PENSION COMMITTEE

WEDNESDAY, 30 NOVEMBER 2022

10.00 AM COUNCIL CHAMBER, COUNTY HALL, LEWES

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

A G E N D A

1. Minutes *(Pages 3 - 16)*

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 17 - 30)*

6. Governance Report *(Pages 31 - 48)*

7. Pensions Administration report *(Pages 49 - 58)*

8. Internal Audit report *(Pages 59 - 68)*

9. Quarterly budget report *(Pages 69 - 72)*

10. Annual Report and Accounts 2021-2022 *(Pages 73 - 242)*

11. Annual Training Plan Report *(Pages 243 - 244)*

12. Risk Register *(Pages 245 - 256)*

13. Investment Report *(Pages 257 - 410)*

14. Work programme *(Pages 411 - 424)*

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 425 - 512)*

18. 2022 Triennial Valuation and Funding Strategy Statement *(Pages 513 - 640)*

19. Covenant Report *(Pages 641 - 678)*

20. Breaches Log *(Pages 679 - 684)*

21. Employer Admissions and Cessations *(Pages 685 - 698)*

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

PHILIP BAKER
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22 November 2022

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PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at County Hall, Lewes on 20 July 2022.

PRESENT	Councillors Gerard Fox (Chair) Councillors Ian Hollidge, Paul Redstone, David Tutt and Georgia Taylor
ALSO PRESENT	Ian Gutsell, Chief Finance Officer Sian Kunert, Head of Pensions Russell Wood, Pensions Manager: Investment and Accounting William Bourne, Independent Adviser to the Pension Committee David O'Hara, ISIO Charles Pringle, ISIO Leah Worrall, ISIO Tim Gooding, Baillie Gifford Amy Anderson, Baillie Gifford Roisin McGuire, Barnett Waddingham Paul Freedman, Pensions Investment Analyst Mya Khine, Pensions Accountant Dillon Piggott, CIPFA Trainee Elitsa Iskrenova, Pensions Accounts Assistant Bekki Freeman, Solicitor Martin Jenks, Senior Scrutiny Advisor Thea Synnestvedt, Governance and Democracy Officer Councillor Nick Bennett Ray Martin, Chair of the Pension Board

20. MINUTES

20.1 The Committee discussed disruptions at County Hall which had taken place the previous day. The Committee RESOLVED to allow press only into the meeting to avoid further disruptions noting that the meeting would be webcast to the public.

20.2 The Committee RESOLVED to agree the minutes of the meeting held on 17 June 2022 as a correct record.

21. APOLOGIES FOR ABSENCE

21.1 There were no apologies for absence.

22. DISCLOSURE OF INTERESTS

22.1 There were no disclosures of interests.

23. URGENT ITEMS

23.1 There were no urgent items.

24. BAILLIE GIFFORD - GROWTH EQUITIES PRESENTATION (TRAINING ITEM)

25.1 The Committee received a presentation from Baillie Gifford regarding the place of growth equities in the current inflationary environment.

25.2 The Committee discussed a range of issues including:

- Bailie Gifford's Paris-Aligned portfolio – The Committee discussed the inclusion of amazon.com, Rio Tinto and CRH in the Paris-Aligned portfolio. Tim Gooding, Baillie Gifford, updated the Committee that amazon.com were ahead of their target to become net zero by 2040, including scope 3 emissions. Rio Tinto and CRH produced materials essential for renewable energy, e.g., copper and so remained in the portfolio. However, it was noted that Bailie Gifford had recently voted against Rio Tinto's climate plans. The portfolio had a two-stage screening process, with the first step being to exclude fossil fuel companies. Bailie Gifford noted that the portfolio did have a carbon budget, but they would not be investing in fossil fuel companies as this is a growth portfolio and they saw no long-term sustainable growth predicted in this industry.

- Engagement – The Committee discussed the efficiency of engagement noting that this will depend on the size and length of the holding. Bailie Gifford fed back that it was therefore beneficial to invest assets for a longer period of time and hold larger shares and that they generally hold around 10-20% of a share.

- Healthcare – The Committee discussed opportunities for healthcare investments, noting that many healthcare companies rely on patents, which lose value over time. However, many of these companies remain in business due to their reputational success, such as the success of the covid-19 vaccination created by Moderna. The majority of new healthcare companies also operated as data/software companies which enabled investors to better predict their future outcomes.

- Exposure to China – Chinese regulation places limits on overseas ownership of Chinese companies. Foreign exposure to Chinese industries, such as the tech industry is therefore often done through Chinese Cayman Shell Variable Interest Entities which are traded by investors on US exchanges in a similar manner to American Depositary Receipts (ADRs), although they are not ADRs.. Recent Chinese regulatory measures had however been amended to facilitate further cross-border regulatory co-operation. It was noted that holding Chinese Cayman Shell Variable Interest Entities posed a risk due to the nature of the ownership and it was difficult to engage with companies regarding their stewardship processes when owning a stock through an offshore vehicle. The Committee noted that Bailie Gifford had previously had a high exposure to China, which had reduced in recent months, with current exposure totalling 6-7% of the portfolio. Bailie Gifford had recently opened offices in Shang Hai which enabled them to get better traction in the Chinese market.
- The Committee discussed Bailie Giffords position on volatility versus cumulative return and it was noted that Bailie Gifford would provide further information regarding their position.

25.3 The Committee RESOLVED to note the report.

25. BARNETT WADDINGHAM - INFLATION AND FUNDING POSITION PRESENTATION (TRAINING ITEM)

25.1 The Committee received a presentation from Barnett Waddingham regarding the 2022 valuation assumptions.

25.2 The Committee discussed the potential impacts of increased inflation rates, including the impact of Brexit and the impact of climate change on life expectancy. The Committee discussed the assumptions that would drive contribution rates including pension increases link to CPI, Salary increase assumptions and the discount rate assumptions linked to anticipated investment performance and although the initial results had not yet been run it was noted that it the expectation was the Fund may reach 110 per cent funding level at a whole fund level, which compared favourably with other Funds. The Committee was supportive of the approach for stability of contributions, as the first three years' experience would not necessarily reflect the average long-term assumptions due to high inflation experience and stability of contributions for employers is important in a period of financial pressure.

25.3 The Committee RESOLVED to note the report.

26. INVESTMENT REPORT

26.1 The Committee considered a report providing an update on the investment activities undertaken by the East Sussex Pension Fund.

26.2 The Committee discussed the progress made by the Fund over the last 6 months to reduce carbon emissions, with a greater focus on energy transition and sustainable investments. The Fund is currently in a market leading position for sustainable investment which would help drive long term performance. However, in the short term there had been a significant impact on the performance of the Fund, much contributed to by the situation in Ukraine due to the Fund's limited exposure to fossil fuels and value stocks.

26.3 The following Motion was proposed by Councillor Taylor and seconded:

- *Note that the Fund has already made much progress as a climate friendly fund, and that several of the Fund managers are taking concrete steps to minimise exposer to fossil fuel assets, but more needs to be done.*
- *To fully divest from the top 200 publicly-traded fossil fuel companies (including any commingled funds that include fossil fuel public equities and corporate bonds) within 5 years, and that officers and advisers will explore a safe and prudent pathway towards this divestment over the next five years, bearing in mind the Fund's fiduciary responsibility to its members.*
- *To develop a policy around engagement that sets out possible escalations if engagement is unsuccessful.*

26.4 The Committee considered a number of arguments for the divestment of investments held in fossil fuel companies, including:

- The Climate Act requires all Councils to reach net zero by 2050 and so the Fund should comply with the requirements the Act.

- Engagement with fossil fuel companies is not progressing at the desired speed and the Fund is not investing in renewable energy on the scale needed. An engagement policy is required to ensure that clear policy objectives are outlined for when companies do not comply with the standards of the Fund.
- Fossil fuel companies continue to extract oil as well as exploring new extraction opportunities. It would therefore be important to clearly demonstrate to the sector that this would not be tolerated and does not comply with the standards of the Fund. If the Fund were to publicly state its concerns regarding fossil fuels and global warming it would demonstrate a stand against the sector with the potential to generate wider action.
- By making a commitment to divest over the next 5 years, the Fund can carefully consider its fiduciary duty and options for new investment pathways. Investing in sustainable growth funds would be essential to ensure positive returns over the longer term.
- The largest impact of divestment would be now. The current inflationary environment and energy crisis has caused a rise in fossil fuel shares over the last years. The Fund has also made significant changes to its portfolio already which would mean divestment would be less of a risk now than previously.

26.5 The Committee considered a number of arguments against the divestment of investments held in fossil fuel companies, including:

- The Fund operates under guidance from Government departments including the Department for Levelling Up Housing and Communities and the Department of Work and Pensions (DWP) and investment advisors, none of which advise divestment and so, operates fully within the law and in line with national government requirements.

- Impacts of the changes made to the Fund's sustainability over the last six months were beginning to emerge. However, until the real impact could be assessed it would not be prudent to make significant changes to the portfolio until the impact of the current implementations were clear.

- The Committee discussed the Fund's engagement policy noting that this had been successful in changing corporate behaviours. An example of this is Ruffer, whom in 2020 undertook engagement with Exxon Mobil whom at that time was not willing to make Ruffer's proposed amendments. Ruffer consequently divested from the company and has focused on investing further in renewable energy companies instead.
- Energy companies will play a significant part in the renewable energy transition. Equally, fossil fuels remain a part of the supply chain involved in creating renewable energy sources and infrastructure. As a result of engagement, many of these companies are working to make the transition to becoming an energy company rather than a fossil fuel company and as such, require support in their transitionary period. By way of example, BP targets 50GW renewable energy capacity by 2030, Total 35GW by 2025 and Equinor is aiming for around 15GW by 2035. The renewable technologies that such companies seem particularly well-suited to contribute to, and are demonstrably engaged in, include: closed loop geothermal, offshore wind, floating offshore wind, hydrogen electrolysis, and Carbon Capture and Storage.
- The Fund is part of the ACCESS pool and therefore, to divest, investments would have to be taken out of the pool in order to cut fossil fuel investments, which would be against government direction to pool LGPS assets. Although the Fund's exposure to fossil fuel is low, the relevant remaining asset classes are less likely to have fossil fuel free options

as the Fund has already removed fossil fuels from equities which is the first asset class to offer sustainable alternative.. The Fund would need to go through segregated mandates to implement such a strategy, with details of the costs being unknown.

26.6 The Committee was advised that divestment was likely to have significant financial implications for the Fund and it was recommended that a detailed analysis be completed to review the implications of a potential divestment policy to ensure the Fund was able to comply with its fiduciary duties Early evidence suggested that divestment had not been an effective approach as this enabled ownership of oil and gas companies to move into private ownership, which could result in less scrutiny.

26.7 William Bourne, Independent Adviser to the Pension Committee fed back that it remained important that the Committee is consistent with their fiduciary duty and have considered proper advice from investment advisors before making decisions. A full divestment policy would not be consistent with the Committee's fiduciary duty as the Fund's portfolio should remain diversified, with the opportunity to invest in fossil fuel companies if required. Investment managers are responsible for driving engagement and it is down to the managers to divest if the engagement process is unsuccessful. A Motion passed by the Committee to divest would need to evidence that the implications do not include any financial detriment and would require majority support from members of the Fund, neither of which could be evidenced at this point in time.

26.8 The following amendment was proposed by Councillor Fox and seconded:

26.9 *The* Committee *resolves to ask officers and the Fund's external advisers to conduct a piece of work concurrent with the completion of the triennial valuation which:*

1. *Assesses the fiduciary and legal consequences of fossil fuel divestment for the Fund;*

2. *Examines how such a move aligns with relevant guidance and advice;*

3. *Explores how practical an act it would be within the context of the ACCESS pool; and*

4. *Reviews evidence on the efficacy of such an approach in promoting the energy transition.*

26.10 The amendment was put to the vote and the Committee RESOLVED to agree the amendment. The Committee noted that it would be essential to look at a range of different *sources* when reviewing evidence in relation to divestment. The report should be completed in line with the triannual valuation and reported to the Committee in quarter 2 of 2023.

26.11 The following amendment was proposed by Councillor Tutt and seconded:

In principle, propose to divest from all fossil fuel companies excluding utility companies and to use that money to invest in green infrastructure funds subject to advice from the Fund's professional advisers.

26.12 The amendment was put to the vote and LOST.

26.13 The Committee RESOLVED to:

1) note the Investment Workplan (appendix 1);

2) note the Quarterly Investment Report from the Investment Advisor, Isio (appendix 2)

3) note the investment strategy review (appendix 3) and agree the following amendments to the implementation plan for the investment strategy:
    - maintain the absolute return mandates until the infrastructure equity mandate is drawn;
    - to continue using the corporate bonds to fund the new diversified credit mandate;
    - retain the index-linked gilt allocation over the short term;
    - trim the core property exposure and hold this in index linked gilts until decision made on inflation-linked property;
    - re-visit the case for inflation-linked property in the current environment ahead of implementing the strategic allocation.

4) note the equity performance and investment outlook considering investment style and exclusions;

5) note the update on the Carbon footprint of the Fund;

6) note the Q1 Engagement Report (appendix 4);

7) approve that officers make a submission of the Stewardship Code to the Financial Reporting Council (FRC);

8) note the External Assurance report update;

9) note the ACCESS update;

10) delegate authority to the Chief Finance Officer to take all necessary actions to give effect to the implementation of the above recommendations; and

11) to ask officers and the Fund's external advisers to conduct a piece of work concurrent with the completion of the triennial valuation which:
    - assesses the fiduciary and legal consequences of fossil fuel divestment for the Fund;
    - examines how such a move aligns with relevant guidance and advice;
    - explores how practical an act it would be within the context of the ACCESS pool; and
    - reviews evidence on the efficacy of such an approach in promoting the energy transition.

27. EXCLUSION OF THE PUBLIC AND PRESS

27.1 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).

28. INVESTMENT REPORT

28.1 The Committee considered a report providing an update on the investment activities undertaken by the East Sussex Pension Fund that are considered exempt under the Local Government Act 1972.
28.2 A summary of the discussion is set out in an exempt minute.
28.3 The Committee RESOLVED to agree the recommendations as set out in the report.

29. ESG IMPACT ASSESSMENT

29.1 The Committee considered a report providing a review on the investment managers' Environmental Social and Governance activities.

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

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

30. CLIMATE CHANGE AND CARBON FOOTPRINT

30.1 The Committee considered a report providing an update on the Carbon footprint of the East Sussex Pension Fund's liquid investments and the exposure to fossil fuel companies.

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

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

31. OCCUPIED TERRITORIES REPORT

31.1 The Committee considered a report providing an update on the exposure and engagement activities in relation to investments within the occupied Palestinian territories.
31.2 A summary of the discussion is set out in an exempt minute.

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

The meeting ended at 4.45 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.

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PENSION BOARD

MINUTES of a meeting of the Pension Board held at Council Chamber, County Hall, Lewes on 15 November 2022.

PRESENT Ray Martin (Chair), Councillor Tom Druitt, , Stephen Osborn and Neil Simpson, Niki Palermo (via Teams)

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
Paula Jenner, Employer Engagement Officer
Dave Kellond, Compliance and Local Improvement Partner
Danny Simpson, Principal Auditor
Paul Linfield, Pensions Communications Manager
Dillon Piggott, CIPFA Trainee / Apprentice
Mariana Obetzanova, Pensions Training Coordinator
Mya Khine, ESPF Accountant
Georgina Seligmann, Governance and Democracy Manager
Cllr Paul Redstone
Cllr Gerard Fox
Cllr Georgia Taylor
Cllr Ian Hollidge
Cllr Nick Bennett
Barry McKay – Barnett Waddingham

1. MINUTES

1.1 The Board agreed the minutes of the previous meeting held on 27 May 2022 as a correct record.

2. APOLOGIES FOR ABSENCE

2.1 Apologies for absence were received for Lynda Walker and Cllr Toby Illingworth, Lynda is now Vice-Chair.

3. DISCLOSURE OF INTERESTS

3.1 There were no disclosures of interests.

4. URGENT ITEMS

4.1 There were none.

5. PENSION COMMITTEE AGENDA

5.1 The Board considered a report containing the draft agenda for the Pension Committee meeting due to be held on 30 November 2022.

5.2. The Board noted that the Valuation report would go to Committee after the Employers' Forum meeting of 24 November. The Committee will highlight any concerns with the valuation outcome which will then be subject to a full consultation process with the final approval expected in March 2023.

5.3 The Board RESOLVED to note the agenda.

6. GOVERNANCE REPORT

6.1 The Board considered a report providing an update on various governance workstreams completed and changes affecting LGPS and the ESPF.

6.2 Michael Burton (MB) highted to the Board that there will be significant change to its membership in 2023; in April the terms for three members of the Pension Board are due to come to an end and Officers will soon commence planning for the appointment process. Additionally, the Chair of the Pension Board's term also expires at the same point which will require an appointment process to be completed. Local elections in May 2023 may further impact on Pension Board membership during the year.

6.3 All members of the Pension Board who are coming towards the end of their terms will be asked to confirm with Officers whether they wish to be considered for re-appointment.

6.4 MB highlighted the ministerial changes outlined in the report. At the Department for Work and Pensions, the Rt Hon Mel Stride MP is the current Secretary of State, Laura Trott MP has been appointed as the Parliamentary Under Secretary of State for Pensions. The Scheme Advisory Board has commented that the change in ministers and a new Prime Minister may cause some delays in projects being run by the Department. The Board will be kept informed of any further changes.

6.5 MB advised that officers have been working with an external advisor to consider the recommendations for the decision-making matrix; the Board will be kept informed of changes.

6.6 MB advised that the issue reported by Prudential in which they had incorrectly managed the lifestyle fund transition near retirement for members only impacted one member. More information is expected from Prudential in the middle of November and further updates will be provided as appropriate.

6.7 Neil Simpson (NS) highlighted that there are several missing policies in the table in Appendix 1. MB and Sian Kunert (SK) confirmed that there is not necessarily a requirement to have a policy for each discretion and that many relate to administration processes. There is a standard approach and guidelines around these. SK confirmed that those with no policy will be looked at by case by case and that work in progress to collate copies of employer policies.

6.8 The Board RESOLVED to:

1) Note the report and its appendices;
2) Request that officers update the table to include where there is an administration

process in place;
3) Consider the residual discretions where there is no policy or administration process in further detail.

7. EMPLOYER ENGAGEMENT AND CONTRIBUTIONS REPORT

7.1 The Board considered an update on employer engagement tasks that directly affect the East Sussex Pension Fund (ESPF or the Fund).

7.2 Paula Jenner (PJ) provided an update on i-Connect; 90 employers are now onboarded, data cleansing required ahead of onboarding others but going well. The intention is to have all employers completed by March 2023. There has been increased team capacity which has supported the process. The Employer Forum will be held on the 24 November with 75 delegates and 35 employers expected. All Board members are invited to attend the Employer Forum.

7.3 PJ highlighted that the Engagement team has been trialling some training/education sessions with employers and their members which has been well received. The training/education provides information on the key topics of the Local Government Pension Scheme and provides background information on pensions and employees choices on leaving. There is future training planned for 2023 and will be bespoke for employers.

7.4 PJ highlighted that payment of late contributions are lower than a year ago. Regular reminders and communications has lowered the number of late payments and forms. There is no noticeable pattern of concerns.

7.5.1 The Board RESOLVED to note the report.

8. COMMUNICATIONS REPORT

8.1 The Board considered an update on communication tasks that directly affect the East Sussex Pension Fund; activities have included newsletters, additions to the website, forms updated forms to improve accessibility, survey results have been published along with new guidance for employers and members. This information is also fed through the Communications Working Group.

8.2 Ray Martin (RM) asked whether it was the case that engagement activity is having a positive effect with employer engagement.

8.3 SK confirmed that engagement had increased and that an in person survey will be conducted at the next Employer Forum to further increase officers' knowledge and improve communications with employers.

8.4 Stephen Osborn (SO) commented that communications are more regular and requested targeted communications which could be sent out by employers and whether there was more than can be provided to support employers for those members approaching retirement.

8.5 SK confirmed that a retirement guide has been published and the Fund can look into training being available.

8.6 The Board RESOLVED to:

1) Note the report and its contents;
2) Request that officers circulate retirement guidance;
3) Request that officer circulate the training available to support employers

9. PENSIONS ADMINISTRATION REPORT

9.1 The Board considered a report providing an update on matters relating to Pensions Administration activities for the period October 2021 to September 2022.

9.2 Paul Punter (PP) drew the Board's attention to the PAT performance numbers in appendix 1, during quarter two 2022, average at 97.91% which were like the previous quarter. However, quarter three 2022, average fell to 94.28% with a low of 90.16% in September. This drop in performance reflected the need for significant team resources to be diverted to projects, senior staff taking time to undertake recruitment interviews, while also being peak holiday season. PP was pleased to state the October performance was back above 95%

9.3 PP highlighted that from August 22 the refunds task KPI in appendix 1 includes frozen refunds – those who chose not to take the money back immediately as they may later want to transfer the value into another public sector pension arrangement. PAT process about 100 frozen refunds a month and these are considered a lower priority and as such has not scored well, adding to the recent lower performance.

9.4 RM recalled from previous Admin Working Group meetings that there was a back log of frozen refund cases to clear.

9.5 PP confirmed that there are approx. 5,000 frozen refund cases on Altair but they can only be processed after five years. PP anticipated with both the addition of new recruits and the improved visibility of the tasks that the performance numbers will improve.

9.6 RM asked when a report can be expected which benchmarks the funds targets against other similar funds as it would be difficult to support any KPI changes in the absence of reviewing comparative data.

9.7 PP confirmed that the issue had been raised with the Senior Area Pension Officer Group and there is some agreement to share targets. Officers can produce some retrospective information. The aim is to produce a paper on any proposed changes to KPI targets for the February meeting as part of the update to the Pensions Administration Strategy.

9.8 PP then turned to appendix 2 and provided an update on the Helpdesk performance. It was noted with effect from 25 November 2022 Surrey are taking their Pensions Helpdesk in-house. Currently ESPF is happy with the helpdesk performance so are not looking to immediately follow suit but will review available options in the Summer 2023.

9.9 PP provided a project update:
- The Annual Benefits Statements for 2022 results would have been reported in September following the 31 August statutory deadline. The results were slightly better than the previous year with 99.79% of deferreds receiving an ABS and 96.72% of actives (excluding the one employer for whom there are data issues).- Both the historical and the 2021/22 Annual Allowance projects will be concluded soon with only a handful of cases outstanding (plus actives for one employer). - Mortality: monthly

checks of UK pensioners data reviewed through ITM since June 22, a tiny number of cases found through the historical review. This was reassuring and confirmed the ways of identifying and reporting deaths in a timely way is working. An overseas mortality project for the 500+ pensioners commenced in October 22. The documents for completion was sent by email to about 80% any many responses have already been received.
- Address Tracing Exercise –the "gone away" addresses will be reviewed every two years. In October we provided our existing deferred members data to ITM for review against various credit reference agencies. The initial results saw 83% of our 24,501 deferred's traced to an address. The remainder will move on to a full trace (deeper dive).

9.10 NS asked what the implication was for delays to the GMP rectification project.

9.11 PP confirmed that the risk is that larger overpayments may need to be written off but of very small numbers (well under 1% of pensioner liabilities) and the impact on most pensioners was likely to be within £100 a year.

9.12 Tom Druitt (TD) asked if it was possible to have more detail on the call answer time and noted that the abandoned call rate for main help line seems to fluctuate, it increased this year despite achieving 0 last year.

9.13 PP confirmed that there is a very ambitious target for call rate (75% in 20 seconds) and the service does increase resources when significant communications like the ABS are issued in order to respond to queries but it is a challenge to get the correct balance. The call abandonment time (how long members are prepared to wait in busy times) has fallen on average from around 6 minutes to around 2 minutes.

9.14 The Board wished Julie Pelham good luck in her nomination of Team Leader of the Year at the Professional Pensions - Women in Pensions 2022 Awards tonight. (Subsequent to the meeting Board members were circulated with the news that Julie won the award).

9.15 The Board RESOLVED to note the report

10. INTERNAL AUDIT

10.1 The Board considered the internal audit report contained in appendix 1 of the report.

10.2 Danny Simpson (DS) drew the Board's attention to the single low risk finding regarding the completion of the Board's skills matrix.

10.3 The Board RESOLVED to note the report.

11. ANNUAL REPORT AND ACCOUNTS

11.1 Annual Report Requirements - Local authorities are responsible for administering a pension fund (acting as scheme manager) and forming part of the Local Government Pension Scheme (LGPS). Each LA is required by the LGPS Regulations to publish a pension fund annual report. The publication of the annual report is separate from the authorities' own statutory accounts and contains financials statements in respect of the Pension Fund.

Authorities are required to publish the annual report by 1 December. The annual report will be presented to Committee for approval at it's meeting on 30 November 2022.

11.2 The Board considered the draft report and opinion from Grant Thornton; no material changes are expected in the final version. The Audit Committee will consider the report at their meeting of 18 November 2022. The audit is ongoing and not expected to be complete before the Pension Committee meeting of the 30 November.

11.3 Tom Druitt (TD) noted the comprehensive document with concerns over its accessibility and enquired about planned communications of a summary nature.

11.4 NS agreed that the key items from the annual report should be included in a pensions newsletter to both employers and members.

11.5 The Board RESOLVED to:

1) Note the report;

2) Request that SK consider the communications on a simple way to present key information from this report with the Communications Working Group.

12. ANNUAL TRAINING PLAN REPORT

12.1 The Board considered a report providing updates on training undertaken by members of the Pension Board and Committee. MB's report also outlined training plans for the year ahead.

12.2 MB reminded the Board that the annual self-assessment forms were sent in August 2022. Officers have received responses from 2 of 6 Board members 4 of 5 Committee members and used this to inform the training plan for next year. Bespoke training can continue to be organised as required.

12.3 The Board queried the length of the questionnaire.

12.4 MB confirmed that the questionnaire is based on guidance and recommendations from the Pensions Regulator and CIPFA. There is a wide range of knowledge and understanding required so the questionnaire needs to capture this.

12.5 NS considers the response disappointing and that the Board should support Mariana Obetzanova (MO), the Pensions Training Co-Ordinator, in her role.

12.6 MB confirmed that the next circulation will be around August next year which will capture new Board members and their needs at point of joining also.

12.7 MB responded to questions about depth of training and reminded the Board that it is important to have a grasp of all risks and the mitigations but agreed to consider the level of training required to understand the risks and therefore fulfil the oversight role of the Board.

12.8 The Board RESOLVED to note the report and agreed the following action points:

1) Outstanding assessments will be submitted by Board members;
3) Barry McKay (BM) and MO to liaise on the training available from Barnett Waddingham for consideration;
4) MO will recirculate the link to the Haywards online modules.

13. PENSION FUND RISK REGISTER

13.1 The Board considered the updated risk register and welcomed the new format.

13.2 The Board considered the following risks:

1) A3: the risk has increased due to data quality from employers

2) G6: fraud risk reduced due to the reintroduction of monthly mortality checks for pensioners.

13.3 NS queried the status of the Business Continuity Plan as pending and therefore a potential increased risk.

13.4 SK confirmed there is a wider Finance organisational Business Continuity Plan, and the Pension Scheme is accounted for within this. The intention is to develop a Pensions specific plan which will be annexed to the ESCC plan. PP confirmed there is an Altair backup system disaster recovery plan in place.

13.5 DS confirmed that there is a Cyber security internal audit in next quarter and officers are working to build resilience. MB is working with IT colleagues to ensure there is appropriate security in place for each system.

13.6 TD noted the Climate challenges outlined and that it is encouraging but queried the why the mitigations continue to include reliance on engagement where the fund is exposed to fossil fuels. TD request examples of where this engagement has been effective.

13.7 SK confirmed that work is ongoing and that the responsible investment report is one of the key methods to gain understanding of, and to assess, risks. Climate risk analysis carried out by the Fund Actuary, as part of the triennial valuation, will go to the Pension Committee on the 30 November. There is a quarterly Engagement report, however, direct engagement from ESPF is limited, investment mangers do this on behalf of the Fund. All of the ESPF equity managers, and most of the other managers, do not hold fossil fuels and all investment managers have to account for their engagement activity. The Pension Committee commissioned a large project to look into this further, officers are working with experts to produce a report for next year. SK will share examples and will speak to those managers with that exposure to get some tangible examples.

13.8 NS suggested that risks E2, employer data, and G2, Pension Board members, should be uplifted as the risks had partially crystallised. MB agreed the changes could be made.

13.9 The Board RESOLVED to note the report and agreed the following actions:

Agreed updates to the risk rating:

1) E2: should be amended to reflect its link to A3

2) G2: should increase to reflect the pending changes in Board membership

3) Consider whether Longevity risk should be recognised

4) I2: to be considered to reflect the trade environment now Brexit risk has passed

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14. BOARD STRUCTURE REPORT

14.1 The Board considered the report on the Board Structure

14.2 RM queried the lack of representations of small employers within the structure.

14.3 SK confirmed that comparison data was provided within in the report and that higher value funds with a higher number of employers have bigger boards as a result. There are no concerns with the Board remaining at it current size. SK confirmed that Officers wished to keep the Board as there will be significant changes to the Board membership and therefore it may be challenging to recruit for the Board if it increases in size. The existing roles should be recruited for and embedded through the required training before considering further changes.

14.4 NS confirmed his agreement with the recommendation and asked if Academies will be given the opportunity to be represented on the board.

14.5 SK confirmed that currently BHCC as largest employer and the District and Borough councils put forward potential representatives, while the third employer position is held by the university of Brighton. A replacement will be required for SO and all employers will be offered the opportunity to be on the Board. The appointment is for 4 years and has a 2-year extension period and then members have to apply again in the usual way.

14.6 RM noted that quoracy is a concern if the Board remains small but accepts its ESCC's right to decide.

14.7 The Board RESOLVED to note the report.

15. WORK PROGRAMME

15.1 The Board considered the work programme along with the proposed agenda items for future Pension Board and Pension Committee meetings for the next year. The work programme provided an update on other work going on outside the Board and Committee's main meetings, including working groups and upcoming training.

15.2 NS requested an update on the progress of the report regarding the representation on the Pension Committee which will go to the Governance Committee.

15.3 SK confirmed that the intention is to take a report to the 24 January 2023 Governance meeting but noted that work is ongoing to evaluate structures of other schemes and highlighted the challenge of not having access to the legal advice attached to those structures to understand how they have complied with the regulations in place to support alternative structures.

15.4 The Board RESOLVED to note the report.

16. ANY OTHER NON-EXEMPT BUSINESS

16.1 The Board thanked SO for his tenure and wished him good luck for the future.

17. EXCLUSION OF THE PUBLIC AND PRESS

17.1 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).

18. 2022 TRIENNIAL VALUATION AND FUNDING STRATEGY

18.1 The Board considered a report on the work being done in relation to the triennial valuation, prior to Pension Committee approval of model assumptions and the draft funding strategy statement, subject to comments through consultation with scheme employers.

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

18.3 The Board RESOLVED to agree the recommendations as set out in the report.

19. COVENENT REPORT

19.1 The Board considered a report on the progress and findings of the Covenant review.

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

19.3 The Board RESOLVED to agree the recommendations as set out in the report

20. PENSION FUND BREACHES LOG AND INTERNAL DISPUTE RESOLUTION PROCEDURE CASE REPORT

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

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

20.3 The Board RESOLVED to agree the recommendations as set out in the report.

21. EMPLOYER ADMISSIONS AND CESSATIONS REPORT

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

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

21.3 The Board RESOLVED to agree the actions set out in the exempt minute.

The meeting ended at 1.30 pm

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

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Report to:	**Pension Committee**
Date of meeting:	**30 November 2022**
By:	**Chief Finance Officer**
Title:	**Governance Report**
Purpose:	**To provide an update on governance workstreams and changes effecting Local Government Pension Schemes and the East Sussex Pension Fund**

RECOMMENDATIONS

The Pension Committee is recommended to note this report

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 Pension Board membership

2.1 In April 2023 the initial terms for two members of the Pension Board (Lynda Walker and Niki Palermo) are due to come to an end and Officers will soon commence planning for the appointment or extension process. Stephen Osborn has also informed Officers that he will be standing down from his role at University of Brighton in January 2023 so will be leaving the Board at the same time. Additionally, the Chair of the Pension Board's term also expires at the same point which will require an appointment process to be completed.

2.2 Local elections in May 2023 may further impact on Pension Board membership during the year.

2.3 All members of the Pension Board who are coming towards the end of their terms will be asked to confirm with Officers whether they wish to be considered for re-appointment. This is to help with the planning process and to allow steps to be taken to minimise the risk of vacancies not being filled in time for the following meeting.

3 Ministerial changes

3.1 The Rt Hon Michael Gove MP has been appointed as Secretary of State for the Department for Levelling Up, Housing and Communities and the Rt Hon Lucy Frazer KC MP has been appointed as the Minister of State in that Department. Lee Rowley MP is the Minister for Local Government and Building Safety. The Scheme Advisory Board has commented that the change in ministers and a new Prime Minister may cause some delays in projects being run by the Department.

3.2 At the Department for Work and Pensions, the Rt Hon Mel Stride MP is the current Secretary of State, Mims Davies MP has been appointed as the Parliamentary Under Secretary of State for Pensions. Laura Trott MBE MP is Minister for Pensions.

4 Administering Authority discretions

4.1 The Fund is required to publish an administering authority discretions policy. The last published policy is undated, leading Fund Officers to review and update this policy. The revised policy is attached as **Appendix 1** to this report.

4.2 The Administering Authority is not expected to have a written policy in place which covers all possible discretions. Where there is a requirement for a mandatory policy, this is in place. In some instances, there is a mandatory requirement for an Employer to have a written policy and for the Administering Authority to have one if the Employer ceases to exist. In these cases, the Fund is gathering discretion policies from Employers so that any necessary decision can be made on a case by case basis by reference to the Employer's original policy.

4.3 Changes to the policy from that currently in place are highlighted in yellow. Changes where just the policy has changed, is due to a gap in the previous policy document, suggesting no policy, to identify current policies in place. Where the whole row is highlighted, guidance advises the administering authority should consider whether or not we have a policy. For the items where we look at it on a case by case basis with reference to the employer policy, this is stated because we can't have "no policy" on these matters but they relate to areas where it is required that the individual employer has a policy that we would then be able to use as a matter of fairness. We would only need to use a discretion in these instances in the Employer isn't around to do so.

4.4 Where there is no specific policy in relation to a particular discretion this does not mean there is not a related administration procedure that can be drawn upon to provide assistance when considering the use of the discretions on a case-by-case basis.

5 Access

5.1 There were £35.2 billion of investments pooled within ACCESS at the end of March 2022, which equated to 59% of investments pooled across the participating authorities. This includes £23.9 billion in sub-funds and £11.2 billion in Pooled Passive investments. Of this, ESPF had £2.2 billion in active pooled investments and £0.3 billion passive investments through the pool totalling 55% of Fund assets as pooled.

5.2 Following the decision at the Joint Committee (JC) on 7 March 2022, two observers from each Local Pension Board will be invited, on a rotational basis, to attend Joint Committee meetings as observers at least once each a year. The formal implementation of this change needs to be reflected in the signed Inter Authority Agreement (IAA) of all ACCESS funds, which is expected later in the year, so in the interim this will be introduced on an informal basis. The three authorities were invited to the 12 September 2022 meeting, this meeting was cancelled and replaced with an informal joint committee briefing on 6 October where Essex, Cambridgeshire and East Sussex were invited to attend. Ray Martin and Neil Simpson have been agreed as representatives for the Fund to attend as observers.

5.3 The ACCESS JC met on 6 June 2022, the agenda for the meeting is held in **Appendix 2** to this report. The public report pack can be accessed via the Kent County Council website Agenda for ACCESS Joint Committee on Monday, 6th June, 2022, 11.00 am

5.4 At the June JC, the committee approved in principle the Responsible Investment Guidelines, these guidelines will be adopted and published following changes to the IAA.

5.5 Essex County Council Internal Audit team carried out an audit to investigate and assess whether the ACCESS Support Unit (ASU) is effectively fulfilling its responsibilities to the ACCESS pool and, by extension, give assurance that the Authority is fulfilling its responsibilities as Accountable Body for the ASU. The audit results were presented to the JC at the June meeting with an opinion of good assurance.

5.6 ACCESS have now revised the Governance manual which has been comprehensively updated and was approved by the S151 officer group. This manual is a working document and will continue to be updated.

5.7 It has been reported that Dye and Durham are in talks to purchase Link Group, who are the parent of Link Fund Solutions.

5.8 Link Fund Solutions (LFS) were connected to the operation of the Woodford Funds at the time they were suspended. The FCA has commented that it will only authorise the transaction if the companies committed to covering an eventual penalty or payment to consumers. It is currently anticipated that the FCA will levy a penalty of c.£300m against LFS. LFS are the asset pool operator for ACCESS. Further information is provided in the exempt investment report later in this agenda.

6 Pension Dashboard

6.1 DWP has responded to the most recent consultation on the Pension Dashboard. It had been suggested that Pension Schemes would be given 90 days notice of when dashboards would become available for us. Following responses from stakeholders a decision has been taken to extend this timeframe to 6 months.

7 Consultation on Governance and Reporting of Climate Change risks

7.1 On 1 September the Department for Levelling Up Housing and Communities launched a consultation looking at the governance and reporting of climate change risk. The consultation was scheduled to close on 24 November 2022.

7.2 The Fund's Accounts and Investment Team has been working on the approach to be taken to this topic, this includes investigation of scenario analysis and training on the science behind climate change which was commissioned earlier this year to help Officers and Pension Committee members challenge assumptions made in setting scenarios.

7.3 The consultation states that the intention is for public service schemes to have materially similar expectations as private schemes, although there will be some differences due to the structural differences between the various types of scheme.

7.4 It will be expected the climate risks form part of strategy consideration. When setting the Funding Strategy as part of the current triennial valuation the Fund Actuary took climate risk and opportunity into account, pre-empting the requirements expected to be introduced.

7.5 The Government intends to make the monitoring of climate risks an ongoing requirement. This risk is already on the risk register and available for both the Pension Board and Pension Committee to discuss at each meeting.

7.6 The consultation lays out a series of metrics that will need to be considered and reported against. These are carbon emissions, carbon footprint, data quality and Paris alignment. Officers are considering how best to meet this expectation.

8 Decision making matrix

8.1 As part of the Good Governance Project, the Scheme Advisory Board has recommended that Fund's codify existing decision-making structures. Officers have been working with a third party provider to assist with this process and to identify areas where improvements could be made to enable the Fund to operate more effectively. The Fund have now received a draft matrix and will assess the accuracy of the data with a view to reporting on this at a future meeting.

9 Prudential

9.1 On 19 October 2022 Prudential informed the Fund that it had incorrectly calculated the benefit entitlements of a number of members who had elected to invest additional voluntary contributions into its Lifestyle Options. We understand one member in the Fund has been affected.

9.2 The Fund has been told controls have been put in place to prevent this reoccurring. A further update, providing details of the members impacted, is expected in mid-November 2022.

10 Conclusion

10.1 The Committee is asked to note this report.

IAN GUTSELL
Chief Finance Officer

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

Regulation	Description	Existing policy
30(8) LGPS Regulations 2013	Whether to waive, in whole or in part, actuarial reduction on benefits accrued from 1 April 2014 only when a member voluntarily draws them before normal pension age **in the event that the member's former employer is no longer a scheme employer.** Whether to waive, in whole or in part, actuarial reduction on benefits which a member draws on flexible retirement	Decided on a case by case basis by reference to employer policy (it is mandatory for the Employer to have a policy)
55 LGPS Regulations 2013	To publish Governance Compliance Statement	Governance and compliance statement published following June Pension Board/Committee meetings
58 LGPS Regulations 2013	Decide on funding strategy for inclusion in funding strategy statement	Published on Fund website
61 LGPS Regulations 2013	To publish a Communication Policy in accordance with this regulation	Published on Fund website
3 (13) LGPS (Transitional Provisions and Savings) Regs 2014 70(1) and (71(4)(c) LGPS (Administration) Regulations 2008 109 and 110 (4)(b) LGPS Regs 1997	Decide policy on abatement of pre 1 April 2014 element of pensions in payment following re-employment	Abatement policy published on Fund website

Sch 2 para 1 LGPS (Transitional Provisions and Savings) Regs 2014	Whether to "switch on" the 85 year rule for a member voluntarily drawing benefits on or after age 55 and before age of 60 **where the employer no longer exists.** This applies under the Local Government Pension Scheme Regulations 2013 only (i.e. currently does not apply to the early payment of deferred benefits payable under earlier regulations).	Decided on a case by case basis by reference to employer policy (it is mandatory for the Employer to have a policy)
30(2) and 30A(3) LGPS (Benefits, Membership and Contributions) Regs 2007	Consenting to the immediate payment of benefits for members aged between 55 and 60 **where the member's former employer is no longer a scheme employer**	Decided on a case by case basis by reference to employer policy (it is mandatory for the Employer to have a policy)
30(5) and 30A(5) LGPS (Benefits, Membership and Contributions) Regs 2007	To waive actuarial reduction **where former employer is no longer a scheme employer**	Decided on a case by case basis by reference to employer policy (it is mandatory for the Employer to have a policy)
4(2)(b) LGPS Regs 2013	Whether to agree to an admission agreement with a Care Trust NHS Scheme employing authority or Care Quality Commission	No policy – Care Quality Commission already admitted
3(5) and Sch 2, Part 3, Para 1 LGPS Regs 2013	Whether to agree to an admission agreement with a body applying to be an admission body	Under delegation of powers with CFO
Sch 2, Part 3, Para 14 LGPS Regs 2013	Whether to agree that an admission agreement may take effect on a date before the date on which it is executed	Admission agreements will generally take effect from the time employees gain an entitlement to join the LGPS
Sch 2, Part 3, Para 12(a) LGPS Regs 2013	Define what is meant by employed in connection with the provision of service or assets	No policy
Sch 2, Part 3, Para 9(d) LGPS Regs 2013	Whether to terminate a transferee admission agreement in the event of: • Insolvency, winding up or liquidation of the body • Breach by that body of its obligations under the admission agreement	Covered in Funding Strategy Statement (FSS)

	• Failure by that body to pay over sums due to the Fund within a reasonable period of being requested to do so	
16(1) LGPS Regs 2013	Whether to turn down a request by a member to pay and Additional Pension Contribution or Shared Cost Additional Pension Contribution over a period of time where it would be impractical to allow such a request (eg were the sum being paid is very small and could be paid as a single payment)	No policy
16(10) LGPS Regs 2013	Whether to require a satisfactory medical before agreeing to an application to pay an Additional Pension Contribution or Shared Cost Annual Pension Contribution and whether to turn down application if not in good health.	No policy
17(12) LGPS Regs 2013	Decide to whom any AVC/Shared Cost AVC monies (including life assurance policies) are to be paid on death of the member	No specific policy – Death Payment Policy contains decision making methodology
40(2), 43(2) and 46(2) LGPS Regs 2013 17(5) to (8) LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014 23(2), 32(2), 35(2) LGPS (Benefits, Membership and Contributions) Regulations 2007 38(1) & 155(4) LGPS Regulations 1997 E8 LGPS Regulations 1995	Decide to whom a death should be paid	Death Payment Policy covers decision making process

32(7) LGPS Regs 2013	Whether to extend the time limits which a member must give notice of the wish to draw benefits before Normal Pension Age or upon flexible retirement	No policy
34(1) LGPS Regs 2013 39 LGPS (Benefits, Membership and Contributions) Regs 2007 49 and 156 LGPS Regs 1997	Decide whether to commute small pension	No policy
36(3) LGPS Regulations 2013 56(2) LGPS (Administration) Regs 2008 97(10) LGPS Regs 1997	Approve medical advisors used by employers (for ill health benefits)	Independent Registered Medical Professional (IRMP) Policy published on Fund website
38(3) LGPS Regs 2013 31(4) LGPS (Benefit, Membership and Contributions) Regs 2007	Decide whether a deferred beneficiary meets the criteria required to qualify for ill-health retirement in cases where the member's former employer is no longer a scheme employer.	East Sussex CC IRMP would be used with the Administering Authority arranging the appointment. Covered in ill health policy.
38(5) LGPS Regs 2013 31(7) LGPS (Benefit, Membership and Contributions) Regs 2007	Decide whether a suspended ill-health tier 3 member is unlikely to be capable on undertaking gainful employment before normal pension age because of ill health (where Employer has become defunct)	East Sussex CC IRMP would be used as appropriate with the Administering Authority arranging the appointment

49(1)(c) LGPS Regs 2013 42(1)(c) LGPS (Benefits, Membership and Contributions) Regs 2007	Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership	No policy
54(1) LGPS Regs 2013	Whether to set up a separate admission agreement fund	No policy
59(1) and (2) LGPS Regs 2013	Whether to have a Pension Administration Strategy and, if so, the matters it should include.	Pension Administration Strategy (PAS) is published of Fund website
22(3)(c) LGPS Regs 2013	Member pension accounts may be kept in such form as is considered appropriate.	Pension accounts will be kept in most appropriate form
64 (2A) LGPS Regs 2013	Whether to suspend, for up to 3 years, an employer's obligation to pay an exit payment where the employer is again likely to have active members within the specified period of suspension	Contained in cessation policy
64(4) LGPS Regs 2013	Whether to obtain revision of employer's contribution rate if there are circumstances which make it likely a scheme employer will become an exiting employer	Contained in FSS
68(2) LGPS Regulations 2013 80(5) LGPS Regs 1997	Whether to require employers to pay for pension strain when benefits are drawn early or with a reduced deduction	Contained in FSS
69(1) LGPS Regs 2013	Decide frequency of payments to be made over to Fund by employers and whether to make an administration charge	Contained in PAS
69(4) LGPS Regs 2013	Decide form and frequency of information to accompany payments to the Fund	Determined by I-Connect process

70 LGPS Regs 2013 22(2) LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014	Whether to issue employer with notice to recover additional costs incurred as a result of the employer's level of performance	Contained in PAS
71(1) LGPS Regs 2013	Whether to charge interest of payments by employers which are overdue	Contained in PAS
74(4) LGPS Regs 2013	Whether to increase the amount of time to make an application to the Internal Dispute Resolution Procedure (IDRP)	IDRP Published on Fund website
74(6) LGPS Regs 2013	Decide procedure to be followed by the Adjudicator when exercising Stage One functions and decide the manner in which those functions are to be exercised	IDRP Published on Fund website
76(4) LGPS Regs 2013 60(8) LGPS (Administration) Regs 2008 99 LGPS Regs 1997	Decide procedure to be followed by admin authority when exercising its stage 2 IDRP functions and decide the manner in which those functions are to be exercised	IDRP published on Fund website
79(2) LGPS Regs 2013 63(2) LGPS (Administration) Regs 2008 105(1) LGPS Regs 1997	Whether Admin Authority should appeal against employer decision (or lack of decision)	No policy

80 (1)(b) LGPS Regs 2013 22(1) LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014 64(1)(b) LGPS (Administration) Regs 2008	Specify information to be supplied by employers to enable admin authority to discharge its functions	Combined with PAS
31(2) LGPS Regs 2013	Determine whether to pay annual compensation on behalf of an employer and recharge the payment to an employment	Would not normally agree
91(6) LGPS Regs 2013	Timing of pension increase payments by employers to the administering authority	No policy
64(2ZA) LGPS Regs 2013	Whether to extend the period beyond 3 months from the date an Employer ceases to be a Scheme Employer, by which to pay an exit credit	To be determined on case by case basis
82(2) LGPS Regs 2013 52(2) LGPS (Administration) Regs 2008 95 LGPS Regs 1997	Whether to pay Death Grant due to personal representatives or anyone appearing to be beneficially entitled to the estate without need for grant of probate/letters of administration where payment is less than the amount specified in s6 Administration of Estates (Small Payments) Act 1965	General decision-making process defined in Death Payment Policy
83 LGPS Regs 2013 52A LGPS (Administration) Regs 2008	Whether, where a person (other than eligible child) is incapable of managing their affairs, to pay the whole or part of that person's pension benefits to another person for their benefit	No policy
98(1)(b) LGPS Regs 2013	Agree to bulk transfer payment	Included in FSS

98(4)(a) LGPS Regs 2013	Whether to agree to set aside bulk transfer assets	No policy
99 (1) & (2) LGPS Regs 2013	Determine the amount of, and adjustments to, bulk transfer process	Decided on case by case basis
99(5) LGPS Regs 2013	For bulk transfers, to determine who should bear the actuarial costs (where more than one employer is involved	Decided on case by case basis
100(6) LGPS Regs 2013	Extend normal timeframe for acceptance of a transfer value beyond 12 months from joining the LGPS (in agreement with the employer)	No policy
100(7) LGPS Regs 2013	Allow transfer of non-club pension rights into Fund	Implied in FSS
105(2) LGPS Regs 2013	Decide whether to delegate any administering authority functions under the Regulations	Table 5, part 3 of ESCC Constitution
106(3) LGPS Regs 2013	Decide whether to establish a Joint Pension Board (where permission granted by the Secretary of State)	No ambition to create Joint Local Pension Board
106(6) LGPS Regs 2013	Establish procedures applicable to the Pension Board, including the establishment of sub-committees, formation of joint committees and payment of expenses	Terms of reference published on ESCC website
107(1) LGPS Regs 2013	Determine the membership of the Local Pension Board, appointment method and terms of membership	Terms of reference published on ESCC website
2 The Registered Pension Schemes (Modification of Scheme Rules) Regulations 2011	To decide whether to offer voluntary scheme pays facility to members who have an annual allowance tax charge; and, if so, decide the circumstances upon which it would do so	No formal policy – reviewed on case by case basis
Schedule 1 LGPS Regs 2013	Decide to treat a child as being in continuous education or vocational training despite a break	No policy

17(9) LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014		
Schedule 1 LGPS Regs 2013 17(9)(b) LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014 25 LGPS (Benefits, Membership and Contributions) Regs 2007	Decide evidence required to determine financial dependence of cohabiting partner on scheme member or financial interdependence of cohabiting partner and scheme member	No policy
3(1) and Sch.2 LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014	In the event that a deferred member is drawing benefits early and that member's former employer is no longer a scheme employer to determine whether: To waive any reductions that would apply to the member's service which is fully protected for the rule of 85 on compassionate grounds To waive any reductions that would apply to a member's service which is **not** fully protected for the rule of 85 on any grounds whatsoever	Decided on a case by case basis by reference to employer policy (it is mandatory for the Employer to have a policy)
Sch.2 Para 2(3) LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014	Whether to require any strain on Fund costs to be paid "up front" by employing authority if the employing authority "switches on" the 85 year rule for a member voluntarily retiring (other than in flexible retirement) prior to age , or waives an actuarial reduction.	No policy

3(6), 4(6)(c), 8(4), 10(2)(a), 17(2)(b) LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014 10 LGPS (Benefits, Membership and Contributions) Regs 2007 Sch. 1 LGPS (Transitional Provisions) Regs 2008 23(9) LGPS Regs 1997	Where a member to whom Reg 10 of the LGPS (Benefits, Membership and Contributions) Regs 2007 applies (use average of 3 years pay for final pay purposes) dies before making an election, whether to make that election on behalf of the dead member. Or, where a member has a certificate of protection in place in respect of a pay cut or restriction prior to April 2008 and dies before making an election, to make an election on behalf of the member	No policy
10(9) LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014	Decide, in the absence of an election from the member within 12 months of ceasing a concurrent employment, which ongoing employment benefits from the concurrent employment which has ceased should be aggregated (where there is more than one ongoing employment).	No policy
15(1)(b) LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014 66(9)(b) LGPS Regs 1997	Allow late application to convert scheme AVCs into membership credit i.e. allow application more than 30 days after cessation of active membership (where arrangement was entered into before 13 November 2001)	No policy
15(1)(c) LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014 Sch. 1 LGPS (Transitional Provisions) Regs 2008	Extend time for capitalisation of added years contract	No policy

83(5) LGPS Regs 1997		
15(1)(d) LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014 28(2) LGPS (Administration) Regs 2008	Whether to charge member for provision of estimate of additional pension that would be provided by the Scheme in return for transfer of in-house AVC/SCAVC funds (where AVC/SCAVC arrangement was entered into before 1/4/14)	No policy
27(5) LGPS (Benefits, Membership and Contributions) Regs 2007 47 LGPS Regs 1997 G11(2) LGPS Regs 1995	Payment of a child's pension to another person	No policy
45(3) LGPS (Administration) Regs 2008 89(3) LGPS Regs 1997	Outstanding employee contributions can be recovered as a simple debt or deduction from benefits	No policy
106A(5) LGPS Regs 2013	Date to which benefits shown on an annual deferred benefit statement are calculated.	Benefit calculations based on 31 March data
47(1) LGPS Regs 1997 G11(1) LGPS Regs 1995	Apportionment of children's pensions	No policy
50 and 157 LGPS Regs 1997	Commute benefits due to exceptional ill health	No policy
118 LGPS Regs 1997	Retention of Contribution Equivalent Premium where member transfers out for pre 1 April 2008 leavers	No policy

147 LGPS Regs 1997	Discharge Pension Credit liability (in respect of Pension Sharing Orders for pre 1 April 2008 leavers)	No policy
F7(1) LGPS Regs 1995	Suspension of spouses' pensions during remarriage or cohabitation	No policy
31(5) LGPS Regs 2013 Sch 2, paragraph 2(1) LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014	Waive, on compassionate grounds, the actuarial reduction applied to deferred benefits paid early	Decided on a case by case basis by reference to employer policy (it is mandatory for the Employer to have a policy)
3(5A) LGPS (Transitional Provisions, Savings and Amendments) Regulations 2014 4 The Local Government Pension Scheme (Transitional Provisions) Regulations 1997 106 The Local Government Pension Scheme Regulations 1997	Grant application for early payment of deferred benefits on or after age 50 on compassionate grounds	Decided on a case by case basis by reference to employer policy (it is mandatory for the Employer to have a policy)

AGENDA

ACCESS JOINT COMMITTEE

Monday, 6th June, 2022, at 11.00 am Ask for: **Joel Cook**

Bevin Hall, LGA Building, 18 Smith Square, London, SW1P 3HZ Telephone **03000 416892**

Tea/Coffee will be available 15 minutes before the start of the meeting in the meeting room

Membership
Chair: Cllr Mark Kemp-Gee (Hampshire CC), **Vice-Chair: Cllr Susan Barker** (Essex CC), **Cllr Debbie Andre** (Isle of Wight), **Cllr Gerard Fox** (East Sussex CC), **Cllr Jeremy Hunt** (West Sussex CC), **Cllr Malcolm Longley** (West Northamptonshire), **Cllr Judy Oliver** (Norfolk CC), **Cllr Charlie Simkins** (Kent CC), **Cllr Karen Soons** (Suffolk CC), **Cllr Alison Whelan** (Cambridgeshire CC) and **Cllr Andrew Williams** (Hertfordshire CC)

UNRESTRICTED ITEMS

(During these items the meeting is likely to be open to the public)

1. Apologies and Substitutes

2. Declaration of interests in items on the agenda

3. Chair's remarks

4. Minutes of the meeting held on 7 March 2022 (Pages 1 - 6)

5. Internal Audit of the ACCESS Support Unit (Pages 7 - 26)

6. Business Plan, Budget & Risk Management (Pages 27 - 46)

Motion to Exclude the Press and Public

That under Section 100A of the Local Government Act 1972 the press and public be excluded from the meeting for the following business on the grounds that it involves the likely disclosure of exempt information as defined in paragraphs 3 & 5 of part 1 of Schedule 12A of the Act.

Exempt Items

(During these items the meeting is likely to NOT be open to the public)

7.	Exempt Minutes of the meeting held on 7 March 2022	(Pages 47 - 52)
8.	Responsible Investment Guidelines	(Pages 53 - 104)
9.	Alternative Investments Implementation Advisor Procurement	(Pages 105 - 108)
10.	Performance Report	(Pages 109 - 140)
11.	Sub-fund Implementation	(Pages 141 - 152)
12.	Contract and Supplier Relationship Management	(Pages 153 - 172)
13.	Business As Usual Evaluation	(Pages 173 - 178)

Joel Cook
Clerk to the Joint Committee
03000 416892

Wednesday, 25 May 2022

Report to:	**Pension Committee**
Date of meeting:	**30 November 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 Pension Committee is asked to note this report.

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) and for the Administering Authority. The team 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 October 2021 to September 2022 can be found at **Appendix 1**. The PAT saw performance numbers during quarter two 2022, average at 97.91% (volume completed 2,257) which were like the previous quarter. However, quarter three 2022, average fell to 94.28% (volume completed 2,464), with a low of 90.16% in September. This drop in performance reflected the need for significant team resources to be diverted to projects [specifically the end of year data cleansing for Annual Benefit Statement production and the Annual Allowance projects], senior staff taking time to interview to the number of ongoing vacant posts, while also being peak holiday season. The addition of new staff from the recent recruitment process will also start to alleviate future dips in performance during the summer peak period, however while new team members are being trained there will be a reallocation of staff time to help train and check work.

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. These were implemented into Altair in early October 2021. The Fund have created a new KPI reporting dashboard within Altair Insights and expect this to be presented in the new format at the next meeting.

2.3 The Orbis Pensions Helpdesk was introduced in November 2019. Since the disaggregation of Orbis Pensions Administration in April 2021, the Fund implemented a new gold standard service provision and the results are included in **Appendix 2**. With effect from 25 November 2022 Surrey are taking their Pensions Helpdesk in-house. Currently ESPF is happy with the helpdesk performance so are no looking to immediately follow suit but will review available options in the Summer 2023.

3. Pension Administration Transfer and Staffing Update

3.1 All administration staff are now working on a hybrid approach and are attending Lewes County Hall on business need basis. ESCC are reviewing the working arrangements via a staff survey in October 2022, with results expected in early 2023.

3.2 Eight vacant roles were advertised in July 2022. Interviews undertaken and most positions filled with a couple readvertised. We are pleased to say we have on 1 September 2022 promoted three staff from within plus one member of the administration team switched to the new i-Connect team. We have also made conditional offers for three pension administrator positions who later started on 3 October 2022 and one apprentice who started on 25 October 2022. Due to the promotions additional backfill vacancies were created so, together with the now agreed project manager role job description, five further vacancies were advertised on 31 October 2022.

4. Projects update

4.1 Annual Benefits Statements – 2022

The final summary statistics at 31 August 2022 statutory deadline for the project were:

ABS year	Deferred members	Active members
2021	99.69%	95.86%
2022	99.79%	96.72% exc BHCC

All BHCC 8,000+ active members were excluded from the project due to ongoing data discrepancies which led to the i-Connect file not being onboarded. Resources to resolve these were reallocated in September 2022 and slow progress is being made. It is anticipated the employer will be onboarded and ABS issued by 31 December 2022. This has been recorded on the Breach register.

4.2 Annual Allowance (AA)

The project to correct the AA for the period 2014/15 to 2020/21 is now seeing some good progress and Aon recently provided the following update:

Position at 29 September	With Aon	With ESPF	Completed	Total
In process	1			1
Pay data outstanding from the employer		11		11
Pay data queried		13		13
Removed from exercise			149	149
Completed and returned			241	241
Grand Total	**1**	**24**	**390**	**415**

The historical project was put on hold in September 2022 to enable the AA exercise for 2021/22 to be processed ahead of the 6 October 2022 deadline. The Fund determined the cases probably in scope for 2021/22 and wrote to the employers for final salary data for the year to 5 April 2022 (except BHCC). Where a member is identified for the first time, final salary data is required from employers for the previous three years. This data was required by 16 September and the deadline was met by most employers. The Fund could only commit to process and provide Pension Saving Statements to members where employers provided data by the deadline. The results at 5 October 2022 for the 152 cases in scope were:

- 131 processed
- 8 with insufficient or no pay data
- 5 where data was received but post deadline
- 8 were in the outstanding batch of historic project cases

The Fund anticipate all the outstanding historical and 2021/22 cases to be completed well ahead of the 31 January 2023 tax return deadline.

4.3 i-Connect onboarding

During ABS season the focus and priority shifts so this project has slowed but continued with the current position on 16 August 2022 being as follows:

Still to onboard	Initial enquiries ongoing	Started onboarding process	Onboarded	Date
61	8	14	43	02/12/21
40	14	9	63	25/03/22
29	14	6	77	04/07/22
18	20	7	90*	17/10/22

* Note: includes new admissions and academy conversions.

4.4 Process Reviews

The PAT have completed the first process review for Transfer Values out (covering both quotations and settlements) and incorporated the new scams regulation requirements. This included an updated suite of letters and checklists. A training session on the new process was rolled-out to the team on 20 April 2022.

Work on the death (multiple tasks) processes is progressing well with both the “as is” and “to be” processes documented. The Fund need to bring the letters/templates/checklists and system in line with the agreed changes. A pilot of the new streamlined process is underway in November 2022.

In July work commenced on the leavers process (both deferred benefits and refunds), the “as is” finalized and “to be” documented and being reviewed.

In October 2022 the team started on the transfer-in & interfunds’ processes.

The overall project has a programmed board and is closely linked to and interacts with the Finance Areas of Focus and Robotics projects. There are currently seven pensions proposals for automation with the robotics team.

4.5 McCloud update

Progress includes:

- Data collection templates / letters prepared and issued in July 2022 to 140 active employers.
- Data return deadline was 30 September 2022 and we received returns from 50 employers. These are being quality reviewed and bulk uploaded to Altair in November 2022.
- Data return deadline dates extended to 31 October or 30 November for 90 employers including ESCC and BHCC.
- In total Heywood provided data for 263 employers so the balance 123 non active employers are being investigated. It is anticipated it will not be necessary to issue data requests for many of these.

4.6 Data Improvement Project (DIP)

Data Improvement is considered part of business as usual, the team have been 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 Pension Regulator (tPR) common and conditional data scores – on 15 August 2022, these were 96.3% and 93.5% respectively.
c) Valuation data quality, which was assessed by a Barnett Waddingham tool to ensure the data provided was fit for purpose. The results for 199 employers placed ESCC near the top of the 22 local authority returns that BW had received. The full report was B+ (0.8% data issues) and these were predominantly connected to the BHCC missing salary and salary dates. The version excluding BHCC was classed as an A (0.2%). When looking at an employer level 168 employers were A- or better only eight were a C or less.

4.7 GMP Rectification

The project has not been prioritised and the data extract including the April 2022 pension increases for the pensioner population has not been provided to Mercers in a timely manner. The result of the delay is that Mercers are unable to implement any over or underpayments until after the April 2023 pension increases. We had not appreciated they needed a six month plus lead in time to complete their findings.

4.8 ITM – monthly pensioner mortality checks and address tracing exercise

The contract has been completed and the first set of mortality data was provided to ITM in late June 2022. The initial review looked back for any potential deaths since 2014. The results supplied has identified a relatively small number of potential deaths which are being investigated and a couple of pensions in payment suspended. The process going forward will identify just new deaths.

The address tracing exercise commenced in October 2022 with the provision of deferred member data to ITM. The Fund will ensure the results are reviewed and implemented ahead of the 2023 ABS being released.

5 Conclusion and reasons for recommendation

5.1 The Pension Committee is asked to note this report.

IAN GUTSELL
Chief Finance Officer

Contact Officer: Paul Punter, Head of Pensions Administration
Email: paul.punter@eastsussex.gov.uk

APPENDIX 1

East Sussex Pensions Administration - Key Performance Indicators

	Activity	Old Measure	Impact	Old Target	New Target (13/10/21)	Sep-22		Aug-22		Jul-22		Jun-22		May-22		Apr-22		Mar-22		Feb-22		Jan-22		Dec-21		Nov-21		Oct-21	
	Scheme members	Pensioners, Active & Deferred				82472		82526		82476		82,505		81,483		81,450		81,405		81,089		81,132		80,931		80,484		80,334	
	New starters set up	Bulk, i-Connect & NewStarter Task				297		215		430		391		316		287		404		123		320		379		894		451	
						Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score	Volume	Score
1a	Death notification acknowledged, recorded and documentation sent	within 5 days	M	**95%**	within 2 days	25	100%	31	100%	26	100%	39	100%	35	100%	23	100%	28	100%	35	100%	30	100%	14	100%	35	100%	30	100%
1b	Award dependent benefits (Death Grants)	within 5 days	H	**95%**	within 5 days	11	100%	13	100%	14	100%	15	100%	12	100%	11	100%	17	100%	15	100%	9	100%	21	100%	17	95%	13	93%
2a	Retirement notification acknowledged, recorded and documentation sent	within 10 days	M	**95%**	within 7 days	100	92%	140	98%	148	95%	78	99%	124	97%	96	96%	128	88%	114	93%	101	97%	98	88%	94	90%	93	100%
2b	Payment of lump sum made	within 5 days	H	**95%**	within 5 days	137	100%	150	100%	142	99%	134	100%	125	98%	142	100%	129	100%	99	100%	130	100%	90	94%	118	97%	101	100%
3	Calculation of spouses benefits	within 5 days	M	**90%**	within 5 days	16	100%	25	100%	21	100%	17	100%	18	100%	17	100%	22	96%	13	93%	25	88%	19	100%	19	100%	20	100%
4a	Transfers In - Quote (Values)	within 10 dys aggregation 25	L	**90%**	within 10 dys, aggregation 15	25	92%	42	88%	22	91%	24	80%	32	97%	33	85%	37	84%	36	98%	31	91%	29	83%	23	100%	33	76%
4b	Transfers In - Payments	within 10 days	L	**90%**	within 5 dys, aggregation 25	19	95%	22	100%	22	100%	26	100%	38	100%	20	95%	23	100%	21	100%	33	97%	29	90%	17	95%	22	100%
5a	Transfers Out - Quote	within 25 days	L	**90%**	within 10 dys, aggregation 15	54	86%	82	97%	36	97%	49	90%	50	96%	51	91%	57	95%	48	98%	48	100%	29	100%	55	100%	48	100%
5b	Transfers Out - Payments	within 25 days	L	**90%**	within 10 dys, aggregation 25	18	50%	10	90%	21	91%	18	78%	26	77%	19	95%	23	87%	14	93%	24	100%	18	100%	30	94%	21	100%
6a	Employer estimates provided	within 7 days	M	**95%**	within 15 days	5	100%	4	100%	12	100%	22	100%	23	100%	10	100%	10	100%	22	100%	18	100%	14	93%	27	86%	17	89%
6b	Employee projections provided	within 10 days	L	**95%**	within 15 days	23	100%	16	94%	16	100%	14	100%	13	100%	27	100%	12	100%	17	100%	19	100%	11	91%	14	100%	13	93%
7	Refunds **(inc frozen refunds wef Aug 22)**	within 10 days	L	**95%**	Quotes 10 days, settle 5 days	141	82%	160	89%	57	97%	31	100%	43	100%	39	100%	55	100%	52	93%	33	100%	39	100%	58	100%	47	100%
8	Deferred benefit notifications	within 25 days	L	**95%**	within 15 days	188	89%	213	93%	257	100%	202	100%	267	100%	294	100%	303	100%	306	100%	221	99%	195	99%	376	100%	241	100%
	TOTAL TASKS COMPLETED					**762**	90.16%	**908**	94.93%	**794**	97.98%	**669**	97.76%	**806**	98.01%	**782**	97.95%	**844**	96.68%	**792**	97.85%	**722**	98.34%	**606**	95.21%	**883**	97.62%	**699**	98.28%
	Figures for the previous year					**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%	**408**	98.28%	**486**	97.53%	**591**	98.31%
	Figures for two years ago					**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					75		46		16		15		16		16		28		17		12		29		21		12	
	Complaints received- Admin					3		3		5		2		6		5		0		2		1		2		5		3	
9	Complaints received- Regulatory					0		0		0		0		0		0		0		0		0		0		0		0	
13	Compliments received					0		0		0		1		1		0		0		0		0		1		1		0	

Performance for the year **Oct 21** to **Sep 22** inclusive		
Total	Fails	% pass
351	0	100.0
168	1	99.4
1,314	74	94.4
1,497	13	99.1
232	5	97.8
367	41	88.8
292	7	97.6
607	28	95.4
242	39	83.9
184	7	96.2
195	3	98.5
755	50	93.4
3,063	40	98.7
9,267	**308**	**96.6**

	Summary for failed cases	Sep-22	Aug-22	Jul-22	Jun-22	May-22	Apr-22	Mar-22	Feb-22	Jan-22	Dec-21	Nov-21	Oct-21
1b	Award dependent benefits (Death Grants)												
2a	acknowledged, recorded and documentation sent							15 over by average 1.3 days	11 over by average 3 days		12 over by average of 2.6 days		
2b	Payment of lump sum made	8 over by average 6.9 days											
3	Calculation of spouses benefits									3 over by average 2 days			
4a	Transfers In - Quote (Values)		5 over by average 19 days		5 over by average 6 days		5 overby average 13 days	6 over by average 8.5 days			5 over		8 Overdue by average of 7 days
4b	Transfers In - Payments												
5a	Transfers Out - Quote	8 over by average 5.3 days											
5b	Transfers Out - Payments	9 over by average 4 days			4 over by average 6 days	6 over by average 1.6 days							
6a	Employer estimates provided												2 Overdue by average of 5 days
6b	Employee projections provided		1 over by 10 days									4 Overdue by average 3 days	
7	Refunds (inc frozen refunds wef Aug 22)	26 over by average 6 days	17 over by average 5.4 days						4 over by average 1.3 days				
8	Deferred benefit (DB5YE)	*21 over by average 4 days*	15 over by average 8.3 days										

Appendix 2
Helpdesk performance

Introduced the call centre for 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

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%
December 21	81%	36%	0%	100%
January 22	83%	39%	0%	100%
February 22	80%	39%	0%	100%
March 22	86%	37%	1%	100%
April 22	84%	28%	2%	100%
May 22	84%	21%	4%	100%
June 22	86%	19%	2%	100%
July 22	87%	74%	3%	100%
August 22	91%	61%	4%	100%
September 22	92%	67%	4%	100%

The “call answer time" SLA on the mainline is under investigation with BT since early June 22 and it is believed this has not been reporting correctly since September 2021. The SLA% has now been resolved, but the helpdesk is unable to go back and correct the SLA% from previous months but it was corrected mid-June, so the July report will show a true picture. Amanda Cutter looks at the report from Cisco daily now to ensure a problem like this does not reoccur/ unnoticed.

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%
December 21	100%	76%	2%	100%
January 22	100%	84%	2%	100%
February 22	100%	78%	1%	100%
March 22	100%	76%	6%	100%
April 22	100%	74%	2%	100%
May 22	100%	68%	2%	100%
June 22	100%	47%	10%	100%
July 22	100%	76%	3%	100%
August 22	100%	61%	10%	100%
September 22	100%	63%	14%	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
December 21	513	968	4	1,485
January 22	777	1,175	19	1,971
February 22	797	1,377	17	2,191
March 22	819	1,293	17	2,129
April 22	898	1,114	24	2,036
May 22	911	1,335	25	2,271
June 22	801	1,017	21	1,839
July 22	722	988	16	1,726
August 22	1,154	1,813	28	2,995
September 22	817	1,166	18	2,001

* Includes any ESPF calls fielded on the old SCC line.

Top five reasons for calls

Reason	7/21	8/21	9/21	10/21	11/21	12/21	1/22	2/22	3/22	4/22	5/22	6/22	7/22	8/22	9/22
Self Service Activation	1st	1st	1st	3rd			3rd		4th			1st			3rd
Login issues	2nd	2nd	2nd		1st	4th	4th	2nd	2nd	1st	3rd	3rd	3rd	1st	1st
Claim form guidance	3rd	4th	5th	2nd	4th	2nd	1st	3rd	1st	2nd	1st	4th	1st	3rd	2nd

Option guidance – member	4th	5th						5th		3rd		5th		4th	5th
Update Address	5th		4th	4th	3rd	3rd		4th		4th	2nd	2nd	5th		
Leaver form received		3rd	3rd	1st	2nd	1st	2nd	1st		5th	4th		2nd		
Progress check - Actual				5th	5th	5th									
Progress check - Quote							5th		5th					5th	
Document / Form enquiry									3rd				4th	2nd	4th
How can I opt-out											5th				

We are initiating a possibility of using a Chatbot (robot) as an online support tool to help with FAQs.

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

Question No.	**1**	**2**	**3**	**4**
Star Rating	**1 2 3 4 5**	**1 2 3 4 5**	**1 2 3 4 5**	**1 2 3 4 5**
December 21	0 0 0 4 23	1 1 0 5 20	1 0 1 4 21	0 2 1 2 21
January 22	0 0 0 10 49	4 0 0 7 48	0 1 2 5 51	2 1 1 4 51
February 22	0 0 1 1 25	0 0 0 2 25	0 0 0 2 25	0 0 0 2 25
March 22	0 0 2 8 29	1 1 3 8 26	0 2 1 3 33	1 1 1 6 30
April 22	0 0 0 6 39	0 0 1 6 38	0 0 2 6 37	0 0 0 6 39
May 22	0 0 0 7 44	0 1 1 5 44	0 0 1 6 44	0 1 2 2 46
June 22	1 1 5 8 39	0 2 6 11 35	0 2 5 5 42	0 2 5 7 40
July 22	0 0 1 3 16	0 0 1 4 15	0 0 1 2 17	0 0 1 2 17
August 22	0 1 1 5 20	0 1 0 6 20	0 1 0 4 22	0 1 0 5 21
September 22	0 0 0 0 1	0 0 0 1 0	0 0 0 0 1	0 0 0 1 0

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?

Month	First Call	Second Call	Third Call	Fourth or more
December 21	17	4	2	4
January 22	44	9	3	3
February 22	21	4	2	0
March 22	25	12	0	2
April 22	35	8	0	2
May 22	37	9	3	2
June 22	42	7	3	2

July 22	13	6	1	0
August 22	21	2	3	1
September 2022	1	0	0	0

The Surrey Pensions Helpdesk is being taken in-house from 25 November 2022.

Report to:	**Pension Committee**
Date of meeting:	**30 November 2022**
By:	**Chief Internal Auditor**
Title:	**Internal Audit Report - Pension Fund Governance 2022/23**
Purpose:	**This report advises the Committee of the outcome of the attached audit.**

RECOMMENDATIONS

The Committee is recommended to note the Internal Audit report on Pension Fund Governance 2022/23.

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1. Background

1.1 The review of Pension Fund Governance 2022/23 (Appendix 1) was completed as part of the Internal Audit Strategy for Pensions 2022/23 and provides assurance on the overall effectiveness of the system's controls. This is the first report of the 2022/23 audit plan.

1.2 As a result of our work on Pension Fund Governance 2022/23, we were able to provide an opinion of Substantial Assurance over the controls in place, as we have in previous years, and this reflects the robustness of controls over the Fund's governance. The report contains a single, low risk, finding.

2. Conclusions and Reasons for Recommendation

2.1 The Pension Committee is recommended to note the Internal Audit report.

RUSSELL BANKS
Orbis Chief Internal Auditor

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

BACKGROUND DOCUMENTS:
None

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Internal Audit Report

Pension Fund Governance 2022/23

Final

Assignment Lead: Jodie Lulham, Principal Auditor
Assignment Manager: Danny Simpson, Principal Auditor
Prepared for: East Sussex County Council
Date: August 2022

Report Distribution List

Draft Report Distribution
Sian Kunert, Head of Pensions
Michael Burton, Pensions Manager – Governance and Compliance

Final Report Distribution
As per the draft report distribution list, with the inclusion of:
Ros Parker, 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 132 employers.

1.2. The Fund is responsible for managing assets for the long-term benefit of scheme members in accordance with statutory regulations. Whilst, the Pension Committee is responsible for making arrangements for the administration and investment of the Fund, they receive 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 undertaken by East Sussex County Council.

1.3. This audit assessed the effectiveness of the Fund's governance arrangements and sought 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 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.

3. Audit Opinion

3.1. **Substantial Assurance is provided in respect of Pension Fund Governance 2022/23**. 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. Based on the testing undertaken, we have been able to provide an opinion of **Substantial Assurance** over the controls in place because:

4.2. There is a Pension Board and a Pension Committee in place, with clearly defined membership and agreed terms of reference setting out their remit. The Board and Committee meet regularly, and minutes of meetings are published online.

4.3. There is a comprehensive risk management policy in place which is subject to regular review and contains sufficient detail in relation to the risk management process to be followed by Fund officers.

4.4. The Pension Board and Committee provide scrutiny over the risk register on a regular basis, ensuring that risks are subject to sufficient challenge.

4.5. The Communication Strategy is up to date and covers communication with members (active, deferred and pensioner), as well as scheme employers, the Pension Committee and Board, and other key stakeholders. The team are complying with the communication strategy and sharing information with stakeholders. There are regular opportunities for communication between the Fund and employers, with support provided where necessary.

4.6. Investment performance is regularly reported to the Pension Committee, and there are clear processes in place to take action, should an investment not be performing as expected.

4.7. There is a Breaches Policy in place, which contains clear protocols for the identification and reporting of breaches, which is shared with the Pension Board and Committee on a regular basis to ensure oversight.

4.8. The Governance Manual for the ACCESS Pool is now in place as a working copy and has been approved by the S151 Officers associated with the group.

4.9. However, we did identify that skills evaluations have not yet been completed by all members of the Pension Board and Committee, increasing the risk that potential training needs have not been identified, and opportunities for strengthening the effectiveness of the Board and Committee may be missed.

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.	1	1
	Total number of agreed actions	**1**	

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	**Skills Evaluations for Board and Committee Members** Although it is acknowledged that there have been recent changes to the composition of the Pension Board and Committee, skills analyses have not been completed by all members of these groups, with only two out of seven Board members and four out of five Committee members having completed the evaluation at the time of testing.	Where all members of the Board and Committee have not undertaken a skills analysis, there is a risk that there any gaps in knowledge are not identified, resulting in reduced oversight and decision-making that is not fully informed.	Low	A skills evaluation is conducted once a year and all members of both the Pension Board and Committee are asked to complete this in line with the approved Training policy, with officers chasing those members who have not completed. A training report is provided twice a year where officers advise Board and Committee of non-compliance to complete training requirements. The next evaluation is due to be launched in August and those not completing being actively chased. Officers do not have specific powers to compel Committee and Board members to complete the evaluation but will liaise with the Chairs to encourage completion. There will often be changes in membership across the Board and Committee and due to the specialist nature of Pensions the knowledge and skills analysis can only be completed after some time in post following induction training and exposure to the LGPS, hence this being an annual evaluation with the resulting training plan reported in November.
Responsible Officer:	Michael Burton, Pensions Manager – Governance and Compliance	**Target Implementation Date:**	31 October 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.

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Report to:	**Pension Committee**
Date of meeting:	**30 November 2022**
By:	**Chief Finance Officer**
Title:	**Quarterly budget report**
Purpose:	**This report provides an update on the 2022/23 Forecast Financial Outturn**

RECOMMENDATION

The Committee is recommended to note the 2022/23 Q2 forecast financial outturn position

1. Background

1.1 The East Sussex Pension Funds (the Fund) business plan and budget sets out the direction of travel, objectives and targets to be achieved in the financial management for the administering authority to carry out its statutory duties in a structured way. The Pension Committee is charged with meeting the duties of the Council as administering authority in respect of the Pension Fund.

1.2 At its meeting on the 24 February 2022 the Pension Committee agreed a budget of £7.141m to support the business plan for 2022/23. The budget estimates do not incorporate any provision for investment fees earned by fund managers where these are deducted at source by asset managers, or payment of pension benefit's as these are paid in line with statute and not a discretionary item.

2. Supporting information

2022/23 Outturn Report

2.1 The budget requirements for 2022/23 was set at decreased level from 2021/22 due to increased transparency on the costs affecting the Pension Fund after the in sourcing of the administration team.

2.2 The forecast outturn at the second quarter of 2022/23 is £6.393m, a decrease of £0.748m from the approved budget. The 2022/23 projected outturn against budget line items is shown in the table below. The underspend mostly relates to the current vacancies, that are actively being recruited to and the expected reduction in manager fees due to lower asset values. The main movements to the budget are detailed in Paragraphs 2.3 to 2.9.

2022/23 Outturn Report

2021/22 Outturn £000	Item	2022/23 Budget £000	2022/23 Actuals to July £000	2022/23 Forecast Outturn Q2 £000	Variance to Budget £000
	Pension Fund Staff Costs				
1,234	Staffing	1,900	-72	1,510	390
2	Recruitment costs	5	-	-	5
1,236	**Sub Total**	**1,905**	**-72**	**1,510**	**395**
	Pension Fund Oversight and Governance				
55	Actuarial	200	24	155	45
57	Employer Actuarial work	80	15	66	14
-38	Employer recharges	-80	9	-66	-14
-	Governance consultancy costs	-	27	55	-55
-	Communications	42	-	5	37
8	Training Costs	30	8	17	13
47	External Audit – Grant Thornton	35	-28	22	13
279	East Sussex County Council recharges	249	-	202	47
56	Legal Fees	78	14	43	35
70	Subscriptions and Other Expenses	72	52	67	5
534	**Sub Total**	**706**	**121**	**566**	**140**
	Investment activities				
216	Investment Advice	135	77	135	-
21	ESG Advice	50	24	50	-
139	Custodian	136	-	166	-30
110	ACCESS	125	1	125	-
3,210	Investment Manager Fee Invoices	2,872	663	2,667	205
3,696	**Sub Total**	**3,318**	**765**	**3,143**	**175**
	Pension Administration				
150	East Sussex County Council recharges	281	-	209	72
98	System Services and License	346	305	378	-32
156	Consultancy & Service Providers - Benefits	100	158	203	-103
-	Other Administration projects	150	10	100	50
218	Admin operational support services	289	16	269	20
14	Other Expenses	50	-	35	15
-3	Other Income	-4	-17	-20	16
633	**Sub Total**	**1,212**	**472**	**1,174**	**38**
6,099	**Total**	**7,141**	**1,286**	**6,393**	**748**

2.3 The budget for staffing was set at £1.900m assuming full establishment. At the beginning of the year the Fund had 12 vacant posts, recruitment to these posts is under way with 5 new starters since the beginning of the year, however there have also been 3 leavers. Vacancies has resulted in an underspend of £0.390m from the agreed budget. East Sussex County Council recharges are partly linked to the actual full time equivalents of Fund staff, so a vacancies also reduce the associated costs. This has contributed £0.054m to underspend. In addition, there is £0.065m underspend from a removal double counting within the Budget for project work that ESCC are undertaking for the Fund (under Other Administration projects) and for the postal charges that are paid through ESCC instead of directly charged to the Fund (Admin operational support services)

2.4 The movement on Actuarial costs and Governance Consultancy costs are linked. Historically the Fund used its Actuary to undertake consultancy work which was not specifically actuarial in nature and recorded all these costs under the Actuarial Work. This work is now shown separately to provide a better understanding of these costs. As a result, the Actuarial costs have reduced by £0.045m and Governance Consultancy costs forecast spend of £0.055m. Total movement from the budget results in an overspend of £0.010k

2.5 The planned spend on communications for a replacement website, new communications software and development resources have been delayed due to redevelopment of the existing website and prioritisation of work in liaison with the communications working group. This results in a £0.037m underspend to the budget.

2.6 Legal costs are reported as a £0.035m underspend due to a reduction in reliance of third party providers to undertake activities on its behalf.

2.7 Since the beginning of the year the value of the Fund's investments have decreased. The fees the Fund pays managers are linked to the value of the assets under management. If these decrease the fees will also decrease, we have adjusted the expectation of the fee level down to match the downturn in markets. This is a reduction of £0.205m to the expected fees for the year.

2.8 Consultancy and Service Providers – Benefits represents spend on specific projects that are being run by third parties rather than the pension administration team. The Projects currently being run are the:

- Annual Allowance
- GMP
- National Fraud Initiative
- Mortality and address tracing

The Annual Allowance project is reflecting an overspend due to slippage of spend from 2021/22, resulting from a delay in data from employers, pushing the charges into the 2022/23 year and an overspend on the total project resulting from more complex cases than anticipated at the outset of the project.

2.9 There were 7 projects that were believed would take place during budget setting process for 2022/23. Analysis of the costs to date and work that has started anticipates that 4 of the projects will have started this year and that 3 will most likely slip into 2023/24 so the expected cost has been reduced reflect that this work is unlikely to place this year.

3. Conclusion and reasons for recommendation

3.1 The Committee is recommended to note the Q2 2022/23outturn position.

IAN GUTSELL
Chief Finance Officer

Contact Officer:	Russell Wood, Pensions Manager: Investments and Accounting
Email:	Russell.Wood@eastsussex.gov.uk

Report to:	**Pension Committee**
Date:	**30 November 2022**
By:	**Chief Finance Officer**
Title of report:	**Annual Report and Accounts 2021/22**
Purpose of report:	**To present the Pension Fund's Draft Annual Report and Accounts**

RECOMMENDATION – The Committee is recommended to:

1) **Approve the draft Pension Fund Annual Report and Accounts 2021/22**
2) **Note the update from the External Auditor**

1. Background

1.1 Under the Local Government Pension Scheme Regulations (LGPS) 2013 Clause 57 – Annual Report. An administering authority must in relation to each year beginning on 1 April 2014 and each subsequent year, prepare a document ("the pension fund annual report") which contains a report about the management and financial performance during the year for the Fund.

1.2 The authority must publish the pension fund annual report on or before 1 December following the Scheme year end. In preparing and publishing the pension fund annual report, the authority must have regard to guidance given by the Secretary of State.

2. Supporting Information

2.1 Annual Report Requirements - Local authorities responsible for administering a pension fund (scheme manager) forming part of the Local Government Pension Scheme (LGPS) are required by the LGPS Regulations to publish a pension fund annual report. The publication of the annual report is separate from the authorities' own statutory accounts and contains financials statements in respect of the Pension Fund.

2.2 It is the role of the Pension Committee to approve the Pension Fund annual report and accounts having considered whether appropriate accounting policies have been followed and any issues raised by the external auditor from the audit.

2.3 Accounting Requirements - The Pension Fund financial statements should be prepared in accordance with proper accounting practices set out in the Code of practice on local authority accounting in the UK (the Code). The Code requires authorities to account for pension funds in accordance with IAS26 Retirement benefit plans. IAS26 provides guidance on the form and content of the financial statements prepared by pension funds. It compliments IAS19 Employee Benefits, which deals with the determination of the costs of retirement benefits in the financial statement of employers.

2.4 The deadlines for the production and audit of the accounts for 2021/22 have been confirmed as 30 November 2022 and then a deadline of 30 September for the following five years.

2.5 The audit of the 2021/22 Pension Fund accounts is still being finalised; no issues have been raised by the external auditor which give us cause to believe that an unqualified audit opinion will be given with regard to the pension fund.

2.10 A copy of the Draft Pension Fund Annual report and accounts 2020/21 is included in Appendix 1.

3. Update on Progress from the external auditor on the audit of the Accounts

3.1 Grant Thornton, the external auditor, have produced their draft report on the findings of the 2021/22 Pension Fund Audit, this is attached at Appendix 2 for the Committee's consideration. This report needs to be reported to ESCC Audit Committee under its terms of reference to "Review the annual statement of accounts and the external auditor's report to those charged with governance."

3.2 The Pension Fund findings have been considered and discussed by the Audit Committee on 18 November 2022. There have been a number of challenges during the East Sussex County Council audit, from delays in the provision of information from external experts and resourcing of the audit, which mean that the final audit opinion will not be delivered by 30 November 2022. Whilst no material issues have been identified during the audit, the completion of last parts of audit work, file reviews and final sign off will happen into December 2022. The Pension Board also considered the report on 15 November 2022, with the caveat that the audit is still to be finalised.

4. Conclusion and reasons for recommendation

4.1 The Pension Fund Accounts set out the financial activities as asset values of the East Sussex Pension Fund during the 2021/22 financial year. The Pension Committee is recommended to approve the Pension Fund Annual report and accounts for 2021/22 and note the update from the external auditor.

IAN GUTSELL
Chief Finance Officer

Contact Officer: Sian Kunert, Head of Pensions

Email: Sian.kunert@eastsussex.gov.uk

East Sussex Pension Fund

ANNUAL REPORT AND ACCOUNTS

2021-2022



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1. Welcome from Chair of Pension Committee

Welcome to the East Sussex Pension Fund Annual Report for 2021/22

As chair of the East Sussex Pension Fund (the Fund) Pension Committee, I have the pleasure in introducing the Fund's Annual Report and Accounts for 2021/22. The accounts focus on the financial activity in 2021/22, but so much more has been achieved over the past year, including delivering the first full year of the Pension Administration Team as an in-house service, and continuing to build and develop the overall Pension Team to to provide a robust service to our members and employers, ensuring effective governance and embedding best practice and new ways of working. The Fund was recognised for all the hard work and changes it has implemented in the last couple of years by being awarded the Local Government Pension Scheme (LGPS) Fund of the Year (over £2.5bn) at the Local Authority Pension Fund (LAPF) Investment awards 2021 and was also highly commended for its climate strategy.

The Fund had £4,688m of funds under management at 31 March 2022 to meet the accrued benefits, with a funding position of 107% comparing assets to liabilities, putting it in a very strong position. The investment return for the year to 31 March 2022 was 10.6%, which was an outperformance of the benchmark by 0.5%, with returns outperforming the benchmark in each of the 1, 3 and 5 year periods. The membership of the Fund at March 2022 was 81,291 people (active – 24,514, pensioner – 23,131 and deferred – 33,646) and 134 employer organisations.

The Pension Committee is responsible for managing the Fund, with the assistance of the Pension Board, Fund officers, external advisors and investment managers. As a part of the outputs that emerged from its governance review , the Fund fully implemented a major restructure of team resources in recognition of increasing regulatory demands on LGPS Funds and increased reporting requirements to ensure that the Fund has sufficient resources to implement its strategies and policies. Recruitment in all sectors is challenging, however, even with a number of vacancies, the Fund retained its high service standards as assessed by its Key Performance indicators.

The Fund has continued on its journey of responsible investment, and more specifically with its focus on climate change risk, with ongoing work and developments continuing into the coming months and years. The Fund has taken climate strategy as one of the key focuses of its ongoing work, to develop an in depth of understanding of the financial risks to the Fund of the climate emergency and focusing on ways in which the Fund can both reduce this risk but also find opportunities to help with the energy transition to find sustainable solutions. As a result of this strategic focus, the Fund has a Statement of Responsible Investment Principles which clearly sets out the Fund's beliefs on responsible investment and climate risk and how it manages these risks and commitments through investment decision making and implementation. The Fund's investments in companies which might carry significant longer run climate risks or in firms exposed to potential Environmental, Social and Governance (ESG) risks are only run by active managers who have a high conviction in the investments that they hold and are subject to robust screening and exclusion polices by these managers

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As a result, the Fund now invests in a range of sustainable funds including two active impact managers who focus on companies which generate positive social or environmental impacts while generating a financial return. In addition, the Fund invests in a resource efficient mandate that invests in companies with reduced carbon emissions, reduced water usage and better waste management, as well as two mandates that are Paris aligned.

The Fund continues to favour engagement with companies to have a say in how they are run and influence change, rather than reduce the investable market by excluding industries. The Fund does invest with some managers with exclusion polices, but our overall preference for engagement is aligned with guidance to the Fund from all governmental bodies and investor advisory groups. To support the focus on engagement the Fund now reports on engagement activity by publishing a quarterly report on voting and engagement activity covering its managers activities as well as the Funds own activities and that of our collaborative partners and plans to submit its first Stewardship Code submission in 2022.

The Fund has continued to be an active member of the ACCESS (A Collaboration of Central, Eastern and Southern Shires) investment pool, together with 10 partner LGPS Funds. By the end of 2021/22 a total of £23.9bn was invested on the ACCESS authorised contractual scheme (ACS) platform, with four new sub funds launched, invested across 26 sub funds. A further £11.2bn is managed via ACCESS for passive equities as pool aligned assets. In total, 60% of ACCESS Fund assets have been pooled. Further work is in progress to enable the ACCESS pool Authority's to start to invest in illiquid asset classes via the ACCESS pool which should start to be investable from early 2023.

