

# **East Sussex Pension Fund Annual Report and Accounts**

**2014/2015**

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# 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, 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 106 participating employers. A full list of participating employers is given at note 27.

## 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 South East Shared Services (SESS) to undertake the day to day functions associated with the administration of the LGPS. The main services provided by SESS 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 SESS, the County Council takes its statutory responsibility very seriously. It has therefore, set up procedures to ensure that SESS 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 2013. 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 FRS17 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 the County Council. 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

There were major changes to the rules governing the benefit structure of the LGPS that were introduced from 1 April 2014.

These changes were as a consequence of the Government in 2010 commissioning Lord Hutton to chair an Independent Public Service Pensions Commission. The purpose of the Commission was to review public service pensions and to make recommendations on how they could be made sustainable and affordable in the long term, while being fair to both taxpayers and public sector workers. Lord Hutton's final report was published on 10 March 2011.

Subsequent negotiations between the local government employers and unions took place resulting in agreement on changes to the future shape of the LGPS. The revised arrangements took effect from 1 April 2014 changing the structure of the new scheme applying from 1 April 2014 to include:

- A Career Average Revalued Earnings (CARE) arrangement, revalued by CPI;
- Accrual rate of 1/49<sup>th</sup> of pensionable earnings ;
- Normal Pension Age in line with the member's State Pension Age;
- Contribution banding rates ranging from 5.5% to 12.5% depending on earnings;
- Employee contribution rates based on actual pay and to include all earnings;
- Minimum period of membership to qualify for a deferred pension 2 years;
- Members can opt to pay half contributions but only accrue half the pension, whilst retaining full value of death benefits ;

The reforms proposed by Lord Hutton also focussed on the delivery of governance within public sector pension schemes, and the generally expressed view is that the overall objective is to ensure benefits can be met as they fall due. As a result the new Scheme regulations will now require the establishment of a local pension board with responsibility for assisting the County Council as "scheme manager" in:-

- securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme and any statutory pension scheme connected with it;
- securing compliance with requirements imposed in relation to the scheme and any connected scheme by the Pensions Regulator, and
- such other matters as the scheme regulations may specify.

The East Sussex Pension Fund has grasped the impetus for change, and the opportunity to secure a sustainable and affordable future for the LGPS. This is reflected in our collaborative activities with SESS, our review of governance arrangements and the introduction of a dedicated website for pension scheme members (<http://www.eastsussexpensionfund.org>)

## 2. Management and financial performance report

### Scheme management and advisers

Responsibility for the investment of the Pension Fund is delegated to the County Council's Pension Fund Investment Panel Members and the Governance Committee. The Investment Panel comprises members representing districts and boroughs as well as the County Council. Employee representatives attend as non-voting members. The committee receives advice from the County Council's Chief Finance Officer, Actuary and an independent Investment Adviser.

#### 2014/15 Pension Fund Investment Panel Members

<b>East Sussex County Councillors:</b>	Richard Stogdon (Chairman) David Tutt Frank Carstairs	
<b>Brighton &amp; Hove Councillors:</b>	Andrew Wealls Leo Littman	
<b>District Councillor:</b>	Brian Redman	
<b>Staff Rep (Observer):</b>	Tony Watson	
<b>FUND MANAGERS:</b>		
Adams Street Partners	Harbourvest	Lazard
Legal and General	Longview Partners	Newton
Prudential M&G	Ruffer	Schroders
State Street Global Advisers	UBS Infrastructure	
<b>CUSTODIAN:</b>	Northern Trust	
<b>AVC PROVIDER:</b>	Prudential	
<b>ACTUARY:</b>	Hymans Robertson 20 Waterloo Street Glasgow G2 6DB	
<b>LEGAL ADVISORS:</b>	Appointed from National LGPS Framework for Legal Services	
<b>BANKERS TO THE FUND:</b>	Natwest	
<b>TREASURER:</b>	Marion Kelly Chief Finance Officer East Sussex County Council	
<b>AUDITOR:</b>	KPMG	
<b>SCHEME ADMINISTRATOR:</b>	South East Shared Service	
<b>INVESTMENT ADVISER:</b>	Hymans Robertson	
<b>INDEPENDENT ADVISER:</b>	William Bourne	
<b>Contact Addresses:</b>		
<b>Investments</b>	<b>LGPS policy or statutory requirements</b>	<b>Day-to-Day Matters</b>
John Shepherd	Wendy Neller	Graham Devenish
BSD Finance	BSD Finance	South East Shared Services
County Hall	County Hall	Tribune House, Bell Lane
St Anne's Crescent	St Anne's Crescent	Bellbrook Industrial Estate
Lewes, BN7 1UE	Lewes, BN7 1UE	Uckfield, TN22 1QL
(01273) 481785	(01273) 481904	(01825) 744591

## 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 these 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. In June 2014, the ESPF Investment Panel looked at the potential to adjust the risk in the investment strategy. This resulted in an agreed policy to de-risk at a target funding level of 85%, switching from equities into index-linked gilts.

The ESPF Statement of Investment Principles (see page 55) 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 10 to 14.

#### Fund Account

Net (Contributions)/withdrawals (*note 1*)  
 Management Expenses  
 Return on Investments  
**Net Increase in Fund**

2013/14 £000	2014/15 £000
(224)	90,586
9,632	10,037
(144,672)	(367,632)
<b>(135,264)</b>	<b>(267,009)</b>

#### Net Asset Statement

Bonds (*note 2*)  
 Equities  
 Pooled Funds (*note 2*)  
 Cash  
 Other  
**Total Investment Assets**

2013/14 £000	2014/15 £000
221,539	426,154
724,237	846,310
1,441,223	1,388,116
80,934	81,220
9,100	10,600
<b>2,477,033</b>	<b>2,752,400</b>

Notes:

1. £95m transfer of assets to the Greater Manchester Pension Fund as part of the Ministry of Justice consolidation of probation funds
2. £135m transfer of assets from passive equity to passive bonds

### Analysis of pension contributions

The table below shows the value of primary pension contributions received late.

Month	Employers	Number of Payments Received Late
April	101	6
May	101	4
June	101	3
July	103	2
August	105	2
September	105	3
October	106	4
November	105	4
December	104	0
January	104	2
February	103	1
March	105	4

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 for the 3 years to 31 March 2014.

### Fund Account

	2013/14		2014/15		2015/16
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Contributions	(118,400)	(122,217)	(125,500)	(119,590)	(124,200)
Payments	112,500	121,993	200,400	210,176	115,100
Administration expenses	1,100	1,127	1,140	1,085	1,620
Oversight and governance costs	630	630	640	572	590
Investment expenses	8,050	7,875	8,180	8,380	9,010
Net investment income	(22,600)	(23,922)	(24,900)	(26,235)	(27,300)
Change in market value	(187,300)	(120,750)	(179,700)	(341,397)	(206,000)
<b>Net increase in the Fund</b>	<b>(206,020)</b>	<b>(135,264)</b>	<b>(119,740)</b>	<b>(267,009)</b>	<b>(231,180)</b>

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

	2013/14		2014/15		2015/16
	Forecast £000	Actual £000	Forecast £000	Actual £000	Forecast £000
Equities	1,790,500	1,723,067	1,764,000	1,715,256	1,845,600
Bonds	236,700	221,540	236,200	426,154	454,300
Property	208,400	244,451	262,800	287,569	309,100
Alternatives	218,600	197,941	215,000	231,601	251,500
Cash	60,900	80,934	89,200	81,220	82,300
Other	15,500	9,100	9,800	10,600	11,400
<b>Total Investment Assets</b>	<b>2,530,600</b>	<b>2,477,033</b>	<b>2,577,000</b>	<b>2,752,400</b>	<b>2,954,200</b>

The forecasts for total investment assets are based on the actual figures multiplied by the forecast 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 long term forecasts are as follows:

Asset Class	Long Term Forecast Return
Equities	7.6%
Bonds	6.6%
Property	7.5%
Alternatives	8.6%
Cash	3.9%
<b>Total</b>	<b>7.4%</b>

These long term forecasts are provided by State Street Investment Analytics.



**Management Expenses**

	<b>2013/14</b>		<b>2014/15</b>		<b>2015/16</b>
	<b>Forecast £000</b>	<b>Actual £000</b>	<b>Forecast £000</b>	<b>Actual £000</b>	<b>Forecast £000</b>
<b>Pension Administration</b>					
ESCC Support Services	20	24	20	46	50
SESS Support Services	790	805	820	750	770
Supplies and Services	290	298	300	289	800
<b>Administration total</b>	<b>1,100</b>	<b>1,127</b>	<b>1,140</b>	<b>1,085</b>	<b>1,620</b>
<b>Oversight and governance costs</b>					
ESCC Support Services	220	220	220	232	240
Supplies and Services	410	420	430	348	360
Third Party Payments	100	107	110	154	160
Other Income	(100)	(117)	(120)	(162)	(170)
<b>Oversight and governance total</b>	<b>630</b>	<b>630</b>	<b>640</b>	<b>572</b>	<b>590</b>
<b>Investment Management</b>					
Supplies and Services	8,050	7,875	8,180	8,380	9,010
<b>Investment Management Total</b>	<b>8,050</b>	<b>7,875</b>	<b>8,180</b>	<b>8,380</b>	<b>9,010</b>
<b>Management Expenses Total</b>	<b>9,780</b>	<b>9,632</b>	<b>9,960</b>	<b>10,037</b>	<b>11,220</b>

**Pension overpayments**

2014/15	Number	Value £000
Overpaid Pensioners	40	22
Recoveries	31	14
Write Off	1	1

### 3. Investment policy and performance

#### Bodies which the fund is member, subscriber or signatory

National Association of Pension Funds

Local Authorities Pension Fund Forum

CIPFA Pensions Network

Club Vita

Local Government Association (LGPC)

Local Government Pension Scheme National Framework for Legal Services

#### Current Investment Arrangements

The Investment Panel ("the Panel") made slight changes to the Fund's investment manager structure and asset allocation over the course of the financial year to 31 March 2015.

The Fund's overall equity allocation was reduced by 5% through a reduction in the Legal & General UK and Global equity holdings following an improvement in the Fund's funding level. A corresponding allocation to index-linked gilts was implemented and is passively managed by Legal & General.

When considering the investment portfolio, diversification is one of the most important issues that the Panel considers. Rather than relying on a single investment decision, making a larger number of smaller decisions 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). This exposure has been increased, reducing the Fund's overall risk profile and providing additional diversification. The allocation to absolute return mandates provides further diversification. Uniquely, within those 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, which provides exposure to many different stocks and sectors.

The Fund is further diversifying 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 overall risk (which is consistent with the objectives of the Fund).

##### 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's two active global equity managers (now Lazard and Longview) employ approaches which both differ in terms of style and the inherent risk. 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 Investment Panel 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.

