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Shropshire Council
Legal and Democratic Services
Shirehall
Abbey Foregate
Shrewsbury
SY2 6ND

Date: 14th March 2014

Committee:
Pensions Committee

Date: **Thursday, 20 March 2014**
Time: **10.30 am**
Venue: **Wenlock Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND**

You are requested to attend the above meeting.
The Agenda is attached

Claire Porter
Head of Legal and Democratic Services (Monitoring Officer)

Please note that Aon Hewitt will be holding a briefing session for members of the Pensions Committee in the Wilfred Owen Room at Shirehall between 9.30am and 10.30am prior to the committee meeting. Lunch will be served in the Bridgnorth Room at approximately 12.45 pm. Please advise me if you wish to stay for lunch.

Members of the Committee:
Thomas Biggins
Anne Chebsey
Andrew B Davies
Malcolm Pate

Co-opted Members (Voting):
Bill McClements (Telford & Wrekin Council)
Malcolm Smith (Telford & Wrekin Council)

Co-opted Members (Non-Voting):
John Fox (Employee Representative Shropshire Council)
Molly Hooper (Employee Representative Telford & Wrekin Council)
Jean Smith (Pensioner Representative)

Substitute Members of the Committee:

Joyce Barrow (SC)	Stuart West (SC)
Arnold England (T&W)	Michael Wood (SC)
Roger Evans (SC)	Vacancy (Employee Rep T&W)
Richard Overton (T&W)	Vacancy (Employee Rep SC)
Vacancy (Pensioner Rep)	

Your Committee Officer is:

Sarah Townsend Committee Officer
Tel: 01743 252803
Email: sarah.townsend@shropshire.gov.uk

AGENDA

1 Apologies for Absence and Substitutions

2 Disclosable Pecuniary Interests

Members are reminded that they must not participate in the discussion or voting on any matter in which they have a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

3 Minutes (Pages 1 - 4)

The Minutes of the meeting held on 27 November 2013 are attached for confirmation, marked 3.

Contact: Sarah Townsend (01743) 252803

4 Public Questions

5 Majedie Asset Management (UK Equities)

Mr Simon Hazlitt and Mr Mark Hepburn will give a presentation.

6 MFS Investment Management (Global Equities)

Mr Matt Hensher and Mr Ben Kottler will give a presentation.

7 Aberdeen Fund Management Ltd (Pan European Property)

Mr Michael Dinsdale, Mr Tom Richardson and Mr Mark Wilkins will give a presentation.

8 Schedule of Committee and Other Meetings 2014/15 (Pages 5 - 10)

The report of the Head of Treasury & Pensions is attached, marked 8.

Contact: Justin Bridges (01743 252072)

9 **Pension Fund Treasury Strategy 2014/15** (Pages 11 - 20)

The report of the Head of Treasury & Pensions is attached, marked 9.

Contact: Justin Bridges (01743 252072)

10 **Corporate Governance Monitoring** (Pages 21 - 42)

The report of the Head of Treasury & Pensions is attached, marked 10.

Contact: Justin Bridges (01743 252072)

11 **Funding Strategy Statement** (Pages 43 - 60)

The report of the Head of Treasury & Pensions is attached, marked 11.

Contact: Justin Bridges (01743 252072)

12 **Statement of Investment Principles** (Pages 61 - 76)

The report of the Head of Treasury & Pensions is attached, marked 12.

Contact: Justin Bridges (01743 252072)

13 **Pensions Administration Monitoring** (Pages 77 - 102)

The report of the Pension Administration Manager is attached, marked 13.

Contact: Debbie Sharp (01743 252192)

14 **Exclusion of Press and Public**

To consider a resolution under paragraph 10.2 of the Council's Access to Information Procedure Rules that the proceedings of the Committee in relation to agenda items 15 to 17 shall not be conducted in public on the grounds that they involve the likely disclosure of exempt information as defined by the categories specified against them.

15 **Exempt Minutes (Exempted by Category 3)** (Pages 103 - 104)

The Exempt Minutes of the meeting held on 27 November 2013 are attached for confirmation, marked 15.