The Pension Committee and Pension Board have worked tirelessly to transform the East Sussex Pension Fund landscape. I would like to take this opportunity to express my thanks for all the support and input provided by Committee and Board members and officers. I look forward to continuing to work with members and officers in the new financial year as the Fund seeks to meet the challenges of an ever-changing national and global environment. In presenting the Annual Report, I hope you find it helpful in understanding the Fund. We have made some major changes to our communications approach and the Fund website is now a ready source of up-to-date information, please log on to www.eastsussexpensionfund.org for further information.

Councillor Gerard Fox

Chairman of the East Sussex Pension Fund

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2. Welcome from Chair of Pension Board

As the Independent Chair of the Fund's Pension Board, I am happy to highlight some of the key areas of focus of the Board over the 2021/22 financial year.

This year has seen new people join the Pension Board, giving fresh insights into steps that can be taken to drive further improvements to those made in previous years. I am pleased to note that the steps taken by the Fund, with the support of the Pension Board, were recognised when is won the large Fund of the Year Award at the Local Authority Pension Fund Investment Awards.

In the past year the Fund has launched a new approach to providing training to members of both the Pension Board and Pension Committee. This has seen a range of events being offered, helping to develop and cement knowledge and understanding levels in line with the requirements laid out in legislation.

A significant topic for the Board in the past year has been supporting the review of the Fund's policies and procedures. Following the restructure of the management structure and recruitment of a number of additional officers, which built on the work supported by the Board in 2020/21, there has been a widespread review of the internal controls at the Fund to ensure best practice is followed. Members of the Board regularly input into these workstreams to provide oversight and commentary.

The Fund participates in the ACCESS Investment pool where its assets are co-invested with other LGPS funds and the year 2021/22 saw the Pension Board being involved with discussions on how the governance of that body could be improved. Board members have offered their full support to Officers and will continue to push for further improvements.

In support of the administration of the Fund, the Pension Board has provided input into the Key Performance Indicators (KPIs) agreed with the Pensions Administration Team. I am pleased to see that the KPIs agreed are challenging and continue to drive a high level of service to the Fund's members.

Looking Forward

In my welcome last year, I discussed the expected work being done by The Pensions Regulator to combine various codes of practice. It is anticipated that this work will be complete in the financial year 2022/23. The Pension Board stands ready to support Officers of the Fund implement changes as necessary in advance of the new Code coming into force.

The Board also anticipates work will be required in the year ahead to prepare the Fund for onboarding to the Government's Pension Dashboard project, where individuals should be able to get information in one place on all the pension arrangements they are, or have been, members of The Board will also continue to assist the Pensions Administration Team with the cleansing of data and will provide input as required going forward.

The Scheme Advisory Board's recommendations from its Good Governance Project are also expected to be considered by Parliament and new legislation and guidance produced. The Fund has been monitoring these

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recommendations and taken steps to align itself to these suggestions. It is possible that Central Government may require some further alterations to be made.

The Pension Board would like to thank the Fund's Officers and employers for the hard work they have put in over the past year. We look forward to further improvements in the year ahead as the Fund seeks to provide the best service it can to its members.

Ray Martin

Chair of Local Pension Board



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3. Introduction to the LGPS

Local Government Pension Scheme

The LGPS is a statutory scheme, established by an Act of Parliament, the Superannuation Act 1972 and, since April 2014 the Public Service Pensions Act 2013. The Local Government Pension Scheme Regulations 2013 came into force on 1 April 2014. Membership of the LGPS is open to all employees of local authorities except teachers, fire fighters and police, who have their own separate schemes. It is also open to employees of other employers specified within the legislation.

The LGPS is a registered public service pension scheme under Chapter 2 of Part 4 of the Finance Act 2004 meaning that members receive tax relief on contributions. The Scheme complies with the relevant provisions of the Pension Schemes Act 1993, the Pensions Act 1995 and the Pensions Act 2004.

The LGPS is one of the largest pension schemes in the UK. It is a defined benefit pension scheme meaning members pensions are based on their salary and how long they pay into the Scheme. LGPS pensions are not affected by how well investments perform, instead the LGPS provides a secure and guaranteed income every year when members stop working.

The LGPS is administered locally by 86 local pension funds in England and Wales. East Sussex County Council has a statutory responsibility as "Administering Authority" to administer and manage the East Sussex Pension Fund (the Fund) on behalf of all the participating employers of the Fund in East Sussex, and in turn the past and present contributing members, and their dependents. All duties in administering and managing the Pension Fund have been delegated to the East Sussex Pension Committee supported by the East Sussex Pension Board.

The Fund is required to:

- collect employer and employee contributions, investment income and other amounts due as stipulated in LGPS Regulations
- pay the relevant entitlements as stipulated in LGPS Regulations
- invest surplus monies in accordance with the LGPS Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the regulations to safeguard the Fund against the consequences of employer default
- carry out a triennial valuation process in consultation with the fund actuary
- prepare and maintain a Funding Strategy Statement and Investment Strategy Statement
- monitor all aspects of the Fund's performance and funding
- take environmental, governance and social factors into account within its investment strategy

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- effectively manage any potential conflicts of interest

The Fund must operate a Local Pension Board. The Pension Board helps the Fund comply with the LGPS rules, overriding pensions legislation and guidance from the Pensions Regulator. The Pension Board is made up of equal numbers of employer and member representatives.

Every three years the Fund manages a valuation of pension assets and liabilities, carried out by an independent actuary. This valuation calculates how much scheme employers should pay into the Scheme to ensure the Fund has enough money to pay the benefits, by setting employer contribution rates for each employer for the following three-year period. The most recent actuarial valuation was carried out as at 31 March 2019. The funding level for the Fund at the 2019 valuation was 107%.

The next Triennial Valuation is carried out as at 31 March 2022 with changes to scheme employer contribution rates coming into effect from 1 April 2023.



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4. Scheme Management and Advisers

Responsibility for the East Sussex Pension Fund is delegated to the County Council's Pension Committee Members with support from the East Sussex Pension Board. The Pension Board comprises members representing employers and members in the Fund with an Independent Chairman. The Pension Committee receives advice from the County Council's Chief Finance Officer, Actuary, Investment Consultants and an independent Investment Advisor.

Name of Fund support	Company/individuals
Pension Committee Members - East Sussex County Councillors	Gerard Fox (Chairman) – Conservative Ian Hollidge (from September 2021) – Conservative Paul Redstone (from June 2021) – Conservative David Tutt – Liberal Democrats Julia Hilton (from June 2021) – Green Sam Adeniji (from June 2021 to September 2021) - Conservative
Pension Board Members - pensionboard@eastsussex.gov.uk	Ray Martin – **Independent Chairman** Councillor Tom Druitt – Brighton & Hove City Council – **Employer representative** Councillor Toby Illingworth (from September 2021 - Districts & Borough Councils – **Employer representative** Councillor Chris Collier (to September 2021) – Districts & Borough Councils – **Employer representative** Stephen Osborn - Educational Bodies - **Employer representative** Niki Palermo **–** GMB **– Member Representative** Lynda Walker **–** Unison **– Member Representative** Diana Pogson **–** Pensioner **– Member Representative**
Scheme administrator	East Sussex County Council - Pensions@eastsussex.gov.uk
Bankers to the Fund	NatWest Bank
Auditor	Grant Thornton UK LLP - London
Pension Fund Officers - esccpensionsmanager@eastsussex.gov.uk	**Treasurer / S151 officer**: Ian Gutsell **Head of Pensions**: Sian Kunert **Head of Pension Administration**: Paul Punter **Investments and accounting**: Russell Wood

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Name of Fund support	Company/individuals
	Governance and compliance: Mike Burton **Employer engagement**: Tim Hillman
Actuary	Barnet Waddingham - 163 West George Street, Glasgow, G2 2JJ
Legal Advisors	Appointed from National LGPS Framework for Legal Services
Investment Consultant	ISIO
Independent Adviser	William Bourne
Asset Pool	ACCESS Pool
Asset Pool Operator	Link Funds Solution
Investment Managers	Adams Street Partners, Atlas, Baillie Gifford* Harvourvest, Longview Partners*, M&G**, Newton*, Pantheon, Ruffer*, Schroders, Storebrand, UBS, Wellington, WHEB
Custodian	Northern Trust
AVC Provider	Prudential

* Appointed through the ACCESS Pool operator. ** Bond mandates appointed through ACCESS other mandates directly appointed.

Bodies to which the fund is member, subscriber or signatory

Pensions and Lifetime Savings Association (PLSA)
Local Authorities Pension Fund Forum (LAPFF)
CIPFA Pensions Network
Club Vita
Local Government Association (LGA)
Local Government Pension Scheme National Framework:

- Passive Investments,
- Legal Services,
- Actuarial Benefits and, Governance
- Investment Management Consultancy Services
- Stewardship Advisory Services
- Pensions Administration Software

Principles for Responsible Investing (PRI)
Institutional Investors Group on Climate Change (IIGCC)
Pensions for Purpose
Financial Reporting Council (FRC) Stewardship Code 2020* Scheme Advisory Board (SAB)

*Commitment made, Statement to be send to FRC for consideration in 2022

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5. Governance

Pension Committee

East Sussex County Council (Scheme Manager) operates a Pension Committee (the Pension Committee) for the purposes of facilitating the administration of the East Sussex Pension Fund, i.e., the Local Government Pension Scheme that it administers. Members of the Pension Committee owe an independent fiduciary duty to the beneficiaries of the Pension Fund. Such members are therefore expected to carry out appropriate levels of training to ensure they have the requisite knowledge and understanding to properly perform their role.

Pension Board

The Scheme Manager is also required to establish and maintain a Pension Board, for the purposes of assisting with its duties. The Pension Board is constituted under the provisions of the Local Government Pension Scheme (Governance) Regulations 2015 and the Public Service Pensions Act 2013. Members of the Pension Board should also receive the requisite training and development to enable them to properly perform their compliance role, as required by legislation.

ACCESS Pool Joint Committee

The ACCESS Pool operates a Joint Committee which has been set up through an Inter Authority Agreement (IAA) which was formalised and executed by each Individual Authority between May and June 2017 and came into effect on the 31 July 2017 at the first formal Joint Committee meeting. The role of the ACCESS Joint Committee, which has one representative from each participating Fund, is to:

- Ensure pool delivers value for money;
- Appointment and termination of the Operator;
- Ensures pool meets needs of individual funds e.g. sub-funds the operator must provide to support individual fund strategies;
- Set pool level policies e.g. sharing of costs;
- Monitor Operator performance against KPIs; and
- Monitor investment performance

In future years representatives of the Pension Boards from the 11 LGPS Funds which participate in the ACCESS Pool will attend Joint Committee meetings as observers in rotation. This is to increase transparency.

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Committee membership and attendance

During the year ended 31 March 2022 there were 5 meetings of the Pension Committee, 4 meetings of the Pension Board along with the annual employers' forum.

Member attendance at committee meetings during 2021/22

2021/22 - Pension Committee Members

East Sussex County Councillors	Nos. of meetings attended
Gerard Fox (Chairman)	5/5
Sam Adeniji	2/2
Penny di Cara[1]	1/1
Julie Hilton	5/5
Ian Hollidge	3/3
Paul Redstone	4/5
Colin Swansborough[2]	1/1
David Tutt	4/5

2021/22 - Pension Board Members

East Sussex County Councillors	Nos. of meetings attended
Ray Martin - Independent Chairman	4/4
Councillor Chris Collier - Districts & Borough Councils	0/1
Councillor Tom Druitt - Brighton & Hove City Council	3/4
Councillor Toby Illingworth – Districts & Borough Councils	2/3
Stephen Osborn - Educational Bodies	4/4
Niki Palermo - Employee Representative - Active & Deferred	3/4
Diana Pogson - Pensioners	3/3
Lynda Walker - Employee Representative - Active & Deferred	3/4

2021/22 - Member attendance at ACCESS Pool joint committee meetings

2020/21 Joint Committee Members	Nos. of meetings attended
Gerard Fox - East Sussex County Councillor	3/4
Paul Redstone – East Sussex County Councillor*	1/1

*Cllr. Redstone attended one meeting as a substitute for Cllr. Fox

[1] Acted as a substitute for Cllr. Redstone

[2] Acted as a substitute for Cllr. Tutt

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The Knowledge and Skills Framework

The Fund's objectives relating to knowledge and understanding are to:

- Ensure the Fund is appropriately managed and those individuals responsible for its management and administration have the appropriate knowledge and expertise;
- Ensures that there is the appropriate level of internal challenge and scrutiny on decisions and performance of the Fund;
- Ensure the effective governance and administration of the Fund; and
- Ensure decisions taken are robust and based on regulatory requirements or guidance of the Pensions Regulator, the Scheme Advisory Board (SAB) and the Secretary of State for Levelling Up, Housing and Communities.

CIPFA/Solace Knowledge and Skills Framework – Pension Fund Committees

Although there is currently no legal requirement for knowledge and understanding for members of the Pension Committee, it is the Fund's opinion that members of the Pension Committee should have no less a degree of knowledge and skills than those required in legislation by the Local Pension Board. The SAB's 'good governance' project signals a much stronger requirement on Pension Committee members knowledge and understanding.

The CIPFA framework, that was introduced in 2010, covers six areas of knowledge identified as the core requirements:

- Pensions legislative and governance context;
- Pension accounting and auditing standards;
- Financial services procurement and relationship development;
- Investment performance and risk management;
- Financial markets and products knowledge; and
- Actuarial methods, standards and practice.

Under each of the above headings the Framework sets out the knowledge required by those individuals responsible for Fund's management and decision making.

CIPFA Technical Knowledge and Skills Framework – Local Pension Boards

CIPFA extended the Knowledge and Skills Framework in 2015 to specifically include Pension Board members, albeit there is an overlap with the original Framework. The 2015 Framework identifies the following areas as being key to the understanding of local pension board members:

- Pensions Legislation;

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- Public Sector Pensions Governance;
- Pensions Administration;
- Pensions Accounting and Auditing Standards;
- Pensions Services Procurement and Relationship Management;
- Investment Performance and Risk Management;
- Financial markets and product knowledge; and
- Actuarial methods, standards and practices.

Links to The Scheme Advisory Board's Good Governance project

In February 2019 the Scheme Advisory Board commissioned Hymans Robertson to consider options for enhancing LGPS governance arrangements to ensure that the Scheme is ready for the challenges ahead and at the same time retains local democratic accountability. Following extensive consultation and engagement with the LGPS community the SAB has published 3 reports. The most recent report, published in February 2021, includes recommendations on the following areas:-

- Conflicts of Interest – Funds will be expected to produce and publish a policy covering actual, potential, and perceived conflicts of interest
- Representation – Funds will produce and publish a policy on the representation of members and employers, explaining how voting rights work
- Knowledge and Understanding – Highlighting that key individual should have the knowledge and understanding to fulfil their functions, including the s.151 Officer.
- Service delivery – This covers publishing details of decision makers' roles and responsibilities, publishing an administration strategy, reporting on performance and including the Committee in business planning.
- Compliance and Improvement – Undergoing a biannual Independent Governance review

The findings of the Good Governance Review have yet to be formally adopted in statutory form, however, the Administering Authority recognises the principles behind the recommendations and seeks to embed them into the culture of the East Sussex Pension Fund.

The Pensions Regulator's E-learning toolkit

The Pensions Regulator has developed an online toolkit to help those running public service schemes understand the governance and administration requirements set out in its Code of Practice 14 - Governance and administration of public service pension schemes.

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The toolkit covers 7 short modules, which are: Conflicts of Interests; Managing Risk and Internal Controls; Maintaining Accurate Member Data; Maintaining Member Contributions; Providing Information to Members and Others; Resolving Internal Disputes; Reporting Breaches of the Law.

The modules of the Regulator's toolkit are by their very nature generic, having to cater for all public service pension schemes. While they give a minimum appreciation of the knowledge and understanding requirements set out in the Code of Practice, they do not cater for the specific requirements of the individual public service schemes.

As a result, the Regulator's toolkit does not cover knowledge and skills requirements in areas such as Scheme regulations, the Fund's specific policies and the more general pension's legislation. The Trustee Toolkit, a separate aid produced by the Pensions Regulator, includes a newly updated module on scams.

Whilst the Trustee Toolkit is designed for Trustees of private occupational pension schemes, some aspects of it have value for those connected to public service pension schemes. An example a module which is relevant to the Fund is the one focused on transfer-out legislation and scams, which Pension Board and Pension Committee members have been asked to take along with appropriate Officers.

The Pension Committee under the constitution of East Sussex County Council, has the responsibility "To make arrangements for the investment, administration and management of the Pension Fund".

Members of the Committee must, therefore, have an understanding of all aspects of running the Fund and how to exercise their delegated powers effectively.

Members of the Pension Committee require an understanding of:

- Their responsibilities as delegated under the constitution of East Sussex County Council as the administering authority for the Fund;
- The requirements relating to pension fund investments;
- The management and administration of the Fund;
- Controlling and monitoring the funding level; and
- Effective governance and decision making in relation to the management and administration of the Fund.

There also exists a specific requirement under MiFID II, that those making investment decisions, must be able to demonstrate that they have the capacity to be treated as professional investors.

Expectations on Pension Committee Members

The role of Pension Committee member is an important one and there are certain expectations on those undertaking the role. These include:

- A commitment to attend and participate in training events and to adhere to the principles of the Training Strategy;

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- The ability to use acquired knowledge to participate in meetings and to ask questions constructively of the information provided by officers, advisers and others;

- Judge the information provided in a fair and open-minded way that avoids pre-determining outcomes; and
- Operate within the terms of reference for the Pension Committee and the elected member code of conduct.

Local Pension Board

Under the constitution the Local Pension Board is required to provide assistance to East Sussex County Council as the LGPS Scheme Manager in securing compliance with:

- LGPS Regulations and any other legislation relating to the governance and administration of the LGPS;
- Requirements imposed in relation to the LGPS by The Pensions Regulator;
- The agreed investment strategy; and
- Any other matters as the LGPS regulations may specify.

The role of the Local Pension Board is to provide assistance to the administering authority to ensure that the Fund is well run and complies with its legal responsibilities and best practice. The Local Pension Board does not replace the administering authority or make decisions which are the responsibility of the administering authority.

Local Pension Board members must be conversant with:

- The relevant LGPS Regulations and any other regulations governing the LGPS;
- Guidance issued by The Pensions Regulator and other competent authorities, relevant to the LGPS;
- Any policy or strategy documents as regards the management and administration of the Fund; and
- The law relating to pensions and such other matters as may be prescribed.

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6. Report of the Pension Board

Report to	**Pension Committee**
Date of meeting	**17 June 2022**
By	**Local Pension Board**
Title	**Report of Pension Board to Pension Committee**
Purpose	**Report to Pension Committee, to understand the work completed by the Pension Board**

RECOMMENDATIONS: The Pension Committee is recommended to:

1) Note the report covering the work completed in year by the Pension Board.

1. Background

1.1 This document outlines the actions taken by the Local Pension Board of the East Sussex Pension Fund (ESPF). It also details the training undertaken in the past 12 months to enable individual Pension Board members to develop and maintain the required level of knowledge and understanding to enable them to fulfil their function of supporting the Administering Authority, which is also known as the Scheme Manager.

1.2 This document will allow the Pension Committee to build a more detailed understanding of the work being done by the Pension Board to improve the operation of ESPF.

2. Membership and attendance

2.1 The membership of the Local Pension Board over the past year has been

Employer Representatives

- Stephen Osborn - Deputy Director of Finance, University of Brighton
- Cllr. Tom Druitt - Brighton & Hove City Council
- Cllr. Chris Collier - East Sussex District and Borough Councils (to May 2021)
- Cllr. Toby Illingworth- East Sussex District and Borough Councils (from July 2021)

Member Representatives

- Lynda Walker – UNISON
- Niki Palermo – GMB
- Diana Pogson – Pensioners' representative (until December 2021)
- Neil Simpson – Pensioners' representative (from March 2022)

Independent Chair

- Ray Martin

2.2 Following the Local Elections of 5 May 2021, the employer representative nominated by the Borough and District Councils, Councillor Collier, was elected to East Sussex County Council and stood down from the Pension Board. Borough and District Councils were invited to nominate candidates to fill the vacancy. Cllr. Toby Illingworth was appointed by the Governance Committee in July 2021.

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2.3 Diana Pogson stepped down at the end of her term on the Pension Board as she decided she did not wish to be considered for a new term. All Pensioner members were asked if they wished to be considered for the vacant position and after an extensive process, detailed in Board and Committee papers for the February 2022 meetings, Neil Simpson was appointed by the Governance Committee. His first Pension Board meeting was on 27 May 2022.

2.4 Attendance at meetings has generally been good since the last report to the Committee and all meetings have been quorate. Attendance at meetings is detailed on the table below. Neil Simpson was appointed after the last meeting of 2021/22, so attendance is not included in the table.

	1 June 2021	**14 September 2021**	**5 November 2021**	**10 February 2022**
Stephen Osborn	Y	Y	Y	Y
Cllr. Tom Druitt	Y	N	Y	Y
Cllr. Chris Collier	N			
Cllr. Toby Illingworth		Y	Y	Y
Lynda Walker	Y	Y	N	Y
Niki Palermo	Y	Y	N	Y
Diana Pogson	Y	Y	Y	
Ray Martin	Y	Y	Y	Y

3. Work of the Pensions Board

3.1 Meetings are held shortly (no less than 2 weeks) before each Pension Committee meeting, where all papers relating to administration, governance, policy, audit and communications are first considered by the Board prior to final versions being presented at Committee for approval. This allows the Board to feed in on matters of governance and represent the views of members and employers in the documents that are then taken for approval.

3.2 Members of the Pension Board sit upon, and have attended meetings of, the Communications Working Group, the Administration Working Group and the McCloud Working Group. By sitting on the working groups members of the Pension Board are able to use their knowledge and experience to support officers of the Fund during the development of new policies and procedures. This year the Pension Board members have, amongst other things, driven forward the work and thought into Communications of the Pension Fund to all stakeholders; provided input to the ACCESS Investment Pool about how it could improve its governance standards with member representation and driven consideration as to whether the Pension Board is an appropriate size.

3.3 The Pension Board considers its work programme at each meeting taking into account the regular items it sees and what is planned for upcoming Pension Committee meetings and are able to request areas of focus to be added to the Board work plan. An example of this is a request from the Pension Board for Officers to research approaches taken in relation to the size of Pension Boards at other funds in the LGPS, along with the potential advantages and disadvantages of increasing the number of Pension Board members. Such actions demonstrate a commitment to improving governance standards.

4. Actions

4.1 Since the last Pension Board report in September 2021, members of the Pension Board have supported Officers and the Pension Committee by collaborating in the production of a letter to an Employer that has consistently fallen short of expected standards. This letter was sent to the Employer's most senior

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officer to reinforce the message provided by Officers that improvements must be made to the provision of data to the Fund or consequences will be applied in line with the Pension Administration Strategy.

4.2 The Board has reviewed and approved new Terms of Reference for the Administration Working Group and the Communications Working Group. This took into account the setting up of the Communications Working Group and that the Working Group that pre-existed the Administration Working Group (the Data Improvement Working Group) had fulfilled its purpose and was in need of a change of emphasis to stay relevant to the operation of the Fund.

4.3 Members of the Pension Board have consistently provided input into the approach taken in relation to breaches of law. This has led to Officers being supported reporting an Employer to The Pensions Regulator for providing incorrect data. The support extended to providing input on how matters could be put right.

4.4 Due to the focus on communications and employer engagement by the Board the work on contributions monitoring and collection of funds has continued to improve over the year and the Pension Boards focus has been a key driver in getting more than half of the Fund employers onto i-connect to enable monthly data provision, meaning members data is much more robust and year end processes will be simplified for those employers and the pensions team.

4.5 As part of the work that has been undertaken by the Communications Working Group there have been major changes to the style and content of the newsletters sent by the Fund to try to present items in a way that will capture members and employers' attention and make it easier for them to focus on items of interest. In addition, consideration was given to the questions to be sent to scheme members and scheme employers for the 2022 survey to identify where improvement can be made in service provision and reporting. The working group also looked at simplification of the terminology used in the new web-site to improve usability by stakeholders and also worked with officers on re-writing the Communications Strategy which is a source of information to Scheme Members and Scheme Employers.

5. Training

5.1 In the past year the Pension Board, along with members of the Pension Committee, have been offered a range of training opportunities. Additionally details of reading material and relevant podcasts have been provided.

5.2 Since the last report, Pension Board members have attended the Employers' forum; the PLSA Annual Conference and training on the forthcoming Valuation. Additionally, Pension Board members attended training on climate change and the Task Force on Climate Related Financial Disclosures.

5.3 In the February 2022 meeting, the Pension Board discussed obtaining licenses for an online training service provided by Hymans Robertson. The Board decided that it did not want to take up this opportunity and instead asked of a cheaper alternative to be explored.

6. Structure of the Pension Board

6.1 The Pension Board is currently considering whether it believes its structure could be improved. It has asked Officers to provide a paper, which will be presented to a future meeting, looking at the approaches being taken across the LGPS looking at beak practice.

6.2 The consideration of the Pension Board's structure is part of an ongoing commitment to ensure the Pension Board is operating as effectively as possible and in the best position it can be to fulfil its role of supporting the Pension Committee.

Ray Martin

Chair of ESPF Local Pension Board

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7. Scheme Administration

Service Delivery

During 2021/22, East Sussex County Council as Administering Authority for the East Sussex Pension Fund undertook the day to day pensions administration via it's in-house pensions team.

The Pensions Administration team were responsible for:

- administering the LGPS on behalf of the ESPF scheme employers in accordance with relevant legislation and Pension Committee decisions
- calculation of actual pensions and lump sums for retiring members of the LGPS and provision of retirement estimates
- maintenance of the Pensions Administration database and provision of annual benefit statements for active and deferred members
- creation of new starters records, including transfers in where appropriate
- administration and calculations relating to leavers
- payment of pensions, increases thereon and other entitlements

Communication with members is, where possible, via the Member Self Service cloud-based website (MyPensionsPortal). This includes Annual Benefit Statements, member newsletters, beneficiary nominations, updating personal details and carry out benefit calculations.

Employers also has been introduced to a new i-Connect cloud-based portal through which they can upload their monthly payroll salary and contribution data directly into the Pension Administration database. An Employers newsletter was also provided.

The Pension Fund website www.eastsussexpensionfund.org provides scheme members and employers access to up-to-date information on both the LGPS and the East Sussex Pension Fund.

Administration of the Fund is a standing agenda item at the quarterly Pension Board and Committee meetings to ensure the service is managed and governed well. Key Performance Indicators, staffing and projects are reviewed and discussed at each meeting.

Internal Dispute Resolution Procedure

The LGPS is required by statute to make arrangements for the formal resolution of any disagreements on matters in relation to the scheme that may arise between the managers of the Scheme and the active, deferred and pensioner members or their beneficiaries or representatives.

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Where complaints cannot be resolved informally, there is access to a two-stage dispute resolution procedure. The first stage of this process is for the complainant to ask the Adjudicator appointed by the East Sussex Pension Fund to consider the matter under dispute. If the complainant is not satisfied with the response they can ask for a further review of the decision, along with any new evidence they might provide. The person responsible for reviewing stage two complaints is the Assistant Chief Executive. Ultimately the complainant has the right to refer their complaint to The Pension Ombudsman and seek assistance from the Money and Pensions Service.

The following table summarises the number of disputes made through the Fund's Internal Dispute Resolution Procedure at each stage of appeal:

Dispute category – First stage	Number in 2021/22
First Stage	10
Upheld	8
Declined	2
Ongoing	0

Dispute category – Second Stage	Number in 2021/22
Second Stage	3
Upheld	0
Declined	3
Ongoing	0

This table reflects the position for the 2021/22 financial year and is not the current position. Not all complaints resolved in this timeframe were raised in the same financial year and the numbers quoted include complaints raised in 2020/21 but were not resolved in the same financial year.

Key administration performance indicators

Performance Indicator	Impact	Measure	Target %	Achieved by Fund %
Death notification acknowledged, recorded and documentation sent	Medium	Within 2 days	95%	100%
Award dependent benefits (Death Grants)	High	Within 5 days	95%	98%
Retirement notification acknowledged, recorded and documentation sent	Medium	Within 7 days	95%	95%
Payment of lump sum made	High	Within 5 days	95%	98%
Calculation of spouses' benefits	Medium	Within 5 days	90%	97%
Transfers In - Quote (Values)	Low	Within 10 days	90%	85%
Transfers In - Payments	Low	Within 25 days	90%	92%

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Performance Indicator	Impact	Measure	Target %	Achieved by Fund %
Transfers Out - Quote	Low	Within 10 days	90%	98%
Transfers Out - Payments	Low	Within 10 days	90%	96%
Employer estimates provided	Medium	Within 15 days	95%	94%
Employee projections provided	Low	Within 15 days	95%	97%
Refunds	Low	Within 10 days	95%	99%
Deferred benefit notifications	Low	Within 15 days	95%	100%

Number of complaints

Scheme year	Number
2020/21	18
2021/22	47

It should be noted that there has been a fundamental shift in the definition of what is a complaint since the Pension Administration service has been brought back in-house. Now the team record any inkling of a complaint or where there is a possible maladministration with a financial consequence for the Fund.

Financial indicators of administrative efficiency

The table below shows management expenses by members. The benchmark used is the average fund costs from the SF3 returns.

Investment management expenses	ESPF Unit costs per member 2020/21	ESPF Unit costs per member 2021/22	Benchmark unit costs 2020/21
Excluded	£44.75	£33.83	£35.90
Included	£220.43	£328.19	£274.34

Key staffing indicators

During 2021/22, staffing numbers within Pension Administration decreased from 18.9 to 17.5 FTE. The team was carrying 9 vacancies.

This provides the fund with a staff to fund member ratio of 1:4,630.

With average reportable KPI cases per member of staff ratio of 1:511

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Membership

During 2021/22 the number of contributing members within the Pension Fund decreased by 0.80% from 25,002 to 24,801. In summary, the number of members contributing to the Scheme is:

Investment management expenses	Number of members 2020/21	Number of members 2021/22
East Sussex County Council	8,163	8,054
Scheduled bodies	16,360	16,349
Admitted bodies	479	398
Total	**25,002**	**24,801**

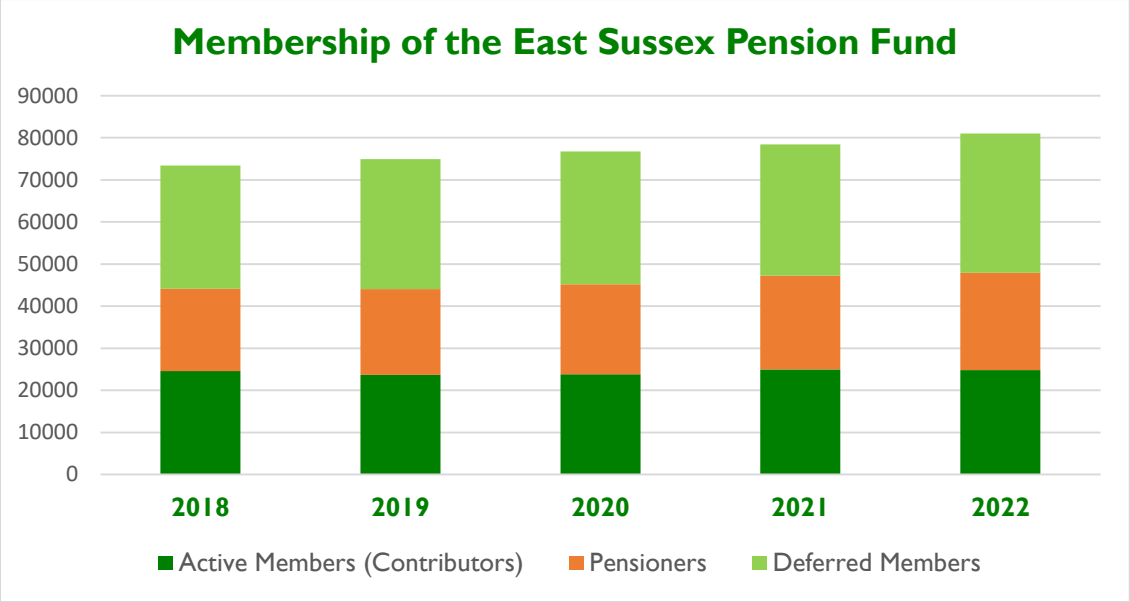
The number of pensioners in receipt of payments from the Fund increased from 22,230 to 23,173 (or 4.07%).

The following table and bar chart provide a summary of contributing members, pensioners in payment and deferred pensioners over the last five years:

	Mar-18	Mar-19	Mar-20	Mar-21	Mar-22
Active Members (contributors)	24,570	23,646	23,835	25,002	24,801
Pensioners (inc dependents)	19,597	20,403	21,335	22,230	23,173
Deferred Members	29,253	30,916	31,622	31,234	33,043
Total	**73,420**	**74,965**	**76,792**	**78,466**	**81,017**

Under the Local Government Pension Scheme (LGPS) (Administration) Regulations 2013, the East Sussex County Council administers the Pension Fund for approximately 81,000 individuals employed by 132 different organisations. Underpinning everything we do is a commitment to putting our members first, demonstrating adherence to good practices in all areas of our business and controlling costs to ensure we provide outstanding value for money.

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New pensioners by pensioner type

Pensioner type	Number
Normal Retirements	333
Redundancies	63
Ill Health	31
Employee's Choice of Early Pension	884
Total New Pensioners	**1,311**

2020 Annual Benefit Statement

The ABS statutory deadline was 31 August 21 (31 October last year due to Covid-19) and the results of statements issued for eligible members were as follows:

Member category	2020	2021
Actives	97.20%	96.31%
Deferred	99.77%	99.69%

The Pension Board and Committee meetings both discussed about whether it was appropriate to treat the result as a reportable breach. The decision was determined not to report but the chairs of the Board and Committee wrote to the B&HCC CEO (as that employer accounted for 62% of the failures).

The letter dated 20th December 2021 was clear it was a close decision not report them to the Pensions Regulator and to ensure they are aware of the seriousness of the situation, to be clear we have their management support and a commitment to switch to i-Connect in the near future.

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8. Actuarial report

East Sussex County Council Pension Fund

Actuary's statement as at 31 March 2022

Barnett Waddingham LLP

31 May 2022

Introduction

The last full triennial valuation of the East Sussex County Council Pension Fund (the Fund) was carried out as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2020.

Asset value and funding level

The results for the Fund at 31 March 2019 were as follows:

• The market value of the Fund's assets as at 31 March 2019 was £3,633m.

• The Fund had a funding level of 107% i.e. the value of assets for valuation purposes was 107% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a surplus of £247m.

Contribution rates

The employer contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- the annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these fall due;
- plus an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The primary rate of contribution on a whole Fund level was 18.0% of payroll p.a. The primary rate as defined by Regulation 62(5) is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2020.

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In addition, each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the minimum total contributions. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

Details of each employer's contribution rate are contained in the Rates and Adjustments Certificate in Appendix 3 of the triennial valuation report.

Assumptions

The key assumptions used to value the liabilities at 31 March 2019 are summarised below:

The key assumptions used to value the liabilities at 31 March 2019 are summarised below	Assumptions used for the 2019 valuation
Financial assumptions	
Market date	**31 March 2019**
CPI inflation	**2.3% p.a.**
Long-term salary increases	**2.3% p.a.**
Discount rate	**4.0% p.a.**
Demographic assumptions	
Post-retirement mortality	
Base tables	**Based on Club Vita analysis**
Projection model	**CMI 2018**
Long-term rate of improvement	**1.25% p.a.**
Smoothing parameter	**7.0**
Initial addition to improvements	**0.5% p.a.**
Males	**0.25% p.a.**
Females	

Full details of the demographic and other assumptions adopted as well as details of the derivation of the financial assumptions used can be found in the 2019 valuation report.

Updated position since the 2019 valuation

Update to funding basis and assumptions

The Fund appointed a new fund actuary with effect from 1 January 2021. For employers commencing participation in the Fund on or after 1 January 2021, the calculated contribution rate will be set to meet a funding target over a specified time horizon. The funding target is set based on a single set of financial assumptions. These assumptions are set so as to achieve broad consistency with the previous fund actuary's approach.

With effect from 1 January 2021, the salary growth assumption was reviewed, and salaries are now assumed to increase at CPI plus 1.0% p.a. with no additional promotional salary scale. The derivation of CPI is discussed below.

We have updated the derivation of the CPI inflation assumption to be 0.8% p.a. below the 20 year point on the Bank of England (BoE) implied inflation curve. The assumption adopted at the 2019 valuation was that CPI would be 1.0% p.a. below the 20 year point on the BoE implied inflation curve. This update was made following the Government's response (on 25 November 2020) to the consultation on the reform of RPI, and

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the expectation that the UK Statistics Authority will implement the proposed changes to bring RPI in line with CPIH from 2030. This updated approach leads to a small increase in the value of liabilities.

The discount rate assumption is set with reference to the Fund's long term investment strategy and therefore reflects the long term expected return on assets for the Fund. We have included in the discount rate assumption an explicit prudence allowance of 1.1%. This incorporates an allowance for current uncertainties in LGPS benefits (relating to the effects of the McCloud/Sargeant judgement and the cost cap).

Liabilities

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As at 31 March 2022, the real discount rate is estimated to be lower than at the 2019 valuation due to lower future expected returns on assets in excess of CPI inflation.

The update to the CPI assumption mentioned above leads to a small increase in the value of liabilities. The value of liabilities will also have increased due to the accrual of new benefits net of benefits paid.

It is currently unclear what the impact of the COVID-19 pandemic is on the Fund's funding position. It is expected that COVID-related deaths will not have a material impact on the Fund's current funding level, however, impact on future mortality rates may be more significant and we will be reviewing the Fund's mortality assumption as part of the next valuation.

Assets

Returns over the year to 31 March 2022 have remained strong resulting in an increase in asset values. As at 31 March 2022, in market value terms, the Fund assets were more than where they were projected to be based on the previous valuation.

Overall position

On balance, we estimate that the funding position (allowing for the revised funding basis) has improved compared to the funding position as at 31 March 2019. Future investment returns that will be achieved by the Fund in the short term are more uncertain than usual, in particular due to market volatility following the Russia-Ukraine crisis and other economic factors such as higher levels of inflation. There is also uncertainty around future benefits due to the McCloud/Sargeant cases. The Fund could opt to monitor the funding level using LGPS Monitor on a regular basis.

The next formal valuation is being carried out as at 31 March 2022 with new contributions effective from 1 April 2023.

Barry McKay FFA

Partner, Barnett Waddingham LLP

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9. Employers

The East Sussex Pension Fund was established in 1974 to cover the future pension entitlement of all eligible employees of the County Council and former District Councils. The Fund excludes provision for teachers, police officers and fire fighters, for whom separate arrangements exist. A number of other bodies also participate in the Scheme. These include Parish and Town Councils, Further Education Colleges, Academy Schools, Police and Fire Authorities (non-uniformed staff only) and Admitted Bodies. Admitted Bodies are those which are able to apply for membership of the Scheme under the Regulations. If the Pension Fund Committee agrees to the application, an Admission Agreement is drawn up admitting the body into the Scheme.

Note 29 to the accounts provide a list of all organisations currently contributing to the Fund. It includes their contribution rates, expressed as a percentage of employees' pensionable pay, and additional annual payments for those participating bodies which would otherwise have a shortfall in contributions by the end of the recovery period.

Below is a summary of the number of employers in the fund analysed by scheduled bodies and admitted bodies which are active (with active members) and ceased (no active members but with some deferred members and pensioners).

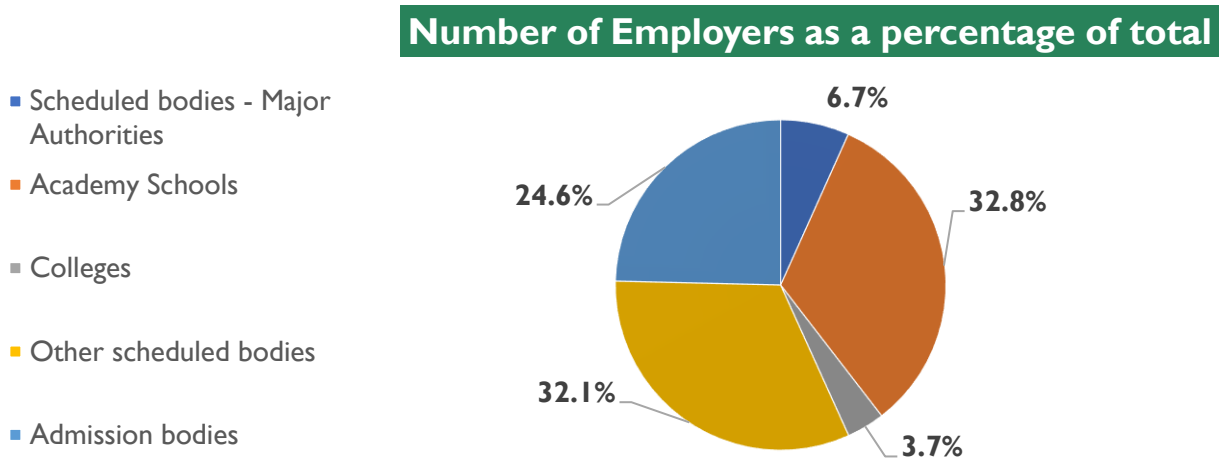
	Active	Ceased	Total
Scheduled body	101	26	127
Admitted body	33	35	68
Total	**134**	**61**	**195**

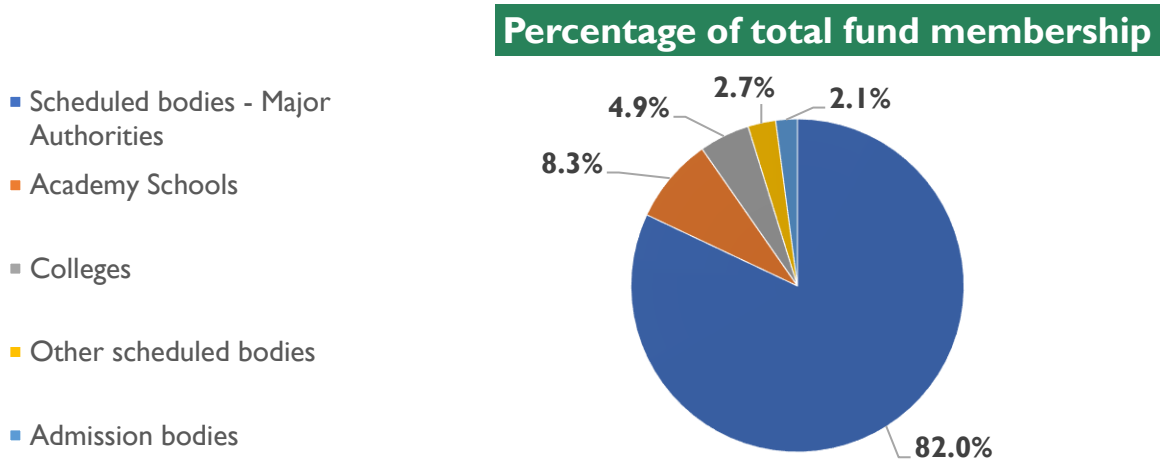
Employer statistics by Employer type

Employer Type	Number of Employers as a percentage of total	Percentage of total fund membership	Number of Employers in Group
Scheduled Bodies – Major Authorities	6.7%	82.0%	9
Academy Schools	32.8%	8.3%	44
Colleges	3.7%	4.9%	5
Other Scheduled Bodies	32.1%	2.7%	43
Admission Bodies	24.6%	2.1%	33

Note - all percentages have been rounded to the nearest one decimal place

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The Local Government Pension Scheme Regulation 59(1) of the (Administration) Regulations 2013 covers the requirement for an administering authority to prepare a written statement of policies as it considers appropriate in the form of a Pensions Administration Strategy. The East Sussex Pension Fund Pension Administration Strategy is kept under review and revised to reflect changes to LGPS regulations and Fund policies.

The Pensions Administration Strategy document sets out a framework by way of outlining the policies and performance standards to be achieved when providing a cost-effective inclusive and high-quality pensions administration service.

In particular it sets out:

- The roles and responsibilities of both the Fund and the employers within the Fund.
- The level of service the Fund and employers will provide to each other
- The performance measures used to evaluate the level of service

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This administration strategy statement will be reviewed in line with each valuation cycle. All scheme employers will be consulted before any changes are made to this document. The latest version of the administration strategy statement will always be available on the ESCC website.

Employers are able to contact the Pension Fund directly depending on the type of request. The Employer Engagement Team will deal with employers directly on day to day questions and queries. The Pensions Admin team will deal with any employee requests that come via the employer. The employers have been informed of direct contact details for all requests and questions to the pension Fund.

The Local Government Pension Scheme regulations require employers who participate in the Local Government Pension Scheme (LGPS) to draw up and publish a discretions policy and to keep it under review. Discretions are powers that enable employers to choose how to apply the scheme in respect of certain provisions. All new employer admissions to the Scheme will complete a discretions policy on joining and discretion policies will be reviewed every 3 years in line with each valuation cycle.

All new admissions to the LGPS will be provided with a guide to outsourcing and admissions. This guide will provide information to all new potential admissions to the Fund and will lay out the necessary process that will need to be adhered to before admissions can be undertaken. All new admissions will be sent the relevant legal agreements and documentation that will require signing before proceeding.

Any employer with a potential TUPE or outsourcing must contact the employer engagement team where support and advice will be provided on the necessary steps that will need to be undertaken.

Relevant information, timings and paperwork will need to be completed before any TUPE/outsourcing can commence. Employers will be provided a direct contact throughout the whole project to answer questions and provide support.

A reminder is sent to all employers annually to provide details of the employers responsibilities and obligations to the Fund. The admin strategy also provides details for employers of their responsibilities.

Employers have a responsibility that they must meet as part of the East Sussex Pension Fund. The table below provides details on monthly/annual deadlines that must be met.

Employer deadlines

Employer Responsibility	Deadline
Complete and submit LGPS31 forms (contribution forms)	18th day of the month following that to which the payment relates
Payment of correct contributions	19th day of the month following that to which the payment relates
Provide end of year data requirements	By 30th April following the year end (unless already onboarded to i-Connect)

If the above deadlines are not met then warnings are issued. If an employer breaches the above deadlines on more than 1 occasion in a 12 month period then administration charges can be levied. Employer contribution amounts are provided to all employers at the Employer Forum following the valuation. A

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reminder of the new rates are also annually sent to employers in March. The new amounts are sent in March in preparation for the new rates to be applicable from the April contribution payment.

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10. Risk management

Risk management is the process of identifying risks, evaluating their likelihood and potential impact and determining the most effective methods of controlling or responding to them. The Fund has an active risk management programme in place, which is subject to periodic review. The Fund's approach is to manage risk rather than eliminate it entirely.

Identification of risk

All Officers, together with members of the Pension Board, Pension Committee and advisers, have a role to play in the identification of risks to the Fund. The Fund has a policy in place detailing what is expected of these stakeholders and how risks should be raised to ensure they are given appropriate consideration.

Those risks that are materially likely and/or impactful on the running of the Fund are included in the risk register. This document tracks:

- The risks
- How likely they are
- How much of an impact the risk would have on crystallisation
- Mitigations in place
- The affect of the mitigations on the risk

The risk register is discussed at each Pension Board and Pension Committee meeting.

Reviewing risks

Risks to the Fund are reviewed each quarter in advance of the Pension Board and Committee meetings. This gives Officers the opportunity to ensure that the rating of each risk and the list of mitigations in place is updated and accurate.

During the Pension Board and Committee meetings, members of those bodies are encouraged to discuss and suggested changes as well as to raise any other matters they would like to be considered on the risk register. In the past year changes have been made to risk register to include the impact of international relations, including changing trade rules, and to more specifically recognise the risk of ransomware following intervention from the Pension Board and Committee.

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Key risks

At the end of financial year 2021/22 the 5 most significant risks facing the Fund were:-

- Cyber security
- Key person risk
- Climate change
- Statutory member returns
- Employer data

Cyber security is the most significant risk to the Fund. It became of even greater significance towards the end of the Financial Year with the rise of cyber risk generally following events in Ukraine. The Fund works closely with Officers in the East Sussex County Council's ICT Team to ensure it is taking appropriate steps to have both cyber defences and cyber resilience in place.

Multiple levels of cyber defence are in place and data is stored securely with regular back-ups taking place. A risk assessment is also carried out on any new contract which incorporates the use of software to ensure that the cyber protections in place are sufficiently robust.

Key person risk is identified as an area of concern due to the technical nature of some of the roles Officers working for the Fund hold. Recruitment to public service roles generally is challenging and this is not something unique to the Fund. This means it would be more difficult than it would have been previously to recruit experienced people.

This risk is mitigated by diversifying the roles of Officers so if one person leaves, or is away from work for a prolonged period, there is cover in place to minimise the impact on the operation of the Fund. Additionally, work is underway to ensure that clear process maps are in place for all tasks to provide further mitigation.

Officers also engage with their peers in other Funds. This provides support in the identification of emerging challenges and allows support with novel situations to be obtained.

Climate change was identified as a key risk because of the impact it could have on both the assets and the liabilities of the Fund. There is a risk of both short-term impacts, such as companies being fined for environmental failings, along with longer terms risks. Longer term risks include natural disasters, for example widespread flooding.

The Fund has reduced its exposure to fossil fuels along with companies with high carbon emissions or unsatisfactory energy transition plans. To do this the Fund has worked with its advisors and fund managers to provide clear instructions about how the investment strategy should be implemented. The Fund is a signatory to the UN PRI and is committed to report in line with the Task Force on Climate-Related Financial Disclosures.

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To help Officers and Committee members better understand the risks associated with Climate Change training was sourced covering the science behind the issues.

Employer data is of considerable importance to the Fund. It depends on employers providing correct data in a timely manner to ensure it knows who should be members of the Fund and what there entitlements are.

The Fund has an Employer Engagement Team which works closely with the organisations that participate in the Fund. This helps employers to understand their responsibilities and to cleanse the data they provide to the Fund. In order to ease the flow of data, employers are being onboarded to a new system which allows for the provision of member data on a monthly basis with built in tolerances to help identify potential errors.

Statutory member returns is a risk connected to the employer data risk. The Fund has to provide certain information to members each year, for example an Annual Benefit Statement has to be sent to active and deferred members by 31 August each year. Where employers send the information the Fund needs to calculate members entitlements late, or the data is not correct, this restricts the Funds ability to issue the statements on time.

To mitigate the risk, the Fund has plans for how it will run the various projects needed to produce the statutory returns and requests data, where needed, in sufficient time to allow it to be processed. In some cases, where an employer has had particularly difficult providing information, Fund Officers have provided dedicated time to provide support in overcoming their internal challenges.

Investment risk

Along with other key risks, investment risks are included on the Fund's risk register. Investment risk is not treated as a single risk, with just climate change being identified as one of the 5 most material risks to the Fund pre-mitigation. However, as a whole, investment risks are of significant importance.

The Fund has identified 10 risks which relate to investments and assets of the Fund. Of these, 4 risks are specifically around the risks of investment, these are:

- Poor investment returns
- Changes to international trade affecting liquidity of assets
- Investment pooling
- Inflation

Each of these risks is listed individually on the risk register with its own scoring and mitigations. This is alongside 2 risks relating to climate change, one of which is discussed above, 1 about regulatory change in the investment landscape, 1 relating to the amount of cash held and 2 regarding the risk of fraud to the Fund.

Mitigations for the 4 risks identified include:

- Ensuring appropriate training is made available to Officers and Pension Committee members
- Obtaining support from an advisor who is independent of the fund managers
- Engaging closely with the ACCESS Pool to ensure the Fund's interests are protected

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- Diversification of assets
- A capacity to rebalance portfolios between the annual formal review of the investment strategy

Reviewing our processes

The Fund is committed to ensuring it has appropriate controls in place. As such, the Fund commissions an external audit of its practices to help identify any areas where improvements can be made. Additionally, the Fund commissions a wide range of internal audits, some of which cover risk management. This year the Fund has commissioned 100 days of internal audit, although not all will just focus on risk management.

An external audit is undertaken each year and the Fund currently uses Grant Thornton as its Auditor.

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11. Financial performance

Analytical Review

The following tables provide a brief review of the major movements in the Fund Account and the Net Assets Statement for the financial year. More detail is provided in the Investment Policy and Performance report from page 30.

	2020/21 £000	2021/22 £000
Fund Account		
Net (Contributions)/withdrawals	(3,253)	2,920
Management Expenses	17,296	26,671
Return on Investments	(778,984)	(473,223)
Net Increase in Fund	**(764,941)**	**(443,632)**

	2020/21 £000	2021/22 £000
Net Asset Statement		
Bonds	128,765	134,975
Equities	-	237,482
Pooled Funds	4,045,225	4,214,677
Cash	56,736	90,216
Other	(418)	(388)
Total Investment Assets	**4,230,308**	**4,676,962**
Non-Investment Assets	13,727	10,705
Net assets of the fund available to fund benefits at the year end.	**4,244,035**	**4,687,667**

Analysis of pension contributions

The table below shows the number of primary pension contributions received late in the financial year 2021/22.

Month	Payments Due	Payments Received Late
April	129	11
May	129	9
June	127	8
July	127	3
August	127	15
September	129	11
October	129	5
November	129	4
December	130	4
January	131	2
February	133	4

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March	134	2

No interest was charged on any of the late payments.

Forecasts

The following tables show the forecasts and outturn for the Fund Account and the Net Asset Statement.

Fund Account	2020/21	2020/21	2021/22	2021/22	2022/23
	Forecast	**Actual**	**Forecast**	**Actual**	**Forecast**
	£000	**£000**	**£000**	**£000**	**£000**
Contributions	(118,600)	(137,521)	(120.000)	(142,419)	(153,000)
Payments	134,700	134,268	135,000	145,339	149,911
Administration expenses	1,080	1,680	2,644	2,208	1,165
Oversight and governance costs	1,365	1,831	813	526	650
Investment expenses:					
fees invoiced to the fund	1,350	3,409	3,698	2,197	3,318
fees deduced at source	-	10,376	-	21,732	-
Net investment income	(27,200)	(39,070)	(39,900)	(40,547)	(41,800)
Change in market value	(134,600)	(739,914)	(153,200)	(432,676)	(179,000)
Net increase in the Fund	**(141,953)**	**(764,941)**	**(170,940)**	**(443,632)**	**(218,756))**

Contributions and payments are based on amounts provided by the actuary used the strategy of the Fund; the administration and investment management expenses are based on current budgets; and the net investment income and change in market value are based on the long-term forecast returns for each asset class.

Net Asset Statement	2020/21	2020/21	2021/22	2021/22	2022/23
	Forecast	Actual	Forecast	Actual	Forecast
Equities	1,403,200	1,864,834	1,958,100	2,035,119	2,126,700
Bond	611,600	572,345	577,000	571,506	576,600
Property	329,600	319,533	326,900	390,179	399,200
Alternatives	341,000	414,980	439,900	554,116	590,100
Cash	43,900	56,736	40,600	90,216	88,200
Other	869,700	1,001,880	1,041,000	1,035,815	1,075,200

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Total Investment Assets	**3,599,000**	**4,230,308**	**4,383,500**	**4,676,962**	**4,856,000**

The forecasts for total investment assets are based on the underlying assets within the pooled funds multiplied by the historic long-term returns for each asset class used. Net contributions, less administration and investment management expenses and oversight and governance costs, are added to the Cash figure to reflect new money into the Fund. The forecasts do not take into account potential additions or disposals of investments within these asset classes during the period as potential changes are not known with any degree of certainty.

Management Expenses-forecast

	2020/21	2020/21	2021/22	2021/22	2022/23
	Forecast	**Actual**	**Forecast**	**Actual**	**Forecast**
	£000	**£000**	**£000**	**£000**	**£000**
Pension Fund Staff Costs					
ESCC Recharge	385	739	1,768	1,236	1,751
Staff costs total	**385**	**739**	**1,768**	**1,236**	**1,768**
ESCC Support Services	-	-	237	150	275
Orbis Business Operations Support Services	935	894	-	-	-
Supplies and Services	145	555	689	830	890
Administration total	**1,080**	**1,449**	**926**	**980**	**1,165**
Oversight and governance costs					
ESCC Support Services	-	28	286	279	249

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	2020/21	2020/21	2021/22	2021/22	2022/23
	Forecast	**Actual**	**Forecast**	**Actual**	**Forecast**
	£000	**£000**	**£000**	**£000**	**£000**
Supplies and Services	980	1,273	527	228	401
Third Party Payments	150	87	100	57	80
Other Income	(150)	(65)	(100)	(38)	(80)
Oversight and governance total	**980**	**1,323**	**813**	**526**	**650**
Investment Management					
Investment expenses:					
fees invoiced to the fund	1,350	2,416	3,698	3,210	3,318
fees deduced at source*	-	11,369	-	20,719	-
Investment Management Total	**1,350**	**13,785**	**3,698**	**23,929**	**3,318**
Management Expenses Total	**3,795**	**17,296**	**7,205**	**26,671**	**6,884**

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* During the year, the Pension Fund incurred management fees which were deducted at source for 2021/22 of £4.0m (£2.2m in 2020/21) on its private equity investments, fees of £2.4m (£1.1m in 2020/21) on its infrastructure investments, fees of £9.1m (£5.1m in 2020/21) on investments in the ACCESS Pool and fees of £4.6m (£1.9m in 2019/20) on other mandates. These fees are deducted at the individual portfolio level rather than being paid directly by the Pension Fund.

Pension overpayments

When an overpayment of pension benefits has been identified the recovery of this debt needs to be pursued. The details of the debt is collated and an invoice is raised to the relevant party for payment. The Fund

follows the East Sussex County Councils procedure for recovering income which has escalation points set if the debt remains unpaid with the final stage this is passed on to the East Sussex legal team to pursue.

The table below shows the pension overpayments and recoveries for the past 5 years:

Year	Value	Overpaid Pensioners	Recoveries	Write Off	Outstanding
2021/22	Number	42	26	13	3
	Value £000	32	22	7	3
2020/21	Number	19	4	0	15
	Value £000	9	1	0	8
2019/20	Number	10	8	0	2
	Value £000	6	4	0	2
2018/19	Number	30	21	1	8
	Value £000	70	59	6	5
2017/18	Number	52	41	3	8
	Value £000	52	42	1	9

The Fund's administrator introduced mortality screening of the active pensioners each month in 2020 and this has reduced the number of overpayments. The tell us once initiative has also been implemented with the aim to further reduce the overpayments made by the Fund.

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12. Investment policy and performance

The Fund's strategic asset allocation was revised following decisions taken at the July 2021 Committee meeting, with a number of changes agreed, and some of these implemented over the 2021/2022 financial year.

The changes to the strategic asset allocation involved further restructuring the Fund's equity allocation whilst maintaining the 40% overall weighting. The 40% allocation was retained, with changes in structure over the period being the addition of an active global equity mandate, as well as a systematic 'resource efficient' global equity mandate to replace the Fund's existing passive regional equity allocation. These changes were consistent with the Fund's ESG objectives. In order to maintain the strategic allocations mentioned above, the Fund made allocations of 5% (c. £230m) to Baillie Gifford Global Alpha Equity – Paris Aligned Fund and Osmosis Resource Efficient Equity Fund (implemented by UBS) respectively. These allocations were funded through termination of the Fund's regional equity portfolio held with UBS.

The Fund also agreed to a number of strategic changes, not yet implemented or reflected in the current strategic benchmark. The strategic changes involve a reduction in target allocation for absolute return (17% from 20%), index linked gilts (0% from 3%), corporate bonds (0% from 3.5%), and balanced property (7% from 10%). The Fund agreed to reallocate the funds in principle through a new allocation to inflation-linked property (4%), as well as increased allocations to infrastructure (11%, increasing from 8%), private credit (5%, increasing from 3%) and absolute return credit (10.5%, increasing from 7%).

To achieve the increased allocation to infrastructure, the Fund committed capital to IFM Global Infrastructure Fund, citing a positive ESG story, through a focus on improving assets' ESG credentials, as a key factor in the decision. It is anticipated that the Fund's commitment will be called over the next 12-18 months. Further consideration will be given to the remainder of the strategic changes over the coming year.

The Committee demonstrate their consideration of Environmental, Social, and Governance (ESG) and climate related issues through the abovementioned changes. Similarly, the Fund's fossil fuel exposure is estimated on a quarterly basis, with this estimated as c.2% of total Fund assets as at 31 March 2022.

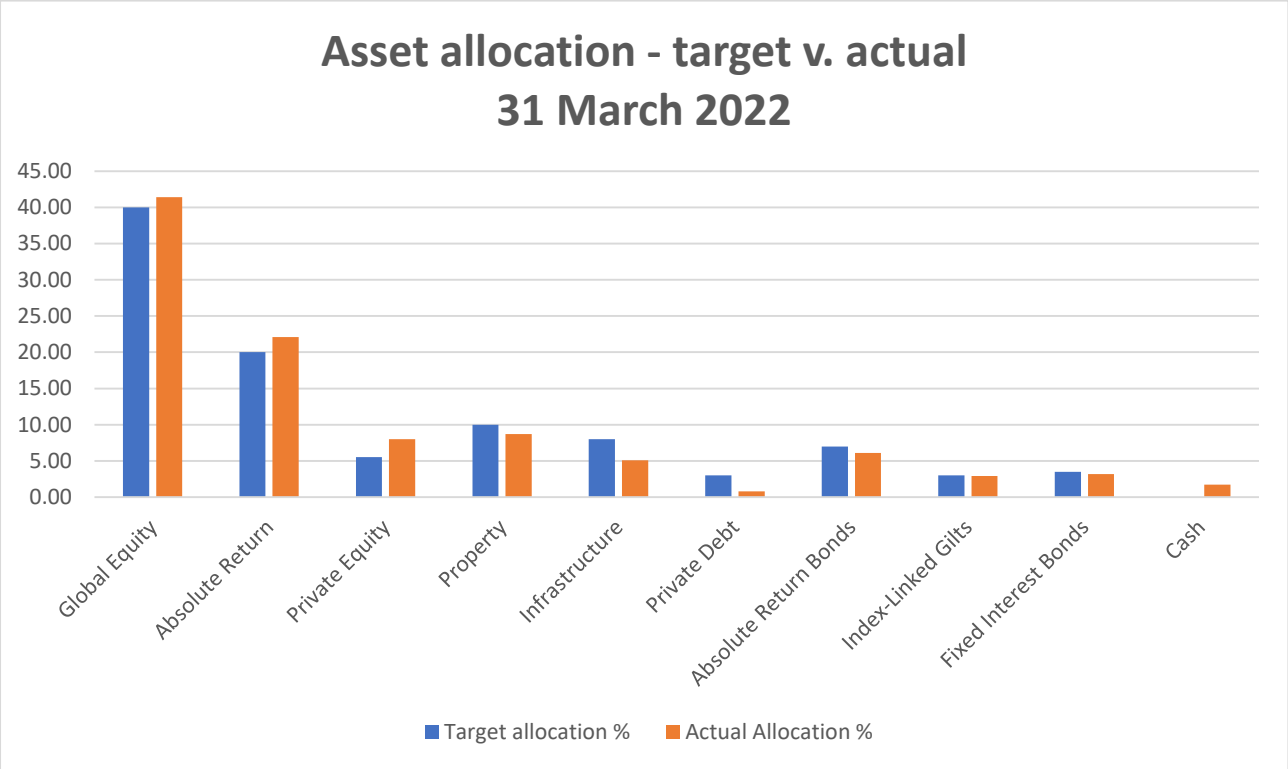
Asset Allocation

The Fund's asset allocation maintains a significant allocation to equities, which are expected to be a core driver of returns over the long term, but typically the most volatile. However, the equity portfolio is diversified across regions and styles to target a balanced exposure. The increase to the Fund's infrastructure allocation, and newly agreed mandate with IFM, provides additional diversification to the overall portfolio, as well as contractual type returns, which are expected to provide a more certain return once fully deployed. Infrastructure is also expected to provide an inflation-linked source of income, which will be further increased as the inflation-linked property mandate is agreed and implemented. The Fund maintains a

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significant allocation to property, providing further diversification from traditional investment markets such as equities and bonds.

Credit mandates such as corporate bonds, index-linked gilts and absolute return credit also provide diversification, due to differing return drivers than equities, while also offering source of liquidity. The absolute return mandates combine a number of asset classes in order to provide a smoother path of returns, offering the manager flexibility to alter allocations to benefit from varying market conditions.



Investment Managers

The Fund employs a number of investment managers across the various mandates, with differing approaches or styles, as well as sectoral and geographic focus, and benchmarks. This is in order to ensure sufficient diversification, limiting downside risk during periods of market volatility. The Fund's investment manager structure is broadly as follows:

- The Fund's equity mandate is split across a number of managers, having previously been largely allocated to UBS. The equity allocation is now weighted in favour of active management strategies, reflecting the Committee's preference for active management and an ESG focus, with the equity holdings broadly split 60/40 in terms of active and passive. The active sleeve is split across global equity mandates with Longview and Baillie Gifford, as well as impact equity strategies managed by Wellington and WHEB. The passive, or systematic, sleeve is split between two ESG systematic/smart beta strategies, one with Storebrand, and the other with Osmosis (implemented by UBS).
- Absolute return mandates are held with Newton and Ruffer and allow managers to flexibly alter allocations to a variety of underlying asset classes based on specific market conditions.

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- The Fund's property mandate is held with Schroders, with a 'fund of funds' approach adopted, adding an additional layer of diversification to the mandate.
- Corporate bonds, absolute return credit and commercial real estate debt mandates are managed by M&G, while the Fund's passive index-linked gilts mandate is held with UBS.
- The Fund's infrastructure holdings are split between M&G, UBS, Pantheon (all unlisted) and ATLAS (listed), who adopt varying styles and focus areas. Towards the end of the 2021/2022 financial year, the Committee agreed to an allocation to a new open-ended infrastructure equity mandate with IFM, with the commitment expected to be called towards the end of the 2022/2023 financial year.
- Private equity mandates are split between Adams Street and HarbourVest.

The Fund has the following objectives for its investment managers:

- Each (active) manager delivers on its objective, net of fees.
- Each mandate adds a layer of diversification and offers different qualities to the Fund, be that through varying approaches, and focus areas (geographic and sectoral). Consider all financial and non-financial risks and considerations including Environmental, Social and Governance (ESG) factors (including but not limited to climate change).

Ultimately the Fund seeks to deliver an appropriate level of return, relative to the risk taken.

Custodian

A specialist provider of Custodian Services, Northern Trust, is employed by the East Sussex Pension Fund.

The responsibilities of the Custodian are:

- Collection of investment income.
- Arranging for the custody of the scheme's assets in compliance with the custody agreement.
- Providing quarterly valuations of the scheme's assets, details of all transactions and investment accounting.
- Responsibility for cash management and investing the daily cash balances in a "Triple A" rated cash pool.

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Investment Allocations pooled and unpooled

Mandate	Q1 2021 (£m)	Actual (%)	Target (%)	Q1 2022 (£m)	Actual (%)	Target (%)
Pooled Investments						
Link ACS Funds						
ACCESS - Global Equity (Longview)	458.8	10.8%	10.0%	525.6	11.2%	10.0%
ACCESS - Global Alpha (Ballie Gifford)	-	-	-	197.4	4.2%	5.0%
ACCESS - Absolute Return (Ruffer)	510.0	12.1%	10.0%	537.8	11.5%	10.0%
ACCESS - Real Return (Newton)	492.3	11.7%	10.0%	498.4	10.7%	10.0%
ACCESS - Sterling Corporate Bond (M&G)	158.4	3.7%	3.5%	148.9	3.2%	3.5%
ACCESS - Alpha Opportunities (M&G)	-	-	-	287.7	6.2%	7.0%
Total Link ACS Funds	**1,619.5**	**38.3%**	**33.5%**	**2,195.8**	**47.0%**	**45.5%**
ACCESS Passive Manger						
UBS - 5yr ILG	128.8	3.0%	3.0%	135.0	2.9%	3.0%
UBS - Osmosis Resource Efficient Core Equity (ex-FF)	-	-	-	238.2	5.1%	5.0%
UBS - Global Emerging Markets	62.2	1.5%	1.5%	-	-	-
UBS - Regional Equities	299.9	7.1%	7.0%	-	-	-
UBS - UK Equities	66.7	1.6%	1.5%	-	-	-
Total Access Passive Manager	**557.6**	**13.2%**	**13.0%**	**373.2**	**8.0%**	**8.0%**
Total Pooled Investments	**2,177.1**	**51.5%**	**46.5%**	**2,569.0**	**55.0%**	**53.5%**
Non-Pooled Investments						
Equities (passive):						
Storebrand - Global ESG Plus	454.5	10.7%	10.0%	510.3	10.8%	10.0%
Equities (active):						
Wellington - Global Impact	222.8	5.3%	5.0%	237.5	5.1%	5.0%
WHEB- Sustainability	222.7	5.3%	5.0%	230.1	4.9%	5.0%
Total Equities	**900.0**	**21.3%**	**20.0%**	**977.9**	**20.8%**	**20.0%**
Bonds:						
M&G - Alpha Opportunities	285.1	6.7%	7.0%	-	-	-
Total Bonds	**285.1**	**6.7%**	**7.0%**	**-**	**-**	**-**
Other Investments:						
Schroder - Property	347.8	8.2%	10.0%	402.2	8.6%	10.0%
M&G - Infrastructure	32.7	0.8%	2.0%	42.4	0.9%	2.0%
Pantheon - Infrastructure	38.1	0.9%	2.0%	62.4	1.3%	2.0%
UBS - Infrastructure	37.7	0.9%	2.0%	35.8	0.8%	2.0%
Atlas - Infrastructure	77.3	1.8%	2.0%	96.0	2.1%	2.0%
Adams Street - Private Equity	154.5	3.6%	2.8%	206.0	4.4%	2.8%
HarbourVest - Private Equity	110.5	2.6%	2.8%	167.7	3.6%	2.7%
M&G Real Estate Debt VI	42.4	1.0%	3.0%	39.7	0.8%	3.0%
Cash account	31.4	0.7%	0.0%	77.9	1.7%	0.0%
Total Other Investments	**872.4**	**20.5%**	**26.5%**	**1,130.1**	**24.2%**	**26.5%**
Total Non-Pooled Investments	**2,057.5**	**48.5%**	**53.5%**	**2,108.0**	**45.0%**	**46.5%**
Total	**4,234.6**	**100.0%**	**100.0%**	**4,677.0**	**100.0%**	**100.0%**

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An analysis of fund assets, by geography, as at the reporting date of 31 March 2022

	UK £m	Non-UK £m	Global £m	Total £m
Equities	10	228	1,797	2,035
Bonds	284	-	288	572
Property (direct holdings)	-	-	-	-
Alternatives	430	-	514	944
Cash and cash equivalents	27	63	-	90
Other	-	-	1,036	1,036
Total	**1,039**	**291**	**3,347**	**4,677**

An analysis of investment income accrued during the reporting period 2021/22

	UK £000	Non-UK £000	Global £000	Total £000
Equities	173	812	8,224	9,209
Bonds	2,759	-	1,656	4,415
Property (direct holdings)	-	-	-	-
Alternatives	11,970	-	2,162	14,132
Cash and cash equivalents	683	(3)	-	680
Other	-	-	12,113	12,113
Total	**15,585**	**809**	**24,155**	**40,549**

In the above tables:

'Alternatives' are taken to mean holdings in private equity, hedge funds, pooled property funds, infrastructure funds and derivatives.

'Other' denotes assets not falling into any other category, such as investments in vehicles where the underlying investments may comprise of assets of more than one type.

'Global' holdings are those that include an element of both overseas and UK listed assets.

Investments in pooled funds have been allocated to categories based on the nature and domicile of the underlying assets

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Investment Performance - Actual and benchmark performance for each of the Fund's mandates is provided in the table below, over 12 months 3 years and 5 years[1]. Results are considered by the Pension Committee on a quarterly basis and the Fund members on an annual basis as part of this report.

Mandate	1 year fund	1 year benchmark	Relative*	3 year fund (p.a)	3 year benchmark (p.a)	Relative*	5 year fund (p.a)	5 year benchmark (p.a)	Relative*
Pooled Investments									
ACCESS - Global Equity (Longview)	14.58%	15.39%	-0.82%	10.49%	14.58%	-4.09%	10.71	15.35	-4.64
ACCESS - Global Alpha (Ballie Gifford)	-13.92%	3.07%	-16.99%	-	-	-	-	-	-
ACCESS - Absolute Return (Ruffer)	5.45%	2.74%	2.71%	13.54%	2.90%	10.64%	-	-	-
ACCESS - Real Return (Newton)	1.24%	2.74%	-1.50%	3.46%	2.86%	0.6%	-	-	-
ACCESS - Sterling Corporate Bond (M&G)	-6.04%	-6.70%	0.65%	-2.19%	-3.53%	1.34%	-	-	-
ACCESS - Alpha Opportunities (M&G)	-1.14%	0.38%	-1.52%	-	-	-	-	-	-
UBS - 5yr ILG	4.82%	4.85%	-0.03%	3.25%	3.27%	-0.03%	5.02%	5.03%	-0.01%
UBS - Osmosis Resource Efficient Core Equity (ex-FF)	4.41%	5.34%	-0.94%	-	-	-	-	-	-
Non-Pooled Investments									
Storebrand - Global ESG Plus	12.14%	15.39%	-3.25%	13.63%	15.96%	-2.33%	-	-	-
Wellington - Global Impact	6.93%	12.42%	-5.49%	7.66%	12.77%	-5.11%	-	-	-
WHEB- Sustainability	3.27%	15.39%	-12.12%	3.82%	15.44%	-11.61%	-	-	-
Schroder - Property	20.68%	23.145	-2.46%	6.92%	8.05%	-1.14%	7.33%	7.81%	-0.475
M&G - Infrastructure	8.09%	9.06%	-0.97%	6.89%	5.065	1.83%	8.04%	4.77%	3.27%
Pantheon - Infrastructure	19.63%	9.06%	10.57%	9.25%	5.06%	4.19%	7.96%	4.70%	3.25%
UBS - Infrastructure	9.02%	9.06%	-0.04%	-2.99%	5.06%	-8.05%	-0.75%	3.51%	-4.26%
Atlas - Infrastructure	24.11%	21.63%	2.47%	15.31%	15.95%	-0.63%	-	-	-
Adams Street - Private Equity	55.98%	13.85%	42.12%	32.535	14.82%	17.71%	24.58%	11.55%	13.03%
HarbourVest - Private Equity	74.18%	13.85%	60.33%	28.64%	14.82%	13.825	22.85%	11.55%	11.30%
M&G Real Estate Debt VI	6.04%	4.24%	1.80%	2.74%	4.50%	-1.76%	-	-	-
Cash account	-2.96%	0.12%	-3.07%	-2.93%	0.26%	-3.195	-2.91%	0.32%	-3.23%
Total	**10.60%**	**10.11%**	**0.49%**	**8.90%**	**7.71%**	**1.19%**	**7.20%**	**6.40%**	**0.80%**

*Relative performance is calculated on a geometric basis as opposed to the simpler arithmetic method the geometric method makes it possible to directly compare long-term relative performance with shorter-term relative performance.

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Responsible Investment

Responsible Investment (RI) is an approach to investing that aims to incorporate environmental, social and governance (ESG) factors into investment decisions, to better manage risk and to generate sustainable, long-term returns (according to Principles for Responsible Investment). Stewardship is the responsible allocation and management of capital across the institutional investment community to create sustainable value for beneficiaries, the economy and society.

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Task Force on Climate-related Financial Disclosures (TCFD)

The Financial Stability Board created TCFD to improve and increase reporting of climate-related financial information in 2015. The Fund committed to reporting under TCFD in its Statement of Responsible Investment, this RI report follows the principles and reporting requirements of TCFD.

TCFD is structured around four thematic areas of Governance, Strategy, Risk Management and metrics and targets.



The Fund support the TFCD recommendations to provide a framework to communicate the steps the Fund is taking to manage climate related risks. Below the Fund try to report against these core elements to report against these disclosure requirements. Where the Fund has gaps in reportable data, this is highlighted in the sections, with a plan on how this will be progressed in future years reporting.

Governance

The East Sussex Pension Fund is part of the Local Government Pension Scheme (LGPS) and the purpose of the Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death, before or after retirement, for their dependents, on a defined benefits basis. East Sussex County Council (ESCC) is the administering authority for the Fund, under the Constitution the Pension Committee has delegated authority to exercise the powers in respect of the management of the Fund. The Fund is neither owned nor controlled by ESCC, Fund assets are earmarked for pension payments and ringfenced from 'Council Money'. There are around 140 employers and more than 82,000 members, whose pension payments are funded by through employer and member contributions and investment returns. The Pension Committee (the Committee), comprising elected councillors, is responsible for Fund oversight and policy setting.

The Committee are responsible for agreeing the Investment Strategy Statement, climate change strategies, the responsible investment of the Fund, and report on these activities.
The Pension Committee receive assistance in performing these functions via:

- Pension Board – help with effective governance and ensuring compliance with the regulatory requirements.
- Chief Finance Officer – Scheme administration, including governance and investment implementation
- Head of Pensions – ensuring committee decisions are implemented
- Investment Consultants – provide expert investment advice in line with regulatory requirement for proper advice. This is an FCA regulated firm.
- Independent Advisor – provides challenge to the Investment recommendations and supports the Committee in understanding of Investment activities
- Fund Actuary – to provide information to the Fund on its solvency position and how climate change and other investment risks can impact the liabilities of the Fund
- ESG Data advisers – to provide an analysis of carbon footprint of the liquid portfolio holdings and extent of energy transition plans within underlying holdings

The Committee has focused a substantial amount of time to develop its understanding and response to the ESG impacts that it is facing. This work has driven the Fund into codifying its beliefs in this area. The Fund believe that RI supports the purpose of the LGPS, and that climate risk does pose a material financial risk to the Fund. Responsible investment is therefore a substantial factor driving returns alongside other investment considerations.

As RI and climate risk is a driving factor in the value of the Fund's assets and long term return expectations in line with the Funds Investment Strategy Statement and Funding Strategy Statement to keep the Fund in surplus, the Committee set out a Statement of Responsible Investment Principles (SRIP) which is published within the Fund's Investment Strategy Statement (ISS) and is available on the Fund website www.eastsussexpensionfund.org/resources.

The SRIP explains the Funds approach to the oversight and monitoring of the Fund's investment activities from a Responsible Investment (RI) and Stewardship perspective.

The Principles that are set out in detail within the SRIP are:

Principle 1	We will incorporate ESG issues into investment analysis and decision-making processes.

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Principle 2	We will be active owners and incorporate ESG issues into our ownership policies and practices.
Principle 3	We will seek appropriate disclosure on ESG issues by the entities in which we invest.
Principle 4	We will promote acceptance and implementation of the Principles within the investment industry.
Principle 5	We will work together to enhance our effectiveness in implementing the Principles.
Principle 6	We will each report on our activities and progress towards implementing the Principles.

ESG factors and climate risk are taken into account by the Investment Implementation Working group to ensure all investment decisions have ESG and climate risk embedded at the outset, rather than a secondary consideration. The Committee believes that well managed companies provide long-term value creation and that the Fund's beneficiaries will benefit from strong investment returns and improve the Funds overall funding position, which keeps the pensions scheme affordable in terms of employer contribution rates. Performance of all investment are monitored and reported quarterly.

Investment Managers are expected to report on performance, engagement and voting activity quarterly to the Fund and its advisers. The Fund then consider

- How managers have integrated ESG in their investment activities
- How managers have exercised the Funds voting rights and to explain where there is deviation from voting guidelines or voting alerts from the LAPFF.
- What engagement activities have been completed in the quarter.

The Fund carry out meetings with investment managers in addition to the ongoing review and engagement that the investment consultant carried out for the fund to ensure the managers are complying with the requirements on them set by the Fund and ability of the manager to invest in the best interest of the Fund beneficiaries. During direct manager meetings with the Fund discussions take place on voting and engagement, rational of specific holdings to understand physical and transition risk as well as transparency of the Funds exposure to carbon emissions and other ESG data sets.

The Fund report the stewardship activity of the investment managers and that of the Fund in a quarterly report and will be submitting its Stewardship Code report to the FRC in 2022. In addition the Fund publish an implementation statement within its annual report to show how its approved RI beliefs have been embedded within the Funds investment activities.

All of the Funds investment managers are assessed in relation to ESG issues through an ESG and climate impact assessment report on an annual basis by the Fund's investment consultant with an action plan set out for each manager which will be updated annually as part of the review.

The Fund invests through investment managers who carry out detailed research on the prospects for individual companies and industries and have access to company management. On selection of an investment manager the Fund ensure the manager is aligned with the same stewardship beliefs as the Fund with a detailed set of evaluation criteria for ESG and Stewardship.

The Committee review and discuss its risk register quarterly where climate risk is a separately identified risk in addition to ESG risk, with mitigations through the Funds climate strategy.

Knowledge and skills of Officers and the Committee are integral to the governance and effective oversight of climate risk within the Fund. Training opportunities are provided to Committee Members and Fund officers

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to ensure decision makers and those that implement and monitor investment activity understand how their stewardship responsibilities can be implemented, understanding risks and responsibilities. Training for the Fund is laid out in the Funds training strategy which is reviewed every two years. The Fund has a training and investment strategy review day embedded into the annual meeting plan in addition to Committee meetings. New Committee members are given an induction programme to help develop knowledge understanding of all their responsibilities and training links and details are provided at least monthly by the Funds designated training officer. Training is picked up at all Pension Committee and Pension Board meetings through the work plan and a report on training is covered twice a year.

A priority for the Fund is to ensure investments can withstand climate risks, including both transition and physical climate risks, and to invest for the future with confidence. As a result of this the Fund has conducted four years of carbon foot printing and the last three years included integrated energy transition plans into a key metric. In addition, the Fund reviews the exposure to specific Fossil Fuel companies engaging with the Investment managers where these positions are held to understand the engagement activities with those companies and the rational for positioning those companies in the portfolio. Whilst acknowledging that Fossil Fuel companies have intense carbon emissions, the Fund believe they have a part in the energy transition pathway; also recognising that emissions can be intense in other sectors, and climate change risks effects all sectors and geographical regions. The Fund plan to carrying out climate scenario analysis of various warming scenarios in the future to further understand the climate risks of the investment strategy.

The Fund is guided by the legal principle of fiduciary duty in creation and implementation of the investment strategy and has stated that it recognises climate risk as a material financial risk to the Fund. Guidance on our fiduciary responsibilities is provided by the Scheme Advisory Board, which took legal advice on this matter (https://lgpsab.scot/fiduciary-duty-guidance/).

A holistic whole portfolio approach to overall climate risks has been taken by the Fund which is backed up by set of ESG beliefs and robust Statement of Responsible Investment Principles. As well as mitigating risks through the changes to the investment strategy the Fund has also identified that there are also many investment opportunities to be found from new technology and solutions to climate change. In addition, the Fund recognises companies that effectively manage resources including Carbon, Water and Waste and have strong ESG approaches are often well managed high performing companies.

Strategy

The Fund has recognised that Climate risk is a financial risk to the Fund, both through its investments and impacts to liabilities and funding position. The investment risks identified to date around the climate impacts on the Fund have been around the structure of the Fund's investments, namely the use of passive investments and the transition from a fossil fuel based global economy to a carbon free economy. The Fund have made significant changes I the structure of its investment strategy through 2021 and 2022, to remove any unconscious exposure to climate risk inherent within its large traditional passive investments.

The Funds strategic analysis of its climate risk also identified that the Fund could benefit from increasing its exposure to sustainable investments designed to benefit from or contribute to the transition from a fossil fuel economy to a carbon free economy. This work helps to solidify the Fund's belief that ESG opportunities may be found in impact funds investing in companies whose profits are derived from providing solutions to some of the World's more serious environmental, sustainability, demographic, and social challenges e.g., cleaner products and processes, renewable energy, health, nutrition, sustainable agriculture, shelter, clean

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water, and sanitation etc. Where successful, such companies would be expected to exhibit above average long-term growth characteristics.

The Fund does not directly invest in any specific company; instead, it invests through a combination of holdings in passive index funds and in pooled funds through active investment managers who take considered choices over the underlying companies it invests in with a looking at the financial resilience and return possibilities as well as the ESG credentials of a company.

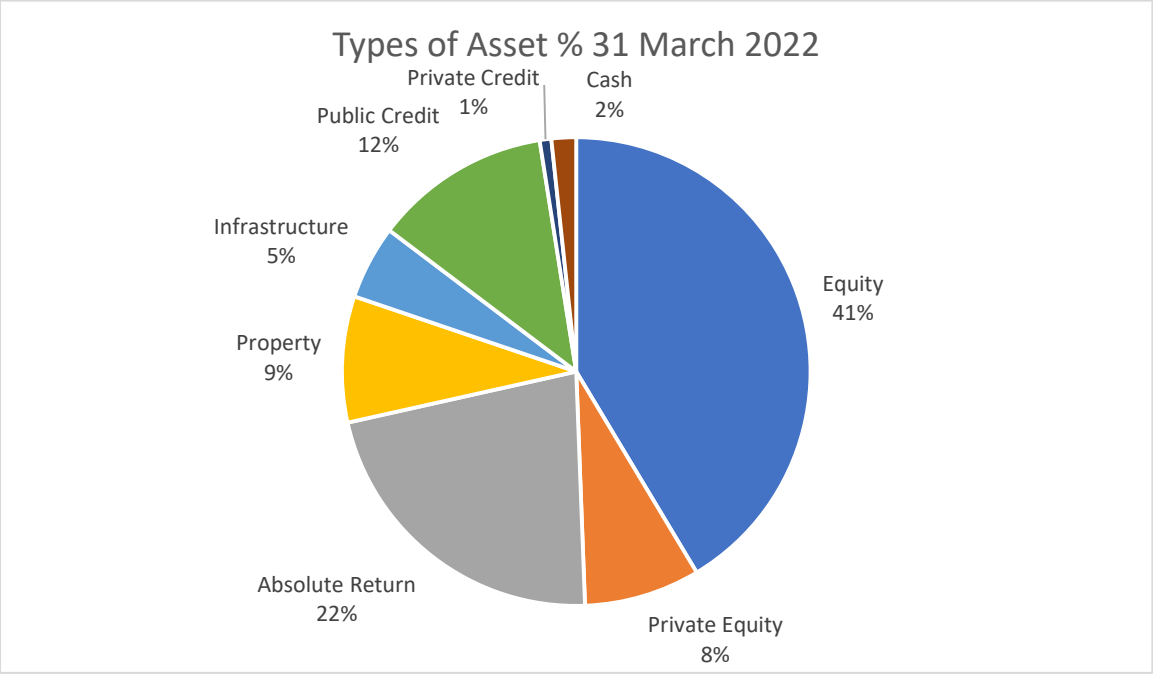
Climate Risk

The Funds investment strategy crosses a wide range of types of investment each of which will have different climate risks. Climate risk to the fund is through both physical risk and transition risk.

Physical Risk	More frequent or severe weather events – flooding, storms, droughts, wildfires, chronic heatwaves, sea level rise
Transition Risk	Changes to less polluting greener economy – loss of asset value in hard to abate industries or as a result of policy constraints on activities of a business, increased costs of business supply chains, loss of access to materials, regulatory tax penalties

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The Funds investment strategy showing the types of assets is shown in the chart below.



Climate risk can impact on all these asset types. For example, in the property allocation there may be physical risk with buildings in areas that may have an increased chance of flooding with extreme rainfall or sea level rises; or transition risks through the cost of retrofitting buildings with heat pumps or hydrogen boilers to replace gas heating systems. Or for example, a port within an Infrastructure portfolio would be affected by atmospheric and marine hazards leading to operational shutdowns and subsequent financial losses. A Global equities portfolio for example could include shares in an agricultural company, a technology

company or even an energy provider. Each company would face different climate risks; either to their physical geographical location, to supply chain costs and failures or regulatory or policy risk imposing penalties or restrictions to operations.

As a result of the wide-reaching climate risks, the Fund takes a holistic view of its investments rather than focusing on a single company sector and focuses on the quality and ability of the investment manager teams who carry out the detailed research for selection of the underlying companies in the portfolio. To do this the Fund undergo due diligence on the selection of a manager; meet and communicate with managers throughout the year to discuss company holdings, decisions, performance, and team structures; carry out annual carbon foot printing which also considers companies energy transition plans; carry out an annual ESG assessment of all Investment managers within the portfolio. The 2022 triennial valuation will take into account climate risk and consider a range of scenarios to understand the potential risk to liabilities. The Fund has not yet carried out climate scenario analysis of the investment portfolio.

The Committee were clear in the inevitability that the transition from a fossil fuel to a carbon free economy will to occur and that traditional market capitalisation indexes are designed to succeed if the old fossil fuel economy persists. The need to be able to access and provide capital to those companies that were looking to benefit to and from the transition was regarded as a priority for the Fund.

To address these risks and opportunities the Fund restructured its equity positions in 2021 by removing traditional passive equity investments. Within listed equities, by the end of 2021/22 the Fund had no exposure to fossil fuels and a significantly lower carbon footprint that than mainstream investment indexes. The listed equity allocation which was 40% of the Strategic Asset Allocation, making up a large portion of investments. Instead, the Fund's investment strategy was to invest 10% into a Paris aligned smart beta, 5% in a resource efficient index fund which excluded fossil fuels, invest 10% into active impact and sustainability managers investing in energy transition solutions and green revenues. Of the remaining 15%, 10% is invested in the Funds global equity manager who has a low carbon footprint due to no investment in energy and materials companies and 5% in a Global Paris Aligned active equity mandate.

The Fund consider engagement with companies to align their businesses to aspects such as corporate governance standards, ensure best practice in labour force polices or alignment with the Paris agreement on climate related emissions. A list of the Funds collaborative engagement partners is listed further below and the Fund publishes reports on engagements and voting each quarter on its website.

Climate Opportunities

There are also climate opportunities. For example, companies which improve resource efficiency in relation to energy usage, water and waste management can result in better run business with cost savings and competitive advantages. Investment into innovation in technology can assist the energy transition such as development of electric vehicles, advances in LED technology, geothermal power. Other opportunities can include investment in renewable energy sources such as solar, wind, biofuels as to meet global reduction targets energy generation source needs to move to clean energy sources and away from burning of fossil fuels.

The Fund has taken substantial measures to better align itself with the challenges of climate change and the energy transition and is considered one of the leaders in this space in its actions. These actions include investing 25% of the equity funds, or £508m, in Impact Managers who select companies whose core products or services achieve a positive impact on the environment or socially, or those companies that provide solutions to sustainability challenges. In addition, the Fund removed traditional passive index equity exposure (where there is unconscious exposure to a company) moving half of this to a fossil-free smart beta equity strategy that aims for long-term alignment with the Paris Agreement goals and exhibits lower carbon risk with climate solutions and higher ESG scores than the world index. The other half has invested in to a

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resource efficient index that focuses on companies that more effectively manage carbon, water and waste while excluding fossil fuel companies.

Future actions

The Fund is looking to further develop its understanding of climate risk and opportunity within the portfolio and is committed to developing Climate Scenario stress tests to layer up our understanding of climate risk and allow us to assess our investment strategy against these. Whilst bearing in mind that scenario testing also depends on the quality of the underlying data and this is still evolving.

The Fund has made allocations to deploy future commitments to infrastructure that minimises climate risk whist taking appropriate investment risk and suitable returns or looking at opportunities from renewable and other new technologies.

The Fund will put in a submission to the FRC stewardship code in 2022 to evidence and reflect on the Funds stewardship activities in relation to climate related matters and other ESG areas of focus.

The Fund will continue to use engagement as our primary tool to our climate strategy, via membership of PRI, LAPFF, a seat on IIGCC Corporate Programme Advisory Group. The Fund also encourages all its managers to be members of these organisations. The Fund utilise the Transition Pathway Initiative data and third party ESG reports to focus the engagement with managers. Along with this there will be an annual review of the ESG credentials of our managers to strengthen the understanding of their processes and ensuring these align with the Fund.

