PENSION BOARD

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

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

PRESENT	Ray Martin (Chair) Councillor Chris Collier, Councillor Tom Druitt, Stephen Osborn, Diana Pogson, Niki Palermo and Lynda Walker
ALSO PRESENT	Cllr Gerard Fox, Chair of Pension Committee Ian Gutsell, Chief Finance Officer Danny Simpson, Principal Auditor Nigel Chilcott, Audit Manager Sian Kunert, Head of Pensions Russell Wood, Pensions Investments Manager Paul Punter, Head of Pensions Administration Martin Jenks, Senior Democratic Services Adviser Ian Colvin, Hymans Robertson Robert McInroy, Hymans Robertson

39 MINUTES

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

40 APOLOGIES FOR ABSENCE

40.1 There were no apologies for absence.

41 DISCLOSURE OF INTERESTS

41.1 There were no disclosures of interest.

42 URGENT ITEMS

42.1 There were no urgent items.

43 PENSION BOARD MEMBER UPDATES

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

43.2. The Chair said he had attended the Pensions and Lifetime Savings Association (PLSA) annual conference, which had taken place online for the first time. The speakers had been well versed in the issues they were discussing, however, the chat rooms had not worked as well as in-person socialising. Lynda Walker (LW) had also attended and agreed with this assessment.

43.3. Diana Pogson (DP) said she had signed up for the Cyber Security training course by Aon that was offered to Board members.

44 PENSION COMMITTEE AGENDA

44.1. The Board considered a report containing the draft agenda of the Pension Committee meeting for 30th November 2020.

44.2. The Chair asked whether there was anything to update in regards to pension investments.

44.3. Sian Kunert (SK) said that there would be updates at the next Pension Committee meeting on the progress with implementing the Committee's decision in September to reduce exposure to passive equities in favour of 2 active impact managers, 1 smart beta passive like manager and 1 infrastructure equity manager. Due to the ongoing nature of the trades involved, however, the Committee will be recommended to consider the report as an exempt item under the Local Government Act 1972.

44.4. The Board RESOLVED to note the report.

45 INDEPENDENT AUDITORS REPORT ON THE PENSION FUND ACCOUNT AND ANNUAL REPORT AND ACCOUNTS 2019/20

45.1. The Board considered a report containing both the draft Independent Auditor's (Grant Thornton) report to those charged with governance on Pension Fund Annual Report 2019/20 and the draft Pension Fund Annual Report.

45.2. Stephen Osborn (SO) asked when the Annual report and accounts will be published, as the University of Brighton's external auditors had asked for a copy.

45.3. SK clarified that the statutory deadline is 1st December 2020 and the draft will be agreed by the Pension Committee on 30th November 2020. A copy of the draft would be available from 20th November 2020 (the date of publication of the Pension Committee agenda and papers) that could be shared with the auditors provided there is the caveat that it is a draft and not yet signed off.

45.4. The Chair asked whether the number of primary pension contributions received late in the financial year 2019/20 was typical, or worse than normal.

45.5. Russell Wood (RW) said the number was similar to previous years and included some of the same employers who crop up year on year. The majority of employers, however, pay on time. SK reminded the Board that the issue of employer contributions would become a standing item on the Board's agenda from February 2021.

45.6. The Chair asked whether the Pension Fund Annual Report was usually this lengthy.

45.7. SK explained that Chartered Institute of Public Finance and Accountancy (CIPFA) guidance was introduced from mid-2019 setting out exactly what must, should and may be included in an annual report. Prior to then, it was at the discretion of administering authorities as to what they included. The CIPFA guidance includes a requirement to have the Funding Strategy Statement and other policies included in full, whereas before there was only a link, resulting in this year's report being longer than previously. SK advised next years' report could be longer still, as the team will review the report with the intention of ensuring they have satisfied the "should" and "may" actions from the CIPFA guidance.

45.8. The Chair asked if any members of the East Sussex Pension Fund (ESPF) had asked for copies.

45.9. SK said she was not aware as normally people would access it via the website, but a copy would be provided on request.

45.10. The Board RESOLVED to note the report.

46 GOVERNANCE AND EMPLOYER ENGAGEMENT

46.1. The Board considered a report providing an update on various governance and employer engagement work completed and changes affecting Local Government Pension Scheme (LGPS) generally and the ESPF in particular.

46.2. The Chair asked whether the four new investment managers identified to manage the assets taken out of the passive equity fund would be part of the ACCESS pool.