Contact: Sarah Townsend (01743 252803)

16 **New Admission Bodies (Exempted by Category 3)** (Pages 105 - 108)

The report of the Pension Administration Manager is attached, marked 16.

Contact: Debbie Sharp (01743 252192)

17 **Investment Monitoring - Quarter to 31 December 2013 (Exempted by Category 3)** (Pages 109 - 156)

The report of the Head of Treasury & Pensions is attached, marked 17.

Contact: Justin Bridges (01743 252072)

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Committee and Date	Item No
Pensions Committee 20 March 2014 10.30 am	3 Public

MINUTES OF THE PENSIONS COMMITTEE HELD ON 27 NOVEMBER 2013
10.00am – 11.55am

Responsible Officer Tim Ward
Email: tim.ward@shropshire.gov.uk Telephone: 01743 252739

Present: Mr M G Pate (Chairman)
Mr T H Biggins, Mr A Davies, Mr A England, Mr R Evans, Mr B McClements and Mrs J Smith

1. Apologies for Absence and Substitutions

1.1 Apologies for absence were received from Mrs A Chebsey and Mr M Smith.

1.2 Mr R Evans substituted for Mrs A Chebsey and Mr A England substituted for Mr M Smith.

2. Disclosable Pecuniary Interests

2.1 Members were reminded that they must not participate in the discussion or voting on any matter in which they had a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate.

3. Minutes

3.1 **RESOLVED:**
That the Minutes of the meeting held on 20 September 2013 be approved and signed by the Chairman as a correct record.

4. Public Questions

4.1 There were no public questions.

5. HarbourVest (Private Equity)

5.1 Mr George Anson and Ms Hannah Tobin of HarbourVest gave an overview of the company and changes that had occurred since they had last attended a meeting of the Committee. They also gave an overview of the overall development of the portfolio and of individual funds within the portfolio and outlined future plans for the portfolio

5.2 The Chairman asked whether given the length of time the Council had been dealing with the company would there be any reduction in fees. Mr Anson advised that fee levels have recently being reviewed the results of which will be reported shortly but there would be a fee reduction.

6. Blackrock (Hedge Funds)

6.1 Mr James Edwards and Ms Nathalie Esposito of Blackrock gave an overview of the company and a review of current investments. They also gave a summary of the current outlook and a review of future strategies, stating that there were opportunities over all 4 of the “sub strategies”

7. Mercer (Actuarial Valuation)

7.1 Mr John Livesey gave a presentation on the 2013 Actuarial Valuation which covered the following areas:

- 2013 Valuation - Key Issues;
- Financial Assumptions – key changes;
- 2013 Preliminary results; and
- Future Funding Strategy and contributions

7.2 Mr Livesey advised that the valuation showed a funding level of 76% as at 31 March which was in line with expectations. By 31 August the funding level had improved to 82% due to the fact that net yields had risen by 0.4% which had resulted in reduced liability values.

7.3 Mr Livesey then took members through the funding strategy and contributions, giving examples of possible approaches to stabilisation of contributions and outlining the effects on individual employers and the potential effects of more schools becoming academies.

8. Aon Hewitt (Next Steps)

8.1 Mr Louis-Paul Hill outlined to members the recent changes made following a review of the structure of the Fund. He also outlined the proposals to review the current strategic allocation following the valuation results, and to undertake some asset liability modelling and looking at how different economic scenarios would affect the Fund.

8.2 Mr Hill informed members that when reviewing the investment strategy members would assess the current investment strategy including the level of return required and the current levels of risk within the Fund. He indicated that there would be need to assess different types of asset classes.

8.3 In response to a question Mr Hill confirmed that there would be member training prior to the review being carried out

9. Actuarial Valuation

9.1 The Committee received the report of the Head of Finance, Governance and Assurance (copy attached to the signed Minutes) which provided Members with the formal presentation of the 2013 Actuarial Valuation Report from the Fund’s Actuary.

