

East Sussex Pension Fund Annual Report and Accounts

2016/17

Contents

1.	Introduction.....	3
2.	Management and financial performance report	4
3.	Investment policy and performance	11
4.	Administrative management performance	16
5.	Scheme administration report.....	18
6.	Actuarial report on funds	20
7.	Governance Arrangements	21
8.	Fund account, net assets statement and notes	26
a.	East Sussex Pension Fund Account	26
b.	Net Assets Statement for the year ended 31 March 2017	27
c.	Notes to the East Sussex Pension Fund Accounts for the year ended 31 March 2017	28
9.	Funding strategy statement	56
10.	Investment Strategy Statement	56
11.	Communications policy statement	56
12.	External auditors report	57

1. Introduction

Local Government Pension Scheme

The Local Government Pension Scheme (LGPS) is a statutory pension scheme, whose rules are governed by Parliament in accordance with the Public Services Pensions Act 2013. The rules of the scheme are provided in the Local Government Pension Scheme Regulations that came into force from 1 April 2014 and provide the statutory basis within which the Scheme can operate. Separate transitional regulations provide the link between the old and new scheme provisions.

Although a national pension scheme, mainly set up for the benefit of local government employees, the LGPS is in fact administered locally. The LGPS is open to all non teaching employees of the County Council, District and Borough Councils and Unitary Authorities in East Sussex, as well as Colleges of Further Education, Academies, Town and Parish Councils and a small number of charitable organisations who have applied to be treated as “admission bodies”. In addition, the LGPS allows employees of private contractors to participate in the Scheme where they are providing a service or assets in connection with the functions of a scheme employer, in accordance with the specific requirements of the LGPS Regulations. The scheme is not open to teachers or fire fighters, as these groups of employees have separate pension schemes.

A summary of the provisions of the scheme is given below.

Currently within the East Sussex Pension Fund there are 127 participating employers. A full list of participating employers is given at note 29.

Administering Authority Responsibilities

East Sussex County Council has a statutory responsibility to administer and manage the East Sussex Pension 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.

The Fund receives contributions from both employees and employers, as well as income from its investments. All of these elements put together then meet the cost of paying pensions, as well as the other benefits of the pension scheme. As part of its responsibilities as the administering authority the County Council is responsible for setting investment policy and reviewing the performance of the Fund’s external investment managers.

The County Council has entered in to a partnership arrangement with Surrey County Council known as Orbis to undertake the day to day functions associated with the administration of the LGPS. The main services provided by Orbis include maintenance of scheme members’ records, calculation and payment of retirement benefits including premature retirement compensation, transfers of pension rights, calculation of annual pension increases and the provision of information to scheme members, employers and the Fund’s Actuary.

Although the day to day work associated with administering the LGPS has been passed to Orbis, the County Council takes its statutory responsibility very seriously. It has therefore set up procedures to ensure that Orbis undertake the work associated with the administration of the LGPS in accordance with an agreed service specification. The County Council also ensures that all the participating employers within the East Sussex Pension Fund are aware of their own responsibilities, as well as any changes to the provisions of the Scheme that may be introduced.

A major responsibility of the County Council as the administering authority is to undertake a valuation of the Pension Fund’s assets and liabilities (triennial valuation). The main purpose of this exercise is to assess the size of the Fund’s current and future liabilities against the Fund’s assets, and then set the employer contribution to the Fund for each participating employer for the following three year period. The most recent actuarial valuation of the Fund was carried out as at 31 March 2016. In addition to the triennial valuation of the Pension Fund, the County Council also receives requests each year from scheme employers to obtain appraisal reports from the Fund actuary, to enable them to comply with requirements of the Financial Reporting Standards FRS102 or IAS19. The provision of these reports, however, falls outside of the functions of the County Council as an administering authority.

It is important to note that ultimate responsibility for both the administration of the Pension Fund and the investment of all monies associated with the Fund remains with East Sussex County Council, as administering authority for the East Sussex Pension Fund. The County Council has in place an established annual employers’ pension forum, to update and involve all the participating employers of the East Sussex Pension Fund, which is always well attended.

Changes affecting the LGPS, and future developments

In line with the Public Service Pensions Act 2013, the East Sussex Pension Fund set up a Pensions Board. The Pension Board consists of 3 Employer representatives, 3 Scheme member representatives and an independent chair. The Board met for the first time in July 2015 and meets no less frequent than four times a year:

Additional information about the Pension Board, agendas and minutes of the Board’s meetings are available at: <https://democracy.eastsussex.gov.uk/mgCommitteeDetails.aspx?ID=374>

Information and updates about any future developments in the scheme are contained on the Pension Fund's dedicated member website: <http://www.eastsussexpensionfund.org/>.

LGPS Investment Pooling

In the July 2015 budget the government announced that they wanted the 89 Local Government Pension Scheme funds to pool their investments in order to achieve savings in investment management costs. Following this in the Autumn Statement, the government published the criteria for the pooling of LGPS investment assets. Alongside the guidance, the Government published a consultation on the LGPS - Revoking and replacing the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009, i.e., on "backstop" legislation that would allow the Secretary of State to determine the pooling arrangements for those administering authorities that do not come forward with sufficiently ambitious proposals to pool their assets with others.

The objective of pooling assets is to achieve savings over the longer term from both lower investment management costs and more effective management of the investment assets. The pool will look to deliver the savings based upon the collective buying power of the collaboration, whilst local accountability will be maintained at each individual fund with the responsibility for strategic decisions, including asset allocation retained by the funds. The pooling of assets will only affect the implementation of the fund's investment strategy in terms of manager appointments.

In response to the government agenda, the East Sussex Pension Fund Committee formally ratified the option of joining the ACCESS (i.e., 'A Collection of Central, Eastern and Southern Shires') Pool. The East Sussex Pension Fund (ESPF) is a leading participant within the ACCESS pool, with 10 other administering authorities underpinning the establishment of the pool. ACCESS contains the following other funds:

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

ACCESS's collaboration was based on pooling investments via a Collective Investment Vehicle (CIV) that would be administered and maintained by a third party Operator. The eleven participating authorities have a clear set of objectives and principles that will drive the decision-making and allow participating authorities to continue to help shape the design of the Pool.

Objectives

2. Enable participating authorities to execute their fiduciary responsibilities to Local Government Pension Scheme (LGPS) stakeholders, including scheme members and employers, as economically as possible.
3. Provide a range of asset types necessary to enable those participating authorities to execute their locally decided investment strategies as far as possible.
4. 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.

Principles

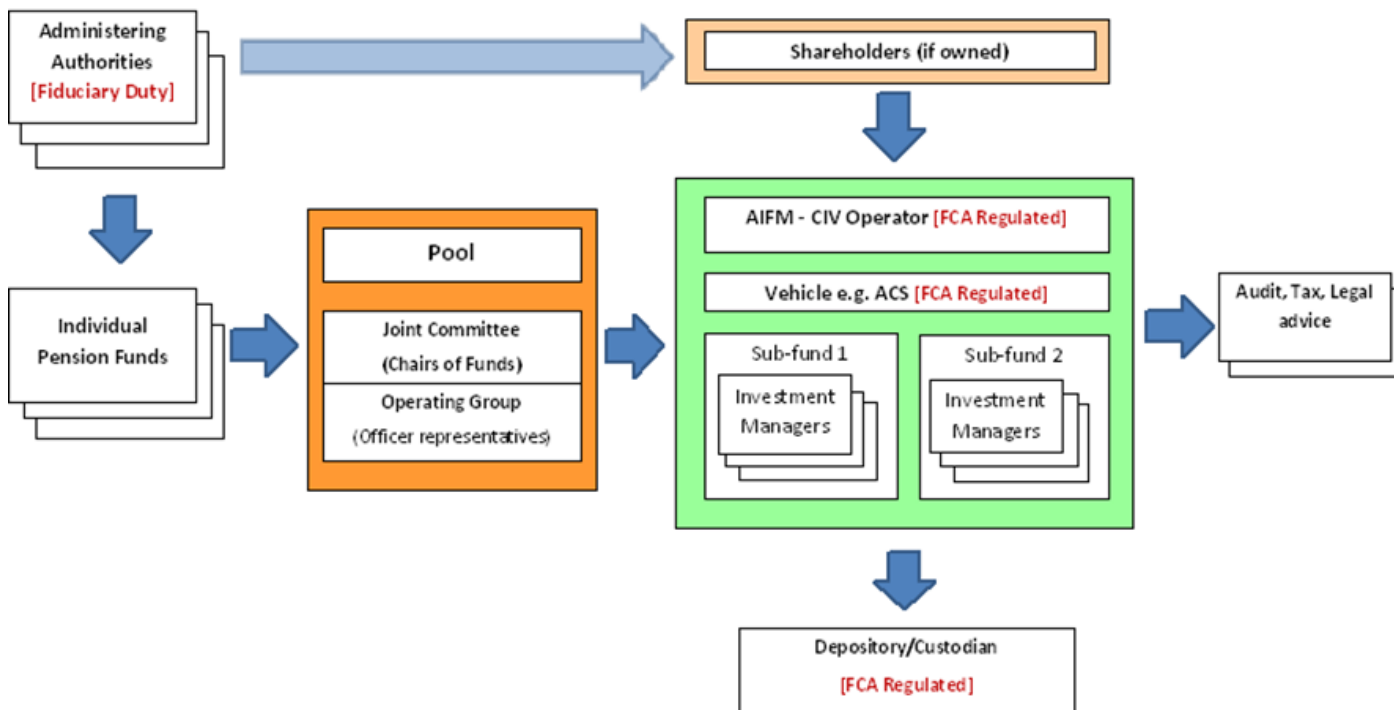


The ACCESS pool places great store on objective, evidence based decision making guided by a set of principles agreed by the participating authorities which has served us well to date and will continue to do so in the future. ESPF and the group continue to believe that our proposals will meet government objectives and enable participating authorities to retain democratic accountability and exercise their primary fiduciary responsibility to LGPS stakeholders, including scheme members and employers, as economically as possible.

The total value of assets to be held within the Pool, once the transition is complete, will be in excess of £33b. This assumes that passive assets currently held in Life Policies will be considered to be within the Pool, although the Life Policies will remain an agreement between the participating authority and the appointed external investment manager(s).

The procurement of an operator for a £30bn+ pool of assets is a complex issue and therefore the selection process and the related contract terms need to be carefully managed.

The Pool will be renting an Operator which will be a fully Financial Conduct Authority (FCA) regulated Collective Investment Vehicle (CIV) to build and operate the collective investment scheme for the participating Funds.



Governance arrangements have been agreed, which set out the relationships involved in the above diagram. This Inter Authority Agreement (IAA) was put forward for Individual Authority (including East Sussex County Council) approval in February/March 2017. The IAA will be formalised and executed by each Individual Authority between May and June 2017 and will come into effect on the date of the first formal Joint Committee meeting which should be in July 2017.

5. Management and financial performance report

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 Adviser.

2016/17 Pension Committee Members

East Sussex County Councillors: Richard Stogdon (Chairman)
Frank Carstairs
Michael Wincott
Bob Standley
David Tutt

2015/16 Pension Board Members

Independent Chairman: Richard Harbord
Employer Representative: Councillor Kevin Allen
Councillor Brian Redman
Sue McHugh
Member Representative: Angie Embury
Bernadette Carlyle
Tony Watson
Brighton & Hove City Council
Districts & Borough Councils
Educational Bodies
Active & Deferred
Active & Deferred
Pensioners

FUND MANAGERS: Adams Street Partners
Legal and General
Prudential M&G
State Street Global Advisers
Longview Partners
Ruffer
UBS Infrastructure
Harbourvest
Newton
Schroders

CUSTODIAN: Northern Trust

AVC PROVIDER: Prudential

ACTUARY: Hymans Robertson
20 Waterloo Street
Glasgow
G2 6DB

LEGAL ADVISORS: Appointed from National LGPS Framework for Legal Services

BANKERS TO THE FUND: NatWest Bank

TREASURER: Kevin Foster
Chief Operating Officer (Section
151 Officer)
East Sussex County Council

AUDITOR: KPMG

SCHEME ADMINISTRATOR: East Sussex County Council

ADMINISTRATION PROVIDER: Orbis Business Operations

INVESTMENT ADVISER: Hymans Robertson

INDEPENDENT ADVISER: William Bourne

Contact Addresses:

Investments

John Shepherd
Finance Manager
Orbis Finance
County Hall
St Anne's Crescent
Lewes, BN7 1UE
(01273) 481785

LGPS policy or statutory requirements

Wendy Neller
Strategy and Governance Manager
Orbis Finance
County Hall
St Anne's Crescent
Lewes, BN7 1UE
(01273) 481904

Day-to-Day Matters

Graham Devenish
Orbis Business Operations South
County Hall
St Anne's Crescent
Lewes, BN7 1UE
(01273) 337450

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 approach is to manage risk rather than eliminate it entirely.

Risk is identified and managed as follows:

Management Risk:

A significant risk is the potential insolvency of scheme employers, leaving outstanding liabilities in the Fund. To this end the Fund requires all admission bodies that wish to join the Fund to be guaranteed by a scheme employer(s) or to provide a bond to protect the Fund in the event of insolvency. In the monitoring of employers, consideration is given to the Funding Strategy Statement (FSS) which outlines the Fund's approach to how employer liabilities are measured and one of the aims of the FSS is to reduce the risk from employers defaulting on its pension obligations. The Fund monitors the financial sustainability of the scheme employers and takes this into account in the valuation exercise. Some funding risks can be mitigated by the Investment Strategy and the funding and investment strategies focus on the expected real returns from the assets, thus mitigating the effect of inflation on the value of the pension liabilities.

