A fresh approach

The North East Scotland Pension Fund (NESPF) has had a busy two years, to include the continued integration of ESG within its successful investment strategy, a rebrand, a new website, an administration review and a buy-in. Pension fund manager, Laura Colliss, tells Francesca Fabrizi what all this has meant for the fund

Please give a short introduction to the North East Scotland Pension Fund (NESPF).
The NESPF administers the Local Government Pension Scheme (LGPS) for employers located throughout the North and North East of Scotland.

The NESPF provides a pension for employees of three large public sector organisations – Aberdeen City Council, Aberdeenshire Council and The Moray Council, as well as approximately 45 other public or charitable bodies. The NESPF has a smaller secondary Transport Fund for employees of a single organisation.

We have an asset value of £6.1 billion with over 72,000 members, making us the third-largest LGPS fund in Scotland.

During 2020/21, you reported strong investment returns. Can you tell us about your investment strategy?
Our strategy is set out to ensure appropriate diversification is built into the fund; this way we can limit volatility and provide balanced returns through different cycles. Careful consideration is put into our portfolio construction considering return outlook, risk, actuarial funding level, liquidity and correlations of different asset classes. During 2020/21 and the unprecedented impact Covid-19 had on the market, it proved to be a great period for returns in risk assets. Our strategy was tilted towards risk assets, with listed growth equities in particular delivering strong returns. Private market allocations also helped to add value. Throughout the latter part of 2021, we focused on re-balancing and adding more assets with inherent inflation linkage.

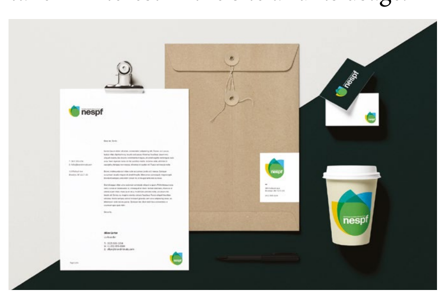
Further to our financial performance, the continued integration of ESG has been a core focus. We have driven improvements in engagement reporting to ensure all objectives/engagement initiatives are bespoke to our directly held investments. We've also expanded our data processes associated to carbon footprinting, to collate data on all listed asset holdings across numerous measures. We expect further disclosure of data in 2022 following positive dialogue with our private market managers. In addition to renewable allocations, implementing energy saving, clean energy solutions, or biodiversity improvements across other real assets such as our property portfolio benefits all stakeholders concerned. This is a great example of how ESG can be financially additive, as we all think about how we can lead more sustainable lives.

You recently went through a re-brand and redesigned your website. What was the aim of that and did it achieve your objectives?
Our previous website launched in 2010 and by 2020 it was really looking its age. As a fund, we've been moving towards more digital communications and services, through our online member platform and online benefits statements, but our website is the first port of call for members, and it simply wasn't delivering the kind of online experience that people expect these days.

Initially we were only focusing on redesigning the website; there was no intention to rebrand. However, during the early stages of the redevelopment, scoping exercises with the website developer raised some key questions around our objectives as a fund, our values, how we wanted to be perceived, and wider issues within the pensions industry.

It was through this process that we realised our current brand did not reflect our ideals and that keeping our existing branding would limit us, so we expanded the project to include a rebrand as well.

In terms of performance, our new website has exceeded our expectations and outperforms our old website on all key performance indicators from site visits and bounce rates, to downloads and calculations performed on the various tools on offer. We've really seen an uptake in interest in the site and its usage.



You also went through an effective administration review. Can you tell us a little more about this and its impact?
With workload increasing because of various regulation changes, and the challenges that Covid brought, we felt it was the right time to review our administration with the help of our actuary.

Following discussions, the review was to focus on four key areas:

1. Process – administration tasks were reviewed against specific criteria to assess how efficiently casework was processed.

2. Management information – a range of quantitative and qualitative information was provided for analysis.

3. People and culture – job roles, internal communications and related documentation were reviewed.

4. Capacity analysis – derived from data contained within task completed reports, task created reports and a list of estimated completed times to determine the resources we needed going forward.

The good thing about the review is that while it clearly shows what areas you've got to work on, it's also nice to see the areas that you are doing well in. For example, the review highlighted our data scores as being particularly strong, so it was good to be reminded of the positive work we've already achieved.

The review made 15 key recommendations made across the four areas. We've already delivered improvements identified for transfers out and online processing, and work is currently ongoing for leaver processes identified as being suitable for bulk processing. Plus, the capacity analysis resulted in three additional job posts for benefit administration that have already been filled.

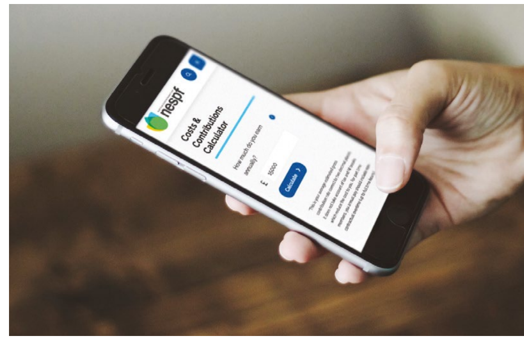
Obviously, there is still a way to go on the remaining recommendations – some are more complex or require system developments that will take longer to complete. We also have to factor in other work that we need to do; but the review has focused our attention, so we know what areas to work on to get the best results and to maximise our resources and efficiency.

In 2020, the fund successfully completed a buy-in policy – what were the challenges of this? What could others learn from your experience?
Yes, this was a huge undertaking for us and was the final step in a two year long project. It started when an employer was looking to reduce their risk exposure to the liabilities held in the LGPS and streamline their administration requirements. Before we could even get to the buy-in stage, there was the transfer of all assets and members into our own fund, which was a big task in itself.

But once the transfer was completed, we began the procurement process for the buy-in in early 2020. This was slight unfortunate timing as Covid-19 hit shortly afterwards. This caused several delays, not only due to everyone having to adapt to this new world, but the volatility of the financial markets following the initial outbreak meant it was impractical to proceed. Trying to get accurate values and pricing during such a time was impossible so the procurement process was paused until summer. The tender then resumed, and we finally entered a contract in November 2020.

A project of this scale required huge time and resource commitments. Every department across the fund was involved; add in multiple external parties and it could have become quite the logistical nightmare. However, overall, it has run very smoothly. Being aware of the work to be completed, setting realistic expectations and timescales before beginning made a significant difference.

With this type of insurance product, it's important to be aware of the ongoing work that will be required even after the buy-in is completed. As a LGPS fund, we are unable to buy out the liabilities held so a buy-in was the only suitable alternative. As such, we still carry out day-to-day



administration of these benefits and have additional ongoing duties to aid the insurer.

However, from a member and employer point of view, service, procedures and points of contact remain the same, so they don't have to get familiar with a new provider.

Collecting member information in advance of the procurement process, assessing the quality of the data held to ensure accurate pricing and committing to this long-term investment is a burden but the benefits that are provided in terms of risk management far outweigh this.

What are your aims for the fund going forward?
Moving forward, like everyone else we will be kept busy with McCloud, preparing for the pensions dashboards and any other surprises that pensions bring. But we'll be focusing on implementing the remaining recommendations from the administration review, and we are investigating more automation and the introduction of robotics. Related to this, we'll be updating our pensions administration strategy in line with new procedures and business insight data. Building upon the work we've already achieved with the rebrand and new website, we are also reviewing our communications and are looking at new ways to provide members with the information they need and want in more engaging ways.

Written by Francesca Fabrizi