

## PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at Council Chamber, County Hall, Lewes on 22 June 2021.

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PRESENT Councillors Gerard Fox (Chair) Councillors Sam Adeniji, Julia Hilton, Paul Redstone and David Tutt

ALSO PRESENT Ray Martin, Chair of the Pension Board  
Ian Gutsell, Chief Finance Officer  
Sian Kunert, Head of Pensions  
Russell Wood, Pensions Manager: Investment and Accounting  
Paul Punter, Head of Pensions Administration  
Nigel Chilcott, Audit Manager  
Danny Simpson, Principal Auditor  
William Bourne, Independent Adviser  
Andrew Singh, Isio  
Darrell Tovey, Vigeo Eiris  
Ornella Dilorio, Vigeo Eiris  
Guillaume Checric, Vigeo Eiris  
Martin Jenks, Senior Democratic Services Adviser  
Harvey Winder, Democratic Services Officer

### 1 MINUTES

1.1 The minutes of the previous meeting held on 1 March 2021 were agreed as a correct record subject to the following amendments:

- Amend 67.2 para 6 to read “The PRI discussed a number of signatory member approaches including active engagement incorporating escalation which involved asset managers( as shareholders of the company) voting against a company’s accounts or board of directors where they are not taking sufficient action on carbon emissions and with, in some cases, divestment as the final step. For passive mandates this is difficult as divestment from individual companies and or sectors is not possible, however, passive managers can still vote against a company’s accounts or board of directors each year. Over time, this should still send a strong message as it gathers momentum and more investors sign up to PRI.”
- Add the following clarification to 67.2 para 5: *(it was clarified after the meeting that the date was 2050 and that it was not binding).*

### 2 APOLOGIES FOR ABSENCE

2.1 There were no apologies for absence.

### 3 DISCLOSURE OF INTERESTS

3.1 Cllr David Tutt declared a personal, non-prejudicial interest in item 21 as the Leader of Eastbourne Borough Council, which is involved in an ongoing admission agreement with a sub-contractor.

#### 4 URGENT ITEMS

4.1 There were no urgent items.

#### 5 PENSION BOARD MINUTES

5.1 The Committee considered the minutes of the Pension Board meeting held on 1<sup>st</sup> June 2021.

5.2 The Committee RESOLVED to note the minutes.

#### 6 INVESTMENT REPORT

6.1 The Committee considered a report providing an update on the investment activities undertaken by the East Sussex Pension Fund (ESPF or the Fund).

6.2 The Committee's discussion included the following key issues:

- Despite the impact of COVID-19, Isio, the Fund's investment advisor, advised that it is important to retain a diversified portfolio containing exposure to various property types, particularly as businesses begin to pay back rent arrears accrued during the pandemic lockdowns, which commercial property managers agreed to at the time. It is not always easy to change the weighting of the holdings from one property type to the other, however, Schroders, the asset manager for the Fund's property portfolio, is a fund of fund managers, which enables it to be somewhat flexible in how it balances its property portfolio to where it sees maximum returns. Retail is currently the most volatile property type, but Schroders has only around 20% exposure to retail, which Isio is not concerned about.
- Whilst it is a valid concern that the cost of refitting buildings to meet climate emission goals could be a risk to the Fund's property assets in the coming years, the majority of returns achieved by Schroder are through rental income rather than through capital appreciation, which is less exposed to the effect of building costs. Schroders, however, could be asked its views on the matter. In addition, Schroders is outside the ACCESS pool and ACCESS is currently looking at illiquid assets, however, it will be 2-3 years before any illiquid pool will be established and the exit costs for property are high. It would therefore be unadvisable to divest from property until it is clear what, if any, alternative ACCESS was offering. ACCESS is in the process of tendering a consultant to do this work.
- There were considerable discrepancies between the two sources of performance for the ATLAS Infrastructure Fund – those from the fund managers themselves and those produced by the Fund's custodian, Northern Trust – Isio has asked Northern Trust to investigate further, as their figures appeared accurate. This is not uncommon occurrence as performance figures are always a snapshot in time and can change daily due to events like cash flow movements.

