

PENSION COMMITTEE

MINUTES of a meeting of the Pension Committee held at Council Chamber, County Hall, Lewes on 25 September 2024.

PRESENT Councillors Gerard Fox (Chair) Councillors Ian Hollidge,
Paul Redstone, David Tutt and Georgia Taylor

ALSO PRESENT Councillor Anne Cross and Councillor Johnny Denis
Ian Gutsell, Chief Finance Officer
Sian Kunert, Head of Pensions
Russell Wood, Pensions Manager: Investment and Accounting
Danny Simpson, Internal Audit
Andrew Singh, ISIO
Georgia Lewis, ISIO
William Bourne, Independent Adviser
Paul Punter, Head of Pensions Administration
Cllr Johnny Denis
Cllr Anne Cross
Mya Khine, Pensions Accountant
Dave Kellond, Compliance and Local Improvement Partner
James Sweeney, Pensions Investment Officer
Bekki Freeman, Solicitor
Ray Martin, Pension Board
Neil Simpson, Pension Board
Cllr Andrew Wilson, Pension Board
Trevor Redmond, Pension Board
Zoe O'Sullivan, Pension Board
George Noval, Grant Thornton
Parris Williams, Grant Thornton
Georgina Seligmann, Governance and Democracy Manager

19. MINUTES OF THE MEETING OF 19 JUNE 2024

19.1 The Committee RESOLVED to agree the minutes of the meeting held on 19 June 2024 as a correct record.

20. APOLOGIES FOR ABSENCE

20.1 None were received.

21. DISCLOSURE OF INTERESTS

21.1 There were no interests to disclose.

22. URGENT ITEMS

22.1 There were no urgent items.

23. PENSION BOARD MINUTES

23.1 The Committee RESOLVED to note the minutes of the Pension Board meeting held on 11 September 2024.

24. DIVESTMENT PROPOSALS

24.1 The Committee considered a report on Divestment Proposals introduced by Sian Kunert who drew the Committees attention to the following points:

- 1) There is a Pensions review underway and this introduces several risks to the Fund.
- 2) The Fund must invest in its LGPS pool, the management and control of the investment management agreement details are decided by the pool and not the Committee.
- 3) There is some subjectivity to the classification of what exposure to thermal coal or fossil fuel extraction is from managers which has made things more complex where one manger identifies a company with exposure and another holding the same company not identifying.
- 4) The Fund does not invest in any company but through investment products arranged by Investment Managers. Divestment would be from an Investment strategy; not a company. The costs associated with divesting from an Investment manager, product or strategy are set out in the report.
- 5) The costs set out within the report would be applicable at the point the Fund were to divest from a manager and relate to transaction costs to sell an investment product and procurement costs to select a new investment product, they would not diminish if divestment took place now or in the future as they are common costs associated with changing an investment position. These are additional costs to those that were set out in the report presented in September 2023 which looked at costs associated with a change in investment returns and loss of value as a forced seller through the secondary markets – which would be lower if a divestment strategy took place over a number of years. The report also highlights the value of assets that would need to be sold to remove the limited exposure to areas a divestment decision would aim to remove.
- 6) The Government favour more pooling within Funds and an exit from the pool is not feasible.

24.2 The Committee noted that the report commissioned by the Pension Committee which was received in September 2023 incorporated:

- 1) The Fiduciary Duty of the Fund and its duty to generate returns.
- 2) A literature review assessing the academic literature available which highlighted that neither engagement nor divestment have been effective to date and that behavioural change was required.
- 3) The financial implications to remove asset classes or impact on returns to change to sustainable strategies.

24.3 The following points were made in favour of the proposals set out within the report:

- 1) Having a divestment statement and commitment is important to support Carbon reduction. There is already a strategy and target agreement in line with the Paris agreement.
- 2) Stigmatisation of fossil fuel extraction would create a build-up of support. Fossil Fuel extraction should be treated differently to other assets.
- 3) The Fund should not seek to exit the pool but pursue the other products becoming available to the pool.
- 4) Continued investment in companies who extract fossil fuels could increase the risk to the Fund and represent a danger to the Fund especially if there is more regulation and policy on pricing of carbon.
- 5) The Fund could consider exploring other mandates with managers to support this divestment, engagement is not effective and disinvestment is already one of the Fund's

policies if companies are not responding to manager requests.