Risks include the non-payment of contributions by employers and processes are in place to ensure that contributions are reconciled regularly and late payers are reported. The operational risks of using third party suppliers are monitored through the annual review of Internal Control Reports

Benefits Administration Risk:

Relate mainly to the inability of the Fund to meet its obligations and pay benefits accurately and on time as agreed with employers or under statute. These could include non- or late payment of members' benefits, incorrect calculation of benefits, breach of Data Protection Regulations and the failure to comply with Freedom of Information Act requests or Disclosure of Information requirements

All of the above could lead to adverse publicity, loss of reputation and ultimately statutory fines. In addition, the Fund is dependent on a sole supplier of pension administration software. There are processes in place to mitigate administration risks.

Internal Control Framework:

Internal controls and processes are in place to manage administration, financial and other operational risks. The East Sussex County Council's Internal Audit assesses the Fund's internal control processes in order to provide independent assurance that adequate controls are in place.

Investment risk:

Investment risk is regularly considered by Members and Officers, advised by the East Sussex Pension Fund (ESPF) Investment Consultants. The annual investment strategy meeting reviews the current ESPF strategy and looks at risk in more detail. The main investment risks to the Fund are from interest rates, inflation and market volatility.

The ESPF Investment Strategy Statement (see page 56) which has replaced the Statement of investment Principles, sets out the governance requirements for the ESPF and it is reviewed annually by members. The Pension Fund receives external assurance reports from Investment Managers and the Custodian, detailing their internal control systems, scrutinised by their external auditors. Each report is reviewed when available and the conclusion of each was that the control procedures are suitably designed and operated during the 12 months period under review.

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 on pages 11 to 15.

Fund Account

Net (Contributions)/withdrawals
 Management Expenses
 Return on Investments
Net Increase in Fund

2015/16 £000	2016/17 £000
(410)	(5,970)
13,465	13,591
(37,871)	(578,699)
(24,816)	(571,078)

Net Asset Statement

Bonds
 Equities
 Pooled Funds
 Cash
 Other
Total Investment Assets
 Non-Investment Assets
Net assets of the fund available to fund benefits at the year end.

2015/16 £000	2016/17 £000
429,154	478,519
290,442	341,077
1,961,280	2,373,593
79,131	134,212
5,125	7,411
2,765,132	3,334,812
6,233	7,631
2,771,365	3,342,443

Analysis of pension contributions

The table below shows the number of primary pension contributions received late in the financial year 2016/17.

Month	Employers	Number of Payments Received Late
April	113	6
May	115	1
June	116	2
July	116	3
August	116	4
September	117	2
October	120	6
November	124	7
December	124	6
January	125	3
February	127	7
March	128	3

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	2015/16		2016/17		2017/18
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Contributions	(124,200)	(123,819)	(131,600)	(130,372)	(133,500)
Payments	118,900	123,409	122,400	124,402	157,100
Administration expenses	1,620	1,065	1,450	1,037	1,110
Oversight and governance costs	590	741	680	743	660
Investment expenses:					
fees invoiced to the fund	9,010	8,229	8,850	7,775	8,850
fees deducted at source	-	3,430	-	4,036	-
Net investment income	(27,300)	(41,590)	(30,500)	(42,669)	(44,400)
Change in market value	(198,000)	3,719	(203,200)	(536,030)	(197,600)
Net increase in the Fund	(219,380)	(24,816)	(231,920)	(571,078)	(207,780)

Contributions and payments are based on current expectations; 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	2015/16		2016/17		2017/18
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Equities	1,845,600	1,701,964	1,831,300	2,158,436	2,307,400
Bonds	454,300	429,154	457,500	478,519	510,100
Property	309,100	322,775	347,000	321,767	348,500
Alternatives	251,500	226,983	246,500	234,467	253,700
Cash	78,500	79,131	80,400	134,212	104,800
Other	11,400	5,125	7,100	7,411	7,900
Total Investment Assets	2,950,400	2,765,132	2,969,800	3,334,812	3,532,400

The forecasts for total investment assets are based on the actual figures 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. The asset class and historic long term returns are as follows:

Asset Class	Long Term Forecast Return
Equities	6.9%
Bonds	6.6%
Property	8.3%
Alternatives	8.2%
Cash	3.6%
Total Fund	6.8%

These historic long term returns were taken from State Street Investment Analytics.

Management Expenses

	2015/16		2016/17		2017/18
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Orbis Finance Support Services	50	54	40	37	40
Orbis Business Operations Support Services	770	712	770	970	970
Supplies and Services	800	299	440	30	100
Administration total	1,620	1,065	1,250	1,037	1,110
Oversight and governance costs					
Orbis Finance Support Services	240	182	200	229	200
Supplies and Services	360	555	480	529	460
Third Party Payments	160	118	180	133	150
Other Income	(170)	(114)	(180)	(148)	(150)
Oversight and governance total	590	741	680	743	660
Investment Management					
Investment expenses:					
fees invoiced to the fund	9,010	8,229	8,850	7,775	8,850
fees deduced at source	-	3,430	-	4,036	-
Investment Management Total	9,010	11,659	8,850	11,811	8,850
Management Expenses Total	11,220	13,465	10,780	13,591	10,620

Pension overpayments

	2014/15		2015/16		2016/17	
	Number	Value £000	Number	Value £000	Number	Value £000
Overpaid Pensioners	40	22	44	34	73	61
Recoveries	31	14	38	23	45	30
Write Off	1	1	-	-	2	4
Outstanding	8	7	6	11	26	27

3. Investment policy and performance

Bodies which the fund is member, subscriber or signatory

Pensions and Lifetime Savings Association

Local Authorities Pension Fund Forum

CIPFA Pensions Network

Club Vita

Local Government Association (LGPC)

Local Government Pension Scheme National Framework for Legal Services, Actuarial and Investment Consultants

Current Investment Arrangements

The Pension Committee ("the Committee"), in working towards the Fund's long-term objectives, agreed to make slight changes to the Fund's asset allocation and investment manager structure over the course of the financial year to 31 March 2017. In addition the Fund has introduced its Investment Strategy Statement, in line with the new investment regulations.

At the end of March 2017, \$40m was committed into the HarbourVest HIPEP VIII Partnership Fund. This is part of the Fund's strategy to diversify some of the equity exposure by making annual allocations to unquoted equity. This allocation is expected to lead to higher returns over the longer term, without adding significantly to the Fund's overall risk (which is consistent with the objectives of the Fund).

When considering the investment portfolio, diversification is one of the most important issues that the Committee considers. Rather than relying on a single investment, making a larger number of smaller investments can reduce risk. For example, any investment in equities is spread across many stocks, across a wide range of industries and across a number of countries. If a particular company, industry or country has a period of poor returns, this should have a limited impact on the portfolio.

The Fund's investments are very well diversified, as a way of controlling risk. This applies in two ways:-

1. Asset Allocation

Although the benchmark is heavily weighted towards equities (as the asset class expected to provide the highest return over the medium to long term), there is a significant exposure to property and infrastructure ("real" assets with a different performance cycle to equities) and a small exposure to bonds (which more closely "match" the Fund's liabilities). The allocation to absolute return mandates provides further diversification. Uniquely, within these latter mandates, the managers have the flexibility to alter asset allocation between asset classes. Within equities, diversification is achieved by investing in different markets across the world and using different benchmarks which provides exposure to many different stocks and sectors.

Over the course of the year, the Fund has continued to develop its governance arrangements, introducing a set of Investment beliefs and progressing its approach to environmental, social and governance issues.

2. Manager Structure

The Fund employs a number of managers with differing styles and management approaches. This is a deliberate policy to avoid over-dependence on the fortunes of a single manager and to concentrate on managers' particular areas of expertise. All managers are expected to maintain well diversified portfolios. The Fund's structure is broadly as follows:

- Legal & General Investment Management remains the Fund's largest single equity manager; all of the assets are managed passively against UK and Global equity market benchmarks. The Fund has one active global equity manager (Longview). The Fund's remaining equity manager State Street offers additional diversification from Legal & General's market capitalisation based passive management approach, through the fundamental indexation mandate. The Committee maintains the belief that global equity mandates offer the most efficient way to access world equity markets.
- The two absolute return managers are expected to add diversification away from the Fund's other mandates, due to their flexible and unconstrained management approach.
- A single property manager is employed (Schroders); however, the "fund of fund" approach provides manager diversification within the underlying holdings.
- Corporate bonds and absolute return bonds are managed by M&G. Index-linked bonds are managed by Legal & General.

- The Fund's allocations to infrastructure and unquoted equities are split into four portfolios, each managed by separate managers.

The objective is to seek to ensure:

1. each active manager adds value, net of the fees which it charges;
2. each manager brings something different - specialist skills or a different approach to investment - to the mix.

In this way, the Fund seeks to achieve an appropriate return and added value over the medium term, but in a risk controlled fashion.

Custodian

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

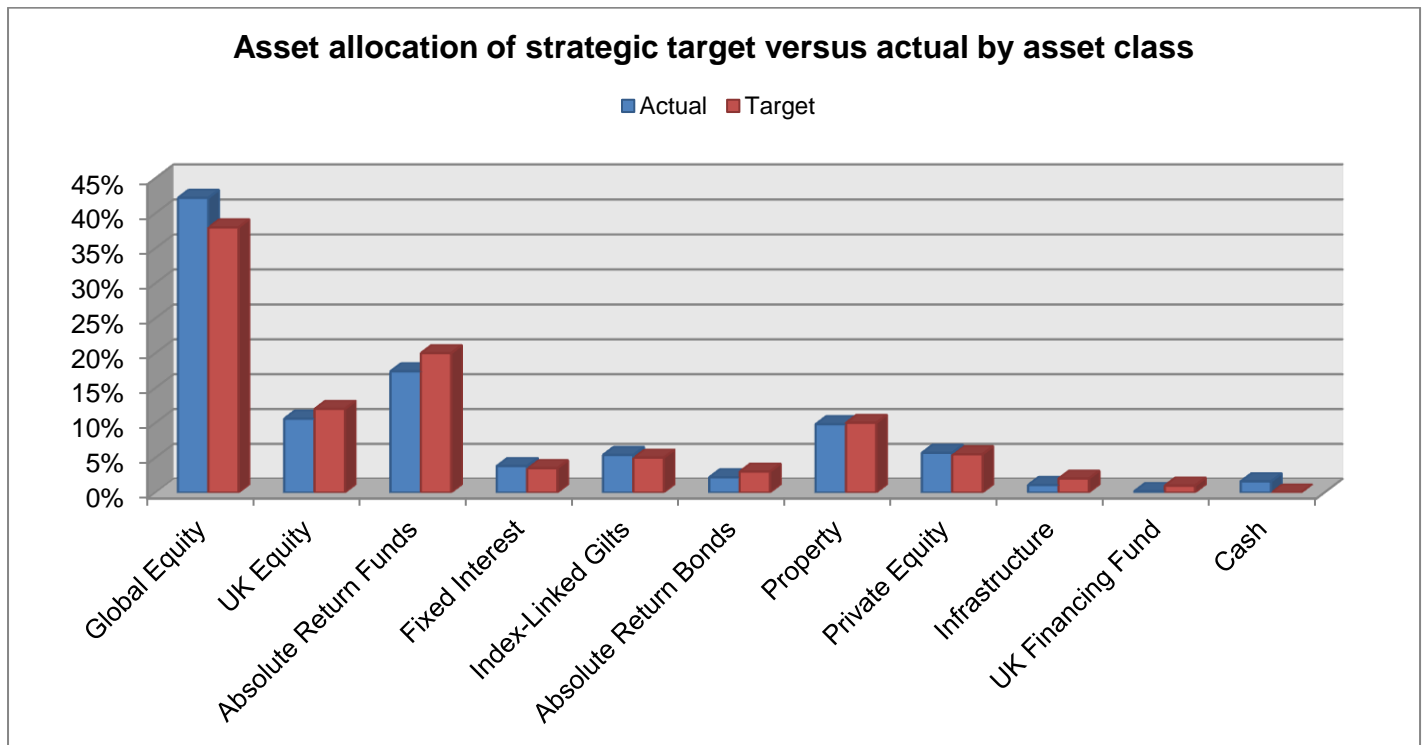
The responsibilities of the Custodian are:

- Collection of investment income.
- Arranging for the custody of the schemes assets in compliance with the custody agreement.
- Providing quarterly valuations of the schemes 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.

Asset allocation

Mandate	Value (£m)	Proportion (%)		Value (£m)	Proportion (%)	
	Q1 2016	Actual	Target	Q1 2017	Actual	Target
L&G - Global Equities	385.5	13.9%	15.5%	516.3	15.5%	15.5%
Longview - Global Equity	180.7	6.5%	5.0%	233.2	7.0%	5.0%
State Street - Fundamental Indexation	483.1	17.5%	17.5%	657.4	19.7%	17.5%
L&G - UK Equities	289.6	10.5%	12.0%	354.4	10.6%	12.0%
Newton - Absolute Return	253.2	9.2%	10.0%	285.9	8.6%	10.0%
Ruffer - Absolute Return	240.3	8.7%	10.0%	292.6	8.8%	10.0%
L&G - 5yr ILG	147.2	5.3%	5.0%	179.6	5.4%	5.0%
M&G - Bonds	179.2	6.5%	6.5%	200.9	6.0%	6.5%
Schroder - Property	325.9	11.8%	10.0%	327.9	9.8%	10.0%
M&G - Infrastructure Fund	28.7	1.0%	1.0%	14.0	0.4%	1.0%
UBS - Infrastructure	20.7	0.7%	1.0%	22.8	0.7%	1.0%
Adams Street - Private Equity	88.6	3.2%	2.8%	101.6	3.0%	2.8%
HarbourVest - Private Equity	79.3	2.9%	2.7%	89.8	2.7%	2.7%
M&G - UK Financing Fund	8.5	0.3%	1.0%	5.2	0.2%	1.0%
Cash account	54.6	2.0%	0.0%	53.2	1.6%	0.0%
Total	2,765.1	100.0%	100.0%	3,334.8	100.0%	100.0%

Set out below is the Fund's strategic target and actual allocations at the end of the 2016/17 financial year.



