East Sussex County Council

PENSION COMMITTEE

THURSDAY, 24 FEBRUARY 2022

10.00 AM COUNCIL CHAMBER, COUNTY HALL, LEWES

MEMBERSHIP - Councillor Gerard Fox (Chair)
Councillors Julia Hilton, Ian Hollidge, Paul Redstone and David Tutt

A G E N D A

1. Minutes *(Pages 3 - 14)*

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 15 - 26)*

6. Governance Report *(Pages 27 - 32)*

7. Employer and Contributions Report *(Pages 33 - 36)*

8. Pensions Administration report *(Pages 37 - 44)*

9. Additional Voluntary Contributions (AVC) Review *(Pages 45 - 68)*

10. Internal Audit reports *(Pages 69 - 98)*

11. East Sussex Pension Fund Business Plan and Budget 2022/23 *(Pages 99 - 114)*

12. Risk Register *(Pages 115 - 124)*

13. Work programme *(Pages 125 - 142)*

14. Investment Report *(Pages 143 - 228)*

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. Investment Report *(Pages 229 - 296)*

18. Breaches Log *(Pages 297 - 310)*

19. Employer Admissions and Cessations *(Pages 311 - 318)*

20. Any other exempt items previously notified under agenda item 4

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16 February 2022

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PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at Council Chamber, County Hall, Lewes on 25 November 2021.

PRESENT	Councillors Gerard Fox (Chair) Councillors Julia Hilton, Ian Hollidge, Paul Redstone and Colin Swansborough
ALSO PRESENT	Ian Gutsell, Chief Finance Officer Sian Kunert, Head of Pensions Michael Burton, Pensions Manager - Governance and Compliance Dave Kellond, Compliance and Local Improvement Partner Tim Hillman, Pensions Manager - Employer Engagement Paul Punter, Head of Pensions Administration Russell Wood, Pensions Manager: Investment and Accounting Paul Freedman, Pensions Investment Analyst Paula Jenner, Employer Engagement Officer William Bourne, Independent Adviser to the Pension Committee Andrew Singh, Isio Ray Martin, Chair of the Pension Board Harvey Winder, Scrutiny and Policy Officer Councillor Nick Bennett

49. MINUTES

49.1. The Committee agreed the minutes were a correct record of the previous meeting.

50. APOLOGIES FOR ABSENCE

50.1 There were no apologies for absence.

50.2 Cllr Colin Swansborough substituted for Cllr David Tutt.

51. DISCLOSURE OF INTERESTS

51.1 There were no disclosures of interest.

52. URGENT ITEMS

52.1 There were no urgent items.

53. PENSION BOARD MINUTES

53.1 The Committee considered the minutes of the Pension Board meeting held on 5th November 2021.

53.2 The Committee RESOLVED to note the minutes.

54. GOVERNANCE REPORT

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

54.2. The Committee RESOLVED to:
1) Note the report;
2) Endorse the draft terms of reference for the Administration working group; and
3) Endorse the draft terms of reference for the Communications working group.

55. EMPLOYER ENGAGEMENT REPORT

55.1. The Committee considered a report providing updates on Employer Engagement activities including communications and the collection of Employer contributions up to August 2021 which were due on 19 September 2021.

55.2. The Committee RESOLVED to note the report.

56. PENSIONS ADMINISTRATION REPORT

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

56.2. The Committee's discussion included the following key issues:

- Performance has improved for October 2021, with the call answered within 20 seconds Key Performance Indicator (KPI) increasing to 64% and call abandonment rate falling to 9%.
- The Helpline is still run by Surrey County Council as part of the Orbis service, with around 4 Full Time Equivalent (FTE) posts covering the ESPF. The number of contacts with the Helpline is as follows: July 2,737, August 2,270, September 2,336, and October 2,024. Out of these, 61% are via email, for example, for October there were 767 telephone calls, 1,241 emails and 16 call backs. This amounts to 20-25 items of correspondence dealt with per staff member per day.
- The Annual Benefit Statement (ABS) does not trigger people to contact the helpdesk with specific questions about the ABS, however, it does drive general pension correspondence by reminding people that they may have an issue with their pension that they need to report, for example, updating their marriage status.
- Whilst the ESPF helpdesk is part of Orbis, since October ESPF members contact it via a separate website and telephone line. There is not currently a live chat facility but this and other improvements will be investigated by the Fund's communications manager once they are appointed. I-Connect and the use of robotics is also expected to improve performance of the service and deal with more basic queries, with the Pensions Administration Team (PAT) eventually being a last resort to deal with complex calculations and questions.
- There are eight vacancies within the PAT. The team is working to resolve final job evaluation and team structural issues to enable recruitment to these vacancies to be completed. The use of robotics – signed off by the East Sussex County Council

Corporate ICT service – will also help with the capacity of the PAT once they are developed.

- The PAT staff are generally happy working from home and have remained as productive as when they were in the office. The ESCC corporate guidelines currently require staff to work from home unless there is a need to be in the office. This will eventually switch to hybrid working with at least one day per week in the office, although not until the current COVID-19 guidelines are reviewed in January. The PAT will process map its strategic needs and develop a team agreement based on a hybrid way of working that is best for the Team.

56.3. The Committee RESOLVED to note the report.

57. EAST SUSSEX PENSION FUND ANNUAL REPORT AND ACCOUNTS 2020/21

57.1. The Committee considered a report containing a draft Annual Report and Accounts 2020/21 for approval.

57.2. The Committee discussed how determining a fund's management costs relative to other funds is difficult but it is possible to benchmark the management costs of the ESPF with other Funds by comparing their Annual Accounts. Whilst the Chartered Institute of Public Finance and Accountancy (CIPFA) will challenge the management costs of Funds where it deems them to be too high, making a judgement about management costs is difficult. By way of example, the ESPF costs have increased since bringing the PAT in house, but the Fund had previously spent less than comparable funds on its overall team, which had the adverse effect of a poorer service and increasing consultancy costs. Management costs, however, remain a relatively modest overall percentage of the total assets under management despite bringing the PAT inhouse and doubling the size of the rest of the pensions team to 12 FTE.

57.3. The Committee RESOLVED to:
1) approve the draft Pension Fund Annual Report and Accounts 2020/21; and
2) request confirmation via email what is meant by "agency costs" in the Accounts (p.144).

58. EAST SUSSEX PENSION FUND QUARTERLY BUDGET REPORT

58.1. The Committee considered a report providing an update on the 2021/22 Forecast Financial Outturn.

58.2. The Committee RESOLVED to note the report.

59. TRAINING REPORT

59.1. The Committee considered a report providing an update on training needs, opportunities undertaken and planned events.

59.2. The Committee's discussion included the following key issues:

- The Committee will look to have training on subjects as they become relevant, for example, training on the triennial valuation around the start of valuation next year. This may take place prior to committee meetings from time to time.
- Training should be undertaken on understanding the new Task Force on Climate-Related Financial Disclosures (TCFD) reporting requirements, climate modelling – which will be a major piece of work for the Committee – and impact investing and impact funds – particularly understanding types of impact investing other than through listed assets, such as investing in social housing. Pensions for People provide a good impact fund

training session and WHEB Asset Management LLP provided a presentation at the Employers' Forum on the subject.

59.3. The Committee RESOLVED to:
1) note the report;
2) agree to request future training on triennial valuation, impact funds, TCFD and climate modelling; and
3) request that the WHEB presentation provided to the employer forum on impact funds is circulated for information.

60. RISK REGISTER

60.1. The Committee considered the ESPF Risk Register.

60.2. The Committee's discussion included the following key issues:

- The dissolution of the previous pensions administration arrangements is now complete and so could be removed as a risk.
- A project is underway to replace the finance system of ESCC that will affect the way the Fund produces accounts, payroll and how ESCC as an employer provides information to the Fund via I-Connect and this may pose a future risk to the Fund.
- A project has begun with the ESCC ICT service to test the resilience of the Fund to a cyber security attack such as a ransomware attack.

60.3. The Committee RESOLVED to:
1) note the report;
2) agree to add ransomware as part of the existing cyber risk;
3) agree to remove "Dissolution of Administration from Orbis to ESCC" as a risk; and
4) note that officers may add a temporary risk on the dissolution of ESCC business operations from the wider Orbis Business Services.

61. WORK PROGRAMME

61.1. The Committee considered its work programme.

61.2. The Committee's discussion included adding an item to the next meeting to discuss whether or not there would be value in issuing a statement – considering the Fund is a member of the Climate Action 100+ initiative and following on from COP26 – calling on the UK Government to commit to becoming a core member of the Beyond Oil & Gas Alliance (BOGA).

61.3. The Committee RESOLVED to:
1) agree its work programme; and
2) agree to add a report to the February meeting on issuing a statement in relation to the BOGA.

62. INVESTMENT REPORT

62.1. The Committee considered a report providing an update on the investment activities undertaken by the ESPF.

62.2. The Committee's discussion included the following key issues:

- WHEB has a more concentrated portfolio of stocks than Wellington so is more volatile and susceptible to rises and falls in the market. Similarly, Baillie Gifford has fewer than 100 stocks so is expected to be more volatile than the UBS fund that it is replacing.

- There is limited value in the performance measure “since inception”. The meaning of the term is not clear, i.e., does it mean since the investment manager was founded or when ESPF decided to invest with them; and it makes comparisons difficult, as some investment managers have been with the Fund far longer than others.
- Equities have performed well for the Fund for several years now, but the future is not looking as promising. Inflation is increasing on a sustained level above 3% and, in response, there are clearly signs of governments and central banks beginning to plan to enact monetary policies that will restrict the flow of money supply through raising interest rates, which will make equities a less attractive asset class and could also cause a recession if enacted too soon, further reducing equity’s value. Whilst the UK and other countries do now seem to be in a period of inflation it may not be a long-term issue, as it appears the inflation is supply-led rather than demand-led. It could, however, become self-replicating should people begin demanding pay rises to meet the rising costs of inflation.
- Whilst 40% of the Fund’s value is in equities, there are a number of other asset classes in the overall portfolio of the Fund that are designed to protect against inflation. Private equity and credit will do better than equity; private equity is less volatile than the listed market as performance is reported on a quarterly basis that smooths out fluctuations in value. Private equity managers are also well placed in this scenario to fund poorly performing companies struggling from the effect of inflation, which will benefit them as the companies recover. Infrastructure and property are designed to protect against inflation as they track inflation quite closely and infrastructure provides an attractive return on investment. Ruffer’s diversified growth fund is also designed to offer inflation protection via its choice of asset universe. Finally, in terms of equities themselves, value equities offer more resilience than growth equities, and the Fund has exposure to the former through its investments held by Longview.
- The Fund is currently overweight in equities to its strategic asset allocation due to strategic changes still to be implemented such as global open-ended infrastructure and inflation linked property, although suitable managers have not yet been identified. Isio will investigate further and produce a future report on possible infrastructure managers, as infrastructure remains outside of ACCESS and the time frames associated with this asset class being available through the pool impact the Funds strategy implementation. Increasing the Fund’s exposure to inflation linked property and infrastructure will offer further inflationary protection, however, it is likely to be costly as they are now in high demand. Rebalancing was discussed, although there are limited options due to strategy implementation timeframes, so officers and advisers to look into further.
- Whilst an infrastructure fund is planned by ACCESS, it is several years away and an open-ended infrastructure fund does provide the Fund with the option of transferring to the ACCESS offering if it is financially viable. Conversely, the ACCESS pool may wish to adopt existing ACCESS Funds infrastructure investments if it looks worthwhile.
- Equity remains an important asset class as it provides growth to the Fund, which is necessary as the Fund’s membership continues to increase. Equities may also pay out dividends, which are not vital for the Fund as it is cash neutral, however, these too can become less common in inflationary periods as the companies are less likely to be making profit.

- Inflation also decreases liabilities of a Fund by decreasing the value of the paid pensions and reducing the discount rate of the Fund, although there is not identical correlation between the two, and this will have a balancing effect on the Fund.
- Understanding how the different fund managers are performing against each other and how their different portfolios correlate to protect and grow the Fund would be helpful for the Committee to understand given the current uncertainties. The impact of inflation on the performance against benchmark is also important to understand.
- Schroders' property fund is a 'fund of funds' and is invested in a privately funded vehicle with Civitas, which was the recent victim of a short seller. The Fund's own holdings in Schroder were not affected by this event.
- Schroders currently holds 6.8% of the Fund's assets that it is responsible for in cash.
- The Fund has agreed already to reduce its asset allocation in property from 8% to 7%. Isio will investigate whether this cash is planned for investment elsewhere by Schroders or could be taken out to be put into infrastructure assets, as agreed by the Committee in July. This could be a good opportunity due to the high cost in divesting from property, e.g., paying for stamp duty.
- Property assets remain outside of ACCESS currently due to the illiquidity of the asset which are not yet available on the Pool. Property is a difficult class to move into LGPS pools because some LGPS funds invest in it directly and others used fund of funds like Schroders. This makes it hard to bring the assets together and those who directly invest would not make much of a saving.
- The energy transition of commercial property remains a considerable risk to the Fund because of this illiquidity and requirement of considerable retrofitting of offices and other buildings.

62.3. The Committee RESOLVED to:
1) note the report;
2) request that future quarterly monitoring reports include for all investment managers a 5-year performance column rather than "since inception" column;
3) request that Isio produces a correlation table in the next quarterly report showing how the different investment manager's portfolios overlap and how each is performing relative to the other; and
4) request that Isio produces a report looking at the impact of secular inflation on portfolio assets and liabilities.

63. EXCLUSION OF THE PUBLIC AND PRESS

63.1 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).

64. INVESTMENT REPORT

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

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

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

65. BREACHES LOG

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

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

66. EMPLOYER ADMISSIONS AND CESSATIONS

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

66.2 The Committee RESOLVED to note the report.

The meeting ended at 2.45 pm.

Councillor Gerard Fox (Chair)

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

Appendix 1

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PENSION BOARD

MINUTES of a meeting of the Pension Board held at Committee Room, County Hall, Lewes on 10 February 2022.

PRESENT	Councillors Ray Martin (Chair) Councillor Tom Druitt, Councillor Toby Illingworth, Stephen Osborn, Niki Palermo and Lynda Walker
ALSO PRESENT	Ian Gutsell, Chief Finance Officer Sian Kunert, Head of Pensions Michael Burton, Pensions Manager - Governance and Compliance Russell Wood, Pensions Manager: Investment and Accounting Paul Punter, Head of Pensions Administration Tim Hillman, Pensions Manager - Employer Engagement Dave Kellond, Compliance and Local Improvement Partner Danny Simpson, Principal Auditor Paul Linfield, Pensions Communications Manager Paul Freedman, Pensions Investment Analyst Paula Jenner, Employer Engagement Officer Mya Khine, ESPF Accountant Izzy Widdowson, CIPFA Trainee - Pensions Thea Synnestvedt, Policy Development Intern Councillor Gerard Fox, Chair of Pension Committee

67. MINUTES

67.1 The Board agreed the minutes of the previous meeting held on 5 November 2021 as a correct record.

68. APOLOGIES FOR ABSENCE

68.1 There were no apologies for absence.

69. DISCLOSURE OF INTERESTS

69.1 There were no disclosures of interests.

70. URGENT ITEMS

70.1 There were none.

71. PENSION COMMITTEE AGENDA

71.1 The Board considered a report containing the draft agenda for the Pension Board meeting due to be held on 24th February 2022.The Pension Board discussed the draft agenda for the Pension Committee and noted that with the exception of the investment report items, all other reports were being considered by the Board. Russell Wood (RW) Pensions Manager - Investment and Accounting outlined that the investment report will cover the outcomes of the search for global infrastructure and fixed income investments as part of the implementation of the agreed investment strategy.

71.2 A discussion was held on the progress of divestment from fossil fuel investments and Brighton and Hove City Council's (BHCC) request for representation on the Pension Committee following a deputation that had been received by BHCC. It was agreed that Councillor Tom Druitt (TD) would produce a report on representation proposals to be shared with the Chair by end of February and to be considered at the next Pension Board meeting in June 2022.

71.3 The Board RESOLVED to note the report.

72. GOVERNANCE REPORT

72.1 The Board considered a report providing an update on various governance issues relating to Local Government Pension Schemes (LGPS) and the East Sussex Pension Fund (ESPF or the Fund), including changes in legislation and regulations.

72.2 Cllr Toby Illingworth (TI) asked what the impact of the increase in National Minimum Pension Age (NMPA) from 55 to 57 on 6 April 2028 would be on the Fund.

72.3 Michael Burton (MB), Pensions Manager - Governance and Compliance, outlined that any impacts on the Fund will be taken into account in future triennial valuations. The Chair commented that in actuarial terms the impact on the Fund will be broadly neutral.

72.4 MB provided an update on the appointment of a new Board scheme member representative to replace Diana Pogson. It is anticipated that the appointment will be made by the Governance Committee at the beginning of March and a replacement will be in place for the June Pension Board meeting.

72.5 The Chair asked for the Board member's views on increasing the number of employer and member representatives to four each to broaden representation on the Board. The Board discussed the Chair's suggestion and agreed to ask officers to explore the impact of changing the Board membership and to provide information on the composition of other Pension Boards for comparison.

72.6 The Board discussed the proposals for pension board member representation on the ACCESS Pool Joint Committee. The Chair outlined the current proposal which is for the eleven pension boards of the pension funds in the ACCESS Pool to nominate one representative (either employer or member representative), who will take turns in rotation to sit on the Committee. This would mean the pension board representative would change for each meeting and would give no opportunity for the representative to build up their knowledge of the issues under discussion. A more permanent representative, nominated for a longer term may be preferable. In addition, mechanisms would need to be agreed to ensure adequate feedback and representation of issues of concern to the various pension boards.

72.7 Lynda Walker (LW) commented that having some representation on the ACCESS Pool Joint Committee is to be welcomed and there has been a longstanding request to have member representation. Cllr Gerard Fox (GF), Chair of the Pension Committee, commented that the Scheme Advisory Board (SAB) had talked about a number of models to allow greater oversight by pension boards. Alternative suggestions for representation had been discussed by the Joint Committee, and the Pension Board could express an opinion if they feel the current proposals are not adequate.

72.8 The Board agreed that the Chair should write to ACCESS to say that the Pension Board does not consider having a rotating representative is satisfactory for the reasons discussed. The East Sussex Pension Board would prefer a model with a more permanent representative and arrangements to ensure a wider pension board representation and a mechanism for the dissemination of information.

72.9 BM outlined the offer and costs for an online video learning academy from Hymans Robertson to cover a range of pensions issues and invited views from the Board on whether this resource would be useful and should be purchased.

72.10 The Board expressed mixed views on whether the online resource would be used and whether it would be useful. The Board asked if a trial could be arranged so that Board members could assess the usefulness of the material.

72.11 MB responded that it might not be possible to arrange a trial and the offer was on a cost per user licence. The purchase of a smaller number of licences could be explored. Paul Punter (PP) Head of Pensions Administration explained that he could make a number of training modules available which are part of the Heywood pensions administration system.

72.12 The Board expressed the view that it would be more prudent to explore the use of the training resource from Heywood first and agreed to recommend to the Pension Committee that the online training offer from Hymans Robertson is not taken forward at this point in time.

72.13 The Board RESOLVED to:

1) Note the change to normal minimum pension age and the possible change to the 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) Agree that the Chair should write to the ACCESS Pool regarding pension board representation as detailed in paragraph 72.8 (above) regarding ways improve pension board member representation in the ACCESS Pool; and

7) Recommend to the Pension Committee that the online learning academy offer from Hymans Robertson is not taken forward at this point in time.

73. EMPLOYER AND CONTRIBUTIONS REPORT

73.1 The Board considered a report providing updates on Employer Engagement activities including the i-Connect project, communications, and the collection of Employer contributions.

73.2 TD asked if the issues BHCC had with i-Connect had been resolved.

73.3 Tim Hillman (TH), Pensions Manager - Employer Engagement, responded that there are ongoing conversations with BHCC to resolve the issues and the BHCC payroll provider has built a template for the data transfer using i-Connect. There is still some work to be done to resolve some end of year queries so that a member match can be run between the BHCC payroll and ESPF pension administration system to identify any discrepancies.

73.4 The Chair noted that the team had created some Fund specific specifications for i-Connect and asked if this would mean the team would have to go back and repeat work with employers who were already using i-Connect.

73.5 TH responded that the work on specifications related mainly to how different payroll systems treat employees with more than one role (e.g. by creating more than one personal identification number for an employee, when i-Connect may only recognise one). This has now been resolved and will not impact existing i-Connect users.

73.6 TI asked if the team are on track to rollout and onboard all employers onto the i-Connect system.

73.7 TH responded that the original target was to complete the project by the end of March 2022. This has been delayed by the need to produce the Fund specific specifications and time has been taken to speak to other local authorities using i-Connect to cover any other issues that might be encountered with the implementation. It was important to get the process right and have the capacity in the team and the Pension Administration Team (PAT) to carry out the necessary work. Consequently, the target is now the end of December 2022 to have all employers using i-Connect. Paul Punter (PP) Head of Pension Administration added that most pension funds only get a number of the larger employers to use i-Connect whereas the ESPF is aiming to get all employers to use it, so the scale of the work is different.

73.8 TH introduced the new Pensions Communications Manager, Paul Lindfield (PL), to the Board. PL will take over chairing of the Communications Working Group. PL outlined that the website will be the focus for communication with members and he is exploring a number things such as making sure the information is accessible, explaining what the Fund is doing for members and member surveys. It is hoped the website will fill the gap in communication with members identified by the Board.

73.9 LW welcomed the appointment of the Pensions Communications Manager and outlined her interest in making sure members get the information they are looking for or are interested in. LW offered to forward a summary of the types of questions and requests she receives from members.

73.10 TH outlined the work being undertaken on employer contributions. He reported that there did not appear to be one single cause behind late payments and the team is using regular reminders and issuing administration charges to persistent late payers to tackle late payments. The Board noted the good progress that is being made on this issue.

73.11 The Board RESOLVED to note the report.

74. PENSIONS ADMINISTRATION REPORT

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

74.2 The Board discussed the performance information contained in appendix 1 of the report. The Chair asked about the Retirement Notification key performance indicator (KPI) and whether the performance reflected a shorter time to carry out this task. TD asked for an explanation of the variation in the performance of the Transfers in Quotation Value, which was good at the beginning of the year but a little more variable later on.

74.3 Paul Punter (PP) Head of Pension Administration responded that the time allowed for the Retirement Notification task had been reduced which is reflected in the KPI information. Had the old KPI remained in place the December result would have been 97%. Staff training and a reduction in the number of processes for the Transfers in Quotation Value task led to an improvement in performance at the beginning of the year. Since then, work volumes have been going up and the nature of some of the tasks has changed requiring more time to complete them. The chart shows two key staff were also seconded to projects for the month which impacted the checking resource available. PP said he would like to review the suitability of the new KPIs in say six months. PP commented that he is happy with the overall performance against the KPIs which is at 95%.

74.4 LW asked what progress had been made to fill the vacant posts and bring staffing levels up to the full complement of staff.

74.5 PP outlined that the recruitment to the vacant posts had been delayed slightly by the need to check and establish new gradings for each of the posts. This process is expected to be completed very shortly now that the technical nature of the pension administration roles has been clarified. The need to fill the vacant posts is acknowledged and the hard work of the team throughout the pandemic has been recognised.

74.6 PP reported that helpdesk performance has improved with lower abandoned call rates and improving call answering times. The helpdesk is answering or clearing 85% of the enquiries it receives, with the rest passed to the Pension Administration Team (PAT) for resolution. There is still room for improvement, but overall PP is happy with the service the team is getting from the helpdesk. LW commented that she is getting fewer comments from members about the helpdesk and performance appears to be better.

74.7 The Board RESOLVED to note the updates contained in the report.

75. ADDITIONAL VOLUNTARY CONTRIBUTIONS (AVC) REVIEW

75.1 The Board considered a report on the Additional Voluntary Contribution (AVC) scheme arrangements for the Pension Fund. PP outlined that the report had been requested following concerns about the administration performance of the existing AVC provider Prudential.

75.2 The Chair asked what proportion of the Fund's members are paying into the AVC scheme.

75.3 PP responded that around 3% of members are paying into the AVC scheme. This relatively low figure may be due to the relatively high level of the main scheme contributions.

75.4 The Board discussed the performance of the AVC scheme and the range of funds available for members to invest in under the scheme. There are around ten funds that members of the AVC scheme can choose from which include an environmental, social, and governance fund. In addition, there are two lifestyle funds. Each fund has different levels of investment risk and potential return. It was noted that most AVC members invest in the default (with profits) or multiple funds, which suggests they understand risk.

75.5 TD ask for clarification on the relationship between the ESPF and the AVC provider and asked whether the service issues had been cushioned by the Fund.

75.6 PP responded that the contract for the provision of the AVC scheme is between the ESPF and the AVC provider who deals with all enquiries, benefits, and transfers etc. Any contributions are paid directly to Prudential by the employers. As such, the ESPF has a fiduciary duty to monitor the performance of the AVC provider. The Fund has sought to cushion the service issues experienced by members and has helped to ensure members have not been affected financially. Prudential have committed to ensure late contributions are invested at prices on the day they should have been invested if in the members best interests and late settlements are being compensated.

75.7 The Chair asked what the Board is being asked to recommend.

75.8 PP responded that he is satisfied that most of the administration performance issues and complaints about the current provider have been resolved. The Standard and Poors rating of the provider remains at A+. Therefore, there is no need to change provider at this point in time, but both administration and investment performance should be monitored regularly by the Committee. There is also a need to consider the suitability of the fund choices being made available and particularly the default fund.

75.9 TI asked for more details of the performance of the AVC fund investments against benchmarks.

75.10 PP outlined that that the performance of AVC investments is generally good, and more detailed information could be provided at the next meeting.

75.11 LW agreed that the performance of the AVC provider should be monitored regularly as this would be best practice in terms of governance and oversight. As Prudential had acted to resolve the complaints and service issues, there would appear to be no reason to change AVC provider at the moment.

75.12 The Board RESOLVED to:

1) advise the Pension Committee that the administration performance issues with the AVC provider have been resolved and there is no need to undertake a full market review of AVC providers at this point in time; and

2) recommend that the performance and investments of the AVC provider are monitored regularly through an annual report.

76. INTERNAL AUDIT REPORTS

76.1 The Board considered three internal audit reports contained in appendices 1-3 of the report and the Internal Audit Strategy for Pensions and Annual Plan 2022/23 (appendix 4).

76.2 Dany Simpson (DS), Principal Auditor outlined the positive outcomes of the audits and summarised the main changes to the Annual Plan which are:

- Compliance testing will be included as part of other audits rather than being a separate audit;
- The audit of the pension administration will be divided into two parts: cash management and administration of benefits;
- There are two ICT audits planned for the coming year on i-Connect and cyber security (these will change in future years).

76.3 The Board RESOLVED to:

1) Note the internal audit reports; and

2) Recommend approval of the Internal Audit Strategy for Pensions and Annual Plan 2022/23 to the Pension Committee.

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

77.1 The Board considered a report on the quarter 3 budget outturn for 2021/22 and the ESPF Business Plan and Budget for 2022/23.

77.2 RW outlined that the forecast outturn for the ESPF budget for the current financial year has decreased substantially since the last report. This has mainly been due to a reduction in investment fees, actuarial costs, an underspend on Fund officer's salary costs and an adjustment to the way the cost of the Heywood software licence fee is accounted. The Custodian costs have increased due to the major changes to the Investment Strategy which are being implemented.

77.3 The Chair asked officers to confirm whether the long-term running costs of the Fund will be around £7 million per annum.

77.4 RW confirm that the long-term running cost will be around £7 million per annum, and the increased use of the ACCESS Pool may lower investment fees further as management fees tend to be deducted from the investment fund rather than being invoiced separately.

77.5 The Board RESOLVED to:

1) note the forecast 2021/22 Q3 outturn position for the ESPF; and

2) note the ESPF Business Plan and Budget for 2022/23 in Appendix 1 of the report.

78. PENSION FUND RISK REGISTER

78.1 The Board considered a report on the updated risk register for the Fund. Sian Kunert (SK) Head of Pensions outlined the main changes to the risk register.

78.2 The Pension Board RESOLVED to:

1) Note 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) Note 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 considered report on the combined Pension Board and Pension Committee work programme.

79.2 The Chair outlined that a report on the deputation to BHCC regarding Pension Committee membership will be prepared by TD by the end of February and it was agreed to add this to the Pension Board work programme for the meeting in June 2022 (as discussed in paragraph 71.2 above).

79.3 SK summarised the changes to the work programme and the additional reports that will be presented at the June meeting which will include the Covenant report and the Pension Board Annual Report. Mariana Obetzanova the Pensions Training Coordinator has recently emailed Board members with a number of training opportunities and SK invited the Board to report any training events they had attended since the last meeting.

79.4 The Chair requested that the time allowed for the June meeting be extended by an hour due to the length of the agenda and a revised meeting invitation be sent out. It was proposed that the June meeting be held in person to allow Board members to meet each other, including the new member representative.

79.5 The Board RESOLVED to agree the work programme together with the addition to the June 2022 Pension Board meeting of an item on the deputation to BHCC as detailed in paragraph 79.2 above.

80. ANY OTHER NON-EXEMPT ITEMS PREVIOUSLY NOTIFIED UNDER AGENDA ITEM 4

80.1 There were none.

81. EXCLUSION OF THE PUBLIC AND PRESS

81.1 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).

82. PENSION FUND BREACHES LOG

82.1 The Board considered a report providing an update on the Breaches Log and outstanding or new Internal Dispute Resolution Procedure (IDRP) cases.

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

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

83. <u>EMPLOYER ADMISSIONS AND CESSATIONS REPORT</u>

83.1 The Board considered a report on the latest admissions and cessations of employers within the Fund.

83.2 The Board RESOLVED to note the report.

84. <u>ANY OTHER EXEMPT ITEMS PREVIOUSLY NOTIFIED UNDER AGENDA ITEM 4</u>

84.1 There were none.

The meeting ended at 12.57 pm.

Councillor 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.

Appendix 1

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Report to:	**Pension Committee**
Date of meeting:	**24 February 2022**
By:	**Chief Finance Officer**
Title:	**Governance Report**
Purpose:	**To provide an update on various governance workstreams completed and changes effecting the Local Government Pension Scheme (LGPS) and Fund**

RECOMMENDATIONS

The Pension Committee is recommended 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) **Indicate if Committee members would make use of Hymans Robertson's LGPS Learning Academy**

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1. Background

1.1 This report is brought to the Pension Committee to provide an update on the steps being taken to adopt good practice and ensure compliance with regulatory requirements for the East Sussex Pension Fund (the Fund or ESPF).

1.2 This report outlines changes to Pension Fund policy for comment and noting.

2. Changes in Legislation and Regulation

2.1 On 6 April 2028 the Normal Minimum Pension Age (NMPA) will increase from 55 to 57. This will mean members will not normally be able to access their benefits until later in life. This will not apply to Police, Armed Forces and Firefighter Schemes. The change to NMPA coincides with the increase of State Pension Age to 67.

2.2 It is of note that the LGPS normal pension age is tied to State Pension Age so the age members will be able to claim a full benefit from the Fund will increase.

2.3 For members that already had a right to claim a benefit at, or before, age 55 on 4 November 2021, protections will be put in place so they are not disadvantaged. The protections will stay in place even if the member transfers to another scheme, meaning we will need to be aware of potential protections in place on transfers in.

2.4 The Department for Work and Pensions (DWP) have announced a review into State Pension Age. Officers will monitor the outcome of the review and report to both Pension Board and Pension Committee as appropriate.

2.5 A Private Member's Bill dealing with Automatic Enrolment has been scheduled for a second reading on 25 February 2022. The purpose of the Bill is to extend automatic enrolment by extending it to jobholders from age 18 and removing the lower earnings threshold. This does not impact on the duties of the Fund but will impact on our employers who would be expected to enrol more people into the Fund should the Bill become law.

2.6 DWP has also published a response to the latest consultation on the so called "stronger nudge". Stronger nudge requires Trustees and Scheme Managers to offer to book a call with Moneyhelper where that member is seeking to access a Defined Contribution (DC) pot, with some exceptions. It is believed the intent behind the proposed legislation was for it to apply to DC Schemes only but it seems likely it will also affect the Fund where members have AVC benefits. Officers will continue to monitor the requirements ahead of the proposed legislation becoming law and taking effect, most likely in June 2022.

2.7 The Director General of the Department for Levelling Up, Housing and Communities has written to all s151 Officers about a change to audit dates. The 2021/22 audit deadline is now 30 November 2022 and it will then be 30 September each year until 2027/28. In spite of the change of dates, we are working with Grant Thornton to ensure that the audit of the accounts is completed by the end of September 2022.

3. Section13 report by GAD

3.1 On 16 December 2021 the Government Actuary's Department (GAD) issued a report under section 13 (s.13) Public Service Pensions Act 2013. This report relates to the 2019 Triennial Valuation.

3.2 GAD's report is based on 4 objectives which are to determine:

- If Fund Valuations are compliant with Scheme Regulations.
- Whether Fund Valuations are inconsistent with those of other Funds.
- If employer contributions are set at an appropriate level to ensure the solvency of the Pension Fund.
- Whether employer contributions are set at an appropriate level to ensure the long-term cost efficiency of the Scheme so far as it relates to the individual Fund.

3.3 In relation to consistency, GAD found that whilst some decision making across the cohort could be clearer the approaches taken to the 2019 Valuation by the various Funds and the 4 actuary firms they used were consistent with the Regulations.

3.4 GAD has identified some inconsistencies in approach across the cohort, setting a recommendation to the Scheme Advisory Board (SAB) in this area. All recommendations are detailed in paragraph 3.7 of this report. In addition to the formal recommendation, GAD has commented on the value of providing a greater level of explanation around information provided in Valuation reports to improve stakeholder understanding.

3.5 There was some concerns raised by GAD around Funds that had a deficit decreasing employer contributions at a time when recovery plans were being extended. ESPF was not named as having such a concern and was in surplus according to both the local measures and SAB standard model.

3.6 GAD identified 4 Funds where there is a concern relating to long term efficiency. ESPF is not named as one of the 4 Funds in question.

3.7 The report makes a number of recommendations for the Scheme Advisory Board and fund actuaries to take into account. These are:

- The Scheme Advisory Board should consider the impact of inconsistency on the funds, participating employers and other stakeholders. It should specifically consider whether a consistent approach needs to be adopted for conversions to academies, and for assessing the impact of emerging issues including McCloud.
- The Scheme Advisory Board should consider how all funds ensure that the deficit recovery plan can be demonstrated to be a continuation of the previous plan, after allowing for actual fund experience.
- Fund actuaries should provide additional information about total contributions, discount rates and reconciling deficit recovery plans in the dashboard prepared as part of the Valuation process.
- The Scheme Advisory Board should review asset transfer arrangements from local authorities to ensure that appropriate governance is in place around any such transfers to achieve long term cost efficiency.

3.8 There does appear to be a discrepancy between how funds are measuring funding levels against the SAB standard. GAD identified that it would expect the local funding level to be ranked broadly similarly to that using the SAB standardisation, but this is not the case. From an ESPF perspective, locally the Fund believed it was 107% funded (ranking at 8th out of the 88 funds in the LGPS) as opposed to being approximately 120% funded (ranked 17th) when using the SAB standardised model. However, from both perspectives ESPF is currently fully funded. There are advantages to taking a more prudent approach to Valuation as it improves the likelihood of being in a position to pay member benefits as they fall due.

3.9 There is also a discrepancy across the cohort in methodologies and assumptions adopted by the various Fund actuaries, although the range of results is reported as being narrower than in 2016 which suggests a greater consistency now exists.

3.10 GAD has not identified that ESPF has specific concerns around long term funding. There is a risk that the wider LGPS may become underfunded in the next 20 years but it is of note that each Fund is currently pursuing its own funding strategy.

3.11 In 2019 funds advised by Barnett Waddingham had higher levels of outperformance built into the discount rate. Hymans Robertson had some of the lowest levels of outperformance built into the discount rate. If this trend continues it is likely we would see a change in the approach to setting the Fund discount rate following the change of actuary advising the ESPF.

4. Pension Board vacancy

4.1 Following the decision of Diane Pogson to stand down from her position on the Pension Board and not seek a new term there is currently a vacancy for a member representative from our Pensioner members.

4.2 All Pensioner Members were contacted in October 2021 and asked to send in expressions of interest if they wanted to be considered for the vacant position. The Fund received 16 expressions of interest by the deadline.

4.3 The 16 nominees were invited to provide a CV and a 500 word statement explaining why they would be suitable for joining the Pension Board. We received 6 responses to this request and 3 people were invited to attend a meeting with the Pension Board Chair and Pensions Manager – Governance and Compliance. The meetings were scheduled for 27 and 28 January 2022. Following this a recommendation is being put to the Governance Committee to make an appointment.

4.4 Following the meetings a recommendation will be made to the East Sussex County Council Governance Committee regarding who should be appointed and the length of their term. The Governance Committee is the body which has the authority to make appointments to the Pension Board. Its next meeting is on 1 March 2022.

4.5 Officers are aware that Diane Pogson was a vice-chair of the Pension Board. Once the full contingent of member representatives are in place they will be approached separately regarding becoming a vice-chair. Currently Stephen Osborne is the vice-chair amongst the employer representatives.

5 ACCESS Pool

5.1 There have been reports in the media regarding governance failures at the Access Pool. These relate to a failure to implement a policy on member representation that was agreed in 2017 and criticism for this from the Scheme Advisory Board (SAB).

5.2 At present ACCESS is the only pool not to have implemented member representation and is being encouraged to do so by the SAB.

5.3 In March 2017 the SAB agreed that Investment Pools should involve member and employer representatives to improve transparency. It was noted that this should include the consideration of direct representation on oversight structures.

5.4 There will be a discussion at the ACCESS Joint Committee (JC) in March on this topic and it is anticipated a proposal will be put forward to consider a scheme for member representation. Recently, the explanation as to the current position has been accepted by the SAB but it maintains change is warranted.

5.5 The Pension Board was asked to consider how such representation could be achieved for the 11 Councils within the ACCESS pool, to support the establishment of a Fund view on this matter, so it can be represented to the Pool via its representative as part of Pool deliberation. It has agreed that the suggested policy of having a rotating attendance from various board members across the 11 funds could be improved upon. It would prefer a more permenant approach with a dedicated person attending regularly to ensure they can be trained to the required level of knowledge and understanding.

5.6 Other governance related work that is being undertaken by ACCESS has been taking place as a result of the review of the ACCESS Governance Manual. The Governance Manual is there to support the Inter Authority Agreement (IAA) which is the primary document governing the interaction between the ACCESS Authorities and the role of the Joint Committee and Section 151 officers. The IAA is the legal agreement between the 11 Authorities that sets out the statutory responsibilities of ACCESS. The Governance technical leads were asked to review the Governance Manual following agreement by the Section 151 Officer Group.

5.7 Following an initial review of the manual and conversations with all participating Authorities, the technical leads identified several themes both regarding the Governance Manual itself and wider governance of the Pool. As a result a project was launched to focus on areas of highest risk to the delivery of the ACCESS objectives and the governance, policies and procedures needed to achieve them. The key time critical tasks within the ACCESS Business Plan were considered to be:

- implementation of approach to alternative / non-listed assets;

- the development and implementation of Environmental, Social and Governance (ESG) / Responsible Investment (RI) guidance;
- consideration of the future arrangements for Operator Services to the ACCESS Pool; and
- determination of future sub-funds.

5.8 Once progress had been made in relation to these themes it was proposed, a third party is engaged to carry out an audit of ACCESS governance as recommended by the Governance Working Group.

5.9 The ESG/RI Guidelines are being reviewed due to the changing nature of this aspect of the investment governance. ACCESS is supported by Minerva in drafting the guidelines. The document is intended to be a reflection of the collective views of the partner funds to create a set of RI Guidelines for the Pool. Under the LGPS Regulations, each Administering Authority retains responsibility for complying with the Investment Regulations (which is the statutory source of the requirement to take ESG factors into account). Similarly, RI is an aspect of discharging fiduciary duties which are the remit of Administering Authorities, not the Pool.

5.10 Therefore, the ESG/RI Guidelines do not go beyond policies already in place or intended to be in place at each Council and not do not supersede or replace the Investment Strategy Statement or policies of each Administering Authority. Instead, ESG/RI Guidelines are considered complementary to those documents. The draft guidelines have been considered by the Pension Committee at its meeting in November. Other ACCESS authorities are currently reviewing the document prior to the next JC meeting 7 March 2022 for the next stage of the approval process.

5.11 At the last meeting of the ACCESS JC in December 2021, agreement was reached on a set of criteria for future sub fund requests to be considered. This will enable ACCESS to provide a clear process around how a request for a new sub fund will be reviewed against and the criteria that needs to be satisfied. The guiding principles are:

1. Strategy - The strategy adds to, and does not unnecessarily duplicate, the existing sub-funds that ACCESS have already created.
2. Availability - The strategy must be open and capacity available for new investors.
3. Value for money - The new sub-fund will deliver cost savings to the requesting Authority(ies) and other ACCESS members.
4. Scale and commitment - Requesting Authority(ies) should align with the primary or the secondary guidelines on scale and commitment to be considered as “suitably meaningful”.
5. Investment manager relationships - This section facilitates a discussion regarding how a recommended Investment Manager enhances the Pool: for example, it may be the proposed sub-fund is managed by an Investment Manager already managing a sub-fund(s) within the Pool and will thereby further deepen the relationship with ACCESS and may lead to incremental fee savings.
6. Reasonableness test - To preserve the design of the ACS and ACCESS’s overall pooling model, to minimise cost and complexity, it should be the obligation of any requesting Authority that they satisfy themselves and the other ACCESS Authorities that their request is reasonable.

5.12 The current Operator Agreement will continue until its end date, 5 March 2025. The Joint Committee received a proposed timeline and rationale at it is last meeting. A final recommendation will be made to the JC once the procurement lead authority is identified and has reviewed the proposals. The steps that have been proposed include:

1. **Procurement Lead Authority agreed**

2. **Inter Authority Agreement review**
3. **Preparation**
4. **Formal procurement**

and, in the event of change of Operator,

5. **Preparation for transition:**
6. **New contract commencement**
7. **Transition of services to new Operator**

5.13 Essex County Council are currently undertaking a Internal Audit of ACCESS as the Host Authority. The objective of this audit is to evaluate the control design and test the operating effectiveness of key controls in place over the ACCESS Support Unit (ASU). The audit will cover the period from as far as 12 months prior to the time of the audit. It was agreed as part of the 2020/21 Internal Audit review that the 2021/22 review will seek input from the administering authorities Internal Audit leads when drawing up the terms of reference.

6 Support for future meetings

6.1 Hymans Robertson offers a suite of videos which can be used for training purposes. Access is via an agreed number of licences. Officers believe it is possible members of both the Board and Committee may find this resource useful as they will be able to view videos, and complete the connecting tests, which are related to agendas of future meetings to help understand the background to items being discussed.

6.2 Officers estimate that 15 licences would be required. This would come at a cost of £3,750 per year before VAT. The contract would be for a minimum period of 2 years.

6.3 Committee members are asked to indicate if this is a facility to which they would like access. It is of note that members of the Board are interested in an alternative offering from Aquilla Heywood which allows free access to training material, albeit more related to administration matters.

7 Conclusion

7.1 The Committee is asked to note the changes to normal minimum pension age and state pension age, transfer requests and audit deadlines.

7.2 The Committee is asked to note the contents of the report issued by GAD in relation to the 2019 Valuation.

7.3 The Committee is also asked to note the progress being made in filling the vacancy for the pensioner representative amongst the member representatives on the Pension Board.

7.4 The Committee is also asked to consider how the ACCESS pool could improve scheme member representation for the Fund to feed back through its representative when potential changes are being discussed.

7.5 The Committee is asked to indicate if its members would make use of the Learning Academy.

IAN GUTSELL
Chief Finance Officer

Contact Officer: Mike Burton, Pensions Manager Governance and Compliance
Email: Michael.Burton@eastsussex.gov.uk

Report to:	**Pension Committee**
Date:	**24 February 2022**
By:	**Chief Financial Officer**
Title:	**Employer Engagement Report**
Purpose:	**This report updates the Committee on Employer Engagement activities including communications and the collection of Employer contributions up to November 2021 which were due on 19 December 2021.**

RECOMMENDATION

The Committee is recommended to note the report

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1. Background

1.1 This report is brought to the Pension Committee to provide an update on employer engagement tasks that directly affect the East Sussex Pension Fund (ESPF or the Fund).

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

1.3 The Employers (scheduled and admitted bodies) are required to pay both employee and employer contributions to the Fund monthly. The contribution rates for members is set out in the LGPS Regulations. The Employer contribution rate is set at the triennial valuation and recorded in the rates and adjustment certificate issued by the Funds actuary or set on admission to the Fund agreed by the Funds actuary.

1.4 The Employers are required by regulations to make the payment of contributions to the Fund no later than 19 days of the following month in which the contributions were deducted from payroll (22 days by means of an electronic communication).

2. Supporting Information

i-Connect

2.1. The i-Connect project is progressing with more employers being initially contacted around onboarding to the new system and those that have already had initial conversations and meetings taking the next steps to prepare for using the system.

2.2. The Employer Engagement team have been working alongside the Pensions Administration Team (PAT) to help the onboarding process of the i-Connect project. As highlighted in the last report the team have encountered some issues with the i-Connect software on some processes. These issues have been looked at internally to find the best method to manage the data that is getting sent through the i-Connect system.

2.3. As a result of speaking to other authorities that have been using i-Connect for a longer period we have been able to establish our own specifications that we will be able to provide to employers to give them the relevant information and workarounds we require as part of the onboarding process. These specifications have been drafted and are currently being peer reviewed and will be available to all employers in February 2022.

2.4. Due to the decision to create a Fund specific specification document to ensure the data received is aligned with the internal procedures to act up on the data, the Fund slowed down the rolling out of the project to other larger employers to ensure the existing onboarded employers are all set up and running well. Instead, the team have been focussing on the 'Online Return' method of data uploading which will be applicable for some of the smaller employers. It has been a great opportunity for the team to engage and speak to different employers on this project and start to build good relationships.

2.5. The current numbers for the i-Connect project:

Still to onboard	Initial enquiries ongoing	Started onboarding process	Onboarded
52	9	16	49

2.6. The Fund have had conversations and meetings with three larger employers who would ideally be onboarded to the i-Connect system, with the first files run for member matching and identification or errors, before the financial year end. This should allow the Annual Benefit Statement data to be received through i-Connect instead of the year end method, as these larger employers required significant work to make sure data is correct.

2.7. The contribution reconciliation process is not currently an option through the i-Connect system, however, Heywood's have advised that a future release to the software later in the year should allow this reconciliation of monthly contributions.

2.8. The i-Connect project is continuing to help cleanse employee data for those already using the system and has provided some opportunities of engaging with employers on other matters. The Engagement team are aware that some employers may find the transition to i-Connect problematic with limits on time and technology. The team will offer the relevant time and support to allow for a smooth transition alongside appropriate training. The Fund are hopeful that as restrictions on Covid are relaxed we will be able to provide training to employers particularly on i-Connect in person.

Communications

2.9. The Employer Engagement Team have continued to improve communications and build relationships through engagement with employers through ongoing projects.

2.10. The Pensions Communication Manager has now been appointed, Paul Linfield joined the team in January 2022 and will be focusing on numerous communication needs across the Fund including the chairing of the Communications Working Group.

2.11. The Q1 employer newsletter is in the process of being drafted and communicated to all employers. The active newsletter is also being drafted and will be communicated shortly. A review of how newsletters are drafted and issued will take place in the next few months to see if a clearer more effective method can be used.

2.12. The covenant project being carried out by PricewaterhouseCoopers (PwC) with higher risk employers is continuing. PwC have completed the data collation and questionnaire phase of the project and require cessation valuation reports for assessment, this information is being provided by the Fund actuary. Once these have been completed PwC will be in position to complete the final report.

2.13. The Employer Annual Forum was held virtually on 24 November 2021. There were 78 individuals in attendance, made up of employers, officers and pension and committee members. The Fund has received good feedback on the session and many employers that we have subsequently spoken to, found the topics covered were substantial with good detail. The breakout room elements in the afternoon were received well and the feedback was that this was a good way virtually for people to raise their questions. We hope that we can run future interactive sessions with employers on set topics later this year. A link to the Forum recording is on the Pension Fund website and is broken down for each individual presenter/speaker.

Employer Contributions

3.1 In line with regulations, employers are required to pay over contributions to the Fund, on or before, the 19th day following the month in which the contributions were deducted. The below table sets out the number of late payments, received after the 19 days have elapsed.

Tables of Contributions received after the 19th day of the month following contributions deducted up to the 19 December 2021.

