

# Public Document Pack

**Tony Kershaw**

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9 March 2021

## Pensions Committee

A virtual meeting of the Committee will be held at **10.00 am** on **Wednesday, 17 March 2021**.

**Note:** In accordance with regulations in response to the current public health emergency, this meeting will be held virtually with members in remote attendance. Public access is via webcasting.

**Items 1 to 11 in Part I of the agenda will be available to watch via the internet at the address below. Items 12 to 17 in Part II of the agenda contain exempt information, as indicated, and therefore will not be broadcast.**

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**Tony Kershaw**

Director of Law and Assurance

## Agenda

### Part I

10.00 am      1.      **Declarations of Interests**

Members and officers are invited to make any declaration of personal or prejudicial interests that they may have in relation to items on the agenda and are reminded to make any declarations at any stage during the meeting if it becomes apparent that this may be required when a particular item or issue is considered.

It is recorded in the register of interests that:

- Mr Donnelly is a Horsham District Councillor
- Cllr Elkins is a Member of the Littlehampton Harbour Board and Arun District Council
- Cllr Hunt is the Chairman of the Chichester Harbour Conservancy
- Cllr Jupp is a Member of Horsham District Council and has a daughter who works for Blackrock
- Cllr Walsh is the Leader of Arun District Council, Member of Littlehampton Town Council and Member of the Littlehampton Harbour Board

These financial interests only need to be declared at the meeting if there is an agenda item to which they relate.

- 10.02 am      2.      **Part I Minutes of the last meeting** (Pages 5 - 10)
- The Committee is asked to agree the Part I minutes of the meeting of the Committee held on 25 January 2021 attached (cream paper).
- 10.04 am      3.      **Urgent Matters**
- Items not on the agenda, which the Chairman of the meeting is of the opinion, should be considered as a matter of urgency by reason of special circumstances.
- 10.04 am      4.      **Part II Matters**
- Members are asked to indicate at this stage if they wish the meeting to consider bringing into Part I any items on the Part II agenda.
- 10.05 am      5.      **Pension Advisory Board Minutes - Part I**
- The Committee is asked to note the confirmed Part I minutes from the meeting of the Pension Advisory Board on 13 November 2020 and the agenda from the meeting of the Pension Advisory Board on 26 February 2021.
- (a)      **13 November 2020 - Part I Pension Advisory Board Minutes** (Pages 11 - 16)
- (b)      **26 February 2021 - Pension Advisory Board Agenda** (Pages 17 - 20)
- 10.10 am      6.      **Business Plan 2021/22** (Pages 21 - 42)
- Report by the Director of Finance and Support Services.
- The Committee is asked to note the updates on Business Plan activities for 2020/21; approve key priorities within the Business Plan for 2021/22; note the full risk matrix for the Fund; and approve the ACCESS Business Plan as recommended by the ACCESS Joint Committee.
- 10.20 am      7.      **Investment Strategy Statement** (Pages 43 - 62)
- Report by the Director of Finance and Support Services.
- The Committee is asked to approve the revised Investment Strategy Statement, reflecting amendments following the consultation with stakeholders.

- 10.40 am 8. **Scheme Changes** (Pages 63 - 66)
- Report by the Director of Finance and Support Services.
- The Committee is asked to note the update.
- 10.45 am 9. **Treasury Management Strategy** (Pages 67 - 74)
- Report by the Director of Finance and Support Services.
- The Committee is asked to approve the 2021/22 Treasury Management Strategy and note the treasury activity undertaken during 2020/21 (1 April to 31 December 2020).
- 10.50 am 10. **Date of the next meeting**
- The next meeting of the Pensions Committee will be 10.00 a.m. 21 July 2021.

## **Part II**

- 10.50 am 11. **Exclusion of Press and Public**
- The Committee is asked to consider in respect of the following item(s) whether the public, including the press, should be excluded from the meeting on the grounds of exemption under Part I of Schedule 12A of the Local Government Act 1972, as indicated below, and because, in all the circumstances of the case, the public interest in maintaining the exemption of that information outweighs the public interest in disclosing the information.
- 10.50 am 12. **Part II Minutes of the last meeting** (Pages 75 - 80)
- The Committee is asked to agree the Part II minutes of the meeting of the Committee held on 25 January 2021, for members of the Committee only (yellow paper).
- 10.53 am 13. **Pension Advisory Board Minutes - Part II** (Pages 81 - 84)
- The Committee is asked to note the confirmed Part II minutes from the meeting of the Pension Advisory Board on 13 November 2020 (yellow paper).
- 10.55 am 14. **Investment Strategy Implementation** (Pages 85 - 90)
- Report by the Director of Finance and Support Services attached for members of the Committee only (yellow paper).
- The Committee is asked to consider the recommendations within the report.

- 11.25 am      15.      **ACCESS** (Pages 91 - 98)
- Report by the Director of Finance and Support Services attached for members of the Committee only (yellow paper).
- The Committee is asked to consider the recommendations within the report.
- 11.40 am      16.      **Review of Pension Investment Performance** (To Follow)
- Paper by the Director of Finance and Support Services and Independent Fund Adviser summarising transactions and performance during the quarter and giving comments on the quarter, for members of the Committee only (yellow paper).
- 12.15 pm      17.      **Presentation by Baillie Gifford**
- The Committee to receive a presentation on portfolio performance.

**To all members of the Pensions Committee**

## **Pensions Committee**

25 January 2021 – At a virtual meeting of the Pensions Committee held at 10.00 am.

Present: Cllr Hunt (Chairman)

Cllr Bradford, Cllr J Dennis, Cllr Elkins, Cllr N Jupp, Cllr Urquhart, Cllr Walsh, Mr Donnelly and Ms Taylor

### **Part I**

#### **50. Declarations of Interests**

50.1 Cllr Dr James Walsh declared a personal interest as a member of Littlehampton Harbour Board.

#### **51. Part I Minutes of the last meeting**

51.1 Resolved – That the Part I minutes of the Pensions Committee held on 17 November 2020 be approved as a correct record, and that they be signed by the Chairman.

#### **52. Pension Advisory Board Minutes - Part I**

52.1 The Committee considered the confirmed Part I minutes from the 7 September 2020 Pension Advisory Board meeting; and the Agenda from the 13 November 2020 meeting (copies appended to the signed minutes).

52.2 Resolved – That the minutes and agenda be noted.

#### **53. Election of Scheduled Body Representative**

53.1 The Committee considered a report by the Director of Law and Assurance (copy appended to the signed minutes).

53.2 Charles Gauntlett, Senior Advisor Democratic Services, introduced the report and explained that there has been a vacancy on the Pensions Committee for a Scheduled Body representative for some time. Mr Gauntlett stated that the proposal was to ask education establishments who are Scheduled Body employers to agree to nominate a shared representative as detailed in the appendix of the report.

53.3 The Committee discussed if the Schools Forum could be used to make the process simpler, but it was pointed out that Higher Education is not represented on the Schools Forum.

53.4 The Committee also suggested that the election process could include a clause that if over ten applications were received then a process for shortlisting should be established.

53.5 Resolved – That the proposed nomination and election process for a Scheduled Body Employer representative be approved with the addition

that if more than ten applications are received officers should adopt a process to shortlist.

#### **54. Business Plan**

54.1 The Committee considered a report by the Director of Finance and Support Services (copy appended to the signed minutes).

54.2 Katharine Eberhart, Director of Finance and Support Services, introduced the report highlighting the updates provided in the summary of the report. Ms Eberhart stated that several of the highlighted areas are for discussion at separate agenda items. In addition, Ms Eberhart stated that the objective 'Competition & Markets Authority' was rated red and a review was to be completed by 31 December 2020. It was explained that this was running behind schedule, but the review was due to be complete by the end of this week.

54.3 Ms Eberhart referred the Committee to the item on the risk register relating to poor quality data resulting in error and misstatement. It was confirmed that significant progress had been made in this area and the rating would likely turn to green in the spring.

54.4 It was confirmed that the training on ACCESS governance had been scheduled to align with the Pension Advisory Board meeting in February. The date and information would be circulated to Committee members after the meeting.

54.5 Resolved that:

- 1) The update on the Business Plan is noted
- 2) The risk matrix for the Fund is noted.

#### **55. Pension Administration Performance**

55.1 The Committee considered a report by the Director of Finance and Support Services (copy appended to the signed minutes).

55.2 Ms Eberhart introduced the report stating that this was the second year since Hampshire County Council had provided the Pension Administration Service for West Sussex County Council. Ms Eberhart was pleased to report that the 100% compliance with the key performance indicators continued and significant progress had been made on data cleansing.

55.3 Andrew Lowe, Head of Pensions, Hampshire County Council also referred the Committee to the progress on previous performance around Annual Benefit Statements as outlined in section 2.3 of the report.

55.4 The Committee thanked the team for their hard work.

55.5 Resolved - that the Committee note the update.

#### **56. Scheme Changes**

56.1 The Committee considered a report by the Director of Finance and Support Services (copy appended to the signed minutes).

56.2 Rachel Wood, Pension Fund Strategist, introduced the report explaining that it provided an update on the national landscape and the funds response to the McCloud judgment in relation to public sector exit payments. Ms Wood highlighted the conflict between regulations and the impact this would have on members made redundant who are over 55. This was detailed in section 3.7 of the report and the legal advice received by Administering Authorities on how to deal with this was set out in section 3.8 of the report.

56.3 Ms Wood also drew the Committees attention to section 6 of the report that detailed a consultation with employer in relation to employer flexibilities. Ms Wood reported that this consultation resulted in limited feedback.

56.4 Steven Law, Hymans Robertson, added that a ministerial statement was expected in February 2021 in relation to the McCloud judgment, so all benefit changes are on pause until that is announced.

56.5 Members asked how many employers had responded to the letter sent about the data required for work to rectify member records as a result of the McCloud judgement. Andrew Lowe stated that of the 206 written to, 145 had acknowledged receipt of which 28 had queries. Rachel Wood confirmed there were no comments of concern.

56.6 Resolved that:

- 1) The update, including the impact on the pension's administration team and the actuary to process the outcome of these scheme changes and the risks presented to the Administering Authority in respect of the restriction of Public Sector exit payments, is noted by the Committee.
- 2) The completion of the Funding Strategy Statement consultation is noted by the Committee.

## **57. Date of the next meeting**

57.1 The Committee noted that its next scheduled meeting would take place on 17 March 2021.

## **58. Exclusion of Press and Public**

The Chairman noted that no Committee member disagreed with the meeting entering the Part II section of the meeting as set out on the agenda.

Resolved - That under Section 100(4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part I, of Schedule 12A, of the Act by virtue of the paragraph specified under the item and that, in all the circumstances of the case, the public interest in maintaining the exemption of that information outweighs the public interest in disclosing the information.

**59. Part II Minutes of the last meeting**

The Committee agreed the Part II minutes of the Pensions Committee held on 17 November 2020.

**60. Pension Advisory Board Minutes - Part II**

The Committee noted the contents of the Part II minutes from the 7 September 2020 Pension Advisory Board meeting.

**61. ACCESS**

The Committee considered a report by the Director of Finance and Support Services.

The Committee considered the report and agreed with the officer recommendations.

**62. Private Equity**

The Committee considered a report by the Director of Finance and Support Services.

The Committee considered the report and agreed with the officer recommendations.

**63. AVCs**

The Committee considered a report by the Director of Finance and Support Services.

The Committee noted the update.

**64. Baillie Gifford Paris Aligned**

The Committee considered a report by the Director of Finance and Support Services (copy appended to the signed minutes).

The Committee considered the report and agreed with the officer recommendations.

**65. Review of Pension Investment Performance**

The Committee considered a paper by the Director of Finance and Support Services and the Independent Adviser relating to the quarterly performance reports from the fund managers.

The Committee noted the report and welcomed the advice.

**66. Presentation by Aberdeen Standard**

The Committee received an update from Mark McKelvey, Matthew Cunliffe and Geoff Hepburn from Aberdeen Standard on the portfolio performance for the quarter.



**67. Property Mandate**

The Committee considered a report by the Director of Finance and Support Services

The Committee considered the report and agreed with the officer recommendations.

