

# **EAST SUSSEX PENSION FUND**

## **STATEMENT OF INVESTMENT PRINCIPLES**

**July 2016**

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## STATEMENT OF INVESTMENT PRINCIPLES

### 1 Overall Responsibility

1.1 East Sussex County Council is the designated statutory body responsible for administering the East Sussex Pension Fund (Fund) on behalf of the constituent Scheduled and Admitted Bodies. The local Government Pension Scheme (Management and Investment of Funds) (Amendment) Regulations 2009 require administering authorities of pension funds to prepare and review, from time to time, a written statement setting out the investment policy for their Fund. Any material change in investment policy must be included in a revised Statement of Investment Principles (SIP) within six months of the change.

This SIP has been drafted to comply with these regulations and will be reviewed annually by the East Sussex Pensions Committee (Committee) and also the East Sussex Pension Board (Board).

1.2 Investments will be monitored on a regular basis by the Committee acting on the delegated authority of the scheme manager (East Sussex County Council). Although the scheme is a statutory one, the role of Committee members is similar to that of “trustees”. Day to day operational decisions have been delegated to the Chief Finance Officer and all investments are managed by external investment fund managers.

Investment advice is received as required from the professional Investment Advisers.

### 2 Objectives

#### 2.1 Primary Objective

The primary objective of the Fund is to provide for members’ pension and lump sum benefits on their retirement or for their dependants’ benefits on death, before or after retirement, on a defined benefits basis.

In order that this primary objective can be achieved, the following funding and investment objectives have been agreed.

#### 2.2 Funding Objectives – Ongoing Basis

To fund the Fund so that, in normal market conditions, the accrued benefits are fully covered by the actuarial value of the assets of the Fund and that an appropriate level of contributions is agreed by the employer to meet the cost of future benefits accruing. For employee members, benefits will be based on service completed but will take account of future salary increases.

### 3 Investment Objectives

#### 3.1 Funding objectives

The Committee will translate its objectives into a suitable strategic asset allocation benchmark for the Fund (the current asset allocation can be found on Page 4). The strategic benchmark is reflected in the investment structure and this comprises a mix of segregated and pooled (both active and passive) manager mandates. The Fund benchmark is set to be an appropriate balance between generating a satisfactory long-term return on investments whilst taking into account of market volatility and risk and the nature of the Fund’s liabilities. The Committee monitors investment strategy relative to the agreed asset allocation benchmark.

#### 3.2 Investment Managers

The investment managers appointed to manage the Fund’s assets are summarised on page 4. The investment managers will be given full discretion over the choice of individual stocks against their respective benchmarks and are expected to maintain a diversified portfolio.

#### 3.3 Kinds of investments to be held

The Fund may invest in quoted and unquoted securities of UK and overseas markets, including equities, fixed interest and index-linked bonds, cash and property (not direct), using pooled funds where agreed.

The Fund may also make use of contracts for differences and other derivative either directly or in pooled funds investing in these products, for the purpose of efficient portfolio management to hedge specific risks.

The current limits are set out in the Policy Guidelines for Investment (Page 4). The strategic asset allocation of the Fund includes a mix of asset types across a range of geographies in order to provide diversification of returns.

### **3.4 Balance between different kinds of investments**

The asset allocation benchmark (see page 4) and performance target is based on consideration of the liability profile of the Scheme.

The appropriate balance is required between maximising the long-term return on investments and minimising short-term volatility and risk. Within each major market the investment managers will hold a diversified portfolio of stocks or will invest in pooled funds to achieve this diversification.

### **3.5 Risk**

The adoption of an asset allocation benchmark (as described above) and the explicit monitoring of performance relative to a performance target, constrains the investment managers from deviating significantly from the intended approach, while permitting flexibility to manage the Fund in such a way as to enhance returns.

The appointment of more than one Investment Manager introduces a meaningful level of diversification of manager risk and provides some protection against one manager producing poor investment returns.

### **3.6 Expected return on investments**

The investment performance achieved by the Fund over the long term is expected to exceed the rate of return assumed by the Actuary in funding the Fund on an ongoing basis.

### **3.7 Realisation of investments**

The majority of assets held by the Fund are quoted on major stock markets and may be realised quickly if required. Property investments, which are relatively illiquid, currently make up a modest proportion of the Fund's assets and are all invested through property unit trusts or life funds. However some of the Fund's alternative assets in Private Equity and Infrastructure are invested via Fund of Fund managers and are of an illiquid nature to provide better performance in the long term.

### **3.8 Social, environmental and ethical considerations**

Issues surrounding socially responsible investment have been considered and an 'Active Shareholder Approach' to encourage companies has been adopted to promote best ethical and environmental principles without jeopardising the investment performance of the Fund. When selecting investments for purchase, retention or sale, Fund Managers are able to invest in all companies, subject to the specific restrictions set out in the Policy Guidelines (page 5) in order to achieve their performance targets. But they have been encouraged to engage in constructive dialogue on behalf of the Fund and to use their influence to encourage companies to adopt best practice in all key areas of business. The key areas are:

- Corporate governance
- Employment standards
- Human rights and
- Environmental standards

### **3.9 Exercise of voting rights**

Strong Corporate governance has been promoted and the Fund has delegated the exercise of its voting rights to the Fund Managers (subject to the Fund's guidelines) on the basis that voting power will be exercised by them with the objective of preserving and enhancing long term shareholder value. The Fund Managers base their corporate governance policies on the Stock Exchange Combined Code and provide the Fund with a copy of their policy from time to time. The Fund Managers are encouraged to vote in line with its guidelines in respect of all resolutions at annual

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and extraordinary general meetings of companies. In February 2014 the Fund resolved to subscribe to the Local Authority Pension Fund Forum (LAPFF). LAPFF is the UK's leading collaborative shareholder engagement group. The Forum provides a unique opportunity for Britain's local authority pension funds to discuss investment issues and shareholder engagement.

