded this. When the Funds Investments are moved into the ACCESS sub-funds the Fund loses its direct relationship to the sub-fund's investment manager. The budget was set in accordance with the onboarding plan agreed with Link. Due to some slippage around the transition of assets into the Pool East Sussex have received more invoices than anticipated.

3. Business Plan

3.1 It is anticipated that 2020/21 will see some key activities within the following themes:

- **Pension Fund Oversight and Governance activities:** Fund/Employer actuarial work, Fund external legal advice, Pension Fund Annual Report and Accounts, External/Internal audit work, Data Improvement and Cleansing, Achievement of the Statutory Annual Benefit Statement, Implementation of McCloud provisions, Revised Asset Liability Modelling and Good governance project. Public Sector Exit Payments, Review of Academies, Tier 3 Employers, Procurement of new contracts for fund actuaries and investment advisors.

- **Investment activities:** Review and implement new investment strategy, develop the Fund's ESG credentials, UK Stewardship Code 2020 Principals of Responsible Investment, review and implement agreed changes to the Fund's equity structure, assistance with annual accounts completion, Investment Government, Investment Pooling, Cost Transparency, Cost Management, Strategic ESG Repositioning.

- **ACCESS activities:** ACCESS support unit (ASU), Actively managed listed assets, ACS sub fund construction, transition activity, alternative / non listed assets, passive assets, Governance.

- **Pension Board/Committee Training:** Provision of 3 joint Committee and Board Training days, Provision of 2 Investment Governance/Strategy days, Attendance at third party provided LGPS related training, Breaches, Good Governance.

- **Pension Administration:** Performance Management Group, Maintaining Member Data, Data Improvement Programme, ABS Compliance and Service Level Agreement Oversight, Orbis Service Improvement Programme and Employer Engagement Planning.

3.2 Each theme within the business plan includes milestones planned for the year. The strategic nature of East Sussex Pension Fund objectives means that a number of the 2020/21 milestones build on work previously undertaken and will in turn provide the foundation for further milestones in subsequent years.

3.3 A draft budget totalling **£3.795m** (£4.875m 2019/20) to support the business plan is set out in the Appendix 1. The budget excludes estimates for the Orbis Service Improvement Programme and the Good Governance Programmes, which will be considered by the Committee in June 2020. The Good Governance Programme is currently under consultation by the Good Governance Oversight Steering Group and which will report to the Pension Committee and Pension Board in June 2020. Similarly, the Orbis Service Improvement Programme will develop its plans to report to Pension Board and Committee to consider and approve.

3.4 The reduction in the budget between 2019/20 and 2020/21 is a result of a change of process with the payment of the investment management invoices. The Fund's investment managers that have now transferred into the ACCESS sub-funds are no longer contracted directly to the Fund. The Fund will therefore no longer pay the investment manager fees directly and these will be a charge within the sub-fund structure taken out of the assets of the sub-funds.

4. Conclusion and reasons for recommendation

4.1 The Pension Fund is required to maintain an annual business plan and budget to ensure that it can fulfil its duties in the management of the Fund. The Business Plan sets out the themes of work for the Fund and the work plan details specific areas of work required to meet these. The Budget sets out the costs associated with delivering the Fund's Business Plan.

4.2 The Committee is recommended to approve the 2020/21 Budget and Business Plan attached as appendix 1. An update to the budget will be presented to the Committee and Board in June 2020 in consideration of additional allocations to deliver the Good Governance Programme and the Orbis Service Improvement Programme.

IAN GUTSELL
Chief Finance Officer

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Appendix 1

East Sussex Pension Fund

2020/21

Business Plan & Budget

1. Business Plan

1.1 It is anticipated that 2020/21 will see some key activities within the following themes:

- **Pension Fund Oversight and Governance activities:** Fund/Employer actuarial work, Fund external legal advice, Pension Fund Annual Report and Accounts, External/Internal audit work, Data Improvement and Cleansing, Achievement of the Statutory Annual Benefit Statement, Implementation of McCloud provisions, Revised Asset Liability Modelling and Good governance Programme. Public Sector Exit Payments, Review of Academies, Tier 3 Employers and procurement of new contract for Fund Actuary and Investment Advisors.

- **Investment activities:** Review and implement new investment strategy, develop the Fund's ESG credentials, UK Stewardship Code 2020 Principals of Responsible Investment, review and implement agreed changes to the Fund's equity structure, assistance with annual accounts completion, Investment Government, Investment Pooling, Cost Transparency, Cost Management, Strategic ESG Repositioning.

- **ACCESS activities:** ACCESS support unit (ASU), Actively managed listed assets, ACS sub fund construction, transition activity, alternative / non listed assets, passive assets, Governance.

- **Pension Board/Committee Training:** Provision of 3 joint Committee and Board Training days, Provision of 2 Investment Governance/Strategy days, Attendance at third party provided LGPS related training, Breaches, Good Governance.

- **Pension Administration:** Performance Management Group, Maintaining Member Data, Data Improvement Programme, ABS Compliance and Service Level Agreement Oversight, Orbis Service Improvement Programme and Robust Employer Engagement

1.2 Each theme within the business plan includes activities planned for the year. The strategic nature of East Sussex Pension Fund objectives means that a number of the 2020/21 activities build on work previously undertaken and will in turn provide the foundation for further milestones in subsequent years.

1.3 On a day to day basis the pension function is lead and co-ordinated by the Pension Fund Officers. Pension administration is provided by Orbis Business Operations and reviewed by the Performance Management Group. The Pension Committee and Board will receive updates on the work plan each quarter.

1.4 A budget totalling **£3.795m** (£4.857m) to support the business plan is for 2020/21 is detailed below in Table 1:

Table 1

Item	2020/21 Budget £000		2019/20 Budget £000		Change £000
Pension Fund Oversight and Governance					
Actuarial Fund Work[1]	297		150		147
Actuarial Employer Work[2]	150		170		(20)
Employer reimbursement[2]	(150)		(170)		20
Data Improvement Program[3]	200		-		200
Independent Pension Board Chair	5		5		-
Fund Officers[4]	385		284		101
External Audit – Grant Thorton	26		26		-
Internal Audit	19		19		-
Legal Fees[5]	115		45		70
Subscriptions and other Expenses	70		73		(3)
Sub Total		1,117		602	515
Investment activities					
Investment and ESG Consultant[6]	120		90		30
Independent Advisor Basic	12		10		2
Independent Advisor Project work	8		-		8
Custodian	150		150		-
Investment Manager Fee Invoices[7]	1,200		2,850		(1,650)
Sub Total		1,490		3,100	(1,610)
ACCESS					
ACCESS Support Unit[8]	98		120		(22)
Fund Officer Time Rebates[8]	(20)		-		(20)
Sub Total		78		120	(42)
Pension Board/Committee Training:					
Training Costs[9]		30		-	30
Pension Administration:					
Deferred Members: Tracing Services[10]	45		-		45
Orbis Business Operations Support Services	935		935		-
Guaranteed Minimum Pension	100		100		-
Sub Total		1,080		1,035	45
Total Budget		3,795		4,857	(1,062)

[1]Due to issues raised in internal audit reports we are anticipating the actuary having to carry out additional work in 2020/21 until these are resolved.

[2]As we are exiting a valuation year we expect the employer queries to decrease in 2020/21

[3]This is a one of project approved by the Pension Committee to improve the current standard of pensioner data that is held on our pension system.

[4]Due to Vacancies in the current team it is anticipated that more expensive temporary staff will be need until the Good Governance Project is completed.

[5]There is currently a lot of specialist advice that the Fund is seeking in response to the breaches that the Fund has reported to the Pension Regulator this is anticipated to still be required in 2020/21.

[6]Additional ESG work that we are looking to commission to improve our investment governance is expected in 2020/21

[7]The Fund's investment managers that have now transferred into the ACCESS sub-funds are no longer contracted directly to the Fund. The Fund will therefore no longer pay the investment manager fees directly and these will be a charge within the sub-fund structure taken out of the assets of the sub-funds.

[8]As ACCESS is moving from the set-up faze to more business as usual footing it is expected to reduce the contribution to run the Pool. The ASU function is now fully staffed and virtual technical leads time being recharged.
[9]A dedicated training budget has been created to ensure the Board and Committee get the training they require to perform their functions.
[10]To ensure of deferred pension data is accurate a tracing services project is being undertaken in 2020/21

Key budget assumptions

1.5 The key budget assumptions are set out below

- Staffing budgets have been left at the same level as the previous year until the implications of the Good Governance Review are understood.
- Training costs are based on three training sessions run by East Sussex Pension Fund at a cost of £5,000 each, two investment governance sessions at £5,000 each and £5,000 for external training events.
- ACCESS cost based on the budget set by the ACCESS Joint Committee.
- Manager fees based on invoiced fees only and these are anticipated to only be payable to UBS and Schroders in 2020/21. Fees are based on the assets under management no movement has been included in this figure.
- The budget excludes estimates for the Service Improvement Programme and Good Governance Programme but these may be considered at a late date.