The meeting ended at 2.09 pm

Chairman

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## **Pension Advisory Board**

13 November 2020 – At a virtual meeting of the Committee held at Virtual meeting with restricted public access.

Present: Peter Scales (Chairman),

Richard Cohen, Miranda Kadwell, Kim Martin, Becky Caney and Chris Scanes

Apologies were received from Tim Stretton

Officers in attendance: Rachel Wood (Pension Fund Strategist), Tara Atkins (Principal Pensions Consultant (Administration & Employers)), Alistair Rush (Interim Deputy Director of Finance) and Adam Chisnall (Democratic Services Officer)

### **Part I**

#### **17. Declarations of Interests and Conflicts**

17.1 None declared.

17.2 The Chairman confirmed that the policy on conflicts was under review and may come to a future meeting.

#### **18. Part I Minutes of the last meeting**

18.1 Resolved – That the part I minutes of the meeting of the Board held on 7 September 2020 be approved as a correct record and signed by the Chairman.

#### **19. Progress Report**

19.1 The Board considered the progress report on matters arising from previous meetings (copy appended to the signed minutes).

19.2 Adam Chisnall introduced the report and explained that similar issues had been consolidated and updates were expected in February.

19.3 The Chairman commented that the Good Governance review may not be ready to be presented at the February meeting. – *Adam Chisnall resolved that the progress statement for the February meeting would provide an update on the status if a presentation was not available.*

19.4 Resolved – That the Board noted the report.

#### **20. Pensions Committee Minutes - Part I**

20.1 The Board considered the confirmed part I minutes from the 22 July 2020 Pensions Committee meeting; and the Agenda from the 23 October

2020 Pensions Committee meeting (copies appended to the signed minutes).

20.2 The Chairman commented that a key discussion at the 23 October meeting was the impact on Pension Administration. This topic would be discussed later as part of the Board agenda.

20.3 Resolved – That the minutes and agenda be noted.

## **21. Business Plan Update**

21.1 The Board received a report by the Chairman of the Pension Advisory Board (copy appended to the signed minutes).

21.2 The Chairman introduced the report and highlighted the new format of the report to align with new templates for West Sussex County Council meetings. The report gave an update on progress of the business plan, and how there had been impact from high level projects such as the Good Governance Project.

21.3 The Board discussed the annual reviews which normally took place in January and how they might proceed this year. The Board felt the reviews should continue and proposed using Microsoft Teams to complete them virtually.

21.4 Resolved – That the Board notes the updates to the Business Plans of the Board and of the Pensions Committee.

## **22. Regulations and Guidance update**

22.1 The Board received a report by the Chairman of the Pension Advisory Board (copy appended to the signed minutes).

22.2 The Chairman introduced the report and confirmed that the Local Government Pensions Committee (LGPC) bulletin 203 had been released which outlined Exit Caps, McCloud and the Consumer Price Index (CPI) increase.

22.3 The Pensions Committee report on Scheme Changes had been included as an appendix; and training on this subject would be delivered by the fund actuary after the meeting.

22.4 Tara Atkins confirmed that officers were currently focussed on the Exit Cap proposals.

22.5 Resolved – That the Board notes the current issues relating to Scheme Regulations and Governance.

## **23. Administration procedures and performance**

23.1 The Board received a report by the Director of Finance and Support Services (copy appended to the signed minutes).

23.2 Tara Atkins introduced the report and confirmed that there had been 100% compliance in all areas for nine months. There were 18 deferred members without an Annual Benefits Statement for which the team were working on. Pension Saving Statements had been fully completed. Specific employers were being contacted to improve their performance for data submissions. There had been two low risk data breaches and officers were investigating into whether annual benefit statements which were unable to be produced constituted a material breach to the Pension Regulator.

23.3 Andrew Lowe, Head of Pensions, Investments & Borrowing at Hampshire, commented that the report portrayed the service well and reported that administration staff had adapted well to working from home arrangements.

23.4 The Board made comments including those that follow.

- Queried the impact from Covid-19 on employers. – *Tara Atkins reported that there had only been one employer who had been impacted by Covid-19 with regard to administration. There were no employers with consistent issues with payment of contributions each month.*
- Asked if the employer issues were linked to certain types of employers. – *Andrew Lowe reported that it was a mix of employers and that focus was on those with data quality issues.*
- Sought confirmation that appropriate contact was made with the relevant people for the employer for data concerns. – *Andrew Lowe confirmed that contact was made with high level contacts within the organisation, with a letter sent on behalf of Katherine Eberhart, Director of Finance and Support Services.*
- Asked how Covid-19 had impacted the pension administration team. – *Andrew Lowe confirmed that the team had adapted well. Initially there was a requirement to ensure that an appropriate phone system was in place to allow administrators to work from home. This system was now in place, stable, and working well. There had been good engagement with the County Council and employers which had led to a good general position.*
- Commented on the discussed issues concerning regulation changes and how this would impact administration workloads. – *Andrew Lowe confirmed that the administration team were working with schemes to understand the impact of the changes to allow consideration of resource implications.*
- Queried the communications planned for the regulation changes. – *Andrew Lowe confirmed that conversations were regularly taking place with schemes on this, with a particular current focus on the exit cap. The importance of communication was recognised, and a plan to inform would be established when there was more clarity on the regulations.*
- Noted the current limit for members to request one calculation per year, and asked if there would be exceptions to this given the proposed changes and impact for members. – *Andrew Lowe reported that members could run estimates themselves via the member portal. It was likely that the limit would remain in place, and members would be encouraged to use the portal. Board*

*members asked if the portal would highlight where changes had been applied. Andrew Lowe agreed to check with the team to see how changes would be communicated.*

- *Asked if there was national guidance on communications for the changes. – Rachel Wood explained that the County Council had put a freeze on estimates until national guidance was clear on how to apply the changes. Andrew Lowe confirmed that West Sussex County Council and Hampshire County Council, as Administering Authorities, were seeking legal advice for the instances where the regulations were in conflict. The Chairman confirmed the Scheme Advisory Board (SAB) was also challenging the legislation changes.*

23.5 Resolved – That the Board note the update.

## **24. Communication Strategy**

24.1 The Board received a report by the Director of Finance and Support Services (copy appended to the signed minutes).

24.2 Tara Atkins introduced the report which included the Communications Policy Statement and also outlined the different communications documents that were sent out.

24.3 The Board made comments including those that follow.

- *Noted that page three of the Communications Policy incorrectly referred to the Pensions Committee as the Pension Fund Committee.*
- *Queried if the list of stakeholders in the policy document should refer to council tax payers or the public. – Tara Atkins commented that the criteria for including stakeholders depended on how the intended audience of the policy was interpreted. Tara Atkins resolved to take the query away for investigation.*
- *Asked if tapered annual allowance should be referenced. – Andrew Lowe resolved to look into this.*
- *Queried the level of queries received on Pension Savings Statements. – Andrew Lowe confirmed that queries were received on this. Tara Atkins added that queries generally related to those people who breached the limit once. Those who breached the limit regularly generally had a good understanding of tax.*

24.4 Resolved – That the Board notes the schedule of Communications drawn from the Communication Policy Statement and asks officers to consider the feedback given.

## **25. Training**

25.1 The Board considered a tabled document outlining the training that been recorded for Board members (copy appended to the signed minutes). Adam Chisnall apologised that the training log was missing from the initial agenda dispatch and resolved to add the log to the webpage after the meeting.

25.2 Adam Chisnall introduced the report and noted the progress that had been recorded for the Pension Regulator Toolkit modules.

25.3 Board members commented on recent training they had attended from CIPFA and Hymans Robertson. It was felt that powerpoint training lasting over 30 minutes felt too long to stay engaged with.

25.4 Members noted they had training scheduled after the current meeting, and discussed if training before a Board meeting would be more appropriate. - *Adam Chisnall raised concerns with this as Board meetings were required to begin at their publicised start time and so training beforehand could impact this, or impact the training.*

25.5 Resolved – That Board members will continue to report progress on training.

## **26. Review of Pension Fund Policy Documents**

26.1 The Board received a report by the Director of Finance and Support Services (copy appended to the signed minutes).

26.2 Rachel Wood introduced the report and explained that Appendix C was the Investment Strategy Statement which contained exempt information. Discussion on this would be taken during the Part II section of the meeting.

26.3 Rachel Wood introduced the Funding Strategy Statement and explained that it was a living document in order to comply with any changes with regulations. The Statement now include a new employer classification for deferred employers. The Statement had been sent to employers for consultation, with a deadline for comments of early December.

26.4 The Board welcomed the inclusion of tracked changes to see the changes to the document. The Board also praised the plain English used in the Statement. - *Rachel Wood explained that officers had tried to make the Statement accessible for all audiences.*

Summary of Part II discussion

26.5 The Board discussed the contents of the Investment Strategy Statement during the Part II section of the meeting.

26.10 Resolved – That the Board notes the register of policy documents, the Funding Strategy Statement and the Investment Strategy Statement.

## **27. Date of Next Meeting**

27.1 The Board noted that its next scheduled meeting would take place on Friday 26 February 2020 at 9.30 a.m.

## **28. Exclusion of Press and Public**

Resolved – That under Section 100(4) of the Local Government Act 1972, the public be excluded from the meeting for the following item of business on the grounds that it involves the likely disclosure of exempt information as defined in Part I, of Schedule 12A, of the Act by virtue of the paragraph specified under the item and that, in all the circumstances of the case, the public interest in maintaining the exemption of that information outweighs the public interest in disclosing the information.

**29. Part II Minutes of the last meeting**

The Board agreed the Part II minutes of the 7 September 2020 meeting and they were signed by the Chairman.

**30. Pensions Committee Minutes – Part II**

The Board noted the contents of Part II minutes from the 22 July 2020 Pensions Committee meeting.

**31. ACCESS Update**

The Board considered the report by the Director of Finance and Support Services from the 23 October 2020 Pensions Committee (copy appended to the signed minutes).

The Board noted the report.

**32. AVC Update**

The Board considered the report by the Director of Finance and Support Services from the 23 October 2020 Pensions Committee (copy appended to the signed minutes).

The Board noted the report.



**Tony Kershaw**  
Director of Law and Assurance

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18 February 2021

## **Pension Advisory Board**

A virtual meeting of the Committee will be held at **9.30 am** on **Friday, 26 February 2021**.

**Note:** In accordance with regulations in response to the current public health emergency, this meeting will be held virtually with members in remote attendance. Public access is via webcasting.

**The meeting will be available to watch live via the Internet at this address:**

<http://www.westsussex.public-i.tv/core/portal/home>

Tony Kershaw  
Director of Law and Assurance

## **Agenda**

### **Part I**

#### **1. Declarations of Interests and Conflicts**

Members and officers must declare any pecuniary or personal interest, or any potential conflicts of interest in any business on the agenda. They should also make declarations at any stage such an interest becomes apparent during the meeting. Consideration should be given to leaving the meeting if the nature of the interest warrants it. If in doubt, contact Democratic Services before the meeting.

#### **2. Part I Minutes of the last meeting (Pages 5 - 10)**

To confirm the part I minutes of the meeting of the Board held on 13 November 2020.

#### **3. Urgent Matters**

Items not on the agenda, which the Chairman of the meeting is of the opinion, should be considered as a matter of urgency by reason of special circumstances.

4. **Part II Matters**

Members are asked to indicate at this stage if they wish the meeting to consider bringing into Part I any items on the Part II agenda.

5. **Progress Statement** (Pages 11 - 12)

This report contains updates on matters arising from previous meetings.

The Board is asked to note the report and the progress on actions.

6. **Pensions Committee Minutes - Part I**

The Board is asked to note the confirmed Part I minutes from the meetings of the Pensions Committee on the 23 October 2020 and the 17 November 2020; and the agenda from the meeting of the Pensions Committee on 25 January 2021. Also included is a note from the Chairman summarising the Pensions Committee webcast from 25 January 2021.

