PENSION COMMITTEE

MONDAY, 22 JUNE 2020

10.00 am CC2 - COUNTY HALL, LEWES

++Please note that this meeting is taking place remotely++

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 - 154)*

7 Report on the Full Council Notice of Motion on Environmental, Social and Governance (ESG) *(Pages 155 - 192)*

8 Good Governance Review *(Pages 193 - 262)*

9 Draft East Sussex Pension Fund Internal Audit Strategy and Plan *(Pages 263 - 272)*

10 East Sussex Pension Fund Training Strategy *(Pages 273 - 302)*

11 Pension Administration updates *(Pages 303 - 338)*

12 Pension Fund Business Plan and Budget 2020/21 *(Pages 339 - 364)*

13 External Audit Plan for the East Sussex Pension Fund 2019/20 and PSAA Fee Scales 2020/21 *(Pages 365 - 386)*

14 Pension Fund Risk Register *(Pages 387 - 402)*

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

16 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).

17 East Sussex Pension Fund Strategic Asset Allocation Refresh *(Pages 403 - 470)*

18 Covid 19 Policy on Deferral of Employer Contributions *(Pages 471 - 488)*

19 Pension Fund Breaches Log *(Pages 489 - 504)*

20 Pension Administration - Systems Procurement *(To Follow)*

21 Employer Admissions and Cessations Report *(Pages 505 - 522)*

22 East Sussex Pension Fund Team Update *(Pages 523 - 524)*

23 Any other exempt items previously notified under agenda item 4

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12 June 2020

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NOTE: This meeting will be broadcast live on the County Council's website and the record archived for future viewing. The broadcast/record is accessible at www.eastsussex.gov.uk/yourcouncil/webcasts/default.htm

PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at County Hall, Lewes on 16 March 2020.

PRESENT	Councillors Gerard Fox (Chair) Nigel Enever and David Tutt
ALSO PRESENT	Kevin Foster, Chief Operating Officer Ian Gutsell, Chief Finance Officer Michelle King, Interim Head of Pensions Russell Wood, Principal Pensions Officer Nigel Chilcott, Audit Manager Danny Simpson, Principal Auditor Harvey Winder, Democratic Services Officer Paul Potter, Investment Adviser Richard Warden, Fund Actuary William Bourne, Independent Adviser

62 MINUTES

62.1 The minutes of the meeting held on 25 November 2019 were agreed as a correct record.

63 APOLOGIES FOR ABSENCE

63.1 Apologies were received from Cllrs Elford and Webb.

64 DISCLOSURE OF INTERESTS

64.1 Cllr Tutt declared a personal interest in relation to item 16 as the Leader of Eastbourne Borough Council, which is an employer of Wave Leisure.

65 URGENT ITEMS

65.1 There were no urgent items.

66 PENSION BOARD MINUTES

66.1 The Committee considered the draft minutes of the Pension Board meeting held on 2 March 2020.

66.2 The Committee RESOLVED to note the report.

67 INVESTMENT REPORT

67.1 The Committee considered a report providing an update on investment activities undertaken by the East Sussex Pension Fund (ESPF).

67.2 The Committee discussion included the following key issues:

- The stock markets were currently highly volatile and had not yet been able to quantify the economic impact of Covid-19. Considerable losses and subsequent gains had occurred over the previous week, although overall the markets were trending considerably downwards and the Fund's gains on UK and oversees equities for 2019 had been largely lost.
- The Fund's two absolute return managers – Newton and Ruffer – had been less affected than other investment managers due to their investment in assets other than equities.
- Other risky assets the Fund invests in are also likely to be affected by Covid-19, such as high yield credit and some lower grade investment-level credit, although the impact may not be known for some time. Lower long term bond yields have increased fund liabilities both in the long term and possibly short term (the discounted value of future liabilities is higher due to using a lower long term interest rate to discount). Higher bond yields would have the effect of reducing liabilities. Lower investment asset values have also undermined the funds position, while increased mortality might improve it at the margin. The Actuary suggested that the funded position may have deteriorated by 10-15% from its 108% as of the triennial valuation. The Committee felt this was still a respectable coverage.
- The Fund was well diversified, and the investment advisers and independent adviser both believed that it was not advisable to make any investment decisions until markets had settled down and the impact of expected Government intervention had become apparent.
- The immediate impact on the Fund is likely to be to its cash flow, as dividends, a considerable source of cash to the fund, may not be paid due to the fall in equities. This would be considered during any future plans to change the Fund's strategic asset allocation.
- The Committee agreed that there is a need to review the strategic asset allocation of the Fund, which is currently around 65% in growth assets, and that Members of the Committee should be involved in the process of modelling the outcomes of different asset allocations. The Committee agreed to create a working group of Cllrs Fox and Tutt, the Independent Advisor, Interim Head of Pensions, Chief Finance Officer and other relevant officers to perform this task and report back to the Committee with recommendations. The Committee also agreed the sub group should make recommendations to the Committee to address other longer running challenges to the Fund such as 3-5 year cash flow forecasting. The sub-group will also seek the advice of the Fund's investment consultants.
- The Committee agreed that, although there was currently no plan to do so, there could be a need to act urgently to change investment policy before the next meeting of the Committee. Therefore, it was appropriate to delegate matters relating to pension investment to the Chief Finance Officer in consultation with the Chair and the Fund's

investment advisers until the next meeting of the Committee. The Committee also agreed that they would need to be briefed ahead of any decision.

- The Committee would be provided with regular updates by email on the status of the Fund in the coming weeks.
- The Committee agreed that meeting the new tier 1 UK Stewardship Code standards would require significant resource that the Fund does not currently possess. It would therefore be more appropriate to encourage the ACCESS pool to sign up to the UK Stewardship Code. This would be achieved through lobbying other members of ACCESS via the ACCESS Joint Committee and Section 151 Finance Officer working group.

67.3 The Committee RESOLVED to:

1) note the report and appendices;

2) approve the Pension Fund Action Log and Workplan;

3) invite a representative from the UN Principles of Responsible Investment (UNPRI) to present at future Committee meeting;

4) recommend that ACCESS signs up to the UK Stewardship Code;

5) Delegate to the Chief Finance Officer in consultation with the Chair and investment advisers decisions relating to management of the investment of the pension fund and any other urgent decisions until the next meeting of the Committee;

6) request that the Chief Finance Officer provide regular updates to the Committee on matters relating to pension investments up to the next meeting of the Committee including briefings ahead of any decisions taken by the Chief Finance Officer relating to management of the investment of the pension fund; and

7) agree to establish a working group to advise the Committee on future strategic asset allocation, 3-5 year cash flow forecasting, and other strategic issues, comprising Cllrs Fox and Tutt, the Independent Advisor, Interim Head of Pensions, Chief Finance Officer and other relevant officers.

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

68.1 The Committee considered a report seeking its approval of the Triennial Valuation 2019, Funding Strategy Statement and Investment Strategy Statement.

68.2 The Committee discussion included the following key issues:

- The Fund had been valued at 108% funded at the time of the valuation in 31 March 2019. In reaching this conclusion the Actuary had conducted modelling that took into account sustained period of economic downturn.
- The Actuary did not propose changing the reduction in employer contributions for 2020/21 of 0.5% in light of the economic downturn. Regulations give the Fund the power to review the contribution rates after a year if there were significant changes to the Fund's valuation. The Pension Scheme Advisory Board is also expected to release guidance taking into account the impact of the Covid-19 outbreak.
- The Fund is expected to communicate to employers the situation regarding the financial downturn and their contribution rates.

- A collapse in dividend payments could have a significant impact on the Fund due to the reliance of dividends as a source of cash. Consideration would need to be given as to how to make up the difference in the short term, for example, the selling of index linked gilts.
- Consideration should be given as to whether it is appropriate for the Committee to take decisions on issuing an exit credit to an employer when it is above a certain value, given the potential impact on the Fund's financial sustainability.
- More work needs to be undertaken to understand the financial position of a number of smaller employers within the Fund to determine which are in deficit and which would be entitled to an exit credit if they chose to leave the Fund.
- The Committee agreed that it was not appropriate to offer ill health insurance to some employers and not others, particularly as a full procurement exercise to appoint an insurer would be necessary.

68.3 The Committee RESOLVED to:

1) request a future report on the impact on the Fund of a reduction in cash flow from dividends, including what other funds may be doing to raise cash;

2) approve the 2019 East Sussex Pension Fund Valuation report;

3) approve the revised Funding Strategy Statement, subject to the removal of the following paragraph under section 3.7

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

4) approve the revised Investment Strategy Statement; and

5) recommend that the East Sussex Pension Fund Governance review considers whether decisions relating to the paying of exit credits to employers should be a function of the Pension Committee or delegated to officers depending on the value of the credit.

69 PENSION ADMINISTRATION UPDATES

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

69.2 The Committee discussion included the following key issues:

- Orbis is in the process of readying the Pensions Administration Team (PAT) to be able to retain business continuity during the Covid-19 outbreak. The Council has the infrastructure in place to enable agile working for staff, but whether or not staff have this infrastructure, e.g., a laptop, depends on whether they are classified as agile or fixed desk workers. Some payroll software requires, for security reasons, that it be accessed from a fixed desk, therefore, emergency planning work with ICT is being undertaken to allow access to this software via Citrix at home – either via a Council laptop or a home device.
- The capacity of the PAT to respond to all queries in the time period set out in its Key Performance Indicators (KPIs) may be reduced during the next few months. The focus of

efforts, therefore, will be on those queries that require a more urgent response, such as death of a relative. The PAT is confident that responses to these queries can be maintained even if there is an increase in volume due to Covid-19.

69.3 The Committee RESOLVED to note the report.

70 2020/21 PENSION FUND BUSINESS PLAN AND BUDGET

70.1 The Committee considered a report seeking approval of the 2020/21 business plan and budget for the East Sussex Pension Fund.

70.2 The Committee discussion included the following key issues:

- The cost of the East Sussex Pension Fund Governance review is being negotiated with Aon
- The cost of the McCloud judgement has not yet been worked out but will likely have a considerable impact.
- The Fund is providing the PAT with 4 Full Time Equivalent (FTE) employees to help deliver the Data Improvement Programme.
- The PAT is looking to reduce the cost per customer by providing the same service and Key Performance Indicators (KPIs) across all six Local Government Pension Scheme (LGPS) it provides pension administration for.

70.3 The Committee RESOLVED to:

1) approve the business plan and budget for 2020/21; and

2) note that the budget may be subject to change in light of the impact of Covid-19, the McCloud Judgement, and the cost of commissioning and then implementing the recommendations of the East Sussex Pension Fund Governance review .

71 PENSION FUND RISK REGISTER

71.1 The Committee considered a report on the ESPF Risk Register.

71.2 The Committee discussion included the following key issues:

- Based on earlier discussions around the impact of Covid-19, the Committee recommended that it be added as a risk on the risk register.
- There are regular meetings of the Data Improvement Programme and it is recognised that there are a number of key milestones in March that are likely to determine the success of the programme.
- Following the failure of the Ruffer transition to a sub fund, ACCESS is project managing Link.
- The employers that have the highest rate of non-returns of the data needed to produce the Annual Benefit Statement (ABS) are the largest employers in the Fund, including Wealden District Council, Brighton & Hove City Council and East Sussex County Council.
- It would be more effective if the Fund internally manages employers who fail to comply with the data requirements, rather than report them to the Pensions Regulator. The

Pensions Regulator has already seen that the Fund has a plan to resolve the ABS breach and is unlikely to act on individual referrals of employers by the Fund. The Committee offered to assist in ensuring the compliance of employers.

71.3 The Committee RESOLVED to:

1) note the report;

2) request that a letter is sent on behalf of the Committee to the Chief Executives of the 10 employers of the East Sussex Pension Fund with the poorest pension data compliance records outlining their responsibilities and the potential measures that could be taken against them for continued non-compliance;

3) recommend that the risk of Covid-19 to the East Sussex Pension Fund, including the impact on cash flow and long term bond yields, is added to the Fund's risk register; and

4) recommend that the likelihood of Risk 17 – *ACCESS Pool Governance – Resourcing* be increased from 2 to 3.

72 EXTERNAL AUDIT PLAN FOR THE EAST SUSSEX PENSION FUND 2019/20

72.1 The Committee considered a report seeking approval of the draft Pension Fund External Audit Plan for 2019/20.

72.2 The Committee RESOLVED to approve the draft External Audit Plan for the East Sussex Pension Fund for 2019/20.

73 EXCLUSION OF THE PUBLIC AND PRESS

73.1 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).

74 INTERNAL AUDIT REPORTS

74.1 The Committee considered a report containing two Internal Audit reports of the ESPF.

74.2 The Committee RESOLVED to note the report.

75 PENSION FUND BREACHES LOG

75.1 The Committee considered an update on the Fund's Breaches Log.

75.2 The committee RESOLVED to agree actions which are set out in an exempt minute.

76 EMPLOYER ADMISSIONS AND CESSATIONS REPORT

76.1 The Committee considered a report on the admissions and cessation of employers to the ESPF

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

77 EMPLOYER CESSATION REPORT

77.1 The Committee considered a report seeking approval for the Post Cessation Funding Agreement of an ESPF employer.

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

78 GOOD GOVERNANCE REVIEW

The Committee considered an update on the East Sussex Pension Fund Governance review.

The Committee RESOLVED to note the report

The meeting ended at 1.30 pm.

Councillor Gerard Fox (Chair)

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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 8 June 2020.

++Please note that the meeting was held remotely++

Ray Martin (Chair); Councillor Carmen Appich, Councillor Chris Collier, Stephen Osborn, Diana Pogson, Niki Palermo and Lynda Walker

Cllr Gerard Fox, Chair of the Pension Committee
Cllr Nick Bennett, Lead Member for Resources
Kevin Foster, Chief Operating Officer
Ian Gutsell, Chief Finance Officer
Michelle King, Interim Head of Pensions
Russell Wood, Principal Pensions Officer
Nigel Chilcott, Audit Manager
Danny Simpson, Principal Auditor
Martin Jenks, Senior Democratic Services Adviser
Harvey Winder, Democratic Services Officer
Ian Colvin, Hymans Robertson
Robert McInroy, Hymans Robertson
Sue McKenzie, Hymans Robertson
Richard Warden, Fund Actuary
Daniel Kanaris, Public Sector Senior Consultant

1 MINUTES

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

2 APOLOGIES FOR ABSENCE

2.1 There were no apologies for absence.

3 DISCLOSURE OF INTERESTS

3.1 There were no declarations of interest

4 URGENT ITEMS

4.1 There were no urgent items.

5 PENSION BOARD - UPDATES

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

5.2. The Chair announced that he had completed training and an accreditation process that meant he was now an Accredited Professional Pension Trustee. Councillor Carmen Appich (CA) added that she had undertaken some training provided by the Scheme Advisory Board and had found it interesting.

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

6 PENSION COMMITTEE AGENDA

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

6.2. The Chair of the Pension Committee, Cllr Gerard Fox (GF) advised that the consultant appointed to conduct the review of the East Sussex Pension Fund's (ESPF or "the Fund") approach to Environmental, Social and Governance (ESG) matters was nearing competition. The review had included measuring the carbon footprint of the Fund and could potentially lead to the need to review the Fund's asset allocations, particularly its holdings in passive equities, where the majority of fossil fuel exposure is to be found. A report would be brought to the Pension Committee in September. GF stressed the need for any review to be thorough and any actions well evidenced.

6.3. CA asked whether East Sussex was the lead authority in the ACCESS Pool regarding ESG matters.

6.4. GF said that investments held in the ACCESS pool are allocated via Link to investment managers based on the request of two or more of the participating funds, so there is a need for Funds to collaboratively agree to invest with ESG-focused investment managers. East Sussex representatives are encouraging other pension funds to do so, as well as have ACCESS dedicate more resources to investigating the return of ESG-focused investments.

7 GOOD GOVERNANCE REVIEW

7.1. The Board considered a report providing an update on the Good Governance review of the ESPF.

7.2. The Chair reminded the Board that they had been through the documents in detail at an earlier briefing and were pleased with their content.

7.3. Diana Pogson (DP) requested that a briefing be provided on the documents planned for consideration at the September Board and Committee meetings, preferably in July. Kevin Foster (KF) agreed that it would be a good idea to do so.

7.4. The Chair asked how recruitment was progressing for the new Head of Pensions. Ian Gutsell (IG) explained that interviews were held on 3 June and an offer had been made (subsequent to the meeting IG confirmed that the individual had now accepted the offer). Work is ongoing to develop the new team structure and recruit to roles during the summer. Dave Kellond had been appointed to the Compliance and Local Improvement Partner role and will start on 3 August.

7.5. The Board RESOLVED to:

1) note the report

2) request a joint briefing with the Committee is arranged on the additional documents being produced for the governance review.

8 PENSION ADMINISTRATION UPDATES

8.1. The Board considered a report providing an update on matters relating to the Orbis Pension Administration Team (PAT), including an update on the implementation of agreed actions arising from the two internal audit reports

8.2. The Chair asked whether the PAT had noticed an increase in the number of deaths of pensioners in the ESPF scheme as a result of COVID-19.

8.3. Claire Chambers (CC) confirmed that the number of deaths of pensioners had tripled during one week around a month ago. The Government's new Tell Us Once death certification scheme meant, however, that the PAT was being informed rapidly of deaths and was able to take action, for example, award dependent benefits, without needing to wait for the death certificate.

8.4. Stephen Osborn (SO) asked when iConnect – the system used by employers to upload member details electronically to the PAT on a monthly basis – would begin to be available to all employers.

8.5. CC said that the first employer it would be available to would be East Sussex County Council and the aim was to finalise testing and training during June to go live in July. There was no date confirmed yet for other employers in the Fund. Nick Weaver (NW) added that iConnect roll out would focus on the employers with the highest volume of scheme members, as 15 employers represent 80% of scheme members. For small employers with only a few members, iConnect would not offer such a significant benefit. It will help identify issues with the data held by employers, however, PAT resources would be required to monitor the quality of data being provided to the Fund.

8.6. SO asked when ITM would identify the addresses of the remainder of the deferred records with no address or confirmation of correct address.

8.7. CC explained that the initial tracing exercise had focussed on members reaching retirement age or with frozen benefits. The next project being planned would be to expand the scope to focus on other deferred members. The Chair said that it is possible to send the National Insurance number of employees to the HM Revenue & Customs (HMRC) seeking the last known address of that person, however, this is a long and resource intensive process. He suggested that there is an obligation on ex-employees to contact the Fund when they change address and particularly to keep the Fund informed of their address as they approach retirement age.

8.8. CA noted that the completion dates of a number of outstanding management actions from the Internal Audit report had passed without the action being completed.

8.9. NW accepted this and said he would speak to the owners of the actions to find out what the current status was and suggest more realistic dates, following the impact of COVID-19 on the various workstreams.

8.10. The Chair asked for the comments of Internal Audit in relation to the implementation of agreed actions.

8.11. Nigel Chilcott (NC) explained that this is Pension Fund management's update to the Board explaining where they are with the implementation of the agreed actions arising from the audit reports, and that it is their responsibility to ensure these are implemented by the agreed due dates.

8.12. He explained that we will be completing formal follow-up reviews where Internal Audit seeks evidence that that the agreed actions have been implemented. The follow-ups were originally scheduled for June/July, once the originally agreed dates for implementation had passed, but the team was now reviewing when to do these in light of this report by management.

8.13. The Chair extended the thanks of the Board to the PAT for the work they had undertaken during the COVID-19 outbreak to maintain strong performance against Key

Performance Indicators (KPIs) and noted the strong positive feedback from scheme members on the self-service system.

8.14. The Board RESOLVED to note the report

9 DATA IMPROVEMENT PROGRAMME AND ANNUAL BENEFIT STATEMENT (ABS) WORKING GROUP UPDATE

9.1. The Board considered a progress report on the Data Improvement Project

9.2. The Chair asked whether the Pensions Regulator is enforcing the 31 August deadline for the Annual Benefit Statement (ABS) this year due to COVID-19.

9.3. Ian Colvin (IC) said that the Regulator has not set a new date for the ABS deadline but has taken a more relaxed view of statutory deadlines. Some pension funds, therefore, are likely to push back the date for issuing their ABS.

9.4. Lynda Walker (LW) asked how incorrect data held by an employer on a scheme member would be corrected, whether this would cause data protection issues, and whether the scheme member is informed.

9.5. Sue McKenzie (SM) said that data held by the Fund on a scheme member, where it was known to be correct compared to the data held by the employer, would be fed back to the employer using a secure portal or encrypted emails. The employee in question would not be informed. The Chair added that there was a presumption that the employer always held correct information and the PAT did not, however, the Data Improvement Programme has shown that this is not always the case.

9.6. The Board RESOLVED to note the report.

10 TRAINING STRATEGY

10.1. The Board considered a report outlining a draft training strategy for the Pension Board, Pension Committee and officers of the ESPF.

10.2. The Chair noted some comments that he and William Bourne, the Independent Adviser to the Committee, had made. These included that there should not be a separate role description for scheme member and employer representatives on the Board, as they did not perform a different role; that there were two Vice Chairs of the Board who alternated their role; and the decision making matrix should be simplified to four columns containing who is responsible for making a recommendation before decision is taken, who is responsible for approving a decision, who is consulted beforehand, and who is informed afterwards.(i.e a RACI model – Responsible, Approve, Consult, Inform)

10.3. DP said a separate table each for the Board and Committee would be helpful so members could focus on their specific training requirements.

10.4. LW added that it would be helpful to include how long it will take to complete each training course to help Board members decide whether they have the capacity to undertake it.

10.5. CA asked whether the training is paid by individual members of the ESPF.

10.6. Michelle King (MK) confirmed that all costs are covered by the ESPF.

10.7. The Board RESOLVED to:

1) Endorse the Training Strategy subject to the decision making matrix being simplified and separate training plans for the Board and Committee included; and

2) request that the revised decision-making matrix is circulated for information.

11 EAST SUSSEX PENSION FUND: 2020/21 BUDGET, BUSINESS PLAN & WORK PROGRAMME AND ANNUAL TRAINING PLAN

11.1. The Board considered a report on the ESPF Budget for 20/21 and on ill-health early retirement risk.

11.2. The Chair noted that the budget of 30k for training had not been spent for 19/20.

11.3. MK agreed that this would not happen again, as it was important the training budget was spent in full each year.

11.4. MK explained that Link is not providing details of management fees for the funds pooled under ACCESS, as they are now deducted at source and the individual LGPS provided with a statement of assets only. This means it is not possible to provide an accurate figure on the cost of Investment Managers to the Fund. She said this was not transparent, but the Scheme Advisory Board's Cost Transparency Code is expected to require them to provide this information. GF agreed with this assessment.

11.5. GF said that the Committee is likely to be recommended to agree additional resources for the pension team as a result of the governance review. This would be 'investing to save', as the current resource is insufficient to provide all services needed to run the Fund effectively, resulting in additional costs incurred hiring consultants. The Chair agreed that budget for the Fund management team of 0.01% of its total assets was exceptionally low. CA added that she would want there to be a competent and able team managing the Fund.

11.6. DP asked for the current Quarter 1 outturn figures for the Data Improvement Programme to see how the costs were progressing.

11.7. MK introduced the matter of the funding of ill-health retirement cases, and Robert McInroy (RM) from Hymans Robertson explained the financial issues employers faced, which would be particularly acute for a small employer, if one of their employees became eligible for an ill-health benefit.

11.8. The Chair asked whether the Committee would be recommended to make a decision in the future about whether ill-health retirement costs should continue to be paid directly by each employer or via a small portion of the contribution rate of all employers covering the cost – or whether external ill-health insurance should be sought.

11.9. MK said that a proposal would be presented to the Committee in the future, after the views of the Board had been sought.

11.10. LW said she would be concerned about leaving the decision whether to insure themselves for ill-health payouts up the individual employers, as this could lead to them not taking out insurance. This would leave the whole Fund at risk if the employer could not meet the costs of having to pay an employee for ill health early retirement out of current income.

11.11. The Board RESOLVED to:

1) note the report on the 2020/21 Budget, Business Plan, Work Programme and Annual Training Plan;

2) request the quarter 1 outturn figures for the Data Improvement Programme are provided; and

3) Support the review of the ill-health retirement funding by the Pensions Committee.

12 DRAFT EAST SUSSEX PENSION FUND INTERNAL AUDIT STRATEGY

12.1. The Board considered a report setting out the Internal Audit Strategy for the ESPF.

12.2. DP said that strategy looked good but was missing a plan for how it would be implemented.

12.3. NC explained that COVID-19 had somewhat disrupted Internal Audit's resources and timetable, but the team would produce a plan and send it to the Board.

12.4. The Chair asked for confirmation that Internal Audit would focus on major issues identified last year and whether Internal Audit actions were being embedded by management.

12.5. Danny Simpson (DS) confirmed that the first step of the plan would be to revisit the work of the previous audits to ensure actions had been satisfactorily resolved.

12.6. The Board RESOLVED to:

1) endorse East Sussex Local Government Pension Scheme Internal Audit Strategy and Plan 2020/21 subject to the inclusion of a plan to deliver the strategy during 20/21; and

2) request that the plan is circulated to the Board for information.

13 EXTERNAL AUDIT PLAN FOR THE EAST SUSSEX PENSION FUND 2019/20 AND PSAA FEE SCALES 2020/21

13.1. The Board considered a report on the External Audit Plan for the ESPF for 2019/20 and the Public Sector Audit Appointments (PSAA) Fee Scales 2020/21.

13.2. CA asked whether the ongoing negotiations with Grant Thornton, the External Auditor, were still ongoing due to COVID-19.

13.3. IG said that there had been a general increase in public sector audit fees, not just for pension funds, due in part to an increase in the requirements for audit work by the Financial Reporting Council. The process of negotiating the fee via the PSAA was ongoing and last year had resulted in a reduction of the additional fee sought by Grant Thornton from £5k to £3k.

The Board RESOLVED to note the report.

14 PENSION FUND RISK REGISTER

14.1. The Board considered the risk register of the ESPF.

14.2. The Chair observed that COVID-19 had resulted in the biggest change to a risk register he had ever seen.

14.3. CA recommended a report be provided in September on the risks to ESPF from the ACCESS pooled fund.

14.4. The Board RESOLVED to:

1) note the report; and

2) request a report in September on risks to the ESPF from the ACCESS pooled fund.

15 EXCLUSION OF THE PUBLIC AND PRESS

15.1 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).

16 COVID 19 POLICY ON DEFERRAL OF EMPLOYER CONTRIBUTIONS

16.1 The Board considered a report on the proposed policy in relation to the deferral of employer contributions due to COVID-19.

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

16.3 The Board RESOLVED to agree actions which are set out in an exempt minute.

17 PENSION FUND BREACHES LOG

17.1 The Board considered the Breaches Log of the ESPF.

17.2 The Board RESOLVED to agree actions which are set out in an exempt minute.

18 PENSION ADMINISTRATION - SYSTEMS PROCUREMENT

18.1 The Board considered an update on Pension Administration System Procurement

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

18.3 The Board RESOLVED to agree actions which are set out in an exempt minute.

19 EMPLOYER ADMISSIONS AND CESSATIONS REPORT

19.1 The Board considered a report on employer admissions and cessations to the Fund, including a draft Exit Credit Policy.

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

19.3 The Board RESOLVED to agree actions which are set out in an exempt minute.

20 DATA IMPROVEMENT PROGRAMME AND ANNUAL BENEFIT STATEMENT (ABS) WORKING GROUP UPDATE - ADDITIONAL INFORMATION (EXEMPT)

20.1 The Board considered additional exempt information regarding the Data Improvement Programme and ABS Working Group.

20.2 The Board RESOLVED to note the report.

The meeting ended at 1.15 pm.

Ray Martin (Chair)

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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:	**22 June 2020**
By:	**Chief Financial 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 Pension Committee are recommended to:

1) **note the Action Log and Investment Workplan (appendix 1)**
2) **note the Quarterly Investment Report from the Investment Advisor, Hymans Robertson (Appendix 2);**
3) **note the carbon footprint report by Vigeo Eiris (appendix 3)**

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 Funds' 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 facilitate the 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 Hymans Robertson has included actions agreed at the March 2020 Committee meeting. 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	Cautious	Neutral to Cautious
Sterling Investment Grade Credit	Cautious	Cautious

Liquid Sub-Investment Grade Credit	Cautious to Negative	Cautious to Negative
Private Lending	N/A*	Neutral to Cautious
UK Property	N/A*	Cautious
Long Lease Property	N/A*	Neutral to Cautious
Gilts	Neutral to Cautious	Cautious to Negative
Index-Linked Gilts	Neutral	Cautious to Negative

***** Hymans have suspended their ratings for property and private lending given the lack of transaction activity within these markets and hence lack of pricing information.

3. Quarterly Performance Report

3.1 The Quarterly Performance Report is attached as Appendix 2. Since the last quarter, the valuation of the Fund decreased from £3.909bn to £3.488bn (a decrease of £0.421bn) in the main due to the impact of the Coronavirus pandemic on equities and credit markets. The total return of the Fund was slightly ahead of the benchmark over the quarter to 31 March 2020, noting that the benchmark performance of each mandate reflects the updated benchmarks agreed at by the Pension Committee in September 2018.

3.2 The rapid spread of the coronavirus will inevitably have a material impact on the rate of global economic growth in 2020 and, possibly, beyond. It is important to note that, while growth is expected to take a severe hit in the near term, global growth and corporate profits will eventually enter a recovery. However, the timing and shape of any rebound is uncertain and depends on containment of the virus and the effectiveness of policy responses in preventing temporary disruption to businesses and consumers from causing permanent damage.

3.3 Substantial falls in equity and credit markets over the first quarter mean that valuations have become cheaper. However, given the extent and length of economic downturn are as yet unknown, the associated implications for corporate earnings and defaults remain very uncertain at this stage, and sentiment is likely to remain fragile, at least through the first half of 2020. Hence, we remain cautious.

3.4 While some opportunities have already started to emerge, and others will do so over coming months, the general view is to hold more cash than usual, with a view to reinvesting at more attractive pricing or with greater certainty at some point in future. Just as importantly, in a period when market activity could be depressed for some time, there is a need for caution in meeting liquidity requirements covering expected outgoings.

3.5 In the quarter ending 31 March 2020, (Q1, 2020) the top contributors to relative performance were M&G Corporate Bonds. Conversely, the main detractors to relative performance were Longview and Newton. The remaining UBS investments performed broadly in line with its respective benchmarks. Ruffer underperformed their cash plus benchmark as risk markets struggled over the quarter. However, Ruffer's -0.5% performance was impressive given the economic backdrop.

3.6 In relation to Growth, Income and Protection asset allocations, the Fund allocation to Income is underweight at the end of Q1, 2020. 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 however no action is proposed at the current time.

3.7 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.

3.8 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. Carbon Footprinting

4.1 The Fund appointed Vigeo Erirs to conduct a carbon footprint measurement on its liquid investments. The aim of these reports was to set a benchmark against which the Fund can monitor the progress of its investment decisions in relation to climate change. This also provides the committee with information to assist them in their duties in ensuring the Funds managers are representing their beliefs in the investments they make.

4.2 The report looks at the Carbon Footprint of the investments (based on scope 1 & 2 emissions), the score for the mandates range from Moderate, Significant, High and Intense based on the ranges in the table below. It also looks at the energy transition of the investments this determines how the companies are positioned to respond to a shift from a carbon based economic model to a green and sustainable one. The ranges are based on the ranges in the table below:

Carbon Footprinting

Scale	Emissions (t CO2 eq)	Categories
A	<100,000	Moderate
B	>=100,000 & <1,000,000	Significant
C	>=1,000,000 & <10,000,000	High
D	>=10,000,000	Intense

Scale	Energy Transition Score	Categories
+ +	60-100	Advanced
+	50-59	Robust
-	30-49	Limited
- -	0-29	Weak

4.3 This gives and overall portfolio score from A++ to D--. For Carbon footprint we have 3 D rated portfolios 2 of which are passive UBS fundamental indexation and UBS UK Equity and 1 Active Manager Ruffer. We have 1 B rated portfolio which is our active Longview mandate the remainder are rated C. On the Energy transition rating we have 2 portfolios graded as + 1 passive UBS Europe Ex UK and 1 Active M&G Corporate Bonds the rest all rated -.

4.4 Table below shows a summary of the headline scores and ratings for each mandate:

Manager	Mandate	Portfolio	Carbon Intensity	Energy Transition	Energy Transition

		Rating (A to D, "++" to "- -")	Rating (Mod; Sign; High; Int)	Rating (Weak; Ltd; Robust;Adv)	Score (/100)
UBS	Climate Aware	C -	High	Limited	40
UBS	Fundamental Indexation	D -	Intense	Limited	40
UBS	UK	D -	Intense	Limited	45
UBS	Europe Ex-UK	C +	High	Robust	52
UBS	North America	C -	High	Limited	36
UBS	Rest of World	C -	High	Limited	30
M&G	Absolute Return Bonds	C -	High	Limited	42
M&G	Corporate Bonds	C +	High	Robust	51
Newton	Absolute Return	C -	High	Limited	44
Ruffer	Absolute Return	D -	Intense	Limited	42
Longview	Global Equity	B -	Significant	Limited	33

4.5 The individual reports for each of these managers has been included as appendix 4. To assist with the understanding of these an analysis guide has been included in appendix 3.

5. Investment Working Group, Lothian Pension Fund and the Statement of Responsible Investment

5.1 In furtherance of the Fund's integration of responsible investment within the investment process, the Investment Working Group have been working closely with ACCESS and the Lothian Pension Fund in collaborating and sharing best practice on approaches to responsible investment. In those discussions, the Fund has gained an understanding of the need to set in place a framework to underpin a systematic and holistic approach to responsible investment codified in a Statement of Responsible Investment Principles, which would complement the Investment Strategy Statement.

5.2 The draft statement of responsible investment aims to provide a more robust framework essentially reworking of the current Statement of Investment Beliefs to assist our stakeholders in understanding the approach to responsible investment and in delivering key messages to the Press which confirm the direction of travel with our service providers, which include Asset Managers. Following the independent review of the Fund's ESG approach by PIRC, their report is later in this agenda, it is clear that the Fund is failing to effectively engage with its diverse range of stakeholders which includes 77,000 members and 134 employers on how their pension fund is being managed in respect to responsible investment and ESG.

5.3 Addressing concerns on ethical and responsible investment through proactive engagement is necessary to clarify strategies and address misinformation. The Fund is therefore collaborating with the Lothian Pension Fund which has provided both advice and support to the ESPF and shared the Lothian Pension Fund Statement of Responsible Investment Principles for guidance in developing a similar statement which reflects the needs of East Sussex Pension Fund.

6. Conclusion and reasons for recommendation

6.1 Investments are regularly monitored to ensure that the Fund's strategic asset allocation set out in the Fund's Investment Strategy Statement (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.

6.2 The Committee is recommended to:

1) note the Action Log and Investment Workplan (appendix 1)
2) note the Quarterly Investment Report from the Investment Advisor, Hymans Robertson (Appendix 2);
3) note the carbon footprint report by Vigeo Eiris (appendix 3)

IAN GUTSELL
Chief Finance Officer

Contact Officer: Michelle King, Interim Head of Pensions
Tel. No. 01273 482017
Email: Michelle.King@eastsussex.gov.uk

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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 June Committee meeting.

Prepared by:-

Paul Potter, Partner
Ben Fox, Investment Consultant

May 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
Establish a Working Party tasked with discussing strategic aspects of the Fund and identify two dates for the Working Party to meet	Pension Committee		First Working Party call took place in April
Conduct cashflow modelling to understand the Fund's income requirements	Officers		Prepared and discussed with the Working Party
Prepare recommendation for strategic asset allocation, target cash balance and income generation	Hymans Robertson		Included in meeting pack – agenda item X
Prepare recommendation for the structure of the equity allocation, including consideration of active and passive split	Hymans Robertson		Included in meeting pack – agenda item X
Test the current arrangements for implementing agreed strategic changes for the Fund and also test the arrangements with ACCESS when up and running	Officers		Recommendation made in the Governance Review paper prepared by the Independent Adviser
Review the quarterly report provided by Hymans and consider any potential changes	Pension Committee / Officers / Hymans		Recommendation made in the Governance Review paper prepared by the Independent Adviser
Review the manager performance benchmarks and targets paper produced by Hymans in 2018	Pension Committee		Recommendation made in the Governance Review paper prepared by the Independent Adviser
Engage with ACCESS partners to agree measures to mitigate concerns over pool governance	Officers		Recommendation made in the Governance Review paper prepared

			by the Independent Adviser
Develop an investment risk register to link in to the main risk register	Officers		Recommendation made in the Governance Review paper prepared by the Independent Adviser

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	• The Fund's 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	• No action proposed at this time due to imminent strategy review and liquidity constraints. • Drawdowns into infrastructure and real-estate debt will increase	n/a	n/a

	• M&G Alpha Opps holding in breach of lower limit	income allocation		
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
Corporate Bond exposure	• Uncertain outlook for credit investment in current environment	• Review current investments in conjunction with M&G	• Hymans Robertson in conjunction with Working Party	Q3 2020
Private equity programme	• Periodic review of private equity strategy is recommended	• Carry out detailed review of objectives against current programme	• Hymans Robertson	Q3 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	• Officers to consider requirements	Q3 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	• Officers to arrange PRI representative to Committee	Q4 2020
Transition Pathway Analysis	• Understand the Fund's equity resilience to a transition to a low	• Conduct the transition pathway analysis on the Fund's active	• Hymans Robertson / Officers to consider once new	Second half 2020

	carbon economy	equity holdings with Longview	mandates in place	

2 Market Outlook

Core Asset Class Views: Summary

The rapid spread of the coronavirus will inevitably have a material impact on the rate of global economic growth in 2020 and, possibly, beyond. It is important to note that, while growth is expected to take a severe hit in the near term, global growth and corporate profits will eventually enter a recovery. However, the timing and shape of any rebound is uncertain and depends on containment of the virus and the effectiveness of policy responses in preventing temporary disruption to businesses and consumers from causing permanent damage.

Substantial falls in equity and credit markets over the first quarter mean that valuations have become cheaper. However, given the extent and length of economic downturn are as yet unknown, the associated implications for corporate earnings and defaults remain very uncertain at this stage, and sentiment is likely to remain fragile, at least through the first half of 2020. Hence, we remain cautious.

While we note some opportunities have already started to emerge, and others will do so over coming months, our general view is to hold more cash than usual, with a view to reinvesting at more attractive pricing or with greater certainty at some point in future. Just as importantly, in a period when market activity could be depressed for some time, there is a need for caution in meeting liquidity requirements covering expected outgo.

We have suspended our ratings for property and private lending given the lack of transaction activity within these markets and hence lack of pricing information.

Asset Class	Current Quarter View	Previous Quarter View
Equities	Cautious	Neutral to Cautious
Sterling Investment Grade Credit	Cautious	Cautious
Liquid Sub-Investment Grade Credit	Cautious to Negative	Cautious to Negative
Private Lending	N/A	Neutral to Cautious
UK Property	N/A	Cautious
Long Lease Property	N/A	Neutral to Cautious
Gilts	Neutral to Cautious	Cautious to Negative
Index-Linked Gilts	Neutral	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	• Global valuations are in more attractive territory following the dramatic fall in equity markets. • However, we would treat the current valuations with caution given the inability to determine whether they are sufficiently low to compensate for the significant fundamental risks that now face equity markets • Central bank policy should help to alleviate some of the economic and financial market concerns.
Sterling Investment Grade Credit	• Global investment grade credit spreads have moved substantially above long-term median levels, although spreads have narrowed to some extent post quarter end. • Global credit spreads look more compelling than the UK, largely due US credit market underperformance. • The unattractive technical backdrop and high levels of investor uncertainty have been offset to some extent by huge monetary stimulus from central banks.
Liquid Sub-Investment Grade Credit	• Valuations have moved significantly cheaper following a significant rise in spreads. • Spreads now reflect significant default and downgrade risk, but as the fundamental picture evolves, yield spreads could need to move wider. • There may be opportunities to gradually add risk in cheapening markets, but we remain cautious.
Private Lending	• The disruption to business activity poses cashflow and liquidity risk to all businesses, particularly for speculative-grade medium-sized companies with limited alternative sources of finance. • We have suspended our rating on private corporate debt given a lack of transaction activity, and hence pricing information, at this time.
UK Property	• The current economic disruption is not yet reflected in property market data, but many rents are being deferred and, in some cases, waived. It would not be unreasonable to expect rental growth, which had already turned negative prior to the outbreak, to fall further. • We have suspended our rating in property markets due to a lack of pricing as funds have gated.
Long Lease Property	• Similar to core property, we have suspended our long lease property ratings. Given strength of tenants and contracts we would expect the typical sector mix of long lease portfolio to fare better than the core property market, but may still will be pockets of potential stress.
Infrastructure	• We have seen some significant write-downs of some GDP-sensitive assets, but there is limited strong evidence of how it has affected broad valuations. • Dry powder remains at an all time high and indications.
Gilts	• As major central banks expand QE programs to provide liquidity to the global

	financial system, it is likely yields remain subdued for some time, potentially pushing the normalisation of interest rates beyond the horizon of our medium-term views. • Forecasts for (lower) UK growth and inflation in 2020 improve the near-term technical support for gilt markets.
Index-Linked Gilts	• While there are undoubtedly disinflationary pressures in the near-term, longer dated implied inflation has cheapened. • The RPI/CPI consultation is also affecting index-linked gilt pricing as investors recalibrate their measure of RPI towards CPI .
Cash Strategies	• While interest rates may be as close to zero as they can get, when focused on risk adjusted returns, this feels like a sensible time to hold more cash than usual, and to try and exploit better buying opportunities in the future once we have more clarity on the fundamental picture.

East Sussex Pension Fund

Q1 2020 Investment Monitoring Report

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

Appendix 2

Hymans Robertson LLP is authorised and regulated by the Financial Conduct Authority

HYMANS ROBERTSON

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

	"RAG Status"	Comment	Action	Responsibility / Timescale
Strategic Allocation		Under review	Recommendation for Fund's strategic asset allocation to be discussed at the June Committee meeting	Hymans to present paper at June Committee meeting
Fund Performance		Fund return ahead of benchmark over all time periods shown	No action proposed	-
Manager Performance		Passive manager performance in line with benchmark Following the significant fall in markets over the quarter, several managers are now behind benchmark over longer time periods	No action proposed	-
Manager Changes		No significant changes over quarter	No action proposed	-
Asset Allocation		Protection allocation in breach of upper limit Alternatives allocation in breach of lower limit Absolute return and M&G absolute return credit allocations in breach of limits	No rebalancing recommended at this stage. Drawdowns into infrastructure and real-estate debt will increase alternatives allocation	Officers to respond to capital calls when made over coming years. DGFs expected to fund the capital calls

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

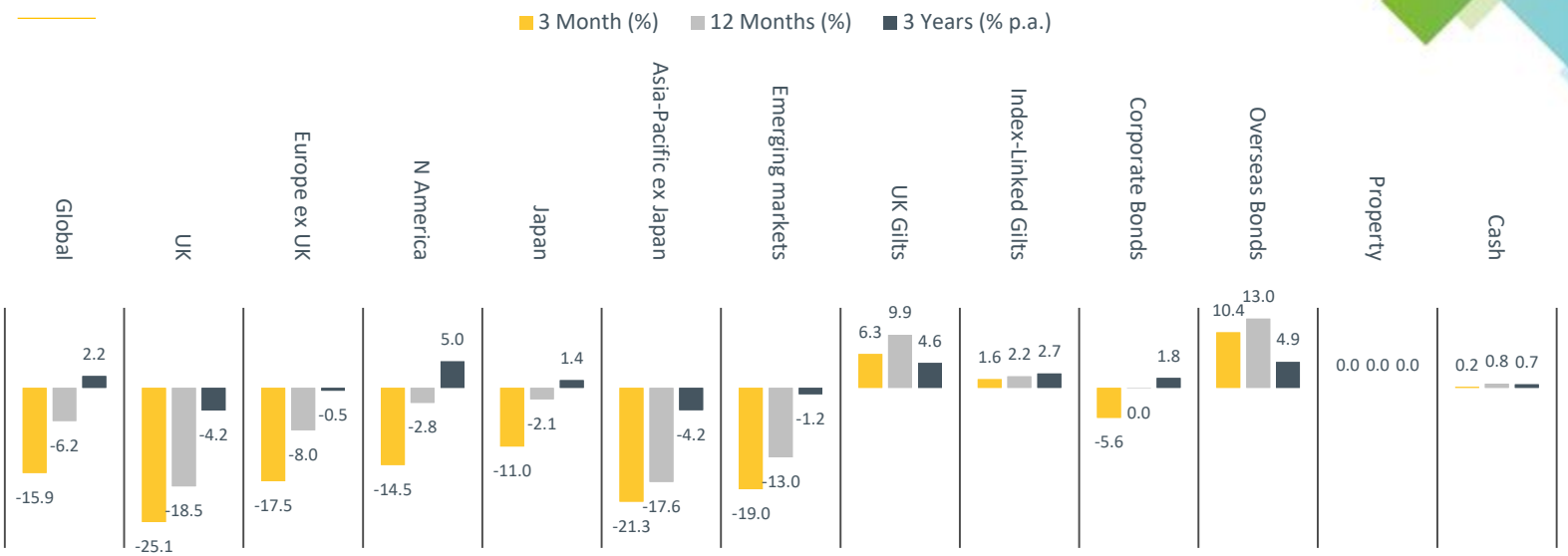
Market Background

Q4 GDP numbers were broadly in-line with recent trends - a modest slowdown year-on-year. The global spread of Coronavirus, and the impact on supply and demand from necessary containment measures, will inevitably impact the rate of global economic growth in 2020 and possibly beyond.

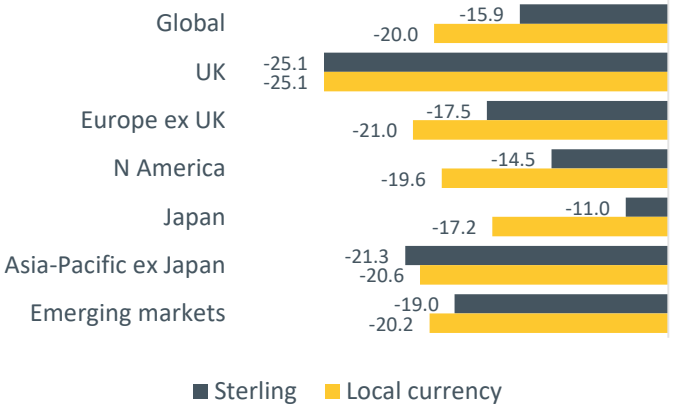
Falling domestic demand globally and steep oil price declines are disinflationary. The slump in global demand for oil has been compounded by a price war between OPEC (led by Saudi Arabia) and Russia, Brent crude falling to its lowest level since 2002. Inflation, which was already below target in the major advanced economies, is forecast to slow in 2020, with some Eurozone countries and Japan expected to enter deflation.

The US Federal Reserve (Fed) and the Bank of England (BoE) have cut rates to record lows and the Bank of Japan and the European Central Bank have joined the Fed and BoE in restarting and expanding their quantitative easing programs. The Fed's now unlimited purchase program will, for the first time, include corporate debt.

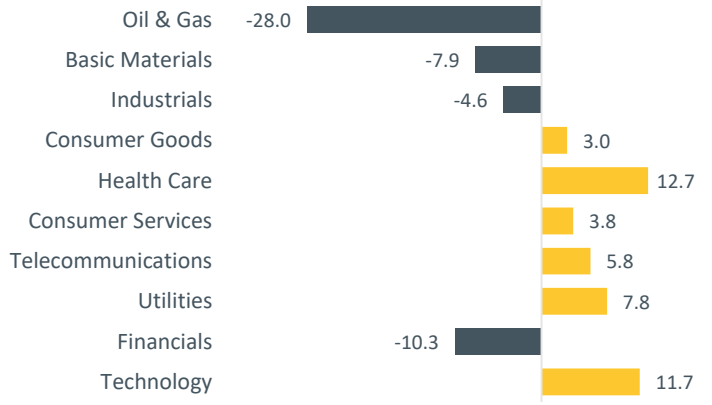
Historic returns for world markets [1]



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, FTSE Emerging, 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 Indices.

Total Fund Performance

- The Fund returned -10.2% over the quarter, which was driven mostly by the equity allocation
- Other return seeking assets also sold off, although their impact was less pronounced

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.50% drawn.

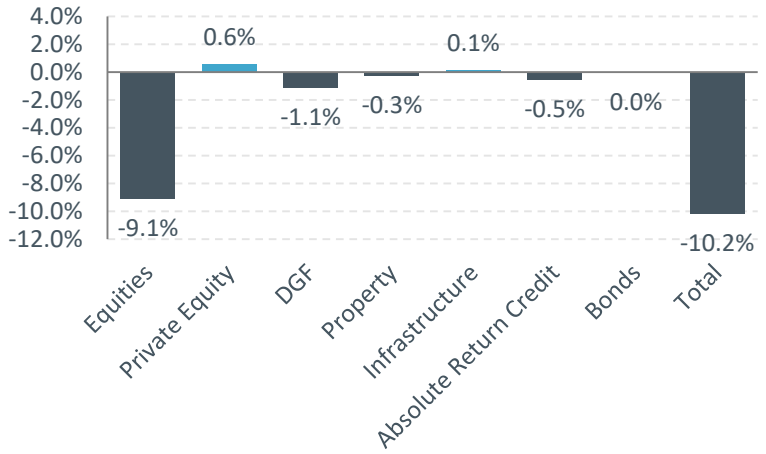
Asset Allocation

- Allocation to alternatives underweight. Further drawdowns into infrastructure and real estate debt will address this over time.
- Protection overweight, following the market crash
- Absolute return allocation overweight and M&G absolute return credit underweight at underlying fund level.

Fund performance vs benchmark/target

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Last 5 years (% p.a.)
Total	-10.2	-3.9	1.9	5.4
Benchmark	-11.2	-5.0	1.2	4.2
Relative	1.2	1.1	0.6	1.1

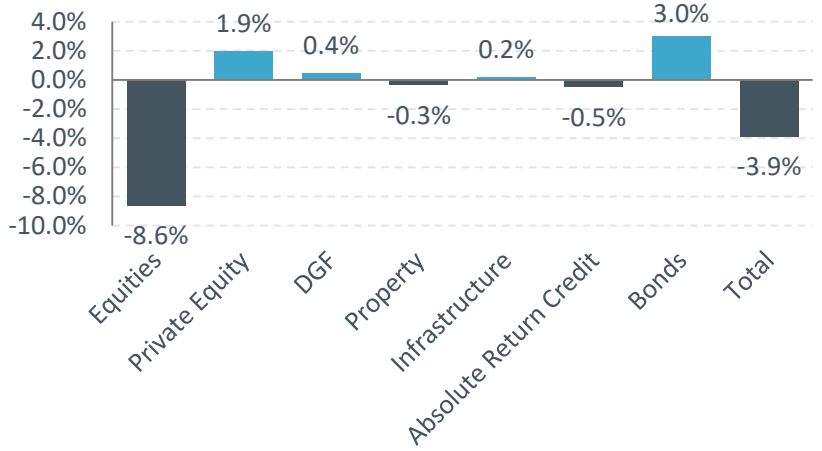
3 Month Performance Attribution*



Asset Allocation

	Actual	Benchmark	Relative	Rebalancing Range
Equity	45.2%	45.5%	-0.3%	39.5% - 51.5%
Alternatives	31.9%	35.5%	-3.6%	37.0% - 55.0%
Protection	22.2%	19.0%	3.2%	16.0% – 22.0%

12 Month Performance Attribution*



*Note: Private equity performance is derived from valuations that are either 3 or 6 months lagged

Asset Allocation

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 c12-18 months
- Fund has committed c£235m to infrastructure, which is expected to draw down over the next 3-4 years.

Allocation comment

- Absolute return mandates in breach of upper limit, but expected to fund draw downs into infrastructure and private debt of time
- M&G Absolute Return Credit in breach of lower limit.
- UBS IL Gilts in breach of upper limit

Access Pool	Manager	Valuation (£m) Q4 2019	Valuation (£m) Q1 2020	Actual Proportion	Benchmark	Relative	Rebalancing Ratings
No*	UBS - Regional Equities	370.9	312.4	9.0%	8.0%	1.0%	36.0% - 44.0%
No*	UBS - Fundamental Index	470.7	363.2	10.4%	11.5%	-1.1%	
No*	UBS - UK Equity	295.5	220.9	6.3%	7.0%	-0.7%	
No*	UBS - Climate Aware	190.8	160.0	4.6%	5.0%	-0.4%	
No*	UBS - Global EM Equity	44.6	36.2	1.0%	1.5%	-0.5%	
Yes	Longview - Global Equity	307.8	238.8	6.8%	7.0%	-0.2%	
No	Harbourvest - Private Equity	102.3	109.5	3.1%	2.8%	0.4%	3.5% - 7.5%
No	Adams Street - Private Equity	115.9	135.6	3.9%	2.8%	1.1%	
	Total Equity	**1898.5**	**1576.7**	**45.2%**	**45.5%**	**-0.3%**	**60.0% - 73.0%**
No	Newton - Absolute Return	455.3	414.8	11.9%	10.5%	1.4%	9.5% - 11.5%
No	Schroders - Property	364.2	351.8	10.1%	10.0%	0.1%	8.0% - 12.0%
No	UBS - Infrastructure	14.7	16.7	0.5%	1.0%	-0.5%	2.0% - 6.0%
No	Pantheon - Infrastructure	26.3	30.1	0.9%	2.0%	-1.1%	
No	M&G - Infrastructure	18.4	20.7	0.6%	1.0%	-0.4%	
No	M&G - Private Debt	31.3	38.8	1.1%	3.0%	-1.9%	1.0% - 5.0%
No	M&G - UK Financing Fund	0.7	0.0	0.0%	0.0%	0.0%	
No	M&G - Alpha Opportunities	262.7	239.1	6.9%	8.0%	-1.1%	7.0% - 9.0%
	Total Alternatives	**1173.8**	**1112.0**	**31.9%**	**35.5%**	**-3.6%**	**22.0% - 28.0%**
Yes**	Ruffer - Absolute Return	445.4	418.5	12.0%	10.5%	1.5%	9.5% - 11.5%
No	M&G - Corporate Bonds	148.9	144.3	4.1%	3.5%	0.6%	2.5% - 4.5%
No*	UBS - Over 5 Year IL Gilt Fund	208.3	212.3	6.1%	5.0%	1.1%	4.0% - 6.0%
	Total Protection	**802.7**	**775.1**	**22.2%**	**19.0%**	**3.2%**	**7.5% - 9.5%**
No	Cash	33.9	23.9	0.7%	0.0%	0.7%	0.0% - 2.0%
	Total Scheme	**3908.9**	**3487.6**	**100.0%**	**100.0%**		

The UBS funds are provided to members of the ACCESS Pool but the funds themselves sit outside of the pool.
Source: Investment Managers and LINK
***Valuations shown are either 3m or 6m lagged and adjusted for distributions / drawdowns and currency movements*

- UBS performed broadly in line with their respective benchmarks, although the Climate Aware fund was slightly outside the stated 0.5% tracking error target (of the FTSE Developed Index). Longer-term performance is broadly in line
- Longview underperformed its MSCI World benchmark, primarily due to an overweight position to financials and stock selection within consumer staples.
- Newton and Ruffer underperformed their cash-plus benchmark as risk markets struggled over the quarter. However, Ruffer's -0.5% performance was impressive given the economic backdrop.

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
Equity												
UBS - Regional Equities	-15.7	-15.8	**0.1**	-5.6	-5.7	**0.2**				-2.5	-2.5	**0.1**
UBS - Fundamental Index	-22.8	-23.0	**0.3**	-15.4	-15.6	**0.2**				-5.5	-5.5	**0.1**
UBS - UK Equity	-25.2	-25.1	**-0.1**	-18.5	-18.3	**-0.2**				-9.3	-9.2	**-0.1**
UBS - Climate Aware	-16.1	-15.6	**-0.6**	-5.7	-5.5	**-0.2**				-1.6	-1.4	**-0.2**
UBS - Global EM Equity	-18.9	-19.0	**0.1**	-13.5	-13.2	**-0.4**				-7.4	-7.2	**-0.2**
Longview - Global Equity	-22.4	-15.7	**-8.0**	-13.1	-5.5	**-8.0**	0.7	1.9	**-1.1**	10.7	8.3	**2.3**
Alternatives												
Newton - Absolute Return	-9.0	0.8	**-9.8**	-2.1	3.2	**-5.2**	0.9	3.1	**-2.1**	3.2	3.0	**0.1**
Schroders - Property	-2.7	-1.3	**-1.4**	-1.7	0.0	**-1.7**	4.5	4.9	**-0.4**	7.3	7.1	**0.2**
M&G - Absolute Return Credit	-7.7	0.9	**-8.5**	-3.6	3.7	**-7.0**	0.3	3.6	**-3.2**	3.2	3.5	**-0.3**
Protection												
Ruffer - Absolute Return	-0.5	0.8	**-1.3**	4.2	3.2	**1.0**	0.8	3.1	**-2.2**	3.4	3.0	**0.3**
M&G - Corporate Bonds	-3.1	-4.3	**1.2**	4.3	2.3	**2.0**	3.6	2.7	**0.9**	7.2	7.2	**0.0**
UBS - Over 5 Year IL Gilt Fund	2.0	1.9	**0.1**	23.7	23.6	**0.1**				15.3	15.3	**0.0**
Total	-10.2	-11.2	**1.2**	-3.9	-5.0	**1.1**	1.9	1.2	**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. For those managers now in ACCESS, longer-term performance has been estimated by chain linking returns before and after the transfer into the Pool. Returns since the transfer have been taken from Link.

Total Fund performance includes the contribution from the Fund's illiquid private mandates, which are derived from lagged valuations, whereas their benchmark is based on up-to-date indices. In the case of private equity in particular, this can cause meaningful short-term tracking error, as performance derived from lagged private equity values is compared to equity indices over the recent quarter.

Manager Ratings

- This page includes manager/RI ratings and any relevant updates over the period.
- There were no manager rating changes over the quarter.
- We hope to be able to roll out manager RI ratings across other asset classes later this year.

Manager ratings

Mandate	Hymans Rating	RI
UBS - Passive Equities	Preferred	Good
Longview - Global Equity	Preferred	Adequate
Harbourvest - Private Equity	Preferred	-
Adams Street - Private Equity	Preferred	-
Newton - Absolute Return	Suitable	Good*
Ruffer - Absolute Return	Positive	-
Schroders - Property	Positive	-
UBS - Infrastructure	Suitable	-
Pantheon - Infrastructure	Preferred	-
M&G - Infrastructure	Positive	-
M&G - Private Debt	Preferred	-
M&G - Absolute Return Credit	Preferred	-
M&G - Corporate Bonds	Preferred	-
UBS - Over 5 Year IL Gilt Fund	Preferred	-

*Based on our rating of Newton's equity funds

M&G business update

M&G announced a change to the structure of their investment teams, bringing together their capabilities across all asset classes onto a single platform. All public debt strategies (retail and institutional) will now be under the leadership of Jim Leaviss.

A new private and alternative assets department has been created, bringing together all M&G's existing private and alternatives teams onto one platform under the leadership of Will Nicoll.

Pantheon infrastructure update

Pantheon has informed us that the responsibilities of its Co-Head of Infrastructure and Real Assets, Kathryn Leaf, are changing. Owing to personal reasons, Leaf will no longer have a leadership role within the infrastructure and real assets team and will no longer have any investor relations responsibilities. Leaf will be focused solely on investing. Andrea Echberg will now take sole charge of the team having co-managed the team with Leaf. These changes will take effect from 1 July 2020.

We are comfortable with this change and while significant, we do not believe it indicates that Leaf is likely to depart from the firm in the coming months. We do not believe it will have a materially negative impact on Pantheon's capabilities but will continue to monitor the team closely.

Source: Investment Managers

UBS Equities

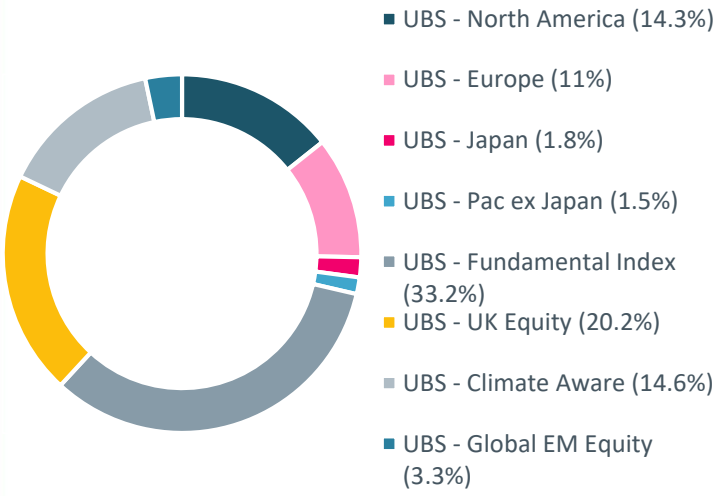
- Benchmark: Various regional indices
- Target: Match benchmark over all time periods
- UBS have successfully tracked underlying benchmarks to date
- UBS Climate Aware Fund totalled £2.1bn at the end of March. The Committee has previously agreed to commit a further 5% of Fund assets (c£175m) to the Climate Aware Fund at a future date. We note that a recommendation on the Fund's equity allocation is covered in a separate paper.

Fund performance vs benchmark

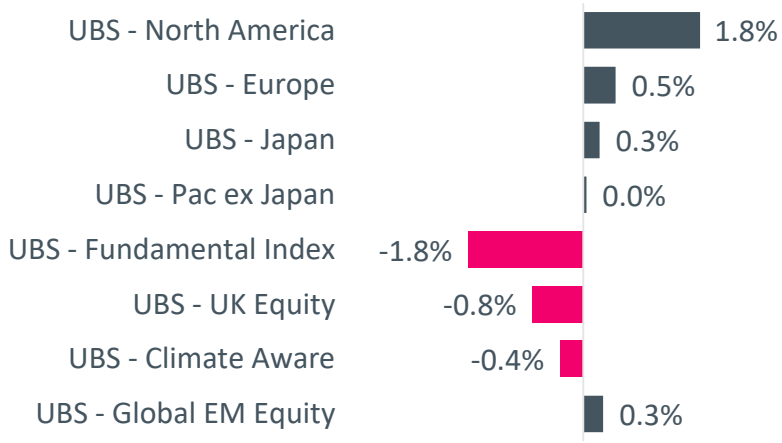
UBS Performance Table

	Last 3 months (%)	B'mark	Relative	Last 12 months (%)	B'mark	Relative
UBS - North America	-14.4	-14.5	**0.1**	-2.8	-2.9	**0.1**
UBS - Europe	-17.3	-17.3	**0.0**	-7.8	-8.0	**0.2**
UBS - Japan	-10.9	-11.0	**0.1**	-2.1	-2.2	**0.1**
UBS - Pac ex Japan	-21.2	-21.3	**0.1**	-17.6	-17.7	**0.1**
UBS - Fundamental Index	-22.8	-23.0	**0.3**	-15.4	-15.6	**0.2**
UBS - UK Equity	-25.2	-25.1	**-0.1**	-18.5	-18.3	**-0.2**
UBS - Climate Aware	-16.1	-15.6	**-0.6**	-5.7	-5.5	**-0.2**
UBS - Global EM Equity	-18.9	-19.0	**0.1**	-13.5	-13.2	**-0.4**

Fund Allocation



Fund Allocation Relative to Target



Source: Investment Manager

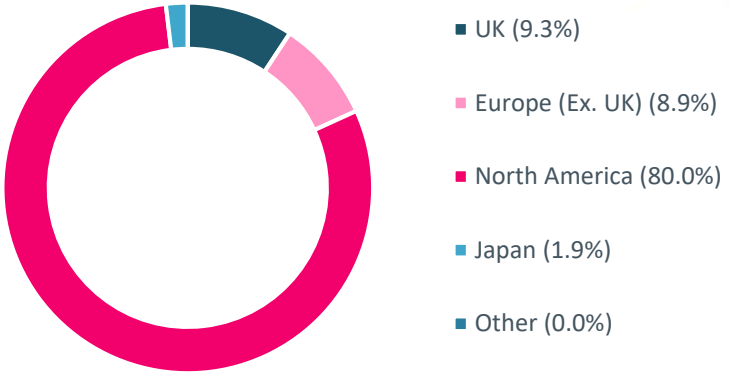
Longview Global Equities

- Benchmark: MSCI ACWI
- Target: Outperform benchmark by 3% (gross) p.a. over rolling 3 year periods
- Performance behind benchmark over recent time periods, but ahead over five years.
- 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.

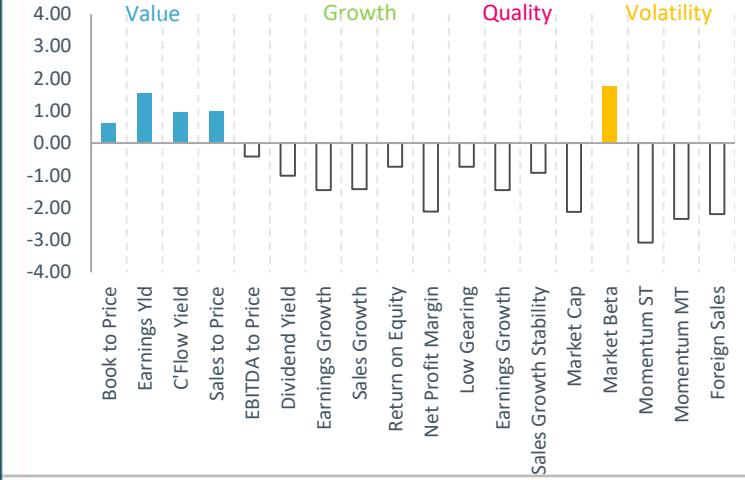
Fund performance vs benchmark

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Last 5 years (% p.a.)
Fund	-22.2	-12.4	1.4	7.1
Benchmark	-15.7	-5.5	1.9	6.7
Relative	-7.8	-7.4	-0.5	0.4
Target (%)	-14.9	-2.5	4.9	9.7
Relative to Target (%)	-8.6	-10.2	-3.4	-2.4

Country Allocation



Pooled Fund Skyline (as at 31 March 2020)



Performance attribution – Top/Bottom 3 Sectors

	Beginning Weight			Outperformance Source		
	Fund (%)	Index (%)	Difference (%)	Selection (%)	Allocation (%)	Total (%)
Energy	0.0	4.9	-4.9	0.0	1.5	1.5
Cash	3.9	0.0	3.9	0.0	0.9	0.9
Materials	0.0	4.4	-4.4	0.0	0.3	0.3
Industrials	13.4	11.0	2.4	-1.4	-0.2	-1.6
Financials	26.9	15.7	11.2	-0.5	-1.8	-2.2
Consumer Staples	9.8	8.3	1.5	-3.1	0.0	-3.1

Source: Investment Manager

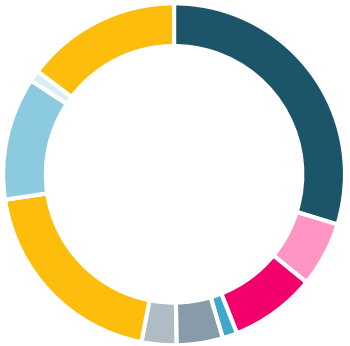
Newton Real Return Fund

- Benchmark: 3m LIBOR + 2.5% p.a.
- Target: 3-month LIBOR + 4% p.a. (gross) over rolling 5 years
- Performance behind benchmark over all time periods considered
- Performance shown gross of fees
- This Fund transferred into the ACCESS Pool during Q1 2020

Fund performance vs benchmark

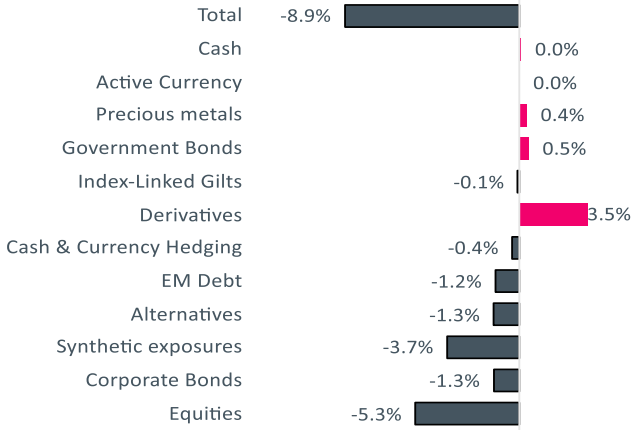
	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Last 5 years (% p.a.)
Fund	-8.9	-1.5	1.5	1.8
Benchmark	0.8	3.2	3.1	3.0
Relative	-9.6	-4.6	-1.5	-1.2
Target (%)	1.2	4.7	4.6	4.5
Relative to Target (%)	-9.9	-5.9	-2.9	-2.6

Asset Allocation



- Equities (30.5%)
- Government Bonds (6.3%)
- Corporate Bonds (8.3%)
- Derivatives and other (1.4%)
- EM Debt (4.5%)
- Index linked bonds (3.4%)
- Cash (20.0%)
- Commodities (0.0%)
- Alternatives (11.9%)
- Synthetic Exposures (-1.1%)
- Precious Metals (15.1%)

Performance Attribution



Performance attribution Explanation

Although the key detractor from returns over the quarter was the fund's equity exposure, stock selection within equities helped relative to the wider market. Several credit positions also detracted.

Derivative contracts designed to hedge against falls in equity and credit markets were the largest driver of returns. Exposure to government bonds and gold also helped, as investors moved to low risk assets.

Source: Investment Manager

Ruffer Absolute Return Fund

- Benchmark: 3-month LIBOR + 2.5%
- Target: 3-month LIBOR + 4% p.a. (gross) over rolling 5 years
- Performance behind benchmark for all time periods considered other than 12 months
- Performance shown gross of fees
- This Fund transferred into the ACCESS Pool on 4 December 2019.

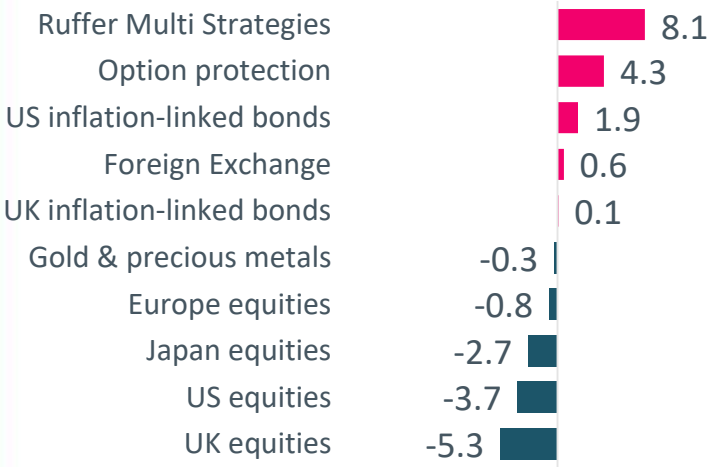
Fund performance vs benchmark

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Last 5 years (% p.a.)
Fund	-0.3	5.0	1.6	2.0
Benchmark	0.8	3.2	3.1	3.0
Relative	-1.1	1.7	-1.4	-1.0
Target (%)	1.2	4.7	4.6	4.5
Relative to Target (%)	-1.5	0.3	-2.8	-2.5

Asset Allocation

- Equities (25.0%)
- Gold and Precious Metals (9.0%)
- Overseas Index Linked (17.0%)
- Long-dated Index-Linked (9.0%)
- Protection Strategies (13.0%)
- UK Index Linked (3.0%)
- Short-dated Bonds (13.0%)
- Cash (£) (11.0%)

Top 5/Bottom 5 Contributors



Performance attribution Explanation

During a quarter where risk markets fell sharply, Ruffer protected capital extremely well.

The primary contributors to performance were the fund's derivative contracts which are linked to volatility in equity markets, some rising in value by more than 100%, and the fund's multi strategy credit protection funds. The multi strategy funds hedge against turmoil in credit markets and therefore rose steeply in value over the quarter as credit markets fell.

The largest detractor from performance was the fund's equity holdings. These fell on average by around 25% as equity markets globally struggled in the wake of Covid-19.

Source: Investment Manager

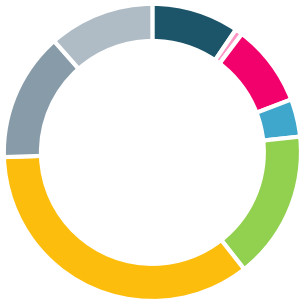
Schroders Property Fund

- Benchmark: IPD All Balanced Funds
- Target: Outperform benchmark by 0.75% p.a. (net) over rolling 3 years
- Performance behind benchmark over all time periods considered
- Performance shown net of fees

Fund performance vs benchmark/target

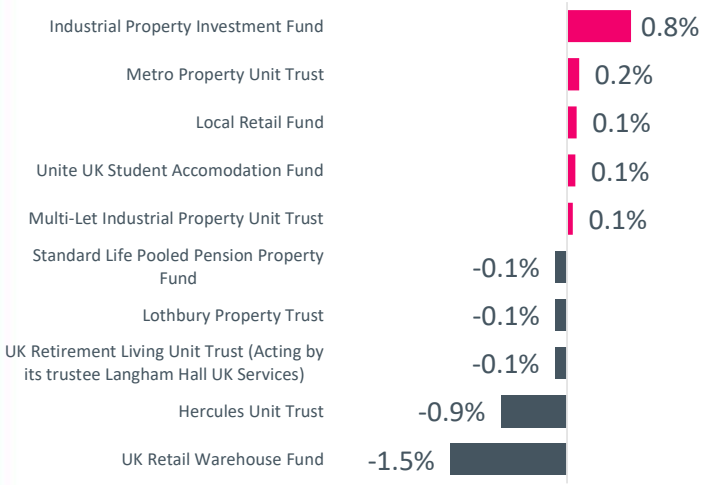
	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Last 5 years (% p.a.)
Fund	-2.7	-1.7	4.5	5.5
Benchmark	-1.3	0.0	4.9	5.8
Relative	-1.4	-1.7	-0.4	-0.3
Target (%)	-1.1	0.7	5.6	6.0
Relative to Target (%)	-1.6	-2.4	-1.1	-0.5

Sector Allocation



- Standard Retail - 9.5%
- Shopping Centres - 0.8%
- Retail Warehouses - 8.9%
- Central London Offices - 4.1%
- Rest of UK Offices - 16.1%
- Industrial - 35.1%
- Alternatives - 14.0%
- Cash - 11.5%

Top 5/Bottom 5 Contributors (12 months)



Performance attribution Explanation

The Schroders Property fund underperformed its benchmark over 3 months and 1 year to the end of Q1 2020. Due to the ongoing COVID 19 outbreak, many property fund managers, including Schroders, have been unable to properly value their funds as surveyors are unable to evaluate physical properties .

The fall in the portfolio valuation was based on estimates predominately concentrated in the retail and leisure sectors, as well as office and industrial assets where tenants were likely to be impacted by COVID-19, such as serviced offices or retail spend manufacturing.

The fund is underweight to retail warehouses and shopping centres, and holds 11.5% in cash, which would have helped during the quarter.

Source: Investment Manager

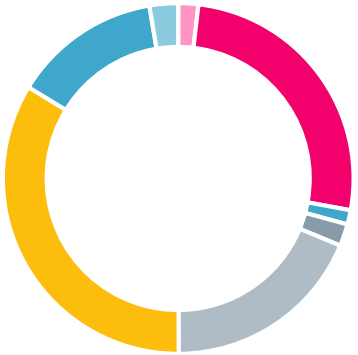
M&G Alpha Opportunities Fund

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

Fund performance vs benchmark/target

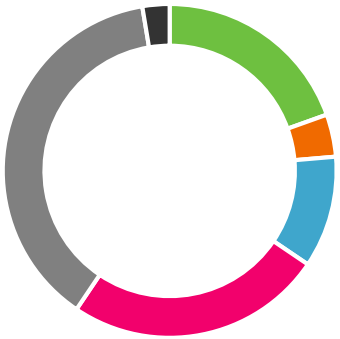
	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Last 5 years (% p.a.)
Fund	-7.6	-3.2	0.6	2.1
Benchmark	0.9	3.7	3.6	3.5
Relative	-8.4	-6.7	-2.8	-1.4
Target (%)	5.1	5.7	5.6	5.5
Relative to Target (%)	-12.1	-8.4	-4.7	-3.3

Sector Allocation



- Sovereign (0.0%)
- Quasi and foreign government (1.9%)
- Securitised (26.1%)
- Utilities (1.3%)
- Covered (2.0%)
- Financials (18.7%)
- Industrials (33.8%)
- Leveraged loans (13.7%)
- Net cash and derivatives (2.6%)

Credit Ratings



- AAA (19.5%)
- AA (4.1%)
- A (10.8%)
- BBB (25.0%)
- <BB (37.9%)
- Net cash and derivatives (2.6%)

Performance attribution Explanation

The fund's corporate bond selection detracted from performance over the quarter. In particular, bonds in the Industrial and Financial sectors were amongst the worst performers. Leveraged loans also detracted.

Going forward, the key for M&G will be to mitigate underlying defaults in the positions they are holding. Higher spreads provide the opportunity for investment at more attractive levels, but clearly the level of defaults that materialise will be important.

Source: Investment Manager

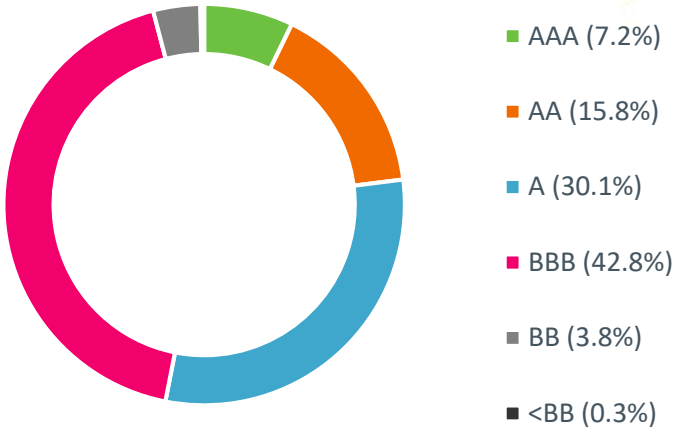
M&G Corporate Bonds Fund

- 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 target over all time periods considered
- M&G mandate has a marginally lower average credit quality than the benchmark
- This Fund transferred into the ACCESS Pool during Q1 2020

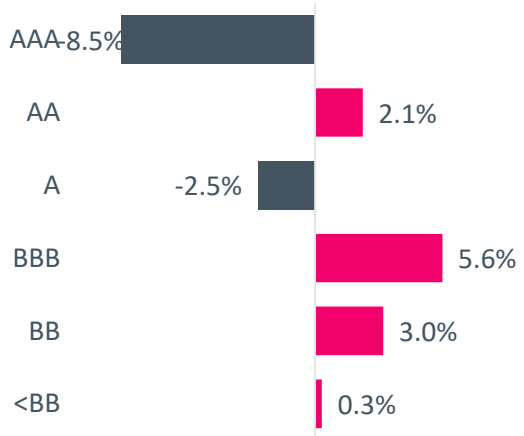
Fund performance vs benchmark/target

	Last 3 months (%)	Last 12 months (%)	Last 3 years (% p.a.)	Last 5 years (% p.a.)
Fund	-3.0	4.7	4.0	5.2
Benchmark	-4.3	2.3	2.7	3.9
Relative	1.3	2.3	1.2	1.2
Target (%)	-4.1	3.1	3.5	4.1
Relative to Target (%)	1.1	1.5	0.5	1.0

Credit Ratings



Credit rating allocation relative to benchmark



Performance attribution relative to benchmark

Sector	Outperformance Source: Sector Selection (%)	Stock Selection (%)	Total (%)
Financial	0.4	0.1	**0.4**
Utility	0.6	-0.3	**0.3**
Quasi & Foreign Government	0.3	-0.2	**0.1**
Industrial	0.5	-0.4	**0.1**
Sovereign	0.0	0.0	**0.0**
Covered	0.0	0.0	**0.0**
Securitised	-0.3	0.1	**-0.1**
Cash and other	n/a	n/a	**0.4**

Source: Investment Manager

UBS Index-Linked Gilts Fund

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

Fund Performance vs benchmark/target

	Last 3 months (%)	Last 12 months (%)	Since Inception (% p.a.)
UBS - Over 5 Year IL Gilt Fund	2.0	23.7	15.3
Benchmark	1.9	23.6	15.2
Relative	0.1	0.1	0.1

Source: Investment Manager

HarbourVest and Adams Street Private Equity

- Benchmark: MSCI ACWI+1.5%
- Target: MSCI ACWI+3.0%
- Note: Starting valuations are as at 31 Dec 19 for Adams Street and 30 Sept 19 for HarbourVest. Drawdowns and distributions reflect actual movements over the quarter. Ending valuations reflect the starting valuation adjusted for drawdowns and distributions, and updated for exchange rate movements, as several underlying funds are non-Sterling denominated

Market Value and cashflow over quarter

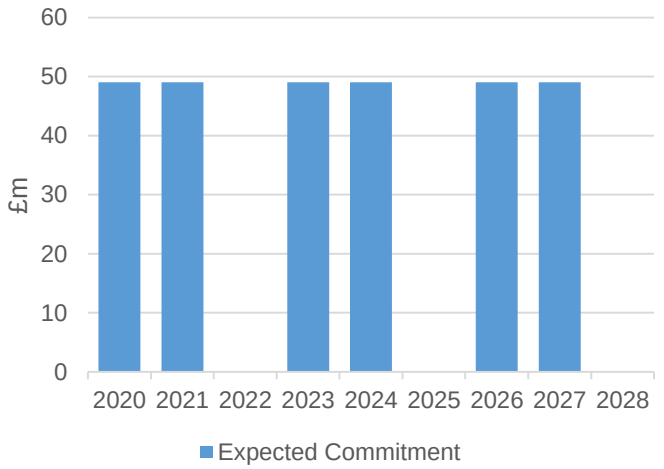
	Market Value at start (£m)	Drawdowns over quarter (£m)	Distributions over quarter	Market Value at end
HARBOURVEST PTNS VII CAYMAN BUYOUT FD LP	0.4		0.0	0.4
HARBOURVEST INTL PEP V - CAYMAN PSHP FD	2.6		0.3	2.4
HARBOURVEST INTL PEP VI - CAYMAN PSHP FUND	17.6		0.9	17.5
HARBOURVEST PARTNERS CAYMAN CLEANTECH FUND I	13.2		0.8	12.3
HARBOURVEST PARTNERS CAYMAN CLEANTECH FUND II	18.0	0.3	0.3	19.6
HARBOURVEST PTNSIX CAYMAN CREDIT OPPORTUNITIES FUND	1.6		0.0	1.7
HARBOURVEST PARTNERS IX CAYMAN VENTURE FUND	9.3		0.4	9.7
HARBOURVEST PARTNERS IX-CAYMAN BUYOUT FUND	11.7		0.4	12.7
HARBOURVEST PARTNERS VII - CAYMAN MEZZANINE FUND	0.1		0.0	0.1
HARBOURVEST PARTNERS XI AIF LP	3.1	4.7	0.1	8.0
HARBOURVEST PTRS VII - CAYMAN VENTURE FUND	1.1		0.1	1.0
HARBOURVEST PTRS VIII - CAYMAN BUYOUT FUND	2.3		0.1	2.3
HARBOURVEST PTRS VIII - CAYMAN MEZ AND DISTRESSED DEBT	0.2		0.0	0.2
HARBOURVEST PTRS VIII - CAYMAN VENTURE FUND	1.7		0.1	1.8
HIPEP IV SUPPLEMENTAL EUROPEAN COMPANIONFUND	0.1		0.0	0.1
HIPEP VII (AIF) PARTNERSHIP FUND LP	11.2	0.6	0.4	12.5
HIPEP VIII (AIF) PARTNERSHIP FUND LP	6.5		0.1	6.8

Market value and cashflows over quarter

	Market Value at start (£m)	Drawdowns over quarter (£m)	Distributions over quarter	Market Value at end
ADAMS STREET DIRECT FUNDS	5.7	0.0	0.0	6.1
ADAMS STREET CO-INVESTMENT FUND II	1.6	0.0	0.0	1.7
ADAMS STREET GLOBAL FUNDS 2014 - 2019	40.0	6.7	0.0	48.2
ADAMS STREET PSHP FUNDS	28.9	0.0	0.4	30.5
ADAMS STREET FEEDER FUNDS	21.6	0.0	0.1	23.0
ADAMS STREET OFFSHORE COMPANY LIMITED FUNDS	25.6	0.0	1.6	26.1

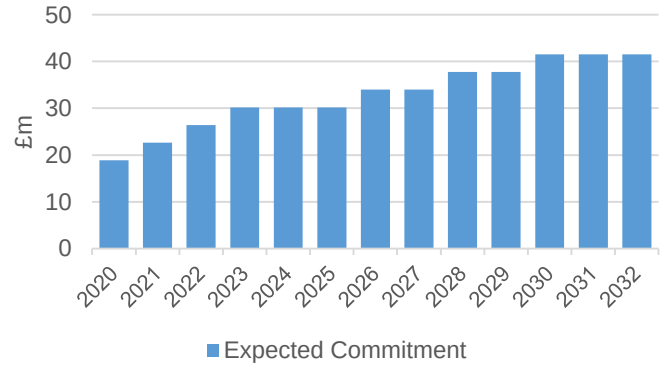
Market value and cashflow source: Northern Trust

Projected Future commitments to maintain target allocations*



*Provided by HarbourVest. 2020 commitments have been suspended pending the outcome of the strategy review

Projected Future commitments to maintain target allocation*



*Provided by Adams Street. 2020 commitments have been suspended pending the outcome of the strategy review

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 28% drawn as at quarter end.
- The InfraCapital Brownfield III fund is currently in ramp-up mode and 44% drawn as at quarter end.
- The Fund committed to the InfraCapital Greenfield II fund in January 2020 and the fund is yet to draw down capital.