Non-Cheque	**Dec**	**Jan**	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	**Nov**
Total payments due	114	114	116	116	117	117	115	115	115	117	117	117
Payments received late	4	2	0	1	9	8	4	3	9	5	0	3

Cheque	**Dec**	**Jan**	Feb	Mar	Apr	May	Jun	**Jul**	Aug	Sep	Oct	**Nov**
Total payments due	12	12	12	12	12	12	12	12	12	12	12	12
Payments received late	4	1	3	6	2	0	4	0	6	3	2	1

Overall	**Dec**	**Jan**	Feb	Mar	**Apr**	May	Jun	Jul	Aug	Sep	Oct	**Nov**
Total payments due	126	126	128	128	129	129	127	127	127	129	129	129
Payments received late	8	3	3	7	11	8	8	3	15	8	2	4

3.2 In the last 12-month period, there have been 80 late payments of contributions out of 1,534 expected payments. Contribution tables for this report have been split out to show the difference between cheque payers and non-cheque payers. A large percentage of the missed payments is still down to those employers that still pay by cheque. As outlined previously, due to Covid restrictions, cheques are not always paid into the bank daily; this can lead to some delays in the cheque being received and credited. There have also been instances of cheques not arriving in the post causing a delay in cheques being cancelled and resent. The Engagement Team are continuing to liaise with these employers to establish a more robust method of sending cheques via recorded delivery and providing e-mail copies of date stamped cheques. The Team are also suggesting the use of BACs payments wherever possible. As Covid restrictions are removed it should improve efficiency of collating and paying in of cheque payments. The introduction to i-Connect may also provide an opportunity for cheque paying employers to review their processes.

3.3 Other late payments that are non-cheque payers are normally due to a range of reasons, (change in payroll provider, change in staff, staff holidays etc). There is no noticeable trend in these late payments such as repeating late payments from a single employer. Every time a late payment is made the engagement team send a warning e-mail alongside the offer of a phone call or Teams meeting to ascertain the reason for late payment to correct this for the following month.

3.4 In the past few months the team have created a more robust method of highlighting late payers and have communicated with the employer's requesting payment and advising responsibility of the employer in relation to the regulations. Official warning notifications have been sent to late payers and it is outlined that if late again in a 12-month period administration charges will be sought in line with the administration strategy. There has been one employer so far that has had multiple late payments, resulting in the issuance of an administration charge to this employer. The team have also offered support the employer if they require retraining on employer responsibilities and the requirements of paying contributions on time.

3.5 The Engagement Team now monitor all contributions through a monthly log and pick up on any discrepancies monthly and revert to the employer to amend. Reminders are sent to all employers throughout the month to try to reduce the number of late payments and late contribution forms being received. Through this process it has allowed the Engagement Team to improve relationships with the employers so that any problems can be resolved quickly, and employers know they can also contact the team for help.

3.6 The Fund will continue to engage with employers to understand the issues behind late payments and provide support to reconcile. The Engagement Team are aware that it is essential the Fund reinforces the statutory obligation of employers to pay contributions on time or they suffer the risk of administration charges and any breaches reported accordingly to the Regulator. The Fund is also assessing all new employer admissions to the Fund and making sure any backdated contributions have been paid and reconciled, whilst also establishing the expectations of all employers in the Fund.

4. Conclusion and reasons for recommendation

4.1 The Pension Committee is recommended to note the updates provided in the report.

IAN GUTSELL
Chief Finance Officer

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Email: Tim.Hillman@eastsussex.gov.uk

Report to: **Pension Committee**

Date of meeting: **24 February 2022**

By: **Chief Finance 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 note the updates.

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1. **Background**

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

2. Key Performance Indicators (KPI)

2.1 The Performance Report, for the period January 2021 to December 2021 can be found at **Appendix 1**. The PAT saw performance numbers during quarter four 2021, average at 97.07% (volume completed 2,188) which were similar to the previous quarter of 98.37% (volume completed 2,370). The volume numbers are quite different from the same period 12 months ago – 98.04% (volume completed 1,485).

2.2 Under the Good Governance Review, documents were developed and updated covering the Service Level Agreement and Roles & Responsibilities with the future "in-house" PAT rather that provided through Orbis Business Services. A fee has been agreed with Aquila Heywood to implement the new performance measurements and this work was completed in Altair in early October 2021. The Fund is now creating a new KPI reporting dashboard within Altair Insights and expect this to be presented in the new format at the next meeting. In the meantime, the KPI's presented, are now a mixture of the new East Sussex and the old Orbis internal measurements.

2.3 The Orbis Pensions Helpdesk was introduced in November 2019 and their performance since April 2021 is shown in **Appendix 2.** Since the disaggregation of Orbis the Fund implemented a new gold standard service provision. The report now includes task volumes undertaken. The helpdesk introduced a short call survey from December 2021 and the results are included in the Appendix.

3. Pension Administration Transfer and Staffing Update

3.1 All administration staff are continuing to work from home and remain in good spirits and we closely monitor their wellbeing. The team did attend team meetings in Lewes County Hall on 19 October and 3 December 2021. The wider Pensions team has proposed a hybrid approach for a return to the office. The Corporate Management Team are monitoring the changing position and the requirement to change guidance.

3.2 Job descriptions are being reviewed by the Council's Human Resources team for evaluation with one post evaluated in January 2022. The Fund hope once existing staff posts have been assessed and staff are able to assess the option of retaining their TUPE (Transfer of Undertakings, Protection of Employment regulations) terms with an East Sussex County Council contract we can then start actively recruiting the existing vacancies to better manage projects, manage additional workload resulting from the upcoming triennial valuation and new work created through the uptake of i-Connect with a robust team structure reducing key person risk.

4. Internal Audit

4.1 The Internal Audit team have completed the 2020/21 Pensions Administration Audit to ensure compliance with Regulatory Controls. An update on progress against the Management Actions are presented in **Appendix 3**.

5 Projects update

5.1 Data Improvement Project (DIP)
We now consider DIP part of Business As Usual and are focusing on three particular areas:
a) Continue to monitor and review cases in Status 2 (undecided leavers), Status 8 (awaiting entry) and Status 9 (frozen refunds).
b) Maintain the Pensions Regulator (tPR) common and conditional data scores – currently 96.3% and 95.7% respectively.
c) Work with Barnett Waddingham on the initial valuation data quality.

5.2 Guaranteed Minimum Pension (GMP) Rectification
The project is on hold whilst until the April 2022 pension increases for the pensioner population are finalized. This data will then be passed to Mercers to determine the over and underpayments for pensioners and looking at the draft communications. The rectification will likely be implemented in October 2022.

5.3 Annual Allowance (AA) historical review project
The project to correct the AA for the period 2014/15 to 2019/20 is in progress with the first results starting to come into the Fund from the external consultant, Aon. The PAT has provided Aon with the revised salary histories for the circa350 members in scope for review. The Fund issued provisional letters prior to Christmas to all members impacted by AA in 2020/21 and these have been added to the project scope when communicating back to effected scheme members. Aon have queried the quality of the final pensionable pay data supplied by the various employers. This has been reviewed and corrected where appropriate. The first batches of historically completed calculations have been received and final spot checks are being undertaken before the data is input to the Altair system and communications produced.

5.4 Pension Increase April 2022
This will be the first time the in-house team have undertaken this project and planning is now underway.

5.5 ITM – monthly pensioner mortality checks and address tracing exercise
These projects are due to commence in February 2022 once a contract has been finalised with a specialist supplier.

6 Conclusion and reasons for recommendation

6.1 The Pension Committee is asked to note the report.

IAN GUTSELL
Chief Finance Officer

Contact Officer: Paul Punter, Head of Pensions Administration
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APPENDIX 1

East Sussex Pensions Administration - Key Performance Indicators

These are Orbis internal targets and the ESCC targets agreed in Sept 20 as a result of Good Governance review cannot commence until we go live with a separate database (went live October 21).

	Activity	Old Measure	Impact	Old Target	13/10/2021 New Target 100%	Dec-21		Nov-21		Oct-21		Sep-21		Aug-21		Jul-21		Jun-21		May-21		Apr-21		Mar-21		Feb-21		Jan-21		Performance for the year Jan 21 to Dec 21 inclusive		
	Scheme members	Pensioners, Active & Deferred				80,931		80,484		80,334		79,102		79,492		79,393		79,151		79,070		79,172		79,071		79,027		78,990				
	New starters set up					379		894		451		240		200		287		230		326		178		211		211		176				
						Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	Total	Fails	% pass
1a	Death notification acknowledged, recorded and documentation sent	within 5 days	M	**95%**	within 2 days	14	100%	35	100%	30	100%	31	100%	15	100%	18	100%	16	100%	18	100%	22	100%	43	100%	29	100%	64	100%	335	0	100
1b	Award dependent benefits (Death Grants)	within 5 days	H	**95%**	within 5 days	21	100%	17	95%	13	93%	16	100%	16	100%	8	100%	12	92%	21	96%	14	100%	9	89%	10	100%	9	100%	166	5	97.0
2a	Retirement notification acknowledged, recorded and documentation sent	within 10 days	M	**95%**	within 7 days	98	88%	94	90%	93	100%	95	95%	117	96%	128	99%	94	99%	104	100%	81	91%	84	95%	68	56%	74	94%	1,130	78	93.1
2b	Payment of lump sum made	within 5 days	H	**95%**	within 5 days	90	94%	118	97%	101	100%	147	90%	113	100%	107	100%	112	100%	147	97%	136	95%	96	87%	99	94%	82	93%	1,348	59	95.6
3	Calculation of spouses benefits	within 5 days	M	**90%**	within 5 days	19	100%	19	100%	20	100%	22	96%	15	100%	14	93%	18	95%	16	100%	20	100%	24	96%	19	100%	20	95%	226	5	97.8
4a	Transfers In - Quote (Values)	within 10 days	L	**90%**	within 10 days, aggregation 15	29	83%	23	100%	33	76%	38	90%	35	89%	42	96%	47	73%	22	64%	12	67%	19	79%	26	74%	23	61%	349	68	80.5
4b	Transfers In - Payments	within 10 days	L	**90%**	within 5 days, aggregation 25	29	90%	17	95%	22	100%	22	91%	27	100%	23	100%	34	65%	8	75%	14	93%	22	91%	17	95%	19	95%	254	25	90.2
5a	Transfers Out - Quote	within 25 days	L	**90%**	within 15 days	29	100%	55	100%	48	100%	43	91%	48	100%	103	100%	63	91%	47	98%	23	100%	40	75%	41	93%	28	90%	568	27	95.2
5b	Transfers Out - Payments	within 25 days	L	**90%**	within 10 days	18	100%	30	94%	21	100%	17	95%	9	89%	8	100%	33	100%	9	100%	21	91%	22	87%	12	92%	16	100%	216	10	95.4
6a	Employer estimates provided	within 7 days	M	**95%**	within 15 days	14	93%	27	86%	17	89%	19	100%	10	100%	26	97%	33	97%	42	96%	23	83%	28	68%	30	80%	33	79%	302	37	87.7
6b	Employee projections provided	within 10 days	L	**95%**	within 15 days	11	91%	14	100%	13	93%	14	100%	19	95%	23	100%	19	95%	33	97%	8	88%	14	93%	30	94%	9	100%	207	9	95.7
7	Refunds	within 10 days	L	**95%**	Quotes 10 days, settle 5 days	39	100%	58	100%	47	100%	54	100%	32	100%	32	100%	33	100%	29	97%	8	100%	22	100%	24	100%	37	100%	415	1	99.8
8	Deferred benefit notifications	within 25 days	L	**95%**	within 15 days	195	99%	376	100%	241	100%	329	100%	333	100%	202	100%	150	100%	147	100%	99	99%	127	100%	152	100%	203	100%	2,554	3	99.9
	TOTAL TASKS COMPLETED					**606**	95.21%	**883**	97.62%	**699**	98.28%	**847**	97.17%	**789**	98.61%	**734**	99.32%	**664**	94.73%	**643**	96.89%	**481**	94.59%	**550**	91.45%	**557**	90.84%	**617**	93.70%	8,070	**327**	**95.9**
	Figures for the previous year					**408**	98.28%	**486**	97.53%	**591**	98.31%	**494**	95.34%	**516**	92.64%	**543**	92.63%	**394**	96.70%	**359**	98.61%	**454**	98.02%	**598**	99.00%	**642**	99.53%					
	Missed target cases					29		21		12		24		11		5		35		20		26		47		51		39				
9	Complaints received- Admin					2		5		3		2		1		6		5		7		8		4		2		0				
	Complaints received- Regulatory					0		0		0		0		0		0		0		0		0		0		0		0				
13	Compliments received					1		1		0		1		0		0		1		1		0		0		0		0				

	Summary for failed cases	Dec-21	Nov-21	Oct-21	Sep-21	Aug-21	Jul-21	Jun-21	May-21	Apr-21	Mar-21	Feb-21	Jan-21
1b	Award dependent benefits (Death Grants)							1 overdue			1 Overdue by 2 days		
2a	Retirement notification acknowledged, recorded and documentation sent	12 over by average of 2.6 days									4 Overdue by average of 7 days	30 overdue	4 overdue
2b	Payment of lump sum made				Switch to Admin2Pay module - immed paym't					7 overdue by average of 4 days	12 Overdue by average of 4 days	1 overdue	6 overdue
3	Calculation of spouses benefits										1 Overdue by 4 days		
4a	Transfers In - Quote (Values)	5 over		8 Overdue by average of 7 days		5 overdue by average of 3 days		13 overdue	8 overdue by average of 23 days	4 overdue by average of 6 days	4 Overdue by average of 7 days	7 overdue	9 overdue
4b	Transfers In - Payments							11 overdue	2 overdue by average of 38 days		2 Overdue by average of 17 days	1 overdue	
5a	Transfers Out - Quote										10 Overdue by average of 15 days	3 overdue	
5b	Transfers Out - Payments					1 overdue by 2 days				2 overdue by average of 10 days	9 Overdue by average of 5 days	1 overdue	
6a	Employer estimates provided			2 Overdue by average of 5 days						4 overdue by average of 6 days	4 Overdue by average of 6 days	6 overdue	7 overdue
6b	Employee projections provided		4 Overdue by average 3 days								1 Overdue by 1 days	2 overdue	
8	Deferred benefit (DB5YE)												

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Appendix 2
Helpdesk performance

Introduced the call centre for East Sussex Pension Fund (ESPF) in November 2019

ES Helpdesk service levels for helpdesk services – new measurement approach post April 21

KPI	A	B	C	D
	First time fix	Call answer time	Abandoned call rate	Email response time
Gold	85% of enquiries dealt with at first point of contact	75% of calls answered in 20 seconds	Less than 5% of calls abandoned	100% of emails answered within 3 working days
Silver	80% of enquiries dealt with at first point of contact	50% of calls answered in 20 seconds	Less than 10% of calls abandoned	75% of emails answered within 3 working days
Bronze	70% of enquiries dealt with at first point of contact	30% of calls answered in 20 seconds	Less than 15% of calls abandoned	75% of emails answered within 10 working days
Below Bronze	<70% of enquiries dealt with at first point of contact	<30% of calls answered in 20 seconds	>15% of calls abandoned	<75% of emails answered within 10 working days

- Allow a three months' shadow period to adjust to the required higher standards where we will not consider applying performance penalties
- Thereafter quarterly performance assessed against the scoring mechanism with rectification plan for underperformance including penalty clauses for sustained underperformance.

Main Helpline for ESPF

Period	First time fix	Call answer time	Abandoned call rate	Email response time
GOLD TARGETS	**85%**	**75%**	**5%**	**100%**
April 21	96%	53%	5%	100%
May 21	95%	44%	7%	100%
June 21	95%	56%	5%	100%
July 21	91%	43%	9%	100%
August 21	88%	31%	9%	100%
September 21	86%	23%	6%	100%
October 21	80%	37%	2%	100%
November 21	87%	36%	1%	100%

Website Helpline (all six Pension Funds until October 21 the ESPF only)

Period	First time fix	Call answer time	Abandoned call rate	Email response time
GOLD TARGETS	**85%**	**75%**	**5%**	**100%**
April 21	N/A	30%	18%	N/A
May 21	N/A	31%	15%	N/A
June 21	N/A	48%	10%	N/A
July 21	100%	39%	10%	100%
August 21	100%	49%	21%	100%
September 21	100%	67%	6%	100%
October 21	91%	64%	9%	100%
November 21	100%	63%	6%	100%

Monthly transaction volumes

Month	Telephone Calls	Email's Processed	Call Back's	Total
April 21	1,080	287	13	1,380
May 21	855	475	11	1,341
June 21	807	944	15	1,766
July 21	929	1,795	13	2,737
August 21	936	1,329	5	2,270
September 21	858	1,470	8	2,336
October 21	767	1,241	16	2,024
November 21	815	1,206	0	2,021
Totals	**7,047**	**8,747**	**81**	**15,875**

Telephone survey

This is a new service starting in December 21.

Questions raised by email within 24hrs of call where a caller says they are willing to complete a short survey:

1. How easy was it for you to contact the Pensions Helpdesk today?
2. Based on your recent experience how strongly would you recommend using the Helpdesk to a colleague?
3. How confident are you that your question was resolved or will be resolved in the relevant timelines?
4. How satisfied were you with your overall experience today?

Question No.	1 Star	2 Star	3 Star	4 Star	5 Star
1	0	0	0	4	23
2	1	0	1	4	21
3	1	1	0	5	20
4	0	2	1	2	21

Note: 5 Star is the highest and therefore best rating

An additional question was asked about how many times have your called in connection with your enquiry?

No. of calls	No. of members
First call	17
Second call	4
Third call	2
Fourth or more	4

Appendix 3 - Internal Audit Report – Pension Administration - People, Processes and Systems 2020/21

Ref.	Finding	Potential risk implication	Risk	Agreed action	Owner	Target Date
1	**Indemnity from Admitted Bodies**					
	We reviewed controls over the admission of new bodies into the Fund and identified the following issues: 1. For 1 of 5 admitted bodies (N-Viro) tested, clause 9.3 & 9.4 of the signed addmission agreement indicated a requirement for a bond of £160k. The agreement, signed in Dec 20, was not accompanied by a completed bond. We understand the bond is not being chased because the contract will be terminated from 1 April 21. It has later transpired that no bond was actually required in this instance due to a subsequent agreement between all parties (see "Agreed Action" opposite. 2. Clause 9.3 of the signed agreement with Churchill (which relates to St. Paul's Church of England Academy) required either a bond or a guarantee (where the Administering Authority determines that a bond is not required.) However, in discussion with the Head of Pensions, that it had been agreed by both parties that a guarantee would suffice in this instance and no reference to a "bond" should have been made. To avoid confusion and potential future disagreement between parties, additional care should be taken in wording agreements. In addition, Clause 9.2 of the same agreement refers to the level of risk exposure arising on the premature termination of the service provision or assets by reason of insolvency, winding up or liquidation of the Admission Body, as the sum of £XXXXXX. Clearly, this should have provided a specific value to accurately reflect the overall financial risk to the Fund and guarantee required.	In both cases, it transpires that the bonds were not required despite the agreements indicating otherwise. It is therefore important that agreements are clearly worded, and subsequently amended are required and agreed, to avoid any confusion and uncertainty over the requirement to obtain bonds. Without, this, it may not be clear where bonds are required and they may not be obtained, therefore exposing the Fund to avoidable liabilities arising from potential financial difficulties.	Medium	Significant work has been actioned on admissions to ensure agreements outstanding are resolved and new admissions are managed effectively in initiation. Work in this area includes the production of an outsourcing guide which has been shared with all employers and a training session on this topic took place at the employer forum in Nov 20. Admissions status has been reported quarterly at pensions board and committee meetings to show transparency and progress. The N-Viro contract fails to have a bond in place, which would have been in line with the wording in the signed admission agreement. Prior to signing, all parties agreed that a guarantee from the parent company was appropriate instead of a bond. It appears the admission agreement was not changed to reflect this point prior to signing. The N-Viro contract is due for termination and a bond will not be sought to align with the agreement. The Fund has recruited into key posts now which means that new admissions are being managed more effectively and process notes to ensure all steps are fully documented will be created to ensure the Fund is complete in its actions in this area. In addition, after discussions with legal, the Fund have agreed to use a portal-based approach to admission agreements which will speed up and streamline the process and ensure, where bonds are required, this documentation is created at the outset. This new portal will also improve the Fund's ability to communicate with costs associated with admissions due to the flat fee structure for the legal side. Orbis Law will continue to execute admissions for the Fund.	Sian Kunert	**Original target date 01/11/2021** A new admissions procedure has been produced. The portal is now available for the Fund to start to use, although functionality is not as sophisticated as anticipated yet. New draft templates have been received by the Fund in January 2022 but will need to be fully assessed to agree replacement of current templates. **Procedures written December 2021** **Portal anticipated to have agreed templates April 2022**
4	**An**					
	The processes and activities involved in the management of the Pension Fund are complex and involve regulations which evolve over time. In reviewing these processes, we found that: 1. Despite the complexity of the processes, we noted that there are no documented detailed procedures and/or flowcharts which define the end-to-end processes performed by the team. Examples of activities which require formal procedures include new starters, transfers in, leavers, transfers out, retirement benefit calculations for deferred, active and dependants of deceased members, change to member details such as bank, address death etc.	Where procedures are not formally documented, staff may not be fully aware of their responsibilities and key tasks may not be performed.	Medium	ESCC PAT team have inherited the Orbis processes and agreed that processes are not well documented, but the checklists are in place for pretty much all tasks. It would be normal to review the processes and procedures as part of a data migration exercise and it's part of the Aquila Heywood standard project plan. However, due to the project's tight timeframe, we have to cut out non essential activities. It was always acknowledged the work would be looked at post go live over the Summer 2021. We will create a project plan to review these in August, with an expectation to complete many of these this year.	Paul Punter	**01/08/2022** The first process to be reviewed will be the TV-out (including pension scams) and a small team are meeting in County Hall on 6/10/21 to document the current process and prepare a flowchart using Visio software. The "to be" new process was documented on 8/12/21. Letters and checklists to be completed by 31/1/22. Checking IT support and resources before next process reviews begin - priority order is leavers next, then deaths.

	2. Currently, there is reliance on the use of checklists for tasks performed by the team. The checklists do not provide the team with an overall picture of the links between various tasks, teams or how the processes fit together, including key risks and controls to mitigate these risks.					
	3. From walkthroughs of the processes performed, we also noted that much of the knowledge and experience of team members is "in their heads" and gained over the years. To ensure consistency and to help new starters, this should be documented.					
	Procedures help to identify gaps in controls and if in place often help to make processes more effective and efficient. They also serve to provide new staff with clear guidance and instruction.					
8	**Key Person Dependence/Risk - Updates to Altair Factor Tables**					
	Our review of processes in place to ensure accuracy of retirement benefit calculations by the Altair system identifued a key person dependency within PAT. 1. Currently, only one individual withinthe ESCC has reponsibility for and can update the factor tables in Altair. At the moment,the alternative resource for this task is from the Surrey PAT. Discussions with the Fead of Pensions noted that this is a short term risk and the Surrey team will provide support until the end of June 2021 when it is anticipated that hew staffwill be recruited. 2. In addition, there is no evidence indicating that there is a independent review of the updates to the factors performed by the individuals above. 3. For career average revalued earnings (CARE) benefits, they are revalued annually through updates made to the factor tables in Altair.However, there was no evidence to indicate that the revaluations were subject to independent review to ensure the system calculations are accurate.	With the transfer of pension administration back to ESCC, should the key individual responsible for updating the factor tables in Altair be unavailable for any reason, there may not be appriate cover to undertake this function. Without independent checks of the factors unloaded, errors in calculations may not be detected timely.	Medium	We are all aware that following the TUPE transfer we have signification recruitment to undertake. Recruitment is now a priority for the Fund, particularly now support for the project work from Surrey ceased on 30/6/21. whilst we do currently have a few key person risks, we do endeavour to still have their work checked. As a last resort, the Fund are still able to call on SCC for limited support where SCC can accommodate. The Fund is aware of this key person risk and while recruitment is underway to fill the gaps in establishment from being PAT inhouse this risk is being tolerated. In addition, staff in the team are cross training each other where possible to mitigate this risk. This risk is also included within the risk register reported to Board and Committee quarterly. When factors are changed and revaluation tables updated, these are communicated to PAT and extra care taken to check the first few cases therefore to check factors are feeding through cases correctly when processing. A project will be starting in September to carry out a skills matrix to map all PAT skills and identify and gaps and areas of risk to the Fund. This will help with development of the team and modify recruitment to vacancies where necessary.	Paul Punter	**28/02/2022** Meeting arranged 27/1/22 to review and determine linking Altair profile configurations & permissions with PAT job descriptions. In addition to cover removing all non-ES housekeeping options - define key areas and agree a review plan. New PAT job descriptions have been reviewed by Sian and HR and supporting document created to explain the specialist nature of the service. These will be evaluated by the ES recruitment panel. Once the appropriate gradings are agreed recruitment can be progressed quickly.

Report to:	**Pension Committee**
Date of meeting:	**24 February 2022**
By:	**Chief Finance Officer**
Title:	**Additional Voluntary Contributions (AVC) Report**
Purpose:	**To provide an overview of the existing AVC arrangements and commentary on service provision for review.**

RECOMMENDATIONS

The Pension Committee is recommended to:

1. **Consider the service provision and options available to members**
2. **Agree to a regular review of the AVC arrangements**

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1. Background

1.1 This report has been prepared to assist the East Sussex Pension Fund (the Fund) with the management and governance of the Additional Voluntary Contribution (AVC) arrangements with Prudential.

2. Supporting information

2.1 AVC's are a way for Fund members to increase their benefits above their entitlement under the Local Government Pension Scheme (LGPS) based on their employment service. AVC's build a pot of money of additional benefits under an arrangement with an AVC provider. For the Fund this provider is Prudential. The contributions into AVC's are deducted from a members pay before tax, so tax relief is automatic.

2.2 **Appendix 1** provides a detailed report on the management and governance of the existing arrangements covering, Member Demographics, Investments, Service, Communications, and comments on some other AVC providers.

2.3 Overall there are no aspects of major concern, however there are 3 areas to note around the administration service performance, the strength of the provider and the default investment fund within this arrangement.

3 Conclusion

3.1 The Committee is asked to consider the service provision and options available to members of the AVC arrangements with Prudential and agree to a regular review of the service provision and AVC arrangements.

IAN GUTSELL
Chief Finance Officer

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East Sussex Pension Fund

AVC Review

January 2022

Introduction

This report has been prepared for the East Sussex Pension Committee to assist with the management and governance of the East Sussex Pension Fund's (ESPF or the Fund) Additional Voluntary Contribution (AVC) arrangements with the Prudential.

There were 1,086 East Sussex Fund members with Prudential AVC's, based on the statement of accounts as at 31 May 2021 totalling £21.9m of assets. Annual contributions by members into the AVC funds amounted to £2.1m in 2020/21.

The AVC arrangement currently consists of 10 self-selected funds which are open for new investment, these are mostly actively managed funds with two passively managed funds. In addition, members have access to two lifestyle options (a) that is designed for a member planning to take all their AVCs as cash on retirement or (b) retirement options where only 25% of the fund is aimed at cash on retirement. The lifestyle invests in a range of predominantly growth seeking assets (equities, property etc.) when more than 10 years from retirement and gradually de-risks into consolidation assets (bonds and cash) over the 10 years to selected retirement date.

The Committee is required to consider the on-going suitability of the funds made available for members to choose, taking into account the performance of both the provider and investment fund in question.

This report will cover the following areas:

- Member demographics
- Investments
- Business
- Service
- Communications
- Commentary on alternate providers
- Summary and recommendations

To help compile this paper the Fund has been provided information from Prudential and has sought commentary from the Barnett Waddington DC research team, who regularly review leading DC providers across the key areas – business, administration, investment and communications.

Executive Summary

Responsibility

The Pension Committee has an ongoing governance responsibility to ensure that:

- The fund options made available remain appropriate
- The AVC provider offers a good quality service that meets the needs of members and the Committee
- The charges paid by members are competitive and offer good value to money

Key findings

Overall, there are no aspects of Prudential of major concern, however the following should be noted:

1. Prudential's administration service performance had deteriorated in 2021, The Fund communicated with Prudential in April 2021 to understand the issues and how this would be resolved, and awareness was raised to Board and Committee in June 2021. Prudential implemented a Critical Service Recovery Plan in July 2021. The service issues have been predominately as a result of an upgrade to the Prudential's administration platform which has caused issues across a number of areas and has resulted in a backlog of work items. Prudential has taken this issue seriously, and service has improved. The Fund will continue to monitor Prudential carefully to ensure that service continues at expected standards and any outstanding services issues are resolved.

2. Prudential are one of the largest AVC providers in the UK and have significant experience in administering AVC arrangements for local authorities. Prudential is financially strong and compares well across the industry with a Standard and Poor's rating of A+.

3. The default investment fund for ESPF members under the AVC arrangements is the Prudential With-Profits Fund. This fund aims to provide competitive long-term real returns whilst smoothing the peaks and troughs of day-to-day market movements. This fund is broadly one of the better performing with-profits funds available. Whilst Prudential's charges for the unit-linked funds are reasonably high relative to DC scheme pricing, they are more consistent with AVC arrangements. Irrespective of whether more competitive charges are available in the wider market, the access to an equivalent With-Profits Fund are less likely to be available under a new arrangement, as the majority of with-profits funds in the market are closed to new business. As a result, any change in supplier would impact the majority of AVC investors in their ability to access an equivalent investment option and could cause added complexity, removal of stability in their AVC's and increased exposure to market risk.

Recommendations

The Pension Committee should

1. Consider the service provision and options available to members
2. Agree to a regular review of the AVC arrangements

East Sussex Pension Fund Membership of AVC’s

Membership Demographics

Status by age group as at 30 June 21

	25-29	30-34	34-39	40-44	45-49	50-54	55-59	60-64	65+	Total No. of members
Active	3	9	23	46	121	232	315	208	73	**1,030**
Deferred	0	2	4	9	21	92	98	50	19	**295**
Totals	3	11	27	55	142	324	413	258	92	**1,325**

Status by membership duration as at 30 June 21

	30+ Yrs	20-30 Yrs	10-20 Yrs	5-10 Yrs	4-5 Yrs	3-4 Yrs	2-3 Yrs	1-2 yrs	<1 Yr	Total No. of members
Active	0	289	109	255	120	88	35	50	84	**1,030**
Deferred	1	184	43	45	12	8	0	2	0	**295**
Totals	1	473	152	300	132	96	35	52	84	**1,325**

Status by years to retirement as at 30 June 21

	Past retirement date	<1 Yr	1-2 Yrs	2-3 Yrs	3-4 Yrs	4-5 Yrs	5-10 Yrs	10-20 yrs	20+ Yrs	Total No. of members
Active	7	52	52	57	71	73	319	320	79	**1,030**
Deferred	1	10	13	9	10	19	107	112	14	**295**
Totals	8	62	65	66	81	92	426	432	93	**1,325**

Member pot sizes

- Approximately 80% of the membership have pot sizes of less than £40k and around 40% have pot sizes of less than £10k.
- A small number of members have AVC pots of over £100k.
- The average member pot size is £13,440.

Age profile of membership

- Shows the maturity of membership.
- The oldest member is 74.
- The average age of the membership is 56.

Years to retirement

- 60% of the membership have less than 10 years until retirement based on the policy end date with Prudential.
- However, 7% of members have over 20 years until retirement so the Committee's on-going governance requirement for the AVC is expected to continue over a long time horizon.

Investment's

Funds available for investment

Investment Fund Name	Asset Class, Active or Passive	Prudential's risk rating
Prudential UK Equity Passive Fund	Equities, Passive	High
Prudential Overseas Equity Passive Fund	Equities, Passive	Medium to higher risk
Prudential Positive Impact Fund	Equities, Active	Medium to higher risk
Prudential Discretionary Fund	Multi-Asset, Active	Medium
Prudential Dynamic Growth IV Fund	Multi-Asset, Active	Medium
Prudential Long-Term Gilt Passive Fund	Government Bond, Active	Medium
Prudential Dynamic Growth I Fund	Multi-Asset, Active	Lower to medium risk
Prudential Dynamic Growth II Fund	Multi-Asset, Active	Lower to medium risk
Prudential With-Profits Fund *(Default option)*	Multi-Asset, Active	Lower to medium risk
Prudential Cash Fund	Deposits, Active	Minimal risk

AVC investors can invest in multiple funds.

Environmental, Social and Governance (ESG)

There is one ESG offering in the arrangement – the Prudential Positive Impact Fund. The fund gains its positive impact exposure through the M&G Positive Impact Fund. The fund is a concentrated portfolio of global stocks, investing in companies that make a positive social and/or environmental impact alongside a financial return. The fund embraces the United Nations Sustainable Development Goals framework and invests in companies focused on areas including climate action, pollution reduction, circular economy, health and wellbeing, education and innovation, and working conditions. The objective is to support and influence their contribution to the world's major social and environmental challenges. The fund manager has discretion to invest in companies with limited exposure to fossil fuels but which are driving or significantly participating in the transition to a more sustainable economy. There are 67 members invested in this fund which equates to 5% of member exposure to the investment options. This fund was added to the options available in February 2020.

Closed Funds

The following funds have been closed, however members who have selected these prior to closure can retain their holding.

Investment Fund Name	Asset Class, Active or Passive	Prudential's risk rating
Prudential Deposit Fund	N/A, Active	Minimal Risk
Prudential Fixed Interest Fund	Government Bond, Active	Lower to medium risk
Prudential Global Equity Fund	Equities, Active	Medium to higher risk
Prudential Index-Linked Fund	Government Bond, Active	Medium to higher risk
Prudential International Equity Fund	Equities, Active	Medium to higher risk
Prudential UK Equity Fund	Equities, Active	High

The UK Property S1 and S3 funds were closed in July 2021, due to a large number of withdrawal requests. Members investing in these funds since 03/06/2019 were redirected into the Cash Fund (unless members selected an alternative fund). Prudential wrote to all members who were invested in the property funds with details of the closure, the fund they proposed moving their investment to and next steps.

Lifestyle funds

Prudential Lifestyle Fund Name	Fund within lifestyle
Targeting 100% cash	Dynamic Growth IV & Dynamic Growth II & Cash
Targeting retirement options	Dynamic Growth IV & Dynamic Growth II & Cash

Members have access to two lifestyle options (a) that is designed for a member planning to take all their AVCs as cash on retirement or (b) retirement options where only 25% of the fund is aimed at cash on retirement. The lifestyle invests in a range of predominantly growth seeking assets (equities, property etc.) when more than 10 years from retirement and gradually de-risks into consolidation assets (bonds and cash) over the 10 years to selected retirement date.

Default fund

The Prudential arrangement offers a default investment, where members' contributions will be invested unless they make an active choice otherwise. For this arrangement, the default is the Prudential With-Profits Fund.

The With-Profits Fund aims to offer the prospect of competitive long-term real returns whilst smoothing the peaks and troughs of day-to-day market movements. The Fund is broadly one of the better performing with-profits funds.

The value of with-profits funds are not directly exposed to fluctuations in the value of the underlying assets. Instead, returns are 'smoothed' through the addition of bonuses (regular and final) which aim to provide members with a steady rate of return. The level of bonuses applied, which are not guaranteed, will vary depending on a number of factors and will make an allowance for the charges associated with running the fund.

Members have the potential to achieve higher returns by transferring from the With-Profits Fund into unit-linked alternatives. However, in doing so, members would then equally expose the fund value they have built up to potential negative returns. By contrast annual bonus rates in the With-Profits Fund once applied, cannot be taken away.

With-profits funds have commonly been used within AVC arrangements, and there are no particular concerns regarding the use of the Prudential With-Profits Fund as the arrangement's default.

Funds Under Management as at 30 June 2021

Prudential Fund	Units	Price	Value (£)	% of total fund	No. of members
With-Profits Cash Accumulation Fund			9,034,258	50.73	777
S3 Discretionary Plan	795,589.15	416.90	3,316,811	18.63	248
Deposit Fund			1,569,708	8.81	121
S3 Overseas Equity Passive Pen	149,487.25	524.80	784,509	4.41	104
S3 Cash Pen	382,554.47	155.70	595,637	3.34	48
Dynamic Growth IV	313,020.27	163.20	510,849	2.87	74
S3 Long-Term Gilt Passive Pen	132,026.30	360.50	475,955	2.67	76
Positive Impact	344,496.24	126.40	435,443	2.45	67
UK Equity Passive	117,735.69	307.10	361,566	2.03	52
Dynamic Growth I	163,989.88	145.80	239,097	1.34	45
With-Profits Cash Accumulation Fund 2			207,342	1.16	61
Dynamic Growth II	103,584.67	152.30	157,759	0.89	46
S3 International Equity Pen	10,796.65	515.50	55,657	0.31	9
S3 Global Equity Pen	8,197.55	396.60	32,511	0.18	5
S3 UK Equity Pen	8,223.29	343.30	28,231	0.16	5
S3 Index-Linked Pen	445.66	470.70	2,098	0.01	1
S3 UK Property Pen	-2.39	315.80	-8	0.00	2
Totals			17,807,424		1,337

Funds Under Management as at 30 June 2021 by age

Prudential Fund by age	25-29 (£)	30-34 (£)	34-39 (£)	40-44 (£)	45-49 (£)	50-54 (£)	55-59 (£)	60-64 (£)	65+ (£)	Total No. of members
With-Profits Cash Accumulation Fund		4,146	35,101	129,335	480,694	1,445,382	3,339,032	2,556,215	1,044,352	777
S3 Discretionary Plan	1,596	10,478	18,950	43,569	189,391	696,204	1,430,608	629,171	296,843	248

Deposit Fund		437	436	5,608	63,381	189,429	515,400	489,426	305,592	121
S3 Overseas Equity Passive Pen	1,741	2,381	4,670	37,685	140,256	201,638	289,518	97,936	8,683	104
S3 Cash Pen	1,376	197		49	1,245	111,033	166,917	244,174	70,645	48
Dynamic Growth IV			14,227	10,724	106,235	249,545	93,208	36,910		74
S3 Long-Term Gilt Passive Pen	791		1,141	21,280	56,866	105,569	132,486	97,675	60,146	76
Positive Impact	649	993	15,025	21,846	48,808	75,364	120,426	110,134	42,198	67
UK Equity Passive		3,560	5,868	74	50,555	143,452	71,345	52,176	34,536	52
Dynamic Growth I			936	1,527	35,931	62,849	59,681	60,267	17,908	45
With-Profits Cash Accumulation Fund 2	1,202	643	1,454	970	7,082	63,675	81,672	50,144	500	61
Dynamic Growth II				202	39,031	24,090	66,101	28,336		46
S3 International Equity Pen					19,526	16,900	8,037	11,195		9
S3 Global Equity Pen			501			16,401	15,610			5
S3 UK Equity Pen					2,194	13,052		12,985		5
S3 Index-Linked Pen								2,098		1
S3 UK Property Pen							-8			1
Totals	7,355	22,835	98,309	272,870	1,241,198	3,414,582	6,390,033	4,478,840	1,881,403	1,337

Number of investors in each fund as at 30 June 2021 by age

Prudential Fund choice by age (free style only)	25-29	30-34	34-39	40-44	45-49	50-54	55-59	60-64	65+	Total
With-Profits Cash Accumulation Fund		3	5	18	50	108	165	106	48	503
S3 Discretionary Plan	1	3	10	6	22	47	65	40	4	198
Deposit Fund		1		2	7	14	28	30	19	101
S3 Overseas Equity Passive Pen	1	3	2	6	19	15	23	12	1	82

S3 Cash Pen	1	1	2	1	1	6	15	8	3	38
Dynamic Growth IV					3	6	1	2		12
S3 Long-Term Gilt Passive Pen	1		2	5	8	10	18	9	6	59
Positive Impact	1	2	5	5	14	10	14	6	1	58
UK Equity Passive		1	3		7	11	15	7		44
Dynamic Growth I					4	3	5	4		16
With-Profits Cash Accumulation Fund 2	1	1	3	2	8	14	17	11	1	58
Dynamic Growth II						6	4	4		14
S3 International Equity Pen					1	1	1	1		12
S3 Global Equity Pen			1			1	1			3
S3 UK Equity Pen						1				1
S3 Index-Linked Pen										0
S3 UK Property Pen										0
Unique Members	***3***	***9***	***21***	***35***	***109***	***209***	***294***	***198***	***71***	***949***

Investment performance period to 31 March 2021

The following table gives a summary of the investment performance of the open and closed funds. The figures are presented against the relevant benchmarks and net of fees.

Performance net of AMC Fund Name	Return Quarter	Return 1 year %	Return 3 year % p.a. (annualised)	Return 5 year's % p.a. (annualised)
UK Equity Passive	5.2	26.6	3.3	6.4
Overseas Equity Passive	3.4	41.1	10.9	13.4
Positive Impact	0.5	42.1	n/a	n/a
Discretionary	3.3	28.1	6.5	9.5
Dynamic Growth IV	1.0	27.8	7.2	9.5
Long-Term Gilts Passive	-12.2	-10.3	3.4	4.9
Dynamic Growth I	-1.7	16.3	5.9	7.2

Dynamic Growth II	-0.9	20.1	6.4	8.1
With Profits	unknown	unknown	unknown	unknown
Cash	0	0.1	0.5	0.4
UK Equity Active	5.6	33.9	4.5	7.4
International Equity	5.9	39.9	8.4	12.4
Global Equity	5.8	36.3	6.1	9.1
Index Linked	-6.7	3.1	3.8	6.8
Fixed Interest	-7.3	-4.8	2.9	3.3
Deposit	unknown	unknown	unknown	unknown

At retirement options

Members have the following options for taking their AVCs:
Tax-free cash sum – members may take up to 100% of the AVC benefits as a tax-free cash sum, provided that the total is not more than 25% of the total value of the Fund's benefits i.e. including Local Government Pension Scheme (LGPS) benefits.

1. Tax-free cash sum and increased pension – Up to 25% of the AVC benefits can be taken as a tax-free cash sum and the remainder can be used to provide an increased pension from the Fund.
2. Purchase of a lifetime annuity.
3. Transfer to an alternative registered pension arrangement, e.g. offering flexi-access drawdown.

Business

Financial Strength - durability

Prudential is financially strong and compares well across the industry. Prudential is part of M&G plc.

Agency	Rating	Meaning of rating	Outlook
Standard & Poor's	A+	A+ signifies strong financial security	Stable

Product commitment

Prudential are an international provider of financial products and services. From a UK perspective, although they are not actively seeking new business in the workplace pension market, they administer a significant number of pension schemes. In particular, they operate a number of AVC arrangements for local authorities participating in LGPS and other public sector schemes, and as such they are a well-known provider in this area of the market. Prudential provides AVC solutions to 74 of 99 Administering authorities in the LGPS.

Brand

Often members will feel more comfortable knowing that their AVCs are invested with a company that they have heard of and know something about. Members can also draw comfort from knowing that the company that looks after their AVCs also does so for millions of others.

Service

Whilst Prudential are one of the more active providers in the AVC market, their administration service has been poor in 2021 largely due to a change of administration platform. The move to a new administration platform will quite frequently bring with it change and service issues. Prudential appear to have a detailed plan in place to put things right and the administration service performance is improving.

Systems

Prudential changed their underlying administration platform to BaNCS (provided by Diligenta) in late 2020. The BaNCS platform has more robust contribution reconciliation processes. Prudential have previously assisted clients by undertaking manual workarounds for non-matching contribution files and payments, but this is no longer possible. The change has caused challenges for clients' payrolls resulting in contribution processing delays.

The change to the contribution process has had a knock-on effect on other service areas, irrespective of whether contributions are paid or not. Prudential have made a significant increase in staffing levels in the key operational functions such as contribution processing and claims in order to reduce the backlogs of work that have built up.

Quality & Processes

As a result of the system issues, Prudential implemented a Critical Service Recovery Plan in July 2021, covering a number of services and processes:

1. Cash management – Prudential are working with a third party to educate clients' payroll teams in using the new system.

2. Claims – triaging claims that have no cash management (contribution) dependency and paying them; otherwise liaising with trustees where there are cash management issues; there are still delays on some claims (10 to 15 day completion to move to 5 to 10 day SLA in Q4 2021).

3. Complaints – taking the general approach of upholding complaints and ensuring no financial detriment.

4. Servicing and quotes – some developments to relieve pressures on voice contact service (if a quote doesn't get issued, a call is received increasing call volumes).

Helpline

Voice contact service (calls) – the service is stabilising, with c80% of staff now working back in the office in Craigforth following the removal of lockdowns imposed as a result of the Covid-19 pandemic. Call waiting times have fallen to around 10 minutes.

Project management

The production of the annual Statement of Account and Benefits Statements has been severely impacted with the system change and service issues. This is a key area Prudential are focusing on given the regulatory nature of the need for information. Prudential have kept The Pensions Regulator and the Financial Conduct Authority updated with issues. The 2020/21 accounts were completed and sent to the Fund in January 2022.

Account management & Management Information

There is weekly tracking by Prudential across the areas referenced above, with the aim of reaching consistency by the end of August. We understand that as at mid-August Prudential have returned to business as usual processing on claims, with the majority of cases being completed within 10 days. Prudential hope to step back and leave services to the outsourced provider, Diligenta, at the year-end.

There are two named Client Relationship Managers through whom we can raise and escalate and service issues. We have been having regular discussions since service deterioration began in April 21.

Scheme Advisory Board (SAB) and Local Government Pensions Committee (LGPC)

The service issues with Prudential are consistent across the LGPS and were discussed by the National Technical Group at its meeting on 27 September 2021 where it was agreed that the chair of the LGPC would liaise with the chair of SAB (England and Wales) to write to Prudential setting out the concerns with the service on behalf of the scheme. The letter to Prudential also requested that they attend a meeting with LGPS/SAB to discuss these issues further which Prudential have agreed to.

Ongoing issues identified by the LGPC in December 2021 include the Regulatory breach due to the non-publication of the financial statements (due seven months after the year-end – since received in January 2022) and Annual benefit statements still not published, although this is not a regulatory breach as these do not have to be published until 31 March 2022.

Communication

As the AVC arrangement is part of the broader benefits of the Fund, the type and frequency of communications from an AVC provider are fairly limited. However, clear communications are essential so that members understand what they can do to put themselves in the best possible position.

Digital engagement

Prudential have a dedicated section of their website for LGPS members. Members can view details of how AVC arrangements work, the tax benefits of contributing and details of investment and retirement options. Prudential also operate income tax and retirement contributions calculators so members can model how their choices will impact them specifically.

Members can also register to access details of their AVC account online via Prudential's secure member site. Once registered, members can view their details online and make certain changes, such as changes to contribution levels, retirement age and updating their personal details.

The East Sussex AVC fund guide can be found https://www.pru.co.uk/pdf/LAVK10033.pdf

Bespoke communications

The Fund have reviewed Prudential's annual benefit statement template, and believe the messaging to be clear, relevant and up-to-date.

Overview of alternative providers

Barnett Waddingham have provided an overview of two alternative pension providers who administer an AVC arrangements (Aviva & Fidelity). The AVC provider market is relatively limited, however there are some further AVC providers. Both the alternative pension providers, administer open AVC arrangements and Barnett Waddingham consider to be among the market leaders in the AVC and workplace pensions market.

Proposition Area	Aviva	Fidelity	Comparison against Pru
Business	Aviva (Aviva Life & Pensions UK Limited) has a Standard & Poor's insurer financial strength rating of AA- (stable outlook), signifying very strong financial security characteristics. This rating was upgraded from A+ in July 2019. Aviva has a very strong presence in the workplace pensions market. The NGP platform (ex-Friends Life) is strategic to Aviva due to the large value of business operated on it. From a new business viewpoint, however, Aviva focuses on either its MyMoney or Unisure platform, depending on the profile characteristics of the potential new scheme. We believe however that the functionality of the NGP platform is broadly comparable with those of other providers and Aviva's own alternative platforms.	Fidelity has a strong presence in the workplace pensions market. In our most recent research, Fidelity reported operating some 75+ AVC schemes, representing some £300 million of assets.	Both Aviva and Fidelity are financially strong organisations, similar to Prudential. The key difference is that Aviva and Fidelity are open to new workplace pensions business and are very active in the market. As a result they are continuously investing in their propositions and services.