Risk Management

Risk management is the process of identifying risks, evaluating their likelihood and potential impact, and determining the most effective methods of controlling or responding to them. The Fund's general approach is to manage risk rather than eliminate it entirely. The Fund has a detailed Risk Management process in place which is documented in the Fund's Risk Management Policy. A Risk Register is reported to Pension Committee and Pension Board quarterly for review and consideration, identifying the risk and the mitigations in place.

As part of the risk register the Pension Fund have specifically recognised Climate risk and details the risk and mitigations in place to manage this in the quarterly report. The identified aspects of climate risk are outlined below including mitigations in place. Once climate scenario modelling has been completed by the Fund the risks will be updated with any additional findings.

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

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Increased global temperature and or erratic climate events causing devastation to underlying holdings
Social consequence on members welfare and longevity within the fund

Possible consequences of climate risk on 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

Mitigations the Fund has put in place to try to reduce impact of the climate risk

Statement of Responsible Investment Principles outline investment beliefs within ESG, implementation of decisions and monitoring of ESG 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

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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.

Physical Climate Risk

Property Investments

The Schroders Capital Team Estate Partnership Funds element of the Funds property portfolio has been assessed under a climate risk analysis for which constitute approximately 42% of the Funds property investment. This climate risk assessment profiles a range of climate risks at the asset and portfolio level. 243 assets have been assessed over 19 individual risk indicators. Risk scoring only assesses the micro location of the asset rather than the asset in terms of resilience energy efficiency water usage or mitigations put in place such as flood protection.

Physical risks from climate change across Schroders Capital Partnership Funds

Acute Shocks	Average	Min	Max
Drought Hazard	5.1	4.0	7.7
Extra-tropical Cyclone Hazard	5.7	2.3	6.8
Severe Storm Hazard	8.6	7.7	10.0
Wildfire Hazard	8.6	8.3	9.2
Landslide Hazard	9.4	8.3	10.0
Flood Hazard	9.4	7.7	10.0
Coastal Flood Hazard	9.6	3.7	10.0
Tropical Storm and Cyclone Hazard	9.9	9.8	10.0
Tsunami Hazard	10.0	10.0	10.0
Chronic Stresses	**Average**	**Min**	**Max**
Heating Degree Days (current climate)	3.2	2.6	3.4
Heating Degree Days (future climate)	3.5	2.9	3.7
Water Pollution	3.9	2.5	7.2
Water Stress	4.8	2.7	8.8
Heat Stress (future climate)	5.7	5.6	5.9
Heat Stress (current climate)	6.0	6.0	6.2
Air Quality	7.4	6.8	8.5
Sea Level Rise	9.8	6.8	10.0
Cooling Degree Days (future climate)	9.9	9.8	10.0
Cooling Degree Days (current climate)	10.0	10.0	10.0

The identification of these risks help the manager assess potential risk of location but also the risk to property in the UK. The Fund managers highlights they are on average well located for acute physical risks which arise from events, however drought, coastal flooding and winter storms may pose high levels of risk to some locations. Chronic stresses which arise from longer term shifts in climate patters reflect high risk of locations in increases to heading degree days water stress and water pollution.

The next step for climate related risk identification will look at the strategic assessment of resilience of assets exposed to high risk locations.

Metrics and targets

Liquid Asset Classes

The Fund has used a third-party provider Moody's (previously known as Vigeo Eiris) to undertake comparative analysis of the Fund's equity, fixed income and absolute return managers carbon foot printing (carbon footprint is the measure of the volume of carbon dioxide (CO2 eq.) emitted by issuers) and energy transition (the shift from a carbon-based economic model to a green and sustainable one) metrics.

This footprinting covers 75% of assets under management at an investment manager level within the Funds portfolio, however the analysis does not cover the full portfolio for each investment manager. The actual coverage of the Moody's footprining covers 67% of Fund investments.

For the purpose of the analysis performed by Moody's this only take into consideration Scope 1 and 2 emissions not Scope 3 where these are defined as:

Scope 1 covers direct GHG emissions from sources that are owned or controlled by the issuer.

Scope 2 covers indirect GHG emissions caused by the organisation's consumption of electricity, heat, cooling or steam purchased or brought into its reporting boundary.

Scope 3 covers other indirect emissions (not included in scope 2) that occur in the value chain of the reporting company, including both upstream and downstream emissions. The table below details the high-level scores that the Fund's managers achieved.

Listed Global Equity – 43.5% of Fund Assets

The Fund have six listed equity managers, four active and two index based making up 43.5% of the portfolio as at 31 March 2022. All six portfolios are included in the metrics information within the Moody's carbon footprinting report and all mandates exclude fossil fuel companies.

Absolute/Real Return – 22.1% of Fund Assets

The Fund have two Absolute / Real Return managers, which make up 22.1% of the portfolio as at 31 March 2022. These madates are unrestricted as to what the menagers can invest as they provide a defensive response for the Funds portfolio in the time of market volitility and uncertainty. These manadate are in place to reserve capital. Both managers have strong engagment and stewardship approaches and are both members of the Net Zero Asset Managers Initiative and climate action 100+ as engagement leads.

Fixed Income – 12.2% of Fund Assets

The Fund have two Fixed Income portfolios managed by a single investment manager M&G which are both covered by the carbon foot printing analysis making up 12.2% of the portfolio as at 31 March 2022. These mandates are both invested through the ACCESS LGPS pool. The manager is a member of IIGCC and Climate Action 100+. M&G made two commitments in 2020 to focus efforts for a sustainable future including tackling climate change. These are to reach net zero carbon emissions on our total book of assets

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under management and administration by 2050, in line with the Paris Agreement , and as company, to reduce their own carbon emissions to net zero by 2030.

Carbon foot printing Summary

The below table shows the headlines scores for each investment manager mandate included in the scope of work and the direction of travel from the 2020/21 results.

Manager	Mandate	Carbon Footprint 2022	Carbon Footprint 2021	Evolution	Energy Transition 2022	Energy Transition 2021	Evolution
UBS	UK	X	High	X	X	47	X
UBS	Europe Ex-UK	X	High	X	X	53	X
UBS	North America	X	High	X	X	37	X
UBS	Rest of World	X	High	X	X	32	X
M&G	Absolute Return	High	High	↘	46	45	↗
M&G	Corporate Bonds	High	High	↗	56	53	↗
Newton	Absolute Return	High	High	↗	49	44	↗
Ruffer	Absolute Return	High	High	↗	47	44	↗
Longview	Global Equity	Significant	Significant	↗	40	39	↗
Atlas	Infrastructure Fund	High	High	↘	43	41	↗
Storebrand	Climate Passive	High	High	↘	47	44	↗
Wheb	Impact Fund	High	High	↘	36	31	↗
Wellington	Impact Fund	Significant	Significant	↘	40	38	↗
Baillie Gifford	Alpha Equity	High	X	X	33	X	X
Osmosis	Resource Efficient Core Equity	High	X	X	45	X	X

The scores have been classified by the bandings in the table below.

The carbon footprint is calculated using the weighted average carbon footprint (the sum of the portfolio's companies' emissions weighted by their weight in the portfolio), or it can be view as the emissions of the average company in the portfolio. This is used as it is providing a figure that is genuinely comparable between different managers.

Scale	Emissions (t CO2 eq)	Categories
A	Under 100,000	Moderate
B	Between 100,000 and 1,000,000	Significant
C	Between 1,000,000 and 10,000,000	High
D	Over 10,000,000	Intense

The energy transition score is a combination of the Moddy's scores for each company in a portfolio's energy transition strategy based on specific criteria tied to climate change such as commitments made, information being disclosed and the meeting of commitments. This is a subjective score of issuers' energy transition strategy based on Moody's Research.

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

Unlike the carbon footprint, which is an expression of past performance, the energy transiton score looks to express a company's forward-looking strategic approach to mitigate its carbon footprint through visible commitments and concrete measures. A company's ET score is to be put in perspective with its carbon footprint, it would be expected for a high emitting company to consider their energy transition strategy more and would look to have a robust/advanced score in this area, which would show that they have implemented concrete measures towards energy transition, to mitigate their carbon footprint. Some low-emitting companies are less transparent on their transition plans, as they might consider the issue to be less material to them and it is expensive to measure and report on the transition.

In addition to these high-level indicators each mandate has its own bespoke to report which also looks the following metrics.

Total financed emissions
Financed emissions per £m invested
Weighted average carbon footprint
Carbon intensity per sales (millions of £)
Weighted average carbon intensity
Energy Transition Strategy score
Sector allocation effect on performance attribution
Issuer selection effect on performance attribution

Asset coverage and estimation

The Carbon foot printing carried out by Moody's has now been completed for three consecutive years. The holdings assessed are lower that the Fund's portfolio coverage by Moody's as the adviser was not able to establish a carbon data for some holdings under management. The coverage is much higher in equity mandates compared to Fixed Income mandates.

	March 2020	March 2021	March 2022
% of portfolio covered in foot printing	72%	76%	75%

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% of holdings assessed in foot printing	65%	70%	67%

The carbon data provided by Moody's to the Fund is provided by the CDP and completed with other company sources collected by Moody's ESG Solutions. When no data is available from any source, the analysts build a carbon footprint estimation relying on the size of the issuer and the nature of its activities through three differ methods: regression models, sector specific physical factors and sector averages.

The Fund does recognise that Carbon footprinting does need to be considered with some caveats in that there is no hard and fast method to carry to monitor and assess carbon emissions of underlying investments portfolios, this is a relatively new data source and is measured differently by different suppliers. In addition, carbon footprinting is often reliant on information publicly available provided by the underlying company themselves. Over time as carbon emission data and monitoring improves it may be the position of the Fund looks worse, as a result understanding of the model and quality of data is important when assessing the Fund's portfolio.

Carbon footprint reports take no consideration of engagement activity of investment managers. All of the Funds listed managers are Institutional Investor Group for Climate Change (IIGCC) members and some of the managers have engaged intensively with high carbon emitting companies as part of Climate Action 100+. The Fund believes alongside many of its managers that it is essential as an active investor to influence companies through voting and engagement to drive the energy transition forward.

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Opportunities and positive factors

The carbon footprinting report indentifies how much each mandate has invested in positive impact factors such as green bonds, green good and green services as well as negative impact factors such as exposure to fossil fuels and coal.

The value of positive impact factors for the three reported periods are showing green holdings double the 2020 levels in 2022.

	March 2020	March 2021	March 2022
£m in green investments	149.00	332.02	354.56

Emissions and Carbon foot print changes

The Fund has collated the weighted average carbon footprint of each individual mandate covered by this data and looked at the weighted average carbon foot print of the fund for comparison of emissions over the years where data is available, which is shown in the table below.

	March 2020	March 2021	March 2022
Portfolio coverage	65%	70%	67%
Weighted average carbon Footprint	7,225,3,28	3,471,957	3,254,187
Average Energy Transition Score	42.05	42.33	44.25
Total Financed Emissions	645,341	568,057	483,538

Looking at the Weighted Average Carbon Footprint in 2022 the Funds managers ranged from 296,723 to 6,916,201, with the average across the assessed portfolio at 3,254,187. This is a reduction in average carbon footprint of 55% from the March 2020 emissions footprint to the March 2022 emissions footprint. Looking at total financed emissions the Fund saw a reduction in financed emissions of 25% from March 2020 to March 2022. There was also increase in each year over the energy transition rating of the portfolio holdings showing an improvement ability to manage the energy transition and reducing transition risk of the Funds investments.

Illiquid Asset Classes

Outside of the Moody's carbon footprinting the Fund have tried to obtain information directly from the investment managers as to their cabon emissions and footprint. Illiquid assets constitute 22.6% of the Funds portfolio. The following information has been obtained by asset class. The Fund will engage with managers over the next year to aim for increased exposure and more detailled metrics for futrure reporting.

Private Equity – 8.0% of Fund Assets

The Fund have two private equity managers, which make up 8.0% of the portfolio as at 31 March 2022. Neither of these managers have published any metrics under TCFD however both are members of the

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Initiative Climat International (iCI) which is a General Partner led initiative to collaborate on risk analysis tools to aid private equity action on climate change. Members of iCI commit to recognising the risks and opportunities that climate change presents to their investments, contribute to the Paris Agreement's objectives, and actively engage with portfolio companies to reduce their greenhouse gas emissions. Members work collaboratively across a variety of working groups to implement their commitments.

One of the Funds Private Equity funds, which is currently 4.4% of the portfolio value has been able to provide a Weighted Average Carbon Intensity (WACI) of your portfolio as an Emissions Intensity metric as at 31/03/2022.

Company Scope 1 + Scope 2 (tCO2e / USDmn)	88.15
Company Direct + First Tier (tCO2e / USDmn)	116.37

1. Scope 1 & 2, suitable for benchmarking against the MSCI ACWI which was 151.7 as of 30 June 2021, while the MSCI ACWI ESG leaders index was 93.4.
2. Direct and First Tier Indirect (which includes some elements of Scope 3), suitable for benchmarking against the S&P Global LargeMidCap which was 213.84 as of 30 July 2021
3. This data is calculated based on estimation factors (in tCO2e/mUSD revenue) at the The Global Industry Classification Standard (GICS) Sub-industry level, provided by S&P Global Trucost.

Property – 8.7% of Fund Assets

The Global Alliance for Buildings and Construction and UN Environment Programme
2020 global status report for buildings and construction report published in December 2020 highlighted that the Buildings contribute approximately 40 % of global carbon emissions, 28 % through building operations and 11 % from embodied carbon from building materials and construction. The Funds property Manager Schroders is a signatory to the UK's Better Buildings Partnership which requires members to publish a net zero carbon pathway for their portfolio including direct and indirect investments, together with a delivery plan. The Commitment covers new and existing buildings, Scope 1, 2 and 3 emissions and both operational and embodied carbon, making it one of the most ambitious climate commitments for property owners. In addition the signatories are committed to disclose energy performance of portfolios and climate resilience strategies.

Schroders have committed to Establishing a net zero carbon pathway at the Real Estate level.

The Property portfolio was valued at £418m (excluding cash) at 31 March 2022. Emissions have been reported on 53% of the portfolio. The carbon emissions have been calculated by multiplying the percentage ownership by client in each of the underlying fund investments by the respective fund's carbon emission output in tonnes as reported by each Fund Manager under management. The output of each fund is summed to create an emissions total. Where we do not have 100% data coverage in any one fund we have extrapolated the data up to 100% coverage by assuming those assets with missing data produce the same emissions as the average of all assets where data has been reported. These emissions have been extrapolated to provide an estimated emissions of the portfolio with coverage of 88.5%.

The emissions data in the table below is provided to the Investment Manager by third parties and has not been audited.

	Coverage of portfolio	Scope 1&2 emissions (carbon tonnes)	Scope 3 emissions (carbon tonnes)	Total Emissions (scope 1,2 &3)	Carbon tonnes per £m
Emissions Reported	53.2%	746	632	1,378	6.4
Emissions Estimated	88.6%	1,215	1,203	2,418	6.7

Infrastructure – 3.0% of Fund Assets

The Fund have three Infrastructure managers which comprise 5.1% of Fund asssets at 31 March 2022. There is no carbon emission data currently available for these investment.

Private Credit – 0.8% of Fund Assets

The Fund have one Private Credit manager which comprises 0.8% of Fund assets at 31 March 2022. There is no carbon emission data currently available for this investment.

RI implementation

Below we show how the Fund has implemented the RI policies it set itself in the ISS.

Commitment	Progress	Further Action
To continue to measure and report on carbon-equivalent emissions throughout the equity portfolios	The Fund has undertaken an analysis of the Equity and Fixed Income investments with a third-party provider Moody's for the third year.	Develop understanding of the different metrics. Review the Carbon-equivalent emission provider market. Evaluate carbon emissions of equites and corporate fixed income. Work with Investment managers of other asset classes to improve asset class coverage.
To continue our work with IIGCC and Climate Action 100+	The Fund has been an active participant in the IIGCC corporate program.	The Fund is looking for more options within the IIGCC to support further development and implementation of IIGCC research into the Fund's strategy.

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To continue to research and support the deployment of new impact capital into projects set to benefit from the transition to a low carbon economy	Increased our investments into investments with stated sustainable goals with a further 5% invested in a Paris aligned active equity mandate and moved our remaining passive holdings 5% of the Fund to a resource efficiency weighted index this adds to the 10% the Fund invested into impact managers and 10% into climate risk passive product to take the total amount of the Funds assets into 30% into specific funds looking to benefit from the transition to low carbon economy.	The Equity portion of the Fund has a strong alignment to benefiting from the energy transition. The Fund will therefore review opportunities in other asset classes such as its fixed income. Working with ACCESS to develop suitable solutions within the Pool.
To assess the carbon intensity of all assets (using estimates if necessary) by the end-2022 reporting cycle, supported by external managers and GPs	The Fund has to date only considered the carbon intensity of the liquid holdings around 70% of the Fund assets and is working with managers and other advisors in how to calculate this for the alternative space.	The Fund is liaising with its external managers of the harder to measure assets and request that all managers' report in line with TCFD reporting requirements. Responding to the government's consultation on the TCFD reporting for the LGPS and provide. Working with other LGPS Funds to understand how they will be getting the required information. Once guidance is provided we will be seeking to understand the how managers can assist with this information.
Using data from the Transition Pathway Initiative (TPI), to engage alongside our collaborative partners to encourage companies to adopt business models and strategies that are in line with the aims of the Paris agreements.	The Carbon reporting provided by Moody's which also highlights companies which they consider to be high emitters and have poor quality transition plans. The Fund will request explanations from managers regarding these companies along with running them through the TPI to understand their view.	The Fund continues to work on improving its information on its underlying holdings with the aim to get quarterly information to further analyse on different criteria including TPI analysis.

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	The Fund also reviews companies that are classified by the Investment manager as an Fossil Fuel company and will run these through the TPI data this analysis is used by the fund during meetings with the Fund managers.	
Implement processes that adhere to Taskforce for Climate-related Financial Disclosures (TCFD) recommendations on mandatory reporting and governance requirements related to climate risk as they are expected to apply to the LGPS.	The Fund is incorporating as much of aspects of the TCFD guidance for private pensions schemes into its Annual Report. This is building on the report provided last year. This is allowing the fund to identify and enhance the report year on year and provide readers with better understanding of the Fund. Along with this the Fund has received 2 years of ESG assessments of it investment Managers from its conducted by its investment consultant. We continue to engage with our investment managers over there own reporting and are encouraging them to report in line with TCFD where they are not already doing. We undertake carbon foot printing of the Fund. We have been producing a quarterly engagement report detailing the work the Fund has been undertaking.	The Fund will be responding to the consultation on the TCFD reporting in the LGPS and is a supporter of this being implemented. The Fund will look to implement the guidance once this is published and continue to develop its reporting. Work with Third parties to develop and implement enhancements to its current reporting.
To report annually in accordance with TCFD recommendations.	The Fund will provides a TCFD section within its Annual Report covering all elements where sufficient data is held and identifying areas which are not yet complete. There is currently no guidance for LGPS Funds on TCFD reporting.	We are considering the consultation from DLUHC on TCFD reporting and will respond with our considerations. Once this has been responded to and there is clarify on the final requirements, the Fund will implement a fully compliant

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		report within the guidelines set out for the LGPS.
Signatory to the United Nations Principles for Responsible Investment (PRI)	The Fund has signed up to the PRI but has not yet been required to provide information to the PRI for assessment.	During Q4 2022 and Q1 2023 the Fund will prepare the necessary information to maintain our signatory status to the PRI.
Encourage the Fund's investment managers to provide transparency by reporting relevant and accessible ESG-related information. This includes their commitments to and alignment with the UK Stewardship Code 2020, the TCFD, the PRI and GRESB, where appropriate.	We have been requesting quarterly information from the managers on engagement and voting and have been providing our own quarterly report detailing our monitoring of the managers. Alongside this we also provide information on the managers engagements and commitments such as to which organisations they are signatories.	We will be maintaining the engagement and voting information capture and are working to improve the information that is published as part of our engagement report. To improve communication with stakeholders of the Fund. The Fund continues to monitor the investments managers through carbon foot printing and ESG reviews by our investment consultant. The Fund is committed to working with ACCESS to improve the RI function within the pool and provide better reporting. Ensuring that the Funds managers sign up to relevant commitments with TCFD and UK stewardship code 2020 being priorities.
Working collaboratively to increase the reach, efficiency, and effectiveness of RI. We work with a host of like-minded partner funds, service providers and related organisations striving to attain best practice in the industry and to improve industry standards.	ACCESS has set up a RI working group to build upon the RI guidelines. We have been working with the National LGPS Framework on the replacement Stewardship framework. We have been engaged with IIGCC and have signed up to some of the initiatives coming from this collaboration. The Fund is an active participant in the LAPFF Executive Committee.	We shall be looking to continue to explore opportunities with ACCESS to improve the RI opportunities. Increase the involvement in collaborative RI initiatives and look to be signatories to shareholder resolutions where appropriate.

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Report annually in accordance with the UK Stewardship Code requirements, and we are committed to adhering with the requirements of the new UK Stewardship Code 2020.	The Fund has drafted a submission and will be looking to submit this during 2022.	To submit our submission to the FRC in 2022.

Collaboration

There are limits to the influence that we achieve as a single investor and the resources we can reasonably commit. We recognise that progress can be best achieved on ESG issues through collaboration with other investors and organisations. We are an active member and supporter of several Global and Industry ESG Initiatives

PRI Principles for Responsible Investment https://www.unpri.org/

Principles for Responsible Investment (PRI). We have been a signatory to the PRI since 2020 and are working on our first submission on how we implement the six Principles of Responsible Investment into our everyday work to be good stewards of capital, which is due to be submitted in 2023. PRI is an important partner, providing excellent guidance on responsible investment and we work closely with them on the future direction of the organisation

IIGCC Institutional Investors Group on Climate Change https://www.iigcc.org

Institutional Investors Group on Climate Change (IIGCC), has the collective weight of over €51 trillion from over 350 members and is leading the way on a global stage for investors to help realise a low carbon future. IIGCC helps shape sustainable finance policy and regulation for key sectors of the economy and supports members in adopting active ownership and better integrated climate risks and opportunities into investment processes. The Fund's Pension Committee Chair is currently a representative on the IIGCC Corporate Programme Advisory Group. The corporate programme focuses on supporting investors to engage with companies to align portfolios with the goal of net zero by 2050. In addition to the Fund's own membership of IIGCC, the Fund asks its managers to also be members providing a double lock on engagement.

Local Authority Pension Fund Forum LAPFF | The leading voice for local authority pension funds across the UK (lapfforum.org)

As a member of LAPFF the Fund works together with the majority of LGPS funds and pools across the UK, through the forum, to promote high corporate governance standards to protect the long-term value of local authority pensions. With member fund assets exceeding £350bn, the forum engages with companies and regulators to deliver reforms advancing corporate responsibility and responsible investment. In October 2021 the Funds Head of Pensions was appointed to the executive committee as an LAPFF Officer Member.

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Home | Pensions For Purpose

Pensions For Purpose is a bridge between asset managers, pension funds and advisers, to encourage the flow of capital towards impact investment. Pensions For Purpose provide high quality expertise and training to Funds on ESG issues. The Fund joined as an affiliate member in September 2021.

Home | Financial reporting council

The Financial reporting council sets UK Accounting, Audit and Actuarial standards. The fund has committed to report under the FRC's Stewardship code, pledging to manage capital in a way that creates long term value and leads to sustainable benefits for the economy, the environment and society. The Funds statement of commitment is to be sent for consideration in 2022.

Home | Task Force on Climate-Related Financial Disclosures

The TCFD was set up to develop recommendations on the types of information that companies should disclose to support its stakeholders in appropriately assessing and pricing risks related to climate change. The fund has committed to report under the TCFD initiative.

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13. Independent adviser's report

East Sussex Pension Fund - Independent Advisor's Report 2022

The Fund receives formal advice on investment matters from its actuarial and investment consultants. My role as Independent Advisor is to act as a separate source of advice and expertise to Officers and Committee members. Our collective objective is, of course, to invest the Fund's assets to pay members' pensions in full and on time. In writing this report, I can also provide stakeholders with some independent assurance that the Fund is being appropriately and properly managed.

In last year's report, I suggested that economies would rebound from the COVID dip, but that I did not expect equity markets to do much better than go sideways. I noted that higher inflation was a major risk which the Fund was addressing by investing in infrastructure and other real assets. I also remarked on the considerable improvements in governance and resourcing which the Fund had made, as well as the progress made towards aligning its portfolio with a lower carbon world.

As I write this year's report, COVID restrictions have just been lifted, two years after their first imposition. At the same time, Russia has invaded Ukraine, upsetting Western underlying assumptions in many ways. Most economies have indeed recovered the growth lost over the COVID lockdowns, but at the cost of a surge in inflation. Food and energy prices have seen large rises and U.S. inflation has risen to over 7%, the highest for several decades.

Central banks have reacted by withdrawing some of their monetary largesse and raising interest rates from the near zero levels in place during the pandemic. Bond market yields have risen substantially from the summer 2020 lows, though they are still well below normal historical levels. Equity markets have been surprisingly resilient, buoyed by earnings early in the year, though indices have been falling in 2022 as valuations of many tech stocks collapsed.

The Fund is in good financial health, with a well-diversified asset portfolio which should provide protection in most scenarios. I would expect the funding level at the 31st March 2022 valuation to be in the region of 100% unless there is a dramatic fall in markets. As the number of active members declines, pension payments are starting to exceed contributions, and the Fund will need to rely more on investment income to cover the shortfall. This is normal for all pension funds as they become more mature.

Perhaps the most important decision made in the past two years has been to build up the internal team managing the Fund. Managing an LGPS fund has become increasingly complex on all fronts. On the administration side, the team has had to cope with the recalculations caused by several judicial judgements on top of its normal business, and a change to monthly data collection. On the investment side, new climate change legislation as well as the Government's levelling-up agenda has substantially increased the required investment monitoring and oversight. On governance, the ever-increasing complexity of the ACCESS pooling structure as well as higher general governance expectations all need Officers' attention.

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There is of course a cost attached to the larger team, but in my view it is one worth paying to ensure the Fund's effective management.

I mentioned last year the considerable initiative to mitigate the financial risk to the Fund from the world's needed transition to a lower carbon economy. That has continued over the past twelve months, with the shift of the final passive equity holdings into two more carbon-aligned strategies.

However, it is a journey still in progress. The Fund will have to comply with new climate change risk disclosure requirements, including consideration of different climate scenarios, by 2023. There is more work to be done in other parts of the portfolio. New developments and metrics may lead us to different conclusions in the future. For example, the surge in energy prices over the past six months has led to a general acceptance by most parties that fossil fuels will play a role in getting to net carbon zero by 2050. The tragic events in Ukraine have brought energy security to the fore, and as a result natural gas is unlikely to fulfil the role which had been pencilled in for it. There is also a considerable debate about nuclear power. In this rapidly evolving world, the Fund's holdings in diversified growth funds provide it with some flexibility because their broad remit enables them to respond to changes more nimbly.

Even without the events of the first three months of 2022, some long-term trends have been changing. The last thirty years or so have been dominated by low inflation, falling bond yields, lower labour costs as the world became more global, and a backstop provided by central banks in the form of easy monetary policy. Equities and risk assets have responded by rising to unprecedented valuations.

These are all likely to look different in the future. Most importantly, bond yields are rising. If inflation continues to rise, they are likely to normalise further. This in turn will affect the valuations of all long-term investments, including infrastructure, equities, and real estate, as the discount rate used to value them will be higher. It also increases the risk for more leveraged entities, including governments, because they will find it more expensive to refinance their debts.

The outlook for inflation is important to the fund because its liabilities are linked to consumer inflation without a direct cap. There are some secondary mitigations built in, such as the Scheme level cost cap mechanism, but the first line of defence lies with the Fund's investment strategy. Here we have over time been building up exposure to assets such as infrastructure, which can be expected to produce a rising income stream. However, these will only provide a limited defence if inflation turns out to be sustained at levels above 5%.

The swing factor, at least in the short term, will be the behaviour of central banks. If they choose to focus on bringing down inflation by clawing back some of the past 15 years' monetary largesse, they increase the risk of recession. At the time of writing they are talking tough, but political and economic reality may oblige them to revert to looser monetary policy again.

I have focused this year's report on investments because the greater risks seem to lie there. Implementation of the Fund's strategic asset allocation is increasingly done through the ACCESS pool, as required by government guidance, and this process is likely to continue. It is therefore essential that the governance arrangements in place allow the Fund proper oversight of ACCESS' activities.

My final duty in this report is to provide some assurance as to the overall governance arrangements for the Fund. I can assure readers that the Fund is appropriately resourced in terms of staffing, and that its internal governance processes and structures are of a good standard. While nobody should read too much into a

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single award, I am delighted that it has won the Best Fund Over £2.5bn award at the delayed LAPSIF 2021 Awards. I view this as a well-deserved tribute to the hard work by Officers, Committee and Local Pension Board members over the past three years.

William Bourne - Independent Advisor - 1st April 2022

14. Asset Pools

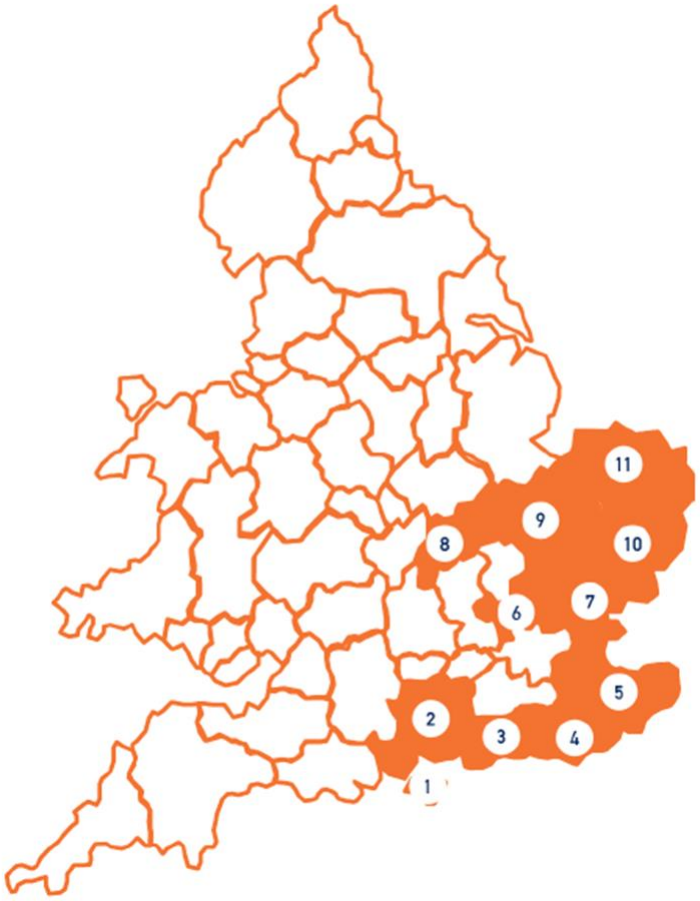
Background

ACCESS (A Collaboration of Central, Eastern and Southern Shires) has its origins in 2016 when 11 Local Government Pension Scheme (LGPS) Authorities agreed to begin working collectively to address the requirements of the Government's agenda for pooling LGPS investments.

ACCESS is made up of 11 Local Government Pension Schemes (LGPS) Administering Authorities:

1. Isle of Wight
2. Hampshire
3. West Sussex
4. East Sussex
5. Kent
6. Hertfordshire
7. Essex
8. West Northamptonshire
9. Cambridgeshire
10. Suffolk
11. Norfolk

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Collectively the pool has assets of £60 billion (of which 59% has been pooled) serving 3,500 employers with over 1.1 million members including 310,000 pensioners.

The ACCESS Administering Authorities are committed to working together to optimise benefits and efficiencies on behalf of their individual and collective stakeholders, operating with a clear set of objectives and principles that drives the decision making process.
The following strategic objectives are in place:

1. Enable participating authorities to execute their fiduciary responsibilities to Local Government Pension Scheme (LGPS) stakeholders, including scheme members and employers, as economically as possible.
2. Provide a range of asset types necessary to enable those participating authorities to execute their locally decided investment strategies as far as possible.
3. Enable participating authorities to achieve the benefits of pooling investments, preserve the best aspects of what is currently done locally, and create the desired level of local decision-making and control.

In order to achieve these objectives, the Councils have established a set of governing principles implicit within these is the democratic accountability and fiduciary duty of the Councils as Administering Authorities. The governing principles are summarised below:

- Collaboration

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- Objective evidence based decisions
- Professionalism
- No unnecessary complexity
- Value for money
- Risk management
- Equitable voice in governance
- Equitable cost sharing
- Evolution and innovation

Governance

Strategic oversight and scrutiny responsibilities remain with the Administering Authorities as does all decision making on their individual Funds asset allocation and the timing of transfers of assets from each Fund into the arrangements developed by the ACCESS Pool.

The Joint Committee (JC) has been appointed by the eleven Administering Authorities under s102 of the Local Government Act 1972, to exercise specific functions in relation to the pooling of LGPS assets. The JC's functions include the specification, procurement, recommendation of appointment of pool Operators (for active asset management) and pool-aligned asset providers (for passive asset management), to the Administering Authorities. The Joint Committee also reviews ongoing performance.

The Section 151 Officers of ACCESS Authorities provide advice to the Joint Committee in response to its decisions to ensure appropriate resourcing and support is available to implement the decisions and to run the ACCESS Pool.

The Joint Committee is further supported by the Officer Working Group (OWG) and the ACCESS Support Unit (ASU).

The Officer Working Group consists of officers with specialist LGPS skills, identified by each of the Administering Authorities whose role is to provide a central resource for advice, assistance, guidance and support for the Joint Committee.

The ACCESS Support Unit (ASU) provides the day-to-day support for running the ACCESS Pool an overview of the work by the ACCESS Support Unit.

In 2018, the ACCESS Joint Committee agreed that a unit be established to provide day to day support for the work required to run the Pool, and that Essex County Council act as Host Authority. The ACCESS Support Unit (ASU) facilitates the Joint Committee (JC) and officer groups and has responsibility for programme management, client relationships, contract management/supplier relationships, administration and technical support services.

A business plan is developed and submitted for consideration by the JC ahead of the start of each year, prior to being recommended to each of the ACCESS Authorities.

The business plan includes milestones across listed assets (both active and passive), non-listed assets and governance. The JC also determines an annual budget to support the activities within the business plan.

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The ASU has responsibility to manage this development and implementation of the business plan, within budget, whilst assessing and managing the risks for the pool. A central feature of ACCESS is the engagement of each of the eleven Authorities, and therefore the support and facilitation of stakeholder groups is key to the work of the ASU. The governance structure of the Pool ensures that dialogue with, and input from, Local Government Pension Scheme (LGPS) subject matter experts from each Authority, is gathered through the Officer Working Group (OWG) and various subgroups.

In turn, this enables the s151 Officer Group to form the recommendations that are ultimately considered by the JC. It has long been recognised that considerable expertise exists within the LGPS officer community. The full time ASU staff are therefore supplemented by part-time Technical Leads whose work for ACCESS is part of the Pool's costs.

The governance structure of ACCESS is shown below:



The Operator

Appointed in 2018 Link Fund Solutions Ltd (Link) provide the pooled operator service, overseeing an Authorised Contractual scheme for the sole use of ACCESS Authorities. Link are responsible for establishing and operating an authorised contractual scheme along with the creation of a range of investment sub-funds for active listed assets and the appointment of the investment managers to those sub-funds. This is designed to enable Administering Authorities to execute their asset allocation strategies.

Pool Aligned Assets: UBS

Appointed following a joint procurement in 2017, UBS act as the ACCESS Authorities' investment manager for passive assets.

Progress

The development of the ACCESS Pool continues at pace with an additional four subfunds opened during the year to assist the authorities in achieving diversification within their investment strategies attracting an additional £3.2 billion investment into the Pool.

In January 2022 MJ Hudson were appointed as implementation adviser for the establishment of pool vehicles for illiquid assets, after a competitive call off utilising the National LGPS Frameworks.

As implementation advisor, MJ Hudson will provide support to the Pool in selecting individual investment opportunities and investment managers to build portfolios in a range of illiquid assets including private equity, private debt, infrastructure and initially, real estate.

Another key achievement during the year was the development of updated Responsible Investment guidelines for which the pool was partnered by Minerva Analytics. Once consultation has been completed the guidelines will be formally published.

In addition to its Annual Report, ACCESS also produced a Progress Update report to provide an insight to the Pool, key activities and future plans. These are all published on the pool's website (www.accesspool.org).

In the year ahead we welcome representatives of the Local Pension Boards to observe the future Joint Committee meetings. Two members from each Board will be able to attend a meeting at least once a year.

Pooled Assets

As at 31 March 2022, ACCESS has pooled the following assets:

	£ billion
Passive investments	**11.2**
ACS Investments	
UK Equity Funds	**2.5**
Global Equity Funds	**15.3**
UK Fixed Income	**4.5**
Diversified Growth	**1.6**
Total Pooled Investments	**35.1**

The passive investment funds are held on a pool governance basis under one investment manager as these assets are held in life fund policies, which cannot be held within an authorised contractual scheme.

Key milestones achieved in 2021/22

Actively managed listed assets:

- Further progress was made in pooling active listed assets within the Authorised Contractual Scheme (ACS) managed by the Pool's appointed Operator, Link Fund Solutions. Between July 2021 and February 2022, a further four sub-funds were launched.
- Link's appointment of BlackRock expands the UK Equity capacity within the Pool, the appointment of Macquarie broadens the Global Equity coverage whilst the addition of ACS mandates for Fidelity and M&G extends the Fixed Income offering.
- Six Authorities participated as original investors within these sub-funds which totalled £3.2bn.

Alternative/non-listed assets:

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- In January 2022, following a procurement via the National LGPS frameworks, ACCESS announced the appointment of MJ Hudson as implementation adviser for the pooling of illiquid assets including private equity, private debt, infrastructure and real estate.

Passive assets:

- Ongoing monitoring and engagement continued with jointly procured passive manager, UBS.

Responsible Investment:

- Minerva Analytics were appointed through a procurement via National LGPS frameworks, as the ACCESS Environmental, Social & Governance (ESG) adviser.
- Review of the ESG polices alongside an engagement with officers from each of the 11 ACCESS Authorities, Minerva Analytics drafted revised and updated Responsible Investment (RI) guidelines for the Pool

Objectives for 2022/23

Actively managed listed assets:

- Further pooling active listed assets within the Authorised Contractual Scheme (ACS) managed by the Pool's appointed Operator, Link Fund Solutions which will include emerging market equity and further fixed income sub-funds.

Alternative/non-listed assets:

- Launch of the Pool's first illiquid asset investment vehicles. MJ Hudson will be undertaking procurement exercises to appoint a UK Core Manager and a Global Real Estate allocator.
- Initial work will commence on the planning for other illiquid asset investment platforms.

Passive assets:

- Ongoing monitoring and engagement with jointly procured passive manager, UBS.

Responsible Investment Guidelines:

- Following consultation with the ACCESS Authorities the updated Responsible Investment Guidelines will be published.
- Work will commence on establishing criteria to develop a matrix to report on key performance indicators to demonstrate how the responsible investment guidelines have been implemented.

Financial Management Expected v Actual Costs and Savings

A budget for ongoing operational costs is set by the Joint Committee and is financed equally by each of the eleven Authorities. 2021/22 saw an underspend primarily due to lower than anticipated costs of external advice combined with an underspend in the technical lead recharge costs.

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The table below summarises the financial position for 2021/22 along with the cumulative position since the commencement of ACCESS activity in early 2016.

	2020/21 Actual In Year £'000	2020/21 Budget In Year £'000	2020/21 Actual Cumulative to date £'000	2020/21 Budget Cumulative to date £'000
Set Up Costs	-	-	1,824	1,400
Transition Costs	2,664	4,408	3,338	6,907
Ongoing Operational Costs	1,046	1,247	4,117	4,795
Operator & Depository Costs	4,845	4,787	12,149	11,364
Total Costs	**8,555**	**10,442**	**21,428**	**24,466**
Pool Fee Savings	**(28,038)**	**(15,700)**	**(70,300)**	**(47,750)**
Net (Savings Realised)/Costs	**(19,483)**	**(5,258)**	**(48,872)**	**(23,284)**

Operator and depositary fees are payable by each Authority in relation to assets invested within the Authorised Contractual Scheme established by Link Fund Solutions as pool operator.

The 2021/22 fee savings have been calculated using the CIPFA price variance methodology and based on the average asset values over the year. This approach highlights the combined level of investment fee savings, across all ACCESS Authorities stemming from reduced charges.

In summary, since inception ACCESS has demonstrated excellent value for money, maintaining expenditure broadly in line with the original submission to Government whilst delivering an enhanced level of savings ahead of the timeline contained in the original proposal.

Investment management costs split between pooled and non-pooled assets

	ACCESS Pool*	ACCESS Pool*	Non-ACCESS Pool	Non-ACCESS Pool	Total
	Direct	Indirect	Direct	Indirect	
	£000	£000	£000	£000	£000
Management Fee	60	9,116	2,241	8,435	19,852
Performance Fee	-	-	-	1,585	1,585

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Transaction Costs	321	643	165	319	1,448
Custody	-	-	139	-	139
Other Costs	-	-	903	-	903
Total	**381**	**9,759**	**3,448**	**10,339**	**23,927**

* This includes pool aligned assets such as the jointly procured passive manager for ACCESS authorities.

Environmental, Social and Governance (ESG) and Responsible Investment (RI)

The ACCESS Authorities believe in making long term sustainable investments whilst integrating environmental and social risk considerations, promoting good governance and stewardship.

Whilst the participating authorities have an overriding fiduciary and public law duty to act in the best long-term interests of their LGPS stakeholders to achieve the best possible financial returns, with an appropriate level of risk they also recognise the importance of committing to responsible investment alongside financial factors in the investment decision making process.

Responsible Investment:

ACCESS appointed Minerva Analytics as its Environmental, Social & Governance (ESG) adviser. Following a review of the ESG policies, and engagement with officers from each of the authorities Minerva Analytics drafted consolidated Responsible Investment (RI) guidelines for the Pool.

Following a period of consultation, it is expected that finalised Guidelines will be adopted by the Pool during 2022.

Voting:

The ACCESS pool has a set of voting guidelines which seeks to protect and enhance the value of its shareholdings by promoting good practice in the corporate governance and management of those companies.

The guidelines set out the principles of good corporate governance and the means by which ACCESS will seek it influence on companies. The voting activity is reported to the Joint Committee on a quarterly basis.

During the year ACCESS voted at 2,391 meeting on 32,834 resolutions.

Engagement:

Link Fund Solutions arranges regular sessions with the Investment Managers to present to the authorities Pension Fund Officers to demonstrate how they implement environmental, social and governance into their investment strategy and decision-making process.

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These also give the investment manager the opportunity to discuss the engagement activities they have undertaken, what constructive dialogue was had and how they have used their influence to encourage the adoption of best practice.

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15. East Sussex Pension Fund - Accounts 2021/22



Fund account, net assets statement and notes

15a) Fund Account

2020/21 £000	2020/21 £000		Notes	2021/22 £000	2021/22 £000
		Dealings with members, employers and others directly involved in the fund			
		Contributions	7		
(100,042)		From Employers		(99,617)	
(31,435)		From Members		(34,556)	
	(131,477)				(134,173)
	(6,044)	Transfers in from other pension funds	8		(8,246)
	(137,521)				(142,419)
	128,707	Benefits	9		134,595
	5,561	Payments to and on account of leavers	10		10,744
	134,268				145,339
	(3,253)	Net (additions)/withdrawals from dealings with members			2,920
	17,296	Management expenses	11		26,671
	14,043	Net (additions)/withdrawals including fund management expenses			29,591
		Returns on investments			
	(39,089)	Investment income	12		(40,549)
	19	Taxes on income	13a		2
	(739,914)	Profit and losses on disposal of investments and changes in the value of investments	14a		(432,676)
	(778,984)	Net return on investments			(473,223)
	(764,941)	Net (increase)/decrease in net assets available for benefits during the year			(443,632)
	(3,479,094)	Opening net assets of the scheme			(4,244,035)
	(4,244,035)	Closing net assets of the scheme			(4,687,667)

15b) Net Assets Statement for the year ended 31 March 2022

31 March 2021 £000		Notes	31 March 2022 £000
4,173,990	Investment assets	14	4,587,145
357	Other Investment balances	21	774
(775)	Investment liabilities	22	(1,173)
56,736	Cash deposits	14	90,216
4,230,308	Total net investments		4,676,962
15,675	Current assets	21	15,391
(1,948)	Current liabilities	22	(4,686)
4,244,035	Net assets of the fund available to fund benefits at the year end.		4,687,667

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The Fund's financial statements do not take account of liabilities to pay pensions and other benefits after the period end. The actuarial present value of promised retirement benefits is disclosed at Note 20.

Treasurers Certificate

I certify that the accounts of the East Sussex Pension Fund provide a true and fair view of the Pension Fund at 31 March 2022 and of the movements for the year then ended.

Ian Gutsell

Chief Finance Officer (Section 151 Officer)

Business Services Department

XX September 2022

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15c) Notes to the East Sussex Pension Fund Accounts for the year ended 31 March 2022

1: Description of fund

The East Sussex Pension Fund ("the Fund") is part of the Local Government Pension Scheme and is administered by East Sussex County Council ("the Scheme Manager"). The County Council is the reporting entity for this pension fund.

The following description of the Fund is a summary only. For more detail, references should be made to the East Sussex Pension Fund Annual Report 2021/22 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations.

1. General

The scheme is governed by the Public Service Pensions Act 2013. The Fund is administered in accordance with the following secondary legislation:

a) The Local Government Pension Scheme Regulations 2013 (as amended)

b) The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)

c) The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

The Fund is a contributory defined benefit pension scheme administered by East Sussex County Council to provide pensions and other benefits for pensionable employees of East Sussex County Council, Brighton and Hove City Council, the district and borough councils in East Sussex County and a range of other scheduled and admitted bodies within the county area.

The Fund is also empowered to admit the employees of certain other bodies, town and parish councils, educational establishments, contractors providing services transferred from scheduled bodies and community interest bodies. The Fund does not provide pensions for teachers, for whom separate arrangements exist. Uniformed police and fire staff are also subject to separate pension arrangements.

The Council has delegated its pension functions to the East Sussex Pension Committee. Responsibility for the administration and financial management of the Fund has been delegated to the Chief Finance Officer along with the Head of Pensions. The Scheme Manager is also required to establish and maintain a Pension Board, for the purposes of assisting with the administration and ongoing compliance of the Fund. The role of the Board is to assist the East Sussex Pension Fund in complying with all the legislative requirements making sure the scheme is being effectively and efficiently governed and managed.

Independent investment managers have been appointed to manage the investments of the Fund. The Fund also invests in liquid investments such as equities and bonds as well as illiquid investments such as private equity, infrastructure, and private debt. The Committee oversees the management of these investments and the Fund and its advisers meet regularly with the investment managers to monitor their performance against agreed benchmarks. The Pension Committee take proper advise from specialist advisers when making investment decisions.

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2. Membership

Membership of the LGPS is voluntary and employees are free to choose whether to join the scheme, remain in the scheme or make their own personal arrangements outside the scheme. Employees are auto enrolled into the scheme every three years and on appointment.

Organisations participating in the East Sussex Pension Fund include:

a) Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the Fund

b) Admitted bodies, which are other organisations that participate in the Fund under an admission agreement between the Fund and the relevant organisation. Admitted bodies include voluntary, charitable, and similar bodies or private contractors undertaking a local authority function following outsourcing to the private sector.

There are 134 employer organisations within East Sussex Pension Fund including the County Council itself, and 81,291 members as detailed below:

East Sussex Pension Fund	31 March 2021	31 March 2022
Number of employers with active members	**127**	**134**
Number of employees		
County Council	8,163	8,059
Other employers	16,839	16,455
Total	**25,002**	**24,514**
Number of pensioners		
County Council	9,805	10,125
Other employers	12,425	13,006
Total	**22,230**	**23,131**
Deferred pensioners		
County Council	13,805	14,223
Other employers	17,429	19,423
Total	**31,234**	**33,646**
Total number of members in pension scheme	**78,466**	**81,291**

3. Funding

Benefits are funded by contributions and investment earnings. Contributions are made by active members of the Fund in accordance with the LGPS Regulations 2013 and range from 5.5% to 12.5% of pensionable pay for the financial year ending 31 March 2022. Employee contributions are matched by employers' contributions, which are set, based on triennial actuarial funding valuations. The last such valuation was at, 31 March 2019. Currently, employer contribution rates range from 0.0% to 49.2% of pensionable pay.

4. Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service. From 1 April 2014, the scheme became a career average scheme (CARE), whereby members accrue benefits based on their pensionable pay in that year at an accrual rate of 1/49th. Accrued pension is updated annually in line with the Consumer Prices Index.

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There are a range of other benefits provided under the scheme including early retirement, disability pensions and death benefits. For more details, please refer to the East Sussex Pension Fund Website.

2: Basis of preparation

The Statement of Accounts summarises the Fund's transactions for the 2021/22 financial year and its position at year-end as at, 31 March 2022. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector. The accounts have been prepared on a going concern basis.

Accounting standards issued but not yet adopted - Under the Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, the Fund is required to disclose information setting out the impact of an accounting change required by a new accounting standard that has been issued on or before 1 January 2020 but not yet adopted by the Code. The standards introduced by the 2022/23 Code where disclosures are required in the 2021/22 financial statements are:

- IFRS 16 Leases (but only for those local authorities that have decided to adopt IFRS 16 in the 2022/23 year).

- Annual Improvements to IFRS Standards 2018–2020. The annual IFRS improvement programme notes 4 changed standards:

o IFRS 1 (First-time adoption) – amendment relates to foreign operations of acquired subsidiaries transitioning to IFRS

o IAS 37 (Onerous contracts) – clarifies the intention of the standard

o IFRS 16 (Leases) – amendment removes a misleading example that is not referenced in the Code material

o IAS 41 (Agriculture) – one of a small number of IFRSs that are only expected to apply to local authorities in limited circumstances.

None of the matters covered in the annual improvements are dealt with in detail in the 2022/23 Code. During the consultation process on the 2022/23 Code CIPFA/LASAAC did not envisage them having a significant effect.

- Property, Plant and Equipment: Proceeds before Intended Use (Amendments to IAS 16).

There were no amendments for 2021/22 for the accounts of the Pension Fund.

The accounts report on the net assets available to pay pension benefits. They do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year, nor do they take into account the actuarial present value of promised retirement benefits. The code gives administering authorities the option to disclose this information in the net asset statement, in the notes to the accounts or appending an actuarial report prepared for this purpose. The Pension Fund has opted to disclose this information in Note 20.

The Pension Fund publishes a number of statutory documents, including an Investment Strategy Statement, a Funding Strategy Statement, Governance and Compliance Policy Statement and Communications Strategy

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Statement. Copies can be obtained by contacting the Council's Pensions team or alternatively are available from https://www.eastsussexpensionfund.org/

The Fund invest a large portion of its investment assets through the ACCESS (A Collaboration of Central, Eastern and Southern Shires) LGPS Pool. There is no specific accounting policy for the Pool. The ACCESS Pool is not a legal entity in itself but is governed by an Inter Authority Agreement signed by each Administering Authority. The formal decision-making body within the ACCESS Pool is the ACCESS Joint Committee, which has let the management of the asset pool to Link Fund Solutions Ltd, appointed to provide a pooled operator service and is FCA regulated. There is no direct investment in the third party, only a contractual arrangement to provide services, so there is no investment balance to carry forward in the net asset statement.

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3. Summary of significant accounting policies

Fund account – revenue recognition

1. **Contribution income**

Normal contributions are accounted for on an accruals basis as follows:

Employee contribution rates are set in accordance with LGPS regulations, using common percentage rates for all schemes, which rise according to pensionable pay.

Employer contributions are set at the percentage rate recommended by the fund actuary for the period to which they relate.

Employer deficit funding contributions are accounted for on the basis advised by the fund actuary in the rates and adjustment certificate issued to the relevant employing body.

Additional employers' contributions in respect early retirements are accounted for in the year the event arose. Any amount due in the year but unpaid will be classed as a current financial asset. Amounts not due until future years are classed as long-term financial assets.

2. **Transfers to and from other schemes**

Transfers in and out relate to members who have either joined or left the Fund.

Individual transfers in/out are accounted for when received or paid. Transfers in from members wishing to use the proceeds of their additional voluntary contributions (see below) to purchase scheme benefits are accounted for on a receipts basis and are included in Transfers In (Note 8).

Bulk (group) transfers are accounted for in accordance with the terms of the transfer agreement.

3. **Investment income**

a) Interest income

Interest income is recognised in the fund account as it accrues, using the effective interest rate of the financial instrument as at the date of acquisition or origination.

b) Dividend income

Dividend income is recognised on the date the shares are quoted ex-dividend. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

c) Distributions from pooled funds

Distributions from pooled funds are recognised at the date of issue. Any amount not received by the end of the reporting period is disclosed in the net assets statement as a current financial asset.

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d) Movement in the net market value of investments

Changes in the net market value of investments are recognised as income and comprise all realised and unrealised profits/losses during the year.

Fund account – expense items

4. Benefits payable

Pensions and lump-sum benefits payable include all amounts known to be due as at the end of the financial year. Any amounts due but unpaid are disclosed in the net assets statement as current liabilities.

5. Taxation

The Fund is a registered public service scheme under section 1(1) of Schedule 36 of the Finance Act 2004 and as such is exempt from UK income tax on interest received and from capital gains tax on the proceeds of investments sold. Income from overseas investments suffers withholding tax in the country of origin, unless exemption is permitted. Irrecoverable tax is accounted for as a Fund expense as it arises.

6. Management expenses

The Fund discloses its pension fund management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses (2016), as shown below. All items of expenditure are charged to the fund on an accruals basis as follows:

a) Administrative expenses

All staff costs relating to the pensions administration team are charged direct to the Fund. Council recharges for management, accommodation and other overhead costs are also accounted for as administrative expenses of the Fund.

b) Oversight and governance costs

All costs associated with governance and oversight are separately identified, apportioned to this activity and charged as expenses to the Fund

c) Investment management expenses

Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are shown separately in Note 11A and grossed up to increase the change in value of investments.

Fees of the external investment managers and custodian are agreed in the respective mandates governing their appointments. Broadly, these are based on the market value of the investments under their management and therefore increase or reduce as the value of these investments change.

Where an investment manager's fee has not been received by the balance sheet date, an estimate based upon the market value of their mandate as at the end of the year is used for inclusion in the fund account. In 2021/22, £1.2m of fees is based on such estimates (2020/21: £0.8m).

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Net assets statement

7. Financial assets

All investment assets are included in the financial statements on a fair value basis as at the reporting date. A financial asset is recognised in the net assets statement on the date the Fund becomes party to the contractual acquisition of the asset. Any amounts due or payable in respect of trades entered into but not yet complete at 31 March each year are accounted for as financial instruments held at amortised cost and reflected in the reconciliation of movements in investments and derivatives in Note 14a. Any gains or losses on investment sales arising from changes in the fair value of the asset are recognised in the fund account.

The values of investments as shown in the net assets statement have been determined at fair value in accordance with the requirements of the Code and IFRS13 (see Note 16). For the purposes of disclosing levels of fair value hierarchy, the Fund has adopted the classification guidelines recommended in Practical Guidance on Investment Disclosures (PRAG/Investment Association, 2016).

8. Foreign currency transactions

Dividends, interest and purchases and sales of investments in foreign currencies have been accounted for at the spot market rates at the date of transaction. End-of-year spot market exchange rates are used to value cash balances held in foreign currency bank accounts, market values of overseas investments and purchases and sales outstanding at the end of the reporting period.

9. Derivatives

The Fund uses derivative financial instruments to manage its exposure to specific risks arising from its investment activities. The Fund does not hold derivatives for speculative purposes.

10. Cash and cash equivalents

Cash comprises cash in hand and demand deposits and includes amounts held by the Fund's external managers.

Cash equivalents are short-term, highly liquid investments that are readily convertible to known amounts of cash and that are subject to minimal risk of changes in value.

11. Financial liabilities

A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. The fund recognises financial liabilities relating to investment trading at fair value as at the reporting date, and any gains or losses arising from changes in the fair value of the liability between contract date, the year-end date and the eventual settlement date are recognised in the fund account as part of the Change in Value of Investments.

Other financial liabilities classed as amortised costs are carried at amortised cost i.e., the amount carried in the net asset statement are the outstanding principal repayable plus accrued interest. Any interest charged is accounted for on an accruals basis.

12. Actuarial present value of promised retirement benefits

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The actuarial present value of promised retirement benefits is assessed on a triennial basis by the scheme actuary in accordance with the requirements of IAS 19 and relevant actuarial standards.

As permitted under the Code, the Fund has opted to disclose the actuarial present value of promised retirement benefits by way of a note to the net assets statement (Note 20).

13. **Additional voluntary contributions**

East Sussex Pension Fund provides an additional voluntary contributions (AVC) scheme for its members, the assets of which are invested separately from those of the pension fund. The Fund has appointed Prudential as its AVC provider. AVCs are paid to the AVC provider by employers and are specifically for providing additional benefits for individual contributors. Each AVC contributor receives an annual statement showing the amount held in their account and the movements in the year.

AVCs are not included in the accounts in accordance with Regulation 4(1)(b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 but are disclosed as a note only (Note 23).

14. **Contingent assets and contingent liabilities**

A contingent liability arises where an event has taken place prior to the year-end giving rise to a possible financial obligation whose existence will only be confirmed or otherwise by the occurrence of future events. Contingent liabilities can also arise in circumstances where a provision would be made, except that it is not possible at the balance sheet date to measure the value of the financial obligation reliably.

A contingent asset arises where an event has taken place giving rise to a possible asset whose existence will only be confirmed or otherwise by the occurrence of future events.

Contingent assets and liabilities are not recognised in the net assets statement but are disclosed by way of narrative in the notes.

4. Critical judgements in applying accounting policies

Unquoted private equity investments

It is important to recognise the highly subjective nature of determining the fair value of private equity investments. They are inherently based on forward-looking estimates and judgements involving many factors. Unquoted private equities are valued by the investment managers using International Private Equity and Venture Capital Valuation Guidelines 2015. The value of unquoted private equities at 31 March 2022 was £374 million (£265 million at 31 March 2021).

Pension fund liability

The Pension Fund liability is calculated every three years by the appointed actuary, with annual updates in the intervening years. The methodology used is in line with accepted guidelines and in accordance with IAS

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19. Assumptions underpinning the valuations are agreed with the actuary and are summarised in Note 19. This estimate is subject to significant variances based on changes to the underlying assumptions.

Use of Financial Instruments

The Fund uses financial instruments to manage its exposure to specific risks arising from its investments. In applying the accounting policies set out within the notes that accompany the financial statements the Council has had to make certain judgements about complex transactions or those involving uncertainty about future events. The critical judgements made in the financial statements are based around determining a fair value for the alternative investments shown in the Net Asset Statement. It is important to recognise valuations for these types of investments are highly subjective in nature. They are inherently based on forward-looking estimates and judgements that involve many factors.

5. Assumptions made about the future and other major sources of estimation uncertainty

The preparation of financial statements requires management to make judgements, estimates and assumptions that affect the reported amounts. Estimates and assumptions are made to take into account historical experience, current trends and other relevant factors. However, actual outcomes could be different from the assumptions and estimates made. The items in the net asset statement for which there is a significant risk of material adjustment the following year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits (Note 20)	Estimation of the net liability to pay pensions depends on a number of complex judgments relating to the discount rate used, the rate at which salaries are projected to increase, changes in retirement ages, mortality rates and expected returns on pension fund assets. As a result of Coronavirus pandemic there is an increase in the uncertainty around the mortality provisions within the Fund, however it is too early to assess this figure at the current time so has not been included in our calculations. A firm of consulting actuaries is engaged to provide the Fund with expert advice about the assumptions to be applied.	The effects on the net pension liability of changes in individual assumptions can be measured. For instance, for the 2019 Valuation the actuary advised that: 1. A 0.2% increase in the discount rate assumption would result in a decrease in the pension liability by approximately £113 million (3%). 2. A 0.2% increase in benefit increases and CARE revaluation would increase the value of liabilities by approximately £95 million (3%). 3. A 0.25% change in mortality rates would increase the liability by approximately £25 million (0.7%).
Private equity	Private equity investments are valued at fair value in accordance with International Private Equity and Venture Capital Valuation Guidelines (2015). Investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private equity investments in the financial statements are £373.7 million. There is a risk that this investment may be under or overstated in the accounts depending on use of estimates applied in the valuation models by the fund managers. The sensitivity of this figure is discussed further in Note 16 and Note 18.

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Item	Uncertainties	Effect if actual results differ from assumptions
Infrastructure	Infrastructure investments are valued at fair value in accordance with industry guidelines, based on the Fund manager valuations as at the end of the reporting period. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total infrastructure investments in the financial statements are £140.6 million. There is a risk that this investment may be under or overstated in the accounts depending on use of estimates applied in the valuation models by the investment managers. The sensitivity of this figure is discussed further in Note 16 and Note 18.
Private Debt	Private debt investments are valued at fair value in accordance with industry guidelines, based on the Fund manager valuations as at the end of the reporting period. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The total private debt investments in the financial statements are £39.7 million. There is a risk that this investment may be under or overstated in the accounts depending on use of estimates applied in the valuation models by the investment managers. The sensitivity of this figure is discussed further in Note 16 and Note 18.
Climate Risk	Climate risk is the potential for adverse consequences for human or ecological systems, recognising the diversity of values and objectives associated with such systems. In the context of climate change, risks can arise from potential impacts of climate change as well as human responses to climate change. The outcomes of these risks is unknown and as such there is a degree of estimation involved in the valuation of companies.	The total net investment assets of the Fund are £4,677.0 million. There is a risk that the investments may be over or understated in the accounts depending on the assumptions around policy responses to climate change in the valuation of investments. The sensitivity of the investments to valuations changes are discussed further in Note 16 and Note 18.

6. Events after the balance sheet date

There have been one event since 31 March 2022, and up to the date when these accounts were authorised that require any adjustments to these accounts. This related to the disbandment of legal proceedings for tax reclaims on certain dividends and the removal of a contingent asset and the creation of a contingent liability.

7. Contributions Receivable

	2020/21 £000	2021/22 £000
By category		
Employee's contributions	31,435	34,553
Employer's contributions		
Normal contributions	83,643	83,884
Deficit recovery contributions	15,336	14,936
Augmentation contributions	1,063	800
Total	**131,477**	**134,173**
By authority		
Scheduled bodies	84,803	85,174
Admitted bodies	3,653	4,166
Administrative Authority	43,021	44,833
Total	**131,477**	**134,173**

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8. Transfers in from other pension funds

	2020/21 £000	2021/22 £000
Group transfers	-	-
Individual transfers	6,044	8,246
Total	**6,044**	**8,246**

9. Benefits payable

	2020/21 £000	2021/22 £000
By category		
Pensions	108,927	111,786
Commutation and lump sum retirement benefits	17,194	19,179
Lump sum death benefits	2,586	3,630
Total	**128,707**	**134,595**
By authority		
Scheduled bodies	76,492	79,660
Admitted bodies	3,781	3,977
Administrative Authority	48,434	50,958
Total	**128,707**	**134,595**

10. Payments to and on account of leavers

	2020/21 £0	2021/22 £0
Refunds to members leaving service	242	326
Group transfers	-	2,700
Individual transfers	5,319	7,718
Total	**5,561**	**10,744**

11. Management expenses

	2020/21 £000	2021/22 £000
Administrative costs	1,680	2,216
Investment management expenses	13,785	23,929
Oversight and governance costs	1,831	526
Total	**17,296**	**26,671**

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11a) Investment management expenses – 2021/22

	Total £000	Management Fees £000	Performance Related Fees £000	Transaction costs* £000
Bonds	10	10	-	-
Equities	392	81	-	311
Pooled investments				
Fixed Income	2,219	2,158	-	61
Equity	7,124	6,652	-	472
Diversified growth funds	6,072	5,561	-	511
Pooled property investments	1,601	1,508	-	93
Private equity / infrastructure	6,372	4,787	1,585	-
	23,790	20,757	1,585	1,448
Custody	139			
Total	23,929			

*In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

2020/21	Total £000	Management Fees £000	Performance Related Fees £000	Transaction costs* £000
Bonds	38	14	-	24
Equities	802	113	-	689
Pooled investments				
	-	-	-	-
Fixed Income	1,769	1,769	-	-
Equity	2,872	2,593	-	279
Diversified growth funds	3,373	3,373	-	-
Pooled property investments				
	1,307	1,307	-	-
Private equity / infrastructure	3,563	3,563	-	-
	13,724	12,732	-	992
Custody	61			
Total	**13,785**			

*In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

Investment management expenses are charged directly to the Fund as part of management expenses and are not included in, or netted off from, the reported return on investments. Where fees are netted off quarterly valuations by investment managers, these expenses are grossed up.

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During the year, the Pension Fund incurred management fees which were deducted at source for 2021/22 of £4.0m (£2.2m in 2020/21) on its private equity investments, fees of £2.4m (£1.1m in 2020/21) on its infrastructure investments, fees of £9.1m (£5.1m in 2020/21) on investments in the ACCESS Pool and fees of £4.6m (£1.9m in 2020/21) on other mandates. These fees are deducted at the individual portfolio level rather than being paid directly by the Pension Fund.

12. Investment income

	2020/21 £000	2021/22 £000
Income from bonds	122	-
Income from equities	654	985
Private equity/Infrastructure income	1,458	2,161
Pooled property investments	9,584	11,971
Pooled investments - unit trusts and other managed funds	25,402	24,752
Interest on cash deposits	1,869	680
Class Actions	-	-
Total	39,089	40,549

13. Other fund account disclosures

13a) Taxes on income

	2020/21 £000	2021/22 £000
Withholding tax – equities	(19)	(2)
Total	(19)	(2)

13b) External audit costs

	2020/21 £000	2021/22 £000
Payable in respect of external audit for 2018/19	-	-
Payable in respect of external audit for 2019/20	5	-
Payable in respect of external audit for 2020/21	35	8
Payable in respect of external audit for 2021/22	-	35
Payable in respect of other services	5	5
Grant	-	(10)
Total	45	38

14. Investments

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	2020/21 £000	2021/22 £000
Investment assets		
Bonds	128,765	134,975
Equities	-	237,482
Pooled Investments		
Fixed Income	485,996	476,264
Equity	1,864,834	1,797,637
Diversified growth funds	1,002,298	1,036,214
Pooled property investments	319,533	390,179
Private equity/infrastructure	372,564	514,383
Derivative contracts:		
Futures		11
	-	
	4,173,990	4,587,145
Cash deposits with Custodian	56,736	90,216
Other Investment balances (Note 21)	357	774
Total investment assets	4,231,083	4,678,135
Investment Liabilities (Note 22)	(775)	(1,170)
Derivative contracts:		
Futures	-	(3)
Total Investment Liabilities	(775)	(1,173)
Net investment assets	**4,230,308**	**4,676,962**

14a) Reconciliation of movements in investments and derivatives

	Market value 1 April 2021 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Market value 31 March 2022 £000
Bonds	128,765		-	6,210	134,975
		-			
Equities		346,994	(272,967)	163,455	237,482
	-				
Pooled investments	3,353,128	155,487	(223,349)	24,849	3,310,115
Pooled property investments	319,533	34,405	(23,111)	59,352	390,179
Private equity/infrastructure	372,564	71,813	(107,111)	177,117	514,383
	4,173,990	608,699	(626,538)	430,983	4,587,134
Derivative contracts					
■ Futures		16	(23)	15	8
	-				
■ Forward currency contracts		726	(132)	(594)	
					-
	4,173,990	609,441	(626,693)	430,404	4,587,142
Other investment balances:					
■ Cash deposits	56,736			2,272	90,216
■ Other Investment Balances	357				774
■ Investment Liabilities	(775)				(1,170)
Net investment assets	**4,230,308**			**432,676**	**4,676,962**

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	Market value 1 April 2020 £000	Purchases during the year and derivative payments £000	Sales during the year and derivative receipts £000	Change in market value during the year £000	Market value 31 March 2021 £000
Bonds	212,331	-	(92,246)	8,680	128,765
Equities	-	618,587	(534,059)	(84,528)	-
Pooled investments	2,579,793	253,354	(246,139)	766,120	3,353,128
Pooled property investments	318,129	11,928	(9,059)	(1,465)	319,533
Private equity/infrastructure	291,413	77,295	(47,943)	51,799	372,564
Commodities	-	-	-	-	-
Multi Asset	-	-	-	-	-
	3,401,666	961,164	(929,446)	740,606	4,173,990
Derivative contracts					
■ Forward currency contracts	-	575	(162)	(413)	-
	3,401,666	961,739	(929,608)	740,193	4,173,990
Other investment balances:					
■ Cash deposits	63,715			(279)	56,736
■ Other Investment Balances	340				357
■ Investment Liabilities	(475)				(775)
Net investment assets	**3,465,246**			**739,914**	**4,230,308**

14b) Investments analysed by fund manager

	Market value 31 March 2021 £000	Market value 31 March 2021 %	Market value 31 March 2022 £000	Market value 31 March 2022 %
Investments in the ACCESS Pool				
ACCESS - Alpha Opportunities (M&G)	-	0.0%	287,673	6.2%
ACCESS - Absolute Return (Ruffer)	458,786	10.8%	537,861	11.5%
ACCESS - Corporate Debt (M&G)	158,430	3.7%	148,858	3.2%
ACCESS - Global Alpha (Baille Gifford)	-	0.0%	197,397	4.2%
ACCESS - Global Equity (Longview)	492,250	11.6%	525,660	11.2%

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	Market value 31 March 2021 £000	Market value 31 March 2021 %	Market value 31 March 2022 £000	Market value 31 March 2022 %
ACCESS - Real Return (Newton)	510,048	12.1%	498,354	10.7%
ACCESS - UBS Passive	557,483	13.3%	134,974	2.9%
ACCESS - UBS Osmosis	-	0.0%	238,150	5.1%
	2,176,997	51.5%	2,568,927	55.0%
Investments held directly by the Fund				
Adams St Partners	154,497	3.7%	206,010	4.4%
Atlas Infrastructure	77,324	1.8%	95,964	2.1%
East Sussex Pension Fund Cash	30,674	0.7%	77,869	1.7%
Harbourvest Strategies	110,515	2.6%	167,729	3.6%
M&G Real Estate Debt	42,416	1.0%	39,733	0.8%
Pantheon	38,120	0.9%	62,374	1.3%
Prudential Infracapital	32,707	0.8%	42,449	0.9%
Schroders Property	344,204	8.1%	402,175	8.6%
Storebrand Smart Beta & ESG	454,529	10.7%	510,338	10.8%
UBS Infrastructure Fund	37,697	0.9%	35,821	0.8%
Wellington Active Impact Equity	222,751	5.3%	237,481	5.1%
Wheb Active Impact Equity	222,727	5.3%	230,092	4.9%
M&G Absolute Return Bonds	285,150	6.7%	-	0.0%
	2,053,311	48.5%	2,108,035	45.0%
	4,230,308		4,676,962	100.00%

* Schroders mandate is to oversee the East Sussex Pension Fund's investments in a range of underlying property funds this is not a single investment into a Schroders property fund.

The following investments represent more than 5% of the investment assets of the scheme -

Security	Market Value 31 March 2021 £000	% of total fund	Market value 31 March 2022 £000	% of total fund
ACCESS - Absolute Return (Ruffer)	510,048	12.1%	537,861	11.5%
ACCESS - Global Equity (Longview)	458,048	10.8%	525,660	11.2%
Storebrand Smart Beta & ESG Fund	454,529	10.7%	510,338	10.9%
ACCESS - Real Return (Newton)	492,250	11.6%	498,354	10.7%
ACCESS - Alpha Opportunities (M&G)	-	0.0%	287,673	6.2%
Wellington Active Impact Equity Fund	222,751	5.3%	237,481	5.1%
Wheb Active Impact Equity Fund	222,727	5.3%	230,092	4.9%
M&G Absolute Return Bonds	285,150	6.7%	-	0.0%

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14c) Stock lending

The East Sussex Pension Fund has not operated a direct stock lending programme since 13 October 2008 but stock lending may occur in some of our pooled vehicles the fund is in invested in.

15. Analysis of derivatives

Objectives and policies for holding derivatives

Derivatives can be used to hedge liabilities or hedge exposures to reduce risk in the Fund. Derivatives maybe used to gain exposure to an asset more efficiently than holding the underlying asset. The use of derivatives is managed in line with the investment management agreement agreed between the Fund and the various investment managers.

1. Futures

The Fund's objective is to decrease risk in the portfolio by entering into futures positions to match assets that are already held in the portfolio without disturbing the underlying assets.

Type	Expires	Economic Exposure £000	Market Value 31 March 2021 £000	Economic Exposure £000	Market Value 31 March 2022 £000
Assets					
UK Equity Futures	Less than one year	-	-	150	4
Overseas Equity Futures	Less than one year	-	-	516	7
Total assets			-		11
Liabilities					
Overseas Equity Futures	Less than one year	-	-	129	(3)
Total liabilities			-		(3)
Net futures			-		8

2. Forward foreign currency

In order to maintain appropriate diversification and to take advantage of overseas investment returns, a significant proportion of the Fund's quoted equity portfolio is in overseas stock markets. The Fund can participate in forward currency contracts in order to reduce the volatility associated with fluctuating currency rates.

No forward foreign currency investments were held at the 31 March 22 (Nil 31 March 21)

3. Options

The Fund wants to benefit from the potentially greater returns available from investing in equities but wishes to minimise the risk of loss of value through adverse equity price movements. The Fund buys equity option contracts that protect it from falls in value in the main markets in which the scheme invests.

No options investments were held at the 31 March 22 (Nil 31 March 21)

16. Fair value – basis of valuation

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The basis of the valuation of each class of investment asset is set out below. There has been no change in the valuation techniques used during the year. All assets have been valued using fair value techniques, which represent the highest and best price available at the reporting date

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Market-quoted investments	Level 1	Published bid market price ruling on the final day of the accounting period	Not Required	Not Required
Quoted bonds	Level 1	Fixed interest securities are valued at a market value based on current yields	Not Required	Not Required
Futures and options in UK bonds	Level 1	Published exchange prices at the year-end	Not Required	Not Required
Exchange traded pooled investments	Level 1	Closing bid value on published exchanges	Not Required	Not Required
Unquoted bonds	Level 2	Average of broker prices	Evaluated price feeds	Not Required
Forward foreign exchange derivatives	Level 2	Market forward exchange rates at the year-end	Exchange rate risk	Not Required
Overseas bond options	Level 2	Option pricing model	Annualised volatility of counterparty credit risk	Not Required

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Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled investments – Equity and bonds Funds	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	The valuation is undertaken by the investment manager or responsible entity and advised as a unit or security price. Observable inputs are used. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.	Not Required
Pooled investments – Property Funds	Level 3	Closing bid price where bid and offer prices are published Closing single price where single price published Investments in unlisted property funds are valued at the net asset value (NAV). The underlying real estate assets values have been derived by independent valuers on a fair value basis and generally in accordance with the Royal Institute of Chartered Surveyors' Valuation Standards.	The significant inputs and assumptions are developed by the respective fund manager.	Valuations could be affected by the frequency of the independent valuations between the funds.

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Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Unquoted equity – Private Equity / Infrastructure	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	Observable inputs are subject to judgment by the respective manager but are applied in accordance with the appropriate industry guidelines. Valuations are audited as at 31 December, and the valuations as at 31 March reflect cash flow transactions since 31 December.	Valuations could be affected by material events occurring between the date of the financial statements provided and the pension fund's own reporting date, by changes to expected cashflows, and by any differences between audited and unaudited accounts

Sensitivity of assets valued at level 3

Having analysed historical data and current market trends, and consulted with independent investment advisors, the Fund has determined that the valuation methods described above are likely to be accurate to within the following ranges, and has set out below the consequential potential impact on the closing value of investments held at 31 March 2022 and 31 March 2021.

Asset Type	Assessed valuation range (+/-)	Values at 31 March 2022 £000	Value on increase £000	Value on decrease £000
Pooled Investment (1)	9%	39,733	43,309	36,157
Pooled property investments (2)	13%	390,179	440,902	339,456
Private Equity/Infrastructure (3)	25%	514,383	643,493	385,273
Total		**944,295**	**1,127,704**	**760,886**

Asset Type	Assessed valuation range (+/-)	Values at 31 March 2021 £000	Value on increase £000	Value on decrease £000
Pooled Investment (1)	9%	42,416	46,233	38,599
Pooled property investments (2)	13%	319,533	361,072	277,994
Private Equity/Infrastructure (3)	25%	372,564	464,960	280,168
Total		**734,513**	**872,265**	**596,761**

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1. All movements in the assessed valuation range derive from changes in the net asset value of the underlying real estate debt assets, the range in the potential movement of 9% is caused by how this value is measured.

2. All movements in the assessed valuation range derive from changes in the net asset value of the underlying real estate assets, the range in the potential movement of 13% is caused by how this value is measured.

3. All movements in the assessed valuation range derive from changes in the underlying profitability of component companies, the range in the potential movement of 25% is caused by how this profitability is measured.

16a) Fair value hierarchy

The following table provides an analysis of the financial assets and liabilities of the pension fund grouped into Levels 1 to 3, based on the level at which the fair value is observable.

Values at 31 March 2022

	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With Significant unobservable inputs Level 3 £000	Total £000
Financial assets at fair value through profit and loss	238,267	3,405,357	944,295	4,587,919
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	(11)	(1,162)	-	(1,173)
Net investment assets	238,256	3,404,195	944,295	4,586,746

Values at 31 March 2021

	Quoted market price Level 1 £000	Using observable inputs Level 2 £000	With Significant unobservable inputs Level 3 £000	Total £000
Financial assets at fair value through profit and loss	357	3,439,477	734,513	4,174,347
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-	(775)	-	(775)
Net investment assets	357	3,438,702	734,513	4,173,572

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16b) Transfers between levels 1 and 2

During 2021/22 the fund has transferred no financial assets between levels 1 and 2.

16c) Reconciliation of fair value measurements within level 3

Period 2021/22 (values in £000)

	Market value 1 April 2021	Transfers into Level 3	Transfers out of Level 3	Purchases during the year	Sales during the year	Unrealised gains/(losses)	Realised gains/(losses)	Market value 31 March 2022
Pooled investments	42,416	-	-	6,150	(11,175)	2,342	-	39,733
Pooled property investments	319,533	-	-	34,405	(23,093)	58,566	768	390,179
Private Equity/Infrastructure	372,564	-	-	71,813	(100,760)	114,336	56,430	514,383
Total	734,513	-	-	112,368	(135,028)	175,244	57,198	944,295

*Reconciliation to Change in market value during the year in Note 14a

Level	Unrealised gains/(losses)	Realised gains/(losses)	Change in market value during the year
1 and 2	(8,876)	209,110	200,234
3	175,244	57,198	232,442
Total	**166,368**	**266,308**	**432,676**

Period 2020/21 (values in £000)

	Market value 1 April 2020	Transfers into Level 3	Transfers out of Level 3	Purchases during the year	Sales during the year	Unrealised gains/(losses)	Realised gains/(losses)	Market value 31 March 2021
Pooled investments	30,583	-	-	18,074	(6,715)	474	-	42,416
Pooled property investments	318,129	-	-	11,928	(9,274)	(4,459)	3,209	319,533

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Private Equity/Infrastructure	291,413	-	-	77,295	(47,943)	24,207	27,592	372,564
Total	640,125	-	-	107,297	(63,932)	20,222*	30,801*	734,513

*Reconciliation to Change in market value during the year in Note 14a

Level	Unrealised gains/(losses)	Realised gains/(losses)	Change in market value during the year
1 and 2	566,319	122,572	688,891
3	20,222	30,801	51,023
Total	586,541	153,373	739,914

17. Classification of financial instruments

Accounting policies describe how different asset classes of financial instruments are measured, and how income and expenses, including fair value gains and losses, are recognised. The following table analyses the carrying amounts of financial assets and liabilities (including cash) by category and net assets statement heading. No financial assets were reclassified during the accounting period.

31 March 2021				31 March 2022		
Fair value through profit and loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000		Fair value through profit and loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000
			Financial Assets			
128,765			Bonds	134,975		
	-	-			-	-
			Equities	237,482		
-	-	-			-	-
3,353,128			Pooled investments	3,310,115		
	-	-			-	-
319,533			Pooled property investments	390,179		
	-	-			-	-
372,564			Private equity/infrastructure	514,383		
	-	-			-	-
			Derivative contracts	11		
-	-	-			-	-
	56,736		Cash		90,216	
-		-		-		-
	1,560		Cash held by ESCC*		2,178	
-		-		-		-
357			Other investment balances	774		
	-	-			-	-
	14,115		Debtors *		13,213	
-		-		-		-
4,174,347	72,411		Total Financial Assets	4,587,919	105,607	
		-				-
			Financial liabilities			

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Fair value through profit and loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000		Fair value through profit and loss £000	Assets at amortised cost £000	Liabilities at amortised cost £000
-	-	-	Derivative contracts	(3)	-	-
(775)			Other investment balances	(1,170)		
	-	-			-	-
			Cash held by ESCC			
-	-	-		-	-	-
		(1,948)	Creditors			(4,686)
-	-			-	-	
(775)		**(1,948)**	**Total Financial Liabilities**	**(1,173)**		**(4,686)**
	-				-	
4,173,572	**72,411**	**(1,948)**	**Total Financial Instruments**	**4,586,746**	**105,607**	**(4,686)**

*Reconciliation to Current Assets Note 21

	2020/21 £000	2021/22 £000
Cash held by ESCC	1,560	2,178
Debtors	14,115	13,213
Current Assets	15,675	15,391

17a) Net gains and losses on financial instruments

	31 March 2021 £000	31 March 2022 £000
Financial assets		
Fair value through profit and loss	740,512	430,660
Amortised cost – realised gains on derecognition of assets	-	-
Amortised cost – unrealised gains	(598)	2,024
Financial liabilities		
Fair value through profit and loss	-	(8)
Amortised cost – realised gains on derecognition of assets	-	-
Amortised cost – unrealised gains	-	-
Total	**739,914**	**432,676**

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18. Nature and extent of risks arising from financial instruments

Risk and risk management

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e., promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the forecast cash flows. The Pension Committee also recognises climate change risk as a financial risk to the investments of the Fund. The Fund manages these investment risks as part of its overall risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Committee. Risk management policies are established to identify and analyse the risks faced by the Fund's pensions operations. Policies are reviewed regularly to reflect changes in activity and in the market conditions.

a) Market risk

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix.

The objective of the Fund's risk management strategy is to identify, manage and control market risk exposure within acceptable parameters, whilst optimising the return on risk.

In general, excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund manages these risks in two ways:

1. the exposure of the Fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels

2. specific risk exposure is limited by applying risk-weighted maximum exposures to individual investments.

Equity futures contracts and exchange traded option contracts on individual securities may also be used to manage market risk on equity investments. It is possible for over-the-counter equity derivative contracts to be used in exceptional circumstances to manage specific aspects of market risk.

Other price risk

Other price risk represents the risk that the value of a financial instrument will fluctuate as a result of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), whether those changes are caused by factors specific to the individual instrument or its issuer or factors affecting all such instruments in the market.

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The Fund is exposed to share and derivative price risk. This arises from investments held by the Fund for which the future price is uncertain. All securities investments present a risk of loss of capital. Except for shares sold short, the maximum risk resulting from financial instruments is determined by the fair value of the financial instruments. Possible losses form shares sold short is unlimited.

The Fund's investment managers mitigate this price risk through diversification and the selection of securities and other financial instruments is monitored by the fund to ensure it is within limits specified in the Fund's investment strategy.

Other price risk – sensitivity analysis

Following analysis of historical data and expected investment return movement during the financial year, in consultation with the Fund's investment advisors, the Fund has determined that the following movements in market price risk are reasonably possible for the 2021/22 reporting period:

Asset Type	Potential Market Movements (+/-)
Index Linked	12%
Other Bonds	7%
UK Equities	20%
Global Equities	21%
Absolute Return	13%
Pooled Property Investments	13%
Private Equity	30%
Infrastructure Funds	12%

The potential price changes disclosed above are broadly consistent with a one-standard deviation movement in the value of the assets. The sensitivities are consistent with the assumptions contained in the investment advisors' most recent review. This analysis assumes that all other variables, in particular foreign currency exchange rates and interest rates, remain the same.

Had the market price of the Fund investments increased/decreased in line with the above, the change in the net assets available to pay benefits in the market price would have been as follows.

Asset Type	Values at 31 March 2022 £000	Value on increase £000	Value on decrease £000
Index Linked	134,975	150,497	119,453
Other Bonds	476,264	510,397	442,131
UK Equities	9,738	11,686	7,790
Global Equities	2,025,381	2,450,711	1,600,051
Absolute Return	1,036,214	1,165,741	906,687
Pooled Property Investments	390,179	440,902	339,456
Private Equity	373,740	485,862	261,618
Infrastructure Funds	140,643	157,520	123,766
Net Derivative Assets*	8	260	(244)
Total assets available to pay benefits	4,587,142	5,373,576	3,800,708

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*Movement on net derivative assets is based on the underlying economic exposure of the derivative instrument.

Asset Type	Values at 31 March 2021 £000	Value on increase £000	Value on decrease £000
Index Linked	128,765	143,573	113,957
Other Bonds	485,996	512,310	459,682
UK Equities	825,342	990,410	660,274
Global Equities	1,039,492	1,257,785	821,199
Absolute Return	1,002,298	1,127,585	877,011
Pooled Property Investments	319,533	361,072	277,994
Private Equity	264,039	343,251	184,827
Infrastructure Funds	108,525	121,548	95,502
Net Derivative Assets	-	-	-
Total assets available to pay benefits	4,173,990	4,857,534	3,490,446

Interest rate risk

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

The Fund's interest rate risk is routinely monitored by the Fund and its investment advisors in accordance with the risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund's direct exposure to interest rate movements as at 31 March 2022 and 31 March 2021 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Interest rate risk sensitivity analysis

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. A 100-basis point (bps) movement in interest rates is consistent with the level of sensitivity applied as part of the Fund's risk management strategy. The Fund's investment adviser has advised that this is consistent with an annual one standard deviation move in interest rates, where interest rates are determined by the prices of fixed interest UK government bonds.

The analysis that follows assumes that all other variables, in particular exchange rates, remain constant, and shows the effect in the year on the net assets available to pay benefits of a +/- 100 bps change in interest rates:

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Asset type	Carrying amount as at 31 March 2022 £000	Impact of 1% increase £000	Impact of 1% decrease £000
Cash and cash equivalents	90,216	90,216	90,216
Cash balances	2,178	2,178	2,178
Fixed interest securities	476,264	481,027	471,501
Index linked securities	134,975	134,975	134,975
Total change in assets available	703,633	708,396	698,870

Asset type	Carrying amount as at 31 March 2021 £000	Impact of 1% increase £000	Impact of 1% decrease £000
Cash and cash equivalents	56,736	56,736	56,736
Cash balances	1,560	1,560	1,560
Fixed interest securities	485,996	490,856	481,136
Index linked securities	128,765	128,765	128,765
Total change in assets available	673,057	677,917	668,197

Income Source	Interest receivable 2021/22 £000	Value on 1% increase £000	Value on 1% decrease £000
Cash deposits/cash and cash equivalents	680	1,604	(244)
Fixed interest securities	7,325	7,325	7,325
Index linked securities	-	1,350	(1,350)
Total change in assets available	8,005	10,279	5,731

Income Source	Interest receivable 2020/21 £000	Value on 1% increase £000	Value on 1% decrease £000
Cash deposits/cash and cash equivalents	1,869	2,452	1,286
Fixed interest securities	14,072	14,072	14,072
Index linked securities	122	1,410	(1,166)
Total change in assets available	16,063	17,934	14,192

This analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances.

Currency risk

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Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on any cash balances and investment assets not denominated in pound sterling. Following analysis of historical data in consultation with the Fund investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements not more than 10%. A 10% strengthening/weakening of the pound against the various currencies in which the Fund holds investments would increase/decrease the net assets available to pay benefits as follows:

Currency exposure - asset type	Values at 31 March 2022 £000	Potential Market movement £000	Value on increase £000	Value on decrease £000
Overseas quoted securities	227,744	22,091	249,835	205,653
Overseas unit trusts	3,348,234	324,779	3,673,013	3,023,455
Total change in assets available	**3,575,978**	**346,870**	**3,922,848**	**3,229,108**

Currency exposure - asset type	Values at 31 March 2021 £000	Potential Market movement £000	Value on increase £000	Value on decrease £000
Overseas unit trusts	2,326,940	225,713	2,552,653	2,101,227
Total change in assets available	**2,326,940**	**225,713**	**2,552,653**	**2,101,227**

Climate Change risk

Current asset pricing may not take into account the emerging climate risk to the underlying holdings, markets may be over or underestimating the value of the assets and could lead to future price volatility. Climate change will affect economic growth and there is uncertainty in the economic outlook due to climate change which could lead to lower returns on equities or risk to future discounted cash flows. High carbon emitters are more exposed to risks from climate change particularly from a transition risk perspective. The Fund mitigates this climate change market risk through diversification and the selection of securities and other financial instruments is monitored by the Fund to ensure it is within limits specified in the Fund's investment strategy. In addition, the Fund is underweighted in high carbon emitting stocks such as fossil fuel companies and carries out carbon foot printing of the Fund's investments and asset managers and the Fund through its collaborative partners engage with corporate management of the underling holdings to ensure companies are responsibly managing their climate change risks. The Fund's Taskforce for Climate Related Financial Disclosure (TCFD) report is included in the Annual Report.

a) Credit risk

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a financial loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities.

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In essence, the Fund's entire investment portfolio is exposed to some form of credit risk, with the exception of the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high-quality counterparties, brokers and financial institutions minimise credit risk that may occur through the failure to settle a transaction in a timely manner.

Contractual credit risk is represented by the net payment or receipts that remains outstanding, and the cost of replacing the derivative position in the event of a counterparty default. The residual risk is minimal due to the various insurance policies held by the exchanges to cover defaulting counterparties.

Credit risk on over-the-counter derivative contracts is minimised as counterparties are recognised financial intermediaries with acceptable credit ratings determined by a recognised rating agency.

The Fund believes it has managed its exposure to credit risk and has had no experience of default or uncollectable deposits in recent years.

Summary	Asset value as at 31 March 2021 £000	Asset value as at 31 March 2022 £000
UK Treasury bills	-	
Overseas Treasury bills	23,531	11,556
Bank current accounts		
NT custody cash accounts	33,205	78,660
Total overseas assets	**56,736**	**90,216**

b) Liquidity risk

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that there are adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and also cash to meet investment commitments.

The Fund has immediate access to its cash holdings and has access to an overdraft facility for short-term cash needs. This facility is only used to meet timing differences on pension payments. As these borrowings are of a limited short-term nature, the Fund's exposure to liquidity risk is considered negligible.

All financial liabilities at 31 March 2022 are due within one year.

Refinancing risk

The key risk is that the Fund will be bound to replenish a significant proportion of its pension Fund financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

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19. Funding arrangements

Introduction

The last full triennial valuation of the Fund was carried out as at 31 March 2019 as required under Regulation 62 of the Local Government Pension Scheme Regulations 2013 (the Regulations) and in accordance with the Funding Strategy Statement of the Fund. The results were published in the triennial valuation report dated 31 March 2020.

Asset value and funding level

The results for the Fund at 31 March 2019 were as follows:

- The market value of the Fund's assets as at 31 March 2019 was £3,633m.
- The Fund had a funding level of 107% i.e. the value of assets for valuation purposes was 107% of the value that they would have needed to be to pay for the benefits accrued to that date, based on the assumptions used. This corresponded to a surplus of £247m.

Contribution rates

The employer contributions rates, in addition to those paid by the members of the Fund, are set to be sufficient to meet:

- the annual accrual of benefits allowing for future pay increases and increases to pensions in payment when these falls due.
- plus, an amount to reflect each participating employer's notional share of the Fund's assets compared with 100% of their liabilities in the Fund, in respect of service to the valuation date.