46.3. SK confirmed they are outside of ACCESS because there are no Environmental, Social and Governance (ESG) focussed sub-funds within ACCESS to invest in. The Fund will write to Ministry of Housing Communities and Local Government (MHCLG) advising them of this fact but noting the intention to move them back into ACCESS when a suitable sub-fund is available.

46.4. The Chair asked how the Conflict of Interest Policy applied to Members of the Board.

46.5. SK explained that the Policy described existing codes of conduct within the East Sussex County Council constitution rather than make any changes. The terms of reference of the Board states that the code of conduct for elected members of the Council applies to the Board Members. This includes the requirement to fill out a register of interests that is updated annually (even if with a nil return).

46.6. Councillor Tom Druitt (TD) asked how the Board would know if they had any personal interests relating to the companies the ESPF invests in.

46.7. SK said that a list of the investment managers and the companies that they invest in on behalf of the Council could be provided to Board members.

46.8. The Chair clarified that the Board has no control over who the Fund invests in, as this is done via investment managers, so it is unlikely Members would have a personal interest and it would almost certainly not be considered a prejudicial interest.

46.9. With regard to the ill-health insurance proposal, SO said he was concerned that providing employers in Group 2 the option to opt-out may encourage them to do so for the incremental saving they would make in not paying the ill health insurance premium, but in doing so would expose them and the rest of the Fund to substantial risk in the event of an ill health claim. He said it is vital that the administering authority communicates to employers the importance of signing up to ill health insurance.

46.10. Rory McInroy (RM) clarified that the employers would not pay an additional amount for the ill health insurance compared to what they do now, as it would be around 1% of their own contribution rate and replace the current 1% per annum of employer contributions they pay towards the pooled ill health fund. He added that it was a very complex area that employers are not clear about, which is why smaller employers will be compelled to pay it. Hymans Robertson will also assist with the communications plan.

46.11. SO asked why have the option for any employers to opt-out if an ill health payment was such a high risk issue.

46.12. RM clarified that some employers may have their members spread over several different pension schemes, such as the teachers' pension scheme, or another LGPS. Consequently, they may already have ill health insurance arrangements in place.

46.13. TD asked why the maximum strain costs of ill health retirement were so high.

46.14. RM explained that if someone retired through Tier 1 ill health at the age of 40, they would immediately receive their pension enhancement up to the level it would be at normal retirement age and the employer would need to pay the deficit. This would be a considerable cost to the employer that would currently be paid first out of the pooled ill health fund and then out of the employer's reserves, whereas in future the cost would be covered by the insurer.

46.15. With regard to the Employer Forum, DP asked how many employers will be participating.

46.16. SK said that there will be a full list of attendees after the event and it will be conducted as a live event on Microsoft Teams and recorded. The recording will then be sent to any employers who were unable to attend and wish to view it.

46.17. With regard to the review of communications, the Chair asked whether the communications review is being led by someone not directly impacted by it, i.e., someone outside of the Pensions Team.

46.18. SK confirmed that the Head of Communications at East Sussex County Council is leading on the review.

46.19. The Board RESOLVED To:

1) note the report;

2) thank Hymans Robertson for their work as both the Fund's Investment Consultant and Actuary; and

3) recommend that, in regards to the ill health insurance policy, Group 2 employers should have up to 200 active members so that, except for the very largest all Academy Schools would be treated similarly.

47 PENSIONS ADMINISTRATION

47.1. The Board considered a report providing an update on matters relating to Pension Administration Team (PAT).

47.2. The Chair asked for clarification as to why the Key Performance Indicator (KPI) "Employer estimates provided" was at 49% during July 2020.

47.3. Paul Punter (PP) explained that this was a resourcing issue. During that month there was a number of staff who were on holiday; there were two vacancies; there was a backlog of work accrued during lockdown; there was an unusually high number of complex calculations; and it is a time of year where – due to teacher retirements and the issuing of Annual Benefit Statements (ABS) – there is more contact from scheme members than normal.

47.4. The Chair asked whether there is a plan to retain the shared Orbis help desk after the PAT is bought back in-house.

47.5. PP said a number of options are being explored, including retaining the help desk but with an expectation of an improved contractual service. An alternative would be to bring customer calls in-house, which would require the hiring of an additional 3-4 members of staff to

the PAT. He clarified that the help desk had only been in place two years and currently picks up calls for all pension funds administered by Orbis.

