PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at Council Chamber, County Hall, Lewes on 25 November 2021.

PRESENT	Councillors Gerard Fox (Chair) Councillors Julia Hilton, Ian Hollidge, Paul Redstone and Colin Swansborough
ALSO PRESENT	Ian Gutsell, Chief Finance Officer Sian Kunert, Head of Pensions Michael Burton, Pensions Manager - Governance and Compliance Dave Kellond, Compliance and Local Improvement Partner Tim Hillman, Pensions Manager - Employer Engagement Paul Punter, Head of Pensions Administration Russell Wood, Pensions Manager: Investment and Accounting Paul Freedman, Pensions Investment Analyst Paula Jenner, Employer Engagement Officer William Bourne, Independent Adviser to the Pension Committee Andrew Singh, Isio Ray Martin, Chair of the Pension Board Harvey Winder, Scrutiny and Policy Officer Councillor Nick Bennett

49. MINUTES

49.1. The Committee agreed the minutes were a correct record of the previous meeting.

50. APOLOGIES FOR ABSENCE

50.1 There were no apologies for absence.

50.2 Cllr Colin Swansborough substituted for Cllr David Tutt.

51. DISCLOSURE OF INTERESTS

51.1 There were no disclosures of interest.

52. URGENT ITEMS

52.1 There were no urgent items.

53. PENSION BOARD MINUTES

53.1 The Committee considered the minutes of the Pension Board meeting held on 5th November 2021.

53.2 The Committee RESOLVED to note the minutes.

54. GOVERNANCE REPORT

54.1. The Committee considered a report providing an update on various governance workstreams completed and changes effecting Local Government Pension Schemes (LGPS) and the East Sussex Pension Fund (ESPF or the Fund).

54.2. The Committee RESOLVED to:
1) Note the report;
2) Endorse the draft terms of reference for the Administration working group; and
3) Endorse the draft terms of reference for the Communications working group.

55. EMPLOYER ENGAGEMENT REPORT

55.1. The Committee considered a report providing updates on Employer Engagement activities including communications and the collection of Employer contributions up to August 2021 which were due on 19 September 2021.

55.2. The Committee RESOLVED to note the report.

56. PENSIONS ADMINISTRATION REPORT

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

56.2. The Committee's discussion included the following key issues:

- Performance has improved for October 2021, with the call answered within 20 seconds Key Performance Indicator (KPI) increasing to 64% and call abandonment rate falling to 9%.
- The Helpline is still run by Surrey County Council as part of the Orbis service, with around 4 Full Time Equivalent (FTE) posts covering the ESPF. The number of contacts with the Helpline is as follows: July 2,737, August 2,270, September 2,336, and October 2,024. Out of these, 61% are via email, for example, for October there were 767 telephone calls, 1,241 emails and 16 call backs. This amounts to 20-25 items of correspondence dealt with per staff member per day.
- The Annual Benefit Statement (ABS) does not trigger people to contact the helpdesk with specific questions about the ABS, however, it does drive general pension correspondence by reminding people that they may have an issue with their pension that they need to report, for example, updating their marriage status.
- Whilst the ESPF helpdesk is part of Orbis, since October ESPF members contact it via a separate website and telephone line. There is not currently a live chat facility but this and other improvements will be investigated by the Fund's communications manager once they are appointed. I-Connect and the use of robotics is also expected to improve performance of the service and deal with more basic queries, with the Pensions Administration Team (PAT) eventually being a last resort to deal with complex calculations and questions.
- There are eight vacancies within the PAT. The team is working to resolve final job evaluation and team structural issues to enable recruitment to these vacancies to be completed. The use of robotics – signed off by the East Sussex County Council

Corporate ICT service – will also help with the capacity of the PAT once they are developed.

- The PAT staff are generally happy working from home and have remained as productive as when they were in the office. The ESCC corporate guidelines currently require staff to work from home unless there is a need to be in the office. This will eventually switch to hybrid working with at least one day per week in the office, although not until the current COVID-19 guidelines are reviewed in January. The PAT will process map its strategic needs and develop a team agreement based on a hybrid way of working that is best for the Team.