9.2 The Head of Finance Governance and Assurance reminded members that it was a requirement that funds within the Local Government Pension Scheme carried out an actuarial valuation every three years and that the current valuation had been undertaken as at 31 March 2013.

9.3 **RESOLVED:**

That the Actuarial Valuation Report be approved.

10. Pensions Administration Monitoring

10.1 The Committee received the report of the Pensions Administration Manager (copy attached to the signed Minutes) which provided Members with monitoring information on the performance of and issues affecting the Pensions Administration Team.

10.2 The Pension Administration Manager advised members that the Shropshire Council Voluntary Redundancy Scheme continued to cause increased work for the Pensions team and that this was expected to continue well beyond the end of the current tax year. She commented that Team resource was an issue as this extra workload coincided with the introduction of the new 2014 scheme.

10.3 The Pensions Administration Manager also informed members that results from the CIPFA Benchmarking Club showed that the cost of administering the scheme at £18.73 per member was well below the average of £21.42 and that the scheme had been at or below the average since 2008, and that the same applied to staff costs per member.

10.4 **RESOLVED:**
That the position as set out in the report of the Pensions Administration Manager be noted.

11. Corporate Governance Monitoring

11.1 The Committee received the report of the Head of Treasury and Pensions (copy attached to the signed Minutes) which informed Members of corporate governance and socially responsible investment issues arising in the quarter to 30 September 2013.

11.2 **RESOLVED:**
That the position as set out in the report, Manager Voting Reports (Appendix A) and F&C Responsible Engagement Overlay Viewpoint Reports (Appendix B) be noted.

12. Exclusion of the Press and Public

12.1 **RESOLVED:**
That under paragraph 10.2 of the Council's Access to Information Procedure Rules the proceedings of the Committee in relation to Agenda items 13 to 15 shall not be conducted in public on the grounds that they might involve the likely disclosure of exempt information as defined by the category specified against them.

13. Minutes (Exempted by category 3)

13.1 **RESOLVED:**
That the Exempt Minutes of the meeting held on 20 September 2013 be approved and signed by the Chairman as a correct record.

14. Investment Monitoring - Quarter to 30 June 2013 (Exempted by Category 3)

14.1 The Committee received the exempt report of the Head of Treasury & Pensions which provided members with monitoring information on investment performance and managers for the quarter period to 30 September 2013 (copy attached to the exempt signed minutes).

14.2 **RESOLVED:**
That the position as set out in the exempt report of the Head of Treasury & Pensions be noted.

15. Appeals under the Internal Disputes Resolution Procedure (Exempted by Category 3)

15.1 The Committee received the exempt report of the Pension Administration Manager which provided details of Stage 2 appeals to the Appointed Person under the Disputes Resolution Procedure (copy attached to the exempt signed minutes).

15.2 **RESOLVED:**
That the contents of the exempt report of the Pensions Administration Manager be noted.

(The full version of Minutes 14 and 15 constitutes exempt information under category 3 of Paragraph 10.4 of the Council's Access to Information Rules and has accordingly been with-held from publication.)

Signed…………………………………………….(Chairman)

Date: 27th November 2013

Committee and Date	Item
Pensions Committee 20 March 2014	8 Public

SCHEDULE OF COMMITTEE AND OTHER MEETINGS 2014/15

Responsible Officer Justin Bridges
e-mail: justin.bridges@shropshire.gov.uk Tel: (01743) 252072 Fax (01743) 255901

1. Summary

1.1 The report brings together a schedule of meetings of the Committee and outside bodies on which the Committee is represented. It also identifies which managers and advisers will be attending the respective meetings.

2. Recommendation

2.1 Members are asked to:-

- Agree the schedule of Committee meetings, including the Annual Meeting.
- Agree representation at other conferences and training events.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 Risk Management is part of the Pension Fund's structured decision-making process by ensuring that investment decisions are taken by those best qualified to take them.