(a) **23 October 2020 - Part I Pensions Committee Minutes** (Pages 13 - 18)

(b) **17 November 2020 - Part I Pensions Committee Minutes** (Pages 19 - 20)

(c) **25 January 2021 - Pensions Committee Agenda** (Pages 21 - 24)

(d) **25 January 2021 - Chairman's webcast summary** (Pages 25 - 26)

7. **Election of Scheduled Body Representative** (Pages 27 - 30)

The Board is asked to note the report from the 25 January 2021 Pensions Committee by the Director of Law and Assurance.

8. **Business Plan Update** (Pages 31 - 56)

Report by the Chairman of the Pension Advisory Board.

The Board is asked to agree the performance report for 2020/21 and that the Pensions Committee and Governance Committee be informed. The Board is also asked to note the Pensions Committee's business plan update report.

9. **Administration procedures and performance** (Pages 57 - 66)

The Board is asked to consider the Administration Report from the 25 January 2021 Pensions Committee by the Director of Finance and Support Services.

10. **Regulations and Guidance update** (Pages 67 - 78)

Report by the Chairman of the Pension Advisory Board.

The Board is asked to note the current issues relating to Scheme Regulations and Guidance.

11. **Communication Strategy** (Pages 79 - 84)

Report by Director of Finance and Support Services.

The Board is asked to; note the schedule of Communications drawn from the Communication Policy Statement; note updates made in the Communication Policy Statement; and provide feedback on the Communications presented at the meeting.

12. **Review of Pension Fund Policy Documents** (Pages 85 - 94)

Report by Director of Finance and Support Services.

The Board is asked to note the register of policy documents and provide feedback on the policies presented at the meeting.

13. **Training** (Pages 95 - 96)

The Board is asked to review the training log and provide details of their progress on the Pensions Regulator Toolkit.

14. **Date of Next Meeting**

The next meeting of the Board will be held at 9.30 am on 28 April 2021.

**Part II**

15. **Exclusion of Press and Public**

The Board is asked to consider in respect of the following item(s) whether the public, including the press, should be excluded from the meeting on the grounds of exemption under Part I of Schedule 12A of the Local Government Act 1972, as indicated below, and because, in all the circumstances of the case, the public interest in maintaining the exemption of that information outweighs the public interest in disclosing the information.

Exempt: paragraph 3, financial or business affairs of any person (including the authority).

16. **Part II Minutes of the last meeting** (Pages 97 - 100)

To confirm the part II minutes of the meeting of the Board held on 13 November 2020.

17. **Pensions Committee Minutes – Part II**

The Board is asked to note the confirmed Part II minutes from the meetings of the Pensions Committee on the 23 October 2020 and the 17 November 2020 (yellow paper).

- (a) **23 October 2020 - Part II Pensions Committee Minutes** (Pages 101 - 108)

- (b) **17 November 2020 - Part II Pensions Committee Minutes** (Pages 109 - 112)

18. **AVC** (Pages 113 - 122)

The Board is asked to consider the following report which went to the Pensions Committee on 25 January 2021.

Report by the Director of Finance and Support Services attached for members of the Board only (yellow paper).

19. **ACCESS Update** (Pages 123 - 132)

The Board is asked to consider the following report which went to the Pensions Committee on 25 January 2021.

Report by the Director of Finance and Support Services attached for members of the Board only (yellow paper).

**To all members of the Pension Advisory Board**

**Key decision: Not applicable  
Unrestricted**

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## **Pensions Committee**

**17 March 2021**

### **Business Plan 2021/22**

#### **Report by Director of Finance and Support Services**

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### **Summary**

The Pensions Committee approved its Business Plan for 2020/21 in July 2020. The Business Plan sets out the aims and objectives of the fund over the coming year, its core work and how the objectives will be achieved.

The Pensions Committee's approach, historically, has been to review its business plan annually at the start of the year and consider the risks faced by the Fund.

The following are noted as updates to priorities within the 2020/21 Business Plan:

- The implementation of the Fund's new AVC arrangement is now substantially completed.
- A consultation with stakeholders on the Fund's Investment Strategy Statement has concluded.
- The Fund completed its commitment to an infrastructure fund on 28 February 2021 (slightly after the previously proposed date of 31 January 2021).
- Further work on the Guaranteed Minimum Pension (GMP) has been scoped for completion of the required reconciliation work in mid-2021.

As this is the final meeting prior to the new financial year, priorities for 2021/22 have been proposed. The following are highlighted:

- Following the changes to the investment strategy during 2020/21, work will be completed to develop a reporting and monitoring framework. The Fund will also continue to actively participate in the work of the ACCESS investment pool.
- The Fund will continue to work to implement the changes required as a result of the McCloud judgement, and respond appropriately to any other significant Scheme changes and developments that impact the Fund.
- In advance of the Fund's formal valuation as at 31 March 2022, the Fund will work to further integrate an employer risk framework. Further work will also be completed on the Data Improvement Plan.
- A new priority has been included in respect of improving the published documents about the management about the Scheme and benefits provided.

## **Recommendations**

- (1) To note the updates on Business Plan activities for 2020/21.
  - (2) To approve key priorities within the Business Plan for 2021/22 (Appendix A).
  - (3) To note the full risk matrix for the Fund, included in the Annexe 1 to the Business Plan.
  - (4) To approve the ACCESS Business Plan as recommended by the ACCESS Joint Committee, included in Appendix B.
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### **1 Background**

- 1.1 The Pensions Committee maintains a Business Plan which sets out its key priorities. The 2020/21 Business Plan was agreed in July 2020 and is now completed. A new Business Plan is proposed for the next financial year. This sets out the aims and objectives of the fund over the coming year and how the objectives will be achieved. This is included as Appendix A.
- 1.2 The Pensions Committee's approach, historically, has been to review its business plan annually at the start of the year and consider the risks faced by the Fund. A report based on any emerging key business issues, any issue with the highest levels of risk identified, or any other matter the Director of Finance and Support Services wishes to bring to the attention of the Committee is then provided each quarter.

### **2 ACCESS Business Plan**

- 2.1 The ACCESS Joint Committee also maintain a Business Plan which sets out its key priorities. The 2021/22 Business Plan was agreed in January 2021. Under the arrangements of the Joint Committee this is then considered by each participating Authority individually. This is included as Appendix B.
- 2.2 The budget to deliver the Business Plan is agreed by the ACCESS Joint Committee. The Fund's contribution for 2021/22 will be £113,365 (2020/21 forecast £88,163).

### **3 Covid**

- 3.1 The Committee received a full report when they met in July about the impact of Covid-19 on the Pension Fund. A further update has been provided at each meeting of the Committee since. There are no updates to these key risks to draw the Committee's attention to at this time.

### **4 Consultation, engagement and advice**

N/A

### **5 Finance**

- 5.1 An allowance for the Fund's administration expenses is included within employer contribution rates.

**6 Risk implications and mitigations**

N/A

**7 Policy alignment and compliance**

N/A

Katharine Eberhart

**Director of Finance and Support Services**

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**Appendices**

Appendix A – Business Plan 2021/22

Appendix B – ACCESS Joint Committee Business Plan 2021/22

**Background papers**

None

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# **Business Plan**

## **2021/22**

## Background

This is the Business Plan for the West Sussex Local Government Pension Scheme. The County Council is responsible for administering the West Sussex County Council Pension Fund. It has delegated responsibility for this to the Pensions Committee.

The Business Plan is an important document which sets out the aims and objectives of the fund over the coming few years and the outcomes the Committee want to achieve for its stakeholders.

The Fund's overarching objectives are set out below:

- **Governance:** To put stakeholders at the centre of everything we do, act with integrity and be accountable for decisions made. This will be achieved through a robust, and well based governance framework which considers risk management, compliance and appropriate resourcing.
- **Investments and Funding:** To make the best use of our resources and minimise the long-term cash contributions which employers need to pay to the Fund. This will be achieved through recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return.
- **Administration and Communication:** To build on the improvement journey in relation to the administration and deliver a high-quality administration service to all stakeholders. This will be done through working closely with our partners and the establishment of processes and procedures to ensure that the Fund receives all income due and payments are made to the right people at the right time, clear communication and robust accounting and reports.

The plan has been written at a time when the country is responding to the uncertainty caused by the Coronavirus Pandemic. The longer term physical and mental health, social and economic impacts are yet to be fully seen. This may change the plan in the future.

## Resources and Budget

The County Council's s151 Officer and Director of Finance and Support Services is responsible for the administration of the Fund's financial affairs and has delegated authority to manage and advise the County Council in the discharge of the responsibilities of the County Council as Scheme Manager in relation to the Local Government Pension Scheme under the Public Service Pensions Act 2013, jointly with the Director of Law and Assurance.

The Director of Finance is supported by the Head of Finance and LGPS Officers (equivalent to 8.15FTE).

Other key parties are listed below:

- **Administration:** The pension administration is provided through a partnership with Hampshire County Council. The Fund pays an annual charge relating to the pensions and payroll administration and relevant staff costs, as agreed between the Director of Finance and Support Services and Hampshire County Council.
- **Oversight and Governance:** The Fund has access to services within the County Council's finance team including banking, income collection and treasury management and access to services within the County Council's legal team, who may also commission advice from outside legal firms as appropriate. Costs are charged to the Fund based on a proportion of time spent by officers and associated management, accommodation and other overheads.
- **Professional Advisers:** External advisers including the Fund Actuary, Independent Advisers and Independent Property Valuer have been appointed to provide appropriate advice to Officers and Members.
- **External Fund Managers:** Fund management has been outsourced to external fund managers. Fees are agreed in the respective mandates governing their appointment and are mainly based on the market value of the investments under management.

The Fund's financial statement provide more detail about the costs incurred.

## Priorities

During the 2020/21 financial year the Fund successfully:

- Agreed an investment strategy which reflected changes as a result of the strong funding position identified at the 2019 actuarial valuation and the Committee's consideration of its approach to responsible investment, aligned to deliver sustainable investment and funding outcomes.
- Implemented changes to its investment strategy including commitment of £250m to two private debt funds (managed by Goldman Sachs and ICG) and £250m to an infrastructure fund (managed by JPMorgan) to generate a reliable income and providing additional cash flows
- Transferred funds totalling £2.7bn, managed by the Fund's long-term manager Baillie Gifford, into two sub-funds within the ACCESS pool. The eleven participating authorities now have £31bn within the ACCESS pooling arrangements. The West Sussex County Council Pension Committee agreed in 2016 to join the ACCESS Pool in line with Government guidance with the aim of, over time, achieving a lower fee base.
- Completed a full review of its AVC provider providing members with lower fees, better service and an improved choice of individual funds with a stronger emphasis on responsible and sustainable investing.
- Completed its external audit of its Statement of Accounts and Annual Report, by the required statutory deadlines and with an unqualified audit opinion, with the Statements agreed by the Regulation, Audit and Accounts Committee on 20 November 2020).
- Made substantial progress on its Data Improvement Plan by processing historic case work and updating for missing historic information on member records. This has been reflected in the compliance with the publication of Annual Benefit Statements for members compared to prior years (99.9% of deferred statements and 95.1% of active statements had been published by the statutory deadline).
- Introduced online functionality for the benefit of members and employers in the Scheme.
- Dealt with a range of Scheme changes.

