

Report to: Pension Committee

Date of meeting: 24 June 2019

By: Head of Pensions

Title: General Update

Purpose: To provide a general update to the Pension Board and Committee on matters relating to the Committee activities

RECOMMENDATION – The Committee is recommended to note the report

1. Background

1.1 This report provides an update on matters relating to the Pension Board and Committee activities.

2. National Development - updates

2.1. The ACCESS pool update has been provided through a separate, exempt report at this meeting.

3. 2019 Actuarial Valuation

3.1 The East Sussex Pension Fund (ESPF or the Fund) is subject to a formal actuarial valuation every three years. The last valuation of the Fund was in 2016 with the next valuation to be undertaken as at 31 March 2019. The results of the valuation will determine employer contribution rates for the period from 1 April 2020 to 31 March 2023. As part of the contribution rate setting process, the Fund is preparing to engage with some employers to fully understand their circumstances, including the level of security they hold as a participating employer. This will be communicated by way of an employer risk questionnaire, and if appropriate, the Fund may commission further work from a financial covenant specialist to investigate the answers provided to the questions.

3.2 Work is underway regarding key financial assumptions affecting the valuation. The Fund actuary is preparing papers to help review and set two of the most significant financial assumptions, the discount rate and the rate of salary increases.

3.3 The Fund actuary has confirmed that the preferred approach for modelling the contribution rates of the Councils, Colleges and Academies is to carry this out as soon as possible based on 31 March 2018 data. This is the approach taken by nearly all of the funds Hymans advises, as it allows more time for discussions with the various stakeholders and provides greater budgeting certainty for the employers. The draft 2019 valuation timetable/plan has been updated (attached as Appendix 1).

4. Investment, Cost Effectiveness Analysis

4.1 CEM Benchmarking – Local Government Pension Scheme (LGPS) Investment Benchmarking has recently produced a report that will help the Fund to satisfy its oversight responsibilities by:

- Comparing the Fund investment performance with other funds.
- Highlighting returns that come from:
 - The Pension Committee's strategic asset allocation decisions, and

- The implementation of the Committee's strategy (typically the responsibility of management).
- Comparing the level of risk inherent in the Fund portfolio and relative to the Fund liabilities and funding position.
- Comparing investment costs and explaining why costs compare as they do.
- Considering how and why costs have changed over time.
- Looking at value-for-money – 'did paying more get you more'?

4.2 The attached Appendix 2 summarises the East Sussex Pension Fund 2017/18 benchmarking positions. This only shows a one-year performance story because CEM only have performance data for 2017/18, with 2018/19 to follow within the next few months. Here are the headlines from the report:

Returns

- 1-year net total return was 2.3%. This was below the LGPS median of 3.8%.
- 1-year strategic asset mix return was 2.5%. This was below the LGPS median of 3.8%.

Risk

- Asset risk of 10.0% was below the LGPS median of 11.5%.
- Asset-liability risk of 10.5% was below the LGPS median of 11.6%.

Value added

- 1-year net value added was -0.2%. This was above the LGPS median of -0.5% and below the global median of 0.4%.

Cost

- Investment cost of 81.7 bps was above your benchmark cost of 81.2 bps. This suggests that the fund was slightly higher cost compared to our peers.
- The fund was slightly higher cost because it paid less than peers did for similar services. This added cost was mostly offset by the higher cost implementation style.

5. Woodford Equity Income Fund statement

5.1 Following recent publication about Woodford Equity Income Fund, who has blocked investors from pulling cash from his flagship fund after becoming overwhelmed by customer withdrawals following a series of bad market bets. I can confirm that the ESPF does not have any exposure to Woodford Equity Income Fund.

5.2 A member of the ACCESS Pool, Kent County Council's (KCC) pension fund has issued a statement that it holds an investment in the Woodford Equity Income Fund valued at £263 million at the end of April. That the Kent Superannuation Fund Committee agreed unanimously to redeem this investment on Friday 31 May, however, in the interim the fund suspended trading, which means that KCC – one of its biggest investors - and other investors cannot redeem their funds. At this stage there is no loss to the pension fund, and whatever the outcome there will be no impact on the council's cash reserves or service provision, or on the pension benefits for individual scheme members.

6. Pension Board Agenda – 24 September 2019

- 6.1 The draft agenda for the Sept. 2019 Pension Committee meeting will include the following-
- Governance Compliance Statement

- Investment Strategy Statement
- Communications Policy Statement
- Monitoring of administration KPIs
- Review GMP reconciliation process
- Annual Benefit Statement Exercise – update
- LGPS Pooling – ACCESS Pool Update.

7. Conclusion and reasons for recommendation

7.1 The Committee is requested to note the general update regarding the Pension Fund activities.

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