West Sussex Pension Fund

Draft Foreword from Pensions Committee Chairman

I am pleased to provide an update on the Pension Fund's activities during 2022/23.

At the end of March, the Bank of England Base Rate reached 4.25%. Twelve months earlier it was 0.75%. This rapid tightening of monetary policy, in response to surging inflation, created a challenging backdrop for investors. Whilst the Pension Fund reviews its investments, cashflow and funding strategy on a regular basis, it does this from the perspective of a long term investor and in the context of its fiduciary duty to managing the Pension Scheme in the best interests of its nearly 86,000 members.

On 31 March 2023 the fund was valued at £5,324m, (compared to £5,470m at 31 March 2022). Overall, the Fund outperformed the market with a return of −2.3% versus a market index of −4.6%. In part this was due to its holdings in consumer staples - companies that provide goods and services that people use daily, like food, clothing, or other personal products - which performed well. However not holding energy companies within the equity portfolio (which were the best performing sector over the year) did have some impact on performance. Early in 2022/23 we moved from the Global Alpha Equity Fund to the Global Alpha Paris Aligned Equity Fund, which includes an objective to have a weighted average greenhouse gas intensity lower than an index aligned to the Paris Agreement. In addition to the returns generated, the Committee is also keen to ensure that the portfolios invested in by the Pension Fund, and the managers appointed, have established investment processes which support the approach to long term stewardship and demonstrate their active consideration of environmental, social and governance principles. Their approach is described in more detail within this report.

During the 2022/23 financial year the Fund successfully completed the 31 March 2022 Actuarial Valuation by the statutory deadline (31 March 2023). Member benefits are guaranteed, but this is a key health-check for the Pensions Committee to ensure it remains on course to hold enough assets to pay the pension benefits built up by participating members. This showed that the funding position had improved (on average) from 112% to 125%. As a result, 88% of employers were able to benefit from a reduction in their contribution rate from 1 April 2023.

Alongside the Actuarial Valuation, the Pensions Committee also undertook a review of the investment strategy. This allows changes to the membership profile, benefit cashflows and contributions, to be taken into consideration and ensure that the mix of investments held continues to support the Pension Fund in order to meet its objectives of stable and affordable employer contributions. During the next few months, the Pensions Committee will reflect on the findings from this review and consult on its revised Investment Strategy Statement.

Another area which crosses the year is the McCloud judgment. This is based on a claim that members of public service pension schemes, including the Local Government Pension Scheme (LGPS), were discriminated against when changes to the schemes were introduced from 2014.Whilst the implementation date is October 2023, the fund has been working proactively with employers, to ensure it has as much information as possible collected from them, in readiness to implement changes to benefits. Members and employers will be updated as the work progresses.