

PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at Council Chamber, County Hall, Lewes on 24 February 2022.

PRESENT Councillors Gerard Fox (Chair) Councillors Penny di Cara, Julia Hilton, Ian Hollidge and David Tutt

ALSO PRESENT Ian Gutsell, Chief Finance Officer
Sian Kunert, Head of Pensions
Michael Burton, Pensions Manager - Governance and Compliance
Tim Hillman, Pensions Manager - Employer Engagement
Paul Punter, Head of Pensions Administration
Russell Wood, Pensions Manager: Investment and Accounting
Danny Simpson, Principal Auditor
William Bourne, Independent Adviser to the Pension Committee
Andrew Singh, Isio
Paul Linfield, Pensions Communications Manager
Mya Khine, ESPF Accountant
Dillon Piggott, CIPFA Trainee

Councillor Nick Bennett
Councillor Paul Redstone

67. MINUTES

67.1 Councillor Hilton asked for clarification on two points in the minutes. The Head of Pensions advised that an email clarifying what is meant by 'agency costs' in the Pension Fund accounts had been sent and the email will be resent (minute 57.3). It was clarified that an update on the ACCESS Pool voting policy was expected in March after the next ACCESS Pool Joint Committee meeting.

67.2 The Committee RESOLVED to agree the minutes of the meeting held on 25 November 2021 as a correct record.

68. APOLOGIES FOR ABSENCE

68.1 Apologies for absence were received from Councillor Paul Redstone (Councillor Penny di Cara substituted for Councillor Redstone).

69. DISCLOSURE OF INTERESTS

69.1 Councillor Tutt declared a personal, non-prejudicial interest under Item 10, Internal Audit reports as he is a non-executive Director of iESE. Cllr Hollidge declared a personal, non-prejudicial interest under Item 9, Additional Voluntary Contribution (AVC) Review as he has invested with Prudential and has an AVC with Prudential.

70. URGENT ITEMS

70.1 Councillor Tutt raised the issue of an email received by all councillors from Larry Holden about investments the Fund has in the Office of the UN High Commissioner for Human

Rights (OHCHR) list of companies involved in Israel. It was agreed to discuss this matter under the Investment report item on the agenda.

71. PENSION BOARD MINUTES

71.1 The Committee RESOLVED to note the minutes.

72. GOVERNANCE REPORT

72.1 The Committee considered a report providing an update on various governance workstreams and changes affecting Local Government Pension Schemes (LGPS) and the East Sussex Pension Fund (ESPF or the Fund).

72.2. The Committee's discussion included the following issues:

- The Committee discussed arrangements for member representation on the ACCESS Pool Joint Committee following the guidance issued by the Scheme Advisory Board (SAB). The Chair of the Pension Committee outlined the ACCESS Pool's current proposal, which is to have six rotating observers for each meeting drawn from three of the eleven constituent authorities. The six representatives would be comprised of one employer and one scheme member representative from the Pension Board of each of the three authorities. The Committee heard that the Chair of the Pension Board has written to the Chair of the ACCESS Pool Joint Committee to propose an alternative arrangement that would entail electing two permanent representatives from the respective Pension Boards, which would allow them to build up expertise and feedback views from all the Pension Boards. The Chair of the Pension Committee considered that having non-rotating representatives would be a better option for governance. The Committee agreed that this would be a better approach and that the Chair of the Pension Committee should write to the ACCESS Pool to request consideration of this approach. It was also agreed that the Chair should represent this view at the ACCESS Pool Joint Committee meeting on 7 March 2022.
- The Committee discussed the possible use of training videos from Hymans Robertson at an annual cost of £3,750 for 15 licences for a minimum subscription of two years. The Committee heard the Pension Board's view that it considered that full use may not be made of this training resource and to pursue lower cost training options. The Committee agreed not to proceed with the use of the training videos provided by Hymans Robertson.
- It was clarified that the 'out performance' rate is a way in which Actuaries can reflect different levels of prudence when conducting valuations. An Actuary takes a subjective view in valuations and can create a higher discount rate by adding the out performance rate. For example, a lower discount rate would reflect a more prudent approach and a higher discount rate would decrease the level of prudence.