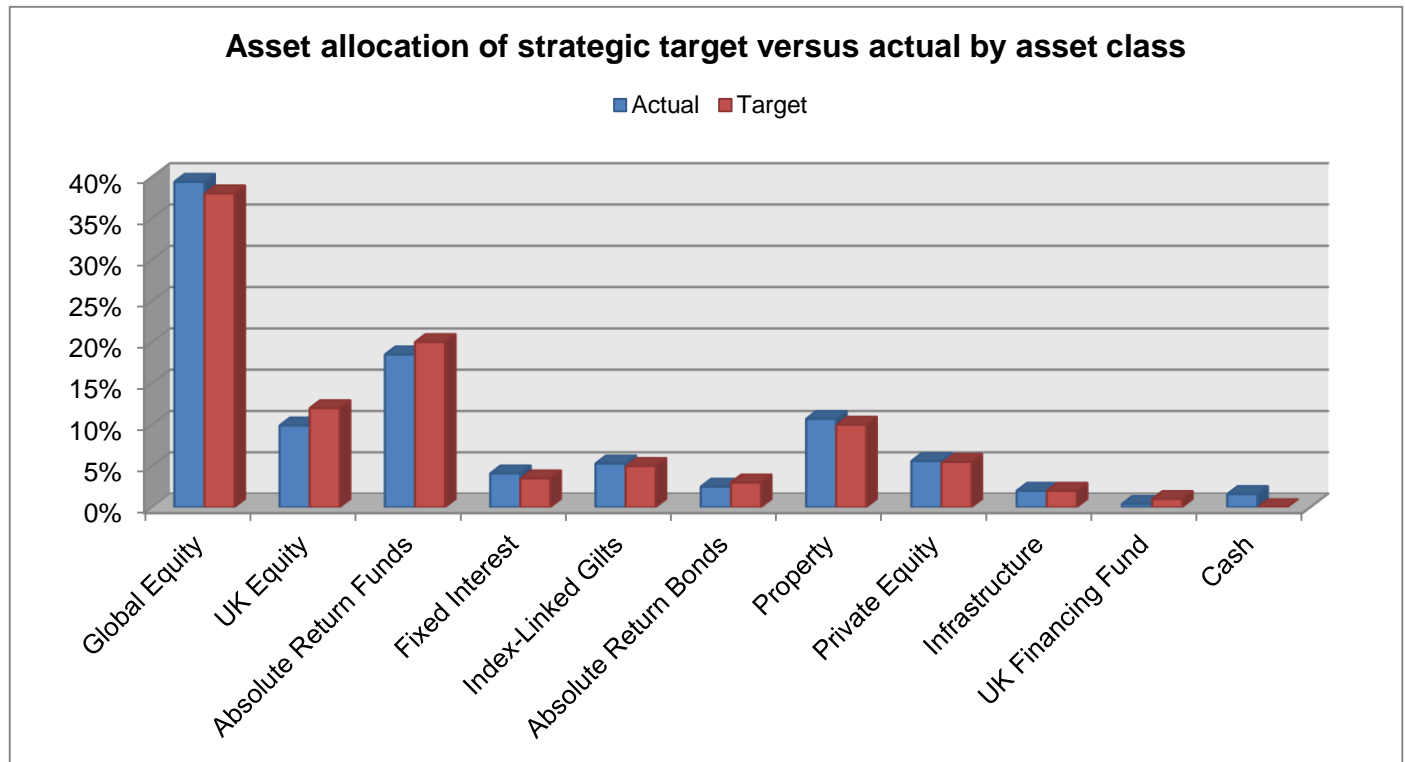
The responsibilities of the Custodian are:

- 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 2014	Actual	Target	Q1 2015	Actual	Target
L&G - Global Equities	250.0	10.1%	10.0%	216.4	7.9%	8.0%
Lazard - Global Equities	345.1	13.9%	15.0%	410.4	15.0%	15.0%
Longview - Global Equity	137.1	5.5%	5.0%	174.8	6.4%	5.0%
State Street - Fundamental Indexation	253.3	10.2%	10.0%	291.2	10.6%	10.0%
L&G - UK Equities	399.1	16.1%	15.0%	271.6	9.9%	12.0%
Newton - Absolute Return	233.8	9.4%	10.0%	250.1	9.1%	10.0%
Ruffer - Absolute Return	230.8	9.3%	10.0%	257.1	9.4%	10.0%
L&G - 5yr ILG	0.0	0.0%	0.0%	144.6	5.3%	5.0%
M&G - Bonds	163.4	6.6%	6.5%	180.8	6.6%	6.5%
Schroder - Property	252.0	10.2%	10.0%	300.5	11.0%	10.0%
M&G - Infrastructure Fund	31.6	1.3%	1.0%	33.5	1.2%	1.0%
UBS - Infrastructure	22.0	0.9%	1.0%	22.1	0.8%	1.0%
Adams Street - Private Equity	68.4	2.8%	2.8%	83.3	3.0%	2.8%
HarbourVest - Private Equity	60.0	2.4%	2.8%	70.0	2.6%	2.8%
M&G - UK Financing Fund	13.1	0.5%	1.0%	10.7	0.4%	1.0%
Cash account	22.9	0.9%	0.0%	25.4	0.9%	0.0%
<b>Total</b>	<b>2482.8</b>	<b>100.0%</b>	<b>100.0%</b>	<b>2742.4</b>	<b>100.0%</b>	<b>100.0%</b>

Set out below is the Fund's strategic target and actual allocations at the beginning and end of the 2014/2015 financial year.



During the year the Committee agreed to implement a modest de-risking of the investment strategy at a pre-determined funding level. The funding level was hit in March 2015 and a mix of global and UK equities were sold to fund a 5% allocation to index-linked gilts; target allocations to equities and gilts were changed to reflect the strategic de-risking.

## Investment performance

The Fund delivered an absolute return of 15% over the twelve month period to 31 March 2015, outperforming its customised benchmark by 2.7%. Note 28 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 10 years. 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.)			10 year (p.a.)		
	Fund	Benchmark	Relative	Fund	Benchmark	Relative	Fund	Benchmark	Relative
L&G - Global Equities	19.2%	19.0%	0.2%	14.2%	14.1%	0.1%	10.8%	10.8%	0.0%
Lazard - Global Equities	19.5%	19.2%	0.3%	12.9%	14.2%	-1.1%	10.1%	11.6%	-1.3%
Longview - Global Equity	28.4%	18.4%	8.4%	23.6%	12.7%	9.7%	N/A	N/A	N/A
State Street - Fundamental Indexation	14.8%	14.8%	0.0%	11.1%	11.2%	-0.1%	N/A	N/A	N/A
L&G - UK Equities	6.7%	6.6%	0.1%	10.7%	10.6%	0.1%	5.8%	5.7%	0.1%
Newton - Absolute Return	6.8%	1.5%	5.2%	6.1%	0.8%	5.3%	5.9%	0.8%	5.1%
Ruffer - Absolute Return	11.4%	0.5%	10.8%	7.2%	0.5%	6.7%	7.0%	0.6%	6.4%
L&G - 5yr ILG	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A	N/A
M&G - Bonds	11.1%	9.3%	1.6%	8.5%	5.7%	2.6%	6.8%	5.1%	1.6%
Schroder - Property	18.1%	16.6%	1.3%	11.2%	9.7%	1.4%	N/A	N/A	N/A
M&G - Infrastructure Fund <sup>1</sup>	29.4%	4.5%	23.9%	13.6%	4.5%	8.7%	N/A	N/A	N/A
UBS – Infrastructure <sup>1</sup>	1.5%	0.6%	0.9%	3.7%	0.6%	3.1%	N/A	N/A	N/A
Adams Street - Private Equity <sup>1</sup>	26.0%	19.0%	5.9%	15.3%	14.1%	1.1%	N/A	N/A	N/A
HarbourVest - Private Equity <sup>1</sup>	20.1%	19.0%	0.9%	10.8%	14.1%	-2.9%	N/A	N/A	N/A
M&G - UK Financing Fund <sup>1</sup>	4.9%	0.6%	4.3%	4.8%	0.6%	4.2%	N/A	N/A	N/A
<b>Cash account<sup>1</sup></b>	2.4%	0.4%	2.0%	0.9%	0.4%	0.5%	N/A	N/A	N/A

<sup>1</sup> Source: WM

The Funding Strategy Statement dated March 2014 has been in force throughout the year to 31 March 2015.

Contribution rates payable by participating employers over the year to 31 March 2015 were set at the 2013 valuation in line with the principles summarised in the Funding Strategy Statement. 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 the 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 2016/17 year.

**An analysis of fund assets as at the reporting date**

	<b>UK £m</b>	<b>Non-UK £m</b>	<b>Global £m</b>	<b>Total £m</b>
Equities	396	693	495	1,584
Bonds	438	37	6	481
Property (direct holdings)	-	-	-	-
Alternatives	288	-	244	532
Cash and cash equivalents	-	-	121	121
Other	-	13	9	22
<b>Total</b>	<b>1,122</b>	<b>743</b>	<b>875</b>	<b>2,740</b>

**An analysis of investment income accrued during the reporting period**

	<b>UK £000</b>	<b>Non-UK £000</b>	<b>Global £000</b>	<b>Total £000</b>
Equities	2,457	9,902	-	12,359
Bonds	1,824	314	-	2,138
Property (direct holdings)	-	-	-	-
Alternatives	9,177	-	2,658	11,835
Cash and cash equivalents	-	-	524	524
Other	-	-	-	-
<b>Total</b>	<b>13,458</b>	<b>10,216</b>	<b>3,182</b>	<b>26,856</b>

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%	94%
Deferred benefit notifications within specified timescales	100%	93%
Transfers in request values within specified timescales	100%	94%
Transfers in request payment within specified timescales	100%	94%
Transfers out provide quote within specified timescale	100%	95%
Transfers out make payment within specified timescale	100%	100%
Refunds - within specified timescales	100%	100%
Payslips despatched as per specification	100%	100%
Payroll accuracy - as specified	100%	100%
Payment of lump sums within specification	100%	93%
Estimates provided within specified timescales	100%	76%

	2013/14 4*	2014/15 7
Number Of Complaints		
*records begin from August 2013		

### Financial indicators of administrative efficiency

Unit Costs Per Member	East Sussex Pension Fund		Benchmark Unit Costs
	2013/14	2014/15	
Excluding investment management expenses	25.97	25.28	29.81
Including investment management expenses	150.94	153.09	126.78

### Key staffing indicators

Staffing numbers at South East Shared Service remained relatively consistent over the year at 31 March 2015 there were 16.4 full time equivalent members of Staff.

This provides the fund with a Staff to fund member ratio of 1:3,891.

With an average cases per member of staff of 1,388

### 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 27 to the accounts provides 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	71	23	94
Admitted body	35	14	49
Total	106	37	143

## EAST SUSSEX PENSION FUND REPORT AND ACCOUNTS 2014/15

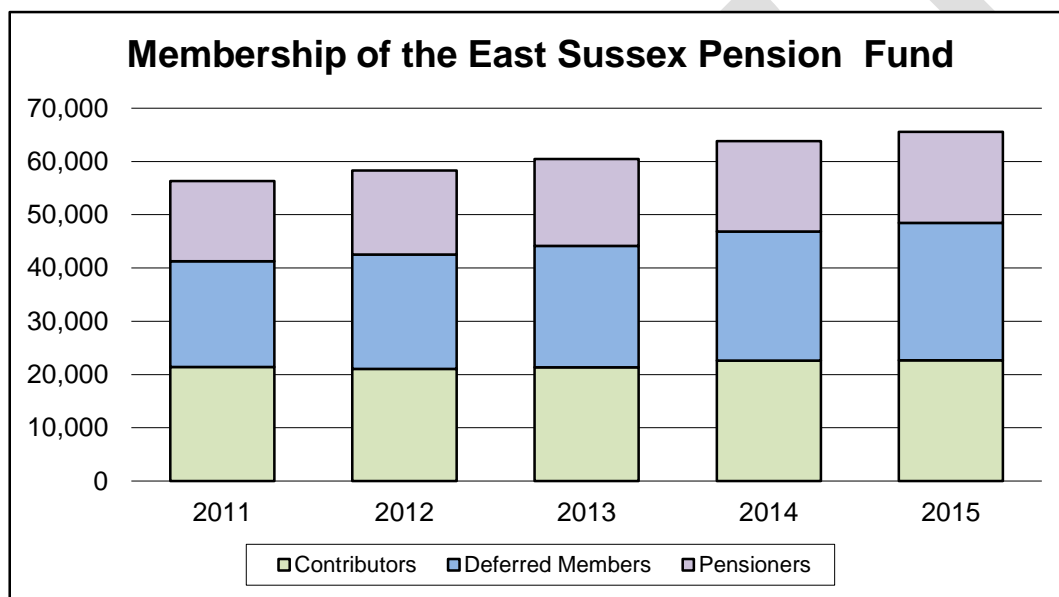
During 2013/14 the number of contributing members within the Pension Fund increased by 0.2% from 22,649 to 22,688. In summary, the number of members contributing to the Scheme is:

	2013/14	2014/15
East Sussex County Council	9,442	8,970
Scheduled Bodies	12,769	13,307
Admitted Bodies	438	411
<b>Total</b>	<b>22,649</b>	<b>22,688</b>

The number of pensioners in receipt of payments from the Fund increased from 16,993 to 17,117 (or 0.7%).

