

Essex Pension Fund Strategy Board (PSB) and Investment Steering Committee (ISC)

Governance Effectiveness Review

Governance Effectiveness Interim Questionnaire – Results & Commentary April 2013

In March 2015 the PSB and ISC members were issued with a brief questionnaire which was designed to provide a framework for comment from these governance groups on where they think they are relative to the March 2013 effectiveness review. This paper provides a brief report on the results of this survey.

Results, Commentary and Suggested Actions

A total of 8 responses (57% of the PSB) were received across the PSB and ISC and the “traffic light” analysis of these responses is set out below. Two PSB members commented that having only recently been appointed to the PSB it would be inappropriate to answer any questions at this point, the feedback therefore excludes these responses.

Overall from the responses received, the feedback suggests both the PSB and ISC believe they are effective governance bodies albeit with some acceptance that there is always room for improvement. However, this broad picture must be considered in light of the low response rate and the ‘blank’ returns. We suggest consensus on the views expressed in this feedback is sought from the whole PSB at the July 2015 Board meeting.

The responses suggest the PSB & ISC:

- Know what their objectives are and have the strategies and policies in place to achieve these.
- Members returning the questionnaire believe they collectively have sufficient knowledge, skill and understanding which together with the confidence they have in the professional advice they receive, enables them to make effective decisions and manage risks.
- The PSB and ISC have a good understanding of their accountabilities but work may be needed to demonstrate how their business plan is aligned with their objectives.

There is a common theme that induction training provided to new members should be reviewed in order to familiarise them at an early stage with the Fund’s objectives to ‘get their feet under the table’ and to safeguard the integrity of the current PSB & ISC which their members have worked so hard to establish once the Essex Pension Fund Advisory Board (PAB) is up and running. It was also noted that with training becoming part of the PSB’s regular agenda, all PSB members are likely to be attending training.

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In more detail: the table overleaf sets out the questions asked in the survey followed by a brief commentary and the suggested actions for consideration by the PSB which include those made by PSB & ISC members.