Investment performance

The Fund delivered an absolute return of 20.3% over the twelve month period to 31 March 2017, outperforming its customised benchmark by 1.4%. Note 30 on page 54 gives further detail on the total fund 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 Investment Panel on a quarterly basis and the Fund members on an annual basis as part of this report.

Mandate	1 year			3 year (p.a.)			5 year (p.a.)		
	Fund	Benchmark	Relative*	Fund	Benchmark	Relative*	Fund	Benchmark	Relative*
L&G - Global Equities	33.1%	32.4%	0.7%	16.5%	16.2%	0.3%	14.6%	14.4%	0.1%
Longview - Global Equity	29.0%	32.2%	-3.2%	19.4%	15.7%	3.8%	18.9%	13.2%	5.7%
State Street - Fundamental Indexation	36.1%	37.1%	-1.0%	14.8%	15.0%	-0.3%	13.0%	13.3%	-0.3%
L&G - UK Equities	22.4%	21.9%	0.5%	7.9%	7.7%	0.2%	9.8%	9.7%	0.2%
Newton - Absolute Return	2.8%	0.7%	2.2%	3.7%	0.6%	3.1%	4.5%	0.6%	3.9%
Ruffer - Absolute Return	11.3%	0.7%	10.6%	5.5%	0.6%	4.9%	5.6%	0.6%	5.0%
L&G - 5yr ILG	22.0%	22.0%	0.0%	14.8%	13.2%	1.6%	N/A	N/A	N/A
M&G - Bonds	14.6%	12.5%	2.1%	10.2%	9.5%	0.7%	9.3%	8.5%	0.8%
M&G - Absolute Return Bonds	7.3%	0.7%	6.6%	2.8%	0.6%	2.2%	4.1%	0.6%	3.5%
Schroder - Property	2.7%	3.7%	-1.1%	10.4%	11.1%	-0.7%	9.2%	9.9%	-0.7%
M&G - Infrastructure Fund	22.7%	4.4%	18.4%	28.1%	4.4%	23.6%	19.0%	4.5%	14.5%
UBS – Infrastructure	16.5%	0.7%	15.8%	5.7%	0.6%	5.1%	5.3%	0.6%	4.7%
Adams Street - Private Equity	23.2%	32.2%	-9.0%	14.5%	10.5%	4.1%	13.8%	11.9%	1.9%
HarbourVest - Private Equity	18.3%	32.2%	-13.9%	18.4%	16.1%	2.3%	13.5%	14.3%	-0.9%
M&G - UK Financing Fund	4.6%	0.7%	3.9%	4.6%	0.6%	4.0%	4.7%	0.6%	4.1%
Cash account	-2.6%	0.3%	-2.9%	0.4%	0.4%	0.0%	0.3%	0.4%	-0.1%

*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.

[1] The table shows since inception returns in place of one year, three year and five year performance for some of the managers, if the mandate has been in place for a shorter period.

The Funding Strategy Statement was reviewed during the year to reflect funding principles agreed for the 2016 actuarial valuation, with the new version signed off in February 2017. The new funding principles will apply to employer contributions payable from 1 April 2017.

Contribution rates payable by participating employers over the year to 31 March 2017 were set at the 2013 valuation in line with the principles summarised in the Funding Strategy Statement dated March 2014. Similarly, 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 has been in line with that 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 2019/20 year.

An analysis of fund assets as at the reporting date

	UK	Non-UK	Global	Total
	£m	£m	£m	£m
Equities	444	397	1,174	2,015
Bonds	548	6	12	566
Property (direct holdings)	-	-	-	-
Alternatives	322	-	246	568
Cash and cash equivalents	112	22	20	154
Other	-	8	24	32
Total	1,426	433	1,476	3,335

An analysis of investment income accrued during the reporting period

	UK	Non-UK	Global	Total
	£000	£000	£000	£000
Equities	1,639	4,938	-	6,577
Bonds	2,314	245	-	2,559
Property (direct holdings)	-	-	-	-
Alternatives	10,287	-	23,246	33,533
Cash and cash equivalents	350	32	-	382
Other	-	9	-	9
Total	14,590	5,224	23,246	43,060

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.

4. Administrative management performance

Key administration performance indicators

Performance Indicator	Target %	Achieved by Fund %
Calculation of spouses benefits within specification	100%	90%
Deferred benefit notifications within specified timescales	100%	97%
Transfers in request values within specified timescales	100%	90%
Transfers in request payment within specified timescales	100%	94%
Transfers out provide quote within specified timescale	100%	92%
Transfers out make payment within specified timescale	100%	93%
Refunds - within specified timescales	100%	99%
Payslips despatched as per specification	100%	100%
Payroll accuracy - as specified	100%	100%
Payment of lump sums within specification	100%	94%
Estimates provided within specified timescales	100%	86%

	2015/16	2016/17
Number Of Complaints	6	32

Financial indicators of administrative efficiency

Unit Costs Per Member	East Sussex Pension Fund		Benchmark Unit Costs
	2015/16	2016/17	
Excluding investment management expenses	26.36	24.98	33.18
Including investment management expenses	196.48	190.79	179.50

Key staffing indicators

At 31 March 2017 staffing numbers within Orbis – Business Operations were 17.4 full time equivalent members of staff.

This provides the fund with a staff to fund member ratio of 1:4,105.

With an average cases per member of staff of 1:443

Membership

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 28 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	88	18	106
Admitted body	39	18	57
Total	127	36	163

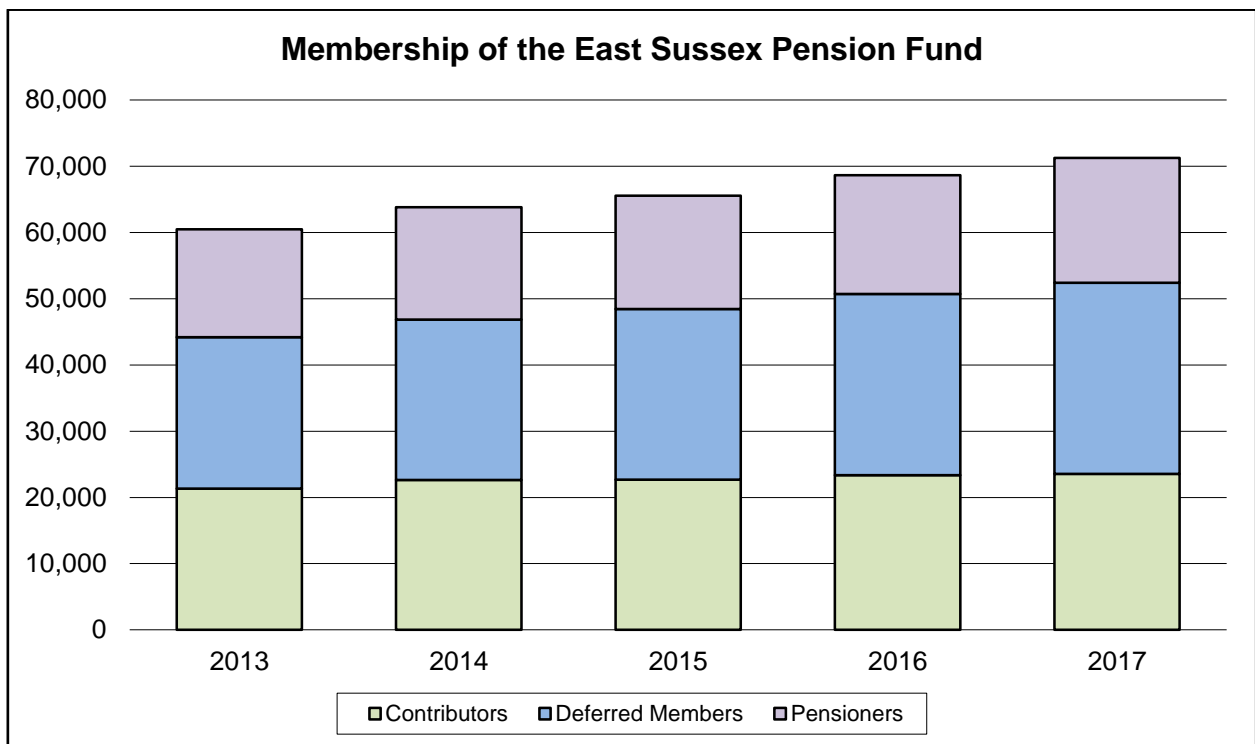
During 2016/17 the number of contributing members within the Pension Fund increased by 0.9% from 23,367 to 23,567. In summary, the number of members contributing to the Scheme is:

	2015/16	2016/17
East Sussex County Council	8,789	8,252
Scheduled Bodies	14,022	14,937
Admitted Bodies	556	378
Total	23,367	23,567

The number of pensioners in receipt of payments from the Fund increased from 17,942 to 18,812 (or 4.8%).

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

	March 2013	March 2014	March 2015	March 2016	March 2017
Active Members (contributors)	21,347	22,649	22,688	23,367	23,567
Pensioners (inc dependants)	16,276	16,993	17,117	17,942	18,812
Deferred Members	22,822	24,173	25,757	27,344	28,853



5. Scheme administration report

East Sussex County Council is the Administering Authority for the East Sussex Pension Fund and the Scheme administration is the responsibility of their Chief Finance Officer. The costs of administering the Scheme are charged to the Pension Fund. The administration of the scheme uses the Altair system to support the complex requirements of the Local Government Pension Scheme. The Pension Fund website eastsussexpensionfund.org provides scheme members and employers access to up to date information on the Local Government Pension Scheme. Alongside this website East Sussex County Council also provides information on their website around how the Pension Fund is governed eastsussex.gov.uk/jobs/workingateastsussexcountycouncil/pensions/default.htm.

The County Council has entered in to a partnership arrangement with Surrey County Council known as Orbis to undertake the day to day functions associated with the pensions administration of the LGPS.

The Accounts and Pensions team and Orbis staff assist the Chief Finance Officer in their statutory duty to ensure that the Pension Scheme remains solvent and is administered effectively, adhering to the Local Government Pension Scheme Regulations in order to meet any current and future liabilities.

The Pensions Administration Team at Orbis comprises of 17.4 full time equivalent staff who provide a wide range of services including:

- administration of the affairs of East Sussex Pension Fund and also provision of services in connection with the pensions of teachers and uniformed fire officers;
- calculation of pensions and lump sums for retiring members of the Local Government Pension Scheme and provision of early retirement estimates;
- administration of new starters in the Scheme;
- calculation of service credit calculations, outgoing transfer value calculations and divorce estimates for the Local Government and Fire Brigade Schemes;
- collection of employee and employer contributions to be invested into the Local Government Pension Scheme;
- maintenance of the database of pension scheme members and provision of annual benefit statements and deferred benefit statements;
- calculation of deferred pensions and refunds for early leavers;
- undertaking the annual pension increase exercise;
- calculation of widows and dependants benefits for retired and active members;
- dealing with the administration of in-house AVCs;

A team of 4.4 full time equivalent staff in Accounts and Pensions provide support to the Chief Finance Officer in their statutory role in relation to governance, accounting and investment related activities for the Pension Fund, including:

- production of newsletters for active and retired members;
- preparation of Pensions Fund Committee and Board reports relating to administration related issues;
- working with Pension Fund employers to assist them in understanding and managing the cost of participation in the Local Government Pension Scheme;
- liaison with the Actuary to provide information for the triennial valuation, annual accountancy disclosures and ad hoc costings for employers and prospective employers;
- preparation of the Pension Fund Accounts for inclusion in East Sussex County Council's Statement of Accounts;
- preparation of the Annual Report and Accounts of the Pension Fund;
- liaison with External and Internal Audit;
- day-to-day accounting for the Pension Fund;
- completion of statistical and financial returns for Government and other bodies;
- co-ordination of the production of FRS102/ IAS19 information for employers;
- preparation of Pension Fund Committee and Board reports relating to investments and accounting issues;
- co-ordination of reports for Quarterly Pension Fund meetings and the Pension Fund's Annual Meeting;
- liaison with Investment Managers, Advisers and Actuary;

- appointment of Investment Managers, Advisers and Actuary;
- monitoring and Review of Investment Managers, Advisers and Actuary;
- preparation of the Statement of Investment Principles and Funding Strategy Statement;
- allocation of Cash to Investment Managers;
- rebalancing of Investment Managers to their asset allocations;
- investment of Pension Fund surplus cash balances;
- calculation of interest on all Managers' cash held by the Pension Fund;
- reconciliation of all Managers' purchases, sales and dividends received.

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 of their representatives.

There is access to a two stage dispute resolution procedure. This procedure consists of an initial application to the person or persons appointed by the individual's employer to consider the matter. If the complainant is still dissatisfied with the decision they then have the right to refer the matter to the County Council to consider the matter under dispute. The person appointed for this role in the East Sussex Pension Fund is the Assistant Chief Executive.

In addition to the dispute procedure the Social Security Act 1990 and the Pensions Act 1995 have created a framework of national organisations to control occupational and personal pension schemes, to which LGPS members have access.