UBS Commitment and distributions

UBS	Fund I	Fund III
Total Commitment ($m)	35.0	50.0
Commitment Drawn ($m)	33.3	0.0
Distributions ($m)	22.9	0.0
Outstanding Commitment ($m)	1.7	50.0
Market Value (£m)	16.7	0.0

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)	20.7	0.0

Pantheon Commitment and distributions

Pantheon	
Total Commitment ($m)	117.0
Commitment Drawn ($m)	32.5
Distributions ($m)	1.5
Outstanding Commitment ($m)	84.5
Market Value (£m)	32.4

Source: Northern Trust

M&G Real Estate Debt Fund

- Benchmark: 3m LIBOR +4%
- Objective: 3m LIBOR +5%
- The M&G REDF VI Fund is currently in ramp-up mode and c50% drawn at quarter end.

Commitment and distributions

	M&G
Total Commitment (£m)	60.0
Commitment Drawn (£m)	29.9
Distributions (£m)	14.3
Outstanding Commitment (£m)	30.1
Market Value (£m)	30.6

Source: Investment Manager

Fossil Fuel Exposure

- The table shows the Fund's fossil fuel exposure at 31 March 2020
- 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	4.9	7.7	5.0	0.0	Passive
UBS - Europe	5.9	7.1	6.0	-0.1	Passive
UBS - Japan	5.4	1.0	5.4	0.0	Passive
UBS - Pac ex Japan	9.5	1.6	9.9	-0.4	Passive
UBS - Fundamental Index	11.4	41.3	11.5	-0.2	Passive
UBS - UK Equity	13.9	30.8	14.5	-0.5	Passive
UBS - Climate Aware	5.0	8.0	6.0	-1.1	Passive
UBS - Global EM Equity	9.7	3.5	9.8	-0.2	Passive
Longview - Global Equity	0.0	0.0	6.9	-6.9	Active
Harbourvest - Private Equity*	3.3	3.6	6.9	-3.6	Active
Adams Street - Private Equity*	2.2	3.0	6.9	-4.7	Active
Newton - Absolute Return	1.2	5.1	-	-	Active
Ruffer - Absolute Return	1.2	5.1	-	-	Active
Schroders - Property	0.0	0.0	0.0	0.0	Active
M&G - 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 - Alpha Opportunities	2.6	6.1	10.3	-	Active
M&G - Corporate Bonds	9.6	13.9	0.0	9.6	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	**4.0**	**137.8**	-	-	

**Figures as at 31 December 2019*
Source: Investment Managers and LINK

Market Background

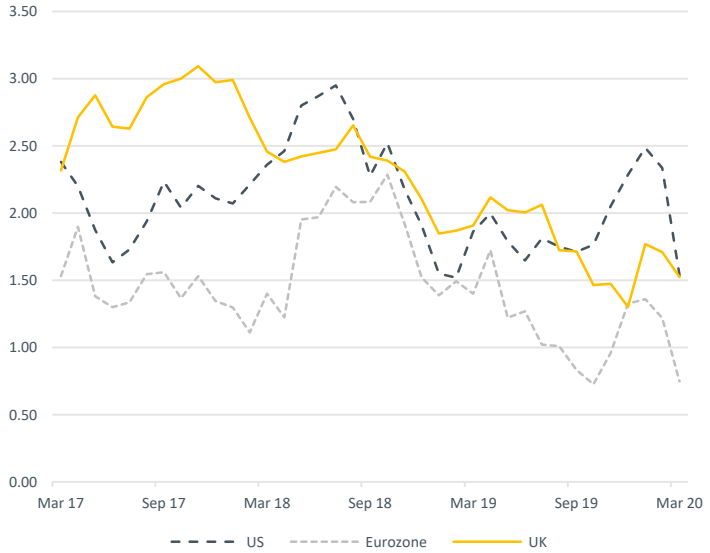
Developed market sovereign bond yields have been pushed near record lows, though have not been immune to volatility as investors liquidated bonds in a dash for cash in March. Sterling investment grade spreads rose 1.3% p.a., more than offsetting any benefit from falling underlying government bond yields.

Unsurprisingly, speculative grade credit spreads underperformed their investment grade counterparts with high yield energy bonds particularly hard hit. Leveraged loans underperformed within speculative-grade markets as a collapse in interest rate expectations weighed on floating-rate loans.

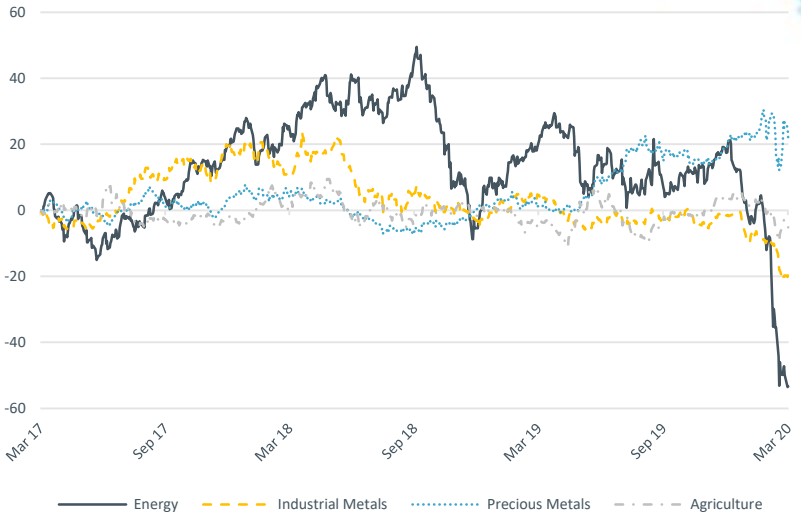
Global equity markets fell 20% in local currency terms and 15.9% in sterling terms, as weakening sterling benefited unhedged investors. The UK equity market was the worst performer with the FTSE 100 posting its biggest fall since 1987 as its sectoral composition and exposure to oil & gas hurt performance.

A number of UK property funds have suspended dealing as property valuers have been unable to accurately value the underlying assets with any certainty, inserting material uncertainty clauses into their valuations.

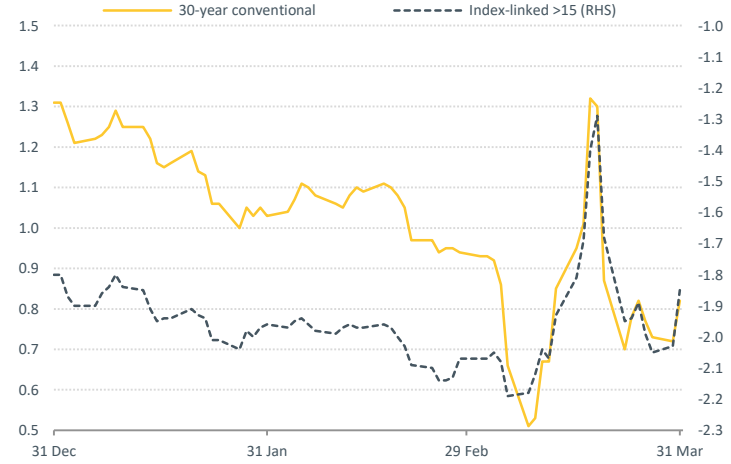
Annual CPI Inflation (% p.a.)



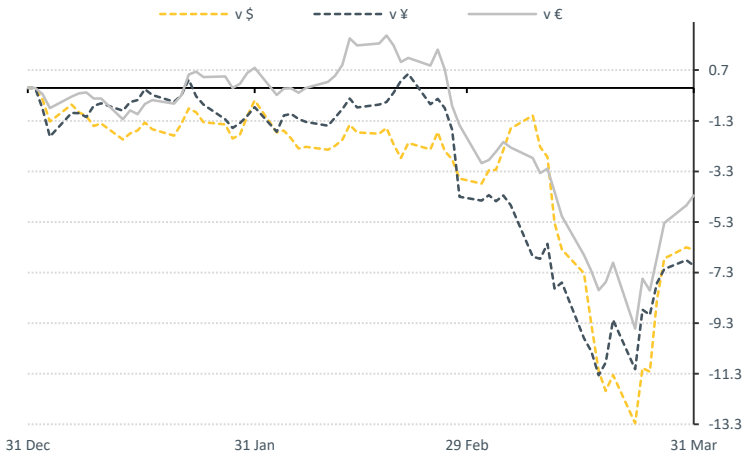
Commodity Prices (% change)



Gilt yields chart (% p.a.)



Sterling trend chart (% change)



Source: Reuters

Manager Benchmarks & Targets

Mandate	Date Appointed	Benchmark Description	Performance Target (% p.a.)
UBS - North America	12/06/2018	FTSE All World North America Index	FTSE All World North America Index
UBS - Europe	12/06/2018	FTSE All World Developed Europe ex-UK Index	FTSE All World Developed Europe ex-UK Index
UBS - Japan	12/06/2018	FTSE All World Japan Index	FTSE All World Japan Index
UBS - Pac ex Japan	12/06/2018	FTSE All World Developed Asia Pacific ex-Japan Index	FTSE All World Developed Asia Pacific ex-Japan Index
UBS - Fundamental Index	07/02/2018	FTSE RAFI All-World 3000	FTSE RAFI All-World 3001
UBS - UK Equity	17/01/2018	FTSE All-Share Index	FTSE All-Share Index
UBS - Climate Aware	22/06/2018	FTSE Developed Index	FTSE Developed Index
UBS - Global EM Equity	21/02/2018	FTSE Emerging Index	FTSE Emerging Index
Longview - Global Equity	16/04/2013	MSCI ACWI	MSCI ACWI + 3% p.a. (gross)
Harbourvest - Private Equity		MSCI All World + 1.5%	MSCI All World + 3% (gross)
Adams Street - Private Equity		MSCI All World + 1.5%	MSCI All World + 3% (gross)
Newton - Absolute Return	06/05/2010	LIBOR + 2.5% p.a.	LIBOR + 4% (gross)
Ruffer - Absolute Return	06/05/2010	LIBOR + 2.5% p.a.	LIBOR + 4% (gross)
Schroders - Property	20/02/2010	IPD All Balanced Index	IPD All Balanced Index +0.75% p.a. (net)
UBS - Infrastructure		CPI + 2%	CPI + 3%
Pantheon - Infrastructure		CPI + 2%	CPI + 3%
M&G - Infrastructure		CPI + 2%	CPI + 3%
M&G - Private Debt		LIBOR + 4%	LIBOR + 5%
M&G - UK Financing Fund			
M&G - Absolute Return Credit	01/01/2010	LIBOR + 3% p.a.	LIBOR + 5%
M&G - Corporate Bonds	01/01/2010	50% - iBoxx £ Non-Gilts Over 15 Year Index 50% - iBoxx £ Non-Gilts Index	Composite benchmark + 0.75% p.a. (net)
UBS - Over 5 Year IL Gilt Fund	14/02/2018	FTSE Gilt British Govt Index Linked Over 5 Year Index	FTSE Gilt British Govt Index Linked Over 5 Year Index

Manager Ratings

Mandate	Hymans Rating	RI
UBS - Passive Equities	Preferred	Good
Longview - Global Equity	Preferred	Adequate
Harbourvest - Private Equity	Preferred	-
Adams Street - Private Equity	Preferred	-
Newton - Absolute Return	Suitable	Good*
Ruffer - Absolute Return	Positive	-
Schroders - Property	Positive	-
UBS - Infrastructure	Suitable	-
Pantheon - Infrastructure	Preferred	-
M&G - Infrastructure	Positive	-
M&G - Private Debt	Preferred	-
M&G - Absolute Return Credit	Preferred	-
M&G - Corporate Bonds	Preferred	-
UBS - Over 5 Year IL Gilt Fund	Preferred	-

*Based on our rating of Newton's equity funds

Hymans Rating

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

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.

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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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Carbon Footprint & Energy Transition Portfolio Analysis

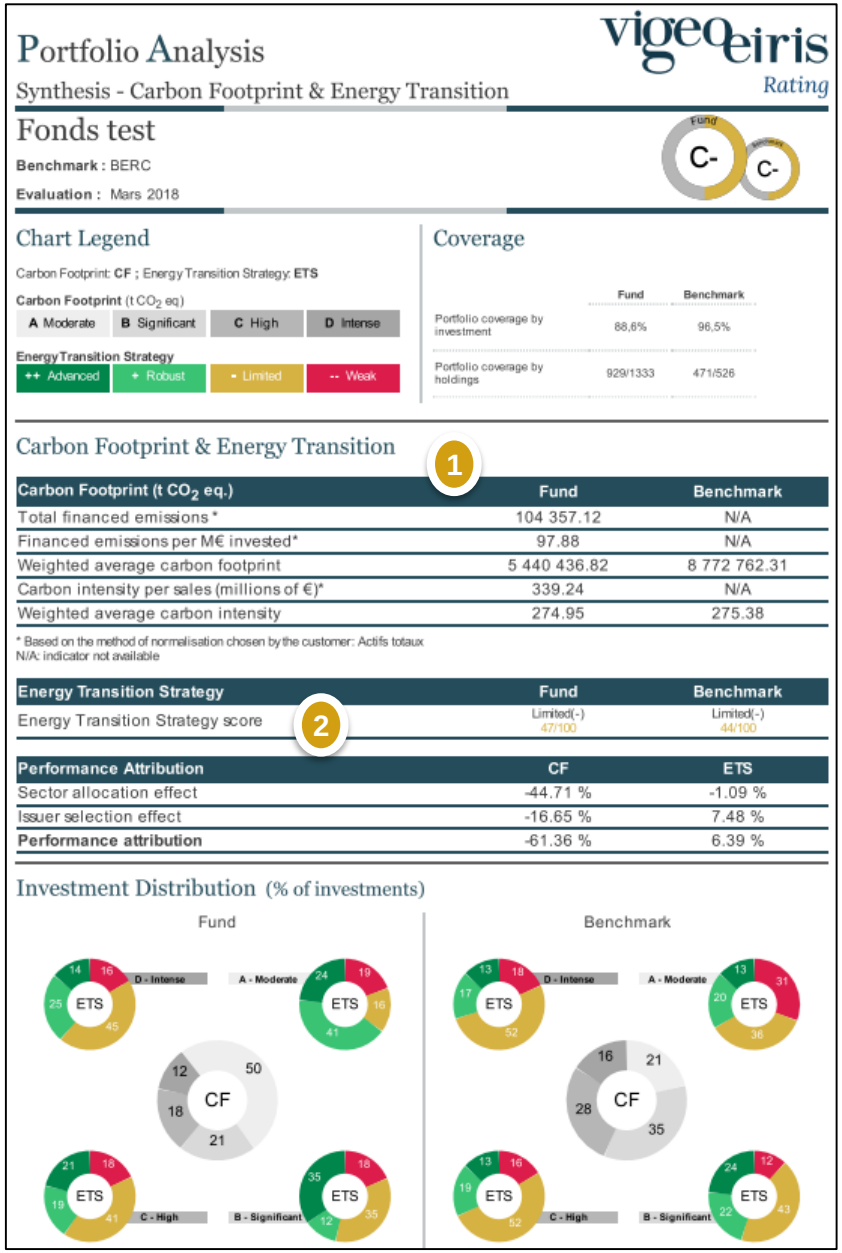
Quick Reference Guide

CF & ET Portfolio Analysis

Content (1/4)

1st page

1. **Carbon Footprint (Scope 1 & 2) [CF]**
   - Total financed emissions
     - Emissions attributable to fund investments
     - Proportionate to fund holding in the issuer
     - Denominator: Market cap (equity) or Total assets (Equity + Debt)
   - Financed emissions per M£ invested
     - Total financed emissions, per £million invested
   - Weighted average carbon footprint
     - Average absolute carbon footprint of portfolio issuers
     - Sum of portfolio issuers' emissions, adjusted to portfolio weighting
   - Weighted average carbon intensity
     - The Carbon Footprint intensity (CO2 emission per M£ of revenue) of the average emitter within the Fund
2. **Energy Transition Score [ET]**
   - Energy Transition Score out of a theoretical maximum of 100
     - Calculated from specific, sector-customised ESG datapoints within the areas of Environment and Community Involvement.



Portfolio Analysis

Synthesis - Carbon Footprint & Energy Transition

vigeo eiris Rating

Fonds test

Benchmark : BERC

Evaluation : Mars 2018

Fund C- Benchmark C-

Chart Legend

Carbon Footprint: **CF** ; Energy Transition Strategy: **ETS**

Carbon Footprint ($t CO_2$ eq)

A Moderate	B Significant	C High	D Intense

Energy Transition Strategy

++ Advanced	+ Robust	- Limited	-- Weak

Coverage

	Fund	Benchmark
Portfolio coverage by investment	88,6%	96,5%
Portfolio coverage by holdings	929/1333	471/526

Carbon Footprint & Energy Transition

1

Carbon Footprint ($t CO_2$ eq.)	Fund	Benchmark
Total financed emissions *	104 357.12	N/A
Financed emissions per M€ invested*	97.88	N/A
Weighted average carbon footprint	5 440 436.82	8 772 762.31
Carbon intensity per sales (millions of €)*	339.24	N/A
Weighted average carbon intensity	274.95	275.38

* Based on the method of normalisation chosen by the customer: Actifs totaux
N/A: indicator not available

Energy Transition Strategy	Fund	Benchmark
Energy Transition Strategy score	Limited(-) 47/100	Limited(-) 44/100

2

Performance Attribution	CF	ETS
Sector allocation effect	-44.71 %	-1.09 %
Issuer selection effect	-16.65 %	7.48 %
Performance attribution	-61.36 %	6.39 %

Investment Distribution (% of investments)

Fund

Benchmark

CF & ET Portfolio Analysis

Content (2/4)

1st page

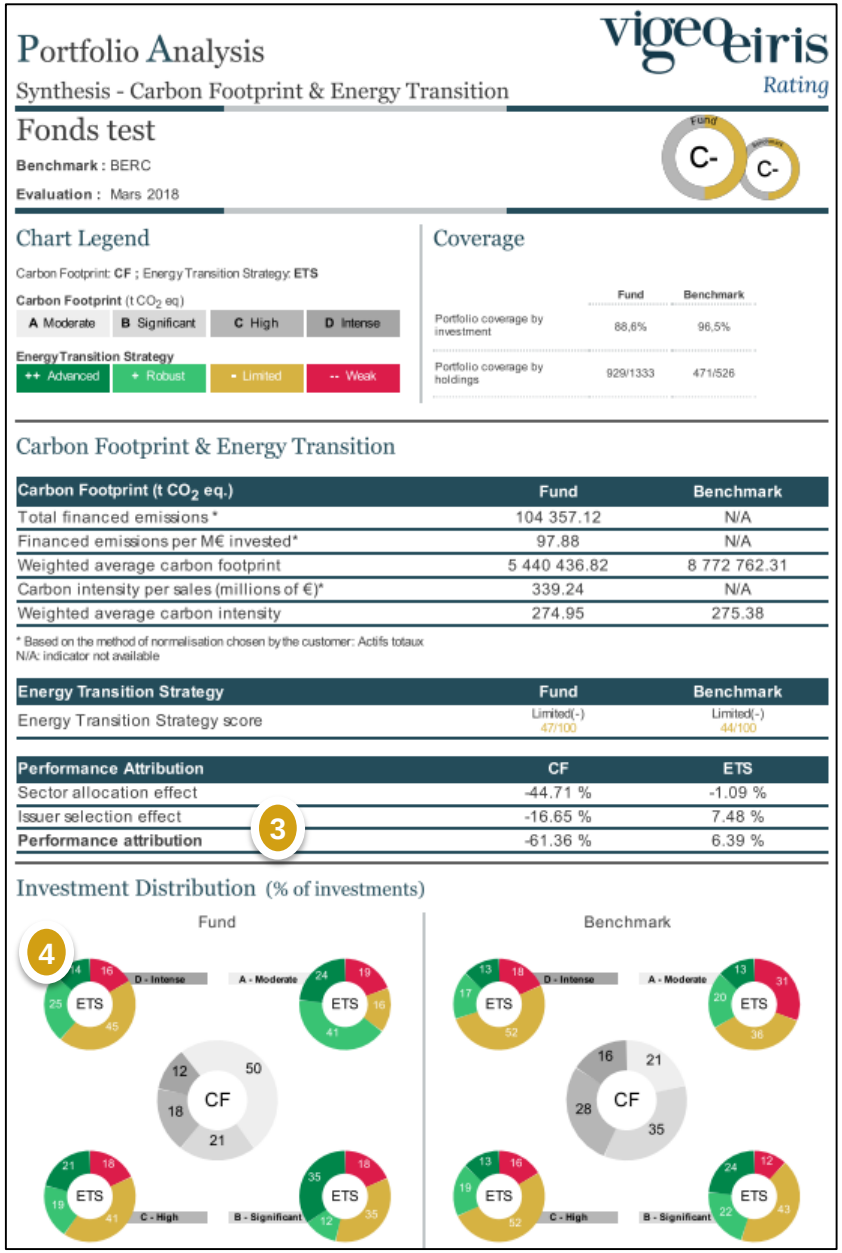
3. Performance Attribution

- Comparison of CF & ET score of the Portfolio and the Benchmark
- Sector allocation effect
  - Measures the impact of the choices of overweighting/underweighting a sector in the portfolio with respect to the Benchmark
- Issuer selection effect
  - Measures the impact of choices made in the selection of companies in the portfolio with respect to the Benchmark
- Performance attribution
  - Sum of the two preceding effects
  - *A negative figure for CF is a result of a lower CF for the Fund vs Benchmark* (lower = better)
  - *A negative figure for ETS is a result of a lower ETS score for the Fund vs Benchmark* (higher = better)

N.B. A Benchmark must be selected for this section to be included.

4. Investment distribution

- Distribution of the percentage of investments in Issuers based on Energy Transition scores and Carbon Footprint grades



CF & ET Portfolio Analysis

Content (3/4)

2nd page

5. Geographic and Sector Distribution

- Breakdown of the percentage of investments of the Fund and Benchmark for each different level of ET score and CF grade.

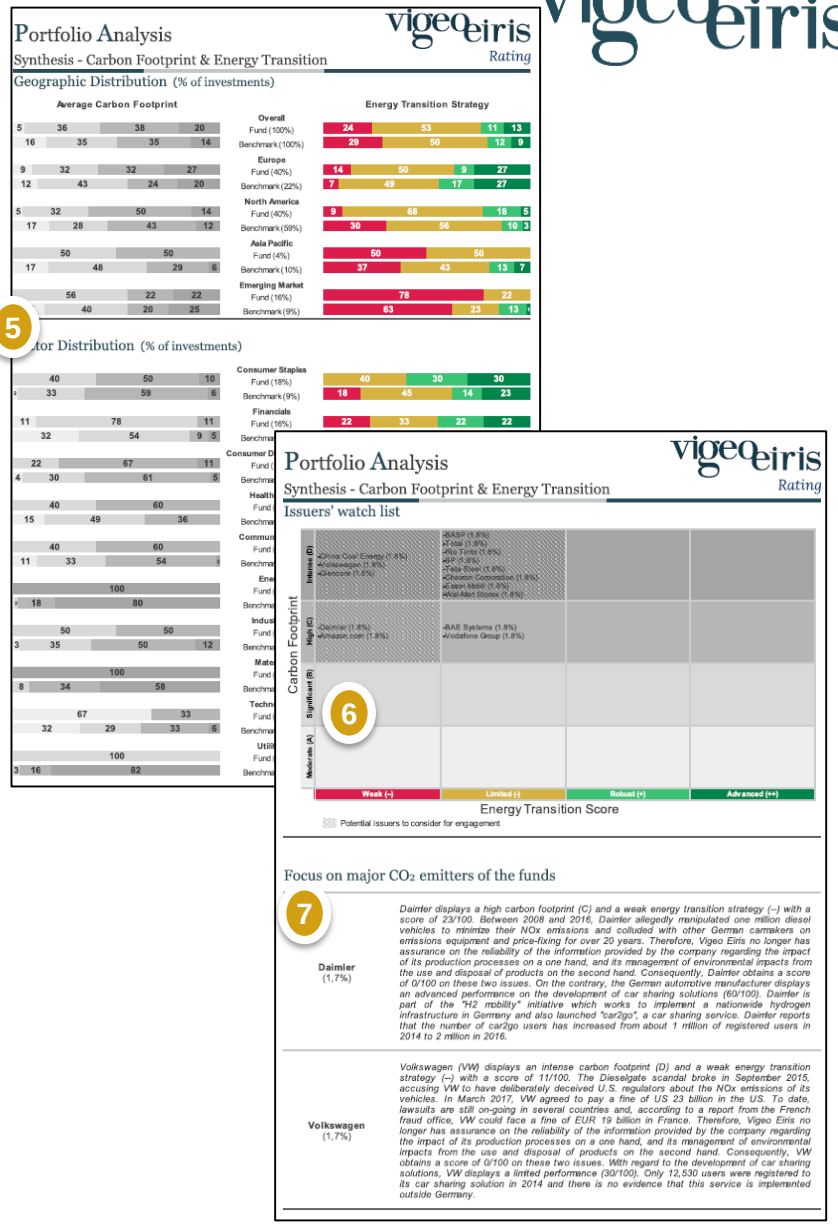
3rd page

6. Issuers' Watch List

- Display of the 10 largest holdings + 10 Issuers with which engagement could be a good option (grey hashed corner top left)

7. Qualitative Comments

- Issuers selected: Those with intense/high CF and a weak/limited ET score



CF & ET Portfolio Analysis

Content (4/4)

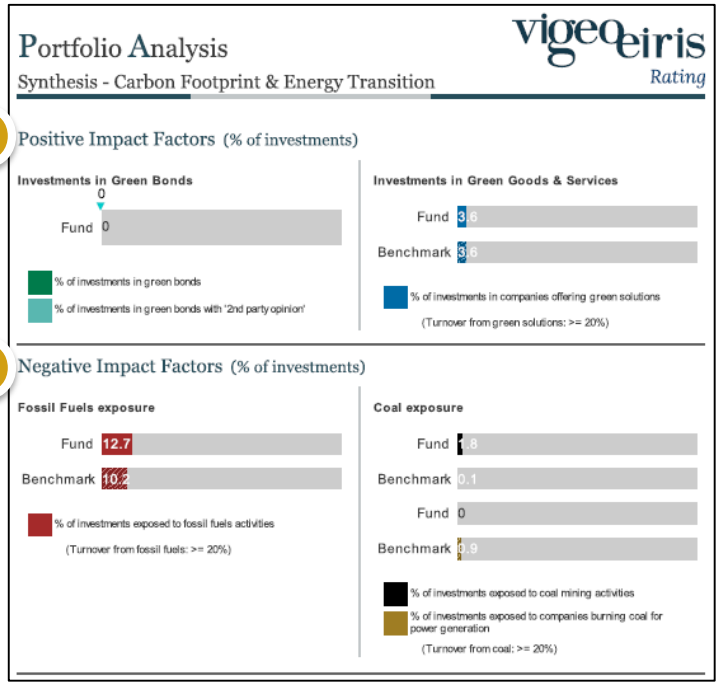
4th page

8. Positive impacts factors

- Green Bonds
  - Percentage of the portfolio investments in green bonds & green bonds complete with a 2nd party opinion (Fixed Income only)
- Green Goods & Services
  - Percentage of investments within the portfolio in Issuers offering green solutions
  - Revenue threshold set to 20%

9. Negative impact factors

- Fossil Fuels Exposure
  - Percentage of investments within the portfolio in Issuers whose turnover is, in part, derived from fossil fuels activities
  - Revenues threshold set to 20%
- Coal exposure
  - Percentage of investments within the portfolio in Issuers whose turnover is, in part, derived from coal mining activities or power generation from coal burning activities
  - Revenues threshold set to 20%



Appendix

Carbon Indicator Definitions 1 of 5

				Use case			
Indicator	**Definition**	**Advantages**	**Considerations**	**Impact**	**Risks**	**Contribution**	**Comparison?**
Total Financed Emissions (Total Carbon Emissions)	Represents the total emissions of the portfolio by attributing the carbon emissions of the Issuer to each investor based on their ownership. ∑(M€ invested/market cap)*CF = t CO2eq *Eg, An investor owns:* *- 10% of company A that emmits 100t CO2e* *- 5% of company B that emmits 200t CO2e* *The total carbon footprint would be 0,1*100 + 0,05*200 = 20t CO2e*	- Understand what is the portfolio's total carbon footprint - Provide the closest measure to reality to represent the responsibility and contribution to climate change; allowing to report the impact on climate - Enables the setting of absolute reduction targets and facilitates, over time, the portfolio's contribution to reach national/international policy goals in the reduction of GHG emissions - Enables the understanding of sector and stock allocation effects on the total carbon footprint - Useful for communication, transparency and mitigation strategies	- Does not allow benchmarking and comparison with other portfolios since this indicator is sensitive to portfolio size - By itself, does not inform the reasons of a carbon footprint evolution over time - Sensitive to variability of market cap/enterprise value	Yes	No	Partially	No

Appendix

Carbon Indicator Definitions 2 of 5

				Use case			
Indicator	**Definition**	**Advantages**	**Considerations**	**Impact**	**Risks**	**Contribution**	**Comparison?**
Financed emissions per M£ invested	Represents the normalised emissions of a portfolio per million GBP invested. In other words, it shows the carbon footprint of each million of money invested. ∑(M£ invested/market cap)*CF/Total portfolio investment = t CO2eq/M£ *Eg, Following the sample above, an investor has invested a total of 100 M in companies A and B:* *- 10% of company A that emmits 100t CO2e / year* *- 5% of company B that emmits 200t CO2e / year* *Its total financed emissions per M£ invested would be (0,1*100 + 0,05*200) / 100 = 0,2t CO2 / M£*	- Allows for comparison with other portfolios/benchmark regardless of size - Displays the carbon intensity of your money - Enables the setting of relative reduction targets	- Sensitive to variability of market cap/enterprise value	Yes	No	Partially	Yes

Appendix

Carbon Indicator Definitions 3 of 5

					Use case		
Indicator	**Definition**	**Advantages**	**Considerations**	**Impact**	**Risks**	**Contribution**	**Comparison?**
Weighted average carbon footprint	This measure represents the absolute emissions of the average company financed by the investor. This metric is calculated using companies emissions and weighting them by their weight in the portfolio. ∑weight in portfolio*CF = t CO2e *Eg, a portfolio composed of:* *- 15% in company A, emitting 15 000 000t CO2e / year* *- 85% in company B, emtiting 5 000 000 CO2e / year* *(0,15*15 000 000)+(0,85*5 000 000) = 6 500 000* *This shows that the investor finance on average companies emitting 6 500 000t CO2e / year*	- Applicable to diversified portfolios across asset classes, including fixed income - Facilitates the measurement, from year to year, if the investor is exposed on average in companies more or less carbonised - Makes possible comparisons with other portfolios/benchmark	- Does not measure impact on climate or investor responsibility - Does not allow the measurement, over time, the portfolio's contribution to international policies relating to reducing global temperatures (Eg, two degrees scenario)	No	Partially	No	Yes

Appendix

Carbon Indicator Definitions 4 of 5

					Use case		
Indicator	Definition	Advantages	Considerations	Impact	Risks	Contribution	Comparison?
Carbon intensity per sales	This metric expresses the carbon efficiency of a given portfolio by measuring the volume of emissions per GBP of sales generated by the constituents of the portfolio over a year. Carbon efficiency is best measured using sector-specific production metrics (MWh of power generated, liters of beverage, tons of steel, etc). However, this does not allow to compare between sectors, hence in a portfolio context, the best measure of output is sales. ∑(M£ invested/market cap)*CF/∑(M£ invested/market cap)*Revenue = t CO2eq/M£ revenue *Eg, for a portfolio containing:* *- 10% of company A that emmits 100t CO2, sales 50M* *- 5% of company B that emmits 200t CO2, sales 60M* *(0,1*100)+(0,05*200) / (0,1*50)+(0,05*60) = 2,5t CO2 / M£*	- Overal operating efficiency indicator at portfolio level - Measures the portfolio carbon efficiency by £ of sales of the portfolio constituents - Allows for comparison between years - Allows for comparison with other portfolios/benchmark	- Minimises the carbon footprint of issuers introducing pricing power bias - Masks developments in the carbon footprint of the Issuer and the portfolio due to sensitivity to inflation of goods and services - It may lead to artificially reducing the carbon footprint of companies and portfolios between years and vice versa - Alone, does not allow for the understanding of the reasons behind evolution in the carbon footprint - Does not allow the measurement, over time, the portfolio's contribution to international policies relating to reducing global temperatures (Eg, two degrees scenario)	No	Partially	No	Yes

Appendix

Carbon Indicator Definitions 5 of 5

					Use case		
Indicator	Definition	Advantages	Considerations	Impact	Risks	Contribution	Comparison?
Weighted average carbon intensity	This metric provides information on the portfolio's exposure to carbon intensive companies. It can be used as proxy for the exposure to carbon-related market and regulatory risks. ∑weight in portfolio*(CF/revenue) = t CO2eq/M£ revenue Eg, *portfolio composed by:* *- 15% in company A, emitting 100t CO2e, sales 50M* *- 85% in company B, emtiting 200t CO2e, sales 60M* *(0,15*(100/50))+(0,85*(200/60)) = 3,1t CO2e / M£*	- Applicable to diversified portfolios across asset classes, including fixed income - Measures a portfolio's exposure to carbon intensive companies which can serve as proxy for portfolio's exposure to carbon risks - It makes possible comparison with other portfolios/benchmarks	- Does not provide information about impact on climate / investor responsibility - Does not allow the measurement, over time, the portfolio's contribution to international policies relating to reducing global temperatures (Eg, two degrees scenario)	No	Partially	No	Yes

Portfolio Analysis

Synthesis - Carbon Footprint & Energy Transition

Longview Global Equity

Benchmark : N/A

Evaluation : 31/03/2020

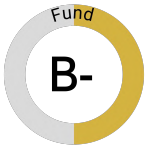


Chart Legend

Carbon Footprint: **CF** ; Energy Transition Strategy: **ETS**

Carbon Footprint (t CO_2 eq)

A Moderate	**B** Significant	**C** High	**D** Intense

Energy Transition Strategy

++ Advanced	**+** Robust	**-** Limited	**--** Weak

Coverage

	Fund	Benchmark
Portfolio coverage by investment	98.1%	N/A
Portfolio coverage by holdings	30/32	N/A

Carbon Footprint & Energy Transition

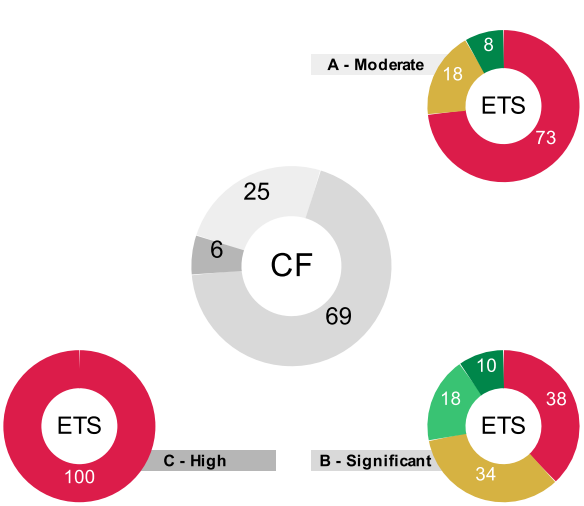
Carbon Footprint (t CO_2 eq.)	Fund	Benchmark
Total financed emissions *	4 276.27	N/A
Financed emissions per M£ invested*	18.54	N/A
Weighted average carbon footprint	432 099.57	N/A
Carbon intensity per sales (millions of £)*	25.63	N/A
Weighted average carbon intensity	26.21	N/A

* Based on the method of normalisation chosen by the customer: Total Assets
N/A: indicator not available

Energy Transition Strategy	Fund	Benchmark
Energy Transition Strategy score	Limited(-) 33/100	N/A

Investment Distribution (% of investments)

Fund



Benchmark

N/A

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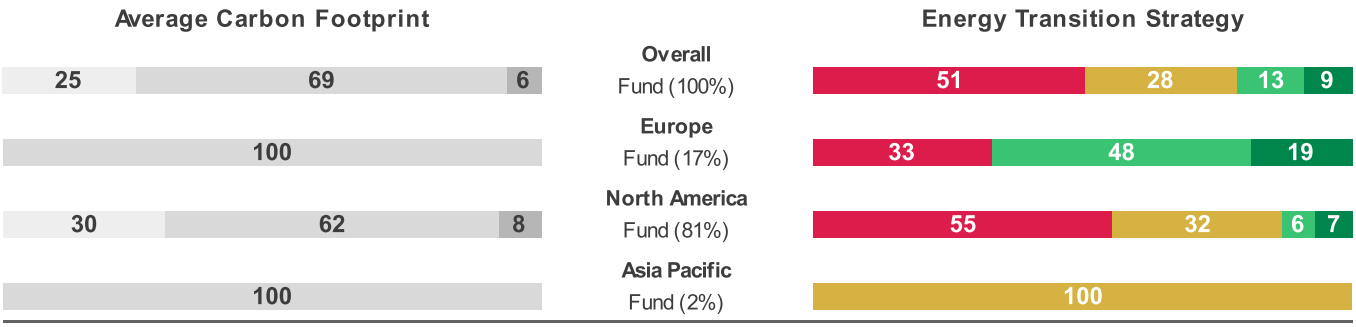
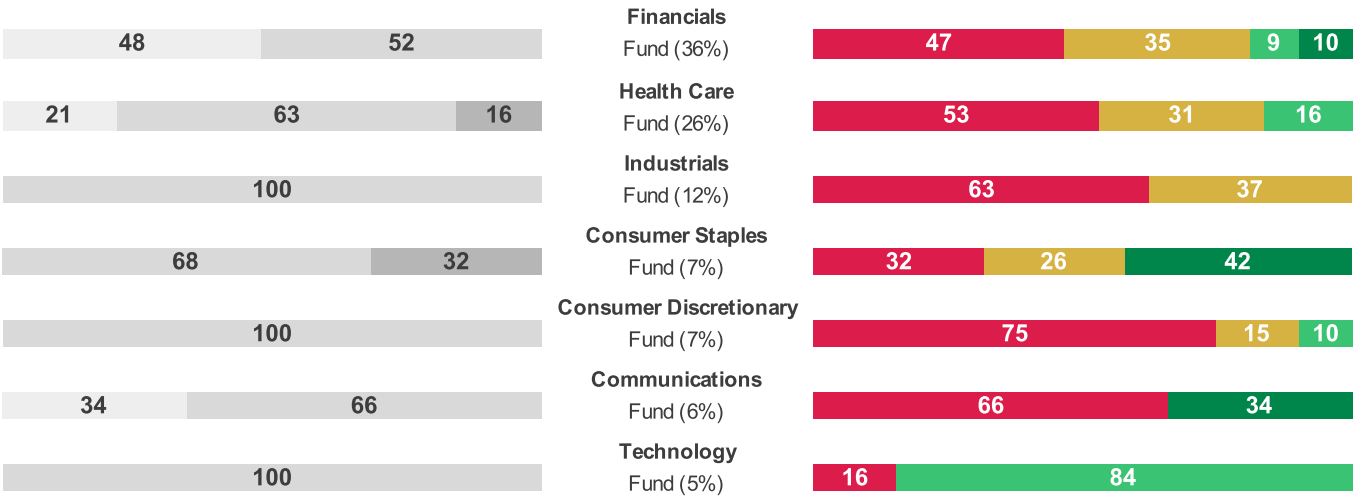
Portfolio Analysis

Synthesis - Carbon Footprint & Energy Transition

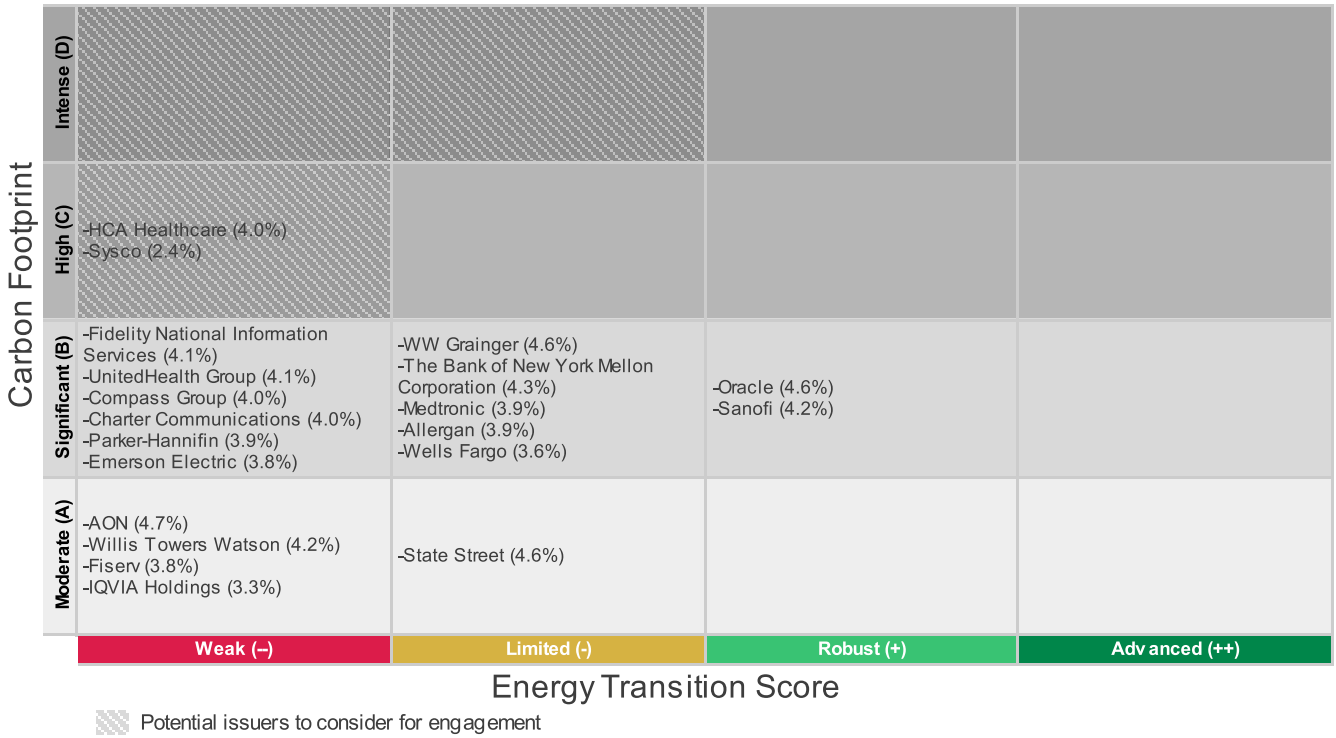
Geographic Distribution (% of investments)



Sector Distribution (% of investments)



Issuers' watch list



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Focus on major CO_2 emitters of the funds

HCA Healthcare (4%)	*HCA Healthcare displays a high carbon footprint (C) and a weak (--) energy transition strategy (13/100). The company does not appear to have set quantified targets to reduce its energy consumption and CO2 emissions, and has only implemented limited measures in this regard. Furthermore, the American hospital group does not publish any key environmental performance indicators, such as its CO2 emissions and energy consumption. Finally, the company does not appear to have defined a strategy regarding the environmental impacts related to the transportation of its personnel.*
Sysco (2.4%)	*Sysco displays a high carbon footprint (C) and a weak (--) energy transition strategy with a score of 24/100. The American company's performance is penalised by a weak performance towards the management of environmental impacts from both energy use and transportation. Sysco has made only a general commitment to reducing its energy consumption and greenhouse gas emissions, and to reducing the environmental impacts related to the transport of its products and clients: no quantified targets were disclosed. Furthermore, whilst Sysco has taken robust steps to optimise its production processes in order to reduce its energy consumption and related emissions (use of high-efficiency light bulbs and upgrade of warehouse equipment notably), it is not transparent in terms of reporting associated KPIs.*

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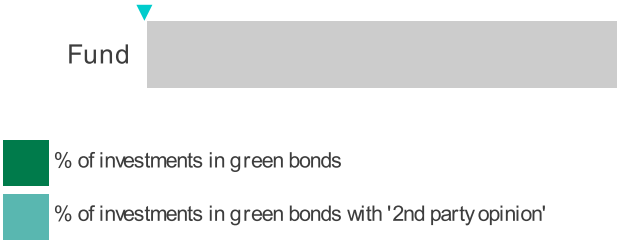
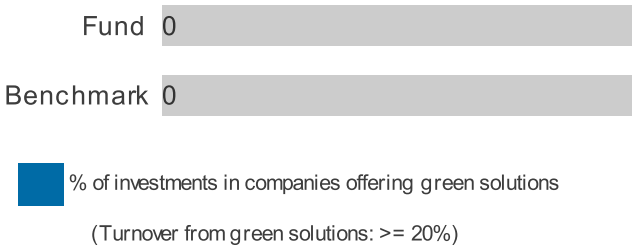
Positive Impact Factors (% of investments)

Investments in Green Bonds

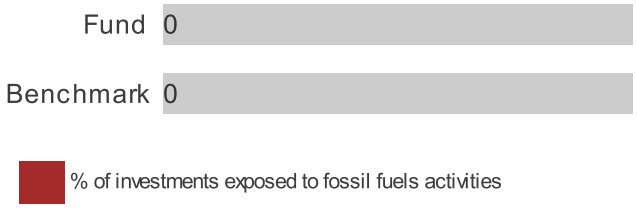


Investments in Green Goods & Services

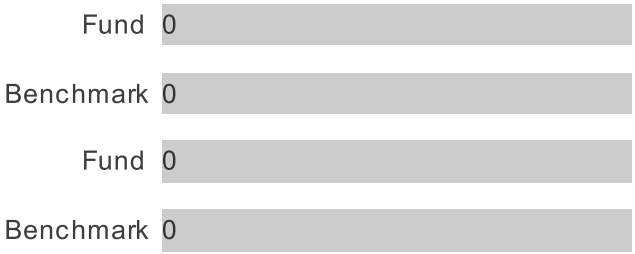


Negative Impact Factors (% of investments)

Fossil Fuels exposure



Coal exposure



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Methodology

Carbon footprint

Carbon footprint is the measure of the volume of carbon dioxide (CO2 eq.) emitted by issuers.

Emissions

Scope 1 covers direct GHG emissions from sources that are owned or controlled by the issuer.
Scope 2 covers indirect GHG emissions caused by the organisation's consumption of electricity, heat, cooling or steam purchased or brought into its reporting boundary.
Scope 3 covers other indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

Data

The carbon data is provided by the CDP and completed with other company sources collected by Vigeo Eiris.
When no data is available from any source, Vigeo Eiris' analysts build a carbon footprint estimation relying on the size of the issuer and the nature of its activities through three different methods: regression models, sector-specific physical factors and sector averages.
An issuer's Carbon Footprint (scope1+2) is then defined from A (Moderate) to D (Intense) according to the scale presented in the table below.
Emissions at portfolio's level may be measured as follows:
- Total financed emissions: sum of the carbon emissions of the issuers in the portfolio based on the ownership of the investor.
- Financed emissions per millions invested: total financed emissions normalised by portfolio value.
- Weighted average carbon footprint: sum of the portfolio's companies emissions weighted by their weight in the portfolio.
- Carbon intensity per sales: volume of emissions per million of sales generated by the constituents of the portfolio over a year.
- Weighted average carbon intensity: sum of the volume of emissions per million of sales generated by the constituents of the portfolio weighted by their weight in the portfolio.

Energy Transition Strategy

Energy transition Strategy is defined as the shift from a carbon based economic model to a green and sustainable one. Vigeo Eiris' scoring of issuers' energy transition strategy is based on specific criteria tied to climate change in ESG Research. The universe of reference is based on Vigeo Eiris' Equitics Research.

Scale	Emissions (t CO2 eq)	Categories
A	<100 000	Moderate
B	>=100 000 & <1 000 000	Significant
C	>=1 000 000 & <10 000 000	High
D	>=10 000 000	Intense

Scale	Energy Transition Score	Categories
++	60-100	Advanced
+	50-59	Robust
-	30-49	Limited
--	0-29	Weak

Performance Attribution

This measure provides an explanation on the difference of performance between a fund and its benchmark. This gap derives from the sum of two factors:
- Sector allocation effect: measures the impact of the choices of overweighting/underweighting a sector in the fund with respect to the benchmark.
- Company selection effect: measures the impact of choices made in the selection of companies in the fund with respect to the benchmark.

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Positive impact factors

1. *Green goods and services*

This research provides a positive screening on issuers having developed a business opportunity to contribute to sustainable development, with a focus on issuers answering environmental challenges.
The involvement of issuers is based on % of activity. The universe of reference is based on Vigeo Eiris' Sustainable Good and Services Research.

2. *Green Bonds*

Green Bonds include bonds financing sustainability related projects, with environmental and/or social benefits, responsibly managed, with an ESG risk-management approach. Vigeo Eiris calculates the share of investments realised on Green Bond issuances (defined as such by the market) and informs on the share of green bonds having received a second party opinion and the share that did not receive any. Data on Green Bonds are based on an up-to-date security list compiled by Vigeo Eiris from trustworthy sources (CBI, Bloomberg).

Negative impact factors

1. *Fossil Fuels*

Fossil fuels include coal, oil, natural gas (including natural gas liquids), and peat. Natural gas liquids (NGL) are classified as hydrocarbons, some of which are used as or blended into fuels, e.g. propane, butane.
The involvement of companies is based on % of turnover. The universe of reference is based on Vigeo Eiris' Controversial Activities Research.
The operations covered are those of the upstream sector (exploration and production, including services during the extraction phase), midstream (transportation and storage services), refining activities and generation (electricity generation from coal, peat, oil shale, oil & gas)

2. *Coal*

Coal includes different categories of coals, including thermal coal – used for electricity generation – and metallurgical coal – mainly used in the iron and steel industries. The extractive industry and utilities sector are analysed separately. The involvement of companies is based on % of turnover. The universe of reference is based on Vigeo Eiris Controversial Activities Research.

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Portfolio Analysis

Synthesis - Carbon Footprint & Energy Transition

M&G Absolute Return

Benchmark : N/A

Evaluation : 31/03/2020

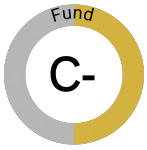


Chart Legend

Carbon Footprint: **CF** ; Energy Transition Strategy: **ETS**

Carbon Footprint (t CO_2 eq)

A Moderate	**B** Significant	**C** High	**D** Intense

Energy Transition Strategy

++ Advanced	**+** Robust	**-** Limited	**--** Weak

Coverage

	Fund	Benchmark
Portfolio coverage by investment	56.4%	N/A
Portfolio coverage by holdings	208/345	N/A

Carbon Footprint & Energy Transition

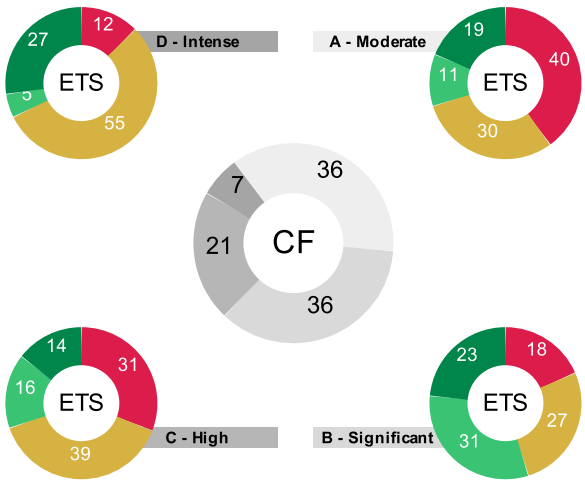
Carbon Footprint (t CO_2 eq.)	Fund	Benchmark
Total financed emissions *	465 105.72	N/A
Financed emissions per M£ invested*	95.61	N/A
Weighted average carbon footprint	4 270 646.43	N/A
Carbon intensity per sales (millions of £)*	282.28	N/A
Weighted average carbon intensity	617.35	N/A

* Based on the method of normalisation chosen by the customer: Total Assets
N/A: indicator not available

Energy Transition Strategy	Fund	Benchmark
Energy Transition Strategy score	Limited(-) 42/100	N/A

Investment Distribution (% of investments)

Fund



Benchmark

N/A

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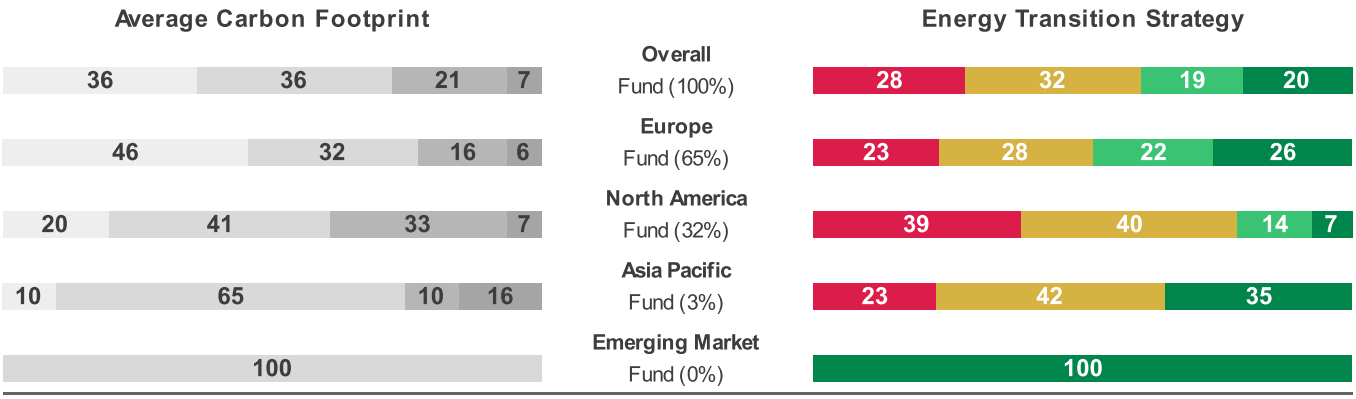
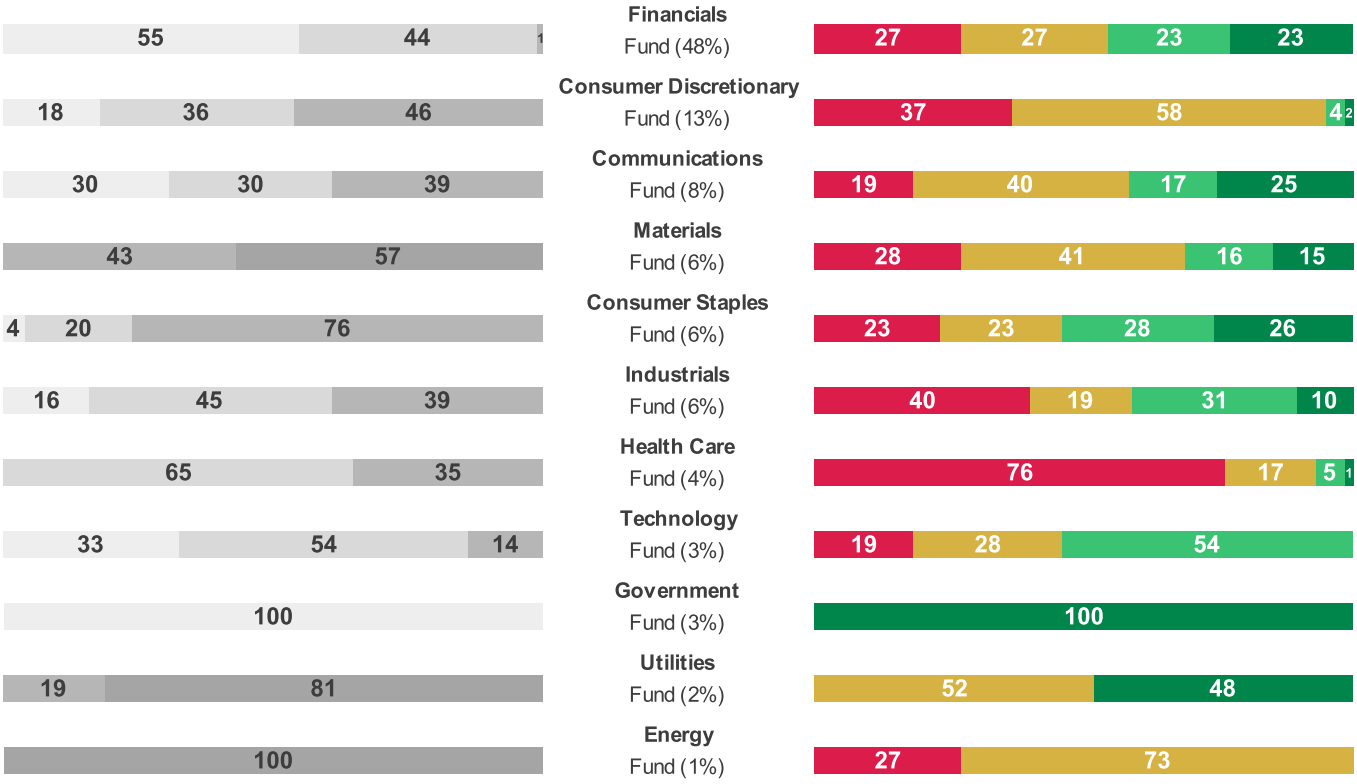
Portfolio Analysis

Synthesis - Carbon Footprint & Energy Transition

Geographic Distribution (% of investments)



Sector Distribution (% of investments)



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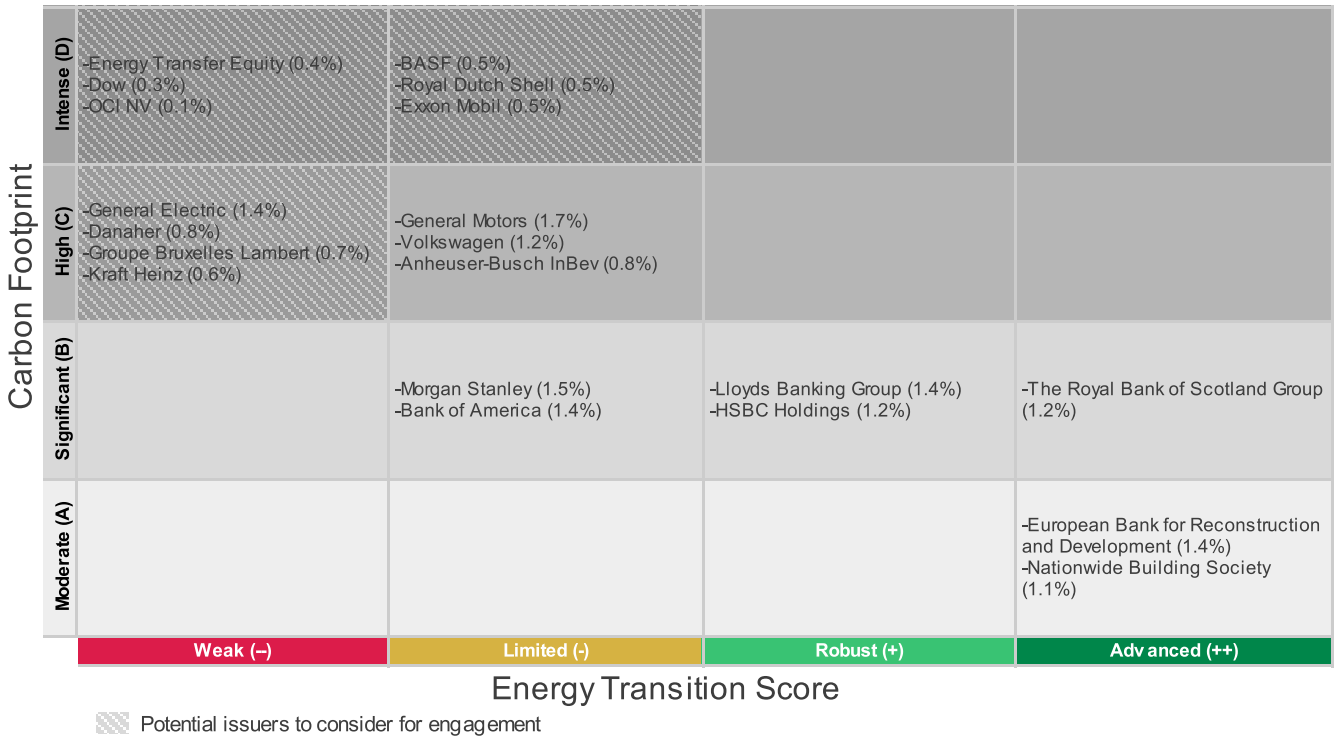
Portfolio Analysis

Synthesis - Carbon Footprint & Energy Transition

Issuers' watch list



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Focus on major CO_2 emitters of the funds

Royal Dutch Shell (0.5%)	*Royal Dutch Shell (Shell) has an intense carbon footprint (D) and a limited energy transition strategy (-) with a score of 34/100. While Shell has made a commitment to reduce its energy consumption and associated CO2 emissions, targets are only set for certain assets and projects. Despite the implementation of innovative energy efficiency measures, particularly in its subarctic operations in Russia, Shell's energy consumption results were mixed over the 2016-2018 period. Normalised to upstream production, the company's total energy consumption and associated GHG emissions have increased in the 2016-2018 period. However, the energy consumption in chemicals operations (along with the company's total GHG emissions), normalised to chemicals production, have decreased over the same period. Shell has joined the World Bank's "Zero Routine Flaring by 2030" initiative and has set up projects to capture and recover carbon. Its emissions associated with flaring, normalised to upstream production, decreased between 2016 and 2018 by 31%. Shell has made significant investments in renewable energy (wind, biomass and solar) and alternative fuels (agrofuels, second-generation biofuels and hydrogen). The company is involved in wind power projects and jointly owns Raizen (in partnership with the Brazilian company Cosan), which produces and sells ethanol from sugar cane. However, Shell's performance in this area is undermined by its failure to disclose quantitative targets and to report transparently on the volumes of alternative and renewable energy that it produces. The company is the subject of ongoing lawsuits, brought by the City of Honolulu among others, that relate to its alleged climate-change impact. The company is not deemed to have responded in a transparent way to these lawsuits.*
Exxon Mobil (0.5%)	*Exxon Mobil displays an intense carbon footprint (D) and a limited Energy Transition strategy (-) with a score of 30/100, penalised by a weak performance towards the development of alternative fuels and renewable energy. Indeed, the American oil & gas company does not disclose any commitment on renewable energy and its commitment on developing alternative fuels is general. In addition, while it has been researching lower emission technologies such as algae biofuels, the company does not seem to allocate any means towards renewable energy sources. Furthermore, the corresponding KPIs are not disclosed. Although the company reports innovative measures to reduce its energy consumption and/or its related emissions and its gas flaring and venting (interests in 5,400 megawatts of cogeneration capacity in over 30 locations worldwide, methane reduction efforts including structured leak detection and repair programmes, replacement of high-bleed pneumatic devices with lower-emission technology), Exxon Mobil only discloses general commitments – without quantified targets – and uncomplete and/or outdated KPIs in this regard. It does not break down data per business unit and the 2018 data is not disclosed.*

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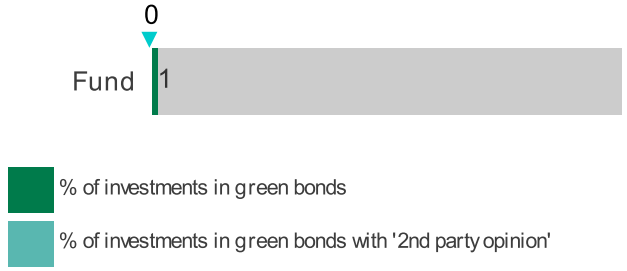
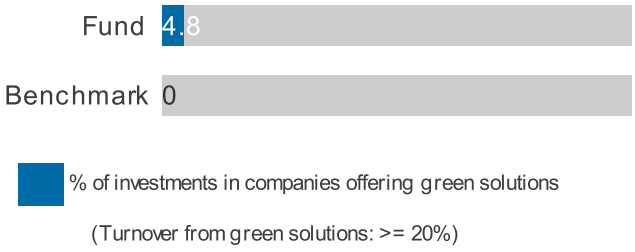
Positive Impact Factors (% of investments)

Investments in Green Bonds

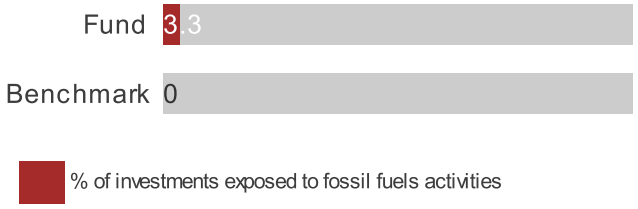


Investments in Green Goods & Services

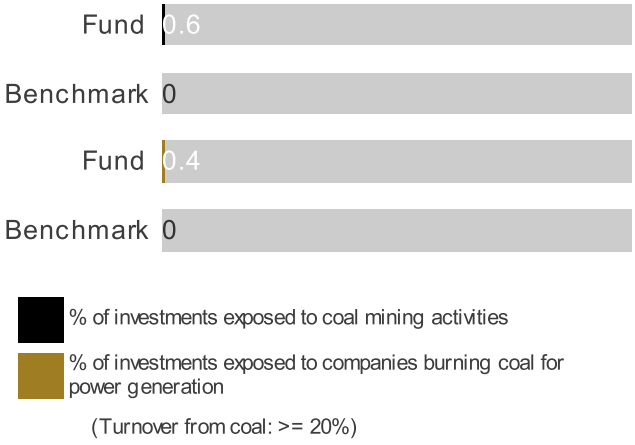


Negative Impact Factors (% of investments)

Fossil Fuels exposure



Coal exposure



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Methodology

Carbon footprint

Carbon footprint is the measure of the volume of carbon dioxide (CO2 eq.) emitted by issuers.

Emissions

Scope 1 covers direct GHG emissions from sources that are owned or controlled by the issuer.
Scope 2 covers indirect GHG emissions caused by the organisation's consumption of electricity, heat, cooling or steam purchased or brought into its reporting boundary.
Scope 3 covers other indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

Data

The carbon data is provided by the CDP and completed with other company sources collected by Vigeo Eiris.
When no data is available from any source, Vigeo Eiris' analysts build a carbon footprint estimation relying on the size of the issuer and the nature of its activities through three different methods: regression models, sector-specific physical factors and sector averages.
An issuer's Carbon Footprint (scope1+2) is then defined from A (Moderate) to D (Intense) according to the scale presented in the table below.
Emissions at portfolio's level may be measured as follows:
- Total financed emissions: sum of the carbon emissions of the issuers in the portfolio based on the ownership of the investor.
- Financed emissions per millions invested: total financed emissions normalised by portfolio value.
- Weighted average carbon footprint: sum of the portfolio's companies emissions weighted by their weight in the portfolio.
- Carbon intensity per sales: volume of emissions per million of sales generated by the constituents of the portfolio over a year.
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Energy Transition Strategy

Energy transition Strategy is defined as the shift from a carbon based economic model to a green and sustainable one. Vigeo Eiris' scoring of issuers' energy transition strategy is based on specific criteria tied to climate change in ESG Research. The universe of reference is based on Vigeo Eiris' Equitics Research.

Scale	Emissions (t CO2 eq)	Categories
A	<100 000	Moderate
B	>=100 000 & <1 000 000	Significant
C	>=1 000 000 & <10 000 000	High
D	>=10 000 000	Intense

Scale	Energy Transition Score	Categories
++	60-100	Advanced
+	50-59	Robust
-	30-49	Limited
--	0-29	Weak

Performance Attribution

This measure provides an explanation on the difference of performance between a fund and its benchmark. This gap derives from the sum of two factors:
- Sector allocation effect: measures the impact of the choices of overweighting/underweighting a sector in the fund with respect to the benchmark.
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Positive impact factors

1. *Green goods and services*

This research provides a positive screening on issuers having developed a business opportunity to contribute to sustainable development, with a focus on issuers answering environmental challenges.
The involvement of issuers is based on % of activity. The universe of reference is based on Vigeo Eiris' Sustainable Good and Services Research.

2. *Green Bonds*

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Negative impact factors

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Fossil fuels include coal, oil, natural gas (including natural gas liquids), and peat. Natural gas liquids (NGL) are classified as hydrocarbons, some of which are used as or blended into fuels, e.g. propane, butane.
The involvement of companies is based on % of turnover. The universe of reference is based on Vigeo Eiris' Controversial Activities Research.
The operations covered are those of the upstream sector (exploration and production, including services during the extraction phase), midstream (transportation and storage services), refining activities and generation (electricity generation from coal, peat, oil shale, oil & gas)

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Coal includes different categories of coals, including thermal coal – used for electricity generation – and metallurgical coal – mainly used in the iron and steel industries. The extractive industry and utilities sector are analysed separately. The involvement of companies is based on % of turnover. The universe of reference is based on Vigeo Eiris Controversial Activities Research.

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Portfolio Analysis

Synthesis - Carbon Footprint & Energy Transition

M&G Corporate Bonds

Benchmark : N/A

Evaluation : 31/03/2020

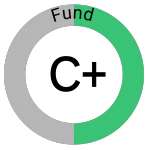


Chart Legend

Carbon Footprint: **CF** ; Energy Transition Strategy: **ETS**

Carbon Footprint (t CO_2 eq)

A Moderate	**B** Significant	**C** High	**D** Intense

Energy Transition Strategy

++ Advanced	**+** Robust	**-** Limited	**--** Weak

Coverage

	Fund	Benchmark
Portfolio coverage by investment	73.7%	N/A
Portfolio coverage by holdings	158/252	N/A

Carbon Footprint & Energy Transition

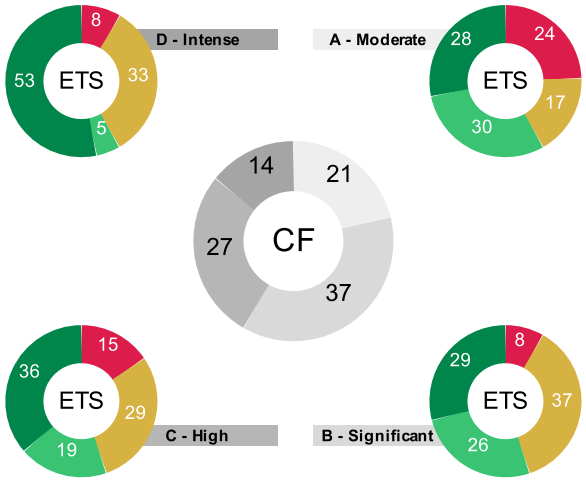
Carbon Footprint (t CO_2 eq.)	Fund	Benchmark
Total financed emissions *	8 258.19	N/A
Financed emissions per M£ invested*	89.57	N/A
Weighted average carbon footprint	8 659 916.28	N/A
Carbon intensity per sales (millions of £)*	272.49	N/A
Weighted average carbon intensity	251.76	N/A

* Based on the method of normalisation chosen by the customer: Total Assets
N/A: indicator not available

Energy Transition Strategy	Fund	Benchmark
Energy Transition Strategy score	Robust(+) 51/100	N/A

Investment Distribution (% of investments)

Fund



Benchmark

N/A

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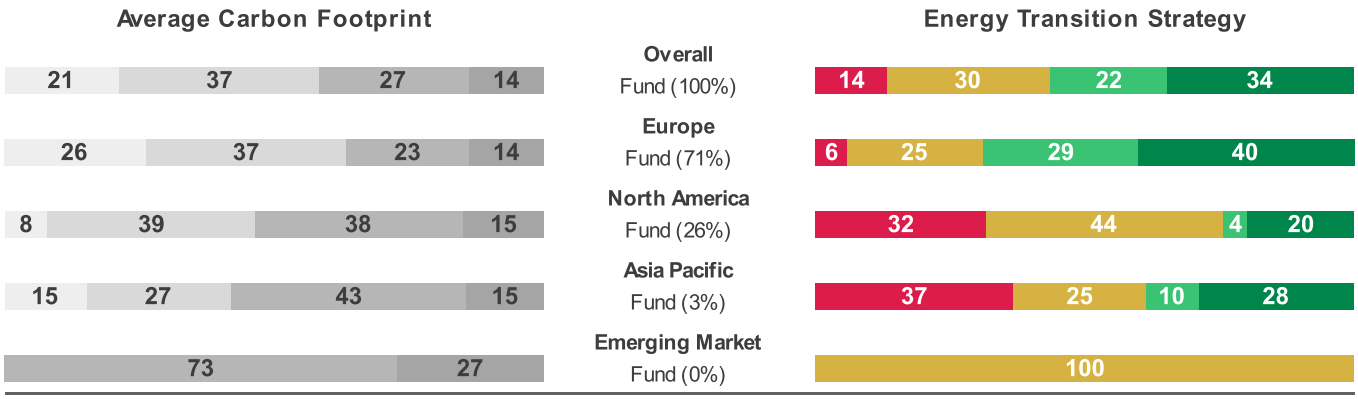
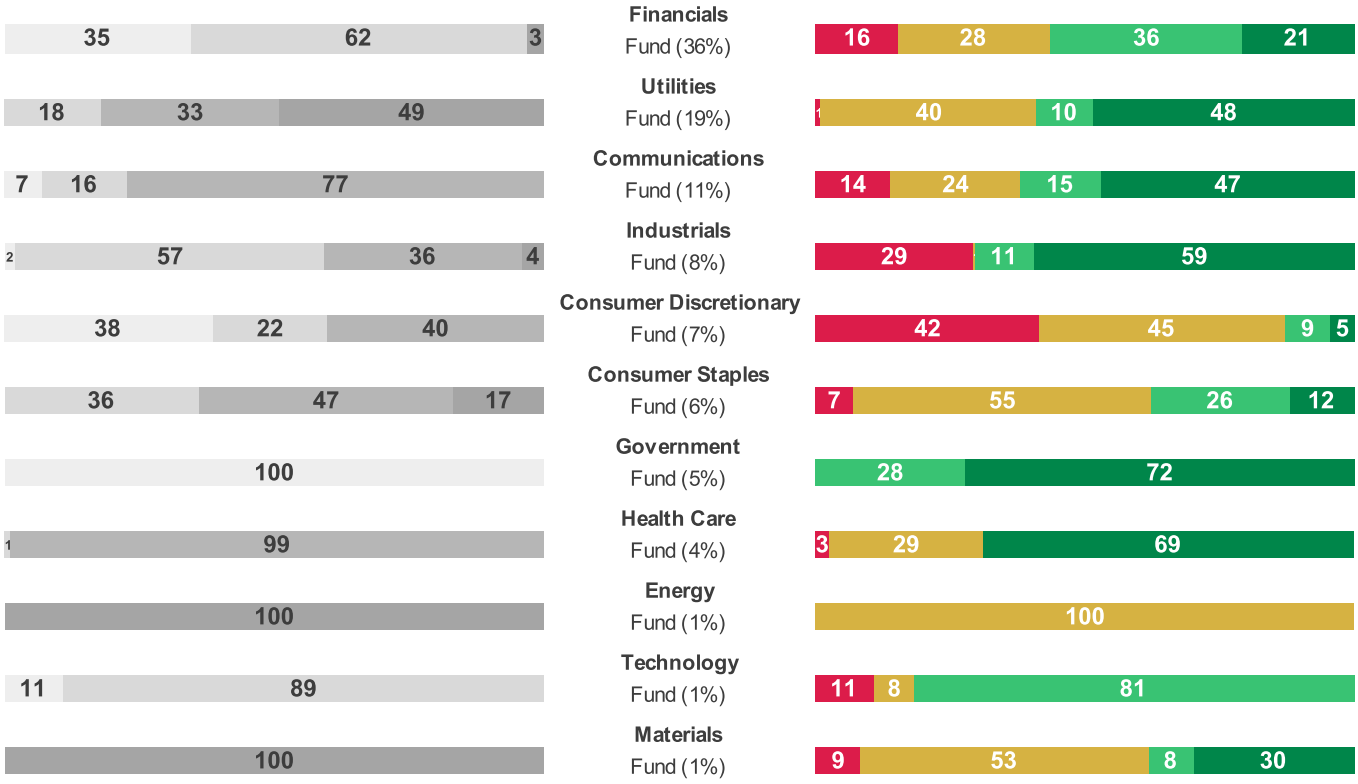
Portfolio Analysis

Synthesis - Carbon Footprint & Energy Transition

Geographic Distribution (% of investments)



Sector Distribution (% of investments)



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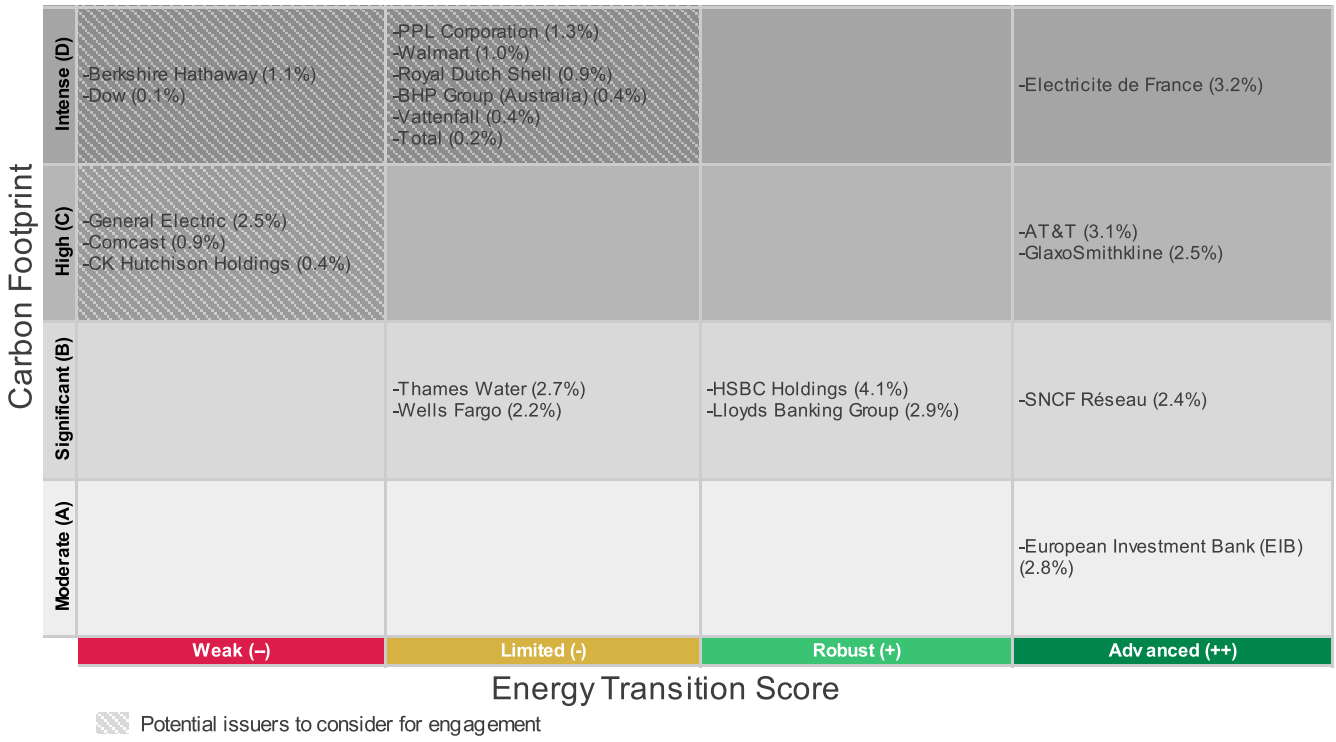
Issuers' watch list



Focus on major CO_2 emitters of the funds

BHP Group (Australia)
(0.4%)

BHP Group (BHP) has an intense carbon footprint (D) and a limited energy transition strategy (-) with a score of 49/100. The Australian mining company's performance is undermined by, among other things, its failure to report transparently on the measures it has put in place to manage the environmental impacts that result from the transport of its products and raw materials. However, BHP has an advanced performance in terms of reducing its energy consumption and associated CO2 emissions. For the period FY2018-FY2022, it has committed to maintain its total greenhouse gas (GHG) emissions at or below the FY2017 level, while continuing to expand its operations. In addition, in line with international commitments, BHP aims to achieve net-zero operational GHG emissions beyond 2022. BHP has taken a range of measures in that respect: it is involved in carbon capture and storage (CCS) projects and has developed a programme to optimise the performance of generators on the drilling rigs operated at Eagle Ford (US). As a result, BHP's energy-consumption and emissions figures have shown positive trends in recent years. The company's energy consumption and associated CO2 emissions, normalised to its sales, have decreased by 50% and 61% respectively between FY2015 and FY2019.

Berkshire Hathaway
(1.1%)

Berkshire Hathaway displays an intense carbon footprint (D) and a very weak energy transition strategy (--) with a score of 4/100. The company is not transparent on the reporting of its management of environmental impacts from either transportation or climate change. Indeed, the company does not appear to disclose any concrete commitment or measure in these areas. In addition, associated performance indicators are not disclosed either (company's own energy consumption and CO2 emissions, contracts including climate change considerations, CO2 emissions associated with the investment portfolio or transport mix notably). Due to Berkshire Hathaway's lack of transparency, Vigeo Eiris' assurance on the company's ability to manage Environmental issues - in particular those related to its energy transition - is low.