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Essex Pension Fund Board & Investment Steering Committee Governance Questionnaire March 2015 - Feedback Analysis	Positive response	Probable "Y" or "N"	Negative response						
Q1. Do you think that the Board has a demonstrable and suitably focused set of objectives against which it can now benchmark its performance?									I believe so but think that the remit of the Board should be on Agenda on a regular basis - just printed on reverse of agenda just to remind us of terms of reference
Q2. Can you cite any instances since February 2013 where failure to allocate suitable time in meetings to key issues has impacted effectiveness with regard to strategic and policy issues?									Meetings are well structured. It has been difficult in as much as the anticipated changes cited by government have not always happened to their own deadlines
Q3. Overall, do you think the meetings and additional training sessions have been pitched about right in terms of frequency, content and duration?									Board - Yes ISC - some presentations are far too detailed about world markets and indices where we are investing, why, how much and how their performance is on our portfolio. Frequency, content and duration of meetings is fine. Training a bit sporadic and, questions in tests are not necessarily being addressed in training session
Q4. Pensions is an increasingly complex area, undergoing a significant period of change in the public sector and becoming subject to increasingly higher levels of regulatory scrutiny. Do you think the present level of pension induction training for new Board members remains adequate in light of this?									I do not know how much induction new members receive. I think Post 2017 elections we probably need to think about how we do this. If this means training sessions above then see comment above. If when new to board then my induction training was one to one and I found it adequate. I think induction training probably needs more time allocated to it. Members need training first to understand, then to digest and consolidate knowledge - which takes times. Given all the changes and complexity of the subject, it is difficult to pitch training just right but I would suggest that new board members may need more training to cover the additional complexity
Q5. Do you think that the Board substantially has sufficient confidence in the information and advice provided at meetings by all advisers and officers to make effective and timely decisions at meetings?									Yes I do. I think we have an excellent team of officers and advisers who are always very happy to answer questions and accommodate members views. I have full confidence in advisers and officers. I have always found the information provided fit for purpose and have complete confidence in its accuracy
Q6. Do you know what steps you would expect the Board to take where for whatever reason, a group of experienced Board members left?									I believe we will lose experienced members in 2017 (see 4 above) but members have to learn very quickly at Essex about a large variety of subjects. Good training available and perhaps a member "Buddy" who they can ask "silly" questions of. Put simply, I would expect existing (remaining) Board Members to review eligible individuals who could undergo the necessary training to replace existing members. There are "substitute" members who could be considered. I presume they would try and find new members as soon as possible. Broadly I think I do. New board members would have to be brought up to speed as quickly as possible, however, this is one of the dangers of the democratic process for which there is no real answer
Q7. Imagine that a local TV station wanted to run a 2 minute interview with an Essex Pension Fund Board Member on how the Board and ISC function together to manage Essex Pension Fund risks. Would you be content to have your name pulled at random from a "hat" to attend such an interview? For the purposes of this question, ignore media skills.									With some briefing, I think I so. I really dislike radio or TV interviews and never appear without doing homework and knowing questions, so with that caveat yes. I am still not confident enough to articulate it. I do not trust such media to report areas in which they have no expertise in a fair manner and with understanding. Provided there was sufficient briefing to check current facts etc. So long as what we are talking about is the apolitical, cross party focus the Board and the ISC in evaluating information and proposals from officers and other experts in order to get the best deal for Pension Fund members
Q8. Again, in the local TV station interview scenario, would you be able to articulate what the Board's responsibilities are to the Administering Authority, participating employers and Essex Pension Fund Membership?									As above. The boards responsibilities are to invest on behalf of employers and membership their contribution wisely to build the pot up for when people retire. With prior revision! I have a general grasp but I would need to fully revise my knowledge before I would be comfortable to appear on TV or radio
Q9. Do you think the Board gets an appropriate level of appreciation from its stakeholders for the responsibility it takes for managing £4.5bn of pension assets?									Probably not, but it would be a lot worse if we were trying to defend something we had got wrong. No. I think they have no idea. The work of the Board goes unnoticed as it is conducted in an efficient manner. Whether there is a case for greater appreciation is a moot point, particularly if such appreciation were to be in the form of monetary allowances. Don't know. Probably not, but that is because majority do not understand what is involved. I have no knowledge of what if any appreciation has been expressed
Q10. If a new Board member asked you for one piece of key advice about how to approach effective alignment of Board/ISC objectives and goals with business planning, could you provide this?									I think so. No. Ensure you obtain the best possible professional advice in the area of investment advice and actuarial planning. It is not a political meeting we are all there to achieve the goal of investing wisely to grow the Pension Pot. Ridiculous question to answer in regard to a complex area. Not well or with total confidence. Business planning by whom?
Q11. Do you think the Board could make one further material improvement to the format of its meetings and those of the ISC?									Not sure. ISC presentations, as previously stated, far too focussed on the minutiae of investment. We want to know about your funds performance and investment policies. Possibly ensure that at the start of each item, every member understands the purpose of it
Q12. (a) Non-ISC members only - do you get sufficient information from the ISC to understand the nature of the business that they have conducted and to enable you to call the ISC to account as appropriate?									Yes, and can attend ISC meetings as an observer capacity
(b) ISC members only - considering the questions above, are there any changes or comments you would like to make in relation to the ISC?									Given the low rates of interest received on cash balances I believe more emphasis should be given on reducing such balances - I appreciate that the %s are small but the number is substantial. I believe the report from the ISC should be higher up the Agenda - Board members (other than ISC) more likely to ask questions on early items. It would help me if I had a clear statement of the time off I am allowed for this function and/or preparation for meetings. At present it rests on the goodwill of my line manager which can't be taken for granted forever

General comments/suggestions for improvement

I think that the Chairman should attend training. It sets a good example to others. I hope that if we move training to a slot inside the meeting will be achieved.

Responses	Commentary and Suggested Action
<p>Q.1 Do you think that the Board has a demonstrable and suitably focused set of objectives against which it can now benchmark its performance?</p> <p>Yes 7, No 0.</p> <p><i>Responses</i></p> <p>I believe so but think that the remit of the Board should be on Agenda on a regular basis - just printed on reverse of agenda just to remind us of terms of reference.</p>	<p><i>Commentary</i></p> <p>A unanimously positive response indicating members know what objectives have been set and can monitor achievement or failure to meet them.</p> <p><i>Suggested Action</i></p> <ol style="list-style-type: none"> 1. The Board and ISC can currently find all their objectives set out on one page on the front of the Governance Scorecard. We suggest these continue to be kept to hand during meetings for reference and to act as an aide memoire to keep the Board and ISC focused in meetings.