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

	2016/17
First Stage	4
Upheld	1
Declined	3
Ongoing	-
Second Stage	1
Upheld	-
Declined	-
Ongoing	1

6. Actuarial report on funds

An Actuarial valuation is carried out by the Fund's actuary, in particular, to test future funding or current solvency of the Pension Fund's assets against its liabilities. In the case of the LGPS the Actuary values the Fund's assets and liabilities every three years.

The underlying principle of the Fund is to ensure that employer contribution rates are set at a level to attain 100% funding, as certified by the Fund's actuary, whilst keeping the employer contribution rate as stable as possible. The purpose of the valuation exercise is to ensure that sums are put aside on a regular and managed basis to meet liabilities in the future. The Fund's liabilities are essentially the benefits promised to fund members (past and current contributors) and to members' dependent on their death.

From an employee perspective, members' benefits are currently guaranteed by statute and therefore not directly related to the Fund's assets. In this respect the employer is responsible for making contributions to meet any shortfall.

The latest actuarial valuation of the fund was carried out as at 31 March 2016 and set the employer contribution rates from 1 April 2017 to 31 March 2020. The full valuation report can be downloaded from the Fund's website and is discussed in some detail in the Funding Strategy Statement. The actuary has also provided a report on the Fund which can be seen in Note 19 to the Pension Fund Accounts on page 47.

The common contribution rate for employers at the 2016 valuation was a primary rate of 17.2% and a secondary rate of £14.997m (17/18), £17.643m (18/19) and £20.396m (19/20). Average employee contributions rate is 6.1%.

Between the 2013 and 2016 valuation the funding position improved:

- **Assets:** Although the Fund is not 100% funded on the Actuary's assumptions, the Fund exceeded its asset performance objectives over the period by £190m.
- **Actual membership experience:** The membership experience of the Fund has differed to the assumptions made at the 2013 valuation which has a positive impact of £138m. This was mainly due to a lower than expected number of early retirements and lower than expected salary increases.

It is important to note that significant valuation shortfalls are rarely funded in one go. The Council's strategy is to phase in its own contribution rate increases over three years, with the view of recovering the deficit over 20 years. The Council produces a Funding Strategy Statement which explains how it intends to meet those liabilities over the longer term. This is available on the Fund's website.

The next actuarial valuation will be carried out as at 31 March 2019.

7. Governance Arrangements

Pensions Committee

East Sussex County Council (Scheme Manager) operates a Pensions Committee (the “Pensions 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 Pensions Committee owe an independent fiduciary duty to the members and employer bodies in the Funds and the taxpayer. Such members are therefore required 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 the ongoing compliance of the Fund. 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. This strategy sets out the requirements and practicalities for the training of members of both the Pensions Committee and the Pension Board. It also provides some further detail in relation to the attendance requirements for members of the Pension Board and in relation to the reimbursement of expenses.

The East Sussex Pension Funds’ objectives’ relating to knowledge and skills is to:

- Ensure the pension fund is managed and its services delivered by Officers who have the appropriate knowledge and expertise;
- Ensure the pension fund is effectively governed and administered;
- Act with integrity and be accountable to its stakeholders for decisions, ensuring they are robust and are well based and regulatory requirements or guidance of the Pensions Regulator, the Scheme Advisory Board and the Secretary of State for Communities and Local Government are met.

To achieve these objectives:-

The East Sussex Pension Fund’s Pension Committee require an understanding of:

Their responsibilities in exercising their delegated decision making power on behalf of East Sussex County Council as the Administering Authority of the East Sussex Pension Fund;

- The fundamental requirements relating to pension fund investments;
- The operation and administration of the pension fund;
- Controlling and monitoring the funding level; and
- Taking effective decisions on the management of the Fund.

East Sussex Pension Fund’s Local Pension Board members must be conversant with-

- The LGPS Regulations and any other regulations governing the LGPS
- Any document recording policy about the administration of the Fund

And have knowledge and understanding of:

- The law relating to pensions; and
- Such other matters as may be prescribed

To achieve these objectives, the Fund aims for full compliance with the CIPFA Knowledge and Skills Framework (KSF) and Code of Practice to meet the skills set within that Framework. Attention will also be given to any guidance issued by the Scheme Advisory board, the Pensions Regulator and guidance issued by the Secretary of State. Ideally, targeted training will also be provided that is timely and directly relevant to the Committee’s and Board’s activities as set out in the Fund’s business plan.

Board members (current and new) will receive induction training to cover the role of the East Sussex Pension Fund, Pension Board and understand the duties and obligations for East Sussex County Council as the Administering Authority, including funding and investment matters.

Also those with decision making responsibility in relation to LGPS pension matters and Board members will also:

- Have their knowledge assessed;
- Receive appropriate training to fill any knowledge gaps identified; and
- Seek to maintain their knowledge.

The Knowledge and Skills Framework

In an attempt to determine what constitutes the right skill set for a public sector pension finance professional the Chartered Institute of Public Finance and Accounting (CIPFA) has developed a technical knowledge and skills

framework. This is intended as a tool for organisations to determine whether they have the right skill mix to meet their scheme financial management needs, and an assessment tool for individuals to measure their progress and plan their development.

The framework is designed so that elected members and officers can tailor it to their own particular circumstances. In total, there are six main areas of knowledge and skills that have been identified as the core technical requirements for those working in public sector pension finance or for Members responsible for the management of the Fund. These have been summarised below –

1. Pension Legislation & Governance Context
2. Pensions Accounting & Auditing Standards
3. Financial Services Procurement & Relationship Management
4. Investment Performance & Risk Management
5. Financial Markets & Products Knowledge
6. Actuarial Methods, Standards & Practices

Scheme Employers now have a greater need –

- Of being kept up to date of their increased responsibilities as a result the introduction of the CARE Scheme in the LGPS and the timeliness of providing data and scheme member information
- Of appreciating some of the determinations being made by the Pensions Ombudsman that impact directly on their decisions concerning ill-health retirement cases
- To be aware of the importance of having written discretion policies in place
- Of their representation role on the East Sussex Pension Board.

Application of the training strategy

This Training Strategy will set out how ESCC will provide training to representatives with a role on the Pension Committee, Pension Board members and Employers. Officers involved in the management and administration of the Fund will have their own sectional and personal training plans and career development objectives.

Purpose of training

The purpose of training is to:

- Equip members with the necessary skills and knowledge to be competent in their role;
- Support effective and robust decision making;
- Ensure individuals understand their obligation to act, and to be seen to act with integrity;
- Ensure that members are appropriately skilled to support the fund in achieving its objectives.

Four training sessions were held in 2016/17 and it is proposed that further joint sessions for the Board and Committee will be held in 2017/18.

Summary

Officers will work in partnership with members to deliver a training strategy that will:

- Assist in meeting the East Sussex Pension Fund objectives;
- Support the East Sussex Pension Fund's business plans;
- Assist members in achieving delivery of effective governance and management;
- Equip members with appropriate knowledge and skills;
- Promote ongoing development of the decision makers within the East Sussex Pension Fund;
- Demonstrate compliance with the CIPFA Knowledge and Skills Framework;
- Demonstrate compliance with statutory requirements and associated guidance

Business Plan

Under the Local Government Pension Scheme (LGPS) (Administration) Regulations 2013, the East Sussex County Council administers the Pension Fund for approximately 71,000 individuals employed by 127 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.

This Business Plan (BP) provides an overview of the Fund's key objectives for 2016/17. The key high level objectives of the fund are summarised as:

- Optimise Fund returns consistent with a prudent level of risk
- Ensure that there are sufficient resources available to meet the investment Fund's liabilities, and
- Ensure the suitability of assets in relation to the needs of the Fund.

The governance of the Fund is the responsibility of the Chief Finance Officer for the East Sussex County Council, the East Sussex Pension Committee, and the Pension Board. The day to day management of the Fund is delegated to

Officers with specific responsibility delegated to the Head of Accounts and Pensions. He is supported in this role by the Pensions Strategy and Governance Manager, and the Finance Manager (Pension Fund).

The Pensions Committee aims to ensure the maximising of investment returns over the long term within an acceptable level of risk. Performance is monitored by asset performance being compared with their strategic benchmarks. This includes reviewing the Fund Managers' quarterly performance reports and discussing their strategy and performance with the Fund Managers.

Committee membership and attendance

During the year ended 31 March 2017 there were 5 meetings of the Pension Committee, 4 meetings of the Pension Board and one annual employers forum.

Member attendance at committee meetings during 2016/17

2016/17 Pension Committee Members		
		Nos. of meetings attended
East Sussex County Councillors:	Richard Stogdon (Chairman)	5/5
	David Tutt	5/5
	Frank Carstairs	5/5
	Michael Wincott	2/5*
	Bob Standley	4/5

*Councillor Godfrey Daniel Substituted for Councillor Michael Wincott at the February meeting of the Pension Committee this has been recorded as an attendance of Councillor Wincott in the above table.

Member attendance at Board meetings during 2016/17

2016/17 Pension Board Members		
		Nos. of meetings attended
Independent Chairman:	Richard Harbord	4/4
Employer Representative:		
Brighton & Hove City Council	Councillor Kevin Allen	4/4
Districts & Borough Councils	Councillor Brian Redman	4/4
Educational Bodies	Sue McHugh	3/4
Employee Representative:		
Active & Deferred	Angie Embury	4/4
Active & Deferred	David Zwirek*	-/1
Active & Deferred	Bernadette Carlyle*	2/2
Pensioners	Tony Watson	1/4

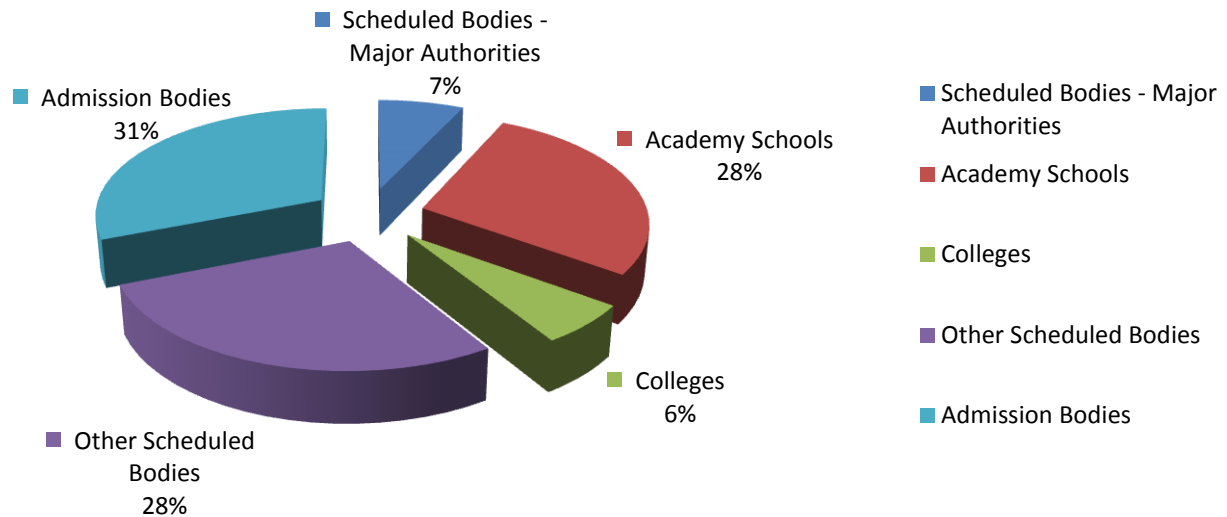
David Zwirek left the Pension Board in June 2016 and was replaced by Bernadette Carlyle in September 2016

Employer statistics by Employer type

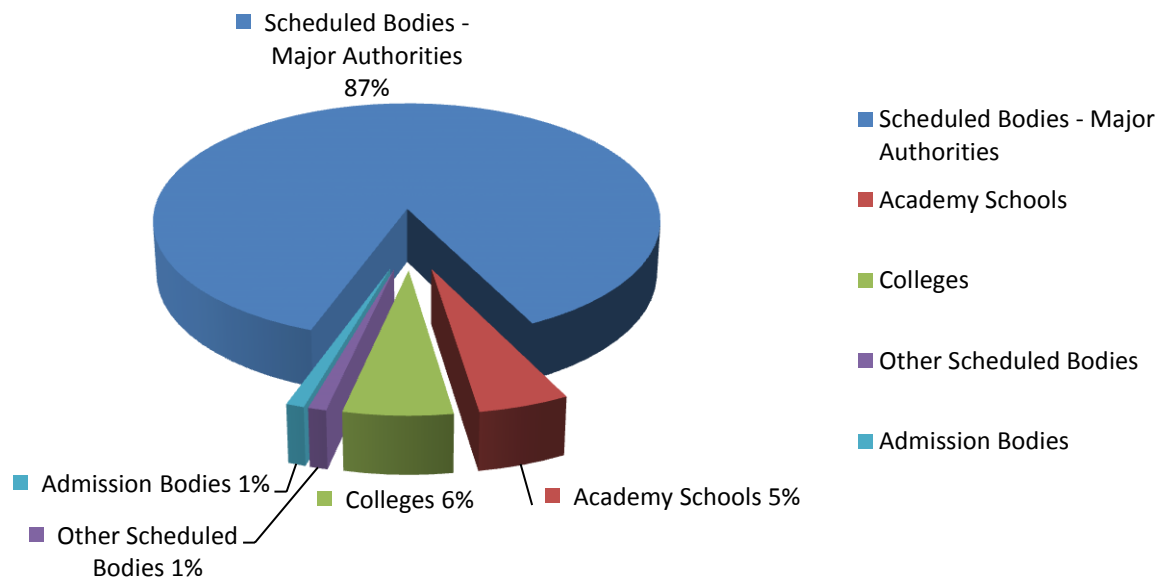
Employer Type	Number of Employers as a percentage of total	Percentage of total fund membership	Number of Employers in Group
Scheduled Bodies - Major Authorities	7%	87%	9
Academy Schools	28%	5%	35
Colleges	6%	6%	7
Other Scheduled Bodies	28%	1%	37
Admission Bodies	31%	1%	39

Note - all percentages have been rounded to the nearest whole number

Number of Employers as a percentage of total



Percentage of total fund membership



Regulatory Framework

The Annual Report

The Local Government Pension Scheme Regulations 2013 require administering authorities to prepare a document known as “the pension fund annual report”. From 1 April 2014, this report must contain information about the fund on the following:

- The management and financial performance during the year;
- The authority’s investment policy and a review of performance of the fund assets;
- Administration arrangements;
- A statement by the Actuary of the assets, liabilities and funding level at the most recent valuation;
- The current version of the Governance Compliance Statement;
- The Fund Account and Net Asset Statement and supporting notes and disclosures in accordance with proper practices;

- The current version of the Investment Strategy Statement (which has replaced the Statement of Investment Principles);
- The current version of the Communications Statement;
- The current version of the Funding Strategy Statement; and
- Other material considered appropriate.