### 3.10 Stock Lending

Within segregated mandates, the Committee has absolute discretion over whether stock lending is permitted. Currently the Fund has decided not to permit stock lending within any of its segregated investment mandates.

The manager(s) of pooled funds may undertake a certain amount of stock lending on behalf of unit holders in the fund. Where a pooled fund engages in this activity, the extent to which it does is disclosed by the manager. The Fund has no direct control over stock lending in pooled funds; nevertheless, it is comfortable that the extent and nature of this activity is appropriate to the circumstances of the Fund.

### 3.11 Additional Voluntary Contributions (AVCs)

Members have the opportunity to invest in AVC funds as detailed on page 7.

### Investment Managers & Benchmarks

<b>Manager</b>	<b>Asset Class</b>	<b>Actual as at 31/03/16 (%) <sup>[1]</sup></b>	<b>Target allocation (%)</b>
<b>L&amp;G</b>	<b>UK and Global equity</b>	<b>24.4</b>	<b>27.5</b>
<b>Longview</b>	<b>Global equity</b>	<b>6.5</b>	<b>5.0</b>
<b>State Street</b>	<b>Fundamental Indexation</b>	<b>17.5</b>	<b>17.5</b>
<b>Newton</b>	<b>Absolute return</b>	<b>9.2</b>	<b>10.0</b>
<b>Ruffer</b>	<b>Absolute return</b>	<b>8.7</b>	<b>10.0</b>
<b>L&amp;G</b>	<b>5 year Index linked gilts</b>	<b>5.3</b>	<b>5.0</b>
<b>M&amp;G</b>	<b>Bonds</b>	<b>6.5</b>	<b>6.5</b>
<b>Schroder</b>	<b>Property</b>	<b>11.8</b>	<b>10.0</b>
<b>Adams Street / Harbourvest</b>	<b>Private equity</b>	<b>6.1</b>	<b>5.5</b>
<b>UBS / M&amp;G</b>	<b>Infrastructure</b>	<b>1.7</b>	<b>2.0</b>
<b>M&amp;G</b>	<b>Specialist Financing Fund</b>	<b>0.3</b>	<b>1.0</b>
<b>Northern Trust</b>	<b>Cash</b>	<b>2.0</b>	<b>0.0</b>

<sup>[1]</sup> Where valuations weren't available at the valuation date estimates have been used

## Policy Guidelines for Investment

### 1 Statutory Provisions

To act within the powers stipulated from time to time in statutory regulations or enactments. The principal regulations applicable to the Fund are the Local Government Pension Scheme (Management and Investment of Funds) Regulations 1998. An amendment to these regulations was introduced in 2003 to give extra flexibility to the prudential limits on certain types of investments.

Investments shall be limited as follows:-

- (a) Not more than 10% of the Fund in unlisted securities issued by companies.
- (b) Not more than 10% of the Fund in a single holding (excluding Gilts, Bank Deposits, LAMIT and Unit Trusts).
- (c) Not more than 10% of the Fund to be deposited with an individual Bank, institute or person.
- (d) Not more than 10% of the Fund to be lent internally or deposited with another local authority.
- (e) Not more than 25% of the Fund is to be invested in unit trusts managed by a single manager.
- (f) The Fund has adopted flexible higher limits within the LGPS regulations to invest in Life insurance contracts. The regulations provide for the maximum amount that can be invested in any single life insurance contract to be raised from 25% to 35%.
- (g) Not more than 25% of the Fund may be transferred or agreed to be transferred under stock lending arrangements.
- (h) The Fund has adopted flexible higher limits within the LGPS investment regulations to invest in partnership structures. The regulations provide for the maximum amount that can be invested in any single partnership to be raised from 2% to 5% and for investments in total across all partnerships from 5% to 15%.

The Regulations also emphasise that an administering authority shall have regard to the suitability of investments and the need for diversification of investments of fund money and for proper advice to be obtained at reasonable intervals.

### 2 Cash

The East Sussex Pension Fund's surplus cash is invested with the Fund's Custodian, Northern Trust. Only a minimal working cash balance is held by the Administering Authority to pay pension benefits. Any surplus cash is transferred to Northern Trust. The revised LGPS (Management and Investment of Funds) Regulations issued in December 2009, required Administering Authorities to set up a separate bank account from 1 April 2011. The East Sussex Pension Fund Bank Account has been operational since 1<sup>st</sup> April 2011. The monthly interest rate, earned by the County Council on its treasury cash balances, is used to calculate interest on the daily Pension Fund bank account balance.

### 3 Property

- (a) Investment in property unit trusts may be made only if approved by the Pension Committee.
- (b) No direct investment is to be made in property (land or buildings) unless the Pension Committee decides otherwise.

### 4 Derivatives

Managers may invest in financial futures and traded options in accordance with the limitations contained in guidelines drawn up by the Investment Adviser and approved by the Pension Committee.

### 5 Underwriting

Managers may seek and enter into underwriting opportunities for the Fund at their discretion.

**6 Generally**

Between meetings it is open to an individual manager who wishes to invest outside laid down policy to consult with the Chief Finance Officer for her direction.

**Voting Guidelines**

Issue	Voting Guideline
General	Continuing dialogue with companies. Vote on all UK issues. Companies are expected to demonstrate clear compliance with Cadbury and Greenbury principles unless they can show that there are mitigating circumstances.
Uncontroversial issues	Vote with Management.
Executive remuneration <ul style="list-style-type: none"> <li>- Basic pay</li> <li>- Incentive payments</li> </ul>	Must be visible. Market rate. Based on above average returns to shareholders.
Non-Executive Directors	Vote against re-appointment if failed to perform their duties.
Employment Contracts	Vote against contracts exceeding two years unless a longer period can be justified and abstain on those exceeding one year.
Political Donations	Vote against.
Share Incentive Schemes	Each proposal judged on its merits.

