

PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at Council Chamber, County Hall, Lewes on 16 June 2023.

PRESENT Councillors Gerard Fox (Chair), Councillors Ian Hollidge, Paul Redstone, Colin Swansborough and Georgia Taylor

ALSO PRESENT Ian Gutsell, Chief Finance Officer
Sian Kunert, Head of Pensions
Russell Wood, Pensions Manager: Investment and Accounting
Andrew Singh, ISIO
Paul Punter, Head of Pensions Administration
Michael Burton, Pensions Manager: Governance and Compliance
Danny Simpson, Principal Auditor
Mya Khine, Pensions Accountant
Paul Linfield, Pensions Communications Manager
Paula Jenner, Employer Engagement Officer
Dave Kellond, Compliance and Local Improvement Partner
Bekki Freeman, Solicitor
Ray Martin, Chair of the Pension Board
Sophie Webb, Governance and Democracy Officer

1. MINUTES

1.1 The Committee RESOLVED to agree the minutes of the meeting held on 22 February 2023 as a correct record.

2. APOLOGIES FOR ABSENCE

2.1 Apologies for absence were received from Councillor Tutt.

2.2 It was noted that Councillor Swansborough was in attendance as a substitute for Councillor Tutt.

3. DISCLOSURE OF INTERESTS

3.1 Councillor Redstone declared a personal interest as the Chair of the East Sussex Fire and Rescue Pension Board. He did not consider this to be prejudicial.

3.2 Councillor Taylor declared a personal interest as a consultant who has recently liaised with The Institutional Investors Group on Climate Change on unrelated business. She did not consider this to be prejudicial.

4. URGENT ITEMS

4.1 There were no urgent items.

5. PENSION BOARD MINUTES

5.1 The Committee RESOLVED to note the minutes of the Pension Board meeting held on 30 May 2023.

6. GOVERNANCE REPORT

6.1 The Committee considered a report introduced by Michael Burton who drew the Committee's attention to the following points:

- 1) There has been a further consultation on the McCloud remedy and officers are currently working through the questions and the information provided in the draft regulations with a view to provide a response by the end of June 2023. An update will be sent to chairs of Pension Board and Pension Committee along with the McCloud working group.
- 2) There have been developments regarding membership of the Pension Board including candidates put forward for the positions previously held by Councillor Illingworth and Councillor Druitt. These positions are likely to be filled by the next round of meetings. There is a new employer representative on the Board, Tim Oliver from the University of Brighton who has taken the position previously held by Stephen Osborn.

6.2 The Committee discussed the alternative approach to cessation calculation methodology, the definition of the term 'proper advice' and noted that future breaches on admissions will be included within future reports as requested by the Pension Board.

6.3 The Pension Committee RESOLVED to:

- 1) Note the governance updates
- 2) Approve the Breaches Policy (appendix 3)
- 3) Approve the Governance and Compliance Statement (appendix 5)
- 4) Approve the Contribution Policy and Deferred Debt and Debt spreading agreement Policies (appendix 7&8)
- 5) Approve the revised Pension Administration Strategy (appendix 9)
- 6) Approve the changes to the Funding Strategy Statement on the Cessation Methodology
- 7) Approve the change to the Administering Authority Discretions Policy

7. PENSIONS ADMINISTRATION REPORT

7.1 The Committee considered a report introduced by Paul Punter who drew the Committee's attention to the following points:

- 1) Performance of the Pensions Administration team has remained consistently high.
- 2) The red and amber activities for May 2023 at Appendix 1 relate to transfers and people changing roles.
- 3) Help desk performance as seen at Appendix 2 relates to the service currently being delivered by Orbis however Surrey is keen to end this service and therefore from April 2024, the service will be brought in-house.

- 4) The annual benefits statements project is one of the biggest annual projects undertaken by the team and of the 140 active employers, 120+ active employers are fully on i-Connect.
- 5) There have only been 12 end of year returns this year with data fully collected for 9 and therefore targeting the end of July for completion of statements which is ahead of the statutory date at the end of August.

7.2 The Committee discussed bringing the help desk in-house and its potential effect on the Pensions Administration team.

7.3 The Committee RESOLVED to note the updates.

8. INTERNAL AUDIT REPORTS

8.1 The Committee considered a report introduced by Danny Simpson who drew the Committee's attention to the following points:

- 1) Of the four completed audit reports, two provided an opinion of reasonable assurance and two provided an opinion of substantial assurance.
- 2) Overall for the year of 2022/23, there have been three reports that provided an opinion of reasonable assurance and three that provided an opinion of substantial assurance.

8.2 The Committee discussed set up of a Service Level Agreement (SLA) between the Pension Fund and East Sussex County Council for Treasury Management functions and noted that the SLA will cover what actions what both Council teams will do and how recharges will take place and will link through to the Cash Management strategy to ensure roles and responsibilities are clear.

8.3 The Committee discussed the cyber security report and what provisions are in place regarding incident response and business continuity in the event of a complete system failure and noted that a report into this subject area is likely to be ready for consideration at the Pension Committee meeting in September.

8.4 The Committee discussed the systems in place to ensure that approval of payments are approved by the correct officer with authorisation to approve payments at different levels and noted that there are multiple checks in the followed process.

8.5 The Committee RESOLVED to note the:

- 1) Pension Fund Cash Management Audit report (Appendix 1);
- 2) Pension Fund Cyber Security Arrangements Audit report (Appendix 2);
- 3) Pension Fund Investments and Accounting Audit report (Appendix 3); and
- 4) Administration of Pension Benefits Audit Report (Appendix 4).

9. QUARTERLY BUDGET REPORT

9.1 The Committee considered a report which provided the financial outturn of the East Sussex Pension Fund for the 2022/23 financial year.