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Responses	Commentary and Suggested Action
<p>Q.2 Can you cite any instances since February 2013 where failure to allocate suitable time in meetings to key issues has impacted effectiveness with regard to strategic and policy issues?</p> <p>Yes 0, No 7.</p> <p><i>Responses</i></p> <p>Meetings are well structured. It has been difficult in as much as the anticipated changes cited by government have not always happened to their own deadlines.</p>	<p><i>Commentary</i></p> <p>A unanimously positive response indicating members believe suitable time is given to consider reports on key issues.</p> <p><i>Suggested Action</i></p> <p>2. The PSB’s agenda has recently been reviewed to include training which can be used to give members an overview of issues to be discussed. However any member who feels that he/she has not fully understood any points in relation to issues where decisions are being made should not feel averse to saying so at that time.</p>

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Responses	Commentary and Suggested Action
<p>Q.3 Overall, do you think the meetings and additional training sessions have been pitched about right in terms of frequency, content and duration?</p> <p>Yes 7, No 0.</p> <p><i>Responses</i></p> <p>Board - Yes</p> <p>ISC - some presentations are far too detailed about world markets and indices and we really want to know where we are investing, why, how much and how their performance is on our portfolio.</p> <p>Frequency, content and duration of meetings is fine. Training a bit sporadic and, questions in tests are not necessarily being addressed in training session.</p>	<p><i>Commentary</i></p> <p>A fairly positive response to the training sessions but with feedback received as to whether the technical content and focus in relation to what is required in relation to investment requirement is being pitched quite right.</p> <p>Presenters of training sessions need to be aware of assessment questions in order they can be covered in training sessions.</p> <p><i>Suggested Action</i></p> <ol style="list-style-type: none"> 3. Technical content to be reviewed for appropriateness by officers and Independent Governance and Administration Adviser (IGAA) prior to training sessions. 4. Officers and IGAA to provide assessment questions to presenters and ensure answers are suitably covered in training sessions.

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Responses	Commentary and Suggested Action
<p>Q.4 Pensions is an increasingly complex area; undergoing a significant period of change in the public sector and becoming subject to increasingly higher levels of regulatory scrutiny. Do you think the present level of pension induction training for new Board members remains adequate in light of this?</p> <p>Yes 4, Undecided 3, No 0.</p> <p><i>Responses</i></p> <p>I do not know how much induction new members receive. I think Post 2017 elections we probably need to think about how we do this.</p> <p>If this means training sessions above then see comment above. If when new to board then my induction training was one to one and I found it adequate.</p> <p>I think induction training probably needs more time allocated to it. Members need training first to understand, then to digest and consolidate knowledge – which takes time.</p> <p>Given all the changes and the complexity of the subject, it is difficult to pitch the training just right but I would suggest that new board members may need more training to cover the additional complexity.</p>	<p><i>Commentary</i></p> <p>Good point on considering the impact of elections on PSB membership and planning accordingly for impact change.</p> <p>One to one induction well received.</p> <p><i>Suggested Action</i></p> <ol style="list-style-type: none"> 5. Impact assessment to be carried out on the risk of more than 50% of the PSB not being re-elected and contingency plans to be drafted. 6. One to one induction for new PSB members to continue but with the impact assessment in mind if number of new members makes this too resource intensive. 7. Look at options for induction training.

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Responses	Commentary and Suggested Action
<p>Q.5 Do you think that the Board substantially has sufficient confidence in the information and advice provided at meetings by all advisers and officers to make effective and timely decisions at meetings?</p> <p>Yes 7, No 0.</p> <p><i>Responses</i></p> <p>Yes I do. I think we have an excellent team of officers and advisers who are always very happy to answer questions and accommodate members' views.</p> <p>I have full confidence in advisers and officers.</p> <p>I have always found the information provided fit for purpose and have complete confidence in its accuracy.</p>	<p><i>Commentary</i></p> <p>It is good to see the recognition of the good work undertaken and the confidence shown to the officers of the EPF.</p> <p>It is also re-assuring to see that the PSB believes it has confidence in all its advisers. However, no adviser should be complacent, but in the same breath, replacing them can be very time consuming.</p> <p><i>Suggested Action</i></p> <p>8. The PSB should continue to monitor adviser performance, but equally ensure take up of any opportunities offered by their advisers to carry out informal performance reviews. It can be a very effective way of “nipping in the bud” any perceived problems with service.</p> <p>9. PSB members should feel comfortable to raise any concerns they have about any advisers with the PSB or ISC Chairmen and to Kevin McDonald or Jody Evans.</p>