The Scheme and benefits available

The Local Government Pension Scheme 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 employees 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 meets the government's standards under the automatic enrolment provisions of the Pensions Act 2008.

Pensions and entitlements are still fully protected in law. The Scheme is open to all eligible employees under age 75, whether they work full-time or part-time. All members of the scheme can choose to leave at any time.

8. Fund account, net assets statement and notes

a. East Sussex Pension Fund Account

2015/16			2016/17	
£000	£000	Notes	£000	£000
		Dealings with members, employers and others directly involved in the fund		
		Contributions		
(92,259)		From Employers	(93,918)	
(27,904)		From Members	(27,900)	
	(120,163)			(121,818)
	(3,656)	Transfers in from other pension funds		(8,554)
	(123,819)			(130,372)
	118,469	Benefits		120,776
	4,940	Payments to and on account of leavers		3,626
	123,409			124,402
	(410)	Net (additions)/withdrawals from dealings with members		(5,970)
	13,465	Management expenses		13,591
		Returns on investments		
	(42,096)	Investment income		(43,060)
	506	Taxes on income		391
	3,719	Profit and losses on disposal of investments and changes in the market value of investments		(536,030)
	(37,871)	Net return on investments		(578,699)
	(24,816)	Net increase in fund during the year		(571,078)
	(2,746,549)	Add opening net assets of the scheme		(2,771,365)
	(2,771,365)	Closing net assets of the scheme		(3,342,443)

b. Net Assets Statement for the year ended 31 March 2017

31 March 2016 £000		Notes	31 March 2017 £000
2,684,489	Investment assets	14	3,198,119
3,031	Other Investment balances	21	4,161
(1,519)	Investment liabilities	22	(1,680)
79,131	Cash deposits	14	134,212
2,765,132	Total net investments		3,334,812
10,936	Current assets	21	10,703
(4,703)	Current liabilities	22	(3,072)
2,771,365	Net assets of the fund available to fund benefits at the year end.		3,342,443

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 2017 and of the movements for the year then ended.

Kevin Foster

Chief Operating Officer (Section 151 Officer)

Business Services Department

c. Notes to the East Sussex Pension Fund Accounts for the year ended 31 March 2017

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 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 2016/17 and the underlying statutory powers underpinning the scheme, namely the Public Service Pensions Act 2013 and The Local Government Pension Scheme (LGPS) Regulations.

a) General

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

- The Local Government Pension Scheme Regulations 2013 (as amended)
- The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 (as amended)
- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

It 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, the district councils in East Sussex County and a range of other scheduled and admitted bodies within the county area. Teachers, police officers and Fire fighters are not included as they come within other national pension schemes.

b) 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.

Organisations participating in the East Sussex Pension Fund include:

- Scheduled bodies, which are local authorities and similar bodies whose staff are automatically entitled to be members of the fund
- 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 127 employer organisations within East Sussex Pension Fund including the County Council itself, as detailed below:

East Sussex Pension Fund	31 March 2016	31 March 2017
Number of employers with active members	109	127
Number of employees		
County Council	8,789	8,252
Other employees	14,578	15,315
Total	23,367	23,567
Number of pensioners		
County Council	7,987	8,402
Other employers	9,955	10,410
Total	17,942	18,812
Deferred pensioners		
County Council	13,062	13,685
Other employers	14,282	15,168
Total	27,344	28,853

c) 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 2017. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2016. Currently, employer contribution rates range from 6.7% to 44.5% of pensionable pay.

d) Benefits

Prior to 1 April 2014, pension benefits under the LGPS were based on final pensionable pay and length of pensionable service, summarised below:

	Service pre 1 April 2008	Service post 31 March 2008
Pension	Each year worked is worth 1/80 x final Pensionable salary	Each year worked is worth 1/60 x final Pensionable salary
Lump sum	Automatic lump sum of 3 x salary. In addition, part of the annual pension can be exchanged for a one-off -tax Free cash payment. A lump sum of £12 is paid for each £1 of pension given up	No automatic lump sum. Part of the annual pension can be exchanged for a one-off tax-free cash payment. A lump sum of £12 is paid for each £1 of pension given up.

From 1 April 2014, the scheme became a career average scheme, 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.

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 2016/17 financial year and its position at year-end as at 31 March 2017. The accounts have been prepared in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2016/17 which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector.

The accounts summarise the transactions of the fund and report on the net assets available to pay pension benefits. The accounts do not take account of obligations to pay pensions and benefits which fall due after the end of the financial year. The actuarial present value of promised retirement benefits, valued on an International Accounting Standard (IAS) 19 basis, is disclosed at Note 19 of these accounts.

The Pension Fund publishes a number of statutory documents, including an Investment Strategy Statement, a Funding Strategy Statement, Governance Policy Statement, Communications Policy Statement, Employers Contributions, and Statements of Compliance. Copies can be obtained by contacting the Council's Accounts and Pensions team or alternatively are available from - <http://www.eastsussex.gov.uk>

3: Summary of significant accounting policies

Fund account – revenue recognition

a) Contribution income

Normal contributions, both from the members and from the employer, are accounted for on an accruals basis at the percentage rate recommended by the fund actuary in the payroll period to which they relate.

Employer deficit funding contributions are accounted for on the due dates on which they are payable under the schedule of contributions set by the scheme actuary or on receipt if earlier than the due date.

Employers' augmentation contributions and pensions strain contributions are accounted for in the period in which the liability arises.

b) Transfers to and from other schemes

Transfer values represent the amounts received and paid during the year for members who have either joined or left the fund during the financial year and are calculated in accordance with the Local Government Pension Scheme Regulations (see notes 8 and 10).

Individual transfers in/out are accounted for when received/paid, which is normally when the member liability is accepted or discharged.

Transfers in from members wishing to use the proceeds of their Additional Voluntary Contributions (see below) to purchase additional scheme benefits are accounted for on a receipts basis and are included in Transfers In (see Note 8).

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

c) Investment income

i) 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. Income includes the amortisation of any

discount or premium, transaction costs or other differences between the initial carrying amount of the instrument and its amount at maturity calculated on an effective interest rate basis.

ii) 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.

iii) 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.

iv) 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

d) 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.

e) 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.

f) Management expenses

The Code does not require any breakdown of pension fund administrative expenses. However, in the interests of greater transparency, the Pension Fund discloses its management expenses in accordance with the CIPFA guidance Accounting for Local Government Pension Scheme Management Expenses.

Administrative expenses

All administrative expenses are accounted for on an accruals basis. All staff costs of the pensions administration team are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Oversight and governance costs

All oversight and governance expenses are accounted for on an accruals basis. All staff costs associated with governance and oversight are charged direct to the fund. Associated management, accommodation and other overheads are apportioned to this activity and charged as expenses to the fund.

Investment management expenses

All investment management expenses are accounted for on an accruals basis.

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 2016/17, £1.6m of fees is based on such estimates (2015/16: £1.0m).

Net assets statement

g) Financial assets

Financial assets are included in the net assets statement 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 contractual acquisition of the asset. From this date any gains or losses arising from changes in the fair value of asset are recognised by the fund.

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).

h) 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.

i) 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 (see Note 15).

j) 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.

k) Financial liabilities

The fund recognises financial liabilities at fair value as at the reporting date. A financial liability is recognised in the net assets statement on the date the fund becomes party to the liability. From this date any gains or losses arising from changes in the fair value of the liability are recognised by the fund.

l) Actuarial present value of promised retirement benefits

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).

m) 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).

n) 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 2012. The value of unquoted private equities at 31 March 2017 was £191.3 million (£167.4 million at 31 March 2016).

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 in line with accepted guidelines and in accordance with IAS 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 amounts reported for assets and liabilities at the balance sheet date and the amounts reported for the revenues and expenses during the year. Estimates and assumptions are made taking into account historical experience, current trends and other relevant factors. However, the nature of estimation means that the actual outcomes could differ from the assumptions and estimates.

The items in the Net assets statement at 31 March 2017 for which there is a significant risk of material adjustment in the forthcoming financial year are as follows:

Item	Uncertainties	Effect if actual results differ from assumptions
Actuarial present value of promised retirement benefits	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. 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 2016 Valuation the actuary advised that: <ul style="list-style-type: none"> • A 0.2% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £101 million (3%). • A 0.2% increase in benefit increases and CARE revaluation would increase the value of liabilities by approximately £91 million (3%). • A change in methodology from peaked to non-peaked longevity would increase the liability by approximately £94 million (3%).
Debtors	At 31 March 2017, the fund had a balance of sundry debtors of £1.2 million. The fund makes allowance for doubtful debts based on an assessment of the recoverability of receivables. Allowances are applied to receivables where events or changes in circumstances indicate that the carrying amounts may not be recoverable.	Where the expectation is different from the original estimate, such difference will affect the carrying value of receivables.
Private equity	Private equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These 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 £191.3 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.

6: Events after the balance sheet date

There have been no events since 31 March 2016, and up to the date when these accounts were authorised that require any adjustments to these accounts.

7: Contributions Receivable

	2015/16 £000	2016/17 £000
By category		
Employee's contributions	27,904	27,900
Employer's contributions		
Normal contributions	86,306	87,505
Deficit recovery contributions	5,085	5,030
Augmentation contributions	868	1,383
Total	120,163	121,818
By authority		
Scheduled bodies	71,816	74,461
Admitted bodies	5,230	4,098
Administrative Authority	43,117	43,259
Total	120,163	121,818

8: Transfers in from other pension funds

	2015/16 £000	2016/17 £000
Group transfers	-	-
Individual transfers	3,656	8,554
Total	3,656	8,554

9: Benefits payable

	2015/16 £000	2016/17 £000
By category		
Pensions	98,309	101,092
Commutation and lump sum retirement benefits	17,025	17,007
Lump sum death benefits	3,135	2,677
Total	118,469	120,776
By authority		
Scheduled bodies	67,780	68,685
Admitted bodies	3,384	3,134
Administrative Authority	47,305	48,957
Total	118,469	120,776

10: Payments to and on account of leavers

	2015/16 £000	2016/17 £000
Refunds to members leaving service	231	343
Group transfers	759	520
Individual transfers	3,950	2,763
Total	4,940	3,626

11: Management expenses

	2015/16	2016/17
	£000	£000
Administrative costs	1,065	1,037
Investment management expenses	11,659	11,811
Oversight and governance costs	741	743
Total	13,465	13,591

11a: Investment management expenses

	2015/16	2016/17
	£000	£000
Management fees	11,026	11,444
Custody fees	151	68
Transaction costs*	482	299
Total	11,659	11,811

*In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

During the year, the Pension Fund incurred management fees which were deducted at source for 2016/17 of £2.7m (£2.4m in 2015/16) on its private equity investments, fees of £0.6m (£0.7m in 2015/16) on its infrastructure investments and fees of £0.7m (£0.4m in 2015/16) on other mandates. These fees are deducted at the individual portfolio level rather than being paid directly by the Pension Fund.