- The Fund's equity portfolio has a slight bias towards growth stocks against value stocks, however, growth stocks have outperformed value stocks over the past few years due to the low interest rates, which encourage investment in assets that will give higher future returns compared to dividend payments. This is likely to continue until interest rates change. The Fund has value stock exposure through Longview, which tilts towards value stocks over growth stocks.
- The snapshot of the Fund's exposure to fossil fuels seen in the quarter 1 report is backwards looking and includes the UBS funds that the Committee agreed to divest from at the last meeting. These funds will fall out in future reporting and fossil fuel exposure will be reduced considerably as a consequence. Isio will present a report on the investment managers' approach to Environmental, Social and Governance (ESG) issues, including fossil fuel exposure, at the next Committee meeting.

6.3 The Committee RESOLVED to:

- 1) note the Action Log and Investment Workplan (appendix 1);
- 2) note the Quarterly Investment Report from the Investment Advisor, Isio (appendix2);
- 3) receive Fixed Income training (appendix 3);
- 4) note the Fixed Income Review of Current Holdings (appendix 4);
- 5) note the ACCESS Pool update;
- 6) note the high level carbon foot printing and energy transition scores for the Fund's managers.

## 7 GOVERNANCE REPORT

7.1 The Committee considered a report providing an update on various governance workstreams completed and changes effecting Local Government Pension Schemes (LGPS) and the ESPF specifically.

7.2 The Committee's discussion included the following key issues:

- The Pensions Administration Team (PAT) will meet again with Prudential at the end of June about the performance of their Additional Voluntary Contribution (AVC) service. The Fund will also be conducting a review of AVC providers in the near future and will come back to the Committee with any recommendations for action.
- As part of the new Risk Management Policy, the Committee should receive more timely updates of emerging risks including via email if the Committee is not due to meet when a risk emerges.

7.3 The Committee RESOLVED to:

- 1) Approve the change in the wording of the Internal Dispute Resolution (Appendix1);
- 2) Approve the new Risk Management policy (Appendix 2);
- 3) Note the potential change in The Pension Regulator (TPR) expectations;

- 4) Approve the new approach to manage requests for fees to be waived due to financial hardship (Appendix 4);
- 5) Approve the revised Governance and Compliance Statement (Appendix 6);
- 6) Note the planned production of an annual report of the Pension Board to the Pension Committee;
- 7) Note the update on the McCloud Working Group;
- 8) Note developments on the Scheme Advisory Board Good Governance project;
- 9) Note the update on Additional Voluntary Contributions (AVC's) and approve a review of the AVC provider later in the year; and
- 10) request more timely risk register proposed strategy management updates via email where appropriate.

## 8 ABATEMENT POLICY REVIEW

8.1 The Committee considered a report seeking approval for changes to the Administering Authority's policy on abatement.

8.2 The Committee asked what would happen to employees who will have returned to work under the old abatement policy between 2014 and 1 April 2021 and who may be entitled to move onto the new policy (back dated to 1 April 2021) but who may not be aware they are entitled to do so. The administration system does not flag whether someone has returned to work under an abated policy, so it is not known how many may be affected. Furthermore, not all members returning to work in the period 2014-2021 will have necessarily been subject to an abated pension, as it depends on the salary of the role they are returning to as to whether abatement was applied fully or in part, or not at all. This means only those with a suspended pension could be easily spotted. The only way to identify all those who are affected, and the costs involved in moving them all on to the new scheme, is to ask all members receiving a pension whether it has been abated, which the PAT intends to do but which may take some time. Once identified, these employees will have their pension put to the full monetary value as of 1 April 2021.