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

	March 2011	March 2012	March 2013	March 2014	March 2015
Active Members (contributors)	21,430	21,050	21,347	22,649	22,688
Pensioners (inc dependants)	15,027	15,738	16,276	16,993	17,117
Deferred Members	19,845	21,504	22,822	24,173	25,757





## 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](http://eastsussexpensionfund.org) provides scheme members and employers access to up to date information on the Local Government Pension Scheme. Along side 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](http://eastsussex.gov.uk/jobs/workingateastsussexcountycouncil/pensions/default.htm).

The County Council has entered in to a partnership arrangement with Surrey County Council known as South East Shared Services (SESS) to undertake the day to day functions associated with the pensions administration of the LGPS.

The Accounts and Pensions team and SESS 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 SESS comprises of 16.4 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 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 FRS17/ IAS19 information for employers;
- preparation of Pension Fund Committee 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:

	2014/15
<b>First Stage</b>	
Upheld	-
Declined	-
Ongoing	1
<b>Second Stage</b>	
Upheld	-
Declined	-
Ongoing	-

## 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 2013 and set the employer contribution rates from 1 April 2014 to 31 March 2017. 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 18 to the Pension Fund Accounts on page 47.

The common contribution rate for employers is 27.1% (Future Service Rate 19.4% plus Past Service Adjustment 7.7%) (2010: 20.4%). Average employee contributions were assumed to be 6.3% (2010: 6.6%).

Between the 2010 and 2013 valuation the funding position deteriorated:

- **Assets:** Although the Fund is not 100% funded on the Actuary's assumptions, the Fund exceeded its asset performance objectives over the period by £59m.
- **Liabilities:** When calculating the Fund's liabilities the Actuary will typically try to forecast when benefits will come into payment and what form these will take (demographic assumptions) and try to anticipate the size of these benefits (financial assumptions). A big driver in these calculations is the estimate of how much all these benefits will cost the Fund in today's money. This is based on government gilt yields, these have fallen over the three year period since the last valuation, pushing up the cost of liabilities by £319m having a significant impact on the total funding level.
- **Active membership profile:** The Fund membership is gradually maturing, meaning that the burden on contributing members of meeting the cost of the Fund's liabilities is becoming progressively greater. However, membership experience, such as actual pay awards versus expected pay awards have served to decrease the deficit at this valuation by around £13m.

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.

## 7. Governance Arrangements

### Governance Committee/Pension Fund Investment Panel

East Sussex County Council has a Governance Committee to exercise its functions as the Administering Authority for the Local Government Pension Scheme in East Sussex. This responsibility includes managing the investments of the Fund. The Governance Committee agreed to delegate certain of its responsibilities for managing the Fund's investments to the Investment Panel. The Committee has also delegated day-to-day management of the Fund's investments to professional investment managers. Legally binding agreements govern the relationship between East Sussex Pension Fund and the investment managers.

Irrespective of whether or not the Committee decides to delegate a function to an officer, it is essential that those making a decision receive proper advice from suitably qualified people or organisations (usually the Chief Finance Officer or the Fund's investment consultants and advisers). Nothing can override the responsibility of Members and Officers to comply with East Sussex County Council's Constitution, Financial Regulations, or Standing Orders.

The Local Government Pension Scheme (Management and Investment of Funds) Regulations provide the legal framework governing investments by the Pension Fund. Any decisions or actions taken by the Committee, Members or officers must comply with these regulations.

### Role of the Committee/Panel

The Investment Panel and Governance Committee exercises the functions of East Sussex County Council as administering authority for the Local Government Pension Scheme in East Sussex County. The Pension Panel comprises voting members representing East Sussex County Council, the employers and the employee unions. The Panel is supported by professional advisers and officers who principally oversee how the Scheme is run and how the assets of the Fund are managed. A large part of the work involves monitoring how the fund managers perform and the investments which they are responsible for.

One requirement in managing the Fund and reducing any risk, as far as possible, is to make sure the assets are spread over different asset classes, in different countries and between fund managers. We need to get the balance right between the desire for improved returns and the possible 'risk' of those returns dropping due to investment conditions. In addition, the Panel acknowledges the responsibility as a major shareholder. The Committee/Panel will also consider pension issues as they arise.

### The Panel responsibilities include the following items:

- The Fund's investment strategy
- The Statement of Investment Principles
- Approval of all policies
- The appointment of investment managers, consultants and the custodian
- Approval of the Annual Business Plan
- Approval of Annual Report and Accounts
- Acceptance of the triennial valuation report produced by the Fund Actuary

### The Chief Finance Officer and independent adviser have the responsibilities for the following:

- Managing and monitoring the investment managers, consultants and custodian
- Managing the Fund's cash assets directly held by the Administering Authority
- Transferring assets between the Administering Authority, the investment managers and custodian
- Accounting for all investment transactions
- Within limits, authorising expenditure from the Fund
- Paying the fees of the investment managers and the custodian
- Admitting organisations into the Pension Scheme after consulting the Panel Chairman

### Committee membership and attendance

During the year ended 31 March 2015 there were 5 meetings of the Pension Fund Investment Panel and one annual employers forum.

## Member attendance at panel meetings during 2014-15 Panel meetings attended

2014/15 Pension Fund Investment Panel Members		
		Nos. of meetings attended
East Sussex County Councillors:	Richard Stogdon (Chairman)	5/5
	David Tutt	5/5
	Frank Carstairs	4/5
Brighton & Hove Councillors:	Andrew Wealls	4/5
	Leo Littman*	0/1
	Ollie Sykes*	4/4
District Councillor:	Brian Redman	4/5
Staff Rep (Observer):	Tony Watson	5/5

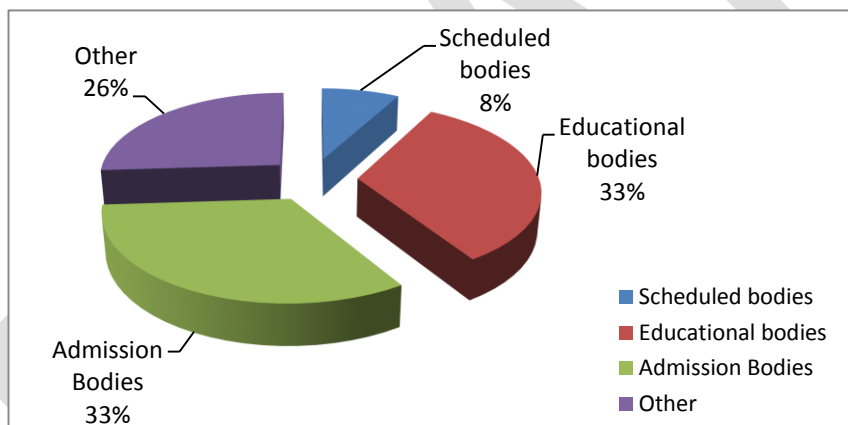
\*Councillor Littman was replaced by Councillor Sykes in June 2014

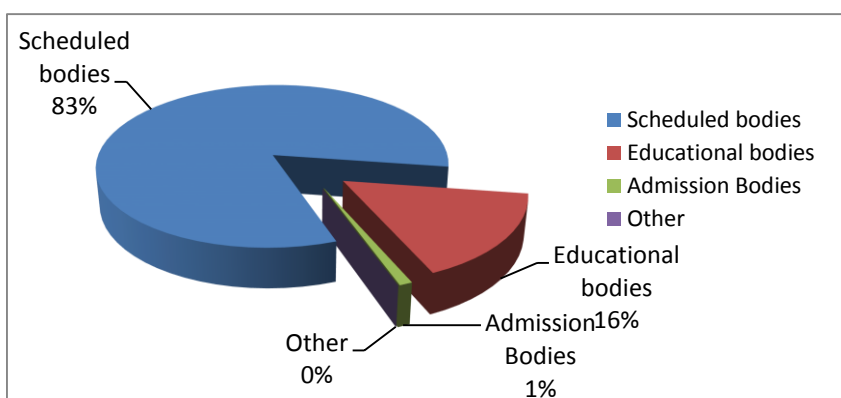
## Employer statistics by Employer type

Employer Type	Number of Employers as a percentage of total	Percentage of total fund membership	Number of Employers in Group
<b>Scheduled bodies</b>	8%	82%	8
<b>Educational bodies</b>	33%	16%	35
<b>Admission Bodies</b>	33%	1%	35
<b>Other</b>	26%	0%	28

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;
- 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 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 and governed by regulations made under the Superannuation Act 1972. 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.

Pensions and entitlements are still fully protected in law. The Scheme is open to all employees under age 75, whether they work full-time or part-time. East Sussex County Council automatically enrolls all employees into the Fund, as long as they have a contract of employment of more than three months duration. Employees with a contract of employment for less than three months may now join the LGPS upon application. All members of the scheme can choose to leave at any time.

**The Regulations relating to the Fund’s Assets**

The regulations relating to the management and investment of the Fund’s assets are contained in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. Under these regulations, we have to consider the different types of investments and their suitability, and to report regularly on all transactions. We must also get proper advice on investment matters.

## **Work programme and future challenges**

During 2014-15, the fund focussed on a number of key objectives, including the transition of the investment strategy and de-risking options. In conjunction with this the Fund continues to seek the best opportunities in the illiquid asset classes, such as infrastructure, to continue the journey to the approved asset allocations.

The other major consultations undertaken include the Secretary of State announcing a formal review of the future structure of the LGPS. The first stage of the process was for the Government to issue a call for evidence from all interested parties. As part of this review there were initially a number of objectives that they wished to consider on either a high or secondary level. The two main objectives were to deal with fund deficits and improve investment returns. The secondary objectives were to reduce investment fees; improve the flexibility of investment strategies; provide access to higher quality resources; provide more in-house investment capabilities; and to improve the cost effectiveness of the administration process. The Investment Panel considered these objectives and responded to the call for evidence.

After this process, the Secretary of State commissioned Hymans Robertson to undertake a cost-benefit analysis of proposals for reform, although Hymans Robertson were not requested to make recommendations from this analysis. On 1 May 2014, the Department for Communities and Local Government issued a formal consultation, based upon the call for evidence and the cost benefits analysis. The consultation established 3 main proposals which were:

- Establish common investment vehicles to provide funds with a mechanism to access economies of scale, helping them to invest more efficiently in listed and alternative assets and to reduce investment costs.
- Significantly reducing investment fees and management for listed assets, since the aggregate fund performance has been shown to replicate the market.
- Keeping asset allocation with the local fund authorities, and making available more transparent and comparable data to help identify the true cost of investment and achieve further efficiencies in the Scheme.

As part of the consultation, respondents to the consultation were also invited to submit any feasible proposals for the reduction of fund deficits. Once again the Pension Panel responded to this formal consultation and we now currently await the outcomes, if any, which we believe will be released after the 2015 general election.

## **The East Sussex Pension Board**

The Public Service Pensions Act 2013 makes it a mandatory requirement to establish a local Pension Board with responsibility for assisting the Scheme Manager (East Sussex County Council) in relation to securing compliance with the scheme regulations and other legislation relating to the governance and administration of the scheme. The Local Government Pension Scheme (Amendment) (Governance) Regulations 2015 were issued on 28 January 2015 and set out the terms for the local Pensions Board, which must be in place by 1 April 2015.