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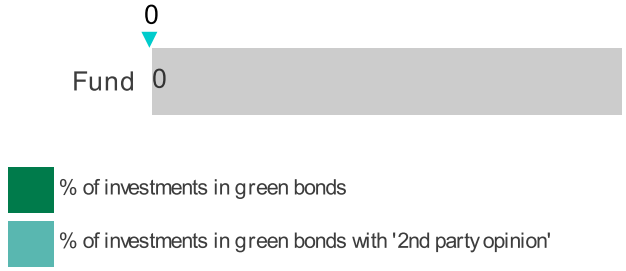
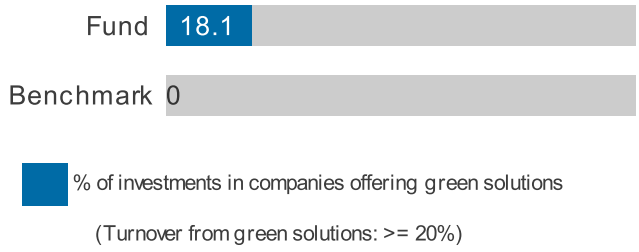
Positive Impact Factors (% of investments)

Investments in Green Bonds

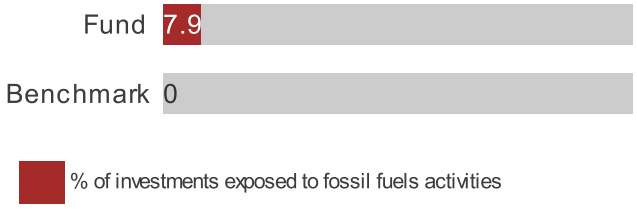


Investments in Green Goods & Services

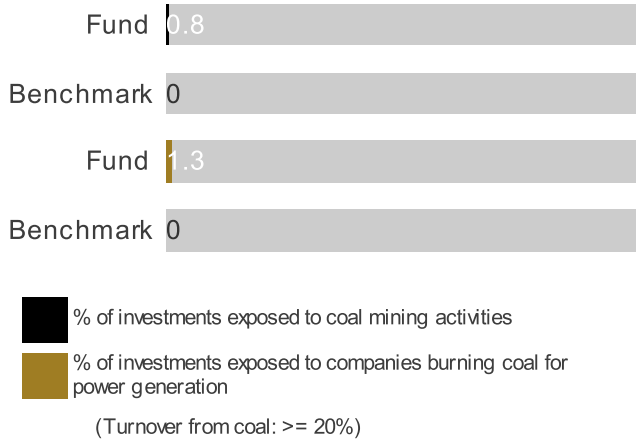


Negative Impact Factors (% of investments)

Fossil Fuels exposure



Coal exposure



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Methodology

Carbon footprint

Carbon footprint is the measure of the volume of carbon dioxide (CO2 eq.) emitted by issuers.

Emissions

Scope 1 covers direct GHG emissions from sources that are owned or controlled by the issuer.
Scope 2 covers indirect GHG emissions caused by the organisation's consumption of electricity, heat, cooling or steam purchased or brought into its reporting boundary.
Scope 3 covers other indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

Data

The carbon data is provided by the CDP and completed with other company sources collected by Vigeo Eiris.
When no data is available from any source, Vigeo Eiris' analysts build a carbon footprint estimation relying on the size of the issuer and the nature of its activities through three different methods: regression models, sector-specific physical factors and sector averages.
An issuer's Carbon Footprint (scope1+2) is then defined from A (Moderate) to D (Intense) according to the scale presented in the table below.
Emissions at portfolio's level may be measured as follows:
- Total financed emissions: sum of the carbon emissions of the issuers in the portfolio based on the ownership of the investor.
- Financed emissions per millions invested: total financed emissions normalised by portfolio value.
- Weighted average carbon footprint: sum of the portfolio's companies emissions weighted by their weight in the portfolio.
- Carbon intensity per sales: volume of emissions per million of sales generated by the constituents of the portfolio over a year.
- Weighted average carbon intensity: sum of the volume of emissions per million of sales generated by the constituents of the portfolio weighted by their weight in the portfolio.

Energy Transition Strategy

Energy transition Strategy is defined as the shift from a carbon based economic model to a green and sustainable one. Vigeo Eiris' scoring of issuers' energy transition strategy is based on specific criteria tied to climate change in ESG Research. The universe of reference is based on Vigeo Eiris' Equitics Research.

Scale	Emissions (t CO2 eq)	Categories
A	<100 000	Moderate
B	>=100 000 & <1 000 000	Significant
C	>=1 000 000 & <10 000 000	High
D	>=10 000 000	Intense

Scale	Energy Transition Score	Categories
++	60-100	Advanced
+	50-59	Robust
-	30-49	Limited
--	0-29	Weak

Performance Attribution

This measure provides an explanation on the difference of performance between a fund and its benchmark. This gap derives from the sum of two factors:
- Sector allocation effect: measures the impact of the choices of overweighting/underweighting a sector in the fund with respect to the benchmark.
- Company selection effect: measures the impact of choices made in the selection of companies in the fund with respect to the benchmark.

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Positive impact factors

1. *Green goods and services*

This research provides a positive screening on issuers having developed a business opportunity to contribute to sustainable development, with a focus on issuers answering environmental challenges.
The involvement of issuers is based on % of activity. The universe of reference is based on Vigeo Eiris' Sustainable Good and Services Research.

2. *Green Bonds*

Green Bonds include bonds financing sustainability related projects, with environmental and/or social benefits, responsibly managed, with an ESG risk-management approach. Vigeo Eiris calculates the share of investments realised on Green Bond issuances (defined as such by the market) and informs on the share of green bonds having received a second party opinion and the share that did not receive any. Data on Green Bonds are based on an up-to-date security list compiled by Vigeo Eiris from trustworthy sources (CBI, Bloomberg).

Negative impact factors

1. *Fossil Fuels*

Fossil fuels include coal, oil, natural gas (including natural gas liquids), and peat. Natural gas liquids (NGL) are classified as hydrocarbons, some of which are used as or blended into fuels, e.g. propane, butane.
The involvement of companies is based on % of turnover. The universe of reference is based on Vigeo Eiris' Controversial Activities Research.
The operations covered are those of the upstream sector (exploration and production, including services during the extraction phase), midstream (transportation and storage services), refining activities and generation (electricity generation from coal, peat, oil shale, oil & gas)

2. *Coal*

Coal includes different categories of coals, including thermal coal – used for electricity generation – and metallurgical coal – mainly used in the iron and steel industries. The extractive industry and utilities sector are analysed separately. The involvement of companies is based on % of turnover. The universe of reference is based on Vigeo Eiris Controversial Activities Research.

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Portfolio Analysis

Synthesis - Carbon Footprint & Energy Transition

Newton Absolute Return

Benchmark : N/A

Evaluation : 31/03/2020

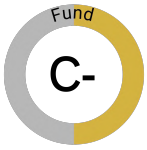


Chart Legend

Carbon Footprint: **CF** ; Energy Transition Strategy: **ETS**

Carbon Footprint (t CO_2 eq)

A Moderate	**B** Significant	**C** High	**D** Intense

Energy Transition Strategy

++ Advanced	**+** Robust	**-** Limited	**--** Weak

Coverage

	Fund	Benchmark
Portfolio coverage by investment	82.4%	N/A
Portfolio coverage by holdings	88/110	N/A

Carbon Footprint & Energy Transition

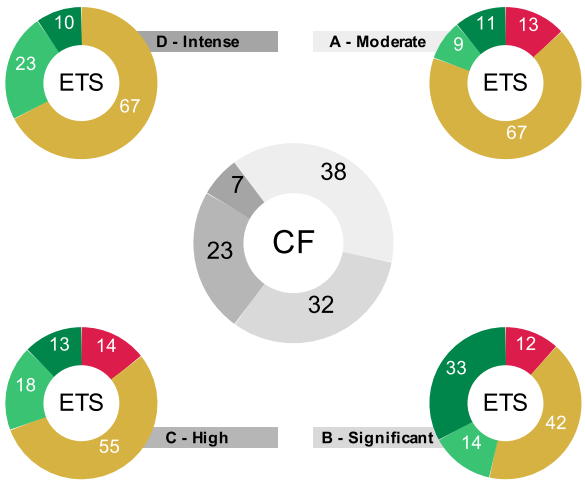
Carbon Footprint (t CO_2 eq.)	Fund	Benchmark
Total financed emissions *	11 790.41	N/A
Financed emissions per M£ invested*	55.63	N/A
Weighted average carbon footprint	3 055 503.95	N/A
Carbon intensity per sales (millions of £)*	140.63	N/A
Weighted average carbon intensity	166.25	N/A

* Based on the method of normalisation chosen by the customer: Total assets
N/A: indicator not available

Energy Transition Strategy	Fund	Benchmark
Energy Transition Strategy score	Limited(-) 44/100	N/A

Investment Distribution (% of investments)

Fund



Benchmark

N/A

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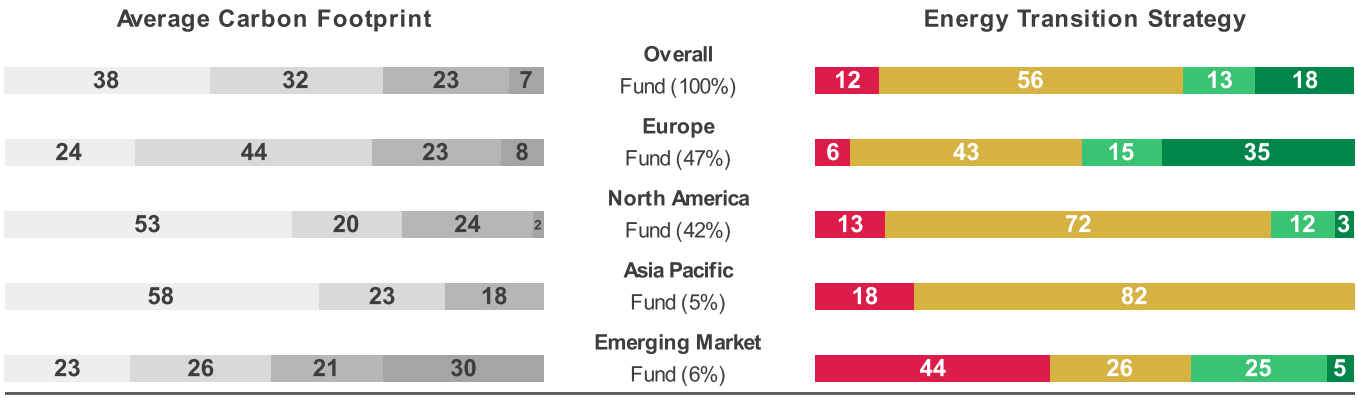
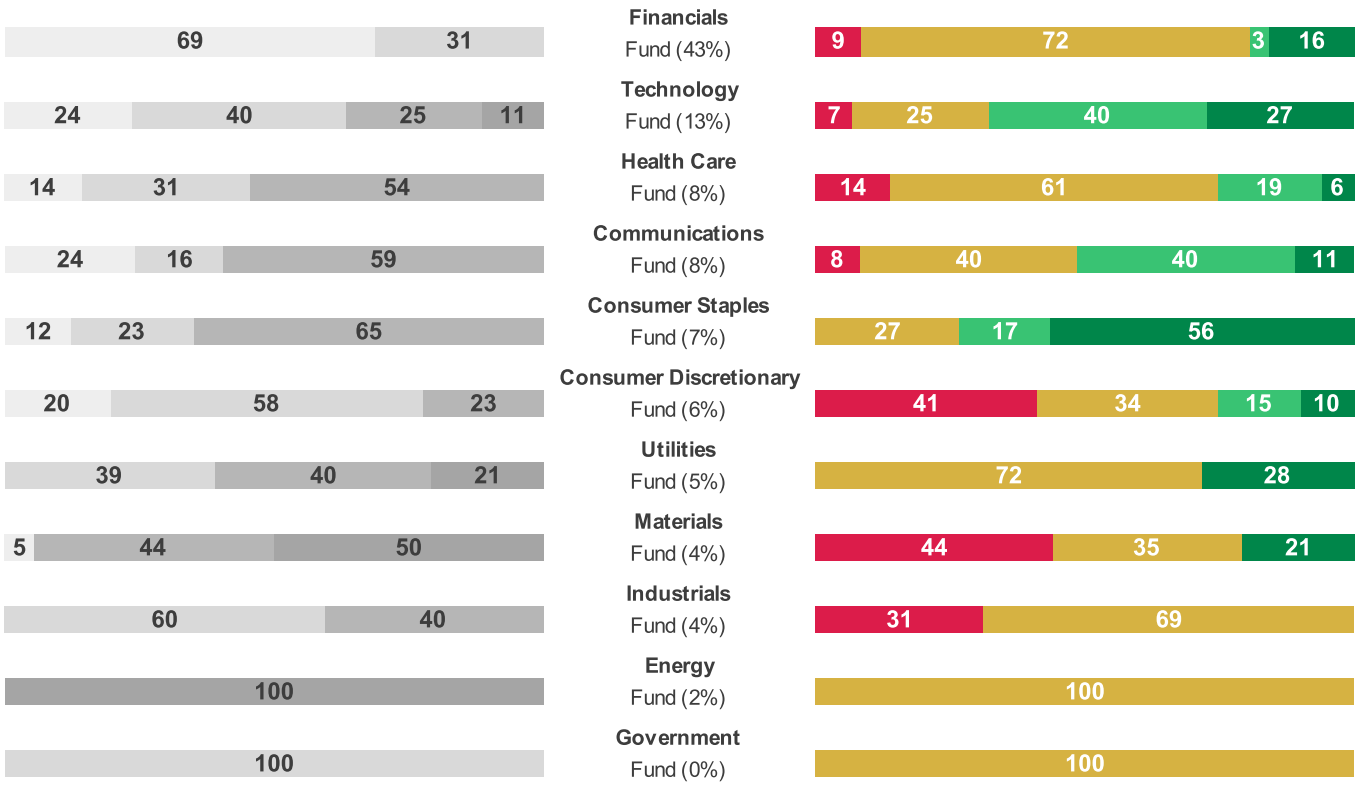
Portfolio Analysis

Synthesis - Carbon Footprint & Energy Transition

Geographic Distribution (% of investments)



Sector Distribution (% of investments)



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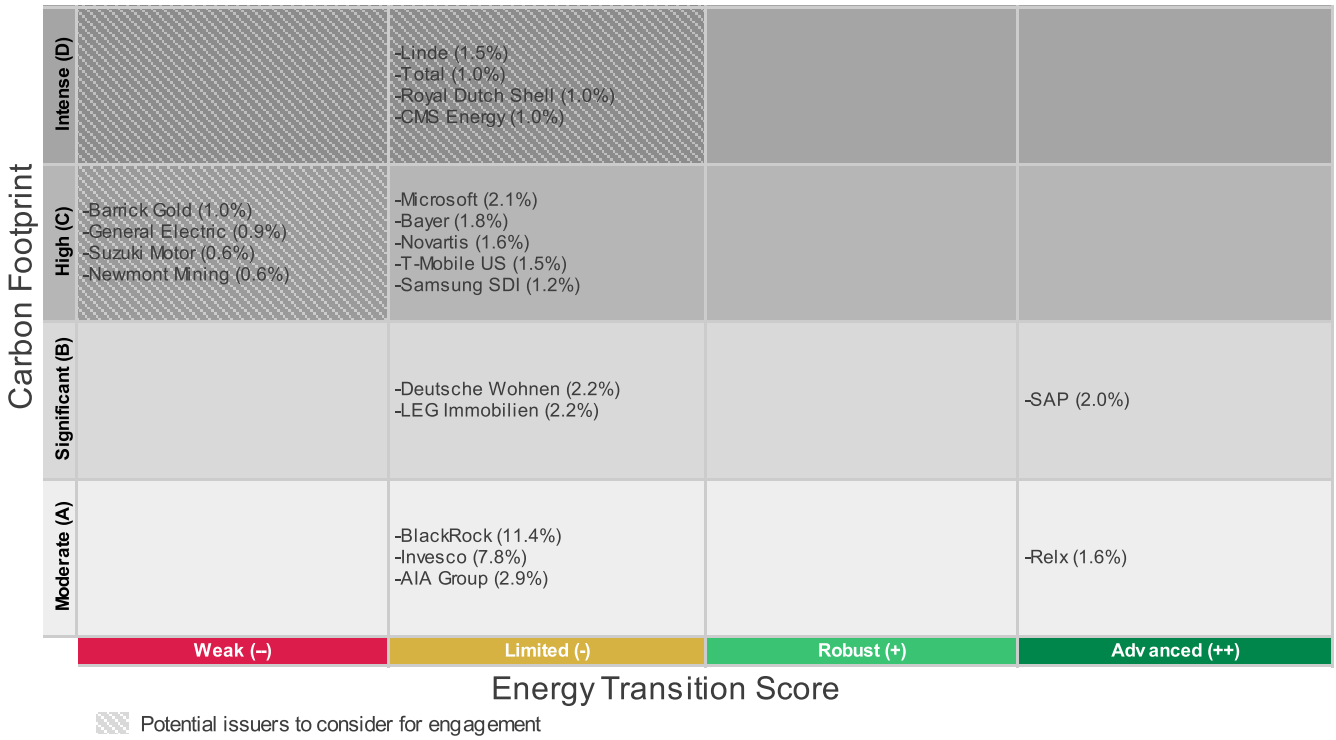
Portfolio Analysis

Synthesis - Carbon Footprint & Energy Transition

Issuers' watch list



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Focus on major CO_2 emitters of the funds

Linde (1.5%)	*Linde displays an intense carbon footprint (D) and a limited energy transition strategy (-) with a score of 41/100. Linde's performance is penalised by a weak score on the development of green products and services, due to limited commitments and resources and to a lack of KPIs (e.g. the share of alternative or bio-based raw materials purchased or developed). The German chemicals company obtains a limited score in terms of energy consumption and CO2 emissions management. It has set quantified targets (e.g. to avoid a total of 6 million tonnes of CO2 emissions by 2020, compared to 2009) and works to optimise its production processes. In 2018, about 30% of the company's total purchased electricity was from renewable sources. Since 2012, 85% of its gas production sites in Germany have been ISO 50001 certified (energy management). However, Linde is penalised by negative KPIs. Normalised to turnover, the company's energy consumption and CO2 emissions have increased over the 2013-2017 period. The company stands out with a robust performance in managing the environmental impacts related to the transport of its products and/or raw materials. It commits to achieve a 7.5% improvement in trucking GHG intensity between 2016 and 2020, has implemented relevant measures and is showing positive results. Normalised to turnover, CO2 emissions from Linde's own transport fleet and contractors have decreased between 2013 and 2017.*
Royal Dutch Shell (1%)	*Royal Dutch Shell (Shell) has an intense carbon footprint (D) and a limited energy transition strategy (-) with a score of 34/100. While Shell has made a commitment to reduce its energy consumption and associated CO2 emissions, targets are only set for certain assets and projects. Despite the implementation of innovative energy efficiency measures, particularly in its subarctic operations in Russia, Shell's energy consumption results were mixed over the 2016-2018 period. Normalised to upstream production, the company's total energy consumption and associated GHG emissions have increased in the 2016-2018 period. However, the energy consumption in chemicals operations (along with the company's total GHG emissions), normalised to chemicals production, have decreased over the same period. Shell has joined the World Bank's "Zero Routine Flaring by 2030" initiative and has set up projects to capture and recover carbon. Its emissions associated with flaring, normalised to upstream production, decreased between 2016 and 2018 by 31%. Shell has made significant investments in renewable energy (wind, biomass and solar) and alternative fuels (agrofuels, second-generation biofuels and hydrogen). The company is involved in wind power projects and jointly owns Raizen (in partnership with the Brazilian company Cosan), which produces and sells ethanol from sugar cane. However, Shell's performance in this area is undermined by its failure to disclose quantitative targets and to report transparently on the volumes of alternative and renewable energy that it produces. The company is the subject of ongoing lawsuits, brought by the City of Honolulu among others, that relate to its alleged climate-change impact. The company is not deemed to have responded in a transparent way to these lawsuits.*

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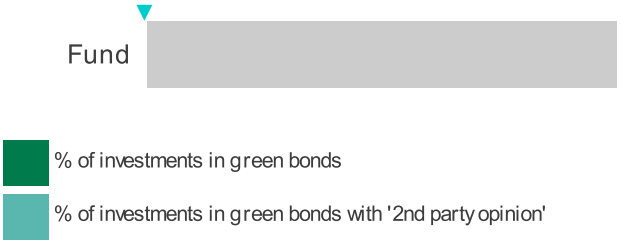
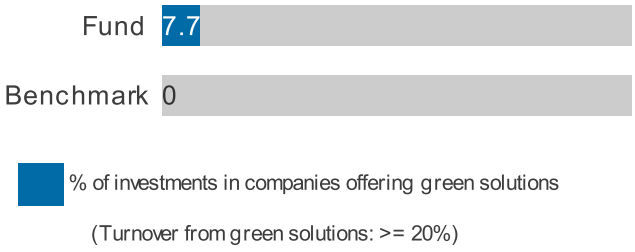
Positive Impact Factors (% of investments)

Investments in Green Bonds

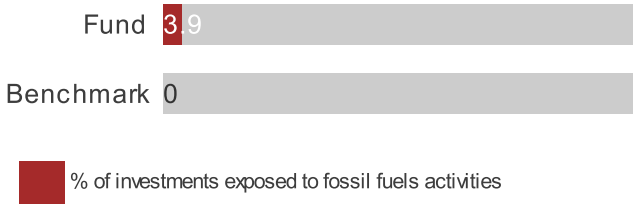


Investments in Green Goods & Services

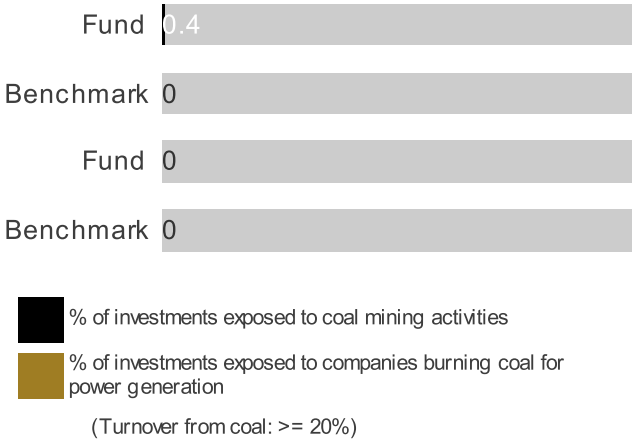


Negative Impact Factors (% of investments)

Fossil Fuels exposure



Coal exposure



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Methodology

Carbon footprint

Carbon footprint is the measure of the volume of carbon dioxide (CO2 eq.) emitted by issuers.

Emissions

Scope 1 covers direct GHG emissions from sources that are owned or controlled by the issuer.
Scope 2 covers indirect GHG emissions caused by the organisation's consumption of electricity, heat, cooling or steam purchased or brought into its reporting boundary.
Scope 3 covers other indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

Data

The carbon data is provided by the CDP and completed with other company sources collected by Vigeo Eiris.
When no data is available from any source, Vigeo Eiris' analysts build a carbon footprint estimation relying on the size of the issuer and the nature of its activities through three different methods: regression models, sector-specific physical factors and sector averages.
An issuer's Carbon Footprint (scope1+2) is then defined from A (Moderate) to D (Intense) according to the scale presented in the table below.
Emissions at portfolio's level may be measured as follows:
- Total financed emissions: sum of the carbon emissions of the issuers in the portfolio based on the ownership of the investor.
- Financed emissions per millions invested: total financed emissions normalised by portfolio value.
- Weighted average carbon footprint: sum of the portfolio's companies emissions weighted by their weight in the portfolio.
- Carbon intensity per sales: volume of emissions per million of sales generated by the constituents of the portfolio over a year.
- Weighted average carbon intensity: sum of the volume of emissions per million of sales generated by the constituents of the portfolio weighted by their weight in the portfolio.

Energy Transition Strategy

Energy transition Strategy is defined as the shift from a carbon based economic model to a green and sustainable one. Vigeo Eiris' scoring of issuers' energy transition strategy is based on specific criteria tied to climate change in ESG Research. The universe of reference is based on Vigeo Eiris' Equitics Research.

Scale	Emissions (t CO2 eq)	Categories
A	<100 000	Moderate
B	>=100 000 & <1 000 000	Significant
C	>=1 000 000 & <10 000 000	High
D	>=10 000 000	Intense

Scale	Energy Transition Score	Categories
++	60-100	Advanced
+	50-59	Robust
-	30-49	Limited
--	0-29	Weak

Performance Attribution

This measure provides an explanation on the difference of performance between a fund and its benchmark. This gap derives from the sum of two factors:
- Sector allocation effect: measures the impact of the choices of overweighting/underweighting a sector in the fund with respect to the benchmark.
- Company selection effect: measures the impact of choices made in the selection of companies in the fund with respect to the benchmark.

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Positive impact factors

1. *Green goods and services*

This research provides a positive screening on issuers having developed a business opportunity to contribute to sustainable development, with a focus on issuers answering environmental challenges.
The involvement of issuers is based on % of activity. The universe of reference is based on Vigeo Eiris' Sustainable Good and Services Research.

2. *Green Bonds*

Green Bonds include bonds financing sustainability related projects, with environmental and/or social benefits, responsibly managed, with an ESG risk-management approach. Vigeo Eiris calculates the share of investments realised on Green Bond issuances (defined as such by the market) and informs on the share of green bonds having received a second party opinion and the share that did not receive any. Data on Green Bonds are based on an up-to-date security list compiled by Vigeo Eiris from trustworthy sources (CBI, Bloomberg).

Negative impact factors

1. *Fossil Fuels*

Fossil fuels include coal, oil, natural gas (including natural gas liquids), and peat. Natural gas liquids (NGL) are classified as hydrocarbons, some of which are used as or blended into fuels, e.g. propane, butane.
The involvement of companies is based on % of turnover. The universe of reference is based on Vigeo Eiris' Controversial Activities Research.
The operations covered are those of the upstream sector (exploration and production, including services during the extraction phase), midstream (transportation and storage services), refining activities and generation (electricity generation from coal, peat, oil shale, oil & gas)

2. *Coal*

Coal includes different categories of coals, including thermal coal – used for electricity generation – and metallurgical coal – mainly used in the iron and steel industries. The extractive industry and utilities sector are analysed separately. The involvement of companies is based on % of turnover. The universe of reference is based on Vigeo Eiris Controversial Activities Research.

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Portfolio Analysis

Synthesis - Carbon Footprint & Energy Transition

Ruffer Absolute Return

Benchmark : N/A

Evaluation : 31/03/2020

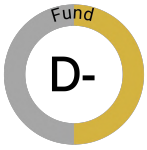


Chart Legend

Carbon Footprint: **CF** ; Energy Transition Strategy: **ETS**

Carbon Footprint (t CO_2 eq)

A Moderate	**B** Significant	**C** High	**D** Intense

Energy Transition Strategy

++ Advanced	**+** Robust	**-** Limited	**--** Weak

Coverage

	Fund	Benchmark
Portfolio coverage by investment	96.8%	N/A
Portfolio coverage by holdings	29/30	N/A

Carbon Footprint & Energy Transition

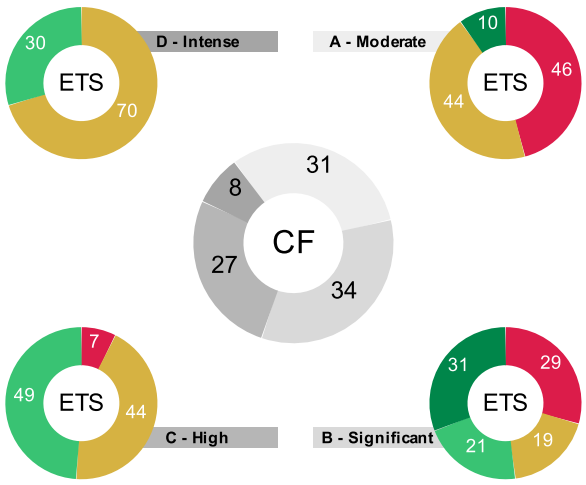
Carbon Footprint (t CO_2 eq.)	Fund	Benchmark
Total financed emissions *	11 470.12	N/A
Financed emissions per M£ invested*	109.72	N/A
Weighted average carbon footprint	12 473 573.92	N/A
Carbon intensity per sales (millions of £)*	232.69	N/A
Weighted average carbon intensity	141.26	N/A

* Based on the method of normalisation chosen by the customer: Total assets
N/A: indicator not available

Energy Transition Strategy	Fund	Benchmark
Energy Transition Strategy score	Limited(-) 42/100	N/A

Investment Distribution (% of investments)

Fund



Benchmark

N/A

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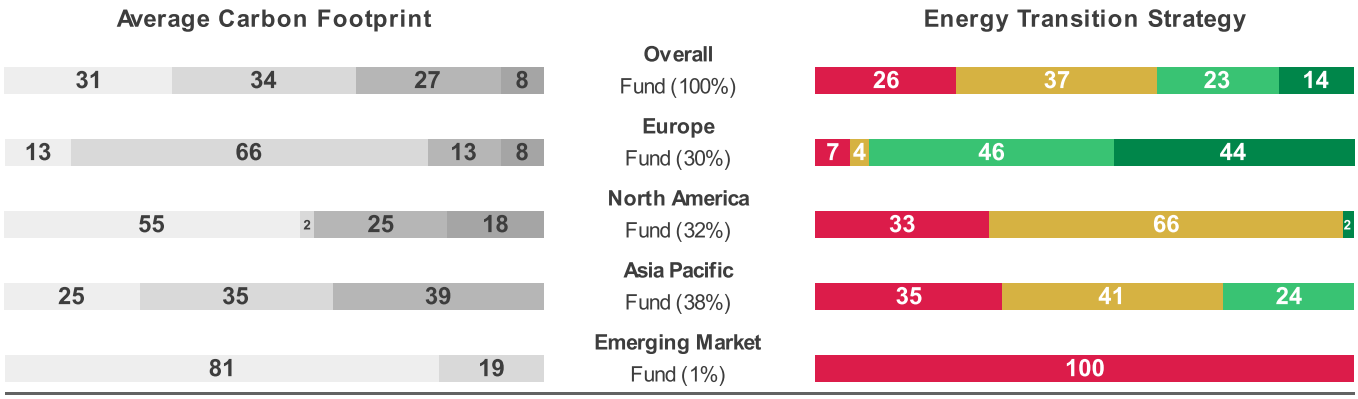
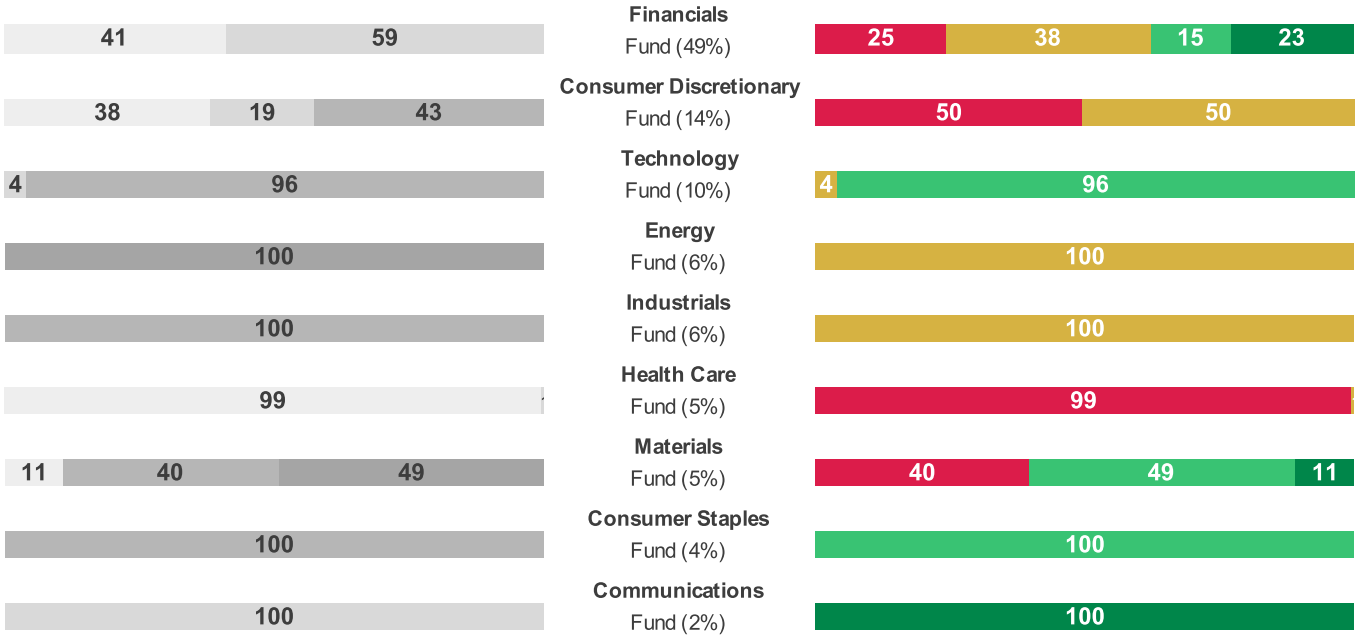
Portfolio Analysis

Synthesis - Carbon Footprint & Energy Transition

Geographic Distribution (% of investments)



Sector Distribution (% of investments)



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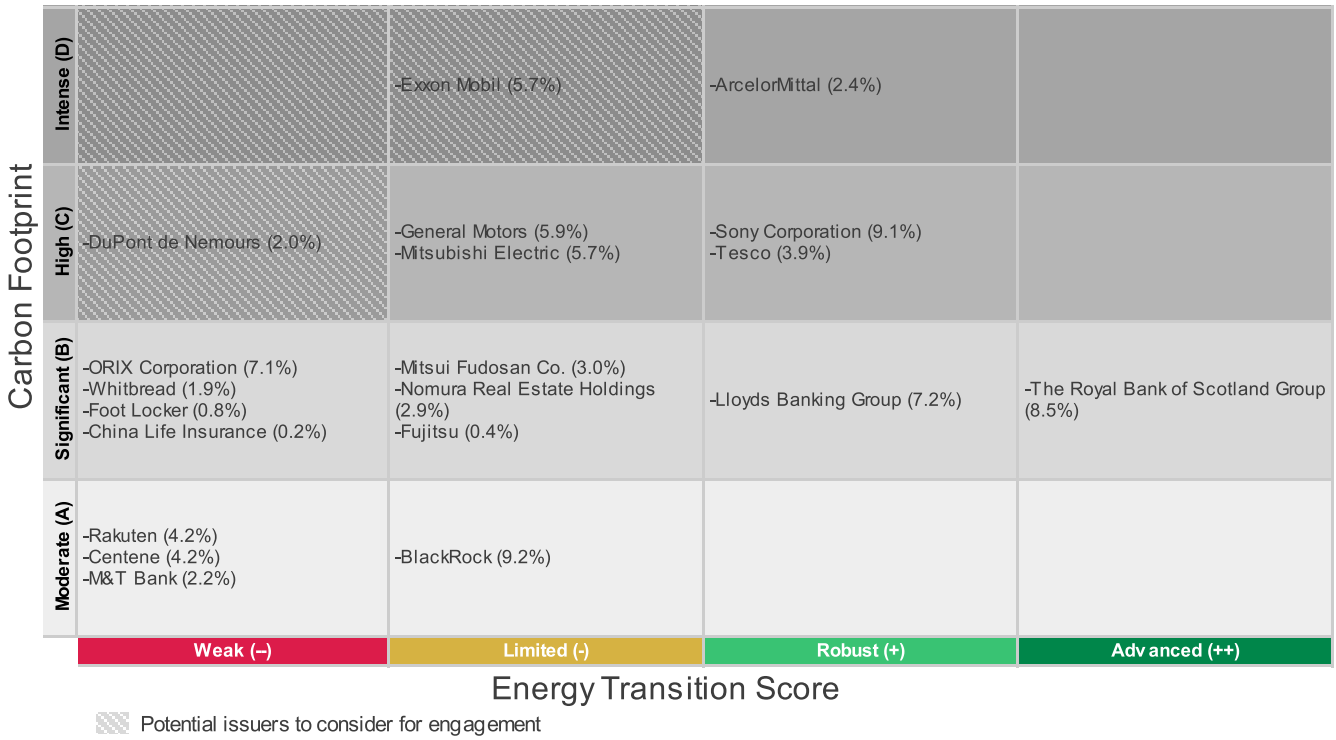
Issuers' watch list



Focus on major CO_2 emitters of the funds

Exxon Mobil
(5.7%)

Exxon Mobil displays an intense carbon footprint (D) and a limited Energy Transition strategy (-) with a score of 30/100, penalised by a weak performance towards the development of alternative fuels and renewable energy. Indeed, the American oil & gas company does not disclose any commitment on renewable energy and its commitment on developing alternative fuels is general. In addition, while it has been researching lower emission technologies such as algae biofuels, the company does not seem to allocate any means towards renewable energy sources. Furthermore, the corresponding KPIs are not disclosed. Although the company reports innovative measures to reduce its energy consumption and/or its related emissions and its gas flaring and venting (interests in 5,400 megawatts of cogeneration capacity in over 30 locations worldwide, methane reduction efforts including structured leak detection and repair programmes, replacement of high-bleed pneumatic devices with lower-emission technology), Exxon Mobil only discloses general commitments – without quantified targets – and uncomplete and/or outdated KPIs in this regard. It does not break down data per business unit and the 2018 data is not disclosed.

General Motors
(5.9%)

General Motors (GM) displays a high carbon footprint (C) and a limited energy transition strategy (-) with a score of 42/100. GM has set quantified targets to limiting impacts from the use of its products (goal to launch 20 new electric vehicles by 2020 notably) and has allocated relevant means to reduce the environmental impacts related to the use and disposal of its products, including using recycled material and reducing the use of hazardous substances. While the company's share of vehicles that can be collected and/or reused has been stable from 2014 to 2018 at 85%, the share of green vehicles compared to vehicles sold has continuously increased from 2016 to 2018. However, the company did not disclose the share of products that are really collected and/or reused, the share that are eco-designed and the share of diesel vehicles complying with the Euro 6 emissions standards. GM also displays a limited performance regarding the development of car sharing solutions: its engagement is too general – no quantified target – and it does not disclose any relevant KPI. The company has an application called "Maven", an app-based car sharing service designed for car-sharing communities and needs. However, this service is not implemented outside the United States. On a different note, GM has set targets to reducing its energy intensity by 20% between 2010 and 2020 and its related GHG emissions by 31% between 2010 and 2030. Additionally, it has set the target of increasing its renewable energy use to 125 MW by 2050. In fact, the results have been positive so far: normalised to sales, its energy consumption and related GHG emissions and its NOx emissions have decreased from 2016 to 2018.

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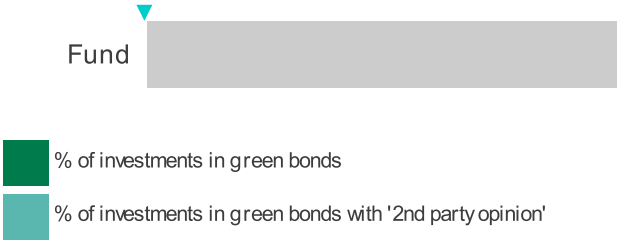
Positive Impact Factors (% of investments)

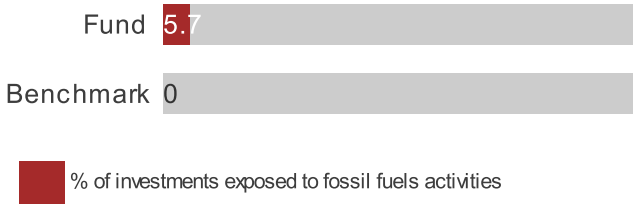
Investments in Green Bonds



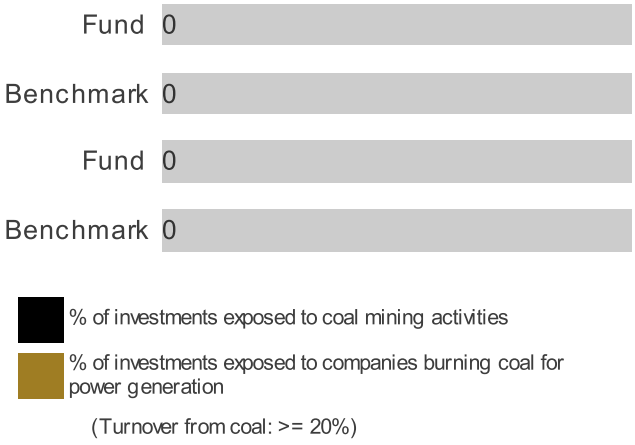
Investments in Green Goods & Services

Negative Impact Factors (% of investments)

Fossil Fuels exposure



Coal exposure



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Methodology

Carbon footprint

Carbon footprint is the measure of the volume of carbon dioxide (CO2 eq.) emitted by issuers.

Emissions

Scope 1 covers direct GHG emissions from sources that are owned or controlled by the issuer.
Scope 2 covers indirect GHG emissions caused by the organisation's consumption of electricity, heat, cooling or steam purchased or brought into its reporting boundary.
Scope 3 covers other indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

Data

The carbon data is provided by the CDP and completed with other company sources collected by Vigeo Eiris.
When no data is available from any source, Vigeo Eiris' analysts build a carbon footprint estimation relying on the size of the issuer and the nature of its activities through three different methods: regression models, sector-specific physical factors and sector averages.
An issuer's Carbon Footprint (scope1+2) is then defined from A (Moderate) to D (Intense) according to the scale presented in the table below.
Emissions at portfolio's level may be measured as follows:
- Total financed emissions: sum of the carbon emissions of the issuers in the portfolio based on the ownership of the investor.
- Financed emissions per millions invested: total financed emissions normalised by portfolio value.
- Weighted average carbon footprint: sum of the portfolio's companies emissions weighted by their weight in the portfolio.
- Carbon intensity per sales: volume of emissions per million of sales generated by the constituents of the portfolio over a year.
- Weighted average carbon intensity: sum of the volume of emissions per million of sales generated by the constituents of the portfolio weighted by their weight in the portfolio.

Energy Transition Strategy

Energy transition Strategy is defined as the shift from a carbon based economic model to a green and sustainable one. Vigeo Eiris' scoring of issuers' energy transition strategy is based on specific criteria tied to climate change in ESG Research. The universe of reference is based on Vigeo Eiris' Equitics Research.

Scale	Emissions (t CO2 eq)	Categories
A	<100 000	Moderate
B	>=100 000 & <1 000 000	Significant
C	>=1 000 000 & <10 000 000	High
D	>=10 000 000	Intense

Scale	Energy Transition Score	Categories
++	60-100	Advanced
+	50-59	Robust
-	30-49	Limited
--	0-29	Weak

Performance Attribution

This measure provides an explanation on the difference of performance between a fund and its benchmark. This gap derives from the sum of two factors:
- Sector allocation effect: measures the impact of the choices of overweighting/underweighting a sector in the fund with respect to the benchmark.
- Company selection effect: measures the impact of choices made in the selection of companies in the fund with respect to the benchmark.

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Positive impact factors

1. *Green goods and services*

This research provides a positive screening on issuers having developed a business opportunity to contribute to sustainable development, with a focus on issuers answering environmental challenges.
The involvement of issuers is based on % of activity. The universe of reference is based on Vigeo Eiris' Sustainable Good and Services Research.

2. *Green Bonds*

Green Bonds include bonds financing sustainability related projects, with environmental and/or social benefits, responsibly managed, with an ESG risk-management approach. Vigeo Eiris calculates the share of investments realised on Green Bond issuances (defined as such by the market) and informs on the share of green bonds having received a second party opinion and the share that did not receive any. Data on Green Bonds are based on an up-to-date security list compiled by Vigeo Eiris from trustworthy sources (CBI, Bloomberg).

Negative impact factors

1. *Fossil Fuels*

Fossil fuels include coal, oil, natural gas (including natural gas liquids), and peat. Natural gas liquids (NGL) are classified as hydrocarbons, some of which are used as or blended into fuels, e.g. propane, butane.
The involvement of companies is based on % of turnover. The universe of reference is based on Vigeo Eiris' Controversial Activities Research.
The operations covered are those of the upstream sector (exploration and production, including services during the extraction phase), midstream (transportation and storage services), refining activities and generation (electricity generation from coal, peat, oil shale, oil & gas)

2. *Coal*

Coal includes different categories of coals, including thermal coal – used for electricity generation – and metallurgical coal – mainly used in the iron and steel industries. The extractive industry and utilities sector are analysed separately. The involvement of companies is based on % of turnover. The universe of reference is based on Vigeo Eiris Controversial Activities Research.

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Portfolio Analysis

Synthesis - Carbon Footprint & Energy Transition

UBS Climate Aware

Benchmark : N/A

Evaluation : 31/03/2020

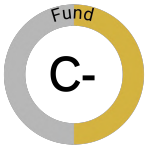


Chart Legend

Carbon Footprint: **CF** ; Energy Transition Strategy: **ETS**

Carbon Footprint (t CO_2 eq)

A Moderate	B Significant	C High	D Intense

Energy Transition Strategy

++ Advanced	+ Robust	- Limited	-- Weak

Coverage

	Fund	Benchmark
Portfolio coverage by investment	99.8%	N/A
Portfolio coverage by holdings	1692/1707	N/A

Carbon Footprint & Energy Transition

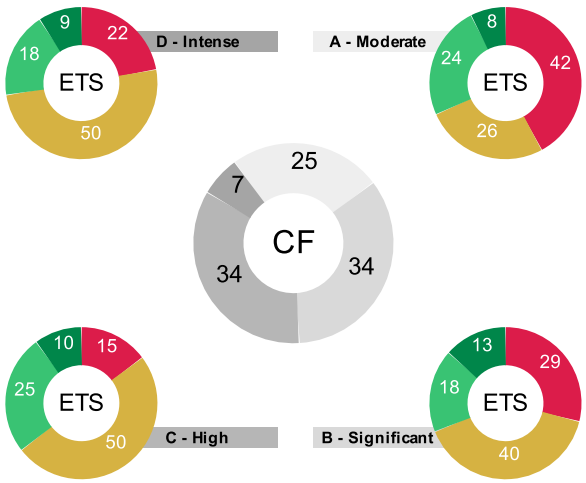
Carbon Footprint (t CO_2 eq.)	Fund	Benchmark
Total financed emissions *	11 184.78	N/A
Financed emissions per M£ invested*	67.61	N/A
Weighted average carbon footprint	3 940 545.27	N/A
Carbon intensity per sales (millions of £)*	101.31	N/A
Weighted average carbon intensity	255.28	N/A

* Based on the method of normalisation chosen by the customer: Total assets
N/A: indicator not available

Energy Transition Strategy	Fund	Benchmark
Energy Transition Strategy score	Limited(-) 40/100	N/A

Investment Distribution (% of investments)

Fund



Benchmark

N/A

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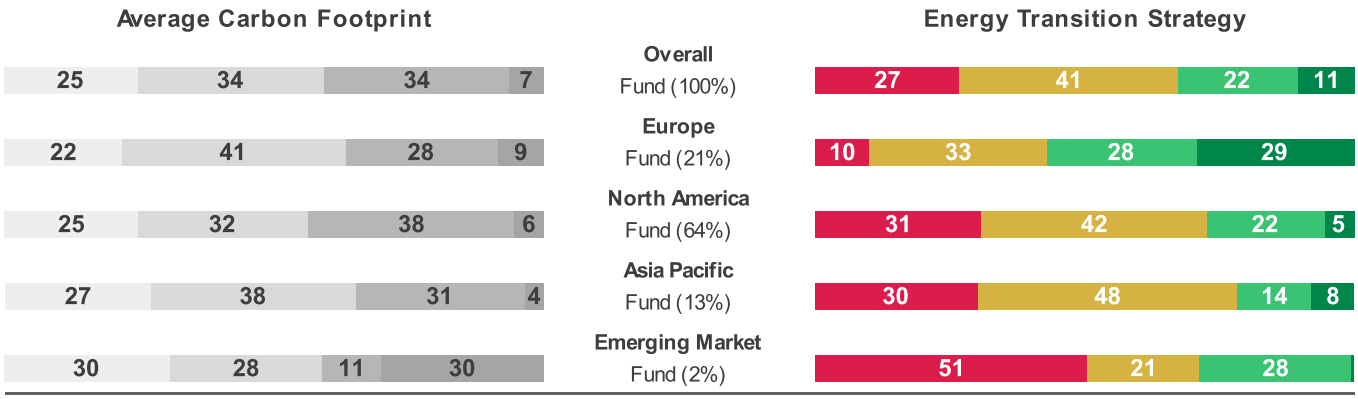
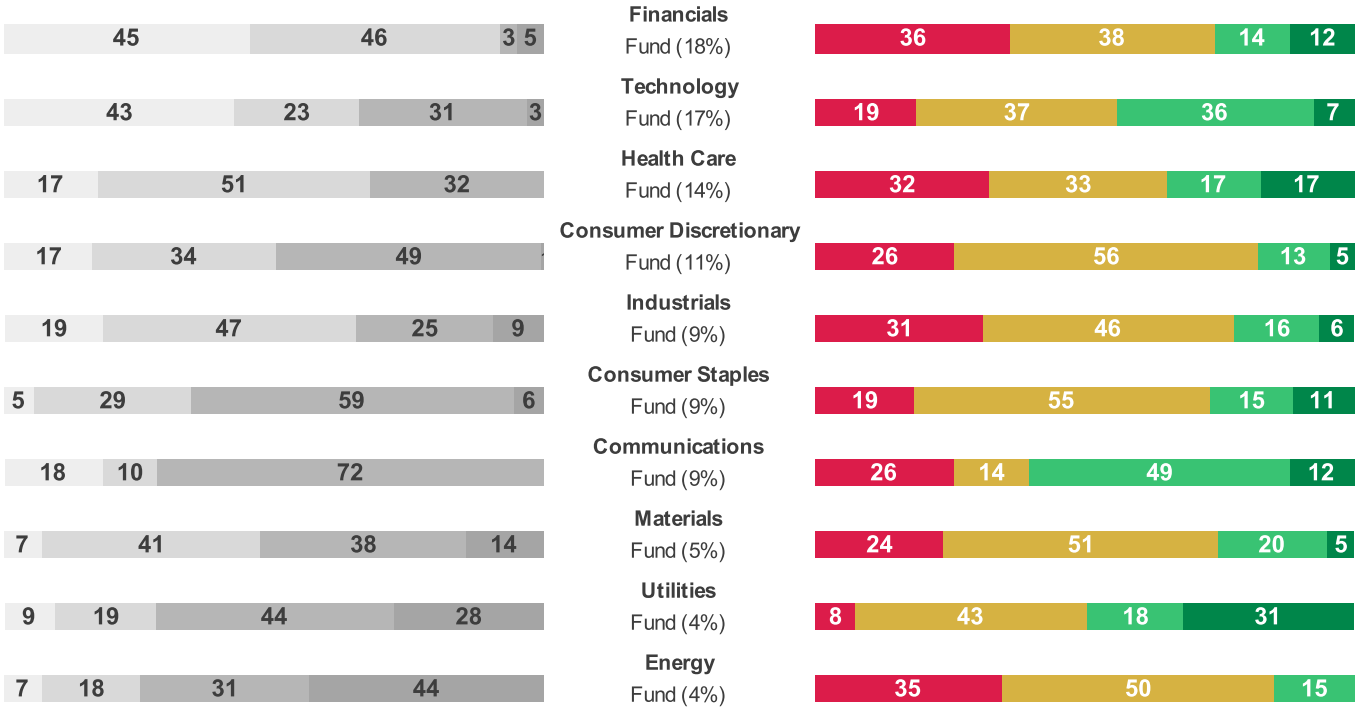
Portfolio Analysis

Synthesis - Carbon Footprint & Energy Transition

Geographic Distribution (% of investments)



Sector Distribution (% of investments)



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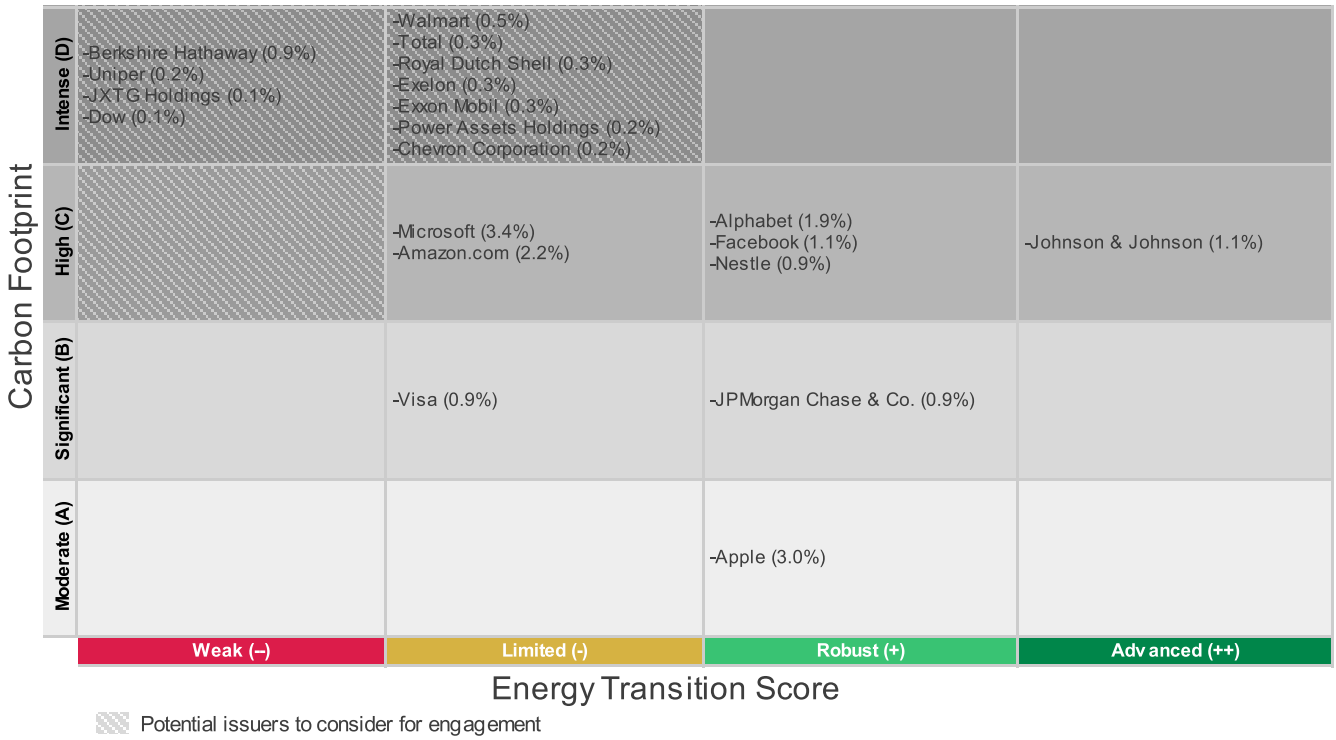
Issuers' watch list



Focus on major CO_2 emitters of the funds

Royal Dutch Shell
(0.3%)

Royal Dutch Shell (Shell) has an intense carbon footprint (D) and a limited energy transition strategy (-) with a score of 34/100. While Shell has made a commitment to reduce its energy consumption and associated CO2 emissions, targets are only set for certain assets and projects. Despite the implementation of innovative energy efficiency measures, particularly in its subarctic operations in Russia, Shell's energy consumption results were mixed over the 2016-2018 period. Normalised to upstream production, the company's total energy consumption and associated GHG emissions have increased in the 2016-2018 period. However, the energy consumption in chemicals operations (along with the company's total GHG emissions), normalised to chemicals production, have decreased over the same period. Shell has joined the World Bank's "Zero Routine Flaring by 2030" initiative and has set up projects to capture and recover carbon. Its emissions associated with flaring, normalised to upstream production, decreased between 2016 and 2018 by 31%. Shell has made significant investments in renewable energy (wind, biomass and solar) and alternative fuels (agrofuels, second-generation biofuels and hydrogen). The company is involved in wind power projects and jointly owns Raizen (in partnership with the Brazilian company Cosan), which produces and sells ethanol from sugar cane. However, Shell's performance in this area is undermined by its failure to disclose quantitative targets and to report transparently on the volumes of alternative and renewable energy that it produces. The company is the subject of ongoing lawsuits, brought by the City of Honolulu among others, that relate to its alleged climate-change impact. The company is not deemed to have responded in a transparent way to these lawsuits.

Berkshire Hathaway
(0.9%)

Berkshire Hathaway displays an intense carbon footprint (D) and a very weak energy transition strategy (--) with a score of 4/100. The company is not transparent on the reporting of its management of environmental impacts from either transportation or climate change. Indeed, the company does not appear to disclose any concrete commitment or measure in these areas. In addition, associated performance indicators are not disclosed either (company's own energy consumption and CO2 emissions, contracts including climate change considerations, CO2 emissions associated with the investment portfolio or transport mix notably). Due to Berkshire Hathaway's lack of transparency, Vigeo Eiris' assurance on the company's ability to manage Environmental issues - in particular those related to its energy transition - is low.

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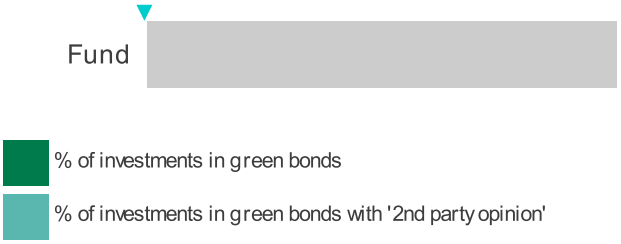
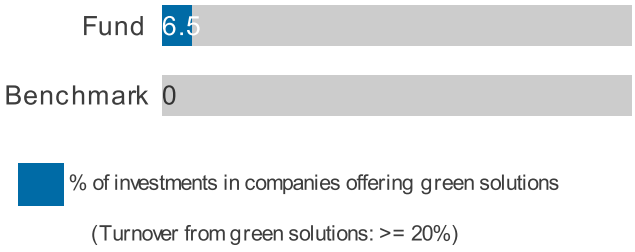
Positive Impact Factors (% of investments)

Investments in Green Bonds

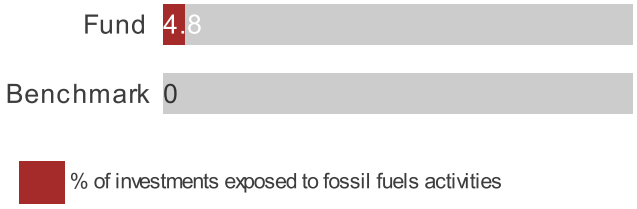


Investments in Green Goods & Services

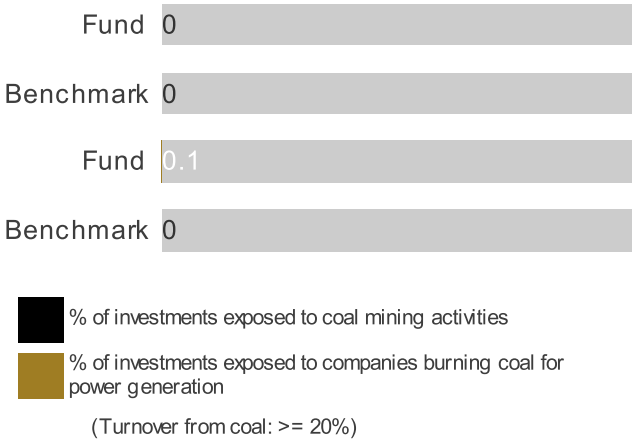


Negative Impact Factors (% of investments)

Fossil Fuels exposure



Coal exposure



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Methodology

Carbon footprint

Carbon footprint is the measure of the volume of carbon dioxide (CO2 eq.) emitted by issuers.

Emissions

Scope 1 covers direct GHG emissions from sources that are owned or controlled by the issuer.
Scope 2 covers indirect GHG emissions caused by the organisation's consumption of electricity, heat, cooling or steam purchased or brought into its reporting boundary.
Scope 3 covers other indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

Data

The carbon data is provided by the CDP and completed with other company sources collected by Vigeo Eiris.
When no data is available from any source, Vigeo Eiris' analysts build a carbon footprint estimation relying on the size of the issuer and the nature of its activities through three different methods: regression models, sector-specific physical factors and sector averages.
An issuer's Carbon Footprint (scope1+2) is then defined from A (Moderate) to D (Intense) according to the scale presented in the table below.
Emissions at portfolio's level may be measured as follows:
- Total financed emissions: sum of the carbon emissions of the issuers in the portfolio based on the ownership of the investor.
- Financed emissions per millions invested: total financed emissions normalised by portfolio value.
- Weighted average carbon footprint: sum of the portfolio's companies emissions weighted by their weight in the portfolio.
- Carbon intensity per sales: volume of emissions per million of sales generated by the constituents of the portfolio over a year.
- Weighted average carbon intensity: sum of the volume of emissions per million of sales generated by the constituents of the portfolio weighted by their weight in the portfolio.

Energy Transition Strategy

Energy transition Strategy is defined as the shift from a carbon based economic model to a green and sustainable one. Vigeo Eiris' scoring of issuers' energy transition strategy is based on specific criteria tied to climate change in ESG Research. The universe of reference is based on Vigeo Eiris' Equitics Research.

Scale	Emissions (t CO2 eq)	Categories
A	<100 000	Moderate
B	>=100 000 & <1 000 000	Significant
C	>=1 000 000 & <10 000 000	High
D	>=10 000 000	Intense

Scale	Energy Transition Score	Categories
++	60-100	Advanced
+	50-59	Robust
-	30-49	Limited
--	0-29	Weak

Performance Attribution

This measure provides an explanation on the difference of performance between a fund and its benchmark. This gap derives from the sum of two factors:
- Sector allocation effect: measures the impact of the choices of overweighting/underweighting a sector in the fund with respect to the benchmark.
- Company selection effect: measures the impact of choices made in the selection of companies in the fund with respect to the benchmark.

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Positive impact factors

1. *Green goods and services*

This research provides a positive screening on issuers having developed a business opportunity to contribute to sustainable development, with a focus on issuers answering environmental challenges.
The involvement of issuers is based on % of activity. The universe of reference is based on Vigeo Eiris' Sustainable Good and Services Research.

2. *Green Bonds*

Green Bonds include bonds financing sustainability related projects, with environmental and/or social benefits, responsibly managed, with an ESG risk-management approach. Vigeo Eiris calculates the share of investments realised on Green Bond issuances (defined as such by the market) and informs on the share of green bonds having received a second party opinion and the share that did not receive any. Data on Green Bonds are based on an up-to-date security list compiled by Vigeo Eiris from trustworthy sources (CBI, Bloomberg).

Negative impact factors

1. *Fossil Fuels*

Fossil fuels include coal, oil, natural gas (including natural gas liquids), and peat. Natural gas liquids (NGL) are classified as hydrocarbons, some of which are used as or blended into fuels, e.g. propane, butane.
The involvement of companies is based on % of turnover. The universe of reference is based on Vigeo Eiris' Controversial Activities Research.
The operations covered are those of the upstream sector (exploration and production, including services during the extraction phase), midstream (transportation and storage services), refining activities and generation (electricity generation from coal, peat, oil shale, oil & gas)

2. *Coal*

Coal includes different categories of coals, including thermal coal – used for electricity generation – and metallurgical coal – mainly used in the iron and steel industries. The extractive industry and utilities sector are analysed separately. The involvement of companies is based on % of turnover. The universe of reference is based on Vigeo Eiris Controversial Activities Research.

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Portfolio Analysis

Synthesis - Carbon Footprint & Energy Transition

UBS Europe Ex UK Equities

Benchmark : N/A

Evaluation : 31/03/2020

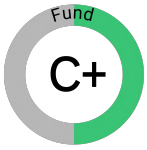


Chart Legend

Carbon Footprint: **CF** ; Energy Transition Strategy: **ETS**

Carbon Footprint (t CO_2 eq)

A Moderate	**B** Significant	**C** High	**D** Intense

Energy Transition Strategy

++ Advanced	+ Robust	- Limited	-- Weak

Coverage

	Fund	Benchmark
Portfolio coverage by investment	99.8%	N/A
Portfolio coverage by holdings	432/438	N/A

Carbon Footprint & Energy Transition

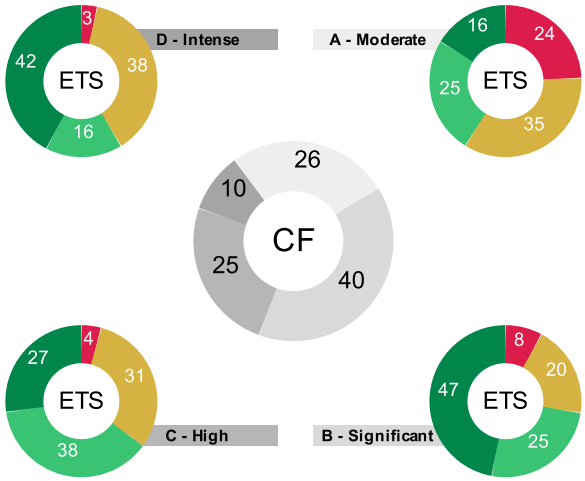
Carbon Footprint (t CO_2 eq.)	Fund	Benchmark
Total financed emissions *	13 067.99	N/A
Financed emissions per M£ invested*	111.27	N/A
Weighted average carbon footprint	5 662 777.29	N/A
Carbon intensity per sales (millions of £)*	195.15	N/A
Weighted average carbon intensity	329.94	N/A

* Based on the method of normalisation chosen by the customer: Total assets
N/A: indicator not available

Energy Transition Strategy	Fund	Benchmark
Energy Transition Strategy score	Robust(+) 52/100	N/A

Investment Distribution (% of investments)

Fund



Benchmark

N/A

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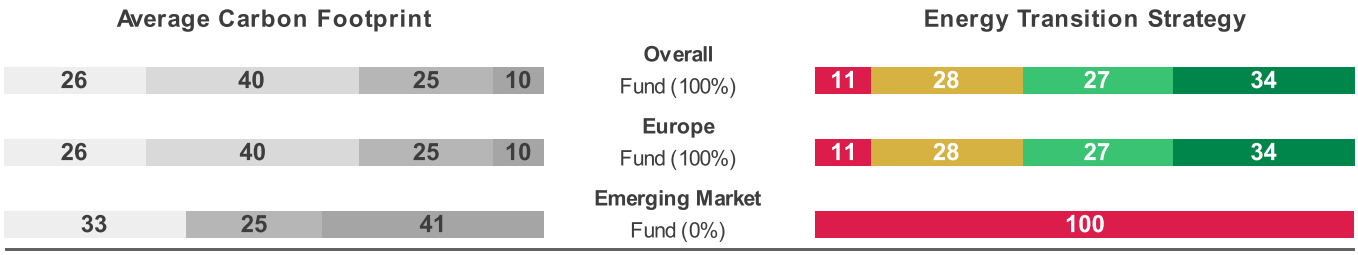
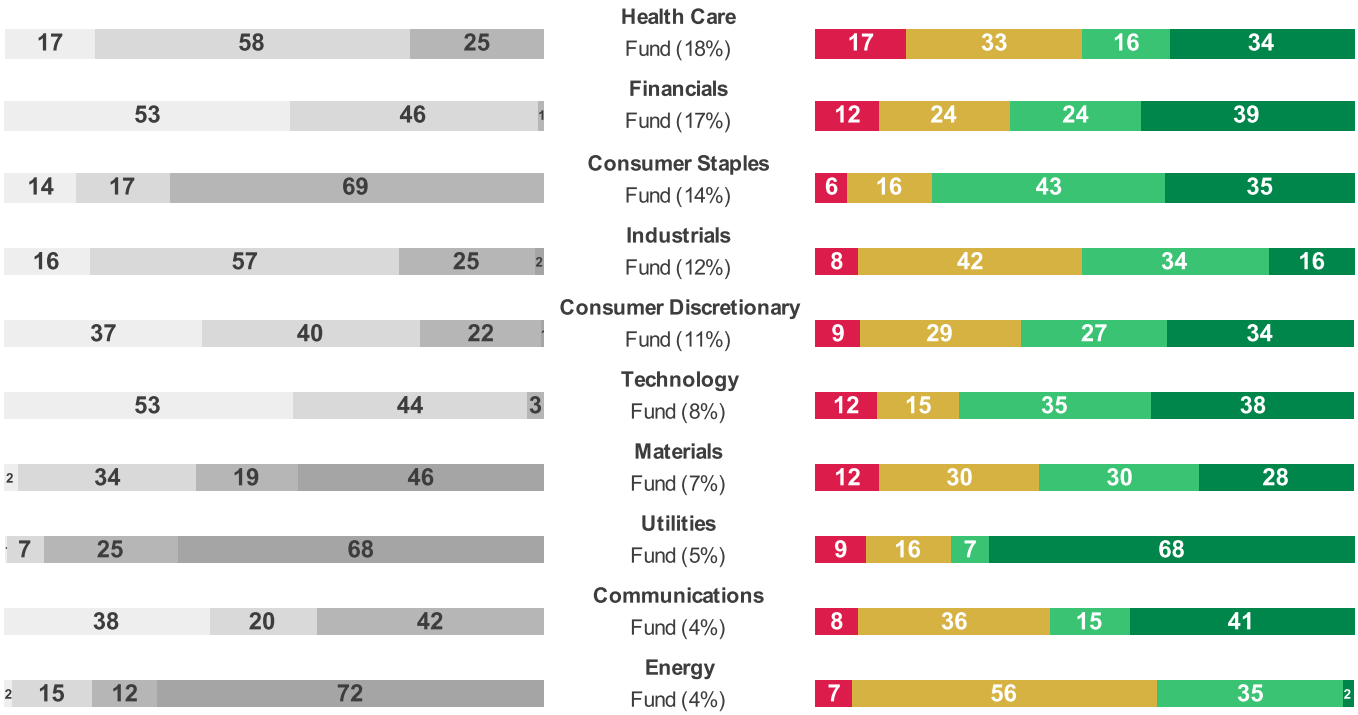
Portfolio Analysis

Synthesis - Carbon Footprint & Energy Transition

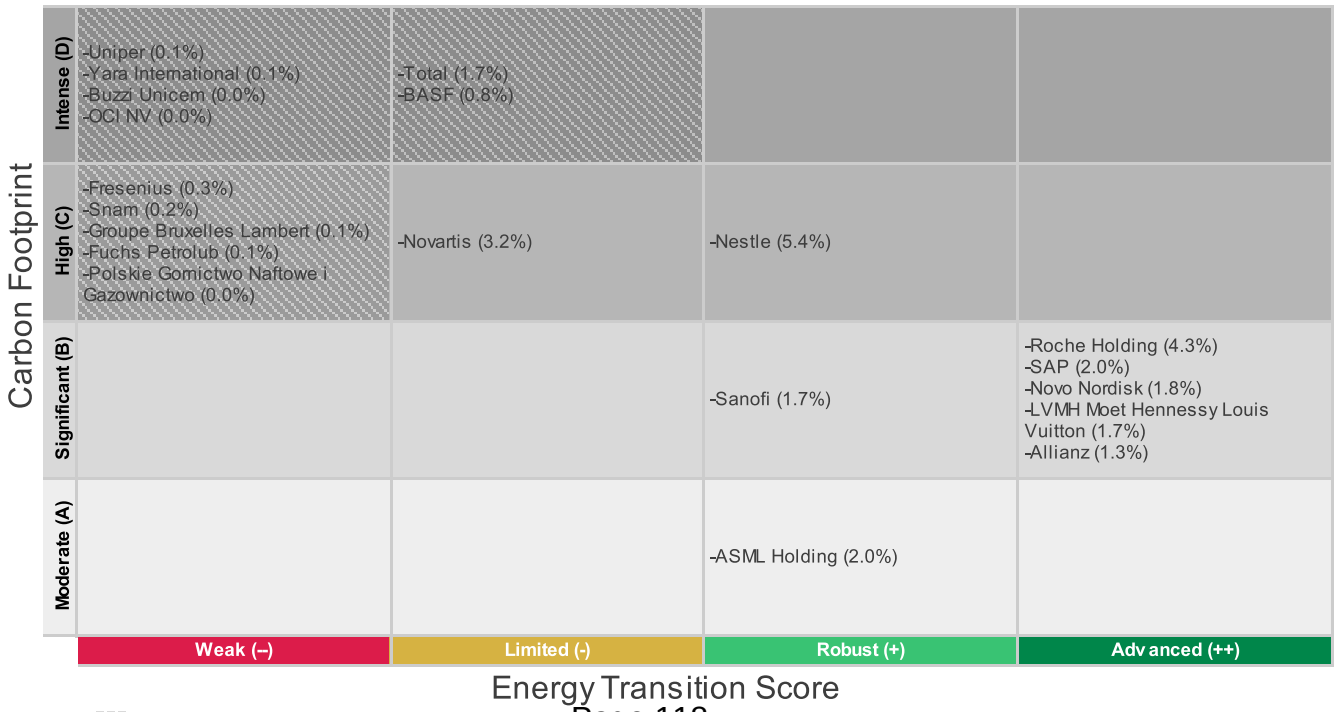
Geographic Distribution (% of investments)



Sector Distribution (% of investments)



Issuers' watch list



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Focus on major CO_2 emitters of the funds

BASF (0.8%)	*BASF has an intense carbon footprint (D) and a limited energy transition strategy (-) with a score of 48/100. The German chemical group is notably penalised by a limited performance in terms of development of green products and management of the environmental impacts linked to the transport of its products and raw materials. In addition to commitments that remain too general, without quantified targets, BASF is penalised by unsatisfactory performance indicators. Transport-related CO2 emissions, normalised to sales, have increased by 25% over the period 2014-2018 and the transport mix is not reported. Nevertheless, BASF stands out for its advanced performance in managing its overall energy consumption and CO2 emissions. By 2020, the company is committed to reducing its CO2 emissions per tonne of product by 40% compared to 2002 and to introducing ISO 50001-certified energy management systems at all relevant production sites. BASF has deployed gas and steam turbines in combined heat at selected sites, which improve the efficiency of its thermal power plants. It also reports gradually replacing fossil fuels with renewables in its electricity purchasing. However, the associated performance indicators are mixed. Normalised to its sales, its energy consumption remained stable between 2016 and 2018 while its CO2 emissions decreased over the same period. The company reports extensive measures in favour of the use of green raw materials, in particular through the development of a biobased and compostable polymer and a biomass balance approach - certified by an independent third party - that allows a proportion of fossil feedstock to be replaced by renewable feedstock. However, only 5.3% of the raw materials purchased by BASF in 2018 came from renewable sources.*
Fresenius (0.3%)	*Fresenius displays a high carbon footprint (C) and a weak Energy Transition strategy (--) with a score of 19/100. The company's commitments to reduce its energy consumption and related emissions are general, with no quantified targets disclosed. Despite having put in place innovative measures in this regard (such as wastewater heat recovery), there is no evidence that they were all implemented in a majority of sites. Moreover, in terms of relevant KPIs, no trend could be determined due to a lack of historical data. Finally, the company remains silent regarding the management of its environmental impacts from transportation.*

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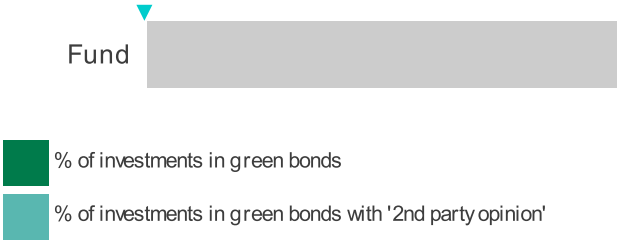
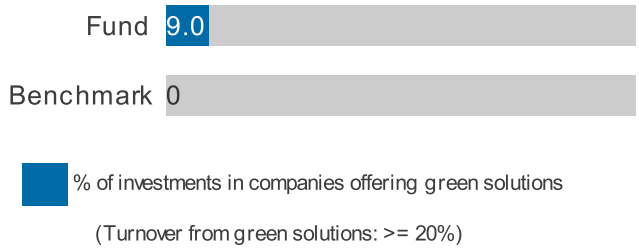
Positive Impact Factors (% of investments)

Investments in Green Bonds

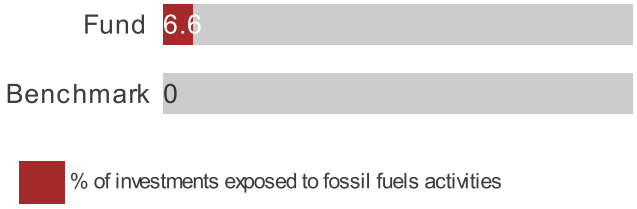


Investments in Green Goods & Services

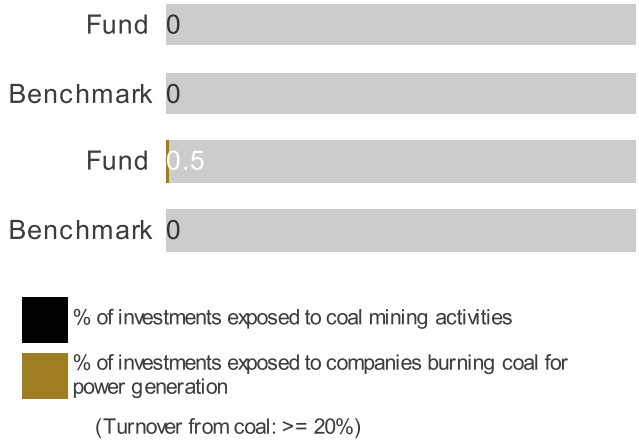


Negative Impact Factors (% of investments)

Fossil Fuels exposure



Coal exposure



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Methodology

Carbon footprint

Carbon footprint is the measure of the volume of carbon dioxide (CO2 eq.) emitted by issuers.

Emissions

Scope 1 covers direct GHG emissions from sources that are owned or controlled by the issuer.
Scope 2 covers indirect GHG emissions caused by the organisation's consumption of electricity, heat, cooling or steam purchased or brought into its reporting boundary.
Scope 3 covers other indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

Data

The carbon data is provided by the CDP and completed with other company sources collected by Vigeo Eiris.
When no data is available from any source, Vigeo Eiris' analysts build a carbon footprint estimation relying on the size of the issuer and the nature of its activities through three different methods: regression models, sector-specific physical factors and sector averages.
An issuer's Carbon Footprint (scope1+2) is then defined from A (Moderate) to D (Intense) according to the scale presented in the table below.
Emissions at portfolio's level may be measured as follows:
- Total financed emissions: sum of the carbon emissions of the issuers in the portfolio based on the ownership of the investor.
- Financed emissions per millions invested: total financed emissions normalised by portfolio value.
- Weighted average carbon footprint: sum of the portfolio's companies emissions weighted by their weight in the portfolio.
- Carbon intensity per sales: volume of emissions per million of sales generated by the constituents of the portfolio over a year.
- Weighted average carbon intensity: sum of the volume of emissions per million of sales generated by the constituents of the portfolio weighted by their weight in the portfolio.

Energy Transition Strategy

Energy transition Strategy is defined as the shift from a carbon based economic model to a green and sustainable one. Vigeo Eiris' scoring of issuers' energy transition strategy is based on specific criteria tied to climate change in ESG Research. The universe of reference is based on Vigeo Eiris' Equitics Research.

Scale	Emissions (t CO2 eq)	Categories
A	<100 000	Moderate
B	>=100 000 & <1 000 000	Significant
C	>=1 000 000 & <10 000 000	High
D	>=10 000 000	Intense

Scale	Energy Transition Score	Categories
++	60-100	Advanced
+	50-59	Robust
-	30-49	Limited
--	0-29	Weak

Performance Attribution

This measure provides an explanation on the difference of performance between a fund and its benchmark. This gap derives from the sum of two factors:
- Sector allocation effect: measures the impact of the choices of overweighting/underweighting a sector in the fund with respect to the benchmark.
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Positive impact factors

1. *Green goods and services*

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The involvement of issuers is based on % of activity. The universe of reference is based on Vigeo Eiris' Sustainable Good and Services Research.

2. *Green Bonds*

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Negative impact factors

1. *Fossil Fuels*

Fossil fuels include coal, oil, natural gas (including natural gas liquids), and peat. Natural gas liquids (NGL) are classified as hydrocarbons, some of which are used as or blended into fuels, e.g. propane, butane.
The involvement of companies is based on % of turnover. The universe of reference is based on Vigeo Eiris' Controversial Activities Research.
The operations covered are those of the upstream sector (exploration and production, including services during the extraction phase), midstream (transportation and storage services), refining activities and generation (electricity generation from coal, peat, oil shale, oil & gas)

2. *Coal*

Coal includes different categories of coals, including thermal coal – used for electricity generation – and metallurgical coal – mainly used in the iron and steel industries. The extractive industry and utilities sector are analysed separately. The involvement of companies is based on % of turnover. The universe of reference is based on Vigeo Eiris Controversial Activities Research.