56.3. The Committee RESOLVED to note the report.

57. EAST SUSSEX PENSION FUND ANNUAL REPORT AND ACCOUNTS 2020/21

57.1. The Committee considered a report containing a draft Annual Report and Accounts 2020/21 for approval.

57.2. The Committee discussed how determining a fund's management costs relative to other funds is difficult but it is possible to benchmark the management costs of the ESPF with other Funds by comparing their Annual Accounts. Whilst the Chartered Institute of Public Finance and Accountancy (CIPFA) will challenge the management costs of Funds where it deems them to be too high, making a judgement about management costs is difficult. By way of example, the ESPF costs have increased since bringing the PAT in house, but the Fund had previously spent less than comparable funds on its overall team, which had the adverse effect of a poorer service and increasing consultancy costs. Management costs, however, remain a relatively modest overall percentage of the total assets under management despite bringing the PAT inhouse and doubling the size of the rest of the pensions team to 12 FTE.

57.3. The Committee RESOLVED to:
1) approve the draft Pension Fund Annual Report and Accounts 2020/21; and
2) request confirmation via email what is meant by "agency costs" in the Accounts (p.144).

58. EAST SUSSEX PENSION FUND QUARTERLY BUDGET REPORT

58.1. The Committee considered a report providing an update on the 2021/22 Forecast Financial Outturn.

58.2. The Committee RESOLVED to note the report.

59. TRAINING REPORT

59.1. The Committee considered a report providing an update on training needs, opportunities undertaken and planned events.

59.2. The Committee's discussion included the following key issues:

- The Committee will look to have training on subjects as they become relevant, for example, training on the triennial valuation around the start of valuation next year. This may take place prior to committee meetings from time to time.
- Training should be undertaken on understanding the new Task Force on Climate-Related Financial Disclosures (TCFD) reporting requirements, climate modelling – which will be a major piece of work for the Committee – and impact investing and impact funds – particularly understanding types of impact investing other than through listed assets, such as investing in social housing. Pensions for People provide a good impact fund

training session and WHEB Asset Management LLP provided a presentation at the Employers' Forum on the subject.

59.3. The Committee RESOLVED to:
1) note the report;
2) agree to request future training on triennial valuation, impact funds, TCFD and climate modelling; and
3) request that the WHEB presentation provided to the employer forum on impact funds is circulated for information.

60. RISK REGISTER

60.1. The Committee considered the ESPF Risk Register.

60.2. The Committee's discussion included the following key issues:

- The dissolution of the previous pensions administration arrangements is now complete and so could be removed as a risk.
- A project is underway to replace the finance system of ESCC that will affect the way the Fund produces accounts, payroll and how ESCC as an employer provides information to the Fund via I-Connect and this may pose a future risk to the Fund.
- A project has begun with the ESCC ICT service to test the resilience of the Fund to a cyber security attack such as a ransomware attack.

60.3. The Committee RESOLVED to:
1) note the report;
2) agree to add ransomware as part of the existing cyber risk;
3) agree to remove "Dissolution of Administration from Orbis to ESCC" as a risk; and
4) note that officers may add a temporary risk on the dissolution of ESCC business operations from the wider Orbis Business Services.

61. WORK PROGRAMME

61.1. The Committee considered its work programme.

61.2. The Committee's discussion included adding an item to the next meeting to discuss whether or not there would be value in issuing a statement – considering the Fund is a member of the Climate Action 100+ initiative and following on from COP26 – calling on the UK Government to commit to becoming a core member of the Beyond Oil & Gas Alliance (BOGA).

61.3. The Committee RESOLVED to:
1) agree its work programme; and
2) agree to add a report to the February meeting on issuing a statement in relation to the BOGA.

62. INVESTMENT REPORT

62.1. The Committee considered a report providing an update on the investment activities undertaken by the ESPF.

62.2. The Committee's discussion included the following key issues:

- WHEB has a more concentrated portfolio of stocks than Wellington so is more volatile and susceptible to rises and falls in the market. Similarly, Baillie Gifford has fewer than 100 stocks so is expected to be more volatile than the UBS fund that it is replacing.