72.3 The Committee RESOLVED to:

- 1) Note the change to normal minimum pension age and state pension age;
- 2) Note the possible additional requirement for dealing with transfer requests involving Additional Voluntary Contribution (AVC) benefits;
- 3) Note the change to audit deadlines;
- 4) Note the Government Actuary's Department (GAD) report on the 2019 Valuation across the LGPS;
- 5) Note the ongoing steps being taken to fill the Pension Board vacancy;
- 6) Consider a possible approach which may improve member representation in the ACCESS Pool;
- 7) Not to make use of Hymans Robertson's LGPS Learning Academy training videos; and
- 8) Agree that the Chair write a letter to the ACCESS Pool Joint Committee outlining the Committee's view on member representation on the ACCESS Pool Joint Committee as agreed in paragraph 72.2 above.

73. EMPLOYER AND CONTRIBUTIONS REPORT

73.1 The Committee considered a report providing updates on Employer Engagement activities including communications and the collection of Employer contributions.

73.2. The Committee RESOLVED to note the report.

74. PENSIONS ADMINISTRATION REPORT

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

74.2 The Committee RESOLVED to note the report.

75. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC) REVIEW

75.1 The Committee considered a report on the Additional Voluntary Contributions (AVC) pension scheme provided to members by Prudential. The report was produced in response to a number of concerns about the performance of the AVC provider.

75.2. The Committee's discussion included the following issues:

- The administration performance of Prudential has been poor in the last six months and this has been due to a number of factors including a change to the IT platform used for administration and the impact of Covid. Prudential reported themselves to The Pensions Regulator in July 2021 and drew up a critical service recovery plan. This matter has been discussed at the Pension Board and feedback from the Trade Union representatives is that members' issues have now been resolved. The Head of Pensions Administration confirmed that all outstanding issues have been resolved and performance has improved. In addition, AVC members have been compensated where appropriate.
- Prudential is one of the oldest and biggest AVC providers and maintains a good rating from Standard and Poor. It is one of six or seven AVC providers that local authority pension funds use, with around two-thirds of funds using Prudential. Prudential provides a range of funds for AVC members to invest in and has a default with profits fund and is the only AVC provider to offer this. The Committee heard that changing AVC provider is complex, costly and time consuming. The Committee agreed that in the light of the improved performance of Prudential that a change in provider is not warranted at this point in time but would wish to enhance the Committee's oversight of the AVC scheme.
- The Committee has an ongoing duty to ensure the good governance of the AVC scheme and that it represents good value for members. Officers recommend that the Committee has a regular report to monitor the performance of the AVC scheme. The Committee agreed to have an annual report to monitor the service and investment performance of the AVC provider, including the range funds on offer to AVC members.

75.3 The Committee RESOLVED to:

- 1) Agree that the Pension Fund continues to use Prudential as the AVC provider; and
- 2) Agree to regularly review the performance of the AVC provider through an annual report.

76. INTERNAL AUDIT REPORTS

76.1 The Committee considered a report which outlines the results of three internal audits which have been completed since the last meeting. The Committee also considered the Internal Audit Strategy and Annual Plan for the Pension Fund for 2022/23, which had been prepared in consultation with the Chairs of the Pension Board and Pension Committee, together with the Pension Fund managers.

