

Report to: **Governance Committee**

Date: **4 September 2009**

By: **Deputy Chief Executive and  
Director of Corporate Resources**

Title of report: **Pension Fund Accounts and Performance**

Purpose of report: **To present to the Governance Committee the results of the Pension Fund for 2008/09**

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## **RECOMMENDATIONS**

**To receive the report.**

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### **1. Financial Appraisal**

1.1 There are no direct financial implications for the East Sussex Pension Fund from this report, but it does provide commentary on the Fund's performance. A responsibility of the County Council as the administering authority is to undertake a valuation of the Pension Fund's assets and liabilities every three years. At 31 March 2007, the past service liabilities of the East Sussex Fund was 89% funded, compared with an average of 83% for all county council funds and places East Sussex in fifth position out of thirty four funds.

### **2. Supporting Information**

2.1 The Pension Fund Investment Panel at its meeting on 27 July 2009 received the draft Report and Accounts of the Pension Fund for the year ended 31 March 2009. As reported verbally to the Panel, one of the fund managers, UBS, overstated the value of investments in their year end return to Northern Trust by £10.5m. The Fund was therefore overvalued by this amount and the net returns on investments by the same amount. This has been adjusted in the final version of the East Sussex Pension Fund Accounts which have been given an unqualified opinion by the Independent Auditor (PKF) in their Annual Governance Report 2008/09. There have been no other significant changes to the accounts of the Pension Fund as a result of the audit.

2.2 A change to the governance, accountability and audit framework for local government pension funds is a new requirement of administering authorities for the pension fund audit to be separate from the audit of the Council's accounts.

2.3 The accounts show that contributions income for 2008/09 was £108.3m (8.8% up on 2007/08) and expenditure was £86.6m (up 8.1% on 2007/08), giving a net addition of £21.8m from dealings with members (i.e. employees and pensioners). The net return on investments was negative £317.8m and the net assets of the Fund decreased by 17.6% to £1,382m at 31 March 2009.

2.4 Copies of the Report and Accounts (see copy attached) will be distributed to every participating body whose employees contribute to the Fund and a summary leaflet will again be sent to all members of the Fund and non-members who may be eligible to join the scheme.

### **3. Investment Performance**

3.1 As in previous years the compilation of the pension fund statistics for local authorities has been undertaken by the WM Company and summarised in a report by Hymans Robertson(see copy attached).The Hymans summary report was presented to the Investment Panel on 27 July 2009.

3.2 The basis of performance is to compare the East Sussex Fund to the combined performance of all 87 funds. The total of all funds is known as the W M Local Authority Universe.

3.3 The Investment Panel noted that the total Fund annual investment return was minus 18.5%, compared with the average return achieved by local authority funds of minus 19.9%. This was the 27th best performance of the 87 local authority funds. The Fund is managed against a customised benchmark which returned minus 20.7% over the year.

3.4 Over three years the Fund returned minus 5.4%pa, compared with the average local authority universe of minus 5.9%pa, ranking the Fund in the 37th percentile. Over five years the Fund return of 3.4% pa is 0.3% higher than the average fund, ranking in the 37th percentile. Over ten years the Fund return of 2.8% is 0.8% higher than the average fund, ranking in the 15th percentile.

SEAN NOLAN  
Deputy Chief Executive and  
Director of Corporate Resources

Contact Officer: John Shepherd                      Tel No. (01273) 481785

Local Members: All

Background papers used in the preparation of this report:  
Report and minutes of Investment Panel 27 July 2009  
Statistics on pension funds produced by W M Company.

# **East Sussex Pension Fund**

## **Report and Accounts**

**2008/09**

Sean Nolan  
Deputy Chief Executive &  
Director of Corporate Resources  
East Sussex County Council

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# **ANNUAL REPORT**

## **MEMBERS, EXTERNAL ADVISERS AND OFFICERS**

### **Pension Fund Investment Panel**

#### **Members:**

**County Councillors:** Tony Reid (Chairman)  
David Tutt  
Bob Lacey

**Brighton & Hove Councillors:** Kevin Allen  
Mrs Pat Drake

**District Councillor:** Ted Collict

**Staff Rep (Observer):** Tony Watson

#### **FUND MANAGERS:**

UBS Global Asset Management	Harbourvest
Prudential M&G	Adams Street Partners
Capital International	Fidelity
Custodian – Northern Trust	Legal and General

**INVESTMENT ADVISER:** Hymans Robertson

**INDEPENDENT ADVISER:** John Hemingway

**TREASURER:** Sean Nolan, BA CPFA  
Deputy Chief Executive &  
Director of Corporate Resources  
East Sussex County Council

**ACTUARY:** Hymans Robertson  
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##### ***LGPS policy or statutory requirements***

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CRD Finance  
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##### ***Day-to-Day Matters***

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Bellbrook Industrial Estate  
Uckfield, TN22 1QL

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## **LOCAL GOVERNMENT PENSION SCHEME**

### **Introduction**

The Local Government Pension Scheme (LGPS) is a statutory pension scheme, whose rules are governed by Parliament in accordance with the Superannuation Act 1972. The rules of the scheme are provided between two separate sets of regulation; the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 and the Local Government Pension Scheme (Administration) Regulations 2008, both of which came into force on 1 April 2008, and provide the statutory basis within which the Scheme can operate. Separate transitional regulations provide the link between the old and new scheme provisions.

Although a national pension scheme, set up for the benefit of local government employees the LGPS is in fact administered locally. The LGPS is open to all employees of the County Council, District, Borough and Unitary Authorities in East Sussex, as well as Colleges of Further Education, Town and Parish Councils and a small number of charitable organisations who have applied to be treated as “admission bodies”. In addition, the Scheme allows employees of private contractors to remain in the Scheme where they are providing a service or assets in connection with the functions of a scheme employer, in accordance with the specific requirements of the LGPS Regulations. The scheme is not open to teachers or fire fighters, as these groups of employees have separate pension schemes.

A summary of the provisions of the scheme is given below.

Currently within the East Sussex Pension Fund there are 60 participating employers. A full list of participating employers is given at the Actuary’s Certificate.

### **Administering Authority Responsibilities**

East Sussex County Council has a statutory responsibility to administer and manage the East Sussex Pension Fund on behalf of all the participating employers of the Fund in East Sussex, and in turn past and present contributing members, and their dependents.

The Fund receives contributions from both employees and employers, as well as income from its investments. All of these elements put together then meet the cost of paying pensions, as well as other benefits. As part of its responsibilities as the administering authority the County Council is responsible, through the Pension Fund Investment Panel, to set the investment policy and review the performance of the Fund’s external investment managers. Non investment issues concerning the Fund (such as administering authority discretions or the admission of new employers via admission agreements) are considered by the County Council’s Governance Committee.

The County Council has contracted SERCO to undertake the day to day functions associated with the administration of the LGPS. The main services provided by SERCO include maintenance of scheme members records, calculation and payment of retirement benefits and premature retirement compensation, transfers of pension rights, calculation of annual pension increases and the provision of information to scheme members, employers and the Fund's Actuary.

Although the day to day work associated with administering the LGPS has been passed to SERCO, the County Council takes its statutory responsibility very seriously. It has therefore, set up procedures to ensure that SERCO undertake the work associated with the administration of the LGPS in accordance with an agreed service specification. The County Council also ensures that all the participant employers within the East Sussex Pension Fund are aware of their own responsibilities, as well as any changes to the provisions of the Scheme that may be introduced.

A major responsibility of the County Council as the administering authority is to undertake a valuation of the Pension Fund's assets and liabilities (triennial valuation). The main purpose of this exercise is to assess the size of the Fund's current and future liabilities against the Fund's assets, and then set the employer contribution to the Fund for each participating employer for the following three year period. The most recent actuarial valuation of the Fund was carried out as at 31 March 2007 (see note 3 to the accounts). In addition to the triennial valuation of the Pension Fund, the County Council also receives requests each year from scheme employers to obtain appraisal reports from the Fund actuary, to enable them to comply with requirements of the Financial Reporting Standard FRS17. The provision of these reports, however, falls outside of the functions of the County Council as an administering authority.

It is important to note that ultimate responsibility for both the administration of the Pension Fund and the investment of all monies associated with the Fund remains with the County Council. In 2002 the County Council established an annual employers' pension forum, to update and involve all the participating employers of the East Sussex Pension Fund, which is always well attended.

#### **Changes affecting the LGPS during 2008/2009, and future developments**

There have been no major changes to the rules of the LGPS in the previous financial year, following the introduction of the new-look scheme from 01 April 2008.

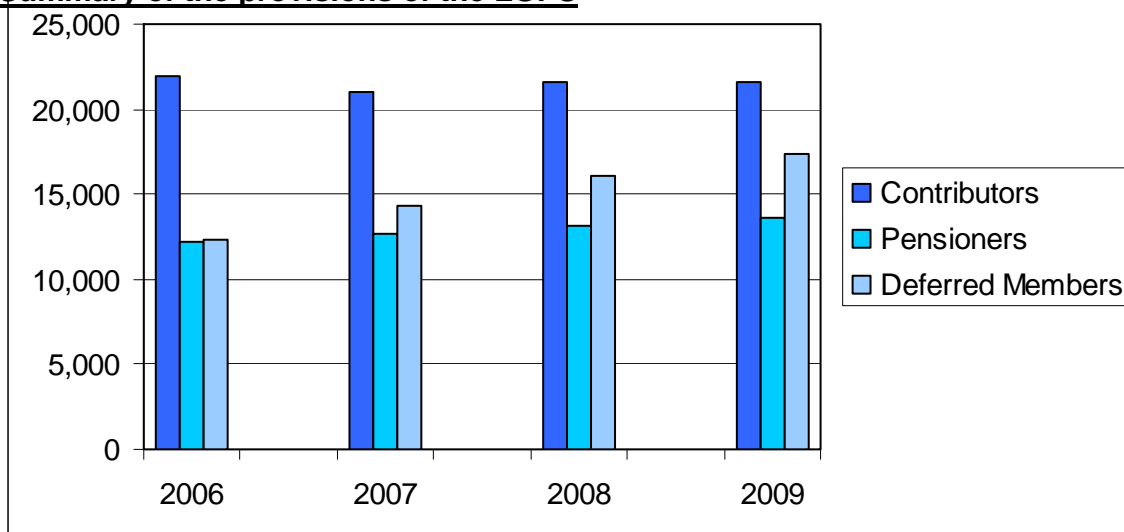
The proposals for introducing a cost sharing mechanism between employers and the scheme members has been finalised, although discussion is still taking place on how this facility will be implemented in practice. The intention is for the cost sharing mechanism to become effective and for the Government Actuary to have a 'model fund' on which a benchmark can be taken, in place by 31 October 2010.

**The LGPS in East Sussex**

Membership of the East Sussex Pension Fund as at 31 March 2009 is detailed below:

	<b>March 2008</b>	<b>March 2009</b>
Contributors	21,633	21,550
Pensioners	13,095	13,644
Deferred Members	16,138	17,357

**Summary of the provisions of the LGPS**



The LGPS is contracted out of the State Second Pension (S2P) and provides defined benefits which compare favourably with many private schemes.

The following summary is provided as an illustration of the type and range of benefits which the LGPS provides. It is not intended as a detailed guide, nor does it detail the specific conditions that must be met before benefits can be obtained.

**Contributions**

Employees are required to pay contributions, which are assessed by reference to their pensionable pay as at the start of each financial year by their employer. These contributions currently range between 5.5% to 7.5% of pensionable pay. An individual can be re-attributed into a different band (and pay a different rate, which could be higher or lower) if their employer believes they have had a permanent, material change in the terms of their contract. The pay bands are subject to increases at 01 April each year, in line with the annual pensions increase figure for that year.

Employer contribution rates are set every three years following a valuation of the Pension Fund's assets and potential liabilities. The last such valuation was as at 31 March 2007.

**Benefits**

The LGPS has a common retirement age for both men and women of age 65. There are, however, a number of ways in which retirement before normal retirement age can be granted, but in all cases the consent of the employer is needed (unless the person is retiring voluntarily from age 60 or over).

As a final salary scheme, pension benefits are generally calculated by reference to a member's pensionable earnings during the final year of membership. Annual pensions are based on 1/80<sup>th</sup> of the final pensionable pay for each year of membership up to 31 March 2008 and 1/60<sup>th</sup> of the final pensionable pay for each year of membership from 01 April 2008.

In addition to the annual pension, scheme members are also entitled to a lump sum retiring allowance based on 3/80ths of final pensionable pay for each year of membership up to 31 March 2008. There is no automatic lump sum in respect of membership from 01 April 2008. The lump sum is currently paid tax free. Members also have the general option to increase their lump sum, within HMRC limits, to 25% of the value of their pension savings, by converting some of their annual pension. Within the LGPS every £1 of annual pension forgone provides an additional lump sum of £12.

### **Ill health**

The ill health benefits can be put into payment at any age and are awarded depending on the circumstances in each individual case as certified by an independent qualified occupational health doctor. There are three tiers which offer enhancements to accrued pension benefits as follows –

Tier one – accrued benefits plus 100% prospective future service enhancement where there is no likelihood of obtaining further gainful employment with any employer (LGPS or otherwise) before age 65.

Tier two – accrued benefits plus 100% prospective future service enhancement where there is a reduced likelihood of obtaining further gainful employment with any employer (LGPS or otherwise) before age 65.

Tier three – accrued benefits with no prospective future service enhancement where there is a likelihood that further gainful employment with any employer (LGPS or otherwise) will be obtained within 3 years (this level of award is subject to review and will cease by no later than 3 years after the award is made or could be converted to a tier two ill health benefit if it was certified that the required criteria was met);

### **Pensions Increase**

Pensions in payment to pensioners aged 55 and over are increased annual in line with inflation, in accordance with Orders made under the Pensions (Increase) Act 1971. All ill health pensions and survivors' pensions are increased annual despite the fact that the recipient may be under the age of 55.

### **Death Benefits**

The LGPS provides for the payment of a lump sum death grant, should a member die in service. The amount of the death grant payable from the Scheme is 3 times the final year's pensionable pay.

If death occurs within ten years of retirement a death grant equal to 10 times the individual's annual pensions (less payments already made) is due.

The Scheme also provides for the payment of survivor pensions to spouses, civil partners and nominated co-habiting partners, of up to 50% of the member's pension, which is payable for life, and where appropriate the payment of children's pensions.

### **Added Years/ARCs/AVCs**

The facility for a scheme member to purchase additional scheme membership was removed from 01 April 2008, although existing elections made up to but commencing after 31 March 2008 were honoured.

Scheme members are now able to purchase up to a maximum of £5,000 pa additional pension (in multiples of £250) by the payment of additional regular contributions (ARCS). Employers can also award additional pension of up to £5,000 p.a. (although they don't have to do so in multiples of £250). A member may purchase additional pension for the member only or for the member and his or her dependents. When an employer purchases additional pension, it will be additional pension for the member only.

Scheme members may also elect to pay additional contributions to be invested in an Additional Voluntary Contribution Scheme set up by the Fund (AVCs may also be paid independently to a Free Standing AVC Scheme, to whichever provider the individual chooses). The accumulated AVC fund may then be used at retirement in a number of ways. It can be used to provide an additional pension, either through the LGPS or through the purchase of an annuity from an insurance company. Alternatively the accumulated AVC fund can be used to provide additional lump sum (within HMRC limits) rather than the member converting annual pension at a rate of £12:£1, as highlighted above. The East Sussex Pension Fund has chosen Prudential as its AVC provider.

Scheme members are also able to contribute to Stakeholder Pensions, which are similar to personal pensions and are designed to provide a cost effective method of providing a pension in retirement. In order to ensure the ability to contribute to a Stakeholder Pension was not abused restrictions were initially applied as to who could make use of such an arrangement. These restrictions have since been removed, resulting in Stakeholder pensions being available to all. Any LGPS scheme member would need to make their own arrangements were they to wish to contribute to a Stakeholder Pension.

### **Discretions**

The LGPS provides the framework in which the statutory basis of the Scheme may work. In addition to the standard Scheme benefits there are also a number of discretionary areas for the employee and employer and the administering authority. In respect of the employer and administering authority there is an additional requirement for certain discretionary policies to be published as a matter of public record. Key discretionary areas where a published policy is required by the employer are:

- Award of additional scheme membership
- Award of additional scheme pension
- Voluntary early retirement from age 55
- Flexible retirement from age 55

Further details on participating employers' policies can be obtained from that employer.

Additionally, the County Council in its role as administering authority must publish its policy on the abatement of pension on re-employment.

### **Resolving Complaints**

The LGPS is required by statute to make arrangements for the formal resolution of disagreements between, on the one hand, the managers of the Scheme and on the other, active, deferred and pensioner members of their representatives. There is, therefore, access to a two stage dispute resolution procedure. This procedure consists of an initial application to the person or persons appointed by the individual's employer to consider the matter.

If the complainant is still dissatisfied with the decision they then have the right to refer the matter to the County Council to consider the matter under dispute. The person appointed for this role in the East Sussex Pensions Fund is the Director of Law and Personnel.

In addition to the dispute procedure the Social Security Act 1990 and the Pensions Act 1995 have created a framework of national organisations to control occupational and personal pension schemes, to which LGPS members have access.

## **1. Scope of responsibility**

East Sussex County Council has a statutory responsibility to administer and manage the East Sussex Pension Fund on behalf of all the participating employers of the Fund in East Sussex, and in turn past and present contributing members, and their dependents. The County Council is responsible for ensuring that pension fund administration is conducted in accordance with the law and proper standards, and that members money is safeguarded and properly accounted for, efficiently and effectively.