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	Aviva reported operating some 1400+ AVC schemes on the NGP platform, representing some £2.6 billion of assets.		
Administration	None of the administration is outsourced or offshored. In assessing the performance of its administration services, Aviva is moving away from service level agreement (SLA) measures and replacing these with a suite of end-to-end measures with the aim of collectively determining and evidencing how well its service is performing for customers rather than just how quickly tasks are done.	A number of back office activities are carried out from Fidelity's business centres in Gurgaon and Noida, India. In assessing the performance of its administration services, Fidelity uses service level agreement (SLA), customer satisfaction and net promoter score (NPS) measures.	All administration for Aviva is undertaken in the UK, unlike Fidelity and Prudential where some services are carried out in India. Our clients' experiences of Aviva and Fidelity's service performance has generally been good. However, Aviva has experienced issues in previous years when switching between administration platforms.
Investment	Aviva's standard default is My Future. This lifestyle strategy employs strategic asset allocation across a range of passive investment funds, with volatility targeting that reduces in the final 15 years. Alongside the standard 'universal' option that offers broad protection for the various retirement options, Aviva provides variants of My Future that offer more targeted protection to the specific retirement options. Aviva provides access to 100+ investment funds as standard (includes component funds to the lifestyle strategies),	Fidelity's standard default is FutureWise. This lifestyle strategy employs a mix of passive and active management, reducing volatility in the final 18 years, targeting a universal outcome at retirement. Fidelity do not offer any alternative "off-the-shelf" defaults Wider investment options include 150 self-select investment funds	Both providers offer a more sophisticated range of investment options than Prudential. In particular, the provider defaults benefit from a high level of oversight and governance at provider level. Prudential do operate similar lifestyle strategies that could be used as a default. They also have a wide range of self-select funds that could be offered. The wider fund range available from both Aviva and Fidelity is in

	sufficient to meet the needs of the large majority of pension savers, including several 'ethical' funds. Aviva also provides an alternative suite of lifestyle strategies, My Future Focus, which aims for enhanced returns and de-risks over a shorter, 10 year period.		our view suitable for the needs of the majority of members.
Communications	Aviva issues benefit statements annually, online via the member site as standard, although hardcopy is available for members unable to access statements online. We believe the statements are informative, reasonably engaging and give clear calls to action. Aviva's retirement communications strategy begins 15 years before their retirement date, prompting members to consider how they will take their benefits at retirement and to review their investment choice. Subsequent communications are sent every five years, with some differences to build up layers of information for members. Nearer retirement date, a 'wake-up pack' is sent six months out, a follow up pack two months out and a retirement pack at retirement date. Employer member sites host documents specific to the employer, e.g. investment options and charges. Aviva is able to	Fidelity issues benefit statements annually, by post as standard (with an electronic copy being made available on the member portal). We believe the statements are clear and reasonably engaging. Fidelity are planning on introducing video statements later in 2021. The retirement communications strategy begins from age 50, with a further prompt four years before retirement age and within annual benefit statements. Retirement packs are issued 4 – 6 months before retirement age, with a reminder eight weeks out. Fidelity can offer an employer-specific 'microsite' with bespoke content and an app with transactional capability. Fidelity can support 'single sign on'	Aviva and Fidelity invest heavily in developing their range of communications support. Prudential's range of communications is fairly limited compared to most other providers and they do not invest as much into enhancing or improving their proposition in this area. It should be noted that the utilization of provider communications and tools under AVC arrangements will typically be determined by the Trustees and administrators of such arrangements.

	support single sign-on, e.g. via an employer’s intranet. The app MyAviva provides access to all Aviva policies in one place. Aviva offers a selection of tools to assist members with building up their pension savings and taking benefits, including an accumulation modeler, Pension Forecaster, and a retirement modeler, My Retirement Planner. Other tools help to forecast potential retirement income needs, e.g. Shape My Future and Retirement Spending Calculator.	through an employer’s intranet to the app. Fidelity provides a retirement planning modeler to assist members with building up their pension savings and taking benefits. Various other tools are provided, e.g. ‘how much will you need’ budget planner.	

Overall Summary

Taking into consideration the key areas outlined in this report, we have no significant concerns regarding Prudential as the provider for the AVC arrangement of the Fund. We note that they have a number of bespoke features available specifically for participants of LGPS and have significant experience of operating AVC arrangements for public sector organisations.

Prudential have suffered some significant service issues over the last year and while we are confident that these issues are being addressed, we would recommend that the Fund continues to monitor Prudential's performance in this area.

Prudential are not active in the workplace pension market and, as a result, there are a few providers who may be able to provide improvements in areas such as communications and range of investments.

Based on the considerations in this paper, Prudential is a suitable provider for the AVC arrangement currently. The Fund should review the offerings of the AVC provider regularly to ensure it continues to be fit for purpose.

Report to:	**Pension Committee**
Date of meeting:	**24 February 2022**
By:	**Chief Internal Auditor**
Title:	**Internal Audit Reports and the Internal Audit Strategy for Pensions 2022/23**
Purpose:	**This report advises the Committee of the outcomes of the attached audits and requests its approval of the Internal Audit Strategy for Pensions and Annual Plan 2022/23.**

RECOMMENDATIONS

The Committee is recommended to:

- **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);**
- **approve the 2022/23 Internal Audit Strategy for Pensions and Annual Plan (Appendix 4).**

1. Background

Completed Audits

1.1 The reviews of:

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

were completed as part of the Internal Audit Strategy for Pensions 2021/22 and provide assurance on the overall effectiveness of their respective systems' controls.

1.2 As a result of our work on Pension Fund Governance 2021/22, we were able to provide an opinion of **Reasonable Assurance** over the controls in place, as we did in the previous year. The report contains three medium- and low-risk findings, which reflect the limitations of a single fund to be able to influence the governance arrangements of the ACCESS Pool. The East Sussex Pension Fund (ESPF) is continuing to work with the ACCESS Joint Committee to strengthen the Pool's governance arrangements. Actions have been agreed with management to address these issues.

1.3 Following our work on Pension Fund Compliance with Regulatory Requirements 2021/22, we were able to provide an opinion of **Substantial Assurance** over the controls in place and there are no findings to report. Last year's report also gave Substantial Assurance but with three findings.

1.4 The third report relates to the Implementation of Altair. As no issues were identified in our work that had not also been identified, and reported, in other audits, there were no findings - and corresponding actions - in this report. Similarly, no audit opinion was given because these findings have already influenced the audit opinions of other audits.

Internal Audit Strategy and Plan for Pensions

1.5 The Council's Internal Audit Strategy for Pensions 2022/23 sets out the approach Internal Audit takes when planning its assurance on the effectiveness of controls over the ESPF. 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. The new Strategy reflects the transfer of the administrative function and, for the first time, contains separate audits of the collection of contributions and the payment of benefits. These areas were both previously covered under the Pension Administration – People, Processes and Systems audit.

1.6 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.

2. Conclusions and Reasons for Recommendation

2.1 The Pension Committee is:

- recommended to note the Internal Audit reports; and
- requested to approve the Internal Audit Strategy for Pensions and Annual Plan 2022/23.

RUSSELL BANKS
Orbis Chief Internal Auditor

Contact Officer: Nigel Chilcott, Audit Manager
Tel No.: 07557 541803

Contact Officer: Danny Simpson, Principal Auditor
Tel No.: 07701 394826

<u>BACKGROUND DOCUMENTS:</u>
None

Internal Audit Report

Pension Fund Governance 2021/22

Final

Assignment Lead: Amanda Craig, Principal Auditor
Assignment Manager: Danny Simpson, Principal Auditor
Prepared for: East Sussex County Council
Date: December 2021

Report Distribution List

Draft Report:
Sian Kunert, Head of Pensions
Michael Burton, Pensions Manager - Governance and Compliance

Final Report:
As per the draft report distribution list, with the inclusion of:
Phil Hall, Interim Chief Operating Officer
Ian Gutsell, Chief Finance Officer
Pension Board
Pension Committee

This audit report is written for the officers named in the distribution list. If you would like to share it with anyone else, please consult the Chief Internal Auditor.

East Sussex County Council - Internal Audit Key Contact Information

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1. Introduction

1.1. East Sussex County Council (ESCC) administers and manages the East Sussex Pension Fund (the Fund) on behalf of 130 employers.

1.2. The Fund is responsible for managing assets for the long-term benefits of scheme members in accordance with statutory regulations. The Pension Committee is responsible for making arrangements for the administration and investments of the Fund, receiving advice as appropriate from the Pension Board, which is a statutory requirement to assist the Scheme Manager (ESCC) in securing compliance with all relevant pensions' law, regulations and directions. The administration of the Pension Fund is now undertaken by ESCC, having previously been carried out by Orbis Business Operations.

1.3. We reviewed the adequacy and effectiveness of governance arrangements over the Pension Fund, to provide assurance that strategic oversight, risk management, reporting and communication processes are in place to maximise the likelihood that the Fund's objectives are met.

1.4. This review is part of the agreed Internal Audit Plan for 2021/22.

1.5. This report has been issued on an exception basis whereby only weaknesses in the control environment have been highlighted within the main body of the report.

2. Scope

2.1. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:

- Governance arrangements are resilient and provide sufficient and effective oversight.
- Risk management arrangements are robust.
- Communication is efficient and effective.
- Reporting arrangements ensure that poor performance is identified and corrected.
- Checks and guarantees on funding levels of new and existing employers is robust.

3. Audit Opinion

3.1. **<u>Reasonable Assurance</u> is provided in respect of Pension Fund Governance 2021/22**. This opinion means that most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Appendix A provides a summary of the opinions and what they mean and sets out management responsibilities.

4. Basis of Opinion

4.1. There is sufficient and effective oversight by the Pension Board and Pension Committee, to ensure that regulation is adhered to and good practice principles are applied. This is through regularly held and clearly recorded Pension Board and Committee meetings. All members of the Pension Board and Committee are able to benefit from training in order to effectively undertake their role and enhance their knowledge. All members are required to declare any potential conflicts of interest at the beginning of all meetings.

4.2. Restructuring has ensured that the Pensions Fund is now more resilient and able to respond to unexpected changes as there are sufficient resources in the Fund to account for any staff changes or shortages.

4.3. A risk register is in place that is subject to regular scrutiny from the Pension Board and Pension Committee. This document is active, updated regularly and mitigations in place are appropriate in order address each risk identified.

4.4. Overall good practice has been observed and effective controls are in place; however, there are some opportunities for improvement.

4.5. Whilst the Fund has made efforts to gain agreement within the ACCESS Pool to finalise and implement the Governance Manual and establish a performance management process for fund managers, this still needs approval from the ACCESS Pool's Joint Committee prior to its implementation. Without these important elements being in place, governance arrangements may be weakened. The Fund is continuing to work with the other members of the ACCESS Pool to strengthen its governance arrangements.

4.6. Regular surveys of employers' views have not been undertaken since the Fund has been managed by East Sussex. Therefore, mechanisms to identify whether communication objectives have been met are not in place, potentially weakening the communication between the Fund and its members.

4.7. As part of the 2020/21 Pensions Administration audit, the scope included a review of the arrangements in place to ensure checks and guarantees on funding levels of newly admitted employers are robust. Whilst improvements have been made, at the time of this review, the action had only been partially implemented, as documented procedures are in still draft and templates are in development for the electronic admissions portal, which will provide greater control over the process for admitting new employers. This has not been raised in the findings below but will be reviewed with management through the Internal Audit action tracking process.

5. Action Summary

5.1. The table below summarises the actions that have been agreed together with the risk:

Risk	Definition	No	Ref
High	This is a major control weakness requiring attention.		
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources.	1	1
Low	This represents good practice; implementation is not fundamental to internal control.	1	2
	Total number of agreed actions	**2**	

5.2. Full details of the audit findings and agreed actions are contained in the detailed findings section below.

5.3. As part of our quarterly progress reports to Audit Committee we track and report progress made in implementing all high priority actions agreed. Medium and low priority actions will be monitored and re-assessed by Internal Audit at the next audit review or through random sample checks.

6. Acknowledgement

6.1. We would like to thank all staff that provided assistance during the course of this audit.

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
1	**ACCESS Governance Manual** The previous audit contained an agreed action that the Fund would work with its partners to ensure that the Governance Manual for the ACCESS Pool is approved and implemented. This included appropriate measures to enable the Fund to manage the performance of, or if necessary, to remove, fund managers. Work has continued and a Technical Lead from West Sussex County Council has been appointed to oversee its finalisation. However, the Governance Manual has not yet been agreed or implemented, meaning that the governance arrangements over the Pool may not be fully effective. We acknowledge that the agreement and implementation of the Governance Manual is the responsibility of the Pool as a whole, rather than the East Sussex Pension Fund in isolation.	Without robust and clear governance arrangements, the performance of the ACCESS Pool may be reduced.	Medium	The Governance Manual is due for review and approval by the Section 151 Officer Group at the end of November 2021. Following this, the document will be presented to Joint Committee in December 2021 or March 2022 for review and approval. Once approved at the Joint Committee the ACCESS Pool Governance Manual will be implemented.
Responsible Officer:		Russell Wood, Pensions Manager, Investments and Accounting	**Target Implementation Date:**	31 May 2022

Ref	Finding	Potential Risk Implication	Risk	Agreed Action
2	**Communications Survey** A requirement of the Fund's Communication Strategy is to undertake an annual satisfaction survey of employers. However, surveys have not been undertaken since 2019/20, when the administration of the Fund transferred from Orbis to East Sussex. It was confirmed that a survey is planned to be undertaken once a Communications Manager is in post from 2022.	If satisfaction levels of the ESPF are not measured through surveys, any opportunities to improve the performance of the Fund may be missed.	Low	The Communications Strategy will be reviewed and updated once the Communications Manager is in post. This will include the production and analysis of annual satisfaction surveys of employers.
Responsible Officer:		Sian Kunert, Head of Pensions	**Target Implementation Date:**	28 February 2022

Appendix A

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Reasonable Assurance	Most controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

Management Responsibilities

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

This report, and our work, should not be taken as a substitute for management's responsibilities for the application of sound business practices. We emphasise that it is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Internal Audit Report

Pension Fund Compliance with Regulatory Requirements 2021/22

Final

Assignment Lead: Nicola Field, Auditor
Assignment Manager: Danny Simpson, Principal Auditor
Prepared for: East Sussex County Council
Date: January 2022

Report Distribution List

Draft Report Circulation:
Sian Kunert – Head of Pensions
Dave Kellond – Compliance and Local Improvement Partner

Final Report Circulation:
As per draft report, with the inclusion of:
Phil Hall – Chief Operating Officer
Ian Gutsell – Chief Finance Officer
Paul Punter – Head of Pensions Administration
Russell Wood – Pensions Investment Manager
Pension Board
Pension Committee

This audit report is written for the officers named in the distribution list. If you would like to share it with anyone else, please consult the Chief Internal Auditor.

East Sussex County Council - Internal Audit Key Contact Information

Chief Internal Auditor: Russell Banks, ☎ 07824362739, ✉ russell.banks@eastsussex.gov.uk
Audit Manager: Nigel Chilcott, ☎ 07557541803, nigel.chilcott@eastsussex.gov.uk
Anti-Fraud Hotline: ☎ 01273 481995, ✉ FraudHotline@eastsussex.gov.uk

1. Introduction

1.1. The Council (East Sussex County Council) is the designated statutory administering authority of the East Sussex Pension Fund. The Council has statutory responsibility to administer and manage the fund in accordance with 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

1.2. The governance of the Fund is the responsibility of the East Sussex Pension Committee supported by the Pension Board, the ESCC Chief Finance Officer and the Pension Fund officer team. The day-to-day administration of the Fund is provided by East Sussex County Council.

1.3. This review was part of the agreed Internal Audit Plan for 2021/22.

1.4. This report has been issued on an exception basis, whereby only weaknesses in the control environment have been highlighted within the main body of the report.

2. Scope

2.1. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:

- scheme governance arrangements meet regulatory requirements;
- investment management arrangements meet regulatory requirements; and
- pension administration arrangements meet regulatory requirements.

2.2. This audit looked at the controls employed by management designed to ensure that the Fund complies with statutory and regulatory requirements.

3. Audit Opinion

3.1. **<u>Substantial Assurance</u> is provided in respect of Pension Fund Compliance with Regulatory Requirements**. This opinion means that controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.

Appendix A provides a summary of the opinions and what they mean and sets out management responsibilities.

4. Basis of Opinion

4.1. We can provide an opinion of Substantial Assurance over the controls in place for East Sussex Pension Fund (ESPF) Compliance with Regulatory Requirements. There are no findings in this report.

4.2. There is evidence that the management team have developed robust scheme governance arrangements, which comply with regulatory requirements, and they actively review these arrangements.

4.3. A governance structure, which includes a Pension Committee, and Pension Board, is in place. There is evidence of their regular meetings, with sufficiently detailed record keeping of meetings, including the recording of decisions.

4.4. There are governance tools in place, with appropriate Strategies, Business Plans, a Scheme of Delegation evident, in accordance with statutory requirements.

4.5. The Pension Fund Investment activities are managed by experienced and qualified personnel, who demonstrated understanding and application of legislative requirements for the Funds cash assets, its investments and overall financial management.

4.6. Actions from the previous audit have been addressed, and whilst not all the policies and documentation have been fully updated in accordance with the policy, plans are in place to address this.

5. Action Summary

5.1. The table below summarises the actions that have been agreed together with the risk:

Risk	Definition	No	Ref
High	This is a major control weakness requiring attention.		
Medium	Existing procedures have a negative impact on internal control or the efficient use of resources.		
Low	This represents good practice; implementation is not fundamental to internal control.		
	Total number of agreed actions		

5.2. Full details of the audit findings and agreed actions are contained in the detailed findings section below.

5.3. As part of our quarterly progress reports to Audit Committee we track, and report progress made in implementing all high priority actions agreed. Medium and low priority actions will be monitored and re-assessed by Internal Audit at the next audit review or through random sample checks.

6. Acknowledgement

6.1. We would like to thank all staff that provided assistance during the course of this audit.

Appendix A

Audit Opinions and Definitions

Opinion	Definition
Substantial Assurance	Controls are in place and are operating as expected to manage key risks to the achievement of system or service objectives.
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Partial Assurance	There are weaknesses in the system of control and/or the level of non-compliance is such as to put the achievement of the system or service objectives at risk.
Minimal Assurance	Controls are generally weak or non-existent, leaving the system open to the risk of significant error or fraud. There is a high risk to the ability of the system/service to meet its objectives.

Management Responsibilities

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

This report, and our work, should not be taken as a substitute for management's responsibilities for the application of sound business practices. We emphasise that it is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

Internal Audit Report

The Implementation of Altair

Final

Assignment Lead: Danny Simpson, Principal Auditor
Assignment Manager: Nigel Chilcott, Audit Manager
Prepared for: East Sussex County Council
Date: January 2022

Report Distribution List

Draft
- Paul Punter, Head of Pensions Administration
- Sian Kunert, Head of Pensions

Final
- Phil Hall, Chief Operating Officer
- Paul Punter, Head of Pensions Administration
- Sian Kunert, Head of Pensions
- Ian Gutsell, Chief Finance Officer
- Pension Board
- Pension Committee

This audit report is written for the officers named in the distribution list. If you would like to share it with anyone else, please consult the Chief Internal Auditor.

East Sussex County Council - Internal Audit Key Contact Information

Chief Internal Auditor: Russell Banks, ☎ 07824362739, ✉ russell.banks@eastsussex.gov.uk
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Anti-Fraud Hotline: ☎ 01273 481995, ✉ FraudHotline@eastsussex.gov.uk

East Sussex County Council

1. Introduction and Background

1.1. Until April 2021, the administration of the Pension Fund was managed through a collaboration with Surrey County Council as part of Orbis Business Operations. In April, responsibility transferred to East Sussex County Council and a new, locally hosted, instance of the administration software (Altair) was established. Altair is the same system that was used by Surrey County Council to manage the East Sussex Pension Fund.

1.2. The objective of the audit was to provide assurance that controls are in place and are operating as expected to manage key risks to the successful establishment of the new instance of Altair.

1.3. Appendix A of this report details management's responsibilities with regard to control.

2. Scope

2.1. The purpose of the audit was to provide assurance that controls are in place to meet the following objectives:

- Data transfer, including scanned documentation, is complete and accurate;
- Access rights to Altair are set up appropriate, in accordance with users' needs; and
- Governance arrangements, including procedures and guidance, are effective in minimising the risk of fraud or error.

3. Conclusion and Key Findings

3.1. No issues have been identified in our work that have not also been identified, and reported, in other audits. As a result, no findings - and corresponding actions - are included in this report. Similarly, no audit opinion is given because these findings have already influenced the audit opinions of other audits.

3.2. Data transfer took place in two stages. The first transfer was from the Surrey system to an East Sussex test version of Altair. Reconciliation took place to ensure that the data were transferred completely and accurately to this site. The second transfer copied the data from the test site to the live site and further reconciliation took place. Our testing of these reconciliations confirmed that the data transfer was successful.

3.3. Access was set up in the new instance of Altair, based on copies of users' access rights in the Surrey system. Users, identified as needing access only to the Surrey system, were not copied over, but a number of users whose access needs could not be determined were set up in the East Sussex system, and each user transferring over was given identical access rights to those they had in the Surrey system. As a result, not all users were set up with the correct access rights and some users were set up who did to need access to the East Sussex System at all.

3.4. Where necessary, system administration rights were added to a small number of roles, prior to the transfer, to ensure that tasks, previously undertaken by Surrey staff, could continue. A number of users had been set up with multiple user IDs (users with more than one role in Altair) in the Surrey system, often set up as part of projects, and these access permissions had never been withdrawn. At the time users were set up in East Sussex, it was not always clear which user ID was the correct one to transfer. In these cases, all user IDs were transferred, pending analysis of those roles to determine the correct one to use. Work has since been undertaken to remove superfluous user accounts, including duplicates.

3.5. The Altair User Role Requirements and Access Control Agreement requires that users' roles be reviewed on a quarterly basis to ensure that only authorised users have access to Altair, and that any users, who no longer need access, can be identified and removed from the system. As mentioned above, the importing of users from the Surrey system has resulted in the need to identify and remove a number of users, confirming that reviews have taken place. The process of reviewing access permissions continues, to ensure that users' access permissions are consistent with their operational needs.

3.6. A Service Definition Document sets out how technical support will be provided to support Altair in East Sussex, including roles and responsibilities. However, there is no structured, comprehensive, set of procedures and guidance available for Altair's users. Separate documents are available to cover individual transactions, but these are disparate and unstructured and do not set out the overall process for pension administration. This may weaken the effective governance of pension administration. An action was agreed in the last Pensions Administration – People, Processes and Systems audit report to establish a comprehensive suite of procedures and guidance by August 2022.

3.7. In conclusion, we have found that the transferring of data from the old system to the new was carried out effectively. However, there remains work to be done to ensure that all users of the system have access permission in accordance with their needs and comprehensive guidance is needed, covering the end-to-end administration process.

4. Acknowledgement

4.1. We should like to thank all staff who assisted during the course of this audit.

Appendix A

Management Responsibilities

The matters raised in this report are only those which came to our attention during our internal audit work and are not necessarily a comprehensive statement of all the weaknesses that exist, or of all the improvements that may be required.

Internal control systems, no matter how well designed and operated, are affected by inherent limitations. These include the possibility of poor judgment in decision-making, human error, control processes being deliberately circumvented by employees and others, management overriding controls and the occurrence of unforeseeable circumstances.

This report, and our work, should not be taken as a substitute for management's responsibilities for the application of sound business practices. We emphasise that it is management's responsibility to develop and maintain sound systems of risk management, internal control and governance and for the prevention and detection of irregularities and fraud. Internal Audit work should not be seen as a substitute for management's responsibilities for the design and operation of these systems.

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Appendix 4

East Sussex

Local Government Pension Scheme

Internal Audit Strategy and Plan

2022/23

Brighton & Hove City Council

East Sussex County Council

SURREY COUNTY COUNCIL

1. Introduction

1.1. The Scheme provides retirement benefits for employees of the County Council and 127 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), which is formally reviewed on an annual basis, 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. The ESPF pools funds with another 10 funds as part of the ACCESS Pool, a collaboration of central, eastern and southern shires. The ACCESS pool has assets of £32.9bn with the ESPF representing £2.3bn of these. The Fund also has assets of £2.3bn outside the ACCESS Pool. Where possible, we shall seek additional sources of assurance over controls operating over the ACCESS Pool.

2.3. The Fund's actuary is Barnett Waddingham LLP, and the next actuarial valuation is due to take place in 2022. The Fund receives professional advice from ISIO.

2.4. The Pension Administration Team was transferred from a Surrey-based Orbis team, to the Finance Team in East Sussex, in 2021, and is now managed by a sovereign East Sussex Head of Pension Administration, who reports directly to the Head of Pensions. This transfer brought the team under the direct control of the Council's Chief Finance Officer (Section 151 Officer). These changes are providing greater oversight and accountability.

2.5. The Strategy seeks to provide assurance on the following aspects of pension fund activities:

- Governance;
- Investments and Accounting;
- Cash Management;
- The Administration of Benefit Payments;
- The data transfer portal, i-Connect; and
- Cyber Security.

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. 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. COVID-19 has continued to affect the way many areas of the pension administration service are being delivered, as well as having a wider impact on the Fund, in particular on the performance of its investments.

3.4. As result of the structural changes to the team, identified in the previous section (see para 2.4), we are changing our approach to the audits for 2022/23 to align our work more closely with the new governance structure.

3.5. Where appropriate, audit coverage will be varied from year to year. In areas where no significant findings were made in the previous year, the scope may be widened to other areas to maximise the breadth of coverage. For instance, where new policies have been introduced, we shall review compliance with these.

3.6. 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.

3.7. We plan to deliver 100 audit days for the year 2022/23. This level of coverage will be kept under review to ensure that it remains appropriate to the needs of the Fund.

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 routine quarterly progress reports.

5.2. Audit work for 2022/23 will be reported in six separate reports (in addition to any specific follow-up audits), 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 Accounting
    - The ACCESS Pool does not achieve the benefits of economies of scale, or fails to oversee the Operator, Fund Managers[1] or Custodian effectively, resulting in the loss of assets or investment opportunities.
    - Poor performance of the Fund's investments results in financial loss and reputational damage.
    - Investment returns[2] are not received in full in a timely manner.
    - Unexpectedly high levels of payments, or low levels of income, result in the Fund's bank account becoming overdrawn.
    - Accounting of the Pension Fund is inaccurate resulting in mis-statement of the Fund's annual accounts.
- Cash Management
    - Failure to collect pension contributions due from all employers in the scheme, at the time they fall due, increases the risk of Pension Fund deficit.
    - The dependency on employers for the timely provision of information, increases the risk of data inaccuracy, undermining the Fund's ability to deliver an effective service.
    - Without obtaining guarantees or bonds to support the funding levels of new employers, the Fund may be exposed to additional financial risk.[3]
    - Unexpected spikes in benefit demands (e.g. large death benefits) may result in the Fund becoming overdrawn.
- The Administration of Benefit Payments
    - Poor data quality leads to inaccuracies in transactions, or a failure to meet statutory requirements, resulting in financial loss, and/or regulatory sanction.
    - 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.

[1] Includes the internal controls of external fund managers.
[2] Some investments are still managed directly by the fund managers appointed by the ESPF.
[3] Also noting that undue delay to signing an admission agreement may result in new pensioners not receiving their pension.

- Poor or inadequate delivery of the pension administration service (including as a result of inadequate procedure notes or system access controls) may result in regulatory breach, leading to reputational damage for the Council and/or complaints by members.

- I-Connect – Application Controls

  - Where access to the system is not sufficiently managed, there is a greater potential for fraud and for data breaches, both of which could have significant financial and reputation impact to the Fund.

  - Where input controls are insufficient, the data in the system could be incorrect, which may cause financial loss to the Scheme or financial hardship to members and reputational damage for the Council.

  - Lack of Business Continuity Planning could result in the service being unable to function in the event that the system is unavailable for any prolonged period.

  - System patching may not be managed sufficiently, causing unplanned outages or known vulnerabilities not being managed in a timely manner.

- Pension Fund Cyber Security Arrangements

  - Cyber risk can be broadly defined as the risk of loss, disruption or damage to a scheme or its members as a result of the failure of its information technology systems and processes. These include risks to information (data security) as well as assets, and both internal risks (e.g., from staff) and external risks (e.g., hacking).

Appendix A

EAST SUSSEX PENSION FUND INTERNAL AUDIT PLAN 2022/23

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.

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 objectives are met. This review will also cover controls to ensure that only new employers with adequate funding levels are admitted to the Scheme.	Q1
Investments and Accounting	A review to assess the adequacy of controls over the Fund's cash flow, its investments, including the performance of investments, the performance of the ACCESS Operator and the receipt of, and accounting for, investment income.	Q3
Cash Management	We shall review the arrangements in place designed to ensure the complete and timely collection and recording of pension contributions from scheduled and admitted bodies.	Q3
The Administration of Benefit Payments	We shall review controls over the calculation and payment of pension benefits, transfers to and from the Pension Fund and the maintenance of the data.	Q3
I-Connect - Application Controls	This application audit will review controls over i-Connect, the employer portal, to ensure appropriate system ownership and management, including data input controls and business continuity arrangements.	Q2
Cyber Security	We shall review arrangements in place to manage cyber security risks to the Fund's information technology systems and data, including risks arising from both internal and external threats.	Q4

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Report to:	**Pension Committee**
Date of meeting:	**24 February 2022**
By:	**Chief Financial Officer**
Title:	**East Sussex Pension Fund (ESPF) quarterly budget report and 2022/23 Pension Fund business plan and budget**
Purpose:	**This report provides an update on the forecast 2021/22 Outturn and sets out the business plan and budget for 2022/23**

RECOMMENDATION

The Committee is recommended to:

1) **note the forecast 2021/22 Q3 outturn position for the East Sussex Pension Fund**
2) **agree the Business Plan and Budget for 2022/23 in Appendix 1**

1. Background

1.1 Under the Local Government Pension Scheme (LGPS) Regulations, East Sussex County Council is required to maintain a pension fund, known as East Sussex Pension Fund (ESPF or the Fund), for its employees and other scheme employers.

1.2 The Business Plan and budget sets out the direction of travel, objectives and targets to be achieved in the management of the Fund, and for the Council to 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 At its meeting on the 1 March 2021 the Pension Committee agreed a budget of £7.155m to support the business plan for 2021/22. In the same meeting the Pension Committee approved an additional budget for a permanent Communications Manager to be added to the team structure, at an estimated salary plus on costs of £50,000. The budget presented as part of Q3 monitoring below includes both the approved budget and additional post totalling £7.205m. The budget estimates do not incorporate any provision for investment fees earned by fund managers where these are deducted at source by asset managers.

2. 2021/22 Q3 Outturn position

2.1 The budget requirement for 2021/22 was significantly increased from 2020/21 due to the insourcing of the Pensions Administration team, which has consequently provided a better understanding of ongoing costs. In addition, some investments were moved from Fund Managers, who deducted fees at source from the asset valuation, into new Fund Managers who will be invoicing fees directly to the Fund, increasing the reportable costs through budget monitoring compared to 2020/21.

2.2 The forecast outturn at the second quarter of 2021/22 is **£5,898m**, a decrease of £0.930m from the last reported position. The 2021/22 projected outturn against budget line items is shown at Table 2 below. The underspend mostly relates to the revised manager fees and analysis of the Actuarial and system fees. The main movements to the budget are set out in Table 1 below and movements detailed in Paragraphs 2.3 to 2.7.

Table 1

	2021/22 Q2 Outturn	2021/22 Q3 Outturn	Variance from last reported position
Fund Officers	1,380	1,234	(146)
Actuarial Fund Work	175	52	(123)
Investment Manager Fee Invoices	3,313	2,874	(439)
Custodian	75	151	76
System Services and License	346	89	(257)
Other Minor movements	1,539	1,498	(41)
Total	**6,828**	**5,898**	**(930)**

2.3 The budget for staffing was set at £1.756m assuming that no vacancies were being held by the Fund. Since the last meeting the Pensions Accountant and Communications Manager post has been recruited however these appointments have started later than anticipated. The current job descriptions are being reviewed for the Pensions Administration team, as many of the team are on historic contracts of employment prior to the TUPE (Transfer of Undertakings Protection of Employment regulations) transfer of staff into the team. This may result in increased costs as roles are potentially regraded. The continued presence of vacancies has resulted in a decrease of £0.146m from the last reported figure.

2.4 The budget set for actuarial fund work costs for 2021/22 was reduced to £0.175m in the last report as the invoiced amounts that were coming in were lower than originally anticipated of the new actuarial contract. The evidence from the last 9 months of invoices has demonstrated that the costs for actuarial services from the Fund has continued to have been lower as a result of lower reliance upon the scheme actuary due to the capabilities within the new structure than anticipated and a further reduction in the charges of £0.123m has been made.

2.5 The budget set for manager fees which the Fund pays direct, was set at £3.313m, based on asset values as at December 2020. This did not anticipate that money would be moving into the ACCESS pool (£225m Ballie Gifford investment) that has reduced the assets that the Fund is invoiced. The invoices are payable quarterly in arrears. The Fund has two quarters information and accurate estimates for the third quarter. This has demonstrated that the costs for investment management fees are looking to be lower than previously reported and a reduction of £0.493m has been made.

2.6 The custodian's fees were based upon the same structure of assets being held for the year and no major transitions were taking place. As a result of the change in equity strategy, there have been two transitions events in 2021/22, the first was the transfer of UBS assets to the Baillie Gifford Global Alpha ACCESS sub fund and the second is due to take place in later this year in funding the UBS/Osmosis strategy. The second transition event will also change the structure of assets held and the Fund will be holding these as a segregated account and will increase the custodian charges for these assets. These changes have resulted in an increase of £0.076m.

2.7 The budget set for System Services and License for 2021/22 was based on the contract that was agreed with Heywoods and reported to the committee in November 2020. During the review of payments made to Heywoods to confirm the relatively low spend to date for this item it was identified that a there was an invoice paid in March 2021 covering different aspects of the agreement which was not subsequently accrued and were included in the prior year figure. The spend has therefore been reduced to account for this mismatch of payments by £0.257.

Table 2 2021/22 Outturn Report

2020/21 Outturn £000	Item	2021/22 Budget £000	2021/22 Actuals to October £000	2021/22 Forecast Outturn Q2 £000	2021/22 Forecast Outturn Q3 £000	Variance to Q2 Forecast Outturn £000
	Pension Fund Staff Costs					
592	Fund Officers	1,756	279	1,380	1,234	(146)
53	Recruitment costs	12	2	12	2	(10)
645	**Sub Total**	**1,768**	**281**	**1,392**	**1,236**	**(156)**
	Pension Fund Oversight and Governance					
341	Actuarial Fund Work	250	41	175	52	(123)
87	Actuarial Employer Work	100	30	70	79	9
(64)	Employer reimbursement	(100)	(8)	(70)	(66)	4
2	Training Costs	10	3	10	15	5
40	External Audit – Grant Thornton	30	(35)	30	35	5
190	East Sussex County Council	286	2	257	243	(14)
285	Legal Fees	165	40	100	65	(35)
157	Subscriptions and Other Expenses	72	31	72	79	7
1,038	**Sub Total**	**813**	**104**	**644**	**502**	**(142)**
	Investment activities					
221	Investment Advice	192	112	230	195	(35)
37	ESG Advice	25	21	25	25	-
61	Custodian	75	50	75	151	76
80	ACCESS	93	129	103	103	-
2,365	Investment Manager Fee Invoices	3,313	820	3,313	2,874	(439)
2,764	**Sub Total**	**3,698**	**1,132**	**3,746**	**3,349**	**(397)**
	Pension Administration					
894	Orbis Business Operations Support Services	-	-	-	-	-
-	East Sussex County Council	237	52	213	203	(10)
282	System Services and License	346	156	346	89	(257)
90	Consultancy & Service Providers - Benefits	100	45	239	234	(5)
-	Operational Support Services	225	9	244	244	-
183	Other Expenses	18	16	9	46	37
-	Other Income	-	(2)	(5)	(5)	1
1,449	**Sub Total**	**926**	**278**	**1,046**	**812**	**(234)**
5,896	**Total**	**7,205**	**1,795**	**6,828**	**5,898**	**(930)**

3. 2022/23 Business Plan and Budget

3.1 The Business Plan and Budget is set out in **Appendix 1**.

3.2 Total budget proposed is **£7.141m** (£7.205m 2021/22) to support the Business Plan activities and administration of the Fund.

3.3 The budget is slightly lower than the 2021/22 budget due to lower costs as a result of removing outsourcing of work that can be completed through the new Fund team structure and a reduction in expected investment management fees paid directly by the Fund to managers. The budget does not include investment management fees deducted at source by the Investment managers or investment income.

4. Conclusion and reasons for recommendation

4.1 The Committee is recommended to note the Q3 2021/22 outturn position and agree the Business Plan and Budget for 2022/23.

IAN GUTSELL
Chief Finance Officer

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East Sussex Pension Fund

Appendix 1

2022/23

Business Plan & Budget

1. Business Plan

1.1 It is anticipated that 2022/23 will see some key activities within the following themes:

- **Pension Fund Oversight and Governance activities:** Creation of Decision Making Matrix, development of Business Continuity Plan, provision of training, Fund Annual Report and Accounts, achievement of the Statutory Annual Benefit Statement, review of Admission Agreement process, review of bonds and security and employer covenant reviews, i-Connect implementation, contribution monitoring, communications strategy including a review of communications platforms, Triennial Valuation and contribution setting for employers, Funding Strategy Statement updates**.**

- **Investment activities:** Review investment strategy, continue develop the Fund's Environmental, Social and Governance (ESG) credentials, submission under UK Stewardship Code 2020, review and implement any agreed changes to the Fund's credit structure, Investment Governance, implementation of Illiquid strategies, Cost Transparency, Cost Management, Manager engagement.

- **ACCESS activities:** ACCESS support unit (ASU), Actively managed listed assets, Alternative/ non-listed assets, passive assets, Governance.

- **Pension Board/Committee Training:** Implementation of the agreed training strategy for the Board and Committee, Attendance at third party provided Local Government Pension Fund (LGPS) related training, focus on training throughout Triennial Valuation process.

- **Pension Administration:** Recruitment to key vacancies, data management activities from i-Connect submissions, Maintaining Member Data, Data Improvement, finalisation of GMP reconciliation project, Annual Benefit Statement (ABS) production, complete rectification of historical Annual Allowance cases, development of robotics.

1.2 Each theme within the Business Plan includes activities planned for the year. The strategic nature of East Sussex Pension Fund (ESPF or the Fund) objectives means that a number of the 2022/23 activities build on work previously undertaken and will in turn provide the foundation for further milestones in subsequent years.

2. Budget

A budget totalling **£7,141k** (£7,205k 2021/22) to support the business plan for 2022/23 is detailed below in Table 1:

Table 1 Pension Fund Management Expenses

2020/21 Outturn £000	Item	2021/22 Budget £000	2021/22 Forecast Outturn £000	2022/23 Budget £000
	Pension Fund Staff Costs			
592	Fund Officers[1]	1,756	1,234	1,900
53	Recruitment costs	12	2	5
645	**Sub Total**	**1,768**	**1,236**	**1,905**
	Pension Fund Oversight and Governance			
341	Actuarial Fund Work[2]	250	52	200
87	Actuarial Employer Work	100	79	80
(64)	Employer reimbursement	(100)	(66)	(80)
-	Communications	-	-	42
2	Training Costs	10	15	30
40	External Audit – Grant Thornton	30	35	35
190	East Sussex County Council Recharges[3]	286	243	249
285	Legal Fees	165	65	78
157	Subscriptions and Other Expenses	72	79	72
1,038	**Sub Total**	**813**	**502**	**706**
	Investment activities			
221	Investment Advice	192	195	135
37	ESG Advice	25	25	50
61	Custodian	75	151	136
80	ACCESS	93	103	125
2,365	Investment Manager Fee Invoices	3,313	2,874	2,872
2,764	**Sub Total**	**3,698**	**3,349**	**3,318**
	Pension Administration			
894	Orbis Business Operations Support Services	-	-	-
-	East Sussex County Council Recharges[3]	237	203	281
282	System Services and License	346	89	346
90	Consultancy & Service Providers - Benefits	100	234	100
-	Other Administration projects	-	-	150
-	Admin operational support services	225	244	289
183	Other Expenses	18	46	50
-	Other Income	-	(5)	(4)
1,449	**Sub Total**	**926**	**812**	**1,212**
5,896	**Total**	**7,205**	**5,898**	**7,141**

[1]This is assuming a full team it is in place

[2]As we are moving into a valuation year we expect the actuarial cost to increase in 2022/23

[3]Overheads allocated based on staffing levels have been separated from the direct staffing costs to provided greater clarity on costs.

Key budget assumptions

2.1 The key budget assumptions are set out below

- ACCESS cost based on the budget set by the ACCESS Joint Committee.
- Manager fees based on invoiced fees only. Fees are based on the assets under management no movement has been included in this figure.
- The 21/22 Pay Award is anticipated to be 1.75% and the 22/23 Pay Award budgeted at 2%. Figures also include an increase in employer National Insurance contributions which comes into effect in April 2022.
- Administration staffing costs do not reflect potential changes of staffing moving from TUPE (Transfer of Undertakings Protection of Employment regulations) contracts to East Sussex County Council (ESCC) Terms and Conditions of Employment.
- It is assumed that vacancies within the Administration team will be filled on or before 1 April 2022
- The overhead rate from ESCC will stay at its current rate

3. Business plan deliverables by key theme

Theme	Tasks	2022/23 activity
Fund Oversight and Governance activities	Decision Matrix	Development of matrix showing decision making levels across the Fund Identify areas for potential improvement Recommendations to Board/Committee as appropriate to cover next steps for making identified improvements
	Business Continuity Planning (BCP)	Engage with IT Team to discuss existing levels of protection Identify ways to improve liaison with key BCP contacts across the Local Authority Fully documented procedures for the Fund rolled out to all staff and decision makers to enact if required. Test BCP
	Provision of training	See training section
	Triennial Valuation	Engage with Actuary to understand its requirements and timetable Liaise with Employers over their contribution rates for the next three years.

Theme	Tasks	2022/23 activity
		Update the Funding Strategy Statement and consult wit employers on changes
	Pension Fund Annual Report and Accounts	Production of Fund Financial Statements and Audit Working papers and creation of the Annual Report
	External audit/ Internal audit	Liaise with auditor as appropriate
	Admission Agreement process	Embed new Admission Agreement processes and improve where required. Implement Admission portal for simple population of agreements to speed up execution of documents
	Bond and security review	Review existing security held Ensure process in place for early identification of expiring security
	Covenant review	Work with specialist adviser to ensure good understanding of employer covenant strength and identify potential risk to cashflow from weaker employers
	Policy review	Update policies as per schedule or where change in law requires action
	i-Connect implementation	To roll out the i-Connect employer interface module to all employers to simplify data submission and validation.
	Contribution monitoring	Continue to develop contribution monitoring and reconciliation in conjunction with the roll out of i-Connect.
	Communications strategy	To develop and implement a revised communication strategy so that we are proactive in providing information to employers and members.
Investment activities	Review investment strategy	Implement strategic changes agreed at the 2021 strategy review which have not yet been enacted. Implement any investments into the Fund's private markets programmes to achieve the Funds strategic asset allocation for these. Review the cashflow of the Fund investments and create a cash management policy. Review effectiveness of the current strategy at the strategy meeting.
	Develop the Fund's	

Theme	Tasks	2022/23 activity
	Environmental Social Governance (ESG) credentials	UK Stewardship Code Report created with a view to the Fund becoming a signatory. Complete reporting of Fund Activities to Principle of Responsible Investment (PRI) as part of requirements of being a signatory. Undertake a review of the ESG credentials of all managers and develop appropriate analytic metrics to monitor the Fund. Collate quarterly analysis of fossil fuel exposure and voting & engagement records. Continue to develop the Funds reporting in line with Taskforce for Climate related Financial Disclosures (TCFD) requirements including scenario analysis
ACCESS	Actively managed listed assets	Launch of Tranche 5b – Fixed Income sub funds Launch of Tranche 5c - Equities Determine, approval & launch of Tranche 6 – Emerging Markets equities Scheduled Business as Usual (BAU) evaluation Continued implementation outcomes of Scheduled BAU evaluation including the commencement of an Inter Authority Agreement (IAA) review in September 2022
	Alternative / non listed assets	Initial implementation of approach to pool illiquid assets Following the appointment of the pool's Implementation Adviser in 2021/22 The first pooled illiquid vehicles will be launched
	Passive assets	Ongoing monitoring of assets managed on a passive basis Further engagement and exploration with UBS will continue throughout the year
	Governance	*Meetings and oversight* Arrangements will be made to support meetings of the Joint Committee (usually each quarter) Meetings of s151 Officers will also be held *Operational protocols* The implementation of the revised Governance Manual *Engagement with HM Government I Department for Levelling UP, Communities & Housing (DLUCH)* ACCESS will liaise with the Scheme Advisory Board as Appropriate

Theme	Tasks	2022/23 activity
		Periodic reports will be provided to DLUCH as required The Pool will actively participate with any Cabinet Officer / DLUCH pooling related consultations *Joint Polices & guidelines* Continued activity will take place on implementing the Communications plan. The implementation of revised ESG / Responsible Investment (RI) guidelines on ESG / RI. A procurement will be completed for RI reporting support
	ACCESS Support Unit (ASU)	A third-party review of the ASU will be undertaken
Pension Board/ Committee Training	Implementation of training strategy	Provision of speakers to deliver East Sussex Pension Fund led training. Testing of existing knowledge and understanding levels
	Third party training	Identifying useful third party provided session that will be useful for ESPF to attend.
Pension Administration	Recruitment to key vacancies	Job Description completion and evaluation complete for all posts in the department with recruitment to vacancies
	Maintaining Member Data	Day to day imputing of data into the pension system to ensure the records are up to date. Management of data submitted through i-Connect
	Data Improvement	Identifying areas where data within the pension system can be improved and developing plan of redress. Full roll out of new Key Performance Indicators (KPIs)
	Annual Benefit Statement (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.
	Data projects	Group to work through the redress of benefit calculations in relation to the Guaranteed Minimum Pension (GMP) Rectification of historical Annual allowance errors. Review of casual workers with zero pay for 2 years to highlight with employers Audit of Altair user access Mortality and Address tracing completed in 2022 Preparation for Pensions Dashboard

Theme	Tasks	2022/23 activity
	Development of Robotics	Investigation of and development of robotics to automate processes and provide improved functionality

4. Pension Board/Committee Training

4.1 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. The training necessary to achieve the required knowledge and skills is set out in the training strategy.

Consideration will be given to various training resources available in delivering training to the Board and Committee. The Fund will commit to providing a minimum of 4 formal training sessions per year for Board and Committee. Regular training options accessible to Board and Committee members will be circulated at least monthly.

Committee and Board 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.

The proposed budget includes sufficient funding to provide training to those involved in administering the Fund.

4.2 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 modules are designed to apply to all public service schemes and are not LGPS specific. It does however provide a good grounding in some general areas.

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Report to: **Pension Committee**

Date of meeting: **24 February 2022**

By: **Chief Finance Officer**

Title: **Pension Fund Risk Register**

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

RECOMMENDATIONS: The Pension Committee is recommended 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**
3) **Agree the addition of risk A7, covering East Sussex County Council's (ESCC's) Modernising Back Office Systems (MBOS) project**

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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.

1.3 Since the last meeting of the Pension Board and Pension Committee, officers have continued to review the Risk Register to ensure all appropriate risks and mitigations have been identified.

1.4 It is accepted that whilst mitigations are put in place for identified risks, it will not always be possible for all risk to be eliminated. In these cases, a level of risk is tolerated and kept under review.

2. Supporting Information

2.1 The Risk Register is included at **Appendix 1**.

3 Changes to the Risk Register

3.1 In the meeting of November 2021 the Pension Committee agreed that risk A4, which covered the risk of the Fund separating from Orbis could be removed. It also asked that this risk be replaced by consideration of the risks posed by the wider separation from Orbis by Business Services. Risk A4 in **Appendix 1** now covers this risk. This risk mostly effects support services and agreements have been put in place to mitigate these, such as the Working Together Agreement with Surrey County Council for the provision of Pension Helpdesk services. Where separate agreements or contracts have not been made Officers will review the ongoing situation if there is a risk that connected work would be undermined or hampered by the crystallisation of the risk.

3.2 The Pension Committee asked that the risk of Ransomware be included in the risk register in more detail. The existing risk covering cyber security, G3, has been updated to specifically mention the risk of Ransomware and the efforts that will be made to improve the Fund's resilience in the event of a cyber incident.

3.3 A spelling error in risk I7 was identified in November 2021. This has been corrected.

3.4 Risk A7, which covers the Local Authority's MBOS project, has been added. East Sussex County Council is in the process of changing its accounting system, with the implementation of Oracle Fusion. Officers are involved with the development and roll out of the new system to mitigate the risk that the needs of the Pension Fund are not taken into account and that potential flaws are identified before it is rolled out.

4. Conclusion

4.1 The Pension Committee is asked to agree the changes to the risk register and consider the mitigated risk levels. In addition, the Committee is asked to note the continuing steps being taken to mitigate the risks to the Fund and to inform Officers of any new risks they have identified. Officers will advise members of new risks as they arise.