1.6 This budget will deliver the key themes detail in table 2 below:

Table 2

Theme	Tasks	2020/21 activity
Fund Oversight and Governance activities	Fund/Employer actuarial work	2019 Valuation close-off/ Regular meeting attendance/ Employer asset tracking (HEAT)/General Officer Support/Benefits Consultancy and Governance support/Club Vita longevity analysis/ Employer accounting reports/Employer requests/ Bulk Transfers calculations
	Fund external legal advice	LGPS specific legal advice provided by external specialist lawyers.
	Pension Fund Annual Report and Accounts	Statutory documents produced once a year providing information on the Pension Fund activities over the past year.
	External/Internal audit work	External Audit: statutory audit of the 2019/20 Pension Fund

Theme	Tasks	2020/21 activity
		accounts. Internal Audit: delivery of the 2020/21 Internal Audit Plan
	Good Governance Rroject	Implementing the Good Governance Project to ensure that the Pension Fund has appropriate governance in place.
	Procurements	Strategically important procurement of Investment Consultant and Actuary
Investment activities	Review and implement new investment strategy	Implement any strategic changes agreed at the Q1 2020 strategy review. Discuss strategy at the annual strategy day. Review the Fund's private markets programme. Review Passive/Active investment position. Review the Income generation of the Fund's investments.
	Develop the Fund's ESG credentials	Consider requirements under the UK Stewardship Code and PRI, with a view to the Fund becoming a signatory. Undertake the transition pathway analysis in respect of the Longview holdings. Collate quarterly analysis of fossil fuel exposure and voting & engagement records.
	Review and implement agreed changes to the Fund's equity structure	Once the strategic allocation to equities is agreed, discuss and agree on the equity structure and implement any agreed changes
	Assistance with annual accounts completion	Prepare the usual information for the Report & Accounts, including performance and private markets summary
ACCESS	ACCESS Support Unit	The size and scope of the ASU will be reviewed during 2020/21.
	Actively managed listed assets	The completion of pooling

Theme	Tasks	2020/21 activity
	Alternative / non listed assets Passive assets Governance	active listed assets within the Authorised Contractual Scheme (ACS). Ongoing monitoring and engagement with the operator and investment managers of the ACS sub-funds The initial implementation of pooled alternative assets. Ongoing monitoring and engagement with UBS. The application of appropriate forms of governance throughout ACCESS.
Pension Board/Committee Training	Provision of 3 joint Committee and Board Training days Provision of 2 Investment Governance/Strategy days Attendance at third party provided LGPS related training	Provision of speakers to deliver East Sussex Pension Fund lead training. Commissioning work to examine the current investment strategy Identifying useful third party provided session that will be useful for ESPF to attend.
Pension Administration	Performance Management Group Maintaining Member Data Data Improvement Plan ABS Production	Overseeing the activities of the administration service. Day to day imputing of data into the pension system to ensure the records are up to date. Identifying areas where data within the pension system can be improved and developing plan of redress. Annual Benefit Statements need to be produced by statute. Ensuring the data is up to date to be able to provide an accurate statement to Members.

1.7 A separate risk register included measures the risk of the strategic objectives and milestones not being achieved.

2. Significant Workstreams Analysed by Stream

2.1 There are 5 significant work streams against various thematic headings with in the budget these are:

1. **Pension Fund Oversight and Governance activities:**
   - Good Governance Review
   - Data Improvement

2. **Investment activities:**
   - Investment Strategy
   - UK Stewardship Code 2020
   - Principals of Responsible Investment
   - Investment Governance

3. **ACCESS activities:**
   - Sub Fund transition management
   - Investment Governance

4. **Pension Board/Committee Training:**
   - Relevant Training
   - CIPFA Knowledge and Skills Framework

5. **Pension Administration:**
   - Performance Management Group
   - McCloud Work Plan

1. Pension Fund Oversight and Governance activities:

Good Governance Review

The Pension Committee commissioned forward looking Good Governance Review, with its primary purpose to support the East Sussex Pension Fund's desire to get ahead of the game and establish the principles of the Scheme Advisory Board's ("SAB") Good Governance Project in the Pension Fund's governance arrangements, in order that it will be compliant with the recommendations expected to follow.

The review is not purely focussed on the SAB project, but also incorporate other areas of best practice, including requirements within other guidance such as from The Pensions Regulator, MHCLG (the legislators for the LGPS) and CIPFA (relating to professional standards) as described in the next section of this report.

The guidance and requirements that are subject to the Good Governance Review are as follows:

- SAB Good Governance Project – phase 2 report ("SAB Good Governance Project Outcomes ")
- MHCLG Statutory Guidance on Governance Compliance Statements2 ("MHCLG Statutory Governance Guidance")
- The Pensions Regulator's Code 14: Governance and administration of public service pension schemes3 ("TPR Code of Practice")

- CIPFA's Administration in the LGPS: a guide for pensions authorities4 ("CIPFA Administration Guide")

Data Improvement

The recent issues noted by the Pension Administration in delivering the 2019 Annual Benefit Statements has highlighted a number of concerns regarding scheme employer understanding of their responsibilities, as well as their ability to provide accurate and complete data in a timely manner. The Fund Actuary, Hymans Robertson, in undertaking of the Triennial Valuation as at 31 March 2019, similarly identified a high level of validation and critical data error points within scheme employer common and scheme specific data, which highlights the need to undertake an assessment and review of employer data sets.

Given the increased focus of the Pension Committee regarding day-to-day administration, together with the accuracy of member data and its impact on scheme liabilities the purpose of this report is to set out the steps being proposed to undertake a comprehensive review of scheme member data held by scheme employers, reconcile this with that held on scheme member data records and ensure appropriate procedures are in place to support scheme employers for the future.

A workshop was held on 22 October 2019 to gain a common understanding of the challenges and agree priorities to inform the objectives and scope detailed in this document. The project proposals were presented to the East Sussex Pension Board on 11 November 2019 and a recommendation to proceed was made to the Pension Committee, who then approved the project scope and spend on 25 November. The Pension Committee created a delegated approval board, the ABS Working Group, terms of reference are attached as an appendix (where?)

The Pensions Regulator (TPR) has set targets of 100% for both common and scheme specific data, although the exact definition of scheme specific data for the LGPS has still to be confirmed by the Scheme Advisory Board. In measuring scheme specific data, therefore, the ESPF uses measurements set out in the Heywood Altair reporting as benchmarks to measure its data quality.

The key objectives of the data cleanse project are:

• to ensure accuracy of historic active scheme member data records to 31 March 2020, to ensure the correct calculation of pension entitlements and employer liabilities;

• to ensure that the ESPF is compliant with legislation and in particular, with the guidance of TPR. Furthermore, in doing so, to ensure it establishes a robust, reviewable and transparent framework necessary for the acquisition and upkeep of accurate, complete and up-to-date records

• to ensure the ESPF 2020 annual benefit statement exercise is successfully completed in advance of the statutory 31 August deadline;

• to ensure the percentage of Annual Benefit Statement sent on time is as close to 100% as possible;

• to prepare Orbis Business Operations and the participating scheme employers for the introduction of monthly receipt and posting of scheme member pension contributions and member data via the i-Connect module of the administration system Altair;

• to avoid censure from TPR as a consequence of any material breaches of the law directly attributable to poor or missing scheme member data.

Supplementary benefits of the data cleanse project include:

1. ensuring clarity of roles and responsibilities between the ESPF and scheme employers, ensuring all parties are committed to continuing engagement to improve data quality and promote ongoing accurate record keeping;
2. ensuring that all data collection processes are clearly documented and regularly reviewed to check the validity of data.

2. Investment activities:

New Investment Strategy

As the valuation has taken place during the 2019/20 financial year the Fund will need to carry out asset liability modelling exercise. This will help the Fund determine the best investment strategy for the Fund. The expected result from this is a need to change the strategic asset allocation of the Fund. This is due to better Funding position and the likelihood of reduced employer contribution rates affecting the cashflow of the Fund.

This will require a review of all aspects of the Fund's investments such as the Passive/Active position, the private markets programme.

UK Stewardship Code 2020

This sets high stewardship standards for asset owners and asset managers, and for service providers that support them.

The Code comprises a set of 'apply and explain' Principles for asset managers and asset owners, and a separate set of Principles for service providers. The Code does not prescribe a single approach to effective stewardship. Instead, it allows organisations to meet the expectations in a manner that is aligned with their own business model and strategy.