As part of its responsibilities as the administering authority the County Council is responsible, through the Pension Fund Investment Panel, to set the investment policy and review the performance of the Fund's external investment managers. Non investment issues concerning the Fund (such as administering authority discretions or the admission of new employers via admission agreements) are considered by the County Council's Governance Committee.

East Sussex County Council has adopted a Local Code of Corporate Governance, which is consistent with the principles of the CIPFA/SOLACE Framework Delivering Good Governance in Local Government. This Local Code covers all of the staff, systems and other activities involved in or related to the County Council's role as administering authority of the Pension Fund. A copy of the Local Code is on ESCC website at [www.eastsussex.gov.uk](http://www.eastsussex.gov.uk) or can be obtained from the Council's Monitoring Officer.

The Pension Fund has also adopted its own Governance Policy Statement which sets out in more detail its key governance arrangements and a Statement of Investment Principles, both of which have been in place at East Sussex County Council for the year ended 31 March 2009 and up to the date of the approval of the Pension Fund accounts.

## **2. Purpose of the governance framework**

Good governance is about how a local authority, including in its role as Pension Fund administrator ensures that it is doing the right things, in the right way, for the right people, in a timely, inclusive, open, honest and accountable manner. Our governance framework comprises the systems, processes, culture and values by which the Pension Fund is directed and controlled. Through effective governance the Pension Fund is accountable to, engages with and, where appropriate, leads participating employers, scheme members and other stakeholders.

The County Council's Local Code and the Pension Fund's own governance arrangements can provide only reasonable and not absolute assurance that the Pension Fund achieves its aim of good governance. Equally the system of internal control put in place by the County Council as administering authority is designed to identify and prioritise the risks to the achievement of the Pension fund's policies, aims and objectives, to evaluate the likelihood and impact of those risks being realised and to manage those risks efficiently, effectively and economically. It cannot eliminate all risk of failure; it can therefore only provide reasonable and not absolute assurance that our policies, aims and objectives are achieved.

## **3. Review of effectiveness**

East Sussex County Council being the East Sussex Pension Fund administrator reviews the effectiveness of its governance arrangements, including its system of internal control, on an ongoing basis. This review of effectiveness is informed by:

- the work of Members through the Governance Committee, and the Pension Fund Investment Panel;
- the work of the Pension Fund Treasurer, i.e., Deputy Chief Executive and Director of Corporate Resources and the Pensions and Investment staff within Corporate Resources Finance Division;
- the professional advice provided by the Pension Fund's investment advisers.
- the work of the Pension Fund's actuaries;
- the work of the internal audit service in their annual report and opinion and the Pension Fund Audit Strategy which is compliant with the good practice guidance issued by the Society of County Treasurers;
- the external auditors in their audit and inspection annual letter and annual governance report;
- The review of the effectiveness of the County Council's governance arrangements the results of which are set out in its Annual Governance Statement;

#### **4. Key elements of the governance and internal control environments**

The County Council administers the Scheme on behalf of a number of participating employers and other stakeholders (such as scheme members and their relatives). It is important, therefore, to ensure that appropriate governance arrangements are put in place representing the needs of all stakeholders in the scheme. Decisions concerning the administration of the pension scheme in East Sussex are, therefore, made by the Governance Committee, rather than Cabinet. The Local Government Pension Scheme Regulations 1997 specify that, in investing the Fund's money, regard must be given to the need for diversification and for proper advice obtained at reasonable intervals.

The key elements that comprise the Council's governance arrangements are set out in the Pension Fund Governance Policy Statement. (See Appendix One)

#### **5. Assurance and Significant Governance Issues**

No assurance can ever be absolute; however this statement seeks to provide a reasonable assurance that there are no significant weaknesses in the Pension Fund's governance arrangements. On the basis of the review of the sources of assurance set out in this statement, we are satisfied that there are satisfactory governance arrangements, including a satisfactory system of internal control in place for the Pension Fund, both of which are operating effectively.

As part of our review, we have not identified any gaps in assurance over key risks or significant governance issues. The County Council on behalf of the Pension Fund will continue to regularly monitor issues that may seriously prejudice or prevent achievement of its key objectives through its strategic risk review process.

Both governance and internal control arrangements must be kept under review to ensure that they continue to operate effectively and meet changing legislative needs, reflect best practice and our intention to achieve excellence in all our activities.

This review has not identified any significant areas requiring improvement in the governance arrangements of the Pension Fund. However, the County Council as administering authority it will continue to:

- Develop and improve its governance arrangements through the actions set out in the County Council's Annual Governance Statement;
- ensure the Fund is effectively managed under the direction of the Pension Fund Investment Panel which comprises three members of the County Council, two members of Brighton and Hove City Council, a nominee of the East Sussex Borough and District Councils and the staff representative (UNISON);
- ensure the Panel meets quarterly to discuss investment strategy and receives reports from the investment managers;
- ensure the Panel is advised by the Investment Adviser Hymans Robertson and an independent adviser John Hemingway (formerly Phillips and Drew);
- ensure the Panel also holds a separate annual strategy meeting at which it sets investment strategy policy;
- ensure effective communication with scheme employers, including an annual Employers Forum event;

Actions plans are in place to address these issues, and their implementation will be monitored and reviewed during the year.

Cllr Tony Reid  
Chairman  
Pension Fund Investment Panel

Sean Nolan (Treasurer)  
Deputy Chief Executive and  
Director of Corporate  
Resources

## **CURRENT INVESTMENT ARRANGEMENTS**

During 2008, as equity markets fell back sharply the Panel closed the underweight positions to both UK and Overseas equities, relative to the strategic allocation, which had been established during the previous financial year. This capitalised a substantial profit and the Fund has now reinstated the full strategic exposure to equities, although it retains some cash which is earmarked for investment in alternative assets.

During the year the Panel transferred the developed overseas equity content (excluding emerging market equities) managed by Capital and UBS to a passive approach. This followed a sustained period of poor performance and a number of issues about changes at both firms. These assets were transferred to Legal & General's World Equity Index Fund on an interim basis. The intention of the Panel is to commence a selection exercise to appoint new active global equity managers in due course.

During the year, under the heading of alternative assets, the Panel opportunistically committed assets to an Alliance Bernstein Fund targeting investment in assets oversold in the credit crunch. However, this Fund was wound up – happily, in profit - shortly after launch, following personnel changes at the investment manager.

When considering the investment portfolio, diversification is one of the most important issues that the Panel considers. Rather than relying on a single investment decision, which might go badly wrong, making a larger number of smaller decisions can reduce risk. For example, any investment in equities is spread across many stocks, across a wide range of industries and across a number of countries. If a particular company, industry or country has a period of poor returns, this should have a limited impact on the portfolio.

The Fund's investments are very well diversified, as a way of controlling risk. This applies in two ways:-

### **Asset Allocation**

Although the benchmark is heavily weighted towards equities (as the asset class expected to provide the highest return over the medium to long term), there is a significant exposure to property and infrastructure ("real" assets with a different performance cycle to equities) and to bonds (which ultimately "match" the Fund's liabilities).

Within equities, diversification is achieved by investing in different markets across the world, which provides exposure to many different stocks and sectors.

The Fund is further diversifying some of the equity exposure by making an increasing allocation to unquoted equity, although it will take time to build up exposure. This should lead to higher returns over the longer term, without adding in any material way to risk (which is consistent with the objectives of the Fund).

### **Manager Structure**

The Fund employs a number of managers. Again, this has been a deliberate policy to avoid over-dependence on the fortunes of a single manager and to concentrate on managers' particular areas of expertise. All managers are expected to maintain broadly diversified portfolios.

Legal and General has become the Fund's predominant equity manager, albeit on a temporary basis. These assets are managed passively within a number of pooled vehicles. Fidelity, the Fund's other appointed equity manager, employs a relatively low risk approach with no particular sector or regional biases.

The Panel believe that employing global equity managers is the most efficient way to access world equity markets on an active basis and the Panel intends to appoint an additional global equity manager(s) in due course.

The Fund's allocation to infrastructure and property is split between Prudential M&G and UBS.

The objective in any manager appointment is to ensure that:

- each active manager adds value, net of the fees which he charges;
- each manager brings something different - specialist skills or a different approach to investment - to the mix.

In this way, the Fund seeks to achieve an appropriate return and added value over the medium term, but in a risk controlled fashion.

Prepared by:-

David O'Hara

Senior Investment Consultant

George Henshilwood

Partner

May 2009

For and on behalf of Hymans Robertson LLP

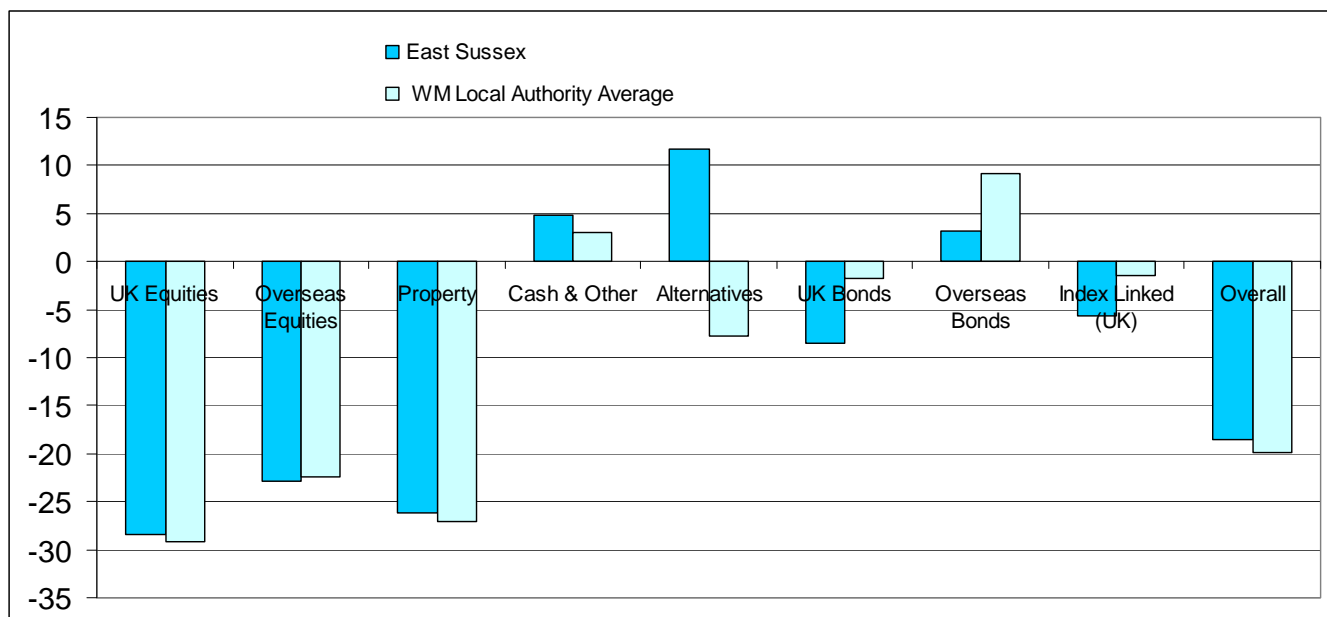
## INVESTMENT PERFORMANCE

The County Council uses an independent Investment performance measurement service, provided by the WM Company which measures the performance of the Fund compared with 87 other local authority pension funds.

The Fund is managed against a customised benchmark which returned minus 20.7% over the year. The overall annual rate of return achieved by the Fund is minus 18.5%, compared with the average return achieved by local authority funds of minus 19.9%. This was the 27<sup>th</sup> best performance of the 87 local authority funds. Where longer term performance figures are shown they are compared with the average local authority pension fund (the WM local authority universe).

Over three years the Fund returned minus 5.4% pa, compared with the average local authority universe of minus 5.9% pa, ranking the Fund in the 37<sup>th</sup> percentile. Over five years the Fund return of 3.4% pa is 0.3% higher than the average fund, ranking in the 37<sup>th</sup> percentile. Over ten years the Fund return of 2.8% is 0.8% higher than the average fund ranking in the 15<sup>th</sup> percentile.

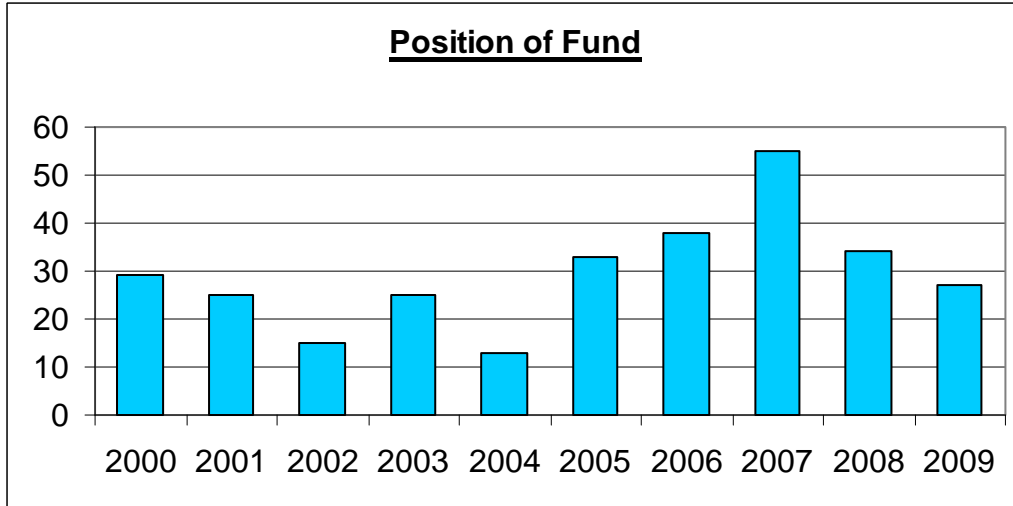
The graphs below illustrate our investment performance in comparison to the WM Local Authority Universe.



East Sussex Fund Position in WM Local Authority Universe:

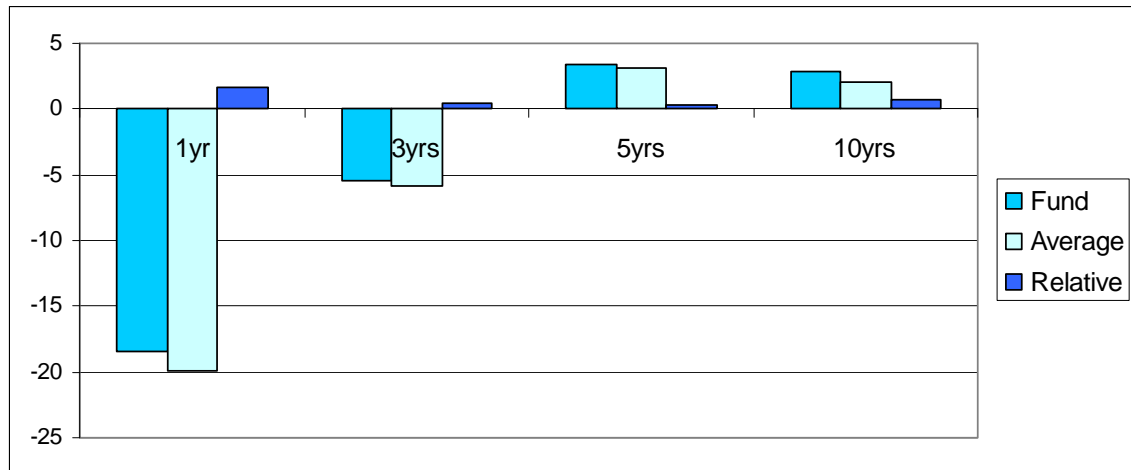
	2009	
	East Sussex	WM Local Authority Average
UK Equities	-28.4	-29.1
Overseas Equities	-22.9	-22.4
Property	-26.2	-27.1
Cash & Other	4.8	3.0
Alternatives	11.7	-7.8
UK Bonds	-8.5	-1.7
Overseas Bonds	3.1	9.2
Index Linked (UK)	-5.7	-1.5
Overall	-18.5	-19.9

<b>Year</b>	2000	2001	2002	2003	2004	2005	2006	2007	2008	2009
<b>Position</b>	29	25	15	25	13	33	38	55	34	27



**Fund returns**

	<b>Fund</b>	<b>Average</b>	<b>Relative</b>
	%pa	%pa	%pa
1yr	-18.5	-19.9	1.7
3yrs	-5.4	-5.9	0.5
5yrs	3.4	3.1	0.3
10yrs	2.8	2.0	0.7