24.4 The following points were made against the proposals set out within the report:

- 1) The Committee must consider whether these proposals support their Fiduciary Duty to produce a return on investment. The Fund has a greater tilt to energy transition than other funds and performance has not been strong in the last three years on the sustainable mandates due to their growth nature; the Fund should not be forced in a direction where it clashes with Government policy by seeking to go beyond its current structure.
- 2) The Index funds are fossil free to avoid structural exposure. There are discretionary investment opportunities afforded to managers which is why the exposure can move from 0 – 2%. Those managers are entrusted to make sound investment decisions and not to invest in products offering poor returns or exposing the Fund to risks.
- 3) Stigmatisation is a difficult basis on which to make a Fiduciary decision; Trustees must look after Fund members' deferred benefits and an income deficit would become problematic to ensure paying pensions by around 2030.
- 4) The Fund has been judged to be well run and should not act in a way which exposes employers to making higher contributions.
- 5) The Pension Board does not support limiting the choice of managers and potential of returns in the future as the proposals would reduce the options to invest in private equity and potentially other investment classes. The Fund has made excellent progress, far more than other Funds and officers could work with ACCESS to support other Funds in this area. The challenging work of officers should be recognised and decisions about the Fund should not be politically motivated.

24.5 The motions were put forward by Councillor Taylor and were seconded by Councillor Tutt for the Committee to consider.

24.6 *Proposal 1: That the Fund commits:*

(a) to make no new investments in fossil fuel extractors;

(b) to fully divest from all fossil fuel extractor public equities and corporate bonds within five years; and

(c) to make no new private equity investments that include fossil fuel extractors.

24.7 The proposal was put to the vote and LOST (By 3 votes to 2).

24.8 *Proposal 2: That the Fund commits:*

(a) to exclude (over a reasonable timeframe) the public equity or corporate bond of any fossil fuel extractor that has failed to commit to 'no new fossil fuels' by the September 2024 Pension Committee meeting;

(b) not to make any new private equity investments in such fossil extractors; and

(c) to immediately inform our investment managers of this commitment so that they can take whatever actions they deem necessary in response.

24.9 The proposal was put to the vote and LOST (By 3 votes to 2).

24.10 *Proposal 3: That the Fund commits:*

(a) to make no new investments in thermal coal;

(b) to fully divest from all thermal coal public equities and corporate bonds within one year; and

(c) to make no new private equity investments that include thermal coal.

24.11 The amendment was put to the vote and LOST (By 3 votes to 2).

25. PENSION FUND EXTERNAL AUDIT UPDATE

25.1 The Committee considered a report on the progress on the delivery of Grant Thornton's responsibilities as the East Sussex Pension Fund's external auditor, introduced by Sian Kunert and Parris Williams of Grant Thornton and noted the following points:

- 1) The ESPF accounts are published as part of the ESCC accounts, and a full report will go to the November Committee meeting including the Annual Report.
- 2) An unqualified opinion was anticipated with no major issues to highlight at this point and there are no changes to the risks identified within the audit plan.

25.2 The Committee RESOLVED to:

- 1) Note the East Sussex Pension Fund Audit Findings Report provided by Grant Thornton; and
- 2) Note that the responses in the audit risk assessment of the Pension Fund are consistent with the Committee's understanding and that there were no further comments that the Committee wished to make.

26. GOVERNANCE REPORT

26.1 The Committee considered an update report on the Governance of the East Sussex Pension Fund, introduced by Sian Kunert who drew the Committee's attention to the following:

- 1) The Fund submitted a response to the letter from the Minister for Local Government in May.
- 2) It is key that the effectiveness of the pool and how well it is working is highlighted in response to the risk the review poses to the Fund.
- 3) Pensions Review has begun with lots of work ongoing, a call for evidence has been received. The response will be circulated to the Committee shortly after the meeting.
- 4) The Funding position has gone up slightly since the last quarter.

26.2 The Committee noted that the Fund's Conflict of Interest Policy is due for its three-year review and that the changes to the policy include the addition of a reference to the potential conflict as Employer and Administering Authority and a new section on Investment conflicts. The Committee noted that:

- 1) The Investment conflicts have been drawn from the investment strategy and the Fiduciary Duty text has been taken from previously approved documents.
- 2) The draft policy was presented to the Board who felt the text could be better highlighted.
- 3) Some members of the Committee felt the new inserts could cause confusion and were dealt with elsewhere in other documents and that other considerations could be included; officers confirmed that the policy is seeking ensure all potential or perceived conflicts are in the policy as it is the primary code which Officers, members and suppliers must adhere to so should be comprehensive as a standalone policy.

Officers agreed to consider the points raised as additional examples of potential conflicts.

26.3 The Committee RESOLVED to:

- 1) Note the updates.
- 2) Approve the revised Conflicts of Interest Policy subject to officers considering the points raised; and
- 3) Delegate authority to Chief Finance Officer to submit a response to the Governments Pensions Investment Review: Call for Evidence.