47.6. The Chair asked whether 12 deaths or suspensions from the 478 overseas pensioners was high and whether there were any pensions that had continued following the deaths for a long time.

47.7. PP said that the deaths may have just coincided with the mortality exercise and would have been reported anyway, as they were only a few months old. The size of the exercise also means that more cases have been picked up, as it included all overseas pensioners, not just those in ill health or over 70. Due to Covid-19, it is more difficult to get a signature of a professional witness in English for some of the overseas pensioners. As a result, the pensioners have been given extra time to respond and they are allowed to send it electronically.

47.8. With regards to the new £95k exit cap LW asked how members will be affected by this in future.

47.9. PP confirmed that there would be an effect on scheme members who will take redundancy or voluntary severance termination packages after the new Exit Payment Regulations become law on 4th November, as the LGPS Compensation Regulations have not yet been updated. The conflict is that the LGPS regulations say a member over age 55 who exits on a termination package must have an unreduced pension, but the exit cap regulations may restrict the employer's ability to pay the full strain cost. The administering authority will continue to make payments as normal for those retiring after 55 and who do not breach the cap. A decision, however, is needed around what to pay those who retire early in the interim. The PAT is keen to ensure some kind of payment is made rather than defer the calculation until the Compensation Regulations come into force, but it is not clear how it should be calculated and what factors should be included. He added that multiple judicial reviews of the Exit Payment Regulations could mean that the legislation could end up being quashed.

47.10. LW added that the unions feel that making a payment is the position administering authorities should be in and is preferable to deferring payments until the regulations come into force. She added it was very disappointing how the legislation has been implemented during Covid-19 and without supporting regulations in place.

47.11. The Board RESOLVED to note the report.

48 INTERNAL AUDIT REPORT: PENSION FUND: GOVERNANCE, STRATEGY AND INVESTMENTS 2019/20

48.1. The Board considered a report on the outcome of an Internal Audit review of the Pension Fund: Governance, Strategy and Investments 2019/20.

48.2. The Chair asked whether controls were now in place to prevent the transfer of funds between the ESPF and East Sussex County Council bank accounts.

48.3. Ian Gutsell (IG) confirmed that SK and RW now have bank mandates for the Fund's account and so the ESCC Treasury Management team will not be able to loan money to the County Council from the ESPF account in future.

48.4. DP asked why lending money in this manner was not seen by Internal Audit as a major risk.

48.5. Danny Simpson (DS) said that the ESCC Treasury Management Team's access to the Pension Fund bank account was an historical arrangement and access to process transactions

in the future was being withdrawn. Councillor Gerard Fox (GF) said he had seen the report and was satisfied that it was a medium risk, as it had happen only twice, rather than being a pattern of behaviour, and had resulted in a modest gain to the Fund, even if it had been against regulations. He welcomed that it had been picked up by Internal Audit and that controls had been put in place. TD added he was in favour of the actions taken.

48.6. TD asked when the Governance Manual on the management of fund managers would be approved by the ACCESS pool.

48.7. GF explained that it was progressing but had been paused whilst the Inter Authority Agreement, which sits above it, was revised and agreed by each administering authority. There is a chance it will be ready by the time of the February Board and Committee meetings.

48.8. TD asked for clarity on the arrangements of the Investment Working Group.

48.9. GF clarified that the Investment Working Group was set up to oversee the implementation of decisions taken by the Pension Committee in relation to investments (which is a function delegated in the Council's constitution to the Chief Finance Officer, rather than a Committee function). It comprises officers, the Independent Advisor to the Fund (William Bourne), and the Chair of the Pension Committee. A decision has been taken to merge it with the ESG Working Group, due to the importance of ESG to investment decisions.

48.10. GF clarified that the PIRC recommendation that it have published agenda and minutes was advisory. He said that for it to become a formal, decision making sub-committee with an agenda and minutes it would require a decision from the County Council as it would involve amending the constitution. The advantage of it being informal was that it allowed greater flexibility and discussion of issues. GF was open to reviewing the purpose of the Investment Working Group in the future and offered to discuss it more with TD outside the Board meeting.

48.11. SK added that the Investment Working Group will have an agenda at future meetings. The Working Group's actions and any recommendations are reported back to the Pension Committee at each meeting. The Committee is recommended to consider these updates following the exclusion of the public and press due to the report of the Working Group containing information that is the Committee is advised is exempt under the Local Government Act 1972.