## **REPORT AND ACCOUNTS SUMMARY**

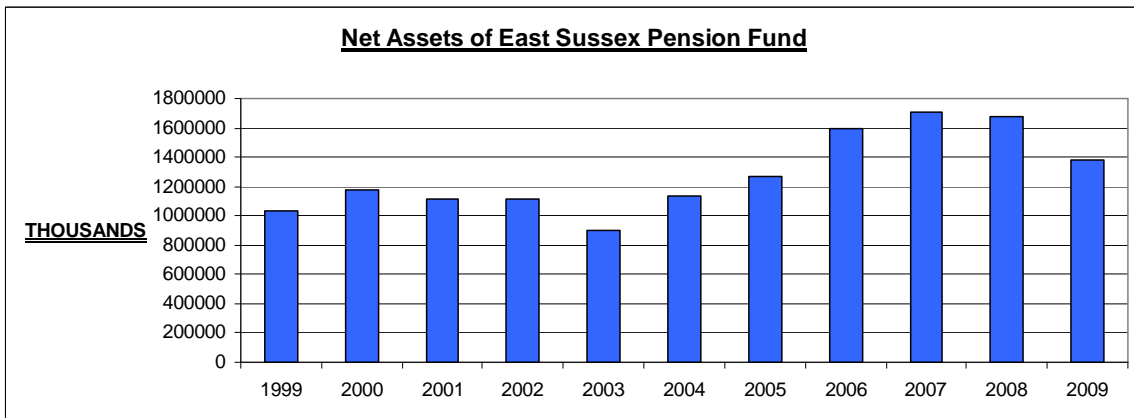
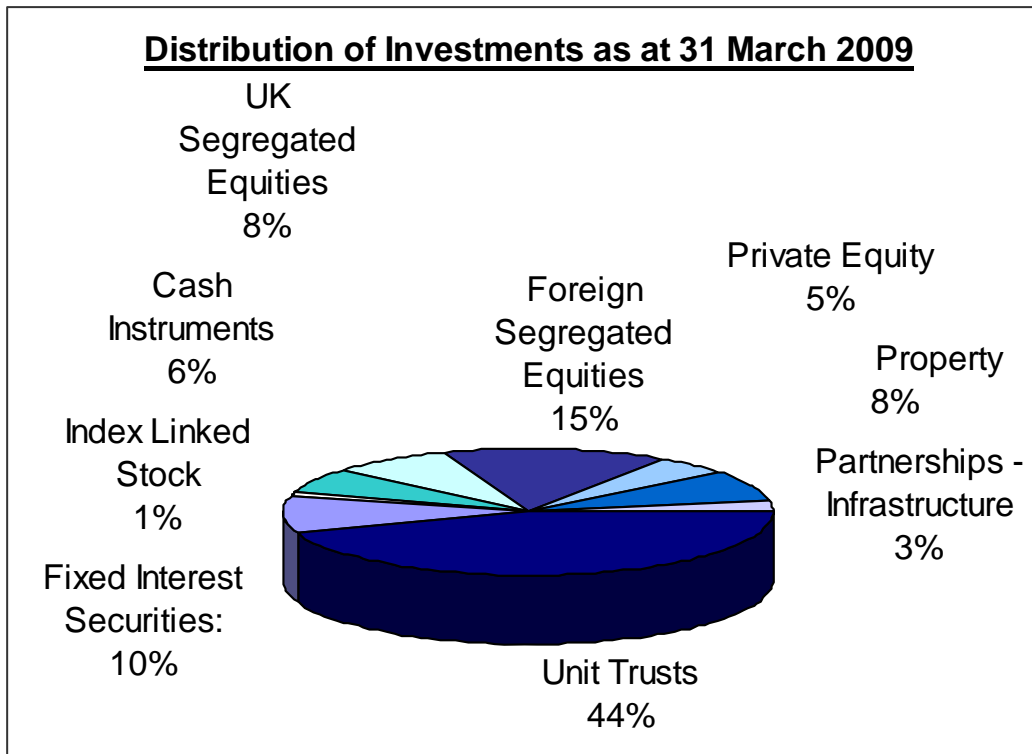
In 2008/2009 compared to 2007/2008:

- The number of contributors to the Fund decreased by 0.4% to 21,550
- The number of pensioners being paid increased by 4.2% to 13,644
- Contributions income rose by £10.0m (11.1%) to £100.3m.
- Investment income decreased by £16.2m (-39.6%) to £24.7m. This large decrease is mainly explained by the Fund's switch to the Legal & General Passive Unit Trust Funds (Equities).
- Payments rose by £7.4m (10.2%) to £80.1m.

### **Investments**

- The Net Assets of the scheme decreased by £296m (17.6%) to £1,382m.
- The overall annual rate of return achieved by the Fund is minus 18.5%, compared with the average return achieved by local authority funds of minus 19.9%. This was the 27<sup>th</sup> best performance of the 87 local authority funds.

**INVESTMENT ACTIVITY**



# **FINANCIAL ACCOUNTS 2008/2009**

## **FUND ACCOUNT**

### **Fund Account for Year Ended 31 March 2009 Dealing with Members, Employers and Others directly involved in the Scheme.**

*Re stated*

	2007/08			2008/09
£000	£000		Notes	£000
		<b>Contributions</b>		
67,213		From Employers	10	73,870
<u>23,086</u>	90,299	From Employees or Members		<u>26,460</u>
	9,160	<b>Transfers in</b>		<u>7,994</u>
	<b>99,459</b>			<b>108,324</b>
	72,676	<b>Benefits</b>	10	80,126
	6,089	<b>Payments to and on account of leavers</b>		5,033
	1,347	<b>Administrative expenses</b>		<u>1,400</u>
	<b>80,112</b>			<b>86,559</b>
	<b>19,347</b>	<b>Net Additions / (Withdrawals) from dealings with members</b>		<b>21,765</b>
		<b>Returns on investments</b>		
	40,995	<b>Investment income</b>	6	24,746
	(85,192)	<b>Change in market value of Investments</b>		(338,310)
	(234)	<b>Taxation</b>		(519)
	(4,920)	<b>Investment management expenses</b>	14	(3,761)
	<b>(49,351)</b>	<b>Net returns on investments</b>		<b>(317,844)</b>
	(30,004)	<b>Net Increase / (Decrease) in fund during the year</b>		(296,079)
	1,708,070	<b>Add Opening Net Assets of the scheme</b>		1,678,066
	<b>1,678,066</b>	<b>Closing net assets of the scheme</b>		<b>1,381,987</b>

**NET ASSETS STATEMENT****Net Assets Statement as at 31 March 2009***Re stated at Bid*  
2007/08

2008/09

£000	£000		Notes	£000	£000
<b>Investment assets</b>					
68,882		Fixed interest securities	- Public Sector	7	4,102
<u>119,280</u>	188,162		- Other		<u>130,350</u>
					134,452
105,207		Equities Segregated	- UK		109,325
361,512			- Overseas		203,054
<u>52,789</u>	519,508	Unlisted	- Overseas		<u>69,572</u>
					381,951
11,247		Index Linked Securities	- Public Sector		0
<u>24,630</u>	35,877		- Other		<u>9,428</u>
					9,428
Pooled Investment Vehicles					
155,897		Unit Trusts	- Property		110,032
526,622			- Equities		610,876
<u>49,369</u>	731,888	Partnerships	- Infrastructure		<u>38,982</u>
					759,890
	190,171	Cash deposits			90,917
	25,789	Other Investment balances			15,781
	<u>1,691,395</u>				<u>1,392,419</u>
	(21,931)	<b>Investment liabilities</b>			(15,063)
	10,087	<b>Current assets</b>			7,721
	(1,485)	<b>Current liabilities</b>			(3,090)
	<u>1,678,066</u>				<u>1,381,987</u>

The Fund's financial statements do not take account of its liabilities to pay pensions and other benefits after the end of the financial year 2008/09.

**Treasurer's Certificate**

I certify that the accounts set out in this booklet state fairly the financial position of the East Sussex Pension Fund at 31 March 2009

SEAN NOLAN  
Deputy Chief Executive and  
Director of Corporate Resources  
23 June 2009

## **ACTUARY'S STATEMENT**

Actuarial statement for the purpose of Regulation 36 of the Local Government Pension Scheme (Administration) Regulations 2008.

As required by regulations, an actuarial valuation of the Fund's assets and liabilities was carried out as at 31 March 2007.

### **Security of prospective rights**

In my opinion, the resources of the Fund are likely in the normal course of events to meet the liabilities of the Fund, as required by the Regulations. In giving this opinion I have assumed that the following amounts will be paid to the Fund: -

Employee contributions in accordance with the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2008.

Employer contributions, for the three years commencing 1 April 2008, as specified in our Certificate dated 22 November 2008 and also attached to this statement for ease of reference.

### **Summary of methods and assumptions used**

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2008.

My opinion on the security of prospective rights is based on the Projected Unit Method. This assesses the cost of benefits accruing to existing members during the year following the valuation, allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities (allowing for future salary increases) and the market value of assets.

Since assets were taken into account at their market value it is appropriate for me to take a lead from the market when setting the financial assumptions used to value the ongoing liabilities, to ensure compatibility of the asset and liability valuation bases. The stream of future liability payments is converted into a capital value today by assuming a return on Fund assets of 6.1% a year. The anticipated returns on assets are set by reference to the prevailing returns available on investing in the Government bond market at the valuation date. Long-term returns of 1.6% a year more than Government bonds are anticipated.

The key financial assumptions adopted for the 2007 valuation were as follows:

Assumption	Derivation	Rate at 31 March 2007	
		Nominal	Real
Price Inflation (RPI)	Market expectation of long term failure inflation as measured by the difference between yields on fixed and index-linked Government bonds as at the valuation date	3.2%	-
Pay Increases	Assumed to be 1.5% p.a. in excess of price inflation	4.7%	1.5%
Funding basis discount rate	Assumed to be 1.6% p.a. above the yield of fixed interest Government bonds	6.1%	2.8%

### **2007 valuation results**

The 2007 valuation revealed that at 31 March 2007, the Fund's assets as a whole were sufficient to meet 89% (2004: 84%) of the liabilities accrued up to that date. Assets were taken into account at their then market value of £1,708m (£1,131m at 31 March 2004). The resulting deficit at the 2007 valuation was £212.3m (£223.3m at 31 March 2004).

Individual employers' contributions have been set in accordance with the Fund's Funding Strategy Statement. The deficits for each individual employer are being spread over a period chosen by the Administering Authority. The length of the spreading period depends on the type of employer and the strength of its funding covenant. For example, employers with tax raising powers have a 20 year spreading period whilst 15 years is used for Community Admission Bodies that are open to new members. Best Value Admission Bodies are permitted to spread deficit over the remaining contract period, subject to this period not exceeding the future working lifetime of their active employees. Changes to contribution rates are being phased in over a period of three years.

The next valuation will be carried out as at 31 March 2010.

Copies of the valuation report are available on request from the Finance Department of East Sussex County Council.

### **Experience since April 2007**

The financial experience that affects the Fund's assets and liabilities since the valuation at 31 March 2007 has been poor. Assets have significantly underperformed in relation to the assumptions set at the valuation whilst the value of liabilities will have risen slightly due to small reductions in government bond yields. The cost of new accrual of benefits will also have risen slightly due to the fall in bond yields.

#### **Richard Warden**

Fellow of the Faculty of Actuaries  
For and on behalf of Hymans Robertson LLP  
Hymans Robertson LLP  
20 Waterloo Street  
Glasgow  
G2 6DB

## **STATEMENT OF RESPONSIBILITIES FOR THE STATEMENT OF ACCOUNTS**

The authority is required:

- To make arrangements for the proper administration of its financial affairs and to secure that one of its officers has the responsibility for the administration of those affairs. In this authority, that officer is the Deputy Chief Executive and Director of Corporate Resources.
- To manage its affairs to secure, economic, efficient and effective use of resources and safeguard its assets.

### **The responsibilities of the Deputy Chief Executive and Director of Corporate Resources**

The Deputy Chief Executive and Director of Corporate Resources is responsible for the preparation of the Fund's statement of accounts which, in terms of the Chartered Institute of Public Finance and Accountancy / Local Authorities (Scotland) Accounts Advisory Committee Code of Practice on Local Authority Accountancy in Great Britain ("the Code") is required to present fairly the position of the Fund at the accounting date and its income and expenditure for the year ended 31 March 2009.

In preparing this statement of accounts, the Deputy Chief Executive and Director of Corporate Resources has:

- Selected suitable accounting policies and then applied them consistently.
- Made judgements and estimates that were reasonable and prudent.
- Complied with the code.

### **The Deputy Chief Executive and Director of Corporate Resources has also:**

- Kept proper accounting records which were up-to-date.
- Take reasonable steps for the prevention and detection of fraud and other irregularities.

## **EXTERNAL AUDITORS REPORT**

The Independent Auditor (PKF) has given an unqualified opinion on the statement of accounts for the East Sussex Pension Fund. This can be found in appendix Three, and on page 11 of the East Sussex County Council Statement of Accounts 2008/09.

## **NOTES TO THE ACCOUNTS**

1. A specialist provider of Custodian Services, Northern Trust, is employed by the East Sussex Pension Fund.

The responsibilities of the Custodian are:

- Collection of investment income.
- Arranging for the custody of the schemes assets in compliance with the custody agreement.
- Providing CRD Finance with monthly valuations of the schemes assets and details of all transactions.
- Responsibility for cash management and investing the daily cash balances in a "Triple A" rated cash pool.

### **2. Accounting Policies and Basis of Preparation**

These accounts have been prepared in accordance with section 2 of the Statement of Recommended Practice (SORP) 'Financial Reports of Pension Schemes' (revised May 2007) and the 2008 SORP 'A Code of Practice on Local Authority Accounting in Great Britain'. The Fund has adopted the revised Pensions SORP 2007. As a result investments previously valued at mid prices are now valued at bid or offer prices for assets where there is a bid/offer spread. The comparatives for 2007/08 have therefore been restated in the Net Assets Statement and the notes to the accounts. The accounts summarise the transactions and net assets of the Scheme.

The accounting policies for the Pension Fund accounts are the same as those used for the County Council, as set out on pages 15 to 19. The only points which particularly relate to the Pension Fund are:

- Foreign income is translated into sterling at the exchange rate at the time of the transaction.
- The expenditure of the fund includes all valid benefit claims arising during the financial year.

We show the investments held by the Pension Fund at the market value at 31 March 2009. The Custodian sources of valuation are as follows:

- Where available, all assets are priced at bid (the price a dealer is prepared to pay for a security).
- Northern Trust uses a number of established vendors for pricing equities and fixed income regardless of the market the security is traded in.
- The Private Equity investments are valued quarterly in arrears and are shown in the net assets statement as Equities-Unlisted Overseas.
- Unitised funds' prices are also sourced from a number of vendors as well as the Investment Manager.
- Non-sterling priced assets are priced in the local currency and converted to sterling at the WM/Reuters 4pm foreign exchange rate.
- All gains and losses arising on derivative contracts are reported in the 'Reconciliation of Movement in Investments'
- Brokers commissions and other costs of acquisition are included in the cost of investments purchased.

### 3. Actuarial Position

The latest actuarial valuation of the Fund was carried out as at 31 March 2007. The purpose of the triennial valuation is to calculate the contribution rates required to be made by each employer participating in the Fund which together with investment growth will be sufficient to meet the Fund's future liabilities. The 2007 valuation shows the Fund has a past service deficit, being 89% funded in respect of past liabilities. This compares with 84% funded at the 2004 valuation. A recent survey of valuation results for county council funds carried out by the Society of County Treasurers has shown that all county council funds are now in deficit. East Sussex funding of 89% compares with an average of 83% for all county council funds and places East Sussex in joint 5th position out of thirty four funds. This means that the employer contribution rate only needs to go up by 1% over the next 3 years for the majority of the East Sussex Fund's employers. The contribution rates paid by each employer participating in the fund for 2008/2009 are shown in the Actuary's statement.

The contribution rates as described are calculated to be sufficient to cover 100% of the Funds Liabilities. With effect from 1 April 2008 the Common Rate of Contribution was 18.8% of pensionable pay, comprising a future service funding rate of 15.2% of pensionable pay, and an additional 3.6% in respect of the past service deficit resulting from past investment underperformance.

#### **Summary of Methods and Assumptions Used**

Full details of the methods and assumptions used are described in the valuation report dated 31 March 2008.

My opinion on the security of prospective rights is based on the Projected Unit Method. This assesses the cost of benefits accruing to existing members during the year following the valuation, allowing for future salary increases. The resulting contribution rate is adjusted to allow for any difference in the value of accrued liabilities (allowing for future salary increases) and the market value of assets.

Since assets were taken into account at their market value it is appropriate for me to take a lead from the market when setting the financial assumptions used to value the ongoing liabilities, to ensure compatibility of the asset and liability valuation bases. The stream of future liability payments is converted into a capital value today by assuming a return on Fund assets of 6.1% a year. The anticipated returns on assets are set by reference to the prevailing returns available on investing in the Government bond market. Long-term returns of 1.6% a year more than Government bonds are anticipated.

The contribution rates have been calculated using the projected unit method and the main actuarial assumptions were as follows:

<b>Investment Return</b>	<b>Nominal</b>
Equities	6.1%
Bonds	4.50%
Pay Increases	4.70%
Price inflation/Pension Increases	3.2%

#### 4. Fund Managers

The market value (at Bid) of the investments as at 31 March 2009 which were under the management of fund managers and the proportion managed by each manager:

Manager	2008		2009	
	£m	%	£m	%
UBS	362.2	21.7	114.6	8.3
Capital	189.7	11.3	11.7	0.8
Fidelity	330.9	19.9	346.6	25.2
Prudential M&G	168.4	10.1	145.0	10.5
Harbourvest	24.6	1.5	30.2	2.2
Adams Street Partners	28.2	1.7	39.3	2.9
Northern Trust Cash	176.6	10.6	84.7	6.2
UBS Infrastructure	17.6	1.1	13.9	1.0
Prudential Infrastructure	31.8	1.9	25.1	1.8
Legal & General	336.7	20.2	563.1	40.9
Alliance Bernstein	-	-	2.4	0.2
Restate adjustment	(1.1)	-	-	-
<b>Total</b>	<b>1,665.6</b>	<b>100.0</b>	<b>1,376.6</b>	<b>100.0</b>

#### 5. Analysis of Investments

Description	31/03/08 (of which unquoted)		31/03/09 (of which unquoted)	
	£m	£m	£m	£m
UK	1,060.4	(49.4)	737.9	(39.0)
Foreign	605.2	(52.8)	638.7	(69.6)
	1,665.6	(102.2)	1,376.6	(108.6)
Other Investment balances	25.8	-	15.8	-
	<b>1,691.4</b>	<b>(102.2)</b>	<b>1,392.4</b>	<b>(108.6)</b>

#### Largest Holdings

Name	Investment Type	£m	%
Legal & General UK Equity Index	Unit Trust Equity (Passive)	244.8	17.6
Legal & General World Equity Index	Unit Trust Equity (Passive)	89.8	6.4
Legal & General S N. America Equity Index	Unit Trust Equity (Passive)	81.9	5.9
M&G	Unit Trust Property	63.7	4.6

Only three holdings represented over 5% of the total value of the net assets of the scheme.