27. PENSIONS ADMINISTRATION REPORT

27.1 The Committee considered a report introduced by Paul Punter who drew the Committee's attention to the following points:

KPIs:

- 1) The format of the Performance reports has changed in line with the discussion at the Pension Board and Pension Committee meetings in June 2024 where a draft of the new format was presented.
- 2) Two new columns will be added to future performance reports to show the average time taken, and the longest time taken in relation to tasks completed outside of the SLA time. These additional details will be included from August 2024.
- 3) It was discovered some members of the team had not been setting tasks to "reply due" correctly. Where the task is awaiting an external response (e.g. from a member or their adviser who need to say complete a form) the SLA clock should be paused. As a result of this finding and work carried out to resolve and ensure the system is being used correctly in the future the SLA performance could be understated and it is hoped that the data will show an improvement.
- 4) This is the first time the data has been captured in the current reporting form; the Committee questioned whether once a target had not been met whether it was de-prioritised to ensure other targets met. Committee were assured this was not the case and when a target was not met the task continued to be actively worked on to ensure any missed targets were by the least number of days possible in the circumstances.

Helpdesk

- 5) Due to the transition into an inhouse team the reportable information relating to service delivery has reduced. The Fund can no longer determine the Call Answer Time or the Abandoned Call Rate. While members can still dial both the Main Helpline and Website Helpline numbers, they now both feed into a single Hunt Group so we can no longer differentiate between the call types. The roll out of the telephony upgrade is awaited, new data has been included about an email survey option members can choose to use which shows positive results. It was further recognised the report needs to be summarised on a page going forwards.
- 6) A full team is now in place with expanded duties as many tasks have been digitalised.

Projects

- 7) Annual Benefit Statements (ABS) have been issued with just over 99% for both active and deferred members achieved. Best results in the last 5 years. BHCC statements totalled just under 7.5k and of these only 48 could not be completed. The University of Brighton is not on i-Connect, however only 1 could not be completed.

Pensions Dashboard

- 8) Heywood Altair Insights dashboard report has been used to identify both the gaps in data but also to validate of the data present.
- 9) Heywood are the appointed and contracted Integrated Service Provider and a project plan has been created, with a two phase approach proposed to conclude by 31.10.25, the LGPS formal staging date.

Mortality checks

- 9) There circa 600 overseas pensioners which are contacted bi-annually to check their mortality, with about two-thirds contacted by email and the remainder by post. Overseas pensioners are required to complete a form, appropriately witnessed and returned within a few months. In late August 2024, chasers we issued to the outstanding 46 members which advised if the completed form is not returned by end of September their pensions will be suspended.

27.2 The Committee RESOLVED to note the report.

28. INTERNAL AUDIT REPORT

28.1 The Committee considered the audit report presented by Danny Simpson (DS) and noted the following points:

- 1) The audit of the Pension Fund Investments and Accounting received an opinion of Substantial Assurance for the controls in place with only a few low-risk findings.
- 2) This audit concludes the work of 2023-24. All reports resulted in reasonable or substantial assurance.

28.2 The Committee RESOLVED to note the Pension Fund Investments and Accounting audit report.

29. RISK REGISTER

29.1 The Committee considered a report introduced by Sian Kunert who drew the Committee's attention to the following risks:

- 1) Risk A3 – Production of Statutory member returns, has been reduced due to the improvements in ABS completion rates for 2023/24.
- 2) Risk A7 has been renamed as Implementation of Oracle to reflect the status of the Enterprise resource planning (ERP) system implementation. The risk is around the financial accounting and producing financial statements and the ability for ESCC to provide information through i-Connect as a new payroll software provider.
- 3) Risk G1 – Key Person Risk has increased in likelihood due to recent team departures and the difficulty recruiting the newly created Deputy of Pensions following a review of the departmental team structure. This role is being actively recruited for, there is an interim officer in place and applications for the permanent role are being received.
- 4) Following a query by the Committee, Officers advised they will liaise with the Information Security team to check that third party suppliers have immutable backups so that any malware cannot spread and that all supplier agreements are reviewed as appropriate.

