

PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at County Hall, Lewes on 21 September 2020.

++Please note that the members joined the meeting remotely++

PRESENT Councillors Gerard Fox (Chair) Councillors Nigel Enever,
Andy Smith, David Tutt and Trevor Webb

ALSO PRESENT

Kevin Foster, Chief Operating Officer
Ian Gutsell, Chief Finance Officer
Michelle King, Interim Head of Pensions
Sian Kunert, Head of Pensions
Russell Wood, Pensions Investments Manager
Dave Kellond, Compliance and Local Improvement Partner
Nigel Chilcott, Audit Manager
Danny Simpson, Principal Auditor
William Bourne, Independent Adviser
Ben Fox, Hymans Robertson
Paul Potter, Hymans Robertson
Richard Warden, Fund Actuary
Robert McInroy, Hymans Robertson
Ian Colvin, Hymans Robertson
Paul Punter, Head of Pensions Administration
Martin Jenks, Senior Democratic Services Adviser
Harvey Winder, Democratic Services Officer

22 MINUTES

22.1 The minutes of the meeting held on 22 June 2020 were agreed as a correct record.

23 APOLOGIES FOR ABSENCE

23.1 There were no apologies for absence.

23.2 Cllr Andy Smith was welcomed as a new member of the Committee.

23.3 Sian Kunert was welcomed as the new Head of Pensions and Michelle King was thanked for her work as Interim Head of Pensions.

24 DISCLOSURE OF INTERESTS

24.1 There were no declarations of interest.

25 URGENT ITEMS

25.1 There were no urgent items.

26 PENSION BOARD MINUTES

26.1 The Pension Committee considered the draft minutes of the Pension Board meeting held on 7th September 2020.

26.2 The Committee RESOLVED to note the minutes.

27 QUARTERLY INVESTMENT REPORT

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

27.2 The Committee's discussion included the following key issues:

- The ESPF was valued at around £3.8bn at the time of the triennial valuation last year. It was down by 13% at the lowest point during the Covid-19 pandemic and is currently down 2%. This suggests it has largely held up well during the crisis due to the diversified asset allocations of the Fund – with only 40% of the Fund's value in the hardest hit asset, equities. The Fund has still outperformed its benchmark over the past five years.
- There is an assumption that the losses to the Fund incurred during the initial outbreak of the Covid-19 pandemic, due to a significant fall in equities, will continue to recover over the next year. There has been a sharp increase in the value of technology companies in recent weeks, which has led to a recovery in equity values, but it is not clear yet whether this is a sustainable valuation, despite the increased value of technology companies to the global economy since lockdown began, due to the speed of the increase. This makes a fall in market value a possibility.
- Liabilities have remained broadly flat over the past year, which has helped the overall strength of the Fund.

27.3 The Committee RESOLVED to note the report.

28 RESPONSIBLE INVESTMENT POLICY

28.1 The Committee considered a report on the Statement of Responsible Investment Principles for the ESPF.

28.2 The Committee's discussion included the following key issues:

- An additional belief should be included in the Statement of Responsible Investment Principles to clarify the Fund's belief that companies whose profits are derived from providing solutions to some of the World's more serious environmental, sustainability, demographic and social challenges might be expected to exhibit above average long-term growth characteristics.
- The Fund should carry out an annual review of its fossil fuel exposure starting from the baseline of March 2020. This will demonstrate the impact of the recent rebalancing of asset allocations that may reduce exposure from 4% to 2% of assets, as well as any future changes to asset allocation.
- The Fund – through the Investment Working Group – should consider the fossil fuel exposure of assets held in UBS regional equity funds to understand whether a particular

region, e.g., North America, Japan, or emerging markets, has higher fossil fuel exposure than others.