The County Council established the Board in time for the 1 April 2015 start date in compliance with the regulations. The East Sussex Pension Board will consist of 7 members:-

- An independent Chair
- 3 Employer representatives
- 3 Scheme member representatives

In November 2014, the East Sussex County Council Governance Committee agreed the new pension governance structure for the East Sussex Pension Fund ; a Pensions Committee, the decision making body, comprised solely of East Sussex County Council members, which replaces the now defunct Investment Panel. This new ESCC Pensions Committee will be supported by the new local Pension Board.

The Board's role is to assist the administering authority in carrying out its functions and complying with legislation. It is not a decision making body, so it will focus on ensuring that due diligence has been followed by the Pension Committee and officers in making decisions. It must ensure that the Fund understands the Pensions Regulator's requirements and it will also bring a stronger employer, scheme member voice to the Fund's governance. However the Board does not exercise delegated administering authority functions.

The methodology for appointing employer and member representatives, terms of appointment, governance and frequency of the meetings are all up to local discretion as long as the authority is satisfied that all members of the Pension Board have the relevant experience and capacity to undertake the role.

## **Governance compliance statement**

East Sussex County Council has adopted a Local Code of Corporate Governance, which is consistent with principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. This Local Code covers all of the staff, systems and other activities involved in or related to the County Council's role as administering authority of

the Pension Fund. A copy of the Local Code is on ESCC website at [www.eastsussex.gov.uk](http://www.eastsussex.gov.uk) or can be obtained from the Council's Monitoring Officer.

The Pension Fund has also adopted its own Governance Policy Statement, which sets out in more detail its key governance arrangements, and it is included within the Statement of Investment Principles (copies are available from the Fund's website [www.eastsussex.gov.uk/jobs/workingateastsussexcountycouncil/pensions/](http://www.eastsussex.gov.uk/jobs/workingateastsussexcountycouncil/pensions/)).

### **Governance Policy and Compliance Statement**

All Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish a Statement, which reflects the current governance position for the Fund and as such has been prepared by the administering authority in consultation with appropriate interested persons. This policy and compliance statement is included in the Fund's Statement of Investment Principles.

### **Investment Panel Training**

As the administering authority of the East Sussex Pension Fund, the Council recognises the importance of ensuring that all staff and members charged with the financial management and decision making with regard to the Fund are fully equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them. It therefore seeks to appoint individuals who are both capable and experienced and will provide training for staff and members of the decision making bodies to enable them to acquire and maintain an appropriate level of expertise, knowledge and skills.

It is not the intention that elected representatives should individually become technical experts, but collectively they have the ability, knowledge and confidence to question and challenge the information and advice they are given, and to make effective and rational decisions.

The following training was given to members of the East Sussex Pension Fund Investment Panel during the year:

Training for Panel members is primarily provided as an adjunct to Panel meetings by presentation from the Funds professional advisers. During 2014/2015 presentations were given on:

- Fund valuation and funding strategy
- Economic Reviews
- Property
- Liability Driven Investment, including De-Risking
- Passive Investment – Index tracking at Legal & General
- Environmental, Social and Governance issues
- Current Investment Issues
- Strategic and tactical asset allocation
- Fund Manager Reviews

The Annual East Sussex Pension Fund Investment Panel Training Day was hosted by Legal and General Investment Management Limited on 8 April 2014.

A specific one-off property trustee training session was organised at County Hall, in June 2014. This training session was presented by Schroders and covered the UK Commercial Property Market. This interactive training session enabled Panel Members to discuss and ask questions of the Schroders property experts.

### **Pension Board / Pensions Committee – Training arrangements**

Training sessions will be organised by the Scheme Manager, including some high quality pre-appointment training for Board members. The Pensions Board will agree and implement a programme of training in respect of all members of the Board to ensure that they are adequately trained properly to perform their respective duties. Board members will be expected to demonstrate their knowledge and understanding and to refresh and keep their knowledge up to date. They will also undertake a personal training needs analysis and maintain their own record of relevant training and development.

All new members will be given initial training on the operation of the East Sussex Pension Fund and their responsibilities. This will be supplemented by external training provided by the Funds consultants and one-off specific training sessions.



## 8. Fund account, net assets statement and notes

### a. East Sussex Pension Fund Account

2013/14		Notes	2014/15	
£000	£000		£000	£000
	<b>Dealings with members, employers and others directly involved in the fund</b>			
	Contributions	7		
(85,915)	From Employers		(87,237)	
(27,012)	From Members		(26,761)	
(112,927)				(113,998)
(9,290)	Transfers in from other pension funds	8	(5,592)	
(122,217)				(119,590)
114,518	Benefits	9	111,993	
7,475	Payments to and on account of leavers	10	98,183	
121,993			210,176	
(224)	<b>Net (additions)/withdrawals from dealings with members</b>			<b>90,586</b>
9,632	<b>Management expenses*</b>	11		<b>10,037</b>
	<b>Returns on investments</b>			
(24,616)	Investment income	12	(26,856)	
694	Taxes on income	13	621	
(120,750)	Profit and losses on disposal of investments and changes in the market value of investments	15a	(341,397)	
(144,672)	<b>Net return on investments</b>		(367,632)	
(135,264)	<b>Net increase in fund during the year</b>		(267,009)	
(2,344,276)	Add opening net assets of the scheme		(2,479,540)	
(2,479,540)	<b>Closing net assets of the scheme</b>		(2,746,549)	

\*This analysis of the costs of managing the East Sussex Pension Fund has been prepared in accordance with CIPFA guidance.

**b. Net Assets Statement for the year ended 31 March 2015**

31 March 2014 £000		Notes	31 March 2015 £000
2,393,629	Investment assets	15	2,667,422
2,470	Other Investment balances	20	3,758
80,934	Cash deposits	15	81,220
<b>2,477,033</b>			<b>2,752,400</b>
(2,338)	Investment liabilities	21	(12,486)
9,800	Current assets	20	10,570
(4,955)	Current liabilities	21	(3,935)
<b>2,479,540</b>	<b>Net assets of the fund available to fund benefits at the year end.</b>		<b>2,746,549</b>

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 19.

## 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 2015 and of the movements for the year then ended.

Marion Kelly  
Chief Finance Officer  
Business Services Department

## c. Notes to the East Sussex Pension Fund Accounts for the year ended 31 March 2015

### 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 2014/15 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 2009.

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 106 employer organisations within East Sussex Pension Fund including the County Council itself, as detailed below:

East Sussex Pension Fund	31 March 2014	31 March 2015
Number of employers participating in the scheme	99	106
<b>Number of employees</b>		
County Council	9,442	8,993
Other employees	13,207	13,695
<b>Total</b>	<b>22,649</b>	<b>22,688</b>
<b>Number of pensioners</b>		
County Council	7,428	7,671
Other employers	9,565	9,446
<b>Total</b>	<b>16,993</b>	<b>17,117</b>
<b>Deferred pensioners</b>		
County Council	11,321	12,360
Other employers	12,852	13,397
<b>Total</b>	<b>24,173</b>	<b>25,757</b>

## 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 2015. Employee contributions are matched by employers' contributions which are set based on triennial actuarial funding valuations. The last such valuation was at 31 March 2013. Currently, employer contribution rates range from 12.9% to 31.0% 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 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 uprated 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 2014/15 financial year and its position at year-end as at 31 March 2015. The accounts have been prepared in accordance with the requirements of the Local Government Pension Scheme (Administration) Regulations 2008, the Code of Practice on Local Authority Accounting in the United Kingdom 2014/15 issued by CIPFA which is based upon International Financial Reporting Standards (IFRS) as amended for UK public sector and the Financial Reports of Pension Schemes Statement of Recommended Practice.

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 a Statement of Investment Principles, a Funding Strategy Statement, Governance Policy Statement, Communications Policy Statement, Employers Contributions, Responsibilities of Key Parties, 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 Costs.

**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 2014/15, £1.3m of fees is based on such estimates (2013/14: £0.0m).

## 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 as follows:

- i) **Market-quoted investments**  
The value of an investment for which there is a readily available market price is determined by the bid market price ruling on the final day of the accounting period.
- ii) **Fixed interest securities** are recorded at net market value based on their current yields.
- iii) **The fair value of investments for which market quotations are not readily available is determined as follows:**
  - Directly held investments include investments in limited partnerships, shares in unlisted companies, trusts and bonds. Other unquoted securities typically include pooled investments in property, infrastructure, debt securities and private equity. The valuation of these pools or directly held securities is undertaken by the investment manager or responsible entity and advised as a unit or security price. The valuation standards followed in these valuations adhere to industry guidelines or to standards set by the constituent documents of the pool or the management agreement.
  - Investments in unquoted property and infrastructure pooled funds are valued at the net asset value or a single price advised by the fund manager.
  - Investments in private equity funds and unquoted listed partnerships are valued based on the fund's share of the net assets in the private equity fund or limited partnership using the latest financial statements published by the respective fund managers in accordance with the guidelines set out by the British Venture Capital Association.
- iv) **Limited partnerships**  
Fair value is based on the net asset value ascertained from periodic valuations provided by those controlling the partnership.
- v) **Pooled investment vehicles** are valued at closing bid price if both bid and offer prices are published; or if single priced, at the closing single price. In the case of pooled investment vehicles that are accumulation funds, change in market value also includes income which is reinvested in the fund, net of applicable withholding tax.

### 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.

Derivative contract assets are fair valued at bid prices and liabilities are fair valued at offer prices. Changes in the fair value of derivative contracts are included in change in market value.

The value of exchange traded options is determined using the exchange price for closing out the option at the reporting date. The value of over-the-counter contract options is based on quotations from an independent broker. Where this is not available, the value is provided by the Custodian using generally accepted option-pricing models with independent market data.

The future value of forward currency contracts is based on market forward exchange rates at the year-end date and determined as the gain or loss that would arise if the outstanding contract were matched at the year-end with an equal and opposite contract.

**j) Cash and cash equivalents**

Cash comprises cash in hand and demand deposits.

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 IAS 26, 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 19).

**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 section 4(2) (b) of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (SI 2009/3093) but are disclosed as a note only (Note 22).

#### 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 guidelines set out by the British Venture Capital Association. The value of unquoted private equities at 31 March 2015 was £153.9 million (£128.1 million at 31 March 2014).

**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 18. 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.

**Forward exchange contract adjustments**

In line with LGPS accounting guidance foreign exchange forward contracts are disclosed on a net basis. A gross basis was used in the prior year. This disclosure change has no impact on the net assets of the fund and no adjustment has been made to the prior year comparator figures.

#### 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 2015 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
<b>Actuarial present value of promised retirement benefits</b>	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.	<p>The effects on the net pension liability of changes in individual assumptions can be measured. For instance, for the 2013 Valuation the actuary advised that:</p> <ul style="list-style-type: none"> <li>• A 0.5% increase in the discount rate assumption would result in a decrease in the pension liability of approximately £253 million (9%).</li> <li>• A 0.5% increase in assumed earnings inflation would increase the value of liabilities by approximately £78 million (3%).</li> <li>• A 0.5% increase in the assumed prices inflation (increase in pensions) would increase the value of liabilities by approximately £197 million (7%).</li> <li>• A 1 year increase in assumed life expectancy would increase the liability by approximately £87 million (3%).</li> </ul>
<b>Debtors</b>	At 31 March 2015, the fund had a balance of sundry debtors of £2.3 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.
<b>Private equity</b>	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 £153.9 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 2015, and up to the date when these accounts were authorised that require any adjustments to these accounts.



