

Report to: **Pension Committee**

Date: **24 November 2015**

By: **Chief Operating Officer**

Title: **Statement of Investment Principles Review**

Purpose: **To seek the Committee's approval of the Statements of Investment Principles for the East Sussex Pension Fund.**

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**RECOMMENDATIONS – The Committee is requested to approve the revised Statement of Investment Principles that reflects the changes to the governance arrangements and strategic asset allocation**

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**1. Introduction**

- 1.1 Local Government Pension Scheme Regulations require East Sussex County Council, as the Administering Authority, to prepare, maintain and publish a number of Statutory Statements. This report focuses on the Statement of Investment Principles (SIP).
- 1.2 The Fund original SIP was published in 2000 and revisions have been made each year if required since then to reflect changes to the strategic asset allocation and investment management arrangements of the Fund.

**2. Statement of Investment Principles**

- 2.1 The SIP outlines the East Sussex Pension Fund investment objectives. The primary long term objective is to achieve and maintain a funding level at, or close to 100% of the Fund's estimated liabilities; and within this, to endeavour to maintain low and stable employers' contribution rates.
- 2.2 All pension funds are required to prepare, maintain and publish a Statement of Investment Principles (SIP). This document is designed to explain to fund members, employers and any other interested parties how the assets are managed and the factors that are taken into account in so doing. The latest version will be made available on the Council's website and a copy is attached at Appendix 1.
- 2.3 The Statement of Investment Principles (SIP) outlines the Fund's investment strategy, and how the risk and return issues have been managed relative to the Fund's investment objectives. It should be read in conjunction with the Funding Strategy Statement (FSS) which sets out how solvency and risks will be managed with regard to the underlying pension liabilities.
- 2.4 The SIP is reviewed regularly and covers the following areas:
  - Decisions Makers - responsibilities of those involved in the running of the East Sussex Pension Fund. The decision makers include East Sussex County Council (as the Administering Authority), the Pension Committee, the Pension Board, the Independent Investment Advisor, the Chief Finance Officer, Investment Managers and the Fund Actuary.
  - Risk and Reward - In order to generate sufficient returns on investments, Pension Funds are by nature required to take considered risks. The short-term and long-term risks identified by the Fund, and highlight any controls and processes put in place to mitigate the level of risk.

- Investment Principles - that the Fund is permitted to invest in, including the strategic allocation to asset classes, expected return on investments, and realisation of investments.
- Corporate Governance – Effective Engagement, which aims to enhance the quality of engagement between asset managers and companies to improve long-term risk-adjusted returns to shareholders.
- Corporate Governance – Social, Environmental and Ethical Issues, sets out the principles that the Fund has adopted in respect of the retention and realisation of investments on the grounds of social, environmental and ethical issues.
- Compliance with the Myners Principles - The Chartered Institute of Public Finance Accountancy (CIPFA) has published guidance on the application of the six Myners Principles to the Local Government Pension Scheme. The report addressed this, in particular concerning pension fund trustees and fund managers. Myners set out principles that he believed to be best practice for the governance of pension schemes, as follows–
  - Effective decision making
  - Clear objectives
  - Risk and liabilities
  - Performance assessment
  - Responsible ownership
  - Transparency and Reporting

The Fund has considered the six Myners Principles and is fully compliant.

### **3. Recent amendments to the Statement of Investment Principles**

3.1 Major changes to the SIP that have occurred recently include -

- the creation of the Pension Committee;
- the creation of the Pension Board; and
- the revised strategic asset allocation resulting in the 15% of the Fund, to be split equally between the Fund's existing passive global equity mandate with L&G and the passive RAFI equity mandate with State Street.

### **4. Conclusion and reasons for recommendations**

4.1 The Committee is recommended to approve the revised Statement of Investment Principles that reflects the changes to the Fund's governance arrangements; and the re-allocation of 15% mandate of the Fund that is to be split equally between the Fund's existing passive global equity mandate with L&G and the passive RAFI equity mandate with State Street.

**KEVIN FOSTER**  
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LOCAL MEMBERS

All

BACKGROUND DOCUMENTS

None