**6. Investment Income Table**

	2007/08 £000	2008/09 £000
Income From Fixed Interest Securities	3,779	1,007
Dividends from Equities	21,633	13,024
Income from index linked securities	163	70
Income from pooled investment vehicles	2,360	2,389
Securities Lending	236	161
Commission Recapture	15	12
Interest on cash deposits	12,575	7,564
	<b>40,761</b>	<b>24,227</b>
Irrecoverable Withholding tax	234	519
Total Investment Income	<b>40,995</b>	<b>24,746</b>

**7. Investment**

Transaction costs are included in the cost of purchases and sale proceeds. Transaction costs include the costs charged directly to the scheme such as fees, commissions, and stamp duty. Transaction costs incurred during the year amounted to £1.567m (£1.910m 2007/08). In addition, indirect transaction costs are also incurred through the bid-offer spread on investments within pooled investment vehicles. The amount of indirect costs is not separately provided to the scheme.

**Reconciliation of Movement in Investments**

	<b>Value at 2007/08 £000</b>	<b>Purchases at cost &amp; Derivative Payments £000</b>	<b>Sales Proceeds &amp; Derivative Receipts £000</b>	<b>Change in Market Value £000</b>	<b>Value at 2008/09 £000</b>
Fixed Interest Securities	188,162	48,949	(85,059)	(17,600)	134,452
Equities	519,508	490,561	(533,432)	(94,686)	381,951
Index Linked Securities	35,877	946	(26,648)	(747)	9,428
Pooled Investment Vehicles	731,888	258,325	(18,408)	(211,915)	759,890
	<b>1,475,435</b>	<b>798,781</b>	<b>(663,547)</b>	<b>(324,948)</b>	<b>1,285,721</b>
Cash Deposits	190,171	4,202	(100,102)	(3,354)	90,917
Other Investment balances	25,789			(10,008)	15,781
	<b>1,691,395</b>	<b>802,983</b>	<b>(763,649)</b>	<b>(338,310)</b>	<b>1,392,419</b>

	<b>Value £000 2007/08</b>	<b>Value £000 2008/09</b>
<b>Fixed Interest Securities</b>		
UK Public Sector Quoted	68,882	4,102
UK Corporate Quoted	119,280	130,350
Overseas Corporate Quoted	-	-
	<b>188,162</b>	<b>134,452</b>
<b>Equities</b>		
UK Quoted	105,207	109,325
UK Unquoted	-	-
Overseas Quoted	361,512	203,054
Overseas Unquoted	52,789	69,572
	<b>519,508</b>	<b>381,951</b>
<b>Index Linked Securities</b>		
UK Public Sector Quoted	11,247	9,428
Overseas Public Sector Quoted	24,630	-
	<b>35,877</b>	<b>9,428</b>
<b>Pooled Investment Vehicles</b>		
UK Unit Trusts -Property	155,897	110,032
-Other	526,622	610,876
Partnerships -Infrastructure	49,369	38,982
	<b>731,888</b>	<b>759,890</b>
<b>Cash Deposits</b>		
Sterling	190,171	90,917
Foreign Currency	-	-
	<b>190,171</b>	<b>90,917</b>

**Investment Assets (Other Investment Balances)**

	<b>2007/08 £000</b>	<b>2008/09 £000</b>
Sales inc currency	21,646	13,705
Investment Income Due	3,668	1,199
Recoverable Taxes	432	833
Managers Fees rebate	43	44
<b>Total</b>	<b>25,789</b>	<b>15,781</b>

## 8. Derivative Contracts

Derivative receipts and payments represent the realised gains and losses on futures contracts. The scheme's objective is to decrease risk in the portfolio by entering into futures positions to match assets that are already held in the portfolio by without disturbing the underlying assets. At 31 March 2009, the M&G Portfolio held a long dated Gilts Future with an economic exposure of £10.972m (Unrealised market gain £90k). The open index futures at 31 March 2009 is shown in the table below. No other derivatives were held by the Fund.

Type of Future	Number of Contracts	Expiration	Economic Exposure Value £000	Market Value £000
UK Gilt exchange traded	1	Within 1 year	10,972	90
			<b>10,972</b>	<b>90</b>

## 9. The LGPS in East Sussex

Membership of the East Sussex Pension Fund as at 31 March 2009 is detailed below

	March 2008	March 2009
Contributors	21,633	21,550
Pensioners	13,095	13,644
Deferred Members	16,138	17,357

**10. Analysis of Contributions**

The normal contribution rates that are paid by participating employers in the Fund cover the cost of benefits relating to future service, and correcting any deficit identified at the latest actuarial valuation over a specified number of years.

The deficit funding in total for all participating employers is shown on the table below.

Contribution rates and benefits payable are set out in statutory regulations

<b>Contributions</b>	<b>2007/08 £000</b>	<b>2008/09 £000</b>
Employers Normal	(66,666)	(63,496)
Deficit funding	-	(9,181)
Augmentation	(547)	(1,193)
Members Normal	(23,086)	(26,460)
<b>Total</b>	<b>(90,299)</b>	<b>(100,330)</b>

All transfers in (£7,994m) are individual transfers i.e. there are no group transfers.

<b>Benefits Payable</b>	<b>2007/08 £000</b>	<b>2008/09 £000</b>
Pensions	55,404	59,405
Commutations & Lump Sums	16,357	19,249
Lump Sums Death Benefits	915	1,472
<b>Total</b>	<b>72,676</b>	<b>80,126</b>

	<b>2007/08</b>		<b>2008/09</b>	
	<b>Contributions Receivable</b>	<b>Benefits Payable</b>	<b>Contributions Receivable</b>	<b>Benefits Payable</b>
	<b>£m</b>	<b>£m</b>	<b>£m</b>	<b>£m</b>
Administrative Authority	31.7	28.7	37.6	31.2
Scheduled Bodies	55.7	42.3	60.5	46.9
Admitted Bodies	2.9	1.7	2.2	2.0
	<b>90.3</b>	<b>72.7</b>	<b>100.3</b>	<b>80.1</b>

<b>Payments to &amp; on account of leavers</b>	<b>2007/08 £000</b>	<b>2008/09 £000</b>
Refunds of Contributions	22	11
Group transfers out to other schemes	-	-
Individual Transfers out to other schemes	6,067	5,022
<b>Total</b>	<b>6,089</b>	<b>5,033</b>

The Pension Fund Scheme provides an Additional Voluntary Contribution (AVC) facility for scheme members. In 2008/09 some members of the pension scheme paid voluntary contributions and transfers in of £1.237m to Prudential to buy extra pension benefits when they retire. £2.636m was disinvested from the AVC provider in 2008/09. (£1.620m 2007/08) The contributions are paid directly from scheme members to the AVC provider and are therefore not included in the Pension Fund Accounts. The combined value of the AVC funds at 31 March 2009 was £17.260m (at 31 March 2008 £17.040m).

## **11. Assets & Liabilities**

	<b>2007/08 £000</b>	<b>2008/09 £000</b>
<b>Investment Liabilities (Other Investment Balances)</b>		
Purchases inc currency	20,957	14,550
Managers Fees	974	513
<b>Total</b>	<b>21,931</b>	<b>15,063</b>
<b>Current Assets</b>		
Contributions (Ees&Ers)	7,149	7,415
Other Current Assets	109	306
Cash Balances (invested with ESCC)	2,829	-
<b>Total</b>	<b>10,087</b>	<b>7,721</b>
<b>Current Liabilities</b>		
Pension Payments (inc lump sums)	1,405	938
Cash Balances (owed to ESCC)	-	1,850
Professional Fees	45	62
Other Current Liabilities	35	240
<b>Total</b>	<b>1,485</b>	<b>3,090</b>

## **12. Contingent Assets / Contingent Liabilities**

At 31 March 2009 the Fund has contractual commitments of £149.8 million to private equity fund managed by Adams Street and Harbourvest.

At 31 March 2009 the unfunded commitment was £62.0 million. The commitments are paid over the investment time frame of the underlying partnership. Concurrently as these partnerships mature they will also distribute capital back to investors. The Fund has received distributions not subject to recall of £20.4 million in respect of these partnerships at 31 March 2009.

The value of the funded commitment net of distributions in these funds at 31 March 2009 is included in the net asset statement.

Sussex Careers - a Community Admission Body in the Pension Fund, until recently, supplied careers advisory services on behalf of both ESCC and B&H CC. Sussex Careers has now been formally wound-up, and its remaining non-pension assets will be distributed to its creditors, including the Pension Fund. The Fund will continue to pursue a claim for compensation and recovery of outstanding debts. While the outcome will only be decided by a decision of the Liquidators, the proportion to be paid to the Fund is yet to be determined.

Following Rulings given by the European Court of Justice, along with a number of other local authority pension funds, the East Sussex Pension Fund is pursuing the recovery of tax paid on certain dividends. If successful this will be of material benefit to the Fund. The amount which may be recoverable is not currently quantifiable.

## **13. Stock Lending**

As a result of concerns generated by the turmoil in world financial markets the East Sussex Fund suspended its stock lending programme run by Northern Trust, with immediate effect from 13 October 2008. All existing stock loaned out on behalf of the East Sussex Fund was recalled and the suspension is still in place. £0.161m income was generated by stock lending activities during 2008-09 for the period ended October 2008.

**14. Scheme and Investment Expenses**

Regulations permit the County Council to charge administration costs to the Fund. A proportion of relevant County Council costs have been charged to the Fund on the basis of actual time spent on pension scheme administration and investment related business and in safeguarding Fund assets. The fees of the Fund's external investment managers reflect the agreements contained in their respective mandates. Fees are linked to the market value of the Fund's investment and therefore may increase or reduce as the value of these investments change. The Fund Manager aggregated fees include the rebated fees in respect of the pooled funds so as to reflect the gross position in respect of investment fund manager charges.

Total expenditure on scheme and investment management expenses during the year were £5.2m broken down as follows: Professional Fees £3.8m (inc £1.0m rebated fees) and Scheme Administration £1.4m.

<b>Investment Management expenses</b>	<b>2007/08 £000</b>	<b>2008/09 £000</b>
Investment Management & Custody fees	4,753	3,551
Performance Measurement Services	14	13
Other Advisory Services	153	197
<b>Total</b>	<b>4,920</b>	<b>3,761</b>

<b>Administrative expenses</b>	<b>2007/08 £000</b>	<b>2008/09 £000</b>
Administration & Processing	1,074	1,168
Actuarial Fees	203	159
Audit Fee	33	68
Legal & other Professional Fees	37	5
<b>Total</b>	<b>1,347</b>	<b>1,400</b>

**15. Related Parties**

Employer pension contributions paid by East Sussex County Council in 2008/2009 amounted to £37.6m (£31.7m in 2007/2008). During 2008/09, the Pension Fund had an average balance of £4.62m deposited with the County Council, which paid £192,360 interest for these deposits. The County Council charged the Fund £1.4m for expenses incurred in administering the Fund. The Treasurer of the Pension Fund and members of the County Council and the Investment Panel have no material transactions with the Pension Fund. The professional fees paid to the Pension Fund's external investment fund managers and East Sussex County Council are shown in note 11.

**16. Audit Costs**

The table below sets out the fees agreed with PKF for services rendered during the year, and in line with the requirement for administering authorities to produce a pension fund annual report from 2007/08, and from 2008/09, for the pension fund audit to be separate from the audit of the council's accounts. The scope of the audit is determined by the Audit Commission's Code of Audit Practice ('the Code') and PKF's risk-based approach to audit planning.

	<b>2007/08</b>	<b>2008/09</b>
	<b>£000</b>	<b>£000</b>
Pension Fund Audit	17	50
<b>Total</b>	<b>17</b>	<b>50</b>

## **ACTUARIAL POSITION SHOWING CONTRIBUTION RATES OF PARTICIPATING BODIES**

- 1) An actuarial valuation of the Fund was carried out as at 31 March 2007.
- 2) Contribution rates
  - a) This valuation showed that the required level of contribution to be paid to the Fund by the County Council; the District Councils and other participating employers was the percentage of pensionable pay shown in the attached Schedule of Contributions.
  - b) The contribution rates, as described, are calculated to be sufficient to cover 100% of the Funds liabilities. With effect from 1 April 2008 the Common Rate of Contribution was 18.8% of pensionable pay, comprising a future service funding rate of 15.2% of pensionable pay, comprising a future service funding rate of 15.2% of pensionable pay, and an additional 3.6% in respect of the past service deficit resulting from past investment under-performance. In addition there are individual adjustments to the Common Rate resulting in Total Required Contribution rates as shown in the attached Schedule, these reflecting the individual circumstances of each employer.
  - c) The Common Rate of contribution is the rate that, in addition to the contribution paid by members, is sufficient to target a funding level of 100% of the liabilities arising in respect of service after the valuation. Moving back to a funding level of 100% is targeted over approximately 20 years.
  - d) The market value of the Fund's assets at the valuation date was £1,708m. The assets represent, therefore, 89% of the Funds accrued liabilities, allowing for future pay increase.
- 3) The contribution rates have been calculated using the projected unit method and the main actuarial assumptions were as follows:

<b>Investment return</b>	<b>Nominal</b>
Equities	6.10%
Bonds	4.50%
Pay increases	4.70%
Price inflation/Pension Increases	3.20%

## **STATEMENT TO THE RATES AND ADJUSTMENTS** **CERTIFICATE**

The Common Rate of Contribution payable by each employing authority under Regulation 36 for the period 1 April 2008 to 31 March 2011 is 18.8% of pensionable pay (as defined in Appendix B of 2007 valuation report).

Individual Adjustments are required under Regulation 36 for the period 1 April 2008 to 31 March 2011 resulting in Minimum Total Contribution Rates expressed as a percentage of pensionable pay are as set out below:

Employer Code	Employer	Minimum Contributions for the year ending		
		31 March 2009	31 March 2010	31 March 2011
	<b>Scheduled Bodies - Major Authorities</b>			
2	East Sussex County Council	17.5%	17.8%	18.1%
7	East Sussex Fire & Rescue Service	18.2%	18.3%	18.4%
212	Eastbourne Borough Council	20.6%	20.9%	21.2%
213	Eastbourne Borough Council (PTC)	33.1%	33.1%	33.1%
214	Hastings Borough Council	20.2%	20.5%	20.8%
218	Lewes District Council	18.9%	19.2%	19.5%
220	Rother District Council	22.1%	22.4%	22.7%
222	Wealden District Council	19.8%	20.1%	20.4%
234	Brighton & Hove City Council (1)	16.4%	16.7%	17.0%
300	University of Brighton	15.1%	15.4%	15.7%
	<b>Other Scheduled Bodies</b>			
146	Sussex Probation Board	20.0%	20.0%	20.0%
20	Chailey Parish Council	18.0%	18.3%	18.6%
22	Crowborough Town Council	18.0%	18.3%	18.6%
33	Forest Row Parish Council	18.0%	18.3%	18.6%
36	Hailsham Town Council	18.0%	18.3%	18.6%
38	Battle Town Council	18.0%	18.3%	18.6%
41	Lewes Town Council	18.0%	18.3%	18.6%
44	Newhaven Town Council	18.0%	18.3%	18.6%
47	Peacehaven Town Council	18.0%	18.3%	18.6%
50	Polegate Town Council	18.0%	18.3%	18.6%
51	Seaford Town Council	18.0%	18.3%	18.6%
52	Ringmer Parish Council	18.0%	18.3%	18.6%
53	Rye Town Council	18.0%	18.3%	18.6%
65	Heathfield & Waldron Parish Council	18.0%	18.3%	18.6%
89	Uckfield Town Council	18.0%	18.3%	18.6%
91	Telscombe Town Council	18.0%	18.3%	18.6%
95	Willingdon & Jevington Parish Council	18.0%	18.3%	18.6%
42	Maresfield Parish Council	18.0%	18.3%	18.6%
115	Chiddingly Parish Council	18.0%	18.3%	18.6%