3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

3.3 There are no direct environmental, equalities or climate change consequences arising from this report.

4. Financial Implications

4.1 There are no direct financial implications on the resources of the Council.

5. Background

5.1 The Committee traditionally meets quarterly, as soon as possible after each quarter end, but allowing sufficient time for the preparation of managers' reports, technical meetings between managers and officers and independent confirmation of performance data.

6. Schedule of Meetings

6.1 The Calendar at Appendix A proposes dates for the quarterly meetings for next year and indicates which managers and advisers will be invited to present their reports in person. Also included is the date of the Annual Meeting so that Members can co-ordinate their attendance at meetings relating to all the Committee's activities and other major seminars are included where these are known.

7. Manager Monitoring

7.1 The requirements of the LGPS Investment Regulations on Administering Authorities in relation to the review of an investment manager's performance are:-

- "To keep his performance under review."
- "At least once every three months to review the investments he has made."
- "Periodically to consider whether or not to retain him."

7.2 The present review and reporting arrangements, including quarterly technical meetings with officers, the quarterly investment report and periodic personal attendance at Committee are considered to comply with the regulatory requirements. Managers and advisers are invited to present to the Committee annually and this results in 3 or 4 presentations each meeting.

8. Annual Training Day

8.1 The 2014 Annual Training Day will be held on 18 July 2014 at Theatre Severn in Shrewsbury. Further details of the event will be sent to Members in advance of the Training Day.

8.2 Further training events will be considered during the year.

9. The Local Authority Pension Funds Forum (LAPFF)

9.1 As members of the LAPFF, the Committee are asked to be represented at a number of meetings through the year. Forum meetings are generally held in London. When the Fund is represented, it is usually by an appropriate officer and/or the Chairman.

10. Other Seminars/Conferences

10.1 In addition to the above, there are a number of other major conferences and seminars, to which the Committee might wish to send delegates. These include:-

- ***LGC Investment Conference – February 2014.*** *It is recommended that appropriate officers attend this conference*

- **NAPF Investment Conference – May 2014.** *It is recommended that appropriate officers attend this conference*

- ***LGC Investment Symposium – June 2014***. It is recommended that appropriate officers attend this conference.

- ***LGC Public Sector Pension Funds Investment Seminar – September 2014.*** It is recommended that appropriate officers and the Chairman or Vice Chairman (or any other Member of the Pension Committee) should represent the Committee at this conference.

- ***LAPF Annual Conference – December 2014.*** It is proposed that an appropriate officer and Member of the Committee should represent the Fund at this conference.

- It is proposed that should other seminars and training events be identified as beneficial, then attendance be agreed by the Chairman and the Scheme Administrator through the year.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) N/A
Cabinet Member N/A
Local Member N/A
Appendices A - Schedule of Meetings 2014/15

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Appendix A

Pensions Committee – Schedule of Meetings 2014/15

(Committee meetings are in bold print)

Meeting date	Details (and location of other than Shirehall)	Manager / Adviser to present	Comments
27 – 28 Feb 2014	LGC Investment Conference (Chester)		Officer Attendance
19 - 21 May 2014	NAPF Investment Summit (Gloucestershire)		Officer Attendance
20 June 2014	**Quarterly Meeting (March 2014)-**	**F&C** - Responsible Engagement Overlay **GIP -** Infrastructure **Prudential –** AVC **Grant Thornton –** Audit Plan **Aon –** Investment Strategy Review Modelling	
26 - 27 June 2014	LGC Investment Symposium		Officer Attendance
18 July 2014	Training Day (Theatre 7)		Members / Substitute Members officer attendance
19 Sept 2014	**Quarterly Meeting (June 2014)**	**PIMCO** (Global Bonds) **Investec** (Global Equities) **Harris** (Global Equities) **Grant Thornton –** 2013/14 Audit **Aon –** Strategy Review Update	
8 - 10 Sept 2014	LGC Investment Summit (South Wales)		Member / Officer attendance
21 Nov 2014	**ANNUAL MEETING** Theatre Severn, Shrewsbury		
28 Nov 2014	**Quarterly Meeting (Sept 2014)**	**HarbourVest** (Private Equity) **BlackRock** (Hedge Funds) **Brevan Howard –** Hedge Funds **Aon –** Strategy Review Update	
4 - 5 Dec 2014	LAPFF Annual Conference (Bournemouth)		Member / Officer attendance
20 March 2015	**Quarterly Meeting (Dec 2014)**	**Majedie** (UK Equities) **Aberdeen** (Pan European Property) **MFS** (Global Equities)	