**7: Contributions Receivable**

	<b>2013/14 £000</b>	<b>2014/15 £000</b>
<b>By category</b>		
Employers	85,915	87,237
Members	27,012	26,761
<b>Total</b>	<b>112,927</b>	<b>113,998</b>
<b>By authority</b>		
Scheduled bodies	63,059	62,033
Admitted bodies	7,805	9,620
Administrative Authority	42,063	42,345
<b>Total</b>	<b>112,927</b>	<b>113,998</b>
<b>By Type</b>		
Employee's normal contributions	27,012	26,761
Employer's normal contributions*	67,650	83,555
Employer's deficit recovery contributions*	16,925	3,104
Employer's augmentation contributions	1,340	578
<b>Total</b>	<b>112,927</b>	<b>113,998</b>

\*A new Rates and Adjustments Certificate came into effect from 1 April 2014 following the 31 March 2013 actuarial valuation. The new rates payable by employers were set in line with the funding strategy, as documented in the Funding Strategy Statement dated March 2014.

The total employer contribution rates payable from 1 April 2014 were split as follows:

- the amount required to meet the expected cost of benefit accrual, as determined at the 2013 valuation, expressed as a percentage of pensionable pay, and
- The amount payable towards the recovery of any past service deficit, expressed as monetary amounts.

Implementation of the funding strategy at the 2013 valuation led to a slight increase in the total employer contributions received over the 2014/15 year (relative to the 2013/14 year). The element of total contributions expressed as a percentage of pensionable pay (i.e. in respect of the expected cost of benefit accrual) increased from 16% for the 2013/14 year (i.e. the future service rate from the 2010 valuation) to 19.4% for the 2014/15 year (i.e. the future service rate from the 2013 valuation). As a result, the portion of total contributions expressed as a percentage of pay increased in the 2014/15 year, leading to a reduction in the share of total contributions expressed as a monetary amount.

**8: Transfers in from other pension funds**

	<b>2013/14 £000</b>	<b>2014/15 £000</b>
Group transfers	2,952	719
Individual transfers	6,338	4,873
<b>Total</b>	<b>9,290</b>	<b>5,592</b>

**9: Benefits payable**

	<b>2013/14 £000</b>	<b>2014/15 £000</b>
<b>By category</b>		
Pensions	92,736	95,040
Commutation and lump sum retirement benefits	19,634	15,584
Lump sum death benefits	2,148	1,369
<b>Total</b>	<b>114,518</b>	<b>111,993</b>
<b>By authority</b>		
Scheduled bodies	65,299	61,933
Admitted bodies	3,861	3,962
Administrative Authority	45,358	46,098
<b>Total</b>	<b>114,518</b>	<b>111,993</b>

**10: Payments to and on account of leavers**

	<b>2013/14</b>	<b>2014/15</b>
	<b>£000</b>	<b>£000</b>
Refunds to members leaving service	9	160
Group transfers*	1,122	95,097
Individual transfers	6,344	2,926
<b>Total</b>	<b>7,475</b>	<b>98,183</b>

During 2014/15 the Ministry of Justice (MoJ) merged the 35 probation trust pension funds into a single fund hosted within the Local Government Pension Scheme. The MoJ appointed the Greater Manchester Pension Fund (GMPF) to manage the assets and liabilities of these 35 trusts. As part of this merger the Surrey and Sussex Probation Board's assets and liabilities were transferred to the GMPF the value of this group transfer was £95m.

**11: Management expenses**

	<b>2013/14</b>	<b>2014/15</b>
	<b>£000</b>	<b>£000</b>
Administrative costs	1,127	1,085
Oversight and governance costs	630	572
Investment management expenses	7,875	8,380
<b>Total</b>	<b>9,632</b>	<b>10,037</b>

This analysis of the costs of managing the East Sussex Pension Fund during the period has been prepared in accordance with CIPFA guidance.

The investment management expenses above includes £273.4k in respect of transaction costs.

In addition to these costs, indirect costs are incurred through the bid-offer spread on investments sales and purchases. These are reflected in the cost of investment acquisitions and in the proceeds from the sales of investments (see Note 15a).

The external auditor appointed to audit the fund is KPMG their fee for 2014/15 was £27k (£30k 2013/14) and this is included within oversight and governance costs. Fees include only the statutory audit of the fund and no non-audit services have been provided.

**12: Investment income**

	<b>2013/14</b>	<b>2014/15</b>
	<b>£000</b>	<b>£000</b>
Fixed interest securities	1,900	1,543
Index linked securities	600	594
Equity dividends	11,520	12,352
Private equity income	19	7
Pooled property investments	7,189	9,149
Pooled investments - unit trusts and other managed funds	2,983	2,672
Interest on cash deposits	374	524
Class Actions	31	15
<b>Total</b>	<b>24,616</b>	<b>26,856</b>

The 2013/14 figures have been represented to ensure the presentation of this note is in line with CIPFA guidance.

**13: Taxes on income**

	<b>2013/14</b>	<b>2014/15</b>
	<b>£000</b>	<b>£000</b>
Withholding tax - equities	(404)	(382)
Withholding tax - pooled	(290)	(239)
<b>Total</b>	<b>(694)</b>	<b>(621)</b>

**14: Investment expenses**

	<b>2013/14</b>	<b>2014/15</b>
	<b>£000</b>	<b>£000</b>
Management fees	7,727	8,277
Custody fees	148	103
<b>Total</b>	<b>7,875</b>	<b>8,380</b>

This analysis of the investment expenses of managing the East Sussex Pension Fund during the period has been prepared in accordance with CIPFA guidance.

During the year, the Pension Fund incurred fees of £2.4m (£2.1m in 2013/14) on its private equity investments and fees of £0.8m (£0.8m in 2013/14) on its infrastructure investments. These fees are deducted at the individual portfolio level rather than being paid directly by the Pension Fund. As such, any amounts paid as fees will be reflected in a reduction of the distributions received.

**15: Investments**

	<b>2013/14</b>	<b>2014/15</b>
	<b>£000</b>	<b>£000</b>
<b>Investment assets</b>		
Fixed interest securities	162,880	180,186
Index Linked	58,659	245,968
Equities	596,116	692,429
Pooled Investments	1,139,887	1,033,431
Pooled property investments	244,451	287,569
Private equity/infrastructure	181,777	215,199
Commodities	6,631	6,842
Multi Asset	3,228	5,798
<b>Derivative contracts:</b>		
Forward Currency Contracts	316	207
	<b>2,393,945</b>	<b>2,667,629</b>
Cash deposits with Custodian	80,934	81,220
Other Investment balances (Note 20)	2,154	3,551
<b>Total investment assets</b>	<b>2,477,033</b>	<b>2,752,400</b>
Investment Liabilities (Note 21)	(2,327)	(10,973)
Derivative Contracts - Forward Currency	(11)	(1,513)
<b>Total Investment Liabilities</b>	<b>(2,338)</b>	<b>(12,486)</b>
<b>Net investment assets</b>	<b>2,474,695</b>	<b>2,739,914</b>

The 2013/14 figures have been represented to ensure the presentation of this note is in line with CIPFA guidance.

**15a: Reconciliation of movements in investments and derivatives**

	Market value 1 April 2014	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 2015
	£000	£000	£000	£000	£000
Fixed interest securities	162,880	37,219	(37,867)	17,954	180,186
Index Linked	58,659	195,656	(28,694)	20,347	245,968
Equities	596,116	120,689	(170,522)	146,146	692,429
Pooled investments	1,139,887	2,072	(198,456)	89,928	1,033,431
Pooled property investments	244,451	22,730	(14,195)	34,583	287,569
Private equity/infrastructure	181,777	29,316	(30,593)	34,699	215,199
Commodities	6,631	-	-	211	6,842
Multi Asset	3,228	6,263	-	(3,693)	5,798
	<b>2,393,629</b>	<b>413,945</b>	<b>(480,327)</b>	<b>340,175</b>	<b>2,667,422</b>
<b>Derivative contracts</b>					
■ Futures	-	-	-	-	-
■ Purchased/written options	-	-	-	-	-
■ Forward currency contracts	305	7,886	(9,824)	327	(1,306)
	<b>2,393,934</b>	<b>421,831</b>	<b>(490,151)</b>	<b>340,502</b>	<b>2,666,116</b>
<b>Other investment balances:</b>					
■ Cash deposits	80,934			895	81,220
■ Other Investment Balances	2,154				3,551
■ Investment Liabilities	(2,327)				(10,973)
<b>Net investment assets</b>	<b>2,474,695</b>			<b>341,397</b>	<b>2,739,914</b>

	Market value 1 April 2013	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 2014
	£000	£000	£000	£000	£000
Fixed interest securities	156,837	1,936	-	4,107	162,880
Index Linked	64,412	16,404	(17,630)	(4,527)	58,659
Equities	459,951	496,935	(388,033)	27,263	596,116
Pooled investments	1,209,533	98,567	(238,696)	70,483	1,139,887
Pooled property investments	192,773	47,660	(16,336)	20,354	244,451
Private equity/infrastructure	185,765	19,996	(25,113)	1,129	181,777
Commodities	11,998	635	(2,832)	(3,170)	6,631
Multi Asset	1,297	8,408	(5,410)	(1,067)	3,228
	<b>2,282,566</b>	<b>690,541</b>	<b>(694,050)</b>	<b>114,572</b>	<b>2,393,629</b>
<b>Derivative contracts</b>					
■ Futures	-	632	-	(632)	-
■ Purchased/written options	202	-	(124)	(78)	-
■ Forward currency contracts	(1,104)	5,296	(11,058)	7,171	305
	<b>2,281,664</b>	<b>696,469</b>	<b>(705,232)</b>	<b>121,033</b>	<b>2,393,934</b>
<b>Other investment balances:</b>					
■ Cash deposits	58,468			(283)	80,934
■ Other Investment Balances	80,284				2,154
■ Investment Liabilities	(81,629)				(2,327)
<b>Net investment assets</b>	<b>2,338,787</b>			<b>120,750</b>	<b>2,474,695</b>

The 2013/14 figures have been represented to ensure the presentation of this note is in line with CIPFA guidance.

Transaction costs incurred during the year total £273.4k (£819k in 2013/14). In addition to these costs, indirect costs are incurred through the bid-offer spread on investments within pooled investments.

**15b: Analysis of investments (excluding derivative contracts)**

	2013/14 £000	2014/15 £000
<b>Fixed interest securities</b>		
<b>UK</b>		
Corporate quoted	162,880	180,186
	<b>162,880</b>	<b>180,186</b>
<b>Index linked Securities</b>		
<b>UK</b>		
Public sector quoted	35,580	209,174
<b>Overseas</b>		
Public sector quoted	23,079	36,794
	<b>58,659</b>	<b>245,968</b>
<b>Equities</b>		
<b>UK</b>		
Quoted	75,434	87,439
Unquoted	12,936	10,603
<b>Overseas</b>		
Quoted	507,746	594,387
	<b>596,116</b>	<b>692,429</b>
<b>Pooled funds - additional analysis</b>		
<b>UK</b>		
Unit trusts	654,420	538,178
<b>Overseas</b>		
Unit trusts	485,467	495,253
	<b>1,139,887</b>	<b>1,033,431</b>
Pooled property investments	244,451	287,569
Private equity/infrastructure	181,777	215,199
Commodities	6,631	6,842
Multi Asset	3,228	5,798
	<b>436,087</b>	<b>515,408</b>
	<b>2,393,629</b>	<b>2,667,422</b>

The 2013/14 figures have been represented to ensure the presentation of this note is in line with CIPFA guidance.