- The Fund does not directly invest in companies but does so through investment managers offering passive index funds that invest in a range of companies that mirror the listings of a stock market. It cannot, therefore, choose to freeze further investment only in fossil fuel companies without divesting entirely from passive index funds (where 33% of the Fund's value is held).
- Whilst transitioning to active asset managers may be one way of reducing fossil fuel exposure, not all active managers are able to provide a good return on investment, particularly for the additional cost. The Government also says Local Government Pension Scheme (LGPS) should invest some of their assets in passive index funds, particularly the assets that have been moved to pooled funds.
- The Fund has therefore agreed to alter its fossil fuel exposure by changing the weighting of its passive funds. This involves reducing holdings in existing UBS passive market-cap funds and increasing them in smart-beta passive equity funds – which favour stocks in companies with lower carbon exposure, such as technology companies, or companies that are making demonstrable efforts to decarbonise – and in Longview, which does not have exposure to fossil fuel companies.
- The Fund continues to work with IIGCC and Climate Action 100+ to ensure investment managers, who are shareholders of companies on behalf of the Fund, lobby companies for action on climate change. Ruffer, one of the Fund's active managers, takes a leading role in lobbying companies in this way.

28.3 The Committee RESOLVED to:

1) approve the Statement of Responsible Investment Principles (Appendix 1) subject to the addition of the following Responsible Investment Belief:

“ESG opportunities may be found in Impact Funds investing in companies whose profits are derived from providing solutions to some of the world's more serious environmental, sustainability, demographic and social challenges e.g. cleaner products and processes, renewable energy, health, nutrition, sustainable agriculture, shelter, clean water and sanitation etc. Where successful, such companies might be expected to exhibit above average long-term growth characteristics”;

2) agree to amend the Investment Strategy Statement for changes outlined in Paragraph 2.3. which are as a consequence of agreeing the Statement of Responsible Investment Principles,

3) agree to receive an updated Investment Strategy Statement at the November Committee;

4) note the letters from Lewes District Council & Peacehaven Town Council;

5) agree the draft response to both letters contained in Appendix 5;

6) recommend that the Investment Working Group look at UBS regional equity fund holdings held by the ESPF and report back recommendations to the Committee; and

7) request an annual report on the Fund's exposure to fossil fuels.

29 GOOD GOVERNANCE REVIEW 2ND TRANCHE

29.1 The Committee considered a report providing an update on the Good Governance review.

29.2 The Committee's discussion included the following key issues:

- The Chairs of the Board and Committee and officers are to be commended for their work on the Good Governance review.
- The responsibility for communication with employers needs to be clarified within the Pension Team structure, as it is not currently clear where it sits, e.g., under the Pension Fund Team or the Pension Administration Team, which is currently provided by Orbis Joint Services but is due to come back inhouse.

29.3 The Committee RESOLVED to agree the deliverables as set out in paragraph 2.1 of the report.

30 RESPONSE TO THE MCCLOUD CONSULTATION

30.1 The Committee considered a report containing a draft response to the consultation on changes to the transitional arrangements to the 2015 Local Government Pension Scheme (LGPS) as a result of the McCloud judgement.

30.2 The Committee RESOLVED to:

- 1) agree the draft response to the consultation on the proposals for transitional arrangements; and
- 2) note the proposal to commence the McCloud Working Group.

31 PENSIONS ADMINISTRATION UPDATE

31.1 The Committee considered a report providing an update on matters relating to the Pensions Administration Team's (PAT) activities.

31.2 The Committee's discussion included the following key issues:

- The PAT should be congratulated for the improvements it has made to the Annual Benefit Statement (ABS) process. Excluding a few issues due to employers not responding, 99.6% of statements were issued on time.
- The Date Improvement Programme work to ensure employers and the Fund hold accurate, complementary data on scheme members; the Guaranteed Minimum Pension (GMP) Reconciliation programme; and the response to the McCloud judgement are all major projects that will be undertaken at roughly the same time. It will be important to get communications to scheme members correct and aligned across the three projects, as it may turn out, for example, that they have been overpaid through GMP reconciliation but underpaid through the McCloud judgement calculations. It will be confusing for scheme members if they receive contradictory communications about their benefits.
- Further work is being undertaken to look at how other LGPS categorise casual workers within their pension administration system. These are staff who may not work for a year,

so would not receive an ABS as if they were deferred but will have accrued benefits and still be an active member.