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Committee and Date	Item
Pensions Committee 20 March 2014 10.30am	**9** Public

PENSION FUND TREASURY STRATEGY 2014/15

Responsible Officer Justin Bridges
e-mail: Justin.bridges@shropshire.gov.uk Tel: (01743) 252072 Fax (01743) 255901

1. Summary

1.1 This report proposes the Pension Fund Treasury Strategy for 2014/15 for the small cash balances that the Administrating Authority maintains to manage the day to day transactions of the Fund. These transactions include the payment of pensions and transfers out together with the receipt of contributions from employers and transfers into the Fund. From the 1 April 2010 these balances have been invested separately in accordance with the Pension Fund Treasury Strategy.

2. Recommendations

2.1 Members are asked to delegate authority to the Scheme Administrator (Section 151 Officer) to manage the Pension Funds day to day cash balances.

2.2 Members are asked to approve, with any comments, the Pension Fund Treasury Strategy.

2.3 Members are asked to authorise the Scheme Administrator (Section 151 Officer) to place deposits in accordance with the Pension Fund's Treasury Strategy.

2.4 Members are also asked to delegate authority to the Scheme Administrator (Section 151 Officer) to add or remove institutions from the approved lending list and amend cash and period limits as necessary in line with the Administering Authority's creditworthiness policy.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 Risk Management is part of the Pension Fund's structured decision-making process by ensuring that investment decisions are taken by those best qualified to take them.

3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

3.3 Compliance with the CIPFA Code of Practice on Treasury Management, adhering to the Council's Treasury Policy Statement and Treasury Management Practices together with the rigorous internal controls will enable the Fund to manage the risk associated with Treasury Management activities and the potential for financial loss

3.4 There are no direct environmental, equalities or climate change consequences arising from this report.

4. Financial Implications

4.1 There are no direct financial implications arising from this report.

5. Background

5.1 The Fund has assets of over £1.3 billion which are managed by the Funds Global Custodian, Northern Trust. Shropshire Council as the Administering Authority maintains a small working cash balance (currently around £4 million). This Treasury Strategy relates solely to the Pension Fund cash managed by Shropshire Council as the Administering Authority.

5.2 The Administering Authority aims to keep the Pension Fund cash held for day-to-day transactions to a minimum level. Fund cash is currently managed separately and invested on the money markets in accordance with Shropshire Council's Treasury Strategy. A separate Pension Fund account is credited with investment income.

5.3 Investment regulations issued by the DCLG in December 2009 no longer permit pension fund cash to be pooled with the cash balances of Shropshire Council from 1st April 2010. In view of these changes a separate Pension Fund Treasury Strategy must be approved each year.

6. Investment Policy

6.1 The Fund's investment policy is based on the Treasury Strategy adopted by Shropshire Council. The investment policy will have regard to the Communities for Local Government (CLG) Guidance on Local Government Investments, the Audit Commission's report on Icelandic investments and the 2011 revised CIPFA Treasury Management Code of Practice.

6.2 The investment priorities for the management of Pension Fund cash balances are the security of capital and the liquidity of its investments. The Fund will also aim to achieve the optimum return on its cash investments commensurate with proper levels of security and liquidity.

6.3 The CLG guidance requires Shropshire Council to categorise their investments as either "specified" or "non specified" investments. Shropshire Council as Administering Authority for the Pension Fund will adopt these same categorisations for the investment of Pension Fund cash. Specified investments are deemed as "safer" investments and must meet the following conditions:-

- be denominated in Sterling

- have less than 12 months duration

- not constitute the acquisition of share or loan capital

- be invested in the government or a local authority or a body or investment scheme with a “high” credit quality.