76.2 The Committee discussed the issue of cyber security and how this is reflected in the Internal Audit work. As part of the discussion the following points were made:

- There is a presumption that, over time, the Fund will have the majority of its assets invested through the ACCESS Pool and therefore there will be a need to have strong governance measures as more funds are invested that way. The Committee noted the need to cover both the pension administration and investment aspects of cyber security.
- As Link and Northern Trust handle most of the investments of the ACCESS Pool, a cyber-attack on ACCESS is unlikely to have great impact in the investments themselves. All fund managers and Link are Financial Conduct Authority (FCA) regulated. The FCA as regulator is very robust on the requirement for cyber security protection. Link has tested arrangements for cyber security and there may also be an option in the future to use other Pools, which would spread the risk from a cyber-attack. It was confirmed that the External Auditor also looks at the fund managers' cyber security measures.
- East Sussex County Council (ESCC) has robust arrangements in place for cybersecurity which have been reviewed by the Audit Committee and extend to the hosting of the Altair pension administration system. The Head of Pensions Administration outlined that Pension Administration is covered by a disaster recovery plan which is included in the ESCC Finance business continuity plan, and further detailed planning will take place in the next twelve months to add further measures to protect against cyber-attacks. Councillor Tutt suggested that it might be worth looking at the AppGuard product made available through iESE (which is a public sector transformation partner).
- It was confirmed that internal audits will look at ESCC arrangements for cyber security and the arrangements of the Fund for seeking assurance from the Custodian and fund managers. The investment audit also looks at the investment managers' internal controls. The Principal Auditor confirmed that the Internal Audit Team is happy to receive further input on this issue to help inform the audit of cyber security.

76.3 The Committee RESOLVED to:

1) Note the following Internal Audit reports:

- Pension Fund Governance 2021/22 (Appendix 1);
- Pension Fund Compliance with Regulatory Requirements 2021/22 (Appendix 2);
and
- The Implementation of Altair (Appendix 3);

2) Approve the 2022/23 Internal Audit Strategy for Pensions and Annual Plan (Appendix 4).

77. EAST SUSSEX PENSION FUND BUSINESS PLAN AND BUDGET 2022/23

77.1 The Committee considered a report on the quarter 3 budget update for 2021/22 and the forecast Business Plan and Budget for 2022/23. The Head of Pensions outlined the main budget variations for quarter 3 of the current financial year.

77.2 The Committee discussed the report and made the following points:

- The Fund staff costs currently show an underspend but will increase next year provided it is possible to recruit to the vacant posts. The Head of Pensions outlined that the estimate for next year is reasonable and assumes that it will be possible to fill all the currently vacant posts. The budget forecast includes upgrading and filling all the posts, but there may be some underspend if vacancies arise during the year.
- It was clarified that the underspend in investment manager fees in the current financial year is due to a change from client billing to fees being deducted at

source. The Fund does receive quarterly updates from investment managers on their fees, so there is transparency in the fees that are being charged.

- The charge for the Environment, Social, and Governance (ESG) was explained further, the Head of Pensions will re-label this in the budget report.

77.3 The Committee RESOLVED to:

- 1) Note the forecast 2021/22 Quarter 3 outturn position for the East Sussex Pension Fund; and
- 2) Agree the Business Plan and Budget for 2022/23 contained in Appendix 1 of the report.

78. RISK REGISTER

78.1 The Committee considered a report on the Risk Register for the Pension Fund. The Head of Pensions outlined the main changes to the Risk Register since the last meeting.

78.2 The Committee noted that the Climate Change risk rating has moved from a score of 12 to a score of 4 following the implementation of a number of mitigation measures. The Committee asked for an update on the timescales for these actions. The Head of Pensions outlined that ongoing work is being undertaken to understand the climate risk through scenario modelling and a discussion is taking place to establish how further work will be done (e.g. through top down strategic asset allocation measures and bottom up from investment activity).

78.3 The Committee REOLVED to:

- 1) Agree the change to risk A4 to cover wider separation from Orbis rather than Pension Administration;
- 2) Note the addition of Ransomware to the existing Cyber Security risk; and
- 3) Agree the addition of risk A7, covering East Sussex County Council's (ESCC's) Modernising Back Office Systems (MBOS) project.