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Portfolio Analysis

Synthesis - Carbon Footprint & Energy Transition

UBS Fundamental Indexation

Benchmark : N/A

Evaluation : 31/03/2020

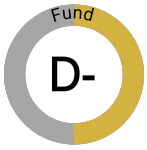


Chart Legend

Carbon Footprint: **CF** ; Energy Transition Strategy: **ETS**

Carbon Footprint (t CO_2 eq)

A Moderate	**B** Significant	**C** High	**D** Intense

Energy Transition Strategy

++ Advanced	**+** Robust	**-** Limited	**--** Weak

Coverage

	Fund	Benchmark
Portfolio coverage by investment	97.4%	N/A
Portfolio coverage by holdings	2363/2691	N/A

Carbon Footprint & Energy Transition

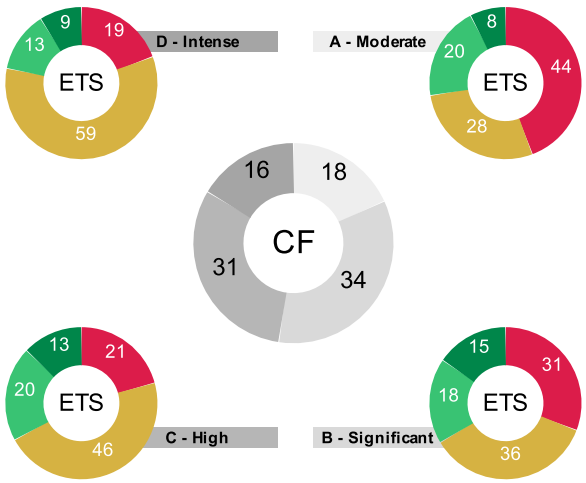
Carbon Footprint (t CO_2 eq.)	Fund	Benchmark
Total financed emissions *	63 545.59	N/A
Financed emissions per M£ invested*	185.48	N/A
Weighted average carbon footprint	10 075 039.51	N/A
Carbon intensity per sales (millions of £)*	294.19	N/A
Weighted average carbon intensity	392.94	N/A

* Based on the method of normalisation chosen by the customer: Total assets
N/A: indicator not available

Energy Transition Strategy	Fund	Benchmark
Energy Transition Strategy score	Limited(-) 40/100	N/A

Investment Distribution (% of investments)

Fund



Benchmark

N/A

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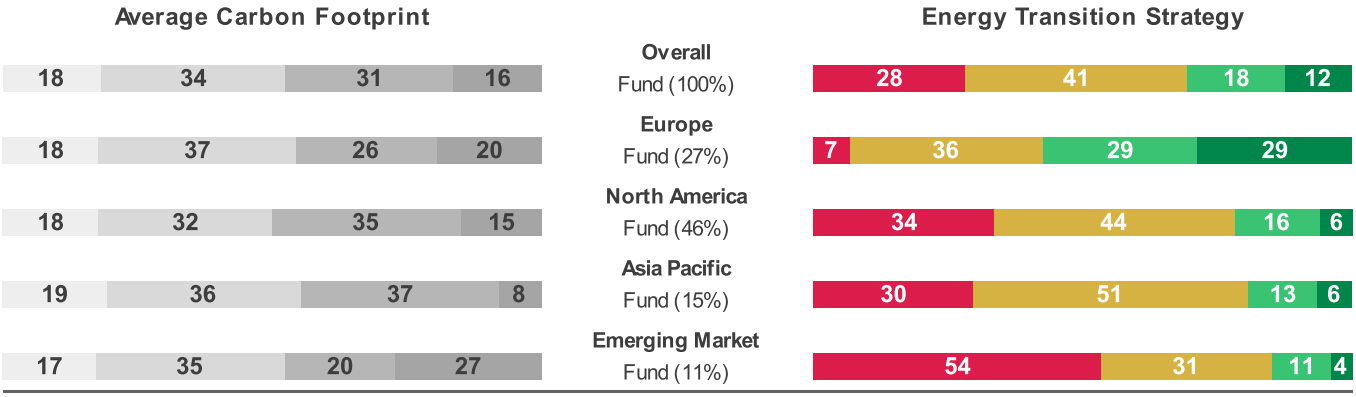
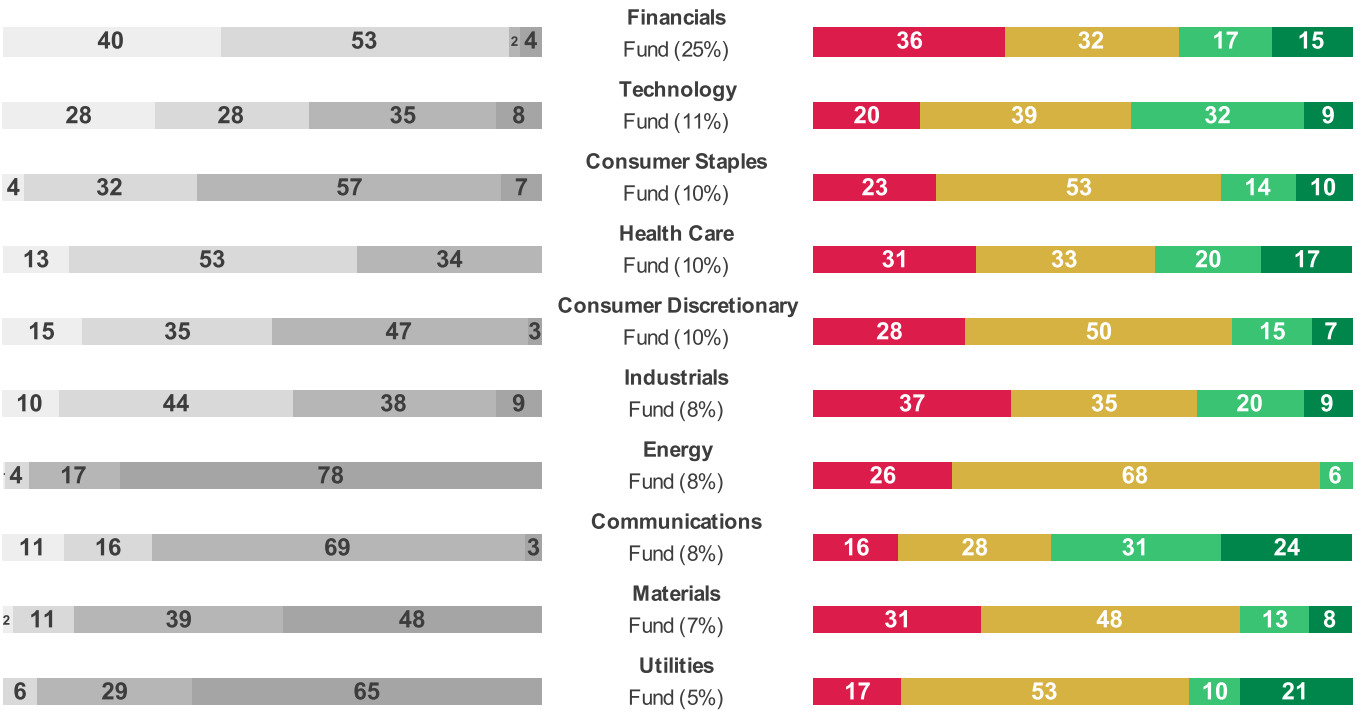
Portfolio Analysis

Synthesis - Carbon Footprint & Energy Transition

Geographic Distribution (% of investments)



Sector Distribution (% of investments)



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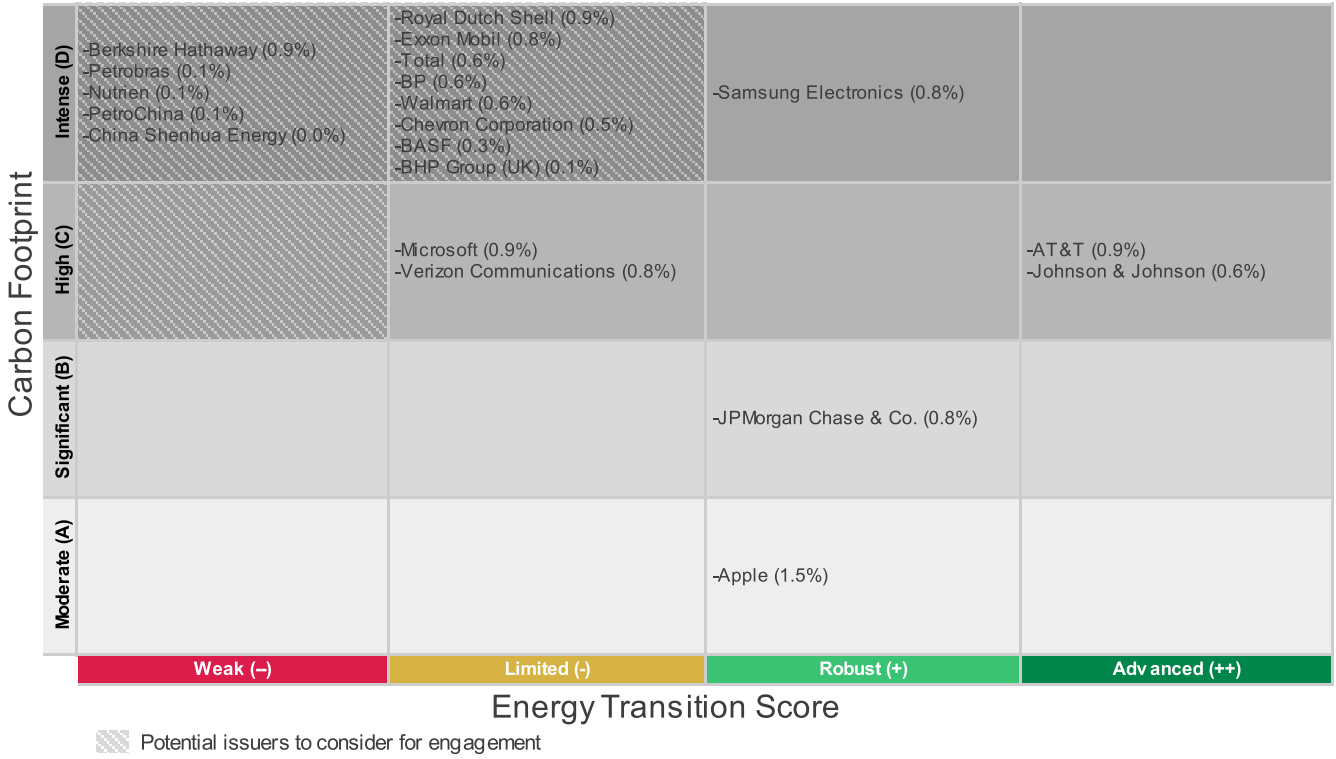
Issuers' watch list



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Focus on major CO_2 emitters of the funds

Petrobras (0.1%)	*Petrobras displays an intense carbon footprint (D) and a weak (--) energy transition strategy with a score of 25/100, penalised by a weak performance towards management of energy consumption and greenhouse gas (GHG) emissions. The Brazilian energy company's commitment to reducing its energy consumption and GHG emissions remains too general, as it does not appear to have set quantified targets. Whilst the company has taken steps to optimise its production (such as the modernisation of its facilities, the utilisation of more efficient equipment and the increase of natural gas exploitation), there is no evidence that such measures were implemented at a majority of sites. In addition, no measures seemed allocated to flaring & venting and carbon capture & storage (CCS). Furthermore, the company does not report transparently on associated KPIs, as it does not break down data per business unit and it does not disclose any quantitative data on its emissions from flaring and venting in upstream operations. In addition, the company's total energy consumption, normalised to upstream production, increased between 2016 and 2018. Furthermore, the company does not disclose quantitative data on its production of alternative fuels and the company's generation of electricity from renewables normalised to turnover decreased by 6% between 2017 and 2018.*
BASF (0.3%)	*BASF has an intense carbon footprint (D) and a limited energy transition strategy (-) with a score of 48/100. The German chemical group is notably penalised by a limited performance in terms of development of green products and management of the environmental impacts linked to the transport of its products and raw materials. In addition to commitments that remain too general, without quantified targets, BASF is penalised by unsatisfactory performance indicators. Transport-related CO2 emissions, normalised to sales, have increased by 25% over the period 2014-2018 and the transport mix is not reported. Nevertheless, BASF stands out for its advanced performance in managing its overall energy consumption and CO2 emissions. By 2020, the company is committed to reducing its CO2 emissions per tonne of product by 40% compared to 2002 and to introducing ISO 50001-certified energy management systems at all relevant production sites. BASF has deployed gas and steam turbines in combined heat at selected sites, which improve the efficiency of its thermal power plants. It also reports gradually replacing fossil fuels with renewables in its electricity purchasing. However, the associated performance indicators are mixed. Normalised to its sales, its energy consumption remained stable between 2016 and 2018 while its CO2 emissions decreased over the same period. The company reports extensive measures in favour of the use of green raw materials, in particular through the development of a biobased and compostable polymer and a biomass balance approach - certified by an independent third party - that allows a proportion of fossil feedstock to be replaced by renewable feedstock. However, only 5.3% of the raw materials purchased by BASF in 2018 came from renewable sources.*

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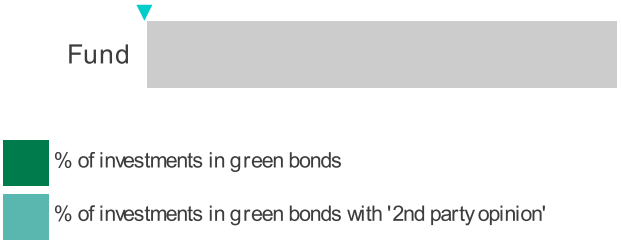
Positive Impact Factors (% of investments)

Investments in Green Bonds

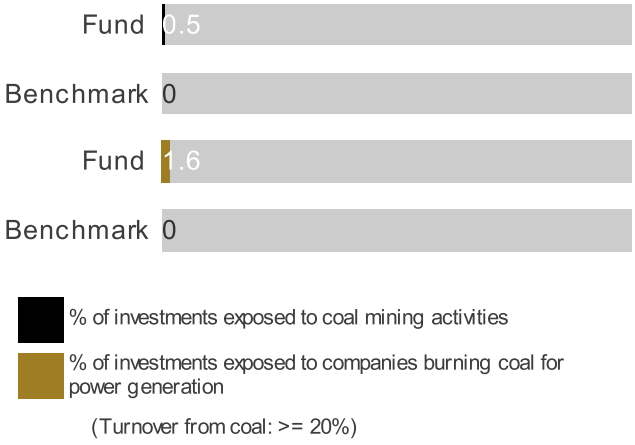


Investments in Green Goods & Services

Negative Impact Factors (% of investments)

Fossil Fuels exposure

Coal exposure



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Methodology

Carbon footprint

Carbon footprint is the measure of the volume of carbon dioxide (CO2 eq.) emitted by issuers.

Emissions

Scope 1 covers direct GHG emissions from sources that are owned or controlled by the issuer.
Scope 2 covers indirect GHG emissions caused by the organisation's consumption of electricity, heat, cooling or steam purchased or brought into its reporting boundary.
Scope 3 covers other indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

Data

The carbon data is provided by the CDP and completed with other company sources collected by Vigeo Eiris.
When no data is available from any source, Vigeo Eiris' analysts build a carbon footprint estimation relying on the size of the issuer and the nature of its activities through three different methods: regression models, sector-specific physical factors and sector averages.
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- Carbon intensity per sales: volume of emissions per million of sales generated by the constituents of the portfolio over a year.
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Energy Transition Strategy

Energy transition Strategy is defined as the shift from a carbon based economic model to a green and sustainable one. Vigeo Eiris' scoring of issuers' energy transition strategy is based on specific criteria tied to climate change in ESG Research. The universe of reference is based on Vigeo Eiris' Equitics Research.

Scale	Emissions (t CO2 eq)	Categories
A	<100 000	Moderate
B	>=100 000 & <1 000 000	Significant
C	>=1 000 000 & <10 000 000	High
D	>=10 000 000	Intense

Scale	Energy Transition Score	Categories
++	60-100	Advanced
+	50-59	Robust
-	30-49	Limited
--	0-29	Weak

Performance Attribution

This measure provides an explanation on the difference of performance between a fund and its benchmark. This gap derives from the sum of two factors:
- Sector allocation effect: measures the impact of the choices of overweighting/underweighting a sector in the fund with respect to the benchmark.
- Company selection effect: measures the impact of choices made in the selection of companies in the fund with respect to the benchmark.

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Positive impact factors

1. *Green goods and services*

This research provides a positive screening on issuers having developed a business opportunity to contribute to sustainable development, with a focus on issuers answering environmental challenges.
The involvement of issuers is based on % of activity. The universe of reference is based on Vigeo Eiris' Sustainable Good and Services Research.

2. *Green Bonds*

Green Bonds include bonds financing sustainability related projects, with environmental and/or social benefits, responsibly managed, with an ESG risk-management approach. Vigeo Eiris calculates the share of investments realised on Green Bond issuances (defined as such by the market) and informs on the share of green bonds having received a second party opinion and the share that did not receive any. Data on Green Bonds are based on an up-to-date security list compiled by Vigeo Eiris from trustworthy sources (CBI, Bloomberg).

Negative impact factors

1. *Fossil Fuels*

Fossil fuels include coal, oil, natural gas (including natural gas liquids), and peat. Natural gas liquids (NGL) are classified as hydrocarbons, some of which are used as or blended into fuels, e.g. propane, butane.
The involvement of companies is based on % of turnover. The universe of reference is based on Vigeo Eiris' Controversial Activities Research.
The operations covered are those of the upstream sector (exploration and production, including services during the extraction phase), midstream (transportation and storage services), refining activities and generation (electricity generation from coal, peat, oil shale, oil & gas)

2. *Coal*

Coal includes different categories of coals, including thermal coal – used for electricity generation – and metallurgical coal – mainly used in the iron and steel industries. The extractive industry and utilities sector are analysed separately. The involvement of companies is based on % of turnover. The universe of reference is based on Vigeo Eiris Controversial Activities Research.

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Portfolio Analysis

Synthesis - Carbon Footprint & Energy Transition

UBS North America Equities

Benchmark : N/A

Evaluation : 31/03/2020

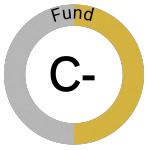


Chart Legend

Carbon Footprint: **CF** ; Energy Transition Strategy: **ETS**

Carbon Footprint (t CO_2 eq)

A Moderate	**B** Significant	**C** High	**D** Intense

Energy Transition Strategy

++ Advanced	**+** Robust	**-** Limited	**--** Weak

Coverage

	Fund	Benchmark
Portfolio coverage by investment	99.8%	N/A
Portfolio coverage by holdings	647/650	N/A

Carbon Footprint & Energy Transition

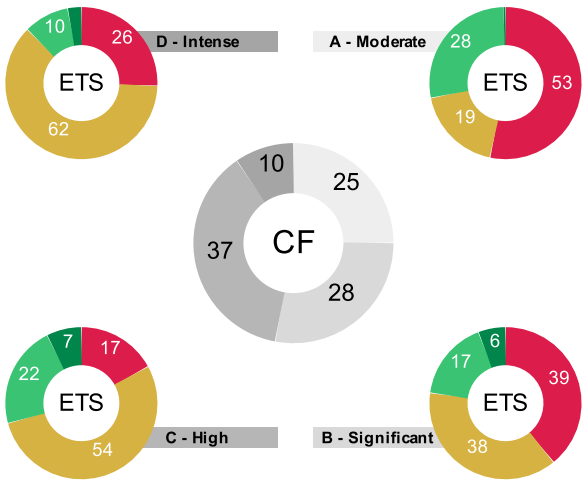
Carbon Footprint (t CO_2 eq.)	Fund	Benchmark
Total financed emissions *	16 020.09	N/A
Financed emissions per M£ invested*	104.72	N/A
Weighted average carbon footprint	6 032 416.03	N/A
Carbon intensity per sales (millions of £)*	154.52	N/A
Weighted average carbon intensity	265.70	N/A

* Based on the method of normalisation chosen by the customer: Total assets
N/A: indicator not available

Energy Transition Strategy	Fund	Benchmark
Energy Transition Strategy score	Limited(-) 36/100	N/A

Investment Distribution (% of investments)

Fund



Benchmark

N/A

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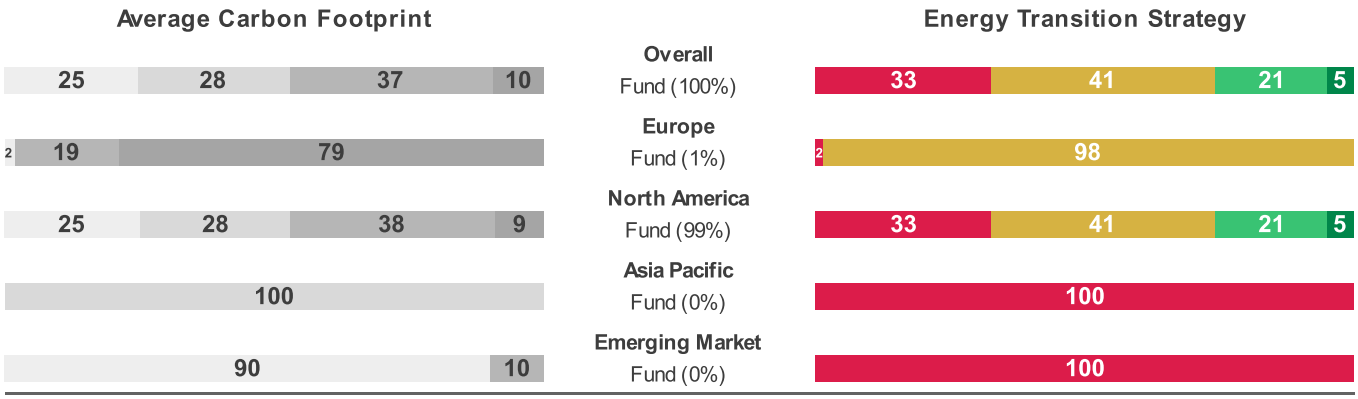
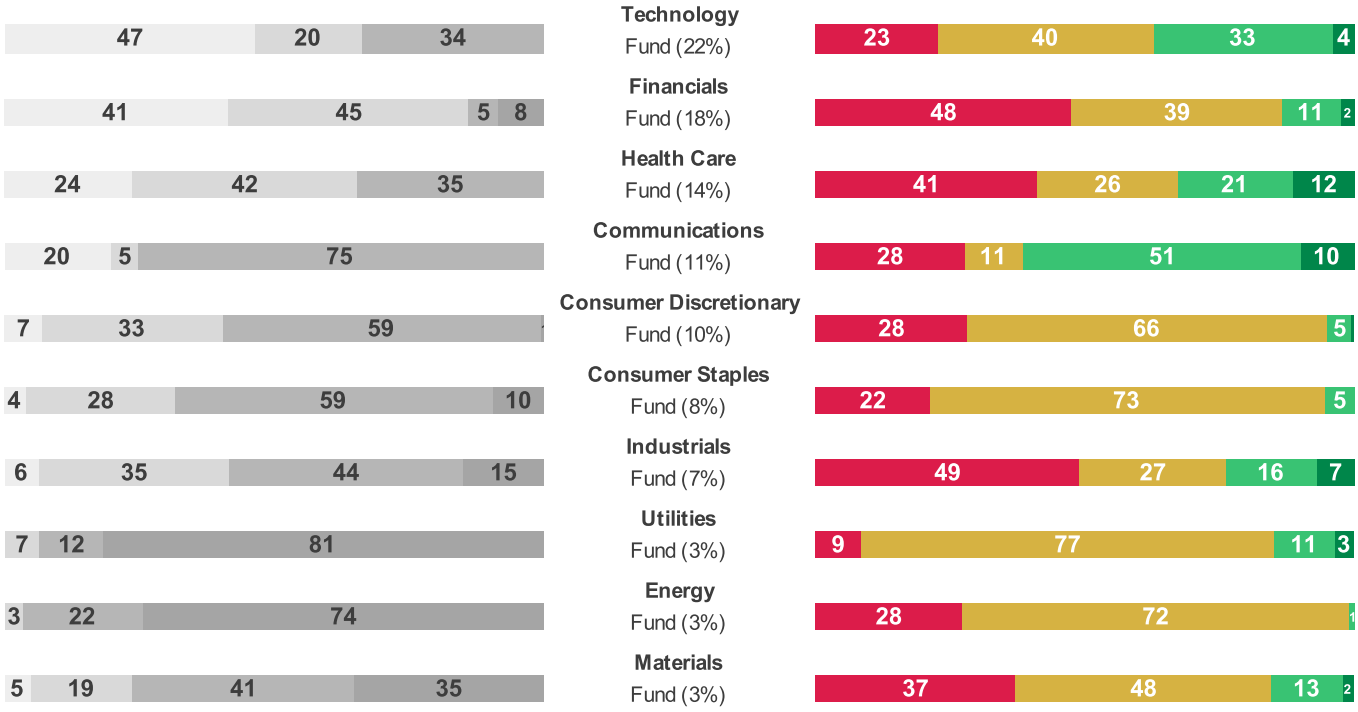
Portfolio Analysis

Synthesis - Carbon Footprint & Energy Transition

Geographic Distribution (% of investments)



Sector Distribution (% of investments)



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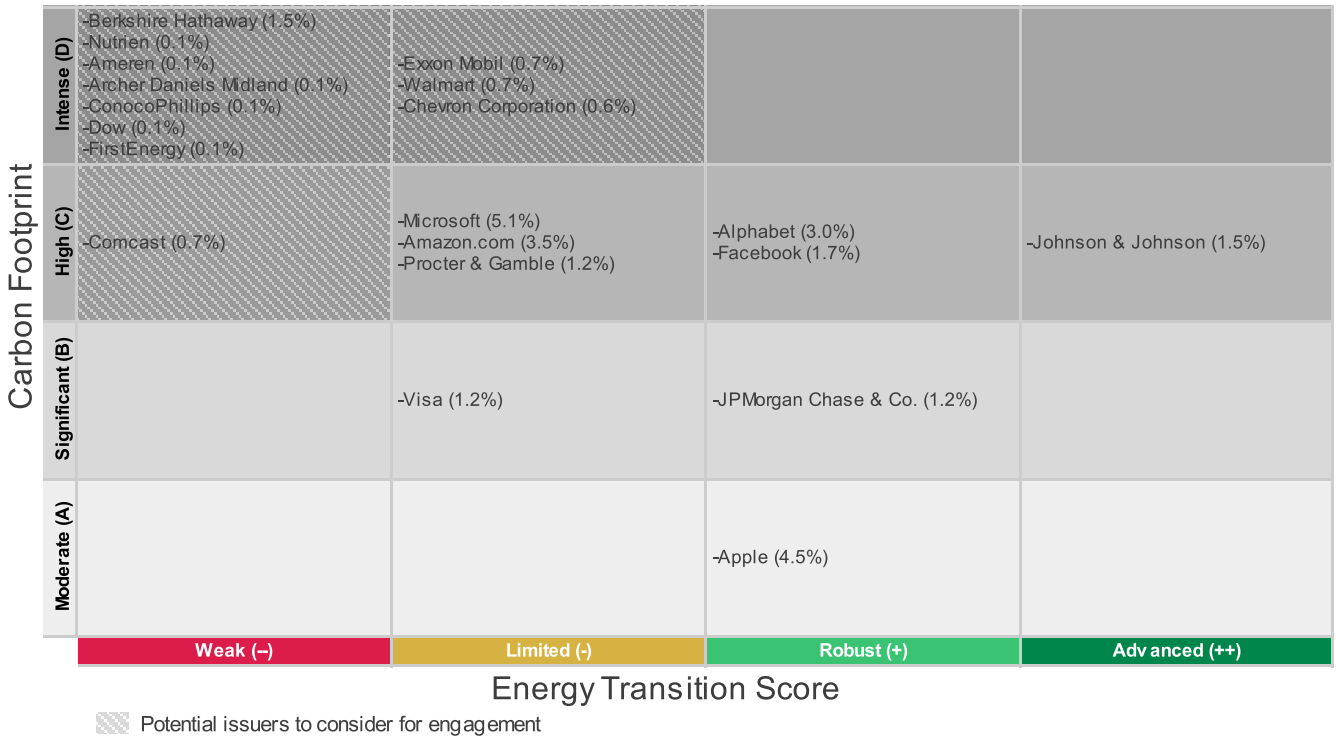
Issuers' watch list



Focus on major CO_2 emitters of the funds

Berkshire Hathaway
(1.5%)

Berkshire Hathaway displays an intense carbon footprint (D) and a very weak energy transition strategy (--) with a score of 4/100. The company is not transparent on the reporting of its management of environmental impacts from either transportation or climate change. Indeed, the company does not appear to disclose any concrete commitment or measure in these areas. In addition, associated performance indicators are not disclosed either (company's own energy consumption and CO2 emissions, contracts including climate change considerations, CO2 emissions associated with the investment portfolio or transport mix notably). Due to Berkshire Hathaway's lack of transparency, Vigeo Eiris' assurance on the company's ability to manage Environmental issues - in particular those related to its energy transition - is low.

Exxon Mobil
(0.7%)

Exxon Mobil displays an intense carbon footprint (D) and a limited Energy Transition strategy (-) with a score of 30/100, penalised by a weak performance towards the development of alternative fuels and renewable energy. Indeed, the American oil & gas company does not disclose any commitment on renewable energy and its commitment on developing alternative fuels is general. In addition, while it has been researching lower emission technologies such as algae biofuels, the company does not seem to allocate any means towards renewable energy sources. Furthermore, the corresponding KPIs are not disclosed. Although the company reports innovative measures to reduce its energy consumption and/or its related emissions and its gas flaring and venting (interests in 5,400 megawatts of cogeneration capacity in over 30 locations worldwide, methane reduction efforts including structured leak detection and repair programmes, replacement of high-bleed pneumatic devices with lower-emission technology), Exxon Mobil only discloses general commitments – without quantified targets – and uncomplete and/or outdated KPIs in this regard. It does not break down data per business unit and the 2018 data is not disclosed.

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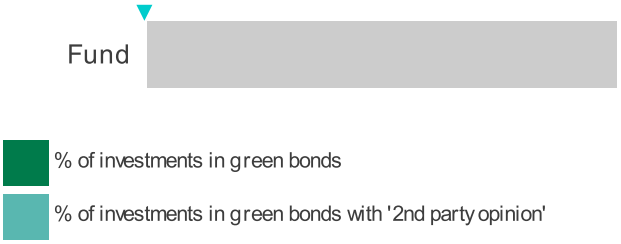
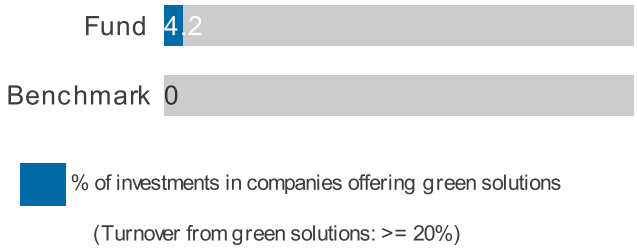
Positive Impact Factors (% of investments)

Investments in Green Bonds

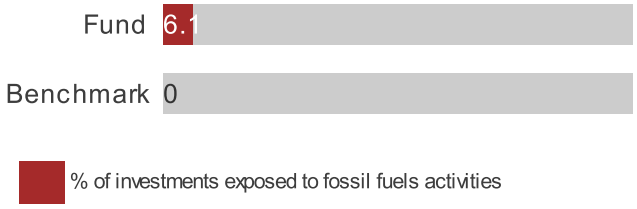


Investments in Green Goods & Services

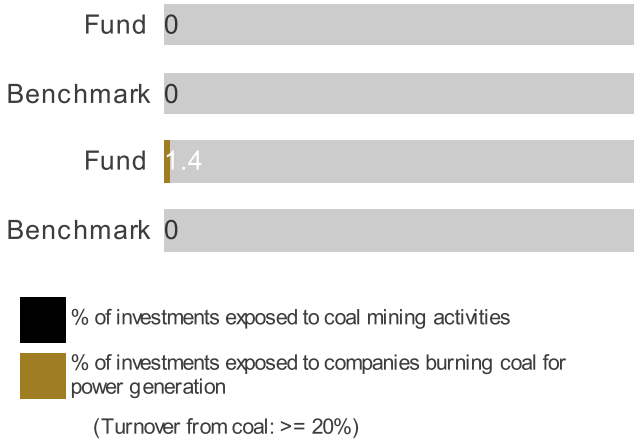


Negative Impact Factors (% of investments)

Fossil Fuels exposure



Coal exposure



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Methodology

Carbon footprint

Carbon footprint is the measure of the volume of carbon dioxide (CO2 eq.) emitted by issuers.

Emissions

Scope 1 covers direct GHG emissions from sources that are owned or controlled by the issuer.
Scope 2 covers indirect GHG emissions caused by the organisation's consumption of electricity, heat, cooling or steam purchased or brought into its reporting boundary.
Scope 3 covers other indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

Data

The carbon data is provided by the CDP and completed with other company sources collected by Vigeo Eiris.
When no data is available from any source, Vigeo Eiris' analysts build a carbon footprint estimation relying on the size of the issuer and the nature of its activities through three different methods: regression models, sector-specific physical factors and sector averages.
An issuer's Carbon Footprint (scope1+2) is then defined from A (Moderate) to D (Intense) according to the scale presented in the table below.
Emissions at portfolio's level may be measured as follows:
- Total financed emissions: sum of the carbon emissions of the issuers in the portfolio based on the ownership of the investor.
- Financed emissions per millions invested: total financed emissions normalised by portfolio value.
- Weighted average carbon footprint: sum of the portfolio's companies emissions weighted by their weight in the portfolio.
- Carbon intensity per sales: volume of emissions per million of sales generated by the constituents of the portfolio over a year.
- Weighted average carbon intensity: sum of the volume of emissions per million of sales generated by the constituents of the portfolio weighted by their weight in the portfolio.

Energy Transition Strategy

Energy transition Strategy is defined as the shift from a carbon based economic model to a green and sustainable one. Vigeo Eiris' scoring of issuers' energy transition strategy is based on specific criteria tied to climate change in ESG Research. The universe of reference is based on Vigeo Eiris' Equitics Research.

Scale	Emissions (t CO2 eq)	Categories
A	<100 000	Moderate
B	>=100 000 & <1 000 000	Significant
C	>=1 000 000 & <10 000 000	High
D	>=10 000 000	Intense

Scale	Energy Transition Score	Categories
++	60-100	Advanced
+	50-59	Robust
-	30-49	Limited
--	0-29	Weak

Performance Attribution

This measure provides an explanation on the difference of performance between a fund and its benchmark. This gap derives from the sum of two factors:
- Sector allocation effect: measures the impact of the choices of overweighting/underweighting a sector in the fund with respect to the benchmark.
- Company selection effect: measures the impact of choices made in the selection of companies in the fund with respect to the benchmark.

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Positive impact factors

1. *Green goods and services*

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Green Bonds include bonds financing sustainability related projects, with environmental and/or social benefits, responsibly managed, with an ESG risk-management approach. Vigeo Eiris calculates the share of investments realised on Green Bond issuances (defined as such by the market) and informs on the share of green bonds having received a second party opinion and the share that did not receive any. Data on Green Bonds are based on an up-to-date security list compiled by Vigeo Eiris from trustworthy sources (CBI, Bloomberg).

Negative impact factors

1. *Fossil Fuels*

Fossil fuels include coal, oil, natural gas (including natural gas liquids), and peat. Natural gas liquids (NGL) are classified as hydrocarbons, some of which are used as or blended into fuels, e.g. propane, butane.
The involvement of companies is based on % of turnover. The universe of reference is based on Vigeo Eiris' Controversial Activities Research.
The operations covered are those of the upstream sector (exploration and production, including services during the extraction phase), midstream (transportation and storage services), refining activities and generation (electricity generation from coal, peat, oil shale, oil & gas)

2. *Coal*

Coal includes different categories of coals, including thermal coal – used for electricity generation – and metallurgical coal – mainly used in the iron and steel industries. The extractive industry and utilities sector are analysed separately. The involvement of companies is based on % of turnover. The universe of reference is based on Vigeo Eiris Controversial Activities Research.

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Portfolio Analysis

Synthesis - Carbon Footprint & Energy Transition

UBS Rest of the World

Benchmark : N/A

Evaluation : 31/03/2020

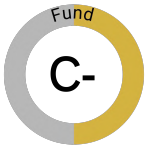


Chart Legend

Carbon Footprint: **CF** ; Energy Transition Strategy: **ETS**

Carbon Footprint (t CO_2 eq)

A Moderate	**B** Significant	**C** High	**D** Intense

Energy Transition Strategy

++ Advanced	**+** Robust	**-** Limited	**--** Weak

Coverage

	Fund	Benchmark
Portfolio coverage by investment	90.2%	N/A
Portfolio coverage by holdings	1433/2027	N/A

Carbon Footprint & Energy Transition

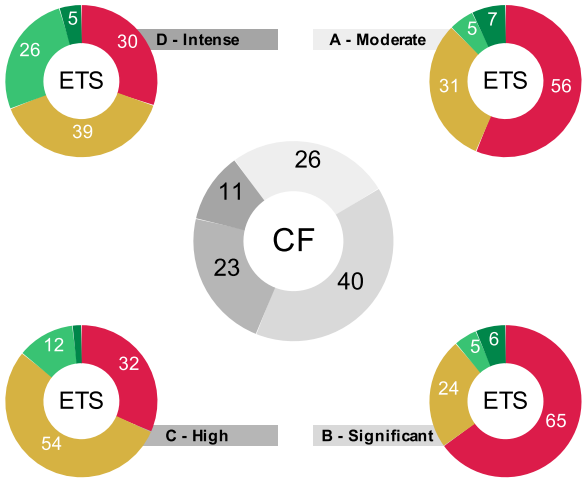
Carbon Footprint (t CO_2 eq.)	Fund	Benchmark
Total financed emissions *	14 597.91	N/A
Financed emissions per M£ invested*	218.39	N/A
Weighted average carbon footprint	6 301 232.04	N/A
Carbon intensity per sales (millions of £)*	369.02	N/A
Weighted average carbon intensity	467.86	N/A

* Based on the method of normalisation chosen by the customer: Total assets
N/A: indicator not available

Energy Transition Strategy	Fund	Benchmark
Energy Transition Strategy score	Limited(-) 30/100	N/A

Investment Distribution (% of investments)

Fund



Benchmark

N/A

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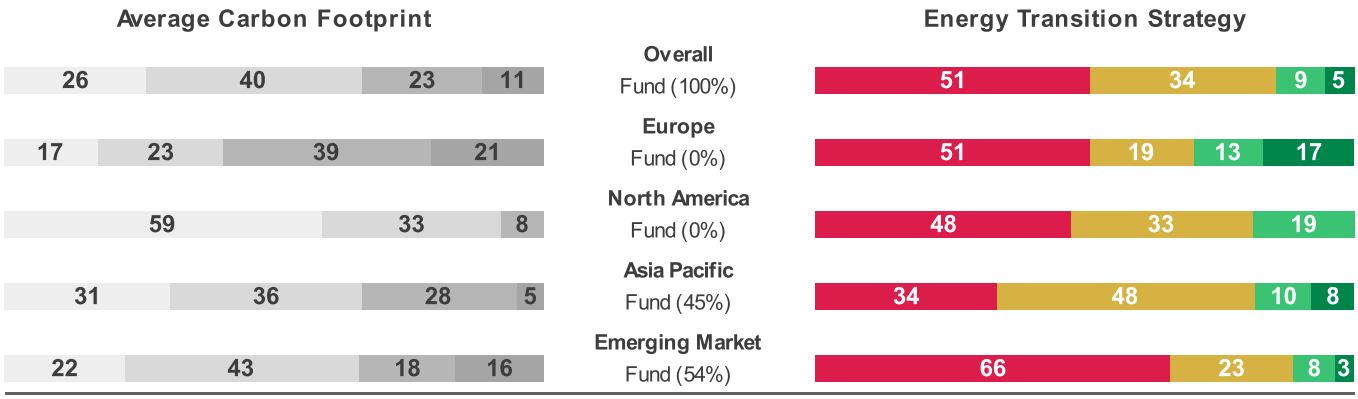
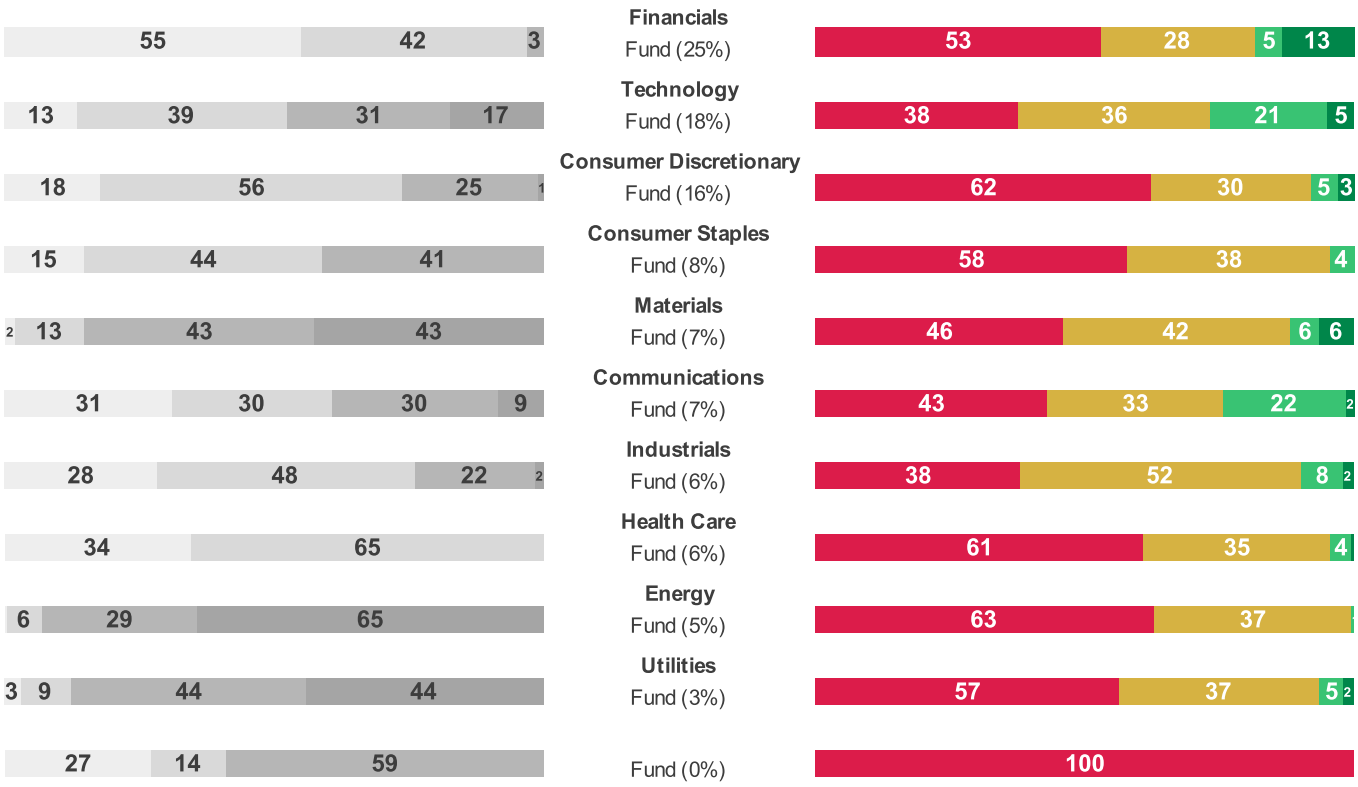
Portfolio Analysis

Synthesis - Carbon Footprint & Energy Transition

Geographic Distribution (% of investments)



Sector Distribution (% of investments)



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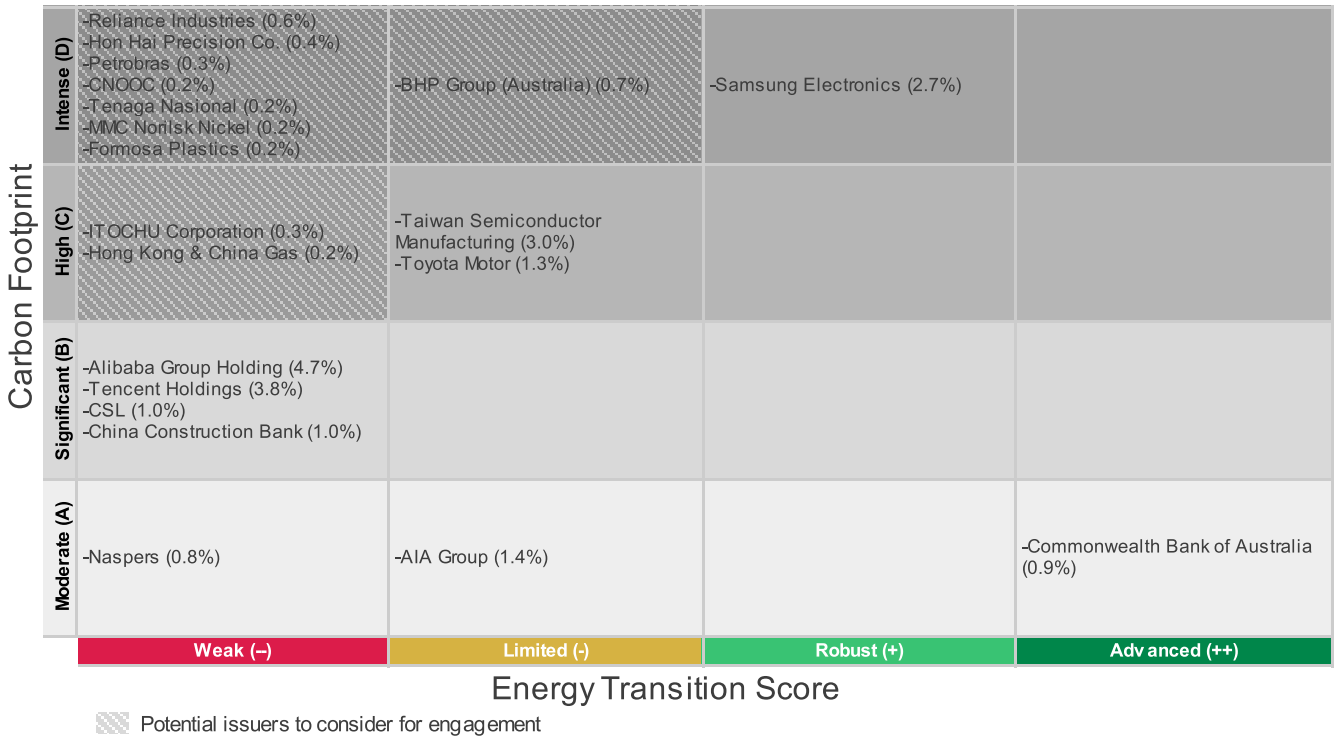
Issuers' watch list



Focus on major CO_2 emitters of the funds

BHP Group (Australia)
(0.7%)

BHP Group (BHP) has an intense carbon footprint (D) and a limited energy transition strategy (-) with a score of 49/100. The Australian mining company's performance is undermined by, among other things, its failure to report transparently on the measures it has put in place to manage the environmental impacts that result from the transport of its products and raw materials. However, BHP has an advanced performance in terms of reducing its energy consumption and associated CO2 emissions. For the period FY2018-FY2022, it has committed to maintain its total greenhouse gas (GHG) emissions at or below the FY2017 level, while continuing to expand its operations. In addition, in line with international commitments, BHP aims to achieve net-zero operational GHG emissions beyond 2022. BHP has taken a range of measures in that respect: it is involved in carbon capture and storage (CCS) projects and has developed a programme to optimise the performance of generators on the drilling rigs operated at Eagle Ford (US). As a result, BHP's energy-consumption and emissions figures have shown positive trends in recent years. The company's energy consumption and associated CO2 emissions, normalised to its sales, have decreased by 50% and 61% respectively between FY2015 and FY2019.

Petrobras
(0.3%)

Petrobras displays an intense carbon footprint (D) and a weak (--) energy transition strategy with a score of 25/100, penalised by a weak performance towards management of energy consumption and greenhouse gas (GHG) emissions. The Brazilian energy company's commitment to reducing its energy consumption and GHG emissions remains too general, as it does not appear to have set quantified targets. Whilst the company has taken steps to optimise its production (such as the modernisation of its facilities, the utilisation of more efficient equipment and the increase of natural gas exploitation), there is no evidence that such measures were implemented at a majority of sites. In addition, no measures seemed allocated to flaring & venting and carbon capture & storage (CCS). Furthermore, the company does not report transparently on associated KPIs, as it does not break down data per business unit and it does not disclose any quantitative data on its emissions from flaring and venting in upstream operations. In addition, the company's total energy consumption, normalised to upstream production, increased between 2016 and 2018. Furthermore, the company does not disclose quantitative data on its production of alternative fuels and the company's generation of electricity from renewables normalised to turnover decreased by 6% between 2017 and 2018.

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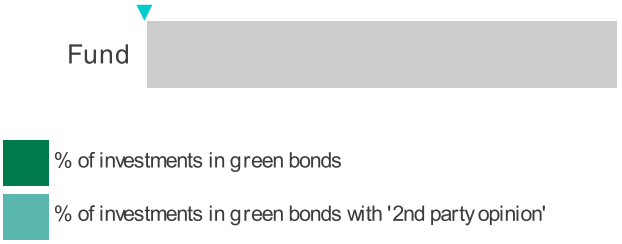
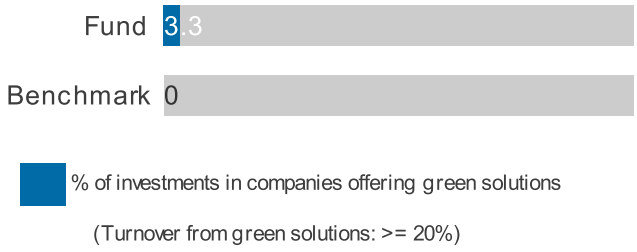
Positive Impact Factors (% of investments)

Investments in Green Bonds

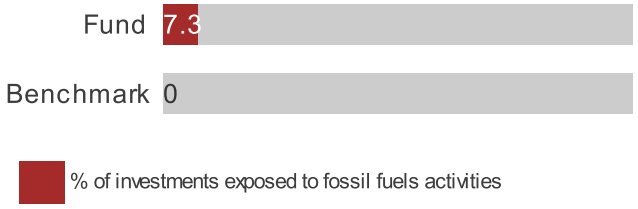


Investments in Green Goods & Services

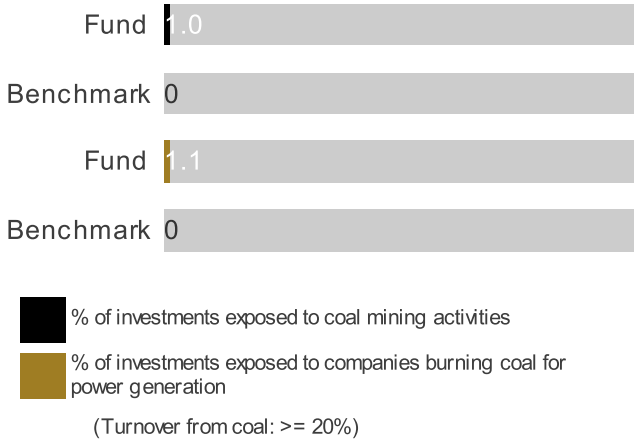


Negative Impact Factors (% of investments)

Fossil Fuels exposure



Coal exposure



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Methodology

Carbon footprint

Carbon footprint is the measure of the volume of carbon dioxide (CO2 eq.) emitted by issuers.

Emissions

Scope 1 covers direct GHG emissions from sources that are owned or controlled by the issuer.
Scope 2 covers indirect GHG emissions caused by the organisation's consumption of electricity, heat, cooling or steam purchased or brought into its reporting boundary.
Scope 3 covers other indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

Data

The carbon data is provided by the CDP and completed with other company sources collected by Vigeo Eiris.
When no data is available from any source, Vigeo Eiris' analysts build a carbon footprint estimation relying on the size of the issuer and the nature of its activities through three different methods: regression models, sector-specific physical factors and sector averages.
An issuer's Carbon Footprint (scope1+2) is then defined from A (Moderate) to D (Intense) according to the scale presented in the table below.
Emissions at portfolio's level may be measured as follows:
- Total financed emissions: sum of the carbon emissions of the issuers in the portfolio based on the ownership of the investor.
- Financed emissions per millions invested: total financed emissions normalised by portfolio value.
- Weighted average carbon footprint: sum of the portfolio's companies emissions weighted by their weight in the portfolio.
- Carbon intensity per sales: volume of emissions per million of sales generated by the constituents of the portfolio over a year.
- Weighted average carbon intensity: sum of the volume of emissions per million of sales generated by the constituents of the portfolio weighted by their weight in the portfolio.

Energy Transition Strategy

Energy transition Strategy is defined as the shift from a carbon based economic model to a green and sustainable one. Vigeo Eiris' scoring of issuers' energy transition strategy is based on specific criteria tied to climate change in ESG Research. The universe of reference is based on Vigeo Eiris' Equitics Research.

Scale	Emissions (t CO2 eq)	Categories
A	<100 000	Moderate
B	>=100 000 & <1 000 000	Significant
C	>=1 000 000 & <10 000 000	High
D	>=10 000 000	Intense

Scale	Energy Transition Score	Categories
++	60-100	Advanced
+	50-59	Robust
-	30-49	Limited
--	0-29	Weak

Performance Attribution

This measure provides an explanation on the difference of performance between a fund and its benchmark. This gap derives from the sum of two factors:
- Sector allocation effect: measures the impact of the choices of overweighting/underweighting a sector in the fund with respect to the benchmark.
- Company selection effect: measures the impact of choices made in the selection of companies in the fund with respect to the benchmark.

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Positive impact factors

1. *Green goods and services*

This research provides a positive screening on issuers having developed a business opportunity to contribute to sustainable development, with a focus on issuers answering environmental challenges.
The involvement of issuers is based on % of activity. The universe of reference is based on Vigeo Eiris' Sustainable Good and Services Research.

2. *Green Bonds*

Green Bonds include bonds financing sustainability related projects, with environmental and/or social benefits, responsibly managed, with an ESG risk-management approach. Vigeo Eiris calculates the share of investments realised on Green Bond issuances (defined as such by the market) and informs on the share of green bonds having received a second party opinion and the share that did not receive any. Data on Green Bonds are based on an up-to-date security list compiled by Vigeo Eiris from trustworthy sources (CBI, Bloomberg).

Negative impact factors

1. *Fossil Fuels*

Fossil fuels include coal, oil, natural gas (including natural gas liquids), and peat. Natural gas liquids (NGL) are classified as hydrocarbons, some of which are used as or blended into fuels, e.g. propane, butane.
The involvement of companies is based on % of turnover. The universe of reference is based on Vigeo Eiris' Controversial Activities Research.
The operations covered are those of the upstream sector (exploration and production, including services during the extraction phase), midstream (transportation and storage services), refining activities and generation (electricity generation from coal, peat, oil shale, oil & gas)

2. *Coal*

Coal includes different categories of coals, including thermal coal – used for electricity generation – and metallurgical coal – mainly used in the iron and steel industries. The extractive industry and utilities sector are analysed separately. The involvement of companies is based on % of turnover. The universe of reference is based on Vigeo Eiris Controversial Activities Research.

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Portfolio Analysis

Synthesis - Carbon Footprint & Energy Transition

UBS UK Equities

Benchmark : N/A

Evaluation : 31/03/2020

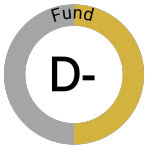


Chart Legend

Carbon Footprint: **CF** ; Energy Transition Strategy: **ETS**

Carbon Footprint (t CO_2 eq)

A Moderate	**B** Significant	**C** High	**D** Intense

Energy Transition Strategy

++ Advanced	**+** Robust	**-** Limited	**--** Weak

Coverage

	Fund	Benchmark
Portfolio coverage by investment	93.5%	N/A
Portfolio coverage by holdings	413/619	N/A

Carbon Footprint & Energy Transition

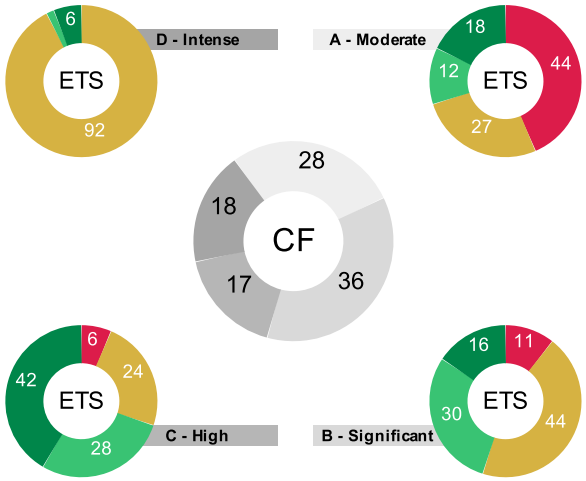
Carbon Footprint (t CO_2 eq.)	Fund	Benchmark
Total financed emissions *	26 040.07	N/A
Financed emissions per M£ invested*	121.23	N/A
Weighted average carbon footprint	10 361 552.61	N/A
Carbon intensity per sales (millions of £)*	194.30	N/A
Weighted average carbon intensity	186.51	N/A

* Based on the method of normalisation chosen by the customer: Total assets
N/A: indicator not available

Energy Transition Strategy	Fund	Benchmark
Energy Transition Strategy score	Limited(-) 45/100	N/A

Investment Distribution (% of investments)

Fund



Benchmark

N/A

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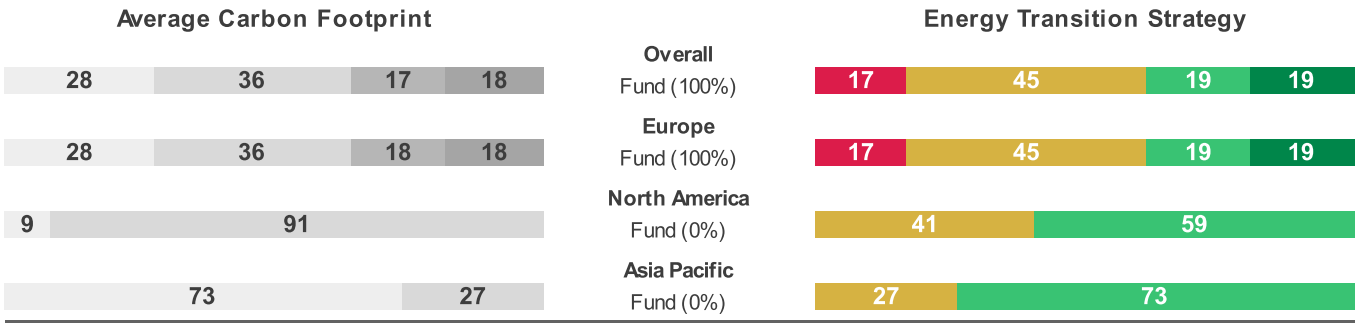
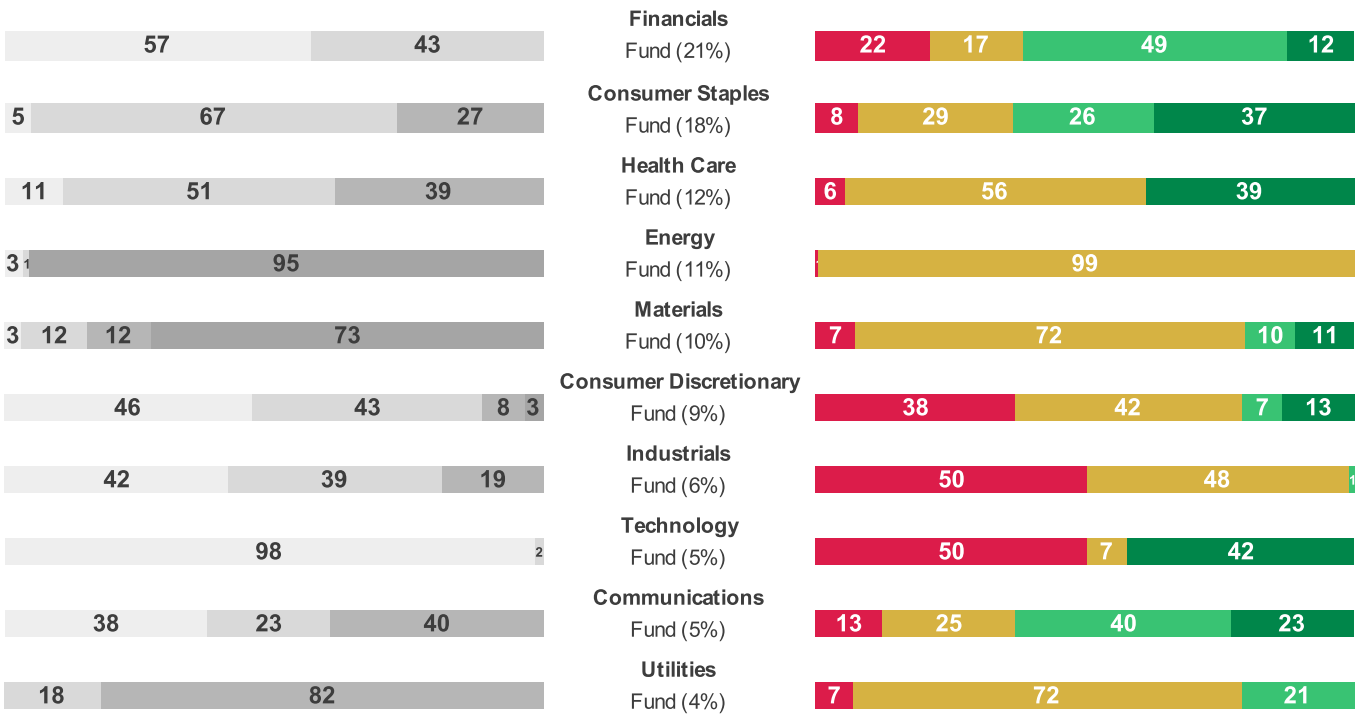
Portfolio Analysis

Synthesis - Carbon Footprint & Energy Transition

Geographic Distribution (% of investments)



Sector Distribution (% of investments)



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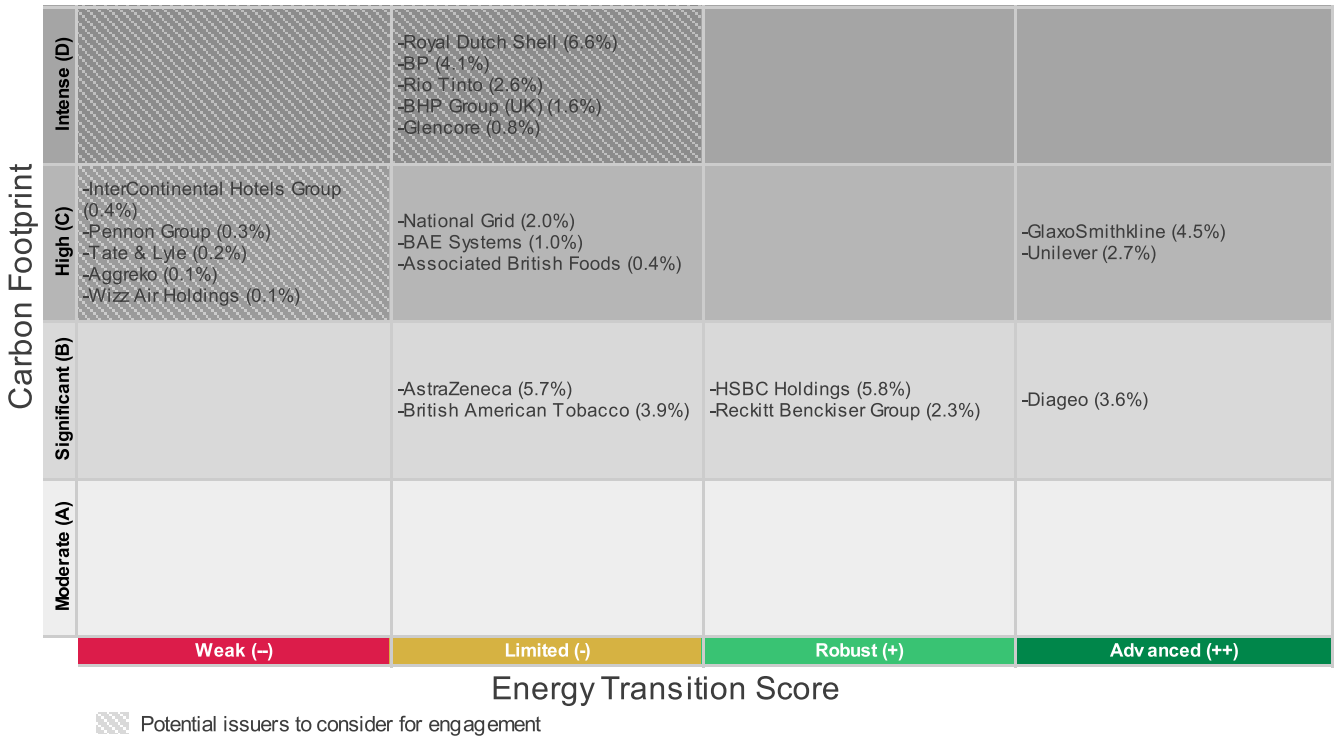
Portfolio Analysis

Synthesis - Carbon Footprint & Energy Transition

Issuers' watch list



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Focus on major CO_2 emitters of the funds

BHP Group (UK) (1.6%)	*BHP Group (BHP) has an intense carbon footprint (D) and a limited energy transition strategy (-) with a score of 49/100. The Australian mining company's performance is undermined by, among other things, its failure to report transparently on the measures it has put in place to manage the environmental impacts that result from the transport of its products and raw materials. However, BHP has an advanced performance in terms of reducing its energy consumption and associated CO2 emissions. For the period FY2018-FY2022, it has committed to maintain its total greenhouse gas (GHG) emissions at or below the FY2017 level, while continuing to expand its operations. In addition, in line with international commitments, BHP aims to achieve net-zero operational GHG emissions beyond 2022. BHP has taken a range of measures in that respect: it is involved in carbon capture and storage (CCS) projects and has developed a programme to optimise the performance of generators on the drilling rigs operated at Eagle Ford (US). As a result, BHP's energy-consumption and emissions figures have shown positive trends in recent years. The company's energy consumption and associated CO2 emissions, normalised to its sales, have decreased by 50% and 61% respectively between FY2015 and FY2019.*
Royal Dutch Shell (6.6%)	*Royal Dutch Shell (Shell) has an intense carbon footprint (D) and a limited energy transition strategy (-) with a score of 34/100. While Shell has made a commitment to reduce its energy consumption and associated CO2 emissions, targets are only set for certain assets and projects. Despite the implementation of innovative energy efficiency measures, particularly in its subarctic operations in Russia, Shell's energy consumption results were mixed over the 2016-2018 period. Normalised to upstream production, the company's total energy consumption and associated GHG emissions have increased in the 2016-2018 period. However, the energy consumption in chemicals operations (along with the company's total GHG emissions), normalised to chemicals production, have decreased over the same period. Shell has joined the World Bank's "Zero Routine Flaring by 2030" initiative and has set up projects to capture and recover carbon. Its emissions associated with flaring, normalised to upstream production, decreased between 2016 and 2018 by 31%. Shell has made significant investments in renewable energy (wind, biomass and solar) and alternative fuels (agrofuels, second-generation biofuels and hydrogen). The company is involved in wind power projects and jointly owns Raizen (in partnership with the Brazilian company Cosan), which produces and sells ethanol from sugar cane. However, Shell's performance in this area is undermined by its failure to disclose quantitative targets and to report transparently on the volumes of alternative and renewable energy that it produces. The company is the subject of ongoing lawsuits, brought by the City of Honolulu among others, that relate to its alleged climate-change impact. The company is not deemed to have responded in a transparent way to these lawsuits.*

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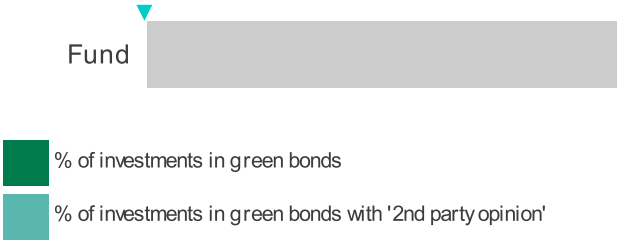
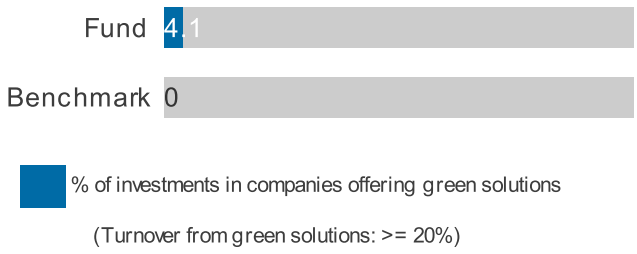
Positive Impact Factors (% of investments)

Investments in Green Bonds



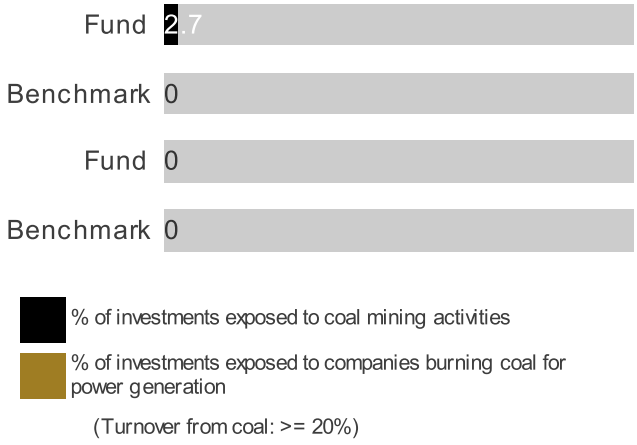
Investments in Green Goods & Services



Negative Impact Factors (% of investments)

Fossil Fuels exposure

Coal exposure



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Methodology

Carbon footprint

Carbon footprint is the measure of the volume of carbon dioxide (CO2 eq.) emitted by issuers.

Emissions

Scope 1 covers direct GHG emissions from sources that are owned or controlled by the issuer.
Scope 2 covers indirect GHG emissions caused by the organisation's consumption of electricity, heat, cooling or steam purchased or brought into its reporting boundary.
Scope 3 covers other indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions.

Data

The carbon data is provided by the CDP and completed with other company sources collected by Vigeo Eiris.
When no data is available from any source, Vigeo Eiris' analysts build a carbon footprint estimation relying on the size of the issuer and the nature of its activities through three different methods: regression models, sector-specific physical factors and sector averages.
An issuer's Carbon Footprint (scope1+2) is then defined from A (Moderate) to D (Intense) according to the scale presented in the table below.
Emissions at portfolio's level may be measured as follows:
- Total financed emissions: sum of the carbon emissions of the issuers in the portfolio based on the ownership of the investor.
- Financed emissions per millions invested: total financed emissions normalised by portfolio value.
- Weighted average carbon footprint: sum of the portfolio's companies emissions weighted by their weight in the portfolio.
- Carbon intensity per sales: volume of emissions per million of sales generated by the constituents of the portfolio over a year.
- Weighted average carbon intensity: sum of the volume of emissions per million of sales generated by the constituents of the portfolio weighted by their weight in the portfolio.

Energy Transition Strategy

Energy transition Strategy is defined as the shift from a carbon based economic model to a green and sustainable one. Vigeo Eiris' scoring of issuers' energy transition strategy is based on specific criteria tied to climate change in ESG Research. The universe of reference is based on Vigeo Eiris' Equitics Research.

Scale	Emissions (t CO2 eq)	Categories
A	<100 000	Moderate
B	>=100 000 & <1 000 000	Significant
C	>=1 000 000 & <10 000 000	High
D	>=10 000 000	Intense

Scale	Energy Transition Score	Categories
++	60-100	Advanced
+	50-59	Robust
-	30-49	Limited
--	0-29	Weak

Performance Attribution

This measure provides an explanation on the difference of performance between a fund and its benchmark. This gap derives from the sum of two factors:
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Positive impact factors

1. *Green goods and services*

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Negative impact factors

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The involvement of companies is based on % of turnover. The universe of reference is based on Vigeo Eiris' Controversial Activities Research.
The operations covered are those of the upstream sector (exploration and production, including services during the extraction phase), midstream (transportation and storage services), refining activities and generation (electricity generation from coal, peat, oil shale, oil & gas)

2. *Coal*

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Report to:	**Pension Committee**
Date of meeting:	**22 June 2020**
By:	**Chief Financial Officer**
Title:	**Report on the Full Council Notice of Motion on Environmental, Social, Governance**
Purpose:	**This report covers the review of the Environmental, Social and Governance (ESG) arrangements of the East Sussex Pension Fund, conducted by PIRC. Responding to the notice of motion passed by East Sussex County Council.**

RECOMMENDATION – The Committee is recommended to note this report.

1. Background

1.1 At Full Council on 15 October 2019, the County Council received the following petition:

Divest the East Sussex Pension Fund from fossil fuels.

Investments in fossil fuels (oil, coal and gas) are damaging the balance of our climate and pose serious financial risks to investors, including many local pension holders.

Over 1,100 institutions, representing over $9.9 trillion in assets, have already committed to divest (i.e. move their money away) from fossil fuel companies.

We the undersigned call on East Sussex County Council to follow their lead and divest the East Sussex Pension Fund from its holdings in fossil fuel companies.

1.2 Following the debate, a Motion was passed to:

1. recognise the concerns raised through the petition;

2. note that the East Sussex Pension Fund is already recognized as having a strong approach to socially and environmentally responsible investment with a below benchmark exposure to both carbon and fossil fuels; and

3. request that the Pension Committee asks its investment consultants to undertake a further investigation, with particular focus on the long term risks and opportunities to the Fund associated with climate change, and report back to the Committee on how, in the light of its need to fulfil its obligations to all pension scheme employers and members, it might further integrate ESG considerations including those relating to its approach to fossil fuel exposure, into its investment strategy.

1.3 The Pension Committee considered this motion at its meeting on 25 November 2019. The Committee expressed the desire to investigate the potential to appoint an independent Environmental, Social and Governance (ESG) Consultant to provide a different perspective on integrating ESG considerations.

2. Summary of Conclusions

2.1 After a procurement process an ESG specialist PIRC was appointed. with a brief to conduct a review of the approach and practices adopted in managing ESG issues arising from the investment strategy of the East Sussex Pension Fund. The report is at Appendix 1. A summary of the conclusions are provided below:

1. East Sussex Pension Fund currently complies with all statutory regulations and relevant guidance with regard to its environmental, social and governance (ESG) obligations.
2. The Fund is considered a leader on ESG by its peers in the ACCESS asset pool and has made more progress than the average Local Government Pension Scheme (LGPS) fund in responding to ESG issues.
3. There is a clear awareness of the Fund's fiduciary duties and the need to act in the best interests of the Fund's members. The governance arrangements including the Local Pension Board and new working groups provide a reasonable challenge to the Fund's officers and advisers.
4. Over the past 18 Months the Fund has made significant progress in gaining a better understanding and knowledge of a range of ESG issues and specifically climate change which has led to actions including a carbon footprint assessment and the production of an ESG Statement.
5. Within the Fund's current work plan, the Fund has identified areas it needs to address and develop including meeting the new Stewardship Code Principles and preparing a response to the Task Force for Climate Related Financial Disclosures. These will put the Fund into a strong position for its investment response to ESG matters and climate change.
6. The progress of the ACCESS pool and a requirement to agree with other pool funds on a range of issues has led to considerable discussion and delays to the Fund's ESG ambitions.
7. The Fund has recently approved a business plan and is in the process of recruiting to a number of senior posts which should address some of the resourcing deficiencies which have hindered the Fund's progress on prioritising and addressing ESG issues. Completing the ESG projects set out in the business plan will put the Fund in a strong position but will require significant project management skills to be certain of achieving the outcomes set in the plan.
8. The voting records from the Fund's equity managers have been collated and reported against the ACCESS voting guidelines. However, it is unclear what priorities the Fund is seeking to address through its ownership rights and the ACCESS guidelines are limited in their scope and hence are unlikely to match the Fund's ambitions around ESG and climate change.
9. The Fund has been a member of the Local Authority Pension Fund Forum (LAPFF) since 2014 and reports on LAPFF activity to the Committee and within its annual report. Despite officers attending some business meetings, the Fund has not played a significant role in shaping LAPFF policy and with the ambitions of the Fund around ESG this could be an opportunity to demonstrate leadership and escalate its own priorities.
10. The Fund has a laudable ambition to develop a sustainable investment strategy and has moved one portfolio into a low-carbon benchmark but has also recognised the limitations of benchmark indices and is considering how to progress into Impact/Sustainable investing
11. The Fund has received ongoing criticism from external pressure groups on its response to climate change. Fund and working group members and representatives have clearly been

building a good understanding of the issues to develop the Fund's response. Other funds in similar circumstances have reviewed and expanded their communications strategy as seen by the content of their websites and newsletters. As demonstrated by some other funds, the regular use of a member survey on ESG issues facilitates interaction with a range of stakeholders and would provide the Fund with clarity and evidence of external views which it can then address.

2.2 LGPS funds spend varying amounts of time addressing ESG matters. Obviously, those that commit the most resources will have a greater breadth and depth to their polices, strategies and activities. This leads to some best practice activity being difficult for smaller funds to achieve with more limited resources. Even the largest of funds cannot address all ESG issues and need to prioritise what is important to them once they have meet regulatory requirements.

3. Conclusion and reasons for recommendation

3.1 The PRIC report makes 16 recommendations. These will be considered by the Committee and reported back at its meeting on 22 September 2020.

3.2 It is recognised that Fund has already identified and progressed a number of actions in response to the challenge of ESG, including

- To commission a carbon measurement service to undertake review of the Fund,
- Work with ACCESS to provide an ESG policy for the pool,
- Building upon our leadership within ACCESS on ESG Issues to move the Pool to a more sustainable investment platform,
- Signed up to the PRI and IIGCC.

3.3 The Pension Committee is recommended to note this report.

IAN GUTSELL
Chief Finance Officer

Contact Officer: Michelle King, Interim Head of Pensions
Tel. No. 01273 482017
Email: Michelle.King@eastsussex.gov.uk

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Review of the approach of East Sussex Pension Fund to Environmental, Social and Governance (ESG) Issues

June 2020

1 Report Summary

1.1 PIRC has been commissioned by East Sussex County Council to conduct a review of the approach and practices adopted in managing Environmental, Social and Governance issues arising from the investment strategy of the East Sussex Pension Fund.

1.2 The review is to consider the regulatory expectations on the Fund and assess the degree of compliance. It will also consider the Fund's position on ESG matters relative to recognised best practice by funds highlighting areas where enhancements could be made.

1.3 PIRC has used its knowledge and understanding of how asset owners are responding to ESG issues and challenges to evaluate the Fund's position and identify the opportunities available.

1.4 The brief requires five specific questions to be addressed. The table below summaries the response to these questions which are detailed in the report.

Table 1 - Summary of Responses

The brief for this report details the following specific questions that need to be considered	**Summary of responses to the questions**
The Funds position in light of its need to fulfil its obligations to all its pension scheme employers and members	The Fund currently meets all of its statutory and regulatory obligations with regard to ESG. See Section 2 Recommendation 1 Conclusions 1, 2, 3 and 4
Detail any weaknesses in the current arrangements and propose a set of actions that the Fund may like to implement	Enhancements have been identified around setting ESG priorities, meeting new regulatory requirements and working with the ACCESS pool. These should complement the work underway or planned by the Fund See Sections 2, 3, 5 and 8 Recommendations 2, 3 and 13 Conclusions 5, 6 and 7
A specific focus on the long-term risks and opportunities to the Fund associated with climate change	The Fund has good understanding of climate change issues and now needs to define in detail the financial risks and how they will be managed in its strategy and implement practices to achieve its ESG priorities. See Section 4 Recommendations 4, 5 and 10 Conclusions 4, 5 and 10
How it might further integrate ESG considerations into its monitoring of the Fund	Using the Funds ESG priorities as a guide the Fund can establish its own voting guidelines and define its engagement expectations. It can then monitor the fund managers against these priorities. See Sections 5, 6, 8, 9 and 11 Recommendations 6, 7, 8, 9 and 12 Conclusions 8 and 9

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How it might further integrate ESG considerations into setting the investment strategy of the Fund, including specifically those relating to its approach to fossil fuel exposure.	The Fund should continue to build its knowledge and understanding of ESG matters and commit to the new Stewardship code, TCFD reporting and build upon the carbon footprint assessment to explore alternative investments using ESG criteria. The use of a member survey and enhanced communications will provide further evidence to inform the future direction of the investment strategy. See Sections 6, 7, 10 and 11 Recommendations 11, 14, 15 and 16 Conclusions 10 and 11

1.5 The investment implications of ESG and climate change are continually evolving with the regulatory regime responding and best practice emerging. The Fund has already identified and progressed a number of actions in response. Therefore some of the recommendations in this report will quickly be overtaken by the Fund's planned actions.

1.6 LGPS funds spend varying amounts of time addressing ESG matters. Obviously, those that commit the most resources will have a greater breadth and depth to their polices, strategies and activities. This leads to some best practice activity being difficult for smaller funds to achieve with more limited resources. Even the largest of funds cannot address all ESG issues and need to prioritise what is important to them once they have meet regulatory requirements.

Working Methods

1.7 We have reviewed a range of documents produced by the Fund such as policies, strategies and committee papers as set out in Appendix 1. In addition, a number of telephone interviews were conducted with key individuals as shown below and data regarding the Fund has been analysed to identify trends and outcomes.

- Michelle King, Interim Head of Pensions
- Russell Wood, Pensions Investment Officer
- Cllr Gerard Fox, Pension Committee Chair
- Ray Martin, Local Pension Board Chair
- William Bourne, Independent Investment Adviser
- Paul Potter, Hymans Robertson
- Ian Gutsall, Chief Finance Officer
- Kevin McDonald, Interim Director, ACCESS

1.8 This report offers options on the issues the Fund can consider in meeting its ambitions on ESG matters making comparisons with leading funds. All funds have to consider what their ESG priorities are and how they resource achieving them.

Covid 19

1.9 The lockdown requirements have impacted the gathering of information and access to members and officers. In particular, the cross checking of information and conclusions has relied heavily on Pension Fund committee papers and policy documents in order to overcome the difficulties of not having face to face meetings.

Report Structure

1.10 The structure of the report is as follows:

2. Summary of Fund's position on the level of understanding of ESG issues, operating polices and setting of priorities - for meeting existing and emerging requirements

Analysis of Funds position on major ESG activities and emerging requirements follows

3. ESG polices and strategies - summary position followed by evaluation and comment upon the significant matters.

4. Climate change, fossil fuels and Taskforce on Climate-Related Financial Disclosures (TCFD) requirements

Comments on specific ESG Activity

5. Voting

6. Engagement

7. Impact/Sustainable Investing

8. Asset Pooling

9. Fund Managers' Role

10. **Communications**

11. **Resources and Governance**

12. **Summary of Conclusions**

2 Summary of Fund's position on level of understanding of ESG matters, operating policies and setting of priorities

2.1 The Fund is required to meet the LGPS investment management regulations which cover matters such as having an up-to-date investment strategy, making use of expert advisers, clearly setting out its approach to addressing ESG issues and having sufficient knowledge and understanding of investment matters amongst its members and representatives. The Fund meets the regulatory requirements as reflected in its policies and strategies. Some examples follow.

2.2 In October 2019 the Fund published its Environmental, Social and Governance Statement. This included the Funds Responsible Investment (RI) Policy and its views on climate change. It is clear this statement has been well considered and developed over a period of time which has allowed the Fund to understand many of the issues involved to a significant depth. A Statement to this level of detail is a robust starting point and demonstrates the Fund's stated aim of being a leader in this area amongst LGPS Funds. The statement reflects the fiduciary duty of the Fund to act in the best (financial) interests of its members but also recognises that ESG issues can be considered in the investment strategy where they do not lead to significant financial detriment and that this approach would be supported by members of the Fund – See Recommendation 14. It is imperative that in making these decisions the Fund can demonstrate good governance and transparency.

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2.3 Pension Committee Members and officers have a good knowledge of ESG Issues which is reflected in the content of Committee agendas, the range of issues considered and depth of investigation into ESG issues. This has resulted in some very long meetings. It is evident that with this background of knowledge the Fund is now in a position to move forward with a number of initiatives to enhance its approach to ESG issues. These are identified it its latest Business Plan and work given to its advisers.

2.4 Investment performance has historically contributed positively to the Fund which has led to a strong solvency position. Net returns of 5.6% pa over the last 20 years are above average compared to their peers and show that the investment strategy and the selected fund managers have largely done a good job for the Fund over the longer term. *(Source: Local Authority Pension Performance Analytics 2019/20).*

2.5 A number of working groups have been established following a recent governance review (See 11.4) to focus on specific aspects of the Funds work plan. One of these Groups focuses on ESG issues and has spent time considering the regulations and guidance explained in Section 3. For constitutional reasons these Groups do not appear to have a formal status but due to the range of membership they provide a useful forum for debate and give direction to the Committee when agreeing policy decisions. There are no clear published outcomes from these meetings and it may improve transparency if an official record was kept and reported periodically to the Committee.

2.6 The Fund is well positioned relative to other LGPS funds on seeking to address a range of ESG issues. As part of this review PIRC has used its own model to identify where the Fund sits on the spectrum of high level ESG activity as shown at **Appendix 2**. This highlights for each asset class where ESG activity is occurring and the types of areas being addressed either via ACCESS or directly with fund managers. This has led to an assessment of the Fund against our 'ESG Depth and Breadth' model to determine a rating for each of the three levels of activity. A summary of our ratings are shown below. These are subjective assessments based upon the information gathered and the Fund can revisit this model to monitor progress over time. It is the larger funds that devote major resources to ESG matters that achieve the highest ratings.