IAN GUTSELL
Chief Finance Officer

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Appendix 1

Pension Fund Risk Register September 2021

Reference	Risk	Potential Triggers of risk	Consequences of risk	Pre Mitigation: Likelihood	Pre Mitigation: Impact	Pre Mitigation: Risk Score	Risk Control / Response	Post Mitigation: Impact	Post Mitigation: Likelihood	Post Mitigation: Risk Score	Risk Owner	Timescales
Employer Risk												
E1	**Contributions Funding Risk** Failure to collect contributions from employers in line with Funding strategy requirements and Rates and Adjustment Certificate	Failure to collect contributions on time Failure to collect contributions in line with Rates and Adjustments certificate Failure to monitor and reconcile contributions Liquidity failures with employers due to business risk or Covid 19 implications Incorrect coding of contributions Employer unable to pay increased contributions on a trigger event New outsourced arrangements made without thought to Pensions implications and contribution costs Poor employer covenant	Inaccurate financial statements Cashflow risk to pay out pensions Funding deficits Failure to track employer cashflows leading to inaccurate FRS17/IAS19 report and Valuation reports Future reduction in funding level Future Increase in employer contributions Employer forced into liquidation Increase in investment risk taken to access higher returns Forced to sell investments to meet cashflow requirements	3	3	9	Monthly Employer contribution monitoring Monitoring of late payments with new Employer engagement team to address breaches for late payment Contributions recorded in Finance system by employer to track all employer cashflows in line with actuarial requirements for Valuation and FRS17/IAS19 reporting requirements. Also enables ability to see trends in contributions collected. New administration strategy in place from January 2021 clearly outlining ability to fine employers for late payment and late receipt of remittance advice or poor quality of data Implementation of I-Connect which is being to be rolled out in 2021 is expected to improve the quality of contribution data received to better aid reconciliation of payments and drill in the accuracy of employers contribution payments New report to be delivered at Pensions Board meetings to highlight any late payment of contributions and Employer engagement actions from February 2021 Covenant review to begin in 2021 - PWC appointed to carry out the work, high risk employers identified and legal advice obtained Triennial valuation process aims to stabilise contribution rates where possible and senior management involved in detailed discussions on funding assumptions Guide to Employers on implications to Pensions on Outsourcing presented at employer forum in November 2020 and document issued to all employers Contribution deferral policy approved by Committee in June 2020. Regular communication with Employers through new Employer engagement team	2	2	4	Head of Pensions	On-going
E2	**Employer data Risk** Employers fail to provide accurate and timely data to the PAT team	Failure to provide Starter and Leavers information Failure to provide EOY returns on time and to a an acceptable data standard Covid 19 has reducing the ability of employers to participate in the data cleansing Inability for Employers to respond to additional data requests for changes in regulations	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 Inability to produce ABS in time or accurately to comply with legislation	4	3	12	New Administration Strategy approved in September 2020 and out for consultation with Employers October to November; The new strategy was the focus of the Employer Forum in November 2020 Employing authorities are contacted for outstanding/accurate information; User Guide and Training provided to Employers for outsourcing implications with LGPS November 2020 Regular communication and meeting with administration services regarding service updates and additional data, when required. New employer engagement team established from January 2021 to support employer and provide training where required Issuance of a quarterly employer newsletter to support employers in their understanding of current pensions issues and activity for the Pension Fund A data cleansing plan was completed in June 2020 lead by Hymans. The PAT have been finalising outstanding areas handed over. New Data Improvement plan process to start in 2021 by the PAT BAU team and supported by the DIP working Group Data Improvement (DIP) working group set up to discuss data issues resulting from employers Introduction of I-Connect system will limit employer ability to submit incorrect data Meetings held between senior pensions Management team and employers where there are current or historic data concerns	3	3	9	Head of Pensions	On-going

Pension Fund Risk Register September 2021

Reference	Risk	Potential Triggers of risk	Consequences of risk	Pre Mitigation Likelihood	Pre Mitigation Impact	Pre Mitigation Risk Score	Risk Control / Response	Post Mitigation Impact	Post Mitigation Likelihood	Post Mitigation Risk Score	Risk Owner	Timescales
E3	**Delay in employers agreeing Admission Agreement**	Complexity around agreeing contribution rate Negotiations around provision of security Delays in negotiating terms and execution of documentation Late notification of an outsourcing arrangement Failure to understand the regulatory responsibilities on tenderers of new LGPS employers	Inability to recover missed payments in event of employer insolvency event Pension and service benefits are not accrued during the negotiation phase, and could result in retirement or death in service to be delayed for the period of the new employer	3	2	6	New templates being developed - this will speed up the process of agreeing new admission agreements The fund are moving to a template portal which will automatically populate the variable data in the admission agreement ensuring no addition terms are changed and provides assurance from external legal term that the agreement are comprehensive and enforceable Guide to outsourcing has been distributed to all employers in November 2020 and a review of this was covered in the Employer forum in November 2020. This guide directs employers of all the activities and considerations they need to take on any outsourcing arrangement with TUPE staff implications. Officers meet monthly to review status and movement on each in progress admission A new data flow and process map is being written to ensure officers request and communicate all the Admissions in progress are reported quarterly to Board and Committee to ensure awareness of status	2	2	4	Head of Pensions	On-going
Administration												
A1	**Pensions service Delivery Risk** Inadequate delivery of Pensions Administration	The Scheme is not administered correctly resulting in the wrong benefits being paid or benefits not being paid, including as a result of poor data Paying pension benefits incorrectly Members not provided with required information	Members of the pension scheme not serviced to an adequate standards Damaged reputation Financial hardship to members Employers dissatisfied with service being provided resulting in formal complaint Complaints which progress to the Pensions Ombudsman Financial loss Statutory deadlines not met Active members not aware of delay in employee contributions being paid	3	3	9	The PAT team is currently undergoing a dissolution project to Insource pensions administration from Orbis Surrey to an inhouse provision. Annual internal audit report om the administration of pensions including regular reporting and monitoring of recommendations to ensure the service is acting in line with best practice Quarterly Reports to Pension Board and Committee New service level KPI and expectations approved at Pensions Committee in September 2020 for the PAT service within the Administration strategy for when the team is fully in house Awareness of the Pension Regulator Guidance by all team members Programme management by Head of Pensions admin in liaison with Orbis partners to ensure all tasks completed as planned and to a high standard Polices and procedures in place and all activity for members recorded on member records for other teams members to see Constant monitoring / checking by team managers and senior officers for more junior staff members In house risk logs, including for projects SAP / Altair reconciliation monthly to ensure financial records complete and correct Task management systems built into Altair to ensure activity is competed and monitored	2	3	6	Head of Pensions Administration	On-going
A2	**Risk resulting from Regulatory Change** Risk that new benefit structures can not be set up correctly or in time	GMP reconciliation GMP rectification GMP equalisation McCloud Pensions Dashboard Other changes to legislation or regulatory guides	Members of pensions scheme exposed to financial loss Inaccurate record keeping Damaged reputation Delays due to conflicting deadlines on heavy workloads Penalty applied due to non-compliance	3	3	9	Projects and/or working groups in place to deal with current regulatorily benefit changes Attendance at networks and officer groups to stay on top of up coming changes in regulation Reports to Pension Board and Committee to ensure knowledge is shared to decision makers Oversight via Data Improvement Working Group	2	3	6	Head of Pensions Administration	On-going

Pension Fund Risk Register September 2021

Reference	Risk	Potential Triggers of risk	Consequences of risk	Pre Mitigation: Likelihood	Pre Mitigation: Impact	Pre Mitigation: Risk Score	Risk Control / Response	Post Mitigation: Impact	Post Mitigation: Likelihood	Post Mitigation: Risk Score	Risk Owner	Timescales
A3	**Production of Statutory member returns**	Inability to produce all ABS by the statutory deadline Inability to produce Annual Allowance statements by the statutory deadlines Provision of incorrect statements to members Failure to complete event reports in time for HMRC	Reputational risk and complaints Fines and enforcement action by The Pension Regulator Interest charges or fines from HMRC for inaccurate AA statements Breaches occurred	4	3	12	Regular contact with employers to get data. Clear project plan with early communications and planning with milestones to ensure Statements created in time to allow time for distribution to staff. Roll out of I-Connect for employer roll out as monthly interfaces system, to ease year end requirements and correct errors through out the year. Currently many leavers are not being notified until year-end. Restructure of Pensions team to include an Employer Engagement team will support Pensions Administration with end of year returns liaising and supporting employers through the process Breaches policy in place and Breach reporting to Committee and Board quarterly to raise and consider breach reporting levels	3	2	6	Head of Pensions Administration	On-going
A4	**Risk on Dissolution of Business Operations from Orbis to ESCC**	Risk that support unavailable to procure services Risk that existing procurement exercises are delayed during handover Risk of delay to recruitment during handover period Lack of access to Pensioner payroll services and helpdesk	Essential support from third party service provider cannot be obtained in timely manner Unable to employ and onboard new staff, delaying efforts to reach full FTE Unable to pay benefits as they fall due	3	3	9	Engaging through Financial Management Team to monitor developments in this space, allowing opportunity to adapt tasking as needed Minimise new procurement projects until after disaggregation Agreements in place with SCC for provision of helpdesk and payroll services separate to Orbis	2	3	6	Head of Pensions	Ongoing
A5	**Failure to comply with CETV anti scam checks**	Lack of clear process Process not followed	Reputational damage TPR intervention and penalties Loss to Fund due to requirement to pay compensation	3	2	6	Process in place for making checks required by law and/or recommended by TPR. Appropriate training to be identified and offered to staff to build understanding of risk and appropriate mitigations. Member informed of "red flags" identified Scorpion campaign material provided to members seeking a CETV Quality assurance checks ensure appropriate checks carried out	1	2	2	Head of Pensions Administration	on-going
A6	**Major Incident preventing staff access to office**	Major weather, technological or illness event	Staff unable to access post/documents Staff unable to issue payment instructions to bank	2	2	4	Administrative team equipped with laptops and can work virtually Officer's able to instruct payment be made to pensioner members	1	2	2	Head of Pensions	on-going
A7	**MBOS Project**	Transfer to new reporting system leads to unexpected errors and incorrect data being provided Set up of new system restricts accounts reporting for statement of accounts production, budget monitoring or other data requirements	Member records updated incorrectly Publication of accounts late Accounts qualified Inability to effectively monitor spend	2	3	6	Officers are part of the project roll out and involved in testing. Needs of the Pension Fund are therefore being taken into account Officers produced process mapping for all functions within the existing finance system	1	3	3	Head of Pensions	on-going

Pension Fund Risk Register September 2021

Reference	Risk	Potential Triggers of risk	Consequences of risk	Pre Mitigation Likelihood	Pre Mitigation Impact	Pre Mitigation Risk Score	Risk Control / Response	Post Mitigation Impact	Post Mitigation Likelihood	Post Mitigation Risk Score	Risk Owner	Timescales
Governance												
G1	**Key Person risk** Risk of loss of key / senior staff resulting in lost knowledge and skills with in the Pensions Team	Poor management of staff Failure to provide progression within the team structure Poor absence management Higher risk of sickness absence and reduced working hours as a result of Covid-19 Failure to provide an supportive working environment Failure to communicate with staff members in relation to potential service changes Concentration of knowledge in a small number of officers and risk of departure of key and senior staff.	Damaged reputation Inability to deliver and failure to provide efficient pensions administration service, support to employers, accurate accounts or effective management of investments Disruption and inability to provide a high quality pension service to members. 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.	4	4	16	Diversified staff / team Attendance at pension officers user groups to network and exchange information Procedural notes which includes new systems, section meetings / appraisals Succession planning within team structure, building from within the team 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 within PAT and in addition can be covered by senior staff in all areas. Training requirements are set out in training strategy, job descriptions and reviewed annually with team members through the appraisal process. New training officer post within team structure to be recruited early 2021 Training strategy in place and regularly reviewed with training log where required	2	2	4	Head of Pensions / Head of Pensions Administration	On-going
G2	**Lack of decision making caused by loss of Pension Committee/Pension Board member**	Several Committee members lose seats in an election Members resign posts Terms of multiple members expire at same time	Committee/Board not quorate and unable to fulfil role Inability of Pension Board to support Committee due to loss of Knowledge and Understanding Clear instructions not given to officers Action taken by TPR for failure meet basic compliance standards	3	3	9	Record kept of terms of Office Pension Board terms of Office staggered Deputy Chairs in place to cover chair absence Officers aware of election cycle	2	3	6	Head of Pensions	On-going
G3	**Cyber Security** Risk of Loss of data or systems breaches through cyber attacks	Cyber attack on ESCC systems and firewalls Cyber Security of member data - personal employment and financial data Attempt to infiltrate emails systems and data exchanges Cyber attach on third party systems where ESPF data is stored Cyber attach on third party systems that ESPF require to carry out service requirements and investment functions Covid-19 Cybercrime Spike	ESCC may incur financial penalties for data breaches Damaged reputation Legal issues Members of the pension scheme exposed to financial loss / identity theft Members of the pension scheme data lost or compromised Financial loss resulting from data manipulation Inability to trade Impact on funding levels Inability to access key systems, or substantial rebuilding of alternative systems Ransomware prevents access to key systems	4	4	16	ICT defence - in-depth approach Utilising firewalls, passwords and ICT control procedures including system access and account deletion protocols Email and content scanners Using anti-malware. ICT performs penetration and security tests on regular basis Encryption used on all data transfers Service level agreement with termination clause Regular reports SAS 70/AAF0106 Industry leaders providing services to the fund with data protection and cyber defence systems Risk assessment completed with all new contracts with data transfer and new associated systems including penetration testing at outset Pensions Team specific BCP to be developed Engagement with ICT to understand and receive reports on monitoring for successful cyber attacks	2	4	8	Head of Pensions	On-going

Pension Fund Risk Register September 2021

Reference	Risk	Potential Triggers of risk	Consequences of risk	Pre Mitigation Likelihood	Pre Mitigation Impact	Pre Mitigation Risk Score	Risk Control / Response	Post Mitigation Impact	Post Mitigation Likelihood	Post Mitigation Risk Score	Risk Owner	Timescales
G4	**Inadequate governance arrangements to discharge powers & duties**	Pensions Board & Committee members do not have the knowledge & experience to carry out their duties properly In sufficient internal audit review of the fund Lack of advisory services Insufficiently qualified officers Poor level of testing and challenge from external auditors	Poor decision making Breaches occurred Areas of work not completed Unreliable accounting or budgetary information	2	3	6	Training strategy in place which covers Pension Committee, Pensions Board and officers 100 days of internal audit commissioned for each calendar year with regular reporting from IA to committee and board External auditor provides audit plan at planning stage for each financial year and this is discussed by Audit committee as well as Pension Committee and Board Investment regulations require proper advice, procurement processes in place to ensure quality within replacement advisers Training coordinator being appointed. This officer will liaise with chair of Pension Board and Committee to identify training needs	1	3	3	Head of Pensions	On-going
G5	**Failure to comply with General Data Protection Regulations**	Data breaches through failure to encrypt data Poor security on systems Unpublished privacy notice, policy and guidance Lack of knowledge on GDPR rules by staff DPO not identified	Reputational damage Fines and enforcement Breaches by contractors and employers Failure to report breaches within timescales and through correct reporting methods	3	3	9	Contracts with external parties where there is a data role have clear terms and conditions as part of the data processing agreements Data Impact assessment is carried out on all new tenders where data is involved DPO is in place via ESCC Privacy notice is on the website - the privacy statements have been refreshed in August 2021 Memorandum of Understanding in place with employers within the fund All staff are required to complete an information governance course on joining the Council and this is refreshed annually Information governance Internal audit completed in Q4 2020/21 with a reasonable assurance level and all recommendations have been completed as at September 2021 Pensions Manager for Governance and Compliance completed review on GDPR in Q4 2020/21 resulting in a newly designed webpage, new privacy notices and change to the retention period	2	2	4	Head of Pensions	On-going
Investment/Funding												
I1	**Funding risk due to poor investment returns** Risk that investment strategy fails to result in performance required to meet the needs of the Funding strategy discount rate	Poor strategic asset allocation resulting in insufficient protection against inflation risk of liabilities Performance consistently under benchmark Inability to rebalance portfolio Failure to take proper advice Unrealistic discount rates in valuation assumptions	Funding Gap Damaged reputation Increase in employer contribution Inability to Pay Pensions Forced to sell investments to meet cashflow requirements	3	3	9	Strategy is supported by expert Investment consultants. Challenge to Consultants through Independent Adviser. Triennial valuation ensures funding position is known and contribution rates are stabilised Quarterly Performance monitoring, investment manager monitoring from consultants and Link for ACCESS sub funds Annual Investment Strategy Review, with interim rebalancing Quarterly Reporting to Pensions Committee, with decisions approved by committee, including Fund Manager performance Training strategy in place t ensure officers and committee members have sufficient knowledge and skills to implement and change the investment strategy Investment decisions are made in compliance with the ISS/FSS Changes to investment strategy are discussed with the actuary to ensure anticipated implications on funding aligned. Revision of the Asset Liability Model to support a viable Strategic Asset Allocation for the new valuation.	2	2	4	Head of Pensions	On-going
I2	**Changes to International Trade** The changing of Regulations and International Trading relationships along with the trading environment, impact on investments in affected businesses	Inability to access certain investment vehicles Changes to Banking legislation and MIFID II and Basel requirements Falls /instability in markets Currency fluctuations Inability to realise certain assets Increased taxation on certain assets	Financial loss, and/or failure to meet return expectations. Future Increase to employer contribution costs resulting from lower funding positions Changes to the regulatory and legislative framework within which the Fund operates. Changes in employer funding positions causing liquidity risk to employers Unable to sell assets preventing realignment with funding strategy or withdrawal from underperforming fund/asset class	3	3	9	Diversification of the Fund's investments across the world. Regular monitoring of investment performance and reports on potentially problematic trends Diversification of the Fund's investments across multiple asset classes Currency Hedging requirements considered within the investment strategy Officers receive regular briefing material on regulatory changes and attend training seminars and ensure any regulatory changes are implemented	2	2	4	Head of Pensions	On-going

Pension Fund Risk Register September 2021

Reference	Risk	Potential Triggers of risk	Consequences of risk	Pre Mitigation			Risk Control / Response	Post Mitigation			Risk Owner	Timescales
				Likelihood	Impact	Risk Score		Impact	Likelihood	Risk Score		
I3	**Regulatory risk** Failure to comply with regulations, legislation and guidance from an accounting and investment perspective	Failure to comply with CIPFA code of practice for accounting for the pension fund Failure to provide employers with accurate reporting for their financial statements Failure to comply with the LGPS investment regs Failure to Comply with statutory guidance from MHCLG Failure to comply with the Pensions Regulator requirements	Risk of the accounts being qualified by the auditors. Risk to employers of qualified accounts causing reputational damage and potential costs Intervention by the secretary of state in investment strategy Breaches occurred	3	3	9	Pensions Officers are kept up to date with changes to legislative requirements via network meetings, professional press, training and internal communication procedures. Pension Fund financial management and administration processes are maintained in accordance with the CIPFA Code of Practice, International Financial Reporting Standards (IFRS), and the ESSC Financial Regulations. Regular reconciliations are carried out between in-house records and those maintained by the custodian and investment managers. Internal Audits - carried out in line with the Pension Audit strategy. External Audit review the Pension Fund's accounts annually Breaches policy in place to ensure breaches mapped and reported	1	2	2	Head of Pensions	On-going
I4	**Investment pooling risk**	Asset classes not available in line with the funds investment strategy Excessive asset transition costs Poor governance of the ACCESS pool Investment beliefs on ESG issues not shared within the pool Inability to report performance to the fund Inability to manage the investment managers and structure to deal with poor performance Insufficient Capacity in sub funds 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. ACCESS pool unable to generate cost efficiencies	Increase in investment risk taken to access higher returns Increased costs Poor governance and reputational damage 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. Asset transition costs are greater than forecast. Failure to control operational risks and transaction costs during the transition process Insufficient risk and return parameters to comply with guidance on pooling and the investment strategy Intervention of the secretary of state in failing to invest in line with the statutory guidance on pooling An increase in the set-up costs for implementing new asset classes and managers	3	3	9	ACCESS Support Unit team provide support to the pool Operator contract provided by Link for assets held within the ACS The ACCESS Contracts Manager will monitor Link's progress 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 KPI's introduced within revised operator agreements Consultants involved in analysing the creation of sub-funds and transitioning of our current assets into the pool, under a variety of scenarios. Opportunities to transfer securities in 'specie'. Reducing cost on transition Transition manager in place to preserving asset values, managing risk and project managing the transition process to ensure that costs are monitored and controlled. Due Diligence completed by legal advisers to ensure no hidden costs or governance issues not known at time of decision to invest. S151, chair of pension committee and monitoring officer representation on respective committees and working groups to ensure ESPF involved in all decisions and concerns and questions can be raised early in processes Regular meetings between officers and ACCESS pool with officers on a number of working groups to ensure involvement in decision making	2	3	6	Head of Pensions	On-going
I5	**Funding risk due to higher inflation** leading to increased liabilities and a funding gap	Inflation rises faster than the actuarial assumption as a result of Govt. response to COVID-19 Bond yields return to much higher levels	Liabilities are higher than expected. Bond-equity correlations rise, and equities also fall in price Fund's solvency level falls	2	2	4	Investment strategy include weighting to index linked gilts, infrastructure and real estate which are all inflation correlated to mitigate increases in liabilities from inflation. Potential to further increase infrastructure weightings Fund monitor portfolio sensitivity to inflation via expert investment consultants Triennial Valuation assumptions include local knowledge of the Administering authority on anticipated pay inflation. Quarterly monitoring of funding position helps identify risk early	1	2	2	Head of Pensions	On-going

Pension Fund Risk Register September 2021

Reference	Risk	Potential Triggers of risk	Consequences of risk	Pre Mitigation			Risk Control / Response	Post Mitigation			Risk Owner	Timescales
				Likelihood	Impact	Risk Score		Impact	Likelihood	Risk Score		
I6	**Environmental, Social and Governance risks** within Investment strategy and implementations on investment decisions	Incorrect assumptions on current exposure , risk profiles and scenarios analysis leading to poor decision making Risk to income yields by restricting the market due to ESG concerns without considering the bigger picture of the investment strategy to compensate Investment environment changes radically, and Fund is slow to respond Risk to wider social and economic risks by focusing on a single issue Poor transparency on underlying investment manager investments decisions on behalf of the fund Failure of fund managers to explain or comply against voting guidelines Poor corporate Governance or corruption in underlying investments Risk of regulatory policy changes resulting in fines to underlying investments	Volatile investment returns Loss of market value Reputational risk where EGS beliefs and strategy are not aligned with expectation of members Increased workload responding to questions and challenges over ESG risks taking officer time away from manging the fund effectively Increase in investment risk taken due to unassessed ESG issues Weaker control leading to poorer governance unconscious exposure to companies in violation of UN policies, human rights violations, poor governance structures	3	2	6	Statement of Responsible Investment Principles outline investment beliefs within ESG, implementation of decisions and monitoring of EGS factors. Investment Working Group and ESG working group consolidated into a single group to ensure ESG is in the heart of all investment decisions Trim unconscious exposure to companies with poor ESG rating through agreed removal of traditional index funds ensuring active managers have a strong conviction in the underlying companies including on ESG matters and less traditional passive indexes / smart beta funds have robust screening processes in place to ensure ESG principles are taken into account Tracking of the portfolio as underweight in fossil fuel exposure to benchmarks Production of annual reports on the carbon footprint of the Fund and review of managers from EGS perspective including transition pathway of underlying companies Signatory to Stewardship code with commitment to comply with the new 2020 code Challenging managers on their holdings with regard ESG issues Introduction of an ESG assessment for all managers reported in July 2021 including improvement actions for each manager on ESG methodology, reporting or collaboration. This will be updated and reported annually Engaging via managers and investor groups including LAPFF with companies and driving them forward to comply with key ESG concerns using the greater voice by combined investment power	2	2	4	Head of Pensions	On-going

Pension Fund Risk Register September 2021

Reference	Risk	Potential Triggers of risk	Consequences of risk	Pre Mitigation			Risk Control / Response	Post Mitigation			Risk Owner	Timescales
				Likelihood	Impact	Risk Score		Impact	Likelihood	Risk Score		
I7	**Climate change** - risk on assets and liabilities associated with Climate Change	Uncertainty in energy transition impacts and timing Risk of stranded assets where invested in fossil fuel companies Lack of reliable carbon measurement data for investment pooled funds and or underlying holdings of those pooled funds. Risk of natural disasters on underlying investments Risk of changes in oil prices Increased capital costs of underlying investment companies to transition to greener energy solutions or lower carbon emitting supply chain models and production methods Fines or penalties incurred by underlying holdings by company or sector Increased global temperature and or erratic climate events causing devastation to underlying holdings Social consequence on members welfare and longevity within the fund	Unconscious exposure to high carbon emitters Reputation issues around how the Fund is progressing the move to a decarbonised global economy. Volatile investment returns Reputational risk where Climate risks, reporting, mitigations and strategies are not aligned with member views or poorly communicated Loss of income to the Fund from missed opportunities in oil price rally to accommodate the infrastructure to enable to the world to comply with the energy transition Loss of market value Major ecological disaster in the UK could lead to increased mortality quicker than anticipated within the funding models impacting on cash outflows and increased workloads for lump sum payments. Possible increase to ill health retirement cases leading to a change in cash flows and possible enhancements beyond those anticipated	4	3	12	Statement of Responsible Investment Principles outline investment beliefs within ESG, implementation of decisions and monitoring of EGS factors and has a strong focus on climate change Investment Working Group and ESG working group consolidated into a single group to ensure ESG is in the heart of all investment decisions Restructuring of the equity portfolio to avoid high risk companies and exploit opportunities, including decision to invest in impact fund in September 2020 Trim unconscious exposure to companies with high Carbon emission, poor energy transition plans and or fossil fuel companies, through agreed removal of traditional index funds Member of Institutional Investors group on climate change The fund carry out annual carbon foot printing to better understand the carbon exposure and energy transition plans within the portfolio Signatory to UN PRI with first planned submission in 2022 and commitment to report TCFD's with a first attempt in the Annual Report for 2020/21 The Fund has planned for climate scenario modelling in late 2021 which will help better understand this risk and allow further consider approaches in tackling these risks. The Fund continue to have some occasional exposure to high carbon emitting or fossil fuel sector companies from a tactical perspective to use its vote to help drive the sector forward through engagement and voting using the power of a collective voice. A number of Fund managers are Climate 100+ engagement partners leading on this work with top emitting companies, while all managers are IIGCC members for collaborate weighting of AUM to influence action Very small outstanding percentage exposure with fossil fuel companies that extract oil and gas or coal, which if the sector fall to zero value, the impact of the Fund would be negligible in market movement perspectives.	2	2	4	Head of Pensions	On-going
I8	**Insufficient cash to pay benefits as they fall due**	Too much investment in illiquid assets Failure to track payments due Large investment commitments not anticipated and planned for Contributions not collected when due	Benefits not paid as they fall due Beneficiary financial hardship Forced sale of investments Reputational risk	2	4	8	Contributions monitored on monthly basis monitoring of members close to retirement Daily cash position monitored. Distributing investments to ensure stream of income from investment activity Income from investments is considered as a key risk in all investment strategy decisions and the income profile managed liaison between administration and investment team on cash requirements	1	4	4	Head of Pensions	on-going
I9	**Internal fraud**	Member of staff has multiple accounts and can self authorise Lack of internal controls and sign off procedures Failure to monitor staff actions Failure to monitor payments from the Fund	Loss of Fund assets Reputational risk Loss of member confidence Loss of Fund assets	2	3	6	Quarterly review of log in credentials Senior officer's have sight of bank account Senior officer's are signatories to bank account Multiple sign off needed to make payment	1	3	4	Head of Pensions	On-going
I10	**External fraud**	Failure to properly authenticate benefit claims Failure to identify deceased members	Reputational risk Loss of member confidence	2	3	6	Monthly mortality checks Regular member tracing exercises	1	3	3	Head of Pensions	On-going

Report to: **Pension Committee**

Date of meeting: **24 February 2022**

By: **Chief Finance Officer**

Title: **Work Programme**

Purpose: **To review the Board and Committee work programme**

RECOMMENDATION: The Pension Committee is recommended to:

1. **note the work programme.**
2. **Consider specific areas of focus for July training and Strategy meeting.**

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1 Background & Supporting information

1.1 The work programme contains the proposed agenda items for future Pension Board and Pension Committee meetings over the next year and beyond. It is included on the agenda for each Committee meeting.

1.2 The work programme also provides an update on other work going on outside the Board and Committee's main meetings, including working groups, upcoming training and a list of any information requested by the Board or Committee that is circulated via email.

1.3 This item also provides an opportunity for Members to reflect on any training they have attended since the last meeting.

1.4 The Committee has its training and strategy review meeting scheduled for 20 July 2022, Committee are asked to consider if they would like any specific areas of focus for officers to prioritise for the day.

2 Conclusion and reasons for recommendations

2.1 The work programme sets out the Board and Committee's work both during formal meetings and outside of them. The Committee is recommended to consider and agree the updated work programme including consideration the regularity of agenda items to ensure effective governance of the Fund at the scheduled meetings.

IAN GUTSELL
Chief Finance Officer

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Pension Board and Committee – Work Programme

Future Pension Board Agenda		
Item	**Description**	**Author**
Standing items (items that appear on each agenda)		
Pension Committee Agenda	A consideration of the draft agenda of the Pension Committee.	Head of Pensions
Governance Report	A report on governance issues effecting the fund, developments in the LGPS, policy amendments and McCloud working group update	Pensions Manger – Governance and Compliance
Employer Engagement and Contributions Report	A report on Employer Engagement matters to note, Employer Contributions update, Communications from the Fund and Communications working group update	Pensions Manger – Employer Engagement
Pensions Administration report	An update on the performance of the Pensions Administration Team.	Head of Pensions Administration
Internal Audit reports	All internal audit reports on the ESPF are reported to the Board	Head of Internal Audit

East Sussex Pension Fund (ESPF) Quarterly budget report	An update on the ESPF's budget. This is reported in Q2-4 only.	Head of Pensions
East Sussex Pension Fund (ESPF) Risk Register	A report on the ESPF's Risk Register	Head of Pensions
Work programme	A report on the Board and Committee's work programme	Head of Pensions
East Sussex Pension Fund (ESPF) Breaches Log	A report on the ESPF breaches log	Head of Pensions
Employer Admissions and Cessations	A report on the admission and cessation of employers to the ESPF.	Head of Pensions
1 June 2022		
Good Governance Decision making matrix	Report to outline the revise the decision-making matrix for the Pension Fund, delegations and representations in line with SAB Good Governance project	Head of Pensions
Communications Policy	Revision to the Communications Policy	Head of Pensions
Covenant Review Report	Report from PWC on the covenant review project	Head of Pensions
External Audit Plan for the East Sussex Pension Fund 2021/22	Draft External Audit Plan for 2021/22 Pension Fund Financial Statements	Head of Pensions

Governance and Compliance Statement	Annual Review of Governance and Compliance Statement	Governance and Compliance Pensions Manager
Annual Report of the Pension Board	Annual report of the Pension Board to the Scheme manager outlining the work throughout the year	Head of Pensions with the Chair of the Board
Training Policy	Biannual review of the training Strategy	Governance and Compliance Pensions Manager
Expansion of Pension Board	Report on options of expanding Pension Board to 8 members from 6	Head of Pensions
Representation of Brighton and Hove CC on Pension Committee	Report on the request received for Brighton and Hove CC to be represented on the Pension Board	Head of Pension
Privacy Statement	Report on annual review of privacy statements	Governance and Compliance Pensions Manager
9 September 2022		
Independent Auditors Report on the Pension Fund Account and Annual Report and Accounts 2021/22	A report on the External Audit findings of the Pension Fund financial Statements and the complete 2021/22 Annual Report and Accounts.	Head of Pensions
2022 Actuarial Valuation and Funding Strategy Statement	Report from the Fund Actuary on the March 2022 triennial valuation process, methodology and assumptions with a draft Funding Strategy Statement for approval prior to consultation	Head of Pensions
15 November 2022		

Employer Forum Agenda	Discussion on Pension Fund Employer Forum Agenda topics	Pensions Manger – Employer Engagement
Annual Training Plan	Report on Training completed in the year and training recommendations for the up-coming year	Head of Pensions
8 February 2023		
Business Plan and Budget 2023/24	Report to set the Budget for the Pension Fund for the Financial Year 2023/24 including the Business Plan with key deliverables for the year.	Head of Pensions
External Audit Plan for the East Sussex Pension Fund 2022/23	Draft External Audit Plan for 2021/22 Pension Fund Financial Statements	Head of Pensions
2022 Valuation report and results and Final Funding Strategy Statement (FSS)	Final report and results from the Fund Actuary of the 31 March 2022 triennial valuation with the final FSS for approval post consultation.	Head of Pensions

Actions requested by the Pensions Board		
Subject Area	**Detail**	**Status**
Internal Audit reports	The Board requested that internal audit consider an audit of the common data sets provided to the Pensions Regulator	TBC
Scheme administration	The Board requested a report on potential recommendations from the Scheme Advisory Board (SAB) that the Scheme Manager role is removed from local authority control.	Ongoing discussions
Scheme administration	The Board requested a future report on how the ESPF KPIs for pension administration compare with those of other local government pension schemes.	To be provided when new KPI tool implemented
Decision making	To revise the decision-making matrix (including a RACI model) and to circulate it for information.	To be provided June 2022

Future Pension Committee Agenda		
Item	**Description**	**Author**
Standing items (items that appear on each agenda)		
Governance Report	A report on governance issues effecting the fund, developments in the LGPS, approval of policy amendments and McCloud working group update	Pensions Manger – Governance and Compliance
Employer Engagement and Contributions Report	A report on Employer Engagement matters to note, Employer Contributions update, Communications from the Fund and Communications working group update	Pensions Manger – Employer Engagement
Pensions Administration report	An update on the performance of the Pensions Administration Team.	Head of Pensions Administration
Internal Audit reports	Internal audit reports on the ESPF and annual audit plan.	Head of Internal Audit
East Sussex Pension Fund (ESPF) Quarterly budget report	An update on the ESPF's budget - *reported Q2-4 only*	Head of Pensions
East Sussex Pension Fund (ESPF) Risk Register	A report on the ESPF's Risk Register	Head of Pensions

Work programme	A report on the Board and Committee's work programme	Head of Pensions
Investment Report	A Quarterly performance report of the investment managers	Head of Pensions and Investment Consultant
East Sussex Pension Fund (ESPF) Breaches Log	A report on the ESPF breaches log – *reported only when a new breach is recognised, or status changed. Report goes quarterly to Board.*	Head of Pensions
Employer Admissions and Cessations	A report on the admission and cessation of employers to the ESPF - *reported only when outstanding admissions or cessations.*	Head of Pensions
24 February 2022		
2020 Stewardship Code Submission	Report outlining the Funds compliance with the 2020 Stewardship Code	Head of Pensions
Business Plan and Budget 2022/23	Report to set the Budget for the Pension Fund for the Financial Year 2022/23 including the Business Plan with key deliverables for the year.	Head of Pensions
Internal Audit Strategy and Plan	Draft internal audit Pension Fund Strategy and Audit Plan 2022/23	Internal Audit
Additional Voluntary Contributions (AVC) review	Paper reviewing the AVC provision to members	Head of Pensions
17 June 2022		

Governance and Compliance Statement	Annual Review of Governance and Compliance Statement	Governance and Compliance Pensions Manager
Annual Report of the Pension Board	Annual report of the Pension Board to the Scheme manager outlining the work throughout the year	Head of Pensions with the Chair of the Board
Carbon Footprinting	A report on the carbon footprint of the portfolio of ESPF including whether investments are in line with transition pathways.	Head of Pensions
External Audit Plan for the East Sussex Pension Fund 2021/22	Draft External Audit Plan for 2021/22 Pension Fund Financial Statements	Head of Pensions
Covenant Review Report	Report from PWC on the covenant review project	Head of Pensions
Communications Policy	Revision to the Communications Policy	Head of Pensions
Training Policy	Biannual review of the training Strategy	Governance and Compliance Pensions Manager
20 July 2022 (no standing items)		
Investment Strategy Review	Annual consideration on the effectiveness of the Investment strategy and suggested changes to the Investment Strategy Statement.	Head of Pensions
Training / Focus of choice	Time for specific training or to focus on a specific topic	Head of Pensions

27 September 2022		
Independent Auditors Report on the Pension Fund Accounts 2021/22	A report on the External Audit findings of the Pension Fund financial Statements for 2021/22	Head of Pensions
Pension Fund Annual Report and Accounts 2021/22	2020/21 Annual Report and Accounts for approval	Head of Pensions
2022 Actuarial Valuation and Funding Strategy Statement	Report from the Fund Actuary on the March 2022 triennial valuation process, methodology and assumptions with a draft Funding Strategy Statement for approval prior to consultation	Head of Pensions
30 November 2022		
Employer Forum Agenda	Discussion on Pension Fund Employer Forum Agenda topics	Pensions Manger – Employer Engagement
Annual Training Plan	Report on Training completed in the year and training recommendations for the up-coming year	Head of Pensions
22 February 2023		
Business Plan and Budget 2023/24	Report to set the Budget for the Pension Fund for the Financial Year 2023/24 including the Business Plan with key deliverables for the year.	Head of Pensions
External Audit Plan for the East Sussex Pension Fund 2022/23	Draft External Audit Plan for 2021/22 Pension Fund Financial Statements	Head of Pensions
2022 Valuation report and results and Final Funding Strategy Statement (FSS)	Final report and results from the Fund Actuary of the 31 March 2022 triennial valuation with the final FSS for approval post consultation.	Head of Pensions

Actions requested by the Committee		
Subject Area	**Detail**	**Status**
Beyond Oil and Gas Alliance	Request for a paper to be made available at February 2022 meeting to provide members with information on the Beyond Oil and Gas Alliance so Committee members have sufficient information to consider if they want to issue a public statement, calling on the UK Government to commit to becoming a core member of the Beyond Oil & Gas Alliance	To be presented in February 2022 meeting
Schroders Cash position	Request for officers / Isio to find out reasons for the large cash position in the Schroders portfolio	Complete – update to be provided February 2022 meeting
Correlation of assets	Request for a brief overview of how the portfolio investments are correlated	To be presented in February 2022 meeting
Inflation	Request for information on how increasing Inflation could impact the Fund	To be presented in February 2022 meeting

Current working groups		
Title of working group	**Detail and meetings since last Pensions Board and Committee meetings**	**Membership**
Investment Implementation Working Group (IIWG)	The Investment Working Group and ESG working group have been amalgamated, as agreed at Pensions Committee 21 September 2020. The IIWG has an advisory role to over oversee the implementation of decisions by the Pension Committee in relation to investment decisions and carry out detailed research and analysis for Pensions Committee. Recent meetings • 18 November 2021 • 6 December 2021 • 26 January 2022 – special meeting for Infrastructure Manager Selection Presentations (Core members only invited) • 28 January 2022	William Bourne, Russell Wood, Sian Kunert, Representative from Investment Consultant Cllr Fox or substitute committee member is invited to attend
Administration Working Group	The Administration Working Group was set up in 2021 following the conclusion of the ABS and Data Improvement Working Group. The group discuss ongoing administration projects and areas of administration focus Recent meetings • 2 December 2021 • 19 January 2022 Scheduled • 28 March 2022 • 4 May 2022 • 5 July 2022 • 16 August 2022 • 18 October 2022	Cllr Fox, Ray Martin, Stephen Osborne, Paul Punter, Sian Kunert, Ian Gutsell Vacancy for Scheme Member Rep

	• 15 December 2022	
McCloud Working Group	The McCloud Working Group has been established to oversee the implementation of the McCloud ruling within a prescribed timeframe and addressing any gaps and barriers preventing progress and ultimately delivery of the project. A high-level impact assessment has been completed to identify those members of the scheme that will be affected by this ruling. The Group have acknowledged there are many data requests of employers and this project needs to be managed carefully with other demands on employers time. Recent meetings • 12 January 2022 – supported by Hymans	Cllr Fox, Stephen Osborn, Lynda Walker, Paul Punter, Sian Kunert, Dave Kellond
Communications Working Group	The Communications Working Group was established by the Pensions Board in February 2021 to drive forward improvements in communications with stakeholders with support from employee and employer representatives. Recent meetings • 14 December 2021 Scheduled meetings • 28 February 2022	Lynda Walker, Ray Martin, Cllr Druitt, Sian Kunert, Tim Hillman, Izzy Widdowson, Paul Linfield Note - All Board members invited to attend

Training and Development - recent and future events			
Title of Training/Briefing	**Detail**	**Date**	**Attended**
LGPS-Live – A webinar series Scheme Advisory Board Update	• Collaborations and Consolidation in the LGPS • Should We Worry About Inflation?	3 Nov '21	Cllrs: Hollidge, Hilton, Redstone
Aon's Global Pension Risk Survey 2021/22 UK Survey findings	Looked at the results and findings of the survey	4 Nov '21	Cllrs Hilton, Hollidge
LGPS Climate Summit	Covered: • The Economics of Climate Change • From Risk to Opportunity • TCFD and the LGPS • Ensuring an inclusive Net Zero transition • What next after COP26? • Pooling and Climate Risk • Which truth? Data Malaise from Pandemic to Climate Crises • Addressing Greenwashing Risks: How Can the LGPS Steer Clear? • Driving the Transition: Effectively Investing in The Transition of Carbon Intensive Industries • How is Climate Change Shaping Private Equity and Venture Capital Investments? • Looking beyond – Biodiversity as an Investment Opportunity • Expectations for the LGPS 10 Years from Now	15 Nov '21	Cllr Hilton
Embedding ESG into Pension Scheme Decision-Making - a toolkit for pension trustees	Key elements of the A4S toolkit and how it can be used by trustees to drive consensus across their Board, and by advisers to share with their clients	16 Nov '21	Cllrs Hollidge, Hilton

ESPF Employer forum	• WHEB Investment Manager • Compliance and Governance update • Administration Manager Update • Engagement and Website update • I-Connect update	24 Nov ‘21	R Martin, S Osborn, Cllr Illingworth. Cllrs: Fox, Tutt, Hollidge, Redstone, Hilton
Evaluating the ESG Capabilities of Your Service Providers	Top tips and examples of good practice on procuring the right service providers to deliver your ESG objectives and assessing their continuous performance.	25 Nov ‘21	Cllr Hilton
LGPS Governance Conference 2022	• The Economics of Climate Change • From Risk to Opportunity • TCFD and the LGPS • ensuring an inclusive Net Zero transition • What next after COP26? • Pooling and Climate Risk • Which truth? Data Malaise from Pandemic to Climate Crises • Addressing Greenwashing Risks: How Can the LGPS Steer Clear? • Driving the Transition: Effectively Investing in The Transition of Carbon Intensive Industries • How is Climate Change Shaping Private Equity and Venture Capital Investments? • Looking beyond – Biodiversity as an Investment Opportunity • Expectations for the LGPS 10 Years from Now	20-21 Jan ‘22	Cllr Fox
Valuation	• Purpose and objectives of the valuation • Valuing the assets and liabilities - methodology and approach • Data - requirements and the importance of data quality • Assumptions - how these are determined and their impact on results • A look back at the 2019 funding position and what we might expect at 2022 • Hot topics impacting the valuation	27 Jan ‘22	N Palermo, S Osborn; Cllrs: Fox, Hollidge, Druitt, Illingworth, Redstone, Hilton

Title of Training/Briefing	**Detail**	**Proposed Date**	**Invited**
LAPF Strategic Investment Forum	• Bonds – balancing your portfolio’s risk	3 Feb ‘22	Committee Members

	• Fading scars and enduring policies – long term capital market assumptions as a key driver of portfolio construction		
Admin and Data Forum 2022	½ day event run by Professional Pensions'. Focus on the challenges that trustees and scheme managers are currently facing, as they evolve their administrative and data functions to meet regulatory duties, capture efficiencies and provide best outcomes for members.	8 Mar '22	Committee Members
ESG Conference 2022 - Pensions, people, planet	2 day ESG conference run by PLSA	9-10 Mar "22	Committee Members
LGC Investment Seminar on 24-25 March 2022.	2 Day LGPS investment seminar held in Chester. Due to costs for this event places are not offered to all	24-25 Mar	Cllr Redstone

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Report to:	**Pension Committee**
Date:	**24 February 2022**
By:	**Chief Finance Officer**
Title of report:	**Investment Report**
Purpose of report:	**This report provides Pension Committee with an update on the investment activities undertaken by the East Sussex Pension Fund.**

RECOMMENDATION

The Pension Committee are recommended 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 agree next steps**
6) **note the ACCESS update and approve:**
   - **a nomination of 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) **Consider under the Fund's principle to engage with policy makers on ESG and Investment issues, whether the Fund wishes to call on the UK government to become a core member of the Beyond Oil and Gas Alliance (appendix 6)**

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1. Background

1.1 Under the Local Government Pension Scheme (LGPS) Regulations, the Council is required to maintain a Pension Fund for its employees and other 'scheduled bodies' as defined in the Regulations. The Pension Committee is required to maintain an Investment Strategy Statement (ISS) to govern the Funds' investments and receives a quarterly investment monitoring report, from its investment consultant, Isio.

1.2 The ACCESS Joint Committee has been established as a result of the changes implemented in the 2016 LGPS Investment regulations to facilitate the arrangements relating to the collective investment vehicles, to allow the administering authorities to pool their respective investments. The ACCESS Joint Committee meets quarterly.

2. Action Log and Investment Workplan

2.1 Appendix 1 shows a Workplan which will act as a reference point of all actions agreed at Pension Committee meetings. Unless otherwise stated, items in the workplan are to be considered by the Committee or a comment provided explaining why the item is not to be covered at this time.

2.2 The Investment Workplan details the areas of work that are anticipated over the next 12 months.

2.3 The main focus over the next 12 months is ongoing review into and undertaking of climate modelling scenario analysis for the Fund and implementation of the revised investment strategy, where investment opportunities are possible, as agreed at the 12 July 2021 Pension Committee meeting.

2.4 The Committee are asked to note that the United Nations Principles for Responsible Investment (PRI) is not accepting submissions in 2022, so the Fund's first submission will be deferred until January-March 2023 submission date.

2.5 The Fund has not yet completed the draft for its Submission under the Stewardship Code 2020 requirements although is close to doing so; this will be deferred to the June 2022 meeting once the report has been finalised for approval prior to submission.

3. Quarterly Performance Report

3.1 The Quarterly Performance Report is attached as Appendix 2. Since the last quarter, the valuation of the Fund increased from £4.6bn as at 30 September 2021 to £4.7bn as at 31 December 2021 (an increase of £0.1bn). A positive absolute return of 3.6% over the quarter, underperforming its respective benchmark by 0.7%.

3.2 Over the period, the private equity mandates (Harbourvest and Adam Street) continued to deliver strong returns. Benefitting from lagged portfolio valuations continuing to catch up with public market counterparts. Real Return Funds out-performed benchmark with notable returns from Newton in the quarter.

3.3 Equity, while positive generally lagged the benchmark, in particular the active sustainable portfolios who were adversely impacted by the failure to pass a clean energy bill in the US.

4. Investment Correlation

4.1 At the November 2021 Committee meeting, the Committee expressed a desire to see general correlation trends across the Fund's underlying investment managers, in particular, it was asked whether mandates with more inflation linkage in their underlying assets would act as effective diversifiers during inflationary periods.

4.2 Isio have prepared an Investment manager correlation analysis for the Fund (appendix 3). The key takeaways from this analysis should be primarily focussed on the longer 3 and 5 year analysis periods. With that in mind, and based on the managers available, the portfolio appears well diversified in regard to correlation of managers.

4.3 In particular the Fund's:

- equity managers returns are all relatively highly correlated, with each other;

- real asset managers (infrastructure and property) exhibit negative or low correlations with the Fund's other mandates;
- multi-asset mandates provide effective diversification, particularly Ruffer Absolute Return, which shows low or negative correlations with all other mandates; and
- private equity managers also exhibit low or negative correlations with the other mandates.

5. Investment Strategy Recap

5.1 At the July 2021 meeting, the Committee considered an investment strategy review presented by Isio and agreed the following changes to the Fund's strategic asset allocation:

- Reduced target allocations for diversified growth, balanced property, corporate bonds and index-linked gilts.
- Increased target allocations for infrastructure equity, inflation-linked property, private credit and diversified credit.

5.2 The Investment Strategy Recap report (appendix 4) provides an overview of the Investment Strategy and the rationale for these changes and compares our actual asset allocation to the strategic asset allocation.
5.3 The priority risk factor to the Fund identified as part of the Investment Strategy review was Inflation risk which was a key driver for the recommended Investment Strategy changes.
5.4 This report also sets out the current expectation as to where the changes to the strategic asset allocation should be funded set out below:

- Diversified credit will be funded from the sale of corporate bonds
- Infrastructure equity will be funded from absolute return
- Private credit allocation will be funded from index-linked gilts
- Inflation-linked property will be funded from balanced property

5.5 The exact sources of funding should be re-assessed at the time of drawdown, given the capital is expected to be implemented in stages over the next 12-18 months and any rebalancing required within the actual allocation.

6. Inflation Report

6.1 At the November 2021 Committee meeting, a request was made for more information about the potential impact of inflation and the resulting policy response on The Fund's assets. The Fund requested William Bourne, its independent advisor, to prepare a report to the Committee to share his views on this topic (appendix 5).

6.2 This report sets out the background to the recent rise in inflation, and four potential scenarios for the medium-term future, defined as five to ten years. It looks at how the Fund's assets might behave, using both a qualitative approach based on causality and a stochastic model to provide some mathematical grounding. William has also provided some potential next steps for the Committee to consider in regard to the inflation risk to the Funds investment. These are:

- Await next Strategic Asset Allocation (SAA) review (2023) before implementing any major changes
- Postpone reductions in Newton and Index linked Gilts (ILG) allocation until after the next SAA review
- Consider allocating to broader more flexible strategies at the next SAA review
- Explore whether an overlay to mitigate risks under Stagflation is feasible

6.3 The Committee is asked to consider the next steps proposed and take into account inflation risk as a key risk in investment decisions both in the interim and once the triennial valuation is complete and the next formal investment strategy review is undertaken.