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Responses	Commentary and Suggested Action
<p>Q.6 Do you know what steps you would expect the Board to take where for whatever reason, a group of experienced Board members left?</p> <p>Yes 4, Undecided 1, No 2.</p> <p><i>Responses</i></p> <p>I believe we will lose experienced members in 2017 (see 4 above) but members have to learn very quickly at Essex about a large variety of subjects. Good training available and perhaps a member "Buddy" who they can ask "silly" questions of.</p> <p>Put simply, I would expect existing (remaining) Board Members to review eligible individuals who could undergo the necessary training to replace existing members. There are "substitute" members who could be considered.</p> <p>I presume they would try and find new members as soon as possible.</p> <p>Broadly I think I do.</p> <p>New board members would have to be brought up to speed as quickly as possible, however, this is one of the dangers of the democratic process for which there is no real answer.</p>	<p><i>Commentary</i></p> <p>The responses indicate that there is little if any awareness of what action will be taken by the PSB if experienced members were to leave.</p> <p>Responses though indicate that the PSB is sensitive to the risks posed by elections to maintenance of governance standards long term.</p> <p><i>Suggested Action</i></p> <p>10. In conjunction with suggested action No 5 above the impact assessment is to take into account what information should be passed to PSB members to raise awareness and set out the actions planned for remaining PSB members.</p> <p>11. A training strategy and training plan is to be drafted that clearly sets out the training for new and/or experienced members of the PSB and how required knowledge levels will be met and retained.</p>

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Responses	Commentary and Suggested Action
<p>Q.7 Imagine that a local TV station wanted to run a 2 minute interview with an Essex Pension Fund Board Member on how the Board and ISC function together to manage Essex Pension Fund risks. Would you be content to have your name pulled at random from a “hat” to attend such an interview? <i>For the purposes of this question, ignore media skills.</i></p> <p>Yes 5, No 2.</p> <p><i>Responses</i></p> <p>With some briefing, I think so.</p> <p>I really dislike radio or TV interviews and never appear without doing homework and knowing questions, so with that caveat yes.</p> <p>I am still not confident enough to articulate it.</p> <p>I do not trust such media to report areas in which they have no expertise in a fair manner and with understanding.</p> <p>Provided there was sufficient briefing to check current facts etc.</p> <p>So long as what we are talking about is the apolitical, cross party focus of the Board and the ISC in evaluating information and proposals from officers and other experts in order to get the best deal for Pension Fund members.</p>	<p><i>Commentary</i></p> <p>A mixed response with evidence from responses of a general reluctance or acceptance of media as well as being confident to take part in a TV interview on managing pension fund risk so this mixed reaction is probably to be expected.</p> <p>Perhaps a better question would have been “Could you in 30 seconds give a brief summary of what you understand the role of the PSB to be?”</p> <p><i>Suggested Action</i></p> <p>12. In the possibly rare circumstance a media presentation would arise it would be helpful to have in preparation a script (or crib sheet) or statement that can be made available to the media.</p>

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Responses	Commentary and Suggested Action
<p>Q.8 Again, in the local TV station interview scenario, would you be able to articulate what the Board's responsibilities are to the Administering Authority, participating employers and Essex Pension Fund Membership?</p> <p>Yes 5, Undecided 1, No 1.</p> <p><i>Responses –</i></p> <p>As above</p> <p>The board's responsibilities are to invest on behalf of employers and membership their contribution wisely to build the pot up for when people retire.</p> <p>With prior revision!</p> <p>I have a general grasp but I would need to fully revise my knowledge before I would be comfortable to appear on TV or radio.</p>	<p><i>Commentary</i></p> <p>A little more encouraging response to the previous question. The comment received on the responsibilities however could have been expanded to include the stewardship of the Fund and the duty to consider all stakeholders and the stability and affordability of the scheme for the employers and their scheme members.</p> <p><i>Suggested Action</i></p> <p>13. Consider drafting a short paper by officers to insert into induction packs.</p>

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Responses	Commentary and Suggested Action
<p>Q.9 Do you think the Board gets an appropriate level of appreciation from its stakeholders for the responsibility it takes for managing £4.5bn of pension assets?</p> <p>Yes 0, No 7.</p> <p><i>Responses</i></p> <p>Probably not, but it would be a lot worse if we were trying to defend something we had got wrong.</p> <p>No. I think they have no idea.</p> <p>The work of the Board goes largely unnoticed as it is conducted in an efficient manner. Whether there is a case for greater appreciation is a moot point, particularly if such appreciation were to be in the form of monetary allowances.</p> <p>Don't know.</p> <p>Probably not, but that is because majority do not understand what is involved.</p> <p>I have no knowledge of what if any appreciation has been expressed.</p>	<p><i>Commentary</i></p> <p>Opinion is diverse, but broadly the balance is that the PSB does not get the recognition reflective of its responsibilities, but in the same breath, this is not expected.</p> <p>The issue here is the relationship with stakeholders and to what extent if any, improved communication with them would improve the Governance of the Essex Pension Fund.</p> <p><i>Suggested Action</i></p> <p>14. Suggest adding to the Employer Survey, some questions around how employers think the PSB is doing with regard to the running of the Essex Pension Fund.</p> <p>15. Issue a periodical update from the Chairman (appropriate frequency to be discussed) to Employers (and Members of the EPF) updating them on what the Board is currently doing and has achieved compared with the objectives set out in the business plan.</p> <p>16. Seek comment from the PAB once up and running to include in its annual report.</p>