The investment market has changed significantly since the publication of the first UK Stewardship Code. There has been significant growth in investment in assets other than listed equity, such as fixed income bonds, real estate and infrastructure. These investments have different terms, investment periods, rights and responsibilities and signatories will need to consider how to exercise stewardship effectively in these circumstances.

Environmental, particularly climate change, and social factors, in addition to governance, have become material issues for investors to consider when making investment decisions and undertaking stewardship. The Code also recognises that asset owners and asset managers play an important role as guardians of market integrity and in working to minimise systemic risks as well as being stewards of the investments in their portfolios.

When applying the Principles, signatories should consider the following, among other issues:

- the effective application of the UK Corporate Governance Code and other governance codes;
- directors' duties, particularly those matters to which they should have regard under section 172 of the Companies Act 2006;
- capital structure, risk, strategy and performance;
- diversity, remuneration and workforce interests;

- audit quality;
- environmental and social issues, including climate change; and
- compliance with covenants and contracts.

PRI (Principle of Responsible Investment)

The PRI is the world's leading proponent of responsible investment.

It works to understand the investment implications of environmental, social and governance (ESG) factors and to support its international network of investor signatories in incorporating these factors into their investment and ownership decisions. The PRI acts in the long-term interests of its signatories, of the financial markets and economies in which they operate and ultimately of the environment and society as a whole.

The PRI encourages investors to use responsible investment to enhance returns and better manage risks but does not operate for its own profit; it engages with global policymakers but is not associated with any government; it is supported by, but not part of, the United Nations.

The six Principles for Responsible Investment are a voluntary and aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice.

The Principles were developed by investors, for investors. In implementing them, signatories contribute to developing a more sustainable global financial system. They have attracted a global signatory base representing a majority of the world's professionally managed investments.

Investment Governance

Our Independent Adviser review the governance of the arrangements under which East Sussex Pension Fund invests its assets. They have not looked at the resources available or value for money achieved, except note that both are important considerations.

The legal and regulatory background has been considered along with the main characteristics of good investment governance and the roles of the main parties involved. This resulted in the following recommendations that are going to be implemented

Recommendation 1: Establish two Working Parties a year in place of the Strategy Day in order to facilitate deeper discussions.

Recommendation 2: Strategic Asset Allocation of the Fund should be the subject of at least an annual discussion at a Working Party, with any changes to be approved at the following PFC meeting.

Recommendation 3: Officers test the current arrangements for implementing changes. When ACCESS is fully up and running, they test the arrangements there too.

Recommendation 4: A review is undertaken of the format of the quarterly monitoring report which Hymans provides for the PFC with the aim of providing the most useful and relevant information clearly.

Recommendation 5: The paper on manager performance benchmarks which Hymans produced in 2018 be subject to discussion and formal approval.

Recommendation 6: When considering a new manager appointment outside the ACCESS pool, Hymans are asked to show a shortlist of at least three managers to the PFC for discussion.

Recommendation 7: The Fund continue to engage with its ACCESS partners to agree possible measures to mitigate concerns over pool governance.

Recommendation 8: The Risk Register's section on investments is reviewed on a regular (i.e. at least every six months) by either the PFC or The IA.

Recommendation 9: The scope of the independent governance review which is likely to be required in the future explicitly include consideration of value for money received from the investment arrangements.

3. ACCESS activities:

Sub Fund transition management

As at the end of December 2019 there is £24.634 billion of investments pooled within ACCESS. The total number of actively managed listed asset sub-funds created by link is currently 13 with another 14 planned to launch over the next year. There are 3 more sub-funds being considered by ACCESS as potentially viable in the pool.

Once this has been completed ACCESS will need to review its sub-fund offering to ensure it enables investing authorities to implement their investment strategies. Consider requests from investing authorities around additional sub-fund offerings.

ACCESS will need to undertake a review of its arrangements for the operator of its ACS to determine how it wants to proceed at the end of the current contract.

The ACCESS Support Unit and Link are continuing to work to find a solution to enable investing authorities to transition investments from one sub-fund to another, within Link's ACS structure. Currently this is not possible within the sub-fund structure as the trading costs associated with investing and dis-investing would be shared by any other investors in the sub-funds.

Discussions have taken place with Link with a view to create a number of specific 'transition' sub-funds, that would enable transitions within the ACS and ensure that the costs of transition remain with the authority moving their investment. Link have provided an initial quote for the cost of 'transition' sub-funds.

It remains an option for authorities invested in a sub-fund to transition in cash – by disinvesting from one sub-fund and using the cash to invest in another, or transition outside the ACS – authorities can disinvest from a sub-fund 'in-specie' and undertake a transition in an account held with their own custodian, using a specialist transition manager, and then invest 'in-specie' to the new sub-fund.

Investment Governance

The governance arrangements around ACCESS is currently being reviewed with updates to the Inter Authority Agreement and Governance manual being updated to reflect current practices. Once these have been agreed the structure of the Officer groups will be reviewed

to ensure that the appropriate decisions are being made at the appropriate level with the necessary level of delegation.

4. Pension Board/Committee Training:

Relevant Training

Relevant training is required to aid the Committee members in performing and developing personally in their individual roles and to equip them with the necessary skills and knowledge to act effectively in line with their responsibilities. The Committee and Board are required to improve knowledge and skills in all the relevant areas of activity for the purposes of enabling members and representatives to properly exercise their functions as a member of the ESPF.

The training necessary to achieve the required knowledge and skills is set out in the training plan. The strategic objectives relating to knowledge and skills are to:

- ensure the Fund is managed and its services delivered by people who have the appropriate knowledge and expertise;
- ensure the Fund is effectively governed and administered;
- ensure decisions are robust, are well founded and comply with regulatory requirements or guidance from the Pensions Regulator, the Scheme Advisory Board and the Secretary of State for Communities and Local Government.

To achieve these objectives – Members of the Committee require an understanding of:

- their responsibilities as delegated to them by East Sussex County Council as an administering authority of an LGPS fund;
- the fundamental requirements relating to pension fund investments;
- the operation and administration of the Fund;
- the principles involved in controlling and monitoring the funding level; and
- effective decision making in the management of the Fund.

To assist in achieving these objectives, the Fund will aim for full compliance with the CIPFA Knowledge and Skills Framework and the Pension Regulator's Code of Practice to meet the skill set required. Attention will also be given to the guidance issued by the Scheme Advisory Board, the Pensions Regulator, Local Government Association and guidance issued by the Secretary of State. So far as is possible, targeted training will also be provided that is timely and directly relevant to the Board and Committee's activities as set out in the Fund's business plan.

Addressing the ESPF Business Plan

It is vital that training is relevant to any skills gap or business need and training should be delivered in a manner that fits with the business plan. The training plan will therefore be regularly reviewed to ensure that training will be delivered where necessary to meet immediate needs to fill knowledge gaps.

Consideration will be given to various training resources available in delivering training to the Board and Committee. These may include but are not restricted to training delivery:

- In-house
- Self-improvement and familiarisation with regulations and documents
- The Pension Regulator's e-learning programme
- Attending courses, seminars and external events
- Internally developed training days and pre/post meeting sessions
- Regular updates from officers and/or advisers
- Circulated reading material
- Desktop / work-based training
- Attending courses, seminars and external events
- Internally developed sessions
- Shared training with other funds or frameworks
- Circulated reading material

The Fund will commit to providing a minimum of 4 formal training sessions per year, to form part of usual committee and board meetings, plus a separate stand-alone training session.

CIPFA Knowledge and Skills Framework

In January 2010 CIPFA launched technical guidance for Elected Representatives on s101 pension committees and non-executives in the public sector within a knowledge and skills framework. The framework covers six areas of knowledge identified as the core requirements:

- pension accounting and auditing standards;
- financial services procurement and relationship development;
- investment performance and risk management;
- financial markets and products knowledge; and
- actuarial methods, standards and practice.

The Knowledge and Skills Framework sets the skills required for those responsible for pension scheme financial management and decision making under each of the above areas in relation to understanding and awareness of regulations, workings and risk in managing LGPS funds.

Local Pension Boards: A Technical Knowledge and Skills Framework In August 2015 CIPFA extended the Knowledge and Skills Framework to specifically include members of local pension boards, albeit there exists an overlap with the original framework. The framework identifies the following areas as being key to the understanding of local pension board members;

- Pensions Legislation;
- Public Sector Pensions Governance;
- Pensions Administration;
- Pensions Accounting and Auditing Standards;
- Pensions Services Procurement and Relationship Management;
- Investment Performance and Risk Management;
- Financial markets and product knowledge;
- Actuarial methods, standards and practices.