12: Investment income

	2015/16	2016/17
	£000	£000
Income from equities	10,528	6,656
Income from bonds	2,453	2,559
Private equity income	18	147
Pooled property investments	8,772	10,287
Pooled investments - unit trusts and other managed funds	19,885	22,963
Interest on cash deposits	418	382
Class Actions	22	66
Total	42,096	43,060

13: Other fund account disclosures

13a: Taxes on income

	2015/16	2016/17
	£000	£000
Withholding tax – equities	(303)	(179)
Withholding tax – pooled	(203)	(212)
Total	(506)	(391)

13b: External audit costs

	2015/16	2016/17
	£000	£000
Payable in respect of external audit	27	27
Payable in respect of other services	-	-
Total	27	27

14: Investments

	2015/16 £000	2016/17 £000
Investment assets		
Bonds	429,154	478,518
Equities	290,442	341,077
Pooled Investments	1,420,022	1,820,986
Pooled property investments	322,775	321,767
Private equity/infrastructure	216,898	227,497
Commodities	3,613	4,930
Multi Asset	1,585	3,344
Derivative contracts:		
Forward Currency Contracts	1,656	712
	2,686,145	3,198,831
Cash deposits with Custodian	79,131	134,212
Other Investment balances (Note 21)	1,375	3,449
Total investment assets	2,766,651	3,336,492
Investment Liabilities (Note 22)	(1,510)	(1,669)
Derivative contracts:		
Forward Currency Contracts	(9)	(11)
Total Investment Liabilities	(1,519)	(1,680)
Net investment assets	2,765,132	3,334,812

14a: Reconciliation of movements in investments and derivatives

	Market value 1 April 2016	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2017
	£000	£000	£000	£000	£000
Bonds	429,154	42,918	(60,764)	67,210	478,518
Equities	290,442	84,564	(107,578)	73,649	341,077
Pooled investments	1,420,022	26,862	(5,670)	379,772	1,820,986
Pooled property investments	322,775	18,831	(21,089)	1,250	321,767
Private equity/infrastructure	216,898	21,915	(35,954)	24,638	227,497
Commodities	3,613	3,878	(3,109)	549	4,930
Multi Asset	1,585	5,617	-	(3,858)	3,344
	2,684,489	204,585	(234,164)	543,209	3,198,119
Derivative contracts					
■ Forward currency contracts	1,647	47,914	(39,295)	(9,565)	701
	2,686,136	252,499	(273,459)	533,644	3,198,820
Other investment balances:					
■ Cash deposits	79,131			2,386	134,212
■ Other Investment Balances	1,375				3,449
■ Investment Liabilities	(1,510)				(1,669)
Net investment assets	2,765,132			536,030	3,334,812

	Market value 1 April 2015	Purchases during the year and derivative payments	Sales during the year and derivative receipts	Change in market value during the year	Market value 31 March 2016
	£000	£000	£000	£000	£000
Bonds	426,154	20,366	(21,358)	3,992	429,154
Equities	692,429	317,630	(685,770)	(33,847)	290,442
Pooled investments	1,033,431	388,907	(2,495)	179	1,420,022
Pooled property investments	287,569	19,969	(8,819)	24,056	322,775
Private equity/infrastructure	215,199	27,246	(38,732)	13,185	216,898
Commodities	6,842	3,080	(5,788)	(521)	3,613
Multi Asset	5,798	2,449	(1,338)	(5,324)	1,585
	2,667,422	779,647	(764,300)	1,720	2,684,489
Derivative contracts					
■ Forward currency contracts	(1,306)	15,692	(6,728)	(6,011)	1,647
	2,666,116	795,339	(771,028)	(4,291)	2,686,136
Other investment balances:					
■ Cash deposits	81,220			572	79,131
■ Other Investment Balances	3,551				1,375
■ Investment Liabilities	(10,973)				(1,510)
Net investment assets	2,739,914			(3,719)	2,765,132

14b: Analysis of investments

	2015/16	2016/17
	£000	£000
Bonds		
UK		
Corporate quoted	191,721	200,893
Public sector quoted	198,883	271,704
Overseas		
Public sector quoted	38,550	5,921
	429,154	478,518
Equities		
UK		
Quoted	45,010	51,161
Unquoted	8,500	3,627
Overseas		
Quoted	236,932	286,289
	290,442	341,077
Pooled funds - additional analysis		
UK		
Unit trusts	549,263	647,124
Overseas		
Unit trusts	870,759	1,173,862
	1,420,022	1,820,986
Pooled property investments	322,775	321,767
Private equity/infrastructure	216,898	227,497
Commodities	3,613	4,930
Multi Asset	1,585	3,344
Derivatives	1,656	712
	546,527	558,250
Cash deposits	79,131	134,212
Other investment balances (Note 21)	1,375	3,449
	80,506	137,661
Total investment assets	2,766,651	3,336,492
Investment Liabilities (Note 22)	(1,510)	(1,669)
Derivatives	(9)	(11)
Total Investment Liabilities	(1,519)	(1,680)
Net investment assets	2,765,132	3,334,812

14c: Investments analysed by fund manager

	Market value 31 March 2016		Market value 31 March 2017	
	£000	%	£000	%
Prudential M&G	111,779	4.0%	128,577	3.9%
East Sussex Pension Fund Cash	54,563	2.0%	53,220	1.6%
UBS Infrastructure Fund	20,726	0.7%	22,850	0.7%
Prudential Infracapital	28,728	1.0%	13,952	0.4%
Legal & General	822,218	29.8%	1,050,300	31.4%
M&G UK Financing Fund	8,500	0.3%	5,234	0.2%
Schroders Property	325,867	11.8%	327,945	9.8%
Harbourvest Strategies	79,284	2.9%	89,752	2.7%
Adams St Partners	88,603	3.2%	101,559	3.0%
M&G Absolute Return Bonds	67,434	2.4%	72,335	2.2%
Ruffer LLP	240,264	8.7%	292,582	8.8%
Newton Investment Management	253,240	9.2%	285,931	8.6%
Longview Partners	180,739	6.5%	233,171	7.0%
State Street Global Advisers	483,187	17.5%	657,404	19.7%
	<u>2,765,132</u>		<u>3,334,812</u>	

The following investments represent more than 5% of the investment assets of the scheme -

Security	Market Value 31 March 2016 £000	% of total fund	Market value 31 March 2017 £000	% of total fund
State Street Fundamental Index	483,244	17.5%	657,404	19.7%
L&G UK Equity Index	260,786	9.4%	319,171	9.6%
L&G North America Equity Index	230,151	8.3%	310,596	9.3%
Newton Real Return (Pooled Fund)	253,601	9.2%	285,931	8.6%
L&G Over 5 year Index Gilt Linked	147,197	5.3%	179,595	5.4%

14d: Stock lending

The East Sussex Pension Fund has not operated a stock lending programme since 13th October 2008.

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.

a) Futures

The scheme'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.

b) 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.

c) 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.

Open forward currency contracts

Settlement	Currency bought	Local value	Currency sold	Local value	Asset value	Liability value
		000		000	£000	£000
Up to 2 months	GBP	1,361	JPY	(187,692)	14	-
Up to 2 months	GBP	555	USD	(691)	3	-
Greater than 2 months	GBP	4,491	EUR	(5,174)	57	-
Greater than 2 months	GBP	36,624	JPY	(5,089,710)	67	(11)
Greater than 2 months	GBP	21,609	USD	(26,353)	571	-
					712	(11)
Net forward currency contracts at 31 March 2017						
Prior year comparative						
Open forward currency contracts at 31 March 2016					1,656	(9)
Net forward currency contracts at 31 March 2015						1,647

16: Fair value – basis of valuation

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
Pooled investments	Level 2	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	Not Required

Description of asset	Valuation hierarchy	Basis of valuation	Observable and unobservable inputs	Key sensitivities affecting the valuations provided
Pooled investments	Level 3	Closing bid price where bid and offer prices are published Closing single price where single price published	NAV-based pricing set on a forward pricing basis	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
Unquoted equity	Level 3	Comparable valuation of similar companies in accordance with International Private Equity and Venture Capital Valuation Guidelines (2012)	EBITDA multiple Revenue multiple Discount for lack of marketability Control premium	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 consequent potential impact on the closing value of investments held at 31 March 2017.

Asset Type	Assessed valuation range (+/-)	Values at 31 March 2017 £000	Value on increase £000	Value on decrease £000
Equities	18%	19,352	22,835	15,869
Pooled property investments	14%	321,767	366,814	276,720
Private Equity/Infrastructure	28%	227,497	291,196	163,798
Total		568,616	680,846	456,386

16a: Fair value hierarchy

Asset and liability valuations have been classified into three levels, according to the quality and reliability of information used to determine fair values. Transfers between levels are recognised in the year in which they occur.

Level 1

Assets and liabilities at Level 1 are those where the fair values are derived from unadjusted quoted prices in active markets for identical assets or liabilities. Products classified as Level 1 comprise quoted equities, quoted fixed securities, quoted index linked securities and unit trusts.

Listed investments are shown at bid prices. The bid value of the investment is based on the bid market quotation of the relevant stock exchange.

Level 2

Assets and liabilities at Level 2 are those where quoted market prices are not available; for example, where an instrument is traded in a market that is not considered to be active, or where valuation techniques are used to determine fair value.

Level 3

Assets and liabilities at Level 3 are those where at least one input that could have a significant effect on the instrument's valuation is not based on observable market data.

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.

	Quoted market price	Using observable inputs	With Significant unobservable inputs	Total
Values at 31 March 2017	Level 1 £000	Level 2 £000	Level 3 £000	£000
Financial assets at fair value through profit and loss	2,448,904	184,760	568,616	3,202,280
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	-	(1,680)	-	(1,680)
Net investment assets	2,448,904	183,080	568,616	3,200,600

	Quoted market price	Using observable inputs	With Significant unobservable inputs	Total
Values at 31 March 2016	Level 1 £000	Level 2 £000	Level 3 £000	£000
Financial assets at fair value through profit and loss	1,837,623	281,259	568,638	2,687,520
Non-financial assets at fair value through profit and loss	-	-	-	-
Financial liabilities at fair value through profit and loss	99,759	(101,278)	-	(1,519)
Net investment assets	1,937,382	179,981	568,638	2,686,001

16b: Transfers between levels 1 and 2

During 2016/17 the fund has not transferred any financial assets between levels 1 and 2.

16c: Reconciliation of fair value measurements within level 3

Period 2016/17	Market value 1 April 2016	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 2017
Bonds	5,534	-	-	-	(5,607)	(386)	459	-
Equities	30,318	-	-	-	(8,748)	(2,496)	278	19,352
Pooled property investments*	315,888	9,249	-	26,130	(31,032)	(8,662)	10,194	321,767
Private Equity/Infrastructure	216,898	-	-	21,915	(32,626)	316	20,994	227,497
Total	568,638	9,249	-	48,045	(78,013)	(11,228)	31,925	568,616

*transferred from level 2 to level 3 due to a reappraisal of valuation techniques

17: Financial instruments

17a: 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 2016			31 March 2017		
Market value Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000	Market value Designated as fair value through profit and loss £000	Loans and receivables £000	Financial liabilities at amortised cost £000
Financial Assets					
429,154	-	-	478,518	-	-
290,442	-	-	341,077	-	-
1,420,022	-	-	1,820,986	-	-
322,775	-	-	321,767	-	-
216,898	-	-	227,497	-	-
3,613	-	-	4,930	-	-
1,585	-	-	3,344	-	-
1,656	-	-	712	-	-
-	79,131	-	-	134,212	-
-	-	-	-	399	-
1,375	-	-	3,449	-	-
-	10,936	-	-	10,304	-
2,687,520	90,067	-	3,202,280	144,915	-
Financial liabilities					
(9)	-	-	(11)	-	-
(1,510)	-	-	(1,669)	-	-
-	-	(4,703)	-	-	(3,072)
(1,519)	-	(4,703)	(1,680)	-	(3,072)
2,686,001	90,067	(4,703)	3,200,600	144,915	(3,072)

17b: Net gains and losses on financial instruments

	31 March 2016 £000	31 March 2017 £000
Financial assets		
Fair value through profit and loss	1,620	543,255
Loans and receivables	673	2,340
Financial liabilities		
Fair value through profit and loss	(6,012)	(9,565)
Total	(3,719)	536,030

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 fund 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 fund's forecast cash flows. The fund manages these investment risks as part of its overall pension fund risk management programme.

Responsibility for the fund's risk management strategy rests with the pension fund 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:

- the exposure of the fund to market risk is monitored through a factor risk analysis, to ensure that risk remains within tolerable levels
- 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.

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 from 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 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 2017/18 reporting period:

Asset Type	Potential Market Movements (+/-)
Index Linked	9%
Other Bonds	9%
UK equities	16%
Global equities	18%
Absolute Return	13%
Pooled property investments	14%
Private Equity	29%
Infrastructure funds	20%

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 2017 £000	Value on increase £000	Value on decrease £000
Index Linked	179,611	195,776	163,446
Other Bonds	200,893	218,973	182,813
UK equities	358,102	415,398	300,806
Global equities	1,396,045	1,647,334	1,144,758
Absolute Return	514,204	581,049	447,357
Pooled property investments	321,767	366,814	276,720
Private Equity	190,695	245,996	135,394
Infrastructure funds	36,802	44,162	29,442
Net derivative assets	701	701	701
Total assets available to pay benefits	3,198,820	3,716,203	2,681,437

Asset Type	Values at 31	Value on	Value on
	March 2016	increase	decrease
	£000	£000	£000
Index Linked	147,197	158,973	135,421
Other Bonds	179,213	195,342	163,084
UK equities	394,039	461,026	327,052
Global equities	953,271	1,143,925	762,617
Pooled property investments	325,731	374,591	276,871
Private Equity	167,888	216,575	119,201
Infrastructure funds	49,454	59,345	39,563
Absolute Return	491,108	554,952	427,264
Net derivative assets	1,647	1,647	1,647
Total assets available to pay benefits	2,709,548	3,166,376	2,252,720

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 fund's 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 2016 and 31 March 2015 is set out below. These disclosures present interest rate risk based on the underlying financial assets at fair value.

Asset type	As at 31 March 2016	As at 31 March 2017
	£000	£000
Cash with Custodian	79,131	134,212
Cash balances	(369)	399
Fixed interest securities	191,721	200,893
Total	270,483	335,504

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:

Asset type	Carrying amount as at 31 March 2017	Potential movement on 1 % change in interest rates	Value on	Value on
			increase	decrease
	£000	£000	£000	£000
Cash and cash equivalents	134,212	-	134,212	134,212
Cash balances	399	-	399	399
Fixed interest securities	200,893	2,009	202,902	198,884
Total change in assets available	335,504	2,009	337,513	333,495

Asset type	Carrying amount as at 31 March 2016	Potential movement on 1 % change in interest rates	Value on	Value on
			increase	decrease
	£000	£000	£000	£000
Cash and cash equivalents	79,131	-	79,131	79,131
Cash balances	(369)	-	(369)	(369)
Fixed interest securities	191,721	1,917	193,638	189,804
Total change in assets available	270,483	1,917	272,400	268,566

Income Source	Amount receivable as at 31 March 2017 £000	Potential movement on 1 % change in interest rates £000	Value on increase £000	Value on decrease £000
Cash deposits/cash and cash equivalents	382	1,346	1,728	(964)
Fixed interest securities	1,913	-	1,913	1,913
Total change in assets available	2,295	1,346	3,641	949

Income Source	Amount receivable as at 31 March 2016 £000	Potential movement on 1 % change in interest rates £000	Value on increase £000	Value on decrease £000
Cash deposits/cash and cash equivalents	418	788	1,206	(370)
Fixed interest securities	1,641	-	1,641	1,641
Total change in assets available	2,059	788	2,847	1,271

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. Changes to both the fair value of assets and the income received from investments impact on the net assets available to pay benefits.