The primary rate of contribution on a whole Fund level was 18.0% of payroll p.a. The primary rate as defined by Regulation 62(5) is the employer's share of the cost of benefits accruing in each of the three years beginning 1 April 2020.

In addition, each employer pays a secondary contribution as required under Regulation 62(7) that when combined with the primary rate results in the minimum total contributions. This secondary rate is based on their particular circumstances and so individual adjustments are made for each employer.

Details of each employer's contribution rate are contained in the Rates and Adjustments Certificate in Appendix 3 of the triennial valuation report.

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Assumptions

The key assumptions used to value the liabilities at 31 March 2019 are summarised below:

Assumptions	Assumptions used for the 2019 valuation
Financial assumptions	
Market date	31 March 2019
CPI inflation	2.3% p.a.
Long-term salary increases	2.3% p.a.
Discount rate	4.0% p.a.
Demographic assumptions	
Post-retirement mortality	
Base tables	Based on Club Vita analysis
Projection model	CMI 2018
Long-term rate of improvement	1.25% p.a.
Smoothing parameter	7.0
Initial addition to improvements	
Males	0.5% p.a.
Females	0.25% p.a.

Full details of the demographic and other assumptions adopted as well as details of the derivation of the financial assumptions used can be found in the 2019 valuation report.

Updated position since the 2019 valuation

Update to funding basis and assumptions

The Fund appointed a new fund actuary with effect from 1 January 2021. For employers commencing participation in the Fund on or after 1 January 2021, the calculated contribution rate will be set to meet a funding target over a specified time horizon. The funding target is set based on a single set of financial assumptions. These assumptions are set so as to achieve broad consistency with the previous fund actuary's approach.

With effect from 1 January 2021, the salary growth assumption was reviewed, and salaries are now assumed to increase at CPI plus 1.0% p.a. with no additional promotional salary scale. The derivation of CPI is discussed below.

The Fund actuary have updated the derivation of the CPI inflation assumption to be 0.8% p.a. below the 20-year point on the Bank of England (BoE) implied inflation curve. The assumption adopted at the 2019 valuation was that CPI would be 1.0% p.a. below the 20-year point on the BoE implied inflation curve. This update was made following the Government's response (on 25 November 2020) to the consultation on the reform of RPI, and the expectation that the UK Statistics Authority will implement the proposed changes to bring RPI in line with CPIH from 2030. This updated approach leads to a small increase in the value of liabilities.

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The discount rate assumption is set with reference to the Fund's long term investment strategy and therefore reflects the long term expected return on assets for the Fund. The Fund Actuary have included in the discount rate assumption an explicit prudence allowance of 1.1%. This incorporates an allowance for current uncertainties in LGPS benefits (relating to the effects of the McCloud/Sargeant judgement and the cost cap).

Liabilities

The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate (the discount rate relative to CPI inflation) – the higher the real discount rate the lower the value of liabilities. As at 31 March 2021, the real discount rate is estimated to be lower than at the 2019 valuation due to lower future expected returns on assets in excess of CPI inflation.

The update to the CPI assumption mentioned above leads to a small increase in the value of liabilities. The value of liabilities will also have increased due to the accrual of new benefits net of benefits paid.

It is currently unclear what the impact of the COVID-19 pandemic is on the Fund's funding position. It is expected that COVID-related deaths will not have a material impact on the Fund's current funding level, however, impact on future mortality rates may be more significant and we will be reviewing the Fund's mortality assumption as part of the next valuation.

Assets

Returns over the year to 31 March 2022 have been strong, helping to offset the significant fall in asset values at the end of the previous year. As at 31 March 2022, in market value terms, the Fund assets were more than where they were projected to be based on the previous valuation.

Overall position

On balance, the Fund Actuary estimate that the funding position (allowing for the revised funding basis) has improved compared to the funding position as at 31 March 2019.

Future investment returns that will be achieved by the Fund in the short term are more uncertain than usual, in particular the return from equites due to actual and potential reductions and suspensions of dividends.

There is also uncertainty around future benefits due to the McCloud/Sargeant cases and the cost cap process.

The next formal valuation is being carried out as at 31 March 2022 with new contributions effective from 1 April 2023.

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20. Actuarial present value of promised retirement benefits

Introduction

Barnett Waddingham, the Fund Actuary, have been instructed by East Sussex County Council, the administering authority to the East Sussex County Council Pension Fund (the Fund), to undertake pension expense calculations in respect of pension benefits provided by the Local Government Pension Scheme (the LGPS) to members of the Fund as at 31 March 2022. The Fund Actuary have taken account of current LGPS Regulations, as amended, as at the date of this report.

This report is addressed to the administering authority and its advisers; in particular, this report is likely to be of relevance to the Fund's auditor.

The LGPS is a defined benefit statutory scheme administered in accordance with the Local Government Pension Scheme Regulations 2013 and currently provides benefits based on career average revalued earnings. Full details of the benefits being valued are as set out in the Regulations and summarised on the LGPS website (www.lgpsregs.org/) and the Fund's membership booklet (www.lgpsmember.org/).

This report is prepared in accordance with our understanding of IAS26 and complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100). In calculating the disclosed numbers we have adopted methods and assumptions that are consistent with IAS19.

This report should be read in conjunction with the post accounting date briefing note for disclosures as at 31 March 2022.

Roisin McGuire FFA Associate

Barnett Waddingham

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Data used

We have used the following items of data which we received from the administering authority:

31 March 2019 - results of the latest funding valuation

31 March 2021 - results of the latest IAS26 report

31 March 2022 - Fund asset statement

31 March 2022 - Fund income and expenditure items (estimated where necessary) to

31 March 2022 - details of any new unreduced early retirement payments out to

The data has been checked for reasonableness and we are happy that the data is sufficient for the purposes of our advice.

Although some of these data items have been estimated, we do not believe that they are likely to have a material effect on the results of this report.

We are not aware of any material changes or events since we received the data.

Employer membership statistics

The table below summarises the membership data at 31 March 2019

Member data summary

	Number	Salaries/Pensions £000	Average age
Actives	22,718	414,051	52
Deferred pensioners	36,094	43,738	51
Pensioners	20,328	102,766	69

Unfunded benefits

We have excluded any unfunded benefits as these are liabilities of employers rather than the Fund.

Early retirements

We have requested data on any early retirements in respect of the Fund from the administering authority for the year ending 31 March 2022. We have been notified of 44 new early retirements during the year which were not allowed for at the previous accounting date. The total annual pension that came into payment was £320,000

Assets

The return on the Fund (on a bid value to bid value basis) for the year to 31 March 2022 is estimated to be 10.36%. The actual return on Fund assets over the year may be different.

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The estimated asset allocation for the Fund is as follows (noting that due to rounding they may not total 100%):

Asset breakdown	31 Mar 2021 £000s	31 Mar 2021 %	31 Mar 2022 £000s	31 Mar 2022 %
Equities	3,227,118	76%	3,445,580	74%
Bonds	627,339	15%	751,882	16%
Property	319,533	8%	390,241	8%
Cash	70,882	2%	90,420	2%
Total	**4,244,872**	**100%**	**4,678,123**	**100%**

Actuarial methods and assumptions

Valuation approach

To assess the value of the Fund's liabilities at 31 March 2022, we have rolled forward the value of Fund's liabilities calculated for the funding valuation as at 31 March 2019, using financial assumptions that comply with IAS19.

A full actuarial valuation involved projecting future cashflows to be paid from the Fund and placing a value on them. These cashflows include pensions currently being paid to members of the Fund as well as pensions (and lump sums) that may be payable in future to members of the Fund or their dependants. These pensions are linked to inflation and will normally be payable on retirement for the life of the member or a dependant following a member's death.

It is not possible to assess the accuracy of the estimated liability as at 31 March 2022 without completing a full valuation. However, we are satisfied that the approach of rolling forward the previous valuation data to 31 March 2022 should not introduce any material distortions in the results provided that the actual experience of the Fund has been broadly in line with the underlying assumptions, and that the structure of the liabilities is substantially the same as at the latest formal valuation. From the information we have received there appears to be no evidence that this approach is inappropriate.

Experience items allowed for since the previous accounting date

Experience items arise due to differences between the assumptions made as part of the roll forward approach and actual experience. This includes (but is not limited to) assumptions made in respect of salary increases, pension increases, mortality, and member transfers. Any experience items accounted for will be observed in the asset and/or defined benefit obligation reconciliation tables in the appendices in the individual employer's report.

Allowance for actual pension increases

Our standard approach is to include actual pension increase experience up to the accounting date. The impact will come through as an experience item. The 2022 pension increase is higher than previously assumed which will result in a higher value being placed on the defined benefit obligation and a worsening in the overall position. The impact may differ depending on the employer's previous assumption and if an employer has not previously allowed for actual pension increases up to 2021.

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Ukraine crisis – impact on approach

As a result of this crisis, many equity markets across the globe have witnessed significant falls, but so far the impact has been felt most prominently in equities with a close link to Russian markets, i.e. Russian equities themselves and in European tilted funds. Beyond equity markets, we have also seen volatility in government bond and credit markets. However, there has been no large directional move to date. The expected longer-term impact on gilt yields will largely depend on how these developments affect inflation (for example, through disruption to the supply of energy and commodities), and how central banks react to this.

From an accounting perspective, we are comfortable that our current methodology in deriving assumptions continues to be appropriate with the current uncertainties in the market. We can also confirm that our approach is in line with the current FRS102/IAS19 accounting standard. Therefore, we do not propose to change our approach in light of this crisis.

We recognise the current volatility in the market and the effect this is having across various asset classes globally.

Guaranteed Minimum Pension (GMP) Equalisation

Impact of Lloyds judgement on past transfer values

The latest news on the Lloyds Banking Group court case involved a ruling that, in cases where a member exercised their right to a transfer value out of the scheme, the trustee had the duty to make a transfer payment that reflects the member's right to equalised benefits and remains liable if an inadequate transfer payment had been paid.

It is not yet known if, or how, this will affect the LGPS. We await further guidance from CIPFA and DLUHC on this. Whilst no guidance nor data is available, our standard approach currently is to make no allowance to reflect this judgement. Please see FRS102/IAS19/IAS26 Glossary and FAQs (bwllp.co.uk) for further details.

GMP Indexation Consultation response

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found here Public Service Pensions: Guaranteed Minimum Pension Indexation consultation - GOV.UK (www.gov.uk)

Our standard assumption for GMP is that the fund will pay limited increases for members that have reached SPA by 6 April 2016, with the Government providing the remainder of the inflationary increase. For members that reach SPA after this date, we assume that the fund will be required to pay the entire inflationary increase. Therefore, our assumption is consistent with the consultation outcome and we do not believe we need to make any adjustments to the value placed on the liabilities as a result of the above outcome FRS102/IAS19/IAS26 Glossary and FAQs (bwllp.co.uk) for further details.

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Demographic/Statistical assumptions

Our standard approach is to use demographic assumptions in line with the latest actuarial valuation. For more information please see the latest valuation report. For the assumptions as at 31 March 2022, we propose adopting the CMI_2020 model, further details of which are set out below.

Mortality assumption

The key demographic assumption is the mortality assumption and there are two main steps in setting this assumption:

• Making a current assumption of members' mortality (the base mortality); and

• Projecting these current mortality rates into the future, allowing for further potential improvements in mortality. Future members' mortality is almost impossible to predict and therefore there is a lot of judgement involved and we naturally have to refine our view on this over time.

Base table mortality

The base table mortality assumptions adopted for the funds' latest triennial funding valuations were best estimate assumptions and we will, therefore, be using the same assumptions, as standard for accounting.

Future improvements to mortality

To project future improvements in mortality, we use a model prepared by the Continuous Mortality Investigation Bureau (CMI). The CMI update their model on an annual basis, incorporating the latest mortality data in the national population.

At the last accounting date, unless an employer opted out, we updated the demographic assumptions to use the CMI_2020 Model.

The CMI published their updated CMI_2021 Model in March 2022. We do not propose to update our standard approach to use the CMI_2021 Model as we do not expect this to have a significant impact on the value of the liabilities for those employers who adopted our standard approach last year.

The CMI have made a material change to CMI_2020 (compared to previous versions) due to the impact of abnormal mortality data in 2020. This change introduces a "2020 weight parameter" for the mortality data in 2020 so that the exceptional mortality experienced due to the coronavirus pandemic can be incorporated without having a disproportionate impact on results. The CMI have confirmed the core value of this parameter will be 0% (i.e. no allowance for 2020 mortality data). However, the CMI encourages users to consider the parameter in detail before adopting a certain value, and not to take the core values as the CMI's "recommendation".

Changing the 2020 weight parameter has a material impact on projected mortality improvements from 2020. Placing a higher weight on data for 2020 leads to materially lower future mortality improvements as you would expect. However, the impact of the 2020 weight parameter on future mortality improvements "dissipates" over time, with the effect completely disappearing by 2040.

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Our view is that the overall outlook for best-estimate future mortality improvements looks more negative than implied by the core CMI_2020, with the adverse consequences of the pandemic seeming to outweigh the positive ones.

The assumed life expectations from age 65 are:

Life expectancy from age 65 (years)	31 Mar 2021	31 Mar 2022
Males – retiring today	21.1	21.2
Females – retiring today	23.7	23.8
Males – retiring in 20 years	21.9	22.0
Females – retiring in 20 years	25.0	25.1

We have also assumed that:

- Members will exchange half of their commutable pension in respect of pre-April 2008 service and 75% of their commutable pension in respect of their post 2008 service, for cash at retirement. For every £1 of pension that members commute, they will receive a cash payment of £12 as set out in the Regulations.
- Members retire following the retirement age pattern assumption as specified by the Scheme Advisory Board for preparing Key Performance Indicators.; and
- 1% of active members will take up the option to pay 50% of contributions for 50% of benefits.

Financial assumptions

The financial assumptions used to calculate the results in the Appendices are as follows:

Year ended	31/03/2020 – figures p.a.	31/03/2021 – figures p.a	31/03/2022 - figures p.a
Discount rate	2.30%	1.95%	2.60%
Pension increases (CPI)	1.90%	2.85%	3.25%
Salary increases	1.90%	2.85%	3.25%

The key financial assumptions required for determining the defined benefit obligation for accounting are the discount rate, linked to high quality corporate bond yields, and the rate of future inflation.

We set out our standard approach to the derivation of these assumptions and possible outcomes using market conditions at 31 March 2022.

Discount rate

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Under both the IAS19 and FRS102 standards the discount rate should be determined by reference to market yields at the end of the reporting period on high quality corporate bonds. Our standard approach to derive the appropriate discount rate is known as the Single Equivalent Discount Rate (SEDR) methodology.

We use sample cashflows for employers at each duration year (from 2 to 30 years) and derive the single discount rate which results in the same liability value as that which would be determined using a full yield curve valuation (essentially each year's cashflows has a different discount rate). In carrying out this derivation we use the annualised Merrill Lynch AA rated corporate bond yield curve and assume the curve is flat beyond the 30-year point.

The standard assumptions set for an employer will be based on their individual duration. For example, an employer with an estimated liability duration of 13 years will adopt assumptions consistent with those derived using the 13-year cashflows.

Inflation expectations

Whilst the change in corporate bond yields is an important factor affecting the valuation of the liabilities, so too is the assumed level of future inflation as this determines the rate at which the benefits increase.

IAS19 suggests that in assessing future levels of long-term inflation we should use assumptions that would result in a best estimate of the ultimate cost of providing benefits whilst also giving consideration to the gilt market (in line with general price levels) to give us an indication of market expectation. FRS102 simply refers to a best estimate of the financial variables used in the liability calculation.

Pension increases in the LGPS are expected to be based on the Consumer Prices Index (CPI). As there is limited market information on CPI-linked assets, to derive our CPI assumption we first make an assumption on the Retail Prices Index (RPI) then make an adjustment.

Retail Prices Index (RPI) assumption

Similar to the SEDR approach described above we intend to adopt a Single Equivalent Inflation Rate (SEIR) approach in deriving an appropriate RPI assumption.

The SEIR adopted is such that the single assumed rate of inflation results in the same liability value (when discounted using the yield curve valuation described above) as that resulting from applying the BoE implied inflation curve. The BoE implied inflation curve is assumed to be flat beyond the 40-year point.

Following a recent review of the market, and in particular noting the muted market reaction to the likely alignment of RPI with CPIH (Consumer Prices Index with Housing) from 2030, our view is that gilt-implied inflation rates are currently distorted by supply and demand factors at medium and longer terms. We have therefore allowed for an Inflation Risk Premium (IRP) of 0.4% at medium and longer terms (from 10 years). This results in an overall IRP of between 0.0% p.a. and 0.3% p.a. depending on the term of the liabilities (for terms ranging from 2 years up to 30 years).

Consistent with the SEDR approach, assumptions are rounded to the nearest 0.05% and we intend to use sample cashflows for employers at each duration year (from 2 to 30 years) in deriving the assumptions for employers.

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Difference between RPI and CPI

It is expected that RPI will be on average 1.0% p.a. lower than it would have otherwise been from 2030 as a result of the proposed alignment of RPI to CPIH (and CPI) from that date. We have therefore assumed that the annual increase in CPI inflation will be 1.0% p.a. lower than the market implied increases in RPI for each year prior to 2030, and will be in line with RPI inflation thereafter. This results in an assumed gap between the two inflation measures of between 0.25% p.a. and 0.85% p.a. depending on the term of the liabilities (for terms ranging from 30 years down to 5 years).

Results and disclosures

We estimate that the net liability as at 31 March 2022 is a liability of £860,985

The results of our calculations for the year ended 31 March 2022 are set out below. The figures presented in this report are prepared only for the purposes of FRS102. In particular, they are not relevant for calculations undertaken for funding purposes or for other statutory purposes under UK pensions legislation.

Statement of financial position as at 31 March 2022

Net pension asset in the statement of financial position as at	31-Mar-20 £000S	31-Mar-21 £000S	31-Mar-22 £000S
Present value of defined benefit obligation	4,378,000	5,609,613	5,539,108
Fair value of Fund assets (bid value)	3,465,246	4,244,872	4,678,123
Net Liability in balance sheet	912,754	1,364,741	860,985

*Present value of funded obligation consists of £5,539,108,000 in respect of vested obligation and £0 in respect of non-vested obligation.

Asset and benefit obligation reconciliation for the year to 31 March 2022

Reconciliation of opening & closing balances of the present value of the defined benefit obligation	31-Mar-21 - £000S	31-Mar-22 - £000s
Opening defined benefit obligation	4,378,000	5,609,613
Current service cost	151,881	221,170
Interest cost	99,610	108,410
Change in financial assumptions	1,202,783	(307,673)
Change in demographic assumptions	(71,775)	-

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Experience loss/(gain) on defined benefit obligation	(55,900)	11,029
Liabilities assumed / (extinguished) on settlements	-	-
Estimated benefits paid net of transfers in	(128,225)	(137,108)
Past service costs, including curtailments	3,809	2,491
Contributions by Scheme participants	29,430	31,176
Unfunded pension payments	-	-
Closing defined benefit obligation	**5,609,613**	**5,539,108**

Reconciliation of opening & closing balances of the fair value of Fund assets	31-Mar-21 £000s	31-Mar-22 £000s
Opening fair value of Fund assets	**3,465,246**	**4,244,872**
Interest on assets	79,719	82,740
Return on assets less interest	701,817	359,554
Other actuarial gains/(losses)	-	-
Administration expenses	(3,496)	(2,731)
Contributions by employer including unfunded	100,381	99,620
Contributions by Scheme participants	29,430	31,176
Estimated benefits paid plus unfunded net of transfers in	(128,225)	(137,108)
Settlement prices received / (paid)	-	-
Closing Fair value of Fund assets	**4,244,872**	**4,678,123**

The total return on the Fund's assets for the year to 31 March 2021 is £781,536,000.

Sensitivity Analysis

	Approximate % increase to liabilities	Approximate monetary amount (£m)
Present value of total obligation	5,539,108	5,539,108
Sensitivity to	+0.1%	-0.1%
Discount rate	5,446,007	5,633,894
Long term salary increase	5,547,028	5,531,232
Pension increases and deferred revaluation	5,625,280	5,454,375
Sensitivity to	+1 Year	- 1 Year
Life expectancy assumptions	5,795,053	5,294,810

The information in the above note is all from our Fund Actuary - **Barnett Waddingham.**

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21. Current Assets

	31 March 2021 £000	31 March 2022 £000
Other Investment Balances		
Sales inc Currency	-	-
Investment Income Due	82	500
Recoverable Taxes	275	274
Total	**357**	**774**

	31 March 2021 £000	31 March 2022 £000
Current Assets		
Contributions receivable from employers and employees	10,870	11,136
Sundry Debtors	3,245	2,077
Cash	1,560	2,178
Total	**15,675**	**15,391**

22. Current liabilities

	31 March 2021 £000	31 March 2022 £000
Investment Liabilities		
Purchases including currency	-	-
Derivative Contracts Futures	-	(3)
Variation Margin	-	(8)
Managers Fees	(775)	(1,162)
Total	**(775)**	**(1,173)**

	31 March 2021 £000	31 March 2022 £000
Current Liabilities		
Pension Payments (inc Lump Sums)	(184)	(306)
Cash	-	-
Professional Fees	(64)	(2,798)
Administration Recharge	(51)	(72)
Sundry Creditors	(1,649)	(1,510)
Total	(1,948)	(4,686)

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23. Additional voluntary contributions

	Market value 31 March 2021 £000	Market value 31 March 2022 £000
Prudential	21,944	22,647

The Pension Fund Scheme provides an Additional Voluntary Contribution (AVC) facility for scheme members. Some members of the pension scheme paid voluntary contributions and transfers in of £2.241m (£2.067m 2020/21) to Prudential to buy extra pension benefits when they retire. £3.479m was disinvested from the AVC provider in 2021/22 (£2.607m 2020/21). Contributions and benefits to scheme members are made directly between the scheme member and the AVC provider. The AVC funds are not, therefore, included in the Pension Fund Accounts.

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24. Agency Services

The East Sussex Pension Fund pays discretionary awards to former employees on behalf of some employers in the Fund. The amounts paid are provided as a service and are fully reclaimed from the employer bodies. The sums are disclosed below.

	2020/21 £000	2021/22 £000
East Sussex County Council	4,793	4,638
Brighton & Hove City Council	2,261	2,105
Eastbourne Borough Council	308	289
Magistrates	212	192
Hastings Borough Council	175	169
Wealden District Council	174	170
Rother District Council	111	102
Lewes District Council	71	69
South-East Water	29	32
Brighton University	24	23
Mid-Sussex District Council	19	19
Westminster (used to be LPFA)	18	18
East Sussex Fire Authority	17	14
London Borough of Camden	7	7
London Borough of Southwark	6	6
The Eastbourne Academy	6	6
West Midlands Pension Fund	5	5
West Sussex County Council	4	4
Torfaen Borough Council	4	4
Sussex University	3	3
Varndean College	2	2
London Borough of Ealing	2	2
East Sussex College Group	1	1
Plumpton College	1	1
Optivo	-	1
Capita Hartshead	14	-
Total	**8,267**	**7,882**

25. Related party transactions

East Sussex County Council

The East Sussex Pension Fund is administered by East Sussex County Council. Consequently, there is a strong relationship between the Council and the Pension Fund. Each member of the Pension Committee is required to declare their interests at each meeting. The Treasurer of the Pension Fund, and Members of the County Council and the Pension Committee have no material transactions with the Pension Fund.

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The Council incurred costs in administering the Fund and charged £1.6m to the Fund in 2020/21 (£1.9m in 2010/21). The Council`s contribution to the Fund was £43.4m in 2021/22 (£43.0 in 2020/21). All amounts due to the Fund were paid in the year. At, 31 March 2022 the Pension Fund bank account held £3.7m in cash (£1.6m at 31 March 2021). The average throughout the year was £6.1m (£8.4 in 2020/21).

Key management personnel

The Chief Finance Officer of East Sussex County Council holds the key position in the financial management of the East Sussex Pension Fund.

	31 March 2021 £000	31 March 2022 £000
Short-term benefits	26	26
Post-employment benefits	5	5
Total	**5**	**31**

26. Contingent liabilities and contractual commitments

1. Outstanding capital commitments (investments) at 31 March 2022 totalled £304.1m (31 March 2021: £232.3m).

These commitments relate to outstanding call payments due on unquoted limited partnership funds held in the private equity and infrastructure parts of the portfolio. The amounts 'called' by these funds are irregular in both size and timing, typically over a period of between four and six years from the date of each original commitment.

At, 31 March 2021, the unfunded commitment was £211.2m for private equity, £69.1m for infrastructure and £23.8m for private debt. The commitments are paid over the investment timeframe of the underlying partnerships. As these partnerships mature, they are due to distribute capital back to investors. Commitments are made in US Dollars or Euros and the figures presented here are based on relevant Sterling exchange rates as at 31 March 2021.

2. Exit Payments

There were 3 employers whose contracts were due to end by the 31 March 2022 where an exit credit may need to be paid out. The Fund needs to obtain final information from the employers and then will need to commission the final cessation report from the actuaries to ascertain if an exit payment is due for these employers.

3. GMP Reconciliation Project

The Guaranteed Minimum Pension (GMP) Reconciliation project was split into number stages for Local Government Pension Schemes (LGPS). The Fund has completed the discovery and GMP reconciliation phases, which reviewed data inconsistencies, raised issues with HMRC and agreed outcomes. GMP elements

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of LGPS pension where State Pension Age is prior to 6 April 2016 has not increased in respect of the period 6 April 1978 to 5 April 1988. While the Post 1988 GMP element in respect of the period 6 April 1988 to 5 April 1997 might be increased up to a maximum of 3% p.a. The Government increase the State Pension for the member fully on the Pre 1988 GMP element and for Post 1988 GMP element has only increased if CPI is above 3% p.a.

The effect of LGPS pensions not showing the correct amount of GMP for its members would mean that their pension might be increased incorrectly. This can result in underpayments and overpayments, at a member specific level. The next stage, which is GMP Rectification, will amend LGPS pensions in line with the reconciled GMP information. Rectification will also involve a significant member communication exercise to explain the changes taking place.

The Fund has contracted a specialist provider who are carrying out the rectification project with the aim of completing the project by the 31st of October 2022. As such, we are unable to quantify the under/overpayment liability values as at 31 March 2022

4. Tax charges

The Fund is currently undertaking a review of the Annual Allowance pension saving statements issued and has identified some discrepancies in tax liabilities. Where the Fund has incorrectly advised a member of a tax payment, the Fund will pay any interest payments and penalties due to HMRC. As at the balance sheet date these potential interest and penalties payments were unknown.

5. Recovery of dividend taxation

Following rulings given by the European Court of Justice, along with a number of other local authority pension funds, the East Sussex Pension Fund was pursuing the recovery of tax paid on certain dividends. Due to some adverse rulings impacting the likelihood of recovery of the tax paid on certain dividends the test claimant withdrew from the claim. No other claimant wished to take on the test claimant role and this claim is now moving to disbandment. This is likely to incur additional adverse cost, which is not currently quantifiable.

27. Contingent assets

1. Employer bonds/guarantees

There are 8 admitted body employers in the Fund that hold insurance bonds to guard against the possibility of them being unable to meet their pension obligations. 3 employers are currently negotiating new bonds due to expiry of their current bonds. These bonds are drawn in favour of the pension fund and payment will only be triggered in the event of employer default.

In addition to these bonds, pension's obligations in respect of 12 other admitted bodies are covered by:

9 guarantees by local authorities participating in the Fund.

2 Parent company guarantee.

1 deposit held by East Sussex County Council

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2. Private market investments

At 31 March 2021, the Fund has invested £373.7 million in private equity funds managed by Adams Street and HarbourVest. The Fund has also invested £39.7 million in the M&G real estate debt fund VI and £140.6 million in the infrastructure funds managed by UBS, Pantheon and Infracapital.

28. Impairment losses

During 2021/22, the fund has not recognised any impairment losses.

29. East Sussex Pension Fund – Active Participating Employers

	20/21 Payroll %	20/21 Amount £(000)	21/22 Payroll %	21/22 Amount £(000)	22/23 Payroll %	22/23 Amount £(000)
Scheduled Bodies - Major Authorities						
Brighton and Hove City Council	20.8	-	20.3	-	19.8	-
East Sussex County Council	17.6	6,141	17.6	5,568	17.6	4,966
East Sussex Fire and Rescue Service	17.9	164	17.9	137	17.9	109
Eastbourne Borough Council	19.9	-	19.4	-	18.9	-
Hastings Borough Council	17.6	538	17.6	508	17.6	476
Lewes District Council	24.1	-	23.6	-	23.1	-
Rother District Council	26.1	-	25.6	-	25.1	-
University of Brighton	18.2	-	17.7	-	17.2	-
Wealden District Council	17.6	576	17.6	538	17.6	499
Other Scheduled Bodies						
Arlington Parish Council	22.1	-	21.6	-	21.1	-
Battle Town Council	22.1	-	21.6	-	21.1	-
Berwick Parish Council	22.1	-	21.6	-	21.1	-
Buxted Parish Council	22.1	-	21.6	-	21.1	-
Camber Parish council	22.1	-	21.6	-	21.1	-
Chailey Parish Council	22.1	-	21.6	-	21.1	-
Chiddingly Parish Council	22.2	-	21.6	-	21.1	-
Conservators of Ashdown Forest	22.1	-	21.6	-	21.1	-
Crowborough Town Council	22.1	-	21.6	-	21.1	-
Danehill Parish Council	22.1	-	21.6	-	21.1	-
Ditchling Parish Council	22.1	-	21.6	-	21.1	-
Fletching Parish Council	22.1	-	21.6	-	21.1	-
Forest Row Parish Council	22.1	-	21.6	-	21.1	-
Frant Parish Council	22.1	-	21.6	-	21.1	-
Hadlow Down Parish Council	22.1	-	21.6	-	21.1	-
Hailsham Town Council	22.1	-	21.6	-	21.1	-
Hartfield Parish Council	22.1	-	21.6	-	21.1	-
Heathfield & Waldron Parish Council	22.1	-	21.6	-	21.1	-
Herstmonceux Parish Council	22.1	-	21.6	-	21.1	-
Hurst Green Parish Council	22.1	-	21.6	-	21.1	-
Icklesham Parish Council	22.1	-	21.6	-	21.1	-
Isfield Parish Council	22.1	-	21.6	-	21.1	-
Lewes Town Council	22.1	-	21.6	-	21.1	-
Maresfield Parish Council	22.1	-	21.6	-	21.1	-
Newhaven Town Council	22.1	-	21.6	-	21.1	-

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	20/21 Payroll %	20/21 Amount £(000)	21/22 Payroll %	21/22 Amount £(000)	22/23 Payroll %	22/23 Amount £(000)
Newick Parish Council	22.1	-	21.6	-	21.1	-
Peacehaven Town Council	22.1	-	21.6	-	21.1	-
Pett Parish Council	22.1	-	21.6	-	21.1	-
Plumpton Parish Council	22.1	-	21.6	-	21.1	-
Ringmer Parish Council	22.1	-	21.6	-	21.1	-
Rye Town Council	22.1	-	21.6	-	21.1	-
Salehurst & Robertsbridge Parish Council	22.1	-	21.6	-	21.1	-
Seaford Town Council	22.1	-	21.6	-	21.1	-
Telscombe Town Council	22.1	-	21.6	-	21.1	-
Uckfield Town Council	22.1	-	21.6	-	21.1	-
Wartling Parish Council	22.1	-	21.6	-	21.1	-
Willingdon and Jevington Parish Council	22.1	-	21.6	-	21.1	-
Wivelsfield Parish Council	22.1	-	21.6	-	21.1	-
Academy Schools						
Annecy Catholic Primary Academy	15.5	-	15.0	-	14.5	-
Aquinas Trust	21.0	-	20.5	-	20.0	-
ARK Schools Hastings	20.6	-	20.1	-	19.6	-
Aurora Academies Trust	20.4	-	19.9	-	19.4	-
Beacon Academy	23.0	-	22.5	-	22.0	-
Beckmead Ropemakers Academy	16.3	-	16.3	-	16.3	-
Bexhill Academy	22.9	-	22.4	-	21.9	-
Bilingual Primary School	15.6	-	15.1	-	14.6	-
Breakwater Academy	17.0	-	16.5	-	16.0	-
Burfield Academy (Hailsham Primary)	20.0	-	19.5	-	19.0	-
Cavendish Academy	20.5	-	20.0	-	19.5	-
Diocese of Chichester Academy Trust	24.4	-	23.9	-	23.4	-
Eastbourne Academy	21.2	-	20.7	-	20.2	-
Falmer (Brighton Aldridge Community Academy)	20.0	-	19.5	-	19.0	-
Gildredge House Free School	19.6	-	19.1	-	18.6	-
Glyne Gap Academy	21.4	-	20.9	-	20.4	-
Hailsham Academy	20.0	-	19.5	-	19.0	-
Hawkes Farm Academy	16.4	-	15.9	-	15.4	-
High Cliff Academy	20.0	-	19.5	-	19.0	-
Jarvis Brook Academy	14.5	-	14.0	-	13.5	-
King's Church of England Free School	16.2	-	15.7	-	15.2	-
Langney Primary Academy	13.4	-	12.9	-	12.4	-
Ore Village Academy	18.5	-	18.0	-	17.5	-
Parkland Infant Academy	14.8	-	14.3	-	13.8	-
Parkland Junior Academy	14.4	-	13.9	-	13.4	-
Peacehaven Academy	13.0	-	12.5	-	12.0	-
Pebsham Academy	19.5	-	19.0	-	18.5	-
Phoenix Academy	20.4	-	19.9	-	19.4	-
Portslade Aldridge Community Academy	19.9	-	19.4	-	18.9	-
King's Academy Ringmer	20.8	-	20.3	-	19.8	-
SABDEN Multi Academy Trust	23.6	-	23.1	-	22.6	-
Saxon Shore Academy	22.7	-	22.7	-	22.7	-
Seaford Academy	21.1	-	20.6	-	20.1	-
Seahaven Academy	21.5	-	21.0	-	20.5	-

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	20/21 Payroll %	20/21 Amount £(000)	21/22 Payroll %	21/22 Amount £(000)	22/23 Payroll %	22/23 Amount £(000)
Shinewater Primary Academy	14.5	-	14.0	-	13.5	-
Sir Henry Fermor Academy	14.8	-	14.3	-	13.8	-
The South Downs Learning Trust	12.2	-	11.7	-	11.2	-
The Southfield Trust	14.4	-	13.9	-	13.4	-
Torfield & Saxon Mount Academy Trust	22.6	-	22.1	-	21.6	-
University of Brighton Academies Trust	20.0	-	19.5	-	19.0	-
White House Academy	17.5	-	17.0	-	16.5	-
Colleges						
Bexhill College	21.2	-	21.2	-	21.2	-
Brighton, Hove & Sussex Sixth Form College	19.8	-	19.8	-	19.8	-
East Sussex College Group	20.7	-	20.7	-	20.7	-
Plumpton College	18.9	-	18.9	-	18.9	-
Varndean Sixth Form College	19.8	-	19.8	-	19.8	-
Admission Bodies						
BHCC - Wealden Leisure Ltd	33.0	11	33.0	-	33.0	-
Biffa Muncipal Ltd	28.8	-	28.8	-	28.8	-
Brighton and Hove CAB	0.00	-	0.0	-	0.0	-
Brighton Dome & Festival Limited (Music & Arts Service)	0.0	-	0.0	-	0.0	-
Care Outlook Ltd	0.0	-	0.0	-	0.0	-
Care Quality Commission	49.2	92	49.2	92	49.2	92
Churchill St Leonards	29.7	-	29.7	-	29.7	-
Churchill St Pauls	34.1	-	34.1	-	34.1	-
De La Warr Pavilion Charitable Trust	4.8	-	4.8	-	4.8	-
Eastbourne Homes – SEILL	19.2	-	19.2	-	19.2	-
East Sussex Energy, Infrastructure & Development Ltd (ESEIDL)	29.2	13	29.2	13	29.2	13
EBC – Towner	31.0	7	31.0	7	31.0	7
ESCC - NSL Ltd	3.6	-	3.6	-	3.6	-
Glendale Grounds Management Ltd	29.4	-	29.4	-	29.4	-
Grace Eyre	0.0	-	0.0	-	0.0	-
Halcrow Group Ltd	5.4	-	5.4	-	5.4	-
Just Ask Estates Ltd	32.6	3	32.6	-	32.6	-
Nviro Ltd	35.3	-	35.3	-	35.3	-
Optivo	45.8	920	45.8	920	45.8	920
Royal Pavilion & Museums Trust	17.8	-	17.8	-	17.8	-
Sussex County Sports Partnership	18.2	-	17.7	-	17.2	-
Sussex Housing & Care	0.0	-	0.0	-	0.0	-
Telent Technology Services Ltd	20.8	-	20.8	-	20.8	-
Wave Leisure - Newhaven Fort	0.0	-	0.0	-	0.0	-
Wave Leisure Trust Ltd	0.0	-	0.0	-	0.0	-
WDC - Wealden Leisure Ltd	33.0	-	33.0	-	33.0	-
Wealden Leisure Ltd - Portslade Sports Centre	0.0	-	0.0	-	0.0	-
White Rock Theatres Hastings Ltd	0.0	-	0.0	-	0.0	-

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30. Investment Performance

The Fund uses an independent Investment performance measurement service, provided by Pensions & Investment Research Consultants Ltd (PIRC), which measures the performance of the Fund compared with 54 other local authority pension funds. Pension Fund investment is long-term, so as well as showing the annual performance of the Fund, comparison to peers over longer periods is also detailed below.

Performance relative to the Fund's strategic benchmark

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	10.6	8.9	7.2	9.1
Benchmark	10.1	7.7	6.4	7.9
Relative*	0.5	1.2	0.8	1.2

Investment performance relative to peer group

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	10.6	8.9	7.2	9.1
Local Authority Average	8.6	8.3	7.1	8.9
Relative*	1.8	0.6	0.1	0.2

The Fund outperformed the (weighted) average local authority Fund over the year by 1.8% (0.6% underperformance 2020/21), ranking the East Sussex Fund in the 14 percentiles (69th 2020/21) in the local authority universe. Over three years the Fund outperformed by 0.6% (0.2% outperformance 2020/21) and was placed in the 29 percentiles (56th 2020/21). Over five years the Fund outperformed by 0.1% (0.5% underperformance in 2020/21) and was placed in the 40 percentiles (67th 2020/21). Over ten years the fund years, the fund outperformed by 0.2% (0.1% underperformance 2020/21) and was placed in the 38 percentiles (54th 2020/21).

*Relative performance is calculated on a geometric basis as follows:

((1 + Fund Performance) / (1 + Benchmark Performance)) - 1

As opposed to the simpler arithmetic method, the geometric method makes it possible to directly compare long-term relative performance with shorter-term relative performance.

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16. External auditor's report

Independent auditor's report to the members of East Sussex County Council on the pension fund financial statements of East Sussex Pension Fund

Audit Opinion to follow

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17. Appendix 1 - Pensions administration strategy report

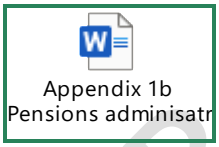
The Local Government Pension Scheme Regulation 59(1) of the (Administration) Regulations 2013 covers the requirement for an administering authority to prepare a written statement of policies as it considers appropriate in the form of a Pensions Administration Strategy. The East Sussex Pension Fund Pension Administration Strategy is kept under review and revised to reflect changes to LGPS regulations and Fund policies.

The Pensions Administration Strategy document sets out a framework by way of outlining the policies and performance standards to be achieved when providing a cost-effective inclusive and high quality pensions administration service. In particular it sets out:

- The roles and responsibilities of both the Fund and the employers within the Fund.
- The level of service the Fund and employers will provide to each other
- The performance measures used to evaluate the level of service

The administration strategy statement will be reviewed in line with each valuation cycle, the last revision was approved in September 2020 with the strategy coming into effect 1 January 2021. All scheme employers are be consulted before any changes are made to this document.

To access the Pensions Administration Strategy Statement in full please click on the document image below (the file will open in a new window).



The latest version of the administration strategy statement is available on the Funds website

www.eastsussexpensionfund.org/media/utsjckd3/espf-administration-strategy-2020-live-jan-2021.docx

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18. Appendix 2 - Funding strategy statement

The Funding Strategy Statement (FSS) focuses on how employer liabilities are measured, the pace at which these liabilities are funded, and how employers or pools of employers pay for their own liabilities. The FSS is prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013, CIPFA guidance and in collaboration with the Fund's actuary in place at the time of the last triennial valuation, Hymans Robertson LLP, after consultation with the Fund's employers and investment adviser.

The FSS sets out how the Administering Authority has balanced the conflicting aims of:

- affordability of employer contributions,
- transparency of processes,
- stability of employers' contributions, and
- prudence in the funding basis.

The FSS is a summary of the Fund's approach to funding its liabilities, and this includes reference to the Fund's other policies; it is not an exhaustive statement of policy on all issues. The FSS forms part of a framework of which includes:

- the LGPS Regulations;
- the Rates and Adjustments Certificate (confirming employer contribution rates for the next three years);
- actuarial factors for valuing individual transfers, early retirement costs and costs of buying added service; and
- the Fund's Investment Strategy Statement

The Funding Strategy Statement was updated to reflect funding principles agreed for the 2019 actuarial valuation and was approved in March 2020. The funding principles apply to employer contributions payable from 1 April 2020 to 31 March 2023.

The approach used to set asset allocations for new bodies, to calculate the bond requirements for admitted bodies and to determine any cessation debts payable by exiting employers are calculated in line with the Funding Strategy Statement. The Fund monitors the change in the funding position at a whole Fund level on a regular basis. The next review of the Funding Strategy Statement will take place over the 2022/23 year as part of the 2022 valuation exercise.

The 2019 Funding Strategy Statement (issued March 2020) is shown after this page.

The latest version of the Funding Strategy Statement is available on the Funds website: www.eastsussexpensionfund.org/media/nnbflaxw/east-sussex-pension-fund-funding-strategy-statement-march-2020.pdf

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19. Appendix 3 - Investment Strategy Statement

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities of pension funds to prepare, maintain and publish a written statement setting out the investment strategy for their Fund.

They must consult with persons they deem appropriate when drawing up their statement. Any material change in investment strategy must be included in a revised Investment Strategy Statement (ISS). The statement must cover:

- The Requirement to invest Fund money is a wide variety of investments
- The Authority's assessment of the suitability of particular investments and types of investments
- The Authority's approach to risk, including the ways in which risks are to be assess and managed
- The Authority's approach to pooling investments, including the use of collect investment vehicles and shared services
- The Authorities policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments
- The Authorities policy on the exercise of the rights (including voting rights) attaching to investments

The Committee of the East Sussex Pension Fund has an overriding statutory and fiduciary duty to ensure it has sufficient funds available to pay pensions. In light of that obligation, and in order to maximise investment return, the Fund has a diverse range of investments and does not restrict investment managers from choosing certain stocks taking into consideration that the Fund's investment strategy is regularly monitored.

Responsible Investment

Responsible Investment is a fundamental part of the Fund's overarching investment strategy as set out in its ISS as a Statement of Responsible Investment Principles. That is, to maximise returns subject to an acceptable level of risk whilst increasing certainty of cost for employers, and minimising the long term cost of the scheme. The Fund believes that consideration of Environmental, Social and Corporate Governance ("ESG") factors are fundamental to this, particularly where they are likely to impact on the overarching investment objective.

The Funds ISS is reviewed on a continuous basis to ensure it accurately reflects the Investment Strategy of the Fund.

To view the Investment Strategy Statement in full please look at the next page.

The latest version of the Investment Strategy Statement is available on the Funds website:

www.eastsussexpensionfund.org/media/sznjpnzl/investment-strategy-statement-2021.docx

DRAFT UNAUDITED

20. Appendix 4 – Communications Strategy

The Local Government Pension Scheme Regulations 2013 (Regulation 61) requires each pension fund administering authority to prepare and publish a policy statement setting out its approach to communicating with scheme members, representatives of members, prospective members, and scheme employers.

The East Sussex Pension Fund policy statement sets out our existing communication activities.

The Communications strategy in place during this financial year was approved 22 June 2020 and updated annually with a full review every 3 years.

To access the Communications Strategy statement in full please view the detail on the next page.

The latest version of the communications Strategy is available on the Funds website:

www.eastsussexpensionfund.org/media/lzrj0hat/communication-strategy-2022-east-sussex-pension-fund.pdf

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21. Appendix 5 - Governance Policy and Compliance Statement

The Public Services Pensions Act 2013 introduced a new framework for the governance and administration of public service pension schemes. All Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish and keep under review a Governance Compliance Statement.

The Governance Compliance Statement of the East Sussex Pension Fund is comprised from the Compliance to Statutory Guidance Statement and a Governance Policy Statement.

The Governance and Compliance Statement in place during this financial year was approved 22 June 2021 and is updated annually.

To full Governance Policy and Compliance Statement can be viewed on the next page.

The latest version of the Governance and Compliance Statement is available on the Funds website

www.eastsussexpensionfund.org/media/nqvkuucy/governance-and-compliance-statement-2022.pdf

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The Audit Findings for East Sussex Pension Fund

Year ended 31 March 2022

East Sussex Pension Fund

28 November 2022



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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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1. Headlines

This table summarises the key findings and other matters arising from the statutory audit of East Sussex Pension Fund ('the Pension Fund') and the preparation of the Pension Fund's financial statements for the year ended 31 March 2022 for those charged with governance.

Financial Statements

Under International Standards of Audit (UK) (ISAs) and the National Audit Office (NAO) Code of Audit Practice ('the Code'), we are required to report whether, in our opinion:

- the Pension Fund's financial statements give a true and fair view of the financial position of the Pension Fund and its income and expenditure for the year; and
- have been properly prepared in accordance with the CIPFA/LASAAC code of practice on local authority accounting and prepared in accordance with the Local Audit and Accountability Act 2014.

Our audit work was completed on site/remotely during June-November. Our findings are summarised on pages 4 to 15. We have not identified adjustments to the financial statements that have resulted in an adjustment to the Pension Fund's reported financial position. Audit adjustments are detailed in Appendix B. Our follow up of recommendations from the prior year's audit are detailed in Appendix A.

Our audit work was undertaken predominantly remotely with our team spending one day a week on site at the Council offices in order to pick up testing and queries with officers face to face where possible. Largely though, our testing work has been undertaken remotely via Teams as most of the Council's officers are predominantly working from home, and therefore some of the difficulties of auditing remotely still continued to be present for the 2021/22 audit as it takes longer to complete audit testing and clear queries remotely than working with direct access to Council officers. The audit was undertaken during August to November. The start of the audit was initially planned to be from the beginning of July, but the start date and our planned staff time had to be moved back to the first week of August due to:

- Working papers to support the Pension Fund financial statements not being complete and ready for the July start date, meaning that where our audit team was planned to work across both the Pension Fund audit and County audit simultaneously it was not efficient/productive to start the audit until August.

The move in the start date has had significant knock-on effect on our staffing arrangements for the audit where dates had to be moved around, and some planned team members were not available for the full period of the audit. This has caused increased handover and complexity in completing the work.

The working papers overall are not as high quality or clear as we would expect, and we have communicated these issues to your finance team to recommend that improvements are made for next year. The working papers tend to require quite a lot of audit team time/investigation to understand them fully and sometimes the working papers do not explain issues and variances, and the clear connection to the general ledger and financial statement notes as clearly as required to allow for a fast and efficient audit. We will propose an audit fee variance for the additional time required to complete the audit related to these issues.

Our work is substantially complete, and there are no matters of which we are aware that would require modification of our audit opinion [Appendix D] or material changes to the financial statements, subject to the following outstanding matters;

- Completion of work to gain assurance over the valuation of Level 3 investments (significant risk) where we are awaiting some information from investment fund managers;
- Completion of our journals sample testing;
- Completion of testing of a sample of contributions received where supporting documentation for 5 samples are outstanding;
- Clearance of a number of audit queries relating to contributions and benefits;
- Closure of points around the technical review of the draft accounts by Grant Thornton's Financial Reporting Team and agreeing any changes to the statements;
- Completion of our work to tie in immaterial disclosure notes to working papers provided by the finance team;
- Completion of our work on the Related Parties note;
- Review of the IT General Controls work completed by our Technology Audit team around the Altair system and data transfer;
- Senior Manager and Engagement Lead review of the completed audit sections which could potentially raise further queries for the Council to respond to;
- receipt of management representation letter;
- review of the final set of amended financial statements after any agreed changes; and
- Receipt and review of the Annual report.

We have concluded that the other information to be published with the financial statements, is consistent with our knowledge of your organisation and the financial statements we have audited.

Our anticipated audit report opinion will be unmodified.

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2. Financial Statements

Overview of the scope of our audit

This Audit Findings Report presents the observations arising from the audit that are significant to the responsibility of those charged with governance to oversee the financial reporting process, as required by International Standard on Auditing (UK) 260 and the Code of Audit Practice ('the Code'). Its contents have been discussed with management.

As auditor we are responsible for performing the audit, in accordance with International Standards on Auditing (UK) and the Code, which is directed towards forming and expressing an opinion on the financial statements that have been prepared by management with the oversight of those charged with governance. The audit of the financial statements does not relieve management or those charged with governance of their responsibilities for the preparation of the financial statements.

Audit approach

Our audit approach was based on a thorough understanding of the Pension Fund's business and is risk based, and in particular included:

- An evaluation of the Pension Fund's internal controls environment, including its IT systems and controls;
- Substantive testing on significant transactions and material account balances, including the procedures outlined in this report in relation to the key audit risks

We have had to alter our audit plan, as communicated to you on 29 March 2022 where we have increased the detail of work we carried out on the other risk Altair system data transfer. On further understanding of the transfer of the system and the data, we required additional IT General Controls assurance over the system hosted at the Council (as opposed to being hosted at Surrey County Council). This work has now been completed by our Technology Audit team and is being reviewed.

Conclusion

As detailed on page 3 there is still work to complete on this audit. Based on the work to date no material errors or issues have arisen which would require modification of our audit opinion. We will not be able to issue our audit opinion until all outstanding work on page 3 is completed and reviewed, and until the County Council audit is also completed.

Acknowledgements

We would like to take this opportunity to record our appreciation for the assistance provided by the finance team and other staff.

As highlighted on page 3 your finance team and our audit team faced audit challenges this year, including:

- initial delays in June in providing full sets of working papers on the Pension Fund audit;
- Some delays in responses to audit samples/queries during the audit;
- Continued remote working on the audit meaning testing/queries take longer to resolve.

These issues meant that we delayed the start of the fieldwork audit from the beginning of July to the first week of August and consequently, at the date of presenting this report, there is work ongoing to complete the audit. We will propose a fee variance for the audit related to these issues.

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2. Financial Statements

Our approach to materiality

- The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law.
- We have revised the performance materiality due to the actual net assets changing significantly from that at the planning stage resulting in a review of the appropriateness of the materiality figure.
- We detail in the table below our determination of materiality for East Sussex Pension Fund.

	Pension Fund Amount (£)	Qualitative factors considered
Materiality for the financial statements	46.9m	We have determined financial statement materiality based on a proportion of the net assets of the Council for the financial year.
Performance materiality	35.2m	The maximum amount of misstatement the audit team could accept in an individual account or group of related accounts. This is less than materiality due to "aggregation risk".
Trivial matters	2.3m	We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance



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2. Financial Statements - Significant risks

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

This section provides commentary on the significant audit risks communicated in the Audit Plan.

Risks identified in our Audit Plan	Commentary
Management override of controls Risk description unchanged from that reported in our audit plan.	We have: • evaluated the design effectiveness of management controls over journals; • obtained a full listing of journal entries which was then analysed to identify and test high risk unusual journals; • tested unusual journals recorded during the year and post year end for appropriateness and corroboration; • considered the reasonableness of significant accounting estimates and critical judgements made by management; and • evaluated the rationale for any changes in accounting policies or significant transactions. We are still completing our testing subject to outstanding items as detailed on Page 3. We have otherwise not identified any issues in the audit processes carried out to date.
ISA240 fraudulent revenue recognition Risk description unchanged from that reported in our audit plan.	As documented in the Audit Plan, we considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition; • opportunities to manipulate revenue recognition are very limited; and • the culture and ethical frameworks of local authorities, including East Sussex County Council as the Administering Authority of East Sussex Pension Fund, mean that all forms of fraud are seen as unacceptable.
Fraudulent expenditure recognition Risk description unchanged from that reported in our audit plan.	As documented in the Audit Plan, we considered the risk of material misstatement due to the fraudulent recognition of expenditure. We have considered each material expenditure area, and the control environment for accounting recognition. We were satisfied that this did not present a significant risk of material misstatement in the 2021/22 accounts, and the risk could be rebutted because: • The control environment around expenditure recognition (understood through our documented risk assessment understanding of your business processes) is considered to be strong; • We have not found significant issues, errors or fraud in expenditure recognition in the prior 3 years audits; • Our view is that, similarly to revenues, there is little incentive to manipulate expenditure recognition.

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2. Financial Statements - Significant risks

Risks identified in our Audit Plan	Commentary
Valuation of Level 3 investments Risk description unchanged from that reported in our audit plan.	We have: • gained an understanding of your process for valuing Level 3 investments and evaluating the design of the associated controls; • reviewed the nature and basis of estimated Level 3 valuations and considered what assurance management has over the year end valuations provided for these investments, against the requirements of the Code; • independently requested year-end confirmations from investment managers and custodian and carried out a triangulation test between these confirmations of valuations and the general ledger to identify any discrepancies; • for a sample of investments, tested the valuation by obtaining and reviewing the audited accounts at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2022with reference to known movements in the intervening period; • evaluated the competence, capabilities and objectivity of the valuation expert; • tested revaluations made during the year to see if they had accounted for correctly; and • where available, reviewed investment manager and custodian service auditor report on design effectiveness of internal controls. In our testing of Level 3 investments we identified some variances between the valuation in the accounts and our expectation of the valuation per Fund Manager confirmations and our own expectation as informed by our testing of the audited accounts for the funds and known cash movements. This highlighted that the accounts and general ledger figure for Investments was understated by £12.9m. The reason for this is that the custodian valuation used to produce the accounts was from December 2021, adjusted for cash activities to the year end date for each fund manager. In most cases this results in a materially accurate value for investments, but where there is another market value movement in the interim this can lead to this method leading to an inaccurate valuation, as it has here. We have included this difference as an unadjusted misstatement on Appendix B. Note at this date some of the service auditor reports/audited fund statements are outstanding from the Fund Managers. We are chasing these with the Managers. Subject to completion of the work set out on page 3, we have not identified any further issues in this risk area.

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2. Financial Statements – other audit risks

This section provides commentary on other audit risks risks:

Issue	Commentary	Auditor view
Altair system data transfer The Pensions Administration Team was brought under sovereign control at the start of the 2021/22 financial year. This involved a data migration of member data (this was between Altair databases as opposed to a change of system). Although, this meant the process was intrinsically more straightforward, there is still some risk of data loss/errors.	We have: - reviewed the Pension Fund's process for ensuring the Altair data migration was complete and accurate and obtained detailed documentation supporting how the Fund had reconciled opening/closing data on the system; and - carried out more detailed IT General Controls testing of the Altair system hosted on the Council's servers to gain assurance that this system is operating as expected and would not lead to financial statement misstatements.	We are still completing and reviewing the audit work on IT General Controls in this area. Subject to completion of work set out on page 3, we have not identified any issues.
IAS26 Pension Fund Disclosures The methods, assumptions and judgements made in calculating these disclosures are complex and subjective, and as such there is a risk of error.	We have: - updated our understanding of the processes and controls put in place by management to ensure that the IAS26 disclosures are accurate; - evaluated the instructions issued by management to their management expert (an actuary) for producing the disclosures of the net liability estimate and the scope of the actuary's work; - assessed the competence, capabilities and objectivity of the actuary who carried out the Authority's pension fund valuation and produce the IAS26 disclosures; and - undertaken procedures to confirm the reasonableness of the actuarial assumptions made by reviewing the report of the consulting actuary (as auditor's expert) and performing any additional procedures suggested within the report.	Subject to completion of work set out on page 3, we have not identified any issues.

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2. Financial Statements – key judgements and estimates

This section provides commentary on key estimates and judgements inline with the enhanced requirements for auditors.

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 3 Investments – £944.3m	The Pension Fund has investments in equities, pooled property investment and private equity that in total are valued on the balance sheet as at 31 March 2022 at £944.3m. These investments are not traded on an open exchange/market and the valuation of the investment is highly subjective due to a lack of observable inputs. In order to determine the value, management place reliance on the valuation provided by their fund managers. The value of the investment has increased by £209m in 2021/22, due to both changes in market value but also due to movements in sales/purchases in the year.	We have: • assessed the independence, objectivity and expertise of management's experts which management use to estimate the value of the Level 3 investments. Management's experts are the investment managers; • assessed the valuation method, key assumptions and the appropriateness of the underlying information used to determine the estimate. We have confirmed that the valuation method and significant assumptions are in line with those generally accepted in the field; • obtained service auditor reports on design effectiveness of internal controls at each of the investment managers to confirm that these are effectively designed and operating effectively; • agreed level 3 investments to year-end confirmations from investment managers of the valuations at the year end together with a statement of transactions for the period; and • tested a sample of investments obtaining and reviewing the audited accounts (confirming the expertise of the auditor) at latest date for individual investments and agreeing these to the investment manager reports at that date. Where there was a gap between the accounting period end for the audited accounts and the Pension Fund year end/investment valuation date, we reconciled the difference in value to known movements in the intervening period to confirm the difference was reasonable. Note the issue related to the timing of investment valuations used in the statements on page 7, which we have concluded is not material (£12.9m understatement) and is included as in unadjusted misstatement in Appendix B. We have not identified any further issues, subject to completion of outstanding tasks on page 3.	No issues arising in our work so far, but work outstanding.

Assessment

- [Purple] We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- [Blue] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- [Grey] We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- [Light Purple] We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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2. Financial Statements - key judgements and estimates

Significant judgement or estimate	Summary of management's approach	Audit Comments	Assessment
Level 2 Investments – £3,404m	The Pension Fund have investments in unquoted bonds and pooled investments that in total are valued on the balance sheet as at 31 March 2022 at £3,404m. The investments are not traded on an open exchange/market and the valuation of the investment is subjective. In order to determine the value, management place reliance on the valuation provided by both their investment managers and custodian. The value of the investment has decreased by £35m in 2021/22 due to both changes in market value but also due to movements in sales and purchases in the year.	We have: • assessed the independence, objectivity and expertise of management's experts which management use to estimate the value of the Level 2 investments. Management's experts are both the investment managers and the custodian (who value the investments independently of the investment managers); • assessed the valuation method, key assumptions and the appropriateness of the underlying information used to determine the estimate. We have confirmed that the valuation method and significant assumptions are in line with those generally accepted in the field; • obtained service auditor reports on design effectiveness of internal controls at each of the investment managers to confirm that these are effectively designed and operating effectively; and • agreed level 2 investments to year-end confirmations from investment managers and the custodian of the valuations at the year end together with a statement of transactions for the period.	

Assessment

- Dark Purple We disagree with the estimation process or judgements that underpin the estimate and consider the estimate to be potentially materially misstated
- Blue We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider optimistic
- Grey We consider the estimate is unlikely to be materially misstated however management's estimation process contains assumptions we consider cautious
- Light Purple We consider management's process is appropriate and key assumptions are neither optimistic or cautious

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2. Financial Statements - matters discussed with management

This section provides commentary on the significant matters we discussed with management during the course of the audit.

Significant matter	Commentary	Auditor view and management response
Significant events or transactions that occurred during the year – financial market fluctuations/turmoil related to war in Ukraine.	We have discussed the market fluctuations with your finance team, and particular types of investments which could be impacted by the turmoil, interest rate and inflationary impacts of the current situation to gain assurance as to whether this either gives rise to a material uncertainty related to going concern, or a non-adjusting subsequent event which would require disclosure in the statements.	Management's view is that this has not given rise to a material uncertainty related to going concern, or a non-adjusting subsequent event which would require disclosure in the statements. We are in agreement with management on this conclusion.

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2. Financial Statements - other communication requirements

We set out below details of other matters which we, as auditors, are required by auditing standards and the Code to communicate to those charged with governance.

Issue	Commentary
Matters in relation to fraud	We have previously discussed the risk of fraud with the Audit Committee. We have not been made aware of any incidents in the period and no other issues have been identified during the course of our audit procedures.
Matters in relation to related parties	We are not aware of any related parties or related party transactions which have not been disclosed.
Matters in relation to laws and regulations	You have made us aware of an incidence of non-compliance with relevant laws and regulations, the breach in timescale for submission of Annua Benefit Statements by August in the relevant year. And you cite this as an ongoing risk in the current period. We understand from discussions with management that compliance has been steadily improving as the pensions administration has been brought in-house, and also that it is unlikely to result in a significant fine. As stated in the risk register this represents a reputational risk for the fund. We have not identified any further incidences from our audit work.
Written representations	A letter of representation has been requested from the Pension Fund.

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2. Financial Statements - other communication requirements



Issue	Commentary
Confirmation requests from third parties	We requested from management permission to send confirmation requests to your fund managers, custodians and other institutions with which you held bank or investment balances at the year end. This permission was granted and the requests were sent. All of these requests were returned with positive confirmation.
Accounting practices	We have evaluated the appropriateness of the Pension Fund's accounting policies, accounting estimates and financial statement disclosures. Our review found no material omissions in the financial statements.
Audit evidence and explanations/ significant difficulties	As set out on pages 3 and 4, there were some delays in the provision of financial statements and supporting working papers at the agreed start date for our fieldwork. This led to us agreeing to delay the start of fieldwork to allow the finance team time to prepare and upload complete working papers. There were also issues with the clarity/quality of working papers which mean these take the audit team longer to process, tie into the general ledger/financial statements and reach sample populations. This has led to delay in completion of the audit. A delay in completion of our work on the Pension Fund audit would delay our provision of assurance letters to other scheme employer auditors including for the County Council, and therefore could delay the signing of the opinion on those audits.

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2. Financial Statements - other communication requirements



Our responsibility

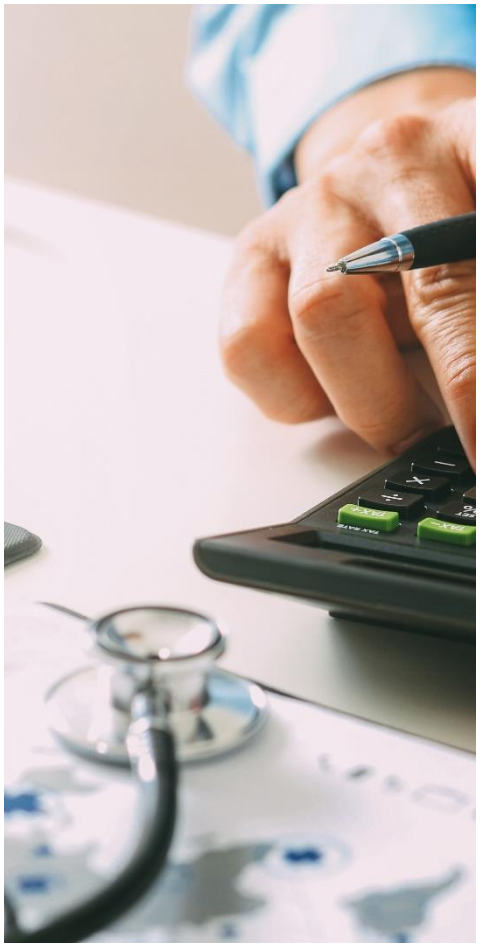
As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the entity's ability to continue as a going concern" (ISA (UK) 570).

Issue	Commentary
Going concern	In performing our work on going concern, we have had reference to Statement of Recommended Practice – Practice Note 10: Audit of financial statements of public sector bodies in the United Kingdom (Revised 2020). The Financial Reporting Council recognises that for particular sectors, it may be necessary to clarify how auditing standards are applied to an entity in a manner that is relevant and provides useful information to the users of financial statements in that sector. Practice Note 10 provides that clarification for audits of public sector bodies. Practice Note 10 sets out the following key principles for the consideration of going concern for public sector entities: • the use of the going concern basis of accounting is not a matter of significant focus of the auditor's time and resources because the applicable financial reporting frameworks envisage that the going concern basis for accounting will apply where the entity's services will continue to be delivered by the public sector. In such cases, a material uncertainty related to going concern is unlikely to exist, and so a straightforward and standardised approach for the consideration of going concern will often be appropriate for public sector entities • for many public sector entities, the financial sustainability of the reporting entity and the services it provides is more likely to be of significant public interest than the application of the going concern basis of accounting. Practice Note 10 states that if the financial reporting framework provides for the adoption of the going concern basis of accounting on the basis of the anticipated continuation of the provision of a service in the future, the auditor applies the continued provision of service approach set out in Practice Note 10. The financial reporting framework adopted by the Pension Fund meets this criteria, and so we have applied the continued provision of service approach. In doing so, we have considered and evaluated: • the nature of the Pension Fund and the environment in which it operates • the Pension Fund's financial reporting framework • the Pension Fund's system of internal control for identifying events or conditions relevant to going concern • management's going concern assessment. On the basis of this work, we have obtained sufficient appropriate audit evidence to enable us to conclude that: • a material uncertainty related to going concern has not been identified • management's use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

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2. Financial Statements - other responsibilities under the Code

Issue	Commentary
Disclosures	No inconsistencies have been identified. We plan to issue an unmodified opinion in this respect – refer to appendix D.
Matters on which we report by exception	We are required to give a separate opinion for the Pension Fund Annual Report on whether the financial statements included therein are consistent with the audited financial statements. Due to statutory deadlines the Pension Fund Annual Report is not required to be published until 1 December 2022 and therefore this report has not yet been provided to the audit team. We have therefore not given this separate opinion at this time and are unable to certify completion of the audit of the administering authority until this work has been completed.



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3. Independence and ethics

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and confirm that we, as a firm, and each covered person, are independent and are able to express an objective opinion on the financial statements

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in May 2020 which sets out supplementary guidance on ethical requirements for auditors of local public bodies.

Details of fees charged are detailed in Appendix C

Transparency

Grant Thornton publishes an annual Transparency Report, which sets out details of the action we have taken over the past year to improve audit quality as well as the results of internal and external quality inspections. For more details see Transparency report 2020 (grantthornton.co.uk)

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3. Independence and ethics

Audit and non-audit services

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Council. The following services were identified which were charged from the beginning of the financial year to the current date, as well as the threats to our independence and safeguards that have been applied to mitigate these threats.

Service	Fees £	Threats identified	Safeguards
Audit related			
Provision of IAS 19 Assurances to Scheme Employer auditors	£14,000 (see adjacent commentary, this is the expected fee, however the fee is dependent on the number of assurance letters requested from other auditors)	Self-Interest (because this is a recurring fee)	The level of this recurring fee taken on its own is not considered a significant threat to independence as the fee for this work is £5,000 (plus £1,000 for each assurance letter to be issued, expected to be 9 but not all requests received from other auditors yet. We are therefore reporting the maximum expected fee here; if any requests are not received the fee will be reduced for these letters not needed to be issued) in comparison to the total fee for the audit of £38,487 and in particular relative to Grant Thornton UK LLP's turnover overall. Further, it is a fixed fee and there is no contingent element to it. These factors all mitigate the perceived self-interest threat to an acceptable level.

These services are consistent with the Pension Fund's policy on the allotment of non-audit work to your auditors. All services have been approved by the Council's S151 Officer. None of the services provided are subject to contingent fees.

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Appendices

A. Follow up of prior year recommendations

We identified the following issues in the audit of [insert client name] Pension Fund's 2020/21 financial statements, which resulted in 3 recommendations being reported in our 2020/21 Audit Findings report. We are pleased to report that management have implemented all of our recommendations.

Assessment	Issue and risk previously communicated	Update on actions taken to address the issue
✓	**Internal Controls around investment valuations at year end not operating** We reviewed and tested the valuation of Level 3 investments via a full triangulation between the custodian confirmation, the fund manager confirmations and the general ledger balances as recognised at the year end. This highlighted that the accounts and general ledger figure for Investments was understated by £25.2m. The reason for this is that the custodian valuation used to produce the accounts was from prior to the year end, adjusted for cash activities to the year end date for each fund manager. In most cases this results in a materially accurate value for investments, but where there is another market value movement in the interim this can lead to this method leading to an inaccurate valuation. Our understanding of the Pension Fund internal controls is that an internal triangulation check should have been undertaken to pick up any such market value movements and ensure where this has happened an updated custodian valuation to the year end is requested.	**Recommendation** We recommend that management ensure that checks and controls around investment valuations (particularly Level 3 Investments where the valuation is more uncertain) to ensure the correct valuation is recognised in the financial statements. **Recommendation update** We are satisfied that the finance team carried out their own checks of final valuations in 2021/22 to gain their own assurance that the valuations were not materially misstated.
✓	**Internal Controls around contributions received during the year not operating** In our testing of contributions we set out to review quarterly LGPS31 reconciliations which the Pension Fund should produce at each quarter to compare contributions expected from members to the actual amounts received. Where the amount received varies significantly from the expectation of the Fund this would be investigated/reconciled. In our testing we review these LGPS31 reconciliations, reconcile them to the general ledger and then review/reperform the analytics to gain assurance over the contributions received. However for the first 3 quarters of the year this reconciliation was not prepared. This was prepared during the audit fieldwork. This is part of the Fund's own documented internal control environment.	**Recommendation** We recommend that management ensure that key internal reconciliations such as the LGPS31 reconciliations are prepared and reviewed internally in a timely way, and they are also made available as key working paper alongside the financial statements as a robust audit trail for contributions received. **Recommendation update** We are satisfied that key internal reconciliations for contributions were prepared in the 2021/22 financial year.
✓	**Journals controls exception** In our testing of manual journal we identified one journal where the internal process for journals of value over £1m was not observed. Journals over £1m should be sent to a more senior officer in the team for review and authorization prior to posting to the general ledger. Manual journals are known to be a method by which override of controls and/or fraud can be perpetrated.	**Recommendation** We recommend that management recommunication this control to all new starters and existing staff to ensure that it is observed for all manual journals posted. **Recommendation update** We have not identified any exceptions in our work to date. Note however our journals testing work is still subject to senior management review.

Assessment

✓ Action completed

X Not yet addressed

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B. Audit Adjustments

We are required to report all non trivial misstatements to those charged with governance, whether or not the accounts have been adjusted by management.

Misclassification and disclosure changes

The table below provides details of misclassification and disclosure changes identified during the audit which have been made in the final set of financial statements.

Disclosure omission	Auditor recommendations	Adjusted?
Various minor casting/disclosure amendments	We identified a small number of minor casting and disclosure issues. **Management response** Agreed and these were amended in the accounts.	✓
Note 17a: Net gains and losses on financial instruments	Net gains and losses on financial instruments in Note 17a did not agree correctly through to Note 14 a. **Management response** Agreed and amended in the accounts.	✓

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B. Audit Adjustments



Impact of unadjusted misstatements

The table below provides details of adjustments identified during the 2021/22 audit which have not been made within the final set of financial statements. The Audit Committee is required to approve management's proposed treatment of all items recorded within the table below.

Detail	Pension Fund Account £'000	Net Asset Statement £'000	Impact on total net assets £'000	Reason for not adjusting
Level 3 Investment Valuations In our triangulation and detailed sample testing of the Level 3 investments we identified a difference between the Fund Manager valuations and the accounts. See pages 7 for further information on this error.	Credit Changes in value of Investments: (£12.9m)	Debit Level 3 investments: £12.9m	(£12.9m)	The total error is not material
Overall impact	(£12.9m)	**£12.9m**	(£12.9m)	

Impact of prior year unadjusted misstatements

The table below provides details of adjustments identified during the prior year audit which had not been made within the final set of 2020/21 financial statements

Detail	Pension Fund Account £'000	Net Asset Statement £'000	Impact on total net assets £'000	Reason for not adjusting
Level 3 Investment Valuations In our triangulation and detailed sample testing of the Level 3 investments we identified a difference between the Fund Manager valuations and the accounts.	Credit Changes in value of Investments: (£25.2m)	Debit Level 3 investments: £25.2m	(£25.2m)	The total error is not material – and note would be corrected via subsequent in year valuation movements in 2021/22.
Overall impact	(£25.2m)	**£25.2m**	(£25.2m)	

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C. Fees

We confirm below our final fees charged for the audit and provision of non-audit services. Note that the final fee is to be confirmed – we will propose a fee variance for the issues around delays to the audit which have been highlighted in this report.

Audit fees	Proposed fee	Final fee
Pension Fund Audit	£38,487	TBC
Total audit fees (excluding VAT)	£38,487	£TBC

Non-audit fees for other services	Proposed fee	Final fee
Audit Related Services		
Provision of IAS 19 Assurances to Scheme Employer auditors £5,000 (plus £1,000 for each assurance letter to be issued)	5,000	TBC
Total non-audit fees (excluding VAT)	**£5,000**	**£TBC**

Details of variations in final fees from the proposed fee per the audit plan

The fees reconcile to the financial statements.

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Audit fees –detailed analysis

Scale fee published by PSAA	£20,487
Ongoing increases to scale fee first identified in 2019/20	
Raising the bar/regulatory factors	£7,000
New issues for 2020/21	
Impact of new auditing standards	£8,000
New issues for 2021/22	
Remote working – the audit has still needed to be completed mainly remotely which increases the resources needed to complete the audit.	£3,000
Fee variance for: - Delay in the start date of the audit due to working papers not being ready, and financial statements not being available at the date of the start of the audit with significant impact on our resource planning. This led to us starting the audit, then pausing it and restarting a month later with reallocation of audit staff - Minor delays in query/sample responses	TBC
Total audit fees (excluding VAT)	**£TBC**

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C. Draft Audit opinion

Our draft audit opinion is included below.

We anticipate we will provide the Pension Fund with an unmodified audit report.

Independent auditor's report to the members of East Sussex County Council on the pension fund financial statements of East Sussex Pension Fund

Opinion

We have audited the financial statements of East Sussex Pension Fund (the 'Pension Fund') administered by East Sussex County Council (the 'Authority') for the year ended 31 March 2022 which comprise the Fund Account, the Net Assets Statement and notes to the pension fund financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22.

In our opinion, the financial statements:

- give a true and fair view of the financial transactions of the Pension Fund during the year ended 31 March 2022 and of the amount and disposition at that date of the fund's assets and liabilities, other than liabilities to pay promised retirement benefits after the end of the fund year;
- have been properly prepared in accordance with the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22; and
- have been prepared in accordance with the requirements of the Local Audit and Accountability Act 2014.

Basis for opinion

We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law, as required by the Code of Audit Practice (2020) ("the Code of Audit Practice") approved by the Comptroller and Auditor General. Our responsibilities under those standards are further described in the 'Auditor's responsibilities for the audit of the financial statements' section of our report. We are independent of the Authority in accordance with the ethical requirements that are relevant to our audit of the Pension Fund's financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern

We are responsible for concluding on the appropriateness of the Chief Finance Officer's use of the going concern basis of accounting and, based on the audit evidence obtained, whether a material uncertainty exists related to events or conditions that may cast significant doubt on the Pension Fund's ability to continue as a going concern. If we conclude that a material uncertainty exists, we are required to draw attention in our report to the related disclosures in the financial statements or, if such disclosures are inadequate, to modify the auditor's opinion. Our conclusions are based on the audit evidence obtained up to the date of our report. However, future events or conditions may cause the Pension Fund to cease to continue as a going concern.

In our evaluation of the Chief Finance Officer's conclusions, and in accordance with the expectation set out within the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22 that the Pension Fund's financial statements shall be prepared on a going concern basis, we considered the inherent risks associated with the continuation of services provided by the Pension Fund. In doing so we had regard to the guidance provided in Practice Note 10 Audit of financial statements and regularity of public sector bodies in the United Kingdom (Revised 2020) on the application of ISA (UK) 570 Going Concern to public sector entities. We assessed the reasonableness of the basis of preparation used by the Authority in the Pension Fund financial statements and the disclosures in the Pension Fund financial statements over the going concern period.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

In auditing the financial statements, we have concluded that the Chief Finance Officer's use of the going concern basis of accounting in the preparation of the Pension Fund financial statements is appropriate.

The responsibilities of the Chief Finance Officer with respect to going concern are described in the 'Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements' section of this report.

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C. Draft Audit opinion continued

Other information

The Chief Finance Officer is responsible for the other information. The other information comprises the information included in the Statement of Accounts and the Pension Fund Accounts Reporting Requirement, other than the Pension Fund's financial statements, our auditor's report thereon, and our auditor's report on the Authority's and group's financial statements. Our opinion on the Pension Fund's financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the Pension Fund's financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the Pension Fund's financial statements or our knowledge of the Pension Fund obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the Pension Fund financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of the other information, we are required to report that fact.

We have nothing to report in this regard.

Opinion on other matter required by the Code of Audit Practice (2020) published by the National Audit Office on behalf of the Comptroller and Auditor General (the Code of Audit Practice)

In our opinion, based on the work undertaken in the course of the audit of the Pension Fund's financial statements and our knowledge of the Pension Fund, the other information published together with the Pension Fund's financial statements in the Statement of Accounts and the Pension Fund Accounts Reporting Requirement for the financial year for which the financial statements are prepared is consistent with the Pension Fund financial statements.

Matters on which we are required to report by exception

Under the Code of Audit Practice, we are required to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make a written recommendation to the Authority under section 24 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application to the court for a declaration that an item of account is contrary to law under Section 28 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or;
- we issue an advisory notice under Section 29 of the Local Audit and Accountability Act 2014 in the course of, or at the conclusion of the audit; or
- we make an application for judicial review under Section 31 of the Local Audit and Accountability Act 2014, in the course of, or at the conclusion of the audit.

We have nothing to report in respect of the above matters in relation to the Pension Fund.

Responsibilities of the Authority, the Chief Finance Officer and Those Charged with Governance for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Authority is required to make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Chief Finance Officer. The Chief Finance Officer is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, for being satisfied that they give a true and fair view, and for such internal control as the Chief Finance Officer determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

In preparing the Pension Fund's financial statements, the Chief Finance Officer is responsible for assessing the Pension Fund's ability to continue as a going concern, disclosing, as applicable, matters related to going concern and using the going concern basis of accounting unless there is an intention by government that the services provided by the Pension Fund will no longer be provided.

The Audit and Governance Committee is Those Charged with Governance for the Pension Fund. Those charged with governance are responsible for overseeing the Authority's financial reporting process.

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at: www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Explanation as to what extent the audit was considered capable of detecting irregularities, including fraud

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Owing to the inherent limitations of an audit, there is an unavoidable risk that material misstatements in the financial statements may not be detected, even though the audit is properly planned and performed in accordance with the ISAs (UK).

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C. Draft Audit opinion continued

The extent to which our procedures are capable of detecting irregularities, including fraud is detailed below:

• We obtained an understanding of the legal and regulatory frameworks that are applicable to the Pension Fund and determined that the most significant ,which are directly relevant to specific assertions in the financial statements, are those related to the reporting frameworks (international accounting standards as interpreted and adapted by the CIPFA/LASAAC Code of practice on local authority accounting in the United Kingdom 2021/22, The Local Audit and Accountability Act 2014, the Accounts and Audit Regulations 2015, the Public Service Pensions Act 2013, The Local government Pension Scheme Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

• In addition, we concluded that there are certain significant laws and regulations that may have an effect on the determination of the amounts and disclosures in the financial statements and those laws and regulations.

• We enquired of senior officers and the Pension Fund Committee, concerning the Authority's policies and procedures relating to:

- the identification, evaluation and compliance with laws and regulations;

- the detection and response to the risks of fraud; and

- the establishment of internal controls to mitigate risks related to fraud or non-compliance with laws and regulations.

• We enquired of senior officers, internal audit and the Pension Fund Committee, whether they were aware of any instances of non-compliance with laws and regulations or whether they had any knowledge of actual, suspected or alleged fraud.

• We assessed the susceptibility of the Pension Fund's financial statements to material misstatement, including how fraud might occur, by evaluating officers' incentives and opportunities for manipulation of the financial statements. This included the evaluation of the risk of management override of controls. We determined that the principal risks were in relation to:

- Journals, in particular with regard to manual journals, posted after the year end date which have an impact on the Fund's financial position, as well as any journals made by infrequent posters or senior management personnel;

- The appropriateness of assumptions applied by management in determining significant accounting estimates, such as the valuation of level 2 and 3 investments as well as the valuation of directly held investment properties.

• Our audit procedures involved:

- evaluation of the design effectiveness of controls that the Chief Finance Officer has in place to prevent and detect fraud;

- journal entry testing, with a focus on manually posted journals which have a significant impact on the financial position, journals which were posted by infrequent or unusual users, journals posted after the year-end, and journals which are individually material, and any journals posted by senior financial reporting personnel;

- challenging assumptions and judgements made by management in its significant accounting estimates in respect of level 2 and 3 investments and directly held investment property;

- assessing the extent of compliance with the relevant laws and regulations as part of our procedures on the related financial statement item.

• These audit procedures were designed to provide reasonable assurance that the financial statements were free from fraud or error. The risk of not detecting a material misstatement due to fraud is higher than the risk of not detecting one resulting from error and detecting irregularities that result from fraud is inherently more difficult than detecting those that result from error, as fraud may involve collusion, deliberate concealment, forgery or intentional misrepresentations. Also, the further removed non-compliance with laws and regulations is from events and transactions reflected in the financial statements, the less likely we would become aware of it.

• The team communications in respect of potential non-compliance with relevant laws and regulations, including the potential for fraud in revenue and expenditure recognition, and the significant accounting estimates related to the valuation of level 2 and 3 investments and directly held investment property.

• Our assessment of the appropriateness of the collective competence and capabilities of the engagement team included consideration of the engagement team's.

- understanding of, and practical experience with audit engagements of a similar nature and complexity through appropriate training and participation

- knowledge of the local government pensions sector

- understanding of the legal and regulatory requirements specific to the Pension Fund including:

- the provisions of the applicable legislation

- guidance issued by CIPFA, LASAAC and SOLACE

- the applicable statutory provisions.

• In assessing the potential risks of material misstatement, we obtained an understanding of:

- the Pension Fund's operations, including the nature of its income and expenditure and its services and of its objectives and strategies to understand the classes of transactions, account balances, expected financial statement disclosures and business risks that may result in risks of material misstatement.

- the Authority's control environment, including the policies and procedures implemented by the Authority to ensure compliance with the requirements of the financial reporting framework.

Use of our report

This report is made solely to the members of the Authority, as a body, in accordance with Part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 43 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the Authority's members those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the Authority and the Authority's members as a body, for our audit work, for this report, or for the opinions we have formed.

Signature and name and date to be added, Key Audit Partner

for and on behalf of Grant Thornton UK LLP, Local Auditor, London

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Report to:	**Pension Committee**
Date of meeting:	**30 November 2022**
By:	**Chief Finance Officer**
Title:	**Training Report**
Purpose:	**To provide an update on training needs, opportunities undertaken and planned events**

RECOMMENDATIONS

The Pension Committee is recommended to:

1) **Note the outcome of the self-assessment knowledge and skills survey**
2) **Note the training made available in the past year**
3) **Note the type of events planned for the year ahead**
4) **Identify areas Committee members would like training on as a priority**

1. Background

1.1 This report is brought to the Pension Committee to provide an update on the outcome of the knowledge and skills survey, provide details of training undertaken by members of the Pension Board and Committee. It also outlines training plans for the year ahead.

2. Knowledge and understanding levels

2.1 Members of the Pension Board have a legal duty to develop and maintain appropriate knowledge and understanding of pension matters to fulfil their role. Whilst this duty does not extend to members of the Pension Committee it has previously been accepted that as decision makers, Committee members should have an equivalent level of knowledge. This is in line with accepted best practice in the industry.

2.2 On 10 August 2022 members of the Pension Board and Pension Committee were invited to complete a self-assessment of their knowledge and understanding of pension matters. This self-assessment was based on the guidance provided by CIPFA and The Pensions Regulator and is an expectation for all Board and Committee members to complete as set out in the training strategy.

2.3 At the time of writing, responses have been received from two of the six Pension Board members plus the independent Chair and four of the five Pension Committee members.

2.4 The completed questionnaires are used by Officers to assess the training needs of both the Board and Committee as a whole and individual members. As such, it is instrumental in helping define subjects that should be covered by bespoke events, outside of those made available through third party organisations. Where responses are not received this leads to a risk that training needs may not be identified, potentially causing members of the Pension Board to not meet their legal obligation to have the required level of knowledge and understanding to fulfil their role or for Pension Committee members to make effective decision making based on a understanding of the subject matter.

2.5 Overall, members of the Pension Committee that were in post during 2021/2022 have indicated an improvement in their understanding of administration and communication matters. There has also been an improvement in relation to governance.

2.6 Members of the Pension Board have shown an improvement in their knowledge of the LGPS Regulations, but feel understanding of guidance provided by non-statutory bodies has decreased.

3. Training undertaken in the past year

3.1 In the past year members of the Pension Board and Pension Committee have been offered training opportunities covering a range of topics such the science behind climate change, the ACCESS investment pool, TPR's forthcoming Single Modular Code and the pensions landscape.

3.2 The training opportunities made available to Pension Board and Committee members have ranged from in-house training, such as a presentation on Pension Fund Accounts; guest presentations, such as a presentation by the Fund Actuary on the assumptions made during the triennial valuation; and external events, for example the PLSA's Local Authority Conference.

4. Training plans for the year ahead

4.1 Based on the findings of this year's training needs assessment, Officers intend to source training in the following areas, subject to any developing need to cover other topics:

- Employer and Administering Authority Discretions
- Cyber security
- Admissions and cessations
- The boundaries of investment decision making and requirements around taking advice
- Procurement
- MiFID II

4.2 In addition to the areas listed above, Officers will monitor the market for pertinent training opportunities and notify members of both the Pension Board and Committee on a monthly basis of relevant events.

4.3 Pension Committee members are reminded that if they have a particular training need where additional support would be of assistance they can contact the Training Co-Ordinator to discuss the options available to them.

Conclusion and Recommendations

5.1 The Pension Committee is recommended to:

- Note the outcome of the self-assessment knowledge and skills survey
- Note the training made available in the past year
- Note the type of events planned for the year ahead
- Identify areas Board members would like training on as a priority

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 of meeting: **30 November 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 review and note the Pension Fund Risk Register.

---

1. Background

1.1 Risk management is the practice of identifying, analysing and controlling in the most effective manner all threats to the achievement of the strategic objectives and operational activities of the Pension 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 At the Pension Committee meeting in June 2022 the format of the Fund's risk register was discussed and it was agreed that officers would review the current layout and consider alignment with the new the format used by the ESCC Audit Committee, with the aim to improve readability whilst not losing important information required for effective oversight.

3.2 The revised format allows for an effective audit trail showing where risks previously identified have been removed from the register and when the risk rating changes over time. It is of note that where a risk remains but is no longer included on the risk register, this does not mean that no consideration will be given to that risk by Officers.

3.3 Officers have revised the risk scoring for risk A3, the Production of Statutory Returns. This is because the Fund has had significant challenges obtaining correct, usable data from some employers to produce Annual Benefit Statements and Annual Allowance Pension Saving Statements leading to a reportable breach. Further information is available in the Breaches report in the exempt section of this meeting.

3.4 Officers have revised risk G6, Fraud, down from a likelihood of 3 to 2, this has resulted from this risk rising in probability in June 2022 due to the delay in contract negotiations for mortality and address tracing services. This contract is now in place and work is progressing to identify mortality, reducing this increased risk of fraud.

3.5 In its meeting of 15 November 2022, the Pension Board asked for risk E2, Employer data, to be uplifted. This is to represent that the data quality provided by one of the major scheme employers has caused significant challenges for the Fund. The Board has also asked that risk G2, Committee/Board member risk, be rated as a more significant risk due to the potential changes to the membership of the Board in the coming months. These changes have been made.

3.6 At the Pension Board meeting there was also some discussion as to whether risk I2 is still required. This risk had been added previously at the request of the Pension Committee. The Committee's comments on whether it would like this risk to remain are therefore being sought.

3.7 Other minor changes have been made to update the mitigating actions.

4. Conclusion

4.1 The Pension Committee is recommended to review and note the Pension Fund Risk Register.

4.2 The Pension Committee is asked whether it would still like the Changes to International Trade to be recorded on the register.