Table 2- PIRC Assessment against the Depth and Breadth Model

Level	**Score Range**	**East Sussex Score**
Level 1 - Compliance	1 to 5	5
Level 2 - Good Practice	1 to 5	3
Level 3 - High Conviction	1 to 5	2

2.7 All funds are under pressure from many interests to do more than address the minimum requirements. The Fund is aware of this and a number of actions set out in its business plan are aimed at addressing some of them, for example the new Stewardship Code, and engagement on climate change. This will require the Fund to formulate its priorities such that they can be incorporated into the Fund's ESG practices. Table 3 below highlights a range (not exhaustive) of ESG issues which the Fund needs to consider and prioritise to inform future policies and specific approaches to matters such as proxy voting and company engagement. It is not possible to address all ESG issues and funds have to select the issues that are important to them and how they will respond e.g. company engagement, proxy voting policy, use of shareholders resolutions etc.

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Recommendation 1:

a) From the broad range of ESG issues, the Committee reviews and confirms what ESG issues are a priority and those that are not and how it will respond. This will help demonstrate its ambition and inform its responses to regulatory requirements.

b) Detail on how it will respond to the issues that arise from (a) should cover policies on - engagement, avoidance of holding some assets, collaboration and positive investing in respect of its priorities.

c) A timetable should be determined for the coverage of all asset classes.

d) Outcomes from the ESG Working Group are produced and reported as appropriate to demonstrate transparency and strengthen the governance arrangements.

Table 3 - Range of ESG Issues to prioritise

Climate change - Energy Efficiency - Carbon Management - Carbon Footprint Assessment of Equities - Carbon Footprint Assessment of whole portfolio - Emissions management relative to comparable organisations and government expectations - Scenario Analysis - Value at Risk and Actuarial Analysis - Renewable energy investments - Infrastructure Investments
Environmental - Pollution - Resource management
Social - Human capital management and employment standards - Impact investing - Child Labour - Health and safety - Fair tax contributions

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- Employee representation
- Community relationships
- Supply chain management
- Equality, etc.

Governance

- Company best practice – Structure of the Board, executive pay, reliable accounts, board diversity
- Treatment of shareholders and alignment with their long-term interests
- Governance risk relative to other investments
- Securities Litigation & Company Governance Reform

2.8 The Fund has already recognised the urgency of the need to address climate change, subsequent to the IPCC's 2019 report, in its Environmental, Social and Governance Statement.[1]. Following the Paris agreement of 2015, this report sets out the likely consequences of global warming of 1.5 degrees and the additional damage that global warming of 2 degrees could cause. To avoid this, green-house gas (GHG) emissions will not only need to drop by half in the next 10 years, they will then have to reach net-zero around mid-century.

2.9 In recognising this urgency, a key priority will be for the Fund to set out its approach to climate change in more detail, explaining how this will influence its policies and investment decisions. Such a position statement would provide clarity to stakeholders and inform the investment strategy and expectations of the fund managers. The Fund may wish to set a net zero goal which would set the stage for the Fund joining others to being 'best in class' in this regard. An example of how this can be incorporated into the Responsible Investment Strategy is shown in the GMPF policy which includes the statement 'We aim for all our investments to have net zero carbon emissions by 2050 at the latest, in line with the Paris agreement on climate change': https://www.gmpf.org.uk/about/how-do-gmpf-invest .

Other investors such as the Brunel Pension Partnership have said they plan to reduce real-world carbon emissions by 7% per annum.

2.10 Noting the large range of issues within ESG beyond climate change, the Social (S) and Governance (G) aspects encompass a broad range of issues which the Fund may feel strongly about and wish to reflect in its ESG priorities. Social issues such as employment standards, child labour and taxation, and Governance issues such as executive pay, board diversity and independent audit are common concerns across LGPS Funds and also form significant elements of the Local Authority Pension Fund Forum (LAPFF) work plan. By identifying which issues the Fund wishes to prioritise, it can then seek to influence both ACCESS and its fund managers to take certain actions and report back to the Committee on the outcomes of these actions. This is the level of information the FRC is looking to evidence in the new Stewardship Code Principles.

[1] East Sussex Pension Fund, Environmental, Social and Governance statement (including climate change)

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3 ESG Polices and Strategies

3.1 The Fund has previously received reports from its investment consultants highlighting the increasing external requirements and expectations on responsible investment (RI) for institutional investors. These have been included in the Fund's planning of matters it needs to address. Whilst most are not direct statutory requirements they identify areas of good practice that many institutions are progressing and the Fund has made certain commitments to.

These include:

- The Stewardship Code (2020) – compliance with new enhanced standards
- UN Principles of Responsible Investment (PRI) – membership considerations
- Task Force on Climate Related Financial Disclosures (TCFD) - adopting reporting requirements
- Transition Pathway Initiative (TPI) - supporting positive action to address Climate Action 100+

3.2 The Fund has already produced a number of useful documents setting out its approach to ESG and RI which explain its beliefs and objectives and start to demonstrate the activities it is undertaking in achieving these aims. In particular, these documents include:

- Environmental, Social and Governance Statement (including Climate Change) Investment Strategy Statement (October 2019)
- Responsible Investment Policy
- Investment Beliefs
- UK Stewardship Code Statement
- Risk Register
- Business Plan

3.3 These documents have been updated to reflect the recent work of the Fund on developing new or additional requirements on ESG issues and provide a sound platform for the Fund to move forward. The Fund has also agreed a work plan highlighting the issues it would like to address in the year ahead. This now needs to be elaborated upon following Recommendation 1 to identify specific tasks that will help it achieve its ambitions. Significant issues to consider will be the new Stewardship Code, requirements of being a PRI signatory and various climate change initiatives which reflect the Fund's priorities.

The Stewardship Code

3.4 The new Code issued by the FRC has significantly increased the expectations on asset owners and asset managers to 'apply and explain' their stewardship objectives and how they are incorporated into the investment strategy. There are 12 Principles as shown below which the Fund must report progress against to the FRC in order to remain a signatory. The Fund has identified the need for work on meeting the requirements and is capable of achieving the requirements. In broad terms we have identified where we consider the Fund currently complies or has work to do to meet the requirements.

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Table 4 - Assessment against new Stewardship Code Principles

Stewardship Code Principle	Compliance
1. Explain your investment beliefs and how effectively they have been applied	Partial
2. Explain effectiveness of governance structures in supporting stewardship	Partial
3. How potential or actual conflicts of interest are managed	Partial
4. Assess effectiveness in responding to market wide or systemic risks	No
5. How review has led to improvement of policies and practices	No
6. How the views of beneficiaries have been collected and considered	No
7. Disclose ESG priorities involved in investment decision making	Yes
8. How service providers have been monitored against the Funds beliefs	Yes
9. Disclose outcomes of engagement either directly or in collaboration	Partial
10. Explain collaborative engagement activities	Partial
11. Explain outcomes of engagement escalation	No
12. Report on voting activity and rationale for decisions (Equity and Fixed Income)	Partial

Recommendation 2: The Fund uses the outcomes from Recommendation 1 to update is policies and practices to meet the requirements of Stewardship Code Principles 1, 2, 3, 4, 5, 7 and 8.

Recommendation 3: The Fund reviews its role in collaborative engagement (LAPFF and ACCESS) and develops reporting arrangements to demonstrate the outcomes relevant to how the Fund meets the requirements of Stewardship Code Principles 9, 10 and 11.

3.5 The Fund has stated that all of its fund managers, consultants and other service providers should be committed to the new Code and become signatories at the earliest opportunity.

UN Principles for Responsible Investment (PRI)

3.6 The PRI was established to promote the role of ESG factors in financial markets. It produces research and lobbies on behalf of its signatories to ensure responsible investment is recognised by all financial market participants. Primarily it supports asset owners (such as pension funds) committed to responsible investment by encouraging adoption of the Principles and improving collaboration with investment managers and consultants. On its website it states:

> *The PRI is truly independent. It 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.*

3.7 The six Principles for Responsible Investment are a voluntary and an aspirational set of investment principles that offer a menu of possible actions for incorporating ESG issues into investment practice. In the table below we have set out the Principles and our assessment of how East Sussex currently compares:

Table 5 – Assessment against Principles for Responsible Investment (PRI)

UN Principles for Responsible Investment	Compliance
1. We will incorporate ESG issues into investment analysis and decision making	Yes
2. We will be active owners and incorporate ESG into policies and practices	Yes
3. We will seek appropriate disclosure on ESG by the entities in which we invest	Partial
4. We will promote acceptance and implementation of the Principles	Partial
5. We will work together to enhance our effectiveness	Yes
6. We will report our activities and progress towards implementing the Principles	Partial

3.8 The Fund has stated that all of its fund managers, consultants and other service providers should be signatories to the PRI and will continue to challenge them to demonstrate their compliance through engagement and reporting.

4 Climate Change, Fossil Fuels and TCFD Requirements

4.1 The Fund recognises the implications of climate change on the Fund's investment returns and has stated it will include consideration of climate change risks as part of setting its investment strategy. The investment implications of climate change continue to evolve and the Fund has committed time and resource to monitor these risks as they emerge and to identify investment opportunities across asset classes, amending the investment strategy when appropriate.

4.2 Whist the Fund has noted the IPCC Special Report on Global Warming 2019 and considers itself a signatory to Climate Action 100+ through LAPPF and its fund managers. It has not however specifically stated that climate change is **financially material** to its long term investment performance. Equally climate change is not included in the Fund's risk register. It would be helpful for the Fund to be more explicit in its ambitions around climate change by for example stating its support for the 'Paris Agreement' and in the context of the IPCC report setting a long term goal in line with limiting global warming to a rise of 1.5 degrees and aiming for a net zero carbon economy by 2050 i.e. *The Funds long term goal is for 100% of assets to be compatible with the net zero ambition by c.2050 in line with the Paris agreement.* (See 2.9 above)

4.3 This kind of statement provides a clear instruction to fund managers about the Fund's expectations and can be directly assessed through the managers' asset selection, voting and engagement with individual companies.

4.4 There are also a number of other initiatives that the Fund may wish to explore further and support including the Investor Agenda and the Net-Zero Asset Owner Alliance, the latter in particular, which is orientated at investors making a commitment to transition investment portfolios to net-zero GHG emissions by 2050.

4.5 In addition, LAPFF is involved in initiatives and groups including Climate Action 100+ which focuses on engagement, the Institutional Investor Group on Climate Change (IIGCC) which lobbies on policy issues, specific sectors are covered by the Transition Pathway Initiative (TPI) and the UK focused 'Investing in a Just Transition'. Each of these can help the Fund to respond to its climate change priorities and demonstrate its commitment in different aspects of

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its strategy to address climate change. In this regard we note that TPI analysis is to be conducted on the Fund's active equity holdings with Longview.

4.6 Reporting requirements for these initiatives alongside the new Stewardship Code and PRI will allow the Fund to demonstrate its ambitions and approach to climate change to its stakeholders and also highlight where future action is planned/needed.

4.7 The Local Authority Pension Fund Forum (LAPFF) published a Climate Change Investment Policy Framework in 2017 which many funds use as a basis to develop investment policy on climate change. The framework incorporates the four themes of the Task Force on Climate Related Financial Disclosures (TCFD) (see below) in providing guidance on establishing a climate change policy.

4.8 The Task Force on Climate Related Financial Disclosures (TCFD) was created in 2015 to enable stakeholders to better understand the concentrations of carbon-related assets in the financial sector and the financial system's exposures to climate-related risks. Its recommendations have been widely supported by national governments. The reporting requirements are being adopted by an increasing number of leading funds on ESG matters.

4.9 A pension fund seeking to achieve best practice will disclose as a policy document its approach to addressing the issues raised in the TCFD's four thematic areas:

Table 6 - TCFD Policy Disclosure Themes

Governance	**Strategy**	**Risk Management**	**Metrics and Targets**
Disclose funds governance of climate related risks and opportunities (CRRAO)	Disclose the impacts on the fund's investment strategy and asset management arrangements of CRRAO	Disclose how climate change risks are identified, assessed and managed	Disclose the performance metrics and targets associated with the risks and opportunities
a) Disclose fund's oversight arrangements of climate related risks and opportunities (CRRAO)	a) Describe the risks and opportunities identified over short to long term from CRRAO	a) Describe the process for identifying CRRAO	a) Disclose the assessment metrics
b) Disclose the management arrangements for assessing and CRRAO	b) Describe the impact of CRRAO on the fund's activities and strategy	b) Describe the process for managing CRRAO	b) Disclose weighted average carbon intensity (where data is available or can be reasonably estimated) for each fund

	c) Describe the resilience of the CRRAO strategy	c) Describe how the approach is integrated into the fund's overall risk management arrangements	c) Describe the targets used to manage the risks

4.10 In responding to the TCDF reporting framework, the Fund will need to consider the depth and breadth of its climate change investment activities. This requires the Fund to consider how it positions itself in respect of the wide range of options available. The table below is based upon the analysis of funds reporting TCFD assessments. The headings across the top of the table represent the areas of reporting and the columns show examples of activity with those at the top being the minimum level and increasing as you move down the columns. Funds will determine where they want to position themselves.

Table 7 - TCFD Assessment of climate change investment activities

Engagement	**Green, positive, sustainable and impact investing**	**Apply climate change policy to assets**	**Approach to carbon intensive or high carbon risk assets**
Degree of active engagement and by whom	**Priority given to investing in new opportunities**	**Range of assets brought into the Fund's climate change policies**	**Policy on any disinvestment criteria**
Delegate to asset managers accepting their in-house approach based upon ESG assessment from the RFP		Apply to major quoted companies	
Engage with policy makers directly or in association with others	Allocate a small % of fund to funds with low or zero-carbon targets, renewable energy or impact investing (less than 2%)	Manager appointments take into account application of climate change activity for some quoted equities	No investments in thermal coal companies.
Proxy voting with specific focus on '1.5 degrees'			
Engage with companies directly or with others through correspondence and face to face meetings			Blanket policy of not having any investments in assets that are dominated by carbon intensive or high carbon risk assets.

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Join with other active investors to enhance the opportunity to achieve change	Link new investment with reduction in exposure to poor performing companies or sectors	Development of net zero-carbon strategies for parts of the assets under management	
Support or propose AGM shareholder resolutions	Allocate 5 to 10% to 'funds with low or net-zero carbon mandates		Triggers in engagement can identify individual companies within sectors for consideration for disinvestment
Delegate to asset managers with a strong bespoke brief and enhanced monitoring	Direct investments in renewable energy, impact investments or sustainable infrastructure	Climate change is taken into account in selection criteria in all asset classes	Significant disinvestment linked to replacement by comparable assets that have a lower carbon risk profile

4.11 We have reviewed the Funds position against the options above and used a red/amber/green rating to show where the Fund currently compares. Green text indicates where the Fund is already active, amber text for partial action and red text where we consider the Fund is not active. For this assessment it is important to note that it is not intended to be aspirational that the Fund fully meets each of the above options but rather uses the table to determine where its priorities lie and how it will monitor its fund managers voting and engagement.

4.12 We note that the Fund's active managers already do not consider carbon intensive sectors such as the oil and gas sector a good financial investment for the Fund and thus do not have holdings in such companies.

4.13 In addition, the Fund could consider other measures such as reviewing the mandates of managers that do not reduce exposure to climate risk by a certain date (Brunel Pension Partnership has said it would do this by 2020).

4.14 As most effects of climate change will emerge over the medium to longer term, this presents challenges for investors. The Fund can consider how climate-related risks and opportunities may evolve by building on the scenario analysis instigated by the adviser.

Recommendation 4: From the themes and requirements from Table 6, the Fund prepares its own climate change-related financial disclosures and using the options shown in Table 7 it can decide which activities it will action in support of the priorities identified from Recommendation 1.

Risk Management

4.15 Risk management is one of the four primary themes of the TCFD which states 'Asset owners should describe how they consider the positioning and active management of their total portfolio with respect to the transition to a lower-carbon energy supply, production and use'.

This should include engagement with companies to encourage better reporting and practices around climate related risks. It is noted that the adviser is addressing the risk in the review of the Fund's strategic asset allocation review.

4.16 Within the Responsible Investment Policy the Fund describes its approach in terms of long-term sustainable returns and states that it has identified climate change as a potential long-term financial risk, however, this is not reflected in the risk register.

Recommendation 5: A more detailed analysis of the financial related risks of climate change be adopted by the Fund and this should be included in the risk register, along with the various mitigations such as activism, diversification, engagement, measurement and reporting.

Carbon Measurement

4.17 Within the new ESG Statement, the Fund has published an assessment of its carbon footprint as at June 2019. This a very positive step and has enabled the Fund to identify its carbon exposure across each of its individual mandates. This information has already influenced the investment strategy and it is vital that this exercise is established as a central part of the Fund's monitoring and reporting with the proposed quarterly analysis of fossil fuel exposure and associated voting and engagement reporting.

4.18 Currently there are no internationally defined characteristics for carbon measurement which means comparison between Funds and different approaches is inconclusive. We are aware that the Fund is currently reviewing its provider of carbon measurement services. At this time there has not been an agreed approach set out by the UK Government or the LGPS Scheme Advisory Board and so individual funds are making their own decisions. This is an area where asset pools can assist with achieving consistency, although we are aware this has not been agreed within the ACCESS pool. The Fund should determine what it considers to be best practice in this area and seek the views of the SAB and other pools/funds when selecting a new provider.

Recommendation 6: Following consultation with various parties, a carbon measurement service is re-commissioned and used to inform fund manager engagement and stakeholder communications.

5 Voting

5.1 The Fund has delegated the exercise of voting rights to its investment managers. For those managers selected via ACCESS (including the UBS Equity portfolios) there is a set of voting guidelines produced by LINK on behalf of ACCESS which is used to inform managers on the pool's voting intentions.

5.2 A review of these guidelines suggests they are fairly basic in comparison to current ESG accepted best practice and fall well below the expectations set out in LAPFF policies, which are most likely to represent the Funds views. Climate change is not specifically referred to, and the guidelines on environmental issues only apply to voting on the annual report. The guidelines could be improved by included a section on voting on climate-related shareholder resolutions, which are increasingly common in various markets.

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5.3 They might also specify how boards will be held accountable for company disclosures, policies and practices related to climate change. Investors are increasingly willing to oppose the election of directors where companies fall short, and a number of LAPFF Alerts have recommended opposition due to climate concerns.

5.4 In respect of application of the guidelines, our analysis of voting data supplied shows a very significant variation between managers. For example, in the period 1 April 2019 to 31 March 2020, Ruffer voted with management in 92% of cases, whereas Longview voted for management in 61% of cases.

5.5 Looking at the detailed voting record supplied by Longview, this is driven by factors such as a robust voting position on the appointment of auditors. This is in line with the policy position set out in the ACCESS guidelines to oppose audit firms that have been in place for over 10 years. It seems unlikely that Ruffer is applying the policy in the same way. In the case of UBS, based on its reporting for Q1 2020 it appears to oppose auditors that have been in place for over 20 years, rather than 10.

5.6 Given the variation in manager voting on a relatively straightforward governance issue, and the apparent lack of alignment in some cases with ACCESS guidelines, it is likely that similar variation will occur in respect of voting on climate-related resolutions.

5.7 The Fund publishes the results of the managers' voting in its Annual Report and also produces a quarterly update for the Committee. However, this information does not highlight the impact or outcomes of the voting and only covers the active equity (Longview), absolute return funds (Newton and Ruffer) and passive equity (UBS) portfolios. The Fund has yet to look at the requirements around fixed income as set out in the new Stewardship Code Principle 12.

5.8 In order to meet the requirements of the Stewardship Code and more specifically the Fund's own ambitions in respect of RI, additional work will be necessary to develop a bespoke set of voting guidelines for the Fund and to establish the monitoring procedures to assess how these are being followed. At this stage the ACCESS Voting Guidelines have limited value to the Fund and there will need to be discussions with ACCESS and the fund managers to ascertain their anticipated level of compliance. This would be an easier conversation at pool level but if that is not possible then the Fund should prepare to have its own approach. This is of particular note as the new Stewardship Code requires much more on voting disclosure, including on climate-related matters. The Fund itself and its fund managers should publish voting records on a quarterly basis to meet new Stewardship Code requirements which are currently only produced by a very small number of LGPS funds.

5.9 Given that voting is a crucial part of engagement with companies, in certain instances the voting stance may be informed by specific engagement with the company in question and the voting guidelines should set out parameters for this.

Recommendation 7: The Fund agrees a set of voting guidelines that reflect its ESG priorities and determines how these can be applied with ACCESS and the fund managers.

Recommendation 8: The Fund establishes a reporting framework (including publication) around the voting activities of its fund managers against its own voting guidelines in line with Stewardship Code Principle 12.

6 Engagement

6.1 The Fund recognises that through active shareholder engagement it can convince the companies it invests in to improve their corporate governance. Engagement in the main is carried out via the activities of the Fund's managers. Other organisations are also available in the market to provide dedicated engagement services and, as previously referred to, the TPI can be a useful measure for certain sectors, not only to assess engagement success but to identify 'triggers' for engagement.

6.2 The Fund also believes that collaborating with likeminded investors greatly increases the likelihood of success through engagement. The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) which undertakes a range of engagements based upon its own work programme set by the Forum Executive. In order to increase the influence of the Fund and its ESG beliefs it may wish to consider having a greater involvement with LAPFF through participation in business meetings and potentially nominating a representative to stand for election to the LAPFF Executive. Some of these duties can be shared between officers and Members but it will increase time commitments and demand for internal resource. The Fund has already agreed in its budget to increase the level of internal resources in anticipation of additional demand from its ESG ambitions and supporting LAPFF would be a beneficial way of achieving some of its objectives and would increase ESG knowledge within the Fund.

6.3 In order to meet the requirements of the new Stewardship Code the Fund should also consider how to incorporate specific elements of LAPFF engagement activity into its own reporting to demonstrate the effectiveness of actions taken and associated outcomes. The Fund has specifically stated that its preferred approach is engagement rather than divestment and as part of the TCFD it could provide greater clarity on this approach and the circumstances where disinvestment may apply i.e. where a company consistently fails to achieve its stated carbon reduction targets.

6.4 Some examples of LAPFF engagement achievements worthy of note include; LAPFF has long advocated for 'reliable accounts' highlighting problems with international financial reporting standards and with the UK regulator, the Financial Reporting Council (FRC). Pressure from LAPFF on the FRC's short-comings paid off in the spring of 2019 with the Kingman Review. The then LAPFF chair was one of the first people to meet Sir John Kingman in relation to his Review. The main positions proposed by LAPFF, including that the FRC needed to be replaced by a body properly accountable to Parliament, were mirrored in the Review's recommendations. One crucial recommendation that is now underway is for the FRC to be replaced by a new regulatory body; the Audit, Reporting and Governance Authority (ARGA).

6.5 LAPFF also has a long history of engaging on climate risk, producing its first report on the investment impact of climate change in 2004 (two years before the UK government's ground breaking Stern Review) and calling for mandatory corporate carbon reporting which was later introduced in 2012. The Forum's experience of working positively with company chairs, led to the first ever shareholder resolutions being supported by company boards in 2015. LAPFF funds co-filed the resolutions to BP and Shell on strategic climate reporting and the Forum was the only investor that met both company chairs. These positive outcomes have continued since then, with most recent engagement in 2020 with the Barclays' chair, Nigel Higgins, resulting in overwhelming support for a company resolution committing to measures to address climate risk as well as strong support for a shareholder resolution on the same topic.

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Recommendation 9: Increase involvement with LAPFF and seek to incorporate some relevant elements of their work into the Funds own reporting.

Recommendation 10: Further to the adoption of the Fund's statement on climate change, the fund managers are required to report regularly on their engagement activities to demonstrate their support of the Fund's position and wider requirements of TCFD, PRI and Climate Action 100+, see Recommendation 3.

7 Impact/Sustainable Investment

7.1 As part of the work undertaken by the Fund over the past year there has been consideration of impact investing and sustainable equities which could be part of the Fund's investment strategy. So far the only significant ESG influence to the investment strategy has been the switch to the Low Carbon Passive Equity mandate. However, the global equity with Longview already excludes high carbon risk companies and the private equity investments have a renewable focus.

7.2 There are a number of different investment opportunities that are aligned with a low or net-zero carbon transition, including through private equity investment, such as renewable energy, sustainable infrastructure and impact investing which can be identified and considered. It is not the role of PIRC within this report to provide direct advice on impact or sustainable investment but we do recognise the potential merits of this type of investment which could easily be aligned with the ESG priorities identified by the Fund. Further work in this area with the Fund's investment advisers would provide the Committee with some options to make initial investments in these areas.

7.3 The Fund has a stated ambition of developing a long term sustainable investment strategy and has started to review its current strategy in terms of fossil fuel exposure and the role of benchmarks. Any changes to the strategy should be in line with the ESG priorities identified as a result of Recommendation 1 and the Fund should also consider possible metrics to measure the effectiveness of the investments it makes towards these priorities. Currently this is a developing area that lacks agreement on global definitions and indices and will require further guidance from the UK Government and LGPS Scheme Advisory Board in time to support the Funds progress.

Recommendation 11: In line with the Responsible Investment Policy the Fund will evaluate the financial risks of existing and potential investments as it seeks to identify appropriate low or zero-carbon mandates as well as investing in renewable energy, sustainable infrastructure or other impact opportunities.

8 Asset Pooling

8.1 East Sussex is part of the ACCESS asset pool and has already transferred a significant proportion of its assets over to mandates managed via the pool. These include the active global equities, Bonds, Absolute Return Funds and technically the passive global equities via a joint procurement arrangement. The fund recognises that the appointment and management of fund managers will in future require co-operation with other pool members. However, the

current arrangements are not providing the desired level of ESG interaction to enable the Fund to achieve its ambitions. The Fund therefore needs to determine what activities are currently or likely to be available going forward via ACCESS and then form a view on what additional support and information it wishes to source from elsewhere.

8.2 It has been established that the ACCESS asset pool is still in the development phase and has not progressed to the same extent as some other asset pools particularly in aspects such as ESG. East Sussex is considered a leader on ESG within the pool and as part of its commitment to the pool should continue to raise emerging issues and demonstrate best practice to encourage collaboration with other pool funds. However, it is also clear that at this stage the ESG ambitions of the Fund are being impaired by its involvement with the pool in terms of a collaborative approach to issues such as climate change, voting and engagement, carbon measurement and impact/sustainable investing.

8.3 Despite limited support and interest in these issues from other pool funds it is clear the regulatory environment will require all Funds to respond in more depth to ESG issues and so East Sussex has the opportunity to take the lead in terms of influencing future decisions of the pool and identifying best practice approaches to achieve the regulatory requirements and RI best practice. We do not consider this would be in conflict with the Fund's role within ACCESS as long as it remains transparent in its activities and continues to lead on these issues for the pool.

8.4 Since the introduction of asset pooling in 2015 all LGPS Funds have been developing approaches to manage the new relationship between themselves, the pool and fund managers to ensure the fiduciary responsibilities of the Fund continue to be appropriately discharged. One of the main criteria for successful pooling was the improvement in governance arrangements largely delivered through collaboration and sharing good practice. It remains a key role for the Fund to establish oversight arrangements to monitor and manage its asset pool. In terms of ESG there are a number of areas where the Fund will need clarity on the outcomes it can expect from the pool and understand how these impact upon its own ESG ambitions (See 8.2). More information on the how pools might respond to different ESG matters is included in the PIRC Note at **Appendix 3**.

8.5 The Fund may require additional support to implement some of its ESG objectives and should investigate what services and advice it needs to achieve the requirements of the Stewardship Code, PRI and TCFD. Options could be shared with ACCESS and the other pool funds to establish the potential for collaborative procurement but this should not meaningfully restrict the positive outcomes that this support could deliver to East Sussex.

Recommendation 12: The Fund embraces its leading role on ESG within ACCESS and continues to promote good practice and monitoring the latest developments. Based upon its own ambitions, the Fund should seek support to implement ESG objectives such as bespoke voting guidelines, carbon measurement and impact/sustainable investment opportunities.

9 Fund Managers' Role

9.1 The Fund has delegated some of its ESG activities to its appointed fund managers and has insisted that all its fund managers are signatories to the Stewardship Code. Given the level of internal resources available and the complexity of many of the issues, this approach is

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perfectly acceptable. From the Fund's perspective it is important that they are able to monitor the ESG activities of their fund managers and particularly receive reports on their voting and engagement activities – see Stewardship Code Principle 8. The Fund currently collates and reports the voting records of its equity managers and voting is based around the voting guidance produced by LINK. As noted above, these guidelines are fairly limited in comparison to best practice and the voting analysis shows how the fund manager voting in practice varies between the managers and often differs from what LAPFF has recommended. In order to move towards the voting outcomes which would match the Fund's priorities, it needs to encourage its managers to apply its own voting guidelines. This could be part of a wider conversation within the ACCESS pool or directly with each fund manager. **See Recommendation 8**

9.2 In terms of engagement, the fund managers are expected to reflect on their activities in their quarterly reports to the Fund and in presentations made directly to Committee meetings. This is a positive activity for the Fund but it could be expanded to reflect the Fund's specific ESG priorities and lead to a dialogue where the fund manager has taken an alternative view. The Fund can also draw on LAPFF recommendations to inform its view on certain companies and add to the discussions with the fund manager. It is understandable that at times there may not be agreement on issues with some companies but the Fund will be in an informed position and can consider how it may respond in the future. **See Recommendation 10**

9.3 It has been established in section 8 that the ACCESS pool will be taking responsibility for the selection and appointment of fund managers going forward. A key element of the relationship between the Fund and the fund managers are the contractual arrangements, many of which would be assessed during a procurement. The Fund should review its existing mandates to clarify the level of ESG expectations and seek to influence ACCESS when agreeing contracts to demand best practice clauses in relation to ESG i.e. signatory to the Stewardship Code, PRI signatory, provision of voting records, engagement activities etc. When selecting a manager these contract terms should be taken into consideration to ensure the Fund is satisfied otherwise it should consider other options either within ACCESS or beyond.

9.4 The ESG Working Group provides an opportunity to spend time discussing ESG issues with existing and potential fund managers as well as being a less formal arrangements for training on ESG matters. The working group should reflect upon its terms of reference to ensure it has a structured approach to monitoring all existing fund managers against the Fund's ESG priorities and seeks to promote active engagement with new market developments as they arise. This would be an opportunity to review voting and engagement experience and make recommendations back to the Committee. **See Recommendation 1(d)**

Recommendation 13: A review of the current fund manager contact terms is undertaken to identify current expectations and to inform best practice which can then be used in future negotiations and shared with ACCESS.

10 Communications

10.1 A significant element of the various new pieces of Guidance and Regulation mentioned above is the two way communication between the Fund and its stakeholders and particularly with its members (beneficiaries) and employing bodies.

10.2 Stewardship Code Principle 6 looks at how beneficiaries' views are gathered and considered and this can be a key instrument in showing the Funds willingness to listen and engage with the views of external parties. There are clearly resource implications in developing a member survey and analysing the results but the benefits in terms of demonstrating transparency and being able to respond directly to members' opinions will go a long way towards building relationships which can be developed over time. These will then provide channels for further debate and allow the Fund to act more quickly when specific issues arise.

10.3 A number of Funds have attempted member surveys and it would be worthwhile investigating the relative success of each approach to understand good practice and avoid unwanted outcomes. For example the structure of the questions could be designed in such a way as to get feedback on support for specific ESG activities and confirm priorities and non-priorities, rather than asking open questions which may well result in a wide range of opinions which the Fund may struggle to reconcile with its own responsibilities. Previous experience of these surveys tends to suggest that most members will share the views of a Fund which has developed a strong set of investment beliefs. A good example to review is the Environment Agency Survey (see link below) which had an excellent response rate and gave the Fund some clear messages about members views.
https://www.eapf.org.uk/news/public/2020/05/what-you-think-about-responsible-investment

The Fund may want to ask more specific questions within this, such as ascertaining member views on particular investments, for example, renewables or sustainable infrastructure.

Recommendation 14: The Fund considers options to gather the views of its members with regard to ESG and this information will be used to influence future decision making.

11 Resources and Governance

11.1 The Fund is currently in the process of recruiting additional resources whilst its collaborations via ACCESS and LAPFF offer the opportunity to extend its influence on ESG issues. However, this is a complex and time consuming area with the Fund also relying on its advisers to highlight emerging themes and monitor compliance with regulation and guidance. These resources, collaborations and advice should be recognised in the work plan to implement the Fund's ESG priorities and, where appropriate, additional support may be considered to offer expertise and monitoring services.

11.2 Following the investment governance review by the independent adviser, a working group for ESG issues was established. This does not appear to form an official part of the Council's formal meeting arrangements but does provide a platform to discuss these multi-faceted issues in more depth. The working group includes representatives outside the Committee and Local Board, including employers and environmental groups, which will facilitate a wider and more informed discussion. Whilst we appreciate this group is in its infancy, it would be sensible to establish some terms of reference particularly around its relationship with the Committee and it should publish a written record of each meeting, e.g. an action log of recommendations to demonstrate the transparency of its workings.

11.3 The Fund in its business plan has a very full set of investment objectives which this review fully supports. The range and complexity is such that the Fund should consider the introduction of detailed project planning which could help the officers and Committee set out

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how they will achieve their objectives over the next 12 – 24 months and ensure limited resources are used to their best effect. By producing a detailed plan it will provide a realistic timescale to move forward in line with Committee meeting dates and ensure specific deadlines are met. It will also help quantify the level of resources and external input required to achieve the targets which can better inform the budget process and ensure the level of resources available are sufficient. By attaching responsibility for individual targets the Committee will be able to allocate resources appropriately and hold those responsible to account in terms of outputs and deadlines.

11.4 The Fund has recently reviewed its governance arrangements with the support of AON and has implemented a number of changes including updated Terms of Reference and established working groups to tackle key issues such as ESG. Overall the governance arrangements are effective and with the Local Pension Board and use of external advisers the decision-making process is robust and there is a clear understanding of fiduciary responsibility by the administering authority (East Sussex County Council).

11.5 In addition to its internal resources the Fund employs an investment consultant (Hymans Robertson) and an independent adviser (William Bourne) to support the governance arrangements. Both advisers have contributed significantly to the Funds current investment strategy and have supported the various training activities around ESG activities. As part of their quarterly report to the Committee, Hymans Robertson include an ESG rating of the fund managers based upon their wider knowledge of the sector. This could be a useful tool to support the Committee in monitoring its managers although currently only a couple of the fund managers are covered and the exact basis of the rating is not defined. This is an area the Fund could explore further to establish what other ratings are available and what other LGPS funds receive.

Scheme Advisory Board Good Governance Review

11.6 The LGPS Scheme Advisory Board (SAB) is currently reviewing the governance arrangements across the LGPS and the results are likely to see a revised governance compliance statement which will produce a set of recommendations against which funds will be required to 'comply or explain'. There will be a broad range of governance recommendations but from an ESG perspective they may include Funds producing an ESG statement, adoption of the new Stewardship Code, membership of the PRI and specific reference to climate change in Funds' risk registers and investment strategy statements. Whilst the recommendations may be 'optional' it is likely that non-compliance will reflect on the Funds overall governance arrangements and potentially draw external criticism.

Recommendation 15: The newly established governance arrangements should be reflected in the Fund's policy documents and the structure of the working groups be clarified to include its role in monitoring fund managers and providing documented feedback to the Committee.

Recommendation 16: Produce a detailed project plan for its Business Plan investment related priorities so as to identify specific targets and deadlines required to achieve ESG ambitions and allocate appropriate resources and budget. The plan should include how the Fund will implement its priorities in areas including voting, engagement, impact / sustainable investing, collaboration, communications and reporting.

12 Summary of Conclusions

1. East Sussex Pension Fund currently complies with all statutory regulations and relevant guidance with regard to its environmental, social and governance (ESG) obligations.

2. The Fund is considered a leader on ESG by its peers in the ACCESS asset pool and has made more progress than the average LGPS fund in responding to ESG issues.

3. There is a clear awareness of the Fund's fiduciary duties and the need to act in the best interests of the Fund's members. The governance arrangements including the Local Pension Board and new working groups provide a reasonable challenge to the Fund's officers and advisers.

4. Over the past 18 Months the Fund has made significant progress in gaining a better understanding and knowledge of a range of ESG issues and specifically climate change which has led to actions including a carbon footprint assessment and the production of an ESG Statement.

5. Within the Fund's current work plan, the Fund has identified areas it needs to address and develop including meeting the new Stewardship Code Principles and preparing a response to the Task Force for Climate Related Financial Disclosures. These will put the Fund into a strong position for its investment response to ESG matters and climate change.

6. The progress of the ACCESS pool and a requirement to agree with other pool funds on a range of issues has led to considerable discussion and delays to the Fund's ESG ambitions.

7. The Fund has recently approved a business plan and is in the process of recruiting to a number of senior posts which should address some of the resourcing deficiencies which have hindered the Fund's progress on prioritising and addressing ESG issues. Completing the ESG projects set out in the business plan will put the Fund in a strong position but will require significant project management skills to be certain of achieving the outcomes set in the plan.

8. The voting records from the Fund's equity managers have been collated and reported against the ACCESS voting guidelines. However, it is unclear what priorities the Fund is seeking to address through its ownership rights and the ACCESS guidelines are limited in their scope and hence are unlikely to match the Fund's ambitions around ESG and climate change.

9. The Fund has been a member of the Local Authority Pension Fund Forum (LAPFF) since 2014 and reports on LAPFF activity to the Committee and within its annual report. Despite officers attending some business meetings, the Fund has not played a significant role in shaping LAPFF policy and with the ambitions of the Fund around ESG this could be an opportunity to demonstrate leadership and escalate its own priorities.

10. The Fund has a laudable ambition to develop a sustainable investment strategy and has moved one portfolio into a low-carbon benchmark but has also recognised the limitations of benchmark indices and is considering how to progress into Impact/Sustainable investing.

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11. The Fund has received ongoing criticism from external pressure groups on its response to climate change. Fund and working group members and representatives have clearly been building a good understanding of the issues to develop the Fund's response. Other funds in similar circumstances have reviewed and expanded their communications strategy as seen by the content of their websites and newsletters. As demonstrated by some other funds, the regular use of a member survey on ESG issues facilitates interaction with a range of stakeholders and would provide the Fund with clarity and evidence of external views which it can then address.

Summary of Recommendations

Recommendation 1:

a) From the broad range of ESG issues, the Committee reviews and confirms what ESG issues are a priority and those that are not and how it will respond. This will help demonstrate its ambition and inform its responses to regulatory requirements.

b) Detail on how it will respond to the issues that arise from (a) should cover policies on - engagement, avoidance of holding some assets, collaboration and positive investing in respect of its priorities.

c) A timetable should be determined for the coverage of all asset classes.

d) Outcomes from the ESG working group are produced and reported as appropriate to demonstrate transparency and strengthen the governance arrangements.

Recommendation 2: The Fund uses the outcomes from Recommendation 1 to update is policies and practices to meet the requirements of Stewardship Code Principles 1, 2, 3, 4, 5, 7 and 8.

Recommendation 3: The Fund reviews its role in collaborative engagement (LAPFF and ACCESS) and develops reporting to demonstrate the outcomes relevant to the Fund to meet the requirements of Stewardship Code Principles 9, 10 and 11.

Recommendation 4: From the themes and requirements from Table 6 the Fund prepares its own climate change financial disclosures and using the options shown in Table 7 it can decide which activities it will action in support of the priorities identified from Recommendation 1.

Recommendation 5: A more detailed analysis of the financial related risks of climate change be adopted by the Fund and this should be included in the Risk Register along with the various mitigations such as activism, diversification, engagement, measurement and reporting.

Recommendation 6: Following consultation with various parties, a carbon measurement service is re-commissioned and used to inform fund manager engagement and stakeholder communications.

Recommendation 7: The Fund agrees a set of voting guidelines that reflect its ESG priorities and determines how these can be applied with ACCESS and the fund managers.

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Recommendation 8: The Fund establishes a reporting framework (including publication) around the voting activities of its fund managers against its own voting guidelines in line with Stewardship Code Principle 12.

Recommendation 9: Increase involvement with LAPFF and seek to incorporate some relevant elements of their work into the Funds own reporting.

Recommendation 10: Further to the adoption of the Fund's statement on climate change, the fund managers are required to report regularly on their engagement activities to demonstrate their support of the Funds position and wider requirements of TCFD, PRI and Climate Action 100+, see Recommendation 3.

Recommendation 11: In line with the Responsible Investment Policy the Fund will evaluate the financial risks of existing and potential investments as it seeks to identify appropriate low or zero-carbon mandates as well as investing in renewable energy, sustainable infrastructure or other impact opportunities.

Recommendation 12: The Fund embraces its leading role on ESG within ACCESS and continues to promote good practice and monitoring the latest developments. Based upon its own ambitions the Fund should seek support to implement ESG objectives such as bespoke voting guidelines, carbon measurement and impact/sustainable investment opportunities.

Recommendation 13: A review of the current fund manager contact terms is undertaken to identify current expectations and to inform best practice which can then be used in future negotiations and shared with ACCESS.

Recommendation 14: The Fund considers options to gather the views of its members with regard to ESG and now this information will be used to influence future decision making.

Recommendation 15: The newly established governance arrangements should be reflected in the Fund's policy documents and the structure of the working groups be clarified to include its role in monitoring fund managers and providing documented feedback to the Committee.

Recommendation 16: Produce a detailed project plan for its Business Plan investment related priorities so as to identify specific targets and deadlines required to achieve ESG ambitions and allocate appropriate resources and budget. The plan should include how the Fund will implement its priorities in areas including voting, engagement, impact / sustainable investing, collaboration, communications and reporting.

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Appendix 1

List of East Sussex documents reviewed in production of this report:

1. Environmental, Social and Governance Statement (including Climate Change)
2. Responsible Investment Policy
3. Investment Strategy Statement (2019) (including Investment Beliefs)
4. Investment Strategy Review by Hymans march 2020
5. Action Log and Investment Work Plan March 2020
6. Pension Fund Committee Papers
7. Pension Fund Strategy Board
8. Pension Fund Advisory Board
9. Investment Steering Committee
10. RI Collaboration – Further Opportunities Paper March 2020

Appendix 2

PIRC Assessment of the depth and breadth of the current approach to ESG.

Appendix 3

PIRC Note on How to Evaluate a Pool's approach to ESG matters

Background Papers

References to good or best practices of some other Fund's that could be useful reference points

1. LAPFF Climate Change Investment Policy Framework and Implementation Guidance
2. LAPFF Climate Change Survey Results
3. Environment Agency Responsible Investment Survey Results
4. GMPF Responsible Investment Policy 2019
5. GMPF Approach to Climate Risk
6. Brunel Responsible Investment Policy 2019
7. PLSA Stewardship Guide and voting Guidelines 2020
8. Church Commissioners policy on active engagement
9. Strathclyde Pension Fund on climate change and stewardship code
10. HSBC Bank Pension Scheme Statement on TCFD 2018
11. WMPF Responsible Investment Framework 2018
12. LAPFF Note – Protecting pensions against climate risk exposure

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Extent of ESG/Climate Change activity

Collection of Information for Evaluation

1. Asset Class

What asset classes are covered by the East Sussex ESG/ climate change policies or activities? Please cross out any asset class not being used and indicate from those remaining the ones covered by the Funds ESG/climate change policies.

Asset Class	Non-Pool ESG activity (Please indicate Y/N	Non-Pool Climate change activity	Pooled ESG Activity	Pooled Climate Change
Equities				
– Pooled Global			Y	Y
– UK			N	N
~~– Pooled overseas~~				
~~– North America~~				
~~– Europe (Excluding UK)~~				
~~– Japan~~				
~~– Asia Pacific (Excluding Japan)~~				
– ~~Emerging~~				
Bonds				
~~– Pooled~~				
– Conventional UK Gilts			N	N
– Corporate UK Bonds			N	N
~~– Conventional Overseas bonds~~				
– Inflation linked UK			N	N
~~– Inflation linked Overseas~~	N	N		
– Absolute Return Credit				
Alternatives				
– Private equity	N	Y		
~~– Hedge funds~~				
– Infrastructure	N	Y		
– Diversified Growth			N	N
~~– Active currency~~				
~~– GTAA~~				
– ~~Commodities~~				

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Property – Pooled Global ~~– UK~~ – ~~Overseas~~	N	N		
Cash	N	N		
Other (please specify)				

2. Type of ESG Activity

A fund cannot address all ESG issues and needs to determine which are important and a priority for them. Please indicate the areas of ESG /climate change activity that are a priority for East Sussex and add any activity not listed.

	Non-Pool Assets under fund direct management		Pooled Assets under management
Climate change – Energy Efficiency – Carbon Management – Carbon Footprint Assessment of Equities – Carbon Footprint Assessment of whole portfolio – Emissions management relative to comparable organisations and government expectations – Scenario Analysis – Value at Risk and Actuarial Analysis – Renewable energy investments – Infrastructure Investments			X
Environmental – Pollution – Resource management			
Social – Human capital management and employment standards			

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– Impact investing – Child Labour – Health and safety – Fair tax contributions – Employee representation – Community relationships – Supply chain management – Equality, etc. <u>Governance</u> – Company best practice – Structure of the Board, executive pay, reliable accounts, board diversity – Treatment of shareholders and alignment with their long-term interests – Governance risk relative to other investments – Securities Litigation & Company Governance Reform			
Other – please detail			

3. Depth and breadth of East Sussex activity on ESG and Climate Change

A fund has options as to the extent it will consider and address ESG matters. Three approaches are outlined below to illustrate the range of responses open to funds on a spectrum of options. This shows at Level 1 a fund meeting minimum regulatory expectations rising to a fund at Level 3 with a broad active approach, demonstrating a high conviction to ensuring they use their ownership rights to maximise their impact on ESG issues and concerns, commensurate with their Investment Strategy Statement. On a scale of 1 to 5 where would you position East Sussex in meeting the three levels based upon the descriptions below:

Level	Score Range	East Sussex Score
Level 1 - Compliance	1 to 5	5
Level 2 - Good Practice	1 to 5	3
Level 3 - High Conviction	1 to 5	2

Level 1: Compliance

The fund is principally concerned with ensuring that it meets expected legislative standards. This makes sure there is a strategy in place, a coherent proxy voting policy and some form of engagement by its asset managers. A passive contributor to joint working with other funds nationally. A major emphasis on Governance issues.

It is possible in terms of meeting the LGPS regulatory requirements to have a broad ESG strategy which puts the onus on asset managers supervised by the pool operator to operationalise such a strategy with regular monitoring reports on activity undertaken. This represents a minimum option. A fund has only high level views leaving the pool operator and asset managers to develop the strategy and operationalise it. The impact will be a responsive approach to issues when concerns get raised and an indirect access by funds to managers who are responsible for the management of ESG matters within a fund's high level policy reflected in its Investment Strategy Statement. Controversial or high profile issues are likely to be avoided.

1. Aims to meet expected legislative standards
2. ESG principle strategy
3. Coherent approach to proxy voting
4. Engagement though asset managers

Level 2: Good Practice

Some funds will go further than the compliance level and develop a more advanced approach to voting activity e.g. developing a bespoke voting template and join other lead funds with company engagement. They expect increased accountability from asset managers on ESG matters. There will be increased governance activity and the fund will take an interest in limited range of environmental and social issues.

Level 1 plus:

1. Bespoke voting template
2. Join other lead funds on company engagement
3. Expects greater accountability from asset managers
4. May require pool operator to take an active part in addressing significant issues

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Level 3: High Conviction to ESG Issues to Protect and Enhance Shareholder Value

Funds integrate their ESG activity into their overall investment strategy, actively engage with companies, understand the governance risk in their portfolios and seek to actively manage that risk. They are likely to have significant dedicated resources allocated to achieving their ESG objectives.

The fund objectives would be detailed and based upon a comprehensive strategy that is operationalised as far as practical by the fund itself giving it much greater flexibility to respond to ESG matters it considers as important. It would make greater use of expert advice and appoint an agent to oversee and implement its strategy and ongoing determinations.

The high conviction approach requires the pool operator to facilitate the implementation of fund guidance on how ESG matters should be addressed in its share of the assets invested. Also, the operator could be required to facilitate a funds ESG agent in proxy voting and company engagement. A fund would want to be responsive to issues and have direct control over engagement on ESG matters.

1. Integrate ESG activity into investment strategy
2. Actively engage on a range of ESG matters
3. Seeks to manage ESG risks in assets held
4. Extensive reporting and accountability for engagement activity
5. Extensive collaboration with other concerned investors
6. Commissions research and analysis of ESG issues

How to Evaluate a Pools Approach to ESG Matters

1. How can we evaluate a pool's response to ESG matters from an administering authority (AA) point of view is a critical question in the relationship between an AA and its pool. Does an AA want a "passive" relationship and pool that meets good practice, but is not taking a "progressive "approach, or does it want to give ESG issues a high priority? What positioning will a pool be looking to take? ESG issues are complex and extensive making it difficult to give a simple answer to these questions. As a starting point an analysis of the characteristics of the two sorts of approach helps draw out the significant differences an AA must consider when reviewing its policies and required practices around ESG issues.

2. The following is a comparison of the characteristics of a pool taking a passive approach and one taking a progressive approach to ESG matters. It is not expected that pools will fall neatly into two categories and many are expected to have a mixture of characteristics depending upon their own circumstances. However, the analysis is useful in understanding the depth and breadth of a pool's proposed approach and as an evaluation of their approach relative to other pools and AA expectations.

ESG Characteristic	Passive Pool Response	Progressive Pool Response
1. Responsible Investment Statement Including compliance with stewardship code and recognition of ESG risks need managing/mitigating in interests of sustaining the value of the investments.	1. Comprehensive set of high level policies and objectives that meets good practice	1.1. Comprehensive set of high level policies and objectives exceeding good practice that has been the subject of extensive consultation and is reflected in all investment management activities. 1.2. Includes details of how ESG issues will be prioritised and addressed. Arrangements have breadth in terms of asset classes covered and depth in terms range of ESG issues being addressed.
2. ESG reporting	2.1 Linear reporting of outcomes of ESG activity – asset manager to pool,	2.1 Comprehensive regular reporting on ESG activity undertaken to all

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	pool to AA 2.2 Largely written, limited involvement of elected members apart from discussing reports at Pension Panel/Committee meetings when received from pool.	interested parties including review of priorities and setting of revised priorities in response to changing issues 2.2 Frequent reports to AA panel/committee or special sub-committee by senior accountable officers of the AA and pool on activity and emerging issues 2.3 AA has significant influence on ESG priorities and agrees targets for their outcomes
3. Asset management contracts and responsibility for ESG issues	3.1 Managers with ESG experience and capacity appointed and governance activity delegated to them to manage and action in accordance with their policies e.g. proxy voting of equity holdings 3.2 Mangers responsive to major high profile environmental and social issues	3.1 Managers expected to integrate pool ESG priorities into their management of pool assets e.g. use pool proxy voting template, discuss and lobby companies on ESG priorities established by pool 3.2 Mangers and pool expected to implement any reasonable AA specific requirement on ESG issues of high priority locally within the AA. Could include variations to pool standard proxy voting template
4. Membership of organisations for investors seeking to improve ESG outcomes	4. Left to asset managers to determine, but pool is represented on high profile groups	4. Asset manager, pool and AA encouraged to join organisations that are relevant to their ESG policies and priorities and they can have influence

5. ESG issues important to AA not currently a priority with pool and asset managers	5. Request to pool to get asset managers interested, but no commitment to taking any action or extent of any action	5. Pool prepared to support AA facilitating the actions of itself and asset manager in any reasonable activity that enable the AA to achieve its objectives
6. Impact investing relating to social or local or regional matters	6. Largely outside scope as investments are likely to be relatively very small	6. Prepared to explore feasibility if AA support an initiative
7. ESG resources	7. Strategically ESG resource is at high level. Operational implementation of ESG policy with asset managers	7. Strategic and operational resource established within pool. Capacity to respond to and support AA members and officers on ESG matters

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Report to: **Pension Committee**

Date of meeting: **22 June 2020**

By: **Chief Operating Officer**

Title: **Good Governance Review**

Purpose: **To provide an update on the Good Governance review, endorse the Terms of reference of the Pension Committee, terms of reference of the Pension Board, and revised Council Scheme of Delegations; and agree the Communication Strategy and Breaches Policy and log**

RECOMMENDATIONS

The Committee is recommended to:

1) endorse the:

- **Pension Committee Terms of Reference (appendix 2)**
- **Pension Board Terms of Reference (appendix 3)**
- **Revised Council Scheme of Delegations to incorporate Pension Fund management (appendix 4); and**

2) agree the:

- **Communication Strategy (appendix 5)**
- **Breaches Policy and log (appendix 6)**

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1 Background

1.1 At the meeting of the Pension Committee on 25 November 2019, the Committee considered an urgent item providing an update on the Breaches Log and future actions to review the Breaches Policy and Process.

1.2 As part of this item the Committee approved the undertaking of a governance review of the East Sussex Pension Fund (ESPF) involving the Chief Operating Officer, Chair of the Pension Committee, Independent Advisor and Aon. The review report is attached as **appendix 1**.

1.3 The Pension Fund Team had previously commissioned a review from Aon in January 2019 which considered the evolution of the scheme and the interaction with the Fund's management. This review had been used to inform how the Pension Fund Team oversaw the fund and worked with the Pension Board and Committee.

2. Progress

2.1 The Governance review working group met with Karen McWilliam from Aon on a number of occasions since Pension Committee to consider initial drafts and changes to these in respect of the following documents, which were further discussed and reviewed with Philip Baker, the East Sussex County Council Assistant Chief Executive. These documents include:

- Pension Committee Terms of Reference (**appendix 2**)
- Pension Board Terms of Reference (**appendix 3**)

- Revised Council Scheme of Delegations to incorporate Pension Fund management (**appendix 4**)
- Communication Strategy (**appendix 5**)
- Breaches Policy and log (**appendix 6**)

2.2 The Pension Board considered the documents at its 8 June meeting and was supportive of them. Further comments are included in the Pension Board minutes that appear on an earlier item on this agenda.

2.3 The working group had a follow up meeting on 19th May to consider the final draft review findings and to confirm the products of the Good Governance Review that could not be agreed at this stage and which require further consultation and reworking for presentation to the Pension Committee in September 2020, these include:

- Pension Fund Team structure and resourcing proposal
- Pension Administration Strategy
- Conflicts of interest policy and log
- Pension administration service standard agreement
- Responsibilities and relationship map for Pension Fund; Pension Administration and Employers

2.4 The review is identifying areas for development in order to be compliant with anticipated recommendations of the Scheme Advisory Board Good Governance Project, Chartered Institute of Public Finance and Accountancy (CIPFA) and areas where principles need to be established and clarified in order to ensure all areas of the Pension Fund are managed. It is also identifying areas of best practice which will enable the Pension Fund to build on work and ways of working that are already established.

3. Next Steps

3.1 The working group agreed that the recommendations from this phase of the Governance Review need to be considered as a complete bundle of recommendations which have been taken forward to Pension Board on 8 June and Pension Committee on the 22 June 2020. The Terms of reference of the Board and Committee and the scheme of delegations are due to be agreed by Governance Committee on 23 June 2020 and Full Council on 7 July 2020, as they require amendments to East Sussex County Council's constitution, and any comments from the Committee will be fed to Governance Committee.

3.2 The Governance working group will continue to meet to oversee the delivery of deliverables in Para. 2.2 from June to September 2020.

3.3 The final timetable that is proposed is:

- Pension Board 7th September 2020
- Pension Committee 21nd September 2020

3.4 The Committee is recommended to:

1) endorse the Pension Committee Terms of Reference; Pension Board Terms of Reference; and Revised Council Scheme of Delegations to incorporate Pension Fund management; and

2) agree the Communication Strategy; and Breaches Policy and log.

KEVIN FOSTER
Chief Operating Officer

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East Sussex Pension Fund
Date: 21 May 2020
Prepared for: Governance Review Oversight Group:
- Councillor Gerard Fox, Chair of Pension Committee
- Michelle King, East Sussex Interim Head of Pensions
- Kevin Foster, East Sussex COO
- William Bourne, Pension Committee Independent Adviser

Prepared by: Karen McWilliam
Partner / Head of Public Sector Governance & Benefits Consultancy

Governance Review of East Sussex Pension Fund

1. Introduction and purpose

We have been asked by East Sussex County Council ("ESCC"), in its role as the administering authority to East Sussex Pension Fund ("the Fund"), to carry out a follow up review of the East Sussex Pension Fund governance and resourcing arrangements. This is the second review we have undertaken, following our report of January 2019 which considered the evolution of the scheme and the interaction with the Fund's management.

This review has been commissioned by the East Sussex Pension Committee ("PC") and is being overseen by a working group consisting of:

- Councillor Gerard Fox, Chair of Pension Committee
- Michelle King, East Sussex Interim Head of Pensions
- Kevin Foster, East Sussex Chief Operating Officer
- William Bourne, Pension Committee Independent Adviser

The focus of this review is on looking forward, and its primary purpose is 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. As such, we have included a number of recommendations aimed at improving the Fund's organisational and governance structure. These are 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.

Although this report includes some legal elements, these are presented by us in our capacity as pension consultants and not as legal experts, and as such, nothing in this report should be considered as legal advice. In addition, it is worth highlighting that this report does not include:

- consideration of the detailed management and delivery of Fund matters, such as the appropriateness or accuracy of the current administration arrangements
- consideration of investment matters, other than in relation to where the high-level responsibilities should belong within the Council's Constitution
- full consideration of all matters that we believe feed into good governance (for example, risk management, business planning and representation of scheme members and employers).

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Aon has a good governance framework and we would be happy to carry out a wider review of all aspects of the Fund's governance at a later date.

- any particular focus on the role or work of the Pension Board, which in our view has an oversight role. We have considered the appropriateness of the Board's terms of reference, but have not considered in any detail the specific work of the Board. We would be happy to consider this further at a later stage.

National Guidance and Requirements on Governance

In this section we summarise some of the key elements of good governance that are included in national guidance or best practice and which we have relied on in formulating our observations and recommendations.

2. Summary of guidance

The guidance and requirements we refer to within this paper are as follows:

- SAB Good Governance Project[1] – phase 2 report ("SAB Good Governance Project Outcomes ")
- MHCLG Statutory Guidance on Governance Compliance Statements[2] ("MHCLG Statutory Governance Guidance")
- The Pensions Regulator's Code 14: Governance and administration of public service pension schemes[3] ("TPR Code of Practice")
- CIPFA's Administration in the LGPS: a guide for pensions authorities[4] ("CIPFA Administration Guide")

3. Scheme Advisory Board's Good Governance Project

As the principles of SAB's Good Governance project are integral to this governance review, we show below the latest proposals, which are from phase 2 of the project, and which are likely to be incorporated into statutory guidance:

- The need for new statutory governance guidance from the Ministry for Housing Communities and Local Government (MHCLG) to effectively implement the proposals from this project. The current guidance is this area was published in 2008.
- Each administering authority to:
  - have a single named officer responsible for the delivery of all LGPS related activity for that fund (i.e. an LGPS senior officer)
  - publish an annual governance compliance statement that sets out how they comply with the governance requirements set out in MHCLG's new guidance. This would need to be co-signed by the LGPS senior officer and, where different, the S151 officer

[1] https://www.lgpsboard.org/images/PDF/HymansRobertson_GoodgovernanceintheLGPS_Phase-II_November2019.pdf

[2] http://lgpsregs.org/timelineregs/Statutory%20Guidance%20and%20circulars/Governance_Statutory_Guidance.doc

[3] https://www.thepensionsregulator.gov.uk/en/document-library/codes-of-practice/code-14-public-service-pension-code-of-practice

[4] https://www.cipfa.org/policy-and-guidance/reports/administration-in-the-lgps

  - publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed
  - refer to SAB guidance on statutory and fiduciary duty
  - publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and to voting rights for each party.
- In the areas of knowledge and skills:
  - a requirement for key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively (in effect this tries to bring requirements in line with those already in place for Local Pension Boards)
  - a requirement for s151 officers to carry out LGPS relevant training as part of CPD requirements to ensure good levels of knowledge and understanding
  - a requirement to have a policy setting out how training is delivered, assessed and recorded
  - CIPFA and other professional bodies be asked to produce guidance and training modules (particularly for S151 officers).
- In terms of the service delivery of the LGPS, each Administering Authority must:
  - document key roles and responsibilities relating to the fund and publish a roles and responsibilities matrix setting out how key decisions are reached
  - publish an Administration Strategy and report the Fund's performance against agreed indicators
  - ensure their committee is included in the business planning and budget setting processes
  - give proper consideration to pay and recruitment policies in order to meet the needs of the pension fund; not simply applying general council staffing policies such as recruitment freezes.
- From a compliance and improvement perspective the proposal is that each Administering Authority must undergo a biennial independent governance review and produce an improvement plan to address any issues identified, with those reviews and reports to be assessed by a SAB panel of experts. The Local Government Association (LGA) will also consider establishing a peer review process for LGPS funds.

4. MHCLG Statutory Governance Guidance

MHCLG statutory guidance includes the principle that "The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council."

It also states:

- [Policy decisions on administration matters] are key decisions which should be subject to the rigorous supervision and oversight of the main committee.

- LGPS committees and panels need to receive regular reports on their scheme administration to ensure that best practice standards are targeted and met and furthermore, to satisfy themselves and to justify to their stakeholders that the fund is being run on an effective basis.

5. TPR's Code of Practice

TPR's Code refers to the outsourcing of services in paragraphs 119 and 120, focussing on the provision of administration services. It refers to:

- Providers of outsourced services should be required to demonstrate that they have adequate internal controls, which should be incorporated within the terms of engagement between the scheme and service provider. The scheme manager (which we have taken to be the PC) should be satisfied that internal controls associated with those services are adequate and effective.
- Information from providers should be sufficiently detailed and comprehensive and service level agreements should cover all services that are outsourced.
- Where the management of scheme data has been outsourced, it is vital that schemes understand and are satisfied that the controls in place will ensure the integrity of scheme member data.

6. CIPFA Administration Guide

This CIPFA guidance (which under the principles of full disclosure we should note was co-authored by Aon) includes the following:

- What if administration is outsourced or delivered through a shared-service arrangement?
  - Whether your administration service is delivered internally (within the administering authority), outsourced to a private sector contractor or provided through a shared-service arrangement, the responsibility for the proper governance of the Fund, including administration and communications matters, still lies with the administering authority. Accordingly you would expect all the points highlighted above* to equally be included in reporting from any external provider or shared service partner of your administration services. A close working relationship is fundamental to ensuring that your administration provider can continually meet legal and other requirements, particularly given you will have no or little direct control over the resources available to deliver your administration services.
  - [*Note that this refers to areas set out within the CIPFA guide, including reporting against areas such as legal deadlines, internal targets, overall turnaround times, breaches and errors, numbers of tasks/cases, satisfaction surveys, data issues and employer performance.]
  - It will be extremely important to ensure that the information to be included in reporting, and the level of detail expected, is clearly set out when carrying out any tender or appointment process. This should ensure full details of all Fund specific service standards or other targets (albeit noting that these may move during the period of the contract). This should also set out expectations in relation to rectification where an administration provider is failing to meet requirements.

Observations

This section includes a summary of our understanding of and observations in relation to the current structure and delegation of responsibilities relating to the Fund, and how key areas of Fund business are carried out.

7. Observations relating to where responsibilities currently lie and why

Our understanding is the existing Pension Fund functions are carried out and delegated as follows:

Pension responsibilities within the ESCC Constitution

The pension related responsibilities in the ESCC Constitution are summarised below and detailed in Annex A:

- Governance Committee – To make recommendations to the County Council on the members to be appointed to the Pension Committee, and also responsibility for appointing and removing Pension Board members, and agreeing the level of remuneration for Pension Board members.
- Pension Committee – overall responsibility to exercise functions and responsibilities for dealing with the Fund. The current Terms of Reference then lists several more specific responsibilities including making arrangements for the investment, administration and management of the Fund, agreeing policy statements, and ensuring that the Fund administration is conducted in accordance with relevant legislation.
- Pension Board – as required by the Public Service Pensions Act 2013, responsibility for "assisting the Scheme Manager" in securing compliance with all relevant pensions law, regulations and directions, as well as the relevant Pension Regulator's codes of practice, and providing assurance in and governance of the scheme administration. The Constitution provides detail around the terms, membership and arrangements for the Pension Board (which we expect is because other areas of the Constitution would not apply due to the different overriding enactment).
- Chief Operating Officer – paying statutory benefits to members of the LGPS and applying the discretionary provisions of the LGPS; we have assumed the latter relates to employing authority discretionary provisions. They also authorise payment of awards under the Local Government (Discretionary Payments) Regulations, but these are largely non-pension and again we have assumed these relate to employing authority responsibilities.
- Assistant Chief Executive (i.e. the Monitoring Officer) – making decisions under Stage 2 of the internal dispute resolution procedure for the LGPS.
- Chief Finance Officer – responsibility for implementing the policy decided by the PC, and to act in special or emergency situations relating to investments. Also responsible for various matters relating to the participation of external employers in the fund (e.g. approving the terms of an admission agreement).

Pension responsibilities relating to the shared services arrangement with SCC

The outcomes of a Cabinet meeting has resulted in:

- the creation of a shared service arrangement between ESCC and Surrey County Council ("SCC")
- delegating the ESCC functions of providing exchequer, payroll and pensions services to SCC
- to transfer staff to SCC from Serco (the incumbent contractor) as the host authority
- to enter into an Administration Collaboration Agreement, which was still in draft.

We were provided with a copy of the current Inter Authority Agreement (IAA) which was signed in June 2019 (albeit it refers to an interim IAA which was entered in July 2017). It lists in Schedule 2 the services covered by the agreement which include:

- Within Finance – "Pension Fund"
- Within Business Operations – "Pension Administration"

The IAA refers to the establishment of the Orbis Partnership on 13 April 2016.

We have not been provided with any further information relating to decisions made in relation to the pension services provided by Orbis.

We have been advised that the relationship and working practices in relation to the pension services have evolved. The Assistant Chief Executive has provided us with the following information:

"*An Inter-Authority Agreement was entered into in 2016 between SCC and ESCC which enabled staff employed by one authority to be placed at the disposal of another authority in accordance with s113 LGA 1972. Any such officer shall be treated for the purposes of any enactment relating to the discharge of a local authorities' functions as an officer of that other local authority. The partnership was further extended to Brighton and Hove City Council in 2017 with an Interim IAA being entered into in 2017, and a substantive IAA signed in 2019*

A Joint Committee was established with its terms of reference being to monitor performance of the partnership and to recommend to each of the Councils an annual budget. Responsibility for exercising non-executive functions remain the responsibility of the individual Councils in accordance with existing schemes of delegation to Officers and the Pension Committee.

8. Observations

- If you were to solely consider the PC terms of reference, it would appear that the PC has overall responsibility for East Sussex Pension Fund matters.
- The decisions relating to creation of the shared services were taken by Cabinet. This included delegating the pensions administration function (as well as other functions) to SCC (and ultimately Orbis).
- Under the Local Authorities (Functions and Responsibilities) (England) Regulations 2000 statutory decisions taken under schemes made under sections 7, 12 or 24 of the Superannuation Act 1972, are not the responsibility of the executive arrangements (i.e. Cabinet) introduced by the Local Government Act 2000. We do not believe there are any legal issues in relation to the decisions taken. However, the Inter Authority Agreement and the Cabinet meeting papers do not draw out the fact that there are

differences in the relationship on pension fund matters (compared with other council functions), such as the fact that all costs are recharged back to the Pension Fund and that the PC has responsibility for the management of the Fund. We are not aware of the delegation of responsibilities to Orbis having been approved or endorsed by the Pension Committee.

- The responsibilities of Orbis versus those of the PC appear to have some overlap, and in our view there is a lack of clarity relating to accountability. This could lead to conflicts of interest, particularly where the objectives of Orbis are not aligned to the objectives of the Fund (as approved by the PC).
- Equally responsibility at an officer level could be clearer such as for the Chief Operating Officer. There is no mention of a Head of Pensions. Some of the officers that are mentioned also have Orbis responsibilities, which again could result in conflicts of interest existing or arising due to multiple responsibilities where objectives may not be aligned.
- There also appears to be some overlap between the Chief Finance Officer responsibilities and the Pension Committee responsibilities in relation to the management and approvals for employers joining or leaving the fund. Perhaps the intention is that the details of the terms of the agreement fall to the Chief Finance officer but the overriding approval as to whether it is permitted or not sits with the Committee, although this is not completely clear from the current documentation.
- There does not appear to be a detailed service level agreement between Orbis and the Fund, and therefore there is a lack of clarity over service standards and detailed responsibilities.

9. Consideration of Committee agendas and business

In carrying out this review we have considered whether the Committee are carrying out their responsibilities as would be expected, both in terms of the existing terms of reference and in relation to best practice and national guidance.

We have been given sight of all Committee papers relating to the last year (2019). We recognise that recently there are several projects or areas of work that have resulted in additional reporting. Therefore we have also considered some of the papers relating to prior to that period, which are available on the ESCC website. As part of this review, we have also considered the key policies and strategies that we would expect to be in place.

10. Observations

- There is currently no Pension Fund specific Conflicts of Interest Policy in place. Declarations are invited as standard at the start of each PC meeting, but this relates to declarations as defined by the ECC Code of Conduct for Members; hence potentially not

covering situations of possible conflict relating to wider responsibilities for Fund matters, and also not covering officers and advisers.

- The key policies that govern the Fund that are in place tend not to have clear objectives or details on how success will be measured against those objectives.
- The recurring items outlined in the February 2019 business plan/forward plan include key areas such as investment performance monitoring, business operations and a general update. From PC agendas we can easily evidence regularly monitoring information in relation to investment matters. However, there does not appear to be consistent monitoring information provided in relation to administration, communications and governance matters. We have not commented on funding matters given the focus on the actuarial valuation during 2019, which we recognise often means a move away from regular monitoring practices. Gaps we identified include consistent monitoring of administration KPIs or other administration measures, breaches, training and attendance.
- The format of the business plan generally focusses on agenda items for PC and PB meetings. It does not include explanation around new projects or areas of work that are being proposed, nor does it include the Fund's proposed budget for the year. Accordingly monitoring of key projects could be missing.
- Given the gaps in monitoring of ongoing objectives, and lack of clarity around business plan priorities, we are not able to make any detailed comment on the appropriateness of the current budget and resources. However from an initial review of information available, there does appear to be a number of problems that would indicate the need for a review of resource levels as well as the structure of the Pension Fund Management Team.

Recommendations and Next Steps

This section includes our recommendations and suggested next steps to improve the governance of East Sussex Pension Fund. It is supplemented by our notes in the Annex B that provide reasons for many of our proposed changes.

11. Recommendations

We have made a number of observations based on our high-level review of the current governance structure and how pension fund matters are currently being managed. We believe the biggest risks we have identified are:

- around the ambiguity over accountability and ownership of pension fund matters. Therefore our recommendations are focussed on removing that ambiguity and putting in place a structure and practices that are in accordance with best practice and national guidance, and particularly the SAB Good Governance project.
- lack of clarity over the performance of the Fund, particularly in relation to administration, due to lack of focussed ongoing monitoring of key measures.

12. Immediate priorities

- Review the terms of reference within the Constitution relating to the Pension Committee to enhance and clarify the responsibilities that the Pension Committee has. The opportunity should also be taken to clarify that overall responsibility for all Fund matters sits with the Pension Committee unless delegated to senior officers. Our suggested updated terms of reference and delegations of responsibilities are included in Annex B, which includes notes explaining our proposed changes. Note we have specifically not commented on whether the representation of scheme members and employers on the Committee and Board is appropriate as we do not consider this an immediate priority given the size and current representation on the Pension Board. We recommend this is considered as part of a wider governance review at a later date.
- Review the staffing structure for ESPF management team. A suggested high-level structure is included in Annex C which includes how this would fit within our recommended overall governance structure for the Fund. The full costs of this team would be recharged to the Pension Fund. The next step should be to identify all key responsibilities for the individuals in that team (which links to one of the proposals from the SAB Good Governance project) and develop job profiles, as well as discussing the appropriate number of team members. We are not able at this time to make clear recommendations but would be happy to continue to develop this in partnership with the Fund ESPF management team and other interested parties. The SAB Good Governance project highlights the importance of the recruitment and retention practices that apply to the pensions functions enabling the delivery of an effective pensions service, which may mean, for example, the use of market supplements. It specifies "Given that the pension fund budget is set and managed separately from the expenditure

of the host authority, the impact of general council staffing policies such as recruitment freezes should not be applied to the pension fund by default."

- As part of this ensure that a Head of Pensions is put in place, in line with the proposals in the SAB Good Governance Project. This should be:
  - a person with an excellent degree of knowledge and experience relating to the management of LGPS Funds
  - a person who would be dedicating all, or at least most of their time to that role (we would recommend at least 80% of their time)
  - the role which the Pension Committee would hold accountable for the day to day delivery of the Fund, in accordance with their agreed strategies, policies and business plan
  - a person who will have some individual responsibilities delegated to them, as illustrated in Annex B. This then removes the need for some of the existing responsibilities from other senior officers in ESCC, other than statutory responsibilities.

  Given these criteria, we expect that this would not be the S151 Officer, and we recommend that this should be a newly created role with full-time responsibility for the Fund. It is also important to consider the reporting lines for this new role, ensuring that they do not report to any person who may then have a potential conflict (for example, in relation to Orbis). It is becoming more common for the role of Head of Pensions to report directly to the Chief Executive, albeit we recognise there may be reasons why this is not practical..
- Develop and have agreed at Pension Committee a Pension Fund-specific Conflicts of Interest Policy, which clearly focusses on the different responsibilities that can arise and the potential conflicts that need to be managed. It should apply to all Pension Committee and Pension Board members, senior Fund officers and advisers, including those responsible for delivering any pension fund services within Orbis. Ensure the requirements relating to the policy are then implemented and monitored.
- Put in place a clear service level agreement (or other equivalent legal document) with Orbis in relation to all Pension Fund services provided under the umbrella of the organisation, as a supplier to the Fund. This document should be purely in relation to Pension Fund services (so separate from any wider Council Inter Authority Agreement). It should include a full list of all responsibilities that are to be carried out by Orbis (and those retained by the EPF Pension Fund Management Team) as well as service standards that should be met in relation to those responsibilities, which should be focussed on meeting the Fund's strategies. This should also clarify the expected ongoing reporting requirements.
- In tandem with this, review the Fund's Administration and Communications Strategies, to ensure clarity over the vision of the Fund in these areas; which in turn will assist Orbis in delivery of services.
- Develop the format of standard reports to the Committee, Board and Pension Fund Management Team officers, initially focussing on those relating to administration and breaches information. For the avoidance of doubt, such update reports should

amalgamate information provided by Orbis, for example, there should be one breaches log, which shows all breaches relating to the Fund. As part of this, review the Fund's breaches policy to ensure it works as intended given the nature of the proposed changes.

Medium term priorities (later in 2020/21)

- Review the adequacy of all pension fund monitoring against all the Fund's objectives (as included within its policies and strategies) and ensure all areas are appropriately included in update and monitoring reports to the Committee (and Board where relevant).
- Ensure that business planning is reviewed to focus on developing a business plan, in consultation with key advisers and suppliers, proposing recommendations to the Committee on where resources should be focussed, and including the proposed budget for the year, all of which will need to be approved by the Committee (aligning with the SAB Good Governance proposals). Budgets should include all Pension Fund costs, including expected supplier costs (which Orbis should be expected to provide in relation to their systems, staffing and other charges to the Fund) and also the staffing costs relating to the Pension Fund team.
- Ensure that the improved monitoring drives appropriate discussion around areas such as improving systems and resourcing levels, which in turn may lead to changes in the proposed budget which should be agreed by the Committee.

Longer term priorities (in approximately 18 months' time)

- Carry out a review of the effectiveness of pension fund governance. This should be a wider focus, on all elements of good governance, perhaps using the Aon good governance framework. We would expect this to include a review of areas such as risk management and representation of stakeholders, as well as considering the success of implementing the recommendations outlined above. We believe it will also be important to gather feedback on the effectiveness of the new arrangements from those involved (Committee members, Board members, Pension Fund Management Team, key advisers and suppliers) once they have had time to bed in.

We look forward to having the opportunity to discuss our observations and recommendations with the Working Group and the Pension Committee. If there are any questions, please contact Karen McWilliam on 07711016707 or karen.mcwilliam@aon.com.

Annex A – ESCC Constitution Extracts

The following are extracted from the ESCC Constitution dated 6 January 2020 (date published April 2019)

Decision Making Arrangements

Size of the Cabinet and Committees

Pensions Committee – 5 Members (Quorum 3)

Part 3 – Responsibility for Functions:

1. Governance Committee Terms of Reference

20. To appoint to, and remove from, the Pension Board

21. To agree the level of remuneration for Pension Board Members

9. Pension Committee

Terms of Reference

(i) In accordance with the Local Government Pension Scheme Regulations and associated legislation, to exercise functions and responsibilities for dealing with the Pension Fund in conjunction with other bodies who contribute to the Fund.

(ii) To exercise the powers and duties of the County Council in respect of:

□the pensions of all employees of the Council (except teachers), including the approval of pension fund admission agreements; and

□management of the investment of the pension fund, receiving advice as appropriate from the Pension Board.

(iii) To make arrangements for the investment, administration and management of the Pension Fund.

(iv) To arrange for the appointment of investment managers and advisors.

(v) To agree Policy Statements as required under the Local Government Pension Scheme regulations.

(vi) To agree the Investment Strategy having regard to the advice of the Fund's Managers and the Pension Board.

(vii) To set the Investment Policy and review the performance of the Pension Fund's external investment managers.

(viii) To determine the fund management arrangements and to appoint fund managers and fund advisers.

(ix) To decide on the admission and cessation of bodies to the Pension Fund.

(x) To consider and agree actuarial variations.

(xi) To ensure that the Pension Fund administration is conducted in accordance with relevant legislation.

(xii) To appoint Additional Voluntary Contribution providers and to monitor their performance.

Membership

Five members appointed in accordance with political balance provisions.

10. Pension Board

Introduction

(i) The Public Service Pensions Act 2013 requires the establishment of a Pension Board with the responsibility for "assisting the Scheme Manager" in securing compliance with all relevant pensions law, regulations and directions – as well as the relevant Pension Regulator's codes of practice. This role is one of providing assurance in and governance of the scheme administration.

(ii) The *scheme manager (East Sussex County Council – ESCC) will provide the necessary input into the Pension Board to support the Board to deliver on its assurance responsibilities. This may require their attendance at meetings at the request of the Board.

(iii) The terms of reference, membership of the Pension Board and any variations thereof are determined by the Scheme Manager, i.e. ESCC.

Objectives of the Pension Board

(iv) To help to ensure that the East Sussex Pension Fund (ESPF) is managed and administered effectively and efficiently and complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

(v) To provide assistance to East Sussex County Council as the LGPS Scheme Manager in securing compliance with:

☐LGPS Regulations and any other legislation relating to the governance and administration of the LGPS

☐requirements imposed in relation to the LGPS by the Pensions

Regulator

☐the agreed investment strategy

☐any other matters as the LGPS regulations may specify.

(vi) To assist with securing effective and efficient governance and administration of the LGPS for the East Sussex Pension Fund by:

☐Seeking assurance that due process is followed with regard to Pension Committee, and any identified issues raised by Board members.

☐Retaining an overview of LGPS policy and strategy and business plan timetable.

☐Making representations and recommendations to the Pension

Committee as appropriate.

☐Considering and, as required, responding to any Government / Responsible Authority performance data concerning the local fund.

(vii) The role of the Board will be oversight of these matters and not decision making.

Management and operation of the Pension Board

(viii) The Pension Board shall:

☐meet at least 4 times per year

☐have the power to establish sub committees or panels as required

☐agree a programme of training and development for its members.

☐provide the Scheme Manager (ESCC) with such information as it requires to ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest.

☐ensure it effectively and efficiently complies with the code of practice on the governance and administration of public service pension schemes issued by the Pension Regulator.

☐consider any issue raised by any Board Member in connection with the Board's work.

☐produce an annual report outlining the work of the Board throughout the scheme year, which will help to -

- o inform all interested parties about the work undertaken by the Panel
- o assist the panel in reviewing its effectiveness and identifying improvements in its future operations.

☐help to ensure that decisions made by ESCC are fully legally compliant, including consideration of cases that have been referred to the Pension Regulator and/or the Pension Ombudsman;

recommending changes to processes, training and/or guidance where necessary;

☐monitor administrative processes and supporting continuous improvements;

☐ensure the scheme administrator supports employers to communicate the benefits of the LGPS Pension Scheme to scheme members and potential new members.

Membership - composition of the Pension Board

(ix) The Pension Board shall consist of:

a) 3 employer representatives - employer representatives that can offer the breadth of employer representation for the ESPF. (Regulation 107 of the Pension Act permits elected members to sit on a local pension board. However, under Regulation 107(3), elected members or officers of ESCC (as the Scheme Manager), who are responsible for the discharge of any function under the Principal 2013 Regulations, may not sit on the Pension Board.)

b) 3 scheme member representatives - member representatives nominated to ensure a broad representation of scheme membership (active, deferred, and pensioners).

c) 1 Independent Chair

(x) The Pension Board shall be chaired by an Independent Chair.

Appointment of members of the Pension Board

(xi) The appointment process has been approved by the Governance committee

(xii) All appointments to the Board shall be by the Governance Committee under delegated authority from the County Council, including the Independent Chair and Vice Chair.

Term of office

(xiii) The term of office for Board members shall be 4 years or such time as resolved by the Governance Committee. The Governance Committee may agree an extension to terms of office up to a further 2 years after which there shall be a further appointment process. Reappointment of existing members is permitted.

(xiv) A Board member who wishes to resign shall submit their resignation in writing to the Pension Board Chair. A suitable notice period must be given, of at least 1 month, to enable a replacement member to be found.

(xv) The role of the Pension Board members requires the highest standards of conduct and the Code of Conduct of the East Sussex County Council will apply to the Board's members. The County Council's Standards Committee will monitor and act in relation to the application of the Code.

(xvi) Poor performance will result in corrective action being taken, and in exceptional circumstances the removal of the Board member, which will be in accordance with the Code of Conduct of the East Sussex County Council.

Independent Chair

(xvii) The Independent Chair will be the independent member appointed for a term of 4 years by Governance Committee or such time as resolved by the Governance Committee. A job description approved by the Committee will be used to identify the candidate best suited to the role.

(xviii) It will be the role of the Chair to -

☐Settle with officers the agenda for a meeting of the Board

☐Manage the meetings to ensure that the business of the meeting is completed

☐Ensure that all members of the Board show due respect for process and that all views are fully heard and considered

☐Strive as far as possible to achieve a consensus as an outcome

☐Ensure that the actions and rationale for decisions taken are clear and properly recorded.

(xix) Removal of the independent chair will be in accordance with the Code of Conduct of the East Sussex County Council and the County Council's Standards Committee decision.

Support arrangements

(xx) ESCC will provide secretariat, administrative and professional support to the Pension Board and as such will ensure that:

☐meetings are timetabled for at least four times per year

☐adequate facilities are available to hold meetings

☐an annual schedule of meetings is produced

☐suitable arrangements are in place to hold additional meetings if

required

☐papers are distributed 5 clear working days before each meeting except in exceptional circumstances

☐minutes of each meeting are normally circulated 7 working days following each meeting.

Expert advice and information

(xxi) The Board will have access to professional advice and support provided by officers of East Sussex Pension Fund and, via them and where appropriate, advisers to the East Sussex Pension Fund.

(xxii) Insofar as it relates to its role, the Pension Board may also:

☐request information and reports from the Pension Committee or any other body or officer responsible for the management of the Fund

☐examine decisions made or actions taken by the Pension Committee or any other body or officer responsible for the management of the

Fund.