7. ACCESS Update

ACCESS Governance

7.1 Currently there is a substantial amount of governance related work that is being undertaken by ACCESS which has been taking place as a result of the review of the ACCESS Governance Manual. The Governance Manual is there to support the Inter Authority Agreement (IAA) which is the primary document governing the interaction between the ACCESS Authorities and the role of the Joint Committee and Section 151 officers. The IAA is the legal agreement between the 11 Authorities that sets out the statutory responsibilities of ACCESS. The Governance technical leads were asked to review the Governance Manual following agreement by the Section 151 Officer Group.

7.2 Following an initial review of the Manual and conversations with all participating Authorities, the technical leads identified several themes both regarding the Governance Manual itself and wider governance of the Pool. As a result a project was launched to focus on areas of highest risk to the delivery of the ACCESS objectives and the governance, policies and procedures needed to achieve them. The key time critical tasks within the ACCESS Business Plan were considered to be:

- implementation of approach to alternative / non-listed assets;
- the development and implementation of Environmental, Social and Governance (ESG) / Responsible Investment (RI) guidance;
- consideration of the future arrangements for Operator Services to the ACCESS Pool; and
- determination of future sub-funds.

7.3 Once progress had been made in relation to these themes it was proposed, a third party is engaged to carry out an audit of ACCESS governance as recommended by the Governance Working Group.

7.4 The ESG/RI Guidelines are being reviewed due to the changing nature of this aspect of the investment governance. ACCESS is supported by Minerva in drafting the guidelines. The document is intended to be a reflection of the collective views of the partner funds to create a set of RI Guidelines for the Pool. Under the LGPS Regulations, each Administering Authority retains responsibility for complying with the Investment Regulations (which is the statutory source of the requirement to take ESG factors into account). Similarly, RI is an aspect of discharging fiduciary duties which are the remit of Administering Authorities, not the Pool.

7.5 Therefore, the ESG/RI Guidelines do not go beyond policies already in place or intended to be in place at each Council and do not supersede or replace the Investment Strategy Statement or policies of each Administering Authority. Instead, ESG/RI Guidelines are considered complementary to those documents. The draft guidelines have been considered by the Pension Committee at its meeting in November 2021. Other ACCESS authorities are currently reviewing the document prior to the next Joint Committee meeting 7 March 2022 for the next stage of the approval process.

7.6 At the last meeting of the ACCESS Joint Committee in December 2021, agreement was reached on a set of criteria for future sub fund requests to be considered. This will enable ACCESS to provide a clear process around how a request for a new sub fund will be reviewed against and the criteria that needs to be satisfied. The guiding principles are:

1. Strategy - The strategy adds to, and does not unnecessarily duplicate, the existing sub-funds that ACCESS have already created.
2. Availability - The strategy must be open and capacity available for new investors.
3. Value for money - The new sub-fund will deliver cost savings to the requesting Authority(ies) and other ACCESS members.
4. Scale and commitment - Requesting Authority(ies) should align with the primary or the secondary guidelines on scale and commitment to be considered as "suitably meaningful".
5. Investment manager relationships - This section facilitates a discussion regarding how a recommended Investment Manager enhances the Pool: for example, it may be the proposed sub-fund is managed by an Investment Manager already managing a sub-fund(s) within the Pool and will thereby further deepen the relationship with ACCESS and may lead to incremental fee savings.
6. Reasonableness test - To preserve the design of the Authorised Contractual Scheme (ACS) and ACCESS's overall pooling model, to minimise cost and complexity, it should be the obligation of any requesting Authority that they satisfy themselves and the other ACCESS Authorities that their request is reasonable.

7.7 The current Operator Agreement will continue until its end date, 5 March 2025. The Joint Committee received a proposed timeline and rationale at it is last meeting. A final recommendation will be made to the Joint Committee once the procurement lead authority is identified and has reviewed the proposals. The steps that have been proposed include:

1. Procurement Lead Authority agreed
2. Inter Authority Agreement review
3. Preparation
4. Formal procurement

and, in the event of change of Operator,

5. Preparation for transition:
6. New contract commencement
7. Transition of services to new Operator

7.8 Essex County Council are currently undertaking an Internal Audit of ACCESS as the Host Authority. The objective of this audit is to evaluate the control design and test the operating effectiveness of key controls in place over the ACCESS Support Unit (ASU). The audit will cover the period from as far as 12 months prior to the time of the audit. It was agreed as part of the 2020/21 Internal Audit review that the 2021/22 review will seek input from the administering authorities Internal Audit leads when drawing up the terms of reference.

ACCESS Joint Committee Representation

7.9 At the ACCESS Joint Committee meeting 6 December 2021 there were concerns around the meeting being quorate due to the possibility of members of the Joint Committee needing to self-isolate due to the rising prominence of the omicron variant. ACCESS authorities were asked if they could confirm if they able to attend and if they would be sending substitutes if they were not able to attend.

7.10 The representative on the ACCESS Joint Committee is Councillor Fox as approved by the Governance Committee. In December Cllr Fox was unable to attend and East Sussex were asked to send a substitute however under the East Sussex County Council constitution that there is currently no ability for East Sussex County Council to provide a substitute representative to an ACCESS Joint Committee meeting. The ACCESS Joint Committee arrangements require representatives to be from the Pension Committee of the underlying Fund.

7.11 To address this issue, it is suggested that the Pension Committee puts forward a recommendation to the Governance Committee for the appointment of a substitute for all ACCESS Joint Committee meetings.

7.12 If the Committee agree to a substitute representative, officers will put forward a recommendation to the Governance Committee for consideration.

8. External Assurance Report

8.1 As part of the ongoing investment governance that is performed by the Fund, officers monitor the external assurance reports that are provided by the Fund's investment managers. These reports detail the internal controls of the managers and provide an opinion as to the effectiveness of these controls.

8.2 No qualified reports have been identified in relation to any other manager apart from the UBS external assurance report for the period 1 January 2020 to 31 December 2020. The reasons this was qualified are :

- UBS was unable to provide sufficient evidence to demonstrate a quality control check was completed for new security setups in their accounting system.
- UBS were unable to provide sufficient evidence to demonstrate a quality control check was undertaken during the reconciliation of dividend income in their accounting system.
- UBS did not effectively restrict privileged user access to a new accounting system application. Highly privileged access was granted on a permanent basis to technology and Simcorp staff. As a result, the system of controls was not suitably designed and did not operate to achieve a control objective.
- UBS did not effectively restrict privileged user access to a back-office application used for processing derivatives and swaps. EY determined there were not sufficient controls in place to identify users with unauthorised access to the application. As a result, the system of controls was not suitably designed and did not operate to achieve a control objective.

8.3 The UBS Management response to these was, all securities and dividend income events were set-up accurately and no clients were impacted. These controls only related to securities and income events recorded on the GIMII application. Additionally, UBS performed a review of user activities and confirmed no unauthorised changes had been made.

8.4 The Fund clarified with UBS if any of the control issues identified would have affected any of the Fund's investments. UBS confirmed that the Fund's assets we were no longer using the GIMII accounting system at the time of audit, as these had been transitioned to the Simcorp Dimension (SCD) accounting platform in February 2019.

8.5 Furthermore an Operation Risk Issue (ORI) was put in place to address the risks identified following the 2019 Audit. The purpose of the ORI was to ensure standardised checks were in place and ensure evidencing of the controls were more efficient. This was still in its initial stages at the time of the audit and was formally closed in January 2021 with the standardised checks and evidencing in place from November 2020 This has now been completed so should not be an issue in the next report.

8.6 The SCD was a multi-year project which concluded in March 2021. In order to safely commission, rollout and migrate to SCD it was necessary to create a number of privileged roles. As the product matured the standing access to these roles should have been reviewed. The roles were appropriate for access by the user, just not on a standing basis. The issues were discovered internally in December 2020 and remediation measures instituted.

8.7 The Fund is satisfied that there was no impact to the assets held by UBS due to communication with the manager but will be reviewing the 2021 UBS report to ensure these items have been resolved.

9. Announcement from the Department of Levelling Up, Housing and Communities

9.1 On the 2 February the Department of Levelling Up, Housing and Communities announced their flagship Levelling Up White Paper, setting out their plan to transform the UK by spreading opportunity and prosperity to all parts of it.

9.2 Within this paper it announced that "*the UK Government is asking Local Government Pension Schemes (LGPS) funds, working with the LGPS asset pools, to publish plans for increasing local investment, including setting an ambition of up to 5% of assets* (this equates to £16bn over the whole of the LGPS) *invested in projects which support local areas."*

9.3 After this announcement the Scheme Advisory Board (SAB) put out a statement that said, "*We understand that in this context local refers to UK rather than local to a particular fund and that there will be no mandation beyond the requirement to have a plan. Further details will emerge over the period up to an expected summer consultation which we understand will also include the outstanding climate risk and reporting regulations and the pooling guidance."*

9.4 The expectation at this point is that the consultation will not be published until after the May elections. A key point within this consultation will be around how LGPS Funds maintain their fiduciary duties whilst also having to respond to this plan to invest up to 5% of their investments into projects which support local areas. Another piece of clarity needed from the consultation is how we determine what a local investment is and if this has to be in addition to any investments we may have that meet the criteria.

10. Beyond Oil and Gas Alliance (BOGA)

10.1 At the meeting of the Pension Committee on 25 November 2021, Cllr Hilton put forward a request for a paper to be brought to the next Pension Committee, to ask for the Committee to issue a public statement, calling on the UK Government to commit to becoming a core member of the Beyond Oil & Gas Alliance.

10.2 A paper has been provided in appendix 6 outlining information on BOGA which was created in November 2021 at COP26, with commentary on the UK's current position as to becoming a core member, gleaned from news reports, as no official announcement has been identified on the Government website.

10.3 The Fund's responsible investment beliefs include engagement with Governments and policy makers.

10.4 Members of the Committee are asked to consider whether a public statement should be made calling for the UK Government to sign up in line to the initiative.

11. Conclusion and reasons for recommendation

11.1 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.

IAN GUTSELL
Chief Finance Officer

Contact Officer: Russell Wood, Pensions Manager Investments and Accounting

Email: Russell.Wood@eastsussex.gov.uk

12 month workplan

Notes:
PRI are not accepting submissions in 2022, next submission date Jan-Mar 2023

24 February 2022
- Q4 2021 monitoring report
- Fixed Income implementation plan
- Infrastructure implementation recommendation
- Correlation review
- Inflation impacts

Mar 2022 | Jun 2022 | Jul 2022 | Sep 2022 | Nov 2022 | Mar 2023

17 June 2022
- Q1 2022 monitoring report
- ESG impact assessment
- Stewardship Code Submission
- Fixed Income implementation update

20 July 2021
- Investment Strategy Review
- Training
- Carbon Foot printing report

27 September 2022
- Q2 2022 monitoring report
- ESG implementation statement
- TCFD report

November 2022
- Q3 2022 monitoring report

February / March 2023
- Q4 2022 monitoring report
- PRI submission

ES PF East Sussex Pension Fund

Appendix 1

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East Sussex Pension Fund

Investment Performance
Quarter to 31 December 2021

Isio Investment Advisory

Appendix 2

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Highlights

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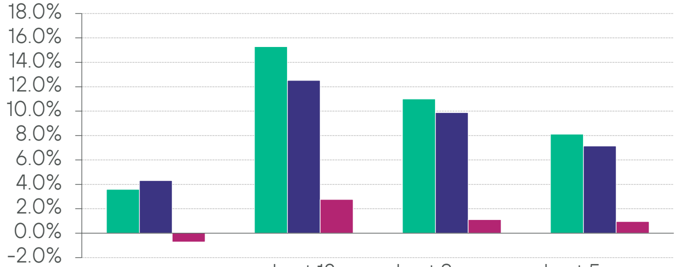
Executive Summary – 31 December 2021

The Fund's assets delivered a positive return of 3.6% over the quarter, underperforming its respective benchmark by 0.7%.

Performance across the Fund's mandates was positive on the whole, with private and public equity mandates delivering the strongest absolute returns.

Access Pool	Fund	Q4 2021 Performance			Value at quarter end	
		Fund	Benchmark	Relative	30-Sept-21	31-Dec-21
Yes	UBS - UK Equity	3.7%	4.2%	-0.5%	£36.2m	£37.5m
Yes	UBS – Global Equity	4.7%	4.7%	+0.0%	£194.4m	£203.6m
Yes	Longview - Global Equity	3.6%	6.2%	-2.6%	£503.1m	£521.3m
No	WHEB – Sustainable Equity	4.2%	7.4%	-3.2%	£246.4m	£256.9m
No	Wellington – Sustainable Equity	2.1%	7.3%	-5.1%	£246.2m	£251.4m
No	Storebrand – Sustainable Equity	7.5%	7.4%	+0.2%	£500.1m	£537.9m
Yes	Baillie Gifford – Global Equity	-0.2%	7.8%	-8.0%	£225.8m	£225.4m
No	Harbourvest – Private Equity[1,2]	4.9%	6.5%	-1.6%	£163.3m	£159.1m
No	Adams Street – Private Equity[1,2]	8.4%	6.5%	+1.9%	£187.2m	£190.3m
Yes	Newton – Absolute Return	4.0%	0.6%	+3.4%	£500.1m	£520.1m
Yes	Ruffer - Absolute Return	1.1%	0.6%	+0.5%	£512.4m	£518.2m
No	Schroders – Property	6.4%	7.5%	-1.1%	£371.9m	£393.7m
No	UBS – Infrastructure[2]	-3.1%	2.9%	-5.9%	£35.3m	£34.2m
No	Pantheon – Infrastructure[2]	0.8%	2.9%	-2.1%	£58.1m	£58.8m
No	M&G - Infrastructure[2]	2.8%	2.9%	-0.0%	£38.9m	£42.0m
No	ATLAS - Listed Infrastructure	5.6%	7.4%	-1.8%	£83.6m	£88.3m
No	M&G – Real Estate Debt[2]	1.0%	1.0%	+0.0%	£37.4m	£38.9m
Yes	M&G – Diversified Credit	-0.5%	0.8%	-1.3%	£291.0m	£289.5m
Yes	M&G - Corporate Bonds	1.6%	1.5%	+0.1%	£160.0m	£162.6m
Yes	UBS - Over 5 Year Index-linked Gilts	5.3%	5.4%	-0.1%	£136.8m	£144.1m
	Total Assets	**3.6%**	**4.3%**	**-0.7%**	**£4,575m**	**£4,741m**

Period returns – to 31 December 2021



	Q4 2021	Last 12 months	Last 3 years (p.a.)	Last 5 years (p.a.)
Scheme Return	3.6%	15.3%	11.0%	8.1%
Benchmark Return	4.3%	12.5%	9.9%	7.2%
Investment Objective	-0.7%	2.8%	1.1%	1.0%

Commentary

- The Fund's assets delivered an absolute return of 3.6% over the quarter, underperforming the benchmark by 0.7%. The majority of mandates returned positive absolute performance; however inflationary pressures and the emergence of the Omicron variant of Covid-19 drove return disparities across asset classes.
- The Fund's private equity mandates continued to deliver strong returns, as lagged portfolio valuations continued to catch up with public markets. Returns across real asset funds were largely positive, given their inflation-linked income streams.
- Equity mandate performance, while positive on the whole, was generally behind benchmark. Notably, the ESG mandates were adversely impacted by the failure to pass a clean energy bill in the US, as well as overall idiosyncratic stock selection.
- Longer term returns at Fund level remain strong, with the Fund's significant allocation to public and private equity markets being particularly beneficial for performance.

Notes: Totals may not sum precisely due to rounding. All returns are net of fees. Unless stated otherwise, all performance figures and objectives provided by Northern Trust as at 31 December 2021. Fund Total value includes cash held with Northern Trust. [1] Valuation and performance information as at 30 September 2021. [2] Valuations shown are either 3m or 6m lagged and adjusted for distributions / drawdowns and currency movements.

Source: Investment Managers, Northern Trust, Isio calculations.

Manager Performance – 31 December 2021

The Table shows manager performance over the short, medium and long-term.

The UBS Infrastructure Fund continues to materially underperform its benchmark across all time periods and should continue to be monitored closely.

The public equity mandates have broadly struggled to add value relative to their benchmarks over the last year.

The private equity mandates have delivered very strong performance over the 1, 3 and 5 year periods.

Fund	Q4 2021 Performance			1 Year Performance			3 Year Performance			5 Year performance		
	Fund	Objective	Relative	Fund	Objective	Relative	Fund	Objective	Relative	Fund	Objective	Relative
UBS - UK Equity	3.7%	4.2%	-0.5%	18.3%	18.3%	-0.1%	8.2%	8.3%	-0.2%	-	-	-
UBS – Global Equity	4.7%	4.7%	+0.0%	16.1%	16.3%	-0.2%	16.8%	17.0%	-0.3%	-	-	-
Longview - Global Equity	3.6%	6.2%	-2.6%	21.1%	19.6%	+1.5%	-	-	-	-	-	-
WHEB - Sustainable Equity	4.2%	7.4%	-3.2%	16.0%	23.5%	-7.5%	-	-	-	-	-	-
Wellington – Sustainable Equity	2.1%	7.3%	-5.1%	12.6%	22.9%	-10.3%	-	-	-	-	-	-
Storebrand – Sustainable Equity	7.5%	7.4%	+0.2%	22.2%	23.5%	-1.3%	-	-	-	-	-	-
Baillie Gifford – Global Equity	-0.2%	7.8%	-8.0%	-	-	-	-	-	-	-	-	-
Harbourvest – Private Equity[1]	4.9%	6.5%	-1.6%	62.6%	21.1%	+41.5%	24.9%	19.4%	+5.5%	21.2%	13.3%	+7.9%
Adams Street – Private Equity[1]	8.4%	6.5%	+1.9%	69.4%	21.1%	+48.3%	27.3%	19.4%	+7.8%	22.0%	13.3%	+8.7%
Newton – Absolute Return	4.0%	0.6%	+3.4%	6.9%	2.6%	+4.3%	-	-	-	-	-	-
Ruffer - Absolute Return	1.1%	0.6%	+0.5%	10.0%	2.6%	+7.5%	-	-	-	-	-	-
Schroders – Property	6.4%	7.5%	-1.1%	17.9%	19.2%	-1.3%	5.6%	6.2%	-0.7%	6.9%	7.1%	-0.2%
UBS – Infrastructure	-3.1%	2.9%	-5.9%	-3.4%	7.4%	-10.8%	-6.2%	4.4%	-10.7%	-3.6%	3.1%	-6.7%
Pantheon – Infrastructure[1]	0.8%	2.9%	-2.1%	23.7%	7.4%	+16.3%	7.5%	4.4%	+3.1%	-	-	-
M&G – Infrastructure	2.8%	2.9%	-0.0%	24.2%	7.4%	+16.8%	6.5%	4.4%	+2.1%	-	-	-
ATLAS – Listed Infrastructure	5.6%	7.4%	-1.8%	11.7%	17.0%	-5.3%	-	-	-	-	-	-
M&G – Real Estate Debt	1.0%	1.0%	+0.0%	6.6%	4.1%	+2.5%	-	-	-	-	-	-
M&G – Diversified Credit	-0.5%	0.8%	-1.3%	-	-	-	-	-	-	-	-	-
M&G - Corporate Bonds	1.6%	1.5%	+0.1%	-4.3%	-4.4%	+0.1%	-	-	-	-	-	-
UBS - Over 5 Year Index-linked Gilts	5.3%	5.4%	-0.1%	4.1%	4.2%	-0.1%	7.7%	7.7%	-0.0%	-	-	-
Total Assets	**3.6%**	**4.3%**	**-0.7%**	**15.3%**	**12.5%**	**2.8%**	**11.0%**	**9.9%**	**1.1%**	**8.1%**	**7.2%**	**1.0%**

Notes: Totals may not sum precisely due to rounding. All returns are net of fees. Unless stated otherwise, all performance figures and objectives provided by Northern Trust as at 31 December 2021.
[1] Valuation and performance information as at 30 September 2021.
Source: Investment Managers, Northern Trust, Isio calculations.

Looking Forward

Summary

This page sets out the main action / discussion points.

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Status key

- Action
- Decision
- Discussion
- Information only

Key issues

Item	Action points / Considerations	Status
Overall Investment Strategy	**Infrastructure Equity Manager Selection** • On Wednesday 26th January 2022, the officer and advisor group attended a manager selection meeting to determine the suitability of two prospective global infrastructure equity managers, IFM and JP Morgan. Isio, IFM and JP Morgan all presented, followed by a discussion of the Fund's options. Following this, it was provisionally agreed that the IFM Global Infrastructure Fund represented the best fit for the Fund's mandate, subject to ratification from the wider Committee. The IWG cited impressive ESG credentials, a strong performance record as well as a slightly more favourable fee structure, among other factors, as rationale for the selection of IFM. This proposal will be discussed further at the Q1 Committee meeting.	Information only
	Fixed Income Allocation Implementation • Isio has prepared a paper detailing the proposed implementation approach for selection of the manager(s) to manage the agreed increased allocation to fixed income. This paper puts forward the proposed allocation and key considerations, a proposed timeline and method for manager selection and implementation, as well as an evaluation criteria with which to assess the prospective managers. The paper will be presented at the Q1 Committee meeting.	Information only
	Investment Manager Correlations • At the November 2021 meeting, the Committee raised concerns around rising inflation, the threat posed by lower central bank and government stimulus going forward, and how the various Fund's investment managers might perform on an absolute and relative basis in such an environment. It was subsequently agreed that Isio would prepare a correlations analysis paper, examining historical correlations between the investment managers. The paper will be presented at the Q1 Committee meeting.	Information only
	Macroeconomic Outlook • Realised and expected Inflation continued to rise over Q3 and Q4 2021 and in early 2022. Short term realised inflation is currently at a 10 year high in the UK and US, and elevated across much of the globe. In an effort to control this, many central banks are beginning to ramp up the tightening of monetary policy, increasing interest rates, and cutting back quantitative easing programmes. Against this backdrop, the macroeconomic outlook is uncertain, as there are general fears that the tightening of monetary policy may constrain future economic growth prospects in what is still a recovering global economy. This has the potential to cause volatility in many financial markets. • Rising inflation was flagged as a key risk to the Fund at the time of the last investment strategy review with a number of the changes, e.g. an increase to infrastructure equity and an allocation to inflation-linked property, intended to further address this risk within the Fund's asset portfolio. This will be discussed further at the Q1 Committee meeting.	Information only

Looking Forward (cont.)

Summary

This page sets out the main action / discussion points.

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Status key

- Action
- Decision
- Discussion
- Information only

Key issues		
Item	**Action points / Considerations**	**Status**
Overall Investment Strategy (cont.)	**Osmosis Resource Efficiency Allocation** • The implementation of the agreed allocation to the Osmosis Resource Efficiency Fund continues to progress with the timeframe for investment expected mid-February 2022. **LIBOR/SONIA Benchmark Transition** • The London Interbank Offered Rate ('LIBOR') has been used as the recognised cash benchmark for a wide range of financial purposes over the last few decades. In recent years a number of failings with LIBOR have emerged, including its position as an estimated (not actual) rate on transactions, and its vulnerability to manipulation. In 2017 the Financial Conduct Authority announced that LIBOR would be phased out by the end of 2021. • In light of LIBOR's phasing out, a number of managers have transitioned to using the Sterling Overnight Index Average rate (SONIA) as their reference rate for benchmarking. SONIA is calculated based on actual transactions, and is believed to be less open to manipulation than LIBOR. We are comfortable with this change and consider these to be relatively like-for-like risk-free rates. The switch in rates is becoming the market standard.	Information only Information only
Investment Managers	• Following the end of the quarter, we were informed of a team change within the Newton multi-asset team. It was announced that Mitesh Sheth (previously CEO of Redington) will join Newton to fill the CIO role of Newton's multi-asset business, which was temporarily being covered by CEO, Euan Munro. We are comfortable with this as it appears a sensible appointment and adds resource to the senior team overseeing the multi-asset business. In addition, we do not expect the change to have a material impact on the Real Return Fund given the team responsible for managing the Fund remains the same. • Given weak UBS infrastructure performance since inception of Fund I due to significant issues with the Southern Water holding, and the significant time left to run on the Fund's investment in Fund III, we propose that UBS continue to be monitored closely. We are working with UBS to improve the level information they are able • We suggest to continue monitoring the Longview Global Equity Fund given recent team changes and propose the Fund conduct a formal review of the position later in 2022.	Discussion Discussion

Market Background

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Market Background – Overview Q4 2021

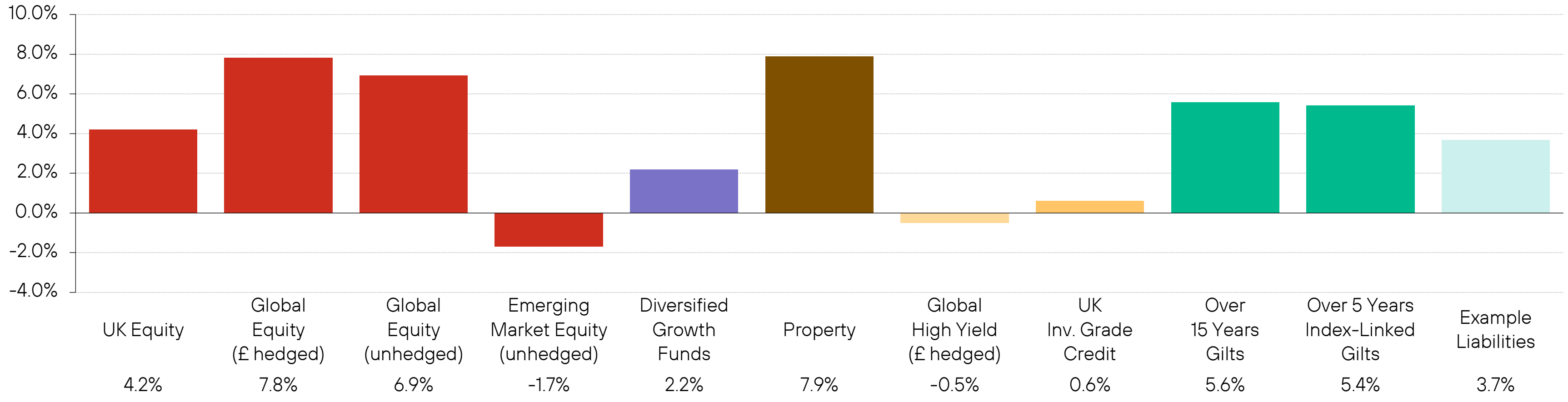
Summary

While market volatility increased in November due to the emergence of the Omicron variant, markets recovered somewhat in December as relatively positive data emerged regarding the severity of the new strain. This eased concerns regarding the scale of potential new lockdown measures required. As such, DM equities delivered positive overall returns for Q4.

Gilt yields fell over Q4, particularly in October, as lower-than-expected future gilt issuance was announced as part of the Budget. Credit spreads widened across markets, providing a drag on corporate bond valuations.

The BofE announced an increase in the UK base rate in December (0.1% to 0.25%) with short term gilt yields rising in the immediate aftermath. Overall, the interest rate curve flattened over Q4, reflecting possible concerns that long term interest rates may need to fall to stimulate future economic growth.

Returns by Asset Class – Q4 2021



Key Upcoming Events

- The dates for the Bank of England's Monetary Policy Committee (MPC) announcements in Q1 2022 are 3 February (MPC vote to increase rates consecutively to 0.5%) and 17 March.
- The dates for the US Federal Reserve's Federal Open Market Committee (FOMC) announcements in Q1 2022 are 26 January and 16 March.

Commentary

- Developed equity market performance was positive over Q4, despite increased volatility in November following the discovery of the Omicron COVID variant. UK equity performance lagged other developed markets due to a higher weighting towards more economically sensitive sectors (such as energy), which struggled to recover from the sell-off in late November. Emerging market ('EM') equities delivered negative returns as lower vaccination rates in these regions led investors to fear further restrictions in light of the new variant; a strengthening US Dollar also weighed on EM performance.
- Similarly, the emergence of Omicron led to credit spreads widening across most bond markets, with relative performance being driven by interest rate sensitivity. For instance, UK investment grade credit outperformed less interest rate sensitive markets (such as high yield) as long-dated interest rates fell.
- Gilt yields fell over the quarter as significantly lower than expected future gilt issuance was announced following the October budget.

Note: Please see Appendix 2 for details of the returns representing each asset class.
Source: Refinitiv, DGF investment managers, Isio calculations.

Market Background – Yields Q4 2021

Summary

These charts show yield movements at the 20-year tenor over the past year.

Gilt Yield Changes:

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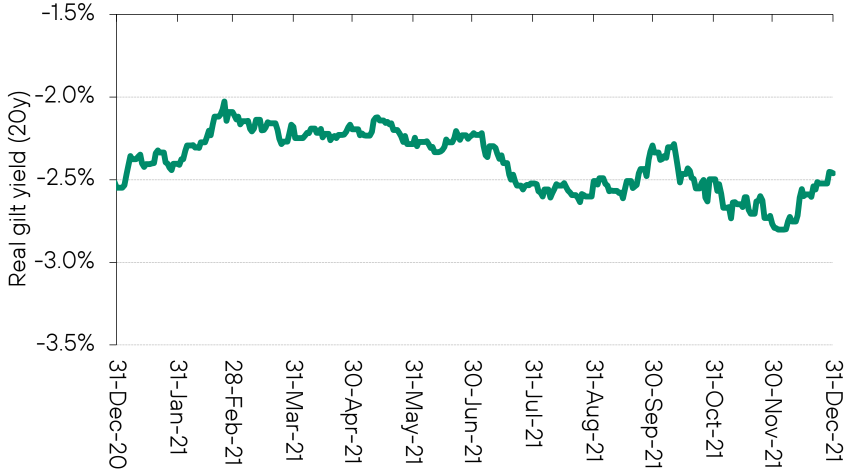
20-year Real Gilt Yield	
October	-0.20%
November	-0.27%
December	0.31%
Quarter	**-0.17%**

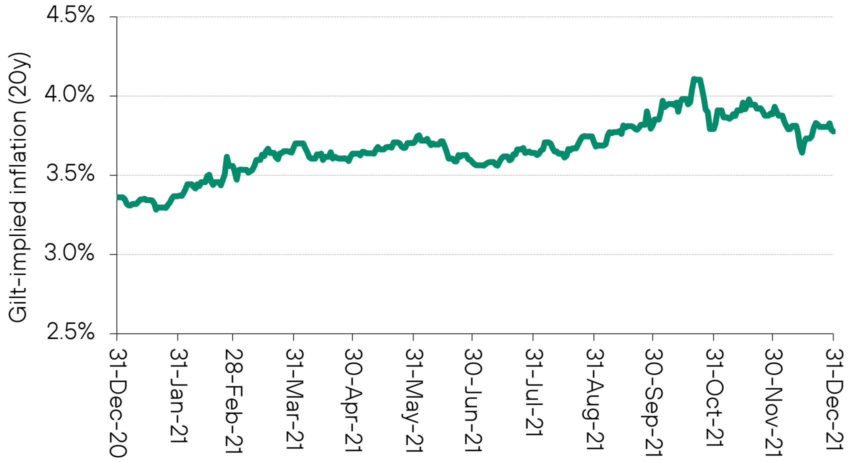
20-year Nominal Gilt Yield	
October	-0.24%
November	-0.19%
December	0.21%
Quarter	**-0.21%**

20-year Gilt-Implied Inflation	
October	-0.03%
November	0.09%
December	-0.11%
Quarter	**-0.04%**

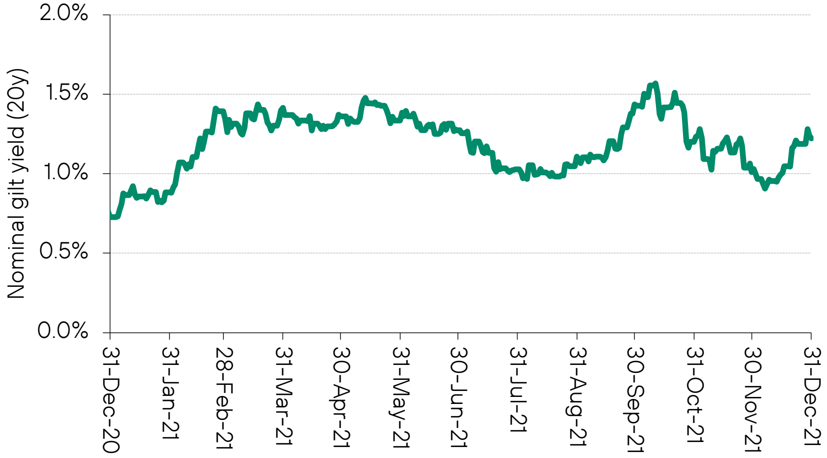
Real Gilt Yields – Last 12 months



Gilt-implied RPI Inflation – Last 12 months



Nominal Gilt Yields – Last 12 months



Note: Please see Appendix 2 for details of the example liabilities. Monthly yield changes may not sum to quarterly changes, due to rounding.
Source: Bank of England, Isio calculations.

Strategy Overview

Asset Allocation – at 31 December 2021

Summary

As at December 2021, the Fund's asset allocation was somewhat off benchmark following strategic changes agreed to the Fund's asset allocation at the July 2021 Committee meeting, which are yet to be implemented.

Allocations will be brought more closely in-line to the revised benchmark as managers for the new mandates are agreed and implemented over the coming quarters.

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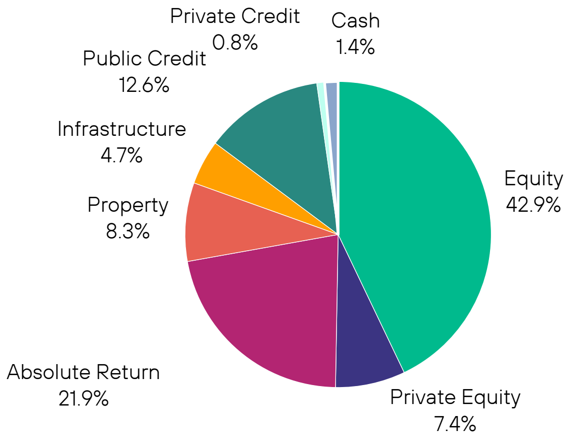
Total Assets

Start of quarter	£4,575m
End of quarter	£4,741m

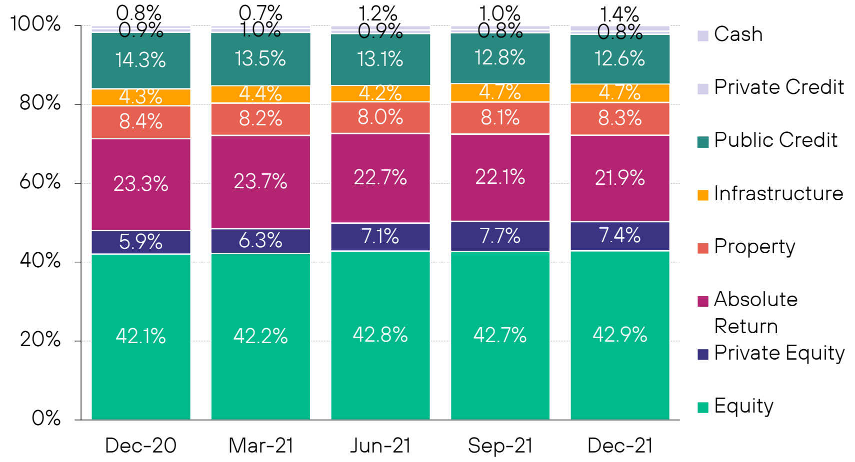
Agreed Target Allocation

Equity	40.0%
Private Equity	5.5%
Absolute Return	17.0%
Balanced Property	7.0%
Inflation-Linked Property	4.0%
Infrastructure	11.0%
Private Credit	5.0%
Diversified Credit	10.5%

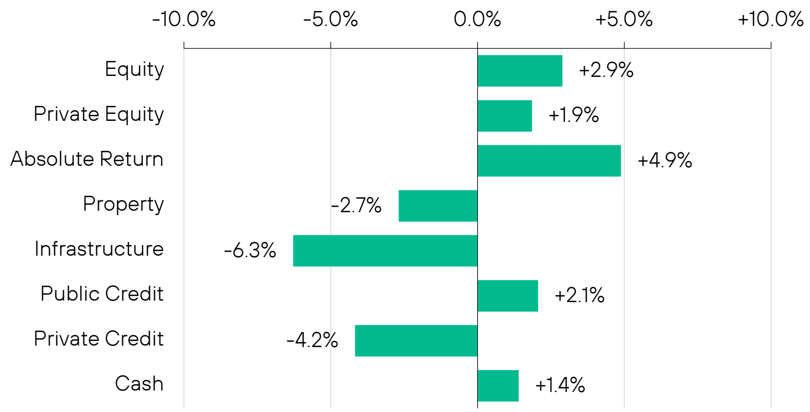
Asset Allocation – 31 December 2021



Asset Allocation Changes Since 31 December 2020



Assets Relative to Benchmark – 31 December 2021



Note: Totals may not sum due to rounding.
Source: Investment managers, Isio calculations.

Commentary

- As at December 2021, the Fund's asset allocation remained misaligned to the target benchmark following the strategic changes agreed at the July 2021 Committee meeting. These changes are outlined below:
  - Reduce: absolute return from 20% to 17%; balanced property from 10% to 7%; corporate bonds and index-linked gilts to 0%.
  - Increase: inflation-linked property allocation to 4% (new allocation); infrastructure equity from 8% to 11%; private credit from 3% to 5%; and diversified credit from 7% to 10.5%.
- The absolute return allocation is materially overweight, while the property, infrastructure and credit allocations remain underweight.
- Equity and private equity are also overweight, following strong performance over the medium term, relative to other risk asset classes.
- The allocations will be brought more closely in line with the strategic benchmark as the new mandates are agreed and implemented over 2022.

Investment Managers

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Performance Summary – to 31 December 2021

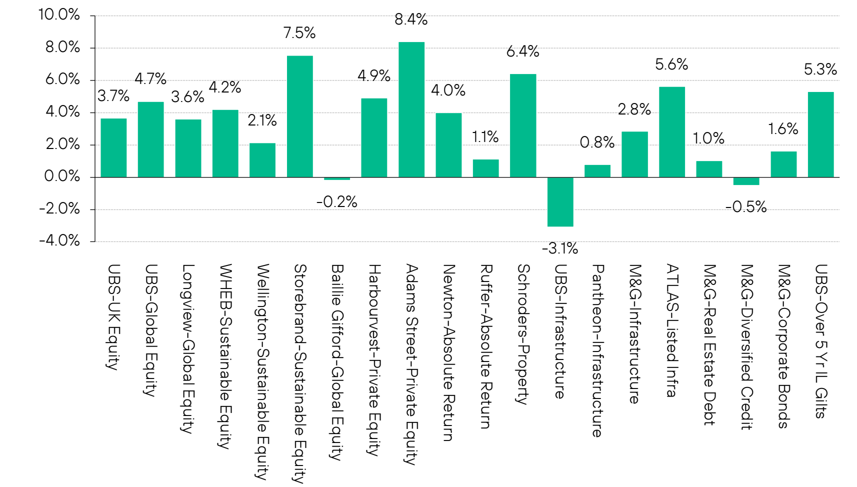
Summary

The majority of the Fund's mandates delivered positive absolute performance over the quarter, with Baillie Gifford, UBS Infrastructure and M&G Diversified Credit proving to be exceptions.

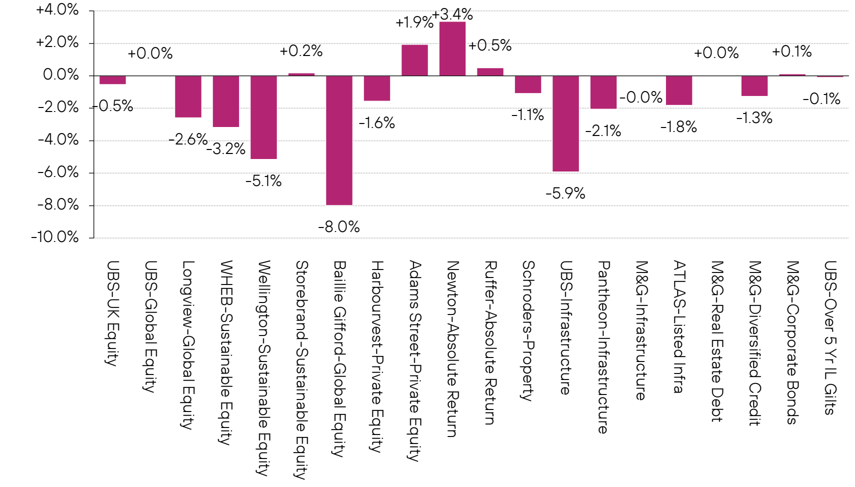
The Fund's private and public equity mandates posted the strongest absolute returns over Q4, benefitting from positive broad market sentiment.

Relative performance has been mixed over the short and medium term, with the sustainable equity funds and UBS infrastructure struggling in particular to keep pace with their respective benchmarks.

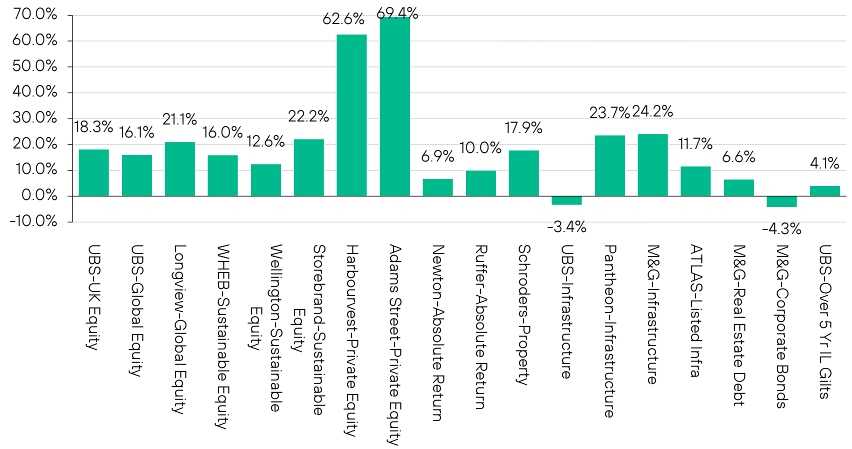
Absolute Return – Q4 2021



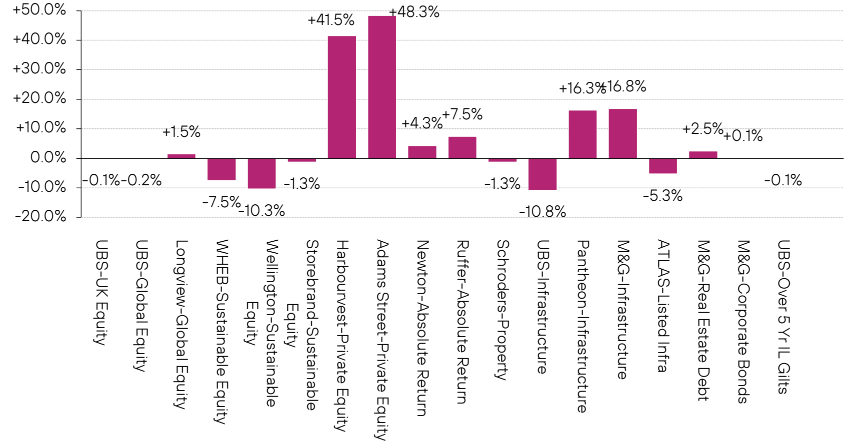
Relative Return – Q4 2021



Absolute Return – 12 months



Relative Return – 12 months



Note: Returns net of fees. 12 month relative and absolute returns are not available for the Baillie Gifford and M&G Diversified Credit mandates as they were incepted post 31 December 2020.
Source: Investment Managers, Northern Trust, Isio calculations.

UBS – Global Equity

Mandate: Passive Equities

Current Value: £241.1m

Current Weighting: 5.1%

Inception: UK Equities – December 2017 & Global Equities January 2018

Objective: To track their respective underlying respective regional equity benchmarks

Pooled: Via Access Pool

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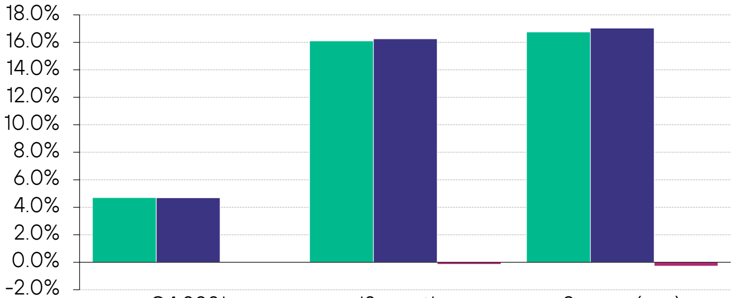
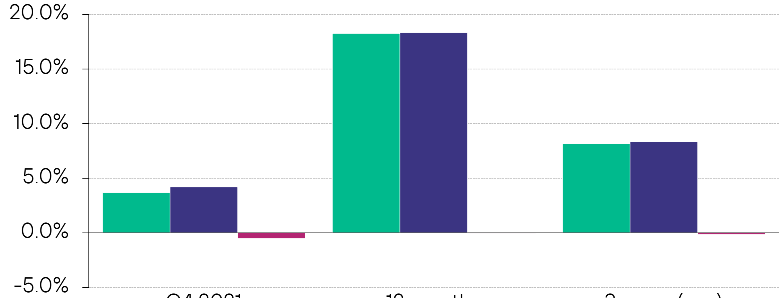
Global Performance to 31 December 2021



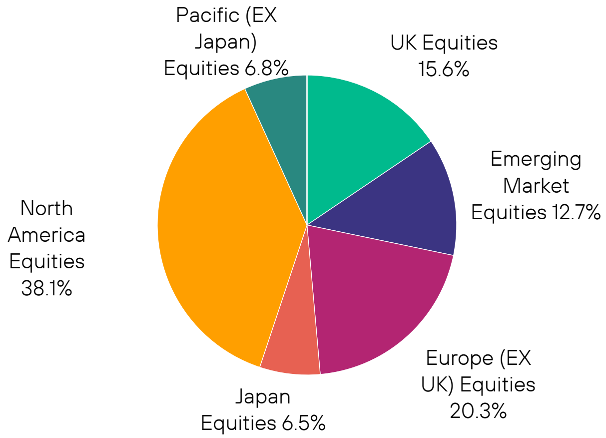
	Q4 2021	12 months	3 years (p.a.)
Return	4.7%	16.1%	16.8%
Benchmark	4.7%	16.3%	17.0%
Relative	+0.0%	-0.2%	-0.3%

UK Equities Performance to 31 December 2021



	Q4 2021	12 months	3 years (p.a.)
Return	3.7%	18.3%	8.2%
Benchmark	4.2%	18.3%	8.3%
Relative	-0.5%	-0.1%	-0.2%

Geographic Exposure as at 31 December 2021



Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Commentary

- Both UBS equity mandates delivered positive performance, in line with their respective benchmarks, over the period.
- Equity markets experienced further volatility over the quarter, as the emergence of the Omicron variant of Covid-19 and fears over the impact of rising inflation (and consequent monetary tightening) impacted investor sentiment. However markets recovered relatively quickly, as data indicated the lower severity of the new variant.
- The US was the strongest performing region, as robust corporate earnings and economic stability outweighed concerns around the emergence of Omicron. UK equities also delivered positive returns, however stricter 'Plan B' restrictions limited the recovery of sectors such as travel and leisure from November volatility.
- Emerging market and Asian equities delivered negative returns, as lower vaccination rates in these regions resulted in concerns around renewed restrictions being required to combat the Omicron variant.

Longview - Global Equity

Mandate: Active Global Equities

Current Value: £521.3m

Current Weighting: 11.0%

Inception: April 2013

Objective: Outperform benchmark by 3% (gross) p.a. over rolling 3 year periods.