Some of these priorities continue in 2021/22, along with new business plan items. These have been set out on the following page:

<b>BUSINESS PLAN ITEM</b>	<b>CONTEXT</b>	<b>2021/22 ACTIONS</b>
<b>INVESTMENT STRATEGY STATEMENT</b>	The Fund has an Investment Strategy Statement designed to provide transparency in relation to how investments are managed.	Implement strategy and develop reporting and monitoring framework.
<b>IMPLEMENT CHANGES REQUIRED AS A RESULT OF THE MCCLLOUD JUDGEMENT</b>	On 20th December 2018 the Court of Appeal found that protections given to scheme members who in 2012 were within 10 years of their normal retirement age were unlawful on the grounds of age discrimination and could not be justified. Those members who have been discriminated against will need to be offered appropriate remedies to ensure they are placed in an equivalent position to the protected members.	Receive and validate data from employers in order to update the records of affected members whilst keeping key stakeholders informed and managing the risks inherent in a large project. Recalculations and possible restitution will form the next phase of the work.
<b>PREPARE FOR 2022 VALUATION</b>	The Fund is required to undergo a triennial valuation and the next one will be as at 31 March 2022.	Work with advisers to integrate employer risk framework into the 2022 valuation and future monitoring arrangements.
<b>COMMUNICATIONS (NEW)</b>	The fund is required to publish several strategy documents and disclose information about benefits and scheme administration to scheme members and others.	Develop an approach to support the Communication Strategy which considers the communications documents published for stakeholders to support the understanding of the management of the Scheme and benefits provided.
<b>DATA</b>	The maintenance of complete and accurate records is a control to allow the fund to carry out basic functions. Poor record-keeping can result in schemes failing to pay benefits in accordance with scheme regulations, processing incorrect transactions and paying members incorrect benefits.	Undertake further work to identify data improvement requirements ahead of the 2022 Actuarial Valuation and support wider service improvements such as self-service and the Data Dashboard.
<b>ROBUST ACCOUNTING</b>	The Pension Fund is required to produce accounts in line with statutory deadlines. The accounts are subject to external audit review and assurance.	Complete the Pension Fund's Statement of Accounts by the statutory deadline and work with the external auditors on their review.
<b>ANNUAL REPORT</b>	The Pension Fund is required to produce an Annual Report in line with statutory deadlines and considering statutory guidance.	The Report will be considered by the Pensions Committee at their meeting on 21 July 2021 and by the Pension Board on 26 July 2021.
<b>ACCOUNTING SYSTEM</b>	The County Council is changing its core accounting system to Oracle. Officers will work with colleagues across the County Council to ensure processes, procedures and reporting are in place within the core accounting system implemented to replace the current SAP system by no later than 30 April 2022.	Officers will continue to work with the project team to ensure the accounting system is implemented.

## Training

A Training Strategy has been established to aid the Pension Committee and Pension Advisory Board members in performing and developing personally in their individual roles and to equip them with the necessary skills and knowledge to act effectively in line with their responsibilities.

Key training for the Committee have been summarised below.

- July 2021 - Induction training
- July 2021 – Statement of Accounts
- October 2021 – Link Fund Solutions
- November/December 2021 – The Actuarial Valuation process
- January 2022 – Employer Risk / Employer Management

This will be supplemented by external training opportunities including:

- May 2021 – PLSA Local Authority Conference
- July 2021 – LAPF Investment Conference
- September 2021 – LGC Investment and Pension Summit
- September to December 2021 – LGA Fundamentals
- January 2022 – LGA Annual Governance Conference

## Risk

The risk assessment process helps identify a range of internal and external risks which are critical to the Scheme and members. This has been informed by relevant sources of information including internal disputes, legislative breaches, internal and external audit reports, and service contracts. This has been summarised below, and a full version including mitigating actions can be found at Annexe 1.

Ref	Risk Theme	RAG Mar 21
RT1	Increased likelihood of employer insolvency/restructuring impacting on the Fund cashflows in via contributions and out via benefits paid/early retirement lump sums and death benefits, resulting in the Fund becoming cash flow negative earlier than expected. Also, risk of employers not being able to meet liabilities at exit.	Amber
RT2	Remote working results in increased governance pressure within the Fund, Council and partner organisations.	Amber
RT3	Political and/or employer pressure results in change to investment strategy due to ESG factors resulting in the Fund being required to restrict Fund Manager investments and/or the Fund being challenged on fiduciary duty.	Amber
RT4	Insufficient funds to meet liabilities resulting in increased contributions required from employers or changing to a higher risk investment strategy	Green
RT5	Insufficient resources to comply with the Administering Authority's Regulatory responsibilities.	Amber
RT6	Poor quality data resulting in error and misstatement.	Amber
RT7	Officer, Committee and Board knowledge and understanding resulting in poor decision making and disengagement on key issues.	Green
RT8	The introduction of asset pooling impacts on the Fund's ability to implement its investment strategy successfully or the Administering Authority is considered to not comply with the relevant statutory guidance.	Amber
RT9	Failure to secure value for money through managing contracts with third parties	Green
RT10	Political environment (locally or nationally) impact on investment markets and legislative requirements.	Amber
RT11	Conflict of interest for members and employers	Green
RT12	Increase in variety and number of employers participating in the Scheme resulting in risk of non-compliance with obligations.	Amber
RT13	Cyber crime resulting in personal data for members being accessed fraudulently.	Amber
RT14	Fund not able to implement changes required as a result of McCloud judgement due to insufficient resources or incomplete information held by employers	Amber

## Audit and Controls

The County Council's Regulation, Audit and Accounts Committee (RAAC) have responsibility to provide an adequate and effective system of internal control, to consider the Head of Internal Audit's annual report and opinion and to approve the Internal Audit annual work programme. The Committee have responsibility to consider the work of RAAC with regards to the Pension Fund accounts, internal and external auditors' reports, development and operation of risk management and approval of changes to anti-fraud and corruption strategy.

The County Council is a Key Stakeholder Partner in the Southern Internal Audit Partnership, who provide internal audit services.

Internal audit work should ensure that adequate internal controls are in place and operate effectively. It will therefore focus on the following key areas:

- Key controls are operating effectively
- Governance framework is operating appropriately
- Arrangements for investment are appropriate including asset pooling
- Business Continuity
- Cyber Risk
- Any significant changes to systems, personnel, processes
- Any controls identified as inadequate

The internal audit team will consider the above through documentation, review of systems, observations and testing of controls.

To supplement its own audit framework the County Council will also receive internal audit reports from its administration provider, Hampshire County Council. The team will also provide the Council's internal and external auditors with information relevant for the completion of their work.



The following audit work will be completed over the next three years relating to the pension administration services for processes consistent between West Sussex Pension Fund and Hampshire Pension Fund:

Key area	2021/22	2022/23	2023/24
<b>Pensions, payroll and benefit calculations:</b> Annual review to provide assurance that systems and controls ensure that: <ul style="list-style-type: none"> <li>Lump sum and on-going pension payments are calculated correctly, are valid and paid to the correct recipients;</li> <li>All changes to on-going pensions are accurate and timely;</li> <li>Pension payroll runs are accurate, complete, timely and secure with all appropriate deductions made and paid over to the relevant bodies.</li> </ul>	●	●	●
<b>Pension Starters:</b> Review of the control framework to support appropriate, complete and prompt admission of new starters to the various pension schemes administered by Hampshire Pension Services (HPS).	●		
<b>Pension Leavers:</b> Audit of the controls to ensure accurate, prompt and complete administration of pension leavers including the production of on-going annual benefit statements within agreed timescales.		●	
<b>Transfers:</b> To provide assurance over the processes and controls to support the accuracy and timeliness of transfers in and out of the schemes managed by HPS.		●	
<b>Pension refunds:</b> To assess that there are appropriate arrangements to ensure all refunds are valid, accurate and are paid promptly to the correct recipients following a validated request to withdraw from the schemes administered by HPS.			●
<b>Member deaths:</b> To provide assurance that systems and processes ensure that any payments related to deceased members are calculated correctly and paid promptly to the correct recipient, with the risk of overpayments minimised.		●	
<b>UPM application:</b> Review of the UPM application including cyber security & access controls.			●
<b>National Fraud Initiative:</b> Full exercise undertaken October 2020 and completed within 6 months and to be undertaken again in October 2022.	●		●

Additional internal audit work is also proposed to include accounting for pension payroll, recoveries and contribution receipts, employer assets and cashflows, governance and investments.

## **Annexe 1**

Full version of risk register.

*To follow.*



2021/22

## Business Plan & Budget

## Introduction

ACCESS has its origins in 2016 when eleven Local Government Pension Scheme (LGPS) Authorities agreed to begin working collectively to address the requirements of the Government's agenda for pooling LGPS investments.

The following strategic objectives are in place:

- enable participating Authorities to execute their fiduciary responsibilities to LGPS stakeholders, including scheme members and employers, as economically as possible;
- provide a range of asset types necessary to enable Authorities to execute their locally-determined investment strategies as far as possible;
- enable participating Authorities to achieve the benefits of pooling investments, preserve the best aspects of what is currently done locally, and create the desired level of local decision making and control.

In order to achieve these objectives, the participating Authorities have established a set of governing principles. Furthermore, the Joint Committee recommends an annual business plan to the ACCESS Authorities.

The governing principles are set out below, and the annual business plan for 2021/22 is on the following pages.

Collaborative	Risk management	Objective evidence based decisions
Equitable voice in governance	Professionalism	Equitable cost sharing
No unnecessary complexity	Evolution and innovation	Value for money

Implicit within the above principles is the democratic accountability and fiduciary duty of LGPS Authorities.

## Context

Significant progress continued during 2020/21 in pooling active listed assets, and key groundwork took place in identifying and establishing the pool's approach to illiquid assets.

During 2020/21 the Joint Committee appointed both a Communications partner and an ESG/RI adviser.

In early 2021, as part of ongoing collaborative working, a joint procurement for global custody services is scheduled for completion.

It is anticipated that 2021/22 will see key activities within the following themes:

***Actively managed listed assets:*** the completion of pooling active listed assets within the Authorised Contractual Scheme (ACS).

***Alternative / non-listed assets:*** the implementation of pooled alternative assets will commence.

***Passive assets:*** ongoing monitoring and engagement with UBS.

***Governance:*** the application of appropriate forms of governance throughout ACCESS.

***ACCESS Support Unit (ASU):*** the completion of the implementation of the increased ASU.

## Business Plan

Each theme within the business plan includes milestones planned for the year. The strategic nature of ACCESS's objectives means that a number of the 2021/22 milestones build on work previously undertaken and will in turn provide the foundation for further milestones in subsequent years.

On a day-to-day basis, the work will be co-ordinated by the ACCESS Support Unit to deliver each milestone with a series of workstreams to support additional requirements. The work is steered/reviewed by meetings of the *Officer Working Group*. The milestones will indicate where third-party providers may be required. Oversight by *s151 Officers* will be via periodic meetings.

The *Joint Committee* will receive updates on the milestones at each meeting.

## Budget

A budget totalling **£1.247m** to support the business plan is included at the end of this paper.

Theme	Milestone	2021/22 activity
<b>Actively managed listed assets</b>	Launch of Tranche 5b	Anticipated June 2021
	Launch of Tranche 6	Anticipated July 2021
	Determine, approval & launch of Tranche 7	Timing for approval & launch TBC
	<i>Ensure sub-funds meet Link's due diligence requirements and ACCESS Authorities' Value for Money criteria (including transition activity). Manager search and selection activity where required. Work with Link to submit applications to the FCA for approval of the set-up of sub-funds. Launch. A process for transitioning between sub-funds is established.</i>	
	Scheduled BAU evaluation	Implement outcomes of Scheduled BAU evaluation
<b>Alternative / non-listed assets</b>	Implementation of approach to pool illiquid assets.  <i>Following work undertaken in 2020/21 to consider the needs and implementation options.</i>	The implementation of pooled alternative assets will commence in 2021/22.

Theme	Milestone	2021/22 activity
<b>Alternative / non-listed assets (contd.)</b>		The work undertaken, and potentially aspects of any training, will use third-party providers as required.
<b>Passively managed assets</b>	<p>Ongoing monitoring of assets managed on a passive basis.</p> <p><i>This follows the migration of passive assets held by ACCESS Authorities to UBS in early 2018.</i></p>	Engagement with UBS will continue throughout the year.
<b>Governance</b>	<p>Meetings and oversight</p> <p>Operational protocols</p> <p>Engagement with HM Government</p>	<p>Arrangements will be made to support meetings of the Joint Committee (usually each quarter). Meetings of s151 Officers will also be held. Where required training will be provided, this may involve third party providers.</p> <p>Further development of protocols around key processes associated with the Pool's day-to-day operation will take place during the year. Third-party providers will be used where required.</p> <p>ACCESS will liaise with the Scheme Advisory Board as appropriate.</p> <p>Periodic reports will be provided to MHCLG as required.</p>

Theme	Milestone	2021/22 activity
	Joint Policies & guidelines.	<p>The Pool will actively participate with any Cabinet Officer / MHCLG pooling-related consultations.</p> <p>The Communications plan will be implemented.</p> <p>The review of joint guidelines on ESG / RI will be completed.</p>
ACCESS Support Unit (ASU)	ACCESS Support Unit	The implementation of the increased ASU will be completed.