IAN GUTSELL
Chief Finance Officer

Contact Officer: Sian Kunert, Head of Pensions
Email: Sian.Kunert@EastSussex.gov.uk

Summary Post Mitigation Risk scores

Reference	Strategic Risk	Feb-22	Jun-22	Sep-22	Nov-22	Change from June
Employer						
E1	**Contributions Funding** Failure to collect contributions from employers in line with Funding strategy requirements and Rates and Adjustment Certificate	4	4	4	4	↔
E2	**Employer data** Employers fail to provide accurate and timely data to the PAT team	9	9	9	12	↑
E3	**Employer Covenat** Delay in employers agreeing Admission Agreement, risk of insufficient security	4	4	4	4	↔
Administration						
A1	**Pensions service Delivery** Inadequate delivery of Pensions Administration	6	6	6	6	↔
A2	**Regulatory Change** Risk that new benefit structures can not be set up correctly or in time	6	6	6	6	↔
A3	**Production of Statutory member returns** Risk of failure to produce ABS, annual allowance and event reports	6	6	10	10	↑
A5	**Transfer Scams** Failure to comply with CETV anti scam checks	2	2	2	2	↔
A7	**MBOS Project** Failure to deleiver the new ERP system to efectively deliver for Pension Fund accounting and payroll requirements	3	3	3	3	↔
Governance						
G1	**Key Person risk** Risk of loss of key / senior staff resulting in lost knowledge and skills with in the Pensions Team	4	4	4	4	↔
G2	**Committee / Board Member** Lack of decision making caused by loss of Pension Committee/Pension Board members or insufficient knowledge and skills of members	6	6	6	9	↑
G3	**Cyber Security** Risk of Loss of data or systems breaches through cyber attacks	8	8	8	8	↔
G4	**Governance and Compliance** Inadequate governance arrangements and controls to discharge powers & duties	3	3	3	3	↔
G5	**Data Breach** Failure to comply with General Data Protection Regulations	4	4	4	4	↔
G6	**Fraud** Internal and Externl fraud risk	3	6	6	4	↓
Investment/Funding						
I1	**Funding risk - poor investment returns** Risk that investment strategy fails to result in performance required to meet the needs of the Funding strategy discount rate	4	4	4	4	↔
I2	**Changes to International Trade** The changing of Regulations and International Trading relationships along with the trading environment, impact on investments in affected businesses	4	4	4	4	↔
I3	**Regulatory risk** Failure to comply with regulations, legislation and guidance from an accounting and investment perspective	2	2	2	2	↔
I4	**Investment Pooling** Inability to comply with government direction on pooling, insuficient subfunds to impliment investment strategy, poor management of the pool	6	6	6	6	↔
I5	**Funding risk - higher inflation** Risk of inflation leading to increased liabilities, lower asset returns and a funding gap	2	6	6	6	↔
I6	**Environmental, Social and Governance** Risk of EGS factors within Investment strategy, underlying holdings and implementations of investment decisions	4	4	4	4	↔
I7	**Climate change** Risk to assets and liabilities associated with Climate Change	4	4	4	4	↔
I8	**Liquidity** Insufficient cash to pay benefits as they fall due	4	4	4	4	↔

Ref	Strategic Risks	Pre-mitigation RAG	Risk Control / Response	Post-mitigation RAG	Risk Owner
Employer Risk					
E1	Contributions Funding Failure to collect contributions from employers in line with Funding strategy requirements and Rates and Adjustment Certificate	9	•Monthly Employer contribution monitoring completed •Monitoring of late payments by Employer engagement team to address breaches for late payment. Chasers are sent out during the lead up to the deadline to prompt employers providing information and payment on time •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 •Administration strategy in place from January 2021 clearly outlining ability to charge employers for late payment, late receipt of remittance advice or poor quality of data. Late payment charges are now being administered as a deterrent and to cover the impact on the Fund for late payment •Implementation of I-Connect is improving the quality of contribution data received to better aid reconciliation of payments and drill in the accuracy of employers' contribution payments, however functionality is still being improved by the software provided •Report produced for Pensions Board meetings to highlight any late payment of contributions and Employer engagement actions from February 2021 •Covenant review undertaken helps identify employers most likely to have financial difficulties. Engagement with those posing most risk is ongoing •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 polished and issued to all employers •Contribution deferral policy approved by Committee in June 2020 •Employer engagement team are confirming the correct signatories for contribution submissions to ensure they are signed off at an appropriate management level •Regular communication with Employers through Employer engagement team	4	Head of Pensions
E2	Employer data Employers fail to provide accurate and timely data to the PAT team	12	•Administration Strategy approved in operation from January 2021 after consultation with employers •Employing authorities are contacted for outstanding/accurate information •User Guide and Training provided to Employers for outsourcing implications with LGPS •Regular communication and meeting with administration services regarding service updates and additional data, when required •Employer engagement team established from January 2021 to support employers 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 look at Data Improvement as part of BAU and is a regular item on the Administration working group. Data is also cleansed where appropriate as part of other projects •Introduction of I-Connect system will limit employer ability to submit incorrect data. Data is received monthly rather than annually to allow for regular cleansing and discussion with employers •Meetings held between senior pensions Management team and employers where there are current or historic data concerns •As part of the lead into the 2022 triennial valuation data cleansing and challenge is being conducted by the Actuary with PAT to ensure the integrity of data Further Red level risk responses - This risk is currently ranked as a red risk due to recent failure by one large employer to provide data to the Fund. A plan has been proposed with the employer to resolve the data issues and produce statutiry returns for effected members. S151 has met with the employers CFO to address and the Fund will help the employer over the coming months. The employer has been reported to the regulator. The Fund will work closly with other employers and in particular with large employer iconnect onboarding the engagement and i-connect team will be able to manage expectations based on knoweldge of how bad the data matching can be and programme required to resolve	12	Head of Pensions

E3	Employer Covenat Delay in employers agreeing Admission Agreement, risk of insufficient security	6	•Full suite of admisison agreements in place to ensure the Fund can provide comprehensive admission agreements at the outset of negotiations in line with the risk sharing arangements agreed with the letting employer. New templates have been developed for pooling rate. Fixed rate template and Bond template in place. These templates are shared with the employers early in the process to speed up the agreeing of new admission agreements •The Fund will consider 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 is comprehensive and enforceable. However, the functionality is not yet sufficient to make the processes easier for letting employers and contractors •Guide to outsourcing is publicly available and distributed to all employers with coverage in both Employer forum in November 2020 and 2021. This guide directs employers of all the activities and considerations they need to take on any outsourcing arrangement with TUPE staff implications •Officers meet regularly to review status and movement on each in progress admission and an update is provided at team meetings monthly to ensure the admission is complete and effective at all stages •A new data flow and process map has been written to ensure officers request and communicate all the required information in a timely manner and on execution of the agreements data is required in line with the Administration strategy •Admissions in progress are reported quarterly to Board and Committee to ensure awareness of status	4	Head of Pensions
Administration					
A1	Pensions service Delivery Inadequate delivery of Pensions Administration	9	•The PAT team is an in-house provision since December 2020 and enables the management team to have complete control over service delivery •Annual internal audit report on the administration of pensions including regular reporting and monitoring of "red" recommendations to ensure the service is acting in line with best practice. The Fund has received reasonable assurance since bring inhouse •Quarterly Reports to Pension Board and Committee on areas of work and KPIs •New service level KPI's now reportable within the Administration software •Awareness of the Pension Regulator Guidance by all team members, with training provided at team meetings or through provision of courses •Task workflow is managed by the Senior Pension Officers to all PAT staff and helpdesk add all tasks to the workflow system, to ensure all tasks completed as planned and to a high standard. PAT staff also add tasks as appropriate. •Checklists in place and all activity impacting members recorded on member records for other teams members to access •All tasks are peer reviewed. Constant monitoring / checking by team managers and senior officers for more junior staff members •In house risk logs covering projects •SAP / Altair reconciliation monthly to ensure pension payment records complete and correct •Task management systems built into Altair to ensure activity is completed and monitored •Pension meetings held monthly to include S151, COO, IT and Business Admin to ensure other ESCC services are working effectively to ensure the Pensions team can work effectively •Pensions Admin working group in place to discuss service delivery issues on a regular basis	6	Head of Pensions Administration
A2	Regulatory Change Risk that new benefit structures can not be set up correctly or in time	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 upcoming changes in regulation •Reports to Pension Board and Committee to ensure knowledge is shared to decision makers •Oversight via Pension Admin Working Group	6	Head of Pensions Administration

A3	Production of Statutory member returns Risk of failure to produce ABS, annual allowance and event reports	15	•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 throughout the year. Currently many leavers are not being notified until year-end. This will also cleanse data relating to Annual Allowance •Structure of Pensions team includes Employer Engagement team to support Pensions Administration Team 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 Further Red level risk responses - This risk is currently ranked as a red risk due to recent breaches in this area due to failure from one employer to provide data to the Fund. A plan has been proposed with the employer to resolve the data issues and produce statutiry returns for effected members. S151 has met with the employers CFO to address and the Fund will help the employer over the coming months. The employer has been reported to the regulator.	10	Head of Pensions Administration
A5	Transfer Scams Failure to comply with CETV anti scam checks	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 •Process mapping process has taken place to ensure transfers are fully documented with clear guidance to staff in carrying out this activity •Member informed of "red flags" identified •Scorpion campaign material provided to members seeking a CETV •Quality assurance checks ensure appropriate checks carried out	2	Head of Pensions Administration
A7	MBOS Project Failure to deleiver the new ERP system to efectively deliver for Pension Fund accounting and payroll requirements	6	•Officers are part of the project roll out and involved in testing. Needs of the Pension Fund are therefore being considered •Officers produced process mapping for all functions within the existing finance system •A specific stream of planning has been identified in the project for the interface with Altair •S151 officer on the programme board •Heywoods paid to produce a scheme specific payroll data output report for transfer to Oracle	3	Head of Pensions
Governance					
G1	Key Person risk Risk of loss of key / senior staff resulting in lost knowledge and skills with in the Pensions Team	12	•Diversified staff / team •Attendance at pension officers' user groups to network and exchange information •Procedural notes which include 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 •Training officer post within team structure since 2021 •Training strategy in place and regularly reviewed with training log where required •Recruitment ongoing to provide cover for key people	4	Head of Pensions / Head of Pensions Administration
G2	Committee / Board Member Lack of decision making caused by loss of Pension Committee/Pension Board members or insufficient knowledge and skills of members	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 cycles •Training plans in place for new members	9	Head of Pensions

G3	Cyber Security Risk of Loss of data or systems breaches through cyber attacks	16	• ICT defence - in-depth approach. • Utilising firewalls, passwords and ICT control procedures including system access and account deletion protocols. Network activity is monitored to identify security threats. • Email and content scanners • Using anti-malware which is regularly updated, together with other protective software • 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 in development • Engagement with ICT to understand and receive reports on monitoring for successful cyber attacks. Cyber training is provided to all staff around techniques and methods used to launch cyber attacks	8	Head of Pensions
G4	Governance and Compliance Inadequate governance arrangements and controls to discharge powers & duties	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, including Governance and Compliance areas •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 •Review carried out against TPR COP14 requirements to identify any governance gaps •Specialist legal advisers and governance advisers to provide clear and accurate advice to the Fund on point of law or regulation •Publication of annual Governance and Compliance Statement explaining governance arrangements and reviewed and approved by Board / Committee •Training coordinator appointed. This officer liaises with chair of Pension Board and Committee to identify training needs	3	Head of Pensions
G5	Data Breach Failure to comply with General Data Protection Regulations	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 and April 2022 •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 were completed •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	4	Head of Pensions
G6	Fraud Internal and Externl fraud risk	12	•Quarterly review of log in credentials •Senior officers have sight of bank account •Senior officers are signatories to bank account •Multiple sign off needed to make payment •Mortality checks, Tell us once and NFI data •Contract in place with a third party to support with mortality and address training	4	Head of Pensions

Investment/Funding					
I1	Funding risk - poor investment returns Risk that investment strategy fails to result in performance required to meet the needs of the Funding strategy discount rate	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. Officers have a rolling programme to meet and challenge investment managers •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 to 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 •All investment decisions made, based on proper advice •Diversified strategy to reduce correlation of manager volatility •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	4	Head of Pensions
I2	Changes to International Trade The changing of Regulations and International Trading relationships along with the trading environment, impact on investments in affected businesses	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	4	Head of Pensions
I3	Regulatory risk Failure to comply with regulations, legislation and guidance from an accounting and investment perspective	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 •Specialist legal advisers to provide clear and accurate advice to the Fund on point of law or regulation •Breaches policy in place to ensure breaches mapped and reported	2	Head of Pensions
I4	Investment Pooling Inability to comply with government direction on pooling, insuficient subfunds to impliment investment strategy, poor management of the pool	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	6	Head of Pensions

I5	Funding risk - higher inflation Risk of inflation leading to increased liabilities, lower asset returns and a funding gap	12	•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 •Flexibility in the DGF mandates to react to the market and adapt the investment portfolio •Report received in Feb 22 on inflation possibilities with possible actions to take int eh medium term. To be considered as part of the strategy review day •Quarterly monitoring of funding position helps identify risk early •2022 Triennial Valutaion currently underway - inflation models used to extimte the average inflation across a 20 year time horizon, including consideration of the current high inflation environment	6	Head of Pensions
I6	Environmental, Social and Governance Risk of EGS factors within Investment strategy, underlying holdings and implementations of investment decisions	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 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 •2020 Stewardship code submission in process •Membership of collaborative groups to help drive policy change •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	4	Head of Pensions

I7	Climate change Risk to assets and liabilities associated with Climate Change	12	•Statement of Responsible Investment Principles (SIRP) outlines investment beliefs including Climate Risk. The Fund take the SRIP into account for implementation of decisions and monitoring of investment managers, carbon emissions and climate risk to the Fund •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 removed structural exposure to fossil fuel companies to avoid high risk companies from ac climate perspective •The Fund are able to exploit opportunities form the low energy transition by investing in climate impact funds and resource efficient companies •The Fund has trimmed unconscious exposure to companies with high Carbon emission, poor energy transition plans and or fossil fuel companies, through removal of traditional index funds •Member of Institutional Investors group on climate change (IIGCC), the Fund also expects its managers to be IIGCC members •The Fund carries out annual carbon foot printing to better understand the carbon exposure and energy transition plans within the portfolio. Additionally, the Fund carries out ESG impact assessment of all investment managers which includes a climate score. •Signatory to UN PRI with first planned submission in 2023 (as no 2022 submission window) •Commitment to report TCFD's with a first attempt published in the 2021 Annual Report •The Fund has planned for climate scenario modelling which will help better understand this risk and allow further consider approaches in tackling these risks •Where exposed to fossil fuels, the Fund uses its vote to drive engagement and improved practices. 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 •Focus on Climate change through training to committee and officers •Focus on Climate Change in decision making and strategy changes •Immaterial impact to the Fund value from direct exposure to fossil fuel companies in the instance of carbon taxes, valuation falls or stranded assets due to the underweight very low exposure to this sector.	4	Head of Pensions
I8	Liquidity Insufficient cash to pay benefits as they fall due	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 •Cash Management strategy to be compled in 2022/23 •Cash Management internal audit planned for Q3 2022/23	4	Head of Pensions

Risk Register Risk Scores

The risk scores are calculated using the risk matrix below:

90-100%	This week	Very High	LIKELIHOOD	5	5	10	15	20
60-90%	This Month	High		4	4	8	12	16
40-60%	This year	Medium		3	3	6	9	12
10-40%	Next 5 years	Low		2	2	4	6	8
0-10%	Next 10 years	Very Low		1	1	2	3	4
					1	2	3	4
					IMPACT			

	Negligable No noticeable impact	Minor Minor impact, Some degradation of service	Major Significant impact, disruption to core services	Critical Disastrous impact, Catastrophic failure
SERVICE DELIVERY	Handled within normal day-today routines.	Management action required to overcome short-term difficulties.	Key targets missed. Some services compromised.	Prolonged interruption to core service. Failure of key Strategic Project
FINANCAL	Little loss anticipated.	Some costs incurred. Handled within management responsibilities.	Significant costs incurred. Service level budgets exceeded.	Severe costs incurred. Statutory intervention triggered.
REPUTATION	Little or no publicity. Little staff comments.	Limited local publicity. Mainly within local government community. Causes staff concern.	Local media interest. Comment from external inspection agencies. Noticeable impact on public opinion.	National media interest seriously affecting public opinion

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Report to:	**Pension Committee**
Date:	**30 November 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 report**
2) **approve the rebalancing policy;**

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 and the forward investment plan. 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 main focus over the next 12 months is ongoing review into and undertaking of ESG analysis for the Fund, implementation of remaining investment strategy changes not yet implemented and a review of the strategic asset allocation once the triennial valuation is complete.

2.3 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 2023.The timeline being set by PRI is as follows:

- The 2023 Reporting Framework will launch in January. The framework will contain full details of all the reporting criteria for the 2023 season.
- The 2023 reporting cycle itself will open in mid-May and will close in mid-August.

- All 2023 reporting outputs, including both Transparency and Assessment Reports, will be available in November.

3. Quarterly Performance Report

3.1 The Quarterly Performance Report for Q2 2022 and Q3 2022 are attached as Appendix 2 and 3. Since the last reported position, the valuation of the Fund has decreased from £4.7bn as at 31 March 2022 to £4.50bn as at 30 September 2022 (a decrease of £0.2bn). This is a small partial recovery from the unreported 30 June 2022 value of £4.49bn. This performance reflects a negative absolute return of 4.0% in the quarter to June and a positive absolute return of 0.2% in the quarter to September. The Fund marginally outperformed the benchmark in both periods.

3.2 Over the quarter to 30 June, the Fund's assets delivered a negative return of -4.0% over the quarter, marginally outperforming the benchmark by 0.2%. Performance across the Fund's mandates was predominantly negative with public equity and fixed income markets, in particular, falling in value.

3.3 The Fund's private equity mandates delivered strong returns, with any potential write downs in valuations lagging those of public markets. The real asset mandates broadly performed well, given their private market nature and inherent inflation linkage.

3.4 The equity portfolio was the largest detractor from returns. Sustainable funds have continued to be adversely affected by limited exposure to the energy sector and a 'growth' stock bias, with the style lagging as a result of the rising rate environment.

3.5 Over the quarter to 30 September the Fund's assets delivered a positive return of -0.2% over the quarter, marginally outperforming the benchmark by 0.1%. Performance across the Funds mandates was predominantly positive with equity and infrastructure increasing in value. However Fixed Income markets generally performed negatively in a challenging market with volatility in interest rates.

3.6 Despite negative returns over recent quarters, longer term returns at the Fund level remain strong.

4. UK Stewardship Code Submission

4.1 The Financial Reporting Council (FRC) revised its UK Stewardship code in 2020 this version requires the Fund to produce a report which demonstrates how the Fund meets the 12 principles within the code over a 12-month period. The principles are divided into four categories;

- purpose and governance,
- investment approach,
- engagement, and
- exercising rights and responsibilities.

4.2 The FRC requires the Fund to both describe how it implements these principles but also demonstrating the outcomes from these. The Fund has been working to provide its stewardship report for the year to December 2021 which was submitted to the FRC by the 31 October 2022 for assessment. The Fund's submitted report is included as **Appendix 4**.

4.3 The FRC will be assessing all the submissions provided by the 31 October 2022 deadline; the FRC will read in full all reports and consider the responses against the reporting expectations proportional to each organisations size and type. Both successful and unsuccessful applicants will receive feedback where their reporting against the Code could be improved. The Fund anticipate a response from the FRC in February about our submission.

5. Market Volatility

5.1 During the period since the last report there was a large amount of volatility most notably during and after the fiscal statement on 23 September 2022, by the then Chancellor, Kwasi Kwarteng. In response to this the investment implementation working group identified a potential to de-risk the Fund by investing in gilts which had moved substantially, however there were some impediments to the Fund being able to execute any trade to benefit from this opportunity. These impediments comprised of:

- These investments were outside the Fund's revised Investment Strategy Statement
- These investments were outside the Fund's implementation plan.
- These investments were outside the Fund's rebalancing policy
- The structure of the Fund's passive arrangement with UBS requires the Fund to get a deed of variation approved from the East Sussex County Council legal department to vary the arrangement to make these investments available.

5.2 To enable the Fund to be able to take advantage of these events if they happen again. The Committee is asked to agree an amended rebalancing policy, included in **Appendix 5**, which explicitly includes the provision for the Chief Finance Officer (CFO) to have the discretion to invest 5% of the Fund outside of the ISS, the implementation plan and approved rebalancing ranges. The policy stipulates this would have to be done in consultation with the Investment Implementation Working Group and any use of this discretion would be reported to the Committee at the next available opportunity and would also require the Fund to review its investment strategy. This amendment is in addition to the CFO's existing power to "*To take action or decide any other Pension Fund related matter on behalf of the Administering Authority in special or emergency situations, in consultation with the Chair of the Pension Committee, including but not limited to where delay in the purchase or sale of investments might be detrimental to the interests of the East Sussex Pension Fund."*

6. ACCESS Update

6.1 Since December 2016 the East Sussex Pension Fund has been working with 10 other administering authorities through the investment pooling arrangement called ACCESS. On the 30 September 2022 there was £21.6bn invested in the authorised contractual scheme (ACS) with a further £9.2bn invested in the UBS passive ACCESS governance arrangements. East Sussex had a total of £2.4bn in ACCESS governed investments, £2.1bn across six ACS sub-funds and a further £0.3bn through the UBS passive arrangement.

6.2 The formal joint committee scheduled for the 12 September was postponed following the death of Her Majesty Queen Elizabeth II and met virtually on the 6 October 2022. No

decisions were made with updates provided on progress on the business plan and developments within ACCESS. The next JC will take place on the 5 December 2022.

7. Conclusion and reasons for recommendation

7.1 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.

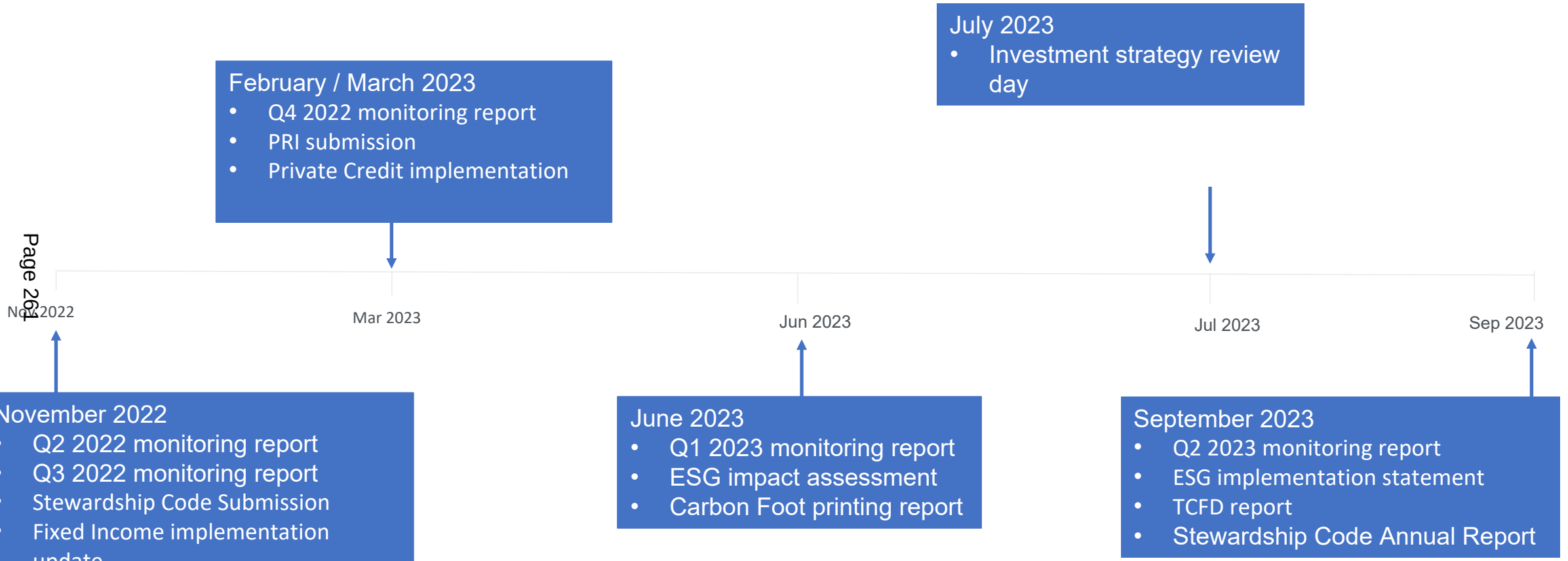
IAN GUTSELL
Chief Finance Officer

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



East Sussex Pension Fund

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East Sussex Pension Fund

Investment Performance
Quarter to 30 June 2022

Isio Investment Advisory



Document Classification: Confidential

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Wellington Sustainable Equity

Storebrand Sustainable Equity

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Adams Street Private Equity

Newton Absolute Return

Ruffer Absolute Return

Schroders Property

UBS Infrastructure

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UBS – Over 5 Year Index-linked Gilts

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Appendix 1: Market Background: Global Equity, Absolute Return, Real Assets, Credit & Yields

Appendix 2: Explanation of Market Background

Appendix 3; How to Read the Fund Manager Pages

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Highlights

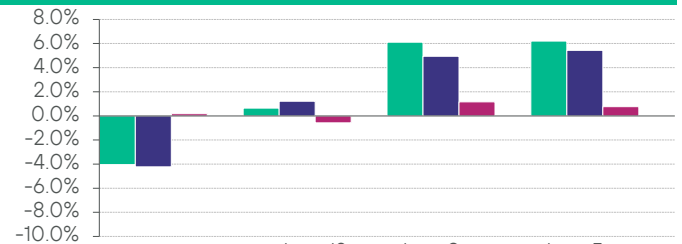
Executive Summary – 30 June 2022

Access Pool	Fund	Q2 2022 Performance			Value at quarter end	
		Fund	Benchmark	Relative	31-Mar-22	30-Jun-22
No	UBS Osmosis – Sustainable Equity	-9.1%	-9.1%	+0.1%	£238.2m	£216.6m
Yes	Longview - Global Equity	-4.8%	-9.1%	+4.3%	£525.7m	£500.3m
No	WHEB – Sustainable Equity	-13.0%	-9.1%	-3.9%	£230.1m	£200.1m
No	Wellington – Sustainable Equity	-13.2%	-8.6%	-4.6%	£238.2m	£206.9m
No	Storebrand – Sustainable Equity	-9.0%	-9.1%	+0.2%	£510.3m	£464.5m
Yes	Baillie Gifford – Global Equity	-11.7%	-8.6%	-3.1%	£197.4m	£174.3m
No	Harbourvest – Private Equity [1,2]	14.6%	-8.2%	+22.7%	£167.7m	£193.0m
No	Adams Street – Private Equity [1,2]	4.3%	-8.2%	+12.5%	£206.0m	£211.1m
Yes	Newton – Absolute Return	-1.7%	0.9%	-2.6%	£498.4m	£489.9m
Yes	Ruffer - Absolute Return	-4.1%	0.9%	-5.0%	£537.9m	£515.7m
No	Schroders – Property	5.3%	3.9%	+1.4%	£406.2m	£424.4m
No	UBS – Infrastructure [2]	7.5%	4.5%	+3.0%	£35.8m	£34.7m
No	Pantheon – Infrastructure [2]	8.4%	4.5%	+3.9%	£62.4m	£69.5m
No	M&G – Infrastructure [2]	-1.7%	4.5%	-6.2%	£42.4m	£41.8m
No	ATLAS - Listed Infrastructure	-0.1%	0.7%	-0.8%	£96.0m	£95.9m
No	M&G – Real Estate Debt [2]	-1.3%	1.3%	-2.6%	£39.7m	£39.3m
Yes	M&G – Diversified Credit	-0.7%	0.3%	-1.0%	£287.7m	£285.6m
Yes	M&G - Corporate Bonds	-11.2%	-11.1%	-0.1%	£148.9m	£132.1m
Yes	UBS - Over 5 Year Index-linked Gilts	-19.9%	-19.8%	-0.1%	£135.0m	£108.1m
	Total Assets	**-4.0%**	**-4.2%**	**0.2%**	**£4,682m**	**£4,492m**

The Fund's assets delivered a negative return of -4.0% over the quarter, marginally outperforming the benchmark by 0.2%.

Performance across the Fund's mandates was predominantly negative with public equity and fixed income markets, in particular, falling in value.

Period returns – to 30 June 2022



	Q2 2022	Last 12 months	Last 3 years (p.a.)	Last 5 years (p.a.)
Scheme Return	-4.0%	0.6%	6.1%	6.2%
Benchmark Return	-4.2%	1.2%	5.0%	5.4%
Relative	0.2%	-0.6%	1.2%	0.8%
Sample 60:40 Portfolio	-7.7%	-6.2%	4.2%	5.6%

Commentary

- The Fund's assets delivered a negative absolute return of -4.0% over the quarter, outperforming the benchmark by 0.2%. Performance divergence persisted across mandates, with rising short term inflation and long-dated interest rates putting pressure on the valuations of a number of asset classes.
- The Fund's private equity mandates delivered strong returns, with any potential write-downs in valuations lagging those of public markets. The real asset mandates broadly performed well, given their private market nature and inherent inflation linkage.
- The equity portfolio was the largest detractor from returns. Sustainable funds have continued to be adversely affected by limited exposure to the energy sector and a 'growth' stock bias, with the style lagging as a result of the rising rate environment.
- Despite negative returns over recent quarters, longer term returns at Fund level remain strong, with equity markets adding significant value over the last decade.

Note: Sample 60:40 portfolio consists of 60% allocation to MSCI ACWI and a 40% allocation to a bond portfolio split 20% in BofA Merrill Lynch Global Corporate Index, and 10% in FTSE Gilts (all maturities) and FTSE Index Linked Gilts (all maturities) respectively, with all portfolio returns unhedged in GBP terms.

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 30 June 2022. Fund Total value includes cash held with Northern Trust. [1] Valuation and performance information as at 31 March 2022. [2] Valuations shown are either 3m or 6m lagged and adjusted for distributions / drawdowns and currency movements.

Source: Investment Managers, Northern Trust, Isio calculations.

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Manager Performance – 30 June 2022

Fund	Q2 2022 Performance			1 Year Performance			3 Year Performance			5 Year performance		
	Fund	Objective	Relative	Fund	Objective	Relative	Fund	Objective	Relative	Fund	Objective	Relative
UBS Osmosis – Sustainable Equity	-9.1%	-9.1%	+0.1%	-	-	-	-	-	-	-	-	-
Longview - Global Equity	-4.8%	-9.1%	+4.3%	3.0%	-2.6%	+5.5%	7.3%	8.7%	-1.4%	8.1%	8.9%	-0.8%
WHEB - Sustainable Equity	-13.0%	-9.1%	-3.9%	-15.6%	-2.6%	-13.0%	-	-	-	-	-	-
Wellington – Sustainable Equity	-13.2%	-8.6%	-4.6%	-14.8%	-4.2%	-10.6%	-	-	-	-	-	-
Storebrand – Sustainable Equity	-9.0%	-9.1%	+0.2%	-5.0%	-2.6%	-2.4%	-	-	-	-	-	-
Baillie Gifford – Global Equity	-11.7%	-8.6%	-3.1%	-	-	-	-	-	-	-	-	-
Harbourvest – Private Equity[1]	14.6%	-8.2%	+22.7%	41.7%	-2.8%	+44.5%	31.5%	9.3%	+22.2%	25.1%	9.6%	+15.5%
Adams Street – Private Equity[1]	4.3%	-8.2%	+12.5%	45.3%	-2.8%	+48.1%	31.4%	9.3%	+22.1%	25.6%	9.6%	+16.1%
Newton – Absolute Return	-1.7%	0.9%	-2.6%	-2.9%	3.0%	-5.9%	3.1%	3.0%	+0.1%	3.5%	2.5%	+1.0%
Baillie Gifford - Absolute Return	-4.1%	0.9%	-5.0%	1.0%	3.0%	-2.0%	9.3%	3.0%	+6.3%	5.6%	2.5%	+3.0%
Schroders – Property	5.3%	3.9%	+1.4%	22.4%	23.3%	-0.9%	8.6%	9.2%	-0.6%	7.9%	8.1%	-0.2%
UBS – Infrastructure	7.5%	4.5%	+3.0%	16.1%	11.5%	+4.6%	-1.5%	6.1%	-7.7%	0.8%	4.4%	-3.6%
Pantheon – Infrastructure[1]	8.4%	4.5%	+3.9%	23.6%	11.5%	+12.1%	10.8%	6.1%	+4.7%	-	-	-
M&G – Infrastructure	-1.7%	4.5%	-6.2%	3.7%	11.5%	-7.8%	5.4%	6.1%	-0.8%	-	-	-
ATLAS – Listed Infrastructure	-0.1%	0.7%	-0.8%	21.6%	19.4%	+2.3%	-	-	-	-	-	-
M&G – Real Estate Debt	-1.3%	1.3%	-2.6%	3.2%	4.5%	-1.3%	2.7%	4.5%	-1.8%	-	-	-
M&G – Diversified Credit	-0.7%	0.3%	-1.0%	-1.9%	3.5%	-5.4%	3.6%	3.5%	+0.1%	3.0%	2.9%	+0.0%
M&G - Corporate Bonds	-11.2%	-11.1%	-0.1%	-18.7%	-19.3%	+0.6%	-2.6%	-3.6%	+0.9%	0.2%	-0.6%	+0.8%
UBS - Over 5 Year Index-linked Gilts	-19.9%	-19.8%	-0.1%	-19.2%	-19.1%	-0.1%	-4.7%	-4.7%	-0.0%	-	-	-
Total Assets	**-4.0%**	**-4.2%**	**0.2%**	**0.6%**	**1.2%**	**-0.6%**	**6.1%**	**5.0%**	**1.2%**	**6.2%**	**5.4%**	**0.8%**

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 30 June 2022.
[1] Valuation and performance information as at 31 March 2022.
Source: Investment Managers, Northern Trust, Isio calculations.

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

The public equity mandates have broadly struggled to add value relative to their benchmarks over the last year, with the 'growth' style bias of the specialist sustainable managers driving underperformance.

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

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Looking Forward

Key issues		
Item	Action points / Considerations	Status
Overall Investment Strategy	**Infrastructure Equity Implementation** • Following the Committee's agreement at the Q1 2022 Committee meeting, to appoint IFM to manage the Fund's Infrastructure Equity mandate, the Fund has successfully onboarded and is now in the queue awaiting deployment of capital. IFM estimated time to deployment to be in the region of 6-12 months from the end of Q2 2022. **Liquid Fixed Income Manager Selection** • At the Q1 2022 Committee meeting, Isio presented a paper detailing the proposed implementation approach for selection of the manager(s) to manage the agreed increased allocation to fixed income. The Committee agreed to the proposed approach, and subsequently Isio prepared a manager selection briefing paper, with the officers meeting a shortlist of managers for further due diligence at a manager selection day. The Officers have now reached agreement on a preferred choice of manager and are deo to present this to the Committee for consideration at the Q3 meeting. **Illiquid Fixed Income Allocation** • The Officers and IWG group have requested Isio considered the options available to the Fund in relation to implementing the strategic allocation to illiquid fixed income. Isio will proved more detail on this in due course. **Reduction of Schroders Property Allocation** • Following the investment strategy implementation review at the Q1 Committee meeting, the Committee agreed to reduce the allocation to the Schroders Property Fund by 4% of Fund assets (c. £100m) in the short term and allocate this amount to Index-Linked Gilts until such a time it could be allocated to a longer term holding in inflation-linked property. This decision was reflective of increasing concerns around elevated inflation in the near term. Discussions are currently ongoing with Schroders around the most suitable approach in order to trim the allocation.	
Investment Managers	• 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 to provide on an ongoing basis. As a next step UBS are due to propose the additional information they are able to provide and arrange a call with Officers to discuss this. • Over the quarter we received notification from Schroders that Patrick Bone has resigned from Schroder Capital Real Estate Solutions team and will be leaving the business at the end of September. Patrick was a Fund Manager in the Real Estate Solutions Team and had been at Schroders for 15 years. He was a key figure in the business. Although this does not directly effect the East Sussex serrated mandate held with Schroder (which is managed by Naomi Green) we view this as a significant change. We are investigating this further and will provide additional detail and out views shortly.	

Summary

This page sets out the main action / discussion points.

Status key

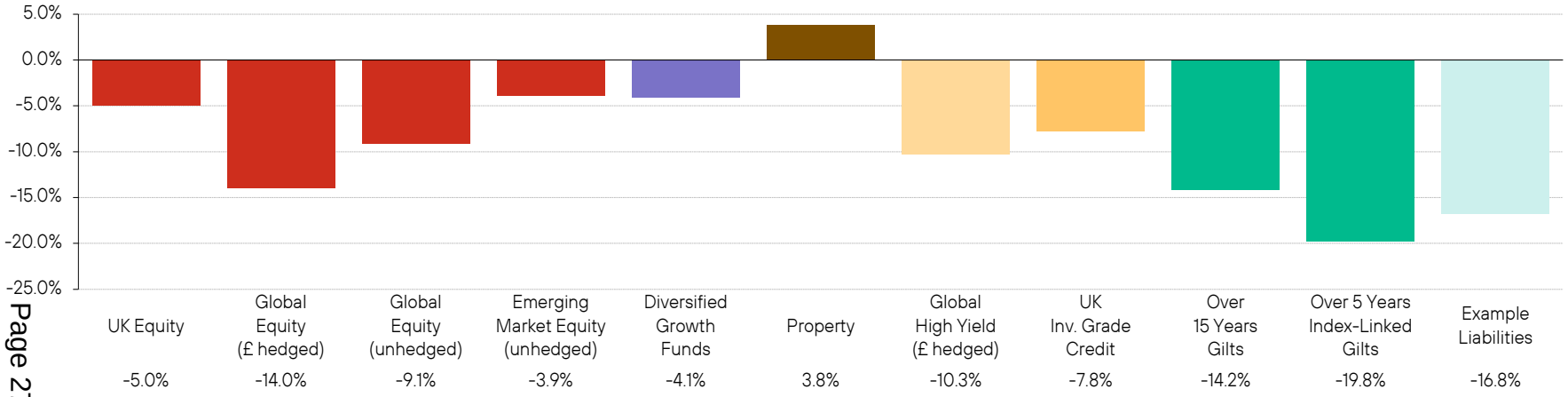
- Action
- Decision
- Discussion
- Information only

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Market Background

Market Background – Overview Q2 2022

Returns by Asset Class – Q2 2022



Key Upcoming Events

- The dates for the Bank of England's Monetary Policy Committee (MPC) announcements in Q3 2022 are 4 August and 15 September.
- The dates for the US Federal Reserve's Federal Open Market Committee (FOMC) announcements in Q3 2022 are 27 July and 21 September.

Commentary

- Most growth assets, including equities, fell significantly over the quarter amidst rising global recessionary fears due to persisting high inflation, a more restrictive stance from central banks seeking to tackle inflation, and continued geopolitical concerns.
- Assets that provided the strongest returns in recent years continued to see the largest drawdowns, including US equities and growth orientated stocks. Value oriented stocks, regional UK, and Emerging Market equities saw more modest falls in value.
- Global bond markets experienced further sell offs over the quarter, with rising government bond yields, coupled with widening credit spreads, resulting in weak performance across both investment grade and high yield markets.
- Nominal UK Gilt yields rose markedly over the period, as the market priced in a further acceleration in central bank policy rate rises. Real yields increased further over the period following a fall in longer term inflation expectations as the market began to price in the firmer stance from central banks against inflation.

Summary

High inflation and rising interest rates dominated the majority of global markets over the period, with further headwinds coming from the war in Ukraine and continued supply chain issues.

Commodity, energy and food price rises added to upward inflationary pressures. As a consequence, central banks increased the pace of interest rate rises over the period, with the key question for investors being whether these actions will lead to recessions as monetary policies are tightened.

The Bank of England increased its policy rate to 1.25% by the end of the period as CPI rose above 9% p.a.

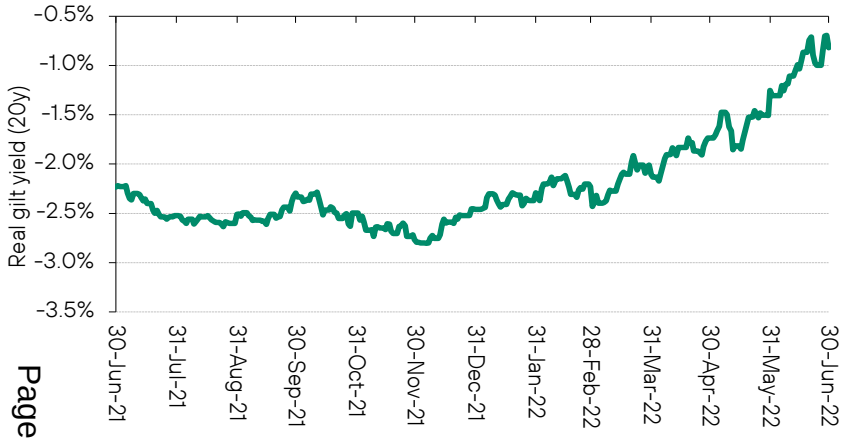
The US dollar strengthened significantly relative to other major currencies over the period,

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

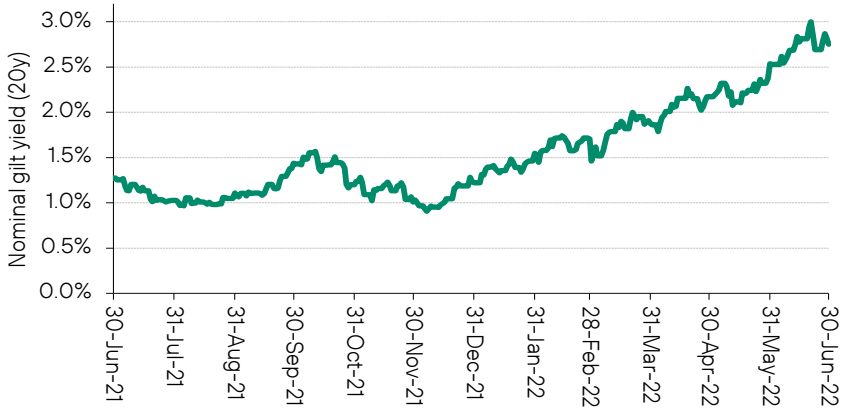
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Market Background – Yields

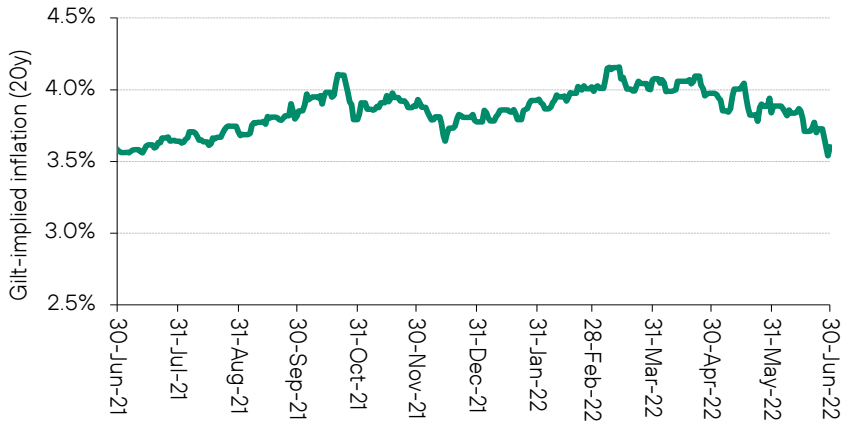
Real Gilt Yields – Last 12 months



Nominal Gilt Yields – Last 12 months



Gilt-Implied Inflation – Last 12 months



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

The "Example Liabilities" indicate how a typical scheme's past-service liabilities may have moved.

Gilt Yield and Implied Inflation Changes

20-year Real Gilt Yield	
April	0.37%
May	0.48%
June	0.43%
Quarter	**1.28%**

20-year Nominal Gilt Yield	
April	0.30%
May	0.36%
June	0.22%
Quarter	**0.88%**

20-year Gilt-Implied Inflation	
April	-0.09%
May	-0.14%
June	-0.23%
Quarter	**-0.46%**

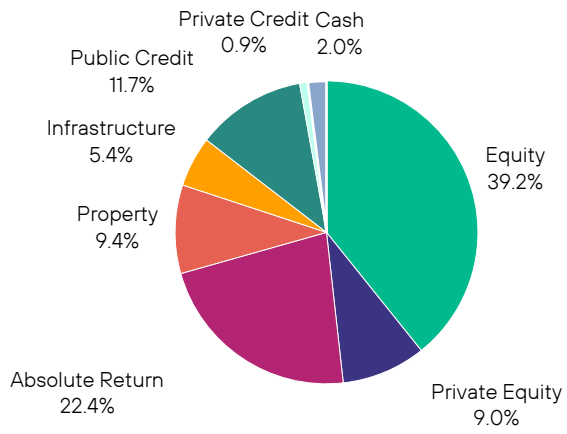
Note: Please see Appendix 2 for details of the example liabilities. Monthly yield changes may not sum to quarterly changes, due to rounding.
Source: Bank of England, Isio calculations.

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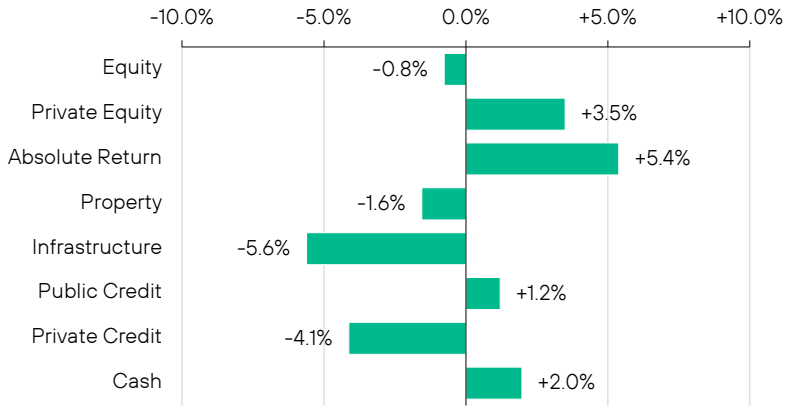
Strategy Overview

Asset Allocation – at 30 June 2022

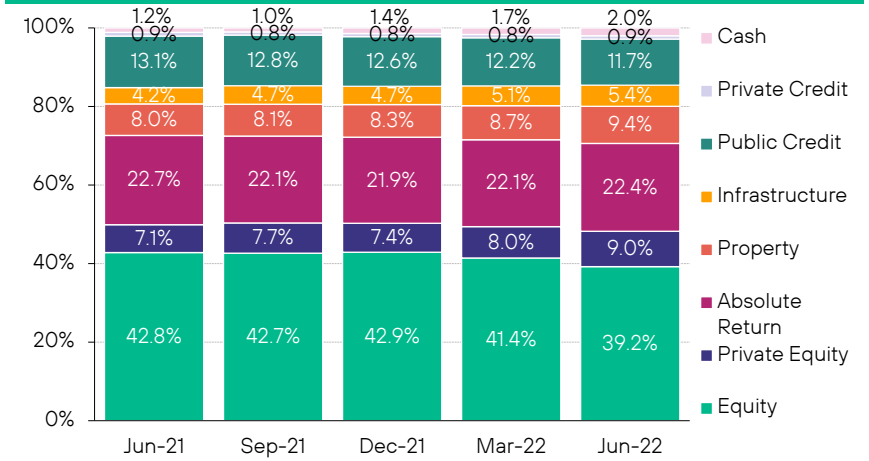
Asset Allocation – 30 June 2022



Assets Relative to Benchmark – 30 June 2022



Asset Allocation Changes Since 30 June 2021



Commentary

- As at June 2022, the Fund's asset allocation remained off-benchmark relative to the revised strategy agreed in July 2021 and ratified in July 2022.
- The Absolute Return allocation is materially overweight, while the property, infrastructure and private credit allocations remain underweight.
- Private equity is also overweight, following strong performance over the medium term, relative to other growth asset classes.
- The allocations will be brought more closely in line with the strategic benchmark as the new mandates are agreed and implemented over the year.

Summary

As at June 2022, the Fund's asset allocation was off-benchmark following strategic changes to the Fund's asset allocation agreed by the Committee but 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.

Total Assets

Start of quarter	£4,682m
End of quarter	£4,492m

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%

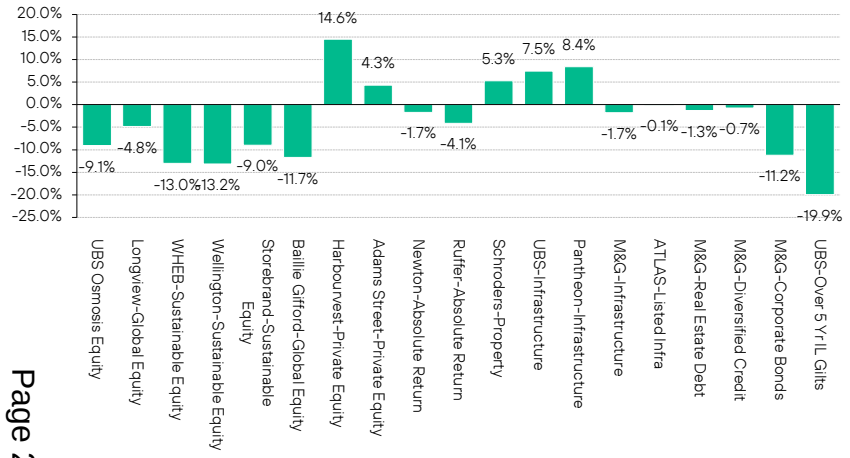
Note: Totals may not sum due to rounding.
Source: Investment managers, Isio calculations.

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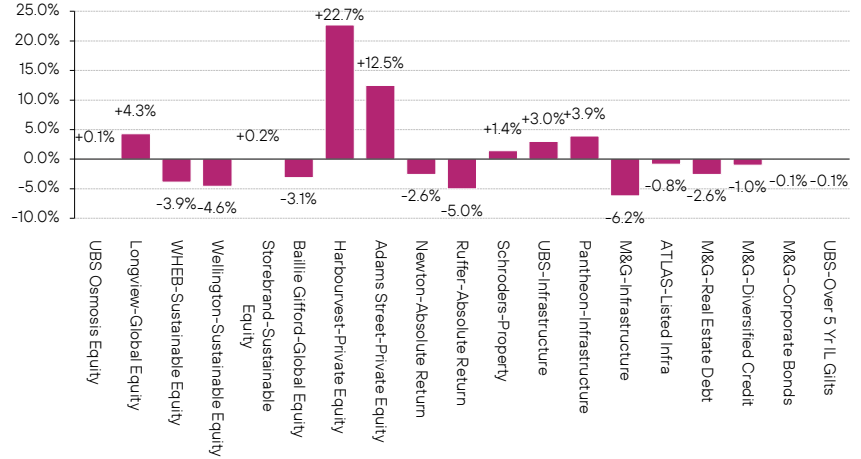
Investment Managers

Performance Summary – to 30 June 2022

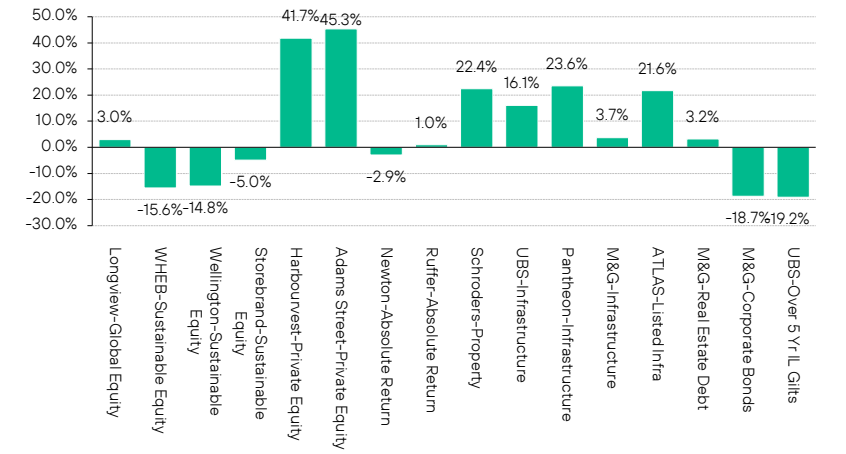
Absolute Return – Q2 2022



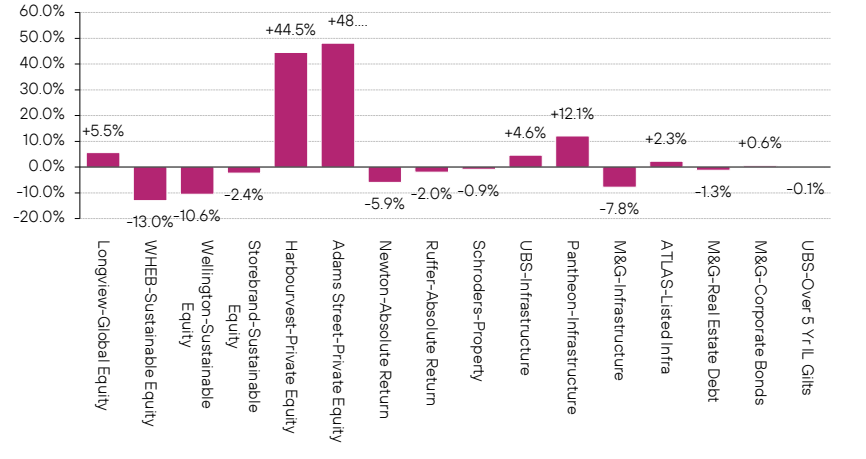
Relative Return – Q2 2022



Absolute Return – 12 months



Relative Return – 12 months



Summary

The Fund's mandates delivered mixed absolute performance over Q2, with sustainable equity mandates and index-linked gilts delivering the most notable negative returns, as long-dated yields rose significantly.

The Fund's private equity and real asset mandates continued to post strong absolute returns over Q2.

Relative performance has been mixed over the short and medium term, with the sustainable equity funds struggling to keep pace with their respective benchmarks. This is in line with the broader sustainable fund universe, which has been hampered by tilts towards the 'growth' style of investing, which has been out of favour amongst investors over the last year.

The private equity mandates held with Adams Street and Harbourvest remain the stand out absolute and relative performers over the 12 month period.

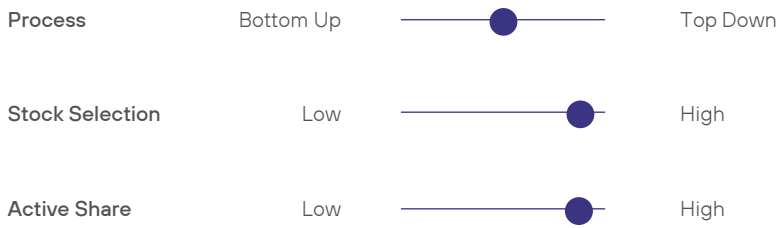
Note: Returns net of fees. 12 month relative and absolute returns are not available for the UBS Osmosis, Baillie Gifford and M&G Diversified Credit mandates as they were incepted post 30 June 2021.
Source: Investment Managers, Northern Trust, Isio calculations.

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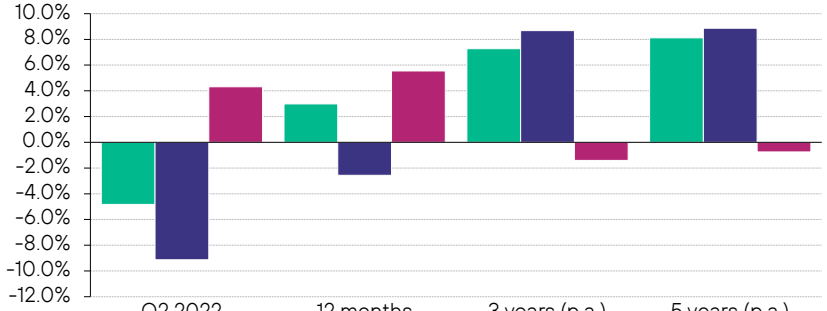
Longview - Global Equity

Overview

The strategy utilises a bottom-up approach to invest in 30-35 high quality global companies which have strong business fundamentals and a market capitalisation greater than $5 billion.



Performance to 30 June 2022



	Q2 2022	12 months	3 years (p.a.)	5 years (p.a.)
Return	-4.8%	3.0%	7.3%	8.1%
Benchmark	-9.1%	-2.6%	8.7%	8.9%
Relative	+4.3%	+5.5%	-1.4%	-0.8%

Mandate: Active Global Equities

Current Value: £500.3m

Current Weighting: 11.1%

Inception: April 2013

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

Benchmark: MSCI ACWI

Pooled: Via Access Pool

Key area	Comments
Key contributors/ detractors	• High quality, defensive firms drove relative outperformance given equity market weakness – in line with expectations given the portfolio's non-cyclical characteristics • Sanofi (+0.8%), a pharmaceutical firm, delivered positive absolute performance, benefitting from strong financial results and the sector's defensive characteristics
Portfolio positioning	• 2 new additions and 4 complete sales • Microsoft and Moody's were purchased, based on strong underlying profitability and market positions • Arrow Electronics and Frontdoor were sold based on liquidity considerations
Outlook	• Longview remain comfortable with the focus on quality names, noting that the current bear market presents a number of opportunities for long term investors

Metrics	Current Quarter	Last Quarter	View/change
Stocks (no.)	32	33	In line with expectations
12m turnover	21%	20%	In line with expectation
Active share	91%	95%	No major developments
Top 3 sectors	Health Care (26%), Financials (21%), IT (16%)		
Top 3 stocks	IQVIA (4%), AON (4%), Marsh & McLennan (4%)		
Top 3 regions	US (82%), UK (8%), Netherlands (6%)		

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

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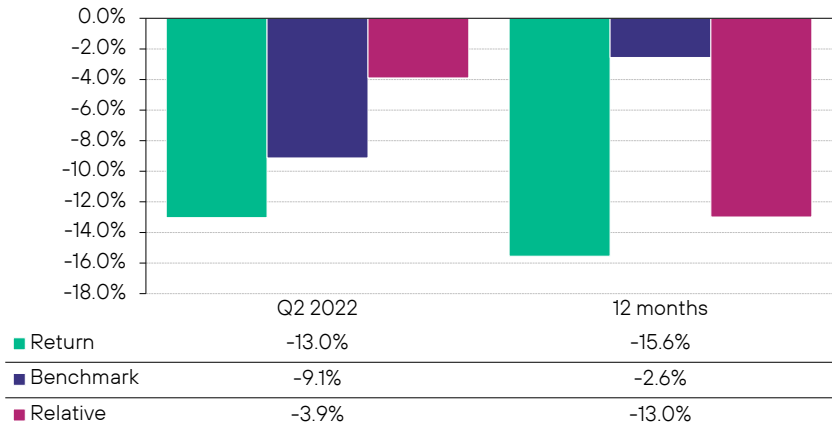
WHEB – Sustainable Equity

Overview

The Fund utilises an unconstrained global equity approach which focuses on investing in companies capitalising on opportunities created by the transition to healthy, low carbon and sustainable economies, across nine broad sustainability themes.

Process	Bottom Up	Top Down
Stock Selection	Low	High
Active Share	Low	High

Performance to 30 June 2022



	Q2 2022	12 months
Return	-13.0%	-15.6%
Benchmark	-9.1%	-2.6%
Relative	-3.9%	-13.0%

Mandate: ESG focused Global Equity

Current Value: £200.1m

Current Weighting: 4.5%

Inception: December 2020

Benchmark: MSCI World Total Return Net GBP

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

Pooled: No

Key area	Comments
Key contributors/ detractors	• Bias toward growth companies continued to detract given value style outperformance; overweight exposure to smaller firms also weighed on returns – in line with expectations given the Fund's philosophy & process • Resource Efficiency and Wellbeing themes were the largest detractors from returns • Education theme was only positive contributor
Portfolio positioning	• No new additions and 1 complete sale • LHC Group sold from Health theme after announcement of its acquisition by United Health at a c. 8% premium
Outlook	• WHEB expect heightened volatility to persist given the uncertain macroeconomic and geopolitical backdrop, however maintain conviction in their long-term approach

Metrics	Current Quarter	Last Quarter	View/change
Stocks (no.)	43	44	In line with expected range
12m turnover	14%	17%	Low, in line with fund's process
Active share	97%	98%	No major developments
Top 3 sectors	Health Care (30%), Industrials (27%), IT (25%)		
Top 3 stocks	Danaher (3%), CSL (3%), Thermo Fisher (3%)		
Top 3 regions	North America (62%), Western Europe (19%), Japan (9%)		

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

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Wellington – Sustainable Equity

Overview

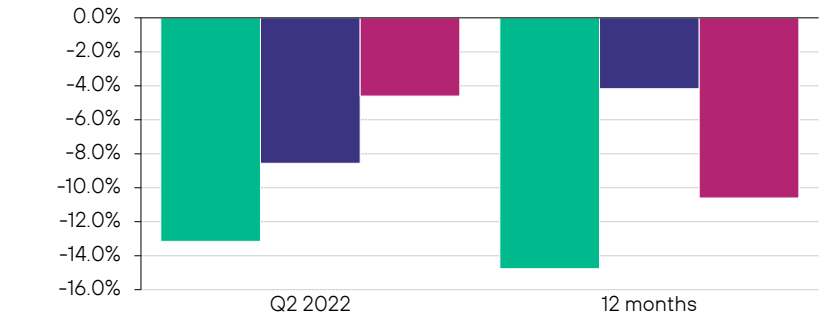
The Fund aims to invest in innovative companies whose core products and services addresses the world's major social and environmental challenges. Wellington choose stocks from the universe list which has been derived from a number of sources such as internal and field research, company meetings, conferences or third party research.

Process	Bottom Up	Top Down
Stock Selection	Low	High
Active Share	Low	High

Key area	Comments
Key contributors/ detractors	• Over the long term, we expect the Fund's stock selection to outperform but this was negative during the quarter due to the impacts of market volatility on growth stocks. • The other structural biases of the fund (high beta, underweight energy and small size bias) also detracted.
Portfolio positioning	• Portfolio turnover was low, with the team adding one new position and eliminating three. While this is in line with the Fund philosophy, turnover could rise over the medium term, in response to changing fundamentals and valuations.
Outlook	• Wellington are focused on assessing the impact of inflation and supply chain issues. They are cognisant of short term volatility but are focused on their long investment horizon. • We will monitor the evolution of underlying portfolio fundamentals closely.

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

Performance to 30 June 2022



	Q2 2022	12 months
Return	-13.2%	-14.8%
Benchmark	-8.6%	-4.2%
Relative	-4.6%	-10.6%

Metrics	Current Quarter	Last Quarter	View/change
Stocks (no.)	66	68	In line with expectations
12m turnover	22%	24%	In line with expectations
Active share	99%	98%	In line with expectations
Top 3 sectors	Industrials (22%), Healthcare (20%), IT (17%)		
Top 3 stocks	Boston Scientific (3%), Danaher (3%), Sun Communities (3%)		
Top 3 regions	North America (63%), Europe ex UK (16%), Emerging Markets (15%)		

Mandate: Global Impact Equities

Current Value: £206.9m

Current Weighting: 4.6%

Inception: December 2020

Benchmark: MSCI AC World

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

Pooled: No

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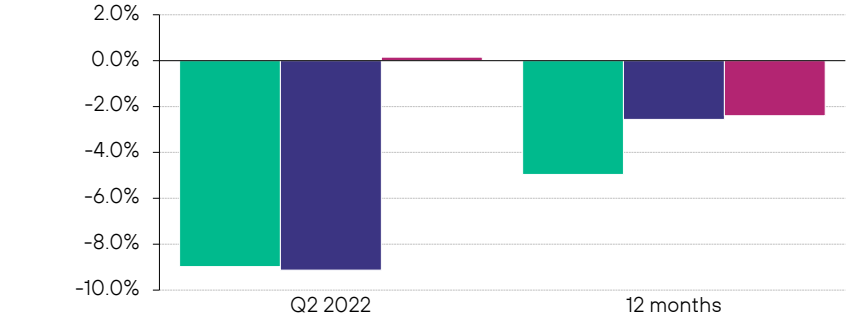
Storebrand – Sustainable Equity

Overview

The Fund adopts an optimised, smart beta approach, investing in global equities with the aim of approximating the performance and risk profile of the index, with an explicit incorporation of ESG and climate-related risks.

Process	Bottom Up	Top Down
Stock Selection	Low	High
Active Share	Low	High

Performance to 30 June 2022



	Q2 2022	12 months
Return	-9.0%	-5.0%
Benchmark	-9.1%	-2.6%
Relative	+0.2%	-2.4%

Key area	Comments
Key contributors/ detractors	• Relative performance was broadly flat (as is expected), with the negative impact of lack of fossil fuel exposure broadly offset by positive contribution from climate solutions firms. • Exclusion of controversial weapons and tobacco also weighed on relative returns over Q2.
Portfolio positioning	• External ESG screens from ISS Ethix and Sustainalytics have been removed (based on view that they are no longer aligned with strategy's objectives). This has driven an increase in the size of the investment universe, and a reduction in the tracking error budget.
Outlook	• Allocation to climate solutions increased from 10% to 12% as result of increased investment universe.

Metrics	Current Quarter	Last Quarter	View/change
Stocks (no.)	685	744	Reduced given portfolio activity
12m turnover	17%	29%	Reduction over period
Active share	43%	42%	No major developments
Top 3 sectors	IT (24%), Health Care (14%), Industrials (13%)		
Top 3 stocks	Apple (5%), Microsoft (4%), Amazon (2%)		
Top 3 regions	United States (67%), Japan (7%), UK (4%)		

Mandate: ESG Focused Global Equities

Current Value: £464.5m

Current Weighting: 10.3%

Inception: December 2020

Benchmark: MSCI World NR

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

Pooled: No

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

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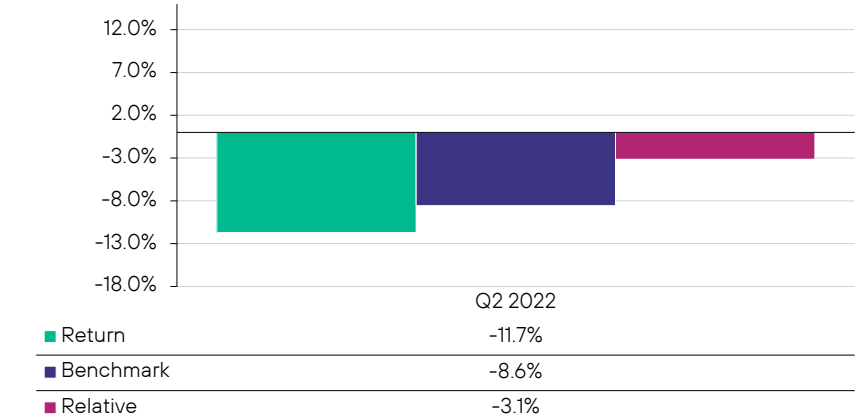
Baillie Gifford – Global Equity

Overview

The Fund utilises an unconstrained global equity approach which focuses on investing in companies displaying above average earnings growth and sustainable competitive advantages in their respective industries, whilst aligning to the UN Paris Agreement climate commitments.

Process	Bottom Up	Top Down
Stock Selection	Low	High
Active Share	Low	High

Performance to 30 June 2022



Key area	Comments
Key contributors/ detractors	• Growth stocks underperformed over the quarter as investor confidence remains low following uncertainty around rising interest rates, inflation and supply chain issues.
Portfolio positioning	• One new purchase* (Royalty Pharma) and five complete sales (KE Holdings, Naspers, Peloton, Teladoc, Tencent). • Sales in the portfolio largely relate to companies which benefited from the height of the pandemic and have since weakened. Additional sales came from the continued uncertainty around China's potential regulatory impacts.
Outlook	• BG remain confident that the portfolio is operationally robust despite current macroeconomic challenges. • Recent market weakness is enabling BG to source a wider range of investable opportunities, but they note that they remain disciplined in terms of capital deployment.

Metrics	Current Quarter	Last Quarter	View/change
Stocks (no.)	89	97	-8
12m turnover	16%	17%	In line with expectation
Active share	86%	85%	No developments
Top 3 sectors	Consumer Disc. (20%), Financials (19%), Healthcare (18%)		
Top 3 stocks	Elevance Health (5%), Prosus (4%), Microsoft (4%)		
Top 3 regions	North America (61%), Europe ex UK (16%), Emerging Markets (11%)		

Mandate: Global Equities

Current Value: £174.3m

Current Weighting: 3.9%

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

Notable Developments

The Fund switched it's holding from the Global Alpha Fund to the Paris Aligned Version during the quarter.

Note: Totals may not sum due to rounding. Performance quoted net of fees. The Fund switched into the Paris-aligned version of the Global Alpha Fund over Q2 2022 and performance is combined.
Source: Investment manager, Northern Trust, Isio calculations.

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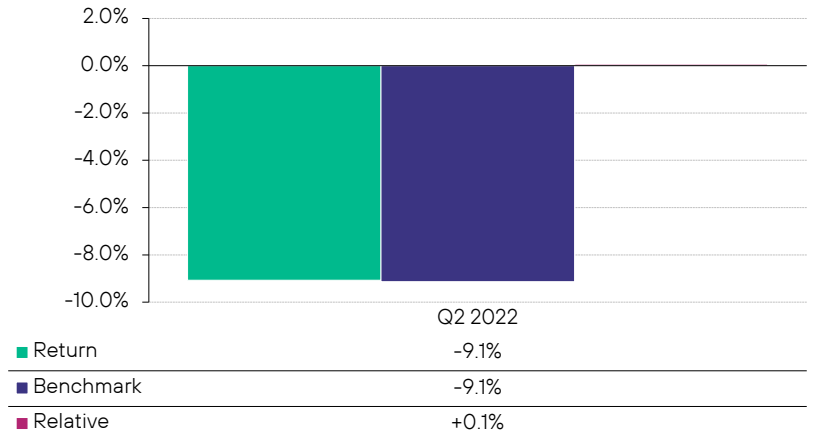
UBS / Osmosis – Sustainable Equity

Overview

The Fund adopts an optimised, smart beta approach, investing in global equities with the aim of approximating the performance and risk profile of the index, with an explicit incorporation of ESG and climate-related risks.

Process	Bottom Up	Top Down
Stock Selection	Low	High
Active Share	Low	High

Performance to 30 June 2022



Key area	Comments
Key contributors/ detractors	• USA stock selection effect (+0.4%) • Exposure to tech firms such as Apple and Twilio detracted, with growth style out of favour relative to defensive sectors • Magnitude of relative performance in line with expectations given low active risk of Fund process
Portfolio positioning	• Boliden (materials) was added, with an active weight of +0.2%; Nestle and PPL both sold during the quarter, having both previously having had positive active weights • The Fund remains broadly style and sector neutral relative to benchmark (other than Fossil Fuels exclusion)
Outlook	• Osmosis remain comfortable with the positioning of the portfolio, and confident in the long term prospects for the resource efficiency alpha signal

Metrics	Current Quarter	Last Quarter	View/change
Stocks (no.)	569	652	Large change, but in line with quant process
12m turnover	24%	24%	Remained broadly constant
Active share	47%	44%	Low, in line with expectations
Top 3 sectors	IT (23%), Health Care (16%), Financials (13%)		
Top 3 stocks	Apple (6%), Microsoft (4%), UnitedHealth Group (2%)		
Top 3 regions	United States (69%), Japan (6%), UK (4%)		

Mandate: ESG Focused Global Equities

Current Value: £216.6m

Current Weighting: 4.8%

Inception: March 2022

Benchmark: MSCI World NR

Objective: Achieve superior risk-adjusted returns by targeting maximum resource efficiency exposure while maintaining a tight tracking error to the MSCI World.

Pooled: No

Note: Totals may not sum due to rounding. Performance quoted net of fees. Performance shown since inception of the Fund's investment on 3 March 2022.
Source: Investment manager, Northern Trust, Isio calculations.

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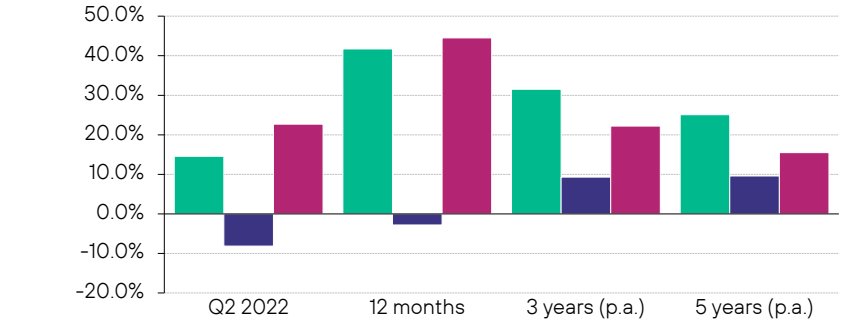
Harbourvest – Private Equity

Overview

HarbourVest manage a global private equity portfolio for the Fund, invested globally across a range of subclasses (buyout, venture, debt/credit, among others).

Style	Multiple: Buyout, venture, credit
Stage	Multiple: Primary, secondary
Access	Fund-of-Funds
Vintage Year	Multiple: 2004-2021
Regional Focus	Global

Performance to 30 June 2022



	Q2 2022	12 months	3 years (p.a.)	5 years (p.a.)
Return	14.6%	41.7%	31.5%	25.1%
Benchmark	-8.2%	-2.8%	9.3%	9.6%
Relative	+22.7%	+44.5%	+22.2%	+15.5%

Mandate: Private Equity

Current Value: £193.0m

Current Weighting: 4.3%

Inception: January 2003

Benchmark: MSCI World +1.5%

Objective: MSCI World +3.0%

Pooled: No

Key area	Comments (3 month lagged)
Performance	• Gains during the quarter were primarily driven by Fund XI Combined • We have not yet seen the public market equity sell-off feed into private equity valuations, which are often to delayed in adjusting to macro factors; albeit the exit market has seen signs of slowdown
Developments over quarter	• Several funds distributed proceeds back to investors during Q1, with the most sizeable distributions coming from Fund IX Buyout and HIPEP VI Partnership
Outlook	• HarbourVest have not provided specific outlook for the portfolio. However we believe that broad private equity markets may begin to see write-downs in valuations (and thus return compression) over the coming months.

Metrics (3m lag)	Current Quarter	Last Quarter	View/change
IRR (net)	11.8%	12.2%	As expected
Capital Deployed/Raised	61%	59%	Slight increase
DPI	1.0x	1.0x	No change
TVPI	1.9x	1.9x	No change
Top 3 subclasses	Venture (54%), Buyout (44%), Credit (1%)		
Top 3 regions	North America (59%), Europe (23%), Asia (15%)		

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

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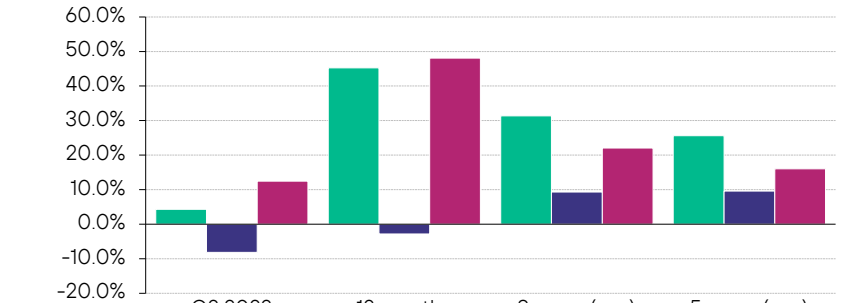
Adams Street – Private Equity

Overview

Adams Street manage a global private equity portfolio for the Fund, combining Partnerships and Co-investments, invested globally across a range of subclasses (buyout, venture, energy, debt/credit, among others).

Style	Multiple: Buyout, venture, debt
Stage	Multiple: Primary, secondary, co-investment
Access	Fund-of-Funds
Vintage Year	Multiple: 2003-2019
Regional Focus	Global

Performance to 30 June 2022



	Q2 2022	12 months	3 years (p.a.)	5 years (p.a.)
Return	4.3%	45.3%	31.4%	25.6%
Benchmark	-8.2%	-2.8%	9.3%	9.6%
Relative	+12.5%	+48.1%	+22.1%	+16.1%

Mandate: Private Equity

Current Value: £211.1m

Current Weighting: 4.7%

Inception: March 2003

Benchmark: MSCI World +1.5%

Objective: MSCI World +3.0%

Pooled: No

Key area	Comments (3 month lagged)
Performance	• Majority of funds experienced a small reduction in IRR and multiples over the quarter – this could continue over the short to medium term as private equity valuations partially catch-up with those in the public markets
Developments over quarter	• No significant changes over the quarter • c. $8.6m in distributions, spread across vintages • c. $3.0m capital called into newer vintages (2018 & 2019)
Outlook	• Adams Street highlight that private markets generally adjust more slowly and modestly relative to public markets during periods of valuation compression; while they also expect the demand for private equity deals to create a floor for pricing above that of public companies

Metrics (3m lag)	Current Quarter	Last Quarter	View/change
IRR (net)	12.9%	13.2%	As expected
Capital Deployed/Raised	74%	75%	As expected
DPI	1.1x	1.1x	Unchanged in Q1
TVPI	2.0x	2.1x	Reduction in Q1
Top 3 subclasses (Partnerships)	Venture (49%), Buyout (45%), Other (5%)		
Top 3 regions (Partnerships)	United States (65%), Western Europe (21%), Asia (11%)		

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

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Newton – Absolute Return

Overview

The Fund aims to generate returns by investing in a wide universe of global securities. The Fund allocates between return seeking, and risk reducing positions, dynamically changing asset allocations over time in order to add value. The primary aim is to deliver positive risk adjusted returns in all market economic environments.

Target Return	Low		High
Return Drivers	Market beta		Active management
Diversification	Low		High

Performance to 30 June 2022



	Q2 2022	12 months	3 years (p.a.)	5 years (p.a.)
Return	-1.7%	-2.9%	3.1%	3.5%
Benchmark	0.9%	3.0%	3.0%	2.5%
Relative	-2.6%	-5.9%	+0.1%	+1.0%

Key area	Comments
Key contributors/ detractors	• Return-seeking assets such as equities and credit were the largest detractors as a result of market volatility. However, some alternative assets experienced positive returns, thereby slightly reducing the impact. Government bonds appeared to be ineffective as a stabilising asset, but direct equity index protection and high exposure to US dollar were successful in protecting against market risks.
Portfolio positioning	• Due to the high inflationary market, the team reduced the allocation to growth equities such as Amazon and Microsoft whilst increasing short future positions to protect the portfolio against market volatility.
Outlook	• Newton have taken a more defensive position given that recession is a concern, but will continue to identify opportunities to protect against any future volatility.

Metrics	Current Quarter	Last Quarter	View/change
Correlation to equity (1 year)	65%	63%	In line with expectations
Volatility (1 year)	7.3%	7.5%	In line with expectations
Top 3 asset-classes	Equities (50%), Bonds (17%), Cash/Cash Equivalents (14%)		
Equity sector breakdown	Healthcare (7.4%), Financials (6.0%), Consumer Services (5.9%)		

Mandate: Diversified Growth Fund

Current Value: £489.9m

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

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

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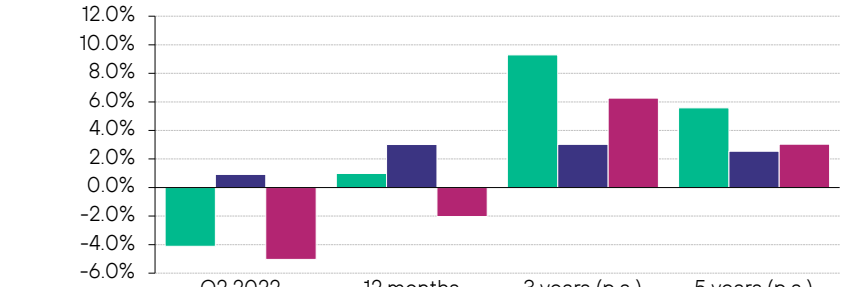
Ruffer – Absolute Return

Overview

The Fund has two investment aims; to deliver positive returns in any rolling twelve month period and ahead of the risk-free rate. The strategy has a strong focus on capital preservation, the core investment objective of the Fund.

Target Return	Low		High
Return Drivers	Market beta		Active management
Diversification	Low		High

Performance to 30 June 2022



	Q2 2022	12 months	3 years (p.a.)	5 years (p.a.)
Return	-4.1%	1.0%	9.3%	5.6%
Benchmark	0.9%	3.0%	3.0%	2.5%
Relative	-5.0%	-2.0%	+6.3%	+3.0%

Mandate: Diversified Growth Fund

Current Value: £515.7m

Current Weighting: 11.5%

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

Key area	Comments
Key contributors/ detractors	• Inflation-linked bonds and gold were the largest detractors over Q2 due to falling long term inflation expectations. • Interest rate options (derivatives which rise in price as interest rates rise contributed positively over the period. . • Equity allocation outperformed the broad market thanks to exposure to energy and defensive equity sectors.
Portfolio positioning	• Reduced equity exposure – now less than 30% of their portfolio and increased cash. Despite being a drag on performance in Q2, Ruffer maintain that their exposure to gold will be beneficial in a high inflationary environment.
Outlook	• Expect inflation to be elevated and market volatility to remain high. Continue to be cautious about the prospects of equity markets.

Metrics	Current Quarter	Last Quarter	View/change
Correlation to equity (1 year)	41%	-27%	Lower correlation than expected
Volatility (1 year)	6.2%	4.6%	In line with expectations
Top 3 asset-classes	Cash (14.9%), Non-UK index linked bonds (12.7%), Index linked gilts (11.7%)		
Top 3 currency	Sterling (63.6%), Japanese Yen (7.3%), US Dollar (6.1%)		

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

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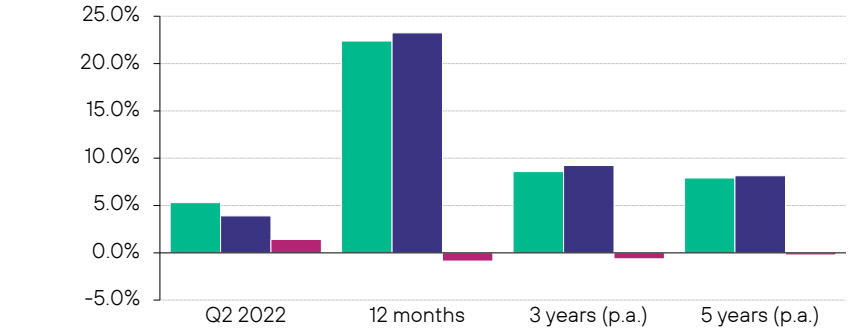
Schroders - Property

Overview

The Schroders Property Fund is a medium risk balanced property fund investing across the retail, offices, industrials and alternative property sectors.

Expected volatility	Low	High
Lease Length	Short	Long
Shape of outcomes	0% Contractual	100% Contractual
Diversification	Low	High

Performance to the end of the quarter



	Q2 2022	12 months	3 years (p.a.)	5 years (p.a.)
Return	5.3%	22.4%	8.6%	7.9%
Benchmark	3.9%	23.3%	9.2%	8.1%
Relative	+1.4%	-0.9%	-0.6%	-0.2%

Key area	Comments
Key contributors/ detractors	• The fund produced strong absolute and relative performance over the quarter, with property markets trending upwards. • Industrial Property Investment Fund was the strongest contributor. There was also positive performance from UK Retail Warehouse Fund and Hermes Property Unit Trust. • Local Retail Fund and Metro Property Unit Trust detracted.
Portfolio positioning	• The portfolio is positioned to withstand a period of weaker returns from property, with defensive allocations to areas such as convenience retail and real estate debt.
Outlook	• The UK property outlook has worsened over 2022, with higher expectations around interest rate rises and slowing economic growth. Schroders expect that capital values will fall by an average of 10% before the end of 2023.

Metrics (3m lag)	Current Quarter	Last Quarter	View/Change
Net acquisitions / Sales	£2.6m	£1.5m	Investments in line with expectations
Cash yield	2.8%	2.4%	Positive for future return prospects
No of assets	19	19	0
Top 3 sectors	Industrial (44%), Regional Offices (15%), and Alternatives (via student accommodation, social supported housing, retirement living and care homes) (14%).		

Mandate: Balanced Property

Current Value: £424.4m

Current Weighting: 9.4%

Inception: December 2009

Benchmark: IPD All Balanced Fund Index

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

Pooled: No

Team Update: Patrick Bone has resigned from his position as Fund manager within the Schroder Capital Real Estate Solutions team, and will be leaving at the end of September 2022. He was a key figure in the business. Although this does not directly effect the East Sussex serrated mandate held with Schroder (which is managed by Naomi Green) we view this as a significant change. We are investigating this further and will provide additional detail and out views shortly.

Source: Investment manager, Northern Trust, Isio calculations.

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UBS - Infrastructure

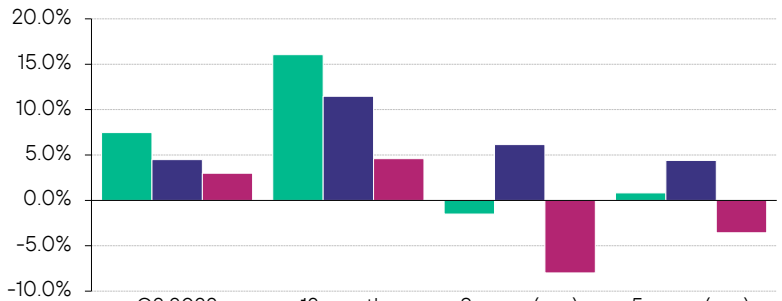
Overview

The fund provides investors with access to a diversified portfolio across Fund I and Fund III infrastructure assets. 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.

Expected volatility	Low	High
Lease Length	Short	Long
Shape of outcomes	0% Contractual	100% Contractual
Diversification	Low	High

Key area	Comments
Portfolio positioning	• Below target performance continues to be driven by Fund I, with the large holding in Southern Water (SW) particularly weighing on returns. • UBS note that SW's revenue has been slightly ahead of target over year-to-date; while the underperformance of EBITDA relative to target can be explained by a £90m Environmental Agency fine.
Outlook	• The Advisory Board of Fund III received approval to extend the final closing date of the fund from end March to end June 2022. • The Fund continues to see deal flows, particularly in digital infrastructure, the energy transition, utilities and transport.

Performance to the end of the quarter



	Q2 2022	12 months	3 years (p.a.)	5 years (p.a.)
Return	7.5%	16.1%	-1.5%	0.8%
Benchmark	4.5%	11.5%	6.1%	4.4%
Relative	+3.0%	+4.6%	-8.0%	-3.6%

Metrics (3m lag)	Current Quarter	Last Quarter	View/Change
Net SI return (Fund I)	2.9%	2.9%	No change
Net SI return (Fund III)	11.0%	12.4%	Within expectations
Total value to paid-in (Fund I)	1.26x	1.26x	No change
Total value to paid-in (Fund III)	1.20x	1.18x	Broadly no change
Top 3 sectors (Fund I current quarter)	Power generation (58%), Water (26%), Wastewater (16%)		

Mandate: Infrastructure

Current Value: £34.7m

Current Weighting: 0.8%

Inception: January 2008

Benchmark: CPI + 2%

Objective: CPI + 3%

Pooled: No

Notable Actions

The UBS infrastructure funds should be monitored closely going forward. Isio have engaged UBS to present a summary of the additional monitoring they are able to provide. UBS intend to discuss this with the Officers shortly.

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

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Pantheon - Infrastructure

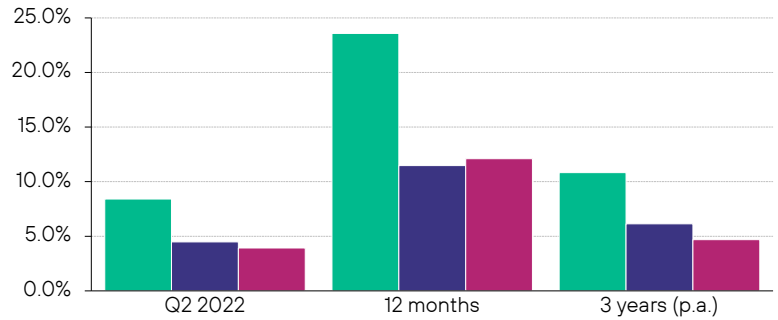
Overview

The fund provides investors with access to a diversified portfolio of infrastructure assets.

It focuses on investments which provide a contracted or regulated income stream, which enables the Fund to generate robust cash yields which are inflation-linked, making it attractive to pension scheme investors.

Expected volatility	Low	High
Lease Length	Short	Long
Shape of outcomes	0% Contractual	100% Contractual
Diversification	Low	High

Performance to the end of the quarter



	Q2 2022	12 months	3 years (p.a.)
Return	8.4%	23.6%	10.8%
Benchmark	4.5%	11.5%	6.1%
Relative	+3.9%	+12.1%	+4.7%

Mandate: Infrastructure

Current Value: £69.5m

Current Weighting: 1.5%

Inception: May 2018

Benchmark: CPI + 2.5%

Objective: CPI + 3%

Pooled: No

Key area	Comments
Key contributors/ detractors	• The investment in Megabyte II has the largest since inception IRR (at underlying fund level) as at end March (51.5%); although a number of Pantheon's holdings have IRRs upwards of 20%. • Gemini (Aero) Fund I had the lower since inception IRR at present (-1.0%).
Portfolio positioning	• The Fund continues to allocate capital, with $2.3m commitments drawn down over the period.
Outlook	• The Fund has $117.0m committed, and $33.6m undrawn. The manager is regularly taking advantage of market opportunities.

Metrics (3m lag)	Current Quarter	Last Quarter	View/change
Cash yield	14.8%	4.5%	10.3%
Net acquisitions/sales	-$187.0	-$111.2	-$75.7
Average discount rate	3.3%	3.5%	-0.2%
Number of assets	45	41	+4
Top 3 sectors	Digital, Transport and Logistics, Renewables / Efficiency		

Note: Totals may not sum due to rounding. Performance quoted net of fees. Manager data is lagged by one quarter.
Source: Investment manager, Northern Trust, Isio calculations.

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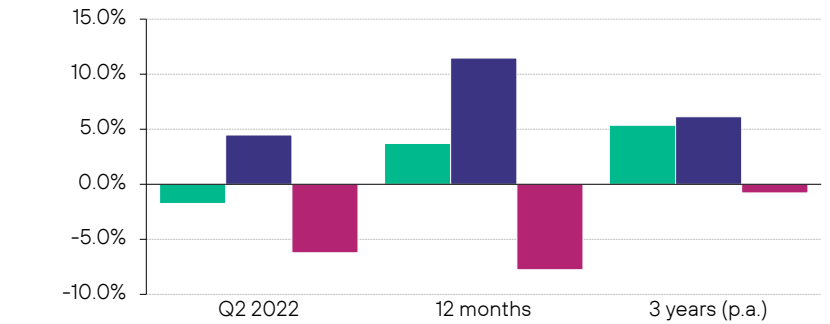
M&G - Infrastructure

Overview

The fund provides investors with access to a diversified portfolio, Brownfield III and Greenfield II, infrastructure assets. It focuses on investments which provide a contracted or regulated income stream, which enables the Fund to generate robust cash yields which are inflation-linked, making it attractive to pension scheme investors.

Expected volatility	Low	High
Lease Length	Short	Long
Shape of outcomes	0% Contractual	100% Contractual
Diversification	Low	High

Performance to the end of the quarter



	Q2 2022	12 months	3 years (p.a.)
Return	-1.7%	3.7%	5.4%
Benchmark	4.5%	11.5%	6.1%
Relative	-6.2%	-7.8%	-0.8%

Mandate: Infrastructure

Current Value: £41.8m

Current Weighting: 0.9%

Inception: October 2018

Benchmark: CPI + 2.5%

Objective: CPI + 3%

Pooled: No

Key area	Comments
Key contributors/ detractors	• The strongest performer in the Brownfield fund over Q1 2022 was Infrafibre Germany. • Last Mile provided a distribution over the quarter.
Portfolio positioning	• Performance is still solely driven by the Brownfield III Fund as Fund's allocation to the Greenfield Fund remains undrawn. • As at the end of Q1, the net IRR of Brownfield III stood at 7.8%, with 85% of available commitments allocated.
Outlook	• 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.

Metrics	Brownfield	Greenfield
Portfolio Value to current paid in capital	1.1x	N/A
Number of assets	6 investments	5 investments
Top sectors	Fibre Telecoms, Transport, Energy	Telecoms and Energy Transition

Note: Totals may not sum due to rounding. Performance quoted net of fees
Source: Investment manager, Northern Trust, Isio calculations. Manager information has a one quarter lag.

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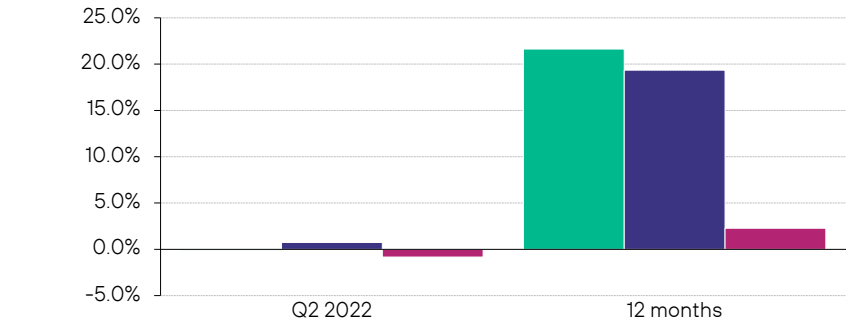
Atlas - Listed Infrastructure

Overview

The fund provides investors with access to a diversified portfolio of brownfield and greenfield infrastructure assets. It focuses on investments which provide a contracted or regulated income stream, which enables the Fund to generate robust cash yields which are inflation-linked, making it attractive to pension scheme investors.

Expected volatility	Low	High
Lease Length	Short	Long
Shape of outcomes	0% Contractual	100% Contractual
Diversification	Low	High

Performance to the end of the quarter



	Q2 2022	12 months
Return	-0.1%	21.6%
Benchmark	0.7%	19.4%
Relative	-0.8%	+2.3%

Mandate: Global Infrastructure Equity

Current Value: £95.9m

Current Weighting: 2.0%

Inception: December 2020

Benchmark: FTSE Developed Core 50/50 Infrastructure Index

Objective: CPI + 5%

Pooled: No

Key area	Comments
Key contributors/ detractors	• Listed infrastructure outperformed broad equity markets over the quarter and Atlas showed particularly defensive characteristics. • Relatively defensive assets such as Toll Roads and Communications companies added value in relative terms. • Main detractors to performance were airports in Europe; it is expected that cyclical assets such as airports will underperform in a falling market.
Portfolio positioning	• Atlas took positions in United Utilities and Severn Trent (UK Water) and exited holdings in National Grid (UK Utilities) and Consolidated Edison (North American Utilities).
Outlook	• The net impact of recent changes was to increase the expected return of the portfolio whilst reducing GDP sensitivity and maintaining inflation protection.