79. WORK PROGRAMME

79.1 The Committee considered a report on the Committee's work programme which includes working groups and training as well as future agenda items. The Head of Pension noted that the agenda of the next meeting in June is quite full and suggested moving the report on carbon foot printing to the July meeting. It was agreed that the July strategy meeting of the Committee will consider the review of the Investment Strategy and the carbon foot printing report.

79.2 The Committee discussed the provision of training for the Committee. Councillor Hilton suggested that it would be good to hear from Dr Ellen Quigley from the Centre for the Study of Existential Risk on the mitigation of climate change through investment policies such as engagement and divestment, and would also like to hear from other Pension Funds on how they are working to align their funds to the 1.5 degree climate change target.

79.3 The Chair and other Committee members commented that the Committee would normally only take advice from qualified investment advisers, and it would appear that Dr Quigley is an academic rather than a professional investment adviser. The Chair asked Cllr Hilton to provide more information to officers on Dr Quigley's qualification and experience as an investment adviser so they can advise if this training fits in with the Committee's fiduciary duties. The work involved with the Task Force on Climate-Related Financial Disclosures (TCFD) and the UK Stewardship Code will focus on the alignment to 1.5 degrees. The Head of Pensions commented that the Fund is going to have to set a target for TCFD and have action plans. However, this is made more difficult if the Fund is invested in pooled products. Some LGPS funds have made a commitment to be net zero, but not many have put in place an action plan to support it. Therefore, it may be difficult to find examples of how funds are aligning to the 1.5

degree target, but if there are any examples available, they can be made available to the Committee.

79.4 William Bourne, Independent Adviser to the Pension Committee commented that underlying companies are going to have to change in order get to 1.5 degrees, so engagement and not divestment will be important. In general equities have underperformed and if the Fund chooses not to invest in fossil fuels and mining companies there is some risk involved.

79.5 The Chief Finance Officer commented that officers can comment on the suitability of the suggested training for climate change risk, but the Committee should bear in mind that this is one element of risk the Fund has to consider. It is important to have enough training in a range of issues that helps the Committee meet its fiduciary duties.

79.6 The Head of Pensions outlined that the quarter 4 engagement reports will be sent to the Committee, so they are aware of what the investment managers are doing. The Stewardship Code will also be brought to the Committee so it can see how sustainability criteria are being applied.

79.7 The Committee RESOLVED to:

- 1) Note the work programme;
- 2) Move the carbon foot printing report to the July meeting; and
- 3) Agree to ask officers to consider the training suggestions made during the discussion.

80. INVESTMENT REPORT

80.1 The Committee considered a report providing an update on the investment activities undertaken by the ESPF. The Head of Pensions introduced the report which includes items relating to the investment workplan and implementing the Investment Strategy. Consideration of the Principles for Responsible Investment PRI submission will be deferred until next year as no submissions are possible in 2022 and the Stewardship Code will be reviewed in June or July.

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

Investment Performance

- Market conditions during the quarter were relatively volatile due to the Omicron variant of Covid and the Bank of England raising base rates from 0.1% to 0.25%. Inflation continued to rise with inflation at a ten year high. This may lead to a change in monetary policy in the UK and US to control inflation, which could cause further market volatility. There was a big rotation in markets from a growth style to a value style due to the balance between inflation and growth. UK property saw a strong performance, particularly for operations and logistics.
- The total Fund performance was a 3.6% return against a benchmark of 4.3%. Given the market conditions this is a relatively strong performance. The investment funds Ruffer and Newton performed well as did M&G diversified credit. Some of the other funds performed less well against benchmark (e.g. Longview, Storebrand, Baille Gifford, WHEB and Wellington).
- The Committee discussed the performance of the various fund managers and the Investment Strategy to transition to Osmosis in the light of current performance. The Chair noted it was an unusual quarter and the Fund had not historically underperformed against benchmark. There had been good growth in the Fund over the last five years during a period of low inflation. If there is a UK rise in interest rates the Fund will need to consider the impact of that in the medium term and the best way to address this if there is a move into a changed investment environment.