☐access independent professional advice from actuaries, other independent advisers, and investment managers as required, where there are major decisions, i.e., investment strategy, triennial valuation, etc.,

☐access to professional advice regarding non major decisions will require the approval of the Pension Committee for additional resources.

Knowledge and Skills

(xxiii) Board members will be required to have the 'capacity' to carry out their duties and to demonstrate a high level of knowledge and of their role and understanding of:

☐the scheme rules

☐the schemes administration policies

☐the Public Service Pensions Act (ie. being conversant with pension matters relating to their role).

(xxiv) A programme of updates and training events will be organised. Board members will be encouraged to undertake a personal training needs analysis or other means of identifying any gaps in skills, competencies and knowledge relating to Pension Board matters.

Minutes

(xxv) The minutes and any consideration of the Pension Board shall be submitted to the Pension Committee.

Standards of Conduct

(xxvi) The main elements of East Sussex County Council's Code of Conduct shall apply to Board members.

Access to the Public and Publication of Pension Board information

(xxvii) Members of the public may attend the Board meeting and receive papers, which will be made public in accordance with the Access to

Information Rules in East Sussex County Council's Constitution.

(xxviii) Up-to-date information will be posted on the East Sussex Pension Fund website showing:

☐Names and information of the Pension Board members

☐How the scheme members and employers are represented on the Pension Board

☐Responsibilities of the Pension Board as a whole

☐Full terms of reference and policies of the Pension Board and how it operates.

Expense reimbursement, remuneration and allowances

(xxix) All Pension Board members will be entitled to claim travel and subsistence allowances for attending meetings relating to Pension Board business (including attending training) at rates contained in the Members' Allowances Scheme in the East Sussex Council's Constitution. The Chair's remuneration will be agreed on appointment. All costs will be recharged to the Pension Fund.

Accountability

(xxx) The Pension Board collectively and members individually are accountable to the Scheme Manager (ESCC), the Pensions Regulator, and the National Scheme Advisory Board. The National Scheme Advisory Board will advise the Responsible Authority (in the case of the LGPS the DCLG) and the Scheme Manager (in this case East Sussex County Council). The Pensions Regulator will report to the Responsible Authority (again, DCLG) but will also be a point of escalation for whistle blowing or similar issues.

(xxxi) In addition the Pension Board will continue to provide regular updates to the Pension Committee governance process. ESPF officers will be responsible for the contractual arrangements.

Decision Making Process

(xxxii) Employer representatives and scheme member representatives have voting rights albeit the Board is expected to operate on a consensus basis.

(xxxiii) In the event of an equal number of votes being cast for or against a proposal there shall be no casting vote but the proposal shall be considered to have been rejected. The scheme manager shall be alerted when a decision is reached in this manner.

Attendance and quorum

(xxxiv) Four of the voting members of the Pension Board shall represent the quorum for Board meetings to discharge business. The Chair or Vice Chair must be present for any meeting to proceed.

(xxxv) Advisors and co-opted persons do not count towards the quorum.

Conflicts of Interest

(xxxvi) The Public Service Pensions Act 2013 requires that members of the Pension Board do not have conflicts of interests. As such all members of the Pension Board will be required to declare any interests and any potential conflicts of interest in line with legal requirements in the Public Service Pensions Act 2013 and the Pension Regulator's code. These declarations are

required as part of the appointment process, as well as at regular intervals throughout a member's tenure.

B. Chief Operating Officer

Finance

2. To pay statutory benefits under the Local Government Pension Scheme.

Corporate Personnel and Training Function

19. To authorise payment of awards under the Local Government (Discretionary Payments) Regulations.

20. To apply the discretionary provisions within the Local Government Pension Scheme Regulations.

F Assistant Chief Executive (i.e. Monitoring Officer)

(ii) The Assistant Chief Executive has been authorised to make decisions at Stage 2 of the internal dispute resolution procedure under the Local Government Pension Scheme (Administration) Regulations 2008 (Note: the Pension Compliance Manager has been authorised to deal with Stage 1 disputes).

G. Chief Finance Officer

3. To be responsible for implementing the policy decided by the Pension Committee and to act on its behalf in special or emergency situations where delay in the purchase or sale of investments might be detrimental to the interests of the East Sussex Pension Fund.

4. To authorise the approval of the terms of an admission agreement and any related bond or indemnity, with a body to which staff are being transferred under a Best Value arrangement, to participate in the East Sussex Pension Scheme.

5. To approve any requests, and undertake any necessary actions in connection with designating any employees, or class of employees, of the governing body of a foundation school as being eligible for membership of the East Sussex Pension Fund

6. To undertake any necessary actions in connection with admission of any academies to the East Sussex Pension Fund as scheme employers

7. To approve the terms of an Admission Agreement, together with any related bond or indemnity, under which a community association body may participate in the East Sussex Pension Scheme

Part 4 – Rules of Procedure

Standing Orders Part 1 – Council Meetings

9. at the annual meeting:

(a) to appoint the Scrutiny Committees, Audit Committee, Regulatory Committee, Planning Committee, Governance Committee, Pension Committee and Standards Committee.

(b) to appoint a Chair of the Regulatory Committee, and the Planning Committee (from among the members of the Regulatory Committee), and the Chairs of the Audit Committee, Scrutiny Committees, Pension Committee and Governance Committee (and Vice-Chair where the County Council considers it appropriate).

(7) Financial Procedure Rules

A.1.2 The Chief Finance Officer has statutory duties in relation to the financial administration and stewardship of the Council. The statutory duties arise from:

☐Section 151 of the Local Government Act 1972;

☐The Local Government Finance Act 1988;

☐The Local Government and Housing Act 1989;

☐The Local Government Act 2003;

☐The Accounts and Audit Regulations 2015

☐Local Government Pension Scheme Regulations 2013

[Note – the financial procedure rules include more procedures relating to the management of pension fund monies but these are not included in this Annex].

[Annex B and C are separate documents for now]

Annex B – Part 1 - Proposed Pension Committee Terms of Reference

9. Pension Committee
Composition
(a) Membership
(i) The East Sussex Pension Committee will be composed of five members of East Sussex County Council, determined by the Council at the Council's Annual Meeting. (N.B. When making nominations Members should have regard to the need to ensure a balance of experience and continuity).
(ii) Named substitutes are permitted for East Sussex County Council members.
Terms of Reference
The Pension Committee's will exercise on behalf of East Sussex County Council all of the powers and duties in relation to its functions as the Scheme Manager and Administering Authority for the East Sussex Pension Fund except where they have been specifically delegated to another Committee. The Pensions Committee will exercise its functions in accordance with the fiduciary duties of the Council as the administering authority of the East Sussex Pension Fund.
The Pension Committee will have the following specific roles and functions, taking account of advice from officers and the Fund's professional advisers.
(i) Ensuring the Fund is administered, managed and pension payments are made in compliance with the regulations and having regard to statutory guidance that govern the operation of the Local Government Pension Scheme from time to time, and other legislation.
(ii) Determining the Fund's aims and objectives, strategies, statutory compliance statements, policies and procedures for the overall management of the Fund, including but not limited to funding, investment, administration, communication and governance.

(iii) Determining how the various administering authority discretions are operated for the Fund
(iv) Monitoring the implementation of all Fund policies and strategies on an ongoing basis.
(v) In relation to the LGPS ACCESS Pension Fund Pool;
a) considering pooling matters including recommendations made by the ACCESS Joint Committee;
b) determining the transition of the assets held by East Sussex Pension Fund in relation to the Pool and the funds or sub-funds operated by the Operator;
c) recommending to the Governance Committee a member of the East Sussex County Council Pension Committee to the Joint Committee as and when required, having regard to the advice of the Head of Pensions;
d) appointing an East Sussex County Council officer to working groups such as the Officer Working Group and Onboarding Sub-Group as and when required;
e) advising the representative on the Joint Committee and Officer Working Group on such matters as may be required;
f) monitoring the performance of the LGPS ACCESS Pool and its Operator and recommending actions to the ACCESS Joint Committee, Officer Working Group or ACCESS Support Unit, as appropriate;
g) receiving and considering reports from the LGPS ACCESS Joint Committee, Officer Working Group and the Operator;
h) undertaking any other decisions or matters relating to the operation or management of the LGPS ACCESS Pool as may be required, including but not limited to appointment, termination or replacement of the Operator and approval of the strategic business plan.
(vi) Making arrangements for actuarial valuations, ongoing monitoring of liabilities and undertaking any asset/liability and other relevant studies.
(vii) Making decisions relating to employers joining and leaving the Fund. This includes approving which employers are entitled to join the Fund, and any requirements relating to their entry, ongoing monitoring and the basis for leaving the Fund.
(viii) Agreeing the policy for exit credits and terms on which employers may leave the Fund. Approving decisions on cessations, post cessation arrangements, guarantees and bonds.
(ix) Agreeing the terms and payment of bulk transfers into and out of the Fund.
(x) Ensuring robust risk management arrangements are in place, considering and making recommendations in relation to the internal audit strategy and internal audit report pertaining to the management of the fund and reviewing its findings.

(xi) Agreeing the Fund's annual business plan and annual and medium term budgets, and monitoring progress against them.
(xii) Selection, appointment and dismissal of the Fund's advisers and suppliers, including actuary, benefit consultants, investment consultants, global custodian, fund managers, lawyers, pension fund administrator, Additional Voluntary Contribution providers and independent professional advisors. This includes determining the services to be provided and monitoring those services, including where this relates to shared services arrangements.
(xiii) Agreeing the Fund's Knowledge and Skills Policy and monitoring compliance with the policy.
(xiv) Agreeing the Administering Authority responses to consultations on LGPS matters and other matters where they may impact on the Fund or its stakeholders.
(xv) Considering views expressed by employing organisations and staff representatives in relation to the operation of the East Sussex Pension Fund.
(xvi) Considering the Fund's financial statements and approving an Annual Report on the activities of the Fund in line with legislation and guidance.
(xvii) Considering the Breaches Register at every quarterly Pension Fund meeting and reviewing recommendations from the Pensions Board.
Notes: 1. No matters relating to East Sussex County Council's responsibilities as an employer participating within the East Sussex Pension Fund are delegated to the Pension Committee.
Notes: 2 As a Non-Executive Committee, no matters relating to the Pension Fund's non-executive responsibilities as Scheme Manager are delegated to an Executive of East Sussex County Council.
Notes: 3 The Committee's primary contacts will be the Head of Pensions, Chief Finance Officer and its retained advisors
Training
The East Sussex Pension Fund has a dedicated Knowledge and Skills Policy which applies to all members of the Committee and which includes the expectation to attend regular training sessions in order they may maintain an appropriate level of knowledge and skills to perform their role effectively.

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Annex B – Part 2 - Proposed Pension Board Terms of Reference

10. Pension Board
Introduction
(i) The Pension Board is established by East Sussex County Council (ESCC) under the powers of Section 5 of the Public Services Pensions Act 2013 and regulation 106 of the Local Government Pension Scheme (LGPS) Regulations 2013 ("the LGPS regulations" which includes such regulations as govern the Local Government Pension Scheme from time to time). ESCC is the scheme manager (and administering authority) to the East Sussex Pension Fund (ESPF).
(ii) The East Sussex Pension Fund Board was appointed by East Sussex County Council (the Scheme Manager and Administering Authority to East Sussex Pension Fund) as its Local Pensions Board in accordance with section 5 of the Public Service Pensions Act 2013 and Part 3 of the Local Government Pension Scheme Regulations 2013. As such, Parts 4 Rules of Procedure (Council's procedural Standing Orders) sub-parts 1, 2, 3, 4, 5 and 6 of the Constitution of East Sussex County Council do not apply to this Pension Fund Board unless expressly referred to within and permitted by these Terms of Reference and Rules of Procedure. The Board will exercise all its powers and duties in accordance with legislation and these Terms of Reference and Rules of Procedure. The Board shall have the power to do anything which is considered to facilitate, or is conducive or incidental to, the discharge of its functions.
Powers of the Pension Board
(iii) The Pension Board will exercise all its powers and duties in accordance with the law and this Terms of Reference.
(iv) ESCC considers this to mean that the Pension Board is providing oversight of these matters and, accordingly, the Pension Board is not a decision-making body in relation to the management of the Fund but instead can make recommendations to assist in such management. The Fund's management powers and responsibilities which have been, and may be, delegated by ESCC to committees, sub-committees and officers of ESCC, remain solely the powers and responsibilities of those committees, sub-committees and officers including but not limited to the setting and delivery of the Fund's strategies, the allocation of the Fund's assets and the appointment of contractors, advisors and fund managers. The Pension Board operates independently of the ESPF

Pension Committee.
(v) The Pension Board will ensure that in performing their role it:
▪ is done effectively and efficiently and
▪ complies with relevant legislation and
▪ is done by having due regard and in the spirit of The Pensions Regulator's Code of Practice and any other relevant statutory or non-statutory guidance.
Objectives and role of the Pension Board
(vi) The role of the Pension Board is defined by the LGPS Regulations as being to assist the Scheme Manager (ESCC as Administering Authority) to:
• secure compliance with the LGPS Regulations and any other legislation relating to the governance and administration of the LGPS and requirements imposed in relation to the LGPS by the Pensions Regulator
• ensure the effective and efficient governance and administration of the LGPS. This should be interpreted as covering all aspects of governance and administration of the LGPS including funding and investments.
(vii) In doing this the Pension Board:
• shall assist the Scheme Manager with such matters as the LGPS Regulations and guidance may specify
• shall seek assurance that due process is followed with regard to the Pension Committee and may review any decisions made by or on behalf of the Scheme Manager or action taken by the Scheme Manager
• shall seek assurance that any identified issues raised by Pension Board members are considered.
• shall comment on and assist in identifying and managing breaches of the law in relation to ESPF matters.
• shall make representations and recommendations to the Pension Committee as appropriate and shall consider and, as required, respond to any Government / Responsible Authority or Scheme Advisory Board requests for information or data concerning the Fund.
• may also undertake other tasks, including (but not limited to):
o assisting the Pension Committee by reviewing aspects of the performance of the ESPF – for example by reviewing the risk management arrangements within ESPF (although the Pension Committee will remain accountable for risk management);
o reviewing administration standards or performance or review efficacy of ESPF member and employer communications;

DRAFT

○ reviewing published policies to ensure they remain fit for purpose and are complete;
○ reviewing ESPF annual reports;
○ being part of any consultation process with the purpose of adding value to that process based on, for example, their representation of employers and ESPF members;
○ discussing strategic matters such as communications where requested by the Pension Committee.
• will produce an annual report which is shared with the Scheme Manager. It will outline the work of the Pension Board throughout the scheme year, which will help to –
○ inform all interested parties about the work undertaken by the Pension Board
○ assist the Pension Board in reviewing its effectiveness and identifying improvements in its future operations.
• shall carry out an annual self-assessment of the effectiveness of the Pension Board, and produce a report on this which will be shared with the Pension Committee.
• must provide a record of each meeting to the following Pension Committee meeting and may make reports and recommendations to the Pension Committee insofar as they relate to the role of the Pension Board
• shall assist in considering whether the East Sussex Pension Fund is being managed in accordance with the LGPS and other relevant legislation, including consideration of cases that have been referred to the Pension Regulator and/or the Pension Ombudsman; recommending changes to processes, training and/or guidance where necessary.
• shall monitor administrative processes and support continuous improvements.
• will ensure the scheme administrator supports employers to communicate the benefits of the LGPS to scheme members and potential new members.
Membership
(viii) The Pension Board shall consist of:
a) 3 employer representatives - employer representatives that can offer the breadth of employer representation for the ESPF.
b) 3 scheme member representatives – member representatives nominated to ensure a broad representation of scheme membership (active, deferred, and pensioners) to include:
a. two will be nominated by the trade unions, and

DRAFT

b. the rest will be drawn from the total ESPF active, deferred and pensioner membership.
c) 1 Independent Chair.
(ix) The Pension Board shall be chaired by an Independent Chair.
(x) Substitutes for Board members are not permitted.
(xi) The Quorum of the Board will be 3 Members, excluding the Independent Chair. To be quorate the meeting must include at least one employer representative and one scheme member representative.
(xii) The Board has the power to set up working groups
Appointment of members of the Pension Board
(xiii) The appointment process has been approved by the Governance Committee
(xiv) All appointments to the Pension Board shall be by the Governance Committee under delegated authority from the County Council, including the Independent Chair. The Vice Chair will alternate between scheme member representatives and employer representatives at each meeting. The Vice Chairs will be nominated from the existing Board members whenever one of the existing Vice Chairs is replaced.
(xv) Appointments to the Pension Board shall be managed, wherever possible, so that appointment and termination dates are staggered such that there remains continuity for one meeting to the next.
Term of office
(xvi) Employer representative appointments will expire after a 4 year period from their date of appointment by the Governance Committee or such time as resolved by the Governance Committee. The Governance Committee may agree an extension to this period by up to a further 2 years after which there shall be a further appointment process. Reappointment of existing members is permitted. Appointment will automatically cease if the individual is no longer in the employment of that employer, no longer holds office in relation to that employer or is no longer an elected member of that employer, as appropriate.
(xvii) Scheme member representative appointments will expire after a 4-year period from their date of appointment by the Governance Committee or such time as resolved by the Governance Committee. The Governance Committee may agree an extension to terms of office up to a further 2 years after which there shall be a further appointment process. Reappointment of existing members is permitted. Appointment will automatically cease if the individual is no longer a trade union representative or representative of ESPF members (in accordance with the criteria set by the Governance Committee).
(xviii) The Independent Chair appointment will expire after a period of 4 years from their date of appointment by the Governance Committee. The Governance Committee may agree an extension to terms of office by up to a further 2 years after which there shall be a further appointment process. Reappointment of the Independent Chair is permitted.
(xix) Term dates may not be exact due to the period of the appointment process. The term of office may therefore be extended for

DRAFT

this purpose or other exceptional circumstances by up to three months with the agreement of the Governance Committee.
(xx) A Pension Board member who wishes to resign shall submit their resignation in writing to the Independent Chair. A suitable notice period must be given, of at least 1 month, to enable a replacement member to be found.
(xxi) The role of the Pension Board members requires the highest standards of conduct and the ESCC Code of Conduct for Members will apply to the Pension Board's members. ESCC Standards Committee will monitor and act in relation to the application of the Code.
(xxii) Poor performance will result in corrective action being taken, and in exceptional circumstances the removal of the Pension Board member by the Governance Committee.
(xxiii) Removal of the Independent Chair will be by the Governance Committee.
Chairing
(xxiv) It will be the role of the Chair to -
• Settle with officers the agenda for a meeting of the Pension Board
• Manage the meetings to ensure that the business of the meeting is completed
• Ensure that all members of the Pension Board show due respect for process and that all views are fully heard and considered
• Strive as far as possible to achieve a consensus as an outcome
• Ensure that the actions and rationale for decisions taken are clear and properly recorded
• Uphold and promote the purpose of the Pension Board, and to ensure that meetings are properly conducted and professional advice is followed
• To use their expertise and experience and liaise with the Head of Pensions to arrange such advice as required subject to agreement by the Head of Pensions on such conditions as that officer determines
• Sign the minutes of each Pension Board meeting following approval by the Board
• Prepare with the Head of Pensions an appropriate budget for the Pension Board's consideration before being formally considered by the Scheme Manager along with the ESPF Annual Budget
•
• Liaise with officers and advisors on the requirements of the Pension Board, including advanced notice for Scheme

Manager officers to attend and arranging dates and times of Board meetings
• Provide guidance on all points of procedure and order at meetings having regard to advice from officers
• Other tasks which may be deemed appropriate by the Scheme Manager for the Independent Chair of the Pension Board
•
• Liaise with the Chair of the Pension Committee as deemed appropriate
• Other tasks that may be requested by the Board, within the remit of these Terms of Reference and subject to agreement with the Head of Pensions
• Annually review and report on the activities of the Pension Board.
• Commission a triennial review of LGPS & public pension fund non-statutory best practice guidance (referencing the SAB & other relevant bodies deemed relevant by the Board) which then brings recommendations to the Committee (when appropriate) for amendments to the operation of the Fund.
Support arrangements and administration
(xxv) ESCC officers will provide governance, administrative and professional support to the Pension Board, and ESCC Member Services will provide secretariat support to the Pension Board, and as such will ensure that:
• meetings are timetabled for at least four times per year
• adequate facilities are available to hold meetings
• an annual schedule of meetings is produced
• suitable arrangements are in place to hold additional meetings if required
• papers are distributed 5 clear working days before each meeting except in exceptional circumstances
• draft minutes of each meeting are normally circulated 7 working days following each meeting including all actions, decisions and matters where the Pension Board was unable to reach a decision will be recorded.
• Final reports, minutes and agendas relating to the Pension Committee are shared appropriately with the Board.
(xxvi) The records of the meetings may, at the discretion of the Board, be edited to exclude items on the grounds that they would either involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A (2) of that Act.
(xxvii) The minutes and any consideration of the Pension Board shall be submitted to the Pension Committee.
(xxviii) The Pension Board must comply with the General Data Protection Regulation and the Scheme Manager's data protection policy. It must also adhere to the Scheme Manager's requirements, controls and policies for Freedom of Information Act compliance.

DRAFT

Expert advice and access to information, including the Pension Committee
(xxix) The Pension Board will have access to professional advice and support provided by officers of ESCC and, via them and where appropriate, advisers to the ESPF. In addition, Pension Board members will receive the final reports, minutes and agendas relating to the Pension Committee, save where the Committee expressly decides otherwise such as where an item is exempt, although this is anticipated to be in exceptional cases.
(xxx) Insofar as it relates to its role, the Pension Board may also:
• request information and reports from the Pension Committee or any other body or officer responsible for the management of the Fund
• examine decisions made or actions taken by the Pension Committee or any other body or officer responsible for the management of the Fund.
• access independent professional advice from actuaries, other independent advisers, and investment managers as required, where there are major matters being considered, i.e. investment strategy, triennial valuation, etc.,
• access to professional advice regarding non-major decisions will require the approval of the Pension Committee for additional resources
• attend all or any part of a Pensions Committee meeting unless they are asked to leave by the Committee or as a result of a conflict of interest.
(xxxi) ESCC officers will provide such information as is requested that is available without incurring unreasonable work or costs.
Knowledge and Skills
(xxxii) Pension Board members will be required to have the 'capacity' to carry out their duties and to demonstrate a high level of knowledge and of their role and understanding of:
• the scheme rules (i.e. regulations)
• the schemes administration policies
• the Public Service Pensions Act (i.e. being conversant with pension matters relating to their role) and the law relating to pensions.
(xxxiii) A programme of updates and training events will be organised by ESPF officers.
(xxxiv) It is for individual Pension Board members to be satisfied that they have the appropriate degree of knowledge and understanding to enable them to properly exercise their functions as a member of the Pension Board.
(xxxv) In line with this requirement, Pension Board members are required to be able to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date. Pension Board members are therefore required to
▪ participate in training events (a written record of relevant training and development will be maintained)

DRAFT

▪ undertake a personal training needs analysis or other means of identifying any gaps in skills, competencies and knowledge relating to Pension Board matters.
▪ comply with the Fund's Knowledge and Skills Policy insofar as it relates to Pension Board members.
Standards and Conflicts of Interest
(xxxvi) A conflict of interest is defined in the Public Service Pensions Act 2013 as:
"in relation to a person, means a financial or other interest which is likely to prejudice the person's exercise of functions as a member of the Pension Board (but does not include a financial or other interest arising merely by virtue of membership of the scheme or any connected scheme)."
(xxxvii) The Public Service Pensions Act 2013 requires that members of the Pension Board do not have conflicts of interests. As such all members of the Pension Board will be required to declare any interests and any potential conflicts of interest in line with legal requirements in the Public Service Pensions Act 2013 and the Pension Regulator's code. These declarations are required as part of the appointment process, as well as at regular intervals throughout a member's tenure.
(xxxviii) The Pension Board shall adopt a policy for identifying and managing potential conflicts of interest.
(xxxix) Members of the Pension Board must provide, as and when requested by the Scheme Manager, such information as the Scheme Manager requires to identify all potential conflicts of interest and ensure that any member of the Pension Board or person to be appointed to the Pension Board does not have a conflict of interest at appointment or whilst a member of the Pension Board.
(xl) Part 5(1) of ESCC Code of Conduct shall apply in relation to the standards of conduct of Pension Board members, insofar as they can be reasonably considered to apply to the role of members of the Board, including the non-disclosure of confidential information.
(xli) Members of the Pension Board must adhere to the requirements of the ESPF Procedure for Monitoring and Reporting Breaches of the Law and should be mindful of the individual legal requirements in Section 70 of the Pensions Act 2004 relation to reporting breaches of the law in relation to ESPF matters.
Access to the Public and Publication of Pension Board information
(xlii) Members of the public may attend the Pension Board meeting and receive papers, which will be made public in accordance with the Access to Information Rules in ESCC's Constitution.
(xliii) In accordance with the Public Service Pensions Act 2013, ESCC is required to publish information about the Pension Board and up-to-date information will be posted on the ESPF website showing:
• Names of and information regarding the Pension Board members

• How the scheme members and employers are represented on the Pension Board
• Responsibilities of the Pension Board as a whole
• Full terms of reference and policies of the Pension Board and how it operates.
(xliv) In accordance with good practice, ESPF may publish other information relating to the Pension Board as considered appropriate from time to time and which may include:
• the agendas and meeting records
• training and attendance logs
• an annual report on the work of the Pension Board.
(xlv) All or some of this information may be published using the following means or other means as considered appropriate from time to time:
• on the ESPF website – https://www.eastsussex.gov.uk/yourcouncil/pensions/members/
• on the ESCC website – http://www.eastsussex.gov.uk,
• within the ESPF Annual Report and Accounts,
• within the ESPF's Governance Policy and Compliance Statement.
(xlvi) Information may be excluded on the grounds that it would either involve the likely disclosure of exempt information as specified in Part 1 of Schedule 12A of the Local Government Act 1972 or it being confidential for the purposes of Section 100A(2) of that Act.
Expense reimbursement, remuneration and allowances
(xlvii) All Pension Board members will be entitled to claim travel and subsistence allowances for attending meetings relating to Pension Board business (including attending training) at rates contained in the Members' Allowances Scheme in the ESCC's Constitution. In addition, scheme member representatives may be paid an allowance equivalent to the co-optees' allowance in the ESCC Scheme of Members' Allowances in relation to time spent at meetings and training events relating to their role as a ESPF Pension Board member, unless they are attending they are attending during their normal working day without a reduction in pay or leave (in which case no allowance will be paid for that time).
(xlviii) The Independent Chair's remuneration will be approved by the Governance Committee following consultation with the Chair of the Pension Committee.
(il) All costs will be recharged to the Fund.
Accountability
(l) The Pension Board collectively and members individually are accountable to the Scheme Manager (ESCC), the Pensions

DRAFT

Regulator, and the Local Government Pension Scheme Advisory Board. The Local Government Pension Scheme Advisory Board will advise the Responsible Authority (in the case of the LGPS the MHCLG) and the Scheme Manager. The Pensions Regulator will also be a point of escalation for whistle blowing or similar issues.
Decision Making Process
(li) Employer representatives and scheme member representatives have voting rights, albeit the Pension Board is expected to operate on a consensus basis. The Independent Chair does not have voting rights.
(lii) In the event of an equal number of votes being cast for or against a proposal there shall be no casting vote but the proposal shall be considered to have been rejected. The Scheme Manager shall be alerted when a decision is reached in this manner.
Reporting and escalation
(liii) The Pension Board must provide minutes of each meeting to the following Pension Committee meetings and may make reports and recommendations to the Pension Committee insofar as they relate to the role of the Pension Board. Any such reports or recommendations must be provided in advance of the next Pension Committee meeting to the S151 Officer.
(liv) An annual report of the Pension Board must be provided to the S151 Officer, the Monitoring Officer, the Pension Committee, and the Audit Committee and be published in the Fund's Annual Report and Accounts.
(lv) Where the Pension Board considers that a matter brought to the attention of the Pension Committee has not been acted upon or resolved to their satisfaction, the Pension Board will provide a report to the Monitoring Officer.
(lvi) The Breaches Register will be presented at each meeting and considered by the Pension Board who may make recommendations to the Pension Committee.
Review, Interpretation and Publication of Terms of Reference and Rules of Procedure
(lvii) These Terms of Reference have been agreed by ESCC. The Council will monitor and evaluate the operation of the Pension Board and may review these Terms of Reference and Rules of Procedure from time to time.
(lviii) These Terms of Reference are incorporated into the Council's Constitution and published on the Council's website and may be amended by the same means as permitted for the Constitution. It will also form part of the ESPF's Governance Policy and Compliance Statement which will be made available in accordance with the requirements of the LGPS Regulations.

Senior Officers Delegations:

Chief Operating Officer:

20. To apply the [East Sussex County Council Employer] discretionary provisions within the LGPS

Delegation to **Chief Finance Officer**	**Chief Finance Officer Internal Authorisation To:**
1. To carry out the statutory duties referred to in Section 151 of the Local Government Act 1972 in relation to the Pension Fund and to provide advice to the County Council, Pension Committee and Pension Board in carrying out their responsibilities.	
2. To implement strategies and policies approved by the Administering Authority (including those delegated to the Pension Committee).	**Head of Pensions**
3. To manage, in accordance with the policies and strategies approved by the Administering Authority (including the Pension Committee), and in accordance with legislative requirements, the East Sussex Pension Fund including ensuring arrangement for investment of assets and administration of contributions and benefits.	**Head of Pensions**
4. To implement policies decided by the Administering Authority (including the Pension Committee).	**Head of Pensions**
5. To take action or decide any other Pension Fund related matter on behalf of the Administering Authority in special or emergency situations, in consultation with the Chair of the Pension Committee, including but not limited to where delay in the purchase or sale of investments might be detrimental to the interests of the East Sussex Pension Fund.	**Head of Pensions**
6. To approve the terms of an admission or cessation agreement and, where appropriate, any related bond or indemnity, with a body wishing to participate in or leave the East Sussex Pension Scheme/Fund.	**Head of Pensions**
7. To undertake any necessary actions relating to employers joining	**Head of**

and leaving the fund, or monitoring of such employers, based on decisions made by the Pension Committee.	**Pensions**
8. To agree Administering Authority responses to consultations on LGPS matters and other matters where they have minimal impact on the Fund or its stakeholders including relating to minor technical operational matters impacting the Administering Authority only.	**Head of Pensions**
9. To implement the Fund's agreed strategic allocation including use of both rebalancing and conditional ranges in accordance with the Investment Strategy.	**Head of Pensions**

Assistant Chief Executive

(ii) The Assistant Chief Executive has been authorised to make decisions at Stage 2 of the internal dispute resolution procedure under the Local Government Pension Scheme Regulations [2013] (Note: the Pension Compliance Manager has been authorised to deal with Stage 1 disputes).

Pooling

ACCESS Joint Governance Committee terms of reference to be added into Constitution for completeness.

East Sussex Pension Fund

Communications Strategy

Contents

Introduction 2
Regulatory Basis 2
Our Aims and Objectives 3
Measuring whether we meet our Communication Objectives 3
Delivery of Communications 5
General Communication 5
Branding 5
Accessibility 6
Communication with Scheme Members 6
Communication with Prospective Members 7
Communication with all Scheme Employers 7
Communication with the Pension Committee and the Pension Board 8
Communication between the Pension Board, Scheme Members and Scheme Employers 9
Communication with other Key Stakeholders 9
Communicating with Fund Staff (including Orbis) ..... **Error! Bookmark not defined.**
Communication with Council Tax Payers ..... **Error! Bookmark not defined.**
Key Risks 10
Costs 10
Approval, Review and Consultation 10
Further Information 10

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Introduction

This is the statement outlining the Pension Communication Strategy for the East Sussex Pension Fund (the Fund) as per Regulation 61 of the Local Government Pension Scheme (LGPS) Regulations 2013. In consultation with the Pension Board employers in the Fund, scheme member representatives and other interested stakeholders this strategy will be reviewed annually and updated as necessary following each review.

The aim of this Communication Strategy is to ensure that scheme members appreciate the benefits of the scheme and all stakeholders are kept informed of developments within the Fund, and effective communications will also help to maintain the efficient running of the Scheme.

East Sussex County Council (the administering authority) is responsible for the local administration of the Fund, which is part of the LGPS. The East Sussex Pension Fund liaises with over 130 scheme employers to provide pensions to over 70,000 members.

The East Sussex Pension Fund recognises that there are several distinct Stakeholders groups each with slightly different needs, including:

- Scheme members (active, deferred, pensioner and dependant members) and their representatives
- Prospective members and opt outs
- Scheme employers and prospective Scheme employers
- Pension Committee and Pension Board members
- Pension Fund Staff (including Orbis)
- Pension Fund advisors
- Other interested organisations including HM Revenue & Customs (HMRC), the Ministry for Housing, Communities and Local Government (MHCLG) and other relevant Government Departments and the Scheme Advisory Board (SAB)
- Council Tax payers.

The main means of communication with these key stakeholders are outlined in this statement, which includes making the best use of technology where appropriate, and noting a disparate and potentially vulnerable membership, to provide quicker and more efficient communications for the Fund's stakeholders.

Regulatory Basis

The LGPS is a statutory scheme, established by an Act of Parliament. Regulation 61 of the Local Government Pension Scheme Regulations 2013, reproduced below, provides the conditions and regulatory guidance surrounding the production and implementation of Communications Strategies:

Statements of policy concerning communications with members and Scheme employers

61. (1) An administering authority must prepare, maintain and publish a written statement setting out its policy concerning communications with —

(a) members;

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(b) representatives of members;
(c) prospective members; and
(d) Scheme employers.

(2) In particular the statement must set out its policy on —
(a) the provision of information and publicity about the Scheme to members, representatives of members and Scheme employers;
(b) the format, frequency and method of distributing such information or publicity; and
(c) the promotion of the Scheme to prospective members and their employers.

(3) The statement must be revised and published by the administering authority following a material change in their policy on any of the matters referred to in paragraph (2).

This strategy has been developed to include the information required by those provisions and to describe the Fund's approach in relation to meeting these requirements in the delivery of communications. Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 and other legislation includes various requirements relating to the provision of information relating to pensions (in addition to the requirements in the LGPS Regulations). The Fund aims to adhere with all such legislation and related statutory or best practice guidance. This includes the Pension Regulator's Code of Practice.

There are other regulatory requirements that the Fund adheres to, including the General Data Protection Regulations and the Freedom of Information Act.

Our Aims and Objectives

To ensure that we are communicating effectively with our audiences and that we continue to enhance the service we offer, we have set the following objectives:

- To help members understand the valuable benefits on offer through membership of the scheme as part of their employer's remuneration and reward package
- Provide sufficient information so members can make informed decisions about their benefits
- Communicate in plain English and a clear, concise manner which is easy to access
- Ensure the most appropriate means of communication is used, taking into account the different needs of different stakeholders, including providing more accessibility through greater use of technology where appropriate as it may not be appropriate for some groups of members
- Regularly evaluate the effectiveness of communications with members and employers and shape future communications appropriately

Measuring whether we meet our Communication Objectives

The Fund will monitor success against our communication objectives as shown below:

Objectives	**Measurement**
To help members understand the	- Member satisfaction levels

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valuable benefits on offer through membership of the scheme as part of their employer's remuneration and reward package	achieved in biennial surveys of members - Responses to any specific questions in biennial survey issued to members in this area - Feedback from the Pension Board and Orbis Helpdesk to the Pension Board on a quarterly basis to evaluate service provided
Provide sufficient information so members can make informed decisions about their benefits	- Evaluate surveys and feedback to the committee on interventions needed
Communicate in plain English and a clear, concise manner which are easy to access	- Employer and member satisfaction levels achieved in biennial surveys of both groups - Responses to any specific questions in biennial survey issued to scheme employers and scheme members in this area, where appropriate
Ensure the most appropriate means of communication is used, taking into account the different needs of different stakeholders, including providing more accessibility through greater use of technology where appropriate as it may not be appropriate for some groups of members	- Increasing use of digital services for both scheme members and scheme employers - Responses to any specific questions in biennial survey issued to scheme employers and scheme members in this area
The Pension Board will regularly evaluate the effectiveness of communications with members and employers and shape future communications appropriately.	- Undertaking a satisfaction survey annually - Results from satisfaction survey are thoroughly analysed and investigated, and trends monitored from previous years. - Detailed analysis of survey results is used to identify areas to improve communications in future. - Compliments and complaints are recorded and trends analysed - Pension Board to annually evaluate the effectiveness of communications

An overview of our performance against these objectives will be reported within the Fund's annual report and accounts and also reported on a quarterly basis to the Pension Board and Pension Committee.

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If performance is substantially below standard (whether by a large margin for a short period of time or a small margin for a longer period of time) the Fund will formulate an improvement plan. This will be reported to the Pension Committee and Pension Board together with an ongoing update on achievement against the improvement plan.

Delivery of Communications

East Sussex County Council has delegated responsibility for the management of the Fund to the East Sussex Pension Committee, taking into consideration advice from the Pension Board. The Committee will monitor the implementation of this Strategy on a regular basis as outlined later in this statement.

The day to day delivery of member communication and associated administration related communications, employer data and data and information governance is undertaken by the Fund's shared service administrator, Orbis led by their Head of Business Operations. For scheme employer and other stakeholder related communications the Fund are directly responsible for this delivery led by the Head of Pension Fund.

The Fund has at its disposal a wide range of options for communicating with the diverse groups that it needs to serve. The method of communication will vary depending on what needs to be communicated and to whom. The methods used by the Fund to communicate with all interested parties are detailed below.

General Communication

When considering how to communicate with our stakeholders the intended audience is taken into account to ensure that messages are delivered in a useful and easy to follow manner. Communication is tailored to the recipient's needs, making sure that messages are clear, consistent and use plain English. Communications are delivered using the most appropriate method and there will be continued development of digital platforms to encourage greater accessibility to the Fund's services for all stakeholders.

Every communication has a clear purpose and fits into the overall communications plan, to ensure that they are cost effective. The Fund actively seeks feedback from each of its audiences to continually review, enhance and improve communication methods.

The Fund also adheres to other legislative requirements, including the General Data Protection Regulations, Freedom of Information Act, and pension disclosure legislation. The Fund also aims to adhere to good practice standards such as the National Website Standards.

Branding

As the Fund's administration is undertaken by Orbis, all literature and communications will include a combination of the branding of the East Sussex Pension Fund and Orbis.

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Accessibility
The Fund is committed to ensuring that all stakeholders are able to access services equally and recognises that some individuals may require information to be provided in specific formats. While demand for alternative formats remains low at present, the Fund is able to issue documents in braille, large print or audio format on request.

Communication with Scheme Members
The Fund uses a variety of methods to communicate with active, deferred, pensioner and dependant members, and differentiates between them when delivering key messages to each specific audience groups. Scheme members can nominate representatives that the Fund will communicate with on their behalf, subject to the provision of an appropriate letter of authority signed by the scheme member. The Pension Board will be asked to comment on any new communication measures being considered and their views taken into consideration before this strategy is updated.

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

This is achieved by the following:

- Dedicated webpage on the County Council's and East Sussex Pension Fund website - the website https://www.eastsussexpensionfund.org/ includes extensive information and guides about the LGPS, and also contains factsheets, forms and up to date news about the Fund's activities and achievements.

- Orbis will issue electronic or paper-based newsletters as required. For other employer bodies, this is dispatched to a lead contact (usually within the HR and Payroll function) with a request that it is shared with all relevant staff - the contents cover current pension topics within the LGPS and wider pensions industry, along with important repeated messages. Additional newsletters may be issued to update members on important matters as they occur.

- Annual benefit statement - Personalised statements are provided to active and deferred scheme members every year. The statements are available online or posted to members who do not use the online facility (where addresses are known). Orbis will provide an annual update to the Pension Board to evidence that this is happening in practice.

- Notification of a dedicated telephone helpline provided for scheme members and maintained by Orbis.

- Maintenance and availability of Scheme Literature - A range of literature is produced by the Fund and is supplied to both employing bodies and to scheme members directly. Copies of all scheme literature are available on the East Sussex County Council website.

- Provision of member information on pension benefits accrued and leaving benefits are available on request.

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Communication with Scheme Members and Prospective Members

The Fund works with scheme employers to promote the LGPS and reduce the number of members opting out of the scheme, particularly after automatic enrolment.

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

This is achieved by the following:

- Prospective members are provided with joining information on the LGPS. The Fund's website (https://www.eastsussexpensionfund.org/) has a section aimed at potential new joiners setting out the main benefits provided by the LGPS

- Access to Orbis Helpdesk.

Communication with all Scheme Employers

To assist scheme employers participating in the LGPS, the Fund has a range of communication materials and methods that aims to increase their understanding of pension issues and help them fulfil their responsibilities as scheme employers.

The core policy communication objective is to ensure that all scheme employers are aware of:

- the Fund's Pensions Administration Strategy and Service Level Agreements, the Funding Strategy Statement and Investment Strategy Statement including the performance of the Fund's Investment's (given its impact on employer contribution rates).

- any scheme changes impacting on the employer's HR or workforce planning.

- any key discretions to be exercised by the individual employer;

- advice on the future valuation outlook; and

- advice and agreement on key frequent and annual data and financial transaction flows between the Fund and individual employers.

All this is in addition to the general pensions awareness scheme employers will wish to maintain as a 'good employer'.

This is achieved by the following:

- The Fund's Pensions Administration Strategy provides an overview of how the Fund and scheme employers will work together to achieve a high-quality service. It sets out, in detail, the obligations and responsibilities of both the

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Fund and the scheme employer to achieve set performance standards. This is available on the Fund's website.

- Service Level Agreements (SLAs) ensure best practice and also compliance with audit requirements. The SLA sets out, in detail, the obligations and responsibilities of the scheme employer, the administering authority and the administrator, concerning all aspects of LGPS administration. These Agreements are reviewed and updated annually taking into account changes made to the regulations and feedback from the Fund's scheme employers. All the Fund's scheme employers are consulted on the administrative strategy annually to ensure they acknowledge their responsibilities.

- The Fund will request each scheme employer designate a named individual for Employer engagement with the appropriate delegations and who is the payroll contact for the employer. The scheme employer must keep the Fund aware of any changes pertaining to the contact details for that person.

- Specific communications on scheme changes for scheme employers as and when required.

- Annual employer forum meeting to which all scheme employers are invited dealing with administrative activity investment performance, actuarial insights and any scheme changes and current issues impacting the Fund and the LGPS.

- The HR employer guide, both paper based and maintained on the websites.

- Offer employer training on End of Year returns and the responsibilities of a new employer to the Fund and support in preparing policies such as the Discretionary Policy.

Communication with the Pension Committee and the Pension Board

The governance arrangements of the Fund centre on two bodies, the Pension Committee and the Pension Board.

The Fund works closely with the Pension Committee and the Pension Board, and the core communication objective is to ensure that all scheme members are fully informed on pensions matters including investment, funding, audit, governance, administration and risk. They have regular training to ensure they have sufficient knowledge to fulfil their duties and responsibilities.

This is achieved by the following:

- Providing relevant information on current issues at Pension Committee and Pension Board meetings and the majority of reports to the Pension Committee can be found on the Council's website -

  https://democracy.eastsussex.gov.uk/ieListMeetings.aspx?CommitteeId=373.

  The Pension Board papers can be found on the Council's website –

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https://democracy.eastsussex.gov.uk/ieListMeetings.aspx?CommitteeId=374

Communication between the Pension Board, Scheme Members and Scheme Employers

The Pension Board was established in April 2015 to assist the Committee in securing compliance with the scheme regulations and the effective and efficient governance and administration of the LGPS. The board is made up of three employer representative and three employee representatives and an independent chair. Minutes of board meetings are shared on the website.

Fund officers provide professional support to the Pension Board, ensuring regular communication with members and scheme employers through:

- Opportunity for members of the public to attend the Board meeting and receive papers, which will be made public in accordance with the Access to Information Rules in East Sussex County Council's Constitution.
- Up to date information is posted on the Fund website with full terms of reference and polices on the Pension Board and how it operates.

Communication with other Key Stakeholders

There are a number of other interested parties with whom we communicate as required, including:

- Ministry of Housing, Communities and Local Government (MHCLG) - The Fund has regular contact with MHCLG as a responsible LGPS Fund, participating and responding to consultations, as required.
- Scheme Advisory Board - The national SAB was established following the Public Services Pensions Act 2013. It provides advice to the Fund and Local Pension Boards in relation to the effective and efficient administration and management of the Scheme and their funds. The Fund therefore liaises with the SAB as appropriate.
- Local Government Association - The LGA liaises with LGPS Funds and MHCLG to ensure that all LGPS regulations are administered correctly as per MHCLG's instructions.
- The Pensions Regulator - The Pensions Regulator's remit has been extended to the Public Sector as a result of the Public Services Pensions Act 2013. The Fund liaises with the Regulator as required to ensure that it is compliant with the Pensions Regulator's Code of Practice.
- AVC Provider(s) - Additional Voluntary Contributions (AVC) are held and invested separately from the LGPS. The Fund's current AVC providers are Prudential Limited.
- Fund Investment Managers, Advisers and Actuary - The Fund officers have regular meetings with
    - the Fund Managers who invest funds on behalf of the Fund
    - Investment Advisors who provide help and advice on the asset allocation and investments of the Fund
    - The Fund Actuary to discuss funding levels, employer contributions and valuation of the assets and liabilities of the Fund.

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The Fund Actuary, Independent Adviser and Investment Adviser attend all Pension Committee meetings.

- ACCESS Pool - The Fund is a member of the ACCESS pool established by a group of 11 Funds to invest assets on a pooled basis for the LGPS Funds administered by those Councils. It is important that ACCESS understands the Fund's strategies so that the assets are invested in accordance with those strategies. Communication with ACCESS will be in a number of ways including directly at officer level and Joint Committee. The East Sussex Pension Committee will also receive regular updates on the activities of ACCESS and will also be responsible for deciding the assets to be invested in ACCESS.

Key Risks

The key (potential) risks to the delivery of this Strategy are outlined below. The Head of Pensions along with other officers will work with the Pension Committee and Pension Board in monitoring these and other key risks and considering how to respond to them.

- Lack or reduction of skilled resources due to difficulty retaining and recruiting staff members and also staff absence due to sickness
- Significant increase in the number of employing bodies causes strain on day to day delivery
- Significant external factors, such as national change, impacting on workload
- Issuing incorrect or inaccurate communications
- Failure to maintain scheme employer database leading to information not being sent to correct person
- Lack of clear communication to scheme employers, scheme members and pensioners.

Costs

All additional costs relating to this Strategy are met directly by the Fund unless mentioned otherwise.

Approval, Review and Consultation

This Communications Strategy was approved on XX June 2020 by the East Sussex Pension Committee. It will be formally reviewed annually and updated by the Committee at least every three years or sooner if the communications arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

Further Information

If you require further information about anything in or related to this Communications Strategy, please contact:

Michelle King
East Sussex Interim Head of Pensions, East Sussex County Council
E-mail - michelle.king@eastsussex.gov.uk

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Telephone – 01273 482017

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EAST SUSSEX PENSION FUND Procedure for Recording and Reporting Breaches of the Law

June 2020

Contents

Background and Introduction 2
Requirements 3
Other Administering Authority or Organisational Requirements 4
East Sussex Pension Fund Breaches Procedure 4
Administration Function responsibilities 7
Assistance for individuals in following this procedure 7
Reporting a breach to the Pensions Regulator 9
Training 10
Approval, and Review 11
Further Information 11
Appendix A– Example breaches of the law 12
Appendix B – Determining whether a breach is likely to be of material significance 15
Appendix C - Traffic light framework for deciding whether or not to report 17
Appendix D – Example Record of Breaches for Pension Committee Reporting 18

Policy for Reporting Breaches of the Law

Background and Introduction

This policy sets out the procedure to be followed by certain persons involved with the East Sussex Pension Fund which is managed and administered by East Sussex County Council in relation to identifying, recording and where necessary reporting breaches of the law to the Pensions Regulator.

Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and making investment or investment-related decisions

This procedure has been developed to assist those individuals who have a legal responsibility to report certain breaches to the Pensions Regulator in determining whether a breach they have identified should be reported. It has also been developed to assist East Sussex County Council, in its role as Administering Authority, in ensuring it is aware of all breaches of the law in relation to the East Sussex Pension Fund and that these are appropriately recorded and then dealt with.

The Head of Pensions has responsibility for the implementation, review and monitoring of these procedures, and can seek such advice as they consider necessary including from the Council's legal team or external advisors.

The following persons, or any other person who has responsibility to report breaches of the law in relation to the East Sussex Pension Fund, are strongly encouraged to follow this procedure should they identify such a breach:

- all members of the Pension Committee and the Pension Board
- all officers involved in the management or administration of the Pension Fund including staff members in the East Sussex County Council Pension Fund Team, the Monitoring Officer and the Chief Finance Office (Section 151 Officer).
- all officers involved in the delivery of the administration service by the shared service provider Orbis.
- any professional advisers including external auditors, actuaries, legal advisers and fund managers.[1]
- officers of employers participating in the Pension Fund who are responsible for pension matters.
- any other person otherwise involved in advising the managers of the Fund, including Head of Pensions, Monitoring Officer and staff members of the Internal Audit function.

[1] However, these advisors should note that the application of this Procedure relates to the reporting of legal breaches relating to the administration of the Pension Fund, rather than any breaches relating to their role and responsibilities that do not affect the administration of the Fund. For example, if a fund manager has breached the investment association guidelines, then this would not be reportable under this East Sussex Pension Fund Procedure for Reporting Breaches (albeit the Administering Authority would still expect this information to be recorded separately and notified to East Sussex County Council).

Throughout this procedure, any person to whom this procedure applies, as a result of them identifying a breach or potential breach, will be referred to as the "individual".

The next section clarifies the full extent of the legal requirements and to whom they apply.

Requirements

Pensions Act 2004

Section 70 of the Pensions Act 2004 (the Act) imposes a requirement on the following persons:

- a trustee or manager of an occupational or personal pension scheme
- a member of the pension board of a public service pension scheme
- a person who is otherwise involved in the administration of an occupational or personal pension scheme
- the employer in relation to an occupational pension scheme
- a professional adviser in relation to such a scheme
- a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme,

to report a matter to the Pensions Regulator as soon as is reasonably practicable where that person has reasonable cause to believe that:

> (a) a legal duty relating to the administration of the scheme has not been or is not being complied with; and
> (b) the failure to comply is likely to be of material significance to The Pensions Regulator.

The Act states that a person can be subject to a civil penalty if he or she fails to comply with this requirement without a reasonable excuse.

The duty to report breaches under the Act overrides any other duties the individuals listed above may have. However, the duty to report does not override 'legal privilege'. This means that, generally, communications between a professional legal adviser and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.

The Pension Regulator's Code of Practice

Practical guidance in relation to this legal requirement is provided in the Pension Regulator's Code of Practice including in the following areas:

- implementing adequate procedures to consider and record breaches
- judging whether a breach must be reported
- submitting a report to the Pensions Regulator
- whistleblowing protection and confidentiality.

Application to the East Sussex Pension Fund

East Sussex County Council has developed this procedure in relation to the East Sussex Pension Fund. This document sets out how the Council will strive to achieve

best practice through use of a formal reporting breaches procedure. It reflects the guidance contained in the Pension Regulator's Code of Practice.

Other Administering Authority or Organisational Requirements

In addition to the requirements of this Procedure, there may be other policies and procedures which may be in place relating to areas such as fraud or whistleblowing that apply to the individuals covered by this Procedure for reporting and recording breaches in relation to East Sussex Pension Fund matters. For example, East Sussex County Council has in place the following:

- Anti-fraud and Corruption Policy – setting out the Council's strategy for preventing, deterring, deterring and investigating fraud, corruption and other wrong doing.
- Anti-Money Laundering Policy - procedures that must be followed to enable the County Council to comply with its legal obligation to prevent criminal activity through the use of Money Laundering, as well as providing contact details for the Money Laundering Reporting Officer
- Whistleblowing Policy – setting out how someone working with or within East Sussex County Council can raise an issue in confidence, as well as what sort of concerns should be reported.

This Procedure should be followed in addition to any existing procedures or policies that may be in place, such as those listed above. In particular, individuals are reminded that there is a legal requirement to report breaches of the law in relation to the East Sussex Pension Fund that could be considered significant to the Pensions Regulator. The Head of Pensions (contact details at the end of this procedure document) can assist if an individual is uncertain how to deal with the interaction between this Procedure and any other organisation's policy or procedure that may be in place.

East Sussex Pension Fund Breaches Procedure

Overview

The following procedure details how individuals responsible for reporting and whistleblowing can identify, access, record and report (if appropriate) a breach of the law relating to East Sussex Pension Fund.

It aims to ensure individuals responsible are able to meet their legal obligations and avoid placing any reliance on others to report. The procedure will also assist in providing an early warning of possible malpractice and reduce risk. There are four key steps to this procedure:

1. Understanding the law and what is a breach
2. Determining whether there is reasonable cause to believe a breach has occurred
3. Determining whether the breach is likely to be of material significance and so should be reported to the Pensions Regulator
4. Recording the breach, even if it is not reported

These steps are explained below:

1. Understanding the law and what is a breach

Individuals may need to refer to regulations and guidance when considering whether or not there has been a breach of the law. Some of the key provisions are shown below:

- Section 70(1) and 70(2) of the Pensions Act 2004: www.legislation.gov.uk/ukpga/2004/35/contents
- Employment Rights Act 1996: www.legislation.gov.uk/ukpga/1996/18/contents
- Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (Disclosure Regulations): www.legislation.gov.uk/uksi/2013/2734/contents/made
- Public Service Pension Schemes Act 2013: www.legislation.gov.uk/ukpga/2013/25/contents
- Local Government Pension Scheme Regulations (various): http://www.lgpsregs.org/timelineregs/Default.html (pre 2014 schemes) http://www.lgpsregs.org/index.php/regs-legislation (2014 scheme)
- The Pensions Regulator's Code of Practice: http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-public-service-pension-schemes.aspx
  In particular, individuals should refer to the section on 'Reporting breaches of the law', and for information about reporting late payments of employee or employer contributions, the section of the Code on 'Maintaining contributions'.

Further guidance and assistance can be provided by the Head of Pensions, provided that requesting this assistance will not result in alerting those responsible for any serious offence (where the breach is in relation to such an offence). Some examples of potential breaches are also included in Appendix A.

2. Determining whether there is reasonable cause to believe a breach has occurred

Individuals then need to have reasonable cause to believe that a breach of the relevant legal provision has occurred. Having reasonable cause to believe that a breach has occurred means more than merely having a suspicion that cannot be substantiated.

Where a breach is suspected the individual should inform the Head of Pensions as soon as practicable, and no later than 5 days from when they suspect there has been a breach. The Head of Pensions will then carry out further checks, to establish whether or not a breach has in fact occurred, and keep the individual informed. This does not preclude the individual who first raised the issue undertaking further checks themselves should they consider it appropriate to do so.

However, there are some instances where it would not be appropriate to make further checks, for example, if the individual has become aware of theft, suspected fraud or another serious offence and they are also aware that by making further checks there is a risk of either alerting those involved or hampering the actions of the police or a regulatory authority. In these cases the Pensions Regulator should be contacted without delay.

3. Determining whether the breach is likely to be of material significance

Should an individual have reasonable cause to believe that breach of the law has occurred, they must decide whether that breach is likely to be of material significance to the Pensions Regulator, and therefore should be reported to the Pensions Regulator. To do this, an individual should consider the following, both separately and collectively:

- cause of the breach (what made it happen)
- effect of the breach (the consequence(s) of the breach)
- reaction to the breach
- wider implications of the breach.

Further details on the above four considerations are provided in Appendix B to this procedure.

The individual should use the traffic light framework described in Appendix C to help assess the material significance of each breach and to formally support and document their decision.

It should be noted that the Pensions Regulator's role is in relation to requirements under the Pensions Act 2004. As such, it is possible that some breaches of the law do not fall within the Regulator's remit. However, given the complex nature of the law, including the wide ranging responsibilities covered by the Pensions Act 2004, East Sussex County Council encourages reporting of any breach that is considered to be materially significant regardless of the specific area of the law that has been breached. The Pensions Regulator can then determine whether it is a matter they have jurisdiction over or not.

The Head of Pensions can assist with determining whether the breach should be reported. In the first instance the Head of Pensions should be given opportunity to report the breach and will keep the individual raising the concern appraised of their decision as to whether or not to report the breach.

However, the individual is ultimately responsible for determining what should be included in the report and for submitting the report to the Pensions Regulator.

The requirement to report applies to all those subject to the reporting duty who become aware of a breach that is likely to be of material significance to the Pensions Regulator; it is not automatically discharged by another party reporting the breach.

This gives rise to the possibility of duplicate reporting by those involved in a scheme. Duplicate reports carry a cost, which will ultimately be borne by the scheme members or the employer. Moreover, duplicate reports do not benefit the Pensions Regulator. Once aware of a particular breach, the Pensions Regulator does not regard that breach as being of material significance for the purpose of making further reports under the requirement to report breaches of the law. An exception is where another reporter has additional or different information about that breach or the circumstances relating to it.

4. Recording the breach, even if it is not reported

The record of past breaches may be relevant in deciding whether to report a breach (for example it may reveal a systemic issue). The Head of Pensions will maintain a record of all breaches identified. Therefore, individuals should provide the following information to the Head of Pensions so that all identified breaches can be recorded:

- copies of reports submitted to the Pensions Regulator
- copies of information relating to any other breach the individual has identified.

The information should be provided to the Head of Pensions as soon as reasonably practicable and certainly no later than within 20 working days of the decision made to report or not. The record of all breaches (reported or otherwise) will be included at each Pension Committee meeting, and this will also be shared with the Pension Board.

Supplier and advisor responsibilities

Where a breach has been identified relating to the Fund by a Fund supplier or advisor, or by officers working under the Orbis shared service arrangement, which delivers much of the Fund's administration function, the supplier or adviser must alert the Head of Pensions immediately. They must produce a preliminary report setting out an assessment of the breach. The preliminary assessment must contain;

- the circumstances leading to the breach;
- the impact and scale of the breach, both financial and with regard to the impact of service on members or other affected persons/organisations;
- the steps that have been taken to rectify the breach; and
- a preliminary assessment, based on the Regulator's traffic light flowchart, of the materiality of the breach.

For the avoidance of doubt all breaches of the law (regardless of whether they are deemed material) must be reported to the Head of Pensions in this way.

Assistance for individuals in following this procedure

The following information is provided to assist individuals in following this procedure.

Referral to a level of seniority for assistance

East Sussex County Council has designated an officer (Head of Pensions) to assist any individual with following this procedure. The Head of Pensions is considered to have appropriate experience to help investigate whether there is reasonable cause to believe a breach has occurred, to check the law and facts of the case, to maintain records of all breaches and to assist in any reporting to the Pensions Regulator, where appropriate.

Individuals must bear in mind, however, that the involvement of the Head of Pensions is to help clarify the individual's thought process and to ensure this procedure is followed. The individual remains responsible for the final decision as to whether a matter should be reported to the Pensions Regulator and for completing the reporting procedure.

The matter should **not** be referred to the Head of Pensions if doing so would alert any person responsible for a possible serious offence to the investigation (as highlighted in step 2 above). If that is the case, the individual may instead refer the matter to the Council's Monitoring Officer. Otherwise, the individual should report the matter to the Pensions Regulator setting out the reasons for reporting, including any uncertainty – a telephone call to the Pensions Regulator before the submission may be appropriate, particularly in the case of a more serious breach.

Dealing with complex cases

The Head of Pensions may be able to provide guidance on particularly complex cases. Guidance may also be obtained by reference to previous cases, information on which will be retained by East Sussex County Council, or via discussions with those responsible for maintaining the records. Information may also be available from national resources such as the Scheme Advisory Board or the Local Government Association - http://www.lgpsregs.org. If timescales allow, legal advice or other professional advice can be sought and the case can be discussed at the next Pension Committee or Pension Board meeting.

Timescales for reporting

The Pensions Act and the Pension Regulator's Code require that, if an individual decides to report a breach, the report must be made in writing as soon as reasonably practicable. Individuals should not wait for others to report and nor is it necessary for an individual to gather all the evidence which the Pensions Regulator may require before taking action. A delay in reporting may exacerbate or increase the risk of the breach. The time taken to reach the judgements on “reasonable cause to believe” and on “material significance” should be consistent with the speed implied by "as soon as reasonably practicable". In particular, the time taken should reflect the seriousness of the suspected breach.

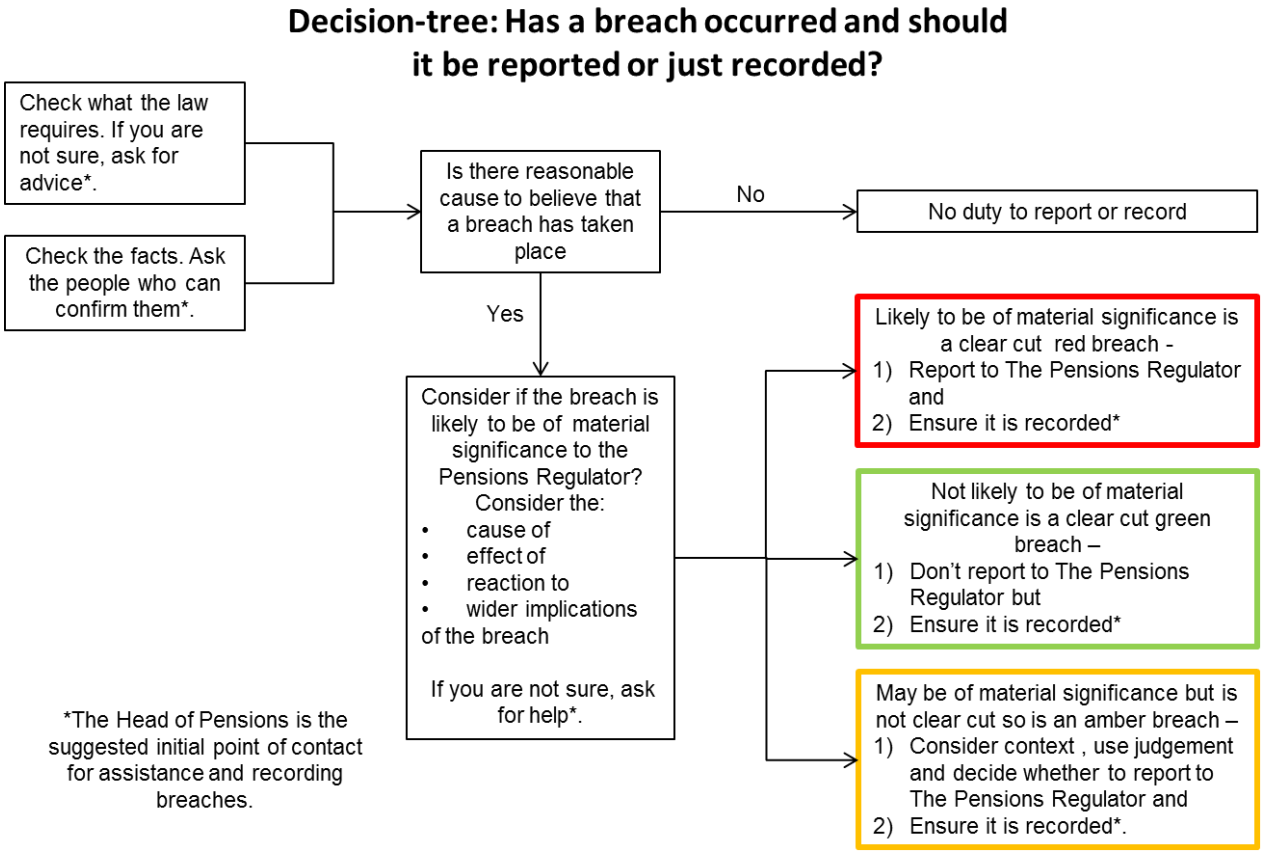
Early identification of very serious breaches

In cases of immediate risk to the scheme, for instance, where there is any indication of dishonesty, the Pensions Regulator does not expect individuals to seek an explanation or to assess the effectiveness of proposed remedies. They should only make such immediate checks as are necessary.

The more serious the potential breach and its consequences, the more urgently individuals should make these necessary checks. In cases of potential dishonesty, the individual should avoid, where possible, checks which might alert those implicated. In serious cases, individuals should use the quickest means possible to alert the Pensions Regulator to the breach.

Decision tree

A decision tree is provided below which summarises the process for deciding whether or not a breach has taken place, whether it is materially significant to the Pensions Regulator and therefore needs to be reported, and then ensuring it is recorded.



Reporting a breach to the Pensions Regulator

Reports must be submitted in writing via The Pensions Regulator's online system at https://login.thepensionsregulator.gov.uk/, or by post, or email and should be marked urgent if appropriate. If necessary, a written report can be preceded by a telephone call.

The individual should ensure they receive an acknowledgement for any report they send to the Pensions Regulator. The Pensions Regulator will acknowledge receipt of all reports within five working days and may contact the individual to request further information. The individual will not usually be informed of any actions taken by the Pensions Regulator due to restrictions on the disclosure of information.

As a minimum, individuals reporting should provide:

- full scheme name (East Sussex Pension Fund)
- description of breach(es)
- any relevant dates
- name, position and contact details
- role in connection to the scheme
- employer name or name of scheme manager (the latter is East Sussex County Council).

If possible, individuals should also indicate:

- the reason why the breach is thought to be of material significance to the Pensions Regulator

- scheme address (provided at the end of this procedures document)
- scheme manager contact details (provided at the end of this procedures document)
- pension scheme registry number (PSR – 10079157)
- whether the breach has been reported before.

The individual should provide further information or reports of further breaches if this may help the Pensions Regulator in the exercise of its functions. The Pensions Regulator may make contact to request further information.

Confidentiality

If requested, The Pensions Regulator will do its best to protect the identity of an individual who has reported a breach and will not disclose information except where it is lawfully required to do so.

An employee may also have protection under the Employment Rights Act 1996 if they make a report in good faith in relation to their employer.

Reporting

The Head of Pensions will be present to the Statutory officer Group, the Pension Board and the Pension Committee on a quarterly basis setting out:

- all breaches, including those reported to The Pensions Regulator and those not reported, with the associated dates.
- in relation to each breach, details of what action was taken and the result of any action (where not confidential)
- any future actions for the prevention of the breach in question being repeated
- new breaches which have arisen since the previous meeting.

This information will also be provided upon request by any other individual or organisation (unless decided otherwise by the Head of Pensions; for example where the information is excluding sensitive/confidential cases or ongoing cases where discussion may influence the proceedings).

An example of the information to be included in the quarterly reports is provided in Appendix D to this procedure.

Training

The Head of Pensions will ensure that all relevant officers and elected members, as well as members of the local pension board receive appropriate training on this policy at the commencement of their employment or appointment to the Pensions Committee or Pension Board as appropriate and on an ongoing basis.
Suppliers and advisers, including Orbis which delivers much of the Fund's administration, must ensure that all staff with responsibilities in relation to the Fund receive appropriate training with regard to this policy and their obligations under it.

They must advise the Head of Pensions if they do not feel they are able to carry out that training, and training will be arranged for them by the Head of Pensions.

Approval, and Review

This Reporting Breaches Procedure was approved on XX June 2020 by the East Sussex Pension Committee. It will be formally reviewed and updated by the Committee at least every three years or sooner if breaches arrangements or other matters included within it merit reconsideration, including if there are any changes to the LGPS or other relevant Regulations or Guidance which need to be taken into account.

Further Information

If you require further information about reporting breaches or this procedure or wish to discuss reporting a breach, please contact:

Michelle King
East Sussex Interim Head of Pensions, East Sussex County Council
E-mail - michelle.king@eastsussex.gov.uk
Telephone – 01273 482017

Ian Gutsall
Chief Finance officer and s151 Officer, East Sussex County Council
E-mail – ian.gutsall@eastsussex.gov.uk
Telephone 01273 481399

Philip Baker
Assistant Chief Executive and Monitoring Officer, East Sussex County Council
E-mail – philip.baker@eastsussex.gov.uk
Telephone – 01273 481564

Appendix A – Example breaches of the law

In this appendix we provide some examples of breaches of the law. This is not a exhaustive list given there are many sets of legislation that must be followed and some of these are extremely lengthy and complex. It should, however, provide a useful indication of the range of potential breaches that may arise.

Funding strategy not having regard to CIPFA guidance

Regulation 58 of the Local Government Pension Scheme Regulations 2013, as amended, requires the administering authority to prepare, maintain and publish a statement setting out its funding strategy and, in doing so, to consult with such persons as it considers appropriate. In doing this, the Administering Authority must also have regard to CIPFA guidance on preparing and maintaining a Funding Strategy Statement which clearly states employers should be consulted. The Funding Strategy impacts on the employers of the Fund and therefore a breach of the law by the Administering Authority is likely to have arisen if a statement was prepared which impacts on employers without first consulting with those employers.

Late notification of benefits

Various regulations dictate timescales for notifying scheme benefits, some of which are summarised below. Most of these requirements are included in more general pensions legislation i.e. not the Local Government Pension Scheme Regulations. A breach would arise every time one of these timescales was not met. All of the breaches would relate to the Administering Authority apart from the last one which would be a breach by an employer in the Fund. However, the first five listed could have been a result of delayed or incorrect information from an employer, which could be a separate and additional breach of the law by that employer.

Process	Legal Requirement
To provide new starters with information about the scheme	2 months from date of joining (provide information about the scheme in this timeframe, or within 1 month of receiving jobholder information where the individual is being automatically enrolled / re-enrolled)
To inform members who leave the scheme of their leaver rights and options	As soon as is practicable, and no more than 2 months from date of initial notification (from employer or scheme member)
To notify the amount of retirement benefits	1 month from date of retirement if on or after Normal Pension Age 2 months from date of retirement if before Normal Pension Age
To notify dependant(s) the amount of death benefits	As soon as possible but in any event no more than 2 months from date of becoming aware of the death, or from date of request
Provide annual benefit statements to active members	31st August in the same calendar year
Receipt of employee contributions from employers	19th of the month following their deduction or 22nd if paid electronically.

Errors in benefit calculations
The Local Government Pension Scheme Regulations 2013, as amended, and previous LGPS legislation relating to historical service or leaves, dictate how benefits should be calculated. This includes elements such as what fraction of pay is used to calculation a pension and what counts as pay for LGPS purposes. A breach of the law by the Administering Authority would arise in the situation that any calculation was carried out that was not in accordance with those provisions.

Errors in deducting contributions
Regulation 20 of the Local Government Pension Scheme Regulations 2013, as amended, states which elements of pay should be treated as pensionable and therefore should have pension contributions deducted from them and should be used for calculating benefits from 1 April 2014. Regulation 4 of the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007, as amended, is the equivalent provision for pre 1 April 2014 scheme membership and therefore it details how pensionable pay should be calculated by an employer for benefits accruing prior to 1 April 2014. Under these provisions, non-contractual overtime is pensionable from 1 April 2014 but not classed as pensionable for benefits accruing before 1 April 2014. A breach of the law by an employer would arise if any of the following happened:

- an employer **did not** deduct pension contributions from non-contractual overtime since 1 April 2014

- an employer **did not** include non-contractual overtime in the amount of any pensionable pay notified to the Administering Authority for membership from 1 April 2014
- an employer **did** include non-contractual overtime in the amount of final pay notified to the Administering Authority to be used to calculate benefits accrued prior to 1 April 2014.

Late notifications from year-end information by an employer
Regulation 80 of the Local Government Pension Scheme Regulations 2013 require each employer to provide to the Administering Authority a list of specific information for each scheme member, such as pensionable pay, by 30 June each year. A breach of the law by an employer would arise if they failed to provide this year end list to the administering authority by 30 June or if the information was incomplete or inaccurate.

Inadequate knowledge of a Pension Board member
Section 248A of the Pensions Act 2004 requires every Pension Board member to be conversant with the LGPS rules and Pension Fund policies as well having knowledge and understanding of pension matters at a degree appropriate for the purpose of them exercising their Pension Board functions. Where a Pension Board member has failed to attend training or demonstrate that they already have the required level of knowledge, it is possible that a breach of the law will have occurred by that Pension Board member.

Appendix B – Determining whether a breach is likely to be of material significance

To decide whether a breach is likely to be of material significance individuals should consider the following elements, both separately and collectively:

- cause of the breach (what made it happen)
- effect of the breach (the consequence(s) of the breach)
- reaction to the breach
- wider implications of the breach

The cause of the breach

Examples of causes which are likely to be of concern to the Pensions Regulator are provided below:

- Acting, or failing to act, in deliberate contravention of the law.
- Dishonesty.
- Incomplete or inaccurate advice.
- Poor administration, i.e. failure to implement adequate administration procedures.
- Poor governance.
- Slow or inappropriate decision-making practices.

Individuals may also request the most recent breaches report from the Head of Pensions, as there may be details on other breaches which may provide a useful precedent on the appropriate action to take.

When deciding whether a cause is likely to be of material significance individuals should also consider:

- whether the breach has been caused by an isolated incident such as a power outage, fire, flood or a genuine one-off mistake
- whether there have been any other breaches (reported to the Pensions Regulator or not) which when taken together may become materially significant

The effect of the breach

Examples of the possible effects (with possible causes) of breaches which are considered likely to be of material significance to the Pensions Regulator in the context of the LGPS are given below:

- Committee/Board members not having enough knowledge and understanding, resulting in pension boards not fulfilling their roles, the scheme not being properly governed and administered and/or scheme managers breaching other legal requirements
- Conflicts of interest of Committee or Board members, resulting in them being prejudiced in the way in which they carry out their role and/or the ineffective governance and administration of the scheme and/or scheme managers breaching legal requirements
- Poor internal controls, leading to schemes not being run in accordance with their scheme regulations and other legal requirements, risks not being properly identified and managed and/or the right money not being paid to or by the scheme at the right time

- Inaccurate or incomplete information about benefits and scheme information provided to members, resulting in members not being able to effectively plan or make decisions about their retirement
- Poor member records held, resulting in member benefits being calculated incorrectly and/or not being paid to the right person at the right time
- Misappropriation of assets, resulting in scheme assets not being safeguarded
- Other breaches which result in the scheme being poorly governed, managed or administered

The reaction to the breach

A breach is likely to be of concern and material significance to the Pensions Regulator where a breach has been identified and those involved:

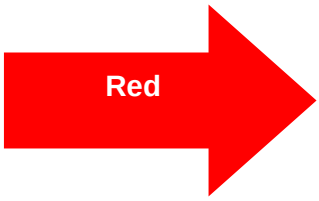
- do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence
- are not pursuing corrective action to a proper conclusion, or
- fail to notify affected scheme members where it would have been appropriate to do so.

The wider implications of the breach

Reporters should also consider the wider implications when deciding whether a breach must be reported. The breach is likely to be of material significance to the Pensions Regulator where the fact that a breach has occurred makes it more likely that further breaches will occur within the Fund or, if due to maladministration by a third party, further breaches will occur in other pension schemes.

Appendix C - Traffic light framework for deciding whether or not to report

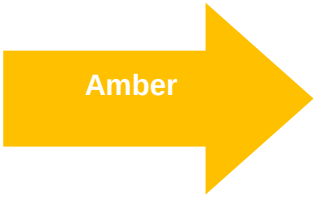
East Sussex County Council recommends those responsible for reporting to use the traffic light framework when deciding whether to report to the Pensions Regulator. This is illustrated below:



Where the cause, effect, reaction and wider implications of a breach, when considered together, are likely to be of material significance.

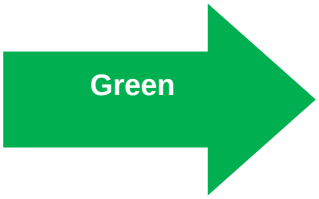
These must be reported to the Pensions Regulator.

Example: Several members' benefits have been calculated incorrectly. The errors have not been recognised and no action has been taken to identify and tackle the cause or to correct the errors.



Where the cause, effect, reaction and wider implications of a breach, when considered together, may be of material significance. They might consist of several failures of administration that, although not significant in themselves, have a cumulative significance because steps have not been taken to put things right. You will need to exercise your own judgement to determine whether the breach is likely to be of material significance and should be reported.

Example: Several members' benefits have been calculated incorrectly. The errors have been corrected, with no financial detriment to the members. However the breach was caused by a system error which may have wider implications for other public service schemes using the same system



Where the cause, effect, reaction and wider implications of a breach, when considered together, are not likely to be of material significance.

These should be recorded but do not need to be reported.

Example: A member's benefits have been calculated incorrectly. This was an isolated incident, which has been promptly identified and corrected, with no financial detriment to the member. Procedures have been put in place to mitigate against this happening again.

All breaches should be recorded even if the decision is not to report.
When using the traffic light framework individuals should consider the content of the red, amber and green sections for each of the cause, effect, reaction and wider implications of the breach, before you consider the four together. Some useful examples of this is framework is provided by the Pensions Regulator at the following link
http:// www.thepensionsregulator.gov.uk/codes/code-related-report-breaches.aspx

Appendix D – Example Record of Breaches for Pension Committee Reporting

Refer-ence	Date entered in Register	Title of Breach	Owner of Breach	Third Party which caused the breach (if any)	Description and cause	Possible effect and wider implications	Category of Members and Number of Members Affected	Initial (re)action	Assessment of breach (red/amber/ green) Brief summary of rationale	Reported to TPR Yes / No And outcome of report	If reported Name of reportee	Further actions taken to rectify Breach	Outstanding actions (if any) & date breach closed

Report to:	**Pension Committee**
Date of meeting:	**22 June 2020**
By:	**Chief Internal Auditor**
Title:	**Draft East Sussex Pension Fund Internal Audit Strategy and Plan**
Purpose:	**To present, for the Committee's approval, the Internal Audit Strategy and Plan for Pensions for 2020/21.**

RECOMMENDATIONS

The Committee is recommended to:

- **approve the Council's Internal Audit Strategy and Plan for Pensions, attached as Appendix 1**

1. Background

1.1 The Council's Internal Audit Strategy and Plan for Pensions 2020/21 sets out the approach Internal Audit takes when planning its assurance on the effectiveness of controls over the East Sussex Pension Fund (ESPF). In particular, it sets out the risks inherent in administering a large and complex scheme so that audit resources may be focussed on areas where these risks are highest.

1.2 Input has been sought from officers responsible for running the Scheme and from the Chairs of both the Pension Board and the Pension Committee and their contributions have been fed into the draft Strategy and Plan.

2. Supporting Information

2.1 The Strategy and Plan will provide a detailed framework to cover our work for the year and will be delivered in line with proper internal audit practices as required by the Public Sector Internal Audit Standards (PSIAS).

2.2 In presenting this Strategy, we recognise the impact of the current Coronavirus pandemic, which could potentially result in changes during the year to respond to any new risk exposures arising from the crisis. It could also affect our ability to deliver the Strategy and Plan in full. Any changes will, however, continue to be made in full consultation with, and the agreement of, management, the Board and Committee.

3. Conclusions and Reasons for Recommendation

3.1 The Pension Committee is recommended to approve the Internal Audit Strategy and Plan for Pensions 2020/21.

RUSSELL BANKS
Orbis Chief Internal Auditor

Contact Officer: Nigel Chilcott, Audit Manager
Tel No.: 01273 481992

BACKGROUND DOCUMENTS:
None

East Sussex

Local Government Pension Scheme

Internal Audit Strategy and Plan

2020/21

1. Introduction

1.1. The scheme provides retirement benefits for employees of the County Council and 134 other employer organisations, including Brighton & Hove City Council, district and borough councils and academic institutions.

1.2. We (the Orbis Internal Audit & Counter Fraud Team) provide internal audit services to the East Sussex Pension Fund.

2. Objective

2.1. The objective of this Pension Scheme Audit Strategy and Plan (The Strategy) is to provide the Scheme with a consistent, risk-based approach to determining an internal audit programme for the Pension Fund, which takes maximum advantage of the available sources of internal and external assurance.

2.2. In March 2007, the Local Authority Working Group on the Audit of Investment Managers [LAWGAIM] and the County Chief Auditors Network [CCAN] published '*Good Practice Guidance: Gaining Assurance Over the Governance and Administration of Pension Funds, and Pension Fund Investment Management – A Guide for The Internal Auditor*'. Whilst this guidance is now some 13 years' old, no new guidance has been produced and this, therefore, remains the principal steer in establishing our Strategy. However, we acknowledge that there have been considerable changes to the pension environment and this Strategy has sought to recognise them.

2.3. The most significant of the recent changes to pensions is the introduction of pooling arrangements. These were introduced to:

a) achieve the benefits of scale;
b) provide strong governance and decision making;
c) reduce costs; and
d) improve capacity to invest in infrastructure.

2.4. The ESPF pools funds with another 10 funds to create the ACCESS Pool, a collaboration of central, eastern and southern shires. The ACCESS pool has assets of £49.1bn with the ESPF representing £3.9bn of these. We are liaising with the other authorities in the Pool to arrange and ensure appropriate coverage whilst avoiding duplication.

2.5. The Strategy seeks to provide assurance on the following aspects of pension fund activities:

- Pension Fund governance;
- The Pension Fund's compliance with regulatory requirements;
- Pension Fund investments and pooling arrangements;

- Internal controls of external fund managers;
- Pension Fund administration – people, processes and systems;
- Processes to validate the accuracy and completeness of management reports; and
- Information governance.

2.6. Additionally, for 2020/21, we shall carry out follow–ups of the following two audits from 2019/20 in which we gave opinions of Minimal Assurance and Partial Assurance respectively:

- Pension Administration – People, Processes and Systems; and
- Pension Fund - Compliance with Regulatory Requirements.

3. Approach

3.1. The Strategy uses risk assessment as its foundation. On a periodic basis, risks will be reviewed in consultation with the Chairs of the Pension Committee and Board and with management to identify any new risks. The risk assessment will consider the materiality and significance of the processes involved, any negative factors such as problems or significant changes and any positive factors, which provide comfort or assurance. It should be borne in mind that the Pension Fund is a material and fundamental financial system in its own right and, as such, should be subject to a level of coverage that complements the work of the Scheme's external auditors.

3.2. The outcome of the risk assessment will be an objective view of those areas of the business where the organisation requires assurance that risks are being managed effectively. Internal Audit will then use a number of potential sources to provide that assurance.

3.3. For externally managed investments, Internal Audit will make use of assurance reports from the investment managers, custodians and property managers. The highest level of assurance will be placed on annual reports that comply with the Institute of Chartered Accountants' AAF 01/06 'Assurance reports on internal controls of services organisations made available to third parties' and the UK Financial Reporting Council's Corporate Governance Code (or international equivalents). These documents are used to gain assurance over external investment management activities. If such documents are not available or do not comply with these standards, some reliance may still be placed on local management assurance processes. Additionally, depending on the level of risk identified, specific internal audit work may be required. Levels of testing will be varied, depending on risk.

3.4. Where possible, direct access to source data will be obtained, including to data held in the administration system (Altair), information passed via the Pension Regulator's on-line portal and HMRC's event reporting portal. Where access cannot be obtained, this will be reported.

3.5. Throughout the year, there will be routine liaison between Internal Audit and officers representing the Fund to identify emerging risks and ensure that this Strategy continues to reflect the needs of, and risks to, the Fund, acknowledging that COVID-19 has already affected the way many areas of the pension administration are being delivered. It is likely to have a wider impact on the Fund, in particular on the performance of its investments. It may also affect our ability to deliver the Audit Strategy and Plan in full during 2020/21.

3.6. Following the issues raised in the audits of 2019/20, we have increased the number of audit-days from 47 to 100 for the year 2020/21. This level of coverage will be reviewed at the end of the year to ensure that it remains proportionate and continues to meet the needs to the Fund.