Employer Code	Employer	Minimum Contributions for the year ending		
		31 March 2009	31 March 2010	31 March 2011
120	Conservators of Ashdown Forest	18.0%	18.3%	18.6%
142	East & West Sussex Valuation Tribunal	18.0%	18.3%	18.6%
208	Sussex Sea Fisheries District Committee	18.0%	18.3%	18.6%
	<b>Colleges</b>			
312	Hastings College of Arts & Technology	15.4%	15.7%	16.0%
314	City College, Brighton	16.2%	16.5%	16.8%
319	Sussex Downs College	13.7%	14.1%	14.5%
316	Plumpton College	14.9%	15.2%	15.5%
320	Brighton, Hove & Sussex Sixth Form College	14.9%	15.2%	15.5%
322	Varndean Sixth Form College	14.9%	15.2%	15.5%
324	Eastbourne Sixth Form College	13.7%	14.1%	14.5%
326	Bexhill College	14.9%	15.2%	15.5%
	<b>Admission Bodies</b>			
19	Centre for British Teachers	13.0%	13.3%	13.6%
21	Connexions Sussex	10.3%	9.7%	9.1%
23	De La Warr Pavilion Trust	15.2%	16.4%	17.6%
39	Jarvis Workspace FM	17.0%	18.4%	19.8%
54	RBLI	15.2%	15.5%	15.8%
55	Convex Leisure (formerly Red Eventful Cuisine)	13.1%	13.4%	13.7%
134	1066 Housing Association (2)	29.9%	29.9%	29.9%
150	Commission for Social Care & Inspection	19.5%	20.1%	20.7%
155	Wealden Leisure Ltd	13.3%	13.6%	13.9%
140	Sussex Careers Limited	17.1% (5)(6)	18.3% (5)(7)	18.3% (5)
60	South East England Regional Assembly	12.5%	12.8%	13.1%
61	Hastings & St Leonards EAZ	18.0%	18.5%	19.0%
135	Rother Homes Ltd (2)	29.9%	29.9%	29.9%
136	Sussex Housing & Care	18.0%	18.5%	19.0%
192	Hove & Portslade CAB	20.5% (8)	21.0%	21.5%
201	Sussex Archaeological Society	18.0%	18.5%	19.0%
207	Sussex Lantern	18.0%	18.5%	19.0%
232	University of Sussex	18.0%	18.5%	19.0%
30	Eastbourne Homes Limited	14.8%	15.9%	17.0%
126	May Gurney	18.6%	18.7%	18.8%
325	Lifeline (WELL)	16.0%	16.3%	16.6%
225	Wave Leisure	11.3%	12.6%	13.8%
56	Eastbourne Leisure Trust	8.4%	8.7%	9.0%
141	Sussex County Sports Partnership	15.8% (4)	15.8%	15.8%

Employer Code	Employer	Minimum Contributions for the year ending		
		31 March 2009	31 March 2010	31 March 2011
	<b>Former Employers with No Actives</b>			
125	Eastbourne Water Company			
130	East Sussex Association for the Blind			
138	Sussex Alcohol Advice Service			
176	Inst Dev Studies (UN)			
180	Mid Sussex Water Company			
196	St Anne's Community Home			
224	Mid Sussex District Council			
228	Southern Water Authority			
230	Area Health Authority			
236	Department of Transport			
238	West Sussex County Council			
298	Brighton Polytechnic PCFC			
148	Sussex Magistrates Courts Committee (3)			
93	Sussex Police Authority			

### Notes

(1) Brighton, Hove and Worthing Joint Airport Committee is now included in the Brighton and Hove City Council Pool.

(2) Rother Homes Limited and 1066 Housing Association are now pooled due to a common parent group.

(3) All employees transferred employment on 1 April 2005. Please see comments in Appendix C regarding the pension arrangements of the Magistrates Courts Committee.

(4) Sussex County Sports Partnership contribution rate is effective from 1 January 2008.

(5) Plus £14,100 per month.

(6) Contribution rate effective from 1 April 2008 to 31 August 2008.

(7) Contribution rate effective from 1 September 2008 onwards.

(8) Hove & Portslade CAB is closed to new entrants after 5 December 2008. As a result the contribution rate payable from 1 April 2008 of 18.0% increases to 20.5% from 1 January 2009.

Changes to contributions have been phased in over a three year period.

Contributions expressed as a percentage should be paid into East Sussex Pension Fund ('the Fund') at a frequency in accordance with the requirements of the Regulations.

Further sums should be paid into the Fund to meet the costs of any non-ill health early retirements. These will be paid either:

- a) by an additional 1% of pensionable pay; or
- b) using methods and factors issued by me from time to time.

East Sussex County Council and I will make the final decision as to the method of payment (i.e. either (a) or (b)) to be used by each employer.

Further sums should be paid to the Fund to meet the costs of any augmentation (i.e. additional membership or additional pension) using methods and factors issued by me from time to time, or GAD guidance if I consider it to be appropriate.

In addition, further sums may be required to be paid to the Fund by employers to meet the capital costs of any ill-health retirements, non-ill health early retirements or augmentation that exceed those included within my assumptions.

The certified contribution rates represent the minimum level of contributions to be paid. Employing authorities may pay further amounts at any time and future periodic contributions may be adjusted on a basis approved by the Fund actuary.

# **APPENDIX ONE - PENSION FUND POLICY DOCUMENTS**

## **STATEMENT OF INVESTMENT PRINCIPLES**

The Local Government Pension Scheme (LGPS) (Management and Investment of Funds) Amendment Regulations 1999 included a new requirement for LGPS administering authorities to prepare, maintain and publish Statements of Investments Principles (SIP) by 03 July 2000. The statement also covers the extent to which social, environmental and ethical considerations (see below) are taken into account in the selection, retention and realisation of investments and a summary of the policy (if any) in relation to the exercise of the rights (including voting rights) attaching to investments. The East Sussex Pension Fund statement was first published in May 2000 and updated copies are available from the Deputy Chief Executive and Director of Corporate Resources (01273 481785).

## **SOCIAL, ENVIRONMENTAL AND ETHICAL CONSIDERATIONS**

The Panel has considered the issues surrounding socially responsible investment and has adopted an 'Active Shareholder Approach' to encourage companies to adopt best ethical and environmental principles without jeopardizing the investment performance of the Fund. When selecting investments for purchase, retention or sale, Fund Managers are able to invest in all companies, subject to their specific restrictions set out in the Fund's Policy Guidelines in order to achieve their performance targets. However they have been encouraged to engage in constructive dialogue on behalf of the Fund and to use their influence to encourage companies to adopt best practice in all key areas of business. The key areas are:

- Corporate governance
- Employment standards
- Human rights
- Environmental standards

## **CORPORATE GOVERNANCE**

### **Governance Policy Statement**

#### **Introduction**

1. This is the Governance Policy Statement of the East Sussex Pension Fund, which is managed by East Sussex County Council, the Administering Authority on behalf of all the relevant employer bodies in the Fund. All Local Government Pension Scheme (LGPS) Funds in England and Wales are required to publish a governance statement by 1 April 2006, under the LGPS (Amendment) (No 2) Regulations 2005 which came into force on 14 December 2005.

2. As Administering Authority, East Sussex County Council is the designated statutory body responsible for administering the East Sussex Pension Fund on behalf of the constituent Scheduled and Admitted Bodies in the relevant area. The Local Government Pension Scheme Regulations 1997 specify that, in investing the Fund's money, regard must be given to the need for diversification and for proper advice obtained at reasonable intervals.

#### **Governance of East Sussex Pension Fund**

3. East Sussex County Council operates a Cabinet style decision-making structure. Under the Constitution, the Governance Committee has delegated authority to exercise the powers of the County Council in respect of the pensions of all employees of the Council (except teachers), including the approval of the pension fund admission agreements. It also has authority for the management of the pension fund. In this latter regard it has delegated the management of the investment funds of the East Sussex Pension Fund to the East Sussex Pension Fund Investment Panel. This panel reports periodically to the Governance Committee.

#### **Responsibilities of the Pension Fund Investment Panel**

4. The Pension Fund Investment Panel is required to advise the Governance Committee on the management of the investments of the Pension Fund, investment performance and targets to be achieved by Fund Managers. It is also required to keep under review:

- the Funding Strategy Statement;
- the Statement of Investment Principles; and
- the appointment of an actuary, fund advisers and a custodian.

#### **Frequency of meetings of the Pension Fund Investment Panel.**

5. The Pension Fund Investment Panel meets at least 5 times a year. The full terms of reference are publicly available as part of the County Council constitution.

### **Current Operational Procedures of the Pensions Fund Investment Panel.**

6. The Pension Fund Investment Panel receives and reviews quarterly reports from all its Investment Fund Managers and the independent Investment Adviser, Hymans Robertson. The Panel is also advised by an additional Independent Advisor. In addition, the Panel is advised by the County Council's Deputy Chief Executive and Director of Corporate Resources (in his capacity as the Council's designated Treasurer). The Panel also receives an annual report from the Fund's independent performance measurement provider which reviews the long-term performance of the Fund and of each of the Investment Fund Managers in relation to their targets. The Panel also holds a separate Annual Strategy Meeting at which it reviews the overall investment strategy of the Fund.

### **Membership of the Pension Fund Investment Panel**

7. East Sussex County Council annually appoints three members to the Pension Fund Investment Panel in accordance with the political balance provisions. Brighton and Hove City Council similarly appoints two members and the Boroughs, between them, appoint one representative. There is a requirement that one of the East Sussex County Council appointments will be the Chairman of the Panel. Each of the above have full voting rights. The Panel also have a Staff Representative, nominated by UNISON, but who does not have voting rights.

8. Day to Day operational decisions have been delegated to the Deputy Chief Executive and Director of Corporate Resources (in his capacity as the Council's County Treasurer) and, other than occasional and temporary short term cash holdings, all investments are managed by external Investment Fund Managers.

### **Membership of the Governance Committee**

9. The County Council annually appoints five members to the Committee in accordance with political balance provisions. All members of the Committee have voting rights. The Committee is advised by the Chief Executive, the Deputy Chief Executive and the Director of Corporate Resources and the Director of Legal and Performance.

10. In relation to Pension Matters, the Committee consider directly all issues relating to pension administration, such as changes in benefit regulation, admission agreements etc. (As stated the Pension Fund Investments are handled by the Investment Panel on behalf of the Governance Committee). The Chairman of the Investment Panel is also normally a member of the Governance Committee.

## Consultation with Employing Authorities

11. All employing bodies are kept informed of current pension issues, such as proposed changes in the regulations and their implications, by newsletter. They are encouraged to get in touch if they have questions.

12. In addition to these electronic briefings, the East Sussex Fund holds an annual employers forum to which all admitted bodies of the Fund are invited. This annual meeting covers both actuarial and investment issues and always contains a presentation from the Fund's Actuary. The District Councils receive feedback from their representatives on the Investment Panel and are also briefed on pension matters bi-monthly by the Fund's Treasurer at meetings of the East Sussex Financial Officers Association. Update briefings to these meetings are also circulated by email to all other employers in the East Sussex Pension Fund.

13. All employees receive periodic newsletter update on pension issues, especially on any changes affecting benefits. These updates are shared with all employers. In addition, every pensioner and active member is provided with a summary report, in leaflet form, on the annual accounts of the Pension Fund (which shows both expenditure such as pensions paid, as well as investment performance).

14. More detail on the approach to communication is covered in the separate Pension Fund Communication Statement.

## Contact Details

15. As follows:

John Shepherd  
Finance Manager (Pensions)  
  
Corporate Resources Directorate  
East Sussex County Council  
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Sean Nolan  
Deputy Chief Executive & Director of  
Corporate Resources  
  
Corporate Resources Directorate  
East Sussex County Council  
County Hall  
St Anne's Crescent  
Lewes  
East Sussex  
BN7 1SF  
Tel: 01273 481412  
Email: sean.nolan@eastsussex.gov.uk

### **Compliance Statement 2008**

Statutory Instrument 2002 No 1852 requires that East Sussex County Council, administering authority of the East Sussex Pension Fund, publish details of the extent to which the Fund complies with the ten principles identified as indicators of best practice in the Myners Review of Institutional Investment.

In 2007 HM Treasury sponsored the NAPF to conduct a review of progress made throughout the pensions industry since the introduction of the Myners principles in 2001. The resultant report 'Institutional Investment in the UK: Six years on' was followed by a wide consultation exercise culminating in the original ten principles being replaced by six new principles.

The new principles were launched in October 2008 and HM Treasury and the Department for Work and Pensions jointly commissioned the Pensions Regulator to oversee an Investment Governance Group given the task of implementing the new principles across all UK pension funds.

There is an investment Governance sub-group specifically for the LGPS (including representatives of CLG and CIPFA) who are amending the principles to fit the LGPS. Until these amendments are agreed, consulted on and following a revision of the LGPS regulations, it is a statutory requirement to continue reporting against the original ten principles until instructed otherwise by CLG.

The East Sussex Pension Fund Governance Compliance Statement was published in February 2008 and shows that the fund is fully compliant with all the best practice principles issued in the recent guidance issued by the Secretary of State.

Part II/A – Structure

- a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.
- b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.
- c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.
- d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.

	Not Compliant				Fully Compliant
a)					✓
b)					✓
c)					✓
d)					✓

Reason for non-compliance (Regulation 73A (1) (c) 1997 Regulations:  
**Not applicable**

Comments on ratings given above:  
**Item b) a staff representative, nominated by UNISON, is a Member of the Pension Fund Investment Panel but there is no formal representative of ex-members (Pensioners and deferred members).**

Part II/B – Representation

a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:

- i) employing authorities (including non-scheme employers, e.g. admitted bodies);
- ii) scheme members (including deferred and pensioner scheme members),
- iii) independent professional observers, and
- iv) expert advisors (on an ad-hoc basis).

b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

	Not Compliant				Fully Compliant
a)					✓
b)					✓

Reason for non-compliance (Regulation 73A (1) (c) 1997 Regulations:

**Not applicable**

Comments on ratings given above:

**The Staff Representatives, although without voting rights, contributes to all Investment Panel discussions. An Independent Advisor attends the Investment Panel meetings.**

Part II/C – Selection and role of lay members.

- a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.

	Not Compliant				Fully Compliant
a)					✓

Reason for non-compliance (Regulation 73A (1) (c) 1997 Regulations:

**Not applicable**

Comments on ratings given above:

**All members of the Investment Panel are aware of their responsibilities.  
An introductory guidance booklet is sent to new members of the Panel.**

Part II/D – Voting

a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.

	Not Compliant				Fully Compliant
a)					✓

Reason for non-compliance (Regulation 73A (1) (c) 1997 Regulations:  
**Not applicable**

Comments on ratings given above:

Part II/E – Training/Facility time/Expenses

a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.

b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.

	Not Compliant				Fully Compliant
a)					✓
b)					✓

Reason for non-compliance (Regulation 73A (1) (c) 1997 Regulations:

**Not applicable**

Comments on ratings given above:

**There is no formal documentation on training, but members of the Investment Panel receive training sessions at both the Annual Strategy Meeting and the Quarterly Panel Meetings.**

Part II/F – Meetings (frequency/quorum)

- a) That an administering authority’s main committee or committees meet at least quarterly.
- b) That an administering authority’s secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.
- c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.

	Not Compliant				Fully Compliant
a)					✓
b)					✓
c)					✓

Reason for non-compliance (Regulation 73A (1) (c) 1997 Regulations:

**Not applicable**

Comments on ratings given above:

**The Investment Panel meets quarterly and also holds an Annual Strategy Meeting. An Annual Employer’s Forum is held at County Hall for all employers of the East Sussex Pension Fund.**

Part II/G – Access

a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.

	Not Compliant				Fully Compliant
a)					✓

Reason for non-compliance (Regulation 73A (1) (c)) 1997 Regulations:

**Not applicable**

Comments on ratings given above:

Part II/H – Scope

a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements.

	Not Compliant				Fully Compliant
a)					✓

Reason for non-compliance (Regulation 73A (1) (c) 1997 Regulations:

**Not applicable**

Comments on ratings given above:

Part II/I – Publicity

a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.

	Not Compliant				Fully Compliant
a)					✓

Reason for non-compliance (Regulation 73A (1) (c) 1997 Regulations:  
**Not applicable**

Comments on ratings given above:  
**The Governance Policy Statement is published on the County Council website.**

**Voting Guidelines**

<b>Issue</b>	<b>Voting Guideline</b>
General	Continuing dialogue with companies. Vote on all UK issues. Companies are expected to demonstrate clear compliance with Cadbury Greenbury principles unless they can show that there are mitigating circumstances
Uncontroversial Issues	Vote with management
Executive remuneration - Basic pay - Incentive payments	Must be visible Market rate Based on above average returns to shareholders
Non-Executive Directors	Vote against re-appointment if failed to perform their duties
Employment Contracts	Vote against contracts exceeding two years unless a longer period can be justified and abstain on those exceeding one year
Political Donations	Vote against
Share Incentive Schemes	Each proposal judged on its merits

# **APPENDIX TWO - FUNDING STRATEGY STATEMENT**

## **1 Introduction**

This is the Funding Strategy Statement (FSS) of the East Sussex Pension Fund (“the Fund”), which is administered by East Sussex County Council (“the Administering Authority”) in accordance with the Local Government Pension Scheme Regulations (“the Regulations”).

It has been prepared by the Administering Authority in collaboration with the Fund’s actuary, Hymans Robertson and after consultation with the Fund’s employers and investment adviser and is effective from 31 March 2008.

### **1.1 Regulatory Framework**

Members’ accrued benefits are guaranteed by statute. Members’ contributions are fixed in the Regulations at a level which covers only part of the cost of accruing benefits. Employers pay the balance of the cost of delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded and, insofar as is practical, the measures to ensure that employers pay for their own liabilities.

The FSS forms part of a framework which includes:

- the Local Government Pension Scheme Regulations 1997<sup>1</sup> (regulations 76A and 77 are particularly relevant)
- the Rates and Adjustments Certificate, which can be found appended to the Fund actuary’s triennial valuation report
- actuarial factors for valuing early retirement costs and the cost of buying extra service; and
- the Statement of Investment Principles

This is the framework within which the Fund’s actuary carries out triennial valuations to set employers’ contributions and provides recommendations to the Administering Authority when other funding decisions are required, such as when employers join or leave the Fund. The FSS applies to all employers participating in the Fund.