**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. During the year the fund bought 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
Greater than 2 months	GBP	6,153	EUR	(8,270)	163	-
Greater than 2 months	GBP	46,686	USD	(71,071)	-	(1,213)
Greater than 2 months	EUR	8,270	GBP	(5,987)	28	(24)
Greater than 2 months	GBP	19,913	JPY	(3,585,214)	15	(270)
Up to 2 months	USD	1,366	GBP	(919)	1	-
Up to 2 months	GBP	38	USD	(57)	-	-
Up to 2 months	JPY	143,605	GBP	(810)	-	(3)
Up to 2 months	GBP	514	SGD	(1,048)	-	(1)
Up to 2 months	GBP	530	CAD	(999)	-	(2)
Up to 2 months	GBP	281	HKD	(3,232)	-	-
					207	(1,513)
<b>Net forward currency contracts at 31 March 2015</b>						<b>(1,306)</b>
<b>Prior year comparative</b>						
Open forward currency contracts at 31 March 2014					316	(11)
<b>Net forward currency contracts at 31 March 2014</b>						<b>305</b>

**Investments analysed by fund manager**

	Market value 31 March 2014		Market value 31 March 2015	
	£000	%	£000	%
Prudential M&G	96,060	3.9%	112,502	4.1%
East Sussex Pension Fund Cash	22,975	0.9%	25,337	0.9%
UBS Infrastructure Fund	22,035	0.9%	22,081	0.8%
Prudential Infracapital	31,621	1.3%	39,237	1.4%
Legal & General	647,469	26.3%	631,265	23.1%
M&G UK Financing Fund	12,936	0.5%	10,603	0.4%
Schroders Property	247,740	10.0%	294,110	10.7%
Harbourvest Strategies	60,042	2.4%	69,800	2.5%
Adams St Partners	68,433	2.8%	85,379	3.1%
M&G Absolute Return Bonds	66,828	2.7%	67,699	2.5%
Ruffer LLP	229,982	9.3%	256,733	9.4%
Lazard Asset Management	344,862	13.9%	410,206	15.0%
Newton Investment Management	233,496	9.4%	249,719	9.1%
Longview Partners	136,926	5.5%	174,558	6.4%
State Street Global Advisers	253,290	10.2%	290,685	10.6%
	<b>2,474,695</b>		<b>2,739,914</b>	

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

Security	Market Value 31 March 2014	% of total fund	Market value 31 March 2015	% of total fund
	£000		£000	
State Street Fundamental Index	253,325	10.2%	290,724	10.6%
L&G UK Equity Index	398,147	16.1%	270,937	9.9%
Newton Real Return (Pooled Fund)	233,832	9.4%	250,075	9.1%
L&G Over 5 year Index Gilt Linked	-	-	144,327	5.3%
L&G North America Equity Index	129,967	5.3%	116,763	4.3%

**15c: Stock lending**

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

**16: Financial instruments****16a: 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 2014			31 March 2015		
Market value Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost	Market value Designated as fair value through profit and loss	Loans and receivables	Financial liabilities at amortised cost
£000	£000	£000	£000	£000	£000
<b>Financial Assets</b>					
162,880	-	-	Fixed interest securities	180,186	-
58,659	-	-	Index linked	245,968	-
596,116	-	-	Equities	692,429	-
1,139,887	-	-	Pooled investments	1,033,431	-
244,451	-	-	Pooled property investments	287,569	-
181,777	-	-	Private equity/infrastructure	215,199	-
6,631	-	-	Commodities	6,842	-
3,228	-	-	Multi Asset	5,798	-
316	-	-	Derivative contracts	207	-
-	80,934	-	Cash	-	81,220
2,154	-	-	Other investment balances	3,551	-
-	9,800	-	Debtors	-	10,570
<b>2,396,099</b>	<b>90,734</b>	-	<b>Total Financial Assets</b>	<b>2,671,180</b>	<b>91,790</b>
<b>Financial liabilities</b>					
(11)	-	-	Derivative contracts	(1,513)	-
(2,327)	-	-	Other investment balances	(10,973)	-
-	-	(4,955)	Creditors	-	(3,935)
<b>(2,338)</b>	-	<b>(4,955)</b>	<b>Total Financial Liabilities</b>	<b>(12,486)</b>	<b>-</b>
<b>2,393,761</b>	<b>90,734</b>	<b>(4,955)</b>	<b>Total Financial Instruments</b>	<b>2,658,694</b>	<b>91,790</b>

The 2013/14 figures have been represented to ensure the presentation of this note is in line with CIPFA guidance.

**16b: Net gains and losses on financial instruments**

	31 March 2014 £000	31 March 2015 £000
<b>Financial assets</b>		
Fair value through profit and loss	113,902	340,180
Loans and receivables	(286)	890
<b>Financial liabilities</b>		
Fair value through profit and loss	7,133	327
<b>Total</b>	<b>120,750</b>	<b>341,397</b>

**16c: Fair value of financial instruments and liabilities**

The following table summarises the carrying values of the financial assets and financial liabilities by class of instrument compared with their fair values.

	31 March 2014		31 March 2015	
	Carrying value	Fair value	Carrying value	Fair value
	£000	£000	£000	£000
<b>Financial assets</b>				
Fair value through profit and loss	2,396,099	2,396,099	2,671,180	2,671,180
Loans and receivables	90,734	90,734	91,790	91,790
<b>Total financial assets</b>	<b>2,486,833</b>	<b>2,486,833</b>	<b>2,762,970</b>	<b>2,762,970</b>
<b>Financial liabilities</b>				
Fair value through profit and loss	(2,338)	(2,338)	(12,486)	(12,486)
Financial liabilities at amortised cost	(4,955)	(4,955)	(3,935)	(3,935)
<b>Total financial liabilities</b>	<b>(7,293)</b>	<b>(7,293)</b>	<b>(16,421)</b>	<b>(16,421)</b>

The authority has not entered into any financial guarantees that are required to be accounted for as financial instruments.

**16d: Valuation of financial instruments carried at fair value**

The valuation of financial instruments has been classified into three levels, according to the quality and reliability of information used to determine fair values.

**Level 1**

Financial instruments 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**

Financial instruments 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 and where these techniques use inputs that are based significantly on observable market data.

**Level 3**

Financial instruments 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.

Such instruments would include unquoted equity investments which are valued using various valuation techniques that require significant judgement in determining appropriate assumptions.

The values of the investment in private equity are based on valuations provided by the general partners to the private equity funds in which East Sussex Pension Fund has invested.

These valuations are prepared in accordance with the International Private Equity and Venture Capital Valuation Guidelines, which follow the valuation principles of IFRS and US GAAP. Valuations are usually undertaken annually at the end of December. Cash flow adjustments are used to roll forward the valuations to 31 March as appropriate.



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	
Values at 31 March 2015	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	1,764,750	294,505	611,925	2,671,180
Loans and receivables	91,790	-	-	91,790
<b>Total financial assets</b>	<b>1,856,540</b>	<b>294,505</b>	<b>611,925</b>	<b>2,762,970</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit and loss	(12,486)	-	-	(12,486)
Financial liabilities at amortised cost	(3,935)	-	-	(3,935)
<b>Total financial liabilities</b>	<b>(16,421)</b>	<b>-</b>	<b>-</b>	<b>(16,421)</b>
<b>Net financial assets</b>	<b>1,840,119</b>	<b>294,505</b>	<b>611,925</b>	<b>2,746,549</b>

	Quoted market price	Using observable inputs	With Significant unobservable inputs	
Values at 31 March 2014	Level 1 £000	Level 2 £000	Level 3 £000	Total £000
<b>Financial assets</b>				
Financial assets at fair value through profit and loss	1,643,063	241,032	512,004	2,396,099
Loans and receivables	90,734	-	-	90,734
<b>Total financial assets</b>	<b>1,733,797</b>	<b>241,032</b>	<b>512,004</b>	<b>2,486,833</b>
<b>Financial liabilities</b>				
Financial liabilities at fair value through profit and loss	(2,338)	-	-	(2,338)
Financial liabilities at amortised cost	(4,955)	-	-	(4,955)
<b>Total financial liabilities</b>	<b>(7,293)</b>	<b>-</b>	<b>-</b>	<b>(7,293)</b>
<b>Net financial assets</b>	<b>1,726,504</b>	<b>241,032</b>	<b>512,004</b>	<b>2,479,540</b>

## 17: 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 2015/16 reporting period:

Asset Type	Potential Market Movements (+/-)
Index linked Bonds	5%
Other Bonds	10%
UK equities	17%
Overseas equities	20%
Overseas equity unit trusts	20%
Pooled property investments	15%
Private Equity	29%
Infrastructure funds	16%
Commodities	14%
Cash	1%

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	Value as at 31 March 2015 £000	Percentage change %	Value on increase £000	Value on decrease £000
<b>Cash and Cash Equivalents</b>	81,220	1%	82,032	80,408
<b>Investment portfolio assets:</b>				
Index Linked Bonds	245,968	5%	258,266	233,670
Other Bonds	180,186	10%	198,205	162,167
UK equities	636,219	17%	744,376	528,062
Overseas equities	594,387	20%	713,264	475,510
Overseas equity unit trusts	495,254	20%	594,305	396,203
Pooled property investments	287,569	15%	330,704	244,434
Private equity	153,880	29%	198,505	109,255
Infrastructure funds	61,319	16%	71,130	51,508
Commodities	6,842	14%	7,800	5,884
Multi Asset	5,798	-	5,798	5,798
Net derivative assets	(1,306)	-	(1,306)	(1,306)
Investment income due	2,010	-	2,010	2,010
Amounts receivable for sales	1,526	-	1,526	1,526
Amounts payable for purchases	(9,132)	-	(9,132)	(9,132)
<b>Total assets available to pay benefits</b>	<b>2,741,740</b>		<b>3,197,483</b>	<b>2,285,997</b>

Asset Type	Value as at 31 March 2014 £000	Percentage change %	Value on increase £000	Value on decrease £000
<b>Cash and Cash Equivalents</b>	80,934	1%	81,743	80,125
<b>Investment portfolio assets:</b>				
Total Bonds	221,539	10%	243,693	199,385
UK equities	742,790	17%	869,063	616,516
Overseas equities	507,746	19%	604,218	411,274
Overseas equity unit trusts	485,467	19%	577,706	393,228
Pooled property investments	244,451	15%	281,119	207,783
Private equity	128,121	28%	163,995	92,247
Infrastructure funds	53,656	16%	62,241	45,071
Commodities	6,631	14%	7,559	5,703
Multi Asset	3,228	-	3,228	3,228
Net derivative assets	305	-	305	305
Investment income due	1,787	-	1,787	1,787
Amounts receivable for sales	359	-	359	359
Amounts payable for purchases	(671)	-	(671)	(671)
<b>Total assets available to pay benefits</b>	<b>2,476,343</b>		<b>2,896,345</b>	<b>2,056,340</b>

### 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 2015 and 31 March 2014 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 2014	As at 31 March 2015
	£000	£000
Cash with Custodian	80,934	81,220
Cash balances	(882)	(246)
Fixed interest securities	162,880	180,186
<b>Total</b>	<b>242,932</b>	<b>261,160</b>

#### 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. An 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 2015	Effect on asset values	
		+ 100 BPS	- 100 BPS
	£000	£000	£000
Cash and cash equivalents	81,220	-	-
Cash balances	(246)	-	-
Fixed interest securities	180,186	1,802	(1,802)
<b>Total change in assets available</b>	<b>261,160</b>	<b>1,802</b>	<b>(1,802)</b>

Asset type	Carrying amount as at 31 March 2014	Effect on asset values	
		+ 100 BPS	- 100 BPS
	£000	£000	£000
Cash and cash equivalents	80,934	-	-
Cash balances	(882)	-	-
Fixed interest securities	162,880	1,629	(1,629)
<b>Total change in assets available</b>	<b>242,932</b>	<b>1,629</b>	<b>(1,629)</b>

This analysis of the interest rate risk for the East Sussex Pension Fund during the period has been prepared in accordance with CIPFA guidance.

