

PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at County Hall, Lewes on 25 November 2019.

PRESENT Councillors Gerard Fox (Chair) Councillors Simon Elford,
Nigel Enever, David Tutt and Trevor Webb

ALSO PRESENT Ray Martin, Independent Chair of the Pension Board
Councillor Nick Bennett, Lead Member for Resources
Kevin Foster, Chief Operating Officer
Philip Baker, Assistant Chief Executive
Ian Gutsell, Chief Finance Officer
Michelle King, Interim Head of Pensions
Wendy Neller, Pensions Strategy and Governance Manager
Russell Wood, Principal Pensions Officer
William Marshall, Investment Consultant, Hymans Robertson
Paul Potter, Investment Consultant, Hymans Robertson
Robert McInroy, Fund Actuary, Hymans Robertson
Richard Warden, Fund Actuary, Hymans Robertson
William Bourne, Independent Adviser
Danny Simpson, Principal Auditor
Harvey Winder, Democratic Services Officer

41 MINUTES

41.1 The Minutes of the meeting held on 23 September were agreed as a correct record subject to amending to note that Ben Fox and Robert McInroy, not William Marshal, were in attendance from Hymans Robertson.

42 APOLOGIES FOR ABSENCE

42.1 There were no apologies for absence.

43 DISCLOSURE OF INTERESTS

43.1 Cllr David Tutt declared a personal interest as the Leader of one of the East Sussex Pension Fund's employers, Eastbourne Borough Council.

44 URGENT ITEMS

44.1 The Committee RESOLVED to agree to consider a report on the Breaches Log as an urgent exempt item to be raised under item 22 (minute 61).

45 PENSION BOARD MINUTES

45.1 The Committee RESOLVED to note the draft minute of the most recent Pension Board meeting held on 11 November 2019.

46 QUARTERLY PERFORMANCE REPORT - HYMANS ROBERTSON

46.1 The Committee considered a quarterly performance report of the East Sussex Pension Fund (ESPF or the Fund) by the Fund's investment consultant, Hymans Robertson.

46.2 The Committee discussed how there is no agreed benchmark for fossil fuel exposure for absolute return, infrastructure and private debt asset classes due to the fact investment in these asset classes is based on individual investment managers' preferences rather than market indices.

46.3 The Committee RESOLVED to note the report.

47 FUND PERFORMANCE -- INVESTMENT MANAGER PRESENTATION: LONGVIEW PARTNERS

47.1 The Committee RESOLVED to defer this item to the next meeting.

48 ENVIRONMENTAL SOCIAL AND GOVERNANCE UPDATE

48.1 The Committee considered a report providing an update on Environmental, Social and Governance (ESG) matters.

48.2 The Committee's discussion included the following issues:

- Fossil fuel equities have traditionally benefited the fund by providing a stable income stream to the Fund, which helps to ensure the Fund has sufficient cash to pay out people's pension entitlements. Any plan for divestment from fossil fuels would need to consider how this income would be replaced, as well as any potential risk to the Fund caused by reducing the diversity of assets it holds.
- Whether the fossil fuel investments had become riskier over time, particularly in those oil companies that were continuing to invest in new potential exploration sites, and whether a similar return could now be achieved by divesting from fossil fuels without increasing the risk to the Fund.
- Whether there is value in rebalancing the Fund's portfolio away from passive index funds and towards either active equity funds that may not invest in fossil fuels or titled passive index funds that favour low carbon equities, taking into consideration the considerable additional cost to the Fund of both alternatives.

48.3 The Committee was advised that the ESG consultant would carry out a cost-benefit analysis of the Fund's fossil fuel exposure.

48.4 The Committee RESOLVED to:

- 1) note the motion agreed by Full Council attached as Appendix 1;
- 2) agree the draft ESG Statement of the East Sussex Pension Fund attached as Appendix 2;
- 3) agree the proposed specification for investment consultant advice on ESG investments attached as Appendix 3; and
- 4) agree to consider the progress of the investment consultant's work on ESG Investments as a standing item on future agendas.

49 COMPETITION AND MARKET AUTHORITY REPORT ON ENGAGEMENT WITH INVESTMENT CONSULTANTS

49.1 The Committee considered a report providing an update on the recent Competition and Market Authority Report on Engagement with Investment Consultants.

49.2 The Committee RESOLVED to:

- 1) note the report; and
- 2) approve the investment objectives set out in the report for the Fund's investment consultant (Hymans Robertson).

50 EMPLOYERS' TRIENNIAL VALUATION RESULTS AND DRAFT FUNDING STRATEGY STATEMENT

50.1 The Committee considered a report and presentation from Hymans Robertson on the Employers' Triennial Valuation Results and Draft Funding Strategy Statement.

50.2 The Committee's discussion included the following issues:

- The actuary highlighted the importance of accurate data for employers, particularly for small to medium organisations, due to the potential impact on funding levels and contribution rates that inaccurate pension data can have on these employers.
- It is difficult to draw firm conclusions about whether data quality at a whole Fund level has improved or deteriorated since the 2013 valuation. However, the actuary noted that data provided in relation to employer 'crystallisation events', such as cessation valuations, has deteriorated in some cases. These events involve more detailed data checks - there have been an increasing number of cases where the 2016 valuation data required a retrospective update to be made due to incorrect membership data supplied at that time.
- It was acknowledged that the increased number of employers and complexity of the recently introduced career average pension benefits means timely and accurate data provided by the pension administrator to the fund actuary is essential. The quality of data raises questions on the capacity of the pension administration service and a service based review of the pension administration service should consider whether there are enough skilled staff in place to maintain the data to an appropriate standard.
- Internal audit when questioned on why the breaches did not feature in their audit report highlighted that their reporting process is pitched at a high level. The Chair commented that the Internal Audit Report should highlight risks and issues within the pension administration service in sufficient detail to allow an effective scrutiny process. The annual internal audit findings on Orbis pension administration services should be a standing item on the board and committee agendas. Internal audit agreed to meet with the Chair to preview the 2019 audit findings.