## AVC Arrangements

The Fund is required to offer members an Additional Voluntary Contribution (AVC) fund in order that members can make additional pension provision. Following a review of the available AVC providers, Prudential were appointed to manage the AVC arrangements for the Fund in 1988. This appointment has been reviewed on a regular basis, taking account of factors including past investment performance, charges, flexibility, and the quality of administration.

Members may invest in the AVC funds during their employment. The AVC funds are maintained by Prudential, and are separate from the Fund's investments. At retirement, however, members can either take the AVC fund as a lump sum (subject to limits set by HMRC), an additional pension within the Fund, or as an annuity either with the AVC provider, or on the open market.

## Investment Choices

Members must select the investment funds that their AVC funds are invested in. They are able to choose from a range of Prudential investment funds, with differing risk ratings, and are able to switch investment funds between the range of funds available. Prudential make no charge in respect of these switches, and there are no restrictions to the number of switches a member may make. Members are charged an Annual Management Charge (AMC) by Prudential, based on the value of their funds in each of the investment fund options they have selected. This charge is calculated on a daily basis, and deducted from the value of the members' funds monthly.

The current range of investment funds available to new members are:

Fund Name	Investment Type	Risk Rating	AMC (% of fund value)
Prudential With-Profits Fund (Default Fund)	Full range of investments – including shares, bonds, cash & property – provides smoothed growth through a range of reversionary and terminal bonuses	Lower to Medium	n/a – special charges apply
Prudential Deposit Fund	Cash	Minimal	n/a - Monthly interest rate declared net of charges
Prudential Retirement Protection Fund	UK Government Bonds	Lower	0.65%
Prudential Discretionary Fund	UK & Overseas shares, bonds, property, alternative assets & cash	Medium	0.75%
Prudential Property Fund	UK Commercial property	Medium	0.75%
Prudential Overseas Equity Passive Fund	Company shares in major world markets in proportion to each region's economic importance	Medium to Higher	0.65%
Prudential UK Equity Passive Fund	UK Company shares	Higher	0.65%
Prudentially Socially Responsible Fund	UK Company shares meeting fund's socially responsible criteria	Higher	0.75%

## Lifestyle Option

A Lifestyle option is available. This automatically switches investments from higher to lower risk investment funds in the 8 years leading up to the member's Normal Retirement Age (65):

Fund	Years to Retirement									
	8	7	6	5	4	3	2	1	0	
Prudential UK Equity (Passive) Fund	100.0%	87.5%	75.0%	62.5%	50.0%	37.5%	25.0%	12.5%	0.0%	
Prudential Retirement Protection Fund	0.0%	12.5%	25.0%	37.5%	50.0%	62.5%	75.0%	87.5%	100.0%	



### Funds closed to new investors

As a result of the 2008 review a number of investment funds were deselected. Rather than require the members invested in these funds to switch funds it was decided that existing contributors to these funds only were able to continue to add contributions. The funds are not, however, available to new investors. These closed funds are:

Fund Name	Investment Type	Risk Rating	AMC (% of fund value)
Prudential Cash Fund	Cash	Minimal	0.75%
Prudential Fixed Interest Fund	British Government Gilts and Sterling Fixed Interest Company Bonds	Lower	0.75%
Prudential Index Linked Fund	British Government Index Linked Gilts	Lower	0.75%
Prudential Global Equity Fund	UK and Overseas Company shares	Medium to Lower	0.75%
Prudential International Equity Fund	Company shares in major overseas equity markets	Medium to Higher	0.75%
Prudential UK Equity (Active) Fund	UK Company Shares managed on a "Fund of Funds" basis	Higher	0.75%

### Withdrawal Penalties

Prudential introduced withdrawal penalties in 2012. These apply in respect of new AVC members where their first AVC contribution is received after 18 August 2012, and who take their AVC benefits within 5 years of starting the AVC. The withdrawal penalty operates on a sliding scale, based on the length of time that the member has held the AVC on their withdrawal:

Year of Withdrawal	During Year 1	During Year 2	During Year 3	During Year 4	During Year 5	After 5 Years
Reduction Factor	15%	10%	8%	6%	5%	0%

The withdrawal penalty does not apply in respect of members who die in service, or who are retired with a Tier 1 ill-health pension.

### Death in Service

Members are also able to make AVC's to provide additional life cover. These are separate from those contributions made to provide additional pension benefits.

## Myners Six Principles – compliance statement.

### Introduction

The Local Government Pension Scheme (LGPS) has a deserved reputation for applying and demonstrating the highest standards of governance. All LGPS funds were required from 2002 to comment on the application of and compliance with the original ten Myners Principles.

1. In response to the Treasury report *Updating the Myners Principles: A Response to Consultation* (October 2008) LGPS Administering Authorities will be required to prepare, publish and maintain statements of compliance against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These principles have been adopted by CLG and replace the ten Myners principles published in 2001.
2. Administering Authorities will be required to report their approach to meeting the principles through the pension fund annual report on a 'comply or explain' basis.