Income Source	Amount receivable in year ending 31 March 2015	Effect on income values	
		+ 100 BPS	- 100 BPS
	£000	£000	£000
Cash deposits/cash and cash equivalents	524	810	(810)
Fixed interest securities	1,537	-	-
<b>Total change in assets available</b>	<b>2,061</b>	<b>810</b>	<b>(810)</b>

Income Source	Amount receivable in year ending 31 March 2014	Effect on income values	
		+ 100 BPS	- 100 BPS
	£000	£000	£000
Cash deposits/cash and cash equivalents	374	801	(801)
Fixed interest securities	1,900	-	-
<b>Total change in assets available</b>	<b>2,274</b>	<b>801</b>	<b>(801)</b>

This analysis of the interest rate risk for the East Sussex Pension Fund during the period has been prepared in accordance with CIPFA guidance.

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 2015 and as at the previous period end:

Currency exposure - asset type	Asset value as at 31 March 2014	Asset value as at 31 March 2015
	£000	£000
Overseas index linked	23,079	36,794
Overseas quoted securities	507,746	594,387
Overseas unit trusts	485,467	495,253
<b>Total overseas assets</b>	<b>1,016,292</b>	<b>1,126,434</b>

### 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 13% (as measured by one standard deviation).

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

A 13% 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	Asset value as at 31 March 2015	Change to net assets available to pay benefits	
		+13%	-13%
	£000	£000	£000
Overseas Index Linked	36,794	41,577	32,011
Overseas quoted securities	594,387	671,657	517,117
Overseas unit trusts	495,253	559,636	430,870
<b>Total change in assets available</b>	<b>1,126,434</b>	<b>1,272,870</b>	<b>979,998</b>

Currency exposure - asset type	Asset value as at 31 March 2014 £000	Change to net assets available to pay benefits	
		+13% £000	-13% £000
Overseas Index Linked	23,079	26,079	20,079
Overseas quoted securities	507,746	573,753	441,739
Overseas unit trusts	485,467	548,578	422,356
<b>Total change in assets available</b>	<b>1,016,292</b>	<b>1,148,410</b>	<b>884,174</b>

## 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 receipt 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 2014 £000	Asset value as at 31 March 2015 £000
<b>Money market funds</b>		
NTGI Global Cash Fund	80,209	71,519
<b>Bank deposit accounts</b>		
Non NT cash accounts	103	6,000
<b>Bank current accounts</b>		
NT custody cash accounts	622	3,701
<b>Total overseas assets</b>	<b>80,934</b>	<b>81,220</b>

## 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 2015 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.

## 18: Funding arrangements

The latest actuarial valuation of the fund was carried out as at 31 March 2013. 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 2013 valuation shows the fund has a past service deficit, being 81% funded in respect of past liabilities. This compares with 87% funded at the 2010 valuation.

### East Sussex Pension Fund ("the Fund")

#### Actuarial Statement for 2014/15

This statement has been prepared in accordance with Regulation 57 (1)(d) of the Local Government Pension Scheme Regulations 2013, and Chapter 6 of the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the UK 2014/15.

#### Description of Funding Policy

The funding policy is set out in the Administering Authority's Funding Strategy Statement (FSS), dated March 2014. 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 (**NB** 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.

#### Funding Position as at the last formal funding valuation

The most recent actuarial valuation carried out under Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008 was as at 31 March 2013. This valuation revealed that the Fund's assets, which at 31 March 2013 were valued at £2,344 million, were sufficient to meet 81% of the liabilities (i.e. the present value of promised retirement benefits) accrued up to that date. The resulting deficit at the 2013 valuation was £541 million. Individual employers' contributions for the period 1 April 2014 to 31 March 2017 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 valuation report dated 28 March 2014.

#### 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 2013 valuation were as follows:

Financial assumptions	31 March 2013	
	% p.a. Nominal	% p.a. Real
Discount rate	4.6%	2.1%
Pay increases	4.3%	1.8%
Price inflation/Pension increases	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\_2010 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	22.2 years	24.4 years
Future Pensioners*	24.2 years	26.7 years

\*Figures assume members aged 45 as at the 2013 valuation.

Copies of the 2013 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 April 2013

Experience has been worse than expected over the year to 31 March 2015 (excluding the effect of any membership movements). Real bond yields have fallen dramatically and the effect of this has been only partially offset by the effect of strong asset returns, meaning that funding levels are likely to have worsened and deficits increased over this period.

The next actuarial valuation will be carried out as at 31 March 2016. The Funding Strategy Statement will also be reviewed at that time.

## 19: Actuarial present value of promised retirement benefits

### Introduction

CIPFA's Code of Practice on Local Authority Accounting 2014/15 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.

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 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 Pension Fund's funding assumptions.

I have been instructed by the Administering Authority to provide the necessary information for the East Sussex Pension Fund, which is in the remainder of this note.

### Balance sheet

Year ended	31 Mar 2014 £m	31 Mar 2015 £m
Present value of Promised Retirement Benefits	3,385	4,031

Liabilities have been projected using a roll forward approximation from the latest formal funding valuation as at 31 March 2013. I estimate this liability at 31 March 2015 comprises £1,893m in respect of employee members, £732m in respect of deferred pensioners and £1,405m in respect of pensioners. The approximation involved in the roll forward model means that the split of scheme liabilities between the three classes of member may not be reliable. However, I am satisfied the aggregate liability is a reasonable estimate of the actuarial present value of benefit promises. I have not made any allowance for unfunded benefits.

The above figures include both vested and non-vested benefits, although the latter is assumed to have a negligible value.

It should be noted the above figures are appropriate for the Administering Authority only for preparation of the accounts of the Pension Fund. 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 as required by the Code of Practice. These are given below. I estimate that the impact of the change of assumptions to 31 March 2015 is to increase the actuarial present value by £537m.

## Financial assumptions

My recommended financial assumptions are summarised below:

Year ended	31 Mar 2014 % p.a.	31 Mar 2015 % p.a.
Inflation / Pension Increase Rate	2.8%	2.4%
Salary Increase rate	4.6%	4.3%
Discount Rate	4.3%	3.2%

## Longevity assumption

As discussed in the accompanying report, the life expectancy assumption is based on the Fund's VitaCurves with improvements in line with the CMI\_2010 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	22.2 years	24.4 years
Future Pensioners*	24.2 years	26.7 years

\*Future pensioners are assumed to be currently aged 45

Please note that the assumptions are identical to those used for the previous IAS26 disclosure for the Fund.

## Commutation assumption

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.

## 20: Current assets

	31 March 2014 £000	31 March 2015 £000
<b>Other Investment Balances</b>		
Sales inc Currency	675	1,734
Investment Income Due	1,443	1,685
Recoverable Taxes	344	324
Managers Fee Rebate	8	15
<b>Total</b>	<b>2,470</b>	<b>3,758</b>

	31 March 2014 £000	31 March 2015 £000
<b>Current Assets</b>		
Contributions receivable from employers and employees	8,267	8,243
Sundry Debtors	1,533	2,327
<b>Total</b>	<b>9,800</b>	<b>10,570</b>

**21: Current liabilities**

	31 March 2014 £000	31 March 2015 £000
<b>Investment Liabilities</b>		
Purchases including currency	(682)	(10,645)
Managers Fees	(1,656)	(1,841)
<b>Total</b>	<b>(2,338)</b>	<b>(12,486)</b>

	31 March 2014 £000	31 March 2015 £000
<b>Current Liabilities</b>		
Pension Payments (inc Lump Sums)	(1,426)	(988)
Cash	(882)	(246)
Professional Fees	(8)	(21)
Admin/CBOSS Recharge	(1,013)	(1,173)
Sundry Creditors	(1,626)	(1,507)
<b>Total</b>	<b>(4,955)</b>	<b>(3,935)</b>

**22: Additional voluntary contributions**

	Market value 31 March 2014 £000	Market value 31 March 2015 £000
Prudential	14,568	14,992

The Pension Fund Scheme provides an Additional Voluntary Contribution (AVC) facility for scheme members. In 2014/15 some members of the pension scheme paid voluntary contributions and transfers in of £1.512m (£1.496m 2013/14) to Prudential to buy extra pension benefits when they retire. £1.925m was disinvested from the AVC provider in 2014/15 (£2.571m 2013/14). 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.

**23: 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 fund committee is required to declare their interests at each meeting.

The Treasurer of the Pension Fund and members of the County Council and the Investment Panel have no material transactions with the Pension Fund.

The Council incurred costs in administering the fund and charged £1.2m to the fund in 2014/15 (£1.0m in 2013/14). The Council's contribution to the fund was £42.3m in 2014/15 (£42.1m in 2013/14). All amounts due to the fund were paid in the year. At 31 March 2015 the Pension Fund bank account was overdrawn by £0.246m. The average invested throughout the year was £2.7m (£1.4m in 2013/14) and earned interest of £0.017m in 2014/15 (£0.005m in 2013/14).

**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.

**24: Contingent liabilities and contractual commitments**

Outstanding capital commitments (investments) at 31 March 2015 totalled £115.3m (31 March 2014: £122.4m).

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 2015 the unfunded commitment was £111.5m for private equity, and £3.8m 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 2015.

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 Valuation Tribunal Service – a Scheduled Body in the Fund – ceased on 22 November 2011 on the retirement of their last active member. Discussions are ongoing at a national level with the Department of Communities and Local Government (DCLG) with regards to consolidating VTS in one single fund.

## 25: Contingent assets

Twenty-one 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:

- 5 guarantees by local authorities participating in the Fund;
- 2 Parent company guarantee;
- 2 deposits, equal to the value of the bond required, held by East Sussex County Council.

At 31 March 2015 the Fund has invested £196.5 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 £54.8 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.

## 26: Impairment losses

During 2014/15 the fund has not recognised any impairment losses.

## 27: East Sussex Pension Fund – Active Participating Employers

Employer	Contribution Rate					
	2013/14		2014/15		2015/16	
	Payroll %	Amount £	Payroll %	Amount £	Payroll %	Amount £
<b>Scheduled Bodies - Major Authorities</b>						
Brighton and Hove City Council	18.5%	-	19.0%	-	19.3%	249,000
East Sussex County Council	19.3%	424,000	19.3%	1,179,000	19.3%	1,999,000
East Sussex Fire & Rescue Service	18.9%	-	19.4%	-	19.9%	-
Eastbourne Borough Council	19.1%	264,000	19.1%	314,000	19.1%	367,000
Hastings Borough Council	20.6%	144,000	20.6%	194,300	20.6%	248,800
Lewes District Council	20.5%	46,500	20.5%	97,000	20.5%	151,700
Rother District Council	19.7%	307,100	19.7%	355,900	19.7%	408,300
University of Brighton	18.7%	-	18.7%	-	18.7%	-
Wealden District Council	18.0%	409,800	18.5%	427,400	19.0%	445,700
<b>Other Scheduled Bodies</b>						
ARK Schools Hastings	19.6%	5,960	19.6%	1,040	19.6%	-
Aurora Academies Trust	19.9%	10,600	19.9%	16,600	19.9%	18,500
Beacon Academy	20.6%	-	20.7%	4,400	20.7%	10,400
Bexhill Academy	20.7%	28,800	20.7%	25,300	20.7%	24,500
BHCC Bilingual Primary School	12.9%	5,400	12.9%	5,300	12.9%	5,200
Brighton Aldridge Community Academy	17.9%	-	18.4%	-	18.5%	4,400
Cavendish Academy	18.2%	22,300	18.2%	20,200	18.2%	17,900
City Academy Whitehawk	21.6%	1,590	21.6%	280	21.6%	-
Diocese of Chichester Academy Trust	26.4%	-	26.4%	-	26.4%	-
Eastbourne Academy	19.4%	-	19.9%	-	19.9%	4,700
Eastbourne Homes Ltd	17.5%	-	18.0%	-	18.5%	-
Gildredge House Free School	16.6%	7,200	16.6%	6,700	16.6%	6,200
Glyne Academy	23.4%	-	23.4%	-	23.4%	-
Hailsham Academy	17.3%	23,800	17.3%	20,800	17.3%	17,600