3.7. Work is underway to re-procure the audit administration system (currently Altair) and any change will result in a significant implementation project. Furthermore, a Good Governance Review is underway, based on the Scheme Advisory Board's (SAB) Good Governance Project, with the objective of ensuring continuing compliance with SAB requirements. Where required, we shall provide advice and support for these developments (e.g. the creation of a new Service Level Agreement). Any resulting changes to the Audit Strategy will be presented to the Pension Committee for its approval.

4. Professional Standards

4.1. Audits of the Pension Fund will be carried out in accordance with the professional standards set out in the Public Sector Internal Audit Standards.

5. Reporting Arrangements

5.1. Internal Audit work will be reported in the following manner:

- Terms of Reference will be drafted and agreed with management;
- An initial draft report will be issued to management for its comments on factual accuracy and response to the issues and risks identified;
- A final report that includes agreed actions and implementation dates will be published to management.
- The results of audit work on the Scheme will be reported:
    - in full, to the Pension Board and Pension Committee; and
    - in summary form, to the Audit Committee as part of our quarterly progress reports.

5.2. Audit work for 20/21 will be reported in five separate reports (in addition to any specific follow-up audits) as shown in the plan in Appendix A, covering the risks detailed below:

- Governance
    - Inadequate governance arrangements, including unclear delegation of key functions, result in poorly defined Fund objectives and ineffective strategic oversight;
    - Lack of resilience on the part of the Fund, or an inexperienced Board or Committee may weaken stewardship of the Fund;
    - Ineffective risk management arrangements result in financial loss and reputational damage to the Council;
    - Ineffective communication or poor professional advice results in a lack of understanding amongst relevant stakeholders and/or poor decision making;
    - Inaccurate reporting (including performance targets and breaches) results in a failure to identify and correct poor performance.
- Investments and External Control Assurance
    - Poor performance of the Fund results in financial loss and reputational damage;
    - Investment returns are not received in full in a timely manner;
    - Accounting of the Pension Fund is inaccurate resulting in mis-statement of Fund accounts;
    - East Sussex Pension Fund assets or investment opportunities may be lost, due to the ACCESS Operator, Fund Managers/Custodian not maintaining adequate systems of internal control;
    - The ACCESS pool does not exploit benefits of economies of scale resulting in a failure to save costs and the pool not returning excellent value for money.
- Compliance with Regulatory Requirements
    - Scheme governance arrangements do not meet regulatory requirements, leading to regulatory sanction and/or reputational damage to the Council;
    - Investment management arrangements do not meet regulatory requirements, leading to regulatory sanction and/or reputational damage to the Council; and
    - Pension administration arrangements do not meet regulatory requirements, leading to regulatory sanction and/or reputational damage to the Council.

- Pension Administration – People, Processes and Systems.
    - Inaccuracies in the calculation of pension benefit entitlements may cause financial loss to the scheme or financial hardship to members and reputational damage for the Council.
    - Poor or inadequate delivery of the pension administration service by Orbis Business Operations may result in reputational damage for the Council and/or complaints by members.
    - Non-collection of, or inaccuracies in, pension contributions increases the risk of Pension Fund deficit.
    - Without appropriate checks and guarantees on the funding levels of new and existing employers, the Fund may be exposed to additional financial risk.
    - Poor data quality leads to inaccuracies in transactions, or a failure to meet statutory requirements (e.g. ABS production and distribution), resulting in financial loss, and/or regulatory sanction.
    - Poorly executed procurement of a new administration system and/or project management for its implementation may lead to poor value for money and/or ineffective service delivery, including as a result of lost or corrupted data.
- Information Governance
    - Unclear responsibility for data ownership increases the risk of breaches of the Data Protection Act and weakness management's ability to identify and resolve issues.
    - Inappropriate access to Pension Fund systems may result in the loss, corruption or compromise of data.
    - Poor control of data in transit may result in unauthorised disclosure of personal information, resulting in reputational damage and regulatory sanction.

EAST SUSSEX PENSION FUND INTERNAL AUDIT PLAN 2020/21

Please note that the following provides a high-level scope of the work we are proposing. At the beginning of each review (as with all our work), a detailed term of reference will be developed in consultation with management and the Chairs of Board and Committee.

Review Name	Outline Objective	Estimated Timing
Governance	We shall assess the effectiveness of the Fund's governance arrangements and seek to provide assurance that strategic oversight, risk management, reporting and communication processes are in place to maximise the likelihood that the Fund's objects are met.	Q3
Investments and External Control Assurance	A review to assess the adequacy of controls over the Fund's investments, including the performance of investments, the performance of the ACCESS Operator, internal controls operated by Fund Managers and the receipt of, and accounting for, investment income.	Q3
Compliance with Regulatory Requirements	We shall review the arrangements in place designed to ensure compliance with regulatory requirements in relation to governance, investments and administration.	Q4
Pension Administration – People, Processes and Systems	We shall review controls over the calculation and payment of pension benefits, transfers to and from the Pension Fund and the collection and recording of pension contributions from scheduled and admitted bodies. This review will also cover the quality of the administration service and controls to ensure that only new employers with adequate funding levels are admitted to the Scheme.	Q4
Information Governance	A review of the arrangements in place to ensure that data held by the Fund is maintained securely. It will include the need for clear ownership of data in transit as well as data held in the Fund's systems.	Q3
Pension	A follow-up of the audit completed in 2019/20 which	Q2

Review Name	Outline Objective	Estimated Timing
Administration – People, Processes and Systems Follow up	received an audit opinion of minimal assurance.	
Compliance with Regulatory Requirements Follow up	A follow-up of the audit completed in 2019/20 which received an audit opinion of partial assurance.	Q2

Report to:	**Pension Committee**
Date:	**8 June 2020**
By:	**Chief Financial Officer**
Title of report:	**Draft Training Strategy and Delivery Planning**
Purpose of report:	**To outline the draft Training Strategy and planning for the East Sussex Pension Fund**

RECOMMENDATION – The Committee is recommended to:

1) **agree the draft Training Strategy as set out in appendix 1; and**
2) **Review and endorse the deliverables and timetables of the Training Plan.**

1. Background

1.1 In February 2019 the Scheme Advisory Board (SAB) commissioned Hymans Robertson to consider options for enhancing Local Government Pension Scheme (LGPS) governance arrangements to ensure that the Scheme is ready for the challenges ahead and at the same time retains local democratic accountability. Following extensive consultation and engagement with the LGPS community the SAB published 2 reports. The following recommendations from the second report relate directly to the attainment of knowledge and skills.

1.2 These recommendations extend the principle that:

- Key individuals within the LGPS, including LGPS officers and Pension Committee members, have the appropriate level of knowledge and understanding to carry out their duties effectively.
- A requirement for Section151 officers to carry out LGPS relevant training as part of their Continuing Professional Development (CPD) requirements to ensure good levels of knowledge and understanding.
- Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.
- Relevant professional bodies to produce appropriate guidance and training modules for Section151 officers and to consider including LGPS training within their training qualification syllabus.

1.3 The findings of the Good Governance Review have yet to be formally adopted in statutory form, however, the draft Training Strategy recognises the principles behind the recommendations and seeks to embed them into the culture of the East Sussex Pension Fund (ESPF). A copy of the draft Training Strategy is contained in appendix 1 of the report.

2. Supporting Information

2.1 The Fund will aim for full compliance with the Chartered Institute of Public Finance and Accountancy (CIPFA) Knowledge and Skills Framework (KSF) and the Pension Regulator Code of Practice to meet the skills set within that Framework. Attention will also be given to any guidance issued by the Scheme Advisory board (SAB), the Pensions Regulator and the Secretary of State.

2.2 The implementation of this draft Strategy and the delivery of the accompanying Training Plan will be the delegated responsibility of the Head of Pensions. However, each individual with a

requirement to attain knowledge and skills under this Strategy has a personal responsibility to ensure they meet the required standards and is required to fully engage with the process.

2.3 This draft Strategy (**Appendix 1**) sets out the training requirements for the diverse role profiles and stakeholders working in and across the pension fund set out in the Appendix A to Appendix H of the draft Strategy.

- Appendix A The role of the Pension Committee Chair
- Appendix B The role of the Pension Committee member
- Appendix C The role of the Pension Board Chair
- Appendix D The role of the Pension Board Vice Chair
- Appendix E The role of the Scheme Member Representative
- Appendix F The role of the Employer representative
- Appendix G Decision Making Governance Matrix
- Appendix H East Sussex Pension Fund example Training Plan

2.4 The Pension Committee and Pension Board members, and officers covered by this Strategy will undergo a Training Needs Assessment (TNA), either following the adoption of this Strategy or upon commencing their role. The TNA will be used to identify areas of potential strength and weakness and will form of part of developing the Fund's Training Plan.

2.5 Specific TNA's on particular subjects will also be carried out as and when required by the Training Officer and will be used to inform subsequent training requirements.

3. Next Steps

3.1 The Pension Board considered the draft Training Strategy on 8 June and agreed to endorse it, subject to the decision making matrix being simplified and separate training plans for the Board and Committee included.

3.2 The Head of Pensions will continue to meet to oversee the delivery of deliverables in the Training Strategy from June to September 2020 and which will further require the completion of the training needs assessment and development of individual learning plans for all members of the Pension Committee and Pension Board.

3.3 The annual training schedule for the Pension Committee and Board will be developed from June to September 2020.

3.4 The final timetable that is proposed for agreement of the training plans and schedules are:

- Pension Board 7th September 2020
- Pension Committee 21nd September 2020

4. Conclusion and reason for recommendations

4.1 The Pension Committee is recommended to agree the draft Training Strategy and to review and endorse the deliverables and timetables of the Training Plan.

IAN GUTSELL
Chief Finance Officer

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East Sussex Pension Fund Training Strategy

Introduction

This is the training strategy of the East Sussex Pension Fund ("the Fund"). It has been established to aid the Pension Committee, Pension Board and Officers understanding of their respective responsibilities. This training strategy sets out how these key roles within the Fund will obtain and maintain the necessary knowledge and understanding in order to fulfil their role.

Objectives

The Funds' objectives relating to knowledge and understanding are to:

- Ensure the Fund is appropriately managed and those individuals responsible for its management and administration have the appropriate knowledge and expertise;
- Ensures that there is the appropriate level of internal challenge and scrutiny on decisions and performance of the Fund
- Ensure the effective governance and administration of the Fund; and
- Ensure decisions taken are robust and based on regulatory requirements or guidance of the Pensions Regulator, the Scheme Advisory Board and the Secretary of State for Housing, Communities and Local Government.

CIPFA Knowledge and Skills Framework – Pension Fund Committees

Although there is currently no legal requirement for knowledge and understanding for members of the Pension Committee it is the Fund's opinion that members of the Pension Committee should have no less a degree of knowledge and skills than those required in legislation by the Local Pension Board. As at date of writing, the ongoing SAB 'good governance' project signals a much stronger requirement on Pension Committee members knowledge and understanding.

The CIPFA framework, that was introduced in 2010, covers six areas of knowledge identified as the core requirements:

- Pensions legislative and governance context;
- 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.

Under each of the above headings the Framework sets out the knowledge required by those individuals responsible for Fund's management and decision making.

CIPFA Technical Knowledge and Skills Framework – Local Pension Boards

CIPFA extended the Knowledge and Skills Framework in 2015 to specifically include Pension Board members, albeit there is an overlap with the original Framework. The 2015 Framework identifies the following areas as being key to the understanding of local pension board members;

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- 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.

Links to The Scheme Advisory Board's Good Governance project

In February 2019 the Scheme Advisory Board commissioned Hymans Robertson to consider options for enhancing LGPS governance arrangements to ensure that the Scheme is ready for the challenges ahead and at the same time retains local democratic accountability. Following extensive consultation and engagement with the LGPS community the SAB published 2 reports. The following recommendations from the second report relate directly to the attainment of knowledge and skills;

- Key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively.
- A requirement for s151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding.
- Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.
- Relevant professional bodies to produce appropriate guidance and training modules for s151 officers and to consider including LGPS training within their training qualification syllabus.

The findings of the Good Governance Review have yet to be formally adopted in statutory form, however, this Training Strategy recognises the principles behind the recommendations and seeks to embed them into the culture of the East Sussex Pension Fund.

The Pensions Regulator's E-learning toolkit

The Pensions Regulator has developed an online toolkit to help those running public service schemes understand the governance and administration requirements set out in its code of practice 14 – *Governance and administration of public service pension schemes*. The toolkit covers 7 short modules, which are:

- Conflicts of Interests;

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- Managing Risk and Internal Controls;
- Maintaining Accurate Member Data;
- Maintaining Member Contributions;
- Providing Information to Members and Others;
- Resolving Internal Disputes;
- Reporting Breaches of the Law.

The modules of the Regulator's toolkit are by their very nature generic, having to cater for all public service pension schemes. While they give a minimum appreciation of the knowledge and understanding requirements set out in the Code of Practice they do not cater for the specific requirements of the individual public service schemes.

As a result the Regulator's toolkit does not cover knowledge and skills requirements in areas such as Scheme regulations, the Fund's specific policies and the more general pension's legislation.

Pension Committee

Under the constitution of East Sussex County Council, The Pension Committee has the responsibility "To make arrangements for the investment, administration and management of the Pension Fund".

Members of the Committee must, therefore, have an understanding of all aspects of running the Fund and how to exercise their delegated powers effectively.

Members of the Pension Committee require an understanding of:

- their responsibilities as delegated under the constitution of East Sussex County Council as the administering authority for the fund;
- the requirements relating to pension fund investments;
- the management and administration of the Fund;
- controlling and monitoring the funding level; and
- effective governance and decision making in relation to the management and administration of the Fund.

There also exists a specific requirement under MiFID II[1], that those making investment decisions, must be able to demonstrate that they have the capacity to be treated as professional investors.

Expectations on Pension Committee Members

[1] Markets in Financial Instruments Directive II (2014/65/EU)

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The role of Pension Committee member is an important one and there are certain expectations on those undertaking the role. These include;

- A commitment to attend and participate in training events and to adhere to the principles of this Training Strategy
- The ability to use acquired knowledge to participate in meetings and to ask questions constructively of the information provided by officers, advisers and others
- Judge the information provided in a fair and open minded way that avoids pre-determining outcomes
- Operate within the terms of reference for the Pension Committee and the elected member code of conduct

Local Pension Board

Under the constitution the Local Pension Board is required;

To provide assistance to East Sussex County Council as the LGPS Scheme Manager in securing compliance with:

- LGPS Regulations and any other legislation relating to the governance and administration of the LGPS
- requirements imposed in relation to the LGPS by The Pensions Regulator
- the agreed investment strategy
- any other matters as the LGPS regulations may specify.

The role of the Local Pension Board is to provide assistance to the administering authority to ensure that the fund is well run and complies with its legal responsibilities and best practice. The Local Pension Board does not replace the administering authority or make decisions which are the responsibility of the administering authority.

Local Pension Board members must be conversant with:

- the relevant LGPS Regulations and any other regulations governing the LGPS;
- guidance issued by The Pensions Regulator and other competent authorities, relevant to the LGPS;
- any policy or strategy documents as regards the management and administration of the Fund; and
- the law relating to pensions and such other matters as may be prescribed.

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Expectations on Local Pension Board members

The training provided to members of Local Pension Boards will ensure that they are familiar with certain legal requirements with they must comply. These are listed below;

- Members must have the capacity to represent employers or scheme members, according to whether they them selves are an employer or scheme member representative;
- Members must not have conflicts of interest and must provide the administering authority with any information they require in order to ensure that conflicts do not exist or arise in future;
- Have the appropriate level of knowledge and skills to carry out their role

In addition, Local Pension Board members will be expected to demonstrate other attributes, including;

- A commitment to attend and participate in training events and to adhere to the principles of this Training Strategy
- The ability to use acquired knowledge to participate in meetings and to ask questions constructively of the information provided by officers, advisers and others
- Judge the information provided in a fair and open minded way that avoids pre-determining outcomes
- Operate within the terms of reference for the Pension Board

Chief Finance Officer (Section 151 Officer)

The Chief Finance Officer has specific LGPS related delegated powers under the constitution of East Sussex County Council. These include;

- Responsibility for implementing the policy decisions of the Pension Committee and to act for the Pension Committee in certain emergency situations where to delay buying or selling assets might be detrimental to the Fund;
- The power to approve the terms of admission agreements on behalf of the administering authority;
- The power to approve the membership of certain categories of employees of foundation schools as being eligible for LGPS membership
- To undertake any necessary actions in connection with the admission of any academies to the East Sussex Pension Fund as scheme employers

In addition, The Chief Finance Officer has the responsibility under s151 of the Local Government Act 1972 for the proper administration of the authority's financial affairs, including those relating to the LGPS fund.

It is important therefore that the individual carrying out the role of the Chief Finance Officer has an appropriate knowledge of LGPS and pension matters.

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The Chief Finance Officer should be familiar with:

- The LGPS Landscape and the role of the administering authority;
- The wider legal and regulatory framework
- Key bodies and organisations
- External Scrutiny
- Employer issues including outsourcing and restructuring
- The role of the actuary

In addition the Chief Finance officer should be familiar with certain specific aspects of his or her role in respect of the LGPS, these include;

- CIPFA guidance of the role of the Chief Finance Officer in the LGPS
- Fiduciary duties
- Relevant case law
- LGPS funds in a local authority context

Head of Pensions

The Head of Pensions has responsibility for the operation of all aspects of the Fund and has delegated responsibilities in connection with the Council's role as administering authority for the East Sussex Pension Fund. Furthermore, the Head of Pensions provides expert advice and guidance to the pension committee. It is, therefore, expected that the Head of Pensions retains an exceptional level of knowledge, commensurate with the role.

The Head of Pensions should have an exceptional knowledge of;

Pensions legislations: including LGPS, wider relevant pensions and guidance

Pensions governance: including legal and constitutional matters, relevant legal bodies and performance monitoring.

Pensions administration: including administration and communications strategy, best practice in administration delivery and data management and security.

Funding and actuarial matters: including setting funding strategy, employer risk and covenant, valuations and funding reporting and scrutiny.

Accounting and auditing: including financial strategy, accounting, financial reporting and audit standards

Investment strategy: including asset allocation, pooling, performance and risk management

Financial markets and products knowledge: including MiFID II, pooling and asset classes

Procurement: Including contract management, SLA's and relationship management

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Other officers responsible for the management and administration of the Fund

All individuals responsible for the management and delivery of the LGPS or who have a decision-making, scrutiny or oversight role require the appropriate training to ensure they are equipped to do their job well.

The knowledge and skills required of staff are set out in their job descriptions, including any formal qualifications required.

The exact nature and level of knowledge required will vary considerably by role.

Fund officers should have a strong understanding of:

- Relevant areas of the LGPS as required for the delivery of their role
- The processes and procedures required to successfully carry out their role
- Any pension fund or East Sussex County Council policies which apply, for example IT security, data management, equality and diversity.

Participating Employers

The success of the Fund depends on the strength of the relationship between the administering authority and the employers that participate in it. Employers have a range of responsibilities within the LGPS and must employ individuals who have an understanding of the of those responsibilities.

Employers must be able to identify individuals who have an understanding of;

- Employer discretion policies
- The role of the appointed person and the Internal dispute resolution procedure
- Their responsibilities for starters, leavers and changes to membership as set out in the Fund's administration strategy
- Their responsibilities for collecting and remitting contributions (including additional contributions)
- The reasons for leaving under the LGPS regulations
- Providing information requested by the Fund at year end or as required
- Their responsibilities with respect to outsourcing, staff transfers and reorganisations.

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Management and delivery

To achieve these objectives, the Fund will aim for full compliance with the CIPFA Knowledge and Skills Framework (KSF) and the Pension Regulator Code of Practice to meet the skills set within that Framework. Attention will also be given to any guidance issued by the Scheme Advisory board (SAB), the Pensions Regulator and the Secretary of State.

The implementation of this Strategy and the delivery of the accompanying Training Plan will be the responsibility of the Fund's Training Officer. However, each individual with a requirement to attain knowledge and skills under this Strategy has a personal responsibility to ensure they meet the required standards and must fully engage with the process.

Training Needs Assessment

Committee and Board members, and officers covered by this Strategy will undergo a Training Needs Assessment (TNA), either following the adoption of this Strategy or upon commencing their role, whichever is later. The TNA will be used to identify areas of potential strength and weakness and will form of part of developing the Fund's training plan.

Specific TNA's on particular subjects will also be carried out as and when required by the Training Officer and will be used to inform subsequent training requirements.

Level of knowledge and skills required

In developing the training plan, consideration will be given as to the level of knowledge needed for each group of individuals. For example, the committee and board may require only an "awareness" or "general understanding" of some areas while an officer may require "detailed" or "expert" knowledge of the same topic.

The levels of knowledge that will be considered when drawing up the training plan and scheduling training events will be, in ascending order;

For committee and board members:

- An awareness – i.e. recognition that the subject matter exists
- A general understanding – i.e. understanding the basics in relation to the subject matter
- A strong understanding – i.e. a good level of knowledge in relation to the subject matter (but not necessary at detailed level).

For the officers:

- A strong understanding – i.e. a good level of knowledge in relation to the subject matter (but not necessary at detailed level)
- Detailed knowledge – i.e. knowledge of all aspects of the subject matter
- Expert knowledge – i.e. in depth mastery of all aspects of knowledge in relation to the subject matter

Individual Training Plans

Training plans will contain core elements, such as the CIPFA knowledge and Skills modules and the TPA's requirements, but there will be variations within each individual's training plan to reflect their specific role and level of knowledge required.

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Measuring the effectiveness of training

Following the delivery of training, each recipient of the training will be required to complete a brief written test based on the topic. The responses will be marked by the Training Officer and the results collated and used to evidence level of understanding.

The Training Officer will also maintain a log of all training events and each individuals attendance and assessment score.

Timing

Ideally, targeted training will be provided that is timely and directly relevant to the Committee and Board's activities as set out in the Fund's business plan.

Approach

This Strategy sets out how the Fund provide training to members of the Pension Committee and Pension Board. The Officers involved in the management and administration of the Fund will have their own team and personal training plans and career development objectives.

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

  Induction training will be arranged by the Training Officer and will be provided prior to the member attending their first committee or board meeting.

- **External courses** - Additionally, a number of specialist courses are run by bodies such as the Local Government Association, actuarial, governance and investment advisers as well as fund managers. Appropriate courses will be selected by the Head of the Pension Fund and the Training Officer and information circulated to members in advance. Courses will be selected for their relevance to the Training Plan.

- **Conferences** - There are also a number of suitable conferences run annually, which will be brought to members attention where appropriate. Of particular relevance are the LGA Annual Governance Conference, LGA Fundamentals Training, Pension and Lifetime Savings Association (PLSA) Conference, the Local Government Chronical (LGC) Local Authority Conference, and the Local Authority Pension Fund Forum (LAPFF) annual conference.

  Appropriate conferences will be selected by the Head of the Pension Fund and the Training Officer and information circulated to members in advance. Conferences will be selected for their relevance to the Training Plan.

Additionally, consideration will be given to various training resources available in delivering training to Pension Committee and Pension Board members. These may include but are not restricted to:

- In-house and shared training events where it improves economy, efficiency and effectiveness
- Self-improvement and familiarisation with regulations and documents

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- 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
- Informal discussion and one-to-one sessions
- Formal presentations
- Circulated reading material
- E-learning

Flexibility

When considering training for members of the Pension Committee and Pension Board it is recognised that individuals may have different learning styles. The Fund will seek, where possible, to ensure flexibility in the manner in which training is provided to support these different learning styles.

Maintaining knowledge

In addition to undertaking ongoing training to achieve the requirements of the CIPFA knowledge and skills framework Pension Committee and Pension Board members are expected to maintain their knowledge and understanding of topical issues through attendance at internal/external events and seminars where appropriate.

Owing to the changing world of pensions, it will also be necessary to attend ad hoc training on emerging issues or on a specific subject on which a decision it to be made in the near future.

Risk Management

The delivery of this training strategy is at risk in the event of-

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

These risks will be monitored, recorded and cross refenced with attendance details and assessment scores by the Training Officer and reported to the Pension Committee and Pension Board if their impact is likely to prevent the East Sussex Pension Fund from achieving the objectives of this Training Strategy.

Reporting and Compliance

In line with the CIPFA Code of Practice a disclosure will be made in the Fund's Annual Report and Accounts that covers:

- How the Knowledge and Skills framework has been applied.
- What assessment of training needs has been undertaken.

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- What training has been delivered against the identified training needs.

Budget and costs

A training budget will be agreed with the Pension Committee and costs fully scoped.

All direct costs and associated reasonable expenses for attendance of external courses and conferences will be met by the Fund, provided that the Scheme Manager's prior approval is sought before incurring any such expenses (other than routine costs associated with travelling to and from Pensions Board/Committee meetings) and appropriate receipts are sent to the Scheme Manager evidencing the expenses being claimed for.

Effective date

This strategy comes into effect from [insert date].

Review

This strategy will be reviewed every 2 years, and if necessary, more frequently to ensure it remains accurate and relevant.

Signed by

_____ (Section 151 officer)

_____ (Head of Pensions)

_____ (Chair of Pension Committee)

_____ (Chair of Pension Board)

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Roles and responsibilities of the Chair of the Pension Committee

The Pension Committee has delegated authority on the matters set out in Section 9 of Part 3 of East Sussex County Council's constitution. This includes the power "To make arrangements for the investment, administration and management of the Pension Fund."

It is the role of the Chair of the Pension Committee to ensure that the Committee carries out its role effectively, in line with its terms of reference and in accordance with the relevant legislation and guidance.

Compliance with the Constitution

As an elected member of East Sussex County Council The Chair of the Pension Committee must comply with the requirements of the constitution and should be satisfied that the Committee is run in accordance with the following codes and protocols;

- Members' Code of Conduct
- Code of Conduct and Conflict of Interest Policy
- Code on Member/Employee Relations
- Protocol on Decision Making
- Advice to Members Serving on Outside Bodies

Main Responsibilities of the Chair

- To Chair Pension Committee meetings and ensure their effectiveness
- To provide effective leadership in the development of the Fund's policy, strategy, business planning and budget setting.
- To provide effective leadership in the implementation of effective service delivery and the Fund's approved policies and strategies.
- To develop good working relationships with The Chair of the Pension Board, the Chief Finance Officer and the Head of Pensions in order to ensure that the Fund's interests are represented.
- To act as a spokesperson and represent the Fund at a local and national level.

Training and knowledge and skills

Under MiFID II (Markets in Financial Instruments Directive) local and public authorities are deemed to be retail investors, unless those making investment decisions can satisfy a qualitative test, that allows them to be treated as a professional investor. The test requires the Pension Committee to satisfy those providing investment services that it possesses the expertise, experience and knowledge required to be capable of making its own investment decisions and understanding the risks involved.

The Fund operates a Training Strategy which requires that committee member's knowledge and skills are measured, monitored and maintained to ensure they have a relevant understanding of the matters required to carry out their role effectively. Committee members must invest sufficient time in their learning and development in order to reach the required standard.

The Chair's additional responsibilities in respect of knowledge and skill are to;

- ensure that all Committee members fully understand and appreciate their role and responsibilities
- promote a culture of learning among Pension Committee members and ensure that the Fund's training strategy is adhered to.
- ensure that all Committee members are developed both as a group and as individuals, to enable them to perform their duties effectively
- ensure that the ongoing training on relevant issues and developments meets the needs of the Committee members.

Roles and responsibilities of a member of the Pension Committee

The Pension Committee has delegated authority on the matters set out in Section 9 of Part 3 of East Sussex County Council's constitution. This includes the power "To make arrangements for the investment, administration and management of the Pension Fund."

It is the role of a member of the Pension Committee is to participate fully and effectively in discharging the Committee's terms of reference.

Compliance with the Constitution

As an elected member of East Sussex County Council a member of the Pension Committee must comply with the requirements of the constitution and should be satisfied that the Committee is run in accordance with the following codes and protocols;

- Members' Code of Conduct
- Conflict of Interest Policy
- Code on Member/Employee Relations
- Protocol on Decision Making
- Advice to Members Serving on Outside Bodies

Expectation on Committee members

As well as the general expectations of an elected member of East Sussex County Council, those individuals sitting on the pension committee are expected to;

- Run the pension Fund for the benefit of all participating employers and members
- Contribute to the development and maintenance of effective governance and internal controls for the Fund
- Make decisions and set the Fund's objectives and strategy
- Effectively monitor and oversee advisers and those carrying out scheme activities

Training and Knowledge and skills

Under MiFID II (Markets in Financial Instruments Directive) local and public authorities are deemed to be retail investors, unless those making investment decisions can satisfy a qualitative test, that allows them to be treated as a professional investor. The test requires the Pension Committee to satisfy those providing investment services that it possesses the expertise, experience and knowledge required to be capable of making its own investment decisions and understanding the risks involved.

The Fund operates a Training Strategy which requires that committee member's knowledge and skills are measured, monitored and maintained to ensure they have a relevant understanding of the matters required to carry out their role effectively. Committee members must invest sufficient time in their learning and development in order to reach the required standard.

HYMANS ROBERTSON

East Sussex Pension Fund

Role description for the Local Pension Board Chair

Role Summary

The role of the Chair is to provide leadership and direction to the pension board.

The Chair's aim is to enable the pension board to fulfil their responsibilities in respect of the governance of the East Sussex Pension Fund ("the Fund") in accordance with the Public Service Pension Scheme Act 2013 ("PSPA13"), legislation governing the Local Government Pension Scheme ("LGPS") and the Code of Practice issued by The Pensions Regulator ("TPR").

The Chair will work closely in partnership with the Scheme Manager (East Sussex CC) in relation to the following matters:

- Securing compliance with LGPS regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;
- Securing compliance with requirements imposed in relation to the scheme and any connected scheme by The Pensions Regulator;
- Ensuring any breach of duty is considered and reported under the scheme's breaches procedure,
- Such other matters as the scheme regulations may specify.
- Assisting the Scheme Manager to ensure the effective and efficient governance and administration of the scheme.

The Chair will be expected to use their skills, knowledge and experience to help the Local Pension Board reach sound conclusions and recommendations. This will involve scrutinising Board papers, leading discussions, focusing on key issues, and providing advice and guidance requested by the Board.

In addition to the general responsibilities of a Local Pension Board member, the Chair has a number of tasks specific to their role.

1. Main Responsibilities of the Chair

- providing leadership to Board members and developing the strategy and policy of the Local Pension Board
- planning the annual cycle of board meetings and setting the agendas
- chairing and facilitating the Local Pension Board meetings, ensuring that all voices and opinions are heard and judging when consensus is reached
- monitoring that recommendations made at Local Pension Board meetings are considered and where necessary implemented
- liaising with the Head of Pensions and the Chair of the Pension Committee to maintain an overview of the Fund's affairs and providing support as appropriate
- reviewing and appraising the performance of the Local Pension Board
- to receive timely advice on new developments relevant to the LGPS and pensions in general and consider whether the Fund is complying with them
- ensuring that the Local Pension Board's reporting requirements are met including, for example, to The Pensions Regulator and the Scheme Advisory Board

- balancing the views and needs of the participating employers and the scheme members
- ensuring that that The Local Pension Board complies with relevant polices, including but limited to those on conflicts of interest, reporting breaches and East Sussex CC's code of conduct.

Training and knowledge and skills

- ensure that all new board members fully understand and appreciate their role and responsibilities
- promote a culture of learning among Local Pension Board members and ensure that the Fund's training strategy is adhered to.
- ensure that all board members are developed both as a group and as individuals, to enable them to perform their duties effectively
- ensure that the ongoing training on relevant issues and developments meets the needs of the board members.

2. Qualities expected of the Chair

- leadership skills with the ability to effectively chair meetings
- articulate in writing and speech with the ability to prepare formal papers and speak at public occasions
- sufficient gravitas and sensitivity to operate effectively at all levels internally and externally
- commitment to the role
- integrity, strategic vision and good independent judgement
- a willingness to devote the necessary time and effort to the duties of the Chair
- ability to help formulate recommendations
- good communication skills
- tact and diplomacy
- willingness to speak one's mind and listen to the views of others
- understanding of the legal responsibilities and liabilities of a Local Pension Board member

3. Desirable experience and knowledge

- knowledge and experience of governance or management of work based pension schemes and the regulatory bodies involved
- a good knowledge of the local government pension scheme
- an awareness of the legislation relating to the operation of local authorities
- prior experience of committee/trustee work
- the law relating to pensions as it applies to the LGPS
- any matters which are prescribed in regulations.

4. Time consideration

The pension board meets at least 4 times a year.

In addition to board meetings, contact electronically or by telephone will be necessary.

The time commitment for the Chair is expected to be [xx] days per month, on average.

East Sussex Pension Fund

Role description for the Local Pension Board Vice Chair

[Note the constitution allows the Governance Committee to appoint a Vice Chair but there is no vice listed in the Board's membership]

Role Summary

The role of the Vice Chair is to provide support to the Chair of the Local Pension Board and act as a substitute in the event that the Chair cannot be present.

The Vice Chair will work closely in partnership with The Chair and the Scheme Manager (East Sussex CC) in relation to the following matters:

- Securing compliance with LGPS regulations and other legislation relating to the governance and administration of the Scheme and any statutory pension scheme that is connected with it;
- Securing compliance with requirements imposed in relation to the scheme and any connected scheme by The Pensions Regulator;
- Ensuring any breach of duty is considered and reported under the scheme's breaches procedure,
- Such other matters as the scheme regulations may specify.
- Assisting the Scheme Manager to ensure the effective and efficient governance and administration of the scheme.

The Vice Chair should make a strong contribution to Local Pension Board meetings and be senior voice around the table.

In addition to the general responsibilities of a Local Pension Board member, the Vice Chair has a number of tasks specific to their role.

1. Main Responsibilities of the Vice Chair

- acting as a sounding board for the Chair to discuss ideas and provide a second opinion
- deputising for the Chair at meetings or external events
- providing a senior voice at Local Pension Board meetings and demonstrating the values expected of a member of the East Sussex Local Pension Board.
- to speak one's mind and listen to the views of others
- understanding of the legal responsibilities and liabilities of a Local Pension Board member

2. Time consideration

The pension board meets at least 4 times a year.

In addition to board meetings, contact electronically or by telephone will be necessary.

The time commitment for the Vice Chair is expected to be [xx] days per month, on average.

HYMANS ROBERTSON

East Sussex Pension Fund

The role and responsibilities of the employer representative on the Local Pension Board

In accordance with the Public Service Pensions Act 2013 ("PSPA132), the East Sussex Pension Fund ("the Fund") operates a Local Pension Board. The Board comprises 3 scheme member representatives, 3 employer representatives and an independent chair.

This paper sets out the role and responsibilities of employer representatives on the Local Pension Board.

Employer representatives play an important part in the governance and administration of the Fund, by providing representation for participating employers. Although sitting on the Board as employer representative, those carrying out the role have a primary responsibility to assist the Scheme Manager (East Sussex County Council) to secure compliance with all relevant pensions law. The role of employer representative will therefore be of value to all stakeholders in the fund including participating employers, members of the Fund and East Sussex County Council, as the Administering Authority.

Role Summary

The role of the employer representative will be to ensure the Fund is complying with legislation relating to its governance and administration, its own rules and any requirements of The Pensions Regulator.

The aim is to enable the Local Pension Board to fulfil its responsibilities in respect of the governance of the Fund in accordance with the PSPA13, legislation governing the Local Government Pension Scheme ("LGPS") and relevant Codes of Practice issued by the Pension Regulator.

The role involves working closely in partnership with the Scheme Manager in order assist in relation to the following matters:

- Securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme that is connected with it;
- Securing compliance with requirements imposed in relation to the scheme and any connected scheme by The Pensions Regulator;
- Ensuring any breach of the law is considered and the Fund's procedure for reporting to the Pensions Regulator is adhered to;
- Such other matters as the scheme regulations may specify;
- Assisting the Scheme Manager to ensure the effective and efficient governance and administration of the scheme.

Responsibilities of the Employer Representative

Employer representatives must provide the Scheme Manager with any information required so that they can be satisfied that they do not have a conflict of interest. A member who becomes aware of a potential conflict of interest involving themselves or another pension board member or prospective member, must comply with the Fund's conflict of interest policy. Anyone with a conflict of interest may not be appointed to the pension board or, if already a member when the conflict arises, will be asked to resign.

An employer representative must have the capacity to represent the Fund's employers and is expected to be available to attend all pension board meetings, unless apologies are sent in advance and accepted by the Board.

There will be 4 meetings per annum. In the event of persistent non-attendance, their tenure will be reviewed by the Chair to the pension board in liaison with the Scheme Manager.

Training and knowledge and skills

The law requires Local Pension Board members to have knowledge and understanding of relevant pensions law and to have a working knowledge of the Local Government Pension Scheme and statutory guidance supporting it. An employer representative's responsibilities start from the day of appointment.

Employer representatives also need to be familiar with the Fund's documented policies including, but not limited to those covering, administration, communications, funding, investment and breaches of the law.

Employer representatives should be aware of the range and extent of pensions law that applies to the Local Government Pension Scheme and have enough understanding of the law to recognise when and how it impacts on their responsibilities.

The Fund operates a Training Strategy which requires that Local Pension Board members' knowledge and skills are measured, monitored and maintained to ensure they have a relevant understanding of the matters required to carry out their role effectively. Local Pension Board members must invest sufficient time in their earning and development in order to reach the required standard.

Tenure

The term of office for Board members shall be 4 years or such time as resolved by the Governance Committee. The Governance Committee may agree an extension to terms of office up to a further 2 years after which there shall be a further appointment process. Reappointment of existing members is permitted.

Expenses

Actual expenses incurred in attending pension board meetings or incurred will be reimbursed. Expenses incurred in performing other duties as a pension board member will only be reimbursed if first agreed with the Scheme Manager.

HYMANS ROBERTSON

East Sussex Pension Fund

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- Securing compliance with requirements imposed in relation to the scheme and any connected scheme by The Pensions Regulator;
- Ensuring any breach of the law is considered and the Fund's procedure for reporting to the Pensions Regulator is adhered Such other matters as the scheme regulations may specify.
- Assisting the Scheme Manager to ensure the effective and efficient governance and administration of the scheme.

Responsibilities of the Scheme Member Representative

Scheme member representatives must provide the Scheme Manager with any information required so that they can be satisfied that they do not have a conflict of interest. A member who becomes aware of a potential conflict of interest involving themselves or another pension board member or prospective member, must comply with the Fund's conflict of interest policy. Anyone with a conflict of interest may not be appointed to the pension board or, if already a member when the conflict arises, will be asked to resign.

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Decision Making : LGPS Governance matrix

Area	Task	Committee	Pension Board	Investment Pool	S151 Officer	Fund Officers	Advisors
Fund mission, objectives and beliefs	Develop Fund Mission Statement	Oversight	Specific Input	N/A	Recommend	Recommend	Specific Input
	Agree Fund Mission Statement	Approve	Oversight	N/A	Agree	Agree	Advise
	Develop Fund objectives for Governance, Funding, Investment and Delivery	Oversight	Specific Input	N/A	Recommend	Recommend	Specific Input
	Agree Fund objectives for Governance, Funding, Investment and Delivery	Approve	Oversight	N/A	Agree	Agree	Specific Input
	Consider and agree Fund beliefs	Approve	Oversight	N/A	Recommend	Recommend	Advise
Fund Risk Management	Agree the risks facing the Fund	Approve	Oversight	N/A	Recommend	Recommend	Advise
	Agree risk mitigations	Approve	Oversight	N/A	Recommend	Recommend	Advise
	Approve regular risk register reports	Approve	Oversight	N/A	Recommend	Recommend	Specific Input
	Define investment strategy (including ESG considerations)	Approve	Oversight	Specific Input	Advise	Advise	Advise
	Identify how you deal with upside / downside events	Notified	Notified	Specific Input	Advise	Advise	Advise
	Review of Fund covenant arrangements	Approve	Oversight	N/A	Advise	Advise	Specific Input
Governance functions	Agree Governance Manual/Framework	Approve	Oversight	Notified	Advise	Advise	Advise
	Monitor and input into the Valuation process	Oversight	Notified	Notified	Specific Input	Specific Input	Approve
	Sign off valuation results	Approve	Oversight	N/A	Recommend	Recommend	Advise
	Confirmation of annual MIFID II position	Oversight	Oversight	N/A	Agree	Agree	Notified
	Review of Fund discretionary policies	Oversight	Oversight	N/A	Recommend	Recommend	Specific Input
	Agree changes to Fund discretionary policies	Approve	Oversight	N/A	Agree	Agree	N/A
	Review of various policy statements and strategies	Oversight	Oversight	N/A	Recommend	Recommend	Specific Input
	Agree revisions to policy statements and strategies	Approve	Oversight	N/A	Agree	Agree	N/A
	Adequate training completed for Pension Committee and Pension Board	Agree	Agree	N/A	Recommend	Recommend	Specific Input
	Ensure adequate Pension Committee and Pension Board meetings are held	Agree	Agree	N/A	Oversight	Recommend	N/A
Fund Delivery (Administration functions)	Agree/review delivery model (in-house, shared service, outsource)	Approve	Oversight	N/A	Recommend	Recommend	Advise
	Agree scope and nature of administration service	Approve	Oversight	N/A	Recommend	Recommend	Advise
	Agree administration processes	Notified	Oversight	N/A	Notified	Agree	Advise
	Completion of Year-end exercise	Notified	Oversight	N/A	Notified	Agree	N/A
	Issue annual benefit statement	Notified	Oversight	N/A	Notified	Agree	N/A
	Issue annual allowance pension savings statements	Notified	Oversight	N/A	Notified	Agree	N/A
	Compile and publish Fund Annual report	Approve	Specific Input	N/A	Agree	Agree	Specific Input
	TPR - Reporting breaches of the law to the Pensions Regulator*	Oversight	Oversight	N/A	Oversight	Oversight	Oversight
LGPS Investment	Agree asset allocation	Approve	Oversight	Specific Input	Advise	Advise	Specific Input
	Agree allocations to new asset classes	Approve	Oversight	Specific Input	Advise	Advise	Specific Input
	Agree Investment strategy statement	Approve	Oversight	Specific Input	Advise	Advise	Specific Input
	Confirm partner LGPS Investment pool for Fund	Approve	Specific Input	Specific Input	Recommend	Recommend	Specific Input
Employer Related Decisions	Set employer contribution rates	Approve	Oversight	N/A	Advise	Advise	Recommend
	Set admission policy	Approve	Oversight	N/A	Advise	Advise	Specific Input
	Set cessation policy	Approve	Oversight	N/A	Advise	Advise	Specific Input
	Set bulk transfer policy	Approve	Oversight	N/A	Advise	Advise	Specific Input
	Approve new employers to the Fund	Approve	Oversight	N/A	Advise	Advise	Specific Input
Monitoring and Oversight	Monitor Investment strategy (context of market outlook, covenant and funding)	Oversight	Oversight	Specific Input	Recommend	Recommend	Specific Input
	Monitor the Fund's Investment pool performance	Oversight	Oversight	Advise	Specific Input	Specific Input	Specific Input
	Monitor fund managers ESG and sustainability policies	Oversight	Oversight	Advise	Specific Input	Specific Input	Specific Input
	Monitor the Funds administration management and delivery performance	Oversight	Oversight	N/A	Advise	Advise	Specific Input

* as required, when any breach is considered to be "material"

EAST SUSSEX PENSION FUND: TRAINING PLAN 2020/21

Training event	Committee and Board responsibilities	Investment update	Pensions legislation	Pensions governance
CIPFA Framework	No	No	Yes (module 1)	Yes (module 2)
Scheduled Date	(date tbc)	(date tbc)	(date tbc)	(date tbc)
Delivered by	Eversheds			
Committee	Yes	Yes	Yes	Yes
Board	Yes	Yes	Yes	Yes
Outline of Content	tbc	Private Equity & Infrastructure, and the role of Asset Allocation in enhancing the profile of long run returns	A general understanding of; • The overall legislative framework • Scheme-specific regulations and guidance • LGPS discretions and the formulation of policies • Latest changes to LGPS rules	A general understanding of; • The role of the admin authority • The role of MHCLG, the Pensions Regulator, the Pensions Ombudsman • The role of the Scheme Advisory Board • The role of Pension Committees in relation to the fund, the admin authority, employing authorities, scheme members and taxpayers. • The role of the s151 officer and the monitoring officer • The Myners' Principles • The role and responsibilities of LPB members. • The Fund's stakeholders and their interests • The consultation, communication and involvement options available to stakeholders • Monitoring and managing Fund risk • Managing conflicts of interest • Reporting breaches of the law.

DRAFT

Training event	Pensions administration	Pensions accounting and auditing standards	Pensions services procurement and relationship management	Investment performance and risk management
CIPFA Framework	Yes (module 3)	Yes (module 4)	Yes (module 5)	Yes (module 6)
Scheduled Date	(date tbc)	(date tbc)	(date tbc)	(date tbc)
Delivered by				
PSB	Yes	Yes	Yes	Yes
PAB	Yes	Yes	Yes	Yes
Outline of Content	A general understanding of; • Best practice in pensions administration eg performance and cost measures. • Fund policies relating to member data maintenance and record-keeping processes, internal dispute resolution, contributions collection and scheme communication and materials. • Discretionary powers • The pension administration strategy • Pensions taxation • An understanding of AVC arrangements, including investment	A general understanding of; • Accounts and Audit Regulations and legislative requirements relating to internal controls and accounting practice • The role of internal and external audit • The role played by third party assurance providers.	A general understanding of; • Public procurement policy and procedures and the roles of key decision-makers and organisations. • The main public procurement requirements of UK and EU legislation. • The nature and scope of risks for the pension fund and of the importance of considering risk factors when selecting third parties. • How the pension fund monitors and manages the performance of service providers.	A general understanding of; • The importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long-term risks • The Myners' principles of performance management and the approach adopted by the administering authority. • The range of support services, who supplies them and the nature of the performance monitoring regime. • A general understanding of the structure, operation and purpose of the investment pooling arrangements, including the structure of the relationship with the other participants within the pool

DRAFT

	choices, investment performance and payment schedule.			

Training event	Financial markets and products knowledge	Actuarial methods, standards and practices		
CIPFA Framework	Yes (module 7)	Yes (module 8)		
Scheduled Date	(date tbc)	(date tbc)		
Delivered by				
PSB	Yes	Yes		
PAB	Yes	Yes		
Outline of Content	A general understanding of; • The risk and return characteristics of the main asset classes • The role of these asset classes in long-term pension fund investing. • The importance of the fund's ISS and investment strategy decisions. • the workings of the financial markets and of the investment vehicles available to the pension fund and the nature of the associated risks.	A general understanding of; • The role of the actuary • The valuation process (including the FSS and inter-valuation monitoring) • Early and ill-health retirement monitoring • New employers and cessations • Outsourcings and bulk transfers • Employer covenant		

DRAFT

	• the limits placed by regulation on the investment activities of local government pension funds. • how the fund interacts with the taxation system in the UK and overseas in relation to investments.			

DRAFT

Report to:	**Pension Committee**
Date of meeting:	**22 June 2020**
By:	**Chief Operating Officer**
Title:	**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:

1) note the updates;

2) Note the progress of management in implementing the agreed actions arising from the two internal audit reports (appendix 5); and

3) Note the areas for which no actions have progressed (appendix 5).

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 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 LGPS.

2. Key Performance Indicators

2.1 The Performance Report, for the period February to April 2020 can be found at **Appendix 1**. Since the start of the lockdown, the Head of Pensions Administration has been providing weekly updates on performance against the Pensions Regulators priority case types (Deaths, Retirement and Refunds). Details of the number of cases received, cases completed, and outstanding cases can be found at **Appendix 2.**

2.2 For the period February to April 2020, 18 cases out of 1,694 were over target during February to April. One complaint was recorded during this period. This complaint was responded to on the same day and was primarily an employer issue.

2.3 February saw performance above target for all areas and given that lockdown started during March, only employer and employee projections were slightly below target in that month, and transfers in and employer estimates were slightly below target in April. These case types are not classed as a priority by the Pensions Regulator during the Covid-19 pandemic, therefore efforts have been focussed on the priority cases. Some slippage on non-priority cases may happen as a result of the effects of remote working.

2.4 Reports are showing a slight increase in membership numbers, from 76,762 at the start of the period (February) to 76,851 at the end of the period (April).

3. Staffing Update

3.1 A temporary member of the team has recently taken up a permanent position. Two members of the team have recently resigned. One is joining the Police and the other is taking a position with East Sussex Employee Services.

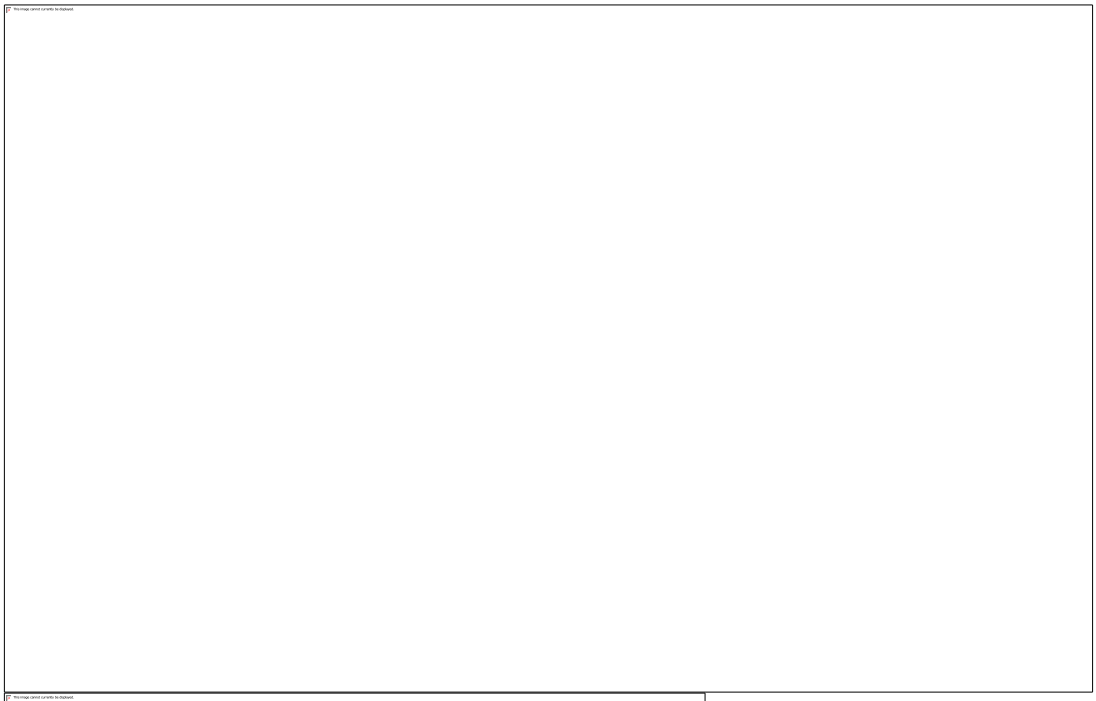
4. Pensions Helpdesk

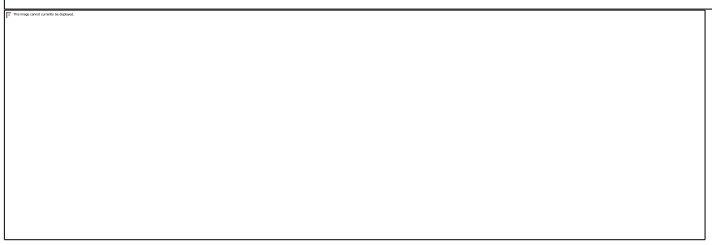
4.1 The Helpdesk have adapted well to the requirement to work from home. Initially, all enquiries could only be sent to the team via e-mail, however the telephony has been arranged so that agents can take calls from home.

4.2 A reduced telephony service is being offered between the hours of 10:00 to 12:00, and 14:00 to 16:00. 5.5 FTE are taking calls, 1 FTE dealing with e-mails and 3 FTE training/dealing with Member Self Service (MSS) queries.

4.3 A message has been placed on the phoneline to let callers know that the team are focusing on high priority work (Deaths, Retirements and Refunds), and that response times to other types of work may be delayed during the lockdown. This message is being reviewed on a regular basis.

4.4 The team are still managing to provide an exceptional level of service as evident from the feedback results shown below (from week commencing 11 May):





4.2 The Helpdesk handled 2,037 calls during the period February to April and averaged a first point fix of 77%.

5 McCloud

5.1 The Scheme Advisory Board (SAB) agreed to create two working parties to help implement the outcome of McCloud judgement in the LGPS. They will be a small policy group to consider policy areas not determined by HMT and a larger implementation group consisting of practitioners, actuaries, software providers, employers and member representatives, which will explore the challenges of communicating the changes.

5.2 The Local Government Association (LGA) expects a consultation on proposed LGPS regulation changes in the spring but there may be a delay before they are implemented depending on the extent of the changes required to primary legislation. This, in turn, may lead to uncertainty and legal challenges against employers and SAB will keep employers and scheme members informed with regular communications.

6. End of Year Accounts – Pension Overpayments

6.1 As part of the work on the end of year accounts, the number and value of pension overpayments is recorded.

6.2 For 2018/19 there were 8 overpayments outstanding, at a value of £5,000.

6.3 With the introduction of the Tell Us Once service, combined with regular mortality screening, there were 2 outstanding overpayments at the end of 2020 at a value of £2,000.

7. Engagement and Education

7.1 Since the outbreak of the Coronavirus pandemic, the work items have been amended to allow for the focus on essential information.

- Member presentations and drop in sessions have been cancelled until further notice. Once the pandemic has ended, these will resume and it is envisaged that there will be a substantial demand to compensate for the cancelled meetings.
- All Technical Groups, for example the Communications Working Group, have been cancelled until further notice. They are likely to re-commence in a remote format.
- Detailed Member Self Service figures have been extracted and a report will be issued based upon the demographic of the registered members.
- Creation and monitoring of employer's issues log to help identify areas of education. These have been included in the Employer newsletter.
- Second Employer 2020 newsletter issued to all Employers.
- Pensioner newsletter has been issued to the printers for dispatch.
- Active member newsletter has been reviewed by the fund and is ready to dispatch.
- Deferred newsletter has been issued to the pension fund for review.
- Staff survey results have been analysed. The report will be issued shortly for review.
- LGA bulletin reviews, highlighting important actions and information, issued monthly to funds for onward distribution to employers.
- Member Self Service survey results have been issued to the fund for information.
- Member Self Service videos are being investigated due to the normal production methods being unavailable due to the virus.
- New Starter processes amended to encourage enrolment to Member Self Service portal and is in the process of being fully documented to ensure compliance.
- Full audit of Fund Website documents in progress. All LGA documents will be reviewed and replaced when they have been released by the LGA following the end of year increases.
- Monthly review of MSS sign up figures to review effectiveness of campaigns and inclusion within Monthly Reports.
- New Orbis website has been delayed due to the coronavirus. The Web Development Team should be able to commence development within the next month.

- Creation and maintenance of comprehensive employer contact list.
- End of year update sent to the fund on the 6 May. Next update due 29 May.
- Issue of end of year chaser emails to employers who have missed the cut-off date of 30 April.

7.2 The results from the recent MSS survey have been collated with 822 responses being received, which have provided valuable feedback. The results and proposals for improvement can be found at **Appendix 3**.

7.3 In general, feedback on the portal was positive with members mainly accessing the site to view their Annual Benefit Statement. One question that was vital as part of this survey was to find out what members would like to be able to do that they can't now. The main points were easier login, ability to contact the pensions team direct through the portal, 'how to' guides and the ability to upload documents.

7.4 The Engagement & Education Team continue to send out regular reminders to members to register for MSS ahead of the publication of Annual Benefit Statements.

8. Address Tracing

8.1 The address tracing exercise by ITM is now complete as of 30 April.

8.2 ITM traced 6,525 new addresses, in both the electronic and full trace, out of 11,004 deferred records with no address, or confirmation of correct address.

8.3 All newly identified addresses have been updated on Altair by the Systems & Support Team.

8.4 Early June a summary report will be prepared outlining how successful the address tracing exercise has been**,** plus our recommendations for an annual tracing exercise and expanding the scope to include those reaching retirement.

9. Guaranteed Minimum Pension (GMP) Reconciliation

9.1 The work with Mercer has been progressing well and is moving closer to begin the reconciliation work and understanding the liability costs.

9.2 Mercer have matched 100% of membership data and have completed the implementation of the decisions made on the stalemate cases.

9.3 HMRC are still to advise or upload the final SRS data cut. However, they 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.

10. iConnect

10.1 The implementation plan is underway. There have been changes to the plan due to the current situation regarding Covoid-19 so training and testing is having to take place remotely.
.
10.2 The next step is to build the SAP file so that East Sussex (as the main employer) can test and load the data from payroll to iConnect. This has now been subsumed into another project looking at the collaboration of Pensions and Payroll, including the demands on the SAP team.

10.3 The SAP team are still on track with the agreed timescales, with the file being built by early June. If testing goes well, go live is expected for July.

11. Pensions Increase

11.1 The annual pension increase for April 2020 was completed by Heywood's on 27th April.

11.2 The work was largely successful in processing, however uncovered a number of non-critical errors and warnings which are the result of historical failings and local decisions on what was deemed an error and were therefore not reviewed in previous years pension increase runs. A meeting with Heywood's has been held to fully understand the errors and warnings, which will then allow for the pension service to identify which cases need to be reviewed as a priority. It should be noted that the errors or warnings does not necessarily indicate an error or an issue with the individual's record or the amount of pension or compensation they are being paid. These could just be instances where upon checking the record, it is all correct.

12 Annual Benefit Statements

12.1 The ABS plan for 2020 has been discussed and agreed with funds**.** This year the project is being managed by Sarah Spence, Project Manager, and supported by Chloe Painter, Project Support.

12.2 Communications have been sent to scheme employers monthly since January, with a deadline for completed returns set as 30 April. Some employers have expressed concerns at meeting the deadline due to the current situation, so an extension to 15 May has been agreed.

12.3 As part of the project regular updates on the number of returns received is being shared with the funds and non-compliance will be discussed to agree next steps.

12.4 To date, 102 of the 129 scheme employers have submitted acceptable end of year data. An additional 4 returns have been received but have not been accepted due to errors with the data or we have been unable to access the attachments. There are returns missing form 23 employers.

12.5 The templates have been reviewed and updated, with the aim of making them easier to understand (taking on board feedback from the Pensions Helpdesk). The templates have been shared with all funds.

13 Annual Schedule of Events

13.1 The annual schedule for 2020 has been drafted and can be found at **Appendix 4.** The schedule covers all statutory events plus any Fund specific items.

13.2 The next steps are for the Fund to review and approve the schedule. In the meantime, the Systems and Support Team have been working to the current document.

14 Employer Functions

14.1 A review is underway of all employer related functions that are currently carried out by the PAT.

14.2 The outcome of the review will be to ensure that all employer related functions sit within the appropriate East Sussex County Council department i.e. HR/Payroll.

14.3 Orbis PAT should only be responsible for carrying out duties on behalf of East Sussex Pension Fund as the Administering Authority.

15. Progress of implementation of agreed actions arising from Internal Audit reports

15.1 Under the Local Government Pension Scheme (LGPS) Regulations, the Council has a statutory responsibility to administer and manage the Fund in accordance with the rules of the Local Government Pension Scheme (LGPS) which are set out in the following regulations:

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

15.2 The review of management's progress in implementing the agreed actions arising from internal audit reports by the Pension Committee and Pension Board is an integral part of the oversight process and is critical to improving the internal control environment for the pension fund in line with the revised Internal Audit Strategy for Pensions.

15.3 **Appendix 5** updates the Pension Committee on the progress of implementing the Management Actions agreed for the Pension Administration Audit on Compliance with Regulatory Controls.

KEVIN FOSTER
Chief Operating Officer

Contact Officer: Clare Chambers
Email: clare.chambers@surreycc.gov.uk

East Sussex Pensions Administration - Key Performance Indicators 2020/21

	Activity	Measure	Impact	Target	Apr-20		Mar-20		Feb-20	
	Scheme members	Pensioners, Active & Deferred			76851		76885		76762	
	New starters set up				162		283		413	
					Volume	Score	Volume	Score	Volume	Score
1a	Death notification acknowledged, recorded and documentation sent	within 5 days	M	95%	43	100%	21	100%	26	100%
1b	Award dependent benefits (Death Grants)	within 5 days	H	95%	4	100%	8	100%	7	100%
2a	Retirement notification acknowledged, recorded and documentation sent	within 5 days	M	95%	48	96%	94	99%	70	100%
2b	Payment of lump sum made	within 5 days	H	95%	121	97%	89	100%	75	99%
3	Calculation of spouses benefits	within 5 days	M	90%	16	100%	11	100%	20	100%
4a	Transfers In - Quote (Values)	within 10 days	L	90%	6	84%	21	100%	21	100%
4b	Transfers In - Payments	within 10 days	L	90%	20	95%	28	97%	39	100%
5a	Transfers Out - Quote	within 25 days	L	90%	18	100%	30	100%	33	97%
5b	Transfers Out - Payments	within 25 days	L	90%	11	100%	12	100%	24	96%
6a	Employer estimates provided	within 7 days	M	95%	11	91%	34	92%	24	100%
6b	Employee projections provided	within 10 days	L	95%	5	100%	22	91%	25	100%
7	Refunds	within 10 days	L	95%	12	100%	26	100%	39	100%
8	Deferred benefit notifications	within 25 days	L	95%	139	100%	202	100%	239	100%
	TOTAL TASKS COMPLETED				454		598		642	
9	Complaints received- Admin				1			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)									
12	Retiring Member survey satisfaction	Overall satisfaction (Excellent/good)		90%						
13	Compliments received							0	1	

OVERDUE CASES	RED-AMBER		APR	MAR	FEB
1b	Award dependent benefits (Death Grants)				
2a	Retirement notification acknowledged, recorded and documentation sent				
2b	Payment of lump sum made				1 CASE OVERDUE 10 DAYS
3	Calculation of spouses benefits				
4a	Transfers In - Quote (Values)		1 case overdue 47 days		
4b	Transfers In - Payments				
5a	Transfers Out - Quote				1 CASE OVERDUE
5b	Transfers Out - Payments				1 CASE OVERDUE
6a	Employer estimates provided			3 TASKS OVERDUE. AVERAGE OF 1 DAY	
6b	Employee projections provided			2 TASKS OVERDUE. AVERAGE OF 2 DAYS	
8	Deferred benefit (DB5YE)				*1 CASE OVERDUE*

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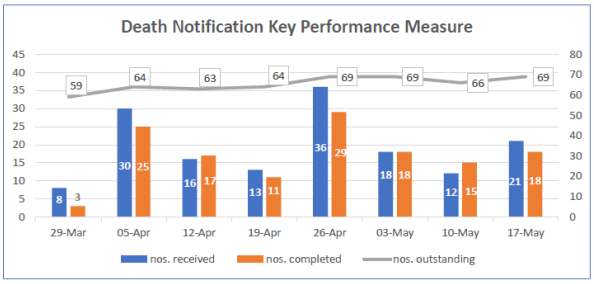
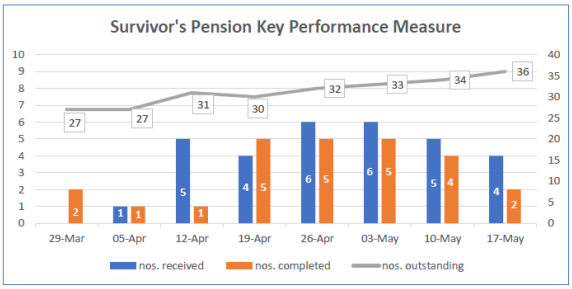
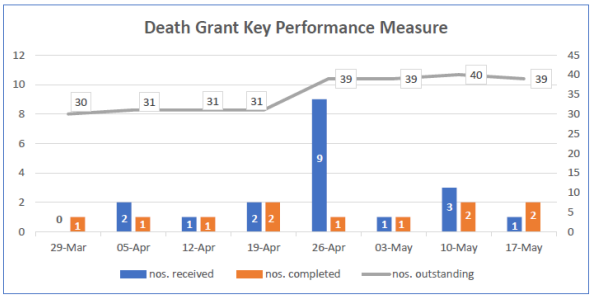
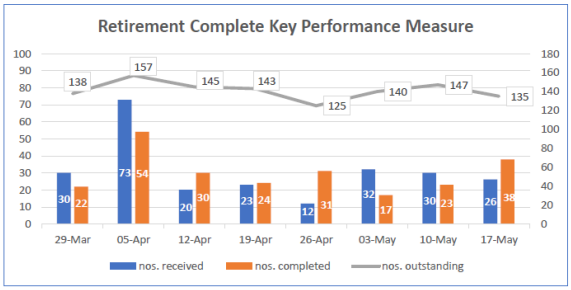
Appendix 2

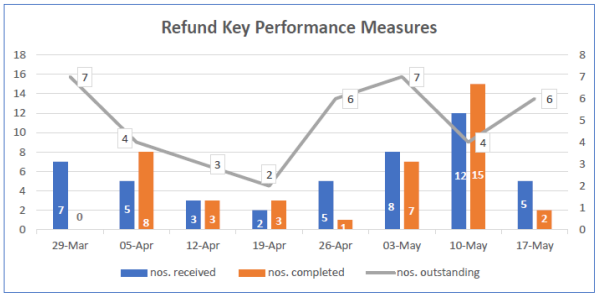
Weekly Priority Case Performance

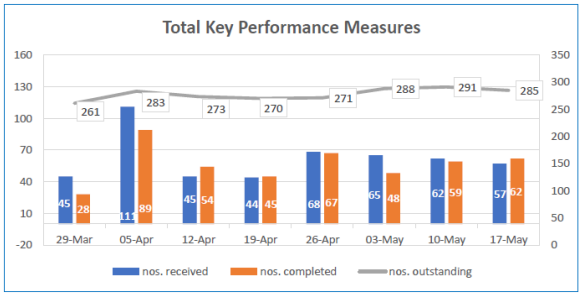












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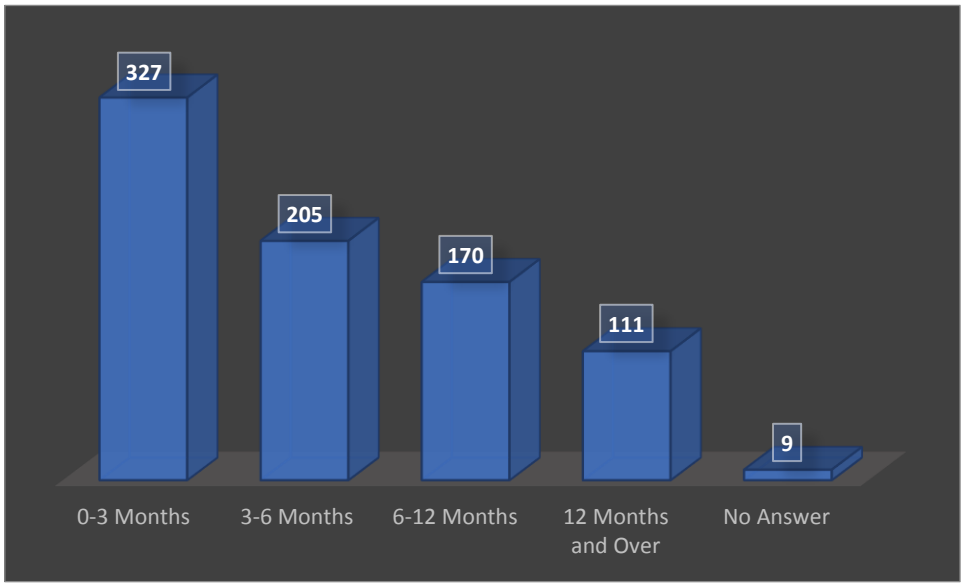
Member Self Service Survey Response

In December 2019, Orbis Pension Services sent out a short survey consisting of 10 questions to approximately 6000 random members across all tranches of membership and all six funds.

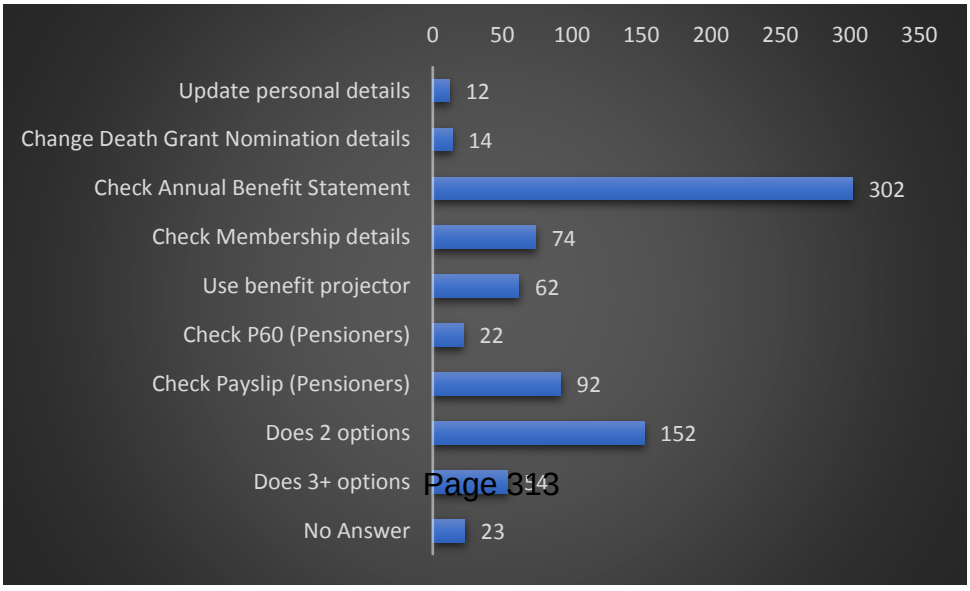
A reminder of the survey was sent again in January 2020 to let them know that the survey was still open and that they still had the opportunity to provide us with their thoughts regarding the member self service portal.

Below you will find the response from 822 members who kindly completed the survey and provided us with valuable feedback.

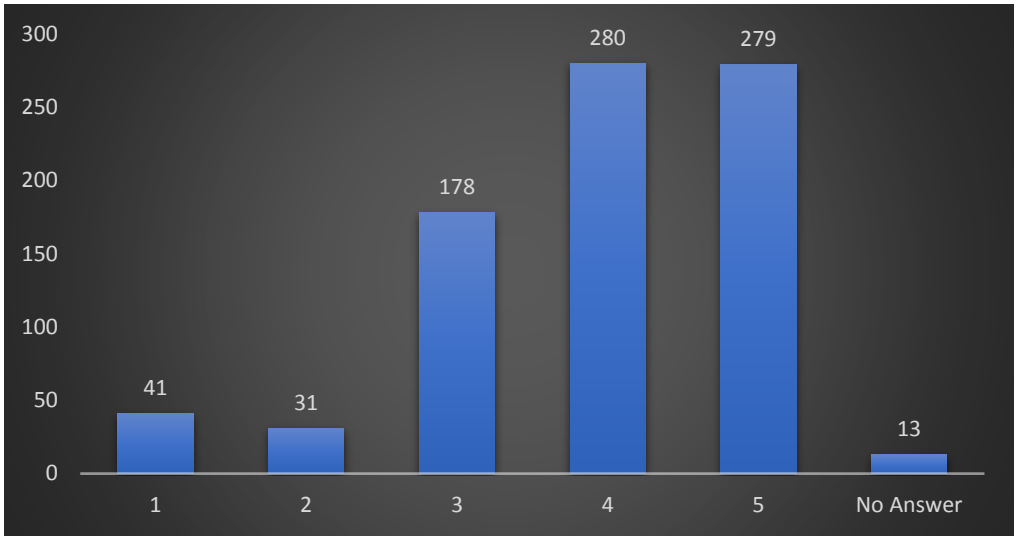
1) When did you last log into the member self-service portal?



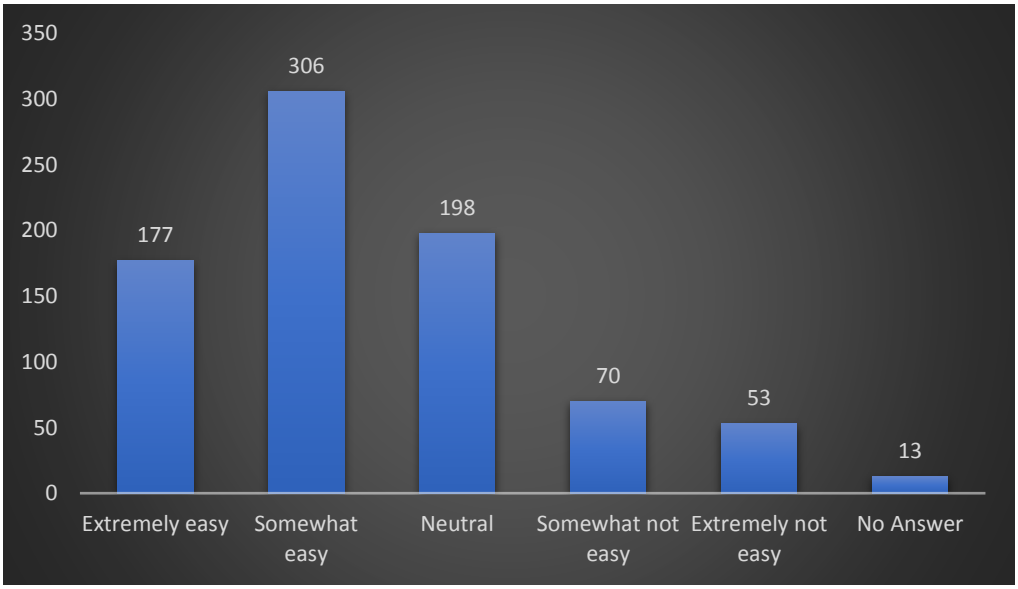
2) What is the main purpose you log into the self-service for?



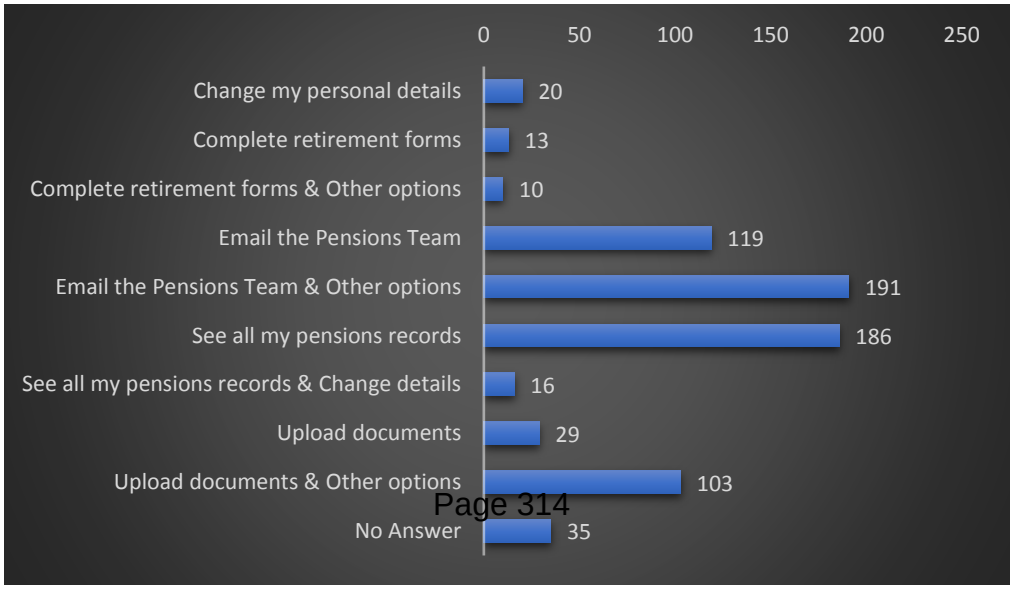
3) **How satisfied are you with the security for logging into the self-service? (1 being very dissatisfied & 5 being very satisfied)**



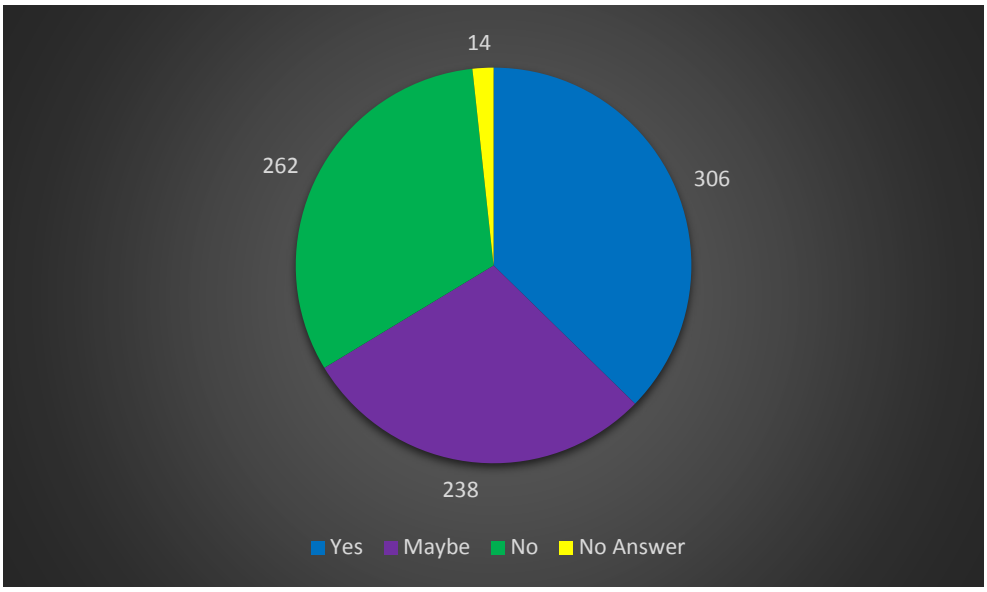
4) **How easy do you find using the self-service portal once you have logged on?**



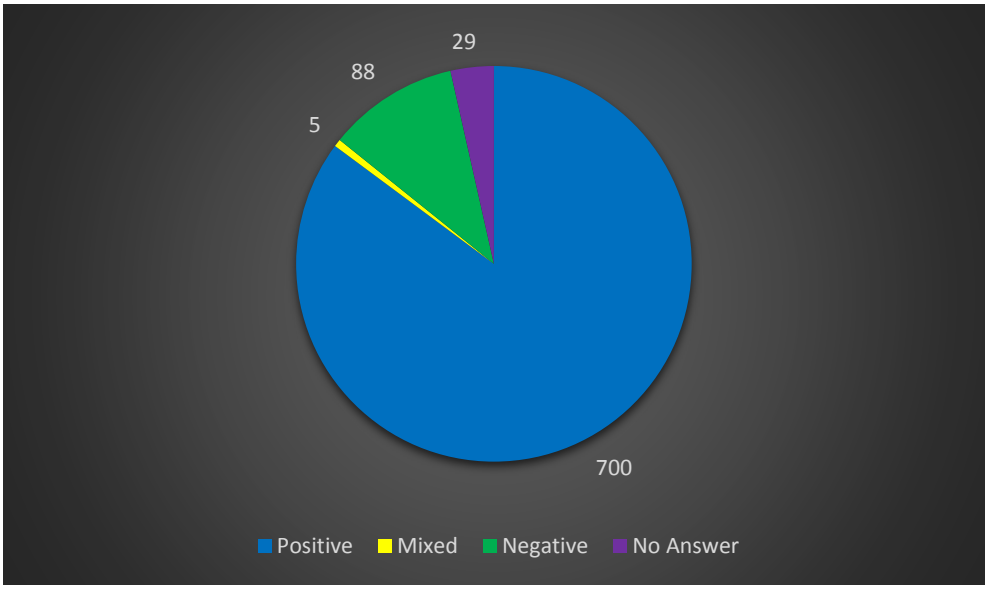
5) **What would you like to do on the system that you can't do at the moment?**



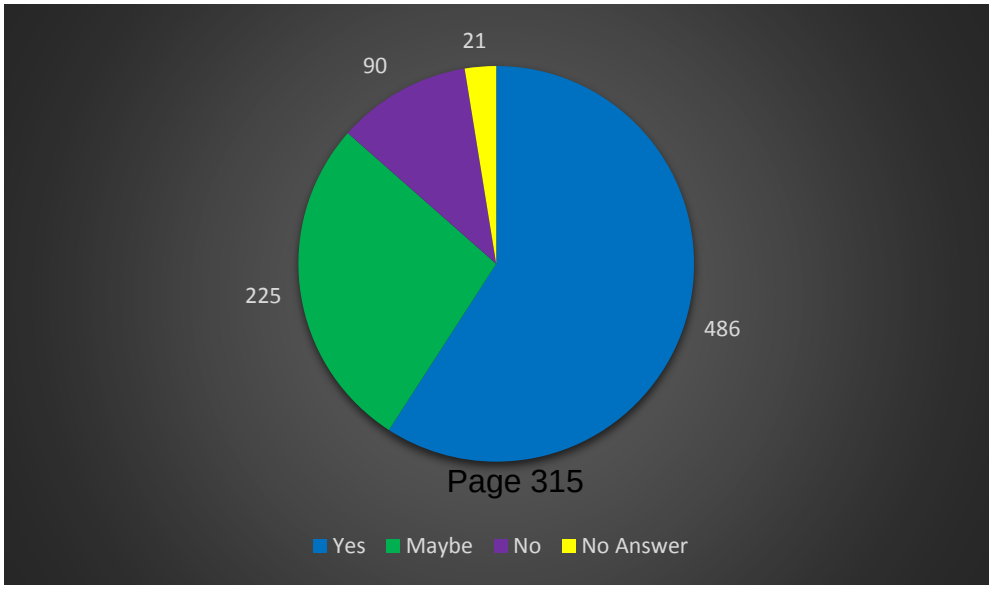
6) **Would you use the self-service portal more if you had it as an app on your phone?**



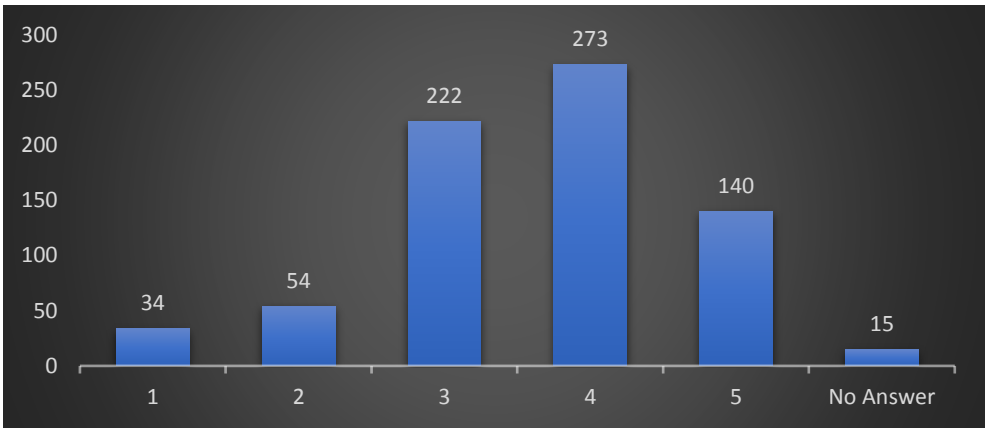
7) **Which words would you most use to describe the member self-service portal?**



8) **Would you recommend the self-service portal?**



9) **How would you rate your overall experience? (1 being very dissatisfied & 5 being very satisfied)**



10) **What would you recommend to improve the self-service portal?**

The last question allowed members to write down a response of what they believe would make the Member Self Service Portal better. Below you will find an example of the recommendation's members have made:

- Create an app
- Clearer information & Navigation
- A live chat option
- A how-to guide & glossary
- Being able to do everything in one place
- Ability to download/print from the portal
- Easier to access/login

Conclusion

As you can see from the results, we have had some fantastic feedback regarding the member self service portal. Our survey has provided us with vital information from members who use the self-service portal, to help us to shape our services for the future.