8.3 The Committee RESOLVED to:

- 1) approve the removal of the abatement with effect from 1 April 2021; and
- 2) delegate authority to the Chief Finance Officer, in consultation with the Chair, to take all necessary actions to give effect to the implementation of the above recommendation

## 9 PENSIONS ADMINISTRATION REPORT

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

9.2 The Committee RESOLVED to note the report.

## 10 INTERNAL AUDIT REPORTS AND INTERNAL AUDIT STRATEGY FOR THE PENSION FUND (ESPF)

10.1 The Committee considered a report containing a number of internal audit reports and seeking approval of the draft Internal Audit Strategy for Pensions 2021/22.

10.2 The Committee's discussion included the following key issues:

- Internal Audit will test the migration of all data from the instance of Altair held on Surrey County Council servers to East Sussex County Council to see if all data has transferred over successfully, or if there are any discrepancies. This will take place in July, once the project is complete.
- The Committee asked report authors to minimise jargon when describing internal audits. Definitions of terms like Altair and i-Connect should also be included for the benefit of new members.
- The two red rated actions in the Information Governance review are well underway to be resolved.

10.3 The Committee RESOLVED to:

1. note the internal audit reports attached as appendices 1-4; and
2. approve the 2021/22 Internal Audit Strategy for Pensions (Appendix 5).

## 11 EXTERNAL AUDIT PLAN FOR EAST SUSSEX PENSION FUND 2020/21

11.1 The Committee considered a report on the Fund's external audit plan for 2020/21.

11.2 The Committee resolved to note the report.

## 12 EMPLOYER ENGAGEMENT AND CONTRIBUTIONS REPORT

12.1 The Committee considered a report providing an update on Employer Engagement activities including communications; and the collection of Employer contributions up to March 2021 which were due on 19 April 2021.

12.2 The Committee resolved to note the report.

## 13 EAST SUSSEX PENSION FUND (ESPF) QUARTERLY BUDGET REPORT

13.1 The Committee considered a report on the latest quarterly Financial Outturn report for 2020/21.

13.2 The Committee RESOLVED to note the report.

## 14 RISK REGISTER

14.1 The Committee Considered the Fund's Risk Register.

14.2 The Committee discussed how the register at Appendix 1 is the overall strategic risk register covering high level administration, governance and investment risks. The investment risks are high-level macro-economic risks and the Committee has previously requested a more detailed investment risk register that sits beneath this strategic risk register. This will be produced following discussions at the strategy review day in July, where statement of investment principles will also be considered.

14.3 The Committee RESOLVED to agree the risk rating of new risks as set out in Appendix 1.

## 15 WORK PROGRAMME

15.1 The Committee considered its work programme.

15.2 The Committee's discussion included the following key issues:

- Consideration should be given to providing the Committee with some reports earlier than the statutory publication date of five clear working days before the meeting.
- Bite-sized training sessions are preferable to half-day sessions.

15.3 The Committee RESOLVED to agree its work programme.

## 16 EXCLUSION OF THE PUBLIC AND PRESS

16.1 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).

## 17 CARBON FOOTPRINT REPORT

17.1 The Committee considered a report providing an update on the carbon footprint of the Fund's liquid investments as at 31 March 2021.

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

17.3 The Committee RESOLVED to note the report.

## 18 INVESTMENT REPORT

18.1 The Committee considered a report providing an update on the investment activities undertaken by the Fund that are confidential exempt under the Local Government Act 1972.

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

18.3 The Committee RESOLVED to agree actions which are set out in an exempt minute.

## 19 PENSION FUND BREACHES LOG AND INTERNAL DISPUTE RESOLUTION PROCEDURE CASE REPORT

- 19.1 The Committee considered the ESPF breaches Log.
- 19.2 A summary of the discussion is set out in an exempt minute.
- 19.3 The Committee RESOLVED to agree the recommendations as set out in the report.

## 20 EMPLOYER ADMISSIONS AND CESSATIONS

- 20.1 The Committee considered an update on the latest admissions and cessations of employers within the Fund.
- 20.2 The Committee RESOLVED to agree the recommendations as set out in the report.

The meeting ended at 1.40 pm.

Councillor Gerard Fox (Chair)