A separate risk register measures the risk of the strategic objectives and milestones not being achieved and the resultant impact.



## Budget 2021/22

The budget for 2021/22 is detailed below.

	Draft Budget 2021/2022 £
<b>ASU</b>	
Interim ASU Support	-
ASU Salaries (incl. on cost)	460,261
ASU Operational	20,580
ASU Host Authority Recharge	64,087
Technical Lead Recharge Costs	40,000
<b>ASU Total</b>	<b>584,928</b>
<b>Professional Costs</b>	
<i>Internal Professional Costs</i>	
JC Secretariat	21,761
Procurement	45,000
<i>Internal Professional Costs</i>	<b>66,761</b>
<i>External Professional Costs</i>	
Strategic & Technical	433,000
Legal & Governance	162,330
<i>External Professional Costs</i>	<b>595,330</b>
<b>Professional Costs Total</b>	<b>662,091</b>
<b>Total</b>	<b>1,247,020</b>
<i>Check</i>	<i>(729,257)</i>
<b>Cost Per Authority</b>	<b>113,365</b>

The key assumptions contained within the budget are outlined overleaf.

### **Key budget assumptions**

A full year effect on an ASU increased in size from three to five full time members of staff (as detailed in section 4 of the cover report).

Joint Committee Secretariat services remaining with Kent County Council for the duration of 2021/22;

External consultancy on a range of matters including:

- the establishment of pooled arrangements for alternative assets, along with associated procurements and technical advice;
- the development and implementation of pool Environmental, Social and Governance (ESG) / Responsible Investment (RI) guidance along with associated required reporting;
- pool communications and communications strategy.

External legal advice.

**Key decision: Not applicable  
Unrestricted**

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## **Pensions Committee**

**17 March 2021**

### **Investment Strategy Statement**

#### **Report by Director of Finance and Support Services**

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### **Summary**

Local Government Pension Scheme (LGPS) regulations require administering authorities to prepare and maintain an Investment Strategy Statement ('ISS').

The Fund's Strategy has been revised in accordance with regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (the 'Regulations') and associated guidance and updates the Fund's position in relation to its strategic asset allocation, investment beliefs and the Committee's view on Responsible Investment.

The Statement was approved by the Committee when it met in October 2020 for consultation with stakeholders. The consultation with stakeholders completed in late January.

Responses received covered a number of matters, but the majority of comments focused on the divestment from fossil fuels which respondents considered presented a financial risk to the Fund.

It is not proposed that any substantive changes are made to the Strategy Statement as a result, but opportunity has been taken to make some minor revisions for consistency and clarity.

### **Recommendations**

- (1) To approve the revised Investment Strategy Statement, reflecting amendments following the consultation with stakeholders.
- 

### **Proposal**

#### **1 Background and context**

- 1.1 The [Local Government Pension Scheme \(LGPS\) Regulations](#) require administering authorities to prepare and maintain an Investment Strategy Statement ('ISS') and that the authority invests, in accordance with its investment strategy, any fund money that is not needed immediately to make payments from the fund.

- 1.2 The Pension Fund's [current Investment Strategy Statement](#) was published following approval by the Committee in July 2018.

## 2 Update

- 2.1 The Investment Strategy Statement was updated during the first part of the year following the completion of the Fund's Asset Liability Modelling work and the considerations made by the Committee and its Task and Finish Group in relation to Responsible Investment.
- 2.2 At its meeting in October 2020 the Committee approved the Statement for consultation with stakeholders.
- 2.3 The Statement was shared with the Pension Advisory Board on 13 November 2020. The Board noted that the Statement was compliant with the necessary Regulations.
- 2.4 A consultation was launched on in December. All members where the Pension Fund holds an email addresses were notified, employers were contacted and asked to cascade the information to their active members in employers and the Fund's investment managers were consulted. The consultation period ended in late January 2021.
- 2.5 The Fund received 77 responses from members (52), employers (3) and other interested parties (22).
- 2.6 Most respondents (57) were not satisfied with the strategy. The reasons for the feedback have been categorised below, along with the proposed response:

Feedback	Consideration
Active management does not represent value for money	<p>The Pension Fund has had a long-term belief in active management.</p> <p>As part of this the Committee are clear that they are seeking "high conviction active management" and has set performance targets to reflect this.</p> <p>Over the last ten years the Fund has returned 10.48% compared to a passive index return of 9.14%, an additional 1.34% after fees.</p>
Asset Allocation is incorrect in current climate, increase equities and provide more detail about implementation.	<p><i>The West Sussex Pension Committee believes that investing in a manner consistent with long-term sustainable outcomes is a core pillar of its fiduciary duty to its members.</i></p> <p>The Committee does not take short term tactical asset allocation positions relative to the strategic asset allocation. Its strategic asset allocation is based on advice from the investment advisers and actuary based on the Fund's own liability and cashflow profiles.</p> <p>The Committee have taken the decision to reduce its equity exposure because of its</p>

Feedback	Consideration
	strong funding position. The strategy has now been developed to protect this – and reduce risk of deficits emerging.
The Fund should make ethical considerations which make positive impact and exclude specific companies (arms, tobacco, countries).	The Fund's investment managers are signatories to national and international ethical frameworks including the UK Stewardship Code, Japan's Stewardship Code, Investor Stewardship Group (ISG) Principles, European Fund and Asset Management Association (EFAMA) Stewardship Code and International Corporate Governance Network (ICGN) Principles. This supports the consideration of a range of issues when making decisions about investment, divestment and retention of companies.
The Fund should divest from fossil fuels	<p>The Committee has agreed that it will not pursue a direct policy of divestment from fossil fuels and supports a stance of engagement on this topic.</p> <p>The Strategy reflects the Committee's support for investment opportunities commensurate with a low-carbon future and it is now actively working to implement this through the inclusion of additional objectives within its mandates, which recognise international treaties (such as the Paris Agreement) and committing to sectors / companies which are similarly aligned.</p> <p>This follows extensive consideration of the issue with industry experts</p>
The Fund should invest more in green energy	<p>The Committee welcome investment opportunities which deliver a positive and measurable societal and/or environmental outcome.</p> <p>As an example, the Fund has recently made a commitment to an infrastructure fund which has over USD 4bn invested in renewables businesses which generate &gt; 6.5 GW of renewable energy capacity.</p>

- 2.7 Feedback was also provided about how to make the document clearer and more accessible, and these drafting changes have been incorporated. The revised Statement has been appended (Appendix 1) with changes marked against the version agreed by the Committee in October.
- 2.8 Following the Committee's consideration of the Statement, officers will make steps to ensure that each aspect is implemented as appropriate.

### **3 Other options considered (and reasons for not proposing)**

N/A

### **4 Consultation, engagement and advice**

Hymans have provided advice on the management of assets and liabilities for the Fund via the investment strategy.

Aon have supported the Committee in considering responsible investment.

### **5 Risk implications and mitigations**

<b>Risk</b>	<b>Mitigating Action (in place or planned)</b>
Insufficient funds to meet liabilities resulting in increased contributions required from employers or changing to a higher risk investment strategy	The Committee have set a strategic asset allocation which is based on detailed advice from the Fund Actuary, Investment Consultant and Investment Adviser through the completion of Asset Liability Modelling work.
Political and/or employer pressure results in change to investment strategy resulting in the Fund being required to restrict Fund Manager investments and/or the Fund being challenged on fiduciary duty.	The Committee have taken appropriate advice in determining its approach to responsible investment and its investment strategy and on its responsibilities as a Pensions Committee.

### **6 Policy alignment and compliance**

The Pensions Committee have an overall objective to minimise the long-term cash contributions which employers need to pay to the Fund. This will be achieved through recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return. The Investment Strategy Statement is designed to provide transparency in relation to how investments are managed.

Katharine Eberhart  
**Director of Finance and Support Services**

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### **Appendices**

Appendix 1 – Investment Strategy Statement

### **Background papers**

None

# Investment Strategy Statement





## Introduction and Purpose

The County Council is the designated statutory body responsible for administering the West Sussex Pension Fund ("the Fund") on behalf of the constituent Scheduled and Admitted Bodies. The Council is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out regular reviews and monitoring of investments.

Responsibility and governance for the Fund, including investment strategy, fund administration, liability management and corporate governance is delegated to the West Sussex Pension Committee.

The Committee have an obligation to act as fiduciaries, safeguarding the interests of beneficiaries of the Scheme. Decisions must be taken in accordance with public law obligations, including the obligations of reasonableness, rationality and impartiality. The pursuit of appropriate risk adjusted return should therefore be the Committee's predominant concern but it may also take non-financial considerations into account provided that doing so would not involve significant risk of financial detriment to the scheme.

The Fund recognises that climate change is one of the material Environmental, Social and Governance (ESG) factors which pose a potential financial risk over the long term, and that it is important to consider the implications for the Fund of the challenges posed by climate change.

In this context the Fund seeks to integrate ESG issues throughout its investment decision-making process, from setting investment strategy to monitoring the Fund's investment managers – taking appropriate advice. The Committee expects that environmental, social and governance principles, including the transition pathway to a low carbon future, are considered at all times in the investment process.

This Investment Strategy Statement is considered an important document to provide transparency in relation to how investments are managed and complies with the requirements under The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 in respect of the need to publish a statement of the Pension Fund's investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

This Statement will be reviewed at least every three years and will be updated to reflect any substantive changes in the interim. The last formal review was at the [Pensions Committee meeting in ~~October~~ March 2020/2021]. This document has been prepared after taking appropriate advice.



## **Investment strategy and the process for ensuring suitability of investments**

When considering its investment strategy, it is important to consider:

- a) The Regulations require that the Fund maintains as nearly constant employer contribution rates as possible and takes a prudent long-term view, and this is reflected in the Funding Strategy Statement.
- b) The objective to maintain affordability of the Fund to employers as far as this is reasonable, as set out in the Funding Strategy Statement.
- c) The Investment Strategy objective to meet pension liabilities as they fall due, maximising returns to keep the cost of new benefits accruing reasonable - while keeping risk within acceptable limits and contribute towards achieving and maintaining full funding.
- d) The Pension Committee's investment beliefs as set out in Appendix 1.
- e) The strong funding position and the desire to protect this – and reduce risk of deficits emerging.
- f) Future income requirements. Whilst the Fund is currently cash flow positive, as a maturing Scheme it should also identify sources of income in order to generate cash as the Fund requires and to avoid being a forced seller of assets to pay benefits.

In this context it is considered that a successful investment strategy is one which will maintain at least 2/3rds likelihood of being fully funded over 20 years and will maintain consistent employer contributions of around 18% of pay. This is consistent with the aims of the Fund's Funding Strategy Statement and informs the assumptions made by the Actuary for funding purposes.

The Committee have set a strategic asset allocation which is based on detailed advice from the Fund Actuary, Investment Consultant and Investment Adviser through the completion of Asset Liability Modelling work. The customised benchmark sets out the intended long-term weighting to various types of investment (or asset classes), such as growth, income focused and those asset classes which provide some protection:

Asset Type	Purpose
<b>Growth</b>	Generate returns in line with equities Provide liquidity for de-risking Keep contributions affordable
<b>Income</b>	Generate a reliable income providing additional cash flows if required Additional yield versus protection assets
<b>Protection</b>	Change value in line with liabilities Protect against movements in interest rates and inflation expectations Provide liquidity for re-risking Keep contributions stable

This strategic asset allocation is set out in more detail below.

Asset Type	Asset Class	Strategic Allocation	Geography	Currency
<b>Growth</b>	<u>Listed</u> Equity	50.0%	Diversified	Diversified
<b>Growth</b>	<u>Private</u> Equity	<u>45.0%</u>	<u>Diversified</u>	<u>Diversified</u>
<b>Income</b>	Direct property	10.0%	UK	GBP
<b>Income</b>	Infrastructure	5.0%	Global	Diversified
<b>Income</b>	Private Debt	5.0%	Global	Diversified
<b>Protection</b>	Bonds	30.0%	Diversified	Diversified






In the context of the table above it should be noted that whilst the Fund has a 0% allocation to cash, cash can be held by the Fund's investment managers (within ranges) and working balances are managed to pay benefits, cover invoices and fund private equity and direct property acquisitions.