Benchmark: MSCI ACWI

Pooled: Via Access Pool

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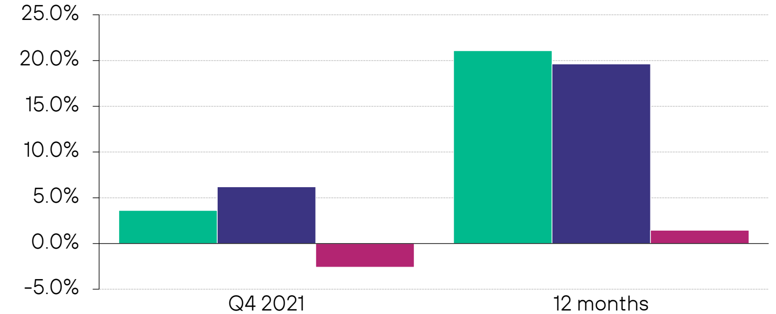
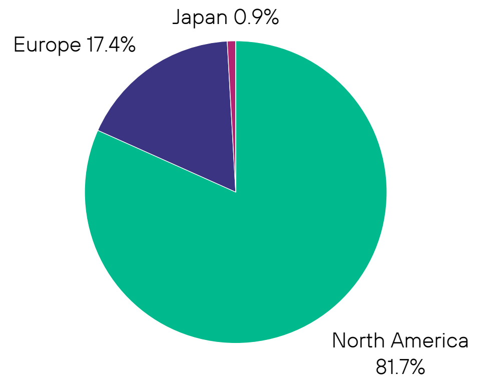
Longview Global Equity Performance to 31 December 2021

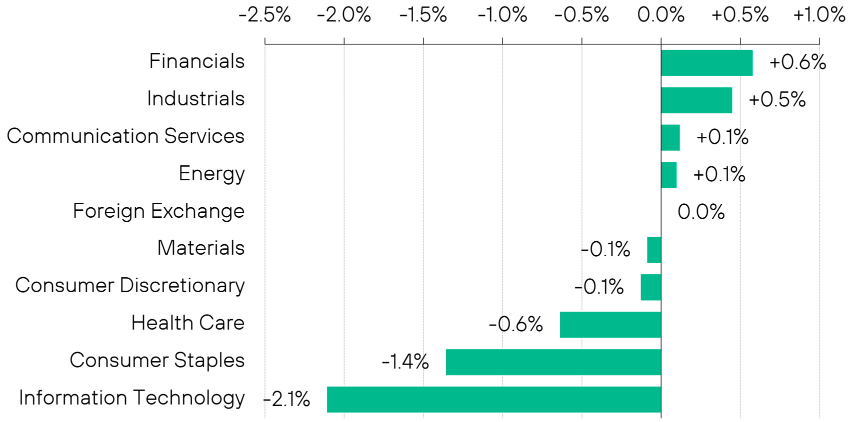


	Q4 2021	12 months
Return	3.6%	21.1%
Benchmark	6.2%	19.6%
Relative	-2.6%	+1.5%

Geographic Allocation at 31 December 2021



Performance Attribution as at 31 December 2021



Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Commentary

- The Fund delivered a positive absolute return over the quarter, however has underperformed the benchmark over the short and medium term. Short term underperformance is not surprising, given the Fund's underweight positioning in certain mega cap technology stocks, which underpinned market returns over Q4.
- Q4 underperformance was driven by stock selection within IT and consumer staples. In particular, not owning Apple, Microsoft and Nvidia detracted c. -2.0%, with all three performing strongly. Within consumer staples, Henkel detracted, as the firm absorbed significant cost inflation. Longview subsequently reduced the exposure to this stock over the period.
- Longview continue to seek out high quality names, which are less sensitive to factors such as inflation and interest rates, two key market themes going into 2022.
- As a reminder, the Fund invests in a concentrated portfolio (34 stocks as at 31 December), based on a 'bottom-up' approach. The portfolio is underweight to cyclical sectors such as energy and consumer discretionary, and overweight to the US.

WHEB – Sustainable Equity

Mandate: ESG focused Global Equity

Current Value: £256.9m

Current Weighting: 5.4%

Inception: December 2020

Benchmark: MSCI World Total Return Net GBP

Objective: To achieve capital growth over the medium to longer term.

Pooled: No

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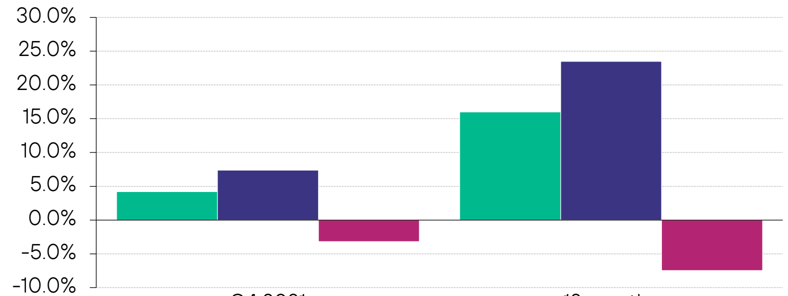
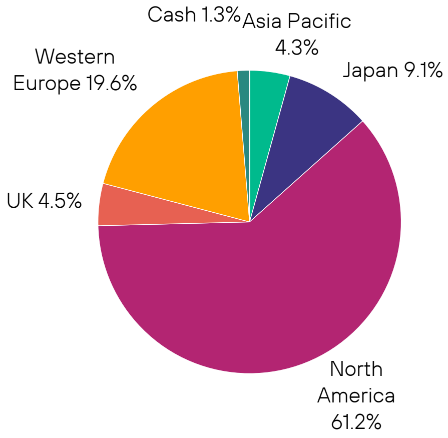
WHEB – Sustainability Fund Performance to 31 December 2021

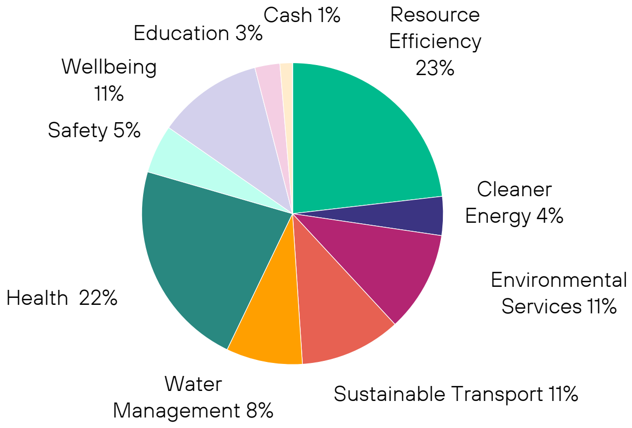


	Q4 2021	12 months
Return	4.2%	16.0%
Benchmark	7.4%	23.5%
Relative	-3.2%	-7.5%

Geographic Allocation at 31 December 2021



Impact Positioning at 31 December 2021



Commentary

- The Fund returned 4.2% over the quarter, underperforming the benchmark by 3.2%. The portfolio's high active share and WHEB's benchmark-agnostic approach means that periods of material underperformance are not unexpected, and the Fund's success should ultimately be judged over the long term.
- Q4 Underperformance was driven largely by the Clean Energy theme, with stocks in the sector impacted by difficulties in passing the US 'build back better' bill (which included c. $500bn of clean energy funding). In Wellbeing, HelloFresh weighed on returns, with near term margins expected to fall as the firm tries to meet rising demand.
- By contrast, the Resource Efficiency theme was the largest positive contributor, as names such as Silicon Labs and AO Smith posted strong financial results.
- WHEB purchased Fisher & Paykel for the Health theme, with the firm operating in the acute and respiratory care sector. WHEB note that the company's recurring revenue streams and strong market positioning are key attractive characteristics.

Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Wellington – Sustainable Equity

Mandate: Global Impact Equities

Current Value: £251.4m

Current Weighting: 5.3%

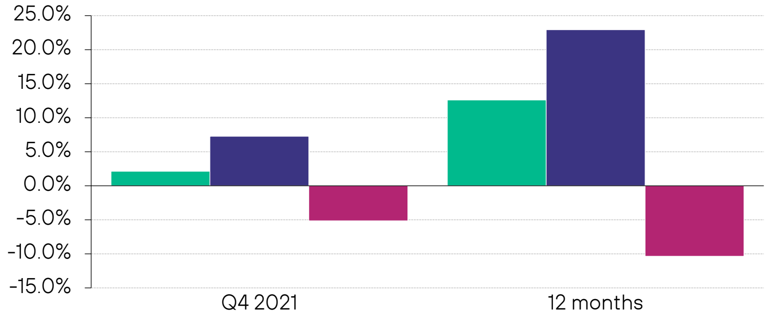
Inception: December 2020

Benchmark: MSCI AC World

Objective: To outperform the MSCI All Country World Index over the long-term.

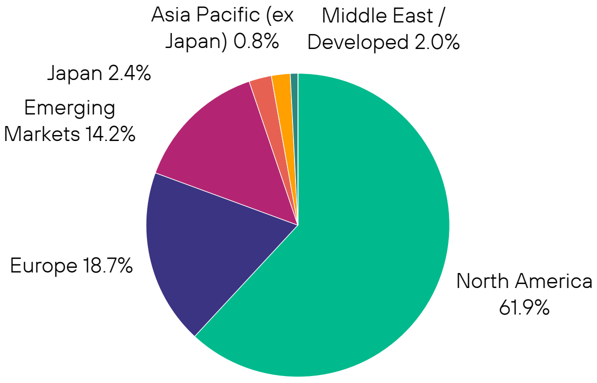
Pooled: No

Performance to 31 December 2021

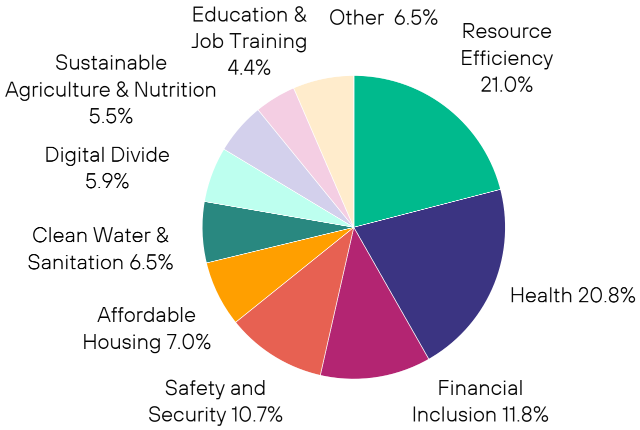


	Q4 2021	12 months
Return	2.1%	12.6%
Benchmark	7.3%	22.9%
Relative	-5.1%	-10.3%

Geographic Allocation at 31 December 2021



ESG Theme Distribution at 31 December 2021



Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Commentary

- Q4 relative performance was largely driven by stock selection (as is expected given the Fund's process), with holdings in healthcare, technology and consumer discretionary underperforming their sector benchmarks. The underweight position to technology also weighed on relative returns. Short term periods of material underperformance are not unexpected, given the active share and high tracking error of the Fund.
- High growth names such as Apple, Tesla and Block weighed on relative performance, with the first two stocks strong performing constituents of the benchmark (but not the Fund). Investors in Block reacted negatively to its rotation away from key revenue driver, payment services, while its performance was also impacted by increased competition. Wellington added to the position, based on strong conviction around its long term growth prospects.
- The team divested the position in Hapvida Participacoe (Brazilian healthcare firm), based on the belief that the current valuation did not fully reflect risk. The company had a deal blocked by the Brazilian antitrust watchdog due to failure to comply with structural remedies imposed when the deal was initially approved in February 2021.

Storebrand – Sustainable Equity

Mandate: ESG Focused Global Equities

Current Value: £537.9m

Current Weighting: 11.4%

Inception: December 2020

Benchmark: MSCI World NR

Objective: Reproduce risk-return profile of the MSCI World Index

Pooled: No

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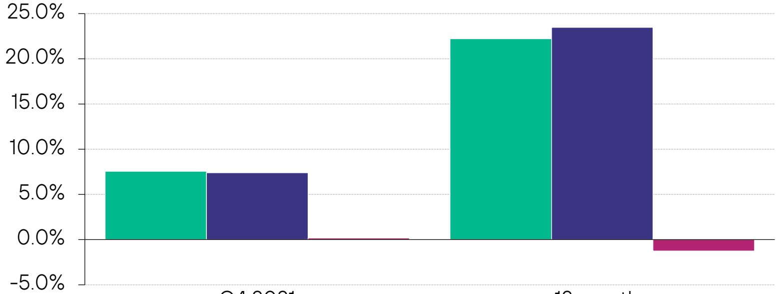
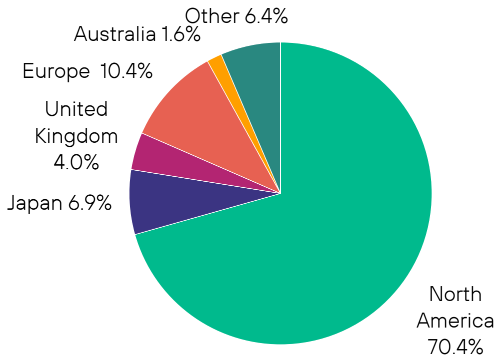
Performance to 31 December 2021

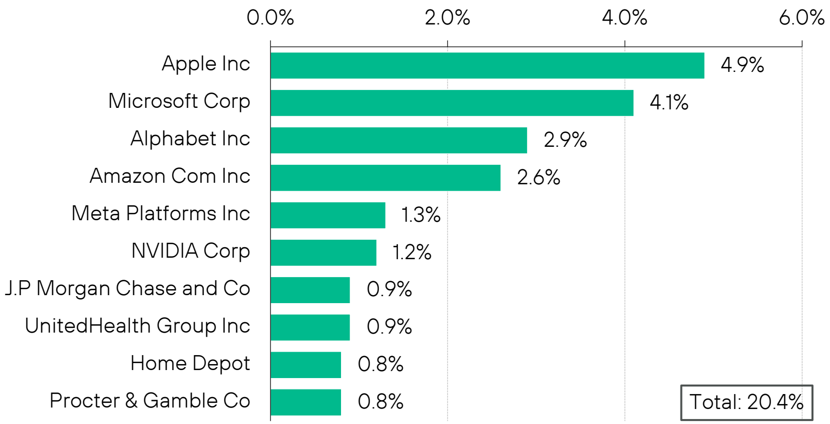


	Q4 2021	12 months
Return	7.5%	22.2%
Benchmark	7.4%	23.5%
Relative	+0.2%	-1.3%

Geographic Allocation at 31 December 2021



Top 10 Holdings as at 31 December 2021



Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Commentary

- The Fund delivered absolute performance of 7.5% over the quarter, marginally lagging the benchmark. The magnitude of relative performance continues to be broadly in line with our expectations, given the risk-controlled nature of the investment process.
- The strongest contributor to relative returns came from the strategy's optimisation, whereby it overweights companies Storebrand feel are best positioned to benefit from aligning to the Paris agreement, but are not 'pure-play climate solution' companies.
- By contrast, relative underperformance was driven by exposure to holdings directly focussed on tackling the climate crisis. Low carbon transportation was negatively impact by Covid-related delays in returning normal travel patterns, while the renewable energy sector suffered as a result of the failure to pass the climate mitigation package as part of the 'build back better' bill in the US.
- Storebrand note the uncertain macroeconomic outlook, highlighting the balance between inflationary pressures and the need to achieve growth in sectors such as renewables. Relations between US and China, as well as the outcome of Biden's Build Back Better plan are noted as additional risk factors.

Baillie Gifford – Global Equity

Mandate: Global Equities

Current Value: £225.4m

Current Weighting: 4.8%

Inception: August 2021

Benchmark: MSCI AC World Index (GBP)

Objective: Outperform benchmark by 2.0% p.a. (net of fees) over rolling 5-year periods

Pooled: Via Access Pool

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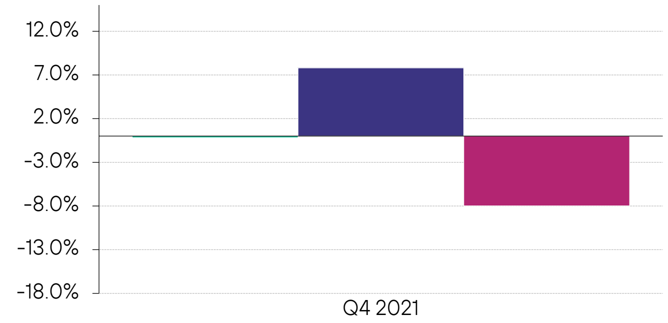
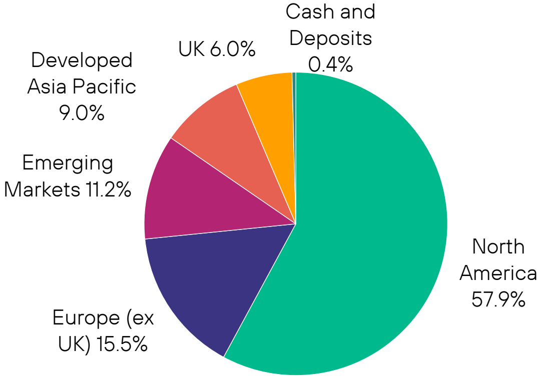
Performance to 31 December 2021

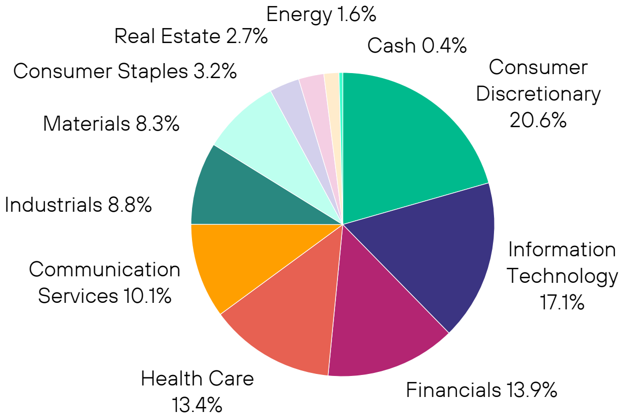


	Q4 2021
Return	-0.2%
Benchmark	7.8%
Relative	-8.0%

Geographic Allocation at 31 December 2021



Sector Allocation as at 31 December 2021



Commentary

- The Fund has underperformed its benchmark over the quarter primarily due to holdings being impacted by concerns surrounding rising rates and China's regulatory intervention.
- Moderna was a top contributor to performance over 2021 but a key detractor over Q4. BG note that the company has become sensitive to news flow relating to the Covid-19 vaccine which proved to be a headwind in Q4. However, BG remain confident over the long term opportunity when looking at the other treatments it has in its pipeline.
- Following market volatility the Fund added two new positions to the portfolio, Chewy (online pet superstore) and Coupang (South Korean e-commerce). Conversely, they completed a number of sales over the quarter, primarily due to a weakening of the underlying investment thesis. One of which, was the sale of Ping AM, that was sold due to the ongoing uncertainty surrounding China's heightened regulations
- BG are aware that current market conditions may prove unfavourable for the Fund's underlying holdings, but they continue to support companies they consider long-term winners while continuing efforts to broaden and diversify the portfolio.

Note: Totals may not sum due to rounding. Performance quoted net of fees. Performance shown since inception of the Fund's investment on 11 August 2021.
Source: Investment manager, Northern Trust, Isio calculations.

Harbourvest – Private Equity

Mandate: Private Equity

Current Value: £159.1m

Current Weighting: 3.4%

Inception: January 2003

Benchmark: MSCI World +1.5%

Objective: MSCI World +3.0%

Pooled: No

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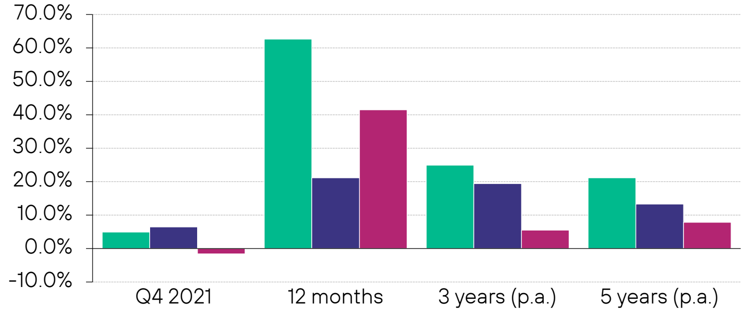
Harbourvest	Market Value at start (£m)	Drawdowns over quarter (£m)	Distributions over quarter (£m)	Market Value at end (£m)
HIPEP IV SUPPLEMENTAL EUROPEAN COMPANIONFUND	0.1	-	-	0.1
HARBOURVEST PTRS VIII - CAYMAN VENTURE FUND	1.9	-	0.2	1.8
HARBOURVEST INTL PEP V - CAYMAN PSHP FD	1.5	-	-	1.4
HARBOURVEST PTRS VIII - CAYMAN BUYOUT FUND	1.5	-	0.4	1.2
HARBOURVEST PARTNERS IX- CAYMAN BUYOUT FUND	14.3	-	1.4	13.8
HARBOURVEST PARTNERS XI AIF	20.7	-1.8	1.6	24.0
HARBOURVEST INTL PEP VI - CAYMAN PSHP FUND	18.7	-	2.1	15.9
HIPEP VII (AIF) PARTNERSHIP FUND LP	17.3	-	1.3	16.7
HIPEP VIII (AIF) PARTNERSHIP FUND LP	20.5	-0.9	0.9	21.7
HARBOURVEST PARTNERS CAYMAN CLEANTECH FUND I	16.7	-	0.6	16.8
HARBOURVEST PARTNERS CAYMAN CLEANTECH FUND II	30.0	-0.6	4.0	26.5
DEFAULT ISSUER HARBOURVEST PTNS VII CAYMAN BUYOUT FD LP	0.0	-	-	0.0
HARBOURVEST PTRS VIII - CAYMAN MEZZANINEAND DISTRESSED DEBT FD	0.1	-	-	0.1
HARBOURVEST PTRS VII - CAYMAN VENTURE FUND	0.4	-	0.2	0.2
HARBOURVEST PARTNERS VII - CAYMAN MEZZANINE FUND	0.0	-	-	0.0
HARBOURVEST PARTNERS IX CAYMAN VENTURE FUND	14.4	-	1.5	14.9
HARBOURVEST PARTNERS IX CAYMAN CREDIT OPPORTUNITIES FUND	1.6	-	0.2	1.5
HIPEP IX AIF SCSP	-	-1.4	-	1.3

Note: Totals may not sum due to rounding. Performance quoted net of fees. Harbourvest valuations are lagged by 3 months.
Source: Investment manager, Northern Trust, Isio calculations.

Performance to 31 December 2021



	Q4 2021	12 months	3 years (p.a.)	5 years (p.a.)
Return	4.9%	62.6%	24.9%	21.2%
Benchmark	6.5%	21.1%	19.4%	13.3%
Relative	-1.6%	+41.5%	+5.5%	+7.9%

Commentary – 3 Month Lagged

- The HarbourVest portfolio delivered more modest performance relative to recent quarters, and marginally underperformed the public markets benchmark. Performance did however continue to be underpinned by broad market strength across private equity, with the macro-environment proving to be supportive for existing holders / sellers of assets.
- Distribution activity remained healthy across the portfolio, with a number of the Fund's holdings in the 'wind down' phase. At a market level, exit activity was robust, as managers looked to crystalise profits in the upward trending market environment.
- The HarbourVest mandate has added significant value for the Fund, with long term performance ahead of the Isio return assumption for the asset class (Gilts + 6.5% p.a.).
- The suitability of current and future commitments to the mandate was last considered in early 2021. The more recently committed to allocations should continue to be monitored in detail going forwards.

Adams Street – Private Equity

Mandate: Private Equity

Current Value: £190.3m

Current Weighting: 4.0%

Inception: March 2003

Benchmark: MSCI World +1.5%

Objective: MSCI World +3.0%

Pooled: No

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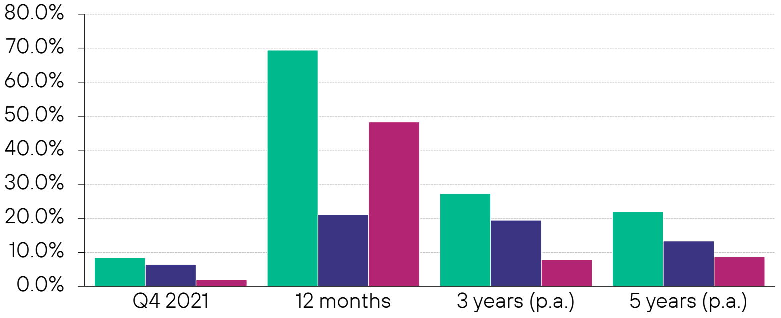
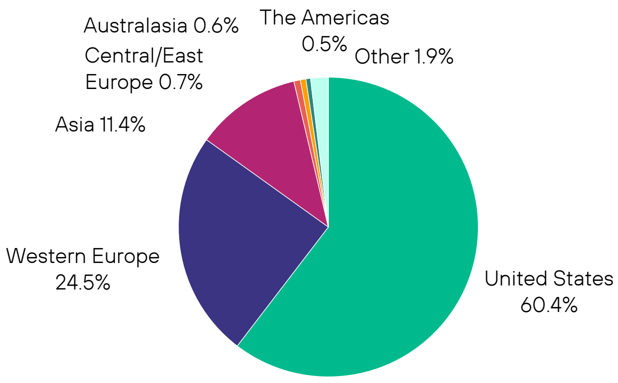
Performance to 31 December 2021



	Q4 2021	12 months	3 years (p.a.)	5 years (p.a.)
Return	8.4%	69.4%	27.3%	22.0%
Benchmark	6.5%	21.1%	19.4%	13.3%
Relative	+1.9%	+48.3%	+7.8%	+8.7%

Adams Street	Market Value at start (£m)	Drawdowns over quarter (£m)	Distributions over quarter (£m)	Market Value at end (£m)
Adams Street Feeder Funds (Global 2014-2019)	94.5	5.8	5.5	104.7
Adams Street Feeder Funds (Regional 2013)	29.4	-	2.0	30.4
Adams Street Offshore Co. Ltd Funds (Co-Investment)	1.9	0.0	0.1	1.9
Adams Street Offshore Co. Ltd Funds (Direct 2007-2011)	5.6	0.0	0.4	5.7
Adams Street Offshore Co. Ltd Funds (US 2003-2011)	24.3	0.0	4.1	22.1
Adams Street Offshore Co. Ltd Funds (non-US 2003-2011)	29.9	0.0	4.6	25.0

Geographical Exposure as at 30 September 2021



Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Commentary – 3 Month Lagged

- The Adams Street portfolio continues to add significant value over the short and medium term, which is in line with expectations given the strength of performance from broad private equity and venture capital markets.
- There were several new investments made over the quarter, with material drawdown of capital into the Global 2014-19 Fund. The portfolio remains relatively well diversified between buyout and venture capital deals, and also by geography (albeit with material exposure to the US).
- Given the current elevated pricing environment, we note that selective deal sourcing and in depth due diligence remains vital for private equity managers. Adams Street share this sentiment and note that portfolio construction is becoming slightly more defensive given the backdrop of strengthening competition for deals.
- The Adams Street mandate has added significant value for the Fund, with long term performance ahead of the Isio return assumption for the asset class (Gilts + 6.5% p.a.). The more recently committed to allocations should continue to be monitored in detail going forwards.

Newton – Absolute Return

Mandate: Diversified Growth Fund

Current Value: £520.1m

Current Weighting: 11.0%

Inception: April 2010

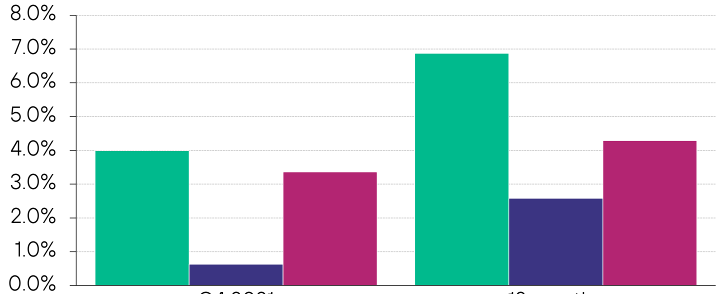
Benchmark: 3 Month LIBOR+2.5%

Objective: 3-month LIBOR + 4% p.a. (gross) over rolling 5 years

Pooled: Via Access Pool

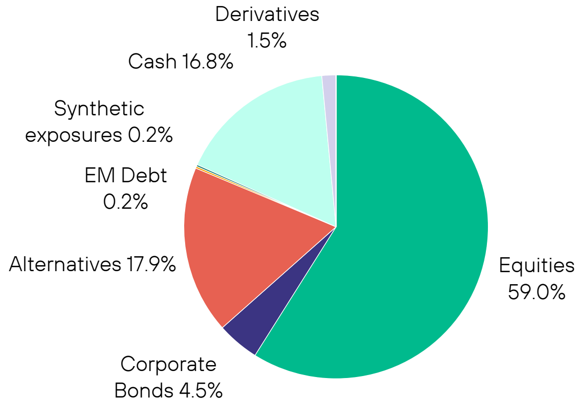
Following the end of the quarter, we were informed of a team change within the Newton multi-asset team. Mitesh Sheth will join Newton to fill the CIO role of Newton's multi-asset business, which was temporarily being covered by CEO, Euan Munro. We are comfortable with this as it appears a sensible appointment and we do not expect the change to have a material impact on the Real Return Fund given the team responsible for managing the Fund remains the same.

Performance to 31 December 2021

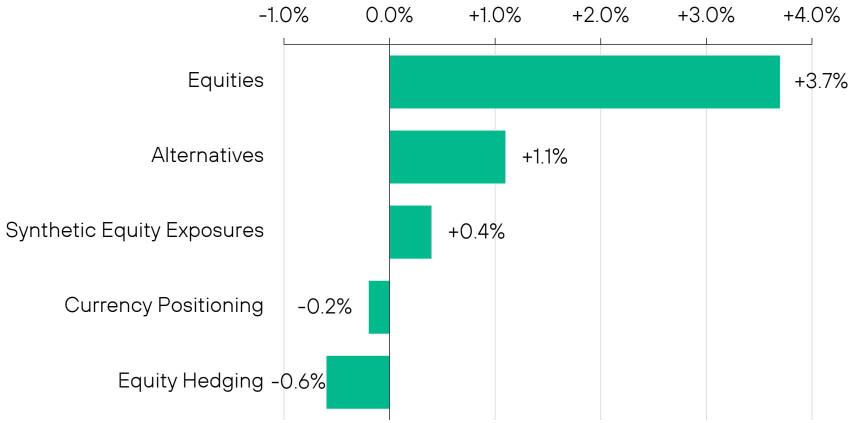


	Q4 2021	12 months
Return	4.0%	6.9%
Benchmark	0.6%	2.6%
Relative	+3.4%	+4.3%

Sector Allocation at 31 December 2021



Contributors to Performance to 31 December 2021



Note: Totals may not sum due to rounding. Performance quoted net of fees. Cash contribution includes currency hedging.
Source: Investment manager, Northern Trust, Isio calculations.

Commentary

- The Fund's performance was ahead of its peers through Q4, and remains towards the top of the peer group over longer time periods. Equities were the main driver of performance while alternatives also contributed positively through commodities exposure and an investment in carbon pricing which benefitted from increased demand for carbon credits. Equity protection strategies, in contrast caused a performance drag as these markets rallied.
- Over Q4, the Fund reduced its net exposure to equity by c.12% while rotating exposures away from highly priced growth stocks (such as technology) towards financials and commodities. The Fund currently holds no government bonds or precious metals in its stabilising assets allocation given current pricing levels, relying on equity protection strategies and significant cash allocation of c.17% to dampen volatility. Newton noted the cash also means they have 'dry powder' should opportunities present themselves.
- Newton believe economic growth will continue over the next year but are aware that governments will struggle to balance economic growth with higher inflation, expecting returns to be more muted than 2021, with increased volatility in markets.

Ruffer – Absolute Return

Mandate: Diversified Growth Fund

Current Value: £518.2m

Current Weighting: 10.9%

Inception: April 2010

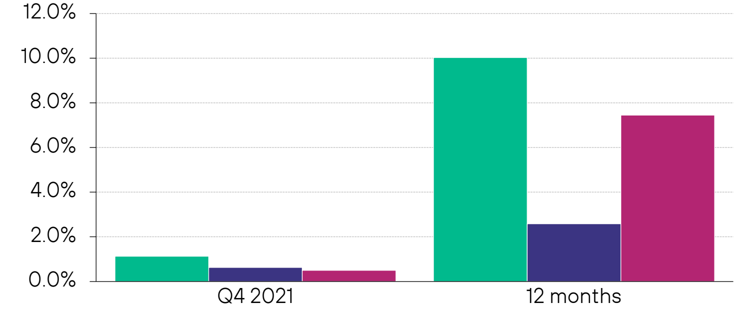
Benchmark: 3-month LIBOR + 2.5%

Objective: 3-month LIBOR + 4% p.a. (gross) over rolling 5 years

Pooled: Via Access Pool

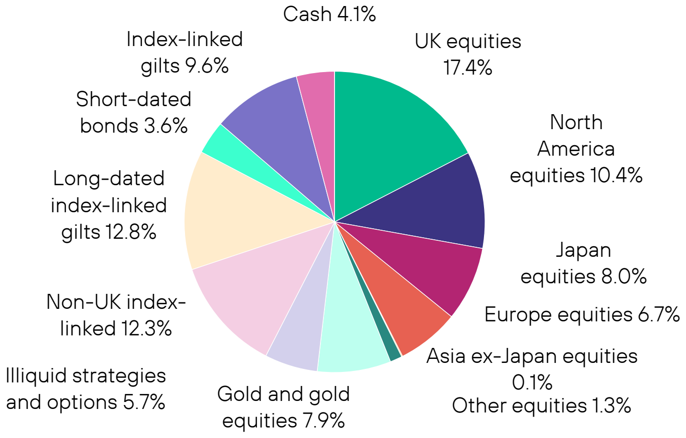
Ruffer has recently announced a number of senior departures at a business level which will not impact the ongoing management of the Fund. These appear to be for unrelated reasons and Ruffer is planning to fill these roles with existing members of the team, therefore we do not have any immediate concerns. We will continue to monitor the situation.

Performance to 31 December 2021

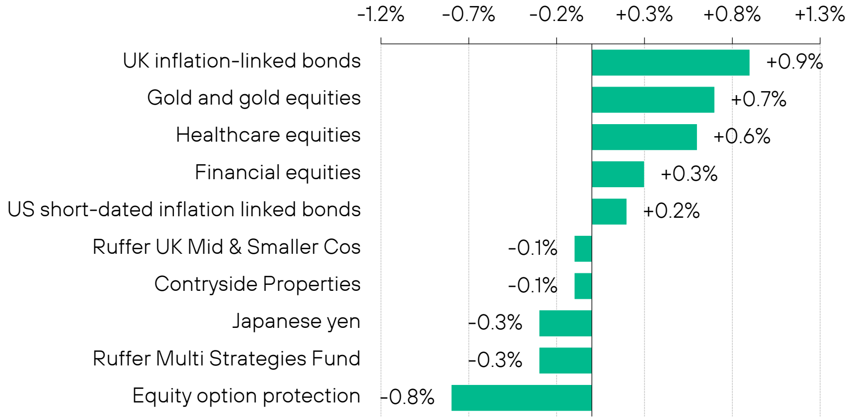


	Q4 2021	12 months
Return	1.1%	10.0%
Benchmark	0.6%	2.6%
Relative	+0.5%	+7.5%

Asset Allocation at 31 December 2021



Contributors to Performance at 31 December 2021 [1]



Note: Totals may not sum due to rounding. Performance quoted net of fees. [1] Chart shows the top 5 and bottom 5 contributors to performance.

Source: Investment manager, Northern Trust, Isio calculations.

Commentary

- The largest contributor to performance in Q4 were equities (in totality) as the Fund's investments in global pharmaceuticals (a sector Ruffer characterises as lowly valued but defensive) performed strongly. Interest rate options (which benefit from rising interest rates) were the main detractor as nominal yields fell, but this benefitted the index-linked bonds allocation helping to offset the impact.
- Ruffer took profits from energy and financials stocks, rotating towards healthcare equities. They increased allocations to gold, credit protection and equity option protection to manage risk as accommodative monetary policy is removed. Ruffer also reduced the portfolio's sensitivity to interest rates (Duration) believing interest rates will have to rise to curb inflation.
- Ruffer has long flagged its belief that higher inflation was due which proved prescient. They now expect inflation to be volatile as the impact of energy price rises & car prices (US) currently driving inflation 'drop out' of y/y inflation. They therefore continue to hold assets offering inflation protection such as Inflation Linked Bonds and Gold.

Schroders - Property

Mandate: Balanced Property

Current Value: £393.7m

Current Weighting: 8.3%

Inception: December 2009

Benchmark: IPD All Balanced Fund Index

Objective: Outperform benchmark by 0.75% p.a. (net) over rolling 3 years

Pooled: No

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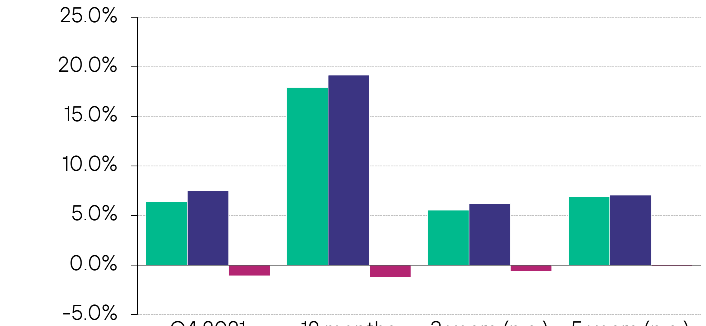
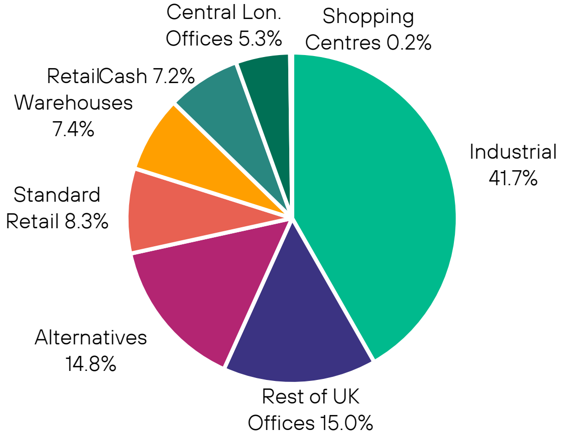
Performance to 31 December 2021

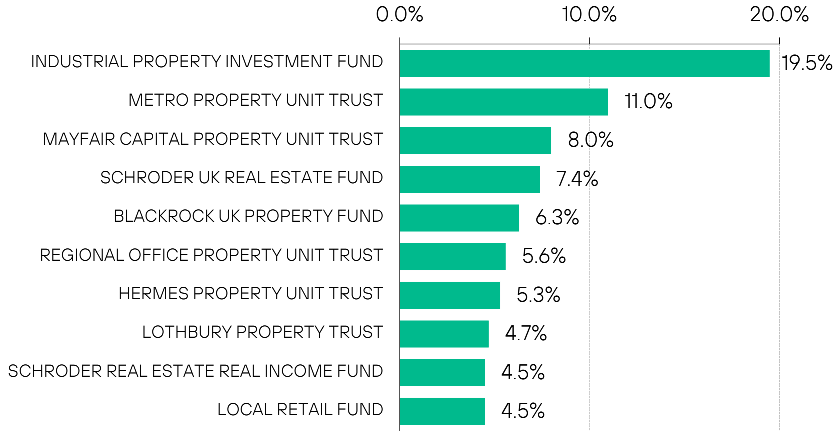


	Q4 2021	12 months	3 years (p.a.)	5 years (p.a.)
Return	6.4%	17.9%	5.6%	6.9%
Benchmark	7.5%	19.2%	6.2%	7.1%
Relative	-1.1%	-1.3%	-0.7%	-0.2%

Sector Allocation at 30 September 2021



Top 10 Holdings as at 30 September 2021



Commentary

- The Fund delivered a strong absolute return of 6.4% over the quarter, underperforming the event stronger benchmark by 1.1%.
- The weaker relative performance over the quarter was a result of balanced holdings, cash and the defensive allocation within the portfolio (via investments such as convenience retail) which dampen returns in a very strong wider market but will be accretive in periods of weaker returns.
- The team were active over the quarter, using cash that had built up in the Fund to invest, making several transactions with c. £10.6m of acquisitions and no sales. The Fund acquired units in: Hermes Property Unit Trust (c£2m), Local Retail Fund (c£1.1m), Multi-let Industrial Property unit Trust (c£1.4m) and Schroder Special Situation Fund (c£6.2m).
- Industrial Property Investment Fund (IPIF) and UK Retail Warehouse Fund (UKRWF) were the strongest contributors over the quarter following further yield compression and rental growth in the industrial sector.

Note: Totals may not sum due to rounding. Performance quoted net of fees. Within the portfolio sector allocation, cash also includes cash held within the underlying funds.
Source: Investment manager, Northern Trust, Isio calculations.

UBS - Infrastructure

Mandate: Infrastructure

Current Value: £34.2m

Current Weighting: 0.7%

Inception: January 2008

Benchmark: CPI + 2.0%

Objective: CPI + 3%

Pooled: No

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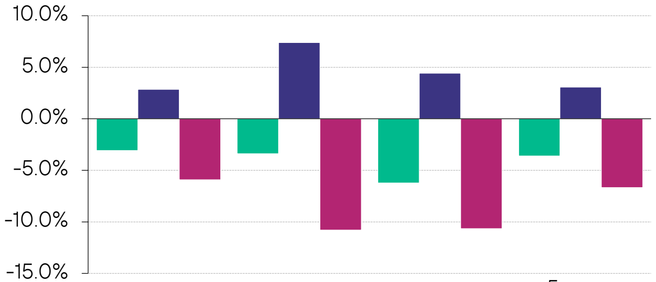
The UBS infrastructure funds should be monitored closely going forward.

Performance to 31 December 2021

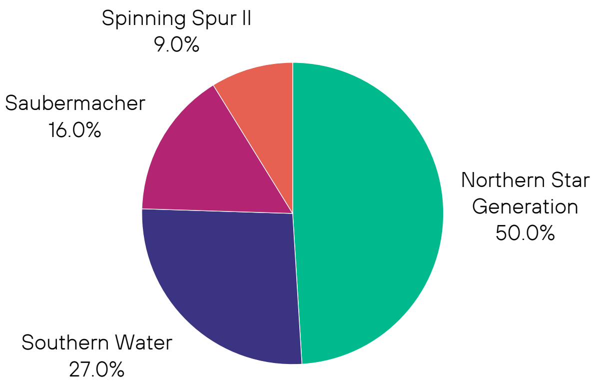


	Q4 2021	12 months	3 years (p.a.)	5 years (p.a.)
Return	-3.1%	-3.4%	-6.2%	-3.6%
Benchmark	2.9%	7.4%	4.4%	3.1%
Relative	-5.9%	-10.8%	-10.7%	-6.7%

Commitments and Distributions to 30 September 2021 [1]

UBS	Fund I	Fund III
Total Commitment ($m)	35.0	50.0
Commitment Drawn ($m)	33.3	32.6
Distributions ($m)	23.9	13.1
Outstanding Commitment ($m)	1.7	17.4
Estimated Market Value (£m)[2]	9.5	24.7

Underlying Asset Split as at 30 September 2021



Note: Totals may not sum due to rounding. Performance quoted net of fees. [1] Figures as at 30 September 2021 due to lagged year end reporting. 2 Estimated £ market value as at end December 2021, based on Northern Trust valuation and estimate split between the two funds.
Source: Investment manager, Northern Trust, Isio calculations.

Commentary – 3 Month Lagged

- Over the quarter the portfolio returned -3.1%, underperforming the CPI linked benchmark by 5.9%.
- Fund I remains in the value realisation phase and is paying capital back to Investors, whilst Fund III is in its investment phase and continues to draw capital for investment.
- Poor performance continues to be driven by Fund I, with the large holding in Southern Water (SW) particularly weighing on returns. The parent company of SW reached an agreement in October with Macquarie, for the manager to inject an additional £1,076m of new capital into the company in order to recapitalise the sutrcture. Following the latest capital raise, and in light of a recent significant fine from the Environmental Agency, the UBS holding in Southern Water was marked down 33%.
- As at 30th June 2021, Fund III continued to see strong deal flow, targeting small-to-middle market deals across digital infrastructure, energy transition, utilities and transportation in Europe, whilst focusing on energy storage and telecom opportunities within the Americas. It is too early in the lifecycle to make a proper assessment.
- We will continue to monitor this position closely going forward.

Pantheon – Infrastructure

Mandate: Infrastructure

Current Value: £58.8m

Current Weighting: 1.2%

Inception: May 2018

Benchmark: CPI + 2.5%

Objective: CPI + 3%

Pooled: No

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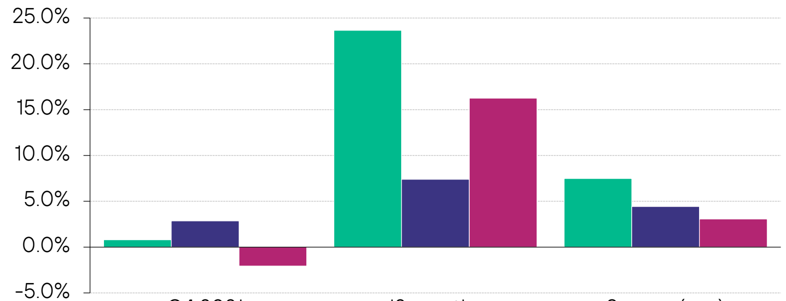
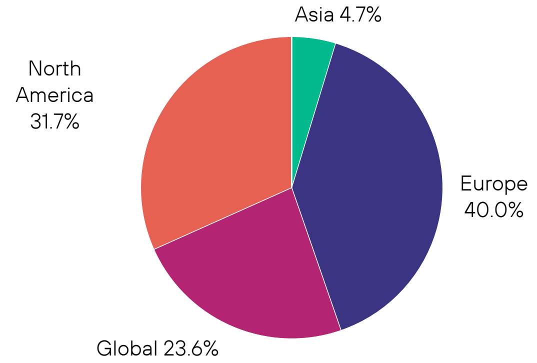
Performance to 31 December 2021



	Q4 2021	12 months	3 years (p.a.)
Return	0.8%	23.7%	7.5%
Benchmark	2.9%	7.4%	4.4%
Relative	-2.1%	+16.3%	+3.1%

Geographical Allocation at 30 September 2021



Commitments and Distributions to 30 September 2021

Pantheon	
Total Commitment ($m)	117.0
Commitment Drawn ($m)	72.5
Distributions ($m)	5.9
Outstanding Commitment ($m)	44.5
Market Value (£m)	58.8

Commentary - 3 Month Lagged

- The Fund delivered a positive absolute return of 0.8% over the quarter, underperforming the benchmark by 2.1%.
- As at the end of September, the highest IRR in the portfolio continued to belong to European firm IFT (35.5%), with the majority of the majority of the rest of the Fund also performing strongly.
- The Fund continues to allocate capital with a material drawdown of capital over the period. The two new investments were as follows: a co-investment in Astound, a broadband and fibre company providing high speed data, video and voice services, and a secondary investment in Project Anthem (the acquisition of stakes in KKR Global Infrastructure Investors II, KKR Global Infrastructure Investors III, North Haven Infrastructures Partners II and North Haven Infrastructure Partners from a large multi-national insurance company).
- The Fund continues to perform well over the longer term periods.

Note: Totals may not sum due to rounding. Performance quoted net of fees. Performance information available to 30 June 2021 due to 3 month reporting lag.
Source: Investment manager, Northern Trust, Isio calculations.

M&G – Infrastructure

Mandate: Infrastructure

Current Value: £42.0m

Current Weighting: 0.9%

Inception: October 2018

Benchmark: CPI + 2.5%

Objective: CPI + 3%

Pooled: No

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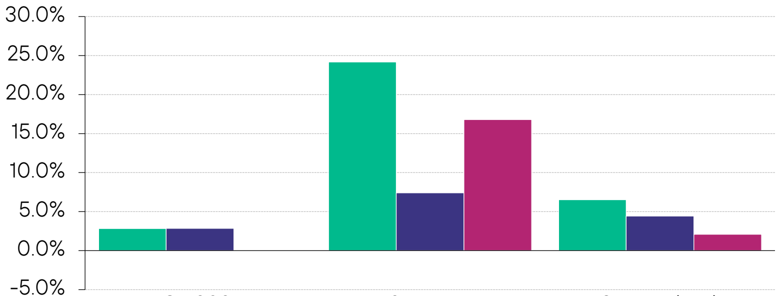
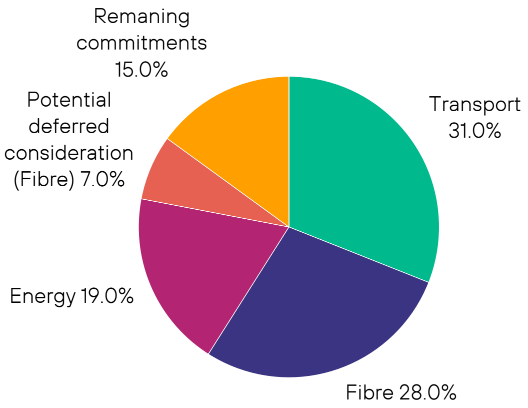
Performance to 31 December 2021



	Q4 2021	12 months	3 years (p.a.)
Return	2.8%	24.2%	6.5%
Benchmark	2.9%	7.4%	4.4%
Relative	-0.0%	+16.8%	+2.1%

Brownfield Sector Exposure to 30 September 2021



Commitments and Distributions to 30 September 2021

M&G – Infracapital	Brownfield III	Greenfield II
Total Commitment (£m)	42.0	20.0
Commitment Drawn (£m)	33.9	-
Distributions (£m)	4.4	-
Outstanding Commitment (£m)	8.1	-
Market Value (£m)	42.0	-

Commentary – 3 month lagged

- The Fund delivered positive performance over Q4, marginally underperforming its benchmark. Performance continues to be solely driven by the Brownfield III Fund as the Greenfield Fund remains undrawn. As at the end of Q3, the gross IRR of Brownfield III stood at 14.4%, with the Fund continuing to draw capital.
- Q3 performance was driven by valuation uplifts across the brownfield portfolio. Notable strong performers included the Infrafibre Germany holding - with the uplift supported by a strengthening of team and a company rebrand in two underlying portfolio companies - and the holding in GB Railfreight, whose operating performance has been above budget.
- Greenfield II already has investments in 5 portfolio companies, with a pipeline of potential investments of >90% of its capital commitment target. M&G expect drawdowns to the Fund to commence over 2022.

Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

ATLAS – Listed Infrastructure

Mandate: Global Infrastructure Equity

Current Value: £88.3m

Current Weighting: 1.9%

Inception: December 2020

Benchmark: FTSE Developed Core 50/50 Infrastructure Index

Objective: CPI + 5%

Pooled: No

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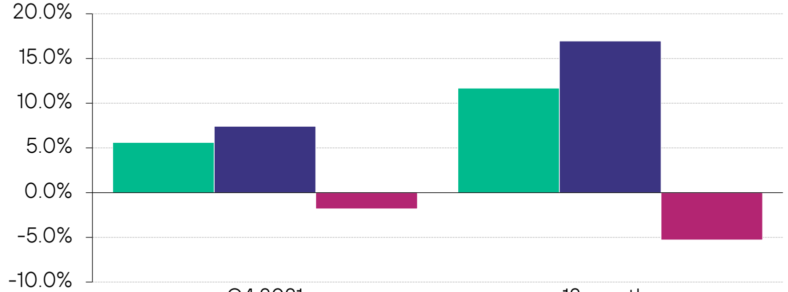
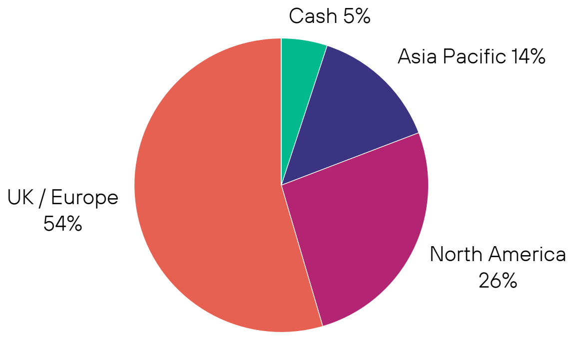
Performance to 31 December 2021

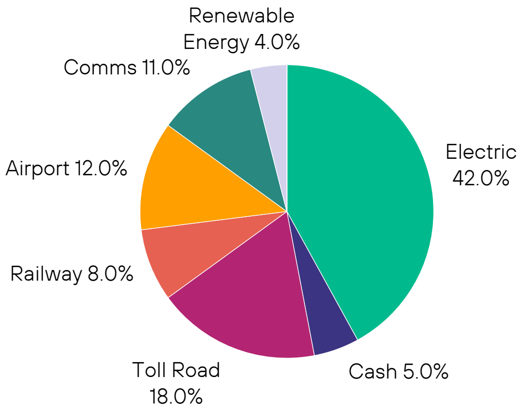


	Q4 2021	12 months
Return	5.6%	11.7%
Benchmark	7.4%	17.0%
Relative	-1.8%	-5.3%

Geographic Allocation at 31 December 2021



Sector Allocations at 31 December 2021



Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Commentary

- The Fund delivered a return of 5.6% over the quarter, underperforming its benchmark by 1.8%. Listed infrastructure as a sector gained 8.2% during Q4, outperforming global equities.
- The key detractors for the Fund were the relative underweight exposures to North America and the higher weight to Europe. At a stock level, SES (Europe communications), Aena (Europe Airport) and Eutelsat (Europe Communications) were the main detractors relative to the benchmark.
- The team added two new positions over Q4: Eiffage (French Toll roads) and Atlantia (Italian toll roads). This deals were funded by the sales of Ausnet (Australian electric utility where the ongoing bid process had led to a material increase in valuation, and consequent forward return decline) and Spark Infrastructure (Australian regulated electric where there was approval of a takeover).
- !2 month performance remains below benchmark.

M&G – Real Estate Debt

Mandate: Private Debt

Current Value: £38.9m

Current Weighting: 0.8%

Inception: April 2019

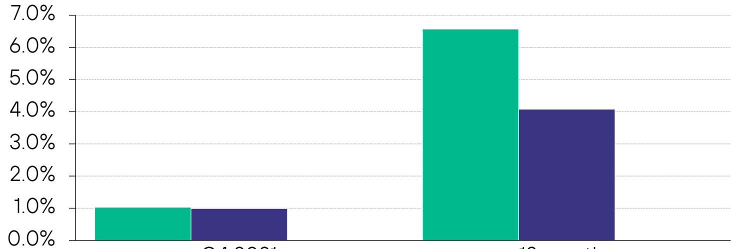
Benchmark: Benchmark: 3m LIBOR +4%

Objective: Objective: 3m LIBOR +5%

Pooled: No

We downgraded the Funds to 'partially meets criteria' following the resignation of four senior members within M&G's Real Estate Debt business in April. This led to the Funds' investment period being temporarily suspended, however a new Investment Committee was approved over Q2, allowing the reinvestment period to be reinstated and further capital to be recycled.

Performance to 31 December 2021

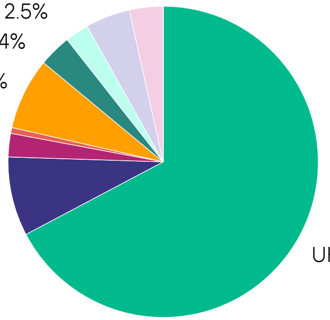


	Q4 2021	12 months
Return	1.0%	6.6%
Benchmark	1.0%	4.1%
Objective	0.0%	0.0%

Commitments and Distributions to 31 December 2021

M&G – Real Estate Debt Fund	
Total Commitment (£m)	60.0
Commitment Drawn (£m)	36.2
Distributions (£m)	-
Outstanding Commitment (£m)	23.8
Market Value (£m)	38.9

Average Invested Capital by Geography Across the Portfolio



Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Commentary – 3 month lag

- The portfolios are largely fully invested and are performing in line with expectations. Project Pontiac was removed from the minor watchlist in September, whilst two deals remain on the minor watchlist. There were no new deals over the quarter, however REDF IV and V allocated to a luxury retail position post quarter end.
- Project Genesis remains the only major watchlist position; footfall over Q3 remained c.30-40% lower than pre-COVID levels. M&G are focusing on stabilising the asset through value add opportunities, such as exploring planning consent to convert the retail space for alternative use. The senior lender group do not expect to advance any further of the £10.4m undrawn commitment to the end of 2021.
- M&G continue to have a strong pipeline of opportunities to recycle capital into over the remainder of the reinvestment period. Demand for logistics and office assets remain strong, however M&G are cautious of the high pricing of these assets relative to their underlying quality. Despite negative sentiment and volatility, M&G advised that they are identifying pockets of opportunity within the retail sector.

M&G – Diversified Credit

Mandate: Multi Asset Credit

Current Value: £289.5m

Current Weighting: 6.1%

Inception: November 2009

Benchmark: 3 Month Libor +3%

Objective: 3 Month Libor +5% (gross)

Pooled: Via Access Pool

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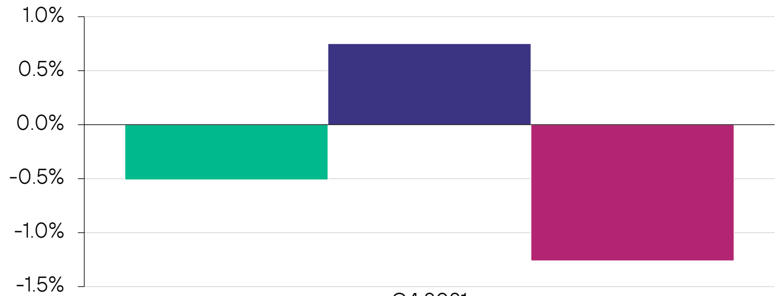
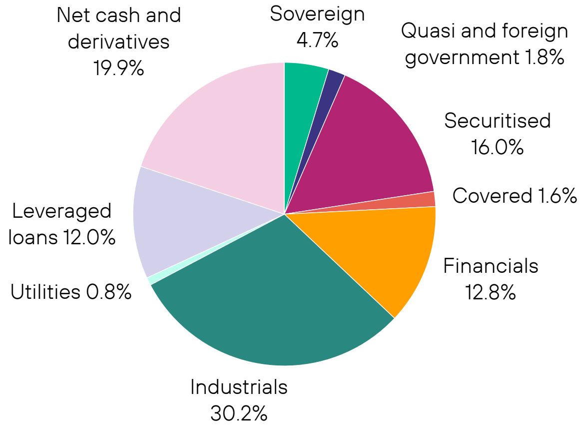
Performance to 31 December 2021 [1]

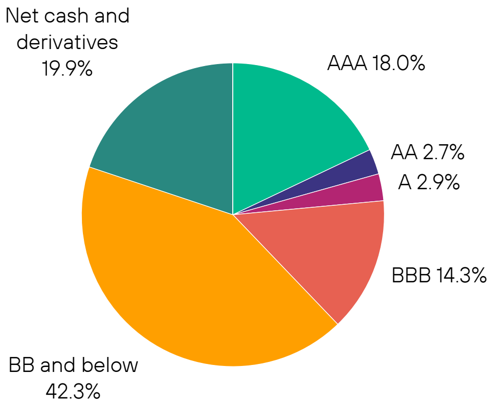


	Q4 2021
Return	-0.5%
Benchmark	0.8%
Relative	-1.3%

Sector Allocation as at 31 December 2021



Credit Ratings as at 31 December 2021



Commentary

- The Fund underperformed its objective over Q4, as wider credit markets faced a challenging backdrop of inflationary concerns and the outbreak of the Omicron Covid variant. The Fund also underperformed higher duration peers as nominal gilt yields fell; despite this, outperformance remains strong over the long term.
- Performance was muted across all areas in which the Fund invests. The leveraged loan allocation was the top contributor (0.12% gross of fees), driven predominantly by income. Interest rate hedging was the main detractor as gilt yields fell, however we are comfortable low duration remains suitable to reduce volatility over the longer term.
- M&G are focused on defensive, income-generating assets, and increased the cash, sovereign bonds and loan allocations over Q4. Looking forward, M&G anticipate future interest rate rises and maintain a high cash allocation (c.20%) to capture opportunities should any market turbulence materialise. We note this allocation has the potential to provide a drag on returns; we will monitor over coming periods.

Note: Totals may not sum due to rounding. Performance quoted net of fees. [1] Q4 2021 return shown for illustrative purposes by combining performance prior to the switch onto the ACCESS platform on 1 December 2021.
Source: Investment manager, Northern Trust, Isio calculations.

M&G – Corporate Bonds

Mandate: Corporate Bonds

Current Value: £162.6m

Current Weighting: 3.4%

Inception: December 1996

Benchmark: Benchmark: - 50% iBoxx Non-Gilts Over 15Y - 50% iBoxx Non-Gilts

Objective: Outperform benchmark by 0.8% p.a. (gross)

Pooled: Via Access Pool

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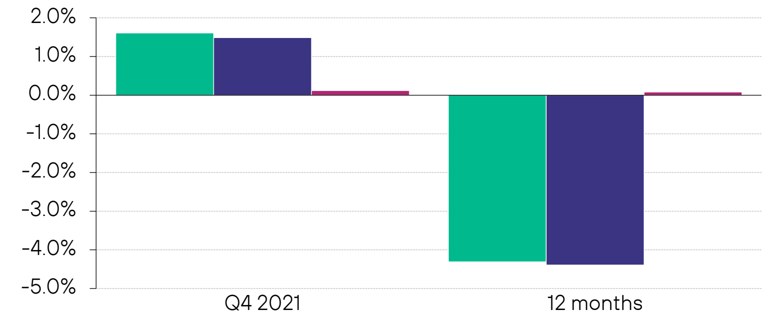
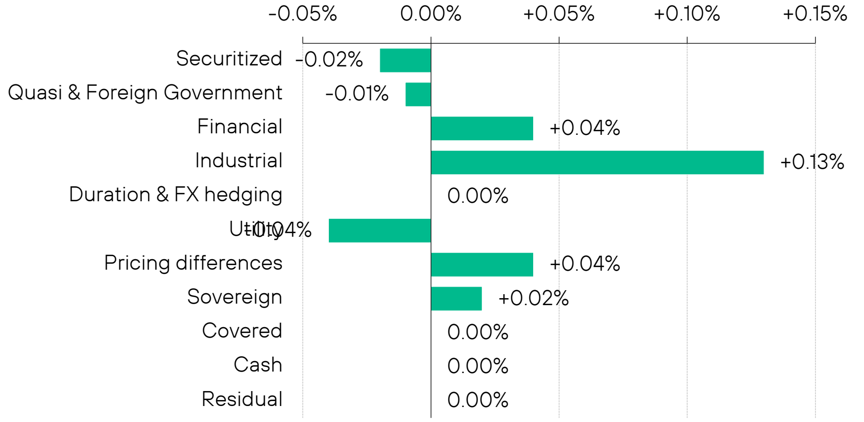
Performance to 31 December 2021

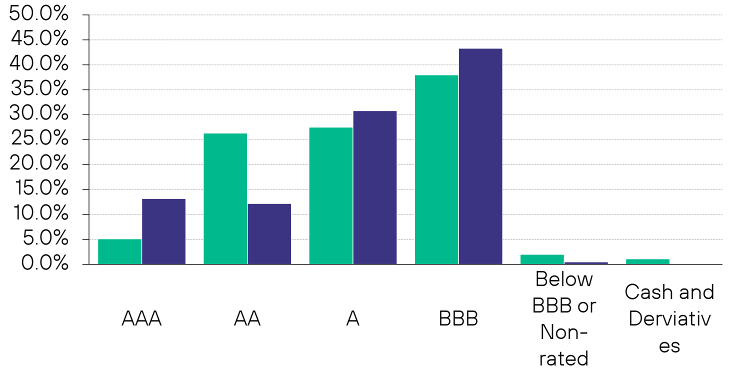


	Q4 2021	12 months
Return	1.6%	-4.3%
Benchmark	1.5%	-4.4%
Relative	+0.1%	0.1%

Performance Attribution as at 31 December 2021



Fund Credit Ratings to Benchmark at 31 December 2021



	AAA	AA	A	BBB	Below BBB or Non-rated	Cash and Derviatives
Credit Rating	5.1%	26.3%	27.5%	38.0%	2.0%	1.1%
Benchmark	13.2%	12.2%	30.8%	43.3%	0.5%	0.0%

Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Commentary

- The Fund returned 1.6% over the quarter, outperforming its benchmark by 0.1%. Positive absolute returns were largely driven by falling long-dated interest rates, as investors reacted to fears around the Omicron variant. Despite the increase in realised inflation over the quarter, long-dated expectations fell marginally, with gilt yields following suit.
- The manager continued to de-risk the Fund and retains an underweight position in credit spread duration and corporate risk relative to the benchmark. The manager also continued to reduce the Fund's exposure to off-benchmark names such as Iliad and Rolls Royce, which M&G believe no longer offer attractive risk-adjusted returns. M&G also reduced exposure to strong performing assets such as APT Pipelines.
- M&G continue to believe that valuations across much of the credit market look stretched, and are therefore defensively positioned at present.

UBS – Over 5 Year Index-linked Gilts

Mandate: Index Linked Gilts

Current Value: £144.1m

Current Weighting: 3.0%

Inception: August 2017

Benchmark: FTSE Index- Linked Gilts Over 5 Years

Objective: Match benchmark

Pooled: Via Access Pool

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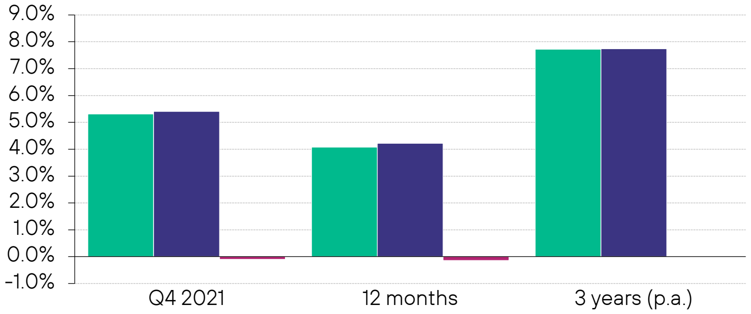
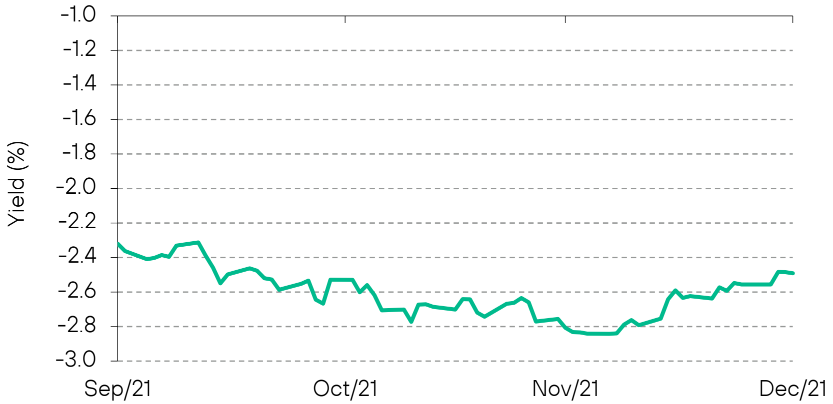
Performance to 31 December 2021



	Q4 2021	12 months	3 years (p.a.)
Return	5.3%	4.1%	7.7%
Benchmark	5.4%	4.2%	7.7%
Relative	-0.1%	-0.1%	-0.0%

Real Gilt Yields – Q4 2021



Note: Totals may not sum due to rounding. Performance quoted net of fees.
Source: Investment manager, Northern Trust, Isio calculations.

Commentary

- The Fund returned 5.3% over the quarter, marginally underperforming its benchmark.
- Real gilt yields fell slightly over the quarter, despite a similarly small fall in long-term inflation expectations. This was due to a fall in long-dated nominal gilt yields.
- This allocation has defensive characteristics, providing the Fund with protection against the impact of both interest rates and inflation expectations on the value placed on the liabilities.

Appendices

A1: Market Background: Global Equity, Absolute Return, Real Assets, Credit & Yields

A2: Explanation of Market Background

A3: Disclaimers

Market Background – Global Equity

Summary

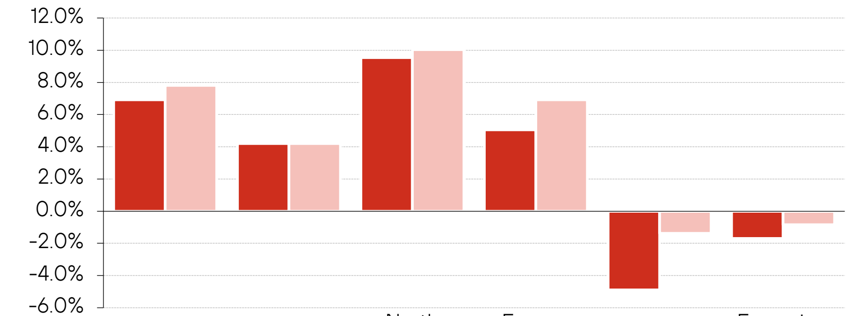
Developed market equities provided positive returns, with the impact of strong corporate earnings outweighing fears in relation to the pace of US monetary tightening and the new COVID-19 variant, Omicron.

Emerging markets underperformed over the period, with Chinese equities continuing to be a key detractor from returns.

Following a relative decline in volatility over the last 12 months, the news of the Omicron variant resulted in a spike in volatility during November, which subsided in December as Omicron did not lead to widespread lockdown measures or hospitalisations.

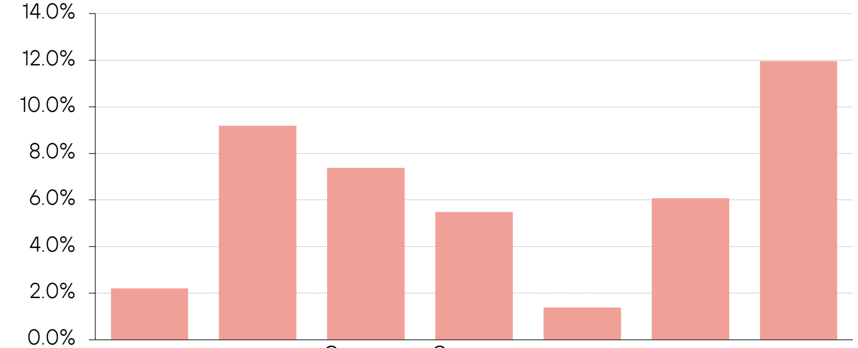
GBP hedged assets outperformed unhedged equivalents over the quarter, with Sterling strengthening against most major currencies over the period.

Regional Returns – Q4 2021



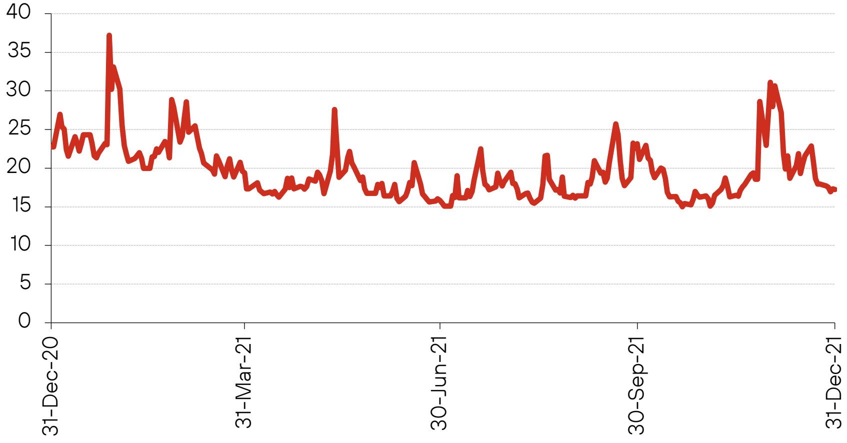
	World	UK	North America	Europe exc UK	Japan	Emerging Markets
Sterling	6.9%	4.2%	9.5%	5.1%	-4.9%	-1.7%
Local	7.8%	4.2%	10.0%	6.9%	-1.4%	-0.8%

Sector Returns – Q4 2021



	Financial	Utilities	Consum. Staples	Consum. Discret.	Energy	Health	Tech
Sector	2.2%	9.2%	7.4%	5.5%	1.4%	6.1%	12.0%

VIX Volatility Index – Last 12 months



Commentary

- Developed equity markets delivered strong returns over Q4 following increased investor confidence as a result of economic resilience against the new COVID-19 variant, Omicron. In particular, technology stocks provided strong returns, with US chipmakers in particular announcing robust future earnings expectations.
- Despite an increase in COVID-19 infection rates and US monetary tightening adding to volatility in markets, US equities were the strongest performer over the quarter with improved corporate earnings being a key factor. UK equities also delivered positive performance over the quarter but lagged the US. This was due to underperformance in financials, coupled with sharp declines in oil prices negatively impacting the energy sector, where the UK market has relatively material exposure.
- Emerging market equities continued their recent underperformance, with Chinese stocks in particular continuing to lag the broader market. Amongst a backdrop of longer-term structural changes, China have reintroduced accommodative monetary and fiscal measures due to concerns about potential downside economic risks.

Note: Please see Appendix 2 for further information.
Source: Datastream, Isio calculations.

Market Background – Absolute Return

Summary

Within our sample of managers we have incorporated the performance of ten DGFs with various manager styles, aiming to give a balanced view of the market.

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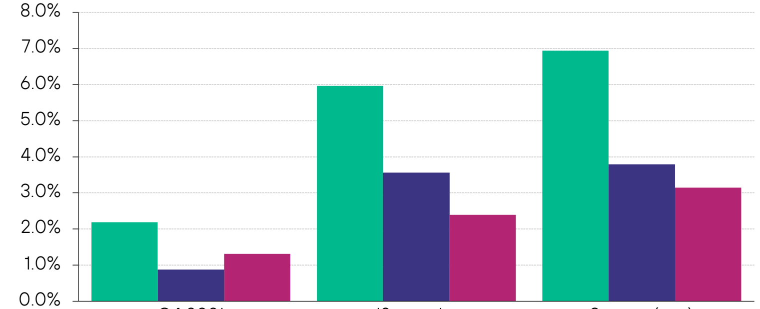
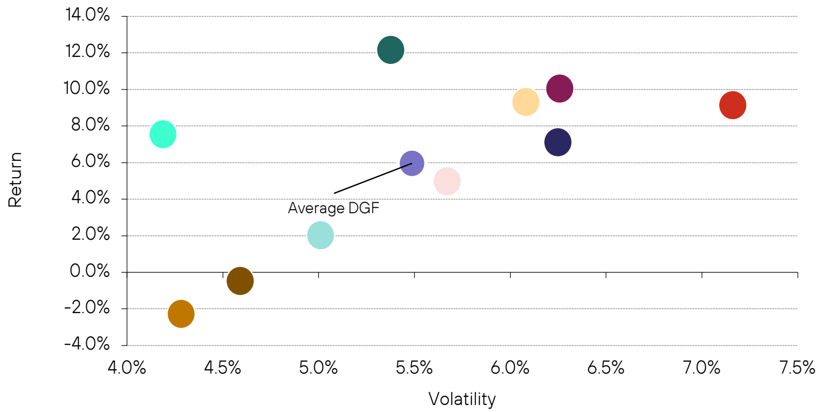
Sample Manager Average Returns – Q4 2021

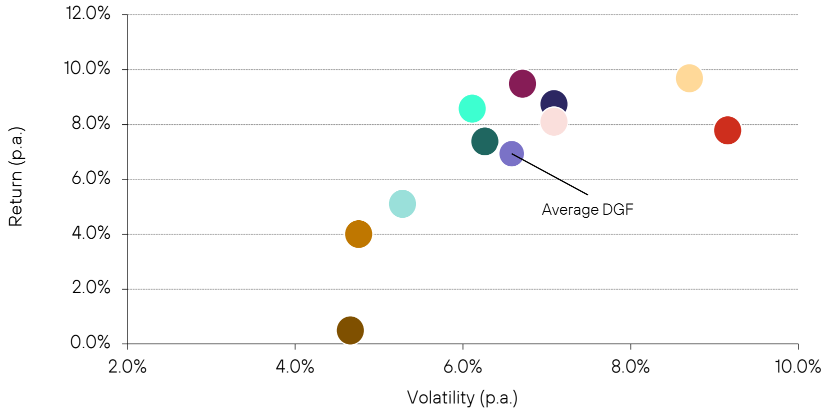


	Q4 2021	12 months	3 years (p.a.)
Average DGF	2.2%	6.0%	6.9%
Cash +3.5%	0.9%	3.6%	3.8%
Relative	1.3%	2.4%	3.1%

Sample Manager Returns and Volatility – 12 months



Sample Manager Returns and Volatility – 3 years (p.a.)



Commentary

- The average DGF posted positive performance over Q4 2021, with global equities remaining strong as investors focused on positive corporate earnings announcements. The emergence of the Omicron variant led to a spike in equity volatility at the end of November, but markets quickly recovered as data from South Africa and the UK indicated a lower risk of severe disease.
- Over the 1 and 3 year periods, equity allocations continued to be the strongest contributor to returns, with the asset class aided by actions from governments and central banks. The strongest performing managers continue to be those who typically have portfolios with the highest exposure to broad market movements, resulting in the more traditional asset allocation style outperforming relative value strategies.
- The majority of DGF managers maintain their positive outlook, however they remain alert to the prospect of monetary and fiscal policy tightening on the horizon, with the issue of increasing inflation also of increasing importance.

Note: Please see Appendix 2 for further information. All returns are quoted net of management fee. The cash +3.5% benchmark in the 'Sample Manager Average Returns' chart broadly equates to the Isio long-term DGF return assumption of Gilts +3.5% p.a.
Source: Investment Managers, Isio calculations.

Market Background – Real Assets

Summary

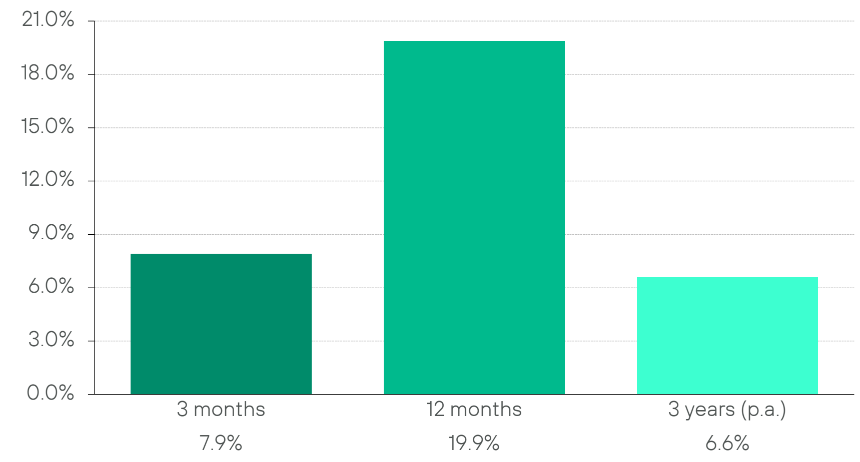
Both Core and Long Lease Property returned strong positive performance over the quarter, despite signals that the economic recovery had slowed given the outbreak of the Omicron virus.

Industrials continue to be in high demand across both asset classes and displayed strong level of rental growth as e-commerce continues to be a key focus and driving force in the market.

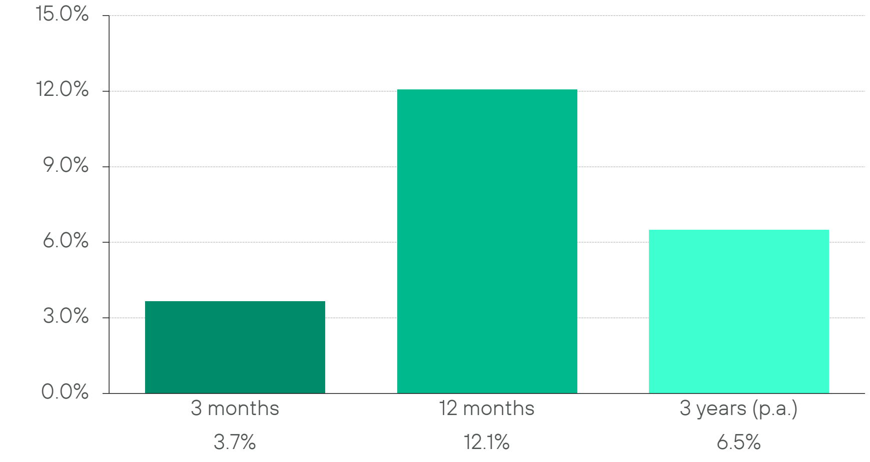
Demand for retail picked up over the quarter driven by savings during the pandemic being used for early Christmas shopping, particularly online sales. Office space requirements are changing reflective of hybrid working patterns, however, leasing activity for central London office is rising.

Higher inflation levels and thus higher interest rates, could lead to downward pressure on capital values in the future. However prime property assets is expected to remain favourable.

Core UK Property Returns



Long Lease UK Property Returns



Commentary – Core UK Property

- Core UK property delivered strong positive returns over the quarter despite signals that the economic recovery had slowed given the outbreak of the Omicron virus. Rising inflation drove the Bank of England to increase base interest rates to 0.25% but UK real estate yields remained attractive on a relative basis.
- The industrial sector continues to be the strongest performer, driving market returns over the quarter. Occupiers are focusing the trend to e-commerce and futureproofing supply chains therefore increasing leasing activity within the logistics sector, increasing rents by c. 30%. over the year.
- Despite early Christmas shopping increasing retail sales volumes, high street retail and shopping centres remains an area for recovery. In contrast, retail warehouses have been a key focus area with tenants agreeing leases at or above market rents as the sector is seen to have "bottomed out".
- Requirements for office space is changing with hybrid working becoming permanent. However demand for grade A London city offices was the highest since the start of the pandemic, up c. 25% over the year, but still c.40% below the 10 year average.

Commentary – Long Lease UK Property

- Long Lease Property delivered strong positive returns over the period, largely driven by income return but with some capital growth. Rent collections for most long lease funds are now at or near 100%. This strong position reflects the high-quality tenants selected by asset managers, who have been less impacted by lockdown restrictions in the UK.
- The supermarket (essential retail) and industrial sectors in particular were key return drivers. However, the Long Lease index underperformed the Balanced index due to the lower weighting in industrials and more defensive risk profile. Leisure sectors hit by the pandemic such has hotels and cinemas were boosted by consumer spending.
- Inflation has hit its highest level over the quarter, largely driven by supply constraints. Long Lease Property funds have seen little impact as most leases are inflation linked..
- Transaction activity in the UK property market, as measured by investment volumes, remained stable over the quarter. As compared to 2020 and 2019 the volume was higher.

Note: Please see Appendix 2 for further information.
Source: AREF / IPD and Investment Managers.

Market Background – Credit

Summary

The emergence of the Omicron COVID-19 variant was a key driver of credit markets over the quarter, with credit spreads widening across most markets as a result.

Central banks introduced plans to pullback their monetary support as inflation expectations rose, an issue exacerbated by the ongoing supply chain crisis. However, the uncertainty surrounding the Omicron variant led to many central banks to delay their plans to increase policy rates.

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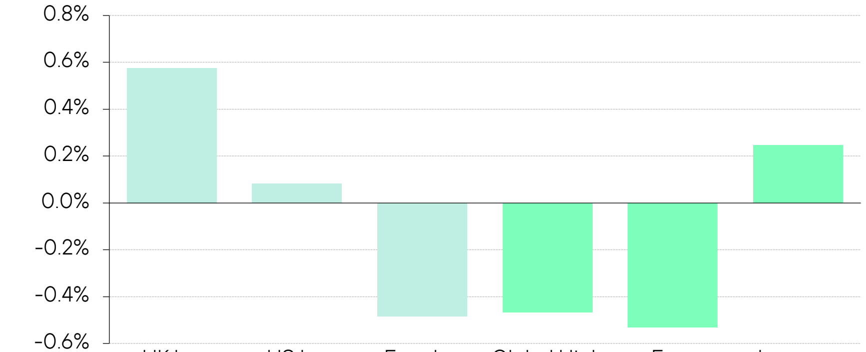
The news that the Omicron variant is more transmissible than previous COVID-19 variants led to some governments reintroducing restrictions and dampening investor sentiment. This led to credit spreads widening and drove the underperformance of lower quality credit.

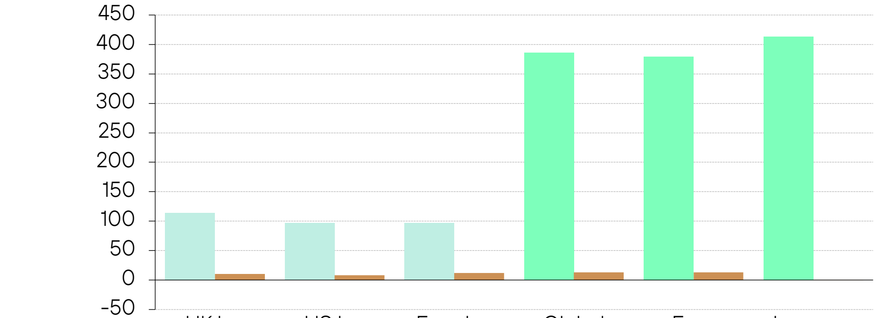
Fixed rate bonds underperformed floating rate as investors shifted into the latter in light of rising interest rates. The exception was in the UK, where falling gilt yields supported IG bond performance.

Credit Market Returns – Q4 2021



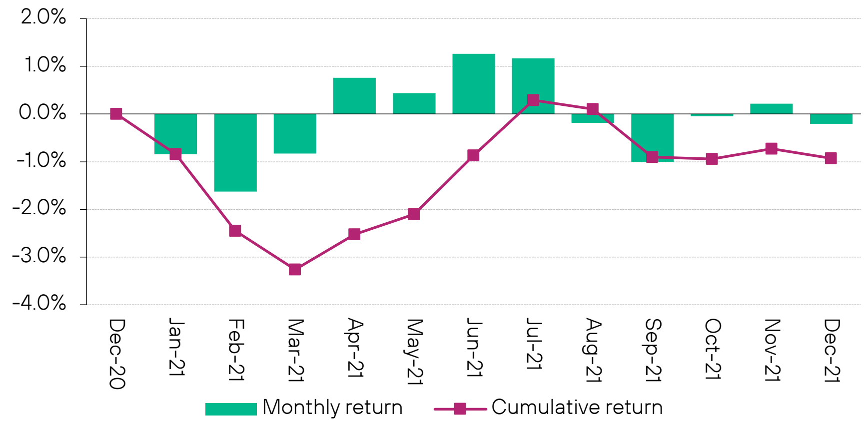
	UK Inv Grade	US Inv Grade	Euro Inv Grade	Global High Yld	Emg Markets	Leverag. Loans
£ Hedged	0.6%	0.1%	-0.5%	-0.5%	-0.5%	0.2%

Credit Spreads – Q4 2021



	UK Inv Grade	US Inv Grade	Euro Inv Grade	Global High Yld	Emg Markets	Leverag. Loans
End of qtr	114	97	97	386	379	414
Qtr change	10	8	12	13	13	-1

Global Broad Credit Market Return – Last 12 Months



Commentary

Credit markets delivered mixed performance as inflationary pressures continued to grow and central banks signalled moves to tighten monetary policy. Meanwhile the emergence of the Omicron COVID-19 variant led to credit spreads widening.

- **Investment grade ('IG') bond** performance was mixed. UK IG outperformed other regions due to its sensitivity to falling yields, as lower than expected future issuance was announced.
- **High yield ('HY') bonds** delivered negative returns, as credit spreads widened due to uncertainty around Omicron. HY continued to underperform leveraged loans, with investors preferring floating rate assets, to guard against the risk of rising interest rates.
- **Emerging market ('EM') debt** performed negatively as the Omicron variant led to spreads widening, especially as EM countries' vaccine rollouts continue to lag developed nations. Similarly the impact of the default of Chinese property developer Evergrande's bonds hampered Chinese debt performance.

Note: Please see Appendix 2 for further information. Credit spreads are shown in basis points (100 bp = 1%) and correspond to the incremental yield available on corporate bonds above government bonds of a similar maturity. Floating rate assets have reduced interest rate sensitivity than fixed rate and are therefore less exposed to rising interest rates.

Source: Investment Managers, Isio calculations, Eikon

Market Background – Yields

Summary

These curves show gilt yields and inflation expectations at varying time horizons. The horizontal axis represents the number of years.

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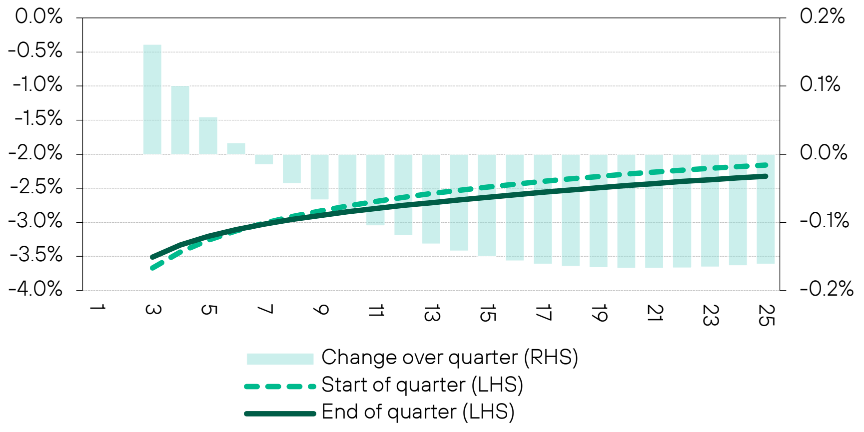
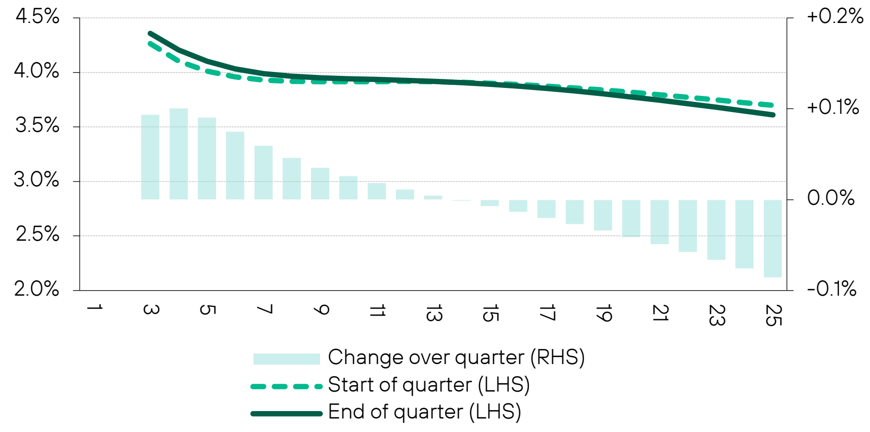
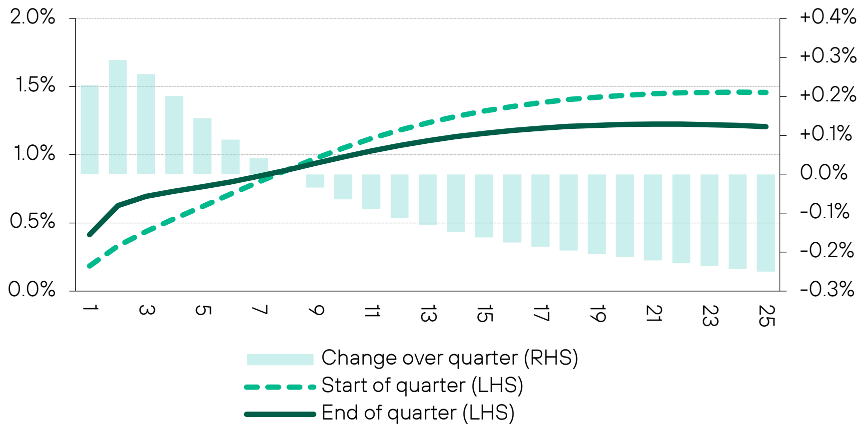
Real Gilt Yields – Q4 2021



Gilt-Implied Inflation – Q4 2021



Nominal Gilt Yields – Q4 2021



Commentary

- Long-dated (20-year) yields at the quarter-end were:
  - Real gilt yield: -2.5%
  - Nominal gilt yield: 1.2%
  - Gilt-implied inflation expectation: 3.8%

Note: Please see Appendix 2 for further information.
Source: Bank of England, Isio Calculations

Explanation of Market Background

This glossary explains the components of the Market Background charts in Appendix 1.

All returns are in Sterling terms, unhedged, unless otherwise stated. Where "hedged" returns are quoted, these are local currency returns (i.e. any costs and imprecisions in hedging are assumed to be negligible).

Market Background – Overview

- Returns by Asset Class – The market indices underlying this chart are as follows:
  - UK Equity: FTSE All-Share
  - Global Equity: FTSE World (Unhedged and Hedged)
  - Emerging Market Equity: MSCI Emerging Markets
  - Diversified Growth Funds: mean of a sample of DGF managers
  - Property: IPD Monthly UK
  - Global High Yield: BoAML Global High Yield (GBP Hedged)
  - UK Inv. Grade Credit: BoAML Sterling Non-Gilt
  - Over 15 Years Gilts: FTSE Over 15 Year Gilt
  - Over 5 Years Index-Linked Gilts: FTSE Over 5 Year Index-Linked Gilt
  - Example Liabilities: a simplified calculation illustrating how a typical pension scheme's past-service liabilities may have moved

Market Background – Global Equity

- Regional Returns – The market indices underlying this chart are as follows:
  - World: FTSE World
  - UK: FTSE All Share
  - North America: FTSE North America
  - Europe ex UK: FTSE Europe ex UK
  - Japan: FTSE Japan
  - Emg Mkts: MSCI Emerging Markets
- Sector Returns – The market indices underlying this chart are the relevant sectors from the MSCI All-Countries index.
- VIX Volatility Index – This is a forward-looking indicator. It represents the expected range of movement (in percentage terms) in the S&P 500 index (i.e. US equities in dollar terms) over the next year, at a 68% confidence level. It is calculated using options prices over a 30-day horizon.

Explanation of Market Background (cont.)

This glossary explains the components of the Market Background charts in Appendix 1.

All returns are in Sterling terms, unhedged, unless otherwise stated. Where "hedged" returns are quoted, these are local currency returns (i.e. any costs and imprecisions in hedging are assumed to be negligible).

Market Background – Absolute Return

- **Diversified Growth Funds ("DGFs")** – Due to the lack of a market index for DGFs, we illustrate the performance of this by showing the returns of 10 of the largest funds by assets under management. Specifically:
  - Aberdeen Standard Global Absolute Return Strategies
  - Aviva Multi-Strategy Target Return
  - Baillie Gifford Diversified Growth
  - BlackRock Dynamic Diversified Growth
  - Invesco Perpetual Global Targeted Returns
  - L&G Diversified
  - Newton Real Return
  - Nordea Stable Return
  - Ruffer Absolute Return
  - Schroder Diversified Growth
- The 'Average DGF' performance is an equally-weighted average of the sample of 10 managers' performance figures.
- Returns are shown net of each manager's standard fee. While every effort has been taken to select vehicles with institutional/clean fee structures, the impact may not necessarily reflect any particular client's fee arrangements.
- Volatility is calculated by annualising the volatility of daily returns.
- As clients have specific selection criteria, the managers listed here may not meet any given client's criteria.
- DGFs encompass a range of investment approaches, return targets, and risk profiles. Consequently, different managers' returns are not necessarily a like-for-like comparison.

Market Background – Real Assets

- Real Assets – The market indices underlying these charts are:
  - Core UK Property: IPD Monthly UK Index
  - Long Lease UK Property: IPD Long Income Property Fund Index

Explanation of Market Background (cont.)

This glossary explains the components of the Market Background charts in Appendix 1.

All returns are in Sterling terms, unhedged, unless otherwise stated. Where "hedged" returns are quoted, these are local currency returns (i.e. any costs and imprecisions in hedging are assumed to be negligible).

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Market Background – Credit

- Sector Returns and Credit Spreads – The market indices underlying this chart are as follows:
  - UK Inv Grade: BoAML Sterling Non-Gilt
  - US Inv Grade: BoAML US Corporate (GBP Hedged)
  - Euro Inv Grade: BoAML Euro Corporate (GBP Hedged)
  - Global High Yield: BoAML Global High Yield (GBP Hedged)
  - Emerging Markets: JP Morgan EMBI Global (GBP Hedged)
  - Leveraged Loans: S&P/LSTA US Leveraged Loan Equity (GBP Hedged)
- Global broad credit market return – The market index underlying this chart is the BoAML Global Broad Market Corporate Index (GBP Hedged):
  - The Global Broad Market Index tracks the performance of investment grade public debt issued in the major domestic and eurobond markets, including 'global' bonds.
  - Qualifying bonds must have at least one year remaining term to maturity and a fixed coupon schedule. Bonds must be rated investment grade and be domiciled in a country having an investment grade foreign currency long-term debt rating (based on a composite of Moody's and S&P).

Market Background – Yields

- Yields – Yields shown are annual yields (i.e. they have been converted from the "continuously compounded" basis quoted by the Bank of England).
- Example Liabilities – This illustrates how a typical scheme's past-service liabilities may have moved.
  - It is based on a simplified calculation assuming a scheme with duration 20 years and liabilities split 70% inflation-linked and 30% fixed.
  - Liability movement is calculated using yield changes and unwinding (short-term interest rate with no premium) only, with no accrual, outgo, or inflation experience.
  - A rise in yields equates to a fall in the calculated value of the liabilities (due to the higher discount rate at which the future cashflows are valued); conversely, a fall in yields means a rise in liabilities.

Disclaimers

This report has been prepared for the sole benefit of East Sussex County Council as Administering Authority of the East Sussex Pension Fund

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Performance, Opinions, and Estimated Liabilities

- This report sets out the past performance of various asset classes and fund managers. It should be noted that past performance is not a guide to the future.
- Our opinions (and comparison vs criteria) of the investment managers stated in this report are based on Isio's research and are not a guarantee of future performance. These are valid at the time of this report but may change over time.
- Our opinions of investment products are based on information provided by the investment management firms and other sources. This report does not imply any guarantee as to the accuracy of that information and Isio cannot be held responsible for any inaccuracies therein. The opinions contained in this report do not constitute any guarantees as to the future stability of investment managers which may have an effect on the performance of funds.
- Funds that make use of derivatives are exposed to additional forms of risk and can result in losses greater than the amount of invested capital.
- The estimated liabilities (where quoted) have been "rolled forward" from the last actuarial valuation and/or funding update, by taking current bond yields and inflation expectations into account. The methodology underlying the actuarial assumptions (e.g. discount-rate premium, mortality, real salary growth etc.) is assumed to remain constant for this estimate. Due to the approximate nature of the calculations, the Fund's actual experience and changes in future valuation assumptions may mean that the liabilities and funding position calculated at the next actuarial valuation (or funding update) could be significantly different from the quoted estimate.

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East Sussex Pension Fund

Investment Manager Correlation Analysis

February 2022

Appendix 3

Document Classification: Confidential

Introduction

Addressee

- This report is addressed to the East Sussex County Council (“the Council”) as the Administering Authority of the East Sussex Pension Fund (“the Fund”).