- The Committee discussed the need to seek the Fund's equity managers view for the next 12 months and agreed to have a more detailed discussion with Longview about their performance.

Asset Allocation

- The Fund is overweight to equities and there is a significant overweight to absolute return, which will add to the risk to the Fund due to the macroeconomic outlook and volatility of the markets. This may require there to be some rebalancing of the asset allocation with an increase in infrastructure investments, which has been discussed with officers but not implemented yet. The increase in infrastructure is to be funded from absolute return. Ruffer will perform well in a higher inflation environment, so it may be more prudent to fund the increase in infrastructure from Newton which has a higher correlation with equities.
- The Committee discussed the need to have a rebalancing policy so that Officers can take action to rebalance investments between Pension Committee meetings. The Committee agreed that it was happy to have such a policy to allow Officers to take action, subject to them reporting back to the Committee.
- The Head of Pensions outlined that there is an existing policy, but it lacked clear parameters within which Officers could act. It was agreed that the Investment Working Group would discuss this and a report on a revised rebalancing policy would be brought to the July Committee.

Correlation Analysis

- A request was made at the November 2021 Committee meeting to analyse how the various funds perform relative to one another to aid decisions about rebalancing and responding to a potential period of higher inflation. This section of the report provides the correlation analysis of how the different funds performed, with a longer time period (e.g. 3 years) providing more meaningful information.
- Overall, the Fund is relatively well diversified and investment in infrastructure will help the stability of the Fund. It was agreed to continue to receive correlation analysis reports and consider them with the annual review of the Investment Strategy.

Investment Strategy recap

- The Committee reviewed the progress in implementing the Investment Strategy which includes actions to increase investment in less liquid assets such as infrastructure and changes to align with the Responsible Investment policy. It was noted that investments in infrastructure can take some time to implement and the ACCESS Pool is in the process of adding a diversified credit fund. Overall, implementation of the Strategy is unlikely to change.
- The Committee asked if the investment in inflation linked property takes into account the need to retrofit property for energy efficiency measures. Investment in long lease commercial and UK residential property offers the most inflation protection. Commercial managers are developing action plans to deal with this, and it will form part of the due diligence process carried out by investment managers. This is less of an issue with residential property which is focussed on the development of new property which incorporates sustainable building standards. Isio are confident that there will not be an impact on infrastructure investments.
- The Head of Pensions outlined that Levelling Up White Paper contains a requirement for LGPS Funds to invest 5% in local infrastructure. This may affect the implementation of this part of the Strategy, but more will become clear once detailed guidance is issued.
- The Committee asked if the Ukrainian crisis should be reflected in the Investment Strategy. William Bourne, the Independent Adviser to the Pension Committee, advised that it is best not to react too quickly and to wait and see what the impact on markets will be.

Israel/Palestinian Investments (raised under Urgent Items)

- Councillor Tutt outlined that Committee members had been contacted about investments in Israeli companies on the UNHCR banned list of companies. This is something that was previously raised in April 2021 and asked if it would be possible to have an update report at the next meeting.
- It was outlined that the Local Authority Pension Fund Forum (LAPFF) has been looking at this issue and has met with the Chair of the SAB to look at how LGPS funds could take into account human rights issues. LAPFF is engaging with the 17 companies on the banned list that various LGPS funds are invested in. The ESPF continues to have a small exposure to 6 companies on the list which are mainly international companies with a presence in Israel (e.g. Trip Advisor).
- The Committee agreed to have an update on this issue under the investment report item at the next meeting.