Given that the local pension board framework effectively covers the same material as the earlier committee focused one, albeit across 8 modules rather than six, training session for both Committee and Board members will be based around the most recent framework.

CIPFA's Code of Practice on Public Sector Pensions Finance, Knowledge and Skills (the "Code of Practice") recommends (amongst other things) that LGPS administering authorities:

- formally adopt the CIPFA Knowledge and Skills Framework in its knowledge and skills statement;
- ensure the appropriate policies and procedures are put in place to meet the requirements of the Framework (or an alternative training programme);
- publicly report how these arrangements have been put into practice each year.

Guidance from the Scheme Advisory Board

The Scheme Advisory Board has taken note of the regulatory requirements and the principles of the Pension Regulator's code of practice and in January 2015 published Guidance for administering authorities to support them in establishing their local pension board. The Guidance includes a section designed to help local pension board members to understand their knowledge and understanding obligations. While this guidance is aimed at local pension boards, some of the principles and good practice relating to training will be adopted by the Fund in respect of the Committee as well as the Pension Board.

Knowledge and understanding must be considered in the light of the role of a local pension board and East Sussex County Council will make appropriate training available to assist and support Committee and Board members in undertaking their role. The approach, where possible will be to schedule joint training sessions for Board and Committee members.

Degree of Knowledge and Understanding

Committee members should have sufficient knowledge and understanding to make sound decisions in the best interests of the East Sussex Pension Fund. It is the role of the Committee to ensure that the Fund is managed in a way that complies with regulations, any other legislation or professional advice relating to the governance and administration of the LGPS and/or statutory guidance or codes of practice.

Acquiring, Reviewing and Updating Knowledge and Understanding

Committee members should commit sufficient time in their learning and development and be aware of their responsibilities immediately they take up their position. The Fund will therefore provide induction training for all new Committee members.

Flexibility

It is recognised that a rigid training plan can frustrate knowledge attainment when too inflexible to reflect a change in pension law or new responsibilities required of Board members. Learning programmes will therefore be flexible to deliver the appropriate level of detail required.

The Pensions Regulator E-learning toolkit

The Regulator has developed an on-line tool designed to help those running public service schemes to understand the governance and administration requirements in the public service schemes code of practice. The toolkit is an easy to use resource and covers 7 short modules. These are:

- Conflicts of Interests;
- 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.

These modules are designed to apply to all public service schemes and are not LGPS specific. The toolkit is designed specifically with pension board members in mind, however in the view of Fund the material covered is of equal relevance to members of the Committee. Completion of the toolkit will not in itself provide Committee and Board members with all the information they require to fulfil their knowledge and skills obligations. It does however provide a good grounding in some general areas.

The intention is that the e-learning modules will be completed collectively by the members of the committee as part of their regular meetings. This allows answers to be discussed among the group and ensures that all members present will benefit from the training. As with other training sessions, the e-learning sessions will only be undertaken when the committee is quorate.

Risk

Risk Management

The compliance and delivery of training is at risk in the event of –

- frequent changes in membership of the Committee;
- resources not being available;
- poor standards of training;
- inappropriate training plans.

These risks will be monitored by officers within the scope of this training strategy and be reported where appropriate.

Budget

Training is an essential requirement of a well-run pension fund. A training budget will be agreed as part of the business plan and costs will be met from the Fund.

5. Pension Administration:

Performance Management Group

The Performance Management Group (PMG) has been established to performance manage the new Service Level Agreement with the ORBIS Pensions Administration Service. Under the Local Government Pension Scheme (LGPS) (Administration) Regulations 2013, East Sussex County Council has a statutory responsibility to administer and manage the East Sussex Pension Fund (ESPF) on behalf of all employers participating in the fund and all past and present members, including their dependants.

The Performance Management Group's (PMG) is a local governance structure, to create a legacy of improvement and transformation. Through PMG, East Sussex Pension Fund will place a greater emphasis on offering coordinated, joined up and holistic support for business as usual delivery and improvement. PMG brings together a wealth of expertise on quality, compliance and operational improvement and draws together well developed links with Pension Administration, Fund Advisors, East Sussex Business Leaders and Benefit Consultants to draw down their specialist advice. PMG will act as a critical friend and offer robust challenge to ensure that participants at every level take the necessary action to the achieve the performance and improvements required.

The PMG will have a key responsibility for ensuring a shared and accurate sense of progress and risks to business as usual, as well as, planned improvement across the pension service to ensure a continuous focus on adding value and building a foundation for ongoing sustainable improvement. Advisors in attendance at PMG will be expected to provide advice to support the successful leadership and delivery of business as usual with a focus on continuous improvement: advising on the continued development, review and monitoring of the administration business plan for East Sussex.

A key function of PMG is to monitor the new Service Level Agreements between the Fund and Orbis and Orbis and the Actuary and to ensure timely oversight on administration matters for seamless service delivery.

McCloud Work plan

This year the Committee and Board will need to agree the actuarial approaches for managing the associated risk and uncertainty within funding strategy until the remedy to McCloud is confirmed, focussing on the 2019 valuation, contributions setting, cessation debts, new employer asset allocations, accounting and bulk transfers.

The Fund is part of the Local Government Pension Scheme (LGPS), a public service scheme for local government and associated workers. Following the Hutton review of public service pension schemes, LGPS benefits accruing from 1 April 2014 were changed from 1/60ths final salary to 1/49ths Career Average Revalued Earnings (CARE). Retirement ages were also increased from age 65 to State Pension Age (SPA), although many members have protected retirement ages lower than 65. CARE benefits effectively lose the link to salary growth and are instead revalued each year in line with Consumer Price Index (CPI) inflation. As part of a package of “transitional protections” accompanying the change, members who were within 10 years of the 60ths scheme normal retirement age at 1 April 2012 were protected by an ‘underpin’. The underpin ensures that the benefit received by eligible members for service from 1 April 2014 was the greater of 1/60ths final salary or 1/49ths CARE.

Two Court of Appeal judgements in December 2018 (which the Supreme Court denied the Government’s leave to appeal against in June 2019), collectively referred to here as the “McCloud” judgement, ruled that similar transitional protections in the Firefighters’ and Judges’ pension schemes amounted to unlawful discrimination against younger members (and indirectly against women and ethnic minorities). A written ministerial statement confirmed that the principle applies to these transitional protections in the LGPS and other public service schemes.

It is, however, very unclear what form the remedy will take in the LGPS i.e. how benefits will change to remove the discriminatory protections and what would be done to compensate members for any adverse impact on service from 2014 to that point. In essence, therefore, McCloud will have a retrospective effect on current active members’ benefits, as well as future service benefit accrual.

Risk Register Risk Scores

The risk scores are calculated using the risk matrix below:

LIKELIHOOD					
	4				
	3				
	2				
	1				
		1	2	3	4
		IMPACT			

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

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

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

	1 NEGLIGIBLE (No noticeable Impact)	2 MINOR (Minor impact, Some degradation of non-core services)	3 MAJOR (Significant impact, Disruption to core services)	4 CRITICAL (Disastrous impact, Catastrophic failure)
SERVICE DELIVERY (Core business, Objectives, Targets)	Handled within normal day-today routines.	Management action required to overcome short-term difficulties.	Key targets missed. Some services compromised.	Prolonged interruption to core service. Failure of key Strategic project.
FINANCE (Funding streams, Financial loss, Cost)	Little loss anticipated.	Some costs incurred. Minor impact on budgets. Handled within management responsibilities.	Significant costs incurred. Re-jig of budgets required. Service level budgets exceeded.	Severe costs incurred. Budgetary impact on whole Council. Impact on other services. Statutory intervention triggered.
REPUTATION (Statutory duty, Publicity, Embarrassment)	Little or no publicity. Little staff comments.	Limited local publicity. Mainly within local government community. Causes staff concern.	Local media interest. Comment from external inspection agencies. Noticeable impact on public opinion.	National media interest seriously affecting public opinion
PEOPLE (Loss of life, Physical injury, Emotional distress)	No injuries or discomfort.	Minor injuries or discomfort. Feelings of unease.	Serious injuries. Traumatic / stressful experience. Exposure to dangerous conditions.	Loss of life Multiple casualties