48.12. The Board RESOLVED to note the report.

49 EAST SUSSEX PENSION FUND 2020/21 BUDGET QUARTERLY REPORT

49.1. The Board considered a report providing an update on the 2020/21 business plan at Quarter 2 for the ESPF.

49.2. The Chair asked why the cost of investment management fees for the four new investment managers was known and disclosed but was not for those in the ACCESS pool. The result of this was that the investment management fees appeared to increase substantially.

49.3. SK explained the Fund had decided it was more transparent to receive invoices for these managers rather than allow them to deduct their costs at source. This makes the process more transparent and makes it clear what the fund is paying for its investment management. ACCESS however deducts the investment management fees from the investment funds.

49.4. The Board RESOLVED to note the report.

50 ANNUAL TRAINING PLAN 2020/21

50.1. The Board considered the Annual Training Plan for the ESPF.

50.2. The Chair suggested that the Board might like to have single, hour-long training sessions at the rate of around three per quarter. This would ensure high turnout and engagement, which is more difficult when training sessions are all day or take place after a lengthy Board meeting. He suggested initial topics include the McCloud Judgement, £95k cap, and admissions and cessations policy, and he asked that they be recorded in case Members cannot attend.

50.3. The Board RESOLVED to:

1) note the report; and

2) agree to request training sessions are provided at hour-long events approximately three times per quarter.

51 PENSION FUND RISK REGISTER

51.1. The Board considered a report on the ESPF's Risk Register.

51.2. TD asked whether the risk of stranded assets (assets that cannot be sold by a Company in which the fund invests) caused by a failure to divest in good time should be added to the risk register, and asked whether there had been any evidence of success from the policy of engagement with carbon-intensive companies.

51.3. GF said that stranded companies were more of a risk than stranded assets, for example, a company with a stranded asset, like an oil company that own tar sands, may still be viable because of its other operations.

51.4. GF explained that the Committee is reducing the carbon footprint through both engagement and disinvestment.

51.5. In terms of engagement, the Fund works with The Institutional Investors' Group on Climate Change (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. The IIGCC engages with the 160 largest companies in the world and attempts to get them to commit to reporting their emissions in a transparent way against the IIGCC's carbon benchmark; committing to net zero carbon by 2050; and a 45% reduction from the 2010 baseline by 2030. The IIRCC is developing a Net Zero Investment Framework setting out how sectors should move towards this goal. The IIRCC encourages shareholders to file motions at company's Annual General Meetings (AGMs) to provide evidence they are moving in the desirable direction. BP's commitment earlier in the year towards decarbonisation is an example of the success the IIRCC has had.

51.6. GF said the Fund's biggest exposure to fossil fuels is via the assets invested in the passive equity funds. Passive equity funds simply track certain stock markets, meaning that investors will inevitably own stocks in companies listed on these stock markets that have a high carbon footprint.

51.7. The Committee has made the decision to reduce this exposure by moving £880m of its assets from the passive equity funds into two investment managers that deal in active investments, including increasing the share of the Fund held by Longview, which does not invest in companies that trade in commodities like oil; a smart-BETA manager tilted towards

companies that are aligned to the 1.5C Paris Climate agreement; and an infrastructure equity manager.

51.8. GF said the Fund still needs income to pay pensions and carbon intensive companies tend to be established and so pay dividends to shareholders; therefore alternative sources of income need to be found in the long run as the fund matures. In addition, government guidance says Local Authority Funds should strongly consider investment in passive equity funds due to their low cost.

51.9. The Board RESOLVED to note the report

52 WORK PROGRAMME

52.1. The Board considered the ESPF's work programme.

52.2. The Board RESOLVED to agree its work programme subject to the addition of:

1. A report on the Communications Policy at the February 2021 meeting; and
2. Removal of the action relating to the KPI "Employer estimates provided" (as it had been resolved).

53 EXCLUSION OF THE PUBLIC AND PRESS

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).

54 PENSION FUND BREACHES LOG

54.1. The Board considered an update on the ESPF Breaches Log.

54.2. The Board RESOLVED to note the report.

55 EMPLOYER ADMISSIONS AND CESSATIONS REPORT

55.1. The Board considered the latest admissions and cessations of employers within the Fund.

55.2. The Board RESOLVED to note the report.

The meeting ended at 1.00 pm.

Ray Martin (Chair)