Currency risk

Currency risk represents the risk that the fair value of future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates. The fund is exposed to currency risk on financial instruments that are denominated in any currency other than the functional currency of the fund (£UK). The fund holds both monetary and non-monetary assets denominated in currencies other than £UK.

The fund's currency rate risk is routinely monitored by the fund and its investment advisors in accordance with the fund's risk management strategy, including monitoring the range of exposure to currency fluctuations.

The following table summarises the fund's currency exposure as at 31 March 2017 and as at the previous period end:

Currency exposure - asset type	Asset value as at 31 March 2016 £000	Asset value as at 31 March 2017 £000
Overseas index linked	38,550	5,921
Overseas quoted securities	236,931	286,289
Overseas unit trusts	870,760	1,173,862
Total overseas assets	1,146,241	1,466,072

Currency risk – sensitivity analysis

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 10% (as measured by one standard deviation).

This assumes no diversification with other assets, and in particular, interest rates remain constant.

A 10% strengthening/weakening of the UK 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 2017 £000	Potential Market movement £000	Value on increase £000	Value on decrease £000
Overseas Index Linked	5,921	592	6,513	5,329
Overseas quoted securities	286,289	28,629	314,918	257,660
Overseas unit trusts	1,173,862	117,386	1,291,248	1,056,476
Total change in assets available	1,466,072	146,607	1,612,679	1,319,465

Currency exposure - asset type	Values at 31 March 2016 £000	Potential Market movement £000	Value on increase £000	Value on decrease £000
Overseas Index Linked	38,550	5,012	43,562	33,538
Overseas quoted securities	236,931	30,801	267,732	206,130
Overseas unit trusts	870,760	113,199	983,959	757,561
Total change in assets available	1,146,241	149,012	1,295,253	997,229

b) 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.

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 2016 £000	Asset value as at 31 March 2017 £000
Money market funds		
NTGI Global Cash Fund	65,450	78,993
Short term bills and notes		
UK Treasury bills	11,588	50,033
Bank deposit accounts		
Non NT cash accounts	-	-
Bank current accounts		
NT custody cash accounts	2,093	5,186
Total overseas assets	79,131	134,212

c) 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 the pension 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 also cash to meet investment commitments.

The fund has immediate access to its pension fund cash holdings and the fund also 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 2017 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.

19: Funding arrangements

The latest actuarial valuation of the fund was carried out as at 31 March 2016. The purpose of the triennial valuation is to calculate the contribution rates required to be made by each employer participating in the fund which together with investment growth will be sufficient to meet the fund's future liabilities. The 2016 valuation shows the fund has a past service deficit, being 92% funded in respect of past liabilities. This compares with 81% funded at the 2013 valuation.

East Sussex Pension Fund (“the Fund”)

Actuarial Statement for 2016/17

This statement has been prepared in accordance with Regulation 57(1)(d) of the Local Government Pension Scheme Regulations 2013. It has been prepared at the request of the Administering Authority of the Fund for the purpose of complying with the aforementioned regulation.

Description of Funding Policy

The funding policy is set out in the Administering Authority’s Funding Strategy Statement (FSS), dated February 2017. In summary, the key funding principles are as follows:

- to ensure the long-term solvency of the Fund using a prudent long term view. This will ensure that sufficient funds are available to meet all members’/dependants’ benefits as they fall due for payment;
- to ensure that employer contribution rates are reasonably stable where appropriate;
- to minimise the long-term cash contributions which employers need to pay to the Fund by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return (this will also minimise the costs to be borne by Council Tax payers);
- to reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

The FSS sets out how the Administering Authority seeks to balance the conflicting aims of securing the solvency of the Fund and keeping employer contributions stable. For employers whose covenant was considered by the Administering Authority to be sufficiently strong, contributions have been stabilised to return their portion of the Fund to full funding over 20 years if the valuation assumptions are borne out. Asset-liability modelling has been carried out which demonstrate that if these contribution rates are paid and future contribution changes are constrained as set out in the FSS, there is still around a 66% chance that the Fund will return to full funding over 20 years.

Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 62 of the Local Government Pension Scheme Regulations 2013 was as at 31 March 2016. This valuation revealed that the Fund’s assets, which at 31 March 2016 were valued at £2,771 million, were sufficient to meet 92% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2016 valuation was £240 million.

Each employer had contribution requirements set at the valuation, with the aim of achieving full funding within a time horizon and probability measure as per the FSS. Individual employers’ contributions for the period 1 April 2017 to 31 March 2020 were set in accordance with the Fund’s funding policy as set out in its FSS.

Principal Actuarial Assumptions and Method used to value the liabilities

Full details of the methods and assumptions used are described in the 2016 valuation report.

Method

The liabilities were assessed using an accrued benefits method which takes into account pensionable membership up to the valuation date, and makes an allowance for expected future salary growth to retirement or expected earlier date of leaving pensionable membership.

Assumptions

A market-related approach was taken to valuing the liabilities, for consistency with the valuation of the Fund assets at their market value.

The key financial assumptions adopted for the 2016 valuation were as follows:

Financial assumptions	31 March 2016
Discount rate	4.0%
Salary increase assumption	4.3%
Benefit increase assumption (CPI)	2.5%

The key demographic assumption was the allowance made for longevity. The life expectancy assumptions are based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are as follows:

	Males	Females
Current Pensioners	22.1 years	24.4 years
Future Pensioners*	23.8 years	26.3 years

*Figures assume members aged 45 as at the 2016 valuation.

Copies of the 2016 valuation report and Funding Strategy Statement are available on request from East Sussex County Council, the Administering Authority to the Fund.

Experience over the period since 31 March 2016

Since the last formal valuation, real bond yields have fallen placing a higher value on the liabilities. The effect of this has been broadly offset by strong asset returns. Both events have roughly cancelled each other out in terms of the impact on the funding position as at 31 March 2017.

The next actuarial valuation will be carried out as at 31 March 2019. The Funding Strategy Statement will also be reviewed at that time.

20: Actuarial present value of promised retirement benefits

Introduction

CIPFA's Code of Practice on Local Authority Accounting 2016/17 requires Administering Authorities of LGPS funds that prepare pension fund accounts to disclose what IAS26 refers to as the actuarial present value of promised retirement benefits. I have been instructed by the Administering Authority to provide the necessary information for the East Sussex Pension Fund ("the Fund").

The actuarial present value of promised retirement benefits is to be calculated similarly to the Defined Benefit Obligation under IAS19. There are three options for its disclosure in the pension fund accounts:

- showing the figure in the Net Assets Statement, in which case it requires the statement to disclose the resulting surplus or deficit;
- as a note to the accounts; or
- by reference to this information in an accompanying actuarial report.

If an actuarial valuation has not been prepared at the date of the financial statements, IAS26 requires the most recent valuation to be used as a base and the date of the valuation disclosed. The valuation should be carried out using assumptions in line with IAS19 and not the Fund's funding assumptions.

Present value of Promised Retirement Benefits

Year ended	31 March 2016	31 March 2017
Active members (£m)	1,858	1,717
Deferred pensions (£m)	645	930
Pensioners (£m)	1,269	1,612
Total	3,772	4,258

The promised retirement benefits at 31 March 2017 have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2016. The approximation involved in the roll forward model means that the split of benefits between the three classes of member may not be reliable. However, I am satisfied that the total figure is a reasonable estimate of the actuarial present value of benefit promises.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value. Further, I have not made any allowance for unfunded benefits.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the pension fund accounts. They should not be used for any other purpose (i.e. comparing against liability measures on a funding basis or a cessation basis).

Assumptions

The assumptions used are those adopted for the Administering Authority's IAS19 report and are different as at 31 March 2017 and 31 March 2016. I estimate that the impact of the change in financial assumptions to 31 March 2017 is to increase the actuarial present value by £535m. I estimate that the impact of the change in demographic and longevity assumptions is to decrease the actuarial present value by £65m.

Financial assumptions

Year ended	31 Mar 2016 % p.a.	31 Mar 2017 % p.a.
Pension Increase Rate	2.2%	2.4%
Salary Increase rate	4.2%	2.8%
Discount Rate	3.5%	2.6%

Longevity assumption

Life expectancy is based on the Fund's VitaCurves with improvements in line with the CMI 2013 model, assuming the current rate of improvements has reached a peak and will converge to long term rate of 1.25% p.a. Based on these assumptions, the average future life expectancies at age 65 are summarised below:

	Males	Females
Current Pensioners	22.1 years	24.4 years
Future Pensioners*	23.8 years	26.3 years

*Future pensioners are assumed to be aged 45 at the latest formal valuation as at 31 March 2016.

Please note that the longevity assumptions have changed since the previous IAS26 disclosure for the Fund.

Commutation assumptions

An allowance is included for future retirements to elect to take 50% of the maximum additional tax-free cash up to HMRC limits for pre-April 2008 service and 75% of the maximum tax-free cash for post-April 2008 service.

Sensitivity Analysis

CIPFA guidance requires the disclosure of the sensitivity of the results to the methods and assumptions used. The sensitivities regarding the principal assumptions used to measure the liabilities are set out below:

Sensitivity to the assumptions for the year ended 31 March 2017	Approximate % increase to liabilities	Approximate monetary amount (£m)
0.5% increase in pensions increase rate	8%	332
0.5% increase in salary increase rate	2%	87
0.5% decrease in discount rate	10%	426

The principal demographic assumption is the longevity assumption. For sensitivity purposes, I estimate that a 1 year increase in life expectancy would approximately increase the liabilities by around 3-5%.

21: Current assets

	31 March 2016 £000	31 March 2017 £000
Other Investment Balances		
Sales inc Currency	1,656	2,554
Investment Income Due	861	1,178
Recoverable Taxes	497	411
Managers Fee Rebate	17	18
Total	3,031	4,161

	31 March 2016 £000	31 March 2017 £000
Current Assets		
Contributions receivable from employers and employees	9,845	9,126
Sundry Debtors	1,091	1,178
Cash	-	399
Total	10,936	10,703

22: Current liabilities

	31 March 2016	31 March 2017
	£000	£000
Investment Liabilities		
Purchases including currency	(9)	(11)
Managers Fees	(1,510)	(1,669)
Total	(1,519)	(1,680)

	31 March 2016	31 March 2017
	£000	£000
Current Liabilities		
Pension Payments (inc Lump Sums)	(1,415)	(454)
Cash	(369)	-
Professional Fees	(84)	(65)
Administration Recharge	(1,038)	(1,314)
Sundry Creditors	(1,797)	(1,239)
Total	(4,703)	(3,072)

23: Additional voluntary contributions

	Market value	Market value
	31 March 2016	31 March 2017
	£000	£000
Prudential	14,893	15,772

The Pension Fund Scheme provides an Additional Voluntary Contribution (AVC) facility for scheme members. In 2016/17 some members of the pension scheme paid voluntary contributions and transfers in of £2.053m (£1.666m 2015/16) to Prudential to buy extra pension benefits when they retire. £2.353m was disinvested from the AVC provider in 2016/17 (£2.430m 2015/16). 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.

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.

	2015/16	2016/17
	£000	£000
East Sussex County Council	5,292	4,979
Brighton & Hove City Council	2,495	2,306
Eastbourne Borough Council	368	349
Magistrates	250	239
Wealden District Council	174	188
Hastings Borough Council	180	180
Rother District Council	123	117
Lewes District Council	74	79
South East Water	82	70
Mid-Sussex District Council	66	55
Brighton University	24	26
East Sussex Fire Authority	20	17
LPFA	17	17
Capita Hartshead	15	15
Mears Group PLC	12	12
Brighton and Hove City College	9	10
London Borough of Camden	7	7
London Borough of Southwark	6	6
The Eastbourne Academy	5	6
West Midlands Pension Fund	5	5
Torfaen Borough Council	3	3
West Sussex County Council	3	3

	2015/16	2016/17
	£000	£000
Eastbourne Homes	2	2
Varndean College	2	2
London Borough of Ealing	2	2
Sussex Downs College	1	1
Newhaven Town Council	1	1
Wealden Leisure Ltd	47	-
London Borough of Lewisham	6	-
Valuation Tribunal Service	4	-
University of Sussex	4	-
Plumpton College	2	-
Total	9,301	8,697

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.

The Council incurred costs in administering the fund and charged £1.3m to the fund in 2016/17 (£1.0m in 2015/16). The Council's contribution to the fund was £43.3m in 2016/17 (£43.1m in 2015/16). All amounts due to the fund were paid in the year. At 31 March 2017 the Pension Fund bank account was in credit by £0.399m. The average invested throughout the year was £4.8m (£4.6 in 2015/16) and earned interest of £0.028m in 2016/17 (£0.033m in 2015/16).

25a: Key management personnel

The Chief financial officer of East Sussex County Council holds the key position in the financial management of the East Sussex Pension Fund.

	31 March 2016	31 March 2017
	£000	£000
Short-term benefits	17	10
Post-employment benefits	3	1
Other long-term benefits	-	-
Termination benefits	-	9
Total	20	20

26: Contingent liabilities and contractual commitments

Outstanding capital commitments (investments) at 31 March 2017 totalled £82.0m (31 March 2016: £87.3m).