### Background

3. In 2000 the UK government commissioned a review of institutional investment in the United Kingdom. The review, published in March 2001, was undertaken by Paul Myners (now Lord Myners). The review was established mainly due to concerns that, by focusing primarily on industry-standard investment patterns, the behaviour of institutional investors, including occupational pension funds, was distorting economic decision making to the detriment of small and medium-sized companies.
4. Myners emphasised the importance of transparency and annual reporting. Consistent with these themes Myners recommended that pension schemes should set out in their statement of investment principles what they were doing to implement his ten 'best practice' principles and, where a given principles had not been adopted, an explanation of that decision.
5. In 2007, six years after the publication of the original investment principles, the government decided to assess the extent to which:
  - pension fund trustees or their equivalent had been applying the Myners principles
  - scheme governance and the quality of trusteeship had improved
  - key gaps identified previously had been addressed
6. It was clear that, in general, progress had not been uniform and that larger schemes had used their additional resources and access to advice to make more progress than the average smaller scheme. However, one area of more general weakness was the lack of willingness of trustees to assess and report on their own performance.
7. Local Authority schemes had made progress. The Government's findings, however, highlighted a greater 'trustee risk' facing local authority schemes, referring to election cycles as shortening the average tenure of a 'trustee' compared with other types of scheme. This raised concerns about a lack of continuity and expertise, which was mitigated to some extent by the professional advice received from officers of the administering authorities.
8. The government concluded that an updated set of principles would be most effective if the government and the pension fund industry developed flexible and overarching voluntary principles, rather than prescribing how pension funds should manage specific aspects of their business. The high-level principles will be the accepted code of practice applying to investment decision making and investment governance in local government pension funds throughout the United Kingdom. Administering Authorities will be required by regulation to report against these on a 'comply or explain' basis.
9. The following pages set out the Fund's response to the six Myners Principles.

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## PRINCIPLE 1

1	<b>Effective decision making</b>  <b>Administering Authorities should ensure that:</b> <ul style="list-style-type: none"> <li>• <b>Decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation;</b></li> </ul> <b>And</b> <ul style="list-style-type: none"> <li>• <b>Those persons or organisation have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.</b></li> </ul>		<b>Fully Compliant</b>
<b>Key Issues:</b>			
1.1	Each administering authority should have a designated group of elected members appointed to a Pension Committee to whom responsibility for the management and administration of the pensions fund has been assigned.	The East Sussex Pension Committee has responsibility for the management and administration of the pension fund.	√
1.2	The roles of the officers with responsibility for ensuring the proper running of the administering authority's and the Fund's business should be set out clearly. This should include the Chief Finance Officer. A framework for the Pension Committee's conduct of business should include a process for the declaration of conflicts of interest before each meeting and at other times as appropriate.	Members and officers are invited to make any declaration of personal or prejudicial interests that they may have in relation to items on the agenda at the beginning of each meeting.	√
1.3	Administering authorities are required to prepare, publish and maintain statements of compliance against a set of good practice principles for scheme governance and stewardship.	The administering authority has prepared, published and maintained a Governance Compliance Statement which sets out its compliance against good practice principles.	√
1.4	Guidance issued by CLG required each administering authority to publish a governance compliance statement in regard to each of the funds it controls. This statement shows the extent to which administering authorities comply with nine governance principles. These are set out in the CLG's <i>Local Government Pensions Scheme Governance Compliance Statutory Guidance</i> .	The administering authority has prepared, published and maintains a Governance Compliance Statement which sets out its compliance against good practice principles.	√
1.5	Wherever possible, appointments to the Pension Committee should be based on consideration of relevant skill, experience and continuity.	Normal practice (involving independent advice)	√
1.6	The Pension Committee should be governed by specific terms of reference, standing orders and operational procedures that define those responsible for taking investment decisions, including officers of the authority and/or external investment managers.	The Constitution of the County Council explains how we operate, how decisions are made and the procedures which are followed to ensure that these are efficient, transparent and accountable to local people (in addition, Statement of Investment Principle).	√
1.7	It is unlikely that decision on overall strategy and asset allocation can be delegated effectively, whereas day-to-day investment decisions are most likely to be taken by the investment manager, whether internal or external. The process by which such decisions are delegated and authorised should be described in the constitution and record of delegated powers relating to the Pension Committee, as well as in public documents for stakeholders, such as the statement of investment principles.	Statement of Investment Principles and Investment Mandate.	√
1.8	In describing that process, the roles of members, officers (whether as a monitoring control function or as the investment manager), external advisers and managers should be differentiated and specified.	Statement of Investment Principles.	√

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1.9	The Pension Committee should ensure that it has appropriate skills, and is run in a way designed to facilitate, effective decision making. It should conduct skills and knowledge audits of its membership at regular intervals in relation to the scope of its work and the pension's issues that are most relevant. A statement should appear in the annual report.	The fund will adopt the knowledge and skills framework as a basis for the training and development of those involved in the pension scheme.	√
1.10	The Pension Committee should obtain proper advice at reasonable intervals from suitably qualified persons, including officers of the authority and external investment managers. The chief finance officer should assess the need for proper advice and recommend to the Pension Committee when such advice is necessary from an external advisor. The Pension Committee should ensure that it has sufficient internal resources and, where necessary, external resources to carry out its responsibilities effectively.	The Pension Committee's quarterly meetings are attended by the Fund's independent adviser. The Pension Committee is always supported by the Chief Finance Officer and their officers. The Pension Committee's training schedule is dictated by their need to carry out its responsibilities effectively.	√
1.11	The Chief Finance Officer should be given responsibility for the provision of the training plan for members to help them to make effective decisions and to ensure that they are fully aware of their statutory and fiduciary responsibilities, and regularly reminded of their stewardship role.	Elected members have legal responsibilities for the prudent and effective stewardship of LGPS pension funds and, in more general terms, have a clear fiduciary duty to participating employers; local tax payers and scheme beneficiaries, in the performance of their functions. This is covered in the Fund's Governance Policy Statement.	√
1.12	Papers and related documentation should be clear and comprehensive, and circulated to members of the Pension Committee sufficiently in advance of the meeting to allow them to be read and understood.	Papers are circulated to members at least 7 working days in advance of a meeting.	√
1.13	The Chief Finance Officer should ensure that a medium term business plan is created for the pension fund, which should include the major milestones and issues to be considered by the Pension Committee. The business plan should contain financial estimates for the investment and administration of the fund, and include appropriate provision for training. The plan should be submitted to the Pension Committee for consideration.	The Pension Committee plans its investment strategy at its Annual Strategy Meeting. Effective decision on strategic asset allocation benchmarks for the medium term and sound corresponding manager appointments are the most crucial decisions. This reflects the core business planning activity of the Pension Committee. Budget estimates are prepared and monitored for administration and actuarial costs.	√
1.14	The fund's administration strategy documents should refer to all aspects of the Pension Committee's activities relevant to the relationship between the Pension Committee and the employing authorities.	Statement of Investment Principles, Annual Accounts, Website, Administrative publications – deal with these matters.	√