## EAST SUSSEX PENSION FUND REPORT AND ACCOUNTS 2014/15

Employer	Contribution Rate					
	2013/14		2014/15		2015/16	
	Payroll %	Amount £	Payroll %	Amount £	Payroll %	Amount £
King Church of England Free School	13.7%	980	13.7%	960	13.7%	930
Marshlands Academy	18.9%	2,200	18.9%	2,300	18.9%	2,400
Ore Village Primary Academy	16.6%	7,510	16.6%	6,540	16.6%	5,470
Pebsham Academy	17.2%	4,300	17.2%	3,500	17.2%	2,700
Portslade Aldridge Community Academy	18.2%	1,100	18.2%	6,600	18.2%	12,700
Ratton Academy	20.6%	-	21.1%	-	21.6%	-
Ringmer Academy	18.8%	-	19.3%	-	19.8%	-
Rye Academy	24.0%	-	23.5%	-	23.0%	-
Seaford Academy	21.6%	12,300	21.6%	9,100	21.6%	6,300
Seahaven Academy	19.3%	5,800	19.3%	6,100	19.3%	6,400
Surrey & Sussex Probation Board	18.1%	62,000	-	-	-	-
The Hastings Academies Trust	18.6%	-	19.1%	-	19.6%	-
Torfield & Saxon Mount Academy Trust	20.6%	-	21.1%	-	21.6%	-
White House Academy	16.0%	1,600	16.0%	1,700	16.0%	1,700
William Parker Academy	19.6%	5,120	19.6%	-	19.6%	-
<b>Town and Parish Councils (pool)</b>						
Battle Town Council	20.1%	-	20.6%	-	21.1%	-
Chailey Parish Council	20.1%	-	20.6%	-	21.1%	-
Chiddingly Parish Council	20.1%	-	20.6%	-	21.1%	-
Conservators of Ashdown Forest	20.1%	-	20.6%	-	21.1%	-
Crowborough Town Council	20.1%	-	20.6%	-	21.1%	-
Ewhurst Parish Council	20.1%	-	20.6%	-	21.1%	-
Fletching Parish Council	20.1%	-	20.6%	-	21.1%	-
Forest Row Parish Council	20.1%	-	20.6%	-	21.1%	-
Hailsham Town Council	20.1%	-	20.6%	-	21.1%	-
Hartfield Parish Council	20.1%	-	20.6%	-	21.1%	-
Heathfield & Waldron Parish Council	20.1%	-	20.6%	-	21.1%	-
Hurst Green Parish Council	20.1%	-	20.6%	-	21.1%	-
Lewes Town Council	20.1%	-	20.6%	-	21.1%	-
Maresfield Parish Council	20.1%	-	20.6%	-	21.1%	-
Newhaven Town Council	20.1%	-	20.6%	-	21.1%	-
Newick Parish Council	20.1%	-	20.6%	-	21.1%	-
Peacehaven Town Council	20.1%	-	20.6%	-	21.1%	-
Pett Parish Council	20.1%	-	20.6%	-	21.1%	-
Plumpton Parish Council	20.1%	-	20.6%	-	21.1%	-
Polegate Town Council	20.1%	-	20.6%	-	21.1%	-
Ringmer Parish Council	20.1%	-	20.6%	-	21.1%	-
Rye Town Council	20.1%	-	20.6%	-	21.1%	-
Salehurst & Robertsbridge Parish Council	20.1%	-	20.6%	-	21.1%	-
Seaford Town Council	20.1%	-	20.6%	-	21.1%	-
Sussex Inshore Fisheries & Conservation Authority	20.1%	-	20.6%	-	21.1%	-
Telscombe Town Council	20.1%	-	20.6%	-	21.1%	-
Uckfield Town Council	20.1%	-	20.6%	-	21.1%	-
Westham Parish Council	20.1%	-	20.6%	-	21.1%	-
Willingdon & Jevington Parish Council	20.1%	-	20.6%	-	21.1%	-
<b>Colleges</b>						
Bexhill College	17.0%	-	17.5%	-	18.0%	-
Brighton, Hove & Sussex Sixth Form College	17.0%	-	17.5%	-	18.0%	-
City College, Brighton	17.4%	42,000	17.4%	68,000	17.4%	96,000
Plumpton College	17.0%	-	17.5%	-	18.0%	-
Sussex Coast College	17.5%	-	18.0%	-	18.4%	2,700
Sussex Downs College	16.0%	-	16.5%	-	17.0%	-
Varndean Sixth Form College	17.0%	-	17.5%	-	18.0%	-

EAST SUSSEX PENSION FUND REPORT AND ACCOUNTS 2014/15

Employer	Contribution Rate					
	2013/14		2014/15		2015/16	
	Payroll %	Amount £	Payroll %	Amount £	Payroll %	Amount £
<b>Community Admission Bodies</b>						
Amicus Horizon	17.5%	310,000	17.5%	388,000	17.5%	472,000
Brighton Dome & Festival	31.0%	-	31.0%	-	31.0%	-
Care Quality Commission	21.3%	-	21.8%	-	22.3%	-
De La Warr Pavilion Charitable Trust	25.1%	-	27.0%	1,900	27.0%	5,500
East Sussex Energy, Infrastructure & Development Ltd (ESEID)	22.1%	-	21.2%	-	20.4%	-
Hastings Business Operations Limited (HBOL)	17.2%	-	18.6%	-	20.0%	-
Hove & Portslade CAB	21.5%	-	21.5%	-	21.5%	-
Sussex Archaeological Society	24.2%	31,400	24.2%	35,600	24.2%	40,100
Sussex County Sports Partnership	15.8%	-	15.8%	-	15.8%	-
Sussex Housing & Care	20.0%	59,300	20.0%	123,700	20.0%	193,500
University of Sussex	30.9%	112,700	-	-	-	-
<b>Transferee Admission Bodies</b>						
Accent Catering Services Ltd	21.4%	-	21.4%	-	21.4%	-
Amey	22.9%	-	19.1%	-	15.2%	-
BHCC - Peyton and Byrne	21.1%	-	20.9%	-	20.7%	-
Curchill - Cavendish	26.2%	200	26.2%	1,100	26.2%	2,100
Civica ICT - William Parker	15.9%	-	15.9%	-	15.9%	-
Eastbourne Homes - SEILL	22.6%	-	22.6%	-	22.6%	-
Eastbourne Leisure Trust	20.9%	-	21.2%	11,700	21.2%	25,000
EBC - Towner	19.2%	-	19.2%	-	19.2%	-
Eden Foodservice	19.3%	-	16.1%	-	13.0%	-
Education Futures Trust	21.9%	-	21.9%	-	21.9%	-
ESCC - Care at Home	21.5%	-	17.3%	-	13.0%	-
ESCC - Churchill	20.7%	-	23.3%	-	26.0%	-
ESCC - Health Management Ltd (HML)	20.0%	-	20.0%	-	20.0%	-
ESCC - John O'Conner Ltd	19.9%	1,600	16.8%	-	13.0%	-
ESCC - NSL Limited	24.3%	-	23.9%	-	23.5%	-
European Electronique Ltd	14.5%	14,700	14.5%	24,700	14.5%	35,600
May Gurney Ltd	22.8%	-	24.7%	-	25.4%	3,000
Mears Ltd	24.9%	5,200	24.9%	25,400	24.9%	47,300
MyTime Active Ltd	20.1%	3,400	20.1%	10,900	20.1%	19,000
Wave Leisure Trust Ltd	18.8%	-	20.9%	13,100	20.9%	56,300
WDC - ISS Limited	26.4%	-	26.4%	-	26.4%	-
WDC - Kier	24.8%	-	24.4%	-	24.0%	-
WDC - Richardson	21.8%	-	21.0%	-	20.3%	-
WDC - Wealden Leisure	22.1%	17,600	22.1%	111,200	22.1%	212,900
BHCC - Wealden Leisure	20.1%	-	22.6%	4,000	22.6%	19,000
White Rock Theatre	22.4%	8,500	22.4%	18,600	22.4%	29,700

**28: Investment Performance**

The County Council uses an independent Investment performance measurement service, provided by the WM Company which measures the performance of the Fund compared with 85 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.)
<b>Fund</b>	<b>15.0</b>	<b>11.2</b>	<b>8.4</b>	<b>7.9</b>
<b>Benchmark</b>	<b>11.9</b>	<b>9.5</b>	<b>7.2</b>	<b>7.5</b>
<b>Relative</b>	<b>2.7</b>	<b>1.6</b>	<b>1.2</b>	<b>0.4</b>

**Investment performance relative to peer group**

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
<b>Fund</b>	<b>15.0</b>	<b>11.2</b>	<b>8.4</b>	<b>7.9</b>
<b>Local Authority Average</b>	<b>13.2</b>	<b>11.0</b>	<b>8.7</b>	<b>7.9</b>
<b>Relative</b>	<b>1.6</b>	<b>0.1</b>	<b>(-0.3)</b>	<b>0.0</b>

The Fund outperformed the average local authority fund over the year by 1.6% (0.3% underperformance 2013/14), ranking the East Sussex Fund in the 22<sup>nd</sup> percentile (59<sup>th</sup> percentile 2013/14) in the local authority universe. Over three years the fund outperformed by 0.1% (0.7% underperformance 2013/14) and was placed in the 44<sup>th</sup> percentile (81<sup>th</sup> percentile 2013/14). Over five years the fund underperformed by 0.3% (0.8% underperformance 2012/13) and was placed in the 67<sup>th</sup> percentile (77<sup>th</sup> percentile 2013/14). Over ten years the fund relative performance was in line with the local authority fund average 0.0% (0.2% underperformance 2013/14) and was placed in the 50<sup>th</sup> percentile (52<sup>th</sup> percentile 2013/14).

Relative performance is calculated on a geometric basis as follows:

$$((1 + \text{Fund Performance}) / (1 + \text{Benchmark Performance})) - 1$$

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 35 of the Local Government Pension Scheme (Administration) Regulations 2007 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 the costs of buying added service; and
- the Fund's Statement of Investment Principles

This statement is included in the Fund's Statement of Investment Principles

## 10. Statement of investment principles

The Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Regulations 2009 require administering authorities of pension funds to prepare, maintain and publish a written statement setting out the investment policy for their Fund they must consult with persons they deem appropriate when drawing up their statements. Any material change in investment policy must be included in a revised Statement of Investment Principles (SIP) within six months of the change. 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 May 2000 and is reviewed annually (updated copies are available on the website).

### Social, environmental and ethical considerations

The Panel has considered 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
- Environmental standards

### Compliance with the updated Myners Principles

The original Myners Review in 2001 established ten principles of investment for defined benefit schemes. In October 2008, the Government published their response to consultation on updating the Myners review and restructured the original principles into six new high level principles, providing guidance on recommended best practice for applying the principles, and identifying tools to provide practical help and support to trustees and their advisers.

The Panel has set out details of the extent which the Fund complies with these six principles set on a 'comply or explain' basis. This compliance statement is included in the Fund's Statement of Investment Principles.

## 11. Communications policy statement

The Local Government Scheme regulations (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 is included in the Fund's Statement of Investment Principles and can be seen on the East Sussex County Council Website.

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## **12. External auditors report**

**Independent auditor's report to the members of East Sussex Pension Fund on the pension fund financial statements published with the pension fund annual report**

***TO FOLLOW***

**for and on behalf of KPMG LLP, Appointed Auditor**

Chartered Accountants

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30 September 2014