9.2 The Committee RESOLVED to note the report.

10. EXTERNAL AUDIT WORK PLAN

10.1 The Committee considered a report which informed the Pension Committee of the content of the East Sussex Pension Fund external audit plan for 2022/23.

10.2 The Committee RESOLVED to note the external audit plan for the East Sussex Pension Fund for 2022/23.

11. RISK REGISTER

11.1 The Committee considered a report introduced by Sian Kunert who drew the Committee's attention to one minor change made to risk A1 regarding skills gaps within the admin team and have produced an exempt report regarding the risk register to be considered by the Committee at a later agenda item.

11.2 The Committee discussed the escalation of the employer data risk from amber to red which is due to an event regarding a specific employer rather than considering all employers and their overall impact on the risk and noted that there are a number of different data aspects that are affecting the fund and are considered within the employer data risk.

11.3 The Committee discussed mitigation of risk I7 – Climate Change including escalation plans for when engagement is not effective which includes disinvesting from the high carbon or fossil fuel company and noted that there have been examples of this in the past and this information is within the engagement reports and a report that will be considered by the Committee at the strategy day in July.

11.4 The Committee RESOLVED to review and note the Pension Fund Risk Register.

12. INVESTMENT REPORT

12.1 The Committee considered a report introduced by Russell Wood and Andrew Singh who drew the Committees attention to the following points:

- 1) The work plan for the Committee is likely to change following the strategy day in July.
- 2) Quarter 1 for 2023 was a lot more stable than the last two quarters in 2022 which was driven by more optimistic investor sentiment.
- 3) The significant wobble across the globe towards the end of the quarter following stresses in the US banking sector however there was quick reaction from the US Fed and other US banks.
- 4) For the UK, the returns for long-term gilts and long-term inflation linked gilts were slightly positive following very negative returns at the end of last year therefore have seen interest rates fall slightly in quarter 1 and have now started to increase again.
- 5) The performance across the Fund in quarter 1 was mixed with Wellington and Schroders Property being the most significant under-performers and strong performances from Osmosis, Storebrand and ATLAS.
- 6) Quarter 1 has been challenging in terms of achieving a 1.5% return compared to a benchmark of 3% however over the long-term there are stronger returns.
- 7) In January, the Fund implemented the strategic decision to appoint IFM to manage the Fund's infrastructure equity mandate which brings the strategy more in line with the target benchmark.
- 8) The liquid credit implementation was discussed earlier this year and the decision was to delay further discussion or implementation until after the strategy day in July.

- 9) The formal asset allocation review is due to take place in July 2023 and a paper will be presented to the Committee at the next meeting.
- 10) The key piece of work regarding fossil fuel divestment and engagement is due to be presented to the Committee in July at their strategy workshop.
- 11) There was an investment made in mid-May to reduce the equity actual position by 1% by taking 1% from Longview and purchasing index linked gilts following a previous decision by the Pension Committee to implement a phased trigger framework to increase index linked gilts.
- 12) There have been manager updates for Ruffer and Wellington. Ruffer has undergone an organisational change to spread the ownership structure across 50 other partners within the business however Jonathon Ruffer is still involved in decision making. Wellington has undergone a change in portfolio management team with the portfolio manager who will be managing another Wellington product and one of the analysts in the team will be stepping up to manage the fund without his position being backfilled.

12.2 The Committee noted that the report will be reissued to show Newton and Ruffer in the chart on individual manager performance showing volatilities versus returns.

12.3 The Committee discussed the performance of the Fund versus its benchmark following substantial changes to the Fund Strategy and noted that it would be useful to discuss what is causing the changes to the Fund's performance in relation to its benchmark at the strategy day in July.

12.4 The Committee discussed private equity valuations and noted that public market funds tend to overshoot however it is important to look for independent valuations.

12.5 The Committee requested more detail at the strategy day regarding how valuations are taking place, the divergence between private and public markets and to look more closely at the commercial property assets including what the risks are.

12.6 The Committee noted that Wellington has been downgraded to amber and there will be an update provided to the Committee in September.

12.7 The Committee RESOLVED to note the report.

13. WORK PROGRAMME

13.1 The Committee considered its work programme.

13.2 The Committee RESOLVED to agree the work programme.

14. EXCLUSION OF THE PUBLIC AND PRESS

14.1 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).

14.2 The Committee agreed that Ray Martin, Chair of the Pension Board be present for the exempt section of the meeting.

15. INVESTMENT REPORT - EXEMPT INFORMATION

15.1 The Committee considered a report introduced by Russell Wood who provided an update on exempt information regarding investment activities undertaken by the East Sussex Pension Fund.

15.2 The Committee RESOLVED to note the report.

16. RISK REGISTER - EXEMPT INFORMATION

16.1 The Committee considered a report introduced by Sian Kunert who provided an update on the exempt information regarding the Pension Fund Risk Register.

16.2 The Committee RESOLVED to note the report.

17. EAST SUSSEX PENSION FUND (ESPF) BREACHES LOG

17.1 The Committee considered a report introduced by Michael Burton who provided an update on outstanding or new Internal Dispute Resolution Procedure (IDRP) cases.

17.2 The Committee RESOLVED to:

- 1) Note the breaches of law and steps being taken; and
- 2) Note the new IDRP complaint raise.

18. EMPLOYER ADMISSIONS AND CESSATIONS

18.1 The Committee considered a report which provided an update on the latest admissions and cessations of employers within the Fund.

18.2 The Committee RESOLVED to:

- 1) Note the ongoing proceedings for the admission of admitted bodies to the Fund; and
- 2) Note the ongoing proceedings for the cessation of employers from the Fund.

The meeting ended at 12.35 pm.

Councillor Gerard Fox (Chair)