6.4 The Fund is required to specify its creditworthiness policy and how frequently credit ratings should be monitored. It must also specify the minimum level of such investments.

6.5 The Fund is required to look at non specified investments in more detail. It must set out:

- Procedures for determining which categories of non-specified investments should be used

- The categories deemed to be prudent

- The maximum amount deemed to be held in each category

- The maximum period for committing funds

6.6 As all of the Funds’ investments will be placed in sterling for periods up to 12 months with highly credit rated institutions all investments will be classified as specified investments. It is recommended that the maximum limit of £4 million is set for other Local Authorities and institutions which are part nationalised and £2 million for institutions which meet the minimum credit ratings but are not supported by the Government. Any changes to the minimum credit ratings or maximum limits must be approved by the Scheme Administrator (Section 151 Officer).

6.7 The Fund may use for the prudent management of its cash balances any of the specified investments detailed on Appendix A.

6.8 In order not to reply solely on institutions credit ratings there have also been a number of other developments since the credit crunch crisis which require separate consideration and approval. Nationalised and Part Nationalised Banks in the UK effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government therefore they have been assigned an F1 short term rating and a support rating of 1, which are the highest possible rating. However, as they are no longer separate institutions in their own right the credit rating agencies cannot assign them an individual rating for their standalone financial strength. For this reason Lloyds TSB, Royal Bank of Scotland (RBS) and National Westminster Bank which are part of the RBS group are included on the approved counterparty list.

6.9 In addition, a UK banking support package has been put in place to ensure the security of the UK banking system by supporting the following institutions with a £500 billion support package:-

- Santander UK
- Barclays
- Lloyds TSB
- HSBC
- Nationwide Building Society
- Royal Bank of Scotland
- Standard Chartered Bank

6.10 Although the UK government has not given a blanket guarantee on all deposits placed with these institutions this additional support provides extra security meaning that credit ratings alone are not relied upon. With the exception of Standard Chartered Bank all of the institutions listed above meet the Funds current minimum credit criteria so can therefore be included on the approved lending list.

6.11 Local Authorities are not credit rated but where the investment is a straightforward cash loan, statute suggests that the credit risk attached to English and Welsh local authorities is an acceptable one (Local Government Act 2003 s13). Local authorities are therefore included on the approved list.

6.12 The use of AAA rated Money Market Funds (MMFs) may be considered but only with the express approval of the Scheme Administrator (Section 151 Officer).

7. Creditworthiness Policy

7.1 It is proposed that the Fund will adopt the same methodology as Shropshire Council when determining the minimum credit ratings to be used. The Creditworthiness policy has been adopted from Shropshire Council's Treasury Strategy who use information provided by their treasury advisor, Capita Asset Services, formerly Sector Treasury Services. This service has been progressively enhanced following the problems with Icelandic Banks in 2008. Capita use a sophisticated modelling approach with credit ratings from all three rating agencies Fitch, Moody's and Standard and Poor's. In accordance with the revised Treasury Management Code of Practice they do not rely solely on the current credit ratings of counterparties but also use the following as overlays:-

- Credit watches and credit outlooks from credit rating agencies
- Credit Default Swap (CDS) spreads to give an early warning of likely changes in credit ratings
- Soveriegn ratings to select counterparties from only the most creditworthy countries

7.2 This modelling approach combines credit ratings, credit watches, credit outlooks and CDS spreads in a weighted scoring system for which the end product is a series of colour code bands which indicate the relative creditworthiness of counterparties. These colour codes are also used to determine the duration of investments and are therefore referred to as durational bands. The Fund is satisfied that this service now gives a much improved level of security for its investments. It is also a service which would not be able to replicate using in-house resources.