# East Sussex Pension Fund

## PRINCIPLE 2

<b>2.</b>	<b>Clear objectives</b>		<b>Fully Compliant</b>
<p><b>An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be clearly communicated to advisers and investment managers.</b></p>			
<b>Key Issues:</b>			
2.1	<p>The Pension Committee should demonstrate that in setting an overall investment objective for the fund, it has considered:</p> <ul style="list-style-type: none"> <li>• the fund's liabilities in the context of the expected net contribution inflows;</li> <li>• the adequacy of the fund's assets to meet its liabilities as advised by the actuary;</li> <li>• the maturity profile of the fund's liabilities and its cash flow situation.</li> </ul>	<p>The East Sussex Fund's investment strategy is continuously reviewed. Subject to independent advice involving Asset/ Liability Studies as necessary and of course the results of the triennial valuation.</p>	√
2.2	<p>The Pension Committee should also demonstrate that it has sought proper advice, including from specialist, independent advisers where appropriate, as to how this might be expressed in terms of the expected or required annual return on the fund and how it should be measured against stated benchmarks.</p>	<p>The Pension Committee holds quarterly meetings, including an annual review of investment strategy.</p>	√
2.3	<p>The Pension Committee should consider its own appetite for risk and that of the employers in the fund when considering advice on the mix of asset classes and on active and passive investment mandates. In making asset allocation decisions the Pension Committee should consider all asset classes currently available to investors.</p>	<p>An investment strategy of lowest risk, but not necessarily the most cost effective in the long term, would be 100% investment in index linked government bonds. However, the fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from index-linked bonds. The administering authority's strategy recognises the relatively immature liabilities of the fund and the secure nature of most employers covenants. The same investment strategy is followed for all employers.</p>	√
2.4	<p>The use of peer group benchmarks should be for comparison purposes only and not to define the overall fund objective.</p>	<p>The Fund's performance is measured against its' customised benchmark and that of the Local Authorities Universe.</p>	√
2.5	<p>The Chief Finance Officer and the Pension Committee will need to consider the general and strategic impact of the funding levels and employer contribution rates on council tax levels over time. The responsibility of the actuary to keep rates of employer contributions as constant as possible over time is the primary means of achieving this.</p>	<p>The primary objective of investment policy is the maximisation of the Fund's long-term return, consistent with the degree of risk appropriate for a pension fund, in order to minimise the level of employer contributions to the Fund whilst keeping the employer contribution rate as stable as possible.</p>	√
2.6	<p>The Pension Committee should consider the nature of the membership profiles and financial position of the employers in the fund and decide, on the advice of actuaries, whether or not to establish sub-funds with different investment objectives.</p>	<p>Regular dialogue is held with the Actuary. The Funding Strategy Statement (FSS) is reviewed following each valuation.</p>	√

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2.7	<p>The Pension Committee should evaluate the split between equities and bonds in the light of the funds forecast liabilities before considering any other asset class. It should state the range of investments it is prepared to include in its asset allocation decision and give the reasons why some asset classes may have been excluded. The Pension Committee should have regard to the diversification and suitability of investments in reaching its asset allocation decisions. Strategic asset allocation decisions should receive a level of attention (and, where relevant, advisory or management fees) that fully reflect the contribution they can make towards achieving the fund's investment objectives.</p>	<p>Decisions reflect the Fund's own characteristics and consider a full range of investment asset classes, including alternative asset funds. The fund managers have discretion to position the fund around the customised benchmark within agreed control ranges set by the investment consultant consistent with the performance objectives of the fund</p>	√
2.8	<p>The Pension Committee should take proper advice, including from specialist, independent advisers where appropriate. The Pension Committee should appoint advisors in open competition and should set them clear strategic investment performance objectives. The Pension Committee should state clearly how their advisors' overall performance will be measured and the relevant short, medium and longer term performance measurement framework. All external procurement of advisors, investment managers and other services should be conducted within the EU Procurement Regulations and the administering authority's own procurement rules.</p>	<p>The Pension Committee is supported by an Independent Adviser whose appointment is subject to review. All Pension Fund procurements are run in line with the EU Procurement Regulations.</p>	√
2.9	<p>Understanding transaction-related costs should be a clear consideration in letting and monitoring a contract for investment management and, where appropriate, independent and expert advice should be taken on transaction costs, particularly in relation to transition management.</p>	<p>IMA / NAPF Level 2 Disclosure reports are available from the Fund's investment managers for monitoring the transaction related costs. Transition management is monitored by Hymans Robertson.</p>	√