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Responses	Commentary and Suggested Action
<p>Q.10 If a new Board member asked you for one piece of key advice about how to approach effective alignment of Board / ISC objectives and goals with business planning, could you provide this?</p> <p>Yes 2, Undecided 2, No 3.</p> <p><i>Responses –</i></p> <p>I think so</p> <p>No</p> <p>Ensure you obtain the best possible professional advice in the area of Investment advice and actuarial planning.</p> <p>It is not a political meeting we are all there to achieve the goal of investing wisely to grow the Pension Pot.</p> <p>Ridiculous question to answer in regard to a complex area.</p> <p>No, not well or with total confidence</p> <p>Business planning by whom?</p>	<p><i>Commentary</i></p> <p>A mixed response with one member reminding us that this is a complex area and one where it is difficult to pinpoint one key piece of advice when the role takes on a wide range of competencies.</p> <p><i>Suggested Actions</i></p> <p>17. Suggest adding to training objectives, a specific objective around raising awareness of the business plan and how the shape of this is driven by the objectives the Board sets for itself.</p>

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Responses	Commentary and Suggested Action
<p>Q.11 Do you think the Board could make one further material improvement to the format of its meetings and those of the ISC?</p> <p>Yes 2, Undecided 3, No 2.</p> <p><i>Responses</i></p> <p>Not sure.</p> <p>ISC presentations, as previously stated, far too focussed on the minutiae of investment. We want to know about your funds' performance and investment policies.</p> <p>Possibly ensure that at the start of each item, every member understands the purpose of it.</p>	<p><i>Commentary</i></p> <p>Further comment has been made on the relevance of presentations not being focussed on Fund performance and investment policies.</p> <p><i>Suggested Action</i></p> <p>18. Officers and advisers to ensure that papers and management information are clear as to the objectives they're fulfilling.</p>

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Responses	Commentary and Suggested Action
<p>Q.12</p> <p>(a) Non-ISC members only – do you get sufficient information from the ISC to understand the nature of the business that they have conducted and to enable you to call the ISC to account as appropriate?</p> <p>Yes 2, Undecided 0, No 1.</p> <p><i>Responses</i></p> <p>Yes, and can attend ISC meetings as an observer capacity.</p> <p>(b) ISC members only – considering the questions above, are there any changes or comments you would like to make in relation to the ISC?</p> <p>Yes 2, Undecided 2, No 0.</p> <p><i>Responses</i></p> <p>Given the low rates of interest received on cash balances I believe more emphasis should be given on reducing such balances I appreciate that the %s are small but the number is substantial.</p> <p>I believe the report from the ISC should be higher up the Agenda - Board members (other than ISC) more likely to ask questions on early items.</p> <p>It would help me if I had a clear statement of the time off I am allowed for this function and/or preparation for meetings. At present it rests on the goodwill of my line manager which can't be taken for granted forever.</p>	<p><i>Commentary</i></p> <p>Generally a positive response from both groups but should not be complacent.</p> <p><i>Suggested Action</i></p> <p>19. Appointees to the PSB should be provided with an indication of the anticipated amount of personal time they will have to spend in the role in order they can advise their employer (where relevant) and seek approval for appropriate paid time off. Consider providing a policy?</p> <p>20. Consider moving the agenda around to prioritise where key issues are being covered.</p> <p>21. PSB reports cover the reasons why investment changes are not/made.</p> <p>22. PSB members can already attend ISC meetings as an observer but perhaps this should be encouraged more.</p>

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General comments / suggestions for improvement

Response(s)

I think the Chairman should attend training. It sets a good example to others. I hope that if we move training to a slot inside the meeting this will be achieved.

Commentary

Training is now part of the regular agenda.

Prepared by:-

Barry Mack, EPF Independent Governance & Administration Adviser

Partner, Head of Governance

26 June 2015

For and on behalf of Hymans Robertson LLP