Metrics	Current Quarter	Last Quarter	View/change
Cash yield	3.9%	4.2%	Within expectations
Net acquisitions/sales	6 positions were reduced / sold & 8 positions were established / increased	6 individual position adjustments approved in the quarter.	Within expectations
Number of individual positions in portfolio	22 (incl. 1 in process of sale)	20	Within expectations
Top 3 sectors		Electric utilities (32.2%) Airports (15,5%) Toll Roads (13.2%)	

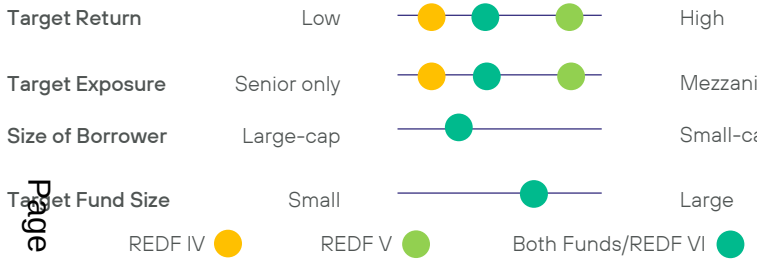
Note: Totals may not sum due to rounding. Performance quoted net of fees. Cash yield is Prospective portfolio yield, pre cash, pre withholding
Source: Investment manager, Northern Trust, Isio calculations.

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M&G – Real Estate Debt

Overview

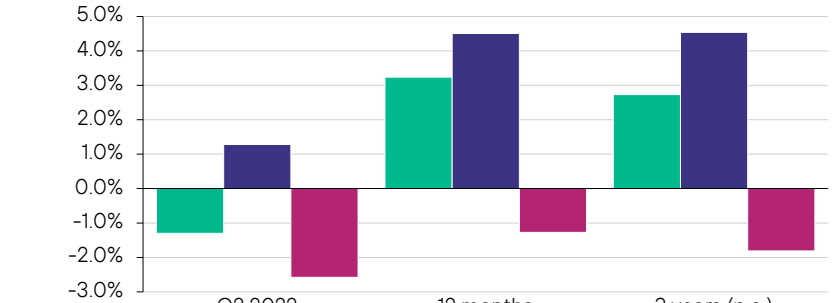
The Funds directly originate private loans that are secured by commercial real estate. REDF VI invests directly in whole loans, while REDF IV and V obtain senior and junior exposure respectively. The Funds are UK and Europe focused, but have scope to invest in the US. As the Funds' investment periods ended in June 2021. they are now in their reinvestment periods, which will run until December 2022.



Key area	Comments
Capital Deployment	• Reinvestments continued to maintain capital deployment over Q1, such as refinancing a Westminster office (Funds IV and V); refinancing of a mixed-use asset in London (IV); and top up of industrial and logistics asset (IV).
Minor/Major Watchlist Names	• **Project OMS** (minor): collateral performance is improving. M&G removed from watchlist during Q2 2022. • **Project Charlie** (added to major in May): not seen the lease up of units expected. Coming up to initial maturity date and negotiations with sponsor on deleveraging the loan are taking place. • **Project Genesis** (major): vacancy of shopping centre is falling but remains on major watchlist, with the junior loan valued at zero.
Outlook	• Refinancing is becoming more expensive, therefore outstanding loans may take longer than previously expected to repay and M&G are displaying caution when reinvesting.

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

Performance to the end of the quarter



	Q2 2022	12 months	3 years (p.a.)
Return	-1.3%	3.2%	2.7%
Benchmark	1.3%	4.5%	4.5%
Relative	-2.6%	-1.3%	-1.8%

(IV / V / VI)	Q1 2022	Q4 2021	View/change
IRR (gross projected)	3.3% / 11.5% / 5.8%	3.2% / 11.4% / 5.8%	No change, all on target
Total capital invested	116% / 97% / 103%	113% / 95% / 101%	All largely invested
Total Positions	32 / 15 / 49	29 / 14 / 50	Stable with some new positions
Top 3 sectors	REDF IV: Office (27.7%), Residential (22.7%), Retail (17.5%) REDF V: Office (36.5%), Retail (20.5%), Residential (17.1%) REDF VI: Office (31.4%), Retail (23.7%) Residential (18.3%)		
Phase	Reinvestment period – due to end December 2022		

Mandate: Private Debt

Current Value: £39.3m

Current Weighting: 0.9%

Inception: April 2019

Benchmark: Benchmark: 3m LIBOR +4%

Objective: Objective: 3m LIBOR +5%

Pooled: No

Notable Developments

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.

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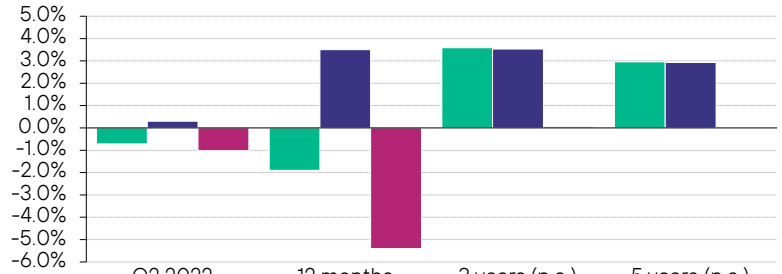
M&G - Diversified Credit

Overview

The Fund aims to take advantage of diversified opportunities in public credit markets, such as investment grade bonds, high yield bonds, leveraged loans and asset backed securities. M&G will seek to protect capital when the Fund is not being adequately compensated for taking risk. Currency and interest rate risks are typically hedged out of the portfolio.

Target Return	Low		High
Return Drivers	Sector Allocation		Credit Selection
Interest Rate Sensitivity	Low		High
Diversification	Low		High

Performance to the end of the quarter



	Q2 2022	12 months	3 years (p.a.)	5 years (p.a.)
Return	-0.7%	-1.9%	3.6%	3.0%
Benchmark	0.3%	3.5%	3.5%	2.9%
Relative	-1.0%	-5.4%	+0.1%	+0.0%

Mandate: Multi Asset Credit

Current Value: £285.6m

Current Weighting: 6.4%

Inception: November 2009

Benchmark: 3 Month Libor +3%

Objective: 3 Month Libor +5% (gross)

Pooled: Via Access Pool

Key area	Comments
Key contributors/ detractors	• Negative absolute Q2 performance was due to the wider market sell-off and in line with peers. Low interest rate exposure protected value as yields rose heavily. • Industrial bonds (-2.8%), financial bonds (-0.6%) and leveraged loans (-0.5%) were the main detractors.
Portfolio positioning	• While cash levels remain high (c.13%), M&G have been deploying cash, selectively adding to investment grade positions to capture market opportunities. • M&G have trimmed some European positions in favour of US debt due to the ongoing war in Ukraine.
Outlook	• M&G believe that there are attractive entry points available to increase credit risk positions but as short-term market volatility may remain elevated, they must remain selective.

Metrics	Current Quarter	Last Quarter	View/change
Yield	5.2%	3.5%	Due to market sell-off
Average credit rating	BBB+	BBB+	No significant change
Modified duration (years)	0.0	0.2	No significant change
Spread duration (years)	3.6	3.2	Slight increase
Number of issuers	461	433	No significant change

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

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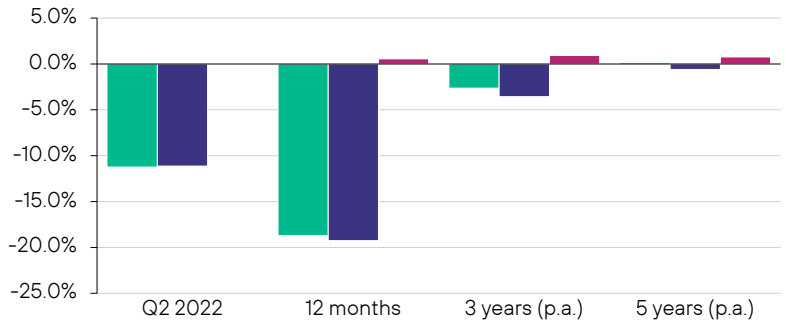
M&G - Corporate Bonds

Overview

The Fund invests in a variety of UK Corporate Bonds, including but not limited to Industrial, Financial, Sovereign and Utility bonds.

Target Return	Low		High
Return Drivers	Sector Allocation		Credit Selection
Interest Rate Sensitivity	Low		High
Diversification	Low		High

Performance to the end of the quarter



	Q2 2022	12 months	3 years (p.a.)	5 years (p.a.)
Return	-11.2%	-18.7%	-2.6%	0.2%
Benchmark	-11.1%	-19.3%	-3.6%	-0.6%
Relative	-0.1%	0.6%	0.9%	+0.8%

Mandate: Corporate Bonds

Current Value: £132.1m

Current Weighting: 2.9%

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

Key area	Comments
Key contributors/ detractors	• Sector selection added value over the quarter, while stock selection detracted from relative performance. • Financials were the strongest contributor, with both active positioning and security selection contributing. • Stock selection in industrials was a key detractor.
Portfolio positioning	• The manager selectively added risk into the portfolio and reduced the underweight position in credit spread duration relative to the benchmark as spreads widened.
Outlook	• M&G note that markets have factored in key risks to growth such as high inflation and rising interest rates; despite Q2's slight shift, they remain relatively defensively positioned.

Metrics	Current Quarter	Last Quarter	View/change
Yield	4.4%	3.1%	In line with expectations, given valuations have fallen
Average credit rating	A	A	No change
Modified duration	10.2	11.3	Interest rate sensitivity will fall as the yield to maturity rises

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

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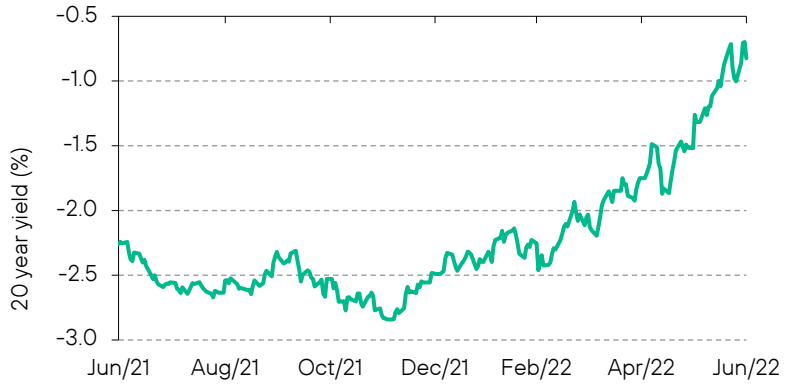
UBS – Over 5 Year Index-linked Gilts

Overview

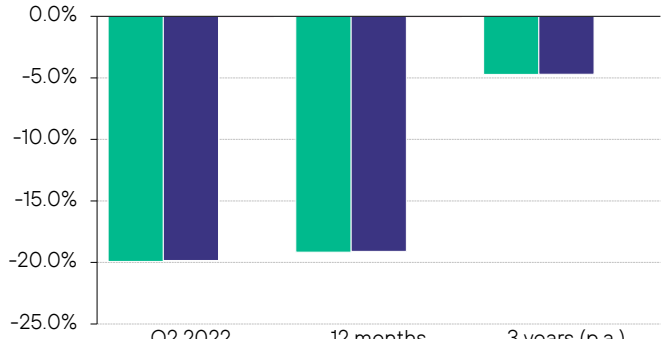
The Fund has defensive characteristics, providing the Fund with protection against the impact of both interest rates and inflation expectations on the value placed on the liabilities.

Target Return	Low		High
Return Drivers	Sector Allocation		Credit Selection
Interest Rate Sensitivity	Low		High
Diversification	Low		High

Real Gilt Yields – Last 12 months



Performance to the end of the quarter



	Q2 2022	12 months	3 years (p.a.)
Return	-19.9%	-19.2%	-4.7%
Benchmark	-19.8%	-19.1%	-4.7%
Relative	-0.1%	-0.1%	-0.0%

Mandate: Index Linked Gilts

Current Value: £108.1m

Current Weighting: 2.4%

Inception: August 2017

Benchmark: FTSE Index- Linked Gilts Over 5 Years

Objective: Match benchmark

Pooled: Via Access Pool

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

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Appendices

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

A2: Explanation of Market Background

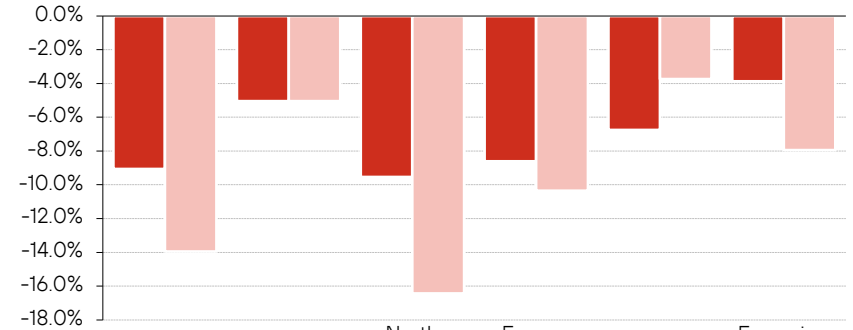
A3; How to Read the Fund Manager Pages

A4: Disclaimers

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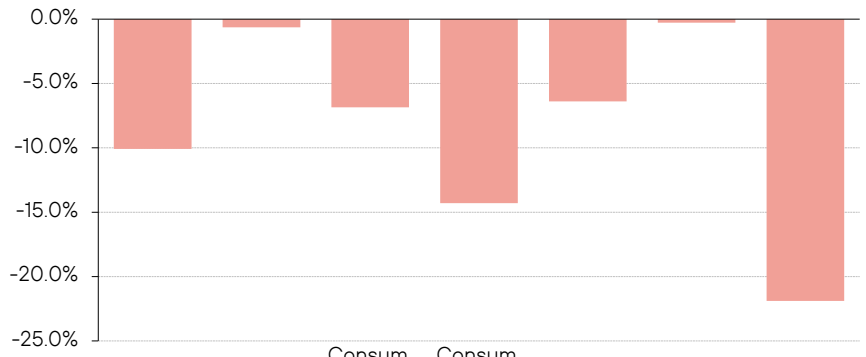
Market Background – Global Equity

Regional Returns – Q2 2022



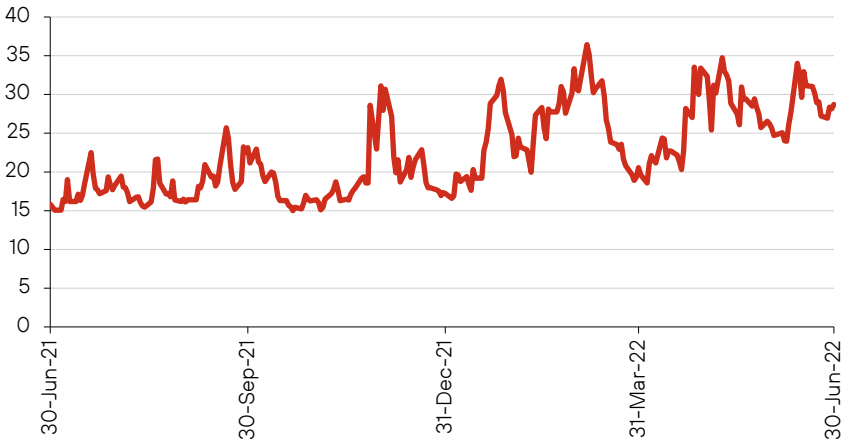
	World	UK	North America	Europe exc UK	Japan	Emerging Markets
Sterling	-9.1%	-5.0%	-9.5%	-8.6%	-6.8%	-3.9%
Local	-14.0%	-5.0%	-16.4%	-10.4%	-3.7%	-8.0%

Sector Returns – Q2 2022



	Financial	Utilities	Consum. Staples	Consum. Discret.	Energy	Health	Tech
Sector	-10.1%	-0.6%	-6.9%	-14.3%	-6.4%	-0.3%	-21.9%

VIX Volatility Index – Last 12 Months



Commentary

- Equity markets declined overall during the quarter with North American and European regions most affected from investor fears around high inflation, continued supply chain issues and monetary policy tightening.
- European equities underperformed as the Russia/Ukraine war continued to weigh on investor sentiment in the region. Concerns surrounding soaring oil and gas prices further impacted with the energy sector suffering losses. US equities higher exposure to technology stocks drove relative underperformance for the region due to the pressures on this sector caused by rising interest rates.
- Whilst the UK outperformed other regions on a relative basis, the market fell in absolute terms over the period as fears of a recession accelerated. Additionally, the combination of inflationary concerns and the cost-of-living crisis contributed to the decline of consumer discretionary stocks.
- Emerging Markets was the best performing region on a relative basis despite European EM regions being challenged, this was offset by other regions such as China providing positive returns as lockdown measures in the country began to ease.

Summary

Equity markets continued to suffer in Q2 as increasing investor concerns surrounding high inflation, rising interest rates and the ongoing Russia/Ukraine conflict took hold. The US Federal Reserve continued to raise interest rates, with the expectation of hikes being announced throughout 2022 and other global central banks also embarking monetary tightening.

European equities continued to be challenged with significant concern surrounding the prospect of a tightened energy supply and the soaring cost of key commodities such as grain.

In comparison, UK Equities outperformed relative to other nations as the regional index has a higher weighting towards energy and commodity stocks, which fared better than other sectors over the period.

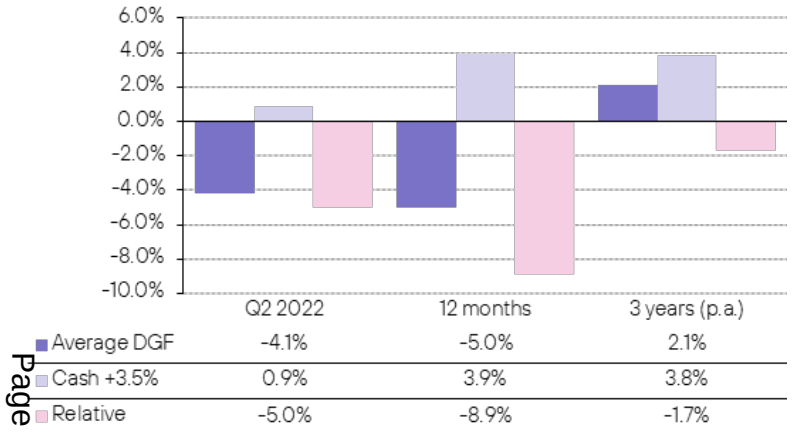
From a sector perspective, both technology and consumer discretionary stocks have been the worst performing on a relative basis due to impact of higher rates and prospect of lower discretionary spending.

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

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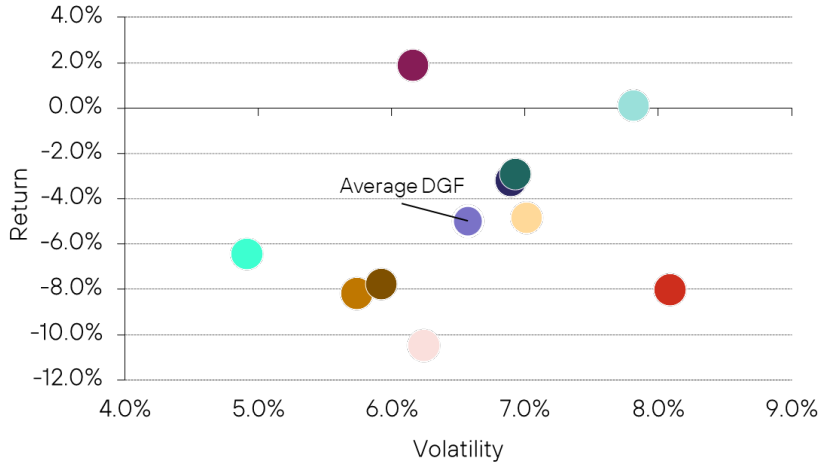
Market Background – Absolute Return

Sample Manager Average Returns– Q2 2022

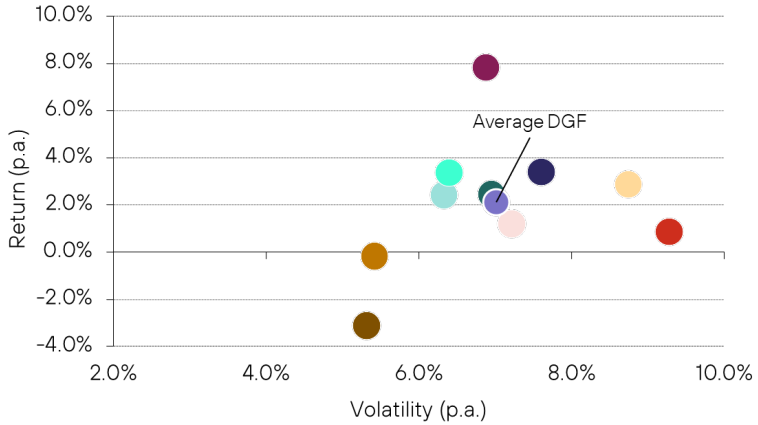


	Q2 2022	12 months	3 years (p.a.)
Average DGF	-4.1%	-5.0%	2.1%
Cash +3.5%	0.9%	3.9%	3.8%
Relative	-5.0%	-8.9%	-1.7%

Sample Manager Returns and Volatility – 12 months



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



Commentary

- The average DGF delivered negative performance over Q2 2022, as the majority of asset classes exhibited negative returns for the 2nd consecutive quarter.
- Equities, a key driver of returns for DGFs delivered negative returns with fears over high inflation, supply chain issues, recession and rising interest rates growing. Investment managers less reliant on the direction of markets to generate returns performed best over Q2 although longer term they lag their peers. The market sell off resulted in some of the asset classes included for diversification (such as property and infrastructure) not providing the protection hoped for due to the listed nature of these exposures.
- Returns over the past 12 months have suffered from the recent sell-off with managers finding it difficult to source positive returns from most asset classes. Whilst returns over the past 3 years remain positive, the average DGF manager has returned less than the long term expectation over this period.
- The majority of DGF managers remain conscious to geopolitical tensions, as well as the impact of economic policy as inflation continues to be of concern to most global economies.

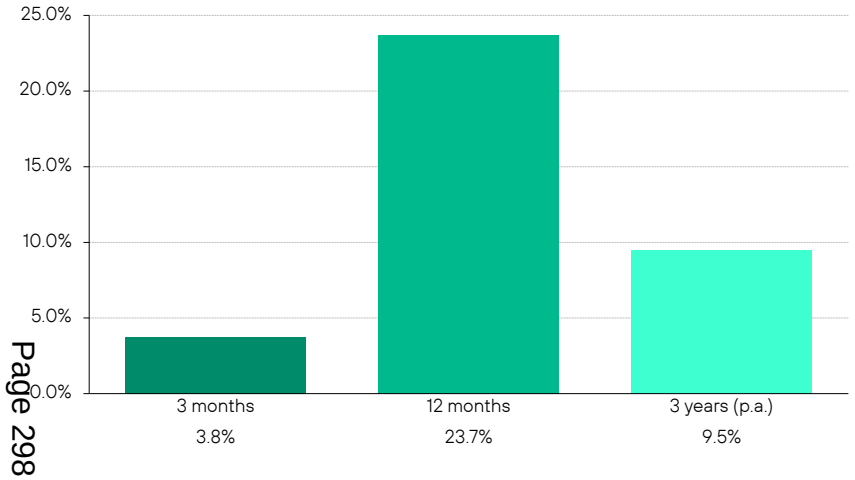
Within our sample of managers we have incorporated the performance of ten DGFs with various manager styles, aiming to provide a balanced view of the market.

Note: Please see Appendix 2 for further information. All returns are quoted net of management fee.
Source: Investment Managers, Isio calculations.

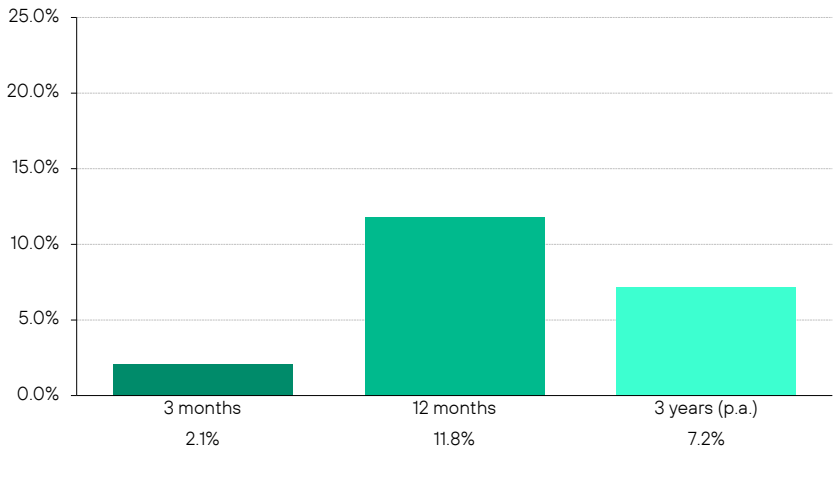
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Market Background – Real Assets

Core UK Property Returns



Long Lease UK Property Returns



Commentary – Balanced UK Property

- Balanced Property recorded another strong quarter, albeit slightly weaker than Q1, continuing a rally that has now seen a 23.7% one year return.
- Confidence in property remained intact despite geopolitical tensions and recession fears. However, transactions have slowed, and are likely to be subdued throughout Q3.
- Industrials were the top performing sector and saw capital appreciation due to a supply-constrained market / strong tenant demand.
- Offices recorded strong returns, with capital and rental values remaining broadly stable. Uncertainty due to remote working continues to linger however take-up activity has generally recovered well across the UK due to pent-up demand for office space.
- Retail warehouses contributed to performance, being more resilient to online retail competition. The post-pandemic recovery is set to slow as the rise in cost of living/debt, supply chain disruption and labour shortages affect consumer spending.
- Hospitality & Leisure remained relatively healthy due to strong demand for staycations.

Commentary – Long Lease UK Property

- Long Lease capital growth remained positive but slowed over the quarter, with slowing of transactions reflecting wider market uncertainty given expected rate rises to curb rising inflation, increases in the cost of living and finance costs.
- The industrials sector remained buoyant with strong tenant demand from third-party logistics providers, who continue to face a shortage of desirable stock, supporting rental growth. though weaker consumer spending and business rates are likely to limit growth.
- Long Lease benefitted from the continued rise in UK Inflation, given its inflation-linked rent reviews and long term secure predictable cash flows.
- Net distribution yields are set to stabilise following the slowdown in capital growth however could increase over the next year due to inflation linked rent reviews and residual values of assets at lease expiry rising, acting as an indirect inflation hedge.

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

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Summary
Balanced and Long Lease Property had positive returns but lower performance compared to the previous two quarters, with expectations that further interest rates hikes, rising cost of living, falling real wages and a weaker economy will be more persistent in coming quarters.

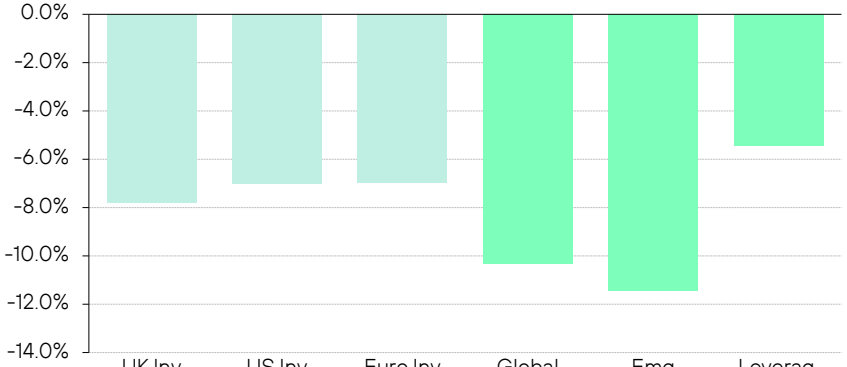
Transaction volumes slowed near the end of the quarter as a result and could continue to fall if affected by consumer confidence, and looming recession fears. Investors therefore are beginning to take stock of potential pricing corrections, especially in the long lease market.

The rising cost of debt will begin to affect the lowest yielding parts of the market and property funds with higher levels of leverage, despite the reported headwinds to the UK economy.

The wider property market has been slower to react to any change in market sentiment and therefore could potentially see a sharper correction in the second half of the year, as the cost of borrowing continues to increase and investor's return expectations adjust.

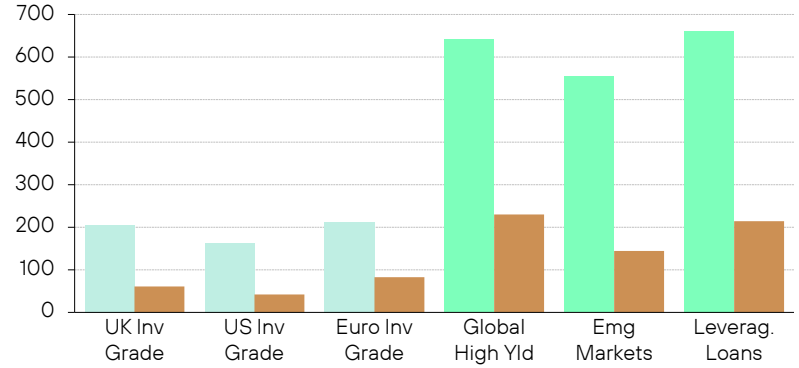
Market Background – Credit

Credit Market Returns – Q2 2022



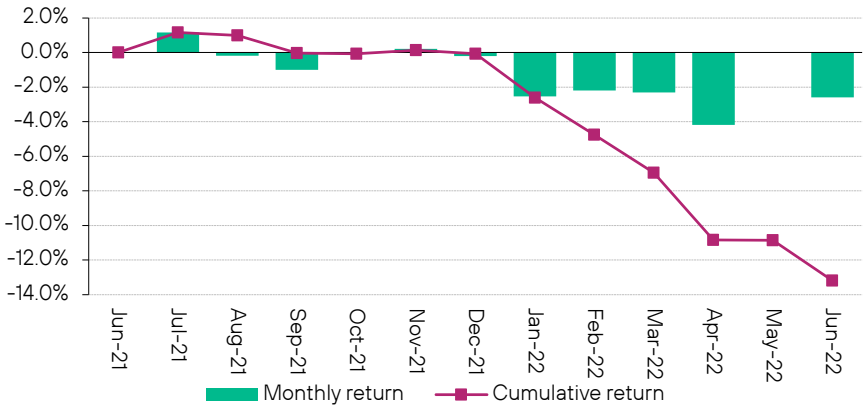
£ hedged	UK Inv Grade	US Inv Grade	Euro Inv Grade	Global High Yld	Emg Markets	Leverag. Loans
	-7.8%	-7.0%	-7.0%	-10.3%	-11.4%	-5.4%

Credit Spreads – Q2 2022



	UK Inv Grade	US Inv Grade	Euro Inv Grade	Global High Yld	Emg Markets	Leverag. Loans
End of qtr	206	164	212	642	554	661
Qtr change	61	42	83	230	144	215

Global Broad Credit Market Return – Last 12 Months



Commentary

Global credit markets continued to deliver negative performance through Q2 as markets were impacted by central bank interest rate hikes, and rising government bond yields.. In addition, slowing economic growth and persistently high inflation caused credit spreads to widen, further detracting from performance.

- **Investment Grade ('IG') bond** performance was negative over Q2 as IG bonds are particularly sensitive to interest rate expectations. Despite their high credit quality, spread widening impacted valuations, but to a lesser extent than lower rated bonds.
- **High yield ('HY') bonds** also delivered negative returns over Q2, underperforming higher rated credit amidst a general "risk-off" environment due to after concerns over slowing global growth and the effect this may have on corporate profitability.
- **Emerging market ('EM') debt** suffered significantly due to its sensitivity to wider economic sentiment. EM currencies also weakened against the US dollar, making USD debt more expensive to repay. Additionally, as EM credit is a long duration asset class, it was impacted to a greater extent by the rise in government bond yields.

Summary

Credit markets performed negatively across the board over Q2 as central banks committed to increasing interest rates due to persistently high levels of inflation. This messaging increased the perceived risk of a recession, which led to widening credit spreads (and falling valuations).

Continuing on from Q1, investor concern over high inflation remained as some countries experienced levels that have not been seen in decades. Concerns increased over slowing economic growth and some economic indicators pointing to the possibility of a recession.

Whilst investor sentiment deteriorated over the quarter, and returns across credit markets were negative, higher rated credit fared better than lower rated; while floating rates assets such as leveraged loans were also better protected from rising interest rates.

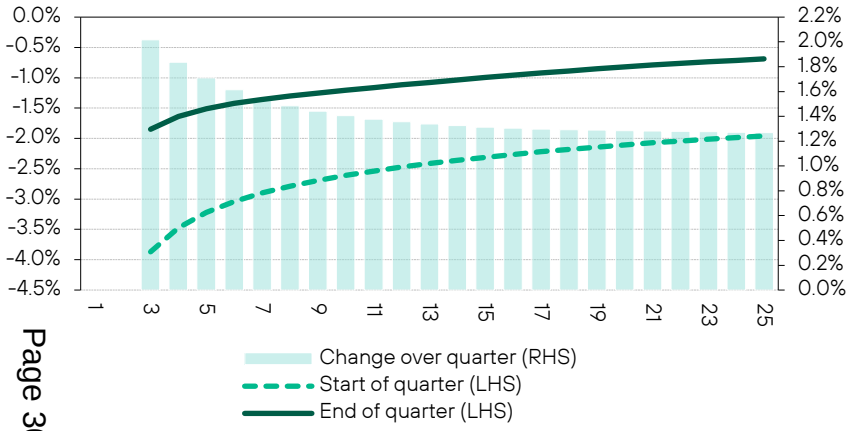
Note: Please see Appendix 2 for further information. Credit spreads are shown in basis points (100 bp = 1%) and correspond to the incremental yield available on corporate bonds above government bonds of a similar maturity. Floating rate assets have reduced interest rate sensitivity than fixed rate and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

Source: Investment Managers, Isio calculations, Eikon

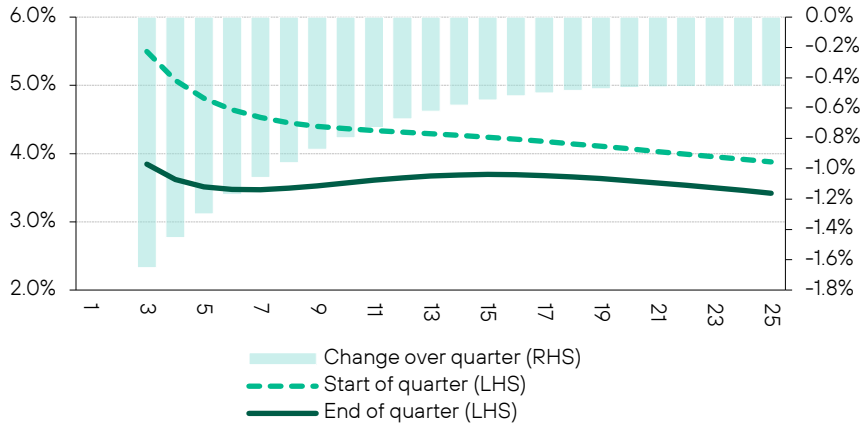
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Market Background – Yields

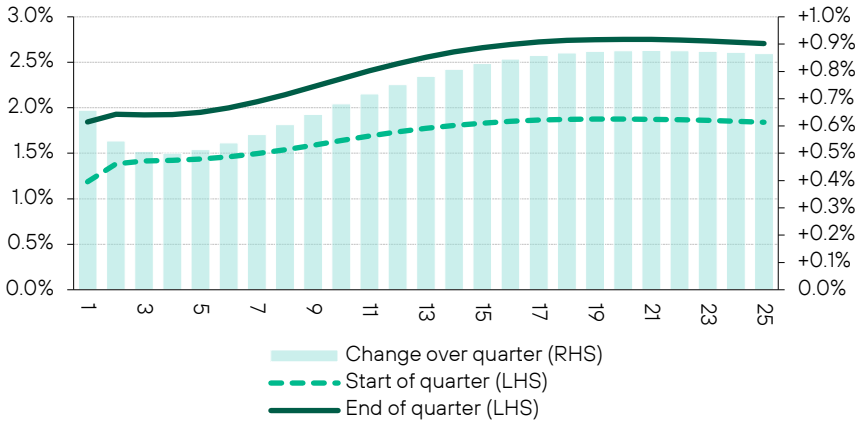
Real Gilt Yields – Q2 2022



Gilt-Implied Inflation – Q2 2022



Nominal Gilt Yields – Q2 2022



Commentary

- Long-dated (20-year) yields at the quarter-end were:
  - Real gilt yield: -0.8%
  - Nominal gilt yield: 2.8%
  - Gilt-implied inflation expectation: 3.6%

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

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

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Explanation of Market Background

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.

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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Explanation of Market Background (cont.)

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

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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Explanation of Market Background (cont.)

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.

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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How to Read the Fund Manager Pages

How to Read the "Overview" Section

Expected Volatility Low High

- This is a standard quantitative measure of our expectation of absolute annual volatility of the fund.
- The measure ranges from 1% p.a. for the least volatile strategies (e.g. Cash) to 30% p.a. for the most volatile strategies (e.g. Emerging Markets Equity).

Shape of Outcomes 0% Contractual 100% Contractual

- This is an Isio-specific measure of how "contractual" the expected return from the fund is.
- The measure ranges from 0% for strategies that have no fixed return component and are instead based on a share of any profits (e.g. Global Equity) to 100% for strategies where the return in normal conditions is fixed and predictable (e.g. Corporate Bonds).

Diversification Low High

- This Isio-specific measure shows how diversified we consider the fund to be, in terms of broad market risk drivers.
- The measure ranges from "low" for mandates that invest in a single asset class that is concentrated in other respects, such as geography (e.g. European Direct Lending) to "high" for mandates that invest in a wide range of diversified asset classes (e.g. Diversified Growth Funds).

Manager Ratings

We show two ratings for a manager:

Research View: This comprises our opinion of the manager as a whole, judged against the client's specific selection criteria (which usually include ESG considerations). The possible ratings are:

- Meets Criteria
- Partially Meets Criteria
- Significantly Fails to Meet the Criteria
- Not Evaluated

ESG View: This is a narrower opinion focusing specifically on the manager's treatment of ESG (Environmental, Social, and Governance) issues. The possible ratings are:

- Green
- Amber
- Red
- Not Evaluated

This page contains guidance on how to read the fund manager pages

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Disclaimers

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 Performance
Quarter to 30 September 2022

Isio Investment Advisory



Document Classification: Confidential

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Harbourvest Private Equity

Adams Street Private Equity

Newton Absolute Return

Ruffer Absolute Return

Schroders Property

UBS Infrastructure

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Appendix 1: Market Background: Global Equity, Absolute Return, Real Assets, Credit & Yields

Appendix 2: Explanation of Market Background

Appendix 3; How to Read the Fund Manager Pages

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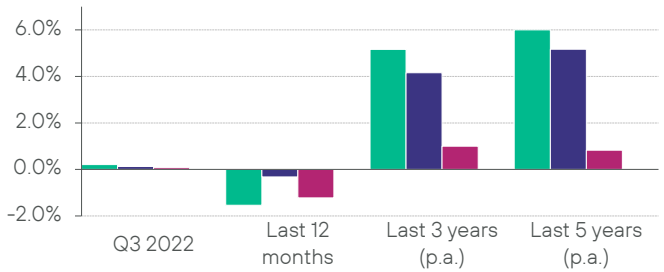
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Highlights

Executive Summary – 30 September 2022

Access Pool	Fund	Q3 2022 Performance			Value at Quarter End	
		Fund	Benchmark	Relative	30-Jun-22	30-Sep-22
No	UBS Osmosis – Sustainable Equity	2.0%	2.1%	-0.0%	£216.6m	£221.0m
Yes	Longview - Global Equity	1.2%	2.1%	-0.8%	£500.3m	£506.6m
No	WHEB – Sustainable Equity	2.8%	2.1%	+0.8%	£200.1m	£205.7m
No	Wellington – Sustainable Equity	6.9%	1.4%	+5.5%	£206.9m	£221.1m
No	Storebrand – Sustainable Equity	1.3%	2.1%	-0.7%	£464.5m	£470.6m
Yes	Baillie Gifford – Global Equity	1.4%	1.4%	+0.0%	£174.3m	£176.7m
No	Harbourvest – Private Equity [1,2]	0.1%	1.8%	-1.7%	£193.0m	£198.9m
No	Adams Street – Private Equity [1,2]	0.8%	1.8%	-1.0%	£211.1m	£216.7m
Yes	Newton – Absolute Return	-4.2%	1.2%	-5.4%	£489.9m	£469.2m
Yes	Ruffer - Absolute Return	4.7%	1.2%	+3.5%	£515.7m	£539.8m
No	Schroders – Property	-4.1%	-4.0%	-0.1%	£424.4m	£404.1m
No	UBS – Infrastructure [2]	14.3%	2.1%	+12.2%	£34.7m	£39.0m
No	Pantheon – Infrastructure [2]	19.4%	2.1%	+17.3%	£69.5m	£87.8m
No	M&G – Infrastructure [2]	9.3%	2.1%	+7.2%	£41.8m	£45.7m
No	ATLAS - Listed Infrastructure	-9.6%	-2.2%	-7.4%	£95.9m	£86.7m
No	M&G – Real Estate Debt [2]	-2.0%	1.5%	-3.6%	£39.3m	£36.6m
Yes	M&G – Diversified Credit	-0.8%	1.3%	-2.1%	£285.6m	£283.4m
Yes	M&G - Corporate Bonds	-15.1%	-14.4%	-0.6%	£132.1m	£112.2m
Yes	UBS - Over 5 Year Index-linked Gilts	-10.6%	-10.6%	-0.0%	£108.1m	£96.6m
	Total Assets	**0.2%**	**0.1%**	**0.1%**	**£4,492m**	**£4,502m**

Period returns – to 30 September 2022



	Q3 2022	Last 12 months	Last 3 years (p.a.)	Last 5 years (p.a.)
Scheme Return	0.2%	-1.5%	5.2%	6.0%
Benchmark Return	0.1%	-0.3%	4.2%	5.2%
Relative	0.1%	-1.2%	1.0%	0.8%
Sample 60:40 Portfolio	-1.0%	-8.1%	2.4%	5.2%

Commentary

- The Fund's assets delivered a positive absolute return over the quarter, outperforming the benchmark by 0.1%. Performance divergence persisted across mandates, with rising short term inflation and long-dated interest rates putting pressure on the valuations of a number of asset classes, most notably public bonds and equity.
- The Fund's private equity mandates delivered strong returns, with private market valuations delayed in following public assets downwards.
- The real asset mandates largely performed well, given their private market nature and inherent inflation linkage.
- Fixed income funds were the main detractor from the portfolio, with the most interest rate sensitive assets the worst performed, as long-dated yields rose.
- Despite negative returns over recent quarters, longer term returns at Fund level remain strong, with equity markets adding significant value over the last decade.

The Fund's assets delivered a positive return of 0.2% over Q3, marginally outperforming the benchmark by 0.1%.

Performance across the Fund's mandates was predominantly positive with equity and infrastructure markets, in particular, increasing in value.

Fixed income markets generally performed negatively in what was a challenging market environment which saw extreme volatility in interest rates in the UK, and a trend of increasing interest rates globally in an effort to combat high inflation levels.

Note: Sample 60:40 portfolio consists of 60% allocation to MSCI ACWI and a 40% allocation to a bond portfolio split 20% in BofA Merrill Lynch Global Corporate Index, and 10% in FTSE Gilts (all maturities) and FTSE Index Linked Gilts (all maturities) respectively, with all portfolio returns unhedged in GBP terms.

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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 30 September 2022. Fund Total value includes cash held with Northern Trust. [1] Valuation and performance information as at 30 June 2022. [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 – 30 September 2022

Fund	Q3 2022 Performance			1 Year Performance			3 Year Performance			5 Year Performance		
	Fund	Benchmark	Relative	Fund	Objective	Relative	Fund	Objective	Relative	Fund	Objective	Relative
UBS Osmosis – Sustainable Equity	2.0%	2.1%	-0.0%	-	-	-	-	-	-	-	-	-
Longview - Global Equity	1.2%	2.1%	-0.8%	0.7%	-2.9%	+3.6%	6.2%	8.1%	-1.9%	8.2%	8.9%	-0.7%
WHEB - Sustainable Equity	2.8%	2.1%	+0.8%	-16.5%	-2.9%	-13.6%	-	-	-	-	-	-
Wellington – Sustainable Equity	6.9%	1.4%	+5.5%	-10.2%	-4.2%	-6.0%	-	-	-	-	-	-
Storebrand – Sustainable Equity	1.3%	2.1%	-0.7%	-5.9%	-2.9%	-3.0%	-	-	-	-	-	-
Baillie Gifford – Global Equity	1.4%	1.4%	+0.0%	-21.8%	-4.2%	-17.6%	-	-	-	-	-	-
Harbourvest – Private Equity[1]	0.1%	1.8%	-1.7%	27.7%	-2.7%	+30.5%	28.9%	8.7%	+20.2%	24.9%	9.6%	+15.3%
Adams Street – Private Equity[1]	0.8%	1.8%	-1.0%	26.4%	-2.7%	+29.2%	28.2%	8.7%	+19.5%	25.8%	9.6%	+16.2%
Newton – Absolute Return	-4.2%	1.2%	-5.4%	-6.2%	3.5%	-9.7%	1.0%	3.1%	-2.1%	2.8%	2.7%	+0.0%
Ruffer - Absolute Return	4.7%	1.2%	+3.5%	5.4%	3.5%	+1.8%	10.1%	3.1%	+7.0%	6.7%	2.8%	+4.0%
Schroders – Property	-4.1%	-4.0%	-0.1%	12.1%	13.2%	-1.1%	7.0%	7.6%	-0.6%	6.5%	6.8%	-0.3%
UBS – Infrastructure	14.3%	2.1%	+12.2%	33.3%	12.2%	+21.1%	2.8%	6.5%	-3.8%	3.6%	4.8%	-1.2%
Pantheon – Infrastructure[1]	19.4%	2.1%	+17.3%	37.3%	12.2%	+25.1%	16.6%	6.5%	+10.1%	-	-	-
M&G – Infrastructure	9.3%	2.1%	+7.2%	11.6%	12.2%	-0.6%	9.6%	6.5%	+3.1%	-	-	-
ATLAS – Listed Infrastructure	-9.6%	-2.2%	-7.4%	3.8%	13.1%	-9.3%	-	-	-	-	-	-
M&G – Real Estate Debt	-2.0%	1.5%	-3.6%	-0.4%	5.0%	-5.5%	2.0%	4.7%	-2.6%	-	-	-
M&G – Diversified Credit	-0.8%	1.3%	-2.1%	-3.1%	4.0%	-7.1%	3.1%	3.6%	-0.6%	2.6%	3.2%	-0.5%
M&G - Corporate Bonds	-15.1%	-14.4%	-0.6%	-29.9%	-29.8%	-0.1%	-9.5%	-10.1%	+0.7%	-3.1%	-3.7%	+0.6%
UBS - Over 5 Year Index-linked Gilts	-10.6%	-10.6%	-0.0%	-29.4%	-29.3%	-0.1%	-10.7%	-10.7%	-0.0%	-	-	-
Total Assets	**0.2%**	**0.1%**	**0.1%**	**-1.5%**	**-0.3%**	**-1.2%**	**5.2%**	**4.2%**	**1.0%**	**6.0%**	**5.2%**	**0.8%**

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 30 September 2022.
[1] Valuation and performance information as at 30 June 2022.
Source: Investment Managers, Northern Trust, Isio calculations.

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

The active public equity mandates have broadly struggled to add value relative to their benchmarks over the last 12 months, with the 'growth' style bias of the specialist sustainable managers driving underperformance.

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

The UBS Index-linked Gilt fund has also delivered materially negative returns over recent periods given the strong upward movement in real yields we have seen in the past 12 months.

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Looking Forward

Key issues		
Item	Action points / Considerations	Status
Overall Investment Strategy	**Infrastructure Equity Implementation** • Following the Committee's agreement at the Q1 2022 Committee meeting, to appoint IFM to manage the Fund's Infrastructure Equity mandate, the Fund has successfully onboarded and is now in the queue awaiting deployment of capital. IFM estimated time to deployment to be in the region of 3-9 months.	
	Liquid Fixed Income Manager Selection • At the Q1 2022 Committee meeting, Isio presented a paper detailing the proposed implementation approach for selection of the manager(s) to manage the agreed increased allocation to fixed income. The Officers have now reached agreement on a preferred choice of manager and are due to present this to the Committee for consideration at the Q4 Committee meeting.	
	Illiquid Fixed Income Allocation • The Officers and IWG group have requested Isio consider the options available to the Fund in relation to implementing the strategic allocation to illiquid fixed income. Isio will prepare a briefing paper in early 2023 for this allocation.	
	Reduction of Schroders Property Allocation • Following the investment strategy implementation review at the Q1 meeting, the Committee agreed to investigate the possibility of reducing the allocation to the Schroders Property Fund in the short term. Following discussions with the manager, Isio provided the IWG with an email summarising the options available. In light of none of the options appearing particularly compelling implementation has now been paused.	
	Strategy re-test • Following the shift in market regime to a higher interest rate environment over 2022, Isio prepared a short paper on the potential opportunity within the Index-Linked Gilts market. This opportunity is being considered, alongside delegation of authority to Officers in consultation with the IWG, to flexibly invest outside of the ranges of the investment Strategy Statement within limits. This is due to be discussed at the Q4 Committee meeting and Isio will prepare a further paper on the broader strategic allocation of the Fund and the appropriateness in the current market environment, early next year.	
	Private Equity allocation • Isio is due to prepare an in depth assessment on the Fund's current private equity managers, and their role in the portfolio, in the new year.	
Investment Managers	• Isio continued to work with UBS to improve the level of information they are able to provide in relation to their infrastructure funds on an ongoing basis. • Schroders confirmed that Patrick Bone left his position as Fund manager within the Schroder Capital Real Estate Solutions team at the end of September 2022. we view Patrick's departure as a significant loss for the team but note that this has no direct impact on the East Sussex mandate. We believe Naomi Green has the necessary skill set to continue to manage the portfolio going forward, but also hold concerns with Schroder Capital Real Estate Solutions wider business viability going forward. We provided a more detailed note on this to the IWG in September.	

Summary

This page sets out the main action / discussion points.

Status key

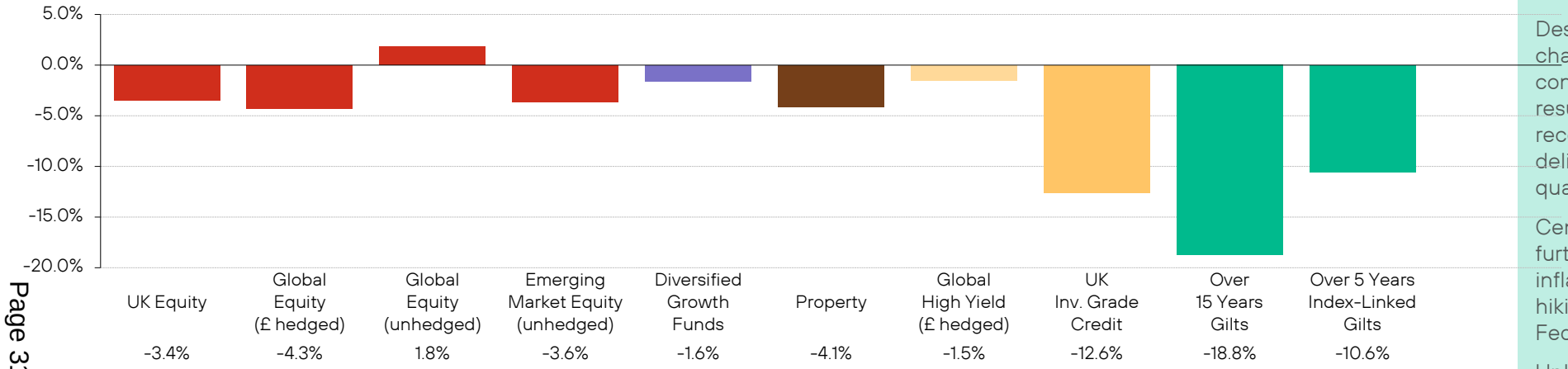
- Action
- Decision
- Discussion
- Information only

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Market Background

Market Background – Overview Q3 2022

Returns by Asset Class – Q3 2022



Key Upcoming Events

- The dates for the Bank of England's Monetary Policy Committee (MPC) announcements in Q4 2022 are 3 November and 15 December.
- The dates for the US Federal Reserve's Federal Open Market Committee (FOMC) announcements in Q4 2022 are 2 November and 14 December.

Commentary

- Most growth assets struggled over the quarter, with markets further pricing in the probability of a recession.
- Although still delivering negative returns, equities generally outperformed bonds over the period, which was mainly due to their lower sensitivity to interest rate changes.
- In bond markets, increased fears of recession and the liquidity sell-off late in the quarter caused spreads to widen. This, coupled with, yields increasing due to expectations of further interest rate hikes, led to weak performance in investment grade markets in particular. High yield markets fared better as default rates proved lower than expected, resulting in spreads compressing.
- Gilt yields rose sharply over the period, as markets priced in further interest rate hikes and responded to the announcement of the UK's substantial unfunded fiscal package. The Bank of England, however, intervened with a short term government bond purchasing programme, which resulted in some stability returning post quarter end.

Summary

Despite pressures from global supply chains easing, the worsening energy crisis continued to fuel inflation over the period, resulting in an increasing probability of recession. As such, most asset classes delivered negative returns over the quarter.

Central banks tightened monetary policy further in response to the heightened inflation levels, with the Bank of England hiking interest rates to 2.25% and the Federal Reserve hiking to 3-3.25%.

Unhedged global equities produced positive returns over the period, as the Pound weakened against other major currencies.

The UK government's announcement of an unfunded fiscal package raised concerns over its ability to pay back long term debt, resulting in a sharp fall in sterling and the biggest sell off in long-dated gilts since the 1990s.

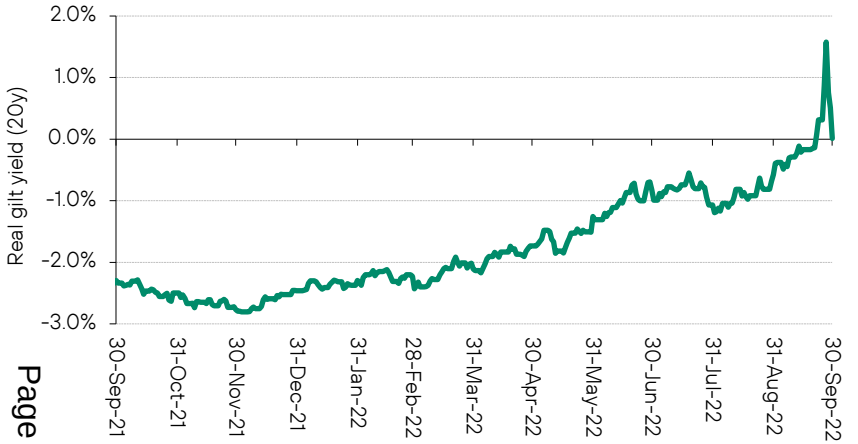
The fall in gilt values caused significant liquidity concerns for UK DB pension schemes, with many needing to sell liquid growth assets to maintain their hedge levels, putting downward pressure on prices.

Note: Please see the 'Explanation of Market Background' appendix for details of the returns representing each asset class.
Source: Refinitiv, DGF investment managers, Isio calculations.

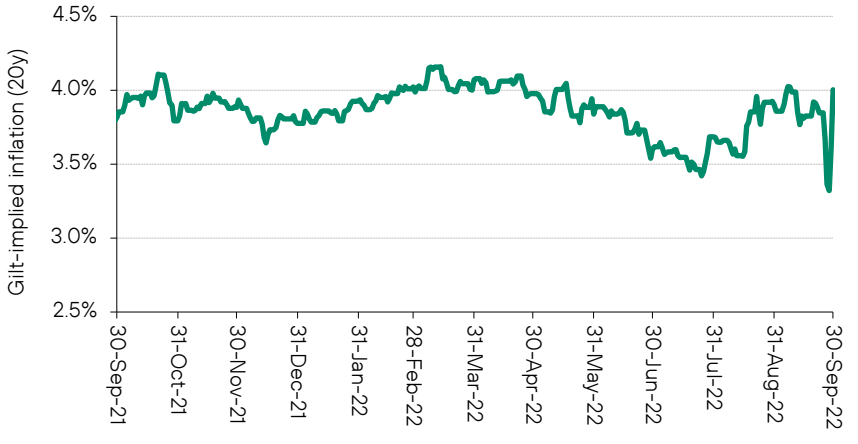
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Market Background – Yields

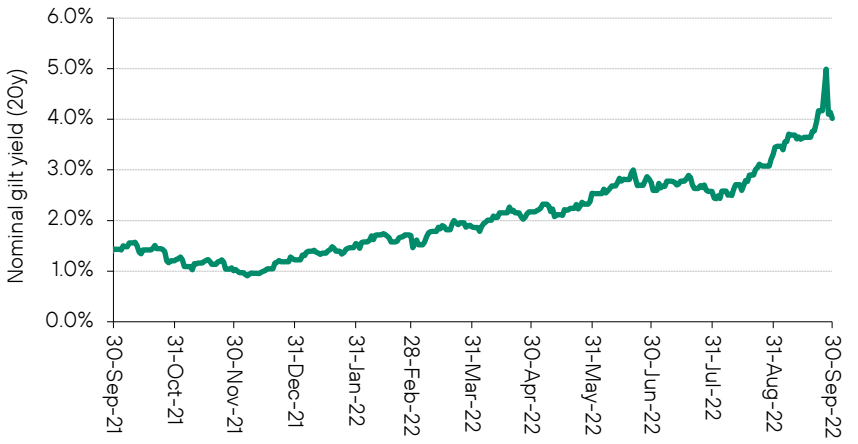
Real Gilt Yields – Last 12 months



Gilt-implied Inflation – Last 12 months



Nominal Gilt Yields – Last 12 months



Example Liabilities

- The liabilities for an example DB pension scheme decreased by c.12.9% over the quarter. This can be broken down into the following components:
  - c. 7.6% decrease, due to the increase in real yields;
  - c. 5.7% decrease, due to the increase in nominal yields; and
  - c. 0.4% increase due to the "unwinding" effect (also known as "interest" on the liabilities).
- The liabilities for an example DB pension scheme decreased by c.28.1% over the last 12 months.

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

The "Example Liabilities" indicate how a typical scheme's past-service liabilities may have moved.

Gilt Yield and Implied Inflation Changes

20-year Real Gilt Yield	
July	-0.25%
August	+0.49%
September	+0.59%
Quarter	**+0.83%**

20-year Nominal Gilt Yield	
July	-0.17%
August	+0.73%
September	+0.71%
Quarter	**+1.26%**

20-year Gilt-Implied Inflation	
July	+0.08%
August	+0.22%
September	+0.10%
Quarter	**+0.40%**

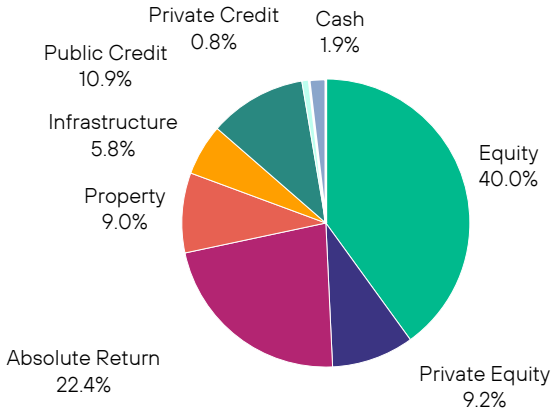
Note: Please see the 'Explanation of Market Background' appendix for details of the example liabilities. Monthly yield changes may not sum to quarterly changes, due to rounding. Zero coupon rates are shown.
Source: Bank of England, Isio calculations.

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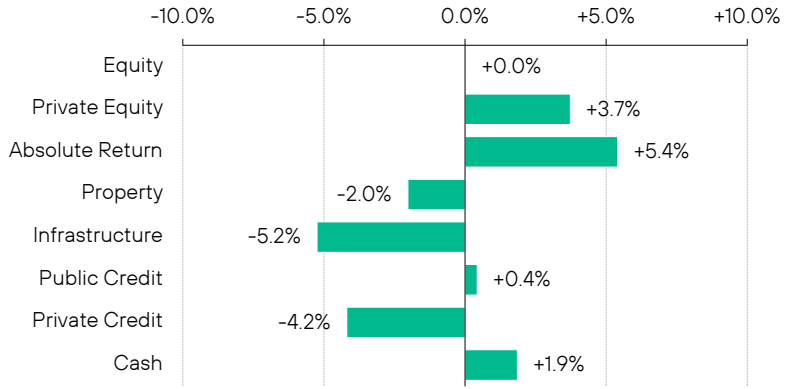
Strategy Overview

Asset Allocation – at 30 September 2022

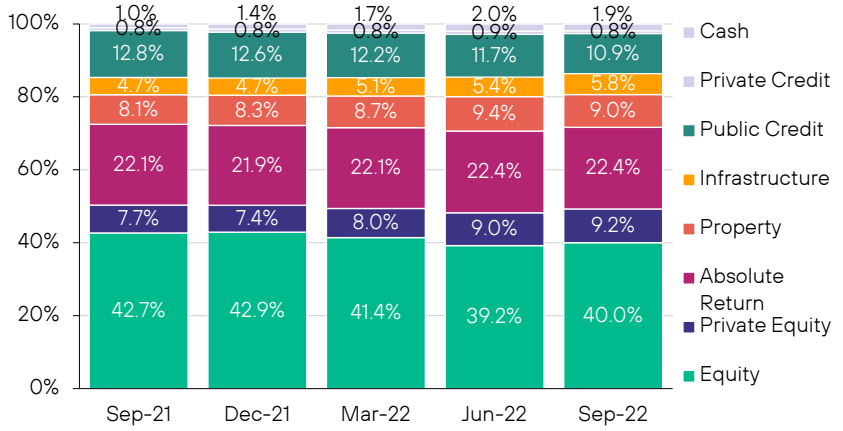
Asset Allocation – 30 September 2022



Assets Relative to Benchmark – 30 September 2022



Asset Allocation Changes Since 30 September 2021



Commentary

- As at September 2022, the Fund's asset allocation remained off-benchmark relative to the target asset allocation; though steps are being taken to address this through continued implementation of the agreed investment strategy.
- The Absolute Return allocation continues to be materially overweight; while the property, infrastructure and private credit allocations remain underweight.
- Private equity also remains overweight, following strong performance over the medium term, relative to other growth asset classes.
- The allocations will be brought more closely in line with the strategic benchmark as the new mandates are agreed and implemented over the year.

Summary

As at September 2022, the Fund's asset allocation was off-benchmark following strategic changes to the Fund's asset allocation agreed by the Committee but 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.

Total Assets

Start of quarter	£4,492m
End of quarter	£4,502m

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%
Public (Diversified) Credit	10.5%
Private Credit	5.0%

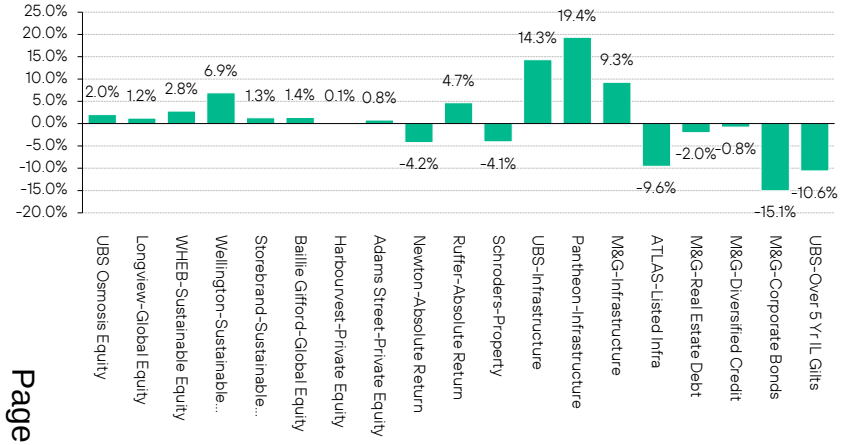
Note: Totals may not sum due to rounding.
Source: Investment managers, Isio calculations.

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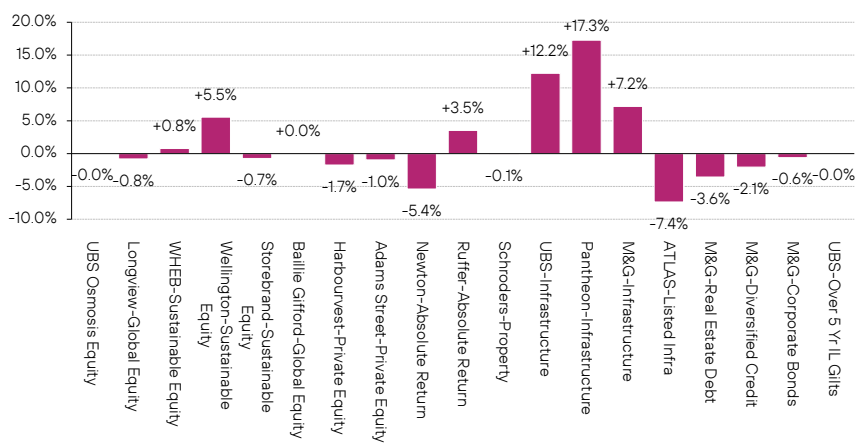
Investment Managers

Performance Summary – to 30 September 2022

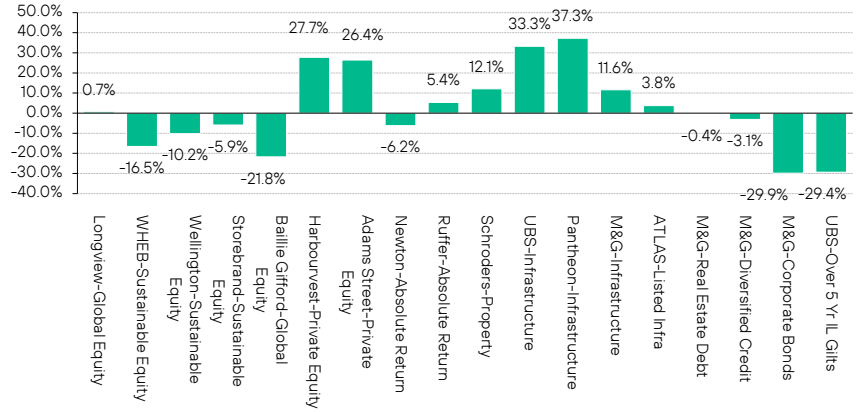
Absolute Return – Q3 2022



Relative Return – Q3 2022



Absolute Return – 12 months



Relative Return – 12 months



Summary

The Fund's mandates delivered mixed absolute performance over Q3, with bond funds delivering the most notable negative returns, as long-dated yields rose significantly.

The Fund's private equity and infrastructure mandates continued to post strong absolute returns over Q3, with write-downs in private market valuations lagged relative to public assets.

Relative performance has been mixed, with the sustainable equity funds struggling to keep pace with their respective benchmarks over the medium term. This is in line with the broader sustainable fund universe, which has been hampered by tilts towards the 'growth' style of investing, which has underperformed over the last year.

The private equity mandates held with Adams Street and Harbourvest remain the stand out absolute and relative performers over the 12 month period, as well as the Pantheon and UBS infrastructure funds.

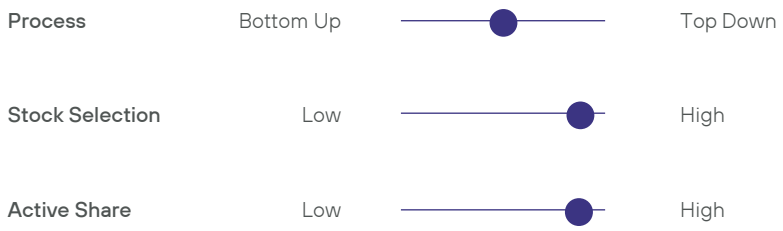
Note: Returns net of fees. 12 month relative and absolute returns are not available for the UBS Osmosis mandate as it was incepted post 30 September 2021.
Source: Investment Managers, Northern Trust, Isio calculations.

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Longview - Global Equity

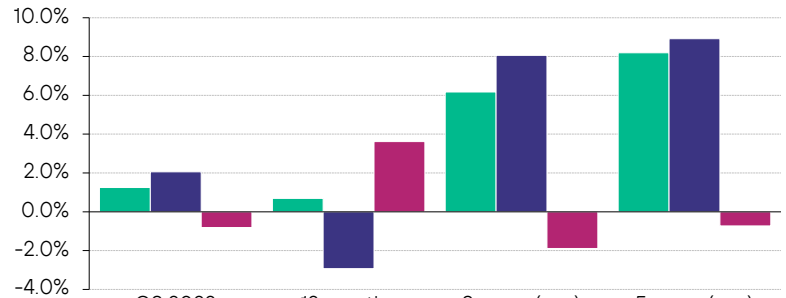
Overview

The strategy utilises a bottom-up approach to invest in 30-35 high quality global companies which have strong business fundamentals and a market capitalisation greater than $5 billion.



Key area	Comments
Key contributors/ detractors	• The fund's underperformance is unsurprising, given the weakness of 'quality' stocks relative to the broad market. • Stock selection in healthcare and communications was the key detractor, with Charter Communications, Sanofi, and IQVIA particularly weighing on relative returns.
Portfolio positioning	• The portfolio remains structurally underweight to the Energy and Materials sectors (which has been a negative for performance over recent periods). • During the quarter, two new holdings were added to the portfolio, Booking Holdings and S&P Global; the portfolio's position in ISS was sold.
Outlook	• Longview expects continued volatility as markets respond to issues around inflation, interest rates and GDP growth. In such an environment we believe a manager, such as Longview, focussed on high quality firms, is well placed.

Performance to 30 September 2022



	Q3 2022	12 months	3 years (p.a.)	5 years (p.a.)
Return	1.2%	0.7%	6.2%	8.2%
Benchmark	2.1%	-2.9%	8.1%	8.9%
Relative	-0.8%	+3.6%	-1.9%	-0.7%

Metrics	Current Quarter	Last Quarter	View/change
Stocks (no.)	33	32	In line with expectations
12m turnover	21%	21%	In line with expectation
Active share	91%	91%	No major developments
Top 3 sectors	Health Care (25%), Financials (21%), IT (16%)		
Top 3 stocks	Marsh & McLennan (3%), United Health (3%), Fiserv (3%)		
Top 3 regions	US (83%), UK (8%), Netherlands (6%)		

Mandate: Active Global Equities

Current Value: £506.6m

Current Weighting: 11.3%

Inception: April 2013

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

Benchmark: MSCI ACWI

Pooled: Via Access Pool

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

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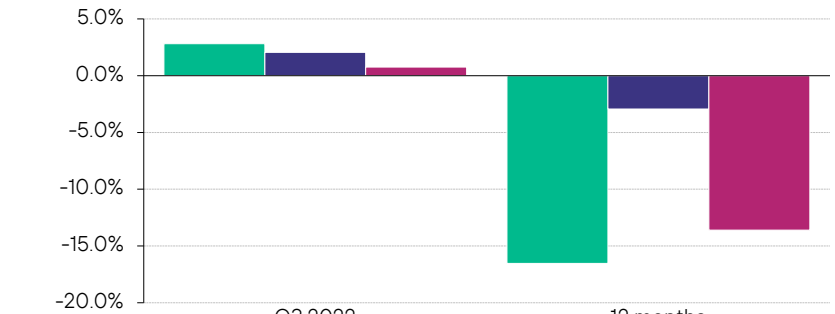
WHEB – Sustainable Equity

Overview

The Fund utilises an unconstrained global equity approach which focuses on investing in companies capitalising on opportunities created by the transition to healthy, low carbon and sustainable economies, across nine broad sustainability themes.

Process	Bottom Up	Top Down
Stock Selection	Low	High
Active Share	Low	High

Performance to 30 September 2022



	Q3 2022	12 months
Return	2.8%	-16.5%
Benchmark	2.1%	-2.9%
Relative	+0.8%	-13.6%

Mandate: ESG focused Global Equity

Current Value: £205.7m

Current Weighting: 4.6%

Inception: December 2020

Benchmark: MSCI World Total Return Net GBP

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

Pooled: No

Key area	Comments
Key contributors/ detractors	• Positive relative performance is in line with expectations given market environment • Water Management and Cleaner energy themes were the greatest positive contributors – Advanced Drainage Systems and First Solar added particular value • Resource Efficiency and Wellbeing themes were the largest detractors
Portfolio positioning	• 1 new addition in Croda (speciality chemicals company) • 2 exits: Intertek (assurance, testing, inspection services) and, AO smith (water heating equipment)
Outlook	• WHEB expect heightened uncertainty through the rest of this year. The Fund's high active share means we expect it to continue to deliver material relative return volatility.

Metrics	Current Quarter	Last Quarter	View/change
Stocks (no.)	42	43	In line with expected range
12m turnover	44%*	14%	Further detail on right
Active share	97%	97%	No major developments
Top 3 sectors	Health Care (31%), IT (28%), Industrials (23%)		
Top 3 stocks	Globus Medical (3%), Danaher (3%), Thermo Fisher (3%)		
Top 3 regions	North America (63%), Western Europe (17%), Japan (9%)		

***12m turnover:** The manager has confirmed that the higher turnover is as a result of the higher market volatility, which led to more upgrades and downgrades and ad hoc redemptions, which resulted in higher trading activity. They expect it to come down in future.

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

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Wellington – Sustainable Equity

Overview

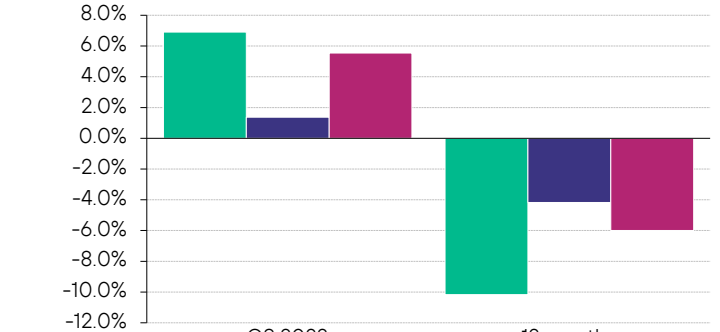
The Fund aims to invest in innovative companies whose core products and services addresses the world's major social and environmental challenges. Wellington choose stocks from the universe list which has been derived from a number of sources such as internal and field research, company meetings, conferences or third party research.

Process	Bottom Up	Top Down
Stock Selection	Low	High
Active Share	Low	High

Key area	Comments
Key contributors/ detractors	• The Fund outperformed, with stock selection the key driver; we view this as a positive given the Fund's bottom-up, stock picking approach. • The portfolio's relative performance also benefitted from style exposures such as its high beta and low leverage.
Portfolio positioning	• The team added three new positions and eliminated two. Whilst the Fund typically has low turnover, this could rise as market volatility presents opportunities for the team. • 46% of active risk is driven by stock specific risk; while 37% is attributable to style exposures (such as small cap bias).
Outlook	• Wellington are aware of the volatility driven by rising inflation, interest rates and supply chain disruptions, and the impact it is having on firms. The team are continuing to re-underwrite portfolio holdings in light of ongoing economic conditions.

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

Performance to 30 September 2022



	Q3 2022	12 months
Return	6.9%	-10.2%
Benchmark	1.4%	-4.2%
Relative	+5.5%	-6.0%

Metrics	Current Quarter	Last Quarter	View/change
Stocks (no.)	68	66	High end of 50-70 range
12m turnover	21%	22%	In line with expectations
Active share	99%	99%	In line with expectations
Top 3 sectors	Industrials (22%), Healthcare (20%), IT (18%)		
Top 3 stocks	Boston Scientific (3%), Danaher (3%), Agilent Technologies (3%)		
Top 3 regions	North America (63%), Emerging Markets (14%), Europe ex UK (12%)		

Mandate: Global Impact Equities

Current Value: £221.1m

Current Weighting: 4.9%

Inception: December 2020

Benchmark: MSCI AC World

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

Pooled: No

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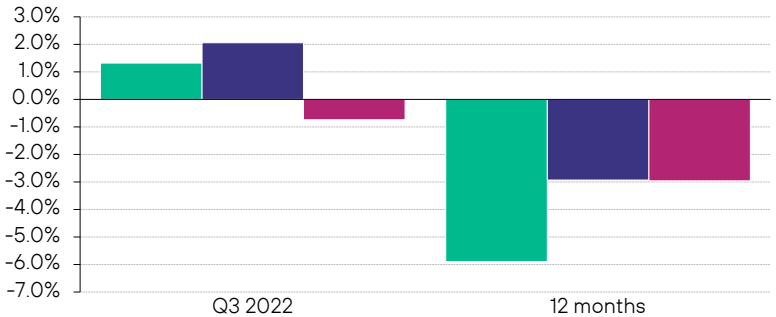
Storebrand – Sustainable Equity

Overview

The Fund adopts an optimised, smart beta approach, investing in global equities with the aim of approximating the performance and risk profile of the index, with an explicit incorporation of ESG and climate-related risks.

Process	Bottom Up	Top Down
Stock Selection	Low	High
Active Share	Low	High

Performance to 30 September 2022



	Q3 2022	12 months
Return	1.3%	-5.9%
Benchmark	2.1%	-2.9%
Relative	-0.7%	-3.0%

Key area	Comments
Key contributors/ detractors	• More significant relative performance than is typical, largely due to performance of excluded energy firms • Lack of exposure to fossil fuel companies such as Exxon Mobil, Shell and ConocoPhillips weighed on performance as energy stocks outperformed • Currency exposure also detracted from returns
Portfolio positioning	• There was very little change in the Fund's positioning over the period as we saw portfolio turnover reduce.
Outlook	• As fossil fuels become more expensive, Storebrand sees renewable energy becoming more attractive; relative performance will continue to be largely driven by energy returns going forward

Metrics	Current Quarter	Last Quarter	View/change
Stocks (no.)	685	685	Stable
12m turnover	14%	17%	Reduction over period
Active share	44%	43%	No major developments
Top 3 sectors	IT (23%), Health Care (14%), Industrials (13%)		
Top 3 stocks	Apple (5%), Microsoft (4%), Amazon (2%)		
Top 3 regions	United States (68%), Japan (7%), Canada (4%)		

Mandate: ESG Focused Global Equities

Current Value: £470.6m

Current Weighting: 10.5%

Inception: December 2020

Benchmark: MSCI World NR

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

Pooled: No

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

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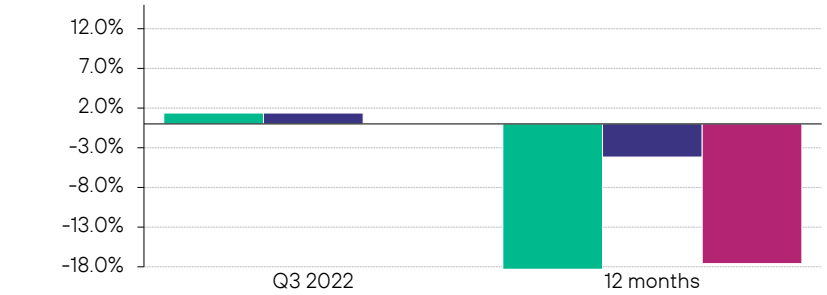
Baillie Gifford – Global Equity

Overview

The Fund utilises an unconstrained global equity approach which focuses on investing in companies displaying above average earnings growth and sustainable competitive advantages in their respective industries, whilst aligning to the UN Paris Agreement climate commitments.

Process	Bottom Up	Top Down
Stock Selection	Low	High
Active Share	Low	High

Performance to 30 September 2022



	Q3 2022	12 months
Return	1.4%	-21.8%
Benchmark	1.4%	-4.2%
Relative	+0.0%	-17.6%

Key area	Comments
Key contributors/ detractors	• The Fund performed in line with its benchmark over the quarter. However, the Fund remains significantly behind over the last 12 months, which can be primarily attributed to negative stock selection within the US. • Notable detractors over this period were SEA Ltd (internet conglomerate) and Shopify (US e-commerce company).
Portfolio positioning	• Two new purchase (MercadoLibre & Shiseido) and three complete sales (Brilliance China Automotive, Carvana, Vimeo). The sales relate to: governance issues, uncertainty in a rising rate environment and concerns of deteriorating competitive advantage, respectively.
Outlook	• BG remain confident that underlying portfolio companies are well-positioned, despite the challenging economic environment. Currently, they are assessing a number of cyclical quality opportunities for inclusion in the portfolio.

Metrics	Current Quarter	Last Quarter	View/change
Stocks (no.)	88	89	Broadly unchanged
12m turnover	19%	16%	In line with expectation
Active share	86%	86%	No developments
Top 3 sectors	Consumer Disc. (20%), Healthcare (19%), Financials (19%)		
Top 3 stocks	Elevance Health (5%), Microsoft (4%), Prosus (3%)		
Top 3 regions	North America (63%), Europe ex UK (16%), Emerging Markets (10%)		

Mandate: Global Equities

Current Value: £176.7m

Current Weighting: 3.9%

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

Notable Developments

The Fund switched it's holding from the Global Alpha Fund to the Paris Aligned Version during the quarter.

Note: Totals may not sum due to rounding. Performance quoted net of fees. The Fund switched into the Paris-aligned version of the Global Alpha Fund over Q2 2022 and performance is combined.
Source: Investment manager, Northern Trust, Isio calculations.

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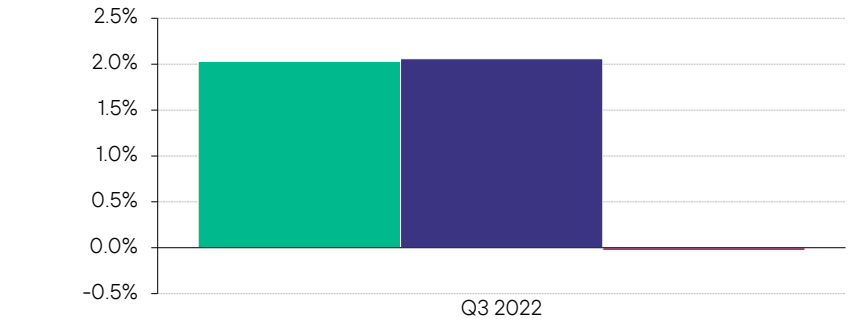
UBS / Osmosis – Sustainable Equity

Overview

The Fund adopts an optimised, smart beta approach, investing in global equities with the aim of approximating the performance and risk profile of the index, with an explicit incorporation of ESG and climate-related risks.

Process	Bottom Up		Top Down
Stock Selection	Low		High
Active Share	Low		High

Performance to 30 September 2022



	Q3 2022
Return	2.0%
Benchmark	2.1%
Relative	-0.0%

Key area	Comments
Key contributors/ detractors	• Underweight positions to US firms such as Intel, Alphabet and AT&T provided strong active return contributions. • The largest active weights in the portfolio, for example Apple, Crown Castle and Accenture, detracted from return.
Portfolio positioning	• US Materials company Freeport-McMoRan, and Anglo-American, a British Materials firm, have been added. • Merck & Co, a US Health Care firm, has been sold completely. • The overall sector and country weights have remained similar to the previous quarter, maintaining the usual tight factor exposures to the MSCI World benchmark.
Outlook	• Low active risk means that future active returns will continue to be low, with relative performance driven by fossil fuel returns and the success of the resource efficiency signal.

Metrics	Current Quarter	Last Quarter	View/change
Stocks (no.)	601	569	Large change, but in line with quant process
12m turnover	24%	24%	Remained constant
Active share	48%	47%	Low, in line with expectations
Top 3 sectors	IT (23%), Health Care (16%), Financials (13%)		
Top 3 stocks	Apple (6%), Microsoft (4%), UnitedHealth Group (2%)		
Top 3 regions	United States (70%), Japan (6%), UK (4%)		

Mandate: ESG Focused Global Equities

Current Value: £221.0m

Current Weighting: 4.9%

Inception: March 2022

Benchmark: MSCI World NR

Objective: Achieve superior risk-adjusted returns by targeting maximum resource efficiency exposure while maintaining a tight tracking error to the MSCI World.

Pooled: Via Access Pool

Note: Totals may not sum due to rounding. Performance quoted net of fees. Performance shown since inception of the Fund's investment on 3 March 2022.
Source: Investment manager, Northern Trust, Isio calculations.

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Harbourvest – Private Equity

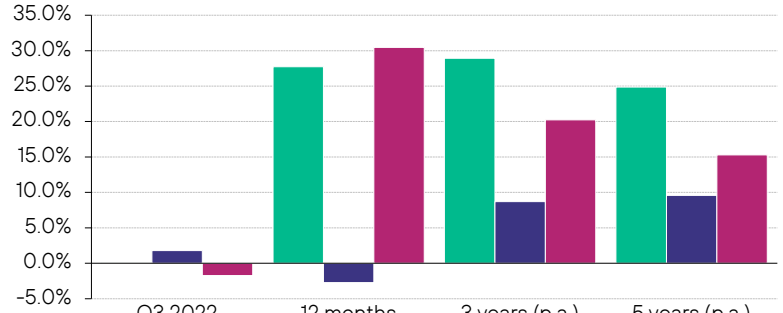
Overview

HarbourVest manage a global private equity portfolio for the Fund, invested globally across a range of subclasses (buyout, venture, debt/credit, among others).

Style	Multiple: Buyout, venture, credit
Stage	Multiple: Primary, secondary
Access	Fund-of-Funds
Vintage Year	Multiple: 2004-2021
Regional Focus	Global

Key area	Comments (3 month lagged)
Performance	• Off the back of very strong performance we are slowly starting to see the public market equity sell-off feed into private equity valuations, which are often to delayed in adjusting to macro factors • Exit activity and deal flow have also begun to slow down, as investors react to ongoing macro-economic uncertainty, and movements in public market valuations year to-date
Developments over quarter	• Several funds distributed proceeds back to investors during Q2,
Outlook	• HarbourVest have not provided specific outlook for the portfolio. However we believe that broad private equity markets may begin to see write-downs in valuations (and thus return compression) over the coming months.

Performance to 30 September 2022



	Q3 2022	12 months	3 years (p.a.)	5 years (p.a.)
Return	0.1%	27.7%	28.9%	24.9%
Benchmark	1.8%	-2.7%	8.7%	9.6%
Relative	-1.7%	+30.5%	+20.2%	+15.3%

Metrics (3m lag)	Current Quarter	Last Quarter	View/change
IRR (net)	11.2%	11.8%	As expected
Capital Deployed/Raised	63%	61%	Slight increase
DPI	1.0x	1.0x	No change
TVPI	1.8x	1.9x	Slight decrease
Top 3 subclasses	Venture (50%), Buyout (49%), Credit (1%)		
Top 3 regions	North America (58%), Europe (24%), Asia (16%)		

Mandate: Private Equity

Current Value: £198.9m

Current Weighting: 4.4%

Inception: January 2003

Benchmark: MSCI World +1.5%

Objective: MSCI World +3.0%

Pooled: No

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

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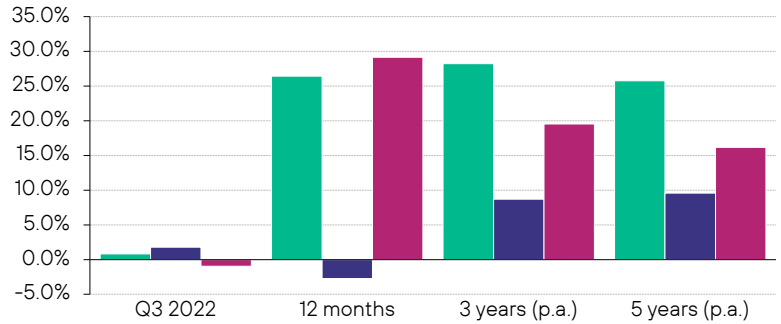
Adams Street – Private Equity

Overview

Adams Street manage a global private equity portfolio for the Fund, combining Partnerships and Co-investments, invested globally across a range of subclasses (buyout, venture, energy, debt/credit, among others).

Style	Multiple: Buyout, venture, debt
Stage	Multiple: Primary, secondary, co-investment
Access	Fund-of-Funds
Vintage Year	Multiple: 2003-2019
Regional Focus	Global

Performance to 30 September 2022



	Q3 2022	12 months	3 years (p.a.)	5 years (p.a.)
Return	0.8%	26.4%	28.2%	25.8%
Benchmark	1.8%	-2.7%	8.7%	9.6%
Relative	-1.0%	+29.2%	+19.5%	+16.2%

Mandate: Private Equity

Current Value: £216.7m

Current Weighting: 4.8%

Inception: March 2003

Benchmark: MSCI World +1.5%

Objective: MSCI World +3.0%

Pooled: No

Key area	Comments (3 month lagged)
Performance	• Majority of funds experienced a small reduction in IRR and multiples over the quarter – this could continue over the short to medium term as private equity valuations partially catch-up with the volatility seen in the public markets
Developments over quarter	• No significant developments over the quarter • c. $6.0m in distributions over Q3 • c. $8.3m capital called over Q3
Outlook	• Adams Street believe that the sell-off in public markets over Q3, combined with the relative resilience of private market valuations, could underpin an upsurge in secondary market transaction volume over the short to medium term – this is in line with our views.

Metrics (3m lag)	Current Quarter	Last Quarter	View/change
IRR (net)	12.3%	12.9%	As expected
Capital Deployed/Raised	75%	74%	As expected
DPI	1.1x	1.1x	Unchanged
TVPI	1.9x	2.0x	Slight reduction
Top 3 subclasses (Partnerships)	Venture (48%), Buyout (46%), Other (6%)		
Top 3 regions (Partnerships)	United States (65%), Western Europe (19%), Asia (12%)		

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

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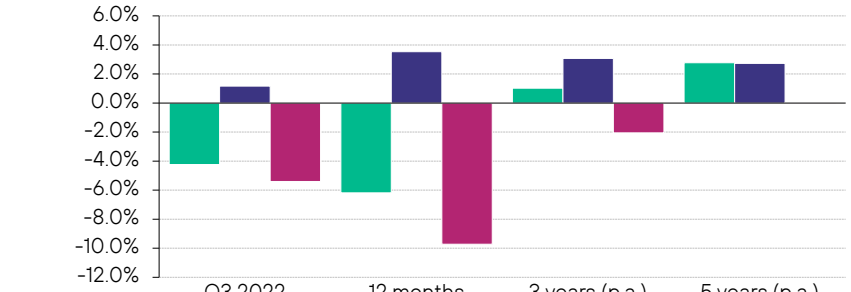
Newton – Absolute Return

Overview

The Fund aims to generate returns by investing in a wide universe of global securities. The Fund allocates between return seeking, and risk reducing positions, dynamically changing asset allocations over time in order to add value. The primary aim is to deliver positive risk adjusted returns in all market economic environments.

Target Return	Low	High
Return Drivers	Market beta	Active management
Diversification	Low	High

Performance to 30 September 2022



	Q3 2022	12 months	3 years (p.a.)	5 years (p.a.)
Return	-4.2%	-6.2%	1.0%	2.8%
Benchmark	1.2%	3.5%	3.1%	2.7%
Relative	-5.4%	-9.7%	-2.1%	+0.0%

Key area	Comments
Key contributors/ detractors	Main detractor of returns, were positions in Health Care and Utilities equities. Exposure to Oil and gas companies partially offset these losses. Alternative exposure failed to provide diversification – Newton's carbon exposure declined as proposed policy changes in this market impacted the carbon price.
Portfolio positioning	Newton increased exposure to interest rate sensitivity through the purchase of 20-year US Treasuries. They have also increased US dollar exposure based on the belief that interest-rates will remain higher in the US for longer which should support the currency.
Outlook	The Fund remains cautiously positioned in what they see as a challenging market environment. However they expect the market volatility should create opportunities to purchase assets at significant discounts to fair market value.

Metrics	Current Quarter	Last Quarter	View/change
Correlation to equity (1 year)	63%	65%	In line with expectations
Volatility (1 year)	7.7%	7.3%	In line with expectations
Top 3 asset-classes	Equities (38.7%), Alternatives (20.2%), Government Bonds (14.9%)		
Equity sector breakdown	Healthcare (7.2%), Consumer Services (6.4%), Financials (5.2%),		

Mandate: Diversified Growth Fund

Current Value: £469.2m

Current Weighting: 10.4%

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

Note: Totals may not sum due to rounding. Performance quoted net of fees.

Source: Investment manager, Northern Trust, Isio calculations.