Background

- At the November 2021 meeting, the Committee raised concerns around rising inflation, the threat posed by lower central bank and government stimulus going forward, and how the Fund’s investment managers might perform in such an environment.
- As well as a desire to see general correlation trends across the Fund's underlying investment managers, in particular, it was asked whether mandates with more inflation linkage in their underlying assets would act as effective diversifiers during inflationary periods.
- While the Committee decided not to proceed with a review of the direct inflation protection within the Fund’s portfolio, it was agreed that Isio would prepare a correlations analysis paper. The key target outcome of the paper is to determine whether the Fund is sufficiently diversified, given the potentially challenging market outlook going forward, or whether any strategic changes or rebalancing could improve the position.

Scope of this report

- Prepare a short paper summarising analysis of the historical correlation of the Fund’s investment manager returns over various time periods, covering the following:
    - A correlation matrix of the Fund’s underlying investment manager returns over the 1, 3 and 5 year periods; and
    - Provide comments and observations based on the analysis.

1 year manager correlations

Key: < -0.4 = > 0.4 = < -0.8 = > 0.8 =

	UBS UK Equity	UBS Global Equity	Longview Equity	WHEB Equity	Wellington Equity	Storebrand Equity	Baillie Gifford Equity	Harbourvest PE	Adams Street PE	Newton Real Return	Ruffer Absolute Return	Schroders Property	UBS Infra	Pantheon Infra	M&G Infra	Atlas Infra	M&G RED	M&G Absolute Return	M&G CBs	UBS ILG
UBS UK Equity	1.00																			
UBS Global Equity	0.69	1.00																		
Longview Equity	0.85	0.62	1.00																	
WHEB Equity	0.43	0.83	0.37	1.00																
Wellington Equity	0.54	0.86	0.44	0.85	1.00															
Storebrand Equity	0.61	0.96	0.64	0.87	0.82	1.00														
Baillie Gifford Equity	-	-	-	-	-	-	-													
Harbourvest PE	-0.18	0.02	-0.34	-0.02	0.08	-0.07	-	1.00												
Adams Street PE	0.10	0.23	0.08	0.15	-0.06	0.27	-	0.23	1.00											
Newton Real Return	0.82	0.70	0.72	0.51	0.64	0.68	-	-0.22	-0.15	1.00										
Ruffer Absolute Return	0.20	-0.07	0.38	-0.43	-0.36	-0.17	-	-0.29	-0.05	0.17	1.00									
Schroders Property	0.26	0.02	0.05	-0.06	-0.05	0.07	-	0.12	0.44	0.03	-0.42	1.00								
UBS Infra	-0.47	0.22	-0.27	0.39	0.16	0.26	-	0.24	0.31	-0.43	-0.19	-0.40	1.00							
Pantheon Infra	-0.08	0.25	-0.02	0.24	-0.02	0.28	-	0.26	0.95	-0.28	-0.07	0.21	0.58	1.00						
M&G Infra	0.22	0.21	0.07	0.16	-0.05	0.21	-	-0.10	0.73	0.05	0.05	0.20	0.07	0.64	1.00					
Atlas Infra	0.62	0.56	0.51	0.57	0.37	0.62	-	-0.04	0.54	0.50	-0.19	0.53	-0.12	0.42	0.33	1.00				
M&G RED	-0.16	-0.13	-0.47	0.03	0.09	-0.27	-	0.02	-0.44	0.08	-0.07	-0.43	-0.12	-0.39	0.01	-0.35	1.00			
M&G Absolute Return	0.02	-0.06	-0.05	-0.17	0.18	-0.26	-	-0.05	-0.38	-0.13	0.18	-0.41	-0.04	-0.30	-0.18	-0.54	0.35	1.00		
M&G CBs	-0.08	0.37	0.16	0.56	0.46	0.53	-	0.16	-0.16	0.25	-0.36	-0.26	0.42	-0.02	-0.31	0.15	-0.21	-0.37	1.00	
UBS ILG	-0.27	0.14	-0.01	0.43	0.21	0.31	-	0.05	-0.18	0.12	-0.20	-0.48	0.46	0.00	-0.23	0.05	-0.02	-0.39	0.91	1.00

Source: Northern Trust, Isio calculations. **Notes:** Correlations for the 1 year period to 31 December 2021.

3 year manager correlations

Key: < -0.4 = (light green) > 0.4 = (light red) < -0.8 = (dark green) > 0.8 = (dark red)

	UBS UK Equity	UBS Global Equity	Longview Equity	WHEB Equity	Wellington Equity	Storebrand Equity	Baillie Gifford Equity	Harbourvest PE	Adams Street PE	Newton Real Return	Ruffer Absolute Return	Schroders Property	UBS Infra	Pantheon Infra	M&G Infra	Atlas Infra	M&G RED	M&G Absolute Return	M&G CBs	UBS ILG
UBS UK Equity	1.00																			
UBS Global Equity	0.91	1.00																		
Longview Equity	0.88	0.86	1.00																	
WHEB Equity	-	-	-	-																
Wellington Equity	-	-	-	-	-															
Storebrand Equity	-	-	-	-	-	-														
Baillie Gifford Equity	-	-	-	-	-	-	-													
Harbourvest PE	-0.06	-0.04	-0.15	-	-	-	-	1.00												
Adams Street PE	0.01	0.02	-0.01	-	-	-	-	0.58	1.00											
Newton Real Return	0.72	0.75	0.71	-	-	-	-	-0.16	-0.12	1.00										
Ruffer Absolute Return	0.22	0.26	0.29	-	-	-	-	-0.13	-0.03	-0.01	1.00									
Schroders Property	0.33	0.18	0.24	-	-	-	-	0.26	0.40	0.27	-0.24	1.00								
UBS Infra	-0.38	-0.25	-0.26	-	-	-	-	0.38	0.40	-0.39	-0.09	-0.19	1.00							
Pantheon Infra	-0.11	-0.06	-0.08	-	-	-	-	0.52	0.81	-0.25	-0.01	0.14	0.69	1.00						
M&G Infra	0.06	0.01	-0.03	-	-	-	-	0.14	0.49	0.07	-0.18	0.30	0.01	0.26	1.00					
Atlas Infra	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
M&G RED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
M&G Absolute Return	0.68	0.73	0.68	-	-	-	-	-0.19	-0.20	0.72	0.05	0.23	-0.34	-0.30	-0.17	-	-	1.00		
M&G CBs	0.38	0.55	0.44	-	-	-	-	-0.03	-0.10	0.62	-0.01	-0.02	0.04	-0.08	-0.26	-	-	0.62	1.00	
UBS ILG	-0.04	0.16	0.06	-	-	-	-	0.16	0.04	0.27	-0.06	-0.17	0.40	0.19	-0.20	-	-	0.14	0.73	1.00

Source: Northern Trust, Isio calculations. **Notes:** Correlations for 3 year period to 31 December 2021.

5 year manager correlations

Key: < -0.4 = (light green) > 0.4 = (light red) < -0.8 = (dark green) > 0.8 = (dark red)

	UBS UK Equity	UBS Global Equity	Longview Equity	WHEB Equity	Wellington Equity	Storebrand Equity	Baillie Gifford Equity	Harbourvest PE	Adams Street PE	Newton Real Return	Ruffer Absolute Return	Schroders Property	UBS Infra	Pantheon Infra	M&G Infra	Atlas Infra	M&G RED	M&G Absolute Return	M&G CBs	UBS ILG
UBS UK Equity	-																			
UBS Global Equity	-	-																		
Longview Equity	-	-	1.00																	
WHEB Equity	-	-	-	-																
Wellington Equity	-	-	-	-	-															
Storebrand Equity	-	-	-	-	-	-														
Baillie Gifford Equity	-	-	-	-	-	-	-													
Harbourvest PE	0.00	-	-0.12	-	-	-	-	1.00												
Adams Street PE	0.02	-	-0.02	-	-	-	-	0.61	1.00											
Newton Real Return	0.73	-	0.68	-	-	-	-	-0.10	-0.09	1.00										
Ruffer Absolute Return	0.28	-	0.31	-	-	-	-	-0.07	-0.01	0.05	1.00									
Schroders Property	0.30	-	0.18	-	-	-	-	0.21	0.37	0.20	-0.23	1.00								
UBS Infra	-0.30	-	-0.15	-	-	-	-	0.41	0.40	-0.29	-0.06	-0.18	1.00							
Pantheon Infra	-	-	-	-	-	-	-	-	-	-	-	-	-	-						
M&G Infra	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-					
Atlas Infra	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-				
M&G RED	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-			
M&G Absolute Return	0.63	-	0.61	-	-	-	-	-0.21	-0.22	0.65	0.09	0.19	-0.31	-	-	-	-	1.00		
M&G CBs	0.35	-	0.34	-	-	-	-	0.02	-0.05	0.60	0.03	-0.03	0.05	-	-	-	-	0.57	1.00	
UBS ILG	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-

Source: Northern Trust, Isio calculations. **Notes:** Correlations for 5 year period to 3` December 2021.

Summary

Key Takeaways

We believe key takeaways from this analysis should be primarily focussed on the longer 3 and 5 year analysis periods. With that in mind, and based on the managers available, the portfolio appears well diversified, with some high level conclusions as follows:

- As is expected, the Fund's equity manager returns are all relatively highly correlated with each other; however differing approaches and management styles (active vs passive, ESG vs standard) mean that an element of diversification is present within the equity holdings. This is particularly evident over shorter time periods (with varying styles expected to perform differently in differing market conditions).
- The Fund's real asset managers (infrastructure and property) exhibit negative or low correlations with the Fund's other mandates, and act as effective diversifiers to the overall portfolio (this is in line with our expectations and the strategic rationale). Over the short term, the ATLAS infrastructure fund has provided less diversification, particularly relative to equity holdings; this is to be expected given the fund invests in listed rather than private infrastructure firms.
- The multi-asset mandates also provide effective diversification, particularly Ruffer Absolute Return, which shows low or negative correlations with all other mandates.
- UBS index-linked gilts and M&G corporate bonds appear highly correlated with each other (which is unsurprising given their interest rate exposure); however both provide diversification relative to higher risk mandates (with the former also providing inflation protection).
- The Fund's private equity managers also exhibit low or negative correlations with the other mandates, as a result of differing return drivers to public markets, as well as the lagged nature of private market valuations.
- It is worth noting that there are a number of gaps in the data as we have relied on data provided by Northern Trust and, as such, the data only covers the periods in which the Fund has been invested in the respective funds.

Looking Forward

- Given the key takeaways outlined, the Fund is well diversified across its existing holdings.
- Moving forward, in line with the strategy review presented in July 2021, the Fund intends to add new managers in infrastructure, private credit and inflation linked property, which should further diversify the Fund's overall holdings and increase its protection against rising inflation.
- We believe the above outlined changes are sufficient to compliment the Fund's existing holdings from a diversification perspective without any further significant strategic change needed at present.
- We believe this analysis could be used as a tool to inform any short term strategy rebalancing.

Thank you

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East Sussex Pension Fund

Investment Strategy Recap

Overview of Current Position and Implementation of Changes

February 2022

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Appendix 4

Introduction and background

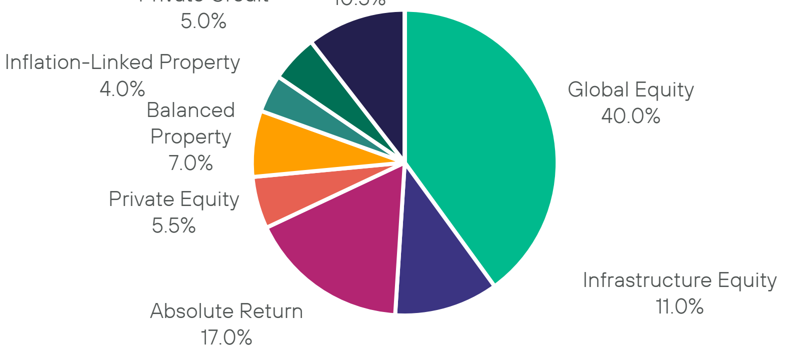
Addressee

- This report is addressed to East Sussex County Council as Administering Authority of the East Sussex Pension Fund ("the Fund").
- This paper summarises the investment strategy changes agreed by the Committee and the investment rationale supporting these, the current position of the investment strategy, the changes that the Fund is looking to implement over the coming year, and the next steps which need to be taken to progress the changes.

Background

- At the July 2021 meeting, the Committee considered an investment strategy review presented by Isio and agreed the following changes to the Fund's strategic asset allocation:
  - Reduced target allocations for diversified growth, balanced property, corporate bonds and index-linked gilts.
  - Increased target allocations for infrastructure equity, inflation-linked property, private credit and diversified credit.

Agreed Strategic Asset Allocation



Mandate	Previous Strategic Allocation (%)	Target Strategic Allocation (%) (relative to previous)	Current Position (%)
Global Equity	40.0%	40.0%	42.9%
Infrastructure Equity	8.0%	11.0% (+3.0%)	4.7%
Private Equity	5.5%	5.5%	7.4%
Absolute Return	20.0%	17.0% (-3.0%)	21.9%
Balanced Property	10.0%	7.0% (-3.0%)	8.3%
Inflation-linked Property	0.0%	4.0% (+4.0%)	0.0%
Private Credit	3.0%	5.0% (+2.0%)	0.8%
Diversified Credit	7.0%	10.5% (+3.5%)	6.1%
Corporate Bonds	3.5%	0.0% (-3.5%)	3.4%
Index-linked Gilts	3.0%	0.0% (-3.0%)	3.0%

Source: Investment managers, Isio calculations.
Notes: Data as at 31 December 2021.

Strategic rationale for investment changes

Background & rationale for the agreed strategic changes

- The strategic changes which were considered and agreed by the Committee in July 2021 were agreed on the basis that they would:
  - Increase exposure to assets with a direct link to inflation.
  - Rising inflation was seen as a key risk to the Fund given the liability structure, and increasing the allocation to assets with direct inflation linkage would help address this risk.
  - Increase exposure to less liquid assets.
  - Given the Fund's long term horizon, and the overall level of liquidity in the asset portfolio, it was agreed there was scope to target less liquid opportunities and earn an excess return for doing so.
  - Increase alignment to the Fund's Responsible Investment Policy
    The Fund has made strong progress incorporating ESG considerations into its investment strategy to date and the assets considered for investment going forward would need to continue this focus.
  - Increase the overall diversification of the Fund's holdings
- The high level rationale at asset class level is outlined below:
  - By increasing the allocation to infrastructure equity, and introducing an inflation-linked property mandate, the Committee was able to increase the Fund's level of direct inflation protection, while also adding yield and diversifying the sources of growth exposure.
  - The increased allocation to private credit is designed to allow the Fund to take advantage of the 'illiquidity premium' offered by private market debt.
  - The switch from low yielding corporate bonds to diversified credit is intended to provide the Fund with a more flexible mandate, designed to be able to achieve a similar (or higher) level of return in a wider range of market conditions.

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- From an investment characteristics perspective, the outcome of the agreed strategic changes is to increase the portfolio's expected return slightly (from 5.3% p.a. to 5.5% p.a.), whilst broadly maintaining the previous level of downside risk.
- Given the time lag involved in implementing the investment changes, primarily due to the time involved in the procurement of mandates as well as the private market nature of some of the investments, it is expected that these changes will continue to be implemented in stages over the next 12-18 months.
- The absolute return allocation is currently materially overweight while the property, infrastructure and credit allocations are underweight. These allocations are expected to be brought more closely in line with the agreed target strategic benchmark as the new mandates are agreed and implemented over 2022.

Next steps of implementation

Next steps for the strategy implementation

- The current expectation is that the increases to:
  - Diversified credit will be funded from the sale of corporate bonds
  - Infrastructure equity will be funded from absolute return
  - Private credit allocation will be funded from index-linked gilts
  - Inflation-linked property will be funded from balanced property
- We propose the exact sources of funding are re-assessed at the time of drawdown, given the capital is expected to be implemented in stages over the next 12-18 months. The table to the right provides further information on this.
- The implementation of the new infrastructure equity allocation is at an advanced stage, with the Officers currently considering the suitability of the short-listed managers and funds. Once agreement is reached, the Fund will join a queue for entry to the specific fund, before having capital drawn c. 12 months. after commitment.
- The Officers have provisionally agreed the plan for the implementation of the fixed income mandates. ACCESS are currently onboarding additional managers into the pool, and we expect the complete range of diversified credit products to be available on the ACCESS platform in the first half of 2022. Following this, the fund selection, size of allocation and implementation routes will need to be considered.
- ACCESS are not yet able to provide firm timescales regarding the addition of private credit funds to the platform. Therefore we do not anticipate allocations to this space via the ACCESS platform being a realistic possibility over the short term (in the next 12-18 months). We expect further clarity on this position in Q2 2022 and will look to propose a way forward at this point.
- The implementation of the inflation-linked property allocation will also be considered in due course. ACCESS are not yet able to provide firm timescales regarding the addition of these funds to their platform, so further consideration is needed for this mandate once there is clarity from ACCESS on this.

Mandate	Current Position (%)	Target Strategic Allocation (%)	Increase/ Decrease (%)	Anticipated Primary Funding Source	Anticipated Timescales
Global Equity	42.9%	40.0%			
Infrastructure Equity	4.7%	11.0%	(+6.3%)	Absolute Return	Q1 2023
Private Equity	7.4%	5.5%			
Absolute Return	21.9%	17.0%	(-4.9%)		
Balanced Property	8.3%	7.0%	(-1.3%)		
Inflation-linked Property	0.0%	4.0%	(+4.0%)	Balanced Property	12-18 months
Private Credit	0.8%	5.0%	(+4.2%)	Index-linked Gilts	12-18 months
Diversified Credit	6.1%	10.5%	(+4.4%)	Corporate Bonds	Q2 2022
Corporate Bonds	3.4%	0.0%	(-3.4%)		
Index-linked Gilts	3.0%	0.0%	(-3.0%)		

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REVIEW OF INFLATION IMPACT ON EAST SUSSEX PENSION FUND'S PORTFOLIO

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1. Executive Summary and Contents Index

At the 25th November 2021 Committee meeting, a request was made for more information about the potential impact of inflation and the resulting policy response on East Sussex Pension Fund's ("**ESPF**") assets. This paper sets out the background to the recent rise in inflation, and four potential scenarios for the medium-term future, defined as five to ten years. It looks at how the Fund's assets might behave, using both a qualitative approach based on causality and a stochastic model to provide some mathematical grounding.

I find the major unmitigated risk to ESPF is under the Stagflation scenario, where inflation remains above 5% and economic growth remains low. The recently appointed actuarial consultant will be conducting a valuation in 2022, and I do not recommend making major changes ahead of their report. I discuss how best to mitigate this 'gap' and suggest some steps as listed below for the Committee and Investment Working Group to consider.

Next step	Rationale	Who
Await next SAA review (2023) before implementing any major changes	Valuation preliminary results due late 2022	IWG, PFC
Postpone reductions in Newton and ILG allocation till after the next SAA review	Reconsider rationale for doing so in light of higher inflation	IWG, PFC
Consider allocating to broader more flexible strategies at the next SAA review	Greater flexibility to allocate tactically in more volatile market	IWG, PFC
Explore whether an overlay to mitigate risks under Stagflation is feasible	Mitigate risk in 5%+ inflation scenario	IWG

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2. Background to resurgence of inflation

Since the Global Financial Crisis in 2008, the authorities have tried to sustain economic growth through easy monetary policy and expanding central bank balance sheets. This trend was accelerated after the spread of COVID in early 2020 and subsequent lockdowns round the world. Central banks in the West responded on an unprecedented scale of quantitative easing. For example, the Bank of England's balance sheet was almost 4.5 times larger at the end of 2020 than eleven years earlier.

Chart 1 shows that U.K. consumer inflation ("**CPI**") stayed in the 0 to 3% range between 1993 and 2020 except for two short periods, first the Global Financial Crisis in 2008/9 and secondly 2011/12. This relatively low inflation reflects some strong disinflationary trends, most notably globalisation and technology.

Chart 1 – UK Consumer inflation 1990-2020

Source: Macrotrends.net

In contrast, asset inflation over this period has been much higher: the excess of money or credit not needed in the real economy has gone into assets, both financial and real. Stock markets, art, vintage cars, and football stars have all risen in price by many multiples. The impact of easy monetary policy has been seen here rather than on the high street.

In 2021 there has been a sharp rise in supply-side inflation, especially in commodities. U.K. consumer inflation in December 2021 stood at 5.4%, the highest level since 1993. This change in behaviour has primarily been caused by supply-side factors:

- A rise in energy costs caused partly by increased demand from China, and partly by Russian geo-politics over gas supplies.
- Pressure on labour costs caused by shortages in particular sectors (e.g. truck drivers).
- Trade-related constrictions, including shipping and container shortages and COVID-related frictions.

3. Inflation prospects

The consensus view today is that at some point in the future there will be a sustained period of higher inflation. Government borrowing has vastly increased and will have to be repaid somehow. In the absence of tax generation through higher growth, politicians may choose to inflate the real value of the debt away rather than cut spending, raise tax, or default.

The counterview is based around the experience of Japan in the 1980s and 1990s. After the 1980s bubble, asset prices collapsed by up to 80% when it burst. One secondary impact was to engender a deflationary mindset which has lasted thirty years and is still in place.

There are substantial, albeit not complete, parallels between Japan with the world today: money is effectively free, growth is anaemic, asset prices have spiralled ever upwards, demographics in the West are peaking, and there are only limited policy options available to the authorities. However, policy-setting is arguably more competent and government borrowing is lower with longer duration, so refinancing problems are less acute.

In the background, but not to be forgotten, are longer-term macro-economic trends. On the more inflationary side, these include:

- The increasing ratio of dependent to working-age populations
- the move to a carbon-free world and competition for scarce resources
- less efficient resource allocation as government interference increases.

There are also disinflationary trends:

- technology continuing to disintermediate whole industries
- a generational swing away from materialism in the West.

In the short-term, the question is whether the current surge in inflation turns into something more sustainable or is just a blip. The Bank of England forecasts[1] that CPI will peak at 7% in April 2022, but will then fall back to close to its 2% target rate. The bond markets, often reliable predictors, are predicting around 3% in inflation in five years' time, less in the U.S. and more in the U.K.

4. Four inflation scenarios

ESPF's liabilities are linked to CPI without a cap. I therefore use that index to define four possible inflation scenarios over the next five to ten years and look at the impact these might have on ESPF's assets. Inflation elsewhere in the world will undoubtedly have an influence, but I treat them as an input rather than an output.

I have ascribed a probability to each scenario. I expect governments generally to interfere more with the allocation of resources, which historically has been a major cause of inflation. The major variable will be the behaviour of central banks, which could either counter or exacerbate this. I expect institutional memories of inflation in the 1970s and 1980s to lead them to be tighter rather than looser, as per the recent comments by the Federal Reserve.

<u>Central Scenario (40%) - Sustained inflation</u>

In the central scenario (Sustained), I expect these two factors very roughly to balance each other out. Technology will continue to keep downward pressure on inflation generally, but supply side frictions begin to engender an inflationary psychology. Growth stutters on the back of higher energy prices but remains positive. Inflation stays at 3-5% i.e. the upper band of the last thirty years.

<u>Stagflation Scenario (20%)</u>

If I am wrong about central banks, both factors will face towards inflation in the second scenario, Stagflation. The authorities choose to continue QE policies (effectively the magic money tree) and the result is to devalue paper currencies. This will add a further impetus to inflation from more expensive imports. Growth becomes increasingly dependent on government spending and investor psychology focuses on trying to maintain the real value of wealth. Inflation rises above 5% and stays there despite the authorities' efforts.

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[1] Summary of Monetary Policy Committee meeting 2nd February 2022

Goldilocks Scenario (15%)

Central banks tread a middle path, tightening policy while western economic growth stays at about 2%. Inflation stays in the 1 to 3% range. Supply-side restrictions largely disappear, and governments in the main refrain from interfering with the allocation of resources.

Zero Inflation Scenario (25%)

The authorities are too harsh in bearing down on inflation and raise rates too aggressively. Demand falls as a result of tighter policy and higher energy prices, and real economic growth is elusive. Consumer psychology turns to one of minimising spending and inflation falls to zero or even deflation, as happened in Japan in the 1990s.

Table 1 sets out some key metrics for each scenario. These are only intended as an illustration. I assume that U.K. policy stays broadly in line with other western countries. If it chooses a different path, the prospects for sterling would likely diverge greatly.

Table 1 – Key metrics of four inflation scenarios over the medium-term

	Central	**Stagflation**	**Goldilocks**	**Zero inflation**
Inflation (CPI)	3-5%	Above 5%	1-3%	Below 1%
Real Growth	1-2%	0-1%	2-3%	Negative
GBP	Neutral	Falls	Rises	Neutral
10 yr gilt yield	4%	7%	3%	1%

5. General impact of inflation on asset prices

Inflation can affect the returns from all asset classes in two ways. It may directly affect the nominal income stream or capital return received from the asset. For example, if a company is unable to raise prices to make up for higher supply side costs, the impact on its earnings will be negative. Conversely, if inflation leads to weaker GBP, that may increase the GBP value of overseas earnings. As dividends paid ultimately depend on earnings made, the income stream for investors will be affected.

Secondly, it may affect the valuation of that income stream. Higher inflation will reduce the real (i.e. after inflation) value of a future nominal income stream. In financial terms, the present value will be lower. This is particularly relevant for investments with long duration, such as government bonds (gilts), growth equities, some real estate, and infrastructure.

Some assets will have a correlation (i.e. tendency to move in the same direction) with inflation which mitigates the risk. These include index linked bonds, infrastructure, and to a lesser extent real estate and equities. However, those with good protection abilities, such as index linked gilts, have a high opportunity cost. Equities' relationship with inflation is not linear. The correlation is highest when inflation is in the 1 to 3% range, but lower or negative when it is either lower or higher.

6. ESPF portfolio returns under each inflation scenario

Table 2 – ESPF projected nominal returns under different inflation scenarios

Ann. Return (%)	*SAA %*	***Central***	***Stagflation***	***Goldilocks***	***Zero inflation***	*Actuarial Projection*
Listed Equity	*40.0%*	*4%*	*-2%*	*6%*	*-3%*	*6.6%*
Private Equity	*5.5%*	*12%*	*8%*	*12%*	*6%*	*8.0%*
Ruffer DGF	*10.0%*	*5%*	*8%*	*4%*	*2%*	*5.35%*
Newton DGF	*7.0%*	*5%*	*4%*	*5%*	*1%*	*5.35%*
Infrastructure	*11.0%*	*6%*	*4%*	*6%*	*5%*	*6.35%*
Real Estate	*11.0%*	*6%*	*6%*	*6%*	*0%*	*5.85%*
Private Credit	*15.5%*	*7%*	*5%*	*8%*	*3%*	*4.0%**
Index Linked Gilts	*0.0%*	*1%*	*6%*	*-1%*	*-2%*	*1.0%*
TOTAL	***100.0%***	***5.5%***	***2.6%***	***6.4%***	***0.4%***	***5.9%***

**estimated by Linchpin using 1.4% illiquidity premium.* *Source Barnett Waddingham, Linchpin*

Table 2 gives the projected medium-term nominal return from the components of the ESPF portfolio under each scenario on an annualised basis. It is important to emphasise that these are subjective projections which will certainly be wrong. They are intended to give a sense of the likely behaviour of each asset and the overall portfolio in different scenarios.

I have also added a column to show the projected portfolio return using the new actuary's current projected return forecasts over 20 years. These cover a longer period than this paper's horizon and may well change before the 2022 actuarial valuation is published. They are shown for illustrative purposes only.

Conventional gilts offer a secure nominal income stream for up to 40 years. The valuation placed on this will be directly affected by the level of inflation, and the longer dated the gilt is, the greater the compounding effect is. They are therefore likely to perform poorly in any higher inflation scenario but offer good protection in the Zero Inflation scenario.

Index linked gilts ("ILG"s) offer a secure inflation-linked income stream for up to 40 years. They therefore offer perfect protection against all inflation scenarios, but for that reason the real yield is -2.5% at the long end of the yield curve. The PFC in November approved the sale of the current 3% weighting to fund a new credit allocation, though this has not yet been implemented.

Listed Equities are the mainstay of the portfolio. In general, the earnings and dividend streams will do well in an environment of economic growth and moderate inflation. Valuations, especially of the growth tech stocks which dominate the global indices, will do best in an environment of low bond yields.

Current valuations are close to historic highs; even in the more positive scenarios, I doubt there will be further appreciation. In Zero Inflation I assume weak earnings growth and more company failures. In Stagflation I assume that high bond yields lead to a fall in equity valuation, especially among the Large Tech stocks which currently dominate the market.

Private assets are subject to the same macro-economic forces as listed assets but are not marked to market every day. It therefore takes longer for net asset values and transaction prices to reflect realities.

Historically, **private equity** has provided higher returns than listed equities, mainly through using leverage. I expect this to continue even in the more adverse scenarios, albeit their returns may be lower than the 12 to 16% achieved historically. However, as with listed equities, in the more extreme scenarios either the earnings stream or the present value of that will fall. While nominal returns may be higher, I doubt the asset class will provide any greater inflation mitigation than listed equities.

Infrastructure covers a range of assets: core assets such as water utilities, where the cashflow generated is driven by the regulatory regime, are considered low risk and tend to have inflation linked contracts built in. Those with more economic exposure or which provide utility services to private companies, tend to exhibit higher risk with lower correlations to inflation. However, the recent example of Southern Water may be a symptom of increasing regulatory or political risk, especially in more extreme scenarios.

There is active interest from many investors in infrastructure, and any high-quality assets, especially core, tend to go for high prices. However, there is also substantial supply as aging infrastructure is updated or replaced. I therefore expect the underlying income stream to be reasonably stable whatever the inflation environment.

The valuation placed on this income stream will be affected by the discount rate which investors choose to use to value it. This is especially true of infrastructure assets, which tend to throw off income over a long period. Academic theory would price off gilt yields with an added premium for the risk. In practice, investors may choose to discount future income at a higher rate on the basis that gilt yields are artificially low because of government policy. I have chosen to reflect this in the Stagflation scenario negatively. Conversely, in the Zero inflation scenario where bond yields fall further, I have assumed that there is a positive valuation impact.

The Fund's exposure to **private credit** comprises both a multi asset credit fund, and some more targeted offerings such as an exposure to real estate debt. The objectives are all couched in terms of nominal returns, and it is likely that the underlying assets will be too. In normal conditions the credit risk will be small, and the asset class will deliver close to its expected return.

Under Zero Inflation, defaults will rise because of lower growth, but nominal and real returns should remain positive. The correlation with inflation will be limited, but even low nominal returns will be useful defence. In a Stagflation scenario, within private credit only the multi asset credit fund's ability to allocate tactically and flexibly can offer much protection against inflation.

Real estate lies somewhere between equities and infrastructure, but with a greater element of real assets behind their valuation. Some underlying contracts will be linked to inflation, but may be hard to enforce in a stressed environment. On the other hand, the nominal value of real estate assets is likely to rise in the Stagflation scenario.

ESPF's two **diversified growth fund** allocations, managed by Ruffer (10%) and Newton (7%), are multi-asset portfolios targeting a real return. The core of **Ruffer's** strategy is a large inflation linked gilts position, with the balance allocated to mitigate other risks. They set up their portfolio to deliver in all inflation environments, but particularly under the Stagflation scenario **Newton**'s strategy has a higher equity beta (i.e. will be more affected by equity movements). It is likely to do less well in the more extreme scenarios when equities fall.

7. Stochastic model

I have used a stochastic model produced by Alpima[2] to look at the likelihood of the current SAA achieving the target return over five years (the model's limit), using the return expectations for the Fund's assets under each scenario (as per Table 2). Table 3 shows for each scenario and the actuary's projected returns:

[2] www.alpima.com

- Portfolio mean return (i.e. the average of all returns)
- Likelihood of achieving a return higher than the 3.8% discount rate
- 95%ile return (i.e. a very bad outcome).

The model suggests that that the mean (average) portfolio return under either of the Central or Goldilocks scenarios will be broadly in line with the actuarial projections and 1 to 2% above the Fund's 3.8% discount rate. In each case the Fund has a roughly two thirds chance over 5 years of reaching its target return.

Table 3 – Modelled SAA returns over 5 years (%)

Scenario	Mean	% prob. of >3.8%	95%ile
Central	5.3	60	-9
Stagflation	2.4	35	-20
Goldilocks	6.0	67	-5.5
Zero Inflation	0.6	18	-27
Actuarial forecast*	5.9	67	-5.6

**over 20 years Source: Alpima, Barnett Waddingham, Linchpin Advisory*

The projected return in the two more extreme scenarios, Stagflation and Zero Inflation, are lower over 5 years, with one third or less chance of reaching the actuarial target. **Here I remind readers that periods of lower performance are inevitable. They are not inconsistent with achieving the longer-term return target set by the actuary and should not cause undue concern.**

In these more negative scenarios, the primary consequence is likely to be a reduction in the funding ratio, rather an inability to pay pensions on time. There may be implications for employer contribution rates which should not be ignored. However, any risk to ESPF's solvency is mitigated by the level of prudence which the actuary adopts when setting the discount rate and its long investment time horizon.

8. Gap analysis

ESPF's portfolio is well diversified and can be expected to deliver returns close to the actuarial return expectation if inflation stays in the approximately 1 to 5% range over the medium-term. A gap analysis should focus on the more extreme scenarios, which together have a 45% probability. This may seem a high number, but the monetary and market environment are both stretched today, and a pain-free exit should not be assumed.

Under the new actuary's current long-term forecasts, the projected return (5.9%) is 2% higher than the discount rate (3.8%). There will be many other considerations in setting the SAA, and the new actuary will be using different assumptions and methodology when setting the new discount rate. **Major changes to the SAA should therefore await the result of the next valuation.** But the 2% spread suggests that there is scope to de-risk the fund by reducing the allocation to equities if desired.

Table 4 shows the projected return under each scenario (taken from table 2) and the resultant real (i.e. after inflation) return.

Table 4 – Projected annualised real returns under each scenario

	Central	Stagflation	Goldilocks	Zero inflation
Nominal return	5.3%	2.4%	6.0%	0.6%
Inflation	4.0%	7.0%	2.0%	0.0%
Real return	1.3%	-4.6%	4.0%	0.6%

Under the Zero Inflation scenario, the real return remains positive, despite the minimal nominal return. Assets would grow more slowly than the actuarial projections, but the liabilities would also be substantially lower. Positive nominal returns come from the private equity and credit and DGF portfolios (together nearly 50%).

The dangerous scenario for the Fund is Stagflation, where the portfolio nominal return is moderate, but real returns are highly negative. Equities are the major detractor, while most other assets will deliver positive nominal returns, but negative real ones. This is the major gap in ESPF's investment risk mitigation, where I focus the remainder of this report.

9. Mitigating risk under the Stagflation scenario

The only way to protect completely against all inflation scenarios would be to purchase ILGs to match the Fund's expected liabilities. Because of the very low yields on these, ESPF would need to either use leverage or to levy substantial additional contributions.

I discuss three other potential strategies to help mitigate the 'gap' identified. The first is to vary the SAA to provide greater risk mitigation against >5% inflation. As above this should await the result of the 2022 actuarial valuation and only after due consideration of all the other factors to be taken into account when setting ESPF's SAA.

I used the Alpima model to look at varying the SAA in two ways:

- Inclusion of Index Linked Gilts because they represent the best protection
- Optimisation of the portfolio to minimise the average size of drawdowns.

No model should be taken as gospel truth, but the direction it indicates is of value. As Table 5 shows, it allocated away from equities towards DGFs and IL Gilts. I pay less attention to its private asset allocations (e.g. the reduction in infrastructure), because of the difficulty of modelling illiquid assets, but I note that it puts more into Private Credit. The benefit of the optimised portfolio is not in the return, which is lower, though still well above the 3.8% target, but in a less bad 'worst outcome' at the 95%ile.

Table 5 – Optimised model versus the current SAA

10 yr ann. Return (%)	SAA %	Model
Listed Equity	40.0%	30.0%
Private Equity	5.5%	0.0%
Ruffer DGF	10.0%	25.0%
Newton DGF	7.0%	5.0%
Infrastructure	11.0%	5.5%
Real Estate	11.0%	5.0%
Private Credit*	15.5%	19.5%
IL Gilts	0.0%	10.0%
TOTAL	**100.0%**	**100.0%**
Mean return	*5.9%*	*5.0%*
% chance of >3.8%	*67.0%*	*61.0%*
95%ile	*-5.6%*	*-1.0%*

Source: Alpima, Linchpin

I also note in this context that Ruffer's portfolio consists of nearly 50% ILGs, and one way of obtaining exposure while still gaining a positive real return would be to increase the exposure to Ruffer. This would have to be done in the context of the overall SAA allocation.

The second risk mitigation I considered was to implement an overlay on either the assets or the liabilities to provide protection. I set out four ideas for further discussion:

- An inflation protection overlay on the ESPF's liabilities
- An inflation rate swap with a counterparty
- A transaction to purchase tail risk strategy off a private sector pension fund
- A protection strategy on the Fund's assets.

Generally, the private pension sector favours the first two strategies. The first involves using leverage to fund a portfolio of ILGs. It provides good protection against all inflation rates but involves extra risks and governance. In theory it is possible to use derivatives to replicate the desired exposure for these, but liquidity is poor and in practice it is difficult.

The second strategy of an inflation rate swap has a linear pay-off involving downside if inflation were to fall as well as protection if it were to rise. I do not think this is appropriate for ESPF.

The third has rarely been done and is complex but is a neat way to bridge the identified 'gap'. Some private sector pension funds have an inflation cap at 5%, and do not need protection above that level. They regularly employ overlays to hedge their inflation risk, and may be willing to sell the tranche above 5% to ESPF in order to cut their own hedging cost. Consideration would need to be given to sizing, structuring, and the use of complex instruments within the LGPS.

Finally, less targeted overlays may be sought on the Fund's equity exposure or duration. The first would be based on nominal values (i.e. the index rise or fall), and so would not provide protection against real losses. A duration overlay could provide mitigation against a rise in interest rates, as might be expected under Stagflation, but is not a precise hedge.

The third broad approach is to mitigate risk through a more tactical approach to allocation. The clearest parallel to the Stagflation scenario is the 1970s, when there was substantial volatility in inflation, economic growth, and politics. A similarly stressed environment is likely under Stagflation, with less stable politics, individual politicians, and policies.

I doubt that a static SAA will perform well in this environment and suggest that an element of tactical decision-making will be desirable. Broader mandates with scope to react more quickly to changing markets may be better placed than ESPF's static SAA. Examples might be diversified growth funds, multi asset credit funds, or hedge funds. Ruffer's DGF strategy may be particularly appropriate, given its high weighting in Inflation linked bonds.

10.Conclusion and next steps

I find that **ESPF's portfolio is well diversified and should deliver adequate returns to pay pensions in most inflation environments. The long-term investment horizon and healthy level of funding mean that it can cope with a period of lower returns.**

The most significant 'gap' I find is an environment where inflation rises by more than 5% for a period of five years, i.e. the Stagflation scenario. Unlike the private sector, the LGPS has no inflation cap to its liabilities, and in this scenario the asset portfolio is unlikely to keep pace with that level of inflation

Perfect hedges to this, such as matching the liabilities with a portfolio of ILGs, are available, but incur a high opportunity cost. The Ruffer portfolio is probably the most cost-effective way to gain exposure to ILGs.

When setting the SAA, it is necessary to balance many risks and consider other factors. Mitigating inflation risk is important, but so are other considerations such as diversification of assets and managers, costs, and pooling. Measures taken to mitigate the risks discussed in this paper will necessarily be partial and must be considered in the context of the whole portfolio.

ESPF also has a new actuary who may take a different view on the Fund's solvency. I therefore suggest that any major changes should await the 2023 SAA review when the results of the 2022 actuarial valuation should be available.

Table 6 sets out some suggested next steps for consideration for both the IWG and the PFC.

Table 6 – Suggested next steps

Next step	Rationale	Who
Await next SAA review (2023) before implementing any major changes	Valuation preliminary results due late 2022	IWG, PFC
Postpone reductions in Newton and ILG allocation till after the next SAA review	Reconsider rationale for doing so in light of higher inflation	IWG, PFC
Consider allocating to broader more flexible strategies at the next SAA review	Greater flexibility to allocate tactically in more volatile market	IWG, PFC
Explore whether an overlay to mitigate risks under Stagflation is feasible	Mitigate risk in 5%+ inflation scenario	IWG

Beyond oil and gas alliance (BOGA)

About

Beyond oil and gas alliance **(**BOGA) is an international alliance of governments and stakeholders, created by Costa Rica and Denmark, launched at the 2021 United Nations Climate Change Conference (COP26). The aim is to seek to deliver a managed and just transition away from oil and gas production, working together, through high level political dialogue, policy and technical support, with the aim to mobilise action and commitments, and create an international community of practice on this issue.

Oil and gas production is defined as the upstream exploration, development and production of oil and gas up to, but not including, midstream and downstream activities.

It is acknowledged that countries will have different capacities to phase out oil and gas production faster. BOGA states industrialised countries must lead the way; it's a global challenge that requires global solutions.

In a press release on the group's establishment, Danish Climate Minister Dan Jørgensen said:
"Science has made it clear – the fossil era needs to come to an end. This is why Denmark has set an end date for oil and gas production. And why we are building this alliance of countries willing to step up to the plate. BOGA will help to spur momentum for countries to phase out their production of oil and gas while creating a clean energy economy."

Commitment

Core members are committing to end new concessions, licensing or leasing rounds and to set a Paris-aligned date for ending oil and gas production under their jurisdiction. These core members are National governments or decision-making authorities with decision making power over licencing oil and gas exploration. They are **-** Denmark, Costa Rica, France, Greenland, Ireland, Quebec, Sweden, Wales.

Associate members are National governments or decision-making authorities with decision making power over licencing oil and gas exploration who have taken one or more significant step to reduce oil and gas production, for example ambitious domestic subsidy reform, ending of fossil fuel R&D financing. These members are - California, New Zealand, Portugal.

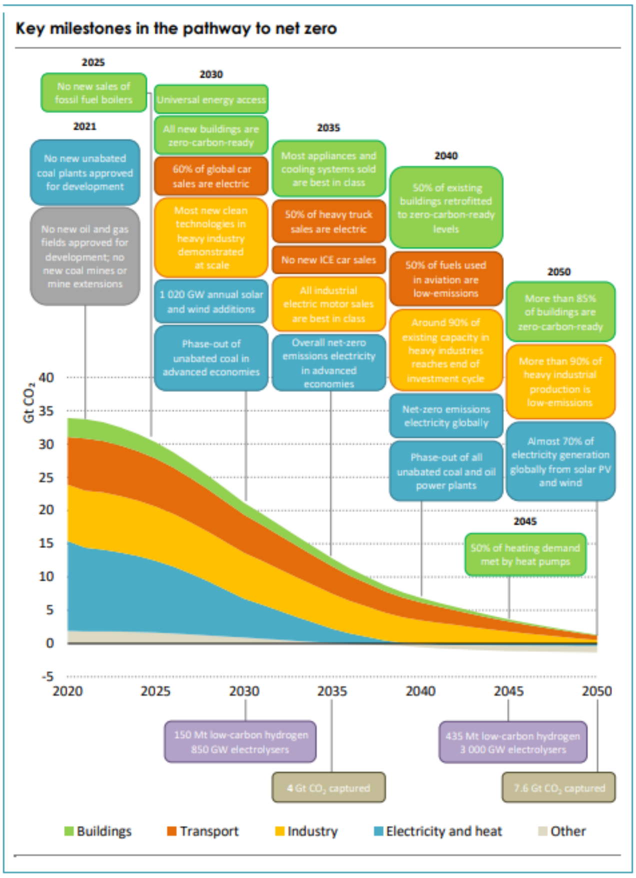
Friends of BOGA are National and sub-national governments and others (indigenous peoples, financial institutions, companies etc.) who are signatories to the Declaration, which supports a socially just and equitable global transition to align oil and gas production with the objectives of the Paris Agreement, and work together to facilitate effective measures. These signatories are Italy, Finland, Luxembourg.

Why has BOGA come about?

Recent reports from the UN Environment Programme, the International Energy Agency (IEA) and the Intergovernmental Panel on Climate Change have made it clear that it requires significant reductions in coal, oil and natural (fossil) gas to reach the goals of the Paris Agreement.

The IEA report – net zero by 2050 published in May 2021 sets out a global pathway to net zero emissions by 2050 and states that all governments need to significantly strengthen and then successfully implement their energy and climate policies. Commitments at the time fell far short of what is required and although further commitments in November 2021 at COP 26 were made, the commitments continue to be insufficient and many pledges are not under pinned by near term policies and measures. The IEA pathway calls for

- Policies should be strengthened to speed the deployment of clean and efficient energy technologies.
- No new unabated coal plants approved for development from 2021
- No new oil and gas fields approved for development, no new coal mines or mine extensions from 2021



Source: International Energy Agency Special Report - Net Zero by 2050 A Roadmap for the Global Energy Sector May 2021

What have the UK government said about BOGA?

At the time of writing this report, the UK has abstained from joining BOGA. A spokesperson for the UK Government (source - offshore-technology.com November 12, 2021) said there would likely be an ‘ongoing but diminishing’ demand for oil and gas, so the UK could not commit to phasing out the energy sources entirely.

The spokesperson noted that oil and gas would be necessary as the country works to accelerate its renewable capacity, and added that “no other significant oil and gas producing nation had gone as far as the UK in supporting the sector’s gradual transition to a low carbon future, as demonstrated by our North Sea Transition Deal”.

There is concern from the UK government over a just transition and a UK Government spokeswoman said: “While we are backing the UK’s oil and gas industry’s transition to green energy, there will continue to be ongoing but diminishing need for oil and gas over the coming years while we ramp up renewable energy capacity, as recognised by the independent Climate Change Committee”.

“What we cannot have is a cliff-edge where oil and gas are abandoned overnight. Turning off the taps would put energy security, British jobs and industries at risk and we would be even more dependent on foreign imports” (source - Cambo: UK Government says oil and gas cannot be ‘abandoned overnight’ (energyvoice.com))

The Scottish Government declared they would not join BOGA (source - press release11 November 2021 - UK offshore oil and gas representative body Oil and Gas UK (OGUK))

The OGUK in their press release say that “the leading representative body for the UK offshore oil and gas industry, welcomed the decision as one that strengthened Scotland’s energy transition and will actually safeguard the acceleration of essential green technologies as well as Scottish jobs”.
OGUK CEO Deirdre Michie said: “The UK’s offshore oil and gas industry is changing – we are in a unique position and are helping aid the energy transition underway. While we still need oil and gas, it is far better we meet our own demand with our own resources rather than importing it, which can be far worse for the environment.
Putting an arbitrary end to supply and production would damage livelihoods across Scotland – the same communities whose skills will be vital in helping us achieve a low-carbon economy.”

How does BOGA align with the Pension Funds current commitments?

The Statement on Responsible Investment Principles outlines the Funds consideration and approach to Responsible Investment climate risk and comments on the Energy Transition. Key elements from the Statement relating to this matter are -

- Stewardship is the responsible allocation and management of capital across the institutional investment community to create sustainable value for beneficiaries, the economy and society.
- There may also be inherent conflicts between the Environmental, Social and Governance factors forming the ESG framework.
- Government engagement: we engage with government through responding to government consultations and aim to influence policy makers through the Funds collaborative engagement groups initiatives.
- The Fund recognises that a prolonged Energy Transition is under way. It also acknowledges that a number of energy incumbents through their size,

capacity to mobilise capital and engineering expertise offer the potential to play a substantial role in that transition. It seeks to balance the economic reality that fossil fuels currently provide 80% of the world's primary energy and that energy demand will grow by up to 50% by 2050, with global commitments, as yet not fully backed by detailed policy, to decarbonise the energy system by the second half of the century. Where viable opportunities arise, the Fund will seek to increase its exposure to renewable infrastructure assets.

- The Fund is aware that there are a range of possible transition scenarios, evolving physical climate related risks and potential opportunities. There are also many uncertainties. This makes portfolio construction around such scenarios very challenging. Instead, East Sussex Pension Fund (ESPF or the Fund) seeks to broadly align its investment approach with the objectives of IIGCC and Climate Action 100+ initiatives.
- ESPF recognises the importance of the Paris Agreement of the United Nations Framework Convention on Climate Change. The central aim of the agreement is to strengthen the response to the global threat of climate change by:
  - keeping a global temperature rise this century well below 2 degrees Celsius above pre-industrial levels and to pursue efforts to limit the temperature increase even further to 1.5 degrees Celsius;
  - strengthening the ability of countries to deal with the impacts of climate change through appropriate financial flows, a new technology framework and an enhanced capacity building framework; and
  - enhancing transparency of action and support through a more robust transparency framework.

As a signatory to the PRI, the Fund agrees that long term investors should prioritise public policy engagement and have previously been signatories to engagement with policy makers for example in signing the 2021 Global Investor Statement to Governments on the Climate Crisis lead by the Investor Agenda and promoted through the Funds membership of Institutional Investors group on Climate Change (IIGCC), in June 2021.

Agenda Item 17

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Appendix 1

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