50.3 The Committee RESOLVED to:

- 1) note the progress of the actuarial valuation including the update on the valuation membership data and employer contribution rates; and
- 2) agree the draft revised Funding Strategy Statement for consultation with Fund employers.

51 PENSION ADMINISTRATION UPDATES

51.1 The Committee considered a report providing an update on matters relating to Pensions Administration activities.

51.2 The Committee RESOLVED to

- 1) note the report; and
- 2) request confirmation via email whether the 258 outstanding employees have now received their Annual Benefit Statements.

52 DATA IMPROVEMENT PROGRAMME AND ANNUAL BENEFIT STATEMENT WORKING GROUP

52.1 The Committee considered a report providing an overview of the Data Improvement Programme and Annual Benefit Statement (ABS) working group.

52.2 The Committee RESOLVED to:

- 1) note the report;
- 2) approve the appointment of Hymans Robertson to undertake the Data Improvement Programme; and
- 3) recommend that the Service Level Agreement for the ESPF includes the preferred specifications for a pension administration system.

53 EMPLOYERS ADMISSION AND CESSATION REPORT

53.1 The Committee considered a report on the admission and cessation of employers to the East Sussex Pension Fund.

53.2 The Committee's discussion included:

- the complexity of admission negotiations with employers, for example, understanding their cash flow and assets to underwrite their pensions liabilities.
- The reasons why employers may choose to join and leave the ESPF are typically for business reasons. Only eligible employers are allowed into the Fund and do not have the discretion to join or leave the Fund due to satisfaction or dissatisfaction with the Fund; and
- The importance of holding accurate member data by the pension administrator when undertaking an actuarial calculation when required such as for a cessation calculation.

53.3 The Committee RESOLVED to:

- 1) note the report;
- 2) request the number of fund members in each employer that are currently in the process of having a cessation calculation calculated; and
- 3) request Monitoring Officer clarify the delegated functions to the Section 151 officer with regard to the admission of employers into the Fund.

54 INVESTMENT GOVERNANCE REVIEW

54.1 The Committee considered the Investment Governance Report produced by the Fund's Independent Advisor.

54.2 The Committee discussed the advantages of considering a risk register of investment risks.

54.3 The Committee RESOLVED to:

1) note the report;

2) approve the recommendations 1 to 9 of the Investment Governance Report set out in paragraph 2.5 of item 14;

3) request that the recommendations are reflected in the Investment Strategy Statement; and

4) request that an investment risk register and operational risk register are developed to sit beneath the main risk register, and request that the investment risk register is provided to the Committee as a standing item.

55 GENERAL UPDATE AND WORK PROGRAMME

55.1 The Committee considered a general update and its work programme.

55.2 The Committee RESOLVED to note the report.

56 EXCLUSION OF THE PUBLIC AND PRESS

56.1 The Committee RESOLVED to exclude the public and press from the meeting for the remaining agenda item on the grounds that if the public and press were present there would be disclosure to them of exempt information as specified in paragraph 3 of Part 1 of the Local Government Act 1972 (as amended), namely information relating to the financial or business affairs of any particular person (including the authority holding that information).

57 DATA IMPROVEMENT PROGRAMME AND ANNUAL BENEFIT STATEMENT WORKING GROUP - ADDITIONAL INFORMATION (EXEMPT)

57.1 The Committee considered additional exempt information in relation to the Data Improvement Programme and Annual Benefit Statement (ABS) working group report.

57.2 A summary of the discussion is set out in an exempt minute.

57.3 The Committee RESOLVED to note the report.

58 INVESTMENT GOVERNANCE REVIEW - ADDITIONAL INFORMATION (EXEMPT)

58.1 The Committee considered additional exempt information in relation to the Investment Governance Report produced by the Fund's Independent Advisor.

58.2 The Committee RESOLVED to note the report.

59 LOCAL GOVERNMENT PENSION SCHEME (LGPS) POOLING - ACCESS UPDATE

59.1 The Committee considered a report providing an update on the activities undertaken by the ACCESS Pool.

59.2 The Committee RESOLVED to note the report.

60 APPOINTMENT OF ADVISORS TO THE FUND

60.1 The Committee considered a report on the appointments of an Independent Advisor, Investment Consultancy, Actuarial and Benefit Consultancy Services and an Environmental Social and Corporate Governance (ESG) advisor.

60.2 The Committee RESOLVED to agree the recommendations as set out in the report.

61 ANY OTHER EXEMPT ITEMS PREVIOUSLY NOTIFIED UNDER AGENDA ITEM 4

61.1 Under exempt items, the Committee considered an urgent item providing an update on the Breaches Log and the Breaches Policy and Process and any future actions to review. This commenced with a verbal address by the Chair.

61.2 A summary of the discussion is set out in an exempt minute.

61.3 The committee RESOLVED to agree a number of actions which are set out in an exempt minute.

The meeting ended at 2.25 pm.

Councillor Gerard Fox (Chair)