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
Pensions Administration (Orbis -Business Operations)											
1	**Pension contributions:** ● Non-collection ● Miscoding ● Non-payment If not discovered results inaccurate: ●employer FRS17/IAS19 & Valuation calculations ● final accounts ● cash flow	3	3	9	● Employer contribution monitoring ● Additional monitoring at specific times ● SAP / Altair quarterly reconciliation ● Annual year end checks ● Fines imposed for late payment and late receipt of remittance advice.	3	2	6	↔	Head of Pensions	On-going
2	**Inadequate delivery of Pensions Administration by service provider** ● Members of the pension scheme not serviced ● Statutory deadlines not met ● Employers dissatisfied with service being provided + formal complaint ● Complaints by members against the administration (these can progress to the Pensions Ombudsman)	3	3	9	● Key Performance Indicators ● Internal Audit ● Reports to Pension Board / Committee ● Service Review meetings with business operations management ● Awareness of the Pension Regulator Guidance ● Pensions Web ● Improved employer contribution forms	3	3	9	↑	Lead Pensions Manager	Management Actions in Internal Audit Report

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
	Loss of key/senior staff and knowledge/ skills • Damaged reputation • Inability to deliver and failure to provide efficient pensions administration service; major operational • Disruption and inability to provide a high quality pension service to members. • Concentration of knowledge in a small number of officers and risk of departure of key and senior staff. • The risk of losing key staff could lead to a breakdown in internal processes and service delivery, causing financial loss and potential risk to reputation.	3	3	9	• Diversified staff / team • Attendance at pension officers user groups • Procedural notes which includes new systems, section meetings / appraisals • Succession planning • Robust business continuity processes in place around key business processes, including a disaster recovery plan. • Knowledge of all tasks shared by at least two team members and can in addition be covered by senior staff. • Training requirements are set out in job descriptions and reviewed annually with team members through the appraisal process.	3	2	6	⟷	Lead Pensions Manager	On-going
4	**Paying pension benefits incorrectly** ● Damaged reputation ● Financial loss ● Financial hardship to members	3	3	9	● Internal control through audit process ● Constant monitoring / checking ● In house risk logs ● SAP / Altair reconciliation ● Task management ● Vita cleansing	3	2	6	⟷	Lead Pensions Manager	On-going

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
5	**Guaranteed Minimum Pension (GMP) reconciliation** • Financial loss • Members of pensions scheme exposed to financial loss • Legal issues • Inaccurate record keeping • Damaged reputation	3	3	9	• Awareness of Pension Regulator Guidance • Public Service Pensions Act 2013 • Internal Audit • Key performance indicators • Task Management • Reports to Pension Board and Committee	3	2	6	⟷	Lead Pensions Manager	On-going
6	**Failure to issue Annual Benefit statements 31st August** • Reputational risk and complaints • Fines and enforcement action by The Pension Regulator	3	3	9	• Project management approach • Regular contact with employers to get data. • Monthly interfacing to reduce workload at year end • Statements to employers in time to allow time for distribution to staff. • Considerations of employer take up of monthly interfaces system. Many leavers are not being notified until year-end.	3	3	9	↑	Lead Pensions Manager	31 March 2020

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
	Data Cleansing – failure to provide timely and accurate member data. • Risk of financial loss and damage to reputation. • Incorrect employers contribution calculations • Delays to triennial actuarial valuations process.	3	3	9	• Annual data cleansing carried out by pension administration to highlight gaps; • Administration Strategy in place; • Employing authorities are contacted for outstanding/accurate information; • Regular meeting with administration services re updates, when required. • A data cleansing plan is expected to be agreed with Business Operations. • Business Operation has been given authority to recruit 3 additional FTE for an initial period of 6 months to focus on data deficiencies.	3	3	9	↑	Lead Pensions Manager	Data Improvement Programme Ongoing to June 2020
Pensions Investment and Governance											
8	**Required returns not met due to poor strategic allocation** ● Damaged reputation ● Increase in employer contribution ● Pay Pensions	4	2	8	● Investment Advisors ● Triennial review ● Performance monitoring ● Annual Investment Strategy Review ● Reporting to Pensions Committee and Board ● Compliance with the ISS ● Compliance with the Funding Strategy	3	2	6	↔	Head of Pensions	On-going

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
					Statement						
9	**Employers unable to pay increased contributions** ● Lower funding level ● Increase in employer contributions ● Employer forced to sell assets ● Employer forced into liquidation ● Increase in investment risk taken to access higher returns	2	3	6	● Valuation ● Regular communication with Employers ● Monthly monitoring of contribution payments ● Meetings with employers where there are concerns	2	3	6	⟷	Head of Pensions	On-going
10	**Cyber Security of member data - personal employment and financial data** ● ESCC may incur penalties ● Damaged reputation ● Legal issues ● Members of the pension scheme exposed to financial loss ● Members of the pension scheme exposed to identity theft ● Members of the pension scheme data lost or compromised	4	2	8	• ICT defence-in-depth approach • Utilising firewalls, • Email and content scanners • Using anti-malware. • ICT performs penetration and security tests on regular basis	3	2	6	⟷	Head of Pensions	On-going

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
11	**Cyber Security of third party suppliers** ● Damaged reputation ● Financial loss ● Inability to trade ● Lower funding level ● Increase in employer contribution ● Increase in investment risk taken to access higher returns	4	2	8	● Service level agreement with termination clause ● Regular Meetings ● Regular reports SAS 70/AAF0106 ● Investment Advisors ● Global custodian	3	2	6	⟷	Head of Pensions	On-going
12	**The decision to leave the European Union results in significant economic instability and slowdown, and as a consequence lower investment returns, resulting in:** • Financial loss, and/or failure to meet return expectations. • Increased employer contribution costs. • Changes to the regulatory and legislative framework within which the Fund operates.	4	2	8	• Diversification of the Fund's investments across the world, including economies where the impact of "Brexit" is likely to be smaller. • The long-term nature of the Fund's liabilities provides some mitigation, as the impact of "Brexit" will reduce over time. • The Govt. is likely to ensure that much of current EU regulation is enshrined in UK law. • Officers receive regular briefing material on regulatory changes and attend training seminars and ensure any regulatory changes are implemented	3	2	6	⟷	Head of Pensions	On-going

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
13	**2019 Triennial actuarial valuation outcome** • An increase in liabilities that is higher than the previous actuarial valuation estimate. • The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities. • Significant rises in employer contributions due to increases in liabilities or fall in assets.	3	3	9	• The triennial actuarial valuation review focuses on the real returns on assets, net price and pay increases. • The Committee receiving training on understanding liabilities • Hymans Robertson commission to produce an Asset Liabilities Model. • Life expectancy assumptions are reviewed at each valuation. • Reviewing of each triennial valuation assumptions and challenge actuary as required. • Funding Strategy Statement and Investment Strategy Statement updated and approved, • Actuary attendance at Pension Fund Committee to cover triennial valuation issues and expectations • The Fund holding discussions with employers through the Pension Employers Forum. Using actuary that makes significant possible assumptions and recommends appropriate recovery period and strategy;	3	2	6	⟷	Head of Pensions	On-going

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
14	**Accounting - Failure to comply with CIPFA new pension fund accounting regulations.** • Risk of the accounts being qualified by the auditors.	3	2	6	• Pensions Officers are kept up to date with changes to legislative requirements via network meetings, professional press, training and internal communication procedures. • Pension Fund financial management and administration processes are maintained in accordance with the CIPFA Code of Practice, International Financial Reporting Standards (IFRS), and the ESSC Financial Regulations. • Regular reconciliations are carried out between in-house records and those maintained by the custodian and investment managers. • Internal Audits - carried out in line with the Pension Audit strategy. • External Audit review the Pension Fund's accounts annually	3	2	6	⟷	Head of Pensions	On-going
LGPS Pooling - ACCESS Pool											
15	**Asset transition costs** • Asset transition costs are greater than forecast. • Failure to control operational risks and	3	3	9	• Consultant has analysed the creation of sub-funds and transitioning of our current assets into the pool, under a variety of scenarios.	2	2	4	⟷	Head of Pensions	On-going

EAST SUSSEX PENSION FUND - RISK REGISTER											
Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
	transaction costs during the transition process • An increase in the initial set-up costs forecast by the pooling proposal.				• There may also be the opportunity to transfer securities in 'specie'. • A transition manager will be appointed, with the objective of preserving asset values, managing risk and project managing the transition process to ensure that costs are monitored and controlled.						
16	**LGPS Investment Pooling** • Lower funding level/Damaged reputation • Increase in employer contribution • Increase in investment risk taken to access higher returns • There can be size restrictions on certain investments.	3	3	9	• Engagement in ACCESS asset pool group • Reporting to Pensions Committee and Board • Engagement with third party experts (e.g. Legal and Tax)	2	2	4	⟷	Head of Pensions	On-going
17	**ACCESS Pool Governance – Resourcing** • Establishment phase resource - a substantial amount of officer resource will be required to support the project plan work-streams / tasks etc. • Increased demand on officer time could result in delays if progress is slowed due to resource constraints or increased costs if there is a requirement to outsource.	4	2	8	• ACCESS Support Unit function to provide support. • Gap analysis to be undertaken to identify officer resource requirements. • Work-streams to be allocated Officer Sub-groups to co-ordinate work. • Increasing the frequency of OWG meetings - fortnightly joint OWG / Link Steering Group meetings and	2	2	4	⟷	Head of Pensions	On-going

EAST SUSSEX PENSION FUND - RISK REGISTER											
Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
					fortnightly Link Project calls.						
	Sub-fund implementation- There is a risk that an investment may not transition to the ACS if Link cannot resolve on-going issues relating to the operating model for the planned Feeder fund structure.	3	3	9	• The Ruffer transition to sub fund raised a number of internal control issues currently under investigation. The ACCESS Contracts Manager will monitor Link's progress closely. If Link cannot resolve issues in a reasonable timeframe then alternative options may need to be considered.	3	3	9	↑	Head of Pensions	September 2019

Risk Score Change Key –

↓ = ***Reduced***

↔ ***= No Change***

↑ ***= Increased***

Report to: **Pension Committee**

Date of meeting: **16 March 2020**

By: **Chief Finance Officer**

Title: **Pension Fund Risk Register**

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

RECOMMENDATIONS:

The Committee is recommended to note the Pension Fund Risk Register.