- The i-Connect system – which will allow monthly data updates from employers to the Fund – has been purchased from Heywoods (the supplier) and is being tested by with the East Sussex County Council Finance Team’s SAP finance software. The wider use and roll-out of providing monthly data returns will be raised at the next Annual Employers Forum in November 2020.

31.3 The Committee RESOLVED to:

- 1) note the updates;
- 2) note the progress of management in implementing the agreed actions arising from the internal audit report (Appendix 5);
- 3) note the proposed Pension Administration structure following transition from shared service arrangements (Appendix 4); and
- 4) request a report at its November meeting on best practice proposals for how to treat casual workers when issuing an Annual Benefit Statement.

32 2020/21 PENSION FUND BUSINESS PLAN AND BUDGET

32.1 The Committee considered a report on the 2020/21 business plan at Quarter 1 for the ESPF.

32.2 The Committee’s discussion included the following key issues:

- The Fund has discretion to manage its ill health insurance scheme as it wishes, including requiring certain employers to adopt ill health insurance and allowing others to opt in if they wish, depending on their risk to the Fund.
- The Fund is currently undertaking work on the risk each employer poses to the Fund based on their financial solvency.

32.3 The Committee RESOLVED to:

- 1) note the updated business plan;
- 2) note the forecast outturn position;
- 3) note the report of the actuary on ill Health Management (Appendix 2) and the Legal & General Illustration (Appendix 3); and
- 4) request a report at a future meeting on the risk rating of the employers in the ESPF.

33 DISCRETIONARY POLICY FOR DEATH PAYMENTS

33.1 The Committee considered a report on the Discretionary Policy for Death Payments

33.2 The Committee RESOLVED to agree the Discretionary Policy for Death Payments.

34 ANNUAL TRAINING PLAN AND TRAINING STRATEGY

34.1 The Committee considered a report on the Annual Training Plan & Training Strategy for the ESPF.

34.2 The Committee RESOLVED to:

- 1) note the Training Strategy; and
- 2) note the issues regarding the delay in the production of the Annual Training Plan.

35 PENSION FUND RISK REGISTER

35.1 The Committee considered a report on the risk register for the ESPF.

35.2 The Committee discussed whether climate change and the uncertainty around the impact of reducing exposure to fossil fuels should be added to the risk register.

35.3 The Committee RESOLVED to:

- 1) note the report; and
- 2) agree that uncertainty around climate change and energy transition should be added as a risk.

36 EXCLUSION OF THE PUBLIC AND PRESS

36.1 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).

37 INVESTMENT WORKING GROUP BRIEFING

37.1 The Committee considered a report providing updates on the activities undertaken by the Investment Working Group.

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

37.3 The Committee RESOLVED to agree actions which are set out in an exempt minute.

38 PENSION FUND BREACHES LOG

38.1 The Committee considered a report on the Fund's Breaches Log.

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

38.3 The Committee RESOLVED to note the report

39 PENSION TEAM UPDATE

39.1 The Committee considered a report on the ESPF team restructure.

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

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

40 EMPLOYER ADMISSIONS AND CESSATIONS REPORT

40.1 The Committee considered a report providing an update on the latest admission and cessation of employers within the Fund.

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

40.3 The Committee RESOLVED to agree actions which are set out in an exempt minute.

41 OUTCOME OF PROCUREMENT FOR PENSION FUND ADVISORS AND ACTUARY

41.1 The Committee considered a report providing an update on the procurement of the Fund's key advisers for Investment, Covenant and Actuarial services.

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

The meeting ended at 1.15 pm.

Councillor Gerard Fox (Chair)