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 2017 the unfunded commitment was £78.4m for private equity, and £3.6m for infrastructure. 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 2017.

Sussex Careers Limited – a Community Admission Body in the Fund until 12 November 2008, supplied careers advisory services on behalf of both East Sussex County Council and Brighton & Hove City Council. Sussex Careers is now in the process of being wound up, and its assets will be distributed to its creditors, including the Fund which is the major creditor. These are not sufficient to meet their deficit of approximately £3.6 million. The Fund is engaged in active dialogue with the liquidators for Sussex Careers Limited.

27: Contingent assets

Seventeen admitted body employers in the Fund hold insurance bonds to guard against the possibility of their being unable to meet their pension obligations. 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 9 other admitted bodies are covered by:

- 8 guarantees by local authorities participating in the Fund;
- 2 Parent company guarantee;
- 2 deposits held by East Sussex County Council

At 31 March 2017 the Fund has invested £285.4 million in private equity funds managed by Adams Street and HarbourVest. The Fund has also invested £14.4 million in the M&G UK Companies Financing fund and £59.4 million in the infrastructure funds managed by UBS and M&G.

Following Rulings given by the European Court of Justice, along with a number of other local authority pension funds, the East Sussex Pension Fund is pursuing the recovery of tax paid on certain dividends. If successful this may be of material benefit to the Fund. The amount which may be recoverable is not currently quantifiable.

28: Impairment losses

During 2016/17 the fund has not recognised any impairment losses.

29: East Sussex Pension Fund – Active Participating Employers

Employer	Contribution Rate					
	2017/18		2018/19		2019/20	
	Payroll %	Amount £	Payroll %	Amount £	Payroll %	Amount £
Scheduled Bodies - Major Authorities						
Brighton and Hove City Council	17.1	3860	17.1	4635	17.1	5448
East Sussex County Council	17.1	5523	17.1	6369	17.1	7254
East Sussex Fire and Rescue Service	17.0	181	17.0	213	17.0	247
Eastbourne Borough Council	16.9	547	16.9	599	16.9	654
Hastings Borough Council	17.3	489	17.3	540	17.3	594
Lewes District Council	18.0	442	18.0	495	18.0	551
Rother District Council	17.3	506	17.3	550	17.3	596
University of Brighton	16.8	704	16.8	722	16.8	741
Wealden District Council	17.2	536	17.2	594	17.2	655
Other Scheduled Bodies						
Arlington Parish Council	21.6	-	22.1	-	22.6	-
Battle Town Council	17.4	4	17.4	5	17.4	6
Berwick Parish Council	21.6	-	22.1	-	22.6	-
Chailey Parish Council	21.6	-	22.1	-	22.6	-
Chiddingly Parish Council	21.6	-	22.1	-	22.6	-
Conservators of Ashdown Forest	17.4	13	17.4	15	17.4	17
Crowborough Town Council	17.4	11	17.4	12	17.4	14
Ewhurst Parish Council	21.6	-	22.1	-	22.6	-
Fletching Parish Council	21.6	-	22.1	-	22.6	-
Forest Row Parish Council	17.4	3	17.4	3	17.4	4
Hadlow Down Parish Council	21.6	-	22.1	-	22.6	-
Hailsham Town Council	17.4	13	17.4	15	17.4	17
Hartfield Parish Council	21.6	-	22.1	-	22.6	-
Heathfield & Waldron Parish Council	17.4	4	17.4	5	17.4	5
Hurst Green Parish Council	21.6	-	22.1	-	22.6	-
Icklesham Parish Council	21.6	-	22.1	-	22.6	-
Lewes Town Council	17.4	14	17.4	16	17.4	19
Maresfield Parish Council	17.4	1	17.4	1	17.4	1
Newhaven Town Council	17.4	5	17.4	6	17.4	6
Newick Parish Council	21.6	-	22.1	-	22.6	-
Peacehaven Town Council	17.4	8	17.4	9	17.4	10
Pett Parish Council	21.6	-	22.1	-	22.6	-
Plumpton Parish Council	21.6	-	22.1	-	22.6	-
Polegate Town Council	21.6	-	22.1	-	22.6	-
Ringmer Parish Council	21.6	-	22.1	-	22.6	-

Employer	Contribution Rate					
	2017/18		2018/19		2019/20	
	Payroll %	Amount £	Payroll %	Amount £	Payroll %	Amount £
Rye Town Council	17.4	2	17.4	2	17.4	2
Salehurst & Robertsbridge Parish Council	21.6	-	22.1	-	22.6	-
Seaford Town Council	17.4	6	17.4	7	17.4	8
Sussex Inshore Fisheries & Conservation Authority	21.6	-	22.1	-	22.6	-
Telscombe Town Council	17.4	4	17.4	4	17.4	5
Uckfield Town Council	17.4	13	17.4	15	17.4	17
Wartling Parish Council	21.6	-	22.1	-	22.6	-
Westham Parish Council	17.4	1	17.4	2	17.4	2
Willingdon and Jevington Parish Council	17.4	2	17.4	2	17.4	2
Wivelsfield Parish Council	17.4	1	17.4	1	17.4	2
Academy Schools						
ARK Schools Hastings	20.1	-	20.6	-	21.1	-
Aurora Academies Trust	20.9	-	20.9	-	20.9	-
Beacon Academy	22.5	-	23.0	-	23.5	-
Bexhill Academy	23.4	-	23.4	-	23.4	-
BHCC - Bilingual Primary School	15.1	-	15.6	-	16.1	-
Breakwater Academy	17.5	-	17.5	-	17.5	-
Burfield Academy	21.5	-	21.0	-	20.5	-
Cavendish Academy	21.0	-	21.0	-	21.0	-
City Academy Whitehawk	22.1	-	22.6	-	22.8	-
Diocese of Chichester Academy Trust	25.9	-	25.4	-	24.9	-
Eastbourne Academy	20.9	-	21.4	-	21.7	-
Falmer (Brighton Aldridge Community Academy)	19.5	-	20.0	-	20.5	-
Gildredge House Free School	20.1	-	20.1	-	20.1	-
Glyne Academy	22.9	-	22.4	-	21.9	-
Hailsham Academy	19.7	-	20.2	-	20.5	-
Hastings Academies Trust	20.1	-	20.5	-	20.5	-
Hawkes Farm Academy	16.9	-	16.9	-	16.9	-
High Cliff Academy	21.5	-	21.0	-	20.5	-
Jarvis Brook Academy	15.0	-	15.0	-	15.0	-
Kings Church of England Free School	15.7	-	16.2	-	16.7	-
Ore Village Primary Academy	18.7	-	19.0	-	19.0	-
Pebsham Academy	19.0	-	19.5	-	20.0	-
Phoenix Academy	20.6	-	20.9	-	20.9	-
Portslade Aldridge Community Academy	20.4	-	20.4	-	20.4	-
Ratton Academy	21.6	-	21.6	-	21.6	-
Ringmer Academy	20.3	-	20.8	-	21.3	-
Rye Multi Academy Trust	22.5	-	22.0	-	21.5	-
SABDEN Multi Academy Trust	25.1	-	24.6	-	24.1	-
Seaford Academy	21.9	-	21.6	-	21.6	-
Seahaven Academy	21.0	-	21.5	-	22.0	-
Sir Henry Fermor Academy	15.3	-	15.3	-	15.3	-
Torfield & Saxon Mount Academy Trust	22.1	-	22.6	-	23.1	-
UTC@Harbourside	21.5	-	21.0	-	20.5	-
White House Academy	17.0	-	17.5	-	18.0	-
William Parker Academy	20.1	-	20.6	-	21.1	-
Colleges						
Bexhill College	16.6	23	16.6	30	16.6	38
Brighton, Hove & Sussex Sixth Form College	17.2	21	17.2	29	17.2	38
City College, Brighton Pool	-	-	-	-	-	-
Plumpton College	16.7	44	16.7	58	16.7	73
Sussex Coast College	16.8	63	16.8	79	16.8	96
Sussex Downs College	17.4	3	17.4	38	17.4	75
Varndean Sixth Form College	17.5	12	17.5	19	17.5	25
Admission Bodies (Open)						

Employer	Contribution Rate					
	2017/18		2018/19		2019/20	
	Payroll %	Amount £	Payroll %	Amount £	Payroll %	Amount £
East Sussex Energy, Infrastructure & Development Ltd	21.9	-	23.4	-	24.5	2
Eastbourne Homes Ltd	20.2	-	21.8	-	23.5	-
Hastings Business Operations Limited (HBOL)	23.6	-	27.1	-	27.6	4
Admission Bodies (Closed)						
Brighton and Hove CAB	28.7	-	28.7	-	28.7	-
Brighton Dome & Festival Limited	44.5	16	44.5	36	44.5	57
Care Quality Commission	41.6	59	41.6	143	41.6	231
De La Warr Pavilion Charitable Trust	43.7	61	43.7	132	43.7	207
Optivo	39.2	554	39.2	879	39.2	1221
Sussex Archaeological Society	38.6	57	38.6	82	38.6	108
Sussex County Sports Partnership	21.0	-	21.0	-	21.0	-
Sussex Housing & Care	35.9	133	35.9	101	35.9	67
Other Admission Bodies						
Accent Catering	-	-	-	-	-	-
Amey	-	-	-	-	-	-
BHCC - Wealden Leisure Ltd	21.2	-	21.2	-	21.2	-
Care Outlook Ltd	35.0	-	35.0	-	35.0	-
Churchill Services	18.0	-	18.0	-	18.0	-
Civica ICT - William Parker	14.3	-	14.3	-	14.3	-
Eastbourne Homes - SEILL	21.9	-	21.9	-	21.9	-
Eastbourne Leisure Trust	25.8	17	25.8	18	25.8	18
EBC - Towner	11.5	-	11.5	-	11.5	-
Eden Foodservices	-	-	-	-	-	-
ESCC - Care at Home	-	-	-	-	-	-
ESCC - John O'Connor	-	-	-	-	-	-
ESCC - NSL Ltd	-	-	-	-	-	-
Halcrow Group Ltd	23.6	-	23.6	-	23.6	-
Hardings Catering Ltd	-	-	-	-	-	-
Mears Ltd	26.3	14	26.3	14	26.3	15
MyTime	13.8	-	13.8	-	13.8	-
Sopra Steria Ltd	31.9	-	31.9	-	31.9	-
Sussex Community Development Association Ltd (SCDA)	26.4	-	26.4	-	26.4	-
Telent Technology Services Limited	24.9	-	24.9	-	24.9	-
Wave Leisure - Newhaven Fort	18.0	-	18.0	-	18.0	-
Wave Leisure Trust Ltd	9.0	-	9.0	-	9.0	-
WDC - ISS Ltd	-	-	-	-	-	-
WDC - Kier	-	-	-	-	-	-
WDC - Wealden Leisure Ltd	27.1	86	27.1	89	27.1	91
Wealden Leisure Ltd - Portslade Sports Centre	12.3	-	12.3	-	12.3	-
White Rock	6.7	-	6.7	-	6.7	-

30: Investment Performance

The County Council uses an independent Investment performance measurement service, provided by Pensions & Investment Research Consultants Ltd (PIRC) which measures the performance of the Fund compared with 44 other local authority pension funds. Pension Fund investment is a long term business 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	20.3	12.0	11.0	7.0
Benchmark	18.9	10.1	9.4	6.0
Relative	1.4	2.0	1.6	0.9

Investment performance relative to peer group

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
Fund	20.3	12.0	11.0	7.0
Local Authority Average	21.4	11.2	10.8	7.0
Relative	(0.9)	0.7	0.2	0.0

The Fund underperformed the (weighted) average local authority fund over the year by 0.9% (1.4% outperformance 2015/16), ranking the East Sussex Fund in the 49th percentile (17th 2015/16) in the local authority universe. Over three years the fund outperformed by 0.7% (0.9% outperformance 2015/16) and was placed in the 28th percentile (18th 2015/16). Over five years the fund outperformed by 0.2% (0.2% outperformance 2015/16) and was placed in the 37th percentile (43rd 2015/16). Over ten years the fund years the fund performed in line (0.1% outperformance 2015/16) and was placed in the 43rd percentile (36th 2015/16).

Relative performance is calculated on a geometric basis as follows:

$$\left(\frac{1 + \text{Fund Performance}}{1 + \text{Benchmark Performance}} \right) - 1$$

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.

9. 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, 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

10. Investment strategy statement

The Local Government Pension Scheme (LGPS) (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 also covers the extent to which social, environmental and ethical considerations (see below) are taken into account in the selection, retention and realisation of investments and a summary of the policy (if any) in relation to the exercise of the rights (including voting rights) attaching to investments. The East Sussex Pension Fund statement was first published in February 2017 when it replaced the Fund's Statement of Investment Principles and is reviewed annually (updated copies are available on the website).

Social, environmental and ethical considerations

The Fund keeps under review the issues surrounding socially responsible investment and has adopted an 'Active Shareholder Approach' to encourage companies to adopt best ethical and environmental principles without jeopardizing 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 their specific restrictions set out in the Fund's Policy Guidelines in order to achieve their performance targets. However 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

This Statement can be seen on the East Sussex County Council Website.

11. Communications policy statement

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.

This Policy can be seen on the East Sussex County Council Website.

12. External auditors report

Independent auditor's report to the members of East Sussex County Council on the pension fund financial statements published with the Pension Fund Annual Report

To Follow

auditor's report

for and on behalf of KPMG LLP, Appointed Auditor

Chartered Accountants

15 Canada Square

London

E14 5GL

July 2017