---

1. Background

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

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

2. Supporting Information

2.1 **Risk Register -** since the last meeting the following changes have been applied to risks in the Risk Register.

2.2 Following the issue of the two most recent internal audit reports, 'Pension Fund Administration, People, Processes and Systems 2019/20' and 'Pension Fund – Compliance with Regulatory Requirements 2019/20', and the associated critical audit opinions (Minimal Assurance and Partial Assurance respectively) the following risk indicators have been affected to reflect these changes:

- Risk 2 - Inadequate delivery of the Pensions Administration by the Service Provider.
- Risk 6 - Failure to issue the Annual Benefit Statement (ABS) by 31 August.
- Risk 7 - Data Cleansing – failure to provide accurate and timely member data.

2.3 A new risk, Risk 18 has been added to reflect the risks concerning the performance of Link and its management of the transition of assets to the Sub Fund in relation to the Ruffer Mandate. Link's procedures were not adequately robust to identify that an element of the Ruffer portfolio could not be held within the ACCESS fund resulting in the failure of the sub-fund transition. Pension Officers met with Link and Northern Trust to ensure tightened controls around asset lists prior to fund launches, and which now requires that a draft model portfolio should always be submitted by the Investment Manager and reviewed by the supervision teams to ensure eligibility. Link has now updated its systems to ensure that prior to launch and on a daily basis leading up to the live date, the Investment Manager keeps the project team informed of any portfolio changes. This is a new agreed process and forms part of the new control and sign off procedure. Link have also added an updated pre-launch dry

run process enhanced to include Depositary sign-off as a precondition to being able to progress to launch. Such improvements led to a robust dry run process being applied prior to the launch of the LF ACCESS Real Return Fund on 21 January which occurred without incident.

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

3. Assessment of Risk

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

3.2 The East Sussex Pension Fund, risk profile has been updated and in addition to the current mitigation in place, further actions are planned to provide a greater level of assurance, and the level of risk will be reviewed once these additional actions have been implemented.

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

4. Conclusion and reasons for recommendations

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

IAN GUTSELL
Chief Finance Officer

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Background Documents
None

Appendix 1

Risk Register Risk Scores

The risk scores are calculated using the risk matrix below:

LIKELIHOOD					
	4				
	3				
	2				
	1				
		1	2	3	4
		IMPACT			

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

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

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

	1 NEGLIGIBLE (No noticeable Impact)	2 MINOR (Minor impact, Some degradation of non-core services)	3 MAJOR (Significant impact, Disruption to core services)	4 CRITICAL (Disastrous impact, Catastrophic failure)
SERVICE DELIVERY (Core business, Objectives, Targets)	Handled within normal day-today routines.	Management action required to overcome short-term difficulties.	Key targets missed. Some services compromised.	Prolonged interruption to core service. Failure of key Strategic project.
FINANCE (Funding streams, Financial loss, Cost)	Little loss anticipated.	Some costs incurred. Minor impact on budgets. Handled within management responsibilities.	Significant costs incurred. Re-jig of budgets required. Service level budgets exceeded.	Severe costs incurred. Budgetary impact on whole Council. Impact on other services. Statutory intervention triggered.
REPUTATION (Statutory duty, Publicity, Embarrassment)	Little or no publicity. Little staff comments.	Limited local publicity. Mainly within local government community. Causes staff concern.	Local media interest. Comment from external inspection agencies. Noticeable impact on public opinion.	National media interest seriously affecting public opinion

	1 NEGLIGIBLE (No noticeable Impact)	2 MINOR (Minor impact, Some degradation of non-core services)	3 MAJOR (Significant impact, Disruption to core services)	4 CRITICAL (Disastrous impact, Catastrophic failure)
PEOPLE (Loss of life, Physical injury, Emotional distress)	No injuries or discomfort.	Minor injuries or discomfort. Feelings of unease.	Serious injuries. Traumatic / stressful experience. Exposure to dangerous conditions.	Loss of life Multiple casualties

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
Pensions Administration (Orbis -Business Operations)											
	Pension contributions: ● Non-collection ● Miscoding ● Non-payment If not discovered results inaccurate: ●employer FRS17/IAS19 & Valuation calculations ● final accounts ● cash flow	3	3	9	● Employer contribution monitoring ● Additional monitoring at specific times ● SAP / Altair quarterly reconciliation ● Annual year end checks ● Fines imposed for late payment and late receipt of remittance advice.	3	2	6	⟷	Head of Pensions	On-going
2	**Inadequate delivery of Pensions Administration by service provider** ● Members of the pension scheme not serviced ● Statutory deadlines not met ● Employers dissatisfied with service being provided + formal complaint ● Complaints by members against the administration (these can progress to the Pensions Ombudsman)	3	3	9	● Key Performance Indicators ● Internal Audit ● Reports to Pension Board / Committee ● Service Review meetings with business operations management ● Awareness of the Pension Regulator Guidance ● Pensions Web ● Improved employer contribution forms	3	3	9	↑	Lead Pensions Manager	Management Actions in Internal Audit Report
3	**Loss of key/senior staff and knowledge/ skills** • Damaged reputation • Inability to deliver and failure to provide efficient pensions administration service; major	3	3	9	• Diversified staff / team • Attendance at pension officers user groups • Procedural notes which includes new systems, section meetings / appraisals • Succession planning	3	2	6	⟷	Lead Pensions Manager	On-going

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
	operational • Disruption and inability to provide a high quality pension service to members. • Concentration of knowledge in a small number of officers and risk of departure of key and senior staff. • The risk of losing key staff could lead to a breakdown in internal processes and service delivery, causing financial loss and potential risk to reputation.				• Robust business continuity processes in place around key business processes, including a disaster recovery plan. • Knowledge of all tasks shared by at least two team members and can in addition be covered by senior staff. • Training requirements are set out in job descriptions and reviewed annually with team members through the appraisal process.						
4	**Paying pension benefits incorrectly** ● Damaged reputation ● Financial loss ● Financial hardship to members	3	3	9	● Internal control through audit process ● Constant monitoring / checking ● In house risk logs ● SAP / Altair reconciliation ● Task management ● Vita cleansing	3	2	6	⟷	Lead Pensions Manager	On-going
5	**Guaranteed Minimum Pension (GMP) reconciliation** • Financial loss • Members of pensions scheme exposed to financial loss • Legal issues • Inaccurate record keeping • Damaged reputation	3	3	9	• Awareness of Pension Regulator Guidance • Public Service Pensions Act 2013 • Internal Audit • Key performance indicators • Task Management • Reports to Pension Board and Committee	3	2	6	⟷	Lead Pensions Manager	On-going

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
6	**Failure to issue Annual Benefit statements 31st August** • Reputational risk and complaints • Fines and enforcement action by The Pension Regulator	3	3	9	• Project management approach • Regular contact with employers to get data. • Monthly interfacing to reduce workload at year end • Statements to employers in time to allow time for distribution to staff. • Considerations of employer take up of monthly interfaces system. Many leavers are not being notified until year-end.	3	3	9	↑	Lead Pensions Manager	31 March 2020
7	**Data Cleansing – failure to provide timely and accurate member data.** • Risk of financial loss and damage to reputation. • Incorrect employers contribution calculations • Delays to triennial actuarial valuations process.	3	3	9	• Annual data cleansing carried out by pension administration to highlight gaps; • Administration Strategy in place; • Employing authorities are contacted for outstanding/accurate information; • Regular meeting with administration services re updates, when required. • A data cleansing plan is expected to be agreed with Business Operations. • Business Operation has been given authority to recruit 3 additional FTE for an initial period of 6 months to focus on data deficiencies.	3	3	9	↑	Lead Pensions Manager	Data Improvement Programme Ongoing to June 2020
Pensions Investment and Governance											