The Fund's investment strategy will be reviewed at least every three years. However, it is not anticipated that significant changes will be made on a short-term basis.

If the funding level falls back to 90% the Pensions Committee will consider increasing the proportion of growth assets and/or raising the contribution rate target. Therefore, there is a need to maintain liquidity within the bond portfolios.

## Risks

The principal risks affecting the Fund are set out in its Business Plan. However, risks relating to investments are summarised below:

Risk Theme	Mitigation	Rating
The Committee fail to adopt an appropriate investment strategy in response to the funding level falling below 90% funded	<ul style="list-style-type: none"> <li>Monitor, maintain &amp; review the Investment Strategy Statement.</li> <li>Monitor &amp; review the investment managers which will ensure compliance with the performance and risk targets.</li> <li>Ensure the Investment Strategy Statement compliments the Funding Strategy Statement.</li> <li>Modelling work undertaken regularly.</li> </ul>	 Green
The Pension Fund does not provide a clear and suitable investment strategy for Fund managers to follow	<ul style="list-style-type: none"> <li>Strategic asset allocation adopted by the Fund Managers is considered by the Pensions Committee and the fund's independent adviser, with awareness of liquidity requirements.</li> <li>Fund managers' performance is monitored quarterly against the performance of the fund-specific benchmark and the returns assumed in the actuarial valuation.</li> <li>Investment Managers held to account at Committee meetings.</li> <li>Performance against the Agreement is monitored.</li> <li>Contractual requirements within the Investment Manager Agreements set out the required benchmark and targets.</li> </ul>	 Green
Contractual requirements not met by investment managers	<ul style="list-style-type: none"> <li>Regular communication with all contracting entities.</li> <li>Service levels set out clearly in contract.</li> <li>Service levels monitored regularly.</li> <li>Complete contract manager register setting out who within the Pensions Team is responsible for managing contract day to day and routes of escalation.</li> </ul>	 Green
Pressure from employers results in change to investment strategy due to ESG factors	<ul style="list-style-type: none"> <li>Ensure active engagement by Fund Managers with companies in these areas.</li> <li>Regular dialogue with Fund Managers regarding reasoning behind the stock being held.</li> <li>Training for all decision makers regarding obligations and responsibilities.</li> </ul>	 Amber
<u>The introduction of asset pooling impacts on the Fund's ability to implement its investment</u>	<ul style="list-style-type: none"> <li><u>Continued strong involvement in the work of the ACCESS Group at officer and at Fund Chairman level.</u></li> <li><u>Involvement in the procurement work and the Pool's governance work</u></li> <li><u>Engagement with external advisers.</u></li> </ul>	 <u>Amber</u>

<u>strategy successfully or the Administering Authority is considered to not comply with the relevant statutory guidance.</u>		
<u>Political environment (locally or nationally) impact on investment markets and legislative requirements.</u>	<ul style="list-style-type: none"><li>• <u>Ensure active engagement by Fund Mangers.</u></li><li>• <u>Training for all decision makers regarding obligations and responsibilities including guidance from the Scheme Advisory Board and others.</u></li></ul>	<div>●</div> <u>Amber</u>

## Approach to Responsible Investment

### Investing for the Future

The Committee of the West Sussex Pension Fund (the 'Fund') believe that investing the Fund's assets in a manner consistent with long-term sustainable outcomes is a core pillar of the Committee's fiduciary duty to its members.

The Fund is a long-term investor with the primary aim to deliver financially sustainable returns to meet the future pension benefits of its members, by allocating across investment types whilst retaining an appropriate level of diversification and risk.

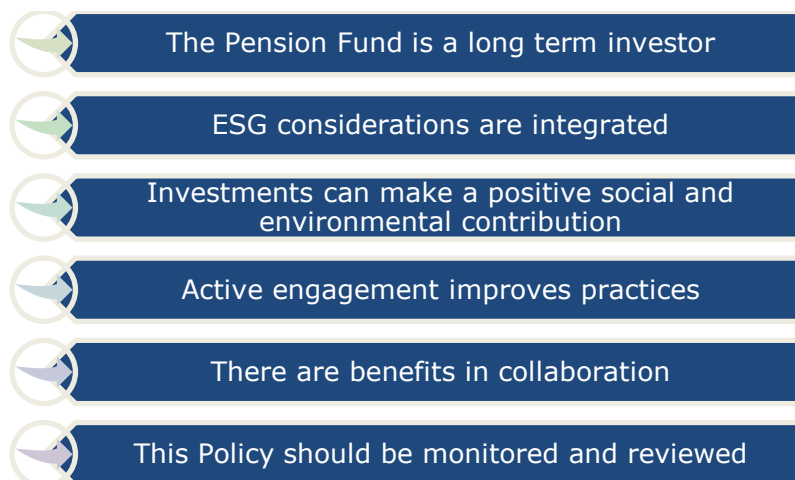
The Committee believe that acting as a responsible investor of the Fund's assets should be fully integrated into investment decision-making, and therefore seek to ensure that the Fund considers all aspects of responsible investment, from investment manager appointment and monitoring through to discharging the rights and responsibilities of asset ownership in order to encourage and promote high standards of governance and corporate responsibility in the underlying companies and assets in which the Fund invests, as this ultimately creates long-term value for the Fund and its beneficiaries.

This includes the need to manage Environmental, Social and Governance (ESG) issues that may be financially material to the Fund. As part of this the Committee recognises that:

- ESG risks and opportunities can be both long-term and short-term in nature. As part of an interconnected society, investing the Fund's assets in a particular way can lead to wider societal and environmental outcomes (whether positive or negative) and the way in which the Fund's assets contribute to this will be considered.
- In order to appropriately capture these opportunities and mitigate these risks, it is important that the Committee and the Fund's appointed investment managers embed ESG matters into their consideration of the Fund's strategy and the management of its assets on an ongoing basis.
- It is important to consider the appropriate nuances and differences which apply to differing asset types and taking appropriate expert advice. The Fund adopts a flexible approach to managing its investment strategy and asset allocation in order to ensure the strategy is robust from a risk and return perspective.

## Principles and Implementation

The Committee have discussed and reviewed their beliefs relating to RI. The Fund's RI Beliefs and Principles are:



The sections below set out how these principles are applied in practice.

### 1 The Pension Fund is a long-term investor

#### *Principle*

The Fund is a long-term investor, with liabilities stretching out for decades to come. It therefore seeks to deliver long-term sustainable returns.

There is an opportunity to generate better expected returns by making decisions with a long-term outlook and within this the Fund recognises the relevance of ESG considerations when setting its investment objectives, undertaking ongoing monitoring, and assessing future risks.

The identification and management of ESG risks that may be financially material is consistent with the Fund's fiduciary duty to its members.

The Fund recognises that climate change is one of the material ESG factors which pose a potential financial risk over the long term, and that it is important to consider the implications for the Fund of the challenges posed by climate change.

#### *Implementation Approach*

The Fund has appointed third-party investment managers to manage the assets of the Fund according to set mandates. These mandates reflect long term performance expectations and require that appointed managers consider a number of factors – including financial – when making decisions about which companies to buy, sell and retain. Once an investment is made the Committee

expects managers to act as responsible owners and engage with the companies and assets invested in.

The Fund invests in physical properties via its appointed investment manager. Physical property is typically a long-duration asset, and commensurately is exposed to multiple ESG factors (such as energy efficiency; use of certain materials in the construction and/or refurbishment process; susceptibility to flood risk; etc). The Committee believe that understanding the characteristics of the Fund's property portfolio is fundamental in monitoring sustainability. The Committee will work with its appointed property investment manager to understand the portfolio's aggregate energy efficiency score and the benefits in setting of metrics and targets for improvements across the portfolio over time (such as waste management; energy consumption; etc). The Committee will review the Global Real Estate Sustainability Benchmark ('GRESB') score applicable to the mandate on an annual basis, and will engage with its manager should there be any deterioration in scoring.

With regard to climate change, the Committee has discussed the Fund's exposure to climate change risks and the desired approach to divesting from fossil fuels. This has included receiving details of the approach taken by other LGPS Constituent Authorities and pooling arrangements, along with maintaining currency with the actions of other employers participating in the West Sussex Scheme, including West Sussex County Council's policy direction and their ten-year plan to combat climate change (attaining carbon neutrality in 2030). In response:

- The Committee are supportive of the beliefs and endeavours of its participating employers including the County Council, acknowledging that climate change presents a systemic risk which has potential implications on a cross-asset class basis (and, thus, on the Fund's investments and ultimately its members and beneficiaries). As part of this the Committee welcome and seek investment opportunities commensurate with a low-carbon future.
- The Fund recognises that exposure to fossil fuel investments is one component of overall exposure to climate change risks, and acknowledges the importance of considering climate change risk holistically. The Committee has sought to take an approach which is appropriate in the context of the Fund's long-term investment objectives.
- At this time, the Committee has agreed that it will not pursue a policy of divestment from fossil fuels, and supports a stance of engagement on this topic. The Committee considers that pursuing an engagement-led approach allows the Fund, through the actions of its appointed investment managers, to be an active participant in supporting the transition to a low-carbon environment and encouraging the companies in which it invests to transform and adapt to meet the needs of a changing world. The Committee will monitor this area as it develops.

The Committee also recognise that climate change does not have implications only for the value of assets, but should be considered from an integrated risk management perspective in terms of the implications for the Fund's formal actuarial valuations, and the combined impact on the funding level of the Fund. As such, the Committee has considered input from its appointed actuarial adviser and considered tools which can illustrate the impact of climate change risks on the Fund's liabilities.

## 2 ESG considerations are integrated

### *Principle*

The Fund seeks to integrate ESG issues throughout its investment decision-making process, from setting investment strategy to monitoring the Fund's investment managers – taking appropriate advice. The Committee expects that environmental, social and governance principles, including the transition pathway to a low carbon future, are considered at all times in the investment process.

### *Implementation Approach*

Whilst the appointed third party investment managers are responsible for the day-to-day investment decisions, including undertaking voting and engagement activities on behalf of the Fund, the consideration of ESG issues are integrated into the Fund's appointment and agreements. All investment managers are required to provide a statement setting out the extent to which they take ESG considerations into account in their investment processes and have a continued dialogue with the Committee on the impact of their engagement activity to provide evidence of active ownership activities of investments held.

The requirement set out above includes the Fund's physical property portfolio. The Fund's appointed property investment manager is expected to engage proactively with its assets in order to improve their characteristics over time, in order to safeguard and enhance the value of the Fund's portfolio. These enhancements (such as reduced energy consumption; water efficiency) are positively linked to the Fund's aim to support long-term sustainable outcomes.

Agreements with investment advisers and consultants also set out the requirement that each considers and integrates ESG issues when providing investment advice. This means that the Fund takes full consideration of ESG issues as they relate to its strategic asset allocation, including the impact of ESG matters on differing asset types and where ESG issues could have a material impact on the value of the Fund's assets and the funds in which the Fund invests.



### 3 Investments can make a positive social and environmental contribution

#### *Principle*

The Committee welcome investment opportunities which deliver a positive and measurable societal and/or environmental outcome, combined with an appropriate level of financial return. Where such opportunities exist and are investable and appropriate for the Fund, the Committee's view is favourable where investment without financial detriment is possible (i.e. without compromising on financial returns).

#### *Implementation Approach*

The Committee recognise the recent judgement from the UK Supreme Court which permits Local Government Pension Schemes to apply non-financial considerations (such as ethical preferences) to investment decision-making, provided that there is no significant risk of financial detriment, and that the administering authority has good reason to believe that members would support the decision.

### 4 Active engagement improves practices

#### *Principle*

The Committee believe that the Fund has a duty to exercise its stewardship and active ownership responsibilities (such as use of proxy voting rights).