# East Sussex Pension Fund

## PRINCIPLE 3

3.	<b>Risk and Liabilities</b>		<b>Fully Compliant</b>
<b>Key Issues:</b>			
3.1	<p>The Pension Committee should set out an overall investment objective for the fund that:</p> <ul style="list-style-type: none"> <li>• represents its best judgement of what is necessary to meet the fund's liabilities given their understanding of the contributions likely to be received from employer(s) and employees</li> <li>• takes account of the Pension Committee's attitude to risk, and specifically its willingness to accept underperformance due to market conditions.</li> </ul>	<p>The primary objective of investment policy is the maximisation of the Fund's long-term return, consistent with the degree of risk appropriate for a pension fund, in order to minimise the level of employer contributions to the Fund, as set out in the Statement of Investment Principals.</p>	√
3.2	<p>The Pension Committee should be aware of its willingness to accept underperformance due to market conditions. If performance benchmarks are set against relevant indices, variations in market conditions will be built in, and acceptable tolerances above and below market returns stated explicitly.</p>	<p>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.</p>	√
3.3	<p>Some benchmarks may also be stated in terms of absolute returns, in which case the Pension Committee must believe that a certain rate of return is acceptable and feasible, regardless of market conditions, from certain classes of asset.</p>	<p>The East Sussex Fund appointed 2 Absolute Return Fund Managers in February 2010.</p>	√
3.4	<p>The fund's Statement of Investment Principles should include a description of the risk assessment framework used for potential and existing investments.</p>	<p>See Risk section 3.5 in the Fund's Statement of Investment Principals.</p>	√
3.5	<p>Objectives for the overall fund should not be expressed in terms which have no relationship to the fund's liabilities, such as performance relative to other pension funds, or to a market index.</p>	<p>The use of the Local Authority Average is for information purposes only.</p>	√
3.6	<p>The Pension Committee should state whether a scheme specific benchmark has been considered and established and what level of risk, both active risk and market risk, is acceptable to it.</p>	<p>See Statement of Investment Principals and Funding Strategy Statement</p>	√
3.7	<p>The Pension Committee should receive a risk assessment in relation to the valuation of its liabilities and assets as part of the triennial valuations. Where there is reasonable doubt about the valuation of liabilities and assets at any stage during the performance monitoring of the fund, the Chief Finance Officer should ensure that a risk assessment is reported to the Pension Committee, with any appropriate recommendations for action to clarify and/or mitigate the risks.</p>	<p>The actuarial valuation is reported to the Pension Committee. The triennial valuation is also discussed at the Annual Employers Forum.</p>	√

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3.8	The Pension Committee should, at the time of the triennial valuations, analyse factors affecting long-term performance and receive advice on how these impact on the scheme and its liabilities. The Pension Committee should also ask this question of its actuaries and other advisors during discussions on performance.	Regular discussions are held with the Actuary and the Investment advisers.	√
3.9	The Pension Committee should use reports from internal and external auditors to satisfy itself about the standards of internal control applied by the scheme to its administration and investment operations, as well as to the overall governance structure of the Pension Committee and its scheme of delegation. Ensuring effective internal control is an important responsibility of the Chief Finance Officer.	The Pension Committee receives comment from the Fund's internal auditor as to standards of internal control applied by the scheme to its investment and administration operations and its governance structure. It also receives annual reports from the Fund's external auditor.	√
3.10	The Pension Committee should ensure that its investment strategy is suitable for its objectives and takes account of the ability to pay of the employers in the fund.	Regular discussions take place with the Actuary and an Annual Pension Fund Employers Forum is held each year.	√
3.11	The annual report of a pension fund should include an overall risk assessment in relation to each of its activities and factors expected to have an impact on the financial and reputational health of each fund. This could be done by summarising the contents of a regularly updated risk register. An analysis of the risks should be reported periodically to the Pension Committee, together with necessary actions to mitigate risk and assessment of any residual risk.	Regular monitoring, including the risk assessment of the Fund, is undertaken by Officers in conjunction with the Investment Advisers and the Actuary.	√



PRINCIPLE 4

4.	<p><b>Performance assessment</b></p> <ul style="list-style-type: none"> <li>• Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisers.</li> <li>• Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members.</li> </ul>	Fully Compliant	
<b>Key Issues:</b>			
4.1	<p>The Committee should:</p> <ul style="list-style-type: none"> <li>• explicitly consider, in consultation with their investment manager(s), whether the index benchmarks it has selected are appropriate, and in particular, whether the construction of the index creates incentives to follow sub-optimal investment strategies</li> <li>• if setting limits on divergence from an index, ensure that they reflect the approximations involved in index construction and selection</li> <li>• consider explicitly for each asset class invested, whether active or passive management would be more appropriate given the efficiency, liquidity and level of transaction costs in the market concerned</li> <li>• where it believe active management has the potential to achieve higher returns, set both targets and risk controls that reflect this, giving the managers the freedom to pursue genuinely active strategies.</li> </ul> <p>Note - the term “benchmark” is used to describe the marker against which asset allocation and investment performance will be measured, as set for each portfolio or mandate.</p>	<p>The appropriateness of index benchmarks is discussed with the investment managers and investment advisors.</p> <p>The appropriateness of active v passive management is considered when investment managers are reviewed.</p> <p>The Fund’s managers have discretion to position the fund around the customised benchmark within agreed ranges set by the Committee consistent with the performance objectives of the fund.</p>	√
4.2	<p>The mandate represents the instruction to the manager as to how the investment portfolio is to be managed, covering the objective, asset allocation, benchmark flexibility, risk parameters, performance targets and measurement timescales.</p>	<p>The Agreements with fund managers explicitly state how the portfolio is to be managed, performance targets and measurement timescales.</p>	√
4.3	<p>It is important to recognise that the structure of the benchmark, the control parameters around each element, the risk margins set, and the performance target will all combine to drive the management of the investment portfolio.</p>	<p>See Statement of Investment Principals.</p>	√
4.4	<p>The use of peer group benchmarks (such as the Local Authority Pension Fund Investment Statistics) may not be appropriate for directing a mandate of a manager insofar as they infer a common asset liability structure or investment requirement. However, such benchmarks may be used for comparative information in measuring investment performance against other funds, as between managers, or for individual asset classes.</p>	<p>The Fund’s customised benchmark is determined by the Committee.</p> <p>The use of the Local Authority Average is for information purposes only.</p>	√
4.5	<p>Where active management is selected, divergence from a benchmark should not be so constrained as to imply index tracking (i.e. passive management) or so wide as to imply unconstrained risk.</p>	<p>The Fund’s managers have discretion to position the fund around the customised benchmark within agreed ranges set by the Committee consistent with the performance objectives of the fund.</p>	√

