

Report to: Pension Committee

Date of meeting: 25 November 2019

By: Chief Finance Officer

Title: Investment Governance Review

Purpose: To consider the Investment Governance Report

RECOMMENDATION: The Pension Committee is recommended to:

note the report and approve the recommendations 1 to 9 of the Investment Governance Report set out in paragraph 2.5.

1. Background

1.1 The transfer of responsibilities to the ACCESS pool has introduced the Fund to a new and untested area of pension risks arising through arm's length and third party management of Fund assets. In addition with the rising importance of Environment Social and Governance (ESG) issues and the Scheme Advisory Board's good governance guidance, there is the general recognition across Local Government Pension Scheme (LGPS) to demonstrate strong investment governance.

1.2 In light of the above, Officers requested a review of the East Sussex Pension Fund's (the Fund) current investment governance processes notably around ACCESS and in the wider more general sense. The Fund's Investment Consultant, Hymans Robertson, was consulted during the production of the report to understand their ways of working and to measure their performance with the Fund. The report is included under a later item on the agenda for the Committee's consideration and deliberation.

2. Supporting Information

2.1 The Fund's investing arrangements are governed primarily by the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and the statutory guidance as amended on Preparing and Maintaining an Investment Strategy Statement. The major requirements of the Investment Strategy Statement (ISS) Guidance are:

- to take proper advice.
- to state their appetite for risk
- to invest assets in a way consistent with their level of solvency
- to manage the risk, returns and volatility of their strategy appropriately
- to review their arrangements periodically
- to conform with the pooling arrangements put in place in 2016

2.2 The management of pooling arrangements under the ACCESS Support Unit does not remove the legislative requirement for investment governance at the authority level. Furthermore the arm's length relationship with investment managers coordinated through Link will transform how each Fund advances effective performance management of both Link and its' managers.

2.3 Whilst transferring responsibilities for manager selection from individual funds to the Operator, the 2016 legislation still requires funds to comply with responsibilities for the management of investment risk, returns and volatility of the investment strategy.

2.4 As part of planning for the refresh of the ISS, it is an appropriate junction to review investment governance to maximise the likelihood of good outcomes for the Fund. To this end an investment governance review was commissioned from the Investment Advisor.

2.5 A set of recommendations were developed for consideration by Committee. These are outlined below.

Recommendation 1: Establish two Working Parties a year in place of the Strategy Day in order to facilitate deeper discussions.

Recommendation 2: Strategic Asset Allocation of the Fund should be the subject of at least an annual discussion at a Working Party, with any changes to be approved at the following Pension Fund Committee meeting.

Recommendation 3: Officers test the current arrangements for implementing changes. When ACCESS is fully up and running, they test the arrangements there too.

Recommendation 4: A review is undertaken of the format of the quarterly monitoring report which Hymans provides for the Pension Fund Committee with the aim of providing the most useful and relevant information clearly.

Recommendation 5: The paper on manager performance benchmarks which Hymans produced in 2018 is subject to discussion and formal approval by the Pension Fund Committee.

Recommendation 6: When considering a new investment appointment outside the ACCESS pool, Hymans are asked to show a shortlist of at least three alternatives to the Pension Fund Committee for discussion.

Recommendation 7: The Fund continues to engage with its ACCESS partners to agree possible measures to mitigate concerns over pool governance.

Recommendation 8: The Risk Register's section on investments is reviewed on a regular (i.e. at least every six months) by either the Pension Fund Committee or The Investment Advisor.

Recommendation 9: The scope of the independent governance review which is likely to be required in the future explicitly include consideration of value for money received from the investment arrangements.

2.6 It is expected that the findings from these discussions in regard to the recommendations will feed into and shape further discussions on the investment strategy statement. Further details of the investment governance review are provided under a later item on the agenda.

3. **Conclusion and reasons for recommendation**

3.1 An important part of good governance is to put in place a process for continuous improvement. It is likely that under the Scheme Advisory Board's Good Governance Project there will be a requirement for an independent review of the Fund's overall governance arrangement on a regular basis. This would include investment arrangements and, in the interests of transparency should also include consideration of value for money being provided by the Fund's service providers, including ACCESS.

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