The Fund recognises that engagement and stewardship activity is applicable to all asset classes and is broader than the use of voting rights alone. Corporate engagement can deepen the knowledge of and confidence in those companies invested in, build relationships and collaboration with company management and allows our managers to, where necessary, drive corporate conduct on issues that protect and enhance the companies' long-term value.

#### *Implementation Approach*

The Fund seeks to exercise its influence through engagement with its investment managers (and consequently portfolio companies) as part of its stewardship duties to its beneficiaries.

The Committee have mandated that its appointed managers are proactive in their engagement and asset stewardship activity and encourage its appointed investment managers to actively engage with investee companies effectively by using its influence as a long-term investor to encourage positive behaviour and support improved practices.

## 5 There are benefits in collaboration

### *Principle*

The Fund recognises that collaboration with other investors is a powerful tool to keep abreast of developments in this area and gives the potential for collective action to influence the behaviour of companies, policy makers and other industry stakeholders.

### *Implementation Approach*

The Fund expects its managers to incorporate ESG issues into investment analysis and decision making, be active owners, disclose their activities and promote the PRI principles within the asset management industry.

The Fund's appointed investment managers participate in the Principles for Responsible Investment (PRI) initiative and GRESB.

The Fund also actively inputs into the ACCESS Pool's approach to Responsible Investing (RI) as this develops, to ensure that its objectives and approach to RI are supported via the ACCESS pooling arrangement and in order to explore how asset pooling can enhance the Fund's own approach to RI.

## 6 This Policy should be monitored and reviewed

### *Principle*

The Fund recognises that transparency and disclosure is an important aspect of being a responsible investor, and is keen to communicate with its stakeholders regarding the actions it is taking. The Fund aims to be transparent and accountable by disclosing its RI policy and activity via the Fund's website. The Fund also recognises that our stakeholders are likely to have an interest in how the Fund's Responsible Investment objectives are enshrined through its investment strategy. Should stakeholders share their views with the Pensions Committee, these will be considered and discussed.

The Committee requires that its appointed investment managers provide information about their exposure to climate risks, voting, engagement and stewardship activity. Independent and objective views are sought by the Committee on its managers' capabilities and policies in this area on an annual basis.

### *Implementation Approach*

The Committee will consider information from its appointed investment managers in relation to:

- Themes and particular issues which each are prioritising, and how each manager is exerting influence on behalf of the Fund and its members.
- 'Case study' examples of engagement outcomes.
- Annual PRI scores attributable to each fund manager
- Global Real Estate Sustainability Benchmark ('GRESB') scores for the Fund's appointed real estate fund manager,

The Committee will also consider an independent and objective view regarding the engagement capabilities of its appointed investment managers.

The Fund will:

- Welcome communications from the Fund's members relating to RI.
- Make the Fund's RI policy available to members and incorporate the RI policy into the way the Fund communicates and interacts with its members.
- Make the Fund's RI policy available online.
- Report on the Fund's progress and developments in the way it approaches RI matters through its Annual Report.

## Approach to Asset Pooling

The Fund is part of the ACCESS Pool and intends to invest its assets through the ACCESS Pool as and when suitable pool investment solutions become available, based on the following considerations:

- That the Pool enables access to an appropriate solution that meets the objectives and benchmark criteria set by the Fund
- That there is a financial benefit to the Fund in investing in the solution offered by the Pool, should a change of provider be necessary.

The Fund intends to keep its property allocation and legacy private equity investments outside of the formal pooling arrangement proposed based on ongoing value for money, large one-off transition costs and illiquidity of these assets. Any asset that remains outside of the Pool will be reviewed at least every three years to determine whether the rationale remains appropriate and whether it continues to demonstrate value for money.

# Appendix 1

## Investment Beliefs

The Committee's beliefs are set out below:

- The Fund's investment strategy should be reviewed in conjunction with each actuarial valuation
- The Fund should ensure that Environmental, Social and Governance matters form a core part of any manager selection decision and should encourage its investment managers to engage with companies to drive positive change, reflective of a transition pathway to a low carbon future.
- Corporate engagement is preferred to exclusion of stocks from the Fund.
- The Committee has a preference for avoiding a large number of separate manager relationships.
- Fees and costs incurred within investment manager mandates are important though the emphasis is on achieving the best returns for the Fund net of fees.
- High conviction active management of the Fund's investments is expected to provide higher returns net of fees to the Fund over the long term than passive (index tracking) investment.
- The performance of active managers should be assessed over suitably long periods.
- As the Fund remains open to new members and employer covenants are generally strong, it is appropriate to take a long-term view when setting the investment strategy.
- There is expected to be a long-term risk premium to be earned from investing in equities, credit, property and illiquid assets, relative to government bonds.
- Illiquid investments should be considered where an attractive premium return is expected to be available, though the total allocation within the Fund will be limited.
- Local investments should be considered, though the risks and expected returns should be commensurate with comparable investment opportunities elsewhere.
- The level of risk within the investment strategy should be considered in conjunction with the funding position of the Fund. Different levels of risk may be taken at different funding levels.
- The Fund should take investment risk in order to meet its objective of stable and affordable contribution rates for employers.
- The Committee should not take short term tactical asset allocation positions relative to the strategic asset allocation.
- The Committee do not expect the Fund's managers to take substantial short-term tactical asset allocation positions relative to their benchmarks. Mandates will be defined accordingly.
- Well managed companies will produce superior returns for the Fund over the long term.
- The Fund should exercise its voting rights as fully as possible.

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**Key decision: Not applicable  
Unrestricted**

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## **Pensions Committee**

**17 March 2021**

### **Scheme Changes**

#### **Report by Director of Finance and Support Services**

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### **Summary**

The report includes a summary of significant developments that impact the Fund.

The Committee received a report in January 2021 updating the position on the Restriction of Public Sector Exit Payments Regulations 2020. On 12 February the government issued the Exit Payment Cap Directions 2021 which disapply parts of the Restriction of Public Sector Exit Payments Regulations 2020 in England with immediate effect. As a result the £95k exit cap no longer applies and LGPS Administering Authorities must pay qualifying scheme members an unreduced pension. The West Sussex LGPS had not reduced any member benefits as a result of the £95k exit cap Regulations whilst in force.

### **Recommendations**

- (1) To note the update.
- 

### **Proposal**

#### **1 Background and context**

- 1.1 The benefit structure of the LGPS is set nationally. In April 2014, a series of changes were made to the Scheme to reform the benefits structure. These changes were implemented as part of a wider project across Government to reform public service pensions and put them on a more sustainable, affordable and fairer footing for the longer term. Some protections introduced as part of the reformed benefit structure have since been challenged on the grounds of age discrimination (the McCloud judgement), and a resultant pause was placed on the cost control mechanism introduced to determine how the McCloud judgement should be allowed for within the mechanism.
- 1.2 Separately the Government introduced changes to limit exit packages from the public sector to £95,000
- 1.3 The Government has also faced further challenge about discriminatory provisions within public sector Schemes (Goodwin) and provided a further partial response on its May 2019 consultation on changes to the local valuation cycle and management of employer risk.

## **2 Rectification as a result of the McCloud judgement**

- 2.1 There are no updates on the work associated with the rectification work to draw the Committee's attention to.

## **3 Exit Payments in Local Government (£95k Cap)**

- 3.1 In 2015 the Government first announced its proposals to prohibit six-figure exit packages from the public sector, by imposing a £95,000 cap on such packages.
- 3.2 The Committee received an update when it met in October 2020 and January 2021 on the Restriction of Public Sector Exit Payment Regulations 2020 primary legislation (the Cap Regulations) which was brought into effect on 4 November 2020 and placed an overall cap on the value of public sector exit payments at £95k. This applied to all public sector employees in the LGPS (and the unfunded public sector schemes).
- 3.3 On 12 February the government issued Directions to disapply these Regulations referring to 'unintended consequences'.
- 3.4 On 25 February 2021, the Restriction of Public Sector Exit Payments (Revocation) Regulations 2021 were made and laid before parliament. They will come into force on 19 March 2021.
- 3.5 No members within the West Sussex LGPS received reduced benefits as a result of the Exit Payment Regulations.
- 3.6 MHCLG has also confirmed that the changes to the LGPS compensation regulations, which were released for consultation in September 2020 have also been closed and there will be no further changes made to LGPS pensions or redundancy terms without a further, separate consultation
- 3.7 It is anticipated that the government will legislate again to deal with "unjustified exit payments".

## **4 Unpausing of the Cost Mechanism**

- 4.1 The Government Actuary's Department is currently awaiting Directions from HM Treasury in order to carry out the 2016 cost cap valuations (which impact benefits accrued from 1 April 2019). Similarly, the 2020 cost cap valuations are also likely to be delayed.

## **5 Discrimination on the grounds of sexual orientation (Goodwin)**

- 5.1 There are no updates on the Goodwin remedy to draw the Committee's attention to.

## **6 Consultation, engagement and advice**

- 6.1 The County Council receives advice from its actuarial advisers, Hymans Robertson and the Local Government Association and Scheme Advisory Board in relation to Scheme matters.

## **7 Finance**



- 7.1 The Pension Fund will be required to cover additional resourcing costs associated with the changes set out above, not limited to the McCloud rectification work. The impact will be discussed with the administration team.

## **8 Risk implications and mitigations**

- 8.1 The following risks from the Pension Fund's risk register are considered relevant in the context of this report:

<b>Risk</b>	<b>Mitigating Action (in place or planned)</b>
Insufficient resources to comply with the Administering Authority's Regulatory responsibilities.	Work closely with the administration team on the response to the Scheme changes and the resource impact.

## **9 Policy alignment and compliance**

- 9.1 The Business Plan includes the objective to implement Scheme changes and consider, respond to and communicate with stakeholders on relevant matters.

### **Katharine Eberhart**

Director of Finance and Support Services

**Contact Officer:** Rachel Wood, Pension Fund Strategist, 0330 222 3387, [rachel.wood@westsussex.gov.uk](mailto:rachel.wood@westsussex.gov.uk)

### **Background papers**

None

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**Key decision: Not applicable  
Unrestricted**

## **Pensions Committee**

**17 March 2021**

### **Treasury Management Report**

#### **Report by Director of Finance and Support Services**

### **Summary**

The Director of Finance and Support Services recommends a continuation of the current treasury management strategy in 2021/22 (as originally approved by the Pensions Committee at their January 2020 meeting) with internally managed investments only being deposited into high creditworthy banks (that offer instant access bank account facilities) and a series of high creditworthy short-term (instant access) Money Market Funds, with one amendment reflecting current market conditions:

- i. Approval of short-term Money Market Funds that operate under a Variable Net Asset Valuation, when a change from a Low Volatility Net Asset Valuation is adopted by the fund to allow continual and effective operation in a (or potential) negative interest rate environment.

Given the strategy of maintaining a highly liquid investment portfolio held exclusively in bank unsecured deposits, the Pension Fund's internally managed cash will remain subject to bail-in risks under UK Banking Directives.

### **Recommendations**

- (1) The Committee approves the 2021/22 Treasury Management Strategy as set out in Appendix A.
- (2) The Committee notes the treasury activity undertaken during 2020/21 (1 April to 31 December 2020).

### **Treasury Management Report**

#### **1 Background**

- 1.1 The CIPFA "Treasury Management Code of Practice" requires the West Sussex Pension Fund to determine a treasury management strategy on an annual basis regarding the investment of its internally managed cash balances. The strategy includes the "Annual Investment Strategy" (AIS) that is a requirement of the Ministry of Housing, Communities and Local Government's (MHCLG) "Investment Guidance" .

- 1.2 The CIPFA Code also requires reports detailing compliance and performance against approved treasury strategies to be reviewed by the Pensions Committee.