29.2 The Committee RESOLVED to note the Pension Fund Risk Register.

30. INVESTMENT REPORT

30.1 The Committee considered a report introduced by Russell Wood and Andrew Singh who drew the Committees attention to the following points:

- 1) Since the last reported position, the valuation of the Fund has increased from £4.886bn as at 31 March 2024 to £4.893bn as at 30 June 2024). This performance reflects a positive absolute return of 0.3% in the quarter to June. The Fund however underperformed its benchmark in the period by -1.6%.
- 2) The standout negative performance came from the Fund's Sustainable equity investment with WHEB where a negative absolute performance of -3.5% and negative relative performance of -6.1% came through during the quarter which was driven by narrow market leadership in tech stocks which are not held by these managers.
- 3) The various credit mandates posted positive results in absolute terms apart from Investment grade bonds, which experienced negative performance as interest rate cuts stalled in the US and UK and nominal and index-linked gilt yields rose over the quarter.
- 4) The markets have moved on since the end of June, economic growth has slowed but central banks are cutting rates more aggressively which is driving the rate cuts vs controlling inflation. Overall markets have held up well but there is some volatility, and the markets are reactive to news flow.
- 5) The UK Budget will be announced on 30 October, an announcement on interest rates will take place on 2 November and the US elections will be held on 5 November which will all impact on markets.

30.2 The Committee noted Ruffer's muted performance and ISIO confirmed that they are monitoring this closely, and post 30 June performance has been a bit more positive. Ruffer have made profits from volatility and have also weakened their defensive position. They are aware of this performance concern and ISIO will continue to keep the Fund updated.

30.3 The Committee requested further information about WHEB's performance; ISIO confirmed that private equity valuations have been marked down as markets have moderated slightly. WHEB has a thematic approach and some of those have struggled such as healthcare and renewable energy. US and EU rhetoric have contributed to lower valuations. WHEB have a restricted remit as it has an ESG focused approach and things that are doing well such as the magnificent 7 technology stocks are not within their remit, but acknowledges their performance stands out.

30.4 Infrastructure has been subject to volatility and different assets have specific issues and Atlas's performance has been impacted. Privately valued assets tend to be valued at a higher rate than interest rates but as the environment has shifted, some downward pressure would be expected, and for this to take some time to play out. It was noted that interest rates are considered in the longer term.

30.5 The Committee noted the difference in benchmark and targets were unclear and requested there is an amendment in the report which goes to the November Committee meeting.

30.6 Appendix 3 of the report sets out the strategic allocation for the fund, most of the funds have now been in place for approximately 3 years and therefore it is an appropriate point to evaluate performance and set out the approach and how the markets have impacted the manager's approaches. Low risk and high return are more favourable and the more passive funds have been in line with indexes. The methodology for constructing a portfolio is also set out in the appendices of the report.

30.7 The Committee RESOLVED to note the investment report.

31. WORK PROGRAMME

31.1 The Committee considered its work programme, introduced by Sian Kunnert, and noted the following points:

- 1) Triannual valuation information will start to come through into the workplan going forward (March 25 is the valuation point).
- 2) Committee members should notify officers of any additional training attended.
- 3) Committee members should complete their knowledge and skills framework as this will be used to inform training over the coming year.

31.2 The Committee RESOLVED to agree the work programme.

32. EXCLUSION OF THE PUBLIC AND PRESS

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).

33. DIVESTMENT PROPOSALS REPORT - EXEMPT INFORMATION

33.1 The Committee considered the exempt Divestment Proposals report.

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

33.3 The Committee RESOLVED to note the report.

34. PENSION FUND EXTERNAL AUDIT UPDATE - EXEMPT INFORMATION

34.1 The Committee considered the exempt Pension Fund External Audit update report.

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

34.3 The Committee REOLVED to note the report.

35. INVESTMENT REPORT - EXEMPT INFORMATION

35.1 The Committee considered the exempt Investment report.

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

35.3 The Committee REOLVED to note the report.

36. GOVERNANCE REPORT - EXEMPT INFORMATION

36.1 The Committee considered the exempt risk register.

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

36.3 The Committee REOLVED to note the report.

37. BREACHES LOG - EXEMPT INFORMATION

37.1 The Committee considered a report providing an update on the Breaches Log and outstanding or new Internal Dispute Resolution Procedure (IDRP) cases.

37.2 A Summary of the discussion is set out in the exempt minute.

37.3 The Committee RESOLVED to:

- 1) Note the breaches of law and steps being taken; and
- 2) Note the new IDRP complaint raised in the relevant period.

38. EMPLOYER ADMISSIONS AND CESSATIONS - EXEMPT INFORMATION

38.1 The Committee considered a report providing an update on the latest admissions and cessations of employers within the Fund.

38.2 The Committee RESOLVED to:

- 1) Note the ongoing proceedings for the admission of admitted bodies to the Fund;
and
- 2) Agree the recommendations within the exempt report.

The meeting ended at 13.11

Councillor Gerard Fox (Chair)