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Ruffer – Absolute Return

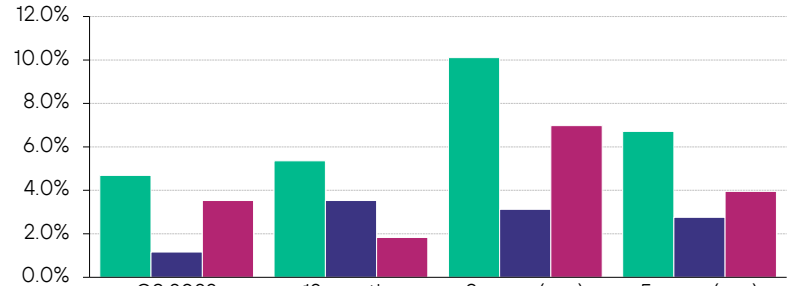
Overview

The Fund has two investment aims; to deliver positive returns in any rolling twelve month period and ahead of the risk-free rate. The strategy has a strong focus on capital preservation, the core investment objective of the Fund.

Target Return	Low	High
Return Drivers	Market beta	Active management
Diversification	Low	High

Key area	Comments
Key contributors/ detractors	• Derivative strategies which provide positive returns when markets fall were key drivers of positive returns. Ruffer held these strategies across US and European credit as well as equity. • Gold and gold equities was the largest detractor as the gold price fell by 8%. Ruffer reduced exposure early in Q3
Portfolio positioning	• Equity was reduced to historic Fund lows (c.15%), following the rally in August. • Protection strategies were increased mid-quarter whilst towards the end of Q3 Ruffer increased exposure to long-dated inflation linked bonds following sharp falls.
Outlook	• Ruffer believe the market environment has changed to one of higher more volatile inflation. They believe increased interest rates will impact the correlation between asset classes and expect to remain cautiously positioned.

Performance to 30 September 2022



	Q3 2022	12 months	3 years (p.a.)	5 years (p.a.)
Return	4.7%	5.4%	10.1%	6.7%
Benchmark	1.2%	3.5%	3.1%	2.8%
Relative	+3.5%	+1.8%	+7.0%	+4.0%

Metrics	Current Quarter	Last Quarter	View/change
Correlation to equity (1 year)	27%	41%	Lower than expected
Volatility (1 year)	6.3%	6.2%	In line with expectations
Top 3 asset-classes	Short-dated bonds (32.3%), Index linked gilts (26.8%) Cash (8.9%)		
Top 3 currency	Equity protection (2.6%), Long-dated inflation-linked bonds (1.0%), US dollar (1.0%)		

Mandate: Diversified Growth Fund

Current Value: £539.8m

Current Weighting: 12.0%

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

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

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Schroders - Property

Overview

The Schroders Property Fund is a medium risk balanced property fund investing across the retail, offices, industrials and alternative property sectors.

Expected volatility	Low	High
Lease Length	Short	Long
Shape of outcomes	0% Contractual	100% Contractual
Diversification	Low	High

Performance to 30 September 2022



	Q3 2022	12 months	3 years (p.a.)	5 years (p.a.)
Return	-4.1%	12.1%	7.0%	6.5%
Benchmark	-4.0%	13.2%	7.6%	6.8%
Relative	-0.1%	-1.1%	-0.6%	-0.3%

Mandate: Balanced Property

Current Value: £404.1m

Current Weighting: 9.0%

Inception: December 2009

Benchmark: IPD All Balanced Fund Index

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

Pooled: No

Key area	Comments
Key contributors/ detractors	• Value add holdings (-0.5%) and core funds (-0.2%) were key detractors over the period • Local Retail Fund was the strongest contributor, while the Schroders Special Situations Fund and Future Workplace Property Unit Trust were also accretive to performance. • Industrial Property Investment Fund was the largest detractor; though the fund has added significant value over the medium term.
Portfolio positioning	• The Portfolio is positioned to withstand the expected period of weaker returns in property markets with emphasis on defensive holdings e.g. convenience retail and core, income focused holdings.
Outlook	• Schroders expects capital values to decline on average by 15-20% end-2023; however the Fund's defensive positioning is expected to aide outperformance in the down swing in markets.

Metrics (3m lag)	Current Quarter	Last Quarter	View/Change
Net acquisitions / (Sales)	(£0.4m)	£2.6m	No major change
Cash yield	3.1%	2.8%	Increased given capital values falls.
No of assets	18	19	-1
Top 3 sectors	Industrial (42%), Alternatives (via student accommodation, social supported housing, retirement living and care homes) (17%) and Regional Offices (14%)		

Team Update: Patrick Bone left his position as Fund manager within the Schroder Capital Real Estate Solutions team at the end of September 2022. we view Patrick's departure as a significant loss for the team but note that this has no direct impact on the East Sussex mandate. We believe Naomi Green, the PM of the East Sussex mandate has the necessary skill set to continue to manage the portfolio going forward. We also hold concerns with Schroder Capital Real Estate Solutions wider business viability going forward as detailed in our recent update to the IWG.

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

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UBS - Infrastructure

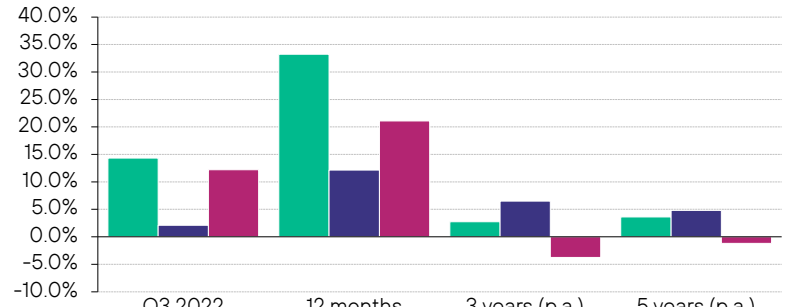
Overview

The fund provides investors with access to a diversified portfolio across Fund I and Fund III infrastructure assets. 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.

Expected volatility	Low	High
Lease Length	Short	Long
Shape of outcomes	0% Contractual	100% Contractual
Diversification	Low	High

Key area	Comments
Portfolio positioning	• Below target performance continued by Fund I, with both revenue and operating profit in large holding Southern Water (SW) coming in below its budget. • UBS notes customer cash for SW is £3.9m higher than budget, with underperformance of EBDITA being consequential to this. • Change in performance of Fund III since last quarter driven primarily by accounting of cashflows between share classes. We are discussing this with UBS.
Outlook	• The Advisory Board of Fund III was closed to further fundraising on 12 May 2022 with 68.4% of committed capital put in four assets with remaining capital intending to be used for diversifying and growing current portfolio. • The Fund continues to see deal flows, particularly in digital infrastructure, the energy transition, utilities and transport.

Performance to 30 September 2022



	Q3 2022	12 months	3 years (p.a.)	5 years (p.a.)
Return	14.3%	33.3%	2.8%	3.6%
Benchmark	2.1%	12.2%	6.5%	4.8%
Relative	+12.2%	+21.1%	-3.8%	-1.2%

Metrics (3m lag)	Current Quarter	Last Quarter	View/Change
Net SI return (Fund I)	1.9%	2.9%	Decrease below expectations
Net SI return (Fund III)	18.14%	11.0%	Material increase as noted on left
Total value to paid-in (Fund I)	1.14%	1.26x	Decrease below expectations
Total value to paid-in (Fund III)	1.27x	1.20x	Small increase
Top 3 sectors (Fund I current quarter)	Power generation (60%), Water (25%), Wastewater (15%)		

Mandate: Infrastructure

Current Value: £39.0m

Current Weighting: 0.9%

Inception: January 2008

Benchmark: CPI + 2%

Objective: CPI + 3%

Pooled: No

Notable Actions

The UBS infrastructure funds should be monitored closely going forward given weak historical performance. Isio have engaged UBS to present a summary of the additional monitoring they are able to provide. UBS have discussed with Officers and are in the process of implementation.

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

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Pantheon - Infrastructure

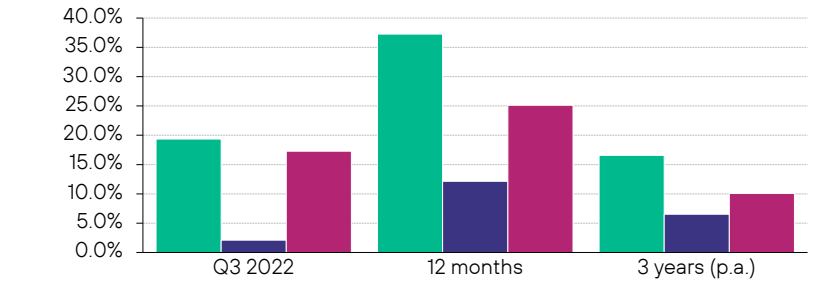
Overview

The fund provides investors with access to a diversified portfolio of infrastructure assets.

It focuses on investments which provide a contracted or regulated income stream, which enables the Fund to generate robust cash yields which are inflation-linked, making it attractive to pension scheme investors.

Expected volatility	Low	High
Lease Length	Short	Long
Shape of outcomes	0% Contractual	100% Contractual
Diversification	Low	High

Performance to 30 September 2022



	Q3 2022	12 months	3 years (p.a.)
Return	19.4%	37.3%	16.6%
Benchmark	2.1%	12.2%	6.5%
Relative	+17.3%	+25.1%	+10.1%

Mandate: Infrastructure

Current Value: £87.8m

Current Weighting: 1.9%

Inception: May 2018

Benchmark: CPI + 2.5%

Objective: CPI + 3%

Pooled: No

Key area	Comments
Key contributors/ detractors	• Vantage Datacenters has the largest since inception IRR (at underlying asset level level) as at end June (53%); a number of Pantheon's other holdings also have IRRs upwards of 20%. GIP Gemini Fund I has the lowest since inception IRR (-3.5%). • The programme has performed very strongly since inception, with co-investments, secondaries and primaries all delivering since inception gross IRRs of more than 7.5%.
Portfolio positioning	• The Fund continues to allocate capital, with $3.5m commitments drawn down over the period.
Outlook	• The Fund has $117.0m committed, and $30.1m undrawn. The manager is regularly taking advantage of market opportunities. • While the fund has benefitted from rising inflation, we note that rising interest rates could push down valuations going forward.

Metrics (3m lag)	Current Quarter	Last Quarter	View/change
Cash yield	17.3%	14.8%	2.5%
Net acquisitions/sales	-$57.2	-$187.0	-$244.2
Average discount rate	2.96%	3.30%	-0.34%
Number of assets	141	45	96
Top 3 sectors	Digital, Transport and Logistics, Renewables / Efficiency		

Note: Totals may not sum due to rounding. Performance quoted net of fees. Manager data is lagged by one quarter.
Source: Investment manager, Northern Trust, Isio calculations.

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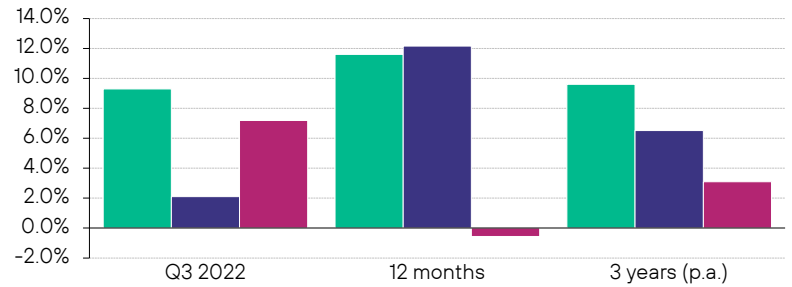
M&G - Infrastructure

Overview

The fund provides investors with access to a diversified portfolio, Brownfield III and Greenfield II, infrastructure assets. It focuses on investments which provide a contracted or regulated income stream, which enables the Fund to generate robust cash yields which are inflation-linked, making it attractive to pension scheme investors.

Expected volatility	Low	High
Lease Length	Short	Long
Shape of outcomes	0% Contractual	100% Contractual
Diversification	Low	High

Performance to 30 September 2022



	Q3 2022	12 months	3 years (p.a.)
Return	9.3%	11.6%	9.6%
Benchmark	2.1%	12.2%	6.5%
Relative	+7.2%	-0.6%	+3.1%

Mandate: Infrastructure

Current Value: £45.7m

Current Weighting: 1.0%

Inception: October 2018

Benchmark: CPI + 2.5%

Objective: CPI + 3%

Pooled: No

key area	Comments (3m lag)
Key contributors/ detractors	• The Brownfield fund continued to perform strongly, with capital uplifts across all assets. Neos Networks remains the only portfolio company currently held at less than 1.0x cost. • Greenfield returned 27% driven by Zenobe (whose valuation was uplifted from 1.5x to 2.5x invested capital). This was driven by operating results and investor interest in the company.
Portfolio positioning	• The Greenfield fund is in early stages of deployment, and is expected to continue to draw capital over the near term. • As at the end of quarter, the net IRR of Brownfield III stood at 9%, with 83% of available commitments allocated.
Outlook	• We expect the less mature Greenfield fund to draw capital over the near term, with M&G seeing a strong deal pipeline. • Brownfield is to explore bolt-on acquisitions across regions to accommodate further growth.

Metrics (3m lag)	Brownfield	Greenfield
Portfolio Value to current paid in capital	1.2x	1.5x
Number of assets	6 investments	5 investments
Top sectors	Transport, Fibre Telecoms, Energy and Utilities	Telecoms and Energy Transition

Note: Totals may not sum due to rounding. Performance quoted net of fees

Source: Investment manager, Northern Trust, Isio calculations. Manager information has a one quarter lag.

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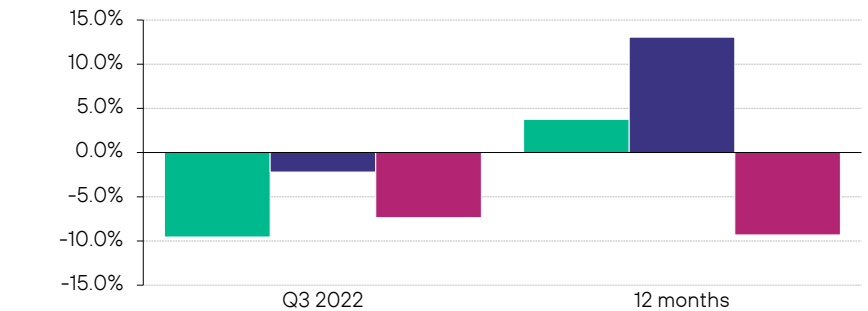
Atlas - Listed Infrastructure

Overview

The fund provides investors with access to a diversified portfolio of brownfield and greenfield infrastructure assets. It focuses on investments which provide a contracted or regulated income stream, which enables the Fund to generate robust cash yields which are inflation-linked, making it attractive to pension scheme investors.

Expected volatility	Low	High
Lease Length	Short	Long
Shape of outcomes	0% Contractual	100% Contractual
Diversification	Low	High

Performance to 30 September 2022



	Q3 2022	12 months
Return	-9.6%	3.8%
Benchmark	-2.2%	13.1%
Relative	-7.4%	-9.3%

Key area	Comments
Key contributors/ detractors	• Overall portfolio returned below reference index during quarter with the key detractor being European stock selection in the Communications and Electric sectors. • At a stock level, there were strong positive returns from holdings in PG&E (US Electric) which returned +25% and was the sole positive contributor; while SES Global, Enel and United Utilities weighed on performance.
Portfolio positioning	• Atlas took positions in Hera S.p.A, E.ON (European Utilities) and Cellnex (European Communications) while increasing positions in Enel (European Utilities) and United Utilities (UK Utilities).
Outlook	• The net impact of recent changes is to increase the expected return of the portfolio whilst reducing GDP sensitivity and maintaining inflation protection – a more defensive position.

Metrics	Current Quarter	Last Quarter	View/change
Cash yield	4.4%	3.9%	Increase due to fall in portfolio value
Net acquisitions/sales	3 new positions established/ 2 positions increased/ 1 position exited and 2 reduced.	6 positions sold/reduced/ 8 positions established/increased	Within expectations
Number of individual positions in portfolio	22	22	Within expectations
Top 3 sectors	Electric utilities (36%), Airports (15%) and Communications (14%)		

Mandate: Global Infrastructure Equity

Current Value: £86.7m

Current Weighting: 1.9%

Inception: December 2020

Benchmark: FTSE Developed Core 50/50 Infrastructure Index

Objective: CPI + 5%

Pooled: No

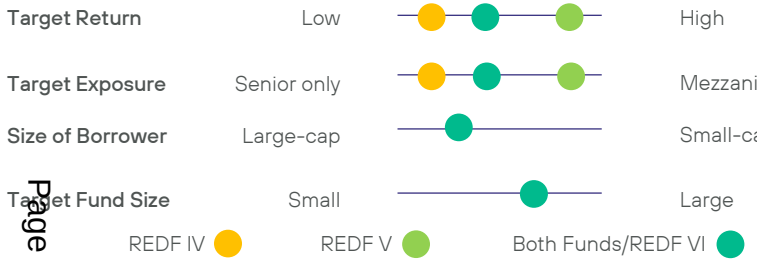
Note: Totals may not sum due to rounding. Performance quoted net of fees. Cash yield is Prospective portfolio yield, pre cash, pre withholding
Source: Investment manager, Northern Trust, Isio calculations.

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M&G – Real Estate Debt

Overview

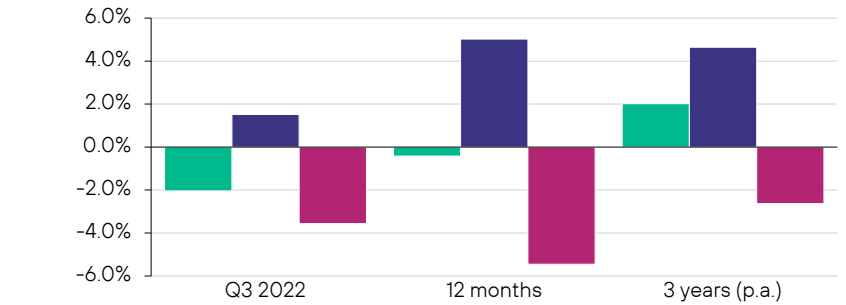
The Funds directly originate private loans that are secured by commercial real estate. REDF VI invests directly in whole loans, while REDF IV and V obtain senior and junior exposure respectively. The Funds are UK and Europe focused, but have scope to invest in the US. As the Funds' investment periods ended in June 2021. they are now in their reinvestment periods, which will run until December 2022.



Key area	Comments
Capital Deployment	• Funds V and VI made one new loan each to existing borrowers; one secured against prime retail properties and the other prime offices. • **Project Gate** (office and residential financing) was repaid in full (across Funds IV / V / VI) .
Minor/Major Watchlist Names	• **Project Charlie** (major): The Sponsor signed a lease with the Berlin City Council, filling the major vacancy on the site present since 2021. The loan was de-escalated to the minor watchlist in Sept. • **Project Genesis** (major): Vacancy of shopping centre continues to fall. A planning application to convert a major retail unit to mixed use was accepted by the City Council over Q2. M&G expect the approval to make the position more attractive for a future sale.
Outlook	• M&G are applying a more cautious approach to underwriting, but see opportunities with banks stepping back. M&G are targeting better margins and lower leverage under current conditions.

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

Performance to 30 September 2022



	Q3 2022	12 months	3 years (p.a.)
Return	-2.0%	-0.4%	2.0%
Benchmark	1.5%	5.0%	4.7%
Relative	-3.6%	-5.5%	-2.6%

(IV / V / VI)	Q1 2022	Q4 2021	View/change
IRR (gross projected)	3.3% / 11.7% / 5.9%	3.3% / 11.5% / 5.8%	Uptick for V / VI. All on target.
Total capital invested	118% / 104% / 105%	116% / 97% / 103%	All largely invested
Total Positions	31 / 14 / 51	32 / 14 / 51	Stable
Top 3 sectors	2 / 2 / 2	3 / 3 / 3	One asset stabilised
Phase	REDF IV: Office (27.5%), Residential (22.0%), Retail (18.2%) REDF V: Office (31.1%), Retail (30.4%), Residential (14.6%) REDF VI: Office (34.6%), Retail (22.5%) Residential (17.0%)		

Mandate: Private Debt

Current Value: £36.6m

Current Weighting: 0.8%

Inception: April 2019

Benchmark: Benchmark: 3m LIBOR +4%

Objective: Objective: 3m LIBOR +5%

Pooled: No

Notable Developments

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.

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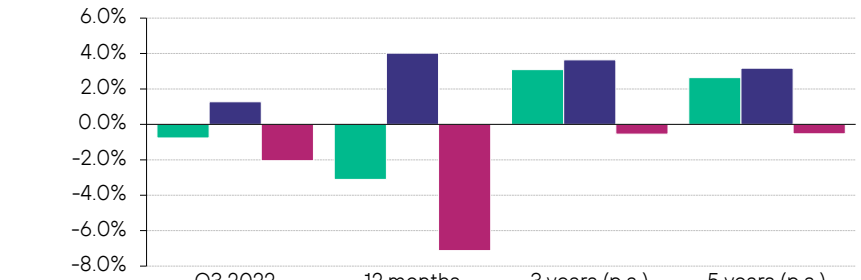
M&G - Diversified Credit

Overview

The Fund aims to take advantage of diversified opportunities in public credit markets, such as investment grade bonds, high yield bonds, leveraged loans and asset backed securities. M&G will seek to protect capital when the Fund is not being adequately compensated for taking risk. Currency and interest rate risks are typically hedged out of the portfolio.

Target Return	Low	●	High
Return Drivers	Sector Allocation	●	Credit Selection
Interest Rate Sensitivity	Low	●	High
Diversification	Low	●	High

Performance to 30 September 2022



	Q3 2022	12 months	3 years (p.a.)	5 years (p.a.)
Return	-0.8%	-3.1%	3.1%	2.6%
Benchmark	1.3%	4.0%	3.6%	3.2%
Relative	-2.1%	-7.1%	-0.6%	-0.5%

Mandate: Multi Asset Credit

Current Value: £283.4m

Current Weighting: 6.3%

Inception: November 2009

Benchmark: 3 Month Libor +3%

Objective: 3 Month Libor +5% (gross)

Pooled: Via Access Pool

Key area	Comments
Key contributors/ detractors	• Positive Q3 performance was primarily driven by exposure to corporate bonds (+0.5%) and leveraged loans (+0.2%), however the Fund underperformed its objective. • The Fund provided protection in falling markets, with low duration helping to preserve value relative to wider public credit markets.
Portfolio positioning	• M&G switched to longer dated and newly issued bonds with current issuers to capture improved relative value. • While this increased spread duration, this was offset somewhat by the increased cash position (c.17%) as M&G increased liquidity ahead of potential further redemptions.
Outlook	• M&G are seeking attractive entry points to deploy cash where there is a misalignment between pricing and risk.

Metrics	Current Quarter	Last Quarter	View/change
Yield	6.6%	5.2%	Increased due to rising gilt yields
Average credit rating	BBB+	BBB+	No change
Modified duration (years)	-0.15	0.0	No significant change
Spread duration (years)	3.7	3.6	Slight increase
Number of issuers	437	461	As expected

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

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M&G - Corporate Bonds

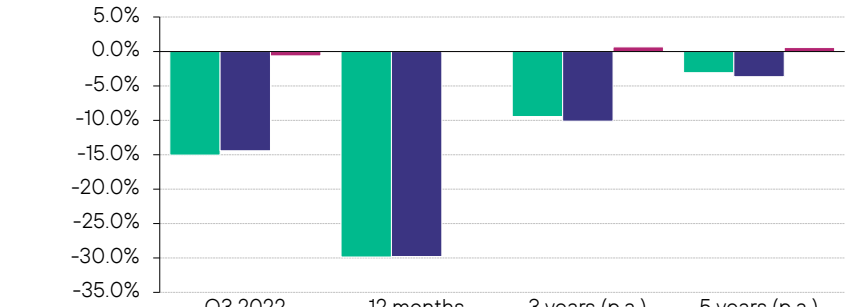
Overview

The Fund invests in a variety of UK Corporate Bonds, including but not limited to Industrial, Financial, Sovereign and Utility bonds.

Target Return	Low		High
Return Drivers	Sector Allocation		Credit Selection
Interest Rate Sensitivity	Low		High
Diversification	Low		High

Key area	Comments
Key contributors/ detractors	• Stock selection added value over the quarter, while sector selection detracted from relative performance. • Industrial were the strongest contributor, with both active positioning and security selection contributing. • The overweight in sovereign debt weighed on performance.
Portfolio positioning	• The manager selectively added risk into the portfolio and reduced the underweight position in credit spread duration relative to the benchmark, as spreads widened. • Interest rate risk was maintained as benchmark neutral.
Outlook	• M&G note that with global inflation continuing to rise, central bank policy will be aggressive until inflation abates, even at the expense of driving recessions in major economies. • M&G are seeing selective opportunities to add positions where they believe markets have mispriced true credit risk.

Performance to 30 September 2022



	Q3 2022	12 months	3 years (p.a.)	5 years (p.a.)
Return	-15.1%	-29.9%	-9.5%	-3.1%
Benchmark	-14.4%	-29.8%	-10.1%	-3.7%
Relative	-0.6%	-0.1%	0.7%	+0.6%

Metrics	Current Quarter	Last Quarter	View/change
Yield	6.6%	4.4%	In line with expectations, given valuations have fallen
Average credit rating	A	A	No change
Modified duration	9.3	10.2	Interest rate sensitivity will fall as the yield to maturity rises

Mandate: Corporate Bonds

Current Value: £112.2m

Current Weighting: 2.5%

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

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

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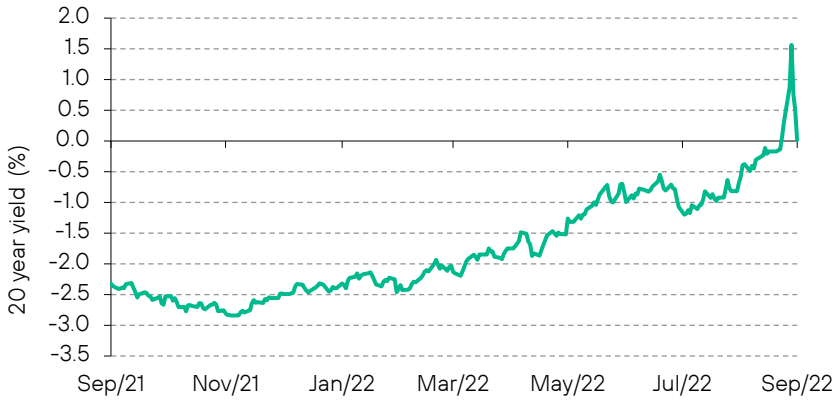
UBS – Over 5 Year Index-linked Gilts

Overview

The Fund 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.

Target Return	Low		High
Return Drivers	Sector Allocation		Credit Selection
Interest Rate Sensitivity	Low		High
Diversification	Low		High

Real Gilt Yields – Last 12 months



Performance to 30 September 2022



	Q3 2022	12 months	3 years (p.a.)
Return	-10.6%	-29.4%	-10.7%
Benchmark	-10.6%	-29.3%	-10.7%
Relative	-0.0%	-0.1%	-0.0%

Mandate: Index Linked Gilts

Current Value: £96.6m

Current Weighting: 2.1%

Inception: February 2018

Benchmark: FTSE Index- Linked Gilts Over 5 Years

Objective: Match benchmark

Pooled: Via Access Pool

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

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Appendices

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

A2: Explanation of Market Background

A3; How to Read the Fund Manager Pages

A4: Disclaimers

Market Background – Global Equity

Regional Returns – Q3 2022



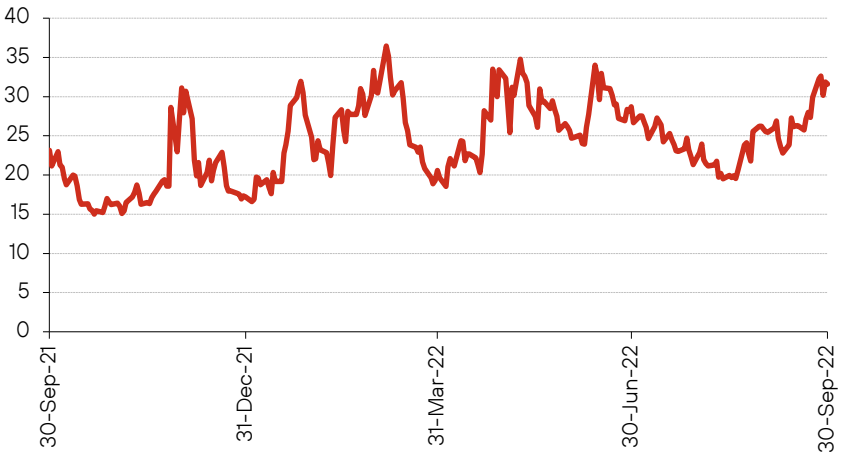
	World	UK	North America	Europe exc UK	Japan	Emerging Markets
Sterling	1.8%	-3.4%	3.4%	-2.3%	0.9%	-3.6%
Local	-4.3%	-3.4%	-4.7%	-4.7%	-1.2%	-8.0%

Sector Returns – Q3 2022 (Local)



	Financial	Utilities	Consum. Staples	Consum. Discret.	Energy	Health	Tech
Sector	-6.6%	-8.6%	-7.1%	-3.0%	-2.9%	-7.3%	-7.5%

VIX Volatility Index – Last 12 months



Commentary

- Equity markets fell, as monetary conditions continued to tighten. In July, investors hoped worsening economic conditions would lead central banks to be less aggressive going forward, spurring a rally. However negative performance returned in September.
- European equities declined, primarily due to the ongoing energy crisis, which contributed to inflationary pressures. US equities also performed negatively as the Federal Reserve raised interest rates by 0.75% for the third consecutive meeting.
- UK equities fell over, with the market reacting poorly to ongoing political uncertainty. A key concern that gripped markets was the fiscal spending plans announced by the Chancellor as part of the 'mini-budget', and the potential impact on inflation and interest rates. Consumer discretionary spending was also negatively impacted by the rising cost of living, driving investor fears around an economic slowdown.
- Emerging Markets underperformed, which is to be expected given the region's sensitivity to global economic growth prospects, geopolitical tensions and the strength of the US dollar.

Summary

Global equity markets fell over Q3, largely due to investor sentiment continuing to be impacted by rising inflation and the continued tightening of monetary policy. Global central banks remained committed to tackling inflation through the implementation of further interest rate hikes and quantitative tightening.

European equities continued to be negatively impacted by energy supply shortages, causing energy prices to soar in the region.

UK equities declined during the quarter, with political developments continuing to cause instability in markets. However, the backdrop of the weakened pound and greater exposure to energy companies led to outperformance vs other regions.

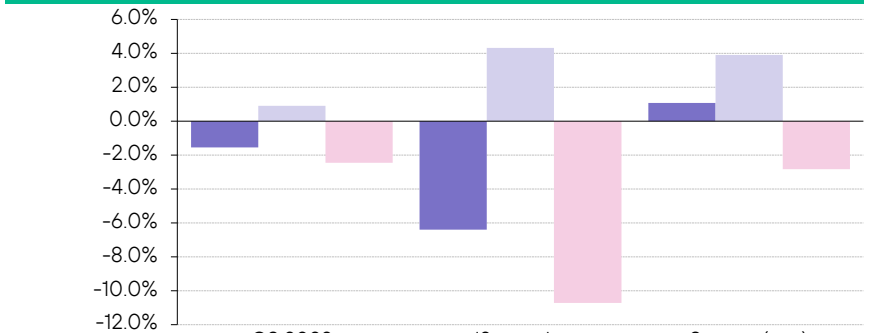
As Sterling weakened against the majority of other currencies, in particular against the US dollar, unhedged foreign equities outperformed their hedged/local currency counterparts.

Note: Please see the 'Explanation of Market Background' appendix for details of the underlying indices. Please note that sector returns are based on local USD pricing.
Source: Refinitiv.

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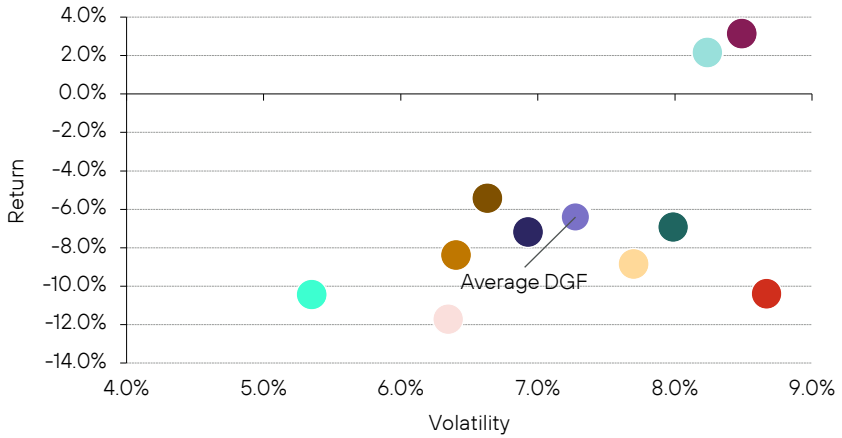
Market Background – Diversified Growth Funds ("DGFs")

Sample Manager Average Returns– Q3 2022

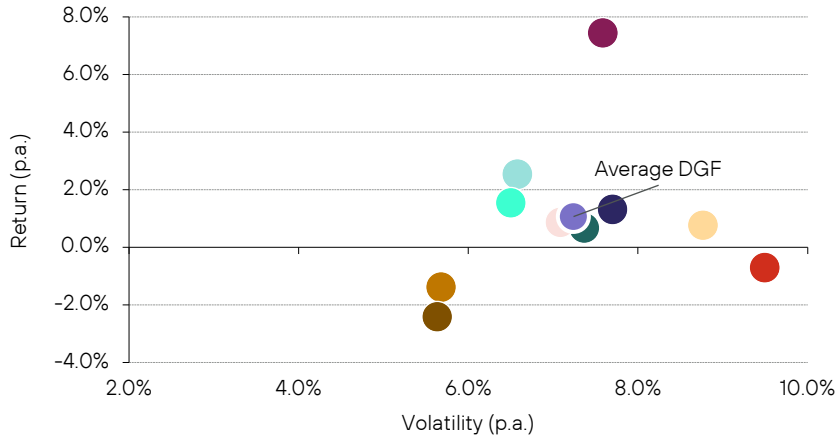


	Q3 2022	12 months	3 years (p.a.)
Average DGF	-1.6%	-6.4%	1.1%
Cash +3.5%	0.9%	4.3%	3.9%
Relative	-2.5%	-10.7%	-2.8%

Sample Manager Returns and Volatility – 12 months



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



Commentary

- The average DGF underperformed the cash plus target over Q3 2022, as the majority of asset classes exhibited negative returns, continuing the trend seen throughout 2022.
- Equities, a key driver of returns for DGFs, struggled with negative sentiment feeding through following the reiteration from central banks on their monetary policy tightening plans. Similarly, negative performance from bonds has limited the diversification benefits of investing across both equities and bonds over the recent market downturn.
- In a repeat of Q2, those managers who had strategies that were not as reliant on broad market movements fared best over Q3, and in some cases were able to generate marginally positive returns.
- Returns over the past 12 months suffered from the sell-off over 2022, with managers finding it difficult to source positive returns from most asset classes. Whilst returns over the past 3 years remain positive, the average DGF manager has returned less than the long term expectation over this period.
- The majority of DGF managers remain aware of geopolitical tensions, as well as the impact of economic policy as inflation continues to be of concern to most global economies.

Summary

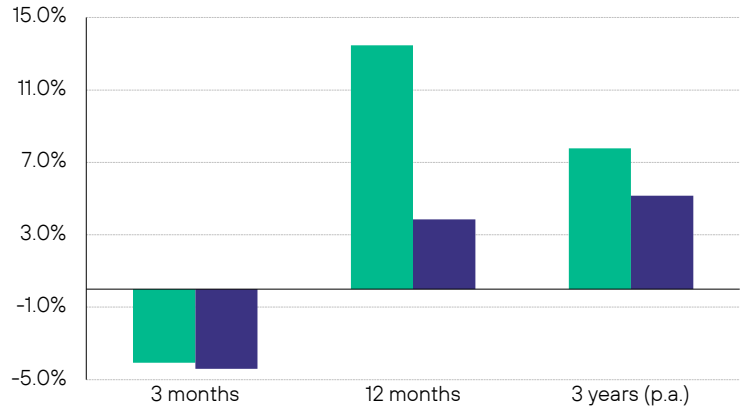
Within our sample of managers we have incorporated the performance of ten DGFs with various manager styles, aiming to give a balanced view of the market.

Note: Please see the 'Explanation of Market Background' appendix for details of the underlying indices. All returns quoted are net of management fees.
Source: Investment Managers, Isio calculations

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Market Background – Real Assets

UK Commercial Property - Balance and Long Lease



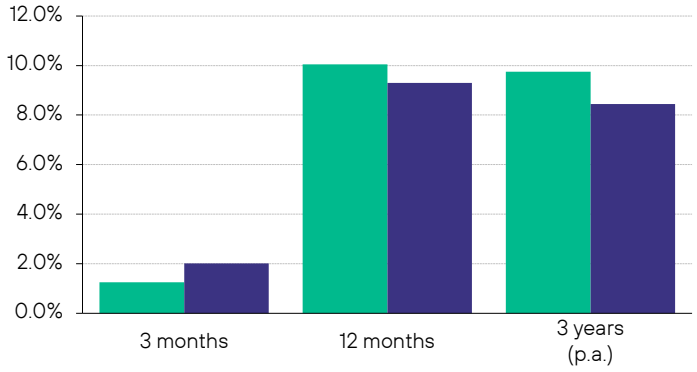
	3 months	12 months	3 years (p.a.)
Balanced Index	-4.1%	13.5%	7.8%
Long Lease Index	-4.4%	3.8%	5.2%

Commentary

- After a strong first half of the year, performance was negative over Q3, particularly in September, across both Balanced and Long Income markets.
- Negative performance was driven by falling capital values due to a change in investor sentiment, in response to an uncertain UK economic outlook, high short-term inflation, and subsequent upwards movement in gilt yields. The extent of this was exacerbated as the market responded negatively to the proposals set out in the mini-budget'
- Another impact of the "mini-budget" was some DB pension schemes looked to raise liquidity in the short-term, and others looked to accelerate de-risking given improvements in funding positions. This caused a wave of property redemption requests in late Q3 with the expectation that more will follow.
- Q3 2022 deal volumes were at their lowest since 2008, leading to fewer comparable deals to support reliable valuations. This is driven by investors and managers pausing planned activity until there is greater clarity on the economic outlook. The lack of reliable asset pricing and increased level of redemptions has caused a number of managers to defer redemption requests to protect value for remaining investors.

Note: ***Ob**jective: 9.5% p.a. net of all fees over the long term. Please see the 'Explanation of Market Background' appendix for details of the underlying indices.
Source: MSCI / IPD and Investment Managers

Private Market Infrastructure



	3 months	12 months	3 years (p.a.)
Illustrative Infrastructure Manager	1.3%	10.1%	9.8%
Objective *	2.0%	9.3%	8.5%

Commentary

- Despite a tough global macro-economic environment dominated by accelerating worldwide inflation and developed-world central banks tightening their monetary policy stances, infrastructure fund performance has held up well so far in 2022 to date. Infrastructure funds have benefitted from lower volatility due their illiquidity, less cyclical underlying assets and weak correlation to wider markets.
- However, we do note there can be some valuation and performance lag due to the private nature of the underlying assets.
- We expect globally invested funds, with a focus on core infrastructure assets, to be well positioned going forward into 2023. Especially if underlying deals are structured to provide a high level of inflation linkage in the operating revenue streams, as this will help support valuations and may offset some of the downward pressure on capital values as a result of the higher interest rate environment.
- Assets in the travel sector have struggled in recent years due to the impact of Covid-19, however despite further headwinds, e.g., staff shortages and high fuel prices, along with slowing global growth and geopolitical risks. the aviation and toll roads section continued to recover. This was underpinned by accelerated forward international bookings and the already strong recovery in domestic travel.

Summary

UK Commercial Property

The real estate market has been buoyant in the first half of this year, but the outlook is now becoming more cautious. Performance was negative in Q3 across balanced and long lease funds driven by rising costs and uncertain economic outlook, which impacted the valuation of the underlying assets.

The LDI crises increased volatility and uncertainty in valuations, therefore the lack of reliable market pricing has caused numerous managers to defer redemption requests to protect investor value.

We expect capital values and rental income in the office and retail sectors to continue to come under pressure due to the cost of living crisis, impending recession and stagflationary environment in the UK.

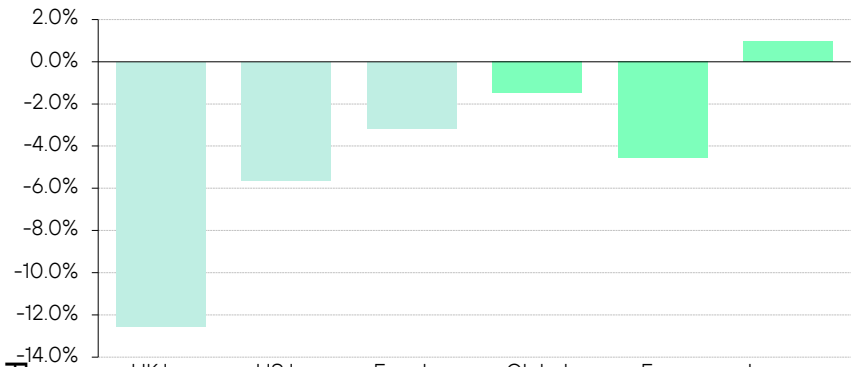
Infrastructure

Infrastructure has attracted a lot of investment since the start of the year. Over the next few months a key focus will be on deployment and pricing of deals, as we move to a higher interest rate environment.

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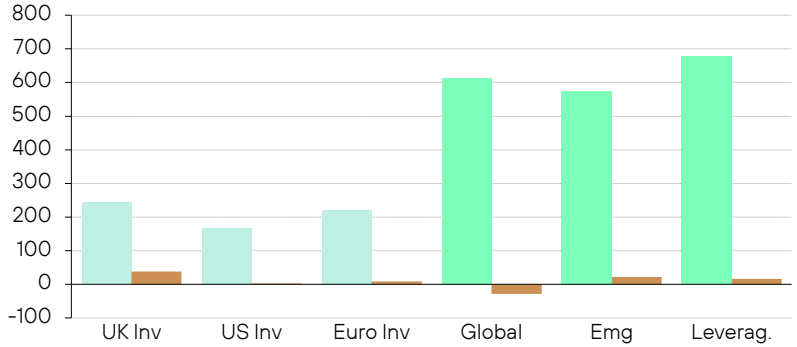
Market Background – Credit

Credit Market Returns – Q3 2022



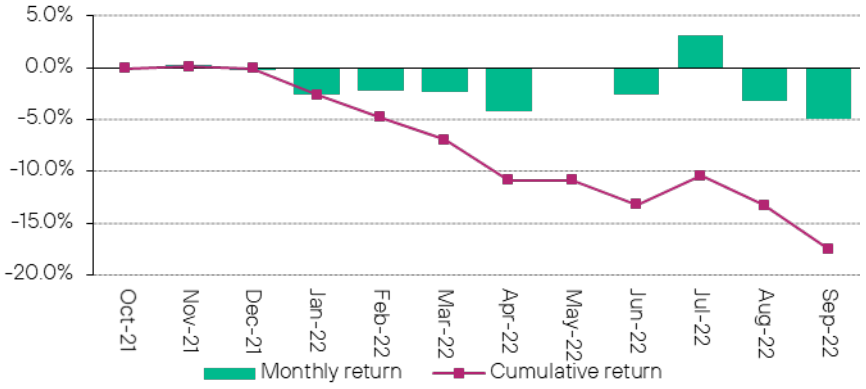
£ Hedged	UK Inv Grade	US Inv Grade	Euro Inv Grade	Global High Yld	Emg Markets	Leverag. Loans
	-12.6%	-5.6%	-3.2%	-1.5%	-4.6%	1.0%

Credit spreads – Q3 2022



	UK Inv Grade	US Inv Grade	Euro Inv Grade	Global High Yld	Emg Markets	Leverag. Loans
End of qtr	244	167	221	613	576	678
Qtr change	38	3	9	-29	22	16

Global broad credit market return – Last 12 months



Commentary

Negative returns continued into Q3, as central banks increased interest rates and implied further monetary tightening would be required to tame inflation. Credit spreads continued to widen across most credit asset classes, which reflected the negative outlook in relation to an impending recession.

- **Investment grade ('IG') bonds** continued to generate negative returns for Q3 due to IG's greater sensitivity to rising interest rates. UK IG fared worse than the US and Europe as gilts underperformed other developed market government bonds.
- **High yield ('HY') bonds** produced negative returns for the third successive quarter, though to a lesser degree than IG. HY, saw some credit spread tightening as default rates continued to prove lower than expected. However, this was more than offset by an increase in interest rates, leading to negative overall returns for the quarter.
- **Emerging market ('EM') debt** followed a similar trend to IG, with negative returns and widening credit spreads. A stronger dollar, longer duration and an increase in government bond yields were headwinds to the asset class.

Summary

Despite an initial recovery in July and August, credit markets delivered negative returns over Q3 as this recovery reversed sharply in September. This was due to a combination of central bank messaging regarding quantitative tightening and future rate rises following higher than expected inflation figures. Credit spreads also widened, reflecting the increased perceived likelihood of a global recession.

In the UK, an abrupt change to fiscal policy resulted in a surge in UK government bond yields. Sterling investment grade bonds' sensitivity to these yield changes led to this area underperforming most other areas of the credit universe.

Additionally, many UK pension funds were required to meet LDI collateral calls following rising government bond yields. This led to increased selling of liquid assets such as publicly traded credit, which contributed to September's sell off.

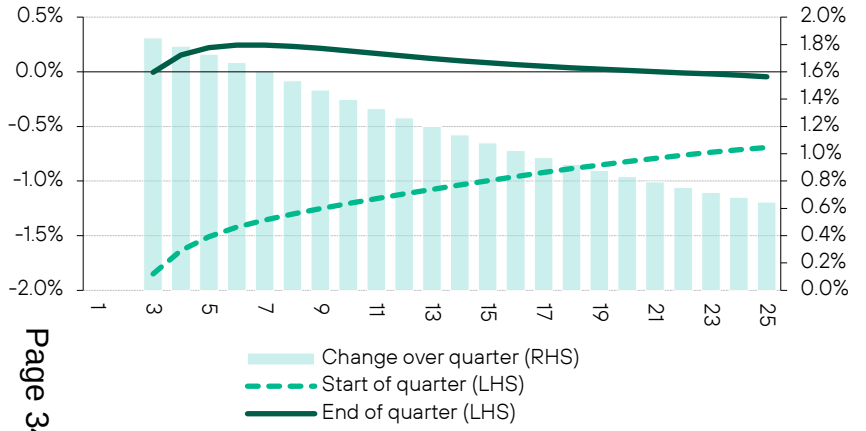
Loans delivered a small positive return over the quarter due to their floating rate nature, which meant they were less exposed to the movements in yields which drove negative returns elsewhere.

Note: Please see the 'Explanation of Market Background' appendix for details on the underlying indices shown. Credit spreads are shown in basis points (100bps = 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: Thomson Reuters, PIMCO, Fidelity.

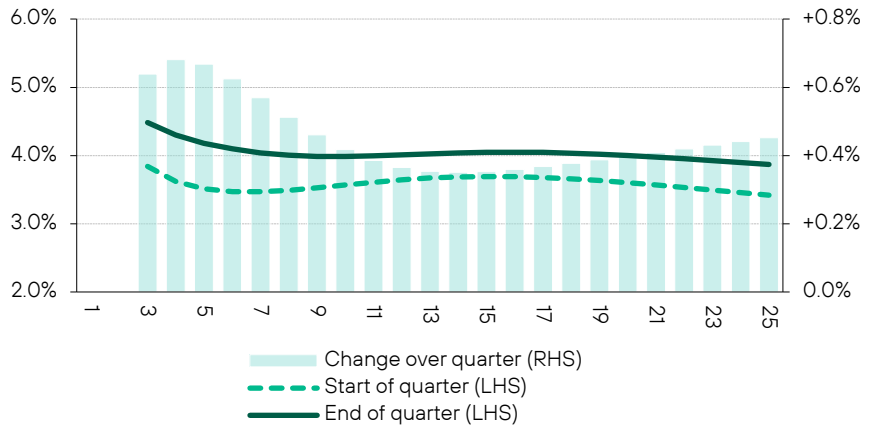
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Market Background – Yields

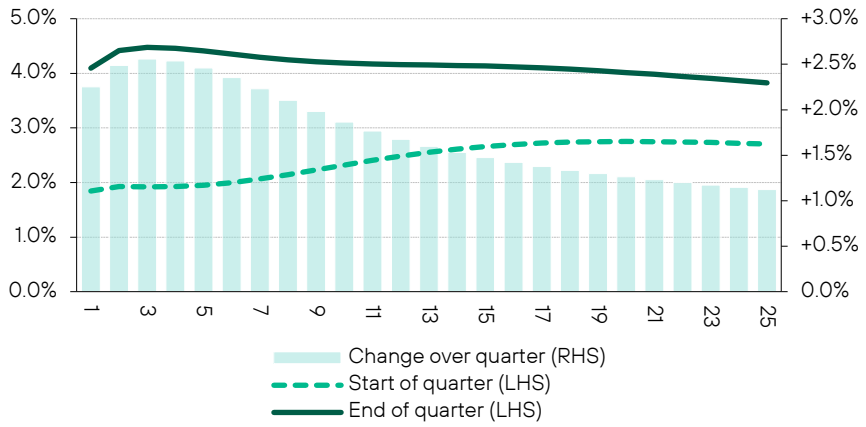
Real Gilt Yields – Q3 2022



Gilt-Implied Inflation – Q3 2022



Nominal Gilt Yields – Q3 2022



Commentary

- Long-dated (20-year) yields at the quarter-end were:
  - Real gilt yield: 0.0%
  - Nominal gilt yield: 4.0%
  - Gilt-implied inflation expectations: 4.0%

These curves show gilt yields and inflation expectations at varying time horizons as at quarter-end. The horizontal axis represents the number of years into the future.

Source: Bank of England, Isio calculations. Please see the 'Explanation of Market Background' appendix for details of the underlying indices.

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Explanation of Market Background

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.

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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Explanation of Market Background (cont.)

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

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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Explanation of Market Background (cont.)

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.

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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How to Read the Fund Manager Pages

How to Read the "Overview" Section

Expected Volatility Low High

- This is a standard quantitative measure of our expectation of absolute annual volatility of the fund.
- The measure ranges from 1% p.a. for the least volatile strategies (e.g. Cash) to 30% p.a. for the most volatile strategies (e.g. Emerging Markets Equity).

Shape of Outcomes 0% Contractual 100% Contractual

- This is an Isio-specific measure of how "contractual" the expected return from the fund is.
- The measure ranges from 0% for strategies that have no fixed return component and are instead based on a share of any profits (e.g. Global Equity) to 100% for strategies where the return in normal conditions is fixed and predictable (e.g. Corporate Bonds).

Diversification Low High

- This Isio-specific measure shows how diversified we consider the fund to be, in terms of broad market risk drivers.
- The measure ranges from "low" for mandates that invest in a single asset class that is concentrated in other respects, such as geography (e.g. European Direct Lending) to "high" for mandates that invest in a wide range of diversified asset classes (e.g. Diversified Growth Funds).

Manager Ratings

We show two ratings for a manager:

Research View: This comprises our opinion of the manager as a whole, judged against the client's specific selection criteria (which usually include ESG considerations). The possible ratings are:

- Meets Criteria
- Partially Meets Criteria
- Significantly Fails to Meet the Criteria
- Not Evaluated

ESG View: This is a narrower opinion focusing specifically on the manager's treatment of ESG (Environmental, Social, and Governance) issues. The possible ratings are:

- Green
- Amber
- Red
- Not Evaluated

This page contains guidance on how to read the fund manager pages

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Disclaimers

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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Building a Brighter Future

East Sussex Pension Fund Submission to the UK Stewardship Code

Reporting date 31 December 2021



East Sussex Pension Fund

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How East Sussex Pension Fund addresses the Stewardship Code

The Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders.

The Fund defines the concept of stewardship in the same way as the Financial Reporting Council (FRC).

'Stewardship aims to promote the long-term success of companies in such a way that the ultimate providers of capital also prosper. For investors, stewardship is more than just voting. Activities may include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure, and corporate governance, including culture and remuneration. Engagement is purposeful dialogue with companies on these matters as well as on issues that are the immediate subject of votes at general meetings" (Financial Reporting Council 2020).



Introduction

The East Sussex Pension Fund (the Fund or ESPF) is part of the Local Government Pension Scheme (LGPS), a statutory scheme, established by an Act of Parliament, the Superannuation Act 1972 and since April 2014 the Public Service Pensions Act 2013. The Local Government Pension Scheme Regulations 2013 came into force on 1 April 2014. Membership of the LGPS is open to all employees of local authorities except teachers, fire fighters and police, who have their own separate schemes. It is also open to employees of other employers specified within the legislation.

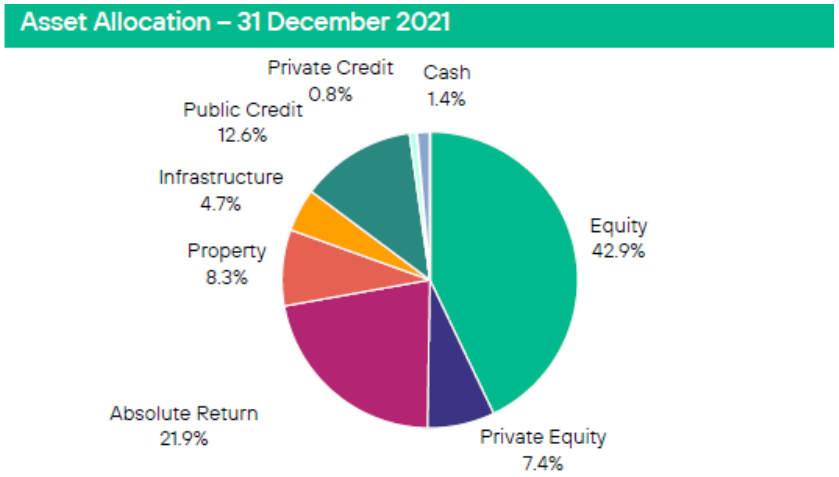
The Fund is administered by East Sussex County Council and provides retirement benefits for East Sussex County Council employees, employees of Brighton & Hove City Council, the five borough and district councils, academies, universities, colleges, public authorities, and staff transferred to admitted bodies. The Fund has 140 employers within the Fund and over 80,000 members.

The scheme is designed to provide financial security for the Fund's members and dependants, both while they are working and during their retirement.

The Fund's asset value at the reporting date was £4,741m.

The Fund recognises that Environmental, Social and Corporate Governance (ESG) issues can have a material impact on the long-term performance of its investments. ESG issues can impact the Fund's returns and reputation. Given this, the Fund is committed to an ongoing development of its Statement of Responsible Investment Principles (SRIP) to ensure it reflects latest industry developments and regulations.

The Fund's Investment Strategy Statement (ISS) states that the investment objective of the Fund is to achieve a return on Fund assets which is sufficient, over the long-term, to meet the funding strategy objectives on an ongoing basis. One of the Fund's investment beliefs is that Responsible Investment (RI) can enhance long-term investment performance.



The Fund recognises that through active shareholder engagement it can influence those companies it is invested in to improve their corporate behaviour. Improvements made by these engagements can lead to an increase in the long-term value of the Fund's investments. The Fund believes that these can be maximised by collaborating with other like-minded investors to increase the pressure for change and encourage improvements to be made.

Principle 1

Signatories' purpose, investment beliefs, strategy, and culture enable stewardship that creates long term value for clients and beneficiaries leading to sustainable benefits for the economy the environment, and society.

Overview

The East Sussex Pension Fund is part of the Local Government Pension Scheme The purpose of the Fund is to provide pension and lump sum benefits for members or their beneficiaries on a defined benefits basis - in accordance with the requirements of the LGPS legislation. There were approximately 80,000 members from 140 employer bodies in the scheme in December 2021.

The Fund has a long-standing commitment to responsible asset ownership and believe that Responsible Investment supports the purpose of the Fund. Stewardship is an integral part of asset ownership and therefore of the investment code and requires the same commitment from investment managers. The Fund's stewardship objectives and commitments are set out in the Fund's Investment Strategy Statement. The Fund's approach to stewardship is explained in detail in this document. The sections that follow show how our stewardship approach relates to the twelve principles of the UK stewardship code set out by the FRC.

ESPF Stewardship Objectives

The Fund Aims To:

1. Generate sustainable long-term investment with its asset allocation decisions made in consultation with its advisers.
2. Apply long-term thinking to deliver long-term sustainable returns.
3. Seek sustainable returns from well-governed assets.
4. We will use an evidence-based long term investment appraisal to inform decision-making in the implementation of RI principles and consider the costs of RI decisions consistent with our fiduciary duties.
5. We will evaluate and manage carbon exposure to mitigate risks to the Fund from climate change.
6. The Fund prefers a philosophy of engagement, which it believes to be a more effective approach in addressing ESG concerns and driving long lasting change. To be effective, it is best done in conjunction with other parties.

Activity

East Sussex Pension Fund beliefs underpinning the Stewardship Approach

The Fund believes that investors with long-term time horizons are more exposed to certain risks and requires that its investment managers be aware of and consider these when making investments. However, long-term investors are also less susceptible to short-term volatility which means it can take on investments that require longer duration positions or where engagement activities can help influence a company to support a just transition.

The Fund laid out its beliefs underpinning stewardship and RI in its Statement of Responsible Investment Principles (SRIP) within the Investment Strategy Statement. This document is reviewed annually. Within the SRIP the Fund details its stewardship approach through the lens of the Principles of Responsible Investment (PRI) six guiding principles.

Approach to implementing and monitoring stewardship at External Management level

The practical application of the Fund's policy is achieved through a combination of activities including, but not limited to 1) dialogue and liaison with investment managers on key issues directly and through collaborative engagement groups, 2) engagement activity direct with underlying companies as is carried out through membership of the Local Authority Pension Fund Forum (LAPFF). LAPFF meet with the Board of Directors of many companies where Local Authorities are invested to discuss and challenge activity.

The Fund is a signatory to the Principles of Responsible Investment (PRI) and Institutional Investors Group on Climate Change (IIGCC) and expects its investment managers to also be members of these organisations.

As a PRI signatory the Fund have agreed to the PRI signatories' commitment.

"As institutional investors, we have a duty to act in the best long-term interests of our beneficiaries. In this fiduciary role, we believe that environmental, social, and corporate governance (ESG) issues can affect the performance of investment portfolios (to varying degrees across companies, sectors, regions, asset classes and through time)."

We also recognise that applying these Principles may better align investors with broader objectives of society. Therefore, where consistent with our fiduciary responsibilities, we commit to the following:

- **Principle 1:** We will incorporate ESG issues into investment analysis and decision-making processes.
- **Principle 2**: We will be active owners and incorporate ESG issues into our ownership policies and practices.
- **Principle 3**: We will seek appropriate disclosure on ESG issues by the entities in which we invest.
- **Principle 4:** We will promote acceptance and implementation of the Principles within the investment industry.
- **Principle 5**: We will work together to enhance our effectiveness in implementing the Principles.
- **Principle 6:** We will each report on our activities and progress towards implementing the Principles.

The Principles for Responsible Investment were developed by an international group of institutional investors reflecting the increasing relevance of environmental, social, and corporate governance issues to investment practices. The United Nations Secretary-General convened the process.

In signing the Principles, we as investors publicly commit to adopt and implement them, where consistent with our fiduciary responsibilities. We also commit to evaluate the effectiveness and improve the content of the Principles over time. We believe this will improve our ability to meet commitments to beneficiaries as well as better align our investment activities with the broader interests of society.

We encourage other investors to adopt the Principles."



The Pension Committee meets with investment managers for engagement and training activities. Officers of the Fund meet managers regularly to challenge investment approach in relation to complimenting the Fund's investment beliefs. Officer and advisers can discuss relevant developments in detail with Investment managers to cover all stewardship and RI activity. All investment managers are required to report on a quarterly basis to the Fund, including details of votes cast on corporate resolutions and company engagement for holdings in relevant portfolios. These activities are then published quarterly on the website for beneficiaries and stakeholders to access. The Fund challenges managers to ensure voting activity is aligned with the Fund's priorities and that all relevant risks have been considered.

The Fund has appointed investment consultants to provide specialist expert advice to decision makers. In addition, the Fund has an Independent Adviser who supports the Pension Committee to deliver the investment strategy in the interest of pension beneficiaries. This combination delivers effective returns with a social and environmental consciousness.

The Fund believes that professionally managed companies with awareness and focus on governance, resource efficiency and robust people systems, provide long-term value creation and that the Fund's stakeholders will benefit from these investments as strong investment returns improve the Fund's overall funding position. Which keeps the pension scheme affordable in terms of employer contribution rates.

The Fund appointed an external consultant to conduct an ESG assessment of the Fund where a number of recommendations were set out in 2020, many of which have been implemented to improve stewardship. Outstanding recommendations continue to be reviewed and implemented where possible.

Monitoring, and reporting

Performance of all investment are monitored and reported quarterly. Investment Managers are expected to report on performance, engagement and voting activity quarterly to the Fund and its advisers.

ESPF Stewardship Beliefs

The Fund Believes that:

1. ESG and Climate Risk (CR) can present material financial risks to asset values and returns.
2. Implementation of effective RI policies can reduce risk and has potential to enhance returns.
3. Engagement with investment managers ("IMs") and investee companies can be effective in protecting and enhancing the long-term value of investments.
4. Collaboration with other asset owners and IMs will help improve the effectiveness of engagement on ESG and CR issues.
5. Effective oversight of RI requires monitoring of ESG and CR metrics and the actions of IMs and investee companies.
6. RI is aligned with ESPF's fiduciary responsibilities in the management and oversight of ESPF's investments.

The Fund then consider:

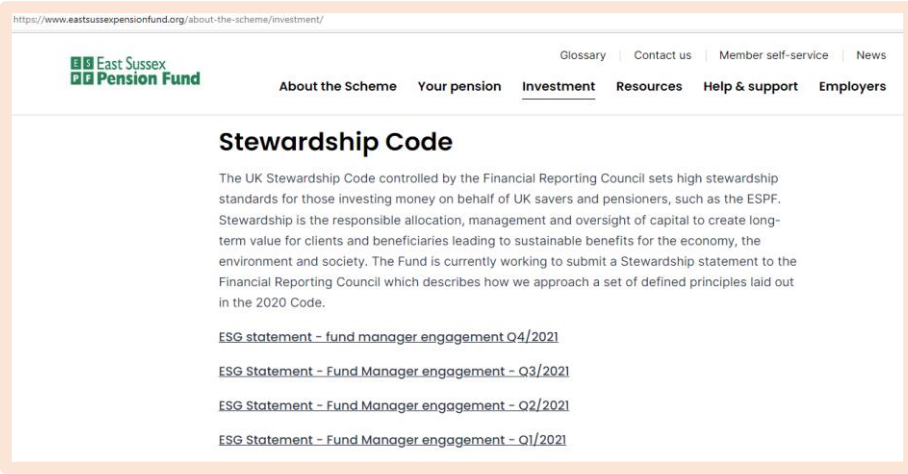
- How managers have integrated ESG in their investment activities
- How managers have exercised the Fund's voting rights and to explain where there is deviation from voting guidelines or voting alerts
- What engagement activities have been completed in the quarter
- What RI policies are in place.

The Fund meets with investment managers in addition to the ongoing review and engagement that the investment consultant conducts for the Fund. This is to ensure the managers are complying with the requirements on them set by the Fund and ability of the manager to invest in the best interests of the Fund beneficiaries. During direct manager meetings with officers an area of the agenda always includes ESG for discussions on holdings, activities, polices and developments.

The Fund report the stewardship activity of the investment managers and of the Fund in a quarterly report which is published on the website. The Fund also publish an implementation statement within its annual report to show how its RI beliefs have been embedded within the Fund's investment activities during the year.

The Fund's investment consultant carry out an annual impact assessment on all the investment managers where they are allocated an ESG score with an action plan set out for each manager (updated annually as part of the review).

The Fund invests through investment managers who conduct detailed research on the prospects for individual companies and industries. Due to the scale of investment under management, the managers have access to underlying company management teams including their executive boards. Dependant on asset class the investment manager has a seat on the advisory board of the underlying company. On selection of an investment manager the Fund ensure the manager is aligned with our stewardship beliefs through a detailed set of evaluation criteria for ESG and Stewardship.



Embedding beliefs

Training opportunities are provided to Committee Members and Officers to ensure decision makers and those that implement and monitor investment activity understand how their stewardship responsibilities can be implemented and to understand risks and responsibilities. Training is laid out in the Fund's training strategy which is reviewed every two years supported by a training coordinator. The Fund has a training and strategy day embedded into the annual meeting plan in addition to standard Committee meetings.

New Committee members are given an induction programme to help develop knowledge understanding of all their responsibilities. Training links and details are provided at least monthly by the Fund's designated training officer. Training is picked up at all Pension Committee and Pension Board meetings through the work plan and a report on training is covered twice a year.

In 2021 the Pension Committee members attended the following training sessions and conferences where stewardship was a key focus of the training.

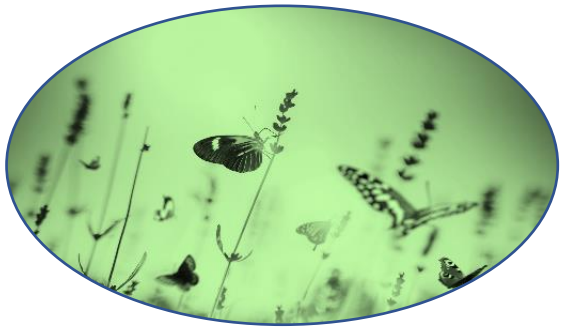
Title of Training/Briefing	Detail	Date
PLSA Investment Conference 2021	PLSA three-day investment conference, consisting of keynote speeches, intimate roundtable discussions and educational sessions built around key themes and hot topics covers every investment angle, from geopolitical factors influencing markets, to investment strategy to individual asset classes.	March 2021
PLSA Local Authority Conference	Two-day programme with a mix of keynote speeches, roundtable discussions and educational sessions. Sessions will cover governance, investment, administration and communications challenges of the LGPS.	May 2021
Pension Committee Induction	2 hour training session for new Pension Committee members. Also open to officers, all elected members and Pension Board members for information. Session content – Roles and Responsibilities, Investment Strategy, Actuarial	June 2021
Infrastructure Training	In house session with guest presentations from Pantheon and GLIL	July 2021
Fixed Income Training and Investment Strategy Training	In house session run by Consultants Isio to support the investment strategy discussions at the upcoming committee	July 2021
PLSA Annual conference	The PLSA Annual Conference we'll be asking what the road to economic recovery looks like, analysing the hurdles for pensions and revealing the opportunities to lead the race. o Retirement Living Standards o ESG Guidance o Guided Retirement Income Choices o UK pension climate regulation and investment o DB Funding code	October 2021
ATLAS Infrastructure - Investment Overview	Overview of infrastructure manager mandate and methodology including ESG overlay with climate modelling	October 2021
LGPS Climate Summit	• 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	November 2021
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	November 2021
ESPF Employer forum	• WHEB Investment Manager • Compliance and Governance update • Administration Manager Update • Engagement and Website update • I-Connect update	November 2021
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.	November 2021

Outcome

As a result of a strong stewardship policy, the Fund has been able to implement a number of additional activities in the year including a quarterly ESG report publication, more robust challenge to Investment managers and implementation of resource efficient index investment vehicles where the Fund has more conviction in the underlying investments from a stewardship perspective.

The Fund has been able to progress on work it has carried out building its knowledge, monitoring, and reporting in this area, with officers, Pension Committee members and Pension Board members all taking time to increase knowledge and skills on this complex and ever-changing topic.

The Fund reported against the framework set out by the Taskforce for Climate related Financial Disclosures (TCFD) for the first year after a commitment in its SIRP and conducted its second year of carbon foot printing which also assessed energy transition alignment of the Fund's underlying companies. By integrating stewardship and RI into investment decisions data is essential in helping to inform which investment managers to challenge more regularly and which holdings require robust reasoning within the portfolio to protect the beneficiaries pension pots but ensuring managers are considering the investment case while embedding ESG factors to ensure the full risk of the investment is considered.



The Fund was able to report against the implementation of its beliefs in the annual report and accounts 2020/21 where it identified integration and gaps to build on in the next year. Progress will continue to be made and tracked. All the Fund's investment managers have aligned with the Fund's stewardship expectations and are PRI and IIGCC signatories with several joining in 2021. Many managers and Fund advisers have also reported under the Stewardship Code with more expected in 2022.

The Fund's development of its Statement of Responsible investment Principles (SIRP) has been assessed against the Fund's LGPS pool colleagues, with the ESPF process scoring highest in its peer group. As a result, the Fund has been recognised as a leader within the pool on ESG issues and the chair of the Committee was nominated as ESG spokesperson for the pool. The Fund has identified areas where it can improve its SIRP and will continue to evolve and embed principles over time.

The Fund has been competitive in its return performance both before and after implementing strategic changes, which ensure mandates are more aligned with the Fund's beliefs and remain continually aligned with the investment strategy. The Fund has consistently outperformed the benchmark on a 3-month, year to date and 1 year basis until 31/03/2021, while increasing its exposure to investment funds looking at opportunities from the energy transition. Throughout the Fund's activities there has been underlying and essential objective to ensure return on investments for the best interest of beneficiaries.

The Fund was announced winner of LGPS Fund of the year 2021 (over £2.5bn) at the LAPF investment awards highlighting the strong governance, performance, and actions of the Fund in the year; and was highly commended for its Climate Strategy.

Snapshot from the RI implementation statement published in the Annual report and accounts 2020/21

Commitment	Progress	Further Action
To continue to measure and report on carbon-equivalent emissions throughout the equity portfolios	The Fund has undertaken an analysis of the Equity and Fixed Income investments with a third-party provider Vigeo Eiris for the second year.	Develop understanding of the different metrics. Continue using a third-party provider to evaluate carbon emissions of equites and develop other asset classes.
To continue our work with IIGCC and Climate Action 100+	The Fund has been an active participant in the IIGCC corporate program.	The Fund is looking for more options within the IIGCC to support further development and implementation of IIGCC research into the Fund's strategy.
To continue to research and support the deployment of new impact capital into projects set to benefit from the transition to a low carbon economy	Invested 10% of the Equity program into impact managers 10% into climate risk passive product.	Looking to work with ACCESS to develop suitable solutions within the Pool.

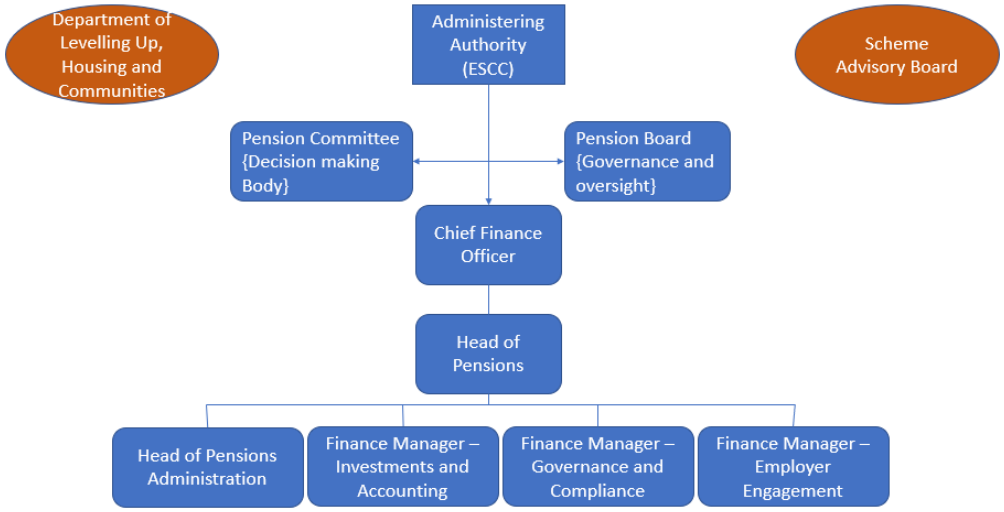
Principle 2

Signatories Governance, Resources, and Incentive's support Stewardship.

Overview

East Sussex County Council is the administering authority for the East Sussex Pension Fund and has delegated the responsibilities of administering the Pension Fund to the Pension Committee, this is set out within the Councils constitution. The Pension Committee is supported by the Pension Board and Fund Officers in fulfilling its duties. The Pension Board role is to assist the committee in complying with the LGPS rules, overriding pensions legislation and guidance from the Pensions Regulator. The Pension Board is made up of equal numbers of employer and member representatives with an independent chairman.

The governance structure of the ESPF is shown below:



Activity

Decision making

The Pension Fund is managed by East Sussex County Council, the Administrating Authority (Scheme Manager) on behalf of all the relevant employer bodies in the Fund; currently 140 scheme employers. The Pension Committee is the main decision-making body for the Fund. The Pension Committee has delegated authority to exercise the powers of the County Council in respect of all powers and duties in relation to its functions as the Scheme Manager and Administering Authority for the East Sussex Pension Fund. It is responsible for agreeing and overseeing an appropriate investment strategy or strategies, selection of investment managers, setting of performance benchmarks and regular monitoring of performance. The Pension Committee are responsible for agreeing the Investment Strategy Statement, climate change strategies, the responsible investment of the Fund, and report on these activities.

The Pension Committee receive assistance in performing these functions via:

- Pension Board – help with effective governance and ensuring compliance with the regulatory requirements.
- Chief Finance Officer – Scheme administration, including governance and investment implementation.
- Head of Pensions – ensuring committee decisions and regulatory requirements are implemented.
- Investment Consultants – provide expert investment advice in line with regulatory requirement for proper advice. This is an FCA regulated firm.
- Independent Advisor – provides challenge to the Investment recommendations and supports the Committee in understanding of Investment activities.

Responsibilities of the Pension Committee

- The Pension Committee is established as the Fund's scheme manager and is responsible for arrangements for the investment, administration, funding, communication, risk management and the overall governance process surrounding the Fund.
- The Pension Committee is responsible for setting all Fund policies including the setting of the appropriate funding target for the East Sussex Pension Fund.
- The Pensions Committee will exercise its functions in accordance with fiduciary duties, safeguarding the interests of the beneficiaries of the Fund.
- Committee Members must take decisions in accordance with their public law obligations, including the obligations of reasonableness, rationality, and impartiality.
- Committee Members are required to be rigorous about conflicts of interest and potential conflicts of interest, actual or perceived, as laid out in the Conflict-of-Interest Policy.
- The Committee is subject to the statutory obligation of political balance in the membership of the Committee.
- Whilst all Committee Members bring with them their own knowledge and experience, political views should form no part of the consideration of issues or of the decision-making process.

Governance Structure

The Fund is structured in line with the Local Government Pensions Scheme 2013 Regulations and the Public Services Pensions Act 2013 which introduced a new framework for the governance and administration of public service pension schemes. As a result of the Public Services Pensions Act, the Pensions Regulator introduced codes of practice covering specific areas relating to public sector pension schemes which the Fund are required to comply with. The Fund conducted an independent Governance review in 2019 and 2020 where changes were implemented to enhance the governance of the Fund including the development of a conflicts of Interest policy to ensure beneficiaries pensions are managed appropriately.

The Terms of reference for both Pension Committee and Pension Board were amended to ensure the Fund structure and responsibilities aligned with best practice as advised by the Scheme Advisory Board (SAB) who had initiated a Good Governance project. In addition, delegations and Team structure were also changed to provide more comprehensive governance arrangements for all aspects of the Fund. As a result of the work the Fund has done since 2020 to implement the recommendations (including making key appointments to the Officer team in 2021), the Fund have had a substantial assurance for regulatory compliance with no recommendations from the internal audit team.

Qualifications and Resources

Officers

Fund Officers involved in the Investment strategy and oversight of the Fund from a stewardship perspective hold either Chartered Accounting qualifications or CFA qualifications. Fund Officers maintain a training log to ensure the Fund can evidence the relevant knowledge and skills for a professional investor. Other Fund officers have been recruited to roles evidencing knowledge and skills suitable to their role and grade within the team.

The officer team have a designated Investment officer, a Pensions Manager for Accounting and Investments and the Head of Pensions oversees all strategic implementation. The Chief Finance Officer attends training to stay up to date with Pension issues. As highlighted as best practice from the SAB good governance review as part of the governance work implemented in 2020 and continued in 2021, the Head of Pensions role was created as a 100% Pensions position and the responsible Pensions Officer for the Fund.

All designated Investment posts are graded at managerial level with the Head of Pensions having responsibility for the management of the Fund as a Service Head. The Chief Finance Officer is the statutory officer for Finance and has delegations in respect of all Pension Fund.

Committee members

The Pension Committee is structured in line with the Local Government Act 1972; in that the Committee must be solely appointed from elected members of the Administering Authority (as defined in the Local Government Pension Scheme Regulations 2013 as East Sussex County Council). In addition, the Pension Committee is politically balanced to represent the Administering Authority in line with rules under s15 of Local Government and Housing Act 1989, the Local Government (Committees and Political Groups) Regulations 1990.

As there is no requirement for specific qualifications or knowledge and skills within the legislation and the legal requirements placed on the Fund to the constitution of the Pension Committee there is no assumed knowledge of LGPS pensions or Investments of the Pension committee members. Instead, Committee members are provided training on the job through various external training courses, conferences, and internal training. Principle 1 reflects training undertaken.

Investment Managers

As part of the manager selection process and due diligence, officers and the consultants look at the qualification and track records of the key personal managing portfolios. Where possible a side letter is included in the subscription documentation to ensure the Fund can exit a position if key personal were to leave (which could place the Fund in a position of risk due to insufficient expertise of an investment manager). Investment managers are FCA regulated firms and have numerous training and qualification requirements.

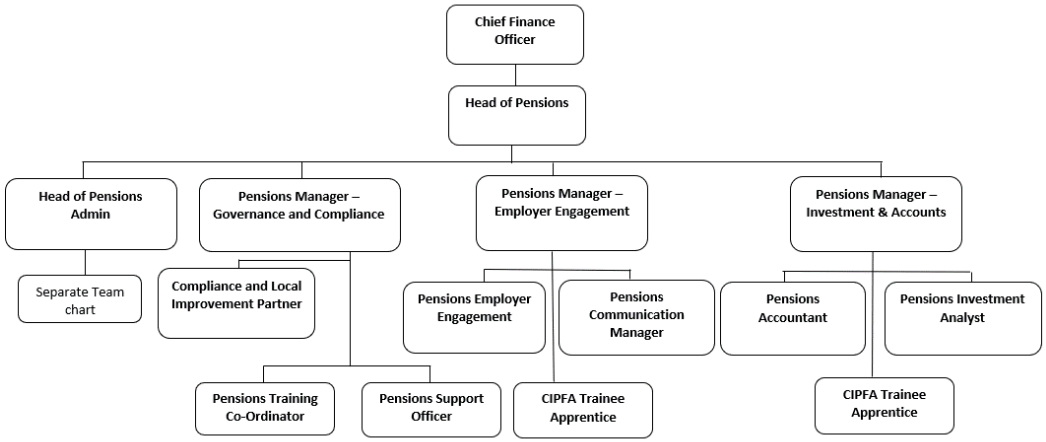
Investment Consultants

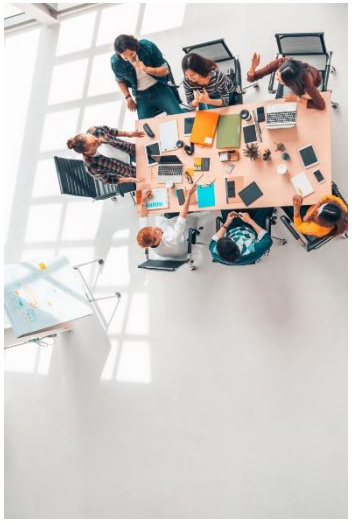
The investment consultants, Isio, have breadth and depth of available resources to support and advise the Fund. They are an FCA regulated firm. Their technical knowledge allows research and analysis for investment management and provides guidance to decision makers who may not have the necessary knowledge and skills to act without this advice. All investment decisions within the Fund are based on advice by these experts.

Independent Adviser

The Fund conduct a procurement process for appointment of the Independent Adviser who must evidence knowledge and skills across the LGPS and investments. This position is in place to support the Pension Committee in understanding and challenging the advice of the Investment Consultants to ensure a balanced and considered view is taken with all investment decisions.

Team structure





Diversity and Inclusion

The Fund has a policy of inclusion and is working towards increasing the diversity of its workforce, to more closely represent the communities we serve. Staff provide equality data, and we are working to reduce 'unknowns'. We will make comparisons with the Census 2021 data, when it is available. Due to the small number of staff working for the Fund and the risk of identifying individuals, details cannot be provided here, but ongoing analysis will inform interventions based on ESCC's positive equality and inclusion practice.

Stewardship activities

Officers involved with investments are all involved in stewardship activities from the Head of Pensions ranging down to the Trainee apprentice post and attend Investment management meetings, challenging voting activity and manager engagements.

In addition, all officers involved in the investment team participate in Fund reporting to ensure it is complete and comprehensive on stewardship activities. This includes production of the ESG quarterly reports, TCFD report, Stewardship code preparation and other collaborative project work.

Investment in systems

As investments are managed by investment managers rather than internally, spending in systems is limited. However, the Fund do investigate and challenge data received and has invested in carbon foot printing services as well as look though systems and analysis. This enables the Fund to see the underlying investment holdings of external investment managers.

When investing in real assets the Fund also challenge prospective managers over their quality assurance processes and systems to ensure investments are being governed to a high standard with full oversight of the investment boards. The Fund invest in performance management and specialist investment accounting systems from the Fund's custodian.

In addition, the Investment consultant provides numerous investment analytical services such as EGS and Climate impact reporting which the Fund uses.

Performance management and incentivisation

As a local authority Pension Fund, the ability to use performance management and incentives are limited, however the Fund is aware that resources are important, It has offered a flexible approach to locality and working hours to ensure the correct people are in place and the interests of beneficiaries are considered with stewardship activities prioritised.

The Fund is restricted to alignment with the ESCC local government pay grading to ensure equality of roles across the Council. Passion of the Fund management team and the ability to put team members own mark on stewardship tasks such as production of new reporting requirements mean staff feel empowered to carry out their work.

Resources and external contracts / collaboration

In addition to the internal resources of the Fund, the Fund use external experts such as the Investment Consultant, Carbon footprinting provider, independent adviser, and Investment managers to ensure the breadth of resources and range of tools to administer the Fund are available and ensure effective stewardship without having to have a large team of specialists directly employed.

This helps the Fund to benefit from major research teams in all asset classes and industries across different sectors. This would not be possible to do directly.

In addition, with collaborative partners such as LAPFF, IIGCC and PRI the Fund has the power of those engagement partners and weight of resources to help direct policy makers or influence companies in which the Fund may be invested.

Outcome

The Governance structure in place is dictated by the legal frameworks in which the Fund must comply, however the Fund has made many steps to ensure it is effective in managing beneficiaries' money and being an active steward of its investments.

The team structure has been designed to deal with the increased requirements of a pension fund, in particular the increasing regulatory reporting requirements for climate risk and stewardship. The Fund is well resourced and had a supportive decision-making framework through the Pension Committee and Pension Board who are conscious of the resources required to administer the Fund and consider adaptations of the team structure as required where there is a business need.

This use of collaboration and use of expert advisers means that the Fund has better resources available to assist its beneficiaries. External support from Isio, ACCESS and Investment managers mean greater capabilities to manage risk in the Fund's investment portfolio and allows for large research teams to feed into decisions and analysis that could not be achieved within the inhouse team structure. This has resulted in higher levels of scrutiny of the Fund's investment managers stewardship activities on the Fund's behalf.

Routine reporting from managers on engagement activity are expected by the Fund on a quarterly basis. Isio expect reports on investment managers activities before Investment Working Group Meetings and for each quarter's performance reporting; these resources all help the Fund with effective stewardship.

Training is key to the governance structure of the Fund and the Fund has initiated a decision-making matrix to be compiled to ensure all parties within the Governance structure are clear on their responsibilities and where accountability for activities sit.

As the team structure is quite new the Fund will continue to evaluate its effectiveness and make improvements where relevant, having a designated ESG or RI officer is a possible adaptation for the future.

Principle 3

Signatories manage conflicts of interest to put the best interest of clients and beneficiaries first.

Overview

It is generally accepted that LGPS administering authorities have both fiduciary and public law duties to act in the best interest of both the scheme beneficiaries and participating employers. This, however, does not preclude those involved in the management of the Fund from having other roles or responsibilities which may result in an actual or potential conflict of interest.

Therefore, it is good practice to document within a policy how any such conflicts or potential conflicts are to be managed. The Fund implemented a Fund specific 'Conflicts of Interest' policy as part of its good governance review in 2020. The policy covers Committee and Board members, Officers, and advisers. The Policy details how actual and potential conflicts of interest are identified and managed by those involved in the management and governance of the Fund whether directly or in an advisory capacity and seeks to ensure consistency with the Council's policies and codes.

Declarations of conflicts of interest is a standing agenda item at the start of quarterly Pension Committee meetings. An annual declaration is also required of anyone involved in the management of the Fund.

Activity

The Fund have a team who monitor the Fund for compliance and oversight. Senior management also oversee the compliance team who are in turn overseen by the Pension Committee. The investment consultants make investment recommendations, and this structure is responsible for ensuring effective stewardship. As part of the CMA requirements the investment consultants are set annual objectives.

The FCA Handbook SYSC 10.1.3R states that a firm must take all reasonable steps to identify conflicts of interest between:

> a) the firm, including its managers, employees, and appointed representatives (or where) applicable, tied agents), or any person directly or indirectly linked to them by control, and a client of the firm;
> **or**
> b) one client of the firm and another client; that arise or may arise during the firm providing any regulated activity or ancillary service.

This guidance is considered by our external investment managers.

Conflicts of interest with externally managed funds are managed through assurances and due diligence processes, following appointment of an external manager. Annual internal control reports are also reviewed ad reported upon where exceptions or control concerns. Potential internal conflicts are reviewed on an annual basis for all staff with a requirement to report new potential conflicts as they arise. External management are required to provide annual independence disclaimers and control report.

Training

As part of the induction programme for new Committee or Board members a session is provided on the legislation surrounding pensions and the legal position of the Committee and Board. The training includes fiduciary duties, the role to serve beneficiaries and employers of the Fund and public law duties.

The Fund make it clear and regularly reinforce the importance of disregarding political and other beliefs when making decisions on behalf of the Fund. Committee is required under the LGPS 2016 regulations to follow proper advice and expert advisers are in place to support all aspects of decision making when specialism is required.

In addition, new elected Councillors are provided training and support on conflicts of interest, while new staff members are required to complete a learning and development module and declare any conflicts, this is documented within the officer's induction programme.



Outcome

The Fund requires investment managers to have effective policies addressing potential conflicts of interest.

External managers are assessed on potential conflicts of interests and their written policies at the evaluation and appointment stage. Subsequent monitoring takes place by the Fund's investment consultant and independent advisor to protect the Fund's interests.

Within the Fund, Pension Committee members are required to make declarations of interest prior to each quarterly meeting and once a year statement.

Board, Committee and Officers were all invited to attend induction training in May 2021, providing legal update and notice of their management of conflicts of interest.

Conflicts of interest are defined in detail in the Fund's 'Conflicts of Interest' policy.

The policy will be formally reviewed and updated at least every three years or sooner if arrangements merit reconsideration.

The conflicts policy addresses the fiduciary and public law duties to act in the best interest of the scheme beneficiaries and participating employers as well as the seven principles of public life as servants of the public and stewards of resources.

Local investment decisions are recognised as a specific LGPS potential conflict. The Fund has no strategic commitment to investment within the County and local investment must first evidence strong and competitive financial return within acceptable risk parameters.

Principle 4

Signatories identify and respond to market wide and systematic risks to promote a well-functioning financial system

Overview

The Fund has a Risk Management Policy in place which was approved in June 2021.

The Fund's primary long-term risk is that the Fund's assets will fall short of its liabilities (i.e., promised benefits payable to members). Therefore, the aim of investment risk management is to minimise the risk of an overall reduction in the value of the Fund and to maximise the opportunity for gains across the whole portfolio. The Fund achieves this through asset diversification to reduce exposure to market risk (price risk, currency risk and interest rate risk) and credit risk to an acceptable level. In addition, the Fund manages its liquidity risk to ensure there is sufficient liquidity to meet the forecast cash flows. The Fund manages these investment risks as part of its overall risk management programme.

Responsibility for the Fund's risk management strategy rests with the Pension Committee. Risk management policies are established to identify and analyse the risks faced by the Fund's pensions operations. Policies are reviewed regularly to reflect changes in activity and in the market conditions.

The Fund Risk Management policy recognises the key objectives and is intended to allow for identification and effective mitigation of all risks that may undermine the Fund's ability to do meet its objectives. The Administering Authority's ability to manage risk effectively and proportionately, and maximise opportunity, plays a crucial role in its ability to achieve the key objective.

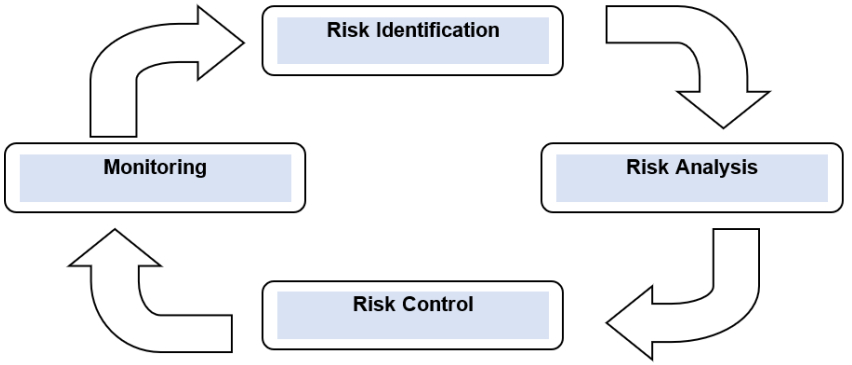
Risk management is not simply a compliance issue but is a decision-making tool, used at both strategic and operational levels, and is an essential element of effective governance.

Activity

Risks are identified under four risk categories of Administration, Employer, Governance and Investment and Funding. The Fund tracks and reports its risks through a risk register that is updated and considered at each quarterly Pension Board and Pension Committee meeting.

Risks are controlled to ensure a proportionate and cost-effective approach is taken having regard to level of actual risk exposure and benefits to be obtained. Strategies to respond to risks are Terminate, Treat, Tolerate and Transfer.

The Risk Management Process



In addition to quarterly reporting of the risk register, an annual risk assessment is reported and published in the Annual report and Accounts, where sensitivity analysis is conducted on all market risk annually.

Key market and systemic risks

Market risk is the risk of loss from fluctuations in equity and commodity prices, interest and foreign exchange rates and credit spreads. The Fund is exposed to market risk from its investment activities, particularly through its equity holdings. The level of risk exposure depends on market conditions, expectations of future price and yield movements and the asset mix. Excessive volatility in market risk is managed through the diversification of the portfolio in terms of geographical and industry sectors and individual securities. To mitigate market risk, the Fund and its investment advisors undertake appropriate monitoring of market conditions and benchmark analysis.

The Fund's investment managers mitigate other price risk which is the value of a financial instrument fluctuating because of changes in market prices (other than those arising from interest rate risk or foreign exchange risk), through diversification. And the selection of securities and other financial instruments is monitored by the Fund to ensure it is within limits specified in the Fund's investment strategy.

The Fund invests in financial assets for the primary purpose of obtaining a return on investments. These investments are subject to interest rate risks, which represent the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates. The Fund's interest rate risk is routinely monitored by the Fund and its investment advisors in accordance with the risk management strategy, including monitoring the exposure to interest rates and assessment of actual interest rates against the relevant benchmarks.