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<sup>1</sup> From 1 April 2008 this was replaced by the Local Government Pension Scheme (Administration) Regulations 2008.

## 2.2 Review of FSS

This is a requirement under Regulation 76A of the Regulations. The FSS is reviewed in detail at least every three years ahead of triennial valuations being carried out, with the next full review due to be started by 31 March 2010 and implemented in April 2011. Set out at Annex A is the derivation of the target minimum employer contributions rates, agreed phasing and spreading periods, and the resultant increases in relation to 2007/08 contribution rates, for three years 2008/09 through to 2010/11. Annex A is updated to reflect any changes to employers. Annex B sets out key roles and responsibilities.

The FSS is a summary of the Fund's approach to funding liabilities. It is not an exhaustive statement of policy on all issues. If you have any queries please contact:

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01273 481412

## 2 Purposes

### 2.1 Purpose of the Funding Strategy Statement

Communities and Local Government (CLG), formerly the Office of the Deputy Prime Minister, has stated that the purpose of the FSS is:

- *“to establish a clear and transparent specific strategy which will identify how employers’ pension liabilities are best met going forward;*
- *to support the regulatory framework to maintain as nearly constant employer contribution rates as possible; and*
- *to take a prudent longer-term view of funding those liabilities.”*

## **2.2 Purpose of the Fund**

The Fund is a vehicle by which scheme benefits are delivered. The Fund:

- receives contributions, transfer payments and investment income;
- pays scheme benefits, transfer values and administration costs.

One of the objectives of a funded scheme is to help meet the long term pension costs and to reduce the variability of those costs over time for employers compared with an unfunded (pay-as-you-go) alternative.

The roles and responsibilities of the key parties involved in the management of the pension scheme are summarized in Annex B.

## **2.3 Aims of the Investment Strategy and Funding Policy**

The core principles underpinning the Fund's investment policy are as follows:

- to ensure the long-term solvency of the Fund and to ensure that sufficient funds are available to meet all benefits as they fall due for payment;
- to maximize investment returns (and hence minimise the cost of the benefits) for an appropriate level of risk and volatility;
- to ensure that sufficient funds are available to meet all benefits as they fall due for payment
- to minimise the degree of short-term change in employer contribution rates
- to use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations;
- to take into account asset-liability studies when considering asset allocation decisions;
- to take into account reasonable deficit spreading approaches consistent with the above.

## **3 Employer Contributions**

### **3.1 Derivation of Employer Contributions**

Employer contributions are normally made up of two elements:

- the estimated cost of future benefits being accrued, referred to as the "*the future service rate*"; plus
- a 'past service adjustment' for the funding position (at the valuation date) of accrued benefits relative to the Funds assets. If there is a surplus there may be a contribution reduction; if a deficit a contribution addition, with the surplus or deficit spread over an appropriate period.

The Fund's actuary is required by the regulations to report the *Common Contribution Rate*, for all employers collectively at each triennial valuation. It combines both items above and is expressed as a percentage of pay. For the purpose of calculating the Common Contribution Rate, the surplus or deficit is currently spread over a period of 20 years.

The Fund's actuary is also required to adjust the Common Contribution Rate for circumstances which are deemed "peculiar" to the employer. It is the adjusted contribution rate which employers are actually required to pay. The sorts of peculiar factors which are considered are discussed in Section 3.5.

In effect, the Common Contribution Rate is a notional quantity. Separate future service rates are calculated for each employer together with individual past service adjustments according to employer-specific spreading and phasing periods.

For some employers it may be agreed to pool contributions, see Section 3.7.3. Annex A contains a breakdown of each employer's contributions following the 2007 valuation for the financial years 2008/09, 2009/10 and 2010/11. It identifies which employer's contributions have been pooled with others.

In respect of non-ill health early retirements, the larger and statutory employers have the option to pay an additional 1% of employer contributions per year to meet non-ill health premature retirement costs. For smaller and non-statutory employers in the scheme, these must be paid as lump sum payments at the time of the employer's decision in addition to the contribution described above (or by instalments shortly after the decision). The larger and statutory employers referred to above have the choice to revert to a 'pay as you go' approach to paying for early retirement decisions.

### 3.2 'Stability Overlay' Mechanism

A 'stability overlay' mechanism was adopted at the 2007 valuation to derive the minimum employer contribution rates. This has the effect of dampening down short-term market volatility subject to certain limits. The three year phasing of rate changes still applies. (see 3.8.4).

More detail on the stability overlay mechanism is given in the table below: (The rate for 2008/09, based upon the 2007 valuation, is compared with the prevailing rate as at 2007/08 and the stability overlay is applied depending upon the results of that comparison).

<b>Difference in employer contribution rate between current rate (2007/08) and 2007 valuation rate before stability overlay</b>		
A reduction	A small increase between 0% and 1%	A larger increase greater than 1% of pay
<ul style="list-style-type: none"> <li>If in deficit: no change from 2007/08 rate</li> <li>If in surplus: rate becomes greater of: 5/6ths of current rate + 1/6<sup>th</sup> of 2007 rate; or future service rate</li> </ul>	Take increase in 2007 rate in full	Rate becomes <i>greater</i> of: <ul style="list-style-type: none"> <li>5/6ths of current rate + 1/6<sup>th</sup> of 2007 rate; or 1% of pay more than current rate</li> </ul>

The effect of using the mechanism at the 2007 valuation was to restrict the minimum contribution rate to increase ranging from 0% to 2% of pensionable pay for most employers.

Employers may opt to pay higher regular contributions than these minimum rates. Where minimum contributions have reduced, employers may prefer not to take such reductions and this would be the strong advice of the Administration Authority.

### **3.3 Solvency and Target Funding Levels**

The Fund's actuary is required to report on the "solvency" of the whole fund at least every three years.

In actuarial terms, "Solvency" for ongoing employers is defined to be the ratio of the current market value of assets to the value placed on accrued liabilities (i.e. future benefits promises as at the valuation date) discounted to current prices, on the Fund actuary's *ongoing funding basis*. This quantity is known as a funding or solvency level.

The Target Funding level for all ongoing employers is to cover 100% of its accrued liabilities at the valuation date.

### **3.4 Ongoing Funding Basis**

The ongoing funding basis is that used for each triennial valuation and the Fund actuary agrees the financial and demographic assumptions to be used for each such valuation with the administering authority and it is applied to all ongoing employers. Please refer to paragraph 3.9 for the treatment of departing employers.

The demographic assumptions are intended to be best estimates of future liability experience (i.e. pension costs) for the Fund. They vary reflecting the different profile of employers.

The key financial assumption is the anticipated return on the Fund's investments. The investment return assumption makes an allowance for anticipated returns from equities in excess of bonds. There is, however, no guarantee that equities will out-perform bonds but over time that has been the normal result. The volatility risk is greater over short periods such as the three years between formal actuarial valuations, when the actual returns and assumed returns can deviate sharply.

It is therefore normally appropriate to restrict the degree of change to employers' contributions at triennial valuation dates.

Given the very long-term nature of the liabilities, a long-term view of prospective returns from equities is taken. For the 2007 valuation, it was assumed that the Fund's equity investments will deliver a higher return of 2% per year over that available from investing in fixed interest Government bonds at the time of the valuation (which forms part of the overall assumption of 1.6% per year on all assets held by the Fund, including corporate bonds and property amongst other asset classes in addition to equities).

The same financial assumptions are adopted for all ongoing employers.

### **3.5 Future Service Contribution Rates**

The future service element of the employer contribution rate is calculated on the ongoing valuation basis, with the aim of ensuring that there are sufficient assets built up to meet future benefit payments in respect of future service. The approach used to calculate each employer's future service contribution rate depends on whether or not new entrants are being admitted. (only certain employers known as "admission bodies" can decide not to admit new staff, local Authority employers cannot so decide).

#### **3.5.1 Employers that admit new entrants**

The employer's future service rate will be based upon the cost (in excess of members' contributions) of the benefits which employee members earn from their service each year.

If the employee profile becomes more 'mature' (i.e. average age increases because for example, of reduced recruitment of younger new staff) the future service rate required would rise.

#### **3.5.2 Employers that do not admit new entrants**

Certain Admission Bodies who make up a small proportion of all scheme employers have closed the scheme to new entrants. This is expected to lead to the average age of employee members increasing over time and hence, all other things being equal, the future service rate is expected to increase as membership ages.

Both funding methods are described in the Actuary's report on the valuation.

Both future service rates will include expenses of administration to the extent that they are borne by the Fund and include an allowance for benefits payable on death in service and ill health and retirement.

### **3.6 Adjustments for Individual Employers**

Adjustments for individual employers applied by the Fund Actuary allow for factors including:

The combined effect of these adjustments for individual employers applied by the Fund actuary relate to mainly:

- different liability profiles of employers (e.g. mix of members by age, gender, manual/non manual);
- the difference between actual and assumed rises in pensionable pay;
- the difference between actual and assumed increases to pensions in payment and deferred pensions;
- the difference between actual and assumed retirements on grounds of ill-health from active status;
- the additional costs of any non ill-health retirements relative to any extra payments made;

### **3.7 Asset Share Calculations for Individual Employers**

The Administering Authority does not account for each employer's assets separately. The Fund's actuary is required to apportion the assets of the whole fund between the employers at each triennial valuation using the income and expenditure figures provided for certain cash flows for each employer. This process adjusts for transfers of liabilities between employers participating in the Fund, but does make a number of simplifying assumptions. The split is calculated using an established and accepted actuarial technique known as "analysis of surplus".

Actual investment returns achieved on the Fund between each valuation are applied proportionately across all employers. Transfers of liabilities between employers within the Fund occur automatically within this process, with a sum broadly equivalent to the reserve required on the ongoing basis being exchanged between the two employers.

The Fund Actuary does not allow for certain relatively minor events occurring in the period since the last formal valuation, including, but not limited to

- the actual timing of employer contributions within any financial year;
- the effect of more or fewer withdrawals than assumed;
- the effect of the premature payment of any deferred pensions on grounds of incapacity.

These effects are swept up within a miscellaneous item in the valuation analysis, which is split between employers in proportion to their liabilities.

### 3.8 Stability of Employer Contributions

#### 3.8.1 Stability overlay mechanism

As mentioned earlier, this mechanism was adopted at the 2007 valuation and is detailed in Section 3.2. The 2007 valuation rate referred to in the mechanism is the theoretical rate calculated in accordance with Sections 3.8.2. and 3.8.3 below. The effect of the overlay is to dampen changes to contribution rates for employers between successive valuations.

#### 3.8.2 Deficit Recovery Periods

The Administering Authority requests the actuary to adopt specific deficit recovery periods for all employers when calculating their theoretical contributions. The Administering Authority normally targets the recovery of any deficit over a period not exceeding 20 years but over 15 years for certain classes of employers (depending on the strength of the credit risk/ funding covenant i.e. council tax covenant is considered the most secure with the smallest credit risk). However the 'Best Value' Admission Bodies are subject to a deficit recovery period from the start of the revised contributions to the end of the employer's contract.

The maximum period is used in calculating each employer's theoretical contributions.

The deficit recovery period starts at the commencement of the revised contribution rate (1 April 2008 for 2007 valuation). The Administering Authority would normally expect the same period to be used at successive triennial valuations, but would reserve the right to propose alternative spreading periods, for example to improve the stability of contributions.

The deficit spreading periods used to calculate the employers' theoretical contributions are as follows:

<b>Type of Employer</b>	<b>Spreading Period</b>
Tax raising employers*	20 years
Community Admission Bodies (that are open to new entrants)	15 years
Best Value Admission Bodies	Remaining contract period (where provided), subject to not exceeding Remaining Working Lifetime.

\*the longer period is in recognition of their ability to pass on extra costs to the tax payer.

#### 3.8.3 Surplus Spreading Periods

Any employers deemed to be in surplus may be permitted to reduce their contributions below the cost of accruing benefits, by spreading the surplus element over the maximum periods shown above for deficits in calculating their theoretical contributions.

#### 3.8.4 Phasing In of Contribution Rises

The Administering Authority permits certain employers to phase in contribution rises. This will be in three equal steps over the three years following the triennial valuation. Best Value Admission Bodies are not eligible for phasing in of contribution rises.

#### 3.8.5 Phasing in of Contribution Reductions

Any contribution reductions will be phased in over three years for all employers except Best Value Admission Bodies who can take the reduction with immediate effect.

#### 3.8.6 Pooled Contributions

The Administering Authority allows smaller employers of similar types to pool their contributions as a way of sharing experience and smoothing out the effects of costly but relatively rare events – such as ill-health retirements or deaths in service – on their contributions. The actuary is still able to separately identify all the employer's assets.

As at the 2007 valuation separate pools are operated for Town and Parish Councils and for Community Admission Bodies with not more than 75 active members. Community Admission Bodies that are deemed by the Administering Authority to have closed to new entrants are not permitted to participate in a pool. Best Value Admission Bodies are also ineligible for pooling

### **3.9 Admission Bodies ceasing**

Admission Agreements for Best Value contractors are assumed to expire at the end of the contract.

Admission Agreements for other employers are generally assumed to be open-ended and to continue until the last pensioner dies. Contributions, expressed as capital payments, can continue to be levied after all the employees have retired. These Admission Agreements can however be terminated at any point.

If an Admission Body's admission agreement is terminated, the Administering Authority instructs the Fund actuary to carry out a special valuation to determine whether there is any deficit.

The assumptions adopted to value the departing employer's liabilities for this valuation will depend upon the circumstances. For example:

- a) For Best Value Admission Bodies, the assumptions would be those used for an ongoing valuation to be consistent with those used to calculate the initial transfer of assets to accompany the active member liabilities transferred.

- b) For non Best Value Admission Bodies that elect to voluntarily terminate their participation, the Administering Authority must look to protect the interests of other ongoing employers and will require the actuary to adopt valuation assumptions which, to the extent reasonably practicable, protect the other employers from the likelihood of any material loss emerging in the future. This could give rise to significant payments being required.
- c) For Admission Bodies with guarantors, it is possible that any deficit could be transferred to the guarantor in which case it may be possible to simply transfer the former Admission Bodies members and assets to the guarantor, without needing to crystallise any deficit.

Under (a) and (b), any shortfall would be levied on the departing Admission Body as a capital payment.

### **3.10 Early Retirement Costs**

#### **3.10.1 Non Ill Health Retirements**

The actuary's funding basis makes an allowance for certain employers for premature retirement except on grounds of ill-health. For other employers they are required to pay additional contributions wherever an employee retires before attaining the age at which the valuation assumes that benefits are payable. The current costs of these are specified in the latest early retirement manual from Hymans Robertson.

It is assumed that members' benefits on age retirement are payable from the earliest age that the employee could retire without incurring a reduction to their benefit and without requiring their employer's consent to retire.

The additional costs of premature retirement are calculated by reference to these ages.

#### **3.10.2 Ill Health Monitoring**

The Fund monitors each employer's, or pool of employers, ill health experience on an ongoing basis. If the cumulative number of ill health retirements in any financial year exceeds the allowance at the previous valuation, the employer will be charged additional contributions on the same basis that applies for non-ill health cases.

## **4. Links to Investment Strategy**

Funding and investment strategy are inextricably linked. Investment strategy is set by the administering authority, after consultation with the employers and after taking investment advice.

### **4.1 Investment Strategy**

The investment strategy currently being pursued is described in the Fund's Statement of Investment Principles.

The investment strategy is set for the long-term, but is reviewed each year at the Annual Strategy meeting of the Investment Panel to ensure that it remains appropriate to the Fund's liability profile. It is also formally revised after each triennial valuation. The Administering Authority has adopted a benchmark, which sets the proportion of assets to be invested in key asset classes such as equities, bonds and property. As at 31 March 2007, the proportion held in equities and property was approximately 75% of the total Fund assets.

The investment strategy of lowest risk in terms of volatility of funding – but expected to be the most expensive in terms of employer contributions (given the expected relative out performance of equities) – would be 100% investment in a combination conventional and index-linked Government bonds. The investment strategy of lowest expected cost in terms of long term employer contribution rates – but the most volatile in terms of actual performance in the short term – is 100% investment in equities and other growth orientated assets. This is the crucial trade off. The greater the investment in equities, the lower the initial employer contributions are likely to be, but the higher the risk of volatility in employer contribution rates and funding levels over the relatively short term period of triennial valuations.

The Fund's benchmark includes a significant holding in equities in the pursuit of long-term higher returns than from Government bonds. The Administering Authority's strategy recognises the 'non-mature' nature of the liabilities of the Fund and the secure nature of most employers' covenants.

The same investment strategy is followed for all employers.

#### **4.2 Consistency with Funding Basis**

The Fund's investment adviser's current best estimate of the long-term return from equities is around 3% a year in excess of the return available from investing in fixed interest Government bonds.

The funding policy adopts a more prudent approach by anticipating long-term returns of 1.6% per year in excess of the prevailing redemption yield on fixed interest Government bonds. This assumption relates to the future return anticipated on all assets held by the Fund, including corporate bonds and property in addition to equities.

In this way, the employer contributions anticipate returns from Fund assets where, in the Fund actuary's opinion, there is a better than 50:50 chance of delivering over the long-term (measured over periods in excess of 20 years).

However, in the short term – such as the three yearly assessments at formal valuations – there is the scope for considerable volatility and there is a material chance that in the short-term and even medium term, asset returns will fall short of this target. The stability measures described in Section 5 will damp down, but not remove, the effect on employers' contributions.