- There is limited value in the performance measure “since inception”. The meaning of the term is not clear, i.e., does it mean since the investment manager was founded or when ESPF decided to invest with them; and it makes comparisons difficult, as some investment managers have been with the Fund far longer than others.
- Equities have performed well for the Fund for several years now, but the future is not looking as promising. Inflation is increasing on a sustained level above 3% and, in response, there are clearly signs of governments and central banks beginning to plan to enact monetary policies that will restrict the flow of money supply through raising interest rates, which will make equities a less attractive asset class and could also cause a recession if enacted too soon, further reducing equity’s value. Whilst the UK and other countries do now seem to be in a period of inflation it may not be a long-term issue, as it appears the inflation is supply-led rather than demand-led. It could, however, become self-replicating should people begin demanding pay rises to meet the rising costs of inflation.
- Whilst 40% of the Fund’s value is in equities, there are a number of other asset classes in the overall portfolio of the Fund that are designed to protect against inflation. Private equity and credit will do better than equity; private equity is less volatile than the listed market as performance is reported on a quarterly basis that smooths out fluctuations in value. Private equity managers are also well placed in this scenario to fund poorly performing companies struggling from the effect of inflation, which will benefit them as the companies recover. Infrastructure and property are designed to protect against inflation as they track inflation quite closely and infrastructure provides an attractive return on investment. Ruffer’s diversified growth fund is also designed to offer inflation protection via its choice of asset universe. Finally, in terms of equities themselves, value equities offer more resilience than growth equities, and the Fund has exposure to the former through its investments held by Longview.
- The Fund is currently overweight in equities to its strategic asset allocation due to strategic changes still to be implemented such as global open-ended infrastructure and inflation linked property, although suitable managers have not yet been identified. Isio will investigate further and produce a future report on possible infrastructure managers, as infrastructure remains outside of ACCESS and the time frames associated with this asset class being available through the pool impact the Funds strategy implementation. Increasing the Fund’s exposure to inflation linked property and infrastructure will offer further inflationary protection, however, it is likely to be costly as they are now in high demand. Rebalancing was discussed, although there are limited options due to strategy implementation timeframes, so officers and advisers to look into further.
- Whilst an infrastructure fund is planned by ACCESS, it is several years away and an open-ended infrastructure fund does provide the Fund with the option of transferring to the ACCESS offering if it is financially viable. Conversely, the ACCESS pool may wish to adopt existing ACCESS Funds infrastructure investments if it looks worthwhile.
- Equity remains an important asset class as it provides growth to the Fund, which is necessary as the Fund’s membership continues to increase. Equities may also pay out dividends, which are not vital for the Fund as it is cash neutral, however, these too can become less common in inflationary periods as the companies are less likely to be making profit.

- Inflation also decreases liabilities of a Fund by decreasing the value of the paid pensions and reducing the discount rate of the Fund, although there is not identical correlation between the two, and this will have a balancing effect on the Fund.
- Understanding how the different fund managers are performing against each other and how their different portfolios correlate to protect and grow the Fund would be helpful for the Committee to understand given the current uncertainties. The impact of inflation on the performance against benchmark is also important to understand.
- Schroders' property fund is a 'fund of funds' and is invested in a privately funded vehicle with Civitas, which was the recent victim of a short seller. The Fund's own holdings in Schroder were not affected by this event.
- Schroders currently holds 6.8% of the Fund's assets that it is responsible for in cash.
- The Fund has agreed already to reduce its asset allocation in property from 8% to 7%. Isio will investigate whether this cash is planned for investment elsewhere by Schroders or could be taken out to be put into infrastructure assets, as agreed by the Committee in July. This could be a good opportunity due to the high cost in divesting from property, e.g., paying for stamp duty.
- Property assets remain outside of ACCESS currently due to the illiquidity of the asset which are not yet available on the Pool. Property is a difficult class to move into LGPS pools because some LGPS funds invest in it directly and others used fund of funds like Schroders. This makes it hard to bring the assets together and those who directly invest would not make much of a saving.
- The energy transition of commercial property remains a considerable risk to the Fund because of this illiquidity and requirement of considerable retrofitting of offices and other buildings.

62.3. The Committee RESOLVED to:
1) note the report;
2) request that future quarterly monitoring reports include for all investment managers a 5-year performance column rather than "since inception" column;
3) request that Isio produces a correlation table in the next quarterly report showing how the different investment manager's portfolios overlap and how each is performing relative to the other; and
4) request that Isio produces a report looking at the impact of secular inflation on portfolio assets and liabilities.

63. EXCLUSION OF THE PUBLIC AND PRESS

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

64. INVESTMENT REPORT

64.1 The Committee considered a report providing an update on the investment activities undertaken by the Fund.

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

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

65. BREACHES LOG

65.1 The Committee considered a report providing an update on the Fund's Breaches Log.

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

66. EMPLOYER ADMISSIONS AND CESSATIONS

66.1 The Committee considered an update on the latest admissions and cessations of employers within the Fund.

66.2 The Committee RESOLVED to note the report.

The meeting ended at 2.45 pm.

Councillor Gerard Fox (Chair)