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4.6	Investment activity in relation to a benchmark should be monitored regularly to check divergence and any impact on overall asset allocation strategy.	The asset allocation versus the Fund's benchmark is reported quarterly to the Pensions Committee and the impact of positions is discussed with the Investment Managers. A detailed performance report is presented annually which covers asset and sector allocation and its impact on overall returns.	√
4.7	Investment returns should be measured to enable regular monitoring against bespoke and peer group benchmarks.	Performance is measured and considered by the Committee quarterly.	√
4.8	In addition to the overall fund returns the return achieved in each asset class should be measured so that the impact of different investment choices can be assessed (for example equities by country, fixed interest by country and type, property, private equity etc.)	Stock, sector, geography and asset class returns are considered by the Committee quarterly.	√
4.9	Although returns will be measured on a quarterly basis in accordance with the regulations, a longer time frame (typically three to seven years) should be used in order to: <ul style="list-style-type: none"> <li>• assess the effectiveness of the fund management arrangements</li> <li>• review the continuing compatibility of the asset/liability profile</li> </ul>	On-going reviews and an Annual Strategy Meeting to consider investment strategy.	√
4.10	Returns should be obtained from specialist performance measurement agencies independent of the fund managers.	The Fund's performance is monitored quarterly by the investment consultant.	√
4.11	Investment manager returns should be measured against their agreed benchmark and variations should be attributed to asset allocation, stock selection, sector selection and currency risk all of which should be provided by an independent performance measurement agency.	The Fund's performance is monitored quarterly by the investment consultant.	√
4.12	When assessing managers and advisers it is necessary to consider the extent to which decisions have been delegated and advice heeded by officers and elected members.	See Statement of Investment Principals	√
4.13	The Committee should devise a performance framework against which to measure the cost, quality and consistency of advice received from its actuaries. It is advisable to market test the actuarial service periodically.	The cost and quality of the Fund's actuarial advice is reviewed regularly with a full procurement exercise necessary at least every 7 years.	√
4.14	Consultants should be assessed on a number of issues including the appropriateness of asset allocation recommendations (bearing in mind the nature of the liabilities), the quality of advice in choosing benchmarks and any related performance targets and risk profiles, the quality and appropriateness of the investment managers that are recommended, and the extent to which advisers are proactive and consistent in recommending subsequent changes.	Half Yearly Meetings are held with the Consultants and a scorecard system of monitoring performance is incorporated in the management agreement.	√

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4.15	<p>The process of self assessment involves both officers and members of the Committee reviewing a range of items, including manager selection, asset allocation decisions, benchmarking decisions, employment of consultants and best value outcomes. The objective of the reviews would be to consider whether outcomes were as anticipated, were appropriate, or could have been improved.</p> <p>This could include expected progress on certain matters, reviews of governance and performance and attendance targets. It should include standards relating to the administration of the Committee's business such as:</p> <ul style="list-style-type: none"> <li>• attainment of standards set down in CIPFA's knowledge and skills framework</li> <li>• achievement of required training outcomes</li> <li>• achievement of administrative targets such as target dates for issuing agendas and minutes.</li> </ul>	Self Assessment forms a key part of the process of the Annual Strategy Meeting	√
4.16	The assessment of business performance should be included in the fund's annual report to its stakeholders.	It is (but will review if it needs to be explained).	√

PRINCIPLE 5

<p><b>5. Responsible Ownership</b></p> <p><b>Administering authorities should:</b></p> <ul style="list-style-type: none"> <li>• <b>adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents,</b></li> <li>• <b>include a statement of their policy on responsible ownership in the statement of investment principles</b></li> <li>• <b>report periodically to scheme members on the discharge of such responsibilities</b></li> </ul>		<p><b>Fully Compliant</b></p>	
<p><b>Key Issues:</b></p>			
5.1	<p>Policies regarding responsible ownership must be disclosed in the statement of investment principles which must be contained in the annual report.</p>	<p>A Statement of Investment Principles is published and contained in the annual report.</p>	√
5.2	<p>Responsible ownership should incorporate the Committee's approach to long term responsible investing including their approach to consideration of environmental, social and governance issues.</p>	<p>The fund's statement includes consideration of environmental, social and governance issues.</p>	√
5.3	<p>The Committee should discuss the potential for consideration of environmental, social and governance issues to add value, in accordance with its policies on responsible investing, when selecting investment managers and in discussing their subsequent performance. In addition the Committee should ensure that investment managers have an explicit strategy, setting out the circumstances in which they will intervene in a company that is acceptable within the Committee's policy.</p>	<p>Environmental, social and governance issues are discussed as part of Investment Manager procurement exercises.</p>	√
5.4	<p>The Committee should ensure that investment consultants adopt the Institutional Shareholders' Committee (ISC) Statement of Practice relating to consultants. (The ISC's Statement of Principles on the responsibilities of shareholders and agents sets out best practice for institutional shareholders and/or agents in relation to their responsibilities in respect of investee companies, in that they will:</p> <ul style="list-style-type: none"> <li>• set out their policy on how they will discharge their responsibilities, clarifying the priorities attached to particular issues and when they will take action.</li> <li>• monitor the performance of, and establish, where necessary, a regular dialogue with investee companies</li> <li>• intervene where necessary</li> <li>• evaluate the impact of their engagement and report back to clients and beneficial owners)</li> </ul>	<p>The Fund's Investment Consultant, is aware of the ISC Statement of Practice relating to Consultants and is supportive of this.</p>	√
5.6	<p>Funds should also be aware of the November 2009 ISC Code on Responsibilities of Institutional Investors. This new code forms part of efforts to help investors become more effective in their dealings with companies in which they invest and sets out best practice with regard to monitoring companies, dialogue with company boards and voting at general meetings.</p>	<p>The Fund is a subscriber to the Local Authority Pension Fund Forum (LAPFF) in order to help implement these principles.</p>	√