The Fund does not hold a contingency reserve to protect it against the volatility of equity investments.

### 4.3 Balance between risk and reward

Prior to implementing its current investment strategy, the Administering Authority considered the balance between risk and reward by altering the level of investment in asset classes with higher expected return, but more volatile, like equities. This process was informed by the use of Asset-Liability techniques to model the range of potential future solvency levels and contribution rates.

### 4.4 Inter-valuation Monitoring of Funding Position

The Administering Authority monitors the funding position, between valuation dates, allowing for actual investment returns and changes in financial assumptions (such as the liability discount rate) caused by changes in market conditions. This is reported to all employers at least annually. In addition specific inter-valuation monitoring for individual employers may be undertaken if considered appropriate.

## 5. Key Risks and Controls

### 5.1 Types of Risk

The Administering Authority has an active risk management programme in place. The measures that the Administering Authority has in place to control key risks are summarised below under the following headings:

- Financial;
- Demographic
- Regulatory; and
- Governance

### 5.2 Financial Risks

Risk	Summary of Control Mechanisms
Fund assets fail to deliver returns in line with the anticipated returns underpinning valuation of liabilities over the long-term.	<p><i>Only anticipate long-term return on a relatively prudent basis to reduce risk of under-performing.</i></p> <p><i>Analyse progress annually, and at three yearly valuations for all employers.</i></p> <p><i>If appropriate inter-valuation roll-forward of liabilities between formal valuations at individual employer level, provided on an annual basis.</i></p>
Inappropriate long-term investment strategy.	<p><i>Set Fund-specific benchmark, informed by Asset-Liability modelling of liabilities.</i></p>
Fall in risk-free returns on Government bonds, leading to rise in value placed on liabilities.	<p><i>Inter-valuation monitoring, as above.</i></p> <p><i>Some investment in bonds helps to mitigate this risk.</i></p>

Risk	Summary of Control Mechanisms
Active investment manager under-performance relative to benchmark.	<p><i>Short term (quarterly) investment monitoring analyses market performance and active managers relative to their index benchmark.</i></p> <p><i>This is supplemented with an analysis of absolute returns against those underpinning the valuation.</i></p> <p><i>This gives an early warning of contribution rises ahead. In the short term, volatility is damped down by stability measures on contributions. However, if underperformance is sustained over periods over 5 years contributions would rise more.</i></p>
Pay and price inflation significantly more than anticipated	<p><i>The focus of the actuarial valuation process is on real returns on assets, net of price and pay increases.</i></p> <p><i>Employers pay for their own salary awards.</i></p>
Effect of possible increase in employer's contribution rate on service delivery and admission/scheduled bodies.	<p><i>Seek feedback from employers on scope to absorb short-term contribution rises.</i></p> <p><i>Mitigate impact through deficit spreading, phasing in of contribution rises and stability overlay mechanism.</i></p>

### 5.3 Demographic Risks

Risk	Summary of Control Mechanisms
Pensioners living longer.	<p><i>Set mortality assumptions with some allowance for future increases in life expectancy.</i></p> <p><i>Fund actuary monitors combined experience of around 50 funds to look for early warnings of lower pension amounts ceasing than assumed in funding.</i></p> <p><i>Administering Authority encourage any employers concerned at costs to promote later retirement culture. Each 1 year rise in the average age at retirement would save roughly 5% of pension costs.</i></p>
Deteriorating patterns of early retirements	<p><i>Employers are charged the extra capital cost of non ill health retirements following each individual decision.</i></p> <p><i>Employer ill health retirement experience is monitored.</i></p>

### 5.4 Regulatory

Risk	Summary of Control Mechanisms
Changes to regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees.	<p><i>The Administering Authority is alert to the potential creation of additional liabilities and administrative difficulties for employers and itself.</i></p> <p><i>It considers all consultation papers issued by CLG and comments where appropriate.</i></p>

## 5.5 Governance

Risk	Summary of Control Mechanisms
Administering Authority unaware of structural changes in an employer's membership (e.g. large fall in employee members, large number of retirements).	<i>The Actuary may be instructed to consider revising the rates and Adjustments certificate to increase an employer's contributions (under Regulation 78) between triennial valuations.</i>
Administering Authority not advised of an employer closing to new entrants.	<i>Deficit contributions are expressed as percentage (see Annex A).</i>
Administering Authority failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body and losing the opportunity to call in a debt.	<p><i>The Administering Authority requires employers with Best Value contractors to inform it of forthcoming changes.</i></p> <p><i>It also operates a diary system to alert it to the forthcoming termination of Best Value Admission Agreements.</i></p>
An employer ceasing to exist with insufficient funding or adequacy of a bond.	<p><i>The Administering Authority believes that it would normally be too late to address the position if it was left to the time of departure.</i></p> <p><i>The risk is mitigated by:</i></p> <ul style="list-style-type: none"> <li>• <i>Seeking a funding guarantee from another scheme employer, or external body, where-ever possible.</i></li> <li>• <i>Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice.</i></li> <li>• <i>Vetting prospective employers before admission.</i></li> <li>• <i>Setting a minimum limit of 20 employees for prospective employers.</i></li> <li>• <i>Where permitted under the regulations requiring a bond to protect the scheme from the extra cost of early retirements on redundancy if the employer failed.</i></li> </ul>

**Annex A – Employers' Contributions, Spreading and Phasing Periods**

<b>Group / Employer</b>	<b>Agreement Type</b>	<b>2007/08 Contributions (% of payroll)</b>	<b>Early Retirement Budget (% of payroll)</b>	<b>Maximum Deficit Recovery Period (years)</b>	<b>Minimum Target Contributions (% of payroll)</b>	<b>Minimum 2008/09 Contributions (% of payroll)</b>	<b>Minimum 2009/10 Contributions (% of payroll)</b>	<b>Minimum 2010/11 Contributions (% of payroll)</b>
<b>Scheduled Bodies - Major Authorities</b>								
East Sussex County Council	Open	18.1%	0.0%	20	18.1%	17.5%	17.8%	18.1%
East Sussex Fire & Rescue Service	Open	19.0%	1.0%	20	18.4%	18.2%	18.3%	18.4%
Eastbourne Borough Council	Open	21.2%	1.0%	20	21.2%	20.6%	20.9%	21.2%
Eastbourne Buses Ltd.	Closed	34.1%	1.0%	20	33.1%	33.1%	33.1%	33.1%
Hastings Borough Council	Open	20.8%	1.0%	20	20.8%	20.2%	20.5%	20.8%
Lewes District Council	Open	19.5%	1.0%	20	19.5%	18.9%	19.2%	19.5%
Rother District Council	Open	22.7%	1.0%	20	22.7%	22.1%	22.4%	22.7%
Wealden District Council	Open	20.6%	1.0%	20	20.4%	19.8%	20.1%	20.4%
Brighton & Hove City Council	Open	17.0%	0.0%	20	17.0%	16.4%	16.7%	17.0%
University of Brighton	Open	15.7%	1.0%	20	15.7%	15.1%	15.4%	15.7%
<b>Other Scheduled Bodies</b>								
Sussex Probation Board	Open	21.0%	0.0%	20	20.0%	20.0%	20.0%	20.0%
Chailey Parish Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Crowborough Town Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%

<b>Group / Employer</b>	<b>Agreement Type</b>	<b>2007/08 Contributions (% of payroll)</b>	<b>Early Retirement Budget (% of payroll)</b>	<b>Maximum Deficit Recovery Period (years)</b>	<b>Minimum Target Contributions (% of payroll)</b>	<b>Minimum 2008/09 Contributions (% of payroll)</b>	<b>Minimum 2009/10 Contributions (% of payroll)</b>	<b>Minimum 2010/11 Contributions (% of payroll)</b>
Forest Row Parish Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Hailsham Town Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Battle Town Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Lewes Town Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Newhaven Town Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Peacehaven Town Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Polegate Town Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Seaford Town Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Ringmer Parish Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Rye Town Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Heathfield & Waldron Parish Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Uckfield Town Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Telscombe Town Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Willingdon & Jevington Parish Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Maresfield Parish Council	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Conservators of Ashdown Forest	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%

<b>Group / Employer</b>	<b>Agreement Type</b>	<b>2007/08 Contributions (% of payroll)</b>	<b>Early Retirement Budget (% of payroll)</b>	<b>Maximum Deficit Recovery Period (years)</b>	<b>Minimum Target Contributions (% of payroll)</b>	<b>Minimum 2008/09 Contributions (% of payroll)</b>	<b>Minimum 2009/10 Contributions (% of payroll)</b>	<b>Minimum 2010/11 Contributions (% of payroll)</b>
East & West Sussex Valuation Tribunal	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
Sussex Sea Fisheries District Committee	Open	17.6%	0.0%	20	18.6%	18.0%	18.3%	18.6%
<b>Colleges</b>								
Hastings College of Arts & Technology	Open	16.0%	0.0%	20	16.0%	15.4%	15.7%	16.0%
City College, Brighton	Open	16.8%	1.0%	20	16.8%	16.2%	16.5%	16.8%
Sussex Downs College	Open	13.2%	0.0%	20	14.5%	13.7%	14.1%	14.5%
Plumpton College	Open	14.5%	0.0%	20	15.5%	14.9%	15.2%	15.5%
Brighton, Hove & Sussex Sixth Form College	Open	14.5%	0.0%	20	15.5%	14.9%	15.2%	15.5%
Varndean Sixth Form College	Open	14.5%	0.0%	20	15.5%	14.9%	15.2%	15.5%
Eastbourne Sixth Form College	Open	14.5%	0.0%	20	14.5%	13.7%	14.1%	16.8%
Bexhill College	Open	14.5%	0.0%	20	15.5%	14.9%	15.2%	15.5%
<b>Admission Bodies</b>								
Centre for British Teachers	Open	12.6%	0.0%	FWL	13.6%	13.0%	13.3%	13.6%
Connexions Sussex	Open	10.9%	0.0%	15	13.6%	13.0%	13.3%	13.6%
De La Warr Pavilion Trust	Closed	14.0%	0.0%	FWL	17.6%	15.2%	16.4%	17.6%
Jarvis Workspace FM	Closed	15.7%	0.0%	FWL	19.8%	17.0%	18.4%	19.8%

<b>Group / Employer</b>	<b>Agreement Type</b>	<b>2007/08 Contributions (% of payroll)</b>	<b>Early Retirement Budget (% of payroll)</b>	<b>Maximum Deficit Recovery Period (years)</b>	<b>Minimum Target Contributions (% of payroll)</b>	<b>Minimum 2008/09 Contributions (% of payroll)</b>	<b>Minimum 2009/10 Contributions (% of payroll)</b>	<b>Minimum 2010/11 Contributions (% of payroll)</b>
RBLI	Closed	15.0%	0.0%	15	15.8%	15.2%	15.5%	15.8%
Convex Leisure (formerly Red Eventful Cuisine)	Open	12.7%	0.0%	15	13.7%	13.1%	13.4%	13.7%
1066 Housing Association	Closed	31.5%	0.0%	15	29.9%	29.9%	29.9%	29.9%
Commission for Social Care & Inspection	Closed	18.8%	0.0%	15	20.7%	19.5%	20.1%	20.7%
Wealden Leisure Ltd	Open	12.9%	0.0%	FWL	13.9%	13.3%	13.6%	13.9%
Sussex Careers Limited	Open	16.1%	0.0%	15	17.1%	16.5%	16.8%	17.1%
South East England Regional Assembly	Open	12.3%	0.0%	Contract	13.1%	12.5%	12.8%	13.1%
Hastings & St Leonards EAZ	Open	17.4%	0.0%	15	19.0%	18.0%	18.5%	19.0%
Rother Homes Ltd	Closed	17.4%	0.0%	15	29.9%	29.9%	29.9%	29.9%
Sussex Housing & Care	Open	17.4%	0.0%	15	19.0%	18.0%	18.5%	19.0%
Hove & Portslade CAB	Open	17.4%	0.0%	15	19.0%	18.0%	18.5%	19.0%
Sussex Archaeological Society	Closed	17.4%	0.0%	15	19.0%	18.0%	18.5%	19.0%
Sussex Lantern	Open	17.4%	0.0%	15	19.0%	18.0%	18.5%	19.0%
University of Sussex	Closed	17.4%	0.0%	15	19.0%	18.0%	18.5%	19.0%
Eastbourne Homes Limited	Closed	13.8%	0.0%	FWL	17.0%	14.8%	15.9%	17.0%
May Gurney	Open	18.5%	0.0%	FWL	18.8%	18.6%	18.7%	18.8%
Lifeline (WELL)	Closed	15.7%	0.0%	FWL	16.6%	16.0%	16.3%	16.6%

<b>Group / Employer</b>	<b>Agreement Type</b>	<b>2007/08 Contributions (% of payroll)</b>	<b>Early Retirement Budget (% of payroll)</b>	<b>Maximum Deficit Recovery Period (years)</b>	<b>Minimum Target Contributions (% of payroll)</b>	<b>Minimum 2008/09 Contributions (% of payroll)</b>	<b>Minimum 2009/10 Contributions (% of payroll)</b>	<b>Minimum 2010/11 Contributions (% of payroll)</b>
Wave Leisure • collect employer and employee contributions; Sussex County Sports Partnership	Open	10.0%	0.0%	FWL	13.8%	11.3%	12.6%	13.8%
	Closed	-	0.0%	Contract	15.8%	15.8%	15.8%	15.8%
Eastbourne Leisure Trust	Open	-	0.0%	15	9.0%	8.4%	8.7%	9.0%

## **Annex B – Responsibilities of Key Parties**

### **The Administering Authority should:-**

- collect employer and employee contributions;
- invest surplus monies in accordance with the regulations;
- ensure that cash is available to meet liabilities as and when they fall due;
- manage the valuation process in consultation with the fund's actuary;
- prepare and maintain the FSS and a SIP, both after proper consultation with interested parties; and
- Monitor all aspects of the fund's performance and funding and amend FSS/ SIP.

### **The Individual Employer should:-**

- deduct contributions from employees' pay correctly;
- pay all contributions, including their own as determined by the actuary, promptly by the due date;
- exercise discretions within the regulatory framework;
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of scheme benefits, early retirement strain; and
- notify the administering authorities promptly of all changes to membership or, as may be proposed, which affect future funding.

### **The Fund actuary should:-**

- prepare valuations including the setting of employers' contribution rates after agreeing assumptions with the Administering Authority and having regard to the FSS; and
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters.

## **Appendix Three: Draft Audit Report**

### **Independent auditors' report to the Members of East Sussex County Council**

#### **Opinion on the Authority accounting statements**

We have audited the accounting statements and related notes of East Sussex County Council for the year ended 31 March 2009 under the Audit Commission Act 1998. The accounting statements comprise the Income and Expenditure Account, the Statement of the Movement on the General Fund Balance, the Balance Sheet, the Statement of Total Recognised Gains and Losses, the Cash Flow Statement and the related notes. The accounting statements have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of East Sussex County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

#### **Respective responsibilities of the Deputy Chief Executive and Director of Corporate Resources and auditors**

The Deputy Chief Executive and Director of Corporate Resources responsibilities for preparing the financial statements in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the accounting statements and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the accounting statements present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority and its income and expenditure for the year.

We review whether the governance statement reflects compliance with 'Delivering Good Governance in Local Government: A Framework' published by CIPFA/SOLACE in June 2007. We report if it does not comply with proper practices specified by CIPFA/SOLACE or if the statement is misleading or inconsistent with other information we are aware of from our audit of the financial statements. We are not required to consider, nor have we considered, whether the governance statement covers all risks and controls. Neither are we required to form an opinion on the effectiveness of the Authority's corporate governance procedures or its risk and control procedures.

We read other information published with the accounting statements and related notes and consider whether it is consistent with the audited accounting statements. This other information comprises the Foreword by the Deputy Chief Executive and Director of Corporate Resources, Trends, and the Statements of Reporting Reviews of Internal Financial Control. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the accounting statements and related notes. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the accounting statements and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the accounting statements and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the accounting statements and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the accounting statements and related notes.

### **Opinion**

In our opinion the Authority financial statements present fairly, in accordance with relevant legal and regulatory requirements and the Statement of Recommended Practice on Local Authority Accounting in the United Kingdom 2008, the financial position of the Authority as at 31 March 2009 and its income and expenditure for the year then ended.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_  
Name: Richard Partner, on behalf of PKF (UK) Bint LLP  
London, UK

### **Opinion on the pension fund accounts**

We have audited the pension fund accounts for the year ended 31 March 2009 under the Audit Commission Act 1998. The pension fund accounts comprise the Fund Account, the Net Assets Statement and the related notes. The pension fund accounts have been prepared under the accounting policies set out in the Statement of Accounting Policies.

This report is made solely to the members of East Sussex County Council in accordance with Part II of the Audit Commission Act 1998 and for no other purpose, as set out in paragraph 49 of the Statement of Responsibilities of Auditors and of Audited Bodies prepared by the Audit Commission.

### **Respective responsibilities of the Director of Corporate Resources and Deputy Chief Executive and auditors**

The Deputy Chief Executive and Director of Corporate Resources' responsibilities for preparing the pension fund accounts, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008 are set out in the Statement of Responsibilities for the Statement of Accounts.

Our responsibility is to audit the pension fund accounts and related notes in accordance with relevant legal and regulatory requirements and International Standards on Auditing (UK and Ireland).

We report to you our opinion as to whether the pension fund accounts present fairly, in accordance with relevant legal and regulatory requirements and the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the pension fund during the year and the amount and disposition of the fund's assets and liabilities, other than liabilities to pay pensions and other benefits after the end of the scheme year.