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
8	**Required returns not met due to poor strategic allocation** ● Damaged reputation ● Increase in employer contribution ● Pay Pensions	4	2	8	● Investment Advisors ● Triennial review ● Performance monitoring ● Annual Investment Strategy Review ● Reporting to Pensions Committee and Board ● Compliance with the ISS ● Compliance with the Funding Strategy Statement	3	2	6	⟷	Head of Pensions	On-going
9	**Employers unable to pay increased contributions** ● Lower funding level ● Increase in employer contributions ● Employer forced to sell assets ● Employer forced into liquidation ● Increase in investment risk taken to access higher returns	2	3	6	● Valuation ● Regular communication with Employers ● Monthly monitoring of contribution payments ● Meetings with employers where there are concerns	2	3	6	⟷	Head of Pensions	On-going
10	**Cyber Security of member data - personal employment and financial data** ● ESCC may incur penalties ● Damaged reputation ● Legal issues ● Members of the pension scheme exposed to financial loss ● Members of the pension scheme exposed to identity theft ● Members of the pension scheme data lost or compromised	4	2	8	• ICT defence-in-depth approach • Utilising firewalls, • Email and content scanners • Using anti-malware. • ICT performs penetration and security tests on regular basis	3	2	6	⟷	Head of Pensions	On-going

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
11	**Cyber Security of third party suppliers** ● Damaged reputation ● Financial loss ● Inability to trade ● Lower funding level ● Increase in employer contribution ● Increase in investment risk taken to access higher returns	4	2	8	● Service level agreement with termination clause ● Regular Meetings ● Regular reports SAS 70/AAF0106 ● Investment Advisors ● Global custodian	3	2	6	⟷	Head of Pensions	On-going
12	**The decision to leave the European Union results in significant economic instability and slowdown, and as a consequence lower investment returns, resulting in:** • Financial loss, and/or failure to meet return expectations. • Increased employer contribution costs. • Changes to the regulatory and legislative framework within which the Fund operates.	4	2	8	• Diversification of the Fund's investments across the world, including economies where the impact of "Brexit" is likely to be smaller. • The long-term nature of the Fund's liabilities provides some mitigation, as the impact of "Brexit" will reduce over time. • The Govt. is likely to ensure that much of current EU regulation is enshrined in UK law. • Officers receive regular briefing material on regulatory changes and attend training seminars and ensure any regulatory changes are implemented	3	2	6	⟷	Head of Pensions	On-going
13	**2019 Triennial actuarial valuation outcome** • An increase in liabilities that is higher than the previous actuarial valuation estimate. • The level of inflation and interest rates	3	3	9	• The triennial actuarial valuation review focuses on the real returns on assets, net price and pay increases. • The Committee receiving training on understanding liabilities	3	2	6	⟷	Head of Pensions	On-going

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
	assumed in the valuation may be inaccurate leading to higher than expected liabilities. • Significant rises in employer contributions due to increases in liabilities or fall in assets.				• Hymans Robertson commission to produce an Asset Liabilities Model. • Life expectancy assumptions are reviewed at each valuation. • Reviewing of the each triennial valuation assumptions and challenge actuary as required. • Funding Strategy Statement and Investment Strategy Statement updated and approved, • Actuary attendance at Pension Fund Committee to cover triennial valuation issues and expectations • The Fund holding discussions with employers through the Pension Employers Forum. Using actuary that makes significant possible assumptions and recommends appropriate recovery period and strategy;						
14	**Accounting - Failure to comply with CIPFA new pension fund accounting regulations.** • Risk of the accounts being qualified by the auditors.	3	2	6	• Pensions Officers are kept up to date with changes to legislative requirements via network meetings, professional press, training and internal communication procedures. • Pension Fund financial management and administration processes are maintained in accordance with the CIPFA Code of Practice, International Financial Reporting Standards (IFRS),	3	2	6	⇔	Head of Pensions	On-going

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
					and the ESSC Financial Regulations. • Regular reconciliations are carried out between in-house records and those maintained by the custodian and investment managers. • Internal Audits - carried out in line with the Pension Audit strategy. • External Audit review the Pension Fund's accounts annually						
	LGPS Pooling - ACCESS Pool										
15	**Asset transition costs** • Asset transition costs are greater than forecast. • Failure to control operational risks and transaction costs during the transition process • An increase in the initial set-up costs forecast by the pooling proposal.	3	3	9	• Consultant has analysed the creation of sub-funds and transitioning of our current assets into the pool, under a variety of scenarios. • There may also be the opportunity to transfer securities in 'specie'. • A transition manager will be appointed, with the objective of preserving asset values, managing risk and project managing the transition process to ensure that costs are monitored and controlled.	2	2	4	⟷	Head of Pensions	On-going
16	**LGPS Investment Pooling** • Lower funding level/Damaged reputation • Increase in employer contribution • Increase in investment risk taken to access higher returns • There can be size restrictions on certain investments.	3	3	9	• Engagement in ACCESS asset pool group • Reporting to Pensions Committee and Board • Engagement with third party experts (e.g. Legal and Tax)	2	2	4	⟷	Head of Pensions	On-going

EAST SUSSEX PENSION FUND - RISK REGISTER

Reference	Risk	Pre Mitigation			Risk Control / Response	Post Mitigation				Risk Owner	Timescales
		Impact	Likelihood	Risk Score		Impact	Likelihood	Risk Score	Change since last review		
17	**ACCESS Pool Governance – Resourcing** • Establishment phase resource - a substantial amount of officer resource will be required to support the project plan work-streams / tasks etc. • Increased demand on officer time could result in delays if progress is slowed due to resource constraints or increased costs if there is a requirement to outsource.	4	2	8	• ACCESS Support Unit function to provide support. • Gap analysis to be undertaken to identify officer resource requirements. • Work-streams to be allocated Officer Sub-groups to co-ordinate work. • Increasing the frequency of OWG meetings - fortnightly joint OWG / Link Steering Group meetings and fortnightly Link Project calls.	2	2	4	⟷	Head of Pensions	On-going
18	**Sub-fund implementation-** There is a risk that an investment may not transition to the ACS if Link cannot resolve on-going issues relating to the operating model for the planned Feeder fund structure.	3	3	9	• The Ruffer transition to sub fund raised a number of internal control issues currently under investigation. The ACCESS Contracts Manager will monitor Link's progress closely. If Link cannot resolve issues in a reasonable timeframe then alternative options may be need to be considered.	3	3	9	↑	Head of Pensions	September 2019

Risk Score Change Key –

↓ = ***Reduced***

⟷ = ***No Change***

↑ = ***Increased***

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Report to: **Pension Committee**

Date of meeting: **16 March 2020**

By: **Chief Finance Officer**

Title: **External Audit Plan for the East Sussex Pension Fund 2019/20**

Purpose: **To inform the Committee of the content of the Pension Fund External Audit Plan for 2019/20**

RECOMMENDATION:

The Committee is recommended to approve the draft External Audit Plan for the East Sussex Pension Fund for 2019/20

---

1. Background

1.1 The East Sussex Pension Fund (ESPF) External Audit Plan provides an overview of the planned scope and timing of the statutory audit of the ESPF accounts and identifies any significant risks. Grant Thornton (GT), as the ESPF's external auditors, must form and express an opinion on the ESPF's financial statements.

2. 2019/20 Financial Statements

2.1 The draft ESPF External Audit Plan for 2019/20 (Appendix 1) identifies three significant risks that require audit consideration as they could potentially cause a material error in the financial statements. These are:

- Revenue recognition, including fraudulent transactions (this presumed risk has been rebutted);
- Management override of controls (journals, estimates and transactions);
- Valuation of hard to price Level 3 investments (require judgement to establish value).

2.2 The unaudited draft financial statements have to be prepared by 31 May 2020, as they form part of the East Sussex County Council's statement of accounts. The audit will be conducted during June and early July. The audited statements have to be approved by Governance Committee before 31 July 2020.

2.3 The planned audit fee for 2019/20 is £27,487, which is a significant increase from the 2018/19 original fee of £20,487. GT levied additional fees for 2018/19 of £5,000, which were challenged with the Public Sector Audit Appointments (PSAA), who reduced them to £3,000. The total fees for 2018/19 were £23,487.

2.4 The ESPF External Audit Plan on page 11 sets out the rationale for the proposed increase in fees. There is a driver nationally, particularly from the Financial Reporting Council (FRC), for audit firms to improve the quality of the work they undertake, particularly where there are external valuations and estimates included within the

accounts. This pressure has arisen since services were tendered from 2018/19; so an increase in fees may be expected.