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5.7	The United Nations Environment Programme Finance Initiative (UNEP FI) has published Principles of Responsible Investment (UNPRI) and has encouraged asset owners and asset managers to sign up and commit to the principles and regularly assess themselves against a comply or explain framework. The six principles can be found at <a href="http://www.unpri.org/principles/">http://www.unpri.org/principles/</a> .	The East Sussex Fund's investment managers have signed up to UNPRI	√
5.8	It is important to ensure through the terms of an explicit strategy that an authority's policies are not overridden, negated or diluted by the general policy of an investment manager or house policy.	Specific policy exists for segregated holdings but has to be recognised that by definition, an individual clients wishes are diluted in a pooled fund.	√
5.9	Where the exercise of voting action is separated from the investment manager, authorities should ensure that the appropriate investment decision is taken into account by reference to those appointed to manage the investments. Authorities may use the services of external voting agencies and advisers to assist compliance in engagement.	The Investment Managers are responsible for voting.	N/A
5.10	Authorities may wish to consider seeking alliances with either other pension funds in general, or a group of local authority pension funds, to benefit from collective size where there is a common interest to influence a companies to take action on environmental, social and governance issues.	The East Sussex Pension Fund does this via the Local Authority Pension Fund Forum.	√

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## PRINCIPLE 6

6.	<p><b>Transparency and reporting.</b></p> <p><b>Administering authorities should:</b></p> <ul style="list-style-type: none"> <li>act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives;</li> <li>provide regular communication to scheme members in the form they consider most appropriate.</li> </ul>	Fully Compliant	
<b>Key Issues:</b>			
6.1	Transparency is strengthened by a clear and well communicated governance framework. The Committee should ensure that its governance compliance statement is maintained regularly. It should actively challenge any non-compliance and be very clear about for its reasons for this, and be comfortable with the explanations given.	The Fund's Governance Compliance Statement is reviewed annually.	√
6.2	<p>The Fund's Communication statement must set out the administering authority's policy on;</p> <ul style="list-style-type: none"> <li>the provision of information and publicity about the scheme to members, representatives of members and employing authorities</li> <li>the format, frequency and method of distributing such information or publicity</li> <li>the promotion of the scheme to prospective members and their employing authorities</li> </ul>	The Fund's Communication Policy statement covers available information, its format, frequency and distribution method and the promotion of the scheme to prospective members.	√
6.3	The Committee should have a comprehensive view of who its stakeholders are and the nature of the interests they have in the scheme and the fund. There should be a clearly stated policy on the extent to which stakeholders will take a direct part in the Committee's functions and on those matters on which they will be consulted or informed.	The number of stakeholders affected by the local management of the pension scheme is vast and it is accepted that it would be impractical to expect individual committee structures to encompass every group or sector that has an interest in the decisions that fall to be made under the scheme's regulations. The Fund has set up a Pensions Board which includes representatives from the major employers and employee and pensioner representatives. Communication/consultation – extends to Annual Employer meetings, and regular employer and employee briefings.	√
6.4	The Committee should seek examples of good practice from the published reports and communication policies of other pension funds. It should also share examples of its own good practice. The full range of available media should be considered and used as appropriate.	Officer's review published reports and communication policies of other pension funds, and shares examples of its own practice.	√
6.5	The Committee should compare regularly its annual report to the regulations setting out the required content and, if it does not comply fully with the requirements, should ensure that an action plan is produced to achieve compliance as soon as possible. However, the Committee will wish to ensure that the content is, if necessary, extended and presented in the way that is most useful and relevant to its many stakeholders. This may require a thorough review of its data capture and management processes to ensure as efficient an approach to production and use of data as possible.	<p>The Annual Report sets out the regulations relating to the required content and demonstrates compliance against each point.</p> <p>The content of the annual report is reviewed regularly.</p>	√

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6.6	<p>The funding strategy statement, the statement of investment principles and the governance compliance statement are core source documents produced by funds to explain their approach to investment and risks. With regard to the first two;</p> <p>It is unlikely that decisions on overall strategy and asset allocation can be delegated effectively whereas day-to-day investment decisions are most likely to be taken by the investment manager, whether internal or external. The process by which such decisions are delegated and authorised should be described. In describing that process, the roles of members, officers (whether as a monitoring control function or as the investment manager), external advisors and managers should be differentiated and specified. The process for monitoring the actions, decisions and performance of external advisers and managers should be clearly stated.</p> <p>The process by which the overall fund asset allocation has been determined should include reference to the assumptions as to future investment returns and to any asset/liability study undertaken.</p> <p>The mandates given to each manager should be described.</p> <p>Fee structures should include the scale of charges in operation, whether ad valorem or fixed, and any performance element built in, stating the implications for risk control.</p> <p>Although there is no requirement to provide copies of the SIP to members, a copy should be made available on request and its availability should be made clear in the publication process.</p>	All of the Fund's policy documents cover these areas and are published on the Pension Fund's Website.	√
6.7	<p>The governance compliance statement must include information on whether the administering authority delegates the whole or part of its function to a committee, a sub-committee or an officer of the administering authority. If it does delegate functions, the statement must include:</p> <ul style="list-style-type: none"> <li>• the frequency of any meetings, the terms of reference, structure and operational procedures of the delegation;</li> <li>• whether the committee or sub-committee includes representatives of employing authorities (including non-LGPS employers) or members, and if so, whether those representatives have voting rights.</li> </ul>	The Pension Committee is comprised of five county councillors and is a delegated committee of the administering authority with clear terms of reference. This is covered in the Fund's Governance Policy and Governance Compliance Statement.	√
6.8	The governance compliance statement must include details to the extent to which a delegation (or absence of delegation) complies with CLG guidance. Where the statement does not comply with the guidance, the reasons for non-compliance.	The governance compliance statement is published on the Fund's website.	√
6.9	Where the statement does not comply with the guidance, the reasons for non-compliance.	The statement complies with the guidance.	√
6.10	A copy of the statement (or revised statement) must be sent to CLG.	The Governance Compliance Statement is included in the Annual Report.	√