The greatest number of those who completed the survey have confirmed that they have logged into the portal within the last 6 months, with the majority using the portal to check their annual benefit statement.

Most members who completed the survey would recommend the portal and are satisfied with the current layout; the majority have also concluded that they would recommend the pension portal to others.

With regards to security, the majority of responses are positive with a rating of either 4/5 or 5/5 for how secure the portal is.

One question that was vital to Orbis Pension Services was to find out what our members would like to do on the portal which they cannot do now. We have listed the member suggestions below:

Easier to Access/Login

We wanted to see if members had difficulty when navigating around the portal. As you can see from the graph, the majority found the portal extremely or somewhat easy to navigate.

Since this survey was published, the Altair 10.1 upgrade has made the login procedure even simpler for our members.

Email the Pensions Team / Live Chat Option

The majority of members said that they would like to contact the Pensions Team via the portal. This feedback is being considered and we are currently in talks with the system administrators to see if this is an option. Any changes to the service offered by the Helpdesk would have to be implemented after the COVID-19 pandemic has passed and normal service can be resumed.

How To Guide & Glossary / Clearer Information & Navigation / Ability to Download & Print from the Portal / See All My Pension Records

We are also in the process of creating a guide to help users navigate around the portal. The new guide will offer instructions on how to change personal details, update beneficiaries, download and print documents, switch from one record to another and, most importantly, how to use the benefit projector.

Three guides will be developed for active members, deferred members and pensioner members to use.

Upload Documents

The portal is currently being developed to allow members to upload documents to their record, rather than returning them in a hard copy form.

Once this has been completed, we'll start introducing this feature for certain processes.

Create An App

We also wanted to judge whether there was an audience for a mobile application version of the portal. Following feedback received from the survey, presentations and Helpdesk, we believe that having a mobile app would benefit all our members. It's also a great way to develop the service we currently offer. A significant number of 544 members responded that they would use an app if this was available.

This feature is not currently available and the Orbis Pension Services is looking into this with our software supplier.

ESCC Pensions Annual Schedule 2020

Synopsis: This document provides a schedule of major Pensions activity for the year as described in the title.

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Contents

January....4
February....5
March....6
April....7
May....8
June....9
July....10
August....11
September....12
October....13
November....14
December....15

January

Activity			Pensions Team	ESCC	Mthly Report	Kingston Team
Monthly KPI	**2 Jan**	General Admin	✓		✓	
Send initial comms & posting schedule to employers	**15-Jan**	Admin Year End	✓			
Pension Payroll – tax pay over December deductions.	**18 Jan**	Payroll Admin	✓	✓		
Pension Payroll – authorisation	**24-Jan**	Payroll Admin	✓	✓		
CETV Amounts for Internal Transfers (HEAT)	**25 Jan**	General Admin				✓
Pension Payroll - payday	**31-Jan**	Payroll Admin	✓			
Early retirement strain costs invoices	**Monthly**	General Admin	✓	✓	✓	
FIRE Valuation – OLD & NEW schemes.	**Ad-Hoc**	General Admin	✓			
Life Certificates for selected overseas (biennial to tie in with NFI)	**TBC**	General Admin	✓			
Run Quarterly Firefighters CARE Employment Creation. See 5.3.1 Page 17 of Heywood Altair Release Guide Feb 2015 (2nd Edition)	**Quarterly**	General Admin	✓			
Odd years only (2019, 2021 etc) National Fraud Initiative (NFI) Report Received. Begin reviewing cases over the following months.	**Every 2 years**	General Admin	✓			

February

Activity			Pensions Team	ESCC	Mthly Report	Kingston Team
Monthly KPI	**1-Feb**	General Admin	✓		✓	
Agency Pay over authorisation – January deductions	**1-Feb**	Payroll Admin	✓	✓		
HMRC Quarterly Tax Reporting	**14-Feb**	Statutory	✓			
Send reminder to employers re Year end return	**15-Feb**	Admin Year End				✓
Pension Payroll tax pay over – January deductions	**20-Feb**	Payroll Admin	✓	✓		
Pension Payroll - authorisation	**21-Feb**	Payroll Admin		✓		
CETV Amounts for Internal Transfers (HEAT)	**22-Feb**	General Admin				✓
Pension Payroll - payday	**28-Feb**	Payroll Admin	✓			
Closure of Accounts – Notification of Timetable	**Annually**	Tech & Admin	✓	✓		
Early retirement strain costs invoices	**Monthly**	General Admin	✓	✓	✓	

March

Activity			Pensions Team	ESCC	Mthly Report	Kingston Team
Monthly KPI	**1-Mar**	General Admin	✓		✓	
Agency Pay over authorisation – February deductions	**1-Mar**	Payroll Admin	✓	✓		
Send chase up to employers re Year end return	**15-Mar**	Admin Year End				✓
Fire Pensions Increase	**15-Mar**	Admin / Payroll	✓			
Pension Payroll tax pay over – February deductions	**20-Mar**	Payroll Admin	✓	✓		
Pension Payroll - authorisation	**21-Mar**	Payroll Admin		✓		
CETV Amounts for Internal Transfers (HEAT)	**22- Mar**	General Admin				✓
Pension Payroll - payday	**29-Mar**	Payroll Admin	✓			
Despatch PI leaflet with FIRE payslips	**29-Mar**	General Admin	✓			
Pensioner Mailshot – Pay dates	**29-Mar**	Payroll Admin	✓			
LGPS 31return- Send out new forms	**29-Mar**	Admin/Year End	✓			
Early retirement strain costs invoices	**Monthly**	General Admin	✓	✓	✓	

April

Activity			Pensions Team	ESCC	Mthly Report	Kingston Team
Monthly KPI	**1-Apr**	General Admin	✓		✓	
Agency Pay over authorisation – March deductions	**1-Apr**	Payroll Admin	✓	✓		
LG Pensions Increase	**9-Apr**	Admin/payroll Year End	✓			
Send chase up to employers re Year end return	**10 Apr**	Admin Year End	✓			
Pension Payroll tax pay over March deductions	**16-Apr**	Payroll Admin	✓	✓		
Payroll - council tax amendments	**18-Apr**	Admin Year End	✓			
CETV Amounts for Internal Transfers (HEAT)	**19-Apr**	General Admin				x
Pension Payroll - authorisation	**24-Apr**	Payroll Admin		✓		
Pension Payroll - payday	**30-Apr**	Payroll Admin	✓			
Despatch PI leaflet with LGPS payslips	**30-Apr**	General Admin	✓			
P60s to issue – Deadline 31 May	**30-Apr**	Payroll Year End	✓			
Send chase up to employers re Year end return Deadline for returns 30 April	**30-Apr**	General Admin	✓			
Closure of Accounts	**Annually**	Tech & Admin	✓			
Run Quarterly Firefighters CARE Employment Creation. See 5.3.1 Page 17 of Heywood Altair Release Guide Feb 2015 (2nd Edition)	**Quarterly**	General Admin	✓			
Early retirement strain costs invoices	**Monthly**	General Admin	✓	✓	✓	
Annual Recharges (due 30 June)	**Start**	Admin Year End	✓			
Contribution postings (due 30 June)	**Start**	Admin Year End	✓			
Pensions Payroll Year End (due ST TBA)	**Start**	Payroll Year End	✓			

May

Activity			Pensions Team	ESCC	Mthly Report	Kingston Team
Monthly KPI	**1-May**	General Admin	✓		✓	
Agency Pay over authorisation – April deductions	**1-May**	Payroll Admin	✓	✓		
Send chase up to employers re Year end return	**10-May**	General Admin	✓			
HMRC Quarterly Tax Return	**14-May**	General Admin	✓			
Pension Payroll tax pay-over - April deductions	**20-May**	Payroll Admin	✓	✓		
Pension Payroll – authorisation	**22-May**	Payroll Admin		✓		
Send chase up to employers re Year end return	**30-May**	Admin Year End	✓			
Pension Payroll – payday	**31-May**	Payroll Admin	✓			
CETV Amounts for Internal Transfers (HEAT)	**Monthly**	General Admin				x
Pension Payroll Year End	**31 May**	Payroll Year End	✓			
Early retirement strain costs invoices	**Monthly**	General Admin	✓	✓	✓	
Recharges (due 30 June)	**Ongoing**	General Admin	✓			
Contribution postings (due 30 June)	**Ongoing**	Admin Year End	✓			

June

Activity			Pensions Team	ESCC	Mthly Report	Kingston Team
Monthly KPI	**3-Jun**	General Admin	✓		✓	
Agency Pay over authorisation – May deductions	**3-Jun**	Payroll Admin	✓	✓		
Send chase up to employers re Year end return	**10-Jun**	Admin Year End	✓			
CETV Amounts for Internal Transfers (HEAT)	**15-Jun**	General Admin	✓			
Pension Payroll - authorisation	**20-Jun**	Payroll Admin		✓		
Pension Payroll tax pay-over - May deductions	**20-Jun**	Payroll Admin	✓	✓		
Pension Payroll - payday	**28-Jun**	Payroll Admin	✓			
Recharges	**28-Jun**	General Admin	✓			
Send chase up to employers re Year end return	**28-Jun**	Admin Year End	✓			
Contribution postings (due 30 June)	**Ongoing**	Admin Year End	✓			
Early retirement strain costs invoices	**Monthly**	General Admin	✓	✓	✓	

July

Activity			Pensions Team	ESCC	Mthly Report	Kingston Team
Monthly KPI	**1-Jul**	General Admin	✓		✓	
Agency Pay over authorisation – June deductions.	**1-Jul**	Payroll Admin	✓	✓		
Send chase up to employers re Year end return	**12-Jul**	Admin Year End				
CETV Amounts for Internal Transfers (HEAT)	**15-Jul**	General Admin	✓			
Pension Payroll tax pay-over - June deductions	**18-Jul**	Payroll Admin	✓	✓		
Pension Payroll - authorisation	**24-Jul**	Payroll Admin		✓		
Pension Payroll - payday	**31-Jul**	Payroll Admin	✓			
Addresses uploaded for ABS & Address Verified	**31-Jul**	General Admin	✓			
Early retirement strain costs invoices	**Monthly**	General Admin	✓	✓	✓	
Run Quarterly Firefighters CARE Employment Creation. See 5.3.1 Page 17 of Heywood Altair Release Guide Feb 2015 (2nd Edition)	**Quarterly**	General Admin	✓			
Active members ABS - LGPS/Fire (Deadline 31 August)	**Start Testing**	ABS	✓			
Deferred ABS – LGPS/Fire/Councillors (Deadline 31 August)	**Start Testing**	ABS	✓			

August

Activity			Pensions Team	ESCC	Mthly Report	Kingston Team
Monthly KPI	**1-Aug**	General Admin	✓		✓	
Agency Pay over authorisation – July deductions.	**1-Aug**	Payroll Admin	✓	✓		
HMRC Quarterly Tax Return	**13-Aug**	General Admin	✓			
CETV Amounts for Internal Transfers (HEAT)	**15-Aug**	General Admin	✓			
Pension Payroll tax pay-over – July deductions.	**20-Aug**	Payroll Admin	✓	✓		
Pension Payroll - authorisation	**20-Aug**	Payroll Admin		✓		
Pension Payroll - payday	**30-Aug**	Payroll Admin	✓			
Active members ABS - LGPS/Fire/Councillors (Deadline 31 August)	**30-Aug**	Statutory	✓			
Deferred ABS – LGPS/Fire/Councillors (Deadline 31 August)	**30-Aug**	Statutory	✓			
Annual Allowance – contact applicable members. Statutory deadline 6 Oct. Start running reports in Aug.	**Start 30-Aug**	Statutory	✓			
Early retirement strain costs invoices	**Monthly**	General Admin	✓	✓	✓	

September

Activity			Pensions Team	ESCC	Mthly Report	Kingston Team
Monthly KPI	**2-Sep**	General Admin	✓		✓	
Agency Pay over authorisation – August deductions	**2-Sep**	Payroll Admin	✓	✓		
CETV Amounts for Internal Transfers (HEAT)	**15-Sep**	General Admin	✓			
Pension Payroll tax pay-over – August deductions	**18-Sep**	Payroll Admin	✓	✓		
Pension Payroll - authorisation	**24-Sep**	Payroll Admin		✓		
Pension Payroll - payday	**30-Sep**	Payroll Admin	✓			
Early retirement strain costs invoices	**Monthly**	General Admin	✓	✓	✓	
Annual Allowance – contact applicable members. Statutory deadline 6 Oct.	**Ongoing**	Statutory	✓			

October

Activity			Pensions Team	ESCC	Mthly Report	Kingston Team
Monthly KPI	**1-Oct**	General Admin	✓		✓	
Agency Pay over authorisation – September deductions	**1-Oct**	Payroll Admin	✓	✓		
Send Annual Allowance letters to affected individuals	**5 Oct**	Statutory	✓			
CETV Amounts for Internal Transfers (HEAT)	**15-Oct**	General Admin	✓			
Pension Payroll tax pay over – September deductions.	**18-Oct**	Payroll Admin	✓	✓		
Pension Payroll - authorisation	**22-Oct**	Payroll Admin		✓		
Pension Payroll - payday	**31-Oct**	Payroll Admin	✓			
Early retirement strain costs invoices	**Monthly**	General Admin	✓	✓	✓	
Run Quarterly Firefighters CARE Employment Creation. See 5.3.1 Page 17 of Heywood Altair Release Guide Feb 2015 (2nd Edition)	**Quarterly**	General Admin	✓			
Even Years (2018 2020 etc) Run NFI Reports – deadline set by cabinet Office in Aug	**Every 2 years**	General Admin	✓			
Even Years (2018 2020 etc) Send NFI reports - deadline set by cabinet Office in Aug	**Every 2 years**	General Admin	✓			

November

Activity			Pensions Team	ESCC	Mthly Report	Kingston Team
Monthly KPI	**1-Nov**	General Admin	✓		✓	
Agency Pay over authorisation – October deductions	**1-Nov**	Payroll Admin	✓	✓		
HMRC Quarterly Tax Reporting	**14-Nov**	Statutory	✓	✓		
CETV Amounts for Internal Transfers (HEAT)	**15-Nov**	General Admin	✓			
Pension Payroll tax pay over – October deductions	**20-Nov**	Payroll Admin	✓	✓		
Pension Payroll - authorisation	**21-Nov**	Payroll Admin		✓		
Pension Payroll - payday	**29-Nov**	Payroll Admin	✓			
Early retirement strain costs invoices	**Monthly**	General Admin	✓	✓	✓	

December

Activity			Pensions Team	ESCC	Mthly Report	Kingston Team
Monthly KPI	**2 Dec**	General Admin	✓		✓	
Agency Pay over authorisation – November deductions	**2-Dec**	Payroll Admin	✓	✓		
Pension Payroll - authorisation	**TBC**	Payroll Admin		✓		
Altair Calander Bank Holidays for next Year	**7 Dec**	General Admin		✓		
Pension Payroll tax pay over – November deductions	**TBC**	Payroll Admin	✓	✓		
CETV Amounts for Internal Transfers (HEAT)	**15-Dec**	General Admin	✓			
Pension Payroll - payday	**20-Dec**	Payroll Admin	✓			
Agency Pay over authorisation – December deductions	**TBC**	Payroll Admin	✓	✓		
Early retirement strain costs invoices	**Monthly**	General Admin	✓	✓	✓	

Cfwd to 2020 & Beyond

Pension Payroll tax pay over – December deductions	**ST**	**Payroll Admin**	✓	✓			
Valuation - Next one in 2022	**Triennial**	**General Admin**	✓	✓			

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Audit	Date	Ref	Finding	Risk Rating	Agreed Action	Target Date	Requested Revised Target Date	Board / Committee Approval ?	Responsible Officer	Imple-mented?	Comments
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	1.1	We found that the payments of lump sums and transfers out to other pension providers are managed through a central spreadsheet. The spreadsheet, which is not password protected, has no audit trail and is accessible to all members of the Pension Administration Team, is forwarded periodically to the Business Operations Payment Team in order to set up new vendor records and new payments in SAP. The Pensions Administration Team Leader, who is a SAP approver, advised that the payments in SAP are only checked back to the spreadsheet, not to the source information held in Altair before being released for payment.	High	1. We shall instigate a project to standardise and align these controls by introducing a direct interface between Altair and SAP which will remove the need maintain a payments spreadsheet.	**01/03/2020**	**30/06/2020**		Nick Weaver	No	The leading LGPS administration systems have the ability to make one-off payments. For our current system it is the "Immediate Payments" module, which can either work in a stand-alone, or fully integrated way. To ensure proper control it needs to be fully integrated, requiring all other software components to be in place and up-to-date. The stand-alone version was implemented for the Surrey Fund on 1st May and the necessary work is starting to enable it to be fully integrated. The plan was to implement the stand-alone version at East Sussex from 1st June, integrating it as soon as the core system is up-to-date. However if there is to be a system change, later this financial year, this should be reassessed as changing financial controls twice in a period, as well as system will add risk and complexity.
		1.2		High	2. Until the interface has been implemented, we will ensure that all outgoing payments are correct and reconcile to members' records in Altair.	**01/02/2020**	**01/02/2020**		Clare Chambers	Yes	Short term - Team Leaders check the spreadsheet v SAP v Altair for every entry. Long term - Integrated Immediate Payments.
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	2.1	The Altair system calculates pension benefits for new pensioners. However, during testing, we found that in two out of 15 cases, the benefits had been calculated manually by the Pension Administration Team. We understand that this was because of delays in receiving documentation from the employer, in one case, and the employee in the other case. It is further understood that the Altair system cannot calculate benefits retrospectively. In reviewing these two cases, whilst we found evidence of signed checklists, the manual calculations were not completed using a formal template to aid consistency and there was no clear evidence that the calculations had been checked, for example by the signature of the checker at the foot of each page where system generated figures had been overwritten by manual calculations.	Medium	1. Aquila Heywood will be commissioned to implement system functionality to resolve the retrospective calculation issue together with relevant system controls and sign off controls.	**01/04/2020**	**30/06/2020**		Nick Weaver	No	This finding has been reallocated to the administration side. While the current software is is able to perform these calculations, it is not being done in our instance, as our core system is incomplete. (A module called "Admin to Pay", which links the Administration module to the "Pensioner Payroll" and "Immediate Payments" modules has not been implemented. Before this can happen the core system will need to be bought up-to-date and any historic customisations removed.)
		2.2	Furthermore, there is no clear governance process to support the over-writing of data held in Altair with manual figures because the supporting checklist does not adequately demonstrate that each step in the process has been completed and then checked. Testing of an additional 15 new pensions found a further four pension benefits that had been calculated manually. This suggests that around 20% of pension benefits involve a manual calculation although no errors were found during testing. A pension calculation is a longstanding calculation so an error at inception would pervade 20-30 years after the calculation was committed. This would affect all other calculations derived from that initial calculation.	Medium	2. Until a system-based solution is achieved, we will implement a template for recording manual calculations in order to aid consistency, reduce the risk of error and to provide a clear audit trail to demonstrate how the figures and the final benefit award were derived.	**01/02/2020**	**30/06/2020**		Nick Weaver	No	This will be addressed at the same time as 2.1 above. (Reallocated to Nick Weaver)
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	3.1	It was brought to our attention during the course of this audit that, the Pensions Administration Team (PAT) has been undertaking a range of salary-related calculations on behalf of East Sussex County Council, an employer in the scheme. The estimate of the resources used in making these calculations is two full time equivalent staff. These include: • final and career average revalued earnings (CARE) salaries; • leavers moving into deferred status; • leavers moving into retirement status; • refunds (for members with between three and 24 months' LGPS membership) • redundancy payments (including for non-LGPS employees). The PAT does not perform these calculations for other employers and such activities are not and should not be within the remit of the PAT who operate on behalf of the Pension Fund. We understand that this practice arose as a result of staff in the PAT being co-located with payroll staff and having access to the ESCC payroll system.	High	1. A technical solution is being developed to remove the need for these calculations to be made by the Pensions Administration Team.	**30/06/2020**	**30/06/2020**		Kevin Foster	No	
		3.2		High	2. A credit adjustment will be made to the annual pension administration charge to compensate the Fund, whilst the technical solution is being developed. The terms of the financial compensation plan will be worked through and presented to the Pension Committee.	**01/04/2020**	**01/04/2020**		Kevin Foster & Michelle King	No	It was agreed by the Head of Pensions and the chair of the Pension Committee that an examination of the contract is required to substantiate any potential claim of liability. A disclosure note advising that good governance project is being undertaken to clarify the related party transactions is all that is required at this stage
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	4	The Administration Service reported to the September 2019 Pension Board that 258 active members and 11,004 deferred members had not received their Annual Benefit Statements (ABS) for 2018/19. However, our testing identified further members who had not been sent their ABS, or had not been provided with written notification that their ABS are available on-line, as required under section 14 of the Public Service Pensions Act 2013. Specifically: 1. 1,780 members held in 'status 2' (undecided leavers) did not received their ABS; 2. 5,631 active members, where no email address was held, did not receive written notification that their statements were available on-line; and 3. New members were not advised in writing that their ABS was available on-line. Additionally: 4. There are 4,500 members held in 'status 9' (frozen refunds), who may also be entitled to an ABS, did not receive one; and 5. There are 9,535 deferred members, for whom we do not hold a current email address, and who did not receive an ABS. At the time of testing, these additional breaches had not been reported to the Pension Regulator.	High	Measures to ensure that all required ABS are issued by the statutory deadline for 2020 will include, but are not limited to: • A series of workshops to plan the end to end process; • The creation of a robust plan which sets out roles and responsibilities, milestones and objectives; • Consultation with key stakeholders and immediate communication of expectations from employers; • The identification of early tasks that need carrying out before 31 March; • The cleansing of data held in Altair prior to 31 March; • Establishing a membership baseline through the creation of a snapshot of the membership database – as at 31 March; • The identification of all members requiring an ABS; • A clear understanding that no assumptions are made in the absence of documentation from employers; • Appropriate communications with members in accordance with LGPS regulations. The final plan will be agreed with the Fund.	**30/06/2020**	**30/07/2020**		Mike Lea & Clare Chambers	No	Work is progressing with Hymans to incorporate the Data Improvement Plan results into the ABS' and to issue them by the agreed 31 July deadline.
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	5.1	We understand that a data cleansing exercise was undertaken during 2019 in preparation for the Triennial Valuation, which identified a number of critical errors, which have subsequently been corrected. We requested sight of information relating to the data cleansing process, including sight of the audit trail of changes made to extracted data. Whilst most of our questions relating to this data were answered satisfactorily, it remains unclear, at the time of reporting, why the number of deferred members reported appears to exceed the number of records on the extracted data. A high-level review of data in the live system was carried out, which identified a number of data quality issues, including: • Eight active member records, where one or more fields contained the word 'Delete' or 'Duplicate?', which casts doubt on the accuracy of these records. • Twelve active and 115 deferred members with temporary National Insurance numbers. • Fourteen deferred records where the date commenced employment, or the date commenced current employment were blank. • Six deferred cases where there was no record of the date that the member left active service. • We found 2,261 deferred cases where the reason for the change in status from Active to Deferred was not recorded.	Medium	1. The Fund has commissioned a data improvement programme to be carried out by Hymans Robertson, who will liaise with employers to correct any missing data or inaccuracies. The data collected will be provided to the Pensions Administration Service which will upload it onto Altair. Any changes between the snapshot provided to Hymans and the data held in the live system at the point of upload will be investigated and resolved.	**01/04/2020**	**15/06/2020**		Kevin Foster	No	Work is progressing with Hymans to incorporate the Data Improvement Plan results into the ABS' and to issue them by the agreed 31 July deadline. (It has been agreed that the data changes can now be made up until 15 June, on the proviso that Hymans will lead on following up the resulting employer EOY Return queries, due to the compressed timetable.)
		5.2		Medium	2. The Pension Administration Service will propose procedures and policies to maintain and enhance data quality and seek to obtain the relevant ISO quality accreditation. This will include consideration of capacity and the benefit and cost of establishing a new data quality team.	**01/04/2020**	**01/04/2020**		Mike Lea	Partial	The Service Improvement Plan includes the creation of a Data Quality team, which is currently being resourced.

Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	6	We understand that Status 8 is used in Altair for records that have been created in error. However, we reviewed a sample of six cases and found two records where members had opted out and had received a refund of contributions via payroll. These records had been moved to Status 8 in error and we understand that they have now been moved to Status 0 (opt Out) following the queries raised by Internal Audit.	Low	The Pension Administration Team will develop an improvement plan and identify specific administration resources to address Status 8 cases. It will share the plan with the Pension Board, to which it will also share progress reports. Consideration will be given to the creation of a new role - Compliance and Local Improvement Partner (CLIP), to co-ordinate and oversee improvements.	**01/06/2020**	**01/06/2020**		Mike Lea	Yes	Periodically a report of status 8 cases will be run to ensure it is being used correctly.
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	7.1	A review of cases held in Altair under 'status 2' (Undecided Leavers) and 'status 9' (Frozen Refunds) identified over 5,000 cases that had been in these status codes for more than a year and, in some cases, based upon the 'date left active service' field in Altair, extending back as far as 1975. A review of these cases, found that 449 members were above the retirement age, including 288 who were above the age of 70. Whilst we have not tested the reasons behind these cases, we have seen evidence of at least one transfer out where notification of a member's intention to transfer the pension had been received but had not been actioned because the Administration Team believed the information to be incomplete. When this matter was brought to the attention of the team, it was indicated that no action would be taken to address the issue because they believed it was not their responsibility to take any further action. From this, it may be inferred that it is possible that other notifications have been received but not processed, which would result in cases remaining indefinitely in a suspense account.	Medium	1. The Pension Administration Team will develop an improvement plan and identify specific administration resources to address Status 2 and Status 9 cases. It will share the plan with the Pension Board, to which it will also share progress reports.	**01/04/2020**	**01/04/2020**		Mike Lea	No	On 31 March 2020 there were 512 status 2 and 5,031 status 9 cases When the system software enables calculations and payments to be fully integrated it would be good practice to analyse the outstanding refund cases and develop an appropriate plan.
		7.2		Medium	2. Consideration will be given to the creation of a new role - Compliance and Local Improvement Partner (CLIP), to co-ordinate and oversee improvements.	**01/04/2020**	**01/04/2020**		Kevin Foster	Yes	
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	8.1	We understand that there is no process in place to update addresses for employees who opt out and defer their pensions, even though employers hold this information.	Low	1. The Pension Administration Team will develop an improvement plan and identify specific administration resources to capture changes of address for all deferred members. It will share the plan with the Pension Board, to which it will also share progress reports.	**01/06/2020**	**01/06/2020**		Clare Chambers	Yes	This should be part of the standard deferred benefit process.
		8.2		Low	2. Consideration will be given to the creation of a new role - Compliance and Local Improvement Partner (CLIP), to co-ordinate and oversee improvements.	**01/06/2020**	**01/06/2020**		Kevin Foster	Yes	
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	9.1	The previous year's audit reported that a data cleansing exercise had been carried out, which had identified 14,000 queries and 67,000 warnings, where data may contain errors or be incorrect. It was agreed that all errors and/or warnings from the membership data cleansing exercise would be investigated and the data would be amended, if it was found to be incorrect. This action has not been carried out and it was noted that the 2019/20 data cleansing exercise for the triennial valuation identified 137,911 warnings.	High	See Action 5, above.	**01/04/2020**	**15/06/2020**		Kevin Foster	No	
		9.2		High	See Action 5, above.	**01/04/2020**	**01/04/2020**		Mike Lea	No	The Service Improvement Plan includes the creation of a Data Quality team, which is currently being resourced.
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	10.1	Testing of a sample of deferred pensions found that new deferred tasks are not always allocated to members of the Pensions Administration Team for processing immediately. We found that eight out of 15 cases tested had not been processed promptly, with an average delay of nine weeks before the tasks were allocated in these cases. The KPI for deferred pensions sets a target to process 98% of all deferred cases within 25 days of receipt. The KPI's between November 2018 and July 2019 state that the target has been met. However, the way that the figures are calculated does not take account of the delay in allocating new cases and, therefore, the published KPI for deferred cases is overstated.	Medium	1. This issue will be resolved by the transfer of responsibility for the final pay calculations for ESCC employees to the County Council.	**30/06/2020**	**30/06/2020**		Kevin Foster	No	
		10.2		Medium	2. Until such time that final pay calculations are transferred to ESCC, the KPI for deferred pension transactions will exclude ESCC Pension Fund members.	**01/02/2020**	**30/06/2020**		Clare Chambers	No	This will be resolved as a result of the 10.1 agreed action.
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	11	The Pension Administration send out an annual return at the end of each year relating to members' annual allowances. For new members transferring into the fund, this information needs to be collected from the previous employer. We tested a sample of transfers into the Pension Fund. We found that, in one out of five cases, the member's annual allowance information had not been received from the previous employer but that the checklist had been approved as complete, despite the step to obtain the annual allowance information being left blank. Further enquiries confirmed that there were five other transfers in where the annual allowance was missing. In three of these cases, checklists had been marked to show the transactions as complete. The remaining checklists differed and did not cover the receipt (or not) of annual allowance information. The closing of transfer-in cases before all steps have been completed also has a positive and misleading impact upon the KPIs.	Low	We will review the process and the Transfer In checklist to ensure that the most efficient use is made of our resources. We shall review the KPI report to ensure all relevant information is included and that reports provided to the Board and Committee are clear.	**01/06/2020**	**30/06/2020**		Clare Chambers	No	The capture of Annual Allowance information when completing an interfund is not mandatory or statutory. It is done by the administration team to make the end of year Annual Allowance process quicker.
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	12	Testing revealed that 80% of complaints to the Pensions Administration Team were not responded to within 10 days, in accordance with Orbis service standards, increasing the risk of reputational damage. It was also noted that there is a lack of information recorded within the Complaints Log, with some fields being left blank. Furthermore, some members' feedback, which could reasonably be considered to be complaints, is recorded as comments, thus avoiding the need to include them in the statistics. In addition, we found that some complaints had not been recorded within the KPI figures presented to the Committee or Board, whilst all compliments, including those relating to a fund managed on behalf of another authority were, thus reducing the accuracy with which Members are able to view the administration's performance.	Low	KPI statistics will be checked to ensure that they are complete and only include data relating to the East Sussex Pension Fund. Accompanying narrative on the cause of each failure will be provided together with proposals to rectify any failures.	**01/05/2020**	**30/06/2020**		Clare Chambers	No	Only complaints for the East Sussex Fund are reported as part of the KPI reporting. Any KPI failures have an accompanying commentary as part of the report.
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	13	During testing, we found evidence of correspondence having been sent to a member threatening to suspend their pension unless they responded to the letter to confirm that they were still alive. In this case, correspondence had previously been returned marked 'Unknown at this address'. However, at the date of testing, which was a month past the specified deadline, the pension was still in payment. We understand that the reason why the pension was still in payment was because the Pension Administration Team had not sought or received approval from the Governance Team to suspend the member's pension benefit.	Medium	A process, including clearly defined roles and responsibilities, between the Pension Fund and the administration will be developed and agreed with the Pension Fund.	**31/03/2020**	**31/03/2020**		Michelle King & Clare Chambers	Partial	The Good Governance Working Party resolved on 19-05-20 that the roles and responsibilities is due to be agreed by Committee in September 2020. There has been a delay by Orbis in agreeing these documents therefore additional time has been agreed by the Working Party.
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	14	The Pensions Regulator expects pension administrators to maintain complete and accurate records and has published guidance on the minimum data that it expects trustees and scheme managers to hold. Of the eleven common data fields specified by the Regulator, nine are mandatory in Altair. Although we did ask for clarification from management about the other two mandatory fields, no response was forthcoming and it remains unclear why the 'Address' and 'Post Code' Fields are not mandatory.	Low	We will approach the software vendor (Aquila Heywood) to investigate the possibility of making the address fields mandatory, including any potential cost implications.	**31/05/2020**	**30/06/2020**		Nick Weaver	No	This will be addressed at the same time as 2.1 above. (Reallocated to Nick Weaver)
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	15	The previous audit (2018/19) identified an employer, which had left the Fund, but could still access the employer portal (Pensions Web). It was agreed that the employer's account would be deleted and all employers with access to Pensions Web would be contacted to confirm their employees who need access to the system on an annual basis. We found that that the employer account referred to above had been deleted. However, there was no record to confirm whether all employers had been contacted to confirm who needed access to Pensions Web.	Low	We will write to all employers with access to Pensions Web to confirm the employees who need access to the system on an annual basis.	**31/05/2020**	**30/06/2020**		Clare Chambers	No	Systems and Support Team to document a process for maintaining access to PensionsWeb for scheme employers.
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	16	The previous audit (2018/19) found that five out of 32 users who had access to Altair had left the Council. It was agreed that the users' accounts would be deleted and that a review of user access to Altair would be undertaken, at least on an annual basis. We found that the five users' accounts identified during the last audit had been deleted. However, the review of user accounts had not been completed.	Low	A review of user access to Altair will be undertaken annually and evidence of the review will be maintained.	**31/05/2020**	**30/06/2020**		Clare Chambers	No	Systems and Support Team to document a process for maintaining access to Altair for Orbis PAT.

Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20	17	The previous audit (2018/19) found that the Pensions Regulator requires each scheme to have developed a set of scheme specific data items that should be present for each member. No scheme specific data set has been defined.	Medium	The Pension Administration Team will develop a set of scheme-specific data, including considering guidance from outside bodies, as necessary. This will be presented to the Board for approval.	**31/03/2020**	**31/03/2020**		Mike Lea	Yes	This is independently governed, with TPR definitions
Pension Fund Administration, People, Processes and Systems, 2019/20	Jan-20		The previous audit (2018/19) found that Surrey County Council (as the pension administration service provider within Orbis) is responsible for developing an annual schedule of tasks that will be agreed by East Sussex County Council. The annual schedule sets out a timetable of key pension activities that should be completed by the service provider, including statutory activities such as submitting tax returns and issuing annual benefit statements. However, the annual schedule for 2018 was not developed, despite requests from the Council. It was agreed that an annual schedule of key pension activities would be presented to the Council for approval by the start of each calendar year. Whilst a schedule has been produced for 2019, it has not been shared with, and approved by, the Pension Fund.	Medium	We shall develop and submit an annual schedule of key pension activities to the Council for approval by the start of each calendar year. We shall ensure that the schedule includes all statutory returns and reports.	**31/03/2020**	**31/03/2020**		Clare Chambers	Partial	The 2020 Annual Schedule has been drafted and being submitted to the 8 June Local Pension Board.
Pension Fund - Compliance with Regulatory Requirements 2019/20	Jan-20	18	All breaches or potential breaches should be recorded in a log which should be used to inform the Pension Board and Pension Committee on a regular basis. Our testing found two versions of the breaches log, neither of which appeared to be complete. The log does not always record: • whether the breach was reported to the Pension Board; • whether the breach was reported to the Pension Committee; • whether the breach is open or closed; or • the breach's RAG status. Moreover, the log has no provision to capture: • whether the breach has been reported to the Pension Regulator; • who decided to report the breach; or • who made the decision to close the breach.	Medium	Aon and Eversheds Sutherland have been commissioned to determine a breaches policy, breaches log and breaches procedure which complies with Regulation. This will be agreed at the Pension Board on 2nd March and Pension Committee on 16th March.	**16/03/2020**	**16/03/2020**		Michelle King	Yes	The Policy has been prepared and is included in the scope of the Good Governance Review. This is due to be agreed by the Pension Committee on the 22 June 2020 and presented to the Pension Board on 8 June 2020.
Pension Fund - Compliance with Regulatory Requirements 2019/20	Jan-20	2	The Reporting Breaches Policy states that breaches or likely breaches should be reported to the Pension Committee, Pension Board and, where necessary, the Pension Regulator. Despite the incomplete nature of the breaches log (see ref 1, above), the entries that had been made indicated that few breaches had been reported to the Pension Committee or Pension Board. As previously mentioned, the log does not record whether breaches have been reported to the Pension Regulator.	High	All officers will be reminded to comply with the Breaches Policy and Procedures to be agreed at Pensions Committee on 16 March 2020. This policy will ensure that the reporting of breaches complies in full with the provision of the Regulator's Code of Practice.	**01/04/2020**	**01/04/2020**		Michelle King	Yes	The Policy has been prepared and is included in the scope of the Good Governance Review. This is due to be agreed by the Pension Committee on the 22 June 2020 and presented to the Pension Board on 8 June 2020.
Pension Fund - Compliance with Regulatory Requirements 2019/20	Jan-20	3	There is currently no Service Level Agreement in place between the East Sussex Pension Fund and Business Operations, which provides its Pension Administration Service. The only document that sets out the service to be provided, is a Statement of Requirements, which is dated 2013, and does not cover more formal responsibilities in the event that service provision falls below the expected standard.	High	Aon, Eversheds Sutherland and Hymans Robertson to produce three Service Level Agreements which sit under the umbrella of the current Inter-Authority Agreement (IAA). Eversheds are updating the IAA to ensure compliance with GDPR provisions and to determine the roles and responsibilities of the Data Owner, Data Controller and Data Administrator. The following Service Level Agreements (SLAs) are sub sections of the IAA agreement. Aon are preparing a SLA between the Fund and the Administrator which will be performance managed through the Performance Management Group which is a newly formed governance vehicle to conduct oversight of the operational requirement. A separate SLA for actuarial services to determine performance between Orbis and the actuary is commissioned to ensure that information is provided to the actuary in a timely, accurate and complete manner. All SLAs will form appendices to the IAA and will be ratified by the Pension Committee on 16th March 2020. The IAA will be further, retrospectively, ratified by the Pension Committee on 16th March 2020.	**16/03/2020**	**01/07/2020**		Michelle King	Partial	Dependant on production of SLA through Good Governance Review. The Good Governance Working Party resolved on 19-05-20 that the roles and responsibilities is due to be agreed by Committee in September 2020. There has been a delay by Orbis in agreeing these documents therefore additional time has been agreed by the Working Party. Philip Baker has advised that no changes will be made to the IAA. The SLA will sit outside of the IAA.
Pension Fund - Compliance with Regulatory Requirements 2019/20	Jan-20	4	In accordance with regulations, there is an Internal Dispute Resolution Procedure Guide available which provides a formal process to handle and escalate complaints. However, there is no policy or procedure in place for the resolution of customer complaints at a basic level, prior to this escalation.	Low	The implementation of a Service Level Agreement, as agreed in reference three, will set out the Fund's requirements of the administration in relation to complaints handling; this will be discussed at Pension Committee on 16th March 2020.	**16/03/2020**	**16/03/2020**		Michelle King	Partial	Dependant on production of SLA through Good Governance Review. The Good Governance Working Party resolved on 19-05-20 that the SLA is due to be agreed by Committee in September 2020. There has been a delay by Orbis in agreeing these documents therefore additional time has been agreed by the Working Party. In relation to complaint handling by the Pension Fund at a basic level the Pension Fund follows the ESCC Complaints processes. The Orbis Pension Administrator as a supplier to the Pension Fund will need to provide the method statement agreed by CIPFA within the National Framework Procurement detailing the provisions for complaint handling in the tender.

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Report to:	**Pension Committee**
Date:	**22 June 2020**
By:	**Chief Financial Officer**
Title of report:	**Pension Fund Business Plan and Budget 2020/21**
Purpose of report:	**This report updates the 2020/21 business plan at Quarter 1 for the East Sussex Pension Fund.**

RECOMMENDATION – The Board is recommended to

1. **Note the updated business plan; and**
2. **Note the new workstream for ill health retirement planning.**

1. Background

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

1.2 The business plan and budget 2020/21 sets out the direction of travel, objectives and targets to be achieved 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.

1.3 As reported at the last meeting the budget estimates do not incorporate any provision for investment fees earned by the alternative fund managers since these are deducted at source by asset managers, however the Fund will begin from September 2020 to monitor fees. In addition, the Fund has not received a quotation for pension administration costs for this financial year for approval by pension committee. This will be explored with the Chief Operating Officer with a view to presenting a budget for approval in September 2020.

2. 2019/20 Investment and Administration Expenses Outturn and 2020/21 Budget Report

2.1 In March 2020 the Pension Fund Committee agreed a budget of £3.795M (2019/20: £4.857M) revised downward at quarter one to £3.730M due to budget adjustments in respect of the Data Improvement Plan, and ESG suppliers, PIRC and EIRIS.

2.2 The 2019/20 Outturn is £5.36M, against a budget of £4.86M resulting in an overspend of £0.5M.

2.3 The attribution of the overspend, in the main relates to programmes and projects arising from service performance shortfalls which were not included in budget setting in February 2019. These are set out in below in Para. 2.4 to 2.6.

2.4 The Good Governance Scheme Advisory Board Project commenced in November 2019 supported by the Good Governance Working Party, Aon Advisory and Eversheds

Sutherland. The overspend in 2019/20 attributable to Good Governance is £0.09M. The additional budget to complete the Good Governance Project in 2020/21, and which is due to be completed and reported to Pension Committee in September 2020 is £0.05M.

2.5 The Data Improvement Programme commenced in October 2019 following the results of the failed Annual Benefit Statement Exercise for 2019 and all prior years to 2015. The Pension Committee formed the Data Improvement Project and ABS Working Group supported by Hymans Robertson Actuarial. The overspend attributable to Data Improvement is £0.08M.

2.6 There has been significant input by the Actuary in managing the valuation which was 10 weeks late due to data errors. This additional work to rectify administration errors contributed to the increase resource required from the Actuary - contributing to an overspend of £0.2M. Additional support was also required from the Fund's legal advisor during this time which contributed to an overspend of £0.08M

2.7 The 2019/20 outturn against line items is shown at Table 1 in Para. 3 below. The table also shows the budgeted expenditure for 2020/21 and the budgetary performance to Quarter 1.

3. Table 1 2019/20 Outturn and 2020/21 Budget Report

2019/20 Outturn £000	Item	2020/21 Budget £000	2020/21 Q1 Outturn £000	2020/21 Outturn £000
	Pension Fund Oversight and Governance			
345	Actuarial Fund Work[1]	250	62	250
97	Actuarial Employer Work[2]	150	37	150
(97)	Employer reimbursement[2]	(150)	(37)	(150)
88	Good Governance Program	47	12	47
75	Data Improvement Program[3]	100	25	100
8	Independent Pension Board Chair	5	1	5
307	Fund Officers[4]	385	96	385
30	External Audit – Grant Thornton	26	6	26
17	Internal Audit	19	4	19
119	Legal Fees[5]	115	29	115
11	Subscriptions and other Expenses	70	17	70
1,000	**Sub Total**	**1,017**	**252**	**1,017**
	Investment activities			
114	Investment Consultant	120	30	120
0	PIRC ESG Report	11	11	11
0	EIRIS Carbon Report	24	24	24
11	Independent Advisor Basic	12	3	12
5	Independent Advisor Project work	8	2	8
54	Custodian	150	37	150
3,003	Investment Manager Fee Invoices[7]	1,200	300	1,200
3,187	**Sub Total**	**1,525**	**407**	**1,525**
	ACCESS			
67	ACCESS Support Unit[8]	98	35	98
(3)	Fund Officer Time Rebates[8]	(20)	0	(20)
64	**Sub Total**	**78**	**35**	**78**
	Pension Board/Committee Training:			
0	Training Costs[9]	30	0	30
0	**Sub Total**	**30**	**0**	**30**
1,106	**Pension Administration:**	**1,080**	**270**	**1,080**
5,357		**3,730**	**964**	**3,730**

4. Ill Health Retirement Workstream

4.1 The Fund has not determined its approach to managing ill health early retirement risk within the Fund. The actuary has prepared a report at Appendix 2 in this regard as a late addition to the business plan workstreams.

4.2 When an LGPS member is awarded early retirement on grounds of ill health there is an increase in the pension liability for the participating employer ("the strain cost"). This results from:

- early payment of the pension compared to under normal retirement; and
- an increase in the benefits payable to the member through augmentation awarded on ill-health retirement (either based on full prospective service to retirement for a Tier 1 early retirement or 25% of prospective service for a Tier 2 early retirement).

4.3 At present the Fund's approach is that employers effectively self-insure by making a contribution towards potential ill health strain costs via a small proportion of their total contribution rate. While this method of managing costs works well for larger employers (e.g. Councils) where large numbers of members make strain costs relatively predictable, it is more variable and unpredictable for medium or smaller employers (e.g. Academies). There is a risk that some employers in the Fund may be unable to meet the strain cost arising from an ill-health early retirement. In the worst-case scenario, the increased deficit and contributions could put an employer out of business.

5. Conclusion and reasons for recommendation

5.1 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 and considerations associated with delivering the Funds Business Plan.

5.2 The new workstream for ill health retirement planning will set out the approach that the Fund takes to managing strain costs for medium or smaller employers (e.g. Academies) in the Fund.

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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 **£3.730m** (£3.795m February 2020 £4.857m for 2019/20) to support the business plan for 2020/21 is detailed below in Table 1:

Table 1 Pension Fund Management Expenses projection for 2020/21 based on April 2020 known costs

2019/20 Outturn £000	Item	2020/21 Budget £000	2020/21 Q1 Outturn £000	2020/21 Outturn £000
	Pension Fund Oversight and Governance			
345	Actuarial Fund Work[1]	250	62	250
97	Actuarial Employer Work[2]	150	37	150
(97)	Employer reimbursement[2]	(150)	(37)	(150)
88	Good Governance Program	47	12	47
75	Data Improvement Program[3]	100	25	100
8	Independent Pension Board Chair	5	1	5
307	Fund Officers[4]	385	96	385
30	External Audit – Grant Thornton	26	6	26
17	Internal Audit	19	4	19
119	Legal Fees[5]	115	29	115
11	Subscriptions and other Expenses	70	17	70
1,000	**Sub Total**	**1,017**	**252**	**1,017**
	Investment activities			
114	Investment Consultant	120	30	120
0	PIRC ESG Report	11	11	11
0	EIRIS Carbon Report	24	24	24
11	Independent Advisor Basic	12	3	12
5	Independent Advisor Project work	8	2	8
54	Custodian	150	37	150
3,003	Investment Manager Fee Invoices[7]	1,200	300	1,200
3,187	**Sub Total**	**1,525**	**407**	**1,525**
	ACCESS			
67	ACCESS Support Unit[8]	98	35	98
(3)	Fund Officer Time Rebates[8]	(20)	0	(20)
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	Pension Board/Committee Training:			
0	Training Costs[9]	30	0	30
0	**Sub Total**	**30**	**0**	**30**
1,106	**Pension Administration:**	**1,080**	**270**	**1,080**
5,357		**3,730**	**964**	**3,730**

[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] New budget items determined after procurement of services.
[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 phase 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 Business plan deliverables by key theme

Theme	Tasks	2020/21 activity	Action Update
Fund Oversight and Governance activities	Fund/Employer actuarial work	2019 Valuation close-off/	Actuarial Valuation completed by the 31 March 2019 and submitted by the Actuary to MHCLG.
		Employer accounting reports/Employer requests/ Bulk Transfers calculations	SLA between Orbis and Pension Administration awaiting agreement by Orbis.
		Regular meeting attendance / Officer Support	Actuary attendance on 8 June 2020 and 22 June 2020
		Employer asset tracking (HEAT)	Employer FRS102 and IAS 19 reporting generated through HEAT with returns due by (July 2020)
		Benefits Consultancy and Governance support/Club Vita longevity analysis/	Actuary consultancy undertaken in regard to errors in Pension Increase calculation and to agree the deferral of contributions policy and exit credit policy.
	Fund external legal advice	LGPS specific legal advice provided by external specialist lawyers.	Legal consultancy undertaken in regard to deferral of contributions and exit credit policy and employer admissions and cessations.
	Pension Fund Annual Report	Statutory documents produced once a year providing information on the Pension Fund activities over the past	Annual report and Accounts are

Theme	Tasks	2020/21 activity	Action Update
	and Accounts	year.	outstanding. Draft accounts due to be submitted to Grant Thornton by 22 May 2020.
	External audit	External Audit: statutory audit of the 2019/20 Pension Fund accounts.	Draft accounts due to be submitted to Grant Thornton by 22 May 2020.
	Internal audit	Internal Audit: delivery of the 2020/21 Internal Audit Plan	Internal Audit update of management actions included in the Appendix to this business plan.
	Good Governance	Implementing the Good Governance Project to ensure that the Pension Fund has appropriate governance in place.	The governance project has ended with a report to the board and committee planned to take place on 27 May 2020.
	Procurements	Strategically important procurement of Investment Consultant and Actuary	The following procurements have commenced under the national frameworks for the: Actuary; Investment Advisor, Benefit Consultancy. Tenders are due to be advertised in June with evaluations in August for decision by Pension Committee in September 2020. The evaluation committee Michelle King, William Bourne, Russell Woods.
Investment activities	Review and implement agreed changes to the	Implement any strategic changes agreed at the Q1 2020 strategy review. Review the Fund's private markets programme.	Asset Liability Model taking place in May 2020 to determine passive/active mix; private

Theme	Tasks	2020/21 activity	Action Update
	Fund's equity structure	Review Passive/Active investment position. Review the Income generation of the Fund's investments. Once the strategic allocation to equities is agreed, discuss and agree on the equity structure and implement any agreed changes	markets; infrastructure, protection and ESG assets. Revised strategic asset allocation to be determined and presented to the Committee in June 2020. Equity structure to be determined within this process.
	Review and implement new investment strategy	Discuss strategy at the annual strategy day.	Investment strategy and revision to ISS to be discussed in June 2020.
	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.	This action has commenced with a report to September Committee Action in progress – Sept 2020 Committee Report Q1 Report to June 2020 Committee
	Assistance with annual accounts completion	Prepare the usual information for the Report & Accounts, including performance and private markets summary	Action presently outstanding
ACCESS	ACCESS Support Unit Actively managed listed assets	The size and scope of the ASU will be reviewed during 2020/21. The completion of pooling active listed assets within the Authorised Contractual Scheme (ACS). Ongoing monitoring and engagement with the operator and investment managers of the ACS sub-funds	Workstream not commenced.

Theme	Tasks	2020/21 activity	Action Update
	Alternative / non listed assets	The initial implementation of pooled alternative assets.	
	Passive assets	Ongoing monitoring and engagement with UBS.	
	Governance	The application of appropriate forms of governance throughout ACCESS.	
Pension Board/Committee Training	3 joint Training days	Provision of speakers to deliver East Sussex Pension Fund lead training.	Training strategy presented in June 2020
	2 Investment Strategy days	Commissioning work to examine the current investment strategy	In place in section on ALM.
	Third party training	Identifying useful third party provided session that will be useful for ESPF to attend.	Training strategy presented June 2020
Pension Administration	Performance Management Group	Overseeing the activities of the administration service.	Workstream planned to commence in July 2020
	Maintaining Member Data / Data / Improvement Plan	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.	Data Improvement Programme underway - report in this agenda
	ABS Production	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.	ABS programme underway – report in this agenda.

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.

Managing ill-health early retirement risk

Purpose

This paper has been requested by and is addressed to East Sussex County Council as the Administering Authority to East Sussex Pension Fund ("the Fund"). It is intended to provide a general overview of some issues and considerations surrounding the risk to funds in the Local Government Pension Scheme ("LGPS") of ill health early retirements and the associated additional costs of these. We summarise the various risk mitigation options available. This paper is not intended to provide advice and should be read as such.

Ill Health Early Retirements costs

When an LGPS member is awarded early retirement on grounds of ill health there is an increase in the pension liability for the participating employer ("the strain cost"). This results from:

- early payment of the pension compared to under normal retirement; and
- an increase in the benefits payable to the member through augmentation awarded on ill-health retirement (either based on full prospective service to retirement for a Tier 1 early retirement or 25% of prospective service for a Tier 2 early retirement).

Ill health early retirements are relatively infrequent (around 1 to 2 per 1,000 employees per annum) but variable and unpredictable. The number and cost can vary significantly from year to year for an employer and at whole fund level. Examples of actual member strain costs experienced from the Fund are given below. These represented an immediate increase to the liabilities (and hence likely deficit) of the employer.

Employer	Member age	Member salary	Tier 1 strain cost	Employer payroll
Council	50	£75,000	£567,000	£133.0m
College	45	£39,000	£534,000	£2.9m
Admitted body	49	£19,000	£163,000	£1.0m
Academy	34	£20,000	£155,000	£2.2m
Town council	36	£18,000	£110,000	£0.3m

At present the Fund's approach is that employers effectively self-insure by making a contribution towards potential ill health strain costs via a small proportion of their total contribution rate. For example, East Sussex County Council pay around 0.9% of pay per annum, but this amount varies from employer to employer depending on membership profile. When a member retires due to ill health the strain cost is allowed within the liability at the next valuation and subsequently recovered within future contributions. This contribution arrangement works well for larger employers (e.g. Councils) where large numbers of members make strain costs relatively predictable, but not for medium or smaller employers (e.g. Academies). There is a risk that some employers in the Fund may be unable to meet the strain cost arising from an ill-health early retirement. In the worst-case scenario, the increased deficit and contributions could put an employer out of business.

Risk management options

Given the above disparity and risk, it has become good practice within the LGPS for funds to have an ill health cost management and mitigation approach. This typically involves either (a) insuring some or all employers via a third party insurer or (b) through internal cost sharing between employers. Each is considered below.

(a) Ill health insurance

In exchange for a premium, ill health liability insurance involves an external insurer paying a lump sum equal to the strain cost in the event of an employer's member retiring on ill health grounds. This effectively offsets the additional liabilities in the Fund. Legal & General is the established LGPS provider of the insurance with policies in place across 20 funds with around 1,500 employers covered.

There are three main options for the Fund to use ill health insurance:

- Whole Fund insurance covering all employers
- Partial Fund insurance covering a group of employers selected by the Fund (e.g. small/medium employers)
- Employer "Choice" insurance where each employer holds its own policy, should it elect to do so

The premium for the insurance is calculated as a percentage of each employer's pay and the employer's own regular contributions to the Fund are reduced by the premium. This ensures the employer's annual cash payments to the Fund are the same whether it insures or not. This ensures they are not effectively "paying twice" for ill health costs.

The Fund obtained insurance quotes from Legal & General in 2017 but did not pursue at that stage. The premiums are set out below for context (noting that these are no longer valid, and a revised quote will be required):

- Whole Fund insurance - 0.98% of pay
- Partial Fund insurance – 1.01% of pay
- Employer "Choice" insurance – 1.50% of pay

As with any insurance product, there is a risk that the Fund or employer has fewer ill health early retirements than expected, and so the insurance premium will be higher than the claims made.

Given the points raised above that the current contribution arrangement works well for larger employers, we would question if insurance across all employers (i.e. Whole Fund insurance) is required.

In addition, there is some concern that if employers were offered the choice some may not have the time or knowledge to make an informed decision on what is quite a complex issue. In particular, this may apply to those small and medium sized employers most at risk.

(b) Internal cost sharing

An alternative to external insurance is internal cost sharing or "self-insurance". This is simply an internal pooling arrangement between employers within the Fund. With cost sharing, employers with good experience subsidise those with poor experience.

The benefit to the Fund is that employers are not giving up profits to the insurer should experience be good.

Other LGPS funds have found that a major stumbling block to this approach is that employers are normally unhappy to cross-subsidise other employers in such an explicit manner. Therefore, Officers would recommend an employer consultation is carried out to explain the cost sharing approach.

In addition, there is also a danger with this approach that employers become less thorough in their decision-making process to allow an employee to ill health early retire i.e. in being aware they are only partly responsible for their own costs.

The Fund's actuary would implement the internal ill health cost sharing as part of the formal valuation process. The cost of setting up and running the arrangement would be small relative to total strain costs.

Next steps

Currently, Fund employers are (often unwittingly) exposed to ill health strain cost risk, both from their own adverse experience but also from the cost of another employer becoming insolvent as a result of unaffordable strain costs. We would suggest the Fund reviews this paper and considers putting in place an ill health risk management approach to mitigate these risks.

We would recommend a short call to discuss any questions you may have before proceeding.

Reliances and limitations

This paper has been commissioned by East Sussex County Council. It intended for the use by East Sussex County Council only for the purposes of considering its options to manage ill-health early retirement risk.

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The following Technical Actuarial Standards[1]are applicable in relation to this report and have been complied with where material:

- TAS 100; and
- TAS 300.

[1] Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council (FRC) and set standards for certain items of actuarial work.

Prepared by:-

Robert McInroy FFA Richard Warden FFA

May 2020

For and on behalf of Hymans Robertson LLP

Report to: **Pension Committee**

Date of meeting: **22 June 2020**

By: **Chief Finance Officer**

Title: **External Audit Plan for the East Sussex Pension Fund 2019/20 and PSAA Fee Scales 2020/21**

Purpose: **To inform the Committee of the content of the East Sussex Pension Fund's External Audit Plan for 2019/20, together with the fees for 2020/21**

RECOMMENDATIONS

The Committee is recommended to

1. **approve the External Audit Plan for the East Sussex Pension Fund for 2019/20**
2. **note the Public Sector Audit Appointments Fee Scales 2020/21 letter**

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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 four 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)
- COVID-19

2.2 The timescales for the production of the accounts have been moved back such that the unaudited draft financial statements will be produced by the first part of June 2020 (in previous years the deadline was 31 May), as they form part of the East Sussex County Council's statement of accounts. The audit will be conducted from 22 June 2020.

2.3 The proposed 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 12 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 for from 2018/19; so an increase in fees may be expected. The proposed variations to the core fee will be assessed the PSAA for reasonableness.

2.5 The PSAA Fee Scales letter at Appendix 2, provides an update on national issues impacting on external audit, together with the proposed fee for 2020/21. The core fee, prior to any agreed variations, for 2020/21 has been set at 20,487, the same level as 2019/20.

3. Conclusion and Recommendation

3.1 The Committee is recommended to approve the 2019/20 External Audit Plan and note the letter from the PSAA.

IAN GUTSELL
Chief Finance Officer

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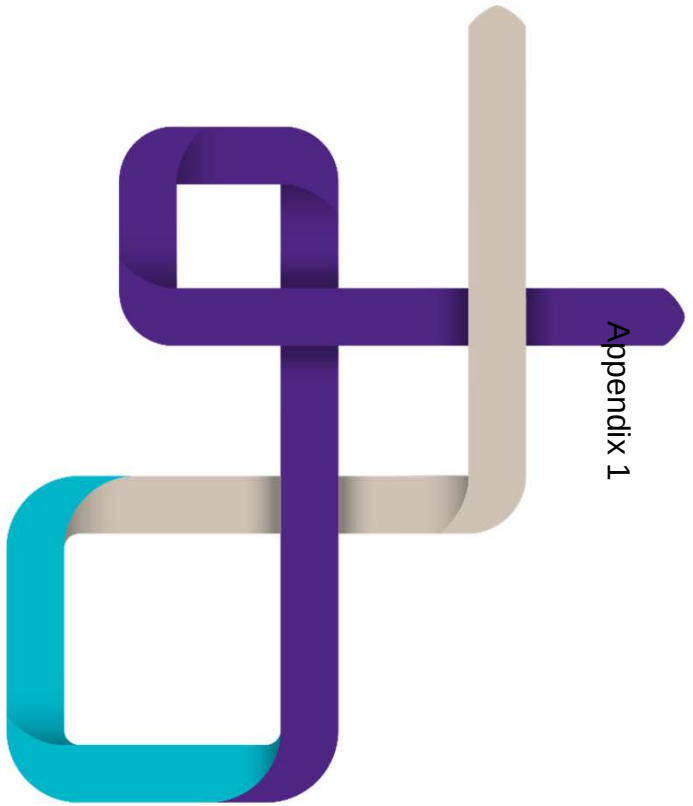
Background Documents
None

External Audit Plan

Year ending 31 March 2020

East Sussex Pension Fund

27 April 2020



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Section	Page
1. Introduction & headlines	3
2. Key matters impacting our audit	4
3. Significant risks	5
4. Other matters	8
5. Materiality	9
6. Audit logistics & team	10
7. Audit fees	11
8. Audit fee variations – Further analysis	12
9. Independence & non-audit services	13

The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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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; • Covid-19. 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..

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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 Covid-19 has spread 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 Covid-19
- We have included a financial statement level significant risk in this audit plan in relation to Covid-19.
- 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.

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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.

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3. Significant risks

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
Covid-19	The global outbreak of the Covid-19 virus pandemic has led to unprecedented uncertainty for all organisations, requiring urgent business continuity arrangements to be implemented. We expect current circumstances will have an impact on the production and audit of the financial statements for the year ended 31 March 2020, including and not limited to; • Remote working arrangements and redeployment of staff to critical front line duties may impact on the quality and timing of the production of the financial statements, and the evidence we can obtain through physical observation • Volatility of financial and property markets will increase the uncertainty of assumptions applied by management to asset valuation, and the reliability of evidence we can obtain to corroborate management estimates • For instruments classified as fair value through profit and loss there may be a need to review the Level 1-3 classification of the instruments if trading may have reduced to such an extent that. quoted prices are not readily and regularly available and therefore do not represent actual and regularly occurring market transactions. • Whilst the nature of the Fund and its funding position (i.e. not in a winding up position or no cessation event) means the going concern basis of preparation remains appropriate management may need to consider whether material uncertainties for a period of at least 12 months from the anticipated date of approval of the audited financial statements have arisen; and • Disclosures within the financial statements will require significant revision to reflect the unprecedented situation and its impact on the preparation of the financial statements as at 31 March 2020 in accordance with IAS1, particularly in relation to material uncertainties. We therefore identified the global outbreak of the Covid-19 virus as a significant risk,	We will: • Work with management to understand the implications the response to the Covid-19 pandemic has on the organisation's ability to prepare the financial statements and update financial forecasts and assess the implications on our audit approach • Liaise with other audit suppliers, regulators and government departments to co-ordinate practical cross sector responses to issues as and when they arise • Evaluate the adequacy of the disclosures in the financial statements in light of the Covid-19 pandemic. Including management's assessment of the impact of Covid 19 upon employer covenants and forecast cashflows. • Evaluate whether sufficient audit evidence using alternative approaches can be obtained for the purposes of our audit whilst working remotely • Evaluate whether sufficient audit evidence can be obtained to corroborate management's fair value hierarchy disclosure • Evaluate whether sufficient audit evidence can be obtained to corroborate significant management estimates such as Level 3 asset valuations. • Discuss with management any potential implications for our audit report if we have been unable to obtain sufficient audit evidence.

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.

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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

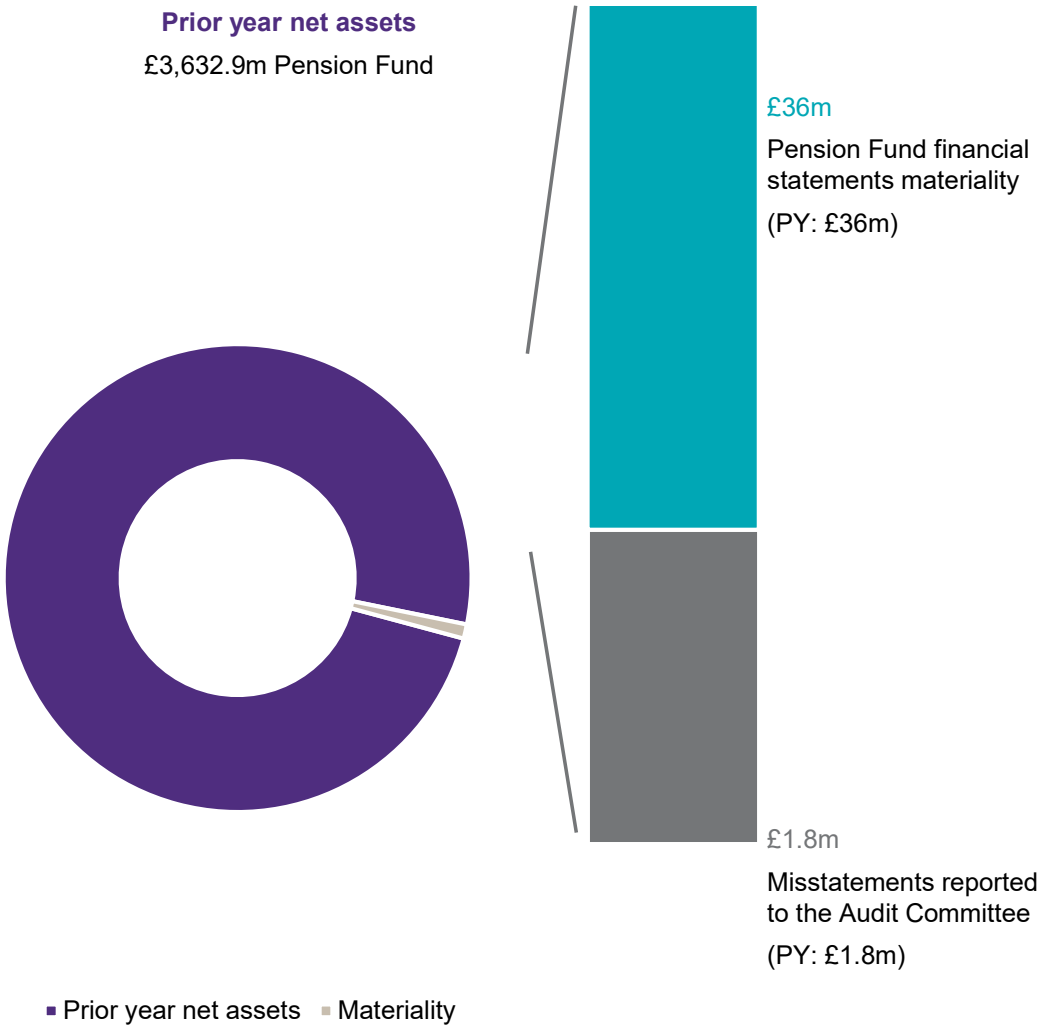
We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £36m (PY £36m) for the Pension Fund, which equates to approximately 1%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

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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**	

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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

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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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30 April 2020

By email **Email** generalenquiries@psaa.co.uk

Dear Section 151 Officer and Audit Committee Chair

Fee Scale for the Audit 2020/21 and update on 2019/20

I am writing to notify you of your 2020/21 audit scale fee. In previous years your auditor has been required to write to you to do this. However, going forward, we have agreed with the audit firms that it is more efficient for PSAA to write out to all bodies directly.

PSAA commissions auditors to provide audits that are compliant with the National Audit Office's Code of Audit Practice ('the Code'). PSAA is required by s16 of the Local Audit (Appointing Person) Regulations 2015 (the Regulations) to set the scale fees by the start of the financial year, and we published the 2020/21 scale fees on our website on 31 March 2020. In addition to notifying you directly of your scale fee, this letter provides you with key updates and information on audit matters in these difficult times.

We wrote to all S151 officers on 12 December 2019 describing that local audit and audit more widely is subject to a great deal of turbulence with significant pressures on fees. These pressures still apply and the key aspects are summarised below;

- It is apparent that the well publicised challenges facing the auditing profession following a number of significant financial failures in the private sector have played a part. As you know, these high profile events have led the Government to commission three separate reviews - Sir John Kingman has reviewed audit regulation, the Competition and Markets Authority has reviewed the audit market, and Sir Donald Brydon has reviewed the audit product.

PSAA, 18 Smith Square, London, SW1P 3HZ
www.psaa.co.uk Company number: 09178094

- It is not yet clear what the long term implications of these reviews will be. However, the immediate impact is clear - significantly greater pressure on firms to deliver higher quality audits by requiring auditors to demonstrate greater professional scepticism when carrying out their work across all sectors – and this includes local audit. This has resulted in auditors needing to exercise greater challenge to the areas where management makes judgements or relies upon advisers, for example, in relation to estimates and related assumptions within the accounts. As a result, audit firms have updated their work programmes and reinforced their internal processes and will continue to do so to enable them to meet the current expectations.

How we set your scale fee

We consulted on the 2020/21 Scale of Fees in early 2020 and received a total of 54 responses. We published the final document on our website (Scale fee document). In it we explained that although we have set the scale audit fee at the same level as for 2019/20, we do not expect the final audit fee to remain at that level for most if not all bodies because of a variety of change factors, the impact of which cannot be accurately or reliably estimated at this stage.

The impact of these changes is likely to vary between bodies depending on local circumstances, and information to determine that impact with any certainty is not yet available. Our view is that it would also be inappropriate to apply a standard increase to all authorities given the differing impact of these changes between bodies. As the impact of these changes is understood, fee variations will need to be identified and agreed reflecting the impact on each audit

	Scale fee for the audit 2020/21	**Scale fee for the audit 2019/20**
East Sussex Pension Fund	£20,487	£20,487

As well as the Scale of Fees document, we have also produced a Q&A which provides detailed responses to the questions raised as part of the consultation. We will update the Q&As periodically to take account of ongoing developments affecting scale fees.

The fee for the audit is based on certain assumptions and expectations which are set out in the Statement of Responsibilities. This statement serves as the formal terms of engagement between appointed auditors and audited bodies. It summarises where the different responsibilities of auditors and of the audited body begin and end, and what is to be expected of both in certain areas.

The final fee for the audit will reflect the risk-based approach to audit planning as set out in the Code. Under the Code, auditors tailor their work to reflect local circumstances and their assessment of audit risk. This is achieved by assessing the significant financial and operational risks facing an audited body, and the arrangements it has put in place to manage those risks, as well as considering any changes affecting audit responsibilities or financial reporting standards.

Fee Variations

As noted above, we recognise that with so much turbulence and change in the local audit environment, additional fee variations are likely to arise for most if not all bodies.

The amount of work required on arrangements to secure VFM is a matter of auditor judgement and is based on the requirements set out in the new Code and supporting guidance which will be published later in 2020. Once the Auditor Guidance Notes have been published we will be able to consider the impact of the new requirements in more depth, and may be able to provide indicative ranges in relation to the likely fee implications for different types and classes of body.

Given that local circumstances at each audited body are key to determining the assessment of risk and the audit work required, we would encourage early dialogue with your auditor to determine any related implications for fees. The process for agreeing fee variations begins with local communication, and ideally agreement. We have produced a fee variation process note which is available on our website (Fee variations process). Please note that all fee variations are required to be approved by PSAA before they can be invoiced.

Quality of Audit Services

We are committed to do all we can to ensure good quality audits and a high-quality service for the bodies that have opted into our arrangements. The service that you can expect to receive from your auditors is set out in their Method Statement, which is available from your auditors.

Whilst professional regulation and contractual compliance are important components of the arrangements for a quality audit service, so too is the aspect of relationship management. We recently commissioned a survey via the LGA Research team to obtain audited bodies' views of the audit service provided to them. The themes and improvement areas from the survey will be discussed with firm contact partners for development at a local level. The results from our 2018/19 survey of all opted-in bodies will be available on our website in May and we will notify all S151 officers and Audit Committee Chairs.

Impact of COVID-19 on current 2019/20 audits

The global COVID-19 pandemic has created further turbulence impacting on all aspects of the economy including the public sector. There are potentially significant repercussions for the delivery of audits, audit-related issues and delays to signing audit opinions for 2019/20. MHCLG has acted to ease these pressures by providing more flexibility in the 2019/20 accounts preparation and auditing timetable by temporarily revising the Accounts and Audit Regulations. This has extended the period which an authority has to publish its draft financial statements until 31 August, and importantly there is much greater flexibility for the public inspection period as it is now required to start on or before the first working day of September 2020. The revised date for publishing audited accounts (if available) is 30 November 2020.

We recommend that you discuss with your auditors the use that can be made of this flexibility in meeting mutual governance and assurance responsibilities, noting that in a letter to all local authority Chief Executives on 22 April, MHCLG encouraged approval of pre-audit accounts earlier than 31 August if possible.

We have referred to the importance of audit quality in this letter, and just as important is the quality of the pre-audit financial statements and the working papers that are prepared by bodies. The disruption caused by COVID-19 will impact on areas of judgement and creates uncertainty in preparation of the financial statements, and it is key that bodies ensure there is sufficient focus upon financial reporting and related processes and controls, and that the planned timetable allows for sufficient internal quality assurance and review of financial reporting issues taking into account the wider impact of the pandemic on the officers' time.

Local Audit Quality Forum

Our Local Audit Quality Forum focuses on providing information to support audit committees (or equivalent) in delivering their remit effectively. We are disappointed that we are not able to host our planned event this summer due to the COVID-19 pandemic. However, we plan to host our next event towards the end of the year. It will provide an opportunity to discuss a range of relevant topics and themes. If there are any particular areas you would like to see included on a future agenda, or if you wish to raise any other issues with PSAA, please feel free to contact us at generalenquiries@psaa.co.uk

Your auditor will, of course, be best placed to answer any questions you may have with regard to your audit.

Yours sincerely,

Tony Crawley

Chief Executive

Report to: **Pension Committee**

Date of meeting: **22 June 2020**

By: **Chief Finance Officer**

Title: **Pension Fund Risk Register**

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

RECOMMENDATIONS

The Committee is recommended to consider and comment on 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 East Sussex Pension Fund (ESPF or "the 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 The **Risk Register** at Appendix 1 has been updated since the last meeting for the circumstances as outlined below:

2.2 The onset of Coronavirus and Covid-19 is placing significant pressures on both Employers to the Fund and the Pension Administration Service. The increased demand for Pension Administration Services may increase the likelihood of breaching service performance targets and presents resourcing constraints since staff may be subject to the illness themselves. In addition, the migration to remote working has seen an increase in the likelihood of Cyber Scams and Data Protection.

2.3 The Pension Regulator issued a notice on the 2 April 2020 to Scheme Managers of Public Service Pension Schemes to carry out a risk assessment of their Pension Administrator in relation to Covid 19. The Scheme Manager is required to assess whether the ESPF business continuity plan is still adequate and to establish from the Pension Administrator what contingency plan is in place to mitigate their impact of increases in work volumes or unavailable staff.

2.4 A collaborative approach is required to work with your administrators to make sure they deliver critical processes: reducing the burden by limiting any non-critical demands and queries; and, confirm the priorities of activities to be carried out, in the order set out below:

- paying members' benefits
- retirement processing
- bereavement services, as well as any administrative functions required to support these
- any processes needed to ensure benefits are accurate

This includes the agreement of changes in operating procedures such as allowing electronic signatures and documents and encouraging other third-party providers to do the same. The legal validity of electronic signatures has been endorsed in a recent statement from government.

2.5 The Chancellor, Rishi Sunak, in his March Statement advised a suite of financial relief measures to alleviate economic duress arising from the global lockdown and the corresponding liquidity squeeze. It is clear that despite attempts by the Government to prevent a permanent structural impact, a number of companies that existed prior to the lockdown will not exist after the lockdown due to the severity of this economic shock. It follows that the ESPF has seen an increase in employers advising they need to defer the payment of employer contributions to the Fund, noting that employee contributions are legally prohibited from deferral. The Fund is working on a policy on the deferral of employer contributions and has managed the early requests on a case by case basis.

2.6 In managing the economic consequence of a global lockdown and the increasing need to build up cash reserves has given rise to dividend retention. This impacts the cashflow balances of pension funds which are required to service pension promises. The ESPF has therefore commenced cashflow modelling to ensure it can manage within its cash envelope and to mitigate against forced sales of assets to service pension promises.

2.7 Covid 19 has also impacted the progress of the Data Improvement Programme and the Annual Benefit Statement exercise for 2019. It has been difficult to make contact with employers in lockdown and those staff are generally redirected to business critical tasks of the employer.

2.8 In summary, the Covid 19 Risk is a global risk affecting a number of risk indicators, so it has been necessary to rebalance both the pre-mitigation and post mitigation response as set out in summary in the table below. Also, a new indicator for Covid 19 is included at risk (17) and a further new risk (18) relating to market cost pull pressures such as pay and inflation.

Table 1 Rebalancing Pre and Post Mitigation Risk Scores

Ref	Reason for Change	Change to pre-mitigation score	Change to post mitigation score	Score
2	End of Heywood's contract and changeover to new system. Several converging key risks on data issues and potential business interruption. Reported elsewhere on the agenda	From 3 x 3 To 4 x 3	From 3 x 3 To 4 x 3	
9	Covid 19 economic lockdown has increased the pre-mitigation scores	From 2 x 3 To 3 x 3	From 2 x 3 To 3 x 3	
10	Covid has increased reliance on remote working and the increase in Cyber crime and scams	From 4 x 2 To 4 x 3	From 3 x 2 To 4 x 2	
13	The high level of prudence in the actuarial valuation mitigates the likelihood score in pre-mitigation	From 3 x 3 To 3 x 2	From 3 x 2 To 3 x 1	
16 17 18	Access Risks - merged into a single risk (16)	(16) From 3x3 (17) From 4x2 (18) From 3x3 To 3 x 3 overall	(16) From 2 x 2 (17) From 2 x 2 (18) From 3 x 3 To 3 x 2 overall	Rebased

2.9 The UK enacted legislation to leave the EU on 31 January 2020 and therefore it may be appropriate to remove risk indicator 12 from the risk register.

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 Committee. The Committee is recommended to consider and comment on the Risk Register.

IAN GUTSELL
Chief Finance Officer

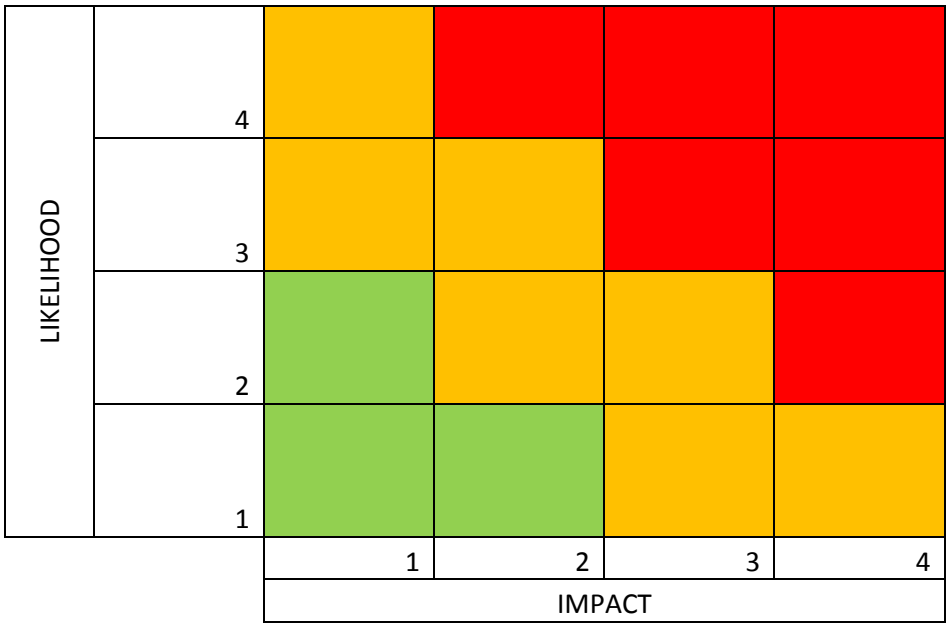
Contact Officer: Michelle King, Interim Head of Pensions
Tel. No. 01273 482017
Email: Michelle.King@eastsussex.gov.uk

Local Member(s): All
Background Documents
None

Appendix 1

Risk Register Risk Scores

The risk scores are calculated using the risk matrix below:



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 Pandemic

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) • Data interruption from system changeover	4	3	12	● Key Performance Indicators ● Internal Audit ● Reports to Pension Board / Committee ● Service Review meetings with business operations management ● Awareness of the Pension Regulator Guidance ● Procurement of new Pension Administration System to replace Heywoods • Project managers being sourced risk not yet mitigated.	4	3	12	↑	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		
3	**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
5	**Guaranteed Minimum Pension (GMP) reconciliation** • Members of pensions scheme exposed to financial loss • Inaccurate record keeping • Damaged reputation	3	3	9	• Internal Audit • Key performance indicators • 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 • Covid 19 has reduced the ability of employers to participate in the data cleansing due to lockdown.	3	3	9	• 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. • Pension Committee letter to employers requesting their participation and joint working between Hymans and Pensions Administrator on end of year returns.	3	2	6	↓	Lead Pensions Manager	Initial project deadline was 31 March 2020 this has been moved to 30 June
7	**Data Cleansing – failure to provide timely and accurate member data.** • Risk of financial loss and damage to reputation. • Incorrect employer's contribution calculations • Delays to triennial actuarial valuations process. • Fines and enforcement action by The Pension Regulator • Covid 19 has reduced the ability of employers to participate in the data cleansing due to lockdown.	3	3	9	• 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 4 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

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 Investment and Governance											
8	**Required returns not met due to poor strategic allocation** ● Damaged reputation ● Increase in employer contribution ● Inability to 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/FSS Revision of the Asset Liability Model to support a viable Strategic Asset Allocation for the new valuation.	4	1	4	↓	Head of Pensions	On-going
9	**Employers unable to pay increased contributions / 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 Lockdown and Halted Economy Covid 19 Impact	3	3	9	● Valuation ● Regular communication with Employers ● Monthly monitoring of contribution payments ● Meetings with employers where there are concerns Covenant Assessments in progress with employers facing difficulties from Covid 19	3	3	9	↑	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 / identity theft ● Members of the pension scheme data lost or compromised	4	3	12	• ICT defence-in-depth approach • Utilising firewalls, • Email and content scanners • Using anti-malware. • ICT performs penetration and security tests on regular basis	4	2	8	↑	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		
	• Covid-19 Cybercrime Spike										
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 without a trade deal causing 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	3	2	6	• The triennial actuarial valuation review focuses on the real returns on assets, net price and pay increases. • The Committee receiving training on	3	1	3	↓	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		
	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.				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;						
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	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		
					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						
	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 & Sub Fund Issues** • Increase in investment risk taken to access higher returns • There can be size restrictions on certain investments. • Weaker control leading to poorer	3	3	9	• ACCESS Support Unit function to provide support. • Officers have agreed Link should be allowed a reasonable time period to resolve issues, e.g., until ending of August. The ACCESS Contracts Manager will monitor Link's progress	3	2	6	Rebased	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		
	governance. 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.				closely. If Link cannot resolve issues in a reasonable timeframe then alternative options may be considered, e.g. Funds may continue to hold the sub fund outside the ACS						
17	**Coronavirus and Covid 19** • Employers unable to pay employer contributions • Ceding Employers unable to find additional funds to support outsourced operations • Revised dividend policies reducing income to pension funds • Remote working presenting data protection risks • Administration service unable to service demand • Increased criminal activity from cyber scams and phishing • investment environment changes radically, and Fund is slow to respond, leading to lower solvency	4	4	16	• investment working group created to actively review investment strategy on an ongoing basis • Data improvement Programme and ABS Working Group monitoring employers and administration service in relation to data cleansing and end of year returns for the ABS. • Covenant reviews underway and review of all high risk employers in the fund. • Contribution deferral policy submitted to committee for consideration in June 2020.	4	3	12	new	Head of Pensions	On-going
18	**Pay awards higher than expected** • Inflation rises faster than the actuarial assumption as a result of Govt. response to COVID-19 • Liabilities are higher than expected.	3	3	9	• Current weighting of 5% to index linked, 50% to equities, 3% to infra,9% to real estate all inflation correlated. • Increase allocation to infrastructure assets if at acceptable valuation	3	3	9	new	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		
	• Bond yields return to much higher levels • Bond-equity correlations rise, and equities also fall in price • Fund's solvency level falls				• Monitor portfolio sensitivity to inflation						

Risk Score Change Key –

= ***Reduced***

= No Change

= Increased

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