2.5 The proposed fee has not been accepted and GT will now need to report to the PSAA, who will assess their proposals and make a judgement.

3. Conclusion and Recommendation

3.1 The Pension Committee is recommended to approve the draft External Audit Plan.

IAN GUTSELL
Chief Finance Officer

Contact Officer:	Ian Gutsell, Chief Finance Officer
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Background Documents
None

DRAFT

Grant Thornton

External Audit Plan

Year ending 31 March 2020

East Sussex Pension Fund

27 March 2020

Contents

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1. Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of East Sussex Pension Fund ('the Pension Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set out in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of East Sussex Pension Fund. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit Committee).

The audit of the financial statements does not relieve management or the Audit Committee or the Pension Committee of your responsibilities. It is your responsibility to ensure that proper arrangements are in place for the conduct of your business, and that public money is safeguarded and accounted for properly.

Our audit approach is based on a thorough understanding of your business and is risk based.

Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Management override of controls; • Level 3 asset valuations. We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined materiality at the planning stage of our audit to be £36m (PY £36m) for the Pension Fund, which equates to approximately 1% of your prior year net assets for the year. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £1.8m (PY £1.8m).
Audit logistics	Our interim visit will take place in March and our final visit will take place in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A. Our fee for the audit will be £27,487 (PY: £23,487) for the Pension Fund, subject to meeting our requirements set out on page
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements..

2. Key matters impacting our audit

Factors

The wider picture and political uncertainty

- Local Government funding continues to be stretched with increasing cost pressures.
- The market value of LGPS funds at end of March 2019 was £287.2 billion (an increase of £16.3 billion or 6.0%) but for the first time, the LGPS in England & Wales is now cashflow negative, with benefit payments rising to £10.4bn while contributions fell to £9.3bn. There are now over 18,000 employers. Local authorities represent around 74% of scheme members.
- LGPS has undergone a full revaluation in 2019 in line with the triennial programme. This will be reflected in your 2019/20 financial statements.
- The UK left the EU on 31 January 2020 and the Coronavirus is spreading across the globe. The economic impact of these factors remains uncertain as is the wider global economic picture. You will need to ensure that your investment strategy has considered potential outcomes.

Governance

- The Scheme Advisory Board (SAB) has published the *Good Governance – Phase II Report*. Proposals include having a single named officer responsible for the delivery of LGPS related activity for a fund, an enhanced annual governance compliance statement and establishing a set of key performance indicators.
- SAB is also consulting on Responsible Investment guidance to assist and help investment decision makers.
- tPR continues to apply pressure on pension schemes to improve the quality of scheme member data. The 2019 valuation process will likely have thrown up some data issues (large or small) that need addressing.

Financial reporting and audit – raising the bar

The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.

Our work across the country in 2018/19 has highlighted areas where financial reporting, needs to be improved (in particular level 3 and financial instrument investment valuations and disclosures), with a corresponding increase in audit procedures.

Our response

- We will consider the valuation of the pension assets in light of the impact of Brexit and the Coronavirus.
- We will review the disclosures in your financial statements and Annual Report against our knowledge of you as an entity.
- We will undertake additional work over your member data accuracy and completeness as requested by Scheme Employer auditors in this the triennial valuation year.

- We will consider the your responses to the SAB initiatives and whether they impact upon our risk assessment.
- We will consider the impact of any data issues raised as part of the 2019 valuation and recent internal audit reports prior to testing member data as part of our audit.
- We will consider the internal environment in relation to your member data processing at Surrey County Council in light of the recent internal audit report which resulted in a rating of ‘no assurance’.

- As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and financial reporting. Our proposed work and fee is set out on page 10 of this Audit Plan.

3. Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions (rebutted)	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition. Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including East Sussex County Council and East Sussex Pension Fund, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for East Sussex Pension Fund.	
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. The Fund faces external scrutiny of its spending and stewardship of funds and this could potentially place management under undue pressure in terms of how they report performance. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk.	We will: • evaluate the design effectiveness of management controls over journals; • analyse the journals listing and determine the criteria for selecting unusual journals; • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration; • gain an understanding of the accounting estimates and critical judgements applied by management and consider their reasonableness with regard to corroborative evidence; • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

3. Significant risks

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Level 3 Asset Valuation	You revalue your investments on an annual basis with the aim of ensuring that the carrying value of these investments is not materially different from their fair value at the balance sheet date. By their nature level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved (£618 million) and the sensitivity of this estimate to changes in key assumptions. Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March 2020. We therefore identified valuation of Level 3 investments as a significant risk.	We will: • evaluate management's processes for valuing Level 3 investments; • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments; against the requirements of the Code; • independently request year-end confirmations from investment managers and custodian; • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2020 with reference to known movements in the intervening period; • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert; • test revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register; • where available review investment manager service auditor report on design effectiveness of internal controls.

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2020.

4. Other matters

Other work

The Pension Fund is administered by East Sussex County Council (the 'Council'), and the Pension Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Pension Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2019/20 financial statements, consider and decide upon any objections received in relation to the 2019/20 financial statements;
    - Issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
    - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Pension Fund's ability to continue as a going concern" (ISA (UK) 570).

Currently, the accounts of the Pension Fund are expected to be prepared on a going concern basis. We will review management's assessment of the going concern assumption and any material uncertainties, and evaluate the disclosures in the financial statements.

5. Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

Materiality for planning purposes

We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £36m (PY £36m) for the Pension Fund, which equates to approximately 1% of your prior year net assets for the year.

We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality.

Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Audit Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £1.8m (PY £1.8m).

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

6. Audit logistics & team

Darren Wells, Key Audit Partner

Darren will be the main point of contact for the Chief Executive and Members. Darren will share his wealth of knowledge and experience across the sector providing challenge, sharing good practice and acting as a sounding board with Members and the Audit Committee. Darren will review all reports and the team's work, focussing his time on the key risk areas of the audit.

Marcus Ward, Audit Manager

Marcus will work with senior members of the finance team ensuring testing is delivered and any accounting issues are addressed on a timely basis. Marcus will ensure our audit is tailored specially to you and high quality audit is delivered efficiently. Marcus will undertake reviews of the team's work and draft reports for Audit Committee ensuring they remain concise and understandable.

Mary Adeson, Audit Incharge

Mary will lead the onsite team and will be the day to day contact for the audit. Mary will monitor the deliverables, including managing the query log with your finance team and highlighting any significant issues and adjustments to senior management. Mary will undertake the more technical aspects of the audit, coach the junior members of the team and review the teams' work

Client responsibilities

Where clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit to the agreed timescales. In addition, delayed audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit, we ask that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

7. Audit fees

Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government pension fund financial reporting, in particular, scrutiny of the valuation of hard to value investments needs to be improved. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed fee at the planning stage is set out below, with further analysis overleaf.

	Actual Fee 2018/19	Proposed fee 2019/20
Pension Fund Audit	£23,487	£27,487
Total audit fees (excluding VAT)	**£23,487**	**£27,487**

Assumptions:
In setting the above fees, we have assumed that you will:
- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

Relevant professional standards:
In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's Ethical Standard which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

Audit fee variations – further analysis

Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees.

Audit area	£	Rationale for fee variation
Scale fee	**20,487**	
Raising the bar	£3,000	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Valuation of level 3 investments	£4,000	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of valuations of hard to value investments needs to improve across the sector. Accordingly, we plan to enhance the scope and coverage of our work to ensure an adequate level of audit scrutiny and challenge over the assumptions and evidence that underpin the valuations of level 3 investments this year to reflect the expectations of the FRC and ensure we issue a safe audit opinion.
Revised scale fee (subject to PSAA approval)	**27,487**	

8. Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Pension Fund. The following other services were identified.

Service	£	Threats	Safeguards
Audit related:			
Provision of IAS 19 Assurances to Scheme Employer auditors	5,000	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 in comparison to the total fee for the audit of £27,487 and in particular relative to Grant Thornton UK LLP's turnover overall. This mitigates the perceived self-interest threat to an acceptable level.

The amounts detailed are fees agreed to-date for audit related and non-audit services to be undertaken by Grant Thornton UK LLP in the current financial year. These services are consistent with your policy on the allotment of non-audit work to your auditors. All services have been approved by the Audit Committee. Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.
None of the services provided are subject to contingent fees.
The firm is committed to improving our audit quality – please see our transparency report - https://www.grantthornton.co.uk/globalassets/1.-member-firms/united-kingdom/pdf/annual-reports/interim-transparency-report-2019.pdf

Appendices

Appendix A

Appendix A: Audit Quality – national context

What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for auditors to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets Pension Fund of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local Pension Fund financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.

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