The Fund recognises that interest rates can vary and can affect both income to the Fund and the value of the net assets available to pay benefits. Sensitivity analysis demonstrates that a 1% increase in interest rates will not affect the interest received on fixed interest assets but will reduce their fair value, and vice versa. Changes in interest rates do not impact on the value of cash/cash equivalent balances but they will affect the interest income received on those balances.

Currency risk represents the risk that future cash flows will fluctuate because of changes in foreign exchange rates. The Fund is exposed to currency risk on any cash balances and investment assets not denominated in pound sterling. Following analysis of historical data in consultation with the Fund investment advisors, the Fund considers the likely volatility associated with foreign exchange rate movements to be not more than 10%.

Credit risk represents the risk that the counterparty to a transaction or a financial instrument will fail to discharge an obligation and cause the Fund to incur a monetary loss. The market values of investments generally reflect an assessment of credit in their pricing and consequently the risk of loss is implicitly provided for in the carrying value of the Fund's financial assets and liabilities. The Fund's entire investment portfolio is exposed to some form of credit risk, except for the derivatives positions, where the risk equates to the net market value of a positive derivative position. However, the selection of high-quality counterparties, brokers and financial institutions minimise credit risk that may occur through the failure to settle a transaction in a timely manner.

Liquidity risk represents the risk that the Fund will not be able to meet its financial obligations as they fall due. The Fund therefore takes steps to ensure that the Fund has adequate cash resources to meet its commitments. This will particularly be the case for cash from the cash flow matching mandates from the main investment strategy to meet the pensioner payroll costs; and cash to meet investment commitments.

Refinancing risk is that the Fund will be bound to replenish a significant proportion of its pension Fund financial instruments at a time of unfavourable interest rates. The Fund does not have any financial instruments that have a refinancing risk as part of its treasury management and investment strategies.

Climate change risk is identified as a risk to assets and liabilities through both physical and transition risk. As risk mitigation the Fund have a clear set of principles on beliefs and objectives that are considered for all decision making and monitoring of managers. Equity portfolios have been restructured to remove fossil fuel companies in a decision to avoid risk from high emitting companies but to also exploit opportunities in modern technologies and industries that are looking to find solutions to climate risk.

As part of the changes in equities also include the removal of traditional passive indexes that track the market with no exclusions or tilting as there is a lag in these indexes and the Fud does not want to bear risk of holding high emitters without an active decision and the ability to move quickly.

Managing systematic risk

Day-to-day responsibility for managing our investments is delegated to our appointed investment managers. The Fund expects managers to monitor companies, intervene where necessary, and report back regularly on activity undertaken. This includes monitoring of global macro-economic trends, and key themes in equity, private debt, and infrastructure markets. Major market risks are discussed during quarterly Committee meetings, as well as with investment consultants.

The Fund has regular meetings with investment managers and assesses their effectiveness in their monitoring of investee companies as part of formal portfolio reviews either amongst Officers or the Pension Committee and, as part of the manager analysis that is carried out by the investment consultants research team.

The Fund also receives quarterly reports from managers detailing their voting and engagement with companies, which will affect the sustainability of investments. This information is published quarterly and provides a basis for the officer team to challenge investment managers on what risks they are focusing on through engagement activity and where their priorities lie.

Key market and systemic risks form the basis for the training plan for committee members and officers with focus on items such as climate change and inflation being crucial areas for decision makers to understand.

Collaboration

The Fund participates in collective action, use of resources and knowledge share through a number of collaborative routes which lead to ESG and policy improvements, which promotes better functioning markets. These include, but are not limited to:

- **Intuitional Investors Group on Climate Change (IIGCC)**
  The IIGCC collaborates with policymakers and stakeholders to strengthen policy that supports a low carbon, climate stable world. Their mission promotes progress to 2030 net zero goals and a resilient future responding to systematic risk by defining public policy, investment practise and corporate behaviour.

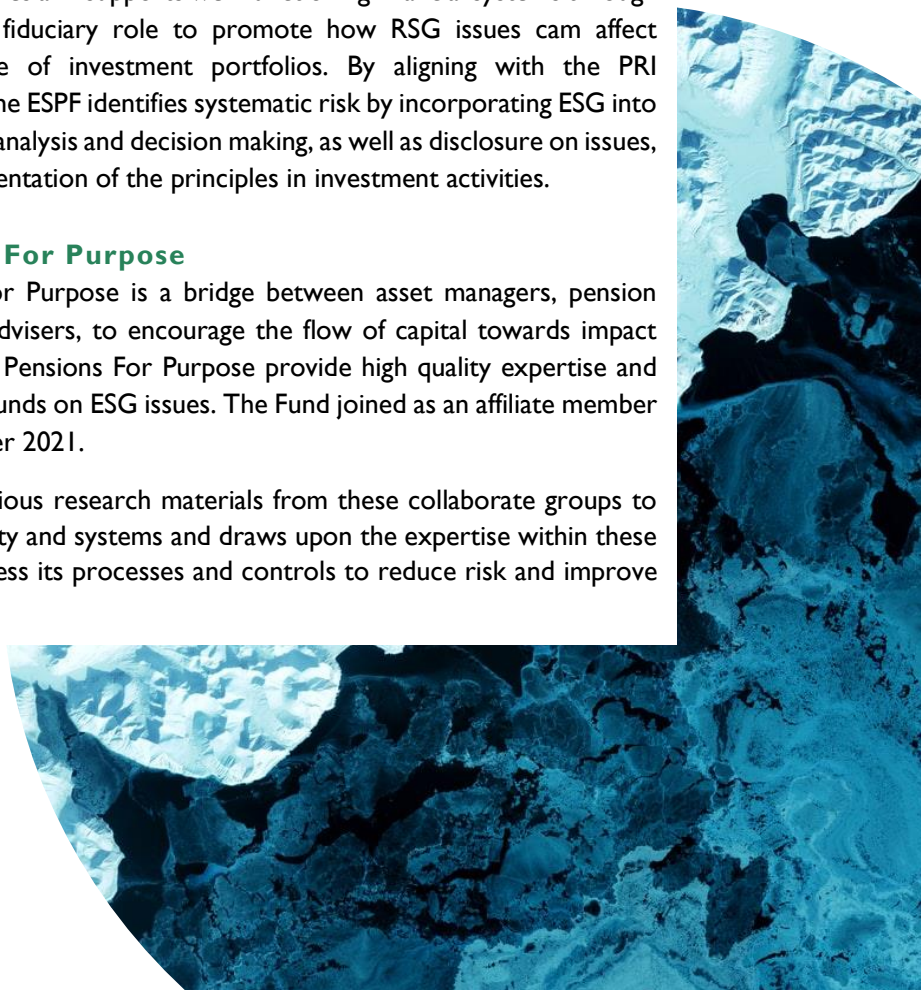
- **Pensions and Lifetime saving Association (PLSA)**
  The PLSA discusses long term investment horizons with the acknowledgement that long term risk adjusted returns comes from responsible investment approaches. As a member the ESPF uses their resources and practical advice to support stewardship.

- **Local Authority Pension Fund Forum (LAPFF)**
  LAPFF promotes high standards of corporate governance, enhancing Fund ability to transition to net zero targets. LAPFF has identified the FRC as vital to a well-functioning market. LAPFF work to ensure members can align investment and stewardship goals. LAPFF promotes well-functioning financial systems through collaborative experiences and knowledge sharing engagement.

- **Principles for Responsible Investment (PRI)**
  PRI is a UN led principle that supports a duty to act in the best interest of beneficiaries and supports well-functioning financial systems through using their fiduciary role to promote how RSG issues cam affect performance of investment portfolios. By aligning with the PRI principles, the ESPF identifies systematic risk by incorporating ESG into investment analysis and decision making, as well as disclosure on issues, and implementation of the principles in investment activities.

- **Pensions For Purpose**
  Pensions For Purpose is a bridge between asset managers, pension funds and advisers, to encourage the flow of capital towards impact investment. Pensions For Purpose provide high quality expertise and training to funds on ESG issues. The Fund joined as an affiliate member in September 2021.

The Fund utilise various research materials from these collaborate groups to help manage it activity and systems and draws upon the expertise within these groups to help address its processes and controls to reduce risk and improve systems.



Principle risk outcomes include:

Risk	Process	Outcome
Systemic risk: A diversified portfolio means exposure to a range of asset classes, of both passive and active management.	Detailed quarterly reporting mitigates this risk and areas of concern are discussed and reported to committee. The ACCESS Contracts Manager supports the officers through pooled resources, knowledge, and support.	The ACCESS pool offers a range of exposure and helps limit systemic risk through pooled resources and a strong governance framework, with the outcome of more efficient deliverance of value for stakeholders and beneficiaries.
Funding risk: Risk that investment strategy fails to result in performance required to meet the needs of the Funding strategy discount rate.	This is overcome through independent investment consultants and advisors, triennial valuation ensuring funding rates are known, quarterly performance monitoring and link for ACCESS sub funds, annual review and interim rebalancing, compliance with ISS.	This allows for better transparency and balance advisory to The Fund, ensuring performance is reviewed on a regular basis. This has led to successful audits and better reporting of funding risks, such as missed contribution payments and support offered to employers. We provide revision of the asset liability model to support a viable strategic asset allocation for the new valuation.
Regulatory risk: Failure to comply with regulations, legislation and guidance from an accounting and investment perspective.	This is managed through maintaining accordance with CIPFA code of practises, IFRS and ESCC financial regulations, Internal and external audit and mapped and reported breaches policy.	Outcomes here include better communications with employers on changing legislation, as well as increased internal resources to help manage employers through regulatory changes.
Investment pooling risk	This is managed through ACCESS support units, KPI's introduced with revised operator agreements, consultants analysing sub funds and transitioning using scenario analysis, opportunities to transfer securities in specie, due diligence completed by legal advisors and regular meetings between officers and access.	This is demonstrated in risk adjusted returns being competitive, for example portfolio standard deviation is currently 10.62% which is a competitive risk tolerance level.

ESG Risks: within Investment strategy and implementations on investment decisions.	This is managed through our statement of responsible investing, investment working group and ESG working group consolidated into a single group, 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.	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.
Climate change: risk on assets and liabilities associated with Climate Change	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, restructuring of the equity portfolio to avoid high risk companies and exploit opportunities, including decision to invest in impact fund in September 2020, The Fund carry out annual carbon foot printing to better understand the carbon exposure and energy transition plans within the portfolio.	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.

Outcome

Risk management policy and approach is demonstrated in risk adjusted returns being competitive, for example portfolio standard deviation is currently 10.62% which is a competitive risk tolerance level.

The Fund has a designated annual strategy day for Pension Committee on top of the regular quarterly meetings. This allows a focus onto market and system risk without all the other Fund management and decision-making activity. As part of the strategy day, Committee members are also able to receive training on the key topic, they are making decisions on to ensure they understand the full repercussions of their decision making.

The Fund has made fundamental changes to its investment strategy because of its concern on climate change risk with 10% of the portfolio invested in climate solutions and 20% in resource efficient or Paris aligned funds.

These decisions were made during 2021 however not fully implemented until 2022. The Fund has also increased its exposure to infrastructure and have taken ESG credentials as a key differentiator in the manager selection process. All manager selections include a detailed set of ESG criteria to ensure the longevity of the investment portfolio.

Principle 5

Signatories review their policies, assure their processes, and assess the effectiveness of their activities

Overview

The Fund has policies that are regularly reviewed and tracked through a tracking document to ensure all documents are assessed within the agreed timeframes. All documentation can be found on the website

www.eastussexpensionfund.org.uk.

Activity

Policies and review

As a minimum, all policies are reviewed every 3 years. Where there is a change in law or major event, policies are reviewed early. In 2021/22 the Fund reviewed most of its governance policies and processes. All documentation is reviewed in line with the governance review processes, where documentation is logged by its review date. In 2021/2022 reviews included the Funding Strategy Statement, Investment Strategy statement, Communications policy, UK stewardship code, Abatement Policy and Statement of Responsible Investment Principles and can be found on the website.



Investment Strategy Statement – reviewed annually and updated at least every three years or immediately after significant changes

Statement of Responsible Investment Principles – reviewed annually

Conflicts of Interest - reviewed every 3 years

Breaches Policy - reviewed every 3 years

Funding Strategy Statement – reviewed every 3 years. Review process includes consultation with scheme employers

Administration Strategy – reviewed every 3 years. Review process includes consultation with scheme employers

Risk Management Policy - reviewed every 3 years

Training Strategy – reviewed every 2 years

Governance and Compliance Statement – updated annually

Communications Strategy – reviewed annually and updated at least every three years

Audit and Assurance

Management of LGPS investments is conducted in accordance with relevant governing legislation and regulations.

Internal Audit assess the governance of the Fund and provides assurance that best practise is followed. The Fund commission 100 days of internal audit work per year and the audit strategy is agreed annually by the Pension Committee. Within the audit plan for 2021 the internal audit covered, Compliance with Regulatory Requirements, Governance, Investments and External Control Assurance, Administration, and Information Governance.

Each internal audit report including actions agreed by the Fund's management is presented and discussed at both the Local Pension Board and Pension Committee.

External audit, provided by Grant Thornton, provides the Fund with scrutiny on governance, decision making and transparency of reporting. External Audit issue an annual audit plan that is reported to Pension Board and Pension Committee and an Audit Findings report including the audit opinion.

In addition to the audits, the Fund completes an annual scheme return to the Pensions Regulator.

Governance Review

In November 2019, the Pension Committee approved the undertaking of a governance review of the Fund, the results of this review were presented to Pension Committee in June 2020. Key changes to the Fund's purpose and governance implemented from June 2020 and through 2021 were:

- Revision of Pension Committee Terms of Reference
- Revision of Pension Board Terms of Reference
- Revised Scheme of Delegations to include Pension Fund management
- Implementation of a Communications Strategy
- Implementation of a Breaches Policy and Log
- Pension Fund Team structure and resourcing proposal
- Pension Administration Strategy
- Conflicts of interest policy and log
- Pension administration service standard agreement
- Responsibilities and relationship map for Pension Fund; Pension Administration and Employers

At the same meeting in June 2020 the Pension Committee received an independent review on the ESG arrangements for the Fund which was conducted by PRIC in response to a motion passed by ESCC full Council responding to a petition on divestment of the Fund from fossil fuels. As part of the discussion of this review the Committee acknowledged that the Fund had undertaken a lot of work, via the ESG working group, to develop an understanding of ESG matters and how they can be included in the Fund's strategy, but it is recognised that more work needs to be done consulting with stakeholders on ESG matters. These include ACCESS, the Fund's investment managers, employers, and members.

It was also acknowledged delivering on ESG commitments takes considerable time and resources. For example, ensuring investment managers have signed up to the new UK Stewardship Code, and monitoring the carbon footprint of companies, TCFD reporting, and the Fund's own Stewardship Code submission all require considerable officer time.

In recognition of the work and resources involved in stewardship activities and from a wider governance consideration the Fund put in place a new team structure to ensure a larger team to enable greater capacity to carry out the increasing requirements on asset owners. The team structure was approved in late 2020 and appointments made throughout 2021 with the last governance and investment position filled in February 2022, allowing for further developments in activities of the future in future years.



ESG quarterly reporting

The Fund had reported its stewardship activity through an annual ESG statement, this moved to a quarterly report in late 2020, although publication was not always timely.

In late 2021 the Fund did an overhaul of the quarterly report to show engagement in more areas rather than just stating what the manager advised they had done for the quarter. The first change was to understand what voting records are being provided as there appeared to be a discrepancy in whether the manager was providing information on the Fund's own votes or whether it was across their whole business. This is now stated against each manager to provide transparency of stewardship reporting to ensure it is understandable to stakeholders. In addition, as the Fund invests in pooled vehicles each manager is noted to say which voting guidelines they follow.

Where a manager publishes a full report on their activities in the quarter the Fund simply links to the published report to ensure that all engagement is clear rather than only selecting a few examples.

As well as manager activity the Fund were keen to show activity outside of managers. So, the Fund also started to include engagement activity from collaborative groups to policy makers and events, meetings or training items officers of the Fund had attended.

Outcome

Policies are reviewed regularly with comments provided by the Pension Board to feed in views of employers and scheme members into the use and content of the policies and all policies are approved by the Pension Committee before publication, to ensure policies continue to reflect best practice and meet the expectations of the Pension Committee and other regulatory bodies.

During 2021 the Fund's risk register underwent a full overhaul in recognition by the Pension Board and Committee that it did not hold sufficient details on mitigation and the range or risk that the Committee wanted to keep under review quarterly.

The Statement of Responsible Investment Principles (SIRP) was established to replace the Investment Beliefs, out of an intensive consideration of how the Fund should be implementing ESG and stewardship within decision making. This was originally approved and published in September 2020. In the Annual report and accounts in 2021 the Fund reported how it had implemented the strategy and where further work was expected in the future.

Minor amendments were made to the strategy at its annual review in 2021. In June 2021, the ACCESS pools ESG consultant conducted a review of each ACCESS authorities RI policy including a gap analysis to identify the commonality and expectations of each Fund to build a set of RI guidelines for the ACCESS pool. As part of this analysis the Fund scored highest overall in the robustness of the statement based on a best practice model with highest scores of the 11 Funds in Governance and Implementation areas of the analysis.

The process did highlight a few areas of improvement for the Fund as well, such as how the Fund's own stewardship approach and activities dovetail with that of the ACCESSS LGPS pool and clarity on Fund specific views of voting and the disclosure of voting activity.

Stewardship policies stem from the Pensions Committee and are regularly discussed and debated. As a result of the pool ESG advisers' comments on the SIPR the Fund changed the quarterly engagement reporting it produces from Q4 of 2021 which covered the activities from 1 October – 31 December 2021, making sure voting and engagement activities are more clearly defined including which voting policy is used by each manager. In addition, within this report the Fund increased the reporting to include its own activities, those of its advisers and policy engagement through collaborative partners. There are still areas where the Fund can make improvements to stewardship through voting and will look to implement these in the next year.

Internal audit provided substantial assurance in Compliance with Regulatory Requirements and Investments and External Control with Reasonable assurance for Governance, Information Governance.

The Fund has significantly increased the reporting and communications of its engagement and other activity because of changes in policy increasing transparency and understanding between clients and beneficiaries as well as pressure groups.

Principle 6

Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them

Overview

The Fund is part of the national Local Government Pension Scheme (LGPS). The LGPS was set up by the UK Government to provide retirement and death benefits for local government employees, and those employed in similar or related bodies, across the whole of the UK. The Fund is effectively responsible for managing the Pensions for all eligible employers and beneficiaries of the LGPS within the East Sussex area including Brighton and Hove, to make sure it:

- receives the proper amount of contributions from employees and employers, and any transfer payments;
- invests the contributions appropriately, with the aim that the Fund's assets grow over time with investment income and capital growth; and
- uses the assets to pay Fund benefits to the members (as and when they retire, for the rest of their lives), and to their dependants (as and when members die), as defined in the LGPS Regulations. Assets are also used to pay transfer values and administration cost.

The Fund is responsible for the pensions of over 80,000 scheme members across 140 scheme employer bodies. The scheme is defined benefit based on the Local Government Pension Fund 2013 Regulations which has multiple sets of scheme rules. Of the members, over 23,000 are currently in receipt of their pensions. Of the members not yet in receipt of their pension, over 24,000 are active members with a further 33,000 deferred members.

At the 2019 triennial valuation the scheme was 107% funded and had a 20-year maximum time horizon for employers in modelling for contribution rate setting and valuation assumptions. Each employer has its funding target calculated, and a relevant time horizon over which to reach that target. Contributions are set such that, combined with the employer's current asset share and anticipated market movements over the time horizon, the funding target is achieved with a given minimum likelihood. A higher required likelihood bar will give rise to higher required contributions, and vice versa. Details of the Fund's assumptions and funding basis are included in the Funding Strategy Statement.

Most of the employer bodies whose staff are members of the Fund have strong covenants due to their status as public sector bodies. This means that the Pension Fund can take a long-term view when making investment decisions, helping the Pension Fund to achieve its investment aims.

These aims include managing employers' liabilities to achieve long-term solvency by ensuring that 100% of liabilities can be met over the long term, but without creating volatility in contribution rates for employers (and therefore taxpayers) or taking excessive investment risk outside of reasonable risk parameters.

Activity

Communications

The communication from the Fund is an area where extra specific resource has been allocated to improve the way the Fund engages with its stakeholders. It has set up a communication working group (CWG) responsible for improving communications following a review by the East Sussex County Council Head of Communications of how well the Pension Fund communicates. The CWG consists of Pension Board members (representing the Fund's employer and member stakeholders) and Fund officers. To complement and progress the initiatives generated and monitored by the CWG the Pension Fund has recruited a Communications Manager to set a new Communications Strategy and implement recommendations from the formal review and from the CWG. The Fund publish its Communications Strategy on the website and the strategy will have a detailed overhaul in 2022.

To further complement this the Fund has a specific business plan and will be setting aside budget to enhance the communication of the Fund when the budget goes for approval in February 2022 to cover the areas identified in need for short term implementation and improvement including the costs of the new communications manager. Areas that are specifically being targeted are the Fund's digital communications software, surveys, setting out a cohesive investment story, website evaluation and refresh, support for business projects and media responses.

Consultation with beneficiaries

All active members receive newsletters twice a year and Pensioner members once a year. These newsletters update on pension issues, especially on any changes affecting benefits.

The Fund conducts an annual survey with active and pensioner members to seek their views on the administration of the Fund. In 2022 this survey will also lightly touch on investment strategy.

Consultation with scheme employers

All employing bodies are kept informed of current pension issues, such as proposed changes in the regulations and their implications, by quarterly newsletter. They are encouraged to get in touch if they have questions.

In addition to these electronic briefings, the Fund holds an annual Employers' Forum to which all scheduled and admitted bodies of the Fund are invited. This was held virtually in 2021, due to the Covid-19 pandemic, but is expected to be re-instigated as a physical event in 2022. This annual meeting covers both actuarial and investment issues and always contains a presentation from the Fund's Actuary. In 2021 Employers received information about new software being implemented by the Fund and the onboarding process, the importance of protecting members from fraud and other topics. Employers can raise topics of interest for this forum and ask questions of officers and advisers as required at the event.

An annual survey is conducted with employers to get input into the administration of the Fund.

Where there are proposed changes to the Administration Strategy or to the Funding Strategy Statement, employers are consulted prior to implementation of the revisions.

The Fund created an Employer Engagement team to specifically focus on improving the information sharing and support to scheme employers.

Investment

As a long-term investor, the Pension Fund can set its strategy over a long-term investment horizon. The average life expectancy of the Fund's members range between 21 and 25 years depending on gender and status. There was a 75% likelihood that the Fund's investments will return at least 4.0% over the next 20 years based on a stochastic asset projection of the Fund Actuary at the 2019 valuation.

The Fund is transparent with its Funding strategy with strategy and performance reports being primarily published and discussed in public sections of Pension Committee meetings. Confidential items are held in private, which include the specific holdings by a manager or detail of a change in manager or sale of assets that could be impacted by knowledge of the market. In addition to the public nature of reports and meetings the Fund have a newly created section on the website for investments where we provide information on strategy and areas of specific interest of our members such as fossil fuel exposure and climate activity and other engagement areas. This area of the website will continue to be developed in 2022.

The Fund have made a number of changes in the Investment strategy partially due to insights into member views on areas such as climate change from the engagement received and areas of focus from questions to the Fund, but also because of the focused work by the pensions committee in determining their Responsible Investment Principles.

Major changes in the Investment strategy in 2021 include a move away from traditional passive investments into climate aligned, resource efficient or assets looking at climate opportunities. This was not fully implemented by December 2021; however, the decisions had been set in motion by the reporting date.

In addition to changes in equities, the Fund also made an investment into a liquid infrastructure fund which assesses various climate scenarios before inclusion in the investment portfolio to reduce risks to beneficiaries and asset value resulting from climate change.



Outcome

Scheme beneficiaries received regular updates through newsletters and information on the website and can contact the Fund and attend public meetings so we can assess their views and incorporate them where possible.

The evaluation of the effectiveness of engagement with scheme members is through the volume of correspondence received and the topics covered. It is rare that the scheme received follow up questions when responding to a member question on RI matters following detailed responses.

The Pension Board and Committee have agreed that it wants to increase the level of engagement and communications that it has with scheme members further and will agree a budget for additional work on communications and is in the process of developing its communications strategy. This is likely to include enhancements like further development of the Pension Fund's website, better use of Plain English and accessible content, and the consideration of how member views can be sought. The Fund will also be expanding the coverage of Responsible Investment in its Annual Report for the reporting year 2021/2022 and will use this document as another means to seek feedback and input from scheme members.

Over the year the Fund has responded to a number of requests from scheme members and other interest groups on RI related matters, in the main these relate to exposure to fossil fuels in light of the climate emergency and investment in companies that conduct business in the occupied territories in Palestine. Many of these questions come through as Full Council questions where an answer is provided on behalf of the Fund and published in advance of the meeting. Where questions come through directly to a member of the Committee or Board or even directly to the Fund team, a direct response is provided to these questions which also signposts to information available on the website.

Membership of the Pension Board includes employer and member representatives. These representatives can input into and comment on the Fund's stewardship and investment approach through governance oversight of the Fund and access to policies, or through the Communications working group.

The Fund is happy to engage with employers and scheme members on an ad-hoc basis to provide additional information on Stewardship matters and regularly includes a training item at the employer engagement forum on responsible investment.

There are a number of improvements recognised in this area for the Fund, including the enhancement of surveys with members to get views on wider areas such as investments and engagement and this will be implemented in 2022. In addition, the Communications strategy will be refreshed and for the first-time budget will be directly set for communications improvements.

In the 2021 annual report and accounts, published 1 December 2021, the Fund has publicly reported against the Taskforce for Climate-related Financial Disclosure (TCFD) criteria for the first time. As part of this disclosure the Fund notes are there are areas of improvement and further detail required, which will be incorporated in future years as more data becomes available.

The Pension Fund publicly reports on the carbon footprint of its investments which show a reduction between the first and second year of reporting in intense carbon emitters within the portfolio as well as improvement in energy transition plans.

Principle 7

Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change to fulfil their responsibilities

Overview

Environmental, Social and Governance is a crucial part of the investment process. Climate change risk and opportunity has been the primary driver for changes in the investment strategy throughout 2021, however other EGS issues have played a key role in the stewardship of the existing investments and manager selection processes especially around human rights issue and management systems in place as part of the governance controls in underlying investments. In addition, the Fund have focused on the control structures in place of our manager for real assets looking to evidence sufficient control for a board seat and that there is effective oversight and governance at the board level of companies.

Activity

The Journey

The Fund has integrated ESG and RI into its investment strategy from 2018 and continues to make changes and improvements today and considers stewardship and integration of ESG and RI as a continual journey. The Fund has made a number of changes and carried out reviews during the past few years.

2018

Allocation to UBS Climate Aware Fund

August 2019

IPCC report – public attention to investors triggers various actions to focus on ESG and climate change

September 2019

- Statement of Investment beliefs agreed
- ESG position report and actions produced by consultant

October 2019

- Council petition to divest Pension Fund
- Committee seek independent review of ESG
- Committee publish an ESG Statement including views on climate change

June 2020

- ESG report back from PRIC with various recommendations
- Carbon foot printing reports on listed managers received
- Agreed to investigate climate opportunities
- Agreed to change the active passive split

September 2020

Statement of Responsible Investment principles approved

2 climate impact managers selected

Passive Paris aligned manager selected

Listed Infrastructure manager selected

December 2020

Launch of two Sustainable Equity Impacts Fund – 10% allocation

February 2021

Agreed approach to removal of all traditional passive indexes – 5% to move to resource efficient index and 5% to move to pool core manager Paris aligned fund

June 2021

2nd Carbon foot printing report with same supplier including transition pathway scores

July 2021

ESG implementation statement published against RI principles

ESG impact assessment on all managers

Fossil Fuel exposure analysed

Statement published exposure to occupied territories companies with possible human rights concerns

October 2021

- Fund shortlisted for the 2021 LAPF Investment awards for climate change strategy and LGPS Fund of the year (over £2.5bn) – award ceremony held in March 2022
- Head of Pensions appointed to LAPFF Executive Committee

November 2021

First TCFD report produced and published in Annual Report and Accounts

Integrated Strategy

The Fund has an ongoing commitment to stewardship as part of its fiduciary duty to its members and employers. Systematic integration has been achieved through our various published polices, the publication of our ESG statement and becoming both a PRI signatory and a member of IIGCC.

Responsible investment is carried out by:

- External investment managers who are expected to exercise the Fund's voting rights to incorporate stewardship and ESG in their strategy.
- The Fund itself through direct engagement with managers over their positions, approaches, policy, and engagement activities.
- Through collaborative efforts with LAPFF, IIGCC, Pensions for Purpose and other alliances.
- Advisory and consultants by working with ISIO our consultants and our independent advisor who ensure our ESG strategy goals are priorities in our investment activities and ESG advisers such as carbon footing, ACCESS pool and independent reviews.

The Fund receives and attends various training opportunities to enable integration into decision making, strategy setting, manager selection, advisory procurement, manager review meetings and engagement opportunities.

Commitments by sector

Recent ESG changes to the strategic asset allocation involved restructuring the Fund's equity exposure whilst still maintaining the 40% target allocation. Equity allocation was to be tilted with the addition of active impact equity, as well as smart beta passive equity strategies. The remaining equity exposure was moved to resource efficiency or Paris aligned mandates.

Fixed Income managers do have more exposure to high carbon emitting sectors and the Fund will be reviewing its mandates for Fixed Income in 2022.

The Fund has increased its investment in Infrastructure with an investment into liquid infrastructure in December 2020 where the manager assesses all holdings through a climate scenario lens to understand the climate risks and opportunities of holdings. In addition, the Fund allocated a further 5% to infrastructure bringing the total allocation to 11%.

The Fund's investment consultant brought an implementation paper outlining the approach to shortlist the potential managers putting forward the most suitable 'green-rated' managers, to the Pension Committee in November 2021 where the Committee requested further specific ESG investment criteria added to the selection process for the final stages. The manager selection interviews take place in January 2022 where ESG criteria will be assessed and challenged with the shortlisted managers for appointment.

Manager Selection

The Fund takes the following steps before a new investment manager is appointed:

Direct manager selection route

- The Pension Committee set its Strategic Asset Allocation to determine asset classes and proportion holding in those classes. They also discuss style and geographic requirements to ensure a diverse portfolio on allocation of new mandates. ESG is an integral factor of all strategic decisions.
- A list of criteria to assess potential investment managers and areas of focus in the selection of a manager are discussed and approved by the Committee. ESG specific criteria are included in this as a separate section.
- Managers are questioned over a number of RI topics in addition to their initial responses.
- Due Diligence is conducted with information on managers ESG statements, benchmarks, fees, and policies such as health and safety and renumeration are assessed.

Appointment from the LGPS pool

- The Fund is a member of the ACCESS pool who have a set of EGS beliefs and are finalising their RI Guidelines in 2022.
- Where the pool has a sub fund that meets the strategic asset allocation requirements as set out by the Committee, the Fund's investment consultant conducts a review against a range of criteria including ESG essentials to assess if the manager is a good fit for the Fund's strategy and aligned with its investment beliefs.
- Before a manager is appointed full Due Diligence will also be conducted.

Appointment of a consultant

- Before appointment of a consultant or service supplier, the Fund will use the LGPS Framework which has first conducted an OJEU process to put appropriate and professional firms to carry out the relevant functions. From the framework, the Fund then conduct a further competition tender process which includes the consultants ESG standpoint and how ESG issues are incorporated into the consultants' approach.
- Prospective consultants and suppliers are also asked to highlight how they can enhance the RI actions of the Fund.
- In line with CMA, consultants are set annual objectives and reviewed annually.

Example Procurement in 2021

In 2021 the Fund undertook a tender process for an Independent Investment Adviser to provide support and advice to the Penson Committee to provide a challenge to investment decision making and advice. Within the scoring mechanism there was a 10% weighting to "The Bidder's experience of supporting LGPS Funds on RI and ESG issues" and 5% weighting to "Commentary on the Fund's ESG position and possible next steps". The supplier selected for the contract was noted in this space for their breadth of knowledge and experience in supporting Funds on their journey of ESG implementation. They were also strong in identifying wider ESG issues with a focus on expanding into Social and did not just focus on climate change. They also had clear awareness of current issues and what the Fund had achieved to date but also identified weaknesses of the Fund in the area such as a focus on equity and the growing importance of Social and the need to improve metrics.

Example Manager Selection in 2021

In February 2021, the Fund made the decision to sell the last of its traditional passive index holdings (decided during the investment strategy day) to allocate 5% of the portfolio holdings into a resource efficient mandate. The Fund chose the index managed by Osmosis Investment Management to launch a sustainable £200m global equity ex-fossil fuels portfolio, which went live in January 2022.

Osmosis uses a quantitative screening process to remove companies that generate more than 5% of revenue from nuclear energy, any company associated with nuclear weapons, controversial weapons, civilian firearms, tobacco, thermal coal, oil sands and businesses that are not compliant with the United Nations Global Compact principles.

Investment Strategy priorities within the ACCESS pool

The ACCESS Authorities believe in making long term sustainable investments whilst integrating environmental and social risk considerations, promoting good governance and stewardship. Whilst the participating authorities have an overriding fiduciary duty to act in the best long-term interests of their LGPS stakeholders to achieve the best possible financial returns, with an appropriate level of risk they also recognise the importance of committing to responsible investment in the investment decision making process.

Minerva have been appointed as part of this review to provide advice on guidelines and implementing these in a pooling environment. Minerva will also provide advice on future appropriate reporting requirements to provide transparency to stakeholders, monitor adherence to the Guidelines and inform discussion on ESG/RI matters.

Assessment and Reporting

Principles of Responsible Investment

ESPF has been a PRI signatory since June 2020, due to the time of joining and absence of a 2022 submission for PRI reporting, the Fund has not yet made a submission. The PRI annual survey will demonstrate how the Fund implements the PRI Principles in the year.

Taskforce for Climate Related Disclosures

The Fund committed to reporting under TCFD in its Statement of Responsible Investment Principles which was approved in September 2020. TCFD is structured around four thematic areas of Governance, Strategy, Risk Management and metrics and targets. The Fund support the TFCD recommendations to provide a framework to communicate the steps the Fund is taking to manage climate related risks.

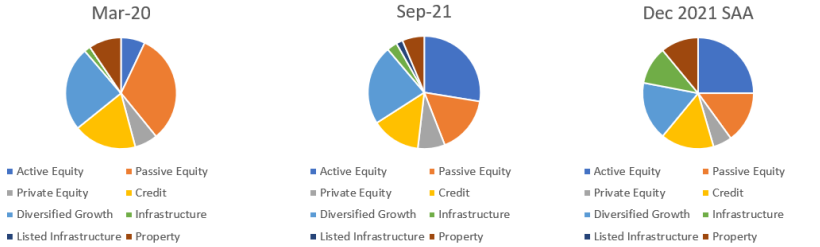
The Fund competed its first attempt to report against these disclosure requirements in its published Annual Report and Accounts in December 2021. Where the Fund has gaps in reportable data, this is highlighted in the sections, with a plan on how this will be progressed in future years reporting including on climate scenario modelling and setting targets and a transition plan.

Outcome

The Fund made changes to the strategy and integrated ESG and stewardship into all aspects of its decision-making processes including manager selection and consultant tenders as well as asset allocation and in line with the Fund's RI objectives.

The Fund addresses both risks and opportunities as seen in the restructure of its equity positions by removing traditional index passive investments. Investing into a Paris aligned smart beta and resource efficient index fund as well as into active impact and sustainability managers investing in energy transition solutions and green revenues. The Fund's integrated actions have looked to align all business activities within the Fund's RI objectives which will provide a more robust risk management framework to better protect the interest of the Fund members and looking not just at carbon reduction but opportunities for the Fund to help drive solutions to climate change in the market and aid the energy transition so the Fund can continue to generate returns to keep the Funding position in surplus and keep contributions of employer stable.

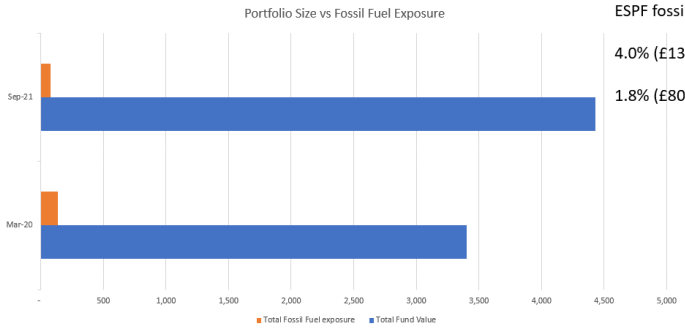
Investment Strategy – changes in Actual Asset allocation



The Fund's actions moved the positioning of fossil fuel exposure away from the passive mandates which lag the market and could be a significant risk to the Fund's returns by holding these companies without conviction or the ability to sell.

Fossil fuel exposure is now significantly lower but held in actively managed asset classes where managers are more tactical in positions to generate returns for the members of the Fund in a more defensive way and these managers have a proven record of strong engagement policies and are Climate100+ leads with a number of the high emitting companies held within the portfolios.

Fossil Fuel Exposure

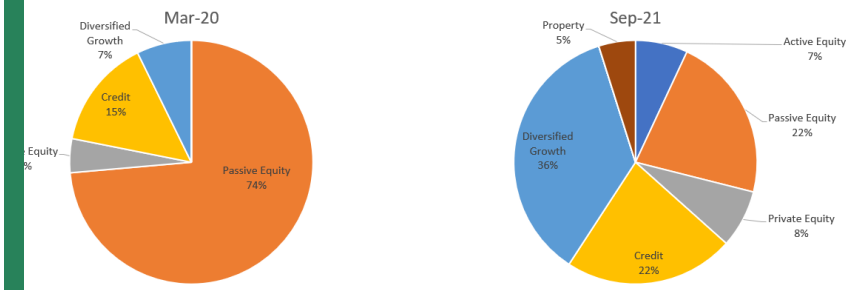


ESPF fossil fuel exposure

4.0% (£137m) in March 2020

1.8% (£80m) in Sept 2021

Asset classes with Fossil Fuel Exposure



Principle 8

Signatories monitor and hold to account managers and or service providers

Overview

Responsibility for day-to-day interaction with companies is delegated to the Investment managers, including the escalation when necessary. We expect Investment managers to disclose their policies and procedures for escalation in their own Stewardship Code statement. Investment managers conduct robust and continual research on underlying holdings, engage with the company's management team, collaborate with other institutional shareholders, voting, filing shareholder resolutions or partially or entirely disinvest. The investment manager will seek to add value to their clients through improved company share performance following such escalation. The Fund meets it managers throughout the year. Its investment consultants have a continual review programme of all the Fund's Investment managers. They will let the Fund know if there are any concerns, changes, or performance issues the Fund needs to consider or act upon.

Activity

Investment Advice

The Fund takes investment advice from its investment consultants and independent advisor. In addition, the Fund seek expert advice in various areas such as Governance, Legal and EGS projects. These advisors allow the Fund to monitor performance of all aspects of the Fund's performance as well as the performance of all the Investment managers and ensure adherence to our principles.

Investment Consultants are set a range of objectives annually which are then assessed. to ensure they are carrying out there role effectively and in line with the service procured. The Investment Consultants produce quarterly reports service covering a wide range of investment topics such as performance including any areas of concern, strategy, manager implementation, ESG assessment reports. These reports and recommendations are presented to the Pension Committee for approval.

The Investment Consultants are also part of the Investment Implementation working group which includes the independent adviser and senior officers. This group meet outside of the Pension Committee to ensure investments are monitored and considered between quarterly meetings and the group discuss key market changes, or investment manager issues, impact analysis, voting, ESG and engagement as well as progress in implementing the Pension Committees decisions.

Committee and Board

The Committee and Board meet quarterly after receiving details on the investment performance for the quarter. They assess investment activities and the course of action to change. Managers present routinely to committee. All committee papers can be found at Browse meetings - Pension Committee | East Sussex County Council.

Fund Officers

The Fund officers engage directly with investment managers to monitor performance. Fund managers are responsive, and discussion and commentary provided ensures we maintain good Fund performance, oversight of the underlying managers and can challenge on ESG standards. Fund managers report relative to benchmarks, where applicable, to demonstrate performance. The Fund meet each manager at least once a year with a set agenda and focus on key geopolitical or market issues relevant at the time as well as a strong focus on RI.

Investment Manager Signatories

In addition to its own commitment to the Stewardship code the Fund expects its investment managers to also be signatories to the Stewardship Code, PRI, IICGCC and TCFD. Under the 2012 code, Asset manager signatories were categorised in three tiers. Managers are now starting to apply and find out if they have been successful under the 2020 Code – an update based on the 2020 submission will be provided in 2022.

- **Tier 1** – Signatories provide a good quality and transparent description of their approach to stewardship and explanations of an alternative approach where necessary.
- **Tier 2** – Signatories meet many of the reporting expectations but report less transparently or do not provide explanations where they depart
- **Tier 3** – Significant reporting improvements need to be made; Signatories have not engaged with the process of improving their statements.

Manager	PRI Signatory date	Stewardship Code 2012	IIGCC
Longview Global Equity	08/04/2010	Tier 1	Yes
M&G Absolute Return	11/01/2013	Tier 1	Yes
M&G Corporate Bonds	11/01/2013	Tier 1	Yes
UBS Europe Ex UK Equities	22/04/2009	Tier 1	Yes
UBS North America	22/04/2009	Tier 1	Yes
UBS Rest of the World	22/04/2009	Tier 1	Yes
UBS UK Equities	22/04/2009	Tier 1	Yes
Newton Absolute Return	13/02/2007	Tier 1	Yes
Ruffer Absolute Return	15/01/2016	Tier 1	Yes
Pantheon Infrastructure	05/10/2007	No	No
WHEB - Sustainability Fund	31/05/2012	Tier 1	Yes
ATLAS Global Infrastructure Equity Fund	18/03/2019	No	Yes
Wellington – Global Impact Fund	26/04/2012	Tier 1	Yes
Storebrand – Global ESG Plus Fund	27/04/2006	No	Yes
Harbourvest – Private Equity	25/11/2013	No	No
Adams Street – Private Equity	29/10/2010	No	No
Schroders – Property	29/10/2007	Tier 1	Yes
M&G Infrastructure	11/01/2013	Tier 1	Yes

As of July 2021.

Pooling

As a partner Fund within the ACCESS LGPS pool, further work is also conducted at pool level. There are monthly Investment User Group meetings where Investment managers on the ACCESS platform are invited to meet with the partner Funds to discuss their performance, key focus areas and enables Funds to challenge the managers on various aspects of their activity including RI and stewardship.

There is quarterly reporting produced for all ACCESS Fund managers which is reported to the Joint Committee for review and discussion. This report covers performance, scale of assets invested within the pool and voting as well as a market overview.

The ACCESS active liquid managers are held within an Authorised Contractual Scheme (ACS) which is managed by Link Asset Management solutions who are the FCA regulated element of the ACCESS pool. Link carry out significant due diligence and manager monitoring on the partner Funds behalf. Link hold the direct IMA (Investment management agreement) and agree the Fund prospectus with the investment managers rather than us as a Fund. Link report back to the partner Funds through the joint committee or working groups where relevant.

The ACCESS pool also consolidates the voting results of the Investment managers within the ACS including any explanations for managers that have not complied with voting policy. This information is shared with the underlying partner Funds where we can consider and review the relevant voting decisions.

Reporting and review

The Fund conduct annual Carbon Footprint reporting of the Fund and has two years of assessment from the same provider. This looks at where the Fund's managers have amended the portfolio and how that is affected carbon footprint impact. So, it is easier to identify where managers portfolios are reducing in carbon emissions. The reporting also identifies where the underlying companies within the mandates are on their transition pathway reporting, this is particularly important for challenging Investment managers where the company held is an intense emitter but also deemed to have a poor energy transition plan in place.

As part of the Fund's production of its quarterly engagement and voting report, the Fund engages with managers on their activity for the quarter and this can lead to additional challenge at manager review meetings to dig further into approaches and considerations for the portfolio construction.

ESG impact assessment

The Fund receive an annual report from its investment consultants analysing the Investment managers over a range of assessment criteria to capture the ESG capabilities of the managers. There are additional sustainability criteria for the managers that have a specific sustainability mandate.

The assessment criteria cover

- Risk Management
- Approach and framework
- Voting and Engagement
- Reporting
- Collaboration

Outcomes

The Fund pushes for meetings with external managers and consultants in a way that adds value to its members. Most managers we believe are integrating ESG and ESG risk mitigation to have a positive impact. We continue to review our external managers policies to ensure alignment with our own position. We have high expectations for our managers and their prioritisation of ESG standards.

The Fund's Statement of Responsible Investment Principles sets out how we expect external managers to function as well as how the Fund will approach decision making, RI and stewardship.

The Fund's ESG impact assessment in July 2021 identified that 10 Investment managers satisfied the assessment criteria set by the consultant, while 9 were above satisfactory (the highest ranking). Within sustainability mandates 3 of the 5 were above satisfactory and 2 satisfied requirements. Each manager was set proposed actions for the consultant to work with the managers to seek improvement in their ESG integration regardless of their scoring which will be revied in the 2022 refresh. In addition, in the 2022 review the consultant will include an additional consideration of climate risk integration by managers.

2021Example of the Fund holding a manager to account

The Pension Committee expressed concern over sewage discharges resulting in fines to a water company, held within one of the infrastructure mandates. The Committee engaged with the investment manager on this issue through letters and a meeting in January 2022. The investment is an illiquid close ended investment, so more restrictive to exit its position, however the Fund took comfort in the lessons learnt by the manager in the control structure of later investments but continues to monitor and assess its investment.

Principle 9

Signatories engage with issuers to maintain or enhance the value of assets

Overview

The Fund invests through a range of Investment Managers rather than through direct investments, as a result, much of the Fund's engagement to underlying companies is allocated to Investment Managers or is conducted though collaborative engagement groups such as LAPFF. The Fund carries out its responsibilities of engagement by challenge of the Investment Managers over their engagement activities on assets within the portfolio or investment rational for specific holdings.

Activity

The Fund meet regularly with Investment Managers and discuss RI topics and specific holdings to ensure the value at risk of investments is an inacceptable range and the value of beneficiaries' investments are secure through these investments. If we believe an investment managers strategy is not aligned with our values, we will raise it with the investment managers for rational and further details and take action to ensure our values are better incorporated.

The Fund currently uses mostly active investment managers to facilitate effective engagement with underlying holdings and to ensure the types of investments in the portfolio are aligned with the Fund's investment beliefs. Significant due diligence is carried out on an investment managers methodology and integration of EGS issues - including engagement activity before an investment is made.

Both active and passive managers, have a requirement to be responsible investors and are expected to act as good stewards for the companies they invest in. The Fund expects managers to sign up to the Stewardship Code or other local equivalent for Investment managers outside the UK. The fund requests information from its managers on a quarterly basis on engagement activity, whether this is in a formal published document or as an update to the Fund specifically. The Fund is talking to all managers to encourage them to publish this information quarterly for increased transparency to investors and interested stakeholders.

At meetings with the Fund managers, discussions take place on a range of engagement topics including carbon emissions, physical and transitional climate risk, biodiversity, diversity of boards, mining risks, holdings in defence companies, holdings in occupied territories, retrofitting of properties and many others.

Challenge on holdings to managers is targeted from a number of activities including companies with intense or high carbon emissions or limited transition plans as identified through the annual carbon foot printing reporting; companies within industries covered by the Transition Pathway Initiative (TPI) where companies Management Quality score is low or Carbon performance is not aligned with the Paris agreement; companies where beneficiaries or stakeholders identify a possible concern based on an ESG principle such as human rights; or companies that have been highlighted by the LAPFF on poor practices.

Investment Manager Engagements

The Fund publish a quarterly report on the engagement of the Fund's Investment managers and has started to comment on engagement activities of the Fund directly. These Manager Engagements reports can be found on the Fund's website.

Example of Fossil fuel company engagement

Royal Dutch Shell

Manager – UBS Equities

Topic: Climate

We met with the CEO, head of investor relations and head of sustainability to discuss the company's climate program. The meeting was under the umbrella of CA100+ and was held ahead of the AGM which was to contain both a management Say on Climate resolution and a competing resolution from Follow This. During the engagement, the CEO provided a strong defence of the criticism the company has faced. This criticism includes that its carbon targets are not ambitious enough, they are not Paris Aligned, and that their targets include too much hydrocarbons in the early years and relies too much on off-sets in the later years.

Shell's CEO explained that they are currently doing a great deal of preparation for the transition, and they believe they are leading in the right direction even if there are areas which would benefit from further engagement. Management was clear that the preferred outcome to its own climate votes is supportive, and they look for questions, comments and voting rationale as a means to further improvements.

Outcome

All the Fund's managers are required to report on their engagement activity on a regular basis and exercise the voting rights in relation to the Fund's investments as far as practical. This will continue to be the case when assets are invested through the ACCESS pool.

We can see from the quarterly ESG statements and especially amongst our impact fund managers Biodiversity is becoming as important as climate which we encourage.

The Fund engaged throughout 2021 with Investment Managers regarding their carbon emissions, explicitly asking what carbon exposure they have and what their transition targets are. We also asked what climate bodies they are signed up to and engaged with them regarding the output from our carbon footprint reports.

Major areas of focus have been on fossil fuel exposure challenging managers on their engagement activities to help drive these companies to transition. The Fund's holdings of these companies have fallen over the past year and the remaining holdings are held through active managers where there is a rational for the holding to help reduce real world emissions.

The Fund also engaged with Investment managers regarding Israeli settlements and discovered extremely limited exposure to companies listed on the UN A/HRC/43/71 list. The Fund challenged the rational for these holdings and were satisfied that the holdings in travel companies with property within the localities were held in an index-based strategy due to their position in the MSCI World Benchmark rather than through an active decision and none of these companies appeared in the screening from the managers data provider. The manager advised the exclusionary parameters of the mandate had not been reached as exclusion is applied in severe cases, as defined by international law, in circumstances where companies provide security or surveillance equipment to be used in occupied territories, exploit natural resources in those territories without consent of occupied people, explain the settlements or finance the projects. The Fund have published a statement on its website outlining its position on the Occupied Palestinian Territories.

The engagement with an Investment manager relating to a holding in a water company have identified a number of lessons learnt from the situation by the manager and for the Fund to take forward in future activities. This has formed the basis for additional scrutiny of prospective real asset managers, particularly around the scale of investments in a portfolio and the controlling share of any investment added to a new portfolio.

Example of Company Engagement - Manager - Storebrand
ESG Issue: Human rights in conflict zones

Objective: Ensure that companies with operations in Myanmar conduct human rights due diligence so that they do not contribute to severe human rights violations

Type of engagement: Collaborative and direct, proactive

Collaborative initiative of 77 asset managers led by SAM, with the Investor Alliance for Human Rights, Domini, and the Heartland Initiative. We call on companies across all sectors with business activities or business relationships in Myanmar to: Immediately map their business activities, relationships and/or investments across their value chain in Myanmar to identify and assess human rights risks and harms that they may have or are causing, contributing to, or are linked to including: any and all business relationships, activities and communications involving the Myanmar military, or military owned, controlled or affiliated entities; any revenues from such business relationships and activities that may enrich military owned, controlled, or affiliated business and/or provide funding or support to the Myanmar military made before or after the February 1 coup. Assess and address all identified actual and potential human rights impacts of their business activities and relationships and take steps to mitigate and prevent them. Design and implement processes to enable the remediation of adverse human rights impacts including those impacts on their in-country staff and local stakeholders. Regularly publicly report on such due diligence efforts and procedures in place to cease, prevent and mitigate those negative human rights impacts. Provide support to in-country staff and employees to ensure their physical safety and do not retaliate against employees for strikes. Use leverage and participate and initiate collective action by business in support of human rights. We urge companies and their Boards to consider this call. While we acknowledge that companies are facing substantial safety risks, to both workers and assets in the current situation, this is an opportunity for the private sector to show its leadership in navigating and assisting Myanmar's transition to peace, justice, and democracy.

Principle 10

Signatories, where necessary, participate in collaborative engagement to influence issuers

Overview

Although the Pension Fund has delegated investment management activity to its external investment managers. The Fund believes that Collaboration with other asset owners and Investment Managers is an effective way to help improve the effectiveness when exercising their rights and responsibilities on engagement with the invested companies; to this end the Fund are members of the LAPFF, IIGCC and the PRI. The Fund also encourages all its Investment Managers' to be signed up to these collaborations and to demonstrate effective stewardship through adherence to the UK Stewardship Code 2020, however they can sign up to any collaboration entitative that they believe to benefit the Fund.

The Fund is a member of the ACCESS pool, which it uses to access more than half of its investments. The 11 partner funds in ACCESS have collectively pooled £33bn. ACCESS are collaborating on RI activities through unified RI guidelines which set the framework for the investment managers and enable them to use the combined weight of capital of the ACCESS authorities to positively engage with the companies they invest with.

Activity

Collaborations

The Fund seeks to collaborate with like-minded institutional shareholders to maximise the influence that it can have on individual companies.

Intuitional Investors Group on Climate Change (IIGCC)

IIGCC has the collective weight of over €35 trillion from 275 members and is leading the way on a global stage for investors to help realise a low carbon future. IIGCC helps shape sustainable finance policy and regulation for key sectors of the economy and supports members in adopting active ownership and better integrated climate risks and opportunities into investment processes.

The Fund's Pension Committee Chair is currently a representative on the IIGCC Corporate Programme Advisory Group. The corporate programme focuses on supporting investors to engage with companies to align portfolios with the goal of net zero by 2050.

In addition to the Fund's own membership of IIGCC, the Fund asks its managers to also be members providing a double lock on engagement.

IIGCC and Investor Agenda

As a member of IIGCC the Fund were among a record number of signatories to a joint global investor statement calling on governments to urgently ramp up their efforts to address the climate crisis. The Fund signed up to the e Investor Agenda's 2021 Global Investor Statement to Governments on the Climate Crisis contains the collective views of 587 investors from around the world, managing a total of more than US$46 trillion in assets - which is around 40 per cent of global assets under management. All 587 signatories have agreed to a set of policy recommendations that must be implemented swiftly to manage climate risk and channel trillions of dollars to address the climate crisis.

The 2021 Global Investor Statement urges governments to raise their climate ambition to limit global warming to no more than 1.5 degrees, implement meaningful emissions reduction policies, mandate climate-related financial reporting in line with the recommendations of the Task Force on Climate-Related Financial Disclosures (TCFD), and deliver COVID-19 economic recovery plans that support a just transition to net-zero emissions by 2050 or sooner.

IIGCC and Climate Action 100+

As a member of the (IIGCC) the Fund is exposure to Climate Action 100+, in addition a number of the Fund's managers are members of Climate Action 100+ and lead on various engagements.

Climate Action 100+ investors have committed to engage with the world's largest corporate greenhouse gas emitters to improve their climate performance and ensure transparent disclosure of emissions. The group is made up of more than 615 investors, responsible for over $65 trillion in assets under management, are engaging companies on improving climate change governance, cutting emissions, and strengthening climate-related financial disclosures. Climate Action 100+ is focused on companies that are key to driving the global net-zero emissions transition. 167 focus companies have been selected for engagement, accounting for over 80 percent of corporate industrial greenhouse gas emissions.

IIGCC and Climate Action 100+

Manager - M&G

BASF

Chemicals Sector

M&G Investments and other Climate Action 100+ members met with the company to plan the next phase of engagement which will take place in the second half of 2021. Having persuaded the company to announce a Net Zero target for scope 1 and 2 emissions, the next stage of the engagement is to extend this target to scope 3 emissions. A planning meeting took place in Q2 2021 for an engagement in the second half of 2021. We believe a combination of collective and bilateral engagement to be an effective means of achieving change and will review the company response after the Climate Action 100+ meeting has taken place.

Local Authority Pension Fund Forum (LAPFF)

The Fund as a member of LAPFF intends to continue that relationship indefinitely. LAPFF engages with companies over environmental, social and governance issues on behalf of its members. The advantage of collective engagement is that there is greater leverage over the company due to the pooling of holdings.

LAPFF is unique in its engagement approach in that it is a collaborative engagement group made up of institutions with a common purpose and shared values. LAPFF gives a voice to those in effected communities rather than just engaging with the management boards of companies to give a much deeper understanding of the impact of those companies. LAPFF members choose what engagements to pursue and who to target as this is put forward to the membership at its business meeting to agree. LAPFF members take the lead and set the tone in each engagement meeting – the engagement is an authentic voice speaking on behalf of the Pension Fund beneficiaries and not an investment bank which may be unusual for many boards in engagement activities.

The Forum speaks on behalf of all LSPF Fund members with a single voice that carries the weight of more than £300bn in assets under management, placing Forum members in the top 60 asset manager in the world in scale of AUM voice, to get the attention of corporate boards, politicians, or regulatory body.

LAPFF Engagement example Q4 2021

BHP

Objective: Never having met BHP CEO, Mike Henry, LAPFF Chair Cllr Doug McMurdo wanted a meeting to discuss BHP's imminent unification process and the on-going human rights concerns related to the Samarco tailings dam collapse in Brazil and the joint venture Resolution Copper project with Rio Tinto in Arizona.

Achieved: LAPFF detected some progress in relation to BHP's approach to community engagement. Prior to BHP's 2021 AGM, LAPFF had not heard any company representatives refer to the need for free, prior, and informed consent (FPIC) in relation to any of BHP's projects. However, BHP Chair, Ken Mackenzie, and Mr Henry have been clear since the October 2021 AGM that they expect FPIC to be met in relation to their Resolution Copper project before that project can proceed. LAPFF also shared its experience of engaging with Brazilian communities affected by the Samarco tailings dam collapse and found Mr Henry receptive to this feedback. LAPFF also issued a voting alert opposing BHP's climate plan, which was put to a vote this year in line with the 'say on climate' initiative. While LAPFF was pleased to see BHP put its plan to a vote, LAPFF's view is that the plan had significant shortcomings. For example, there was a fear that the company could rely too heavily on unproven technologies such as carbon capture and storage (CCS) in the plan. The plan also appeared to contradict BHP's assertion that the company will benefit from a very quick transition to a green economy. The plan could have moved the company much further, much more quickly but did not.

In Progress: LAPFF will continue to engage with BHP in relation to both Resolution Copper and Samarco. Cllr McMurdo also asked BHP if it would put annual say on climate resolutions to a vote. Although BHP has committed to say on climate votes every three years, LAPFF will continue to engage with BHP on its climate developments more frequently.

In addition to being a member of LAPFF the Head of Pensions at the Fund was appointed to the LAPFF Executive Committee in October 2021. As result the Fund is much more involved in the focus of the engagement group and the Head of Pensions has already started attending engagement calls with target companies.

LAPFF Engagement Activity involving the Fund's Head of Pensions, December 2021

Mizuho Bank
Issue – Climate

The Asia Collaborative Engagement Platform for Energy Transition Collaborative engagement, working with Asia Research and Engagement (ARE) and the Asia Transition Platform, has continued with some of Asia's largest listed financial institutions and buyers and producers of fossil fuels. During the quarter, LAPFF executive members Cllr Caron and Sian Kunert engaged with Sumitomo Mitsui Financial Group (SMFG) and Mizuho, respectively. At Mizuho, bank representatives were asked for more details on sustainability experience and expertise of board members, as well as an insight into a timeline for the phase out of coal power financing. At SMFG, discussions also covered mechanisms to ensure sustainability experience on the Board as well as target setting and referencing the International Energy Agency Net Zero scenario.

Local Authority Pension Fund Forum

PRI Principles for Responsible Investment

Principle of Responsible Investment (PRI)

The Pension Fund is a signatory to the PRI who encourages investors to use responsible investment to enhance returns and better manage risks but does not operate for its own profit; it engages with global policymakers but is not associated with any government; it is supported by, but not part of, the United Nations.

The PRI aim to work to a sustainable global financial system by encouraging adoption of the PRI Principles and collaboration on their implementation; by fostering good governance, integrity, and accountability; and by addressing obstacles to a sustainable financial system that lie within market practices, structures, and regulation.



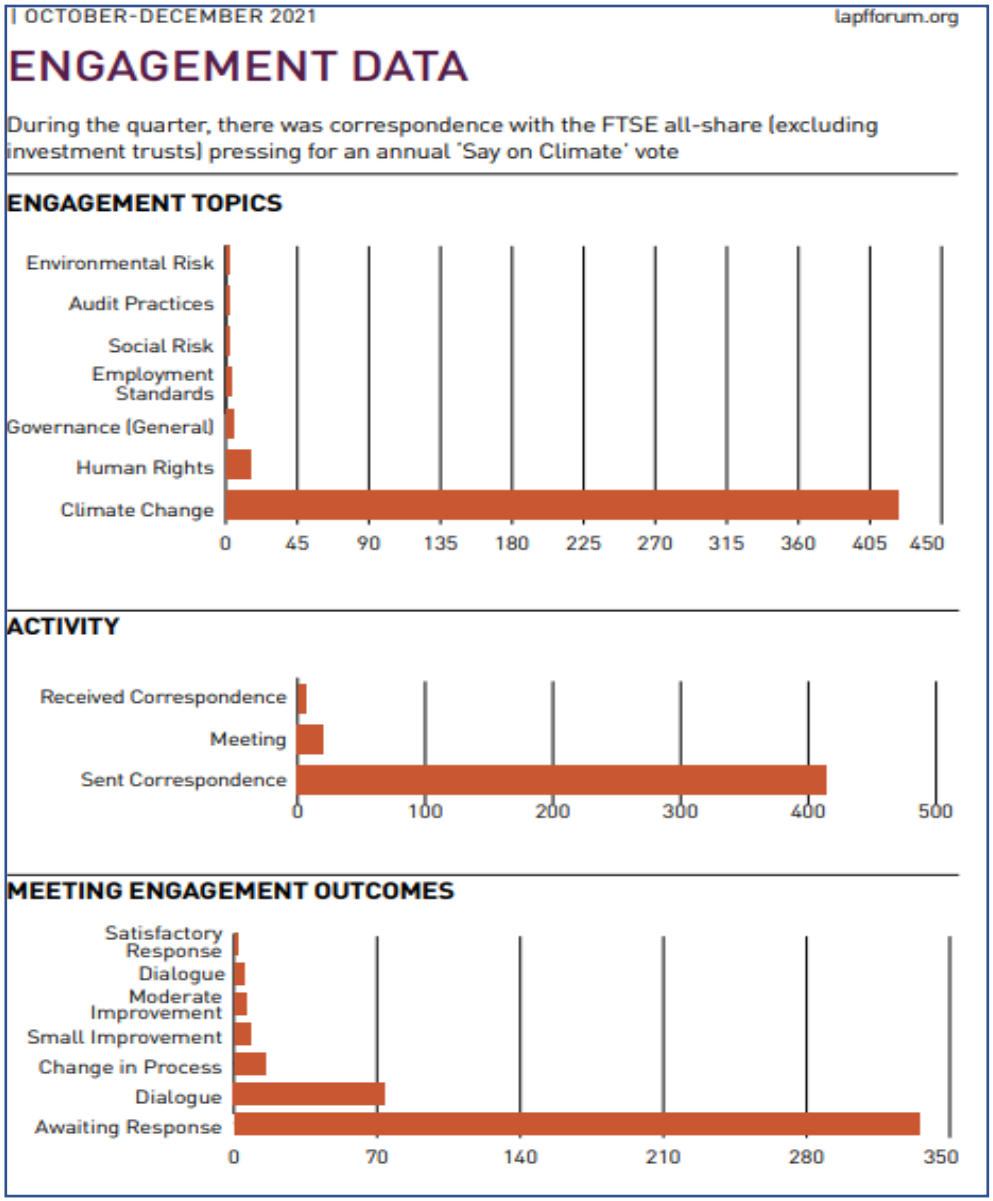
The Fund has not yet completed its submission to the PRI as it became a signatory in 2021. The PRI are not accepting submissions in 2022, so the Fund will submit its first report in January to March 2023. As a signatory of PRI, we are committed to collaborating with other signatories to improve and contribute to developing a sustainable global financial system.

Outcomes

Collaborative engagement has meant that the Fund is able to engage with companies who would not otherwise be willing to speak directly to the Fund, using its collective power the Fund's engagement partners have made some maked progress in mining companies in relation to tailings dams and across oil and gas sectors. All these oil and gas companies have high level targets for being net zero by 2050 although short and medium term plans are less clear, and they are still adrift of alignment to the Paris agreement. Examples of progress in this can be seen in Royal Dutch Shell and their commitment to their net zero targets and partnership with offshore wind, in addition to allowing shareholders and advisory vote on their transitionary plans.

The Fund anticipates some major shorts with the development in the Say on Climate initiative and further outcomes in relation to climate issues.

The Fund has been able to increase its exposure to engagement in the year by active participation in collaborative groups rather than just being a member or signatory.



Principle 11

Signatories where necessary, escalate stewardship activities to influence issuers

Overview

We expect investment managers to take responsibility for day-to-day interaction and take the appropriate action when operating on the Fund's behalf while engaging in stewardship activities, this includes actions to escalate their approach when appropriate. The Fund discuss emerging issues and priorities at the Investment Implementation Working Group, alongside the Investment Consultants and Independent Adviser. These issues then form the basis for discussions with the investment managers where it has felt issues needed to be called into question or challenged.

Activity

As laid out under principles 9 and 10 then Fund meet regularly with Investment Managers and discuss RI topics and specific holdings to ensure the value at risk of investments is an in acceptable range and the value of beneficiaries investments are secure through these investments.

Within the Fund's Statement of Responsible Investment Principle's the Fund seek to influence companies through engagement. The Fund will engage with the investee companies and appointed managers, either directly or via their collaborative partners. Where material risks remain following engagement activity, we retain the ability to divest, since the failure to engage destroys value in the longer term. The issue of engagement is a vital aspect of ownership.

Escalation of action can take place through voting where management of companies are not engaging or making adequate changes.



Escalation will Collaborative Partners

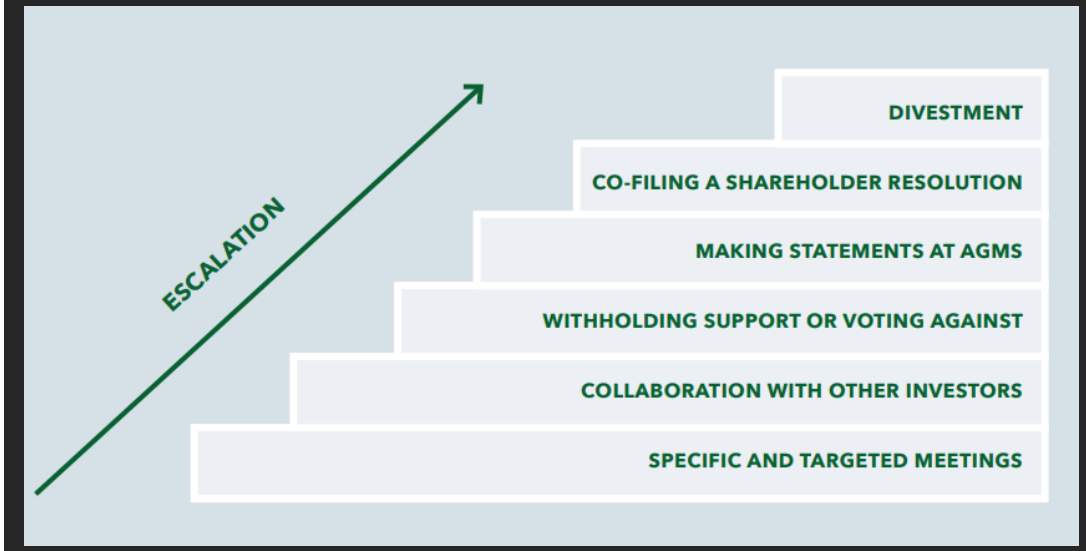
LAPFF engaged with 171 companies during 2021, but had numerous engagement meetings with companies such as ArcelorMittal, Shell, and the five major mining companies.

LAPFF issued 18 voting alerts in 2021, these voting alerts are issued to members when it is felt that engagements need to be escalated. The chart below contains the companies and resolutions for which LAPFF issued voting alerts over the course of the year.

Companies where a voting alert was necessary due to inaction of Investee companies were

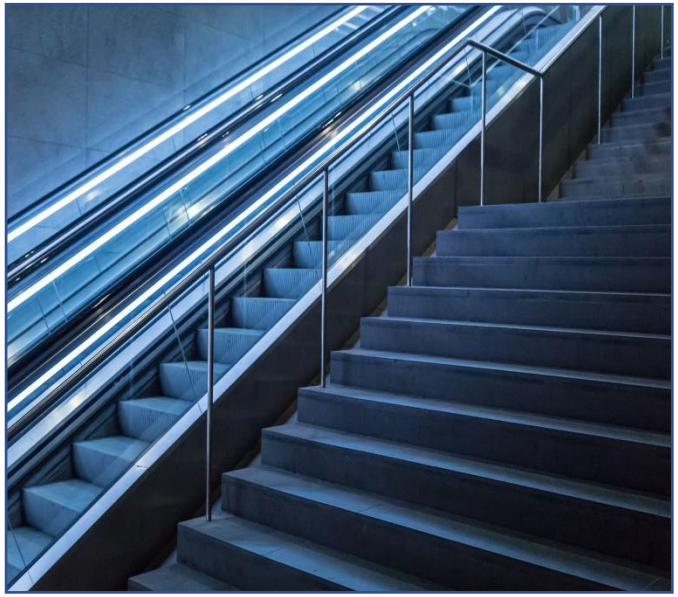
Amazon, Barclays, BHP, Booking Holdings, Delta Airlines, Expedia Group, ExxonMobil, Facebook, Frasers Group, Glencore, HSBC, Mitsubishi UFG, National Grid, Oracle Corporation, Rio Tinto, Royal Dutch Shell, SSE and Tripadviser.

Escalation process of Ruffer – Diversified Growth Fund Investment Manager of the Fund



Outcomes

Escalation and divestment can work together for escalation, where managers engagement activities with investee companies are deemed ineffective the Fud expect the manager to escalate through voting or sale of that company. Engagement is a long process however the Fund expects managers to have time limits on when engagement is not working or the ability to acknowledge when Boards of companies are not interested in engaging with investors. The failure of engaging suggests there are other governance and other risks within the underlying company.



Example Escalation

At the Annual General meeting of ExxonMobil shareholders expressed their discontent with the current board members and the response of the company to climate change. By voting against the reinstatement of board members and replacing them with directors who have "experience in successful and profitable energy industry transformations" which can help turn the challenge of the climate crisis "into a long-term business plan, not talking point".

East Sussex were represented by two Investment Managers in voting with the proposals for this change in Board membership.

One of the Fund's managers was actively engaged with ExxonMobil, however due to limited response to the engagement, the manager dramatically reduced the holdings. A small position was later built back into the portfolio to restart engagement and to better understand the direction of travel in disclosing new short, medium and long term targets and priorities in addressing net zero benchmarks. The manager voted in the Fund's behalf in favour of three independent directors proposed by the activist investor Engine 1 to accelerate change at the company. Active engagement will continue with the company to improve governance, climate disclosures and overall strategy.

Since this change in Board membership ExxonMobil are no longer planning to increase oil production in the years to 2025 and has started to invest in decarbonization strategies with targets for greenhouse gas emission reductions. There is still a long way to go but this shows a marked change in the company as a result of this active ownership.

Principle 12

Signatories actively exercise their right and responsibilities

Overview

The Committee has delegated the exercise of voting rights to the investment manager(s) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The Fund's managers have written guidelines of their process and practice, which is considered as part of the appointment of an investment manager process. The managers are strongly encouraged to vote in line with their guidelines in respect of all resolutions at annual and extraordinary general meetings of companies under LGPS Investment Regulation 7(2)(f). The Fund's investment managers also file or co-file shareholder resolutions on important issues at the investee companies in the interests of agitating for better governance. In addition managers engage with investee companies on material ESG issues. For investments held through the ACCESS pool in a segregated sub-fund, the expectation is that investment managers will vote in line with the pool's RI policy, whereas where investments are in a pooled vehicle the Pension Fund accepts the investment manager will vote in line with its own policy. There is a requirement for the investment manager to explain the rationale for its decisions and ultimately the committee has the option to disinvest if it is dissatisfied with the manager's decisions.

Activity

ACCESS Pool Voting

For investments held through the ACCESS pool in a segregated sub-fund the expectation is that investment managers will vote in line with the pool's RI policy, whereas where investments are in a pooled vehicle the Pension Fund accepts the investment manager will vote in line with its own policy, however there is still a requirement for the investment manager to explain the rationale for its decisions.

The Full Voting policy can be seen here

Examples within the ACCESS voting policy:

Vote for:

- Adoption of Report and Accounts unless Auditors Report is qualified.
- The annual report should include a separate section that describes the work of the Audit Committee.
- All directors should be subject to regular re-election, at least every three years.
- Long term incentive schemes should be based on challenging performance targets over a consecutive period of at least three years. Therefore, performance targets for minimum rewards should be based on at least producing median performance for the industry or average market returns.
- All political donations should be fully disclosed and justified. Any political donations should be subject to a separate vote.
- The company should publish a formal statement setting out its approach to dealing with environmental issues.

Vote against:

- The Report and Accounts are not considered to present a true and fair view of the company's financial position.
- The re-appointment of the auditors where the fees for non-audit work are material and exceed the fee for audit work.
- The election of an executive director, who is not subject to re-election by rotation at least every three years.
- Election of a chairman where the candidate combines the roles of Chairman and Chief Executive, unless there are exceptional circumstances e.g., a temporary arrangement, pending separation of the posts
- Proposed dividend and special dividends which are not covered by earnings and the company offers no explanation of policy.
- Annual report, where significant environmental risks in relation to the company's activities are not disclosed or reported on or reporting is considered poor or inadequate.

The Fund's listed equity managers and their voting approaches

Longview - Equities – within the ACCESS pool – Votes in line with ACCESS Guidelines

Newton - Diversified Growth Fund - within the ACCESS pool – Votes in line with ACCESS Guidelines

Storebrand – Equities – outside the ACCESS pool – Storebrand own voting policy – available here

Wellington - Equities – outside the ACCESS pool – Wellington own voting policy – available here

WHEB - Equities – outside the ACCESS pool – WHEB own voting policy - available here

UBS Osmosis index - Equities – ACCESS pool aligned passive – Votes in line with ACCESS Guidelines

Ruffer - Diversified Growth Fund - within the ACCESS pool – Votes in line with ACCESS Guidelines

Baillie Gifford - Equities – within the ACCESS pool – Votes in line with ACCESS Guidelines

Atlas – Listed Infrastructure – outside the ACCESS pool - Atlas own voting policy – available here

Example Voting Q4 2021

Wellington (Listed equity – impact fund)

Number of Voteable meetings	Resolutions voted	Votes for	Votes against	Abstained/ Withheld/ Did not vote	With management	Against management
9	48	45	3	0	45	3

Note: All data displayed is fund specific, not at fund manager level

Reporting

To ensure that the managers are fulfilling their duties, the Fund requires the Investment Manager's report to the on their engagement with company management and voting record, highlighting any instances that they voted against company management or did not follow its policy. The Fund discuss specific issues when they arise and undertakes an ESG impact assessment by a third party to assess its managers adherence to its stated policies.

The Fund produce and publish a voting and engagement report, quarterly, to demonstrate implementation of the Principles and to promote them. The Committee review asset manager voting and engagement through sight of the engagement reports at the Pension Committee meetings.

In addition to the Fund's reporting and assessment of the voting, the ACCESS pool collate and report the voting of all the managers within the ACCESS LGPS pool and advise of any votes against the ACCESS voting guidelines. This information is then discussed as part of the investment performance report at each Joint Committee meeting.

A change that the Fund are doing for 2022 is to review the reasons for non-alignment with the voting policy and ensure it is sufficiently robust as an explanation – the Fund have identified a manager which it wishes to discuss the voting explanations.

All the Fund's managers publicly report their voting actions which is then shared through the Fund's own reporting.

Example LAPFF voting alert

Delta Airlines – May 2021 - LAPFF advised members to support a resolution for Delta to evaluate and report on how the company's lobbying activities align with the Paris Agreement and how the company plans to mitigate risks presented by any such misalignment. At the AGM, the resolution passed with a majority vote.

In Progress: LAPFF will continue to issue voting alerts and attend AGMs as relevant and possible throughout the year.

Collaborative voting

The Fund believes that Collaboration with other asset owners and IMs is an effective way to help improve the effectiveness when exercising their rights and responsibilities on engagement with the invested companies; to this end the Fund are members of the LAPFF, IIGCC and the PRI. The Fund also encourages all of its IM's to be signed up to these collaborations and to demonstrate effective stewardship through submissions of the UK Stewardship Code 2020.

As a member of the Local Authority Pension Fund Forum (LAPFF) the Fund ask Investment managers to vote in accordance with voting alerts from LAPFF or explain why they have voted differently. The Fund recognise that the research teams of the investment managers may have a different insight to the research team at LAPFF and they may not always agree on the best approach, so an explanation is expected in these cases.

Stock Lending

The Fund can take part in stock lending through its global custodian (Northern Trust). The Fund has not permitted stock lending in their segregated mandates since 2008. The manager of pooled funds may undertake a certain amount of stock lending on behalf of unitholders. If a pooled fund engages in this activity, the extent to which it does so is disclosed by the manager. The Fund has no direct control over stock lending in pooled funds. However, the arrangements within the ACCESS pool require that the stock is recalled in the event of a company meeting which the Investment manager wishes to ensure all voting rights can be utilised.

Outcomes

Active stewardship through exercising voting rights have benefited Fund beneficiaries through the expertise of the investment managers research team and research analysis feeding in from LAPFF to ensure that all votes are used, and votes applied based on engagement discussions and clear priorities of our investment managers in ensuring the underlying companies are well managed, and well positioned from a risk perspective to generate return to the Fund and hold companies with robust valuations with the objective of preserving and enhancing long term shareholder value.

The Fund expects and monitor's that investment managers vote on all the shares they hold. Engagement with the Investment Managers' governance teams has proved successful in building relationships with companies in their transition to net-zero. Managers are required to report their stewardship activities to the Fund and to seek direction where required. As described above, each manager's approach is assessed by the Fund via each manager's written report, in monitoring meetings, and at Committee meetings. The Fund assesses the approaches taken by managers alongside each other and guidance provided by the LAPFF, for consistency and alignment of interests.

Its important that voting and engagement work hand in hand, so the Fund can influence the underlying companies in making improvements thought the selection and monitoring of the Investment Managers.

The Fund have identified some weaknesses in its approach with exercising rights and responsibilities, in that improvements can be made to challenge the robustness of reasons in voting against the ACCESS voting policy. In addition, the Fund has recognised that it needs to create its own voting policy for non-pooled managers to vote in line with or explain deviations where the investment is in a pooled fund. The Fund also acknowledges that the exercising of rights is focused to equities and will work to establish how it can widen this into other asset classes within the Fund's portfolio.



East Sussex Pension Fund

Rebalancing Policy

November 2022

Introduction

This is the policy outlining the parameters and process for Rebalancing of the East Sussex Pension Fund (the Fund) investment portfolio in line with the Funds Investment Strategy Statement (ISS).

Regulatory Basis

The ISS is made in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 ("the Regulations") and prepared by the Pension Committee ("the Committee") having taken advice from the Fund's investment adviser.

The Committee seeks to invest in accordance with the ISS, any Fund money that is not needed immediately to make payments from the Fund. This Re-Balancing policy will be used to ensure excess Fund money is invested inline with the ISS and that the investment portfolio continues to follow the Committee's strategic asset allocation.

Rebalancing

The Committee has set a strategic benchmark for the Fund that identifies three main classes of investment strategy, which the Committee considers has the appropriate risk and reward characteristics for the employers in the Fund. These high level strategic benchmarks are Growth, Income and Protection. These are then underpinned by a strategic asset allocation, for the asset classes the Fund invests in to gain diversification and manage the risk appropriately. The asset class targets are subsequently met by the appointments of individual managers who are set a portfolio to provide exposure to the asset classes in the strategic benchmark. The managers are expected to provide the market return (beta) for the asset classes in their mandates plus (for the actively managed mandates) additional returns from their active management (alpha) of the investments.

Over time the differential of relative performance between the asset classes and managers results in actual asset allocations (both at a strategic and portfolio level) which deviates from the agreed targets. Deviations from the targets result in tracking error, and a shift in the risk/return profile of the Fund which can have an impact on the Funding level as calculated by the Fund Actuary. Therefore, rebalancing is required to ensure that the appropriate risk is being taken by the Fund.

Rebalancing of asset weightings, entails portfolio transactions, so the benefit has to be weighed against the costs incurred, both in trading and indirectly in the market. Costs of rebalancing are broadly linear (selling twice as much of an asset will cost roughly twice as much). The net benefit of rebalancing is therefore the impact of tracking error less the costs of rebalancing. The exception to this is certain pooled funds where a dilution levy may be triggered if a seller is liquidating a significant holding in the Fund.

The trigger point for a rebalance should be when the benefits of the switch outweigh the costs involved.

The trigger determines when to rebalance, but not by how much. To rebalance all the way to the target allocation is not considered to be cost effective, as the costs of rebalancing all the way tend to outweigh the benefits. The Fund's policy is therefore to rebalance to midpoint from the target allocation and the trigger point in graduated steps were possible.

In normal market conditions

The key risk being run within a pension fund is the proportion invested between the growth, protection and income generating assets. Then to a lesser extent the mix of asset classes that makes up these strategic positions. The Fund's rebalancing procedures will work on the basis that if a trigger point is passed on the strategic positions, this will result in a rebalancing event to take place, following the rules set out below.

If a trigger point is reached by an asset class this will then trigger a rebalance, which may or may not be within the same strategic level looking to bring the most underweight position back in line. The rebalancing will take into consideration if this needs to be done on multiple asset classes to offer the best cost effective rebalancing is actioned.

This policy does not go into the lower level of detail in terms of which investment manager money will be moved from or provide triggers for these as this may cause too much unwanted movements that are not beneficial to the Fund.

In periods of heightened market volatility

The rebalancing policy will be temporarily suspended or slowed if market conditions enter a period of heightened market volatility or other uncertainty as this could force the Fund to sell positions that it does not want to at a price that is not of benefit to the Funds members. That is to say that the cost benefit calculation that this policy is set on may not be valid in these situations and no rebalancing will take place until more certainty on the cost benefit can be derived.

In the situation where the market moves into an advantageous position which enables the Fund to invest outside the Investment Strategy Statement or this rebalancing policy. This would be where the Fund is able to lower the risk in the portfolio whilst maintaining the appropriate the return profile, the Chief Finance Officer will have the ability to invest 5% of the Fund outside the ISS and rebalancing policy.

Liquidity

Rebalancing decisions will be made with due consideration of the liquidity of the underlying assets. In the case of illiquid assets the total commitment will be considered as part of the rebalancing calculation as these can take several years to manifest into actual investments. The uncalled commitments will often be held in a low volatility liquid asset classes in the interim and these funding arrangements will not be subject to rebalancing. Details of liquidity arrangements of the Funds investments is held in a separate operational document.

Rebalancing Ranges

The following ranges have been agreed by the Committee to set as points at which rebalancing should take place.

Strategic Area	Strategic target (%)	Range (%)
Growth	**62.5**	**51.5 – 73.5**
Income	**27.0**	**18.0 – 36.0**
Protection	**10.5**	**8.5 – 14.5**
Total	**100.0**	

Asset class	Liquid/Illiquid	Strategic target (%)	Range (%)
Listed Equities	Liquid	40.0	35.0 – 45.0
Private Equity	Illiquid	5.5	2.5 – 8.5
Absolute Return	Liquid	17	14.0 – 20.0
Total Growth		**62.5**	**52.5 – 72.5**

Asset class	Liquid/Illiquid	Strategic target (%)	Range (%)
Balanced Property	Illiquid	7.0	5.0 – 9.0
Inflation linked Property	illiquid	4.0	2.0 – 6.0
Infrastructure	Illiquid	11.0	8.0 – 14.0
Private Credit	Illiquid	5.0	3.0 – 7.0
Total Income		**27.0**	**18.0 – 36.0**

Asset class	Liquid/Illiquid	Strategic target (%)	Range (%)
Diversified Credit	Liquid	10.5	7.0 - 12.0
Cash	Liquid	0.0	0.0 – 2.0
Total Protection		**10.5**	**7.0 – 14.0**

Principles of Rebalancing

The following principles will determine how the rebalancing process for the Fund will operate.

- **Rebalancing would be monitored on a quarterly basis via the investment monitoring report -** Authority to rebalance will be delegated to, and implemented by, Head of Pensions in liaison with the Investment Implementation Working Group. The Officers and advisers will consider transaction costs and current market conditions ahead of implementation.

- **Quarterly rebalancing will apply only to liquid assets -** Due to the transaction costs and illiquidity associated with the other investments such as property, infrastructure, private debt and private equity rebalancing for those asset classes will be considered on an annual/ad hoc basis;

- **Each benchmark allocation would have a weighted tolerance range –** A tolerance range will be defined for growth and matching assets and each underlying mandate; these tolerance ranges will be used in determining when rebalancing will be considered**;**

- **Cash holdings to be used for rebalancing -** Where possible any net investments or disinvestments should be used to manage allocations, for example, by investing any surplus cash into the most underweight asset class.

- **Rebalancing will occur at two levels; at the growth, income and protection level, and at the mandate level –** The rebalancing process will determine if rebalancing is required between growth, income and protection assets, and separately if rebalancing is required between asset classes. However, it is more important to be willing to incur transaction costs if necessary to rebalance between bonds and equities, for example, than switching between managers with similar mandates (e.g. active and passive global equities).

- **Rebalancing transactions will aim to rebalance allocations out with their tolerance ranges to the midpoint (at least) of the tolerance range –** The mid-point of the tolerance range is the mid-point between a benchmark allocation and its upper or lower tolerance limit. Assuming an asset class with a 40% allocation and a 35%-45% tolerance range, the upper mid-point would be the halfway point between 40-45% (i.e. 42.5%). The lower mid-point would be the halfway point between 35% and 40% (i.e. 37.5%). Historical analysis suggests that this is the best way of balancing the impact of transaction costs against returns.

- **Illiquid asset rebalancing -** The allocations to illiquid assets such as private equity and infrastructure will vary with general market movements and are not easily altered, due to the illiquid nature of the asset classes. Therefore we will also consider commitments made and cashflows to drive any rebalancing being carried out in relation to the Fund's illiquid investments. Due to the nature of illiquid assets with timeliness of access to the market and long commitment call down periods, the illiquid assets will often be adrift of the strategic asset allocation while money is awaiting to be called by the investment managers, so these allocations will often be held in a low volatility liquid asset classes in the interim.

- **The long-term strategic target allocation implementation –** where a long-term strategic target allocation has been agreed but not yet fully implemented we will not look to rebalance any current asset class allocation that is in breach of the defined tolerance ranges if the breach is in the desired direction of travel of the Fund's long-term target allocation. This will avoid unnecessary transaction costs.

- **5% allowance to the Chief Finance Officer –** With advice provided by the Investment Implementation Working Group the Chief Finance Officer has the delegation to

invest 5% of the Fund outside of the ISS, implementation plan and rebalancing policy. Any investment made through this delegation will be reported to the Committee at the next available opportunity. This will also trigger a review of the investment strategy of the Fund.

- Beyond this rebalancing policy and in line with the Council Constitution the Chief Finance officer has the delegated authority to take action or decide any other Pension Fund related matter on behalf of the Administering Authority in special or emergency situations, in consultation with the Chair of the Pension Committee, including but not limited to where delay in the purchase or sale of investments might be detrimental to the interests of the East Sussex Pension Fund.

Report to: **Pension Committee**

Date of meeting: **30 November 2020**

By: **Chief Finance Officer**

Title: **Work Programme**

Purpose: **To review the Pension Board and Pension Committee work programmes**

RECOMMENDATION

The Committee is recommended to agree its work programme in appendix 1.

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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 and a list of any information requested by the Board or Committee that is circulated via email.

1.3 The inclusion of the Board's work programme allows the Committee to see what work the Board will be undertaking in its role to assist the Committee.

2 Conclusion and reasons for recommendations

2.1 The work programme sets out the Committee's work both during formal meetings and outside of them. The Committee is recommended to consider and agree the updated work programme.

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
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
Additional Voluntary Contributions (AVC) Report	AVC update report on AVC offerings to members	Head of Pensions

30 May 2023		
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
4 September 2023		
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
2 November 2023		
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

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.	In progress

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
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
30 November 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 including 2020/21 Annual Report and Accounts for approval	Head of Pensions
Employer Forum Agenda	Discussion on Pension Fund Employer Forum Agenda topics	Pensions Manger – Employer Engagement
Covenant Review Report	Report from PWC on the covenant review project	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
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
Additional Voluntary Contributions (AVC) Report	AVC update report on AVC offerings to members	Head of Pensions
15 June 2023		
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
20 July 2023 Investment Strategy review and training day (not a formal Committee meeting)		
19 September 2023		

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
16 November 2023		
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

Actions requested by the Committee

Subject Area	Detail	Status

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 • 16 August 2022 (various topics) • 27 September 2022 (economic volatility) • 26 October 2022 (update on economic volatility, credit mandates)	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 • 5 July 2022 • 16 August 2022 Scheduled • 18 October 2022 • 15 December 2022	Cllr Fox, Ray Martin, Stephen Osborne, Neil Simpson (from August 2022) Paul Punter, Sian Kunert, Ian Gutsell

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.	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 • 9 June 2022 • 14 September 2022 Scheduled meetings • 9 November 2022	Lynda Walker, Ray Martin, Cllr Druitt, Sian Kunert, Tim Hillman, Paul Linfield Note - All Board members invited to attend

Training and Development - recent and future events

Invited	Date	Topic	Committee	Board
B + C + O	22-Jun	**Affordable Housing** • Investment Characteristics Affordable Housing • Investment Fundamentals - Supply/Demand Drivers • Risk/Return characteristics across housing sub sectors • Investment fundamentals for Build to Rent • Investment fundamentals for Shared Ownership • Case Studies for Shared Ownership • Conclusion	Cllrs Taylor, Redstone, Hollidge	
B	22-Jun	**LGPS Local Pension Board Members**. latest updates on governance and the LGPS from key industry players.: Scheme Advisory Board update; DLUHC update; tPR update; Triennial Valuations; Legal update		Neil
B + C + O	30-Sep	**TPR's new single code of practice**	Cllrs Taylor, Redstone (v*), Hollidge (v)	Ray, Neil (v)
C + O	6-7 Oct	**Trustee Senate Autumn 2022, Keeping Clarity in Challenging Times** To be covered: single code, the pensions dashboard and TCFD reporting and more.	Cllr Taylor	
C + O	12-Oct	**Pension Fund Accounts and The Pensions Landscape** The Pensions Landscape: Rulemaking and regulatory environment. Mike will be providing an overview of a selection of key departments and other organisations we engage with or have an impact on the Fund. Pension Fund Accounts: A guide to the Pension Fund's financial statements In this training session, Russell will provide you with an overview of the accounts, taking you through their production and providing insight into what the information within the accounts can tell us about the Fund.	Cllr Redstone, Taylor	Lynda, Neil
New Mem	18-Oct	**FUNDAMENTALS 2022 Day 1 – Legal Framework of the LGPS**		Neil
C + O	16-Nov	**SPS Local Authority Pension Investment & Current Issues - LGPS pools, funds and industry organisations**	Cllr Redstone	
New Mem	22-Nov	**FUNDAMENTALS 2022 -Day 2 – LGPS Investments**		Neil
New Mem	20-Dec	**FUNDAMENTALS 2022 Day 3 – Duties and Responsibilities**		Neil

*(v) via video

Highlighted items are Officers led training
Names in blue – registered to attend future events

As of time of writing, the Board and Committee combined have been invited to 67 training events. This number includes:

- 7 invitations for new members only
- 7 Officers led trainings

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