## 2 Economic Summary

- 2.1 The coronavirus outbreak has done huge economic damage to the UK and economies around the world. After the Bank of England (BOE) took emergency action in March 2020 by cutting the Bank Rate from 0.75% to first 0.25% and then to 0.10%, it then left Bank Rate unchanged at its meetings throughout the remainder of 2020. Following the historic fall to UK Gross Domestic Product (GDP) during the first national lockdown period, growth recovered sharply in June through to August although remaining below pre-pandemic levels. The last three months of 2020 are likely to show no growth as further national restrictions were announced due to rising coronavirus cases, consumers remained cautious in their spending and uncertainty remained over the outcome of the UK/EU trade negotiations concluding at the end of the year. Going forward, with rising global infection rates (albeit dependant on the rollout of vaccination programmes) the pace of UK recovery is not expected to be in the form of a rapid V-shape, but a more elongated and prolonged one.
- 2.2 Regarding UK employment and inflation forecasts, a key addition to the BOE's forward guidance was that "it does not intend to tighten monetary policy until there is clear evidence that significant progress is being made in eliminating spare capacity and achieving the 2% inflation target sustainably". Effectively this suggests that there will be no action taken to raise the Bank Rate from current levels until it can be clearly demonstrated that the level of inflation is remaining persistently above target. As a result, the following table gives West Sussex County Council's treasury management advisor's (Link Group) central view for the path of UK Bank Rate over a three year horizon (updated November 2020):

Rate (%)	Mar 2021	Jun 2021	Sep 2021	Dec 2021	Mar 2022	Jun 2022	Sep 2022	Dec 2022	Mar 2023	Jun 2023	Sep 2023	Dec 2023
UK Bank Rate	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10	0.10

- 2.3 Negative Interest Rates: While the BOE said in August and September 2020 that it was unlikely to introduce a negative Bank Rate (at least in the next 6 months), as the end of 2020 approached markets as a whole saw an increasing swathe of monies being focused on ultra-short investment periods; thereby placing downward pressure on yields. This saw several market operators (including HM Treasury) offering nil or negative rates for very short term maturities. Additionally, short-term money market funds (MMFs) which had been offering a marginally positive return (albeit by a reduction in the fees charged) saw rates fall to between 0% to 0.01% by the close of 2020. As year-end positioning begins to unwind in early 2021 so the amount of money weighing on short-term yields should begin to dissipate. However, underlying interest rate expectations, bank regulatory requirements and investor liquidity needs will still combine to ensure that short-term investment rates remain at very low levels in 2021.

### **3 Treasury Management Strategy (2021/22)**

- 3.1 The Director of Finance and Support Services recommends a continuation of the current treasury management strategy in 2021/22 (*as originally approved by the Pensions Committee at their January 2020 meeting*) with internally managed investments only being deposited into high creditworthy banks (that offer instant access bank account facilities) and a series of high creditworthy short-term (instant access) Money Market Funds; subject to one amendment (below):
- (i) Approval of short-term Money Market Funds that operate under a Variable Net Asset Valuation, when a change from a Low Volatility Net Asset Valuation is adopted by the fund to allow continual and effective operation in a (or potential) negative interest rate environment.
- 3.2 Given the strategy of maintaining a highly liquid investment portfolio held exclusively in bank unsecured deposits, the Pension Fund's internally managed cash will remain subject to bail-in risks under UK Banking Directives (which regulates that unsecured investors in a failing bank, including local authorities and local authority pension funds, would be liable in rescuing the bank instead of UK taxpayers).
- 3.3 The recommended 2021/22 Treasury Management Strategy is attached at Appendix A.

### **4 Treasury Management Performance (2020/21)**

- 4.1 At 31 December 2020 the Pension Fund's internally managed cash, including balances held in EUR/USD bank accounts, amounted to £156m (£121.1m at 31 March 2020). Internally managed cash balances currently held by the Fund remain high pending the implementation of its strategic allocation decision to move towards income focused assets (infrastructure and private debt via fund arrangements, with the potential total commitment being 10% of the total Fund value). Although money for such investments will be drawn over time, latest cash flow projections indicate that internally managed cash balances will be fully utilised during the second quarter of 2021/22. It therefore remains appropriate for the Fund to reserve cash (instead of passing surplus cash to the external fund managers) for this future investment to avoid additional trading cost and opportunity risk relating to any short-term investment.
- 4.2 During 2020/21 (to 31 December) the Pension Fund had an average internally managed investment balance, excluding foreign currency, of £164m (£105.5m for 2019/20; to 31 December 2019). Throughout the period investments were held in a Lloyd's business account and a series of short-term (AAA credit rated) Money Market Funds. The increase in the average internal investment amount during 2020/21 is mainly a consequence of West Sussex County Council paying over 2020/21 employer contributions as a lump sum payment in April 2020 (£44.4m) and the Pension Fund's continued approach of not passing surplus funds on to the external cash managers (see paragraph 4.1).
- 4.3 The Director of Finance and Support Services confirms that there were no breaches of the approved 2020/21 Treasury Management Strategy regarding internally managed cash during the period 1 April 2020 to 31 December 2020. The Director of Finance and Support Services further confirms that in addition to balances held for investment, foreign currency (EUR/USD) balances were

held in attempting to achieve the most beneficial rates when exchanging back into Sterling.

- 4.4 At 31 December 2020 the total amount of foreign currency held was valued in GBP at £9.2m (based on 31 December exchange rates as provided by Northern Trust):

<b>Bank Account</b>	<b>Balance at 31/12/20</b>	<b>Average Balance</b>
Lloyds - Euro Account	€1.359m	€1.599m
Lloyds - US Dollar Account	\$10,896m	\$4.211m

- 4.5 In accordance with the investment strategy approved in January 2020 (internally managed cash balances) the Pension Fund received interest totalling £0.05m during the period 1 April 2020 to 31 December 2020 (*£0.5m for 2019/20; to 31 December 2019*). The rate of return achieved on GBP balances held during the period was 0.04% (*0.66% during the same period in 2019/20*) reflecting the ultra-low interest rates applicable on instant access GBP investments.

<b>Counterparty</b>	<b>Average Balance £'m</b>	<b>Interest Received £'m</b>	<b>Rate of Return %</b>
Lloyds-Current Account (GBP)	85.3	-	-
Short-Term Money Market Funds	78.7	0.05	0.09
<b>Total (i)</b>	<b>164.0</b>	<b>0.05</b>	<b>0.04</b>

(i) *Additionally, interest totalling \$15,008 (£10,979 at 31 December 2020) has been received in respect of cash balances held in the Pensions Fund's USD bank account (no interest received in respect of EUR balances held).*

- 4.6 During the same period West Sussex County Council achieved a rate of return of 0.82% on its invested cash balances. The higher yield reflects the Council's treasury management strategy of investing a proportion of its cash balances for periods up to 365 days and beyond (including long-term externally managed pooled investment funds) at interest rates higher than those available on the instant access accounts used by the Pension Fund.

## **5. Risk implications and mitigations**

- 5.1 Covered in main body of report.

Katharine Eberhart

**Director of Finance and Support Services**

### **Contact Officer**

Jon Clear, Treasury Management Officer, 033 022 23378

### **Appendices**

Appendix A – Treasury Management Strategy (2021/22)

### **Background Papers**

None

## Treasury Management Strategy (2021/22)

1. The Pension Fund holds cash as working balances. It operates separate bank accounts, keeping its cash separate from the County Council in accordance with LGPS (Management and Investment of Funds) legislation, and consequently also has a separate treasury management policy to West Sussex County Council. Working balances comprise funds required to pay pensions, to fund private equity, infrastructure and commercial property investments and to pay day-to-day expenses. Surplus balances may be sent to the external fund managers (subject to current Pension Fund policy regarding levels of internally managed cash) for investment in accordance with their approved strategies. A charge will be incurred by the fund for the treasury management service supplied by West Sussex County Council.

## Annual Investment Strategy

2. Having due regard to the security of principal sums invested and the short term nature of deposits, no financial institution will be eligible to receive deposits for longer than seven days without the explicit approval of the Director of Finance and Support Services in consultation with the Chairman of the Pensions Committee. The administering authority will therefore utilise investments that are designed to offer both high liquidity and high security, with the minimum of formalities. Such investments will be denominated in Sterling and may be deposited with the UK Government, a UK Local Authority (including local authority administered pension funds) or a financial institution with 'high' credit quality (including short-term Money Market Funds).
3. In assessing counterparty creditworthiness, the administering authority will consider credit ratings as provided by Fitch, Moody's and Standard and Poor's. Additionally, the administering authority will consider other indicators when assessing creditworthiness including, credit default swap (CDS) prices, share prices, media coverage and market sentiment. In assessing credit ratings, the Director of Finance and Support Services uses the 'Lowest Common Denominator (LCD)' approach, meaning that it uses the lowest rating of those provided by Fitch, Moody's and Standard & Poor's. The minimum credit rating criteria will be:
  - Short-term minimum: F1(Fitch); P1(Moody's); A1(S&P)
  - Long-term minimum: A-(Fitch); A3(Moody's); A-(S&P)
  - Sovereign minimum (Non-UK): AA+(Fitch); Aa1(Moody's); AA+(S&P)

Counterparty	Minimum short-term credit rating	Minimum long-term credit rating	Monetary limit
Financial Institutions	As Above	As Above	£5m per group
Lloyds Bank plc	As Above	As Above	See Paragraph 4
Money Market Funds (i)	-	AAA	£10m per fund (ii)
Local Authorities	-	-	£5m per Authority
UK Government	-	-	No limit

(i) Funds that operate under a constant net asset valuation (CNAV) or under a Low Volatility Net Asset Valuation (LVNAV). Funds that operate under a Variable Net Asset Valuation (VNAV) will also be approved when a change

*from LVNAV is adopted by the fund to allow continual and effective operation in a negative interest rate environment.*

*(ii) Exposure limit per fund set to £10m or 0.5% of the fund's net asset size, whichever is lowest.*

4. The monetary limit per group will be subject to explicit approval by the Director of Finance and Support Services in consultation with the Chairman of the Pensions Committee and will be continually reviewed in-year. Such approval will relate to the institution rather than the particular investment and will remain in force until revoked. In particular, approval is given to hold cash deposits, including foreign currency (EUR/USD) held within separate bank accounts, in excess of the approved £5m monetary limit with the Pension Fund's main provider of banking services (currently Lloyds Bank Plc).
5. As at **25 January 2021** the current list of approved counterparties that meet the investment criteria and offer instant access deposit accounts are:

Counterparty (i)	Sovereign	ST Credit Ratings	LT Credit Ratings	Maximum time limit
Lloyds Bank Plc	UK	F1/P1/A1	A+/A1/A+	7 days
Handelsbanken Plc	UK	F1+/ /A1+	AA/ /AA-	7 days
National Westminster Bank plc	UK	F1/P1/A1	A+/A1/A	7 days
Santander UK Plc	UK	F1/P1/A1	A+/A1/A	7 days
Debt Management Office	UK	-	AA-	7 days
<b>Money Market Funds (GBP)</b>	<b>Domiciled</b>			
Aberdeen Standard	Luxembourg	-	AAA	Overnight
Aviva	Ireland	-	AAA	Overnight
BlackRock	Ireland	-	AAA	Overnight
BNP Paribas	Luxembourg	-	AAA	Overnight
Deutsche	Ireland	-	AAA	Overnight
Federated Investors	UK	-	AAA	Overnight
Goldman Sachs	Ireland	-	AAA	Overnight
Insight	Ireland	-	AAA	Overnight
JP Morgan	Luxembourg	-	AAA	Overnight
Morgan Stanley	Luxembourg	-	AAA	Overnight
State Street	Ireland	-	AAA	Overnight

*(i) The consideration of UK Banks that only offer instant access accounts has reduced the number of approved financial institutions as shown above.*

6. The administering authority will run a daily cash flow reconciliation of funds held by the Fund as working balances.



## **Borrowing Strategy**

7. The LGPS (Management and Investment of Funds) Regulations 2016 give a fund's administering authority explicit power to borrow for up to 90 days for the purpose of its pension fund:

- To pay benefits due under the scheme, or
- To meet investment commitment arising from the implementation of a decision to change the balance between different types of investment

provided that if, at the time of borrowing, the authority reasonably believes that the sum borrowed and interest charged in respect of such sum can be repaid out of its pension fund within 90 days of the date of the borrowing.

8. The West Sussex Pension Fund currently has sufficient cash flow and cash balances not to have to borrow to pay benefits due under the scheme.

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