Inflation Report

- The Committee considered a report from William Bourne, the Independent Adviser, on the impact of inflation on the Fund's portfolio of investments. The trend has moved from deflationary to inflationary and the main issue is the role that central banks will play in responding to inflationary pressures. The report looks at four possible inflation scenarios. The Fund is well diversified and has a positive funding position, which will not fall dramatically. The main risk arises from a period of prolonged inflation where the Consumer Price Index (CPI) goes up and the liabilities of the Fund increase.
- The main recommendation is not to do too much too soon and to have a full review of the Investment Strategy in July. Index linked Gilts offer protection against inflation but provide a poor return. Two actions to consider are:
 - Delay the decision to reduce investments in index linked gilts and diversified growth funds.
 - Increase investment in diversified growth funds.
- The Committee discussed the possible responses to the scenarios presented in the report. Isio outlined their agreement with the analysis that is presented in the report. The Chair outlined three possible ways the Fund could deal with inflation through increased investment in infrastructure, total return funds and investment in an inflation overlay product for the tail liability of the Fund.
- The Committee agreed consideration of the inflation report would be undertaken by the Investment Working Group and it will bring back any recommended actions to the Committee.

ACCESS Pool update

- The Committee agreed to nominate Cllr Paul Redstone to the Governance Committee as the substitute ESPF member on the ACCESS Pool Joint Committee.

External Assurance reports update

- The Pool receives external assurance reports from fund managers and a concern has been raised with the UBS external assurance report. This is being reported to the Committee so that it is aware, but no action is needed at this point in time.

Department for Levelling Up, Housing and Communities announcement

- The Levelling Up White Paper is introducing a requirement for LGPS funds to invest 5% which is equivalent to £16 billion in local infrastructure. It has been clarified that in this context 'local' means within the UK. The ESPF's plans to invest in infrastructure might meet this requirement but the Fund will need to see the detailed guidance which is expected to be published sometime in the summer.

Beyond Oil and Gas Alliance (BOGA)

- The Committee discussed the proposal to write a letter to call on the UK Government to become a core member of the Beyond Oil and Gas Alliance (BOGA). It was noted that there is no published Government response to this issue at present. Policy engagement is part of stewardship responsibilities, and this is usually done through LAPFF and the Institutional Investors Group on Climate Change (IIGCC) which the Fund is a member.
- Some Committee members commented that calling on the Government to join BOGA is consistent with the Fund's membership of the Climate Action 100 initiative and Responsible Investment initiatives. Other Committee members argued that political campaigning or lobbying is outside the remit of the Committee, whose primary function is the fiduciary duty to the Fund's beneficiaries and the Fund should not be used as a vehicle for lobbying.
- It was agreed that the Head of Pensions would write to the IIGCC to seek their views and direction of travel on this issue.

80.3 The Committee RESOLVED to:

- 1) Note the Investment Workplan (appendix 1);
- 2) Note the Quarterly Investment Report from the Investment Advisor, Isio (appendix 2);
- 3) Note the Investment Correlation report (appendix 3);
- 4) Note the investment strategy recap (appendix 4);
- 5) Note the Inflation Report (appendix 5) and agreed that the Investment Working Group will examine this issue and report back to the Committee;
- 6) Note the ACCESS update and approve the nomination of Councillor Paul Redstone as a substitute representative of the County Council at the ACCESS Joint committee meetings;
- 7) Note the update on the external assurance reports;
- 8) Note the update on the announcement by the Department of Levelling Up, Housing and Communities;
- 9) Agree to write to the IIGCC for their views on policy regarding the Beyond Oil and Gas Alliance; and
- 10) Agree to have a detailed look Longview's performance and to get update from WHEB and Wellington as to how their impact funds are going to perform in a volatile environment.

81. EXCLUSION OF THE PUBLIC AND PRESS

81.1 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).

82. INVESTMENT REPORT

82.1 The Committee considered a report providing an update on the investment activities undertaken by the Fund.

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

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

83. BREACHES LOG

83.1 The Committee considered a report providing an update on the Fund's Breaches Log.

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

84. EMPLOYER ADMISSIONS AND CESSATIONS

84.1 The Committee considered an update on the latest admissions and cessations of employers within the Fund.

84.2 The Committee RESOLVED to note the report.

The meeting ended at 2.50 pm.

Councillor Gerard Fox (Chair)