We read other information published with the pension fund accounts and related notes and consider whether it is consistent with the audited pension fund accounts. This other information comprises the Explanatory Foreword, Trends, and the Statements Reporting Reviews of Internal Financial Control published in the financial statements. We consider the implications for our report if we become aware of any apparent misstatements or material inconsistencies with the pension fund accounts and related notes. Our responsibilities do not extend to any other information.

### **Basis of audit opinion**

We conducted our audit in accordance with the Audit Commission Act 1998, the Code of Audit Practice issued by the Audit Commission and International Standards on Auditing (UK and Ireland) issued by the Auditing Practices Board. An audit includes examination, on a test basis, of evidence relevant to the amounts and disclosures in the pension fund accounts and related notes. It also includes an assessment of the significant estimates and judgments made by the Authority in the preparation of the pension fund accounts and related notes, and of whether the accounting policies are appropriate to the Authority's circumstances, consistently applied and adequately disclosed.

We planned and performed our audit so as to obtain all the information and explanations which we considered necessary in order to provide us with sufficient evidence to give reasonable assurance that the pension fund accounts and related notes are free from material misstatement, whether caused by fraud or other irregularity or error. In forming our opinion we also evaluated the overall adequacy of the presentation of information in the pension fund accounts and related notes.

## Opinion

In our opinion the pension fund accounts and related notes present fairly, in accordance with the Code of Practice on Local Authority Accounting in the United Kingdom 2008, the financial transactions of the Pension Fund during the year ended 31 March 2009, and the amount and disposition of the fund's assets and liabilities as at 31 March 2009, other than liabilities to pay pensions and other benefits after the end of the scheme year.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_  
Name: Richard Partner, on behalf of PKF (UK) Bint LLP  
London, UK

## Conclusion on arrangements for securing economy, efficiency and effectiveness in the use of resources

### *Authority's Responsibilities*

The Authority is responsible for putting in place proper arrangements to secure economy, efficiency and effectiveness in its use of resources, to ensure proper stewardship and governance and regularly to review the adequacy and effectiveness of these arrangements.

### *Auditors' Responsibilities*

We are required by the Audit Commission Act 1998 to be satisfied that proper arrangements have been made by the Authority for securing economy, efficiency and effectiveness in its use of resources. The Code of Audit Practice issued by the Audit Commission requires us to report to you our conclusion in relation to proper arrangements, having regard to relevant criteria specified by the Audit Commission for principal local authorities. We report if significant matters have come to our attention which prevent us from concluding that the Authority has made such proper arrangements. We are not required to consider, nor have we considered, whether all aspects of the Authority's arrangements for securing economy, efficiency and effectiveness in its use of resources are operating effectively.

### *Conclusion*

We have undertaken our audit in accordance with the Code of Audit Practice and having regard to the criteria for principal local authorities specified by the Audit Commission and published in May 2008 and updated in February 2009, we are satisfied that, in all significant respects, East Sussex County Council made proper arrangements to secure economy, efficiency and effectiveness in its use of resources for the year ending 31 March 2009.

**Certificate**

We certify that we have completed the audit of the accounts in accordance with the requirements of the Audit Commission Act 1998 and the Code of Audit Practice issued by the Audit Commission.

Signature: \_\_\_\_\_ Date: \_\_\_\_\_  
Name: Richard Partner, on behalf of PKF (UK) Bint  
London, UK LLP



Hymans Robertson

# EAST SUSSEX PENSION FUND

REVIEW OF PERFORMANCE TO 31 MARCH 2009  
JULY 2009

David O'Hara, Senior Investment Consultant  
George Henshilwood, Partner  
James Sheehan, Investment Analyst

For and on behalf of Hymans Robertson LLP

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## 1 INTRODUCTION

This paper is addressed to the Investment Panel ("the Panel") of the East Sussex Pension Fund ("the Fund"). It provides a detailed review of the Fund's investment performance to 31 March 2009. The report considers the Fund's performance relative to the strategic benchmark and an appropriate local authority peer group. The report is based on the information contained in the Annual Performance Review produced by WM Company.

Section 2 considers the Fund's performance relative to the strategic benchmark. Section 3 looks at performance relative to the Local Authority peer group. The appendices provide further commentary on the managers employed by the Fund.

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## 2 PERFORMANCE RELATIVE TO BENCHMARK

We compare the Fund's asset allocation relative to the strategic benchmark before going on to consider the performance delivered for periods to 31 March 2009.

### Asset allocation

Table 1 below details the Fund's asset allocation as at 31 March 2009 and compares this to the strategic investment benchmark.

**Table 1: Asset allocation relative to benchmark as at 31 March 2009**

	Actual allocation (%)	Strategic Benchmark (%)	Difference (%)
UK equity	26.8	30.0	-3.2
Overseas equity	40.3	38.5	+1.8
Private equity	5.0	4.0	+1.0
<b>Total equity</b>	<b>72.1</b>	<b>72.5</b>	<b>-0.4</b>
Property	8.1	10.0	-1.9
UK fixed interest	9.8	9.3	+0.5
UK index linked	0.7	0.8	-0.1
Cash	6.5	3.5	+3.0
Infrastructure	2.9	3.0	-0.1
"Credit" fund	0.0	1.0	-1/0
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>

We would highlight a number of key points:

- The Fund was 1.9% underweight to property as a result of the declines in this market and the decision not to rebalance during the year.
- The Fund was marginally underweight in equities. The relative underperformance of Sterling against other currencies has caused the Fund to move underweight to UK equities and overweight to Overseas.
- The lag in private equity valuations, coupled with the recent change of account rules for private equity forcing private equity managers to revalue holdings regularly, based on listed market proxies means that the overweight to private equity was inflated;
- The Fund was slightly overweight to UK fixed interest bonds as a result of Prudential's tactical overweight positioning to corporate bonds within their mandate. The allocation to index linked bonds was broadly in line with the benchmark.

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During 2008, the Fund invested in an opportunistic “credit” fund launched by Alliance Bernstein. That Fund was then wound up with the monies returned to investors before the year end. Subsequent to the year end, the Fund invested in the Prudential M&G UK Financing Fund, which represents an alternative way of accessing the “credit” opportunity.

### Performance relative to benchmark

Table 2 below details the Fund’s performance for periods to 31 March 2009.

**Table 2: performance to 31 March 2009**

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
<b>Fund</b>	-18.5	-5.4	3.4	2.8
<b>Benchmark [1]</b>	-20.7	-6.4	3.3	2.0
<b>Relative</b>	+2.8	+1.0	+0.1	+0.8

[1] Based on composite of relevant indices and peer group comparison

The Fund outperformed the strategic benchmark by 2.8% over the year to 31 March 2009. Performance over three years is 1.0% p.a. ahead of the strategic benchmark. This is particularly pleasing given the disappointing performance delivered by Capital and by UBS over this period. Over 10 years performance is also comfortably ahead of the benchmark.

The relative outperformance over the year to 31 March 2009 can be broken down in many ways. Below, we consider the outperformance as the sum of two parts - the impact of asset allocation and stock selection decisions.

### ASSET ALLOCATION

Asset allocation relates to positioning which aims to take advantage of relative market movements (e.g. being underweight bonds and overweight cash in anticipation of a fall in bond markets). These comprise the tactical positions taken by the managers and the positions implemented by the Panel ( e.g underweighting equities and overweighting cash).

Over the year, asset allocation contributed 2.0% to outperformance. The main contributor was the Panel’s decision to maintain a significant overweight position to cash. This cash position added 1.8% to the return over the year. Asset allocation was also positive in the year to March 2008 and has contributed +0.9% p.a. over the past three years.

### STOCK SELECTION

Stock selection considers the impact on performance of the individual stocks and shares selected by the managers by considering the performance delivered relative to the relevant asset class benchmark index. If a manager has beaten his benchmark index (in any single asset class) then he has earned an extra return through “skill”. If he fails to add value, he will invariably describe his performance as “unlucky”.

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Over the year, stock selection contributed 0.7% to outperformance. A negative contribution from selection in equity markets (-0.4%) was offset by strong returns in private equity (+0.9%) and infrastructure (+0.3%). However, it is worth noting that returns from private equity have probably lagged market indices and performance is likely to be poor over the next couple of quarters. More importantly, asset classes like private equity and infrastructure are very illiquid and performance can only really be measured properly when the underlying assets have been sold (anything up to 10 years after the initial investment has been made). Any shorter term comparisons are unlikely to be very meaningful.

All three active equity managers performed poorly in this last year. However, a combination of changes in personnel and approach, coupled with poor results over a number of years, led the Committee to terminate the mandates with Capital and UBS and their assets have been moved to L&G, possibly on a temporary basis pending the appointment of a replacement active manager(s).

### Summary

The Fund enjoyed a strong year of relative returns. This was mainly due to the overweight cash/underweight equity position and, to a lesser extent, from the contribution from alternatives. Unfortunately, the year has been a markedly difficult one for global markets (and active managers) and, as result, the absolute performance was -18.5%.

### 3 PERFORMANCE RELATIVE TO PEER GROUP

Table 3 shows the asset allocation of the average Local Authority Fund within the WM Local Authority universe. The universe consisted of 87 funds with a total market value of £97bn as at 31 March 2009.

**Table 3: asset allocation relative to peer group as at 31 March 2009**

	Strategic benchmark (%)	Actual allocation (%)	Local Authority Universe (%)	Actual vs. LA Universe(%)
Total quoted equity	68.5	67.5	62.4	+5.1
Total bonds	10.0	11.4	20.0	-8.6
Property	10.0	8.5	6.7	+1.8
Alternatives	8.0	6.9	6.6	+0.3
Cash	3.5	5.7	4.3	+1.4
<b>Total</b>	<b>100.0</b>	<b>100.0</b>	<b>100.0</b>	<b>-</b>

From Table 3, we note the following differences between the Fund's asset allocation as at 31 March 2009 and that of the Local Authority Universe.

- The Fund has a higher equity allocation than the average fund in the universe. This is likely to be down to other funds allowing their equity weight to drift downwards with the equity market declines, The East Sussex Fund recently rebalanced as part of the reinvestment of tactical cash.
- The Fund has a higher property allocation than average (albeit the current position is underweight relative to benchmark).
- The Fund's allocation to alternatives (private equity, infrastructure and opportunistic funds) is around 1.3% higher than the average Local Authority fund.
- The Fund has a correspondingly lower allocation to bonds than average.

#### Investment performance relative to peer group

Table 4 below details the Fund's performance for periods to 31 March 2009.

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**Table 4: performance to 31 March 2009**

	1 year (%)	3 years (%p.a.)	5 years (%p.a.)	10 years (%p.a.)
<b>Fund</b>	-18.5	-5.4	3.4	2.8
<b>Local Authority Average.</b>	-19.9	-5.9	3.1	2.0
<b>Relative</b>	+1.7	+0.5	+0.3	+0.7

The Fund outperformed the average local authority fund by 1.7% over the year, primarily due to the tactical cash position. Longer term returns are all ahead of the average fund in the peer group.

Stock selection and asset allocation decisions both helped to outperform the average fund. Stock selection contributed 1.2% of outperformance over the peer group (again, we caution that the private equity numbers are distorting this to some degree). The Fund's asset allocation delivered 0.5%.

#### **Asset allocation decisions – impact**

Relative to its peer group, the fund outperformed through asset allocation mainly due to the impact of the overweight cash position (1.4%). The Fund's underweight to bonds relative to the average fund offset some of this outperformance.

#### **Stock selection – impact**

The Fund's positive impact from stock selection was again largely a result of the performance of the Fund's private equity investments. Positive stock selection was also generated in the Fund's cash and equity investments (an indication that passive management might have been beneficial for the latter part of the year – active managers struggled in general). Stock selection in bonds was largely negative and offset some of this outperformance.

WM provide an analysis which ranks the performance of the East Sussex Fund in each asset class. We summarise this in Table 5 below.

**Table 5: percentile ranking relative to peer group**

Rank	1 year	3 years	5 years	10 years
UK equity	29	43	53	31
Overseas equity	61	54	42	35
Total Equity	32	33	41	23
Property	34	50	61	35
UK fixed interest	80	85	73	75
UK index linked	95	94	90	85
Alternatives	3	31	36	56
Cash	48	53	61	63
<b>Total</b>	<b>32</b>	<b>37</b>	<b>37</b>	<b>15</b>

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For the year to 31 March 2009 the overall Fund performance ranked as the 32<sup>nd</sup> percentile in the Universe. The Fund's performance in alternatives was highly ranked (3rd percentile), as was the performance in UK equities (29<sup>th</sup> percentile). The fund's performance in fixed interest in bonds has been disappointing, mainly due to the underperformance of UBS' corporate bond funds. We also note that the UK index linked component managed by Prudential M&G has also been poor, although this comprises only a very small component (0.8%) of the overall fund.

Over the longer-term horizons of 3 and 5 years the Fund has performed above the average of its peer group. Over ten years, the fund has performed very well in relative terms, lying in the top quartile.

**Summary**

Despite disappointing returns in absolute terms, The Fund has performed well versus its peer group. The Fund's allocation to cash proved to be very beneficial. The Fund's decision to move to a more passive approach during the year proved beneficial as active managers continued to struggle.

Prepared by:-

David O'Hara, Senior Investment Consultant

George Henshilwood, Partner

James Sheehan, Investment Analyst

22 July 2009

For and on behalf of Hymans Robertson LLP

**GENERAL RISK WARNING**

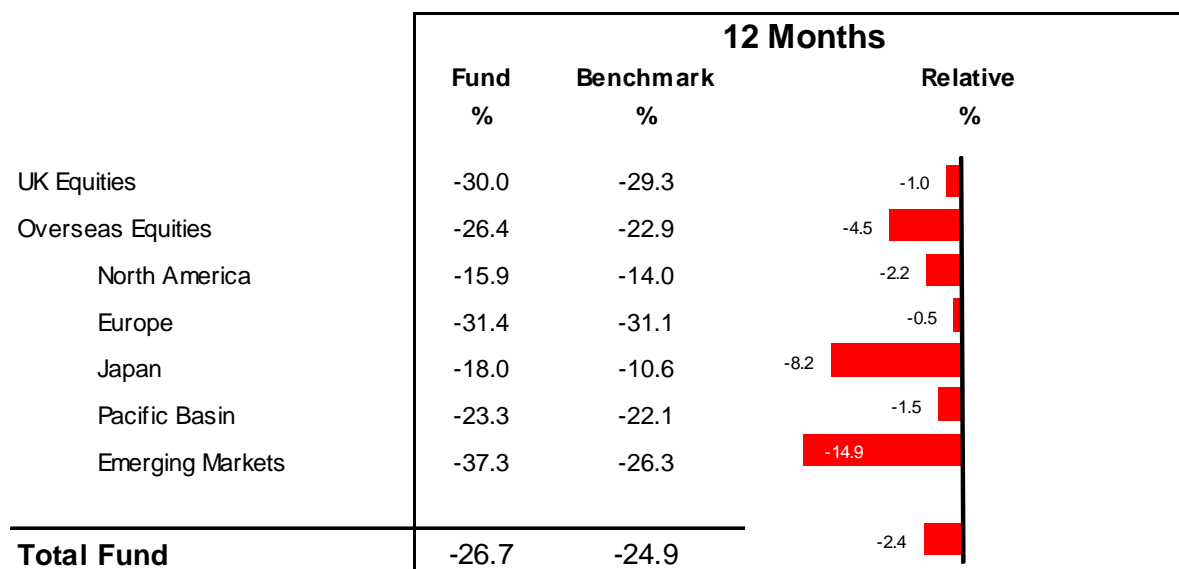
Please note the value of investments, and income from them, may fall as well as rise. This includes equities, government or corporate bonds, and property, whether held directly or in a pooled or collective investment vehicle. Further, investments in developing or emerging markets may be more volatile and less marketable than in mature markets.

Exchange rates may also affect the value of an overseas investment. As a result, an investor may not get back the amount originally invested. Past performance is not necessarily a guide to future performance.

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## Appendix 1: Fidelity

Fidelity's performance relative to their composite index benchmark over the year to 31 March 2009 is summarised in the chart below.



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## Appendix 2: UBS

UBS's performance relative to their composite index benchmark over the year to 31 March 2009 is summarised in the chart below.

	12 Months		
	Fund %	Benchmark %	Relative %
Emerging Markets	-28.8	-26.4	-3.3
Property	-31.0	-26.6	-6.0
UK Government Fixed Interest	-	0.0	
Corporate Bonds	-14.8	-6.8	-8.6
<b>Total Fund</b>	<b>-24.5</b>	<b>-19.2</b>	<b>-6.6</b>

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## Appendix 3: Prudential M&G

M&G's performance relative to their composite index benchmark over the year to 31 March 2009 is summarised in the chart below.

	12 Months			Relative %
	Fund %	Benchmark % <sup>[1]</sup>	HSBC/AREF %p.a.	
Property <sup>[1]</sup>	-22.1	-23.7	-26.6	2.1
Total Bonds	-3.7	-3.6		-0.1
UK Government Fixed Interest	N/A	8.6		0.0
Index-Linked	-5.1	-2.8		-2.3
Corporate Bonds	-3.5	-4.7		1.3
<b>Total Fund</b>	<b>-11.8</b>	<b>-14.1</b>		<b>2.6</b>

[1] Prudential's benchmark for Property (CAPS Pooled Property Median) is compared against the All Balanced Funds Index in the HSBC/AREF Survey