7.3 The selection of counterparties with a high level of creditworthiness will be achieved by a selection of institutions down to a minimum durational band with Capita's weekly list of worldwide potential counterparties. The Fund will therefore use counterparties within the following durational colour bands:-

- Yellow – 5yrs e.g. AAA rated Government debt, UK Gilts, Collateralised Deposits
- Dark Pink – 5 years for Enhanced Money Market Funds with a credit score of 1.25 (Not currently used)
- Light Pink - 5 years for Enhanced Money Market Funds with a credit score of 1.5 (Not currently used)
- Purple - 2yrs (Council & Pension Fund currently has maximum of 1 year)
- Blue - 1 year (only applies to nationalised or part nationalised UK Banks)
- Orange - 1 year
- Red - 6 months
- Green – 100 days
- No colour – not to be used

7.4 Although the maximum period limit is currently 5 years the Fund will take a more prudent approach and not invest for any longer than 12 months.

7.5 All credit ratings are monitored continuously and formally updated monthly by the Administering Authority. The Administering Authority is alerted to changes to ratings of all three agencies through its use of the Capita's creditworthiness service. The Fund will use the same policy when constructing its approved lending list. If a counterparty's or investment scheme's rating is downgraded with the result that it no longer meets the Funds minimum criteria, the further use of that counterparty will be withdrawn immediately.

7.6 Sole reliance will not be placed on the use of this external service. Officers also use market data and information and regularly monitor the financial press.

8. Country Limits

8.1 It is recommended that the Fund will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies). However, following the problems with Icelandic Banks lending is currently restricted to the UK which currently has a sovereign credit rating of AA+ and Sweden which has the highest possible sovereign rating of AAA. The S151 Officer has delegated authority to revert back to placing investments in countries with a minimum sovereign credit rating of AA- in line with Capita's revised creditworthiness policy if required.

9. Investment Strategy

9.1 The next financial year is expected to see investment rates continue at historically low levels. The Bank Rate has remained at 0.50% since March 2009. It is not expected to rise to 0.75% until June 2016. By March 2017 the bank rate is expected to rise to 1.25%. This view is based on the latest forecasts obtained by the Administering Authority's treasury advisor, Capita Asset Services.

9.2 It is anticipated that balances available for investment will be between £3 - 15 million which will be invested short term in accordance with the approved lending list. Separate lending and period limits have been approved for investment of Pension Fund cash.

9.3 Short term cash flow requirements limit the scope for longer term investments. For cash flow generated balances we will seek to utilise the business reserve accounts with National Westminster Bank and Svenska Hadelsbanken and short dated deposits (overnight - 3 months) in order to benefit from the compounding of interest.

9.4 All investments will be made in accordance with the Funds treasury strategy and in accordance with the CLG investment regulations.

10. Short Term Borrowing

10.1 The current banking and investment arrangements mean the Fund has not needed to borrow on the money markets to fund day to day transactions. The new investment regulations give the Administering Authority an explicit power to borrow for up to 90 days, for the purpose of the pension fund. This will enable borrowing for cash flow purposes such as to ensure that scheme benefits can be made on time. Any borrowing needs to have an identifiable income from which repayment of the borrowed amount and related interest can be funded.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Pension Fund Treasury Strategy 2013/14, Pensions Committee 22 February 2013
Cabinet Member N/A
Local Member N/A
Appendices A. Specified Investment Schedule

Appendix A

SPECIFIED INVESTMENTS

All investments listed below must be sterling-denominated.

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / Minimum Credit Rating	Capital Expenditure?	Circumstance of use	Maximum period
Term deposits with the UK government (e.g. DMO Account) or with English local authorities (i.e. local authorities as defined under Section 23 of the 2003 Act) with maturities up to 1 year	No	Yes	High security although LAs not credit rated.	NO	In-house	1 year
Term deposits with credit-rated deposit takers (banks and building societies), including callable deposits, with maturities up to 1 year	No	Yes	Yes – Minimum colour band Green	NO	In-house	1 year
Certificates of Deposit issued by credit-rated deposit takers (banks and building societies) covered by the UK Government guarantee: up to 1 year. *Custodial arrangement required prior to purchase*	No	Yes	Yes – Minimum colour band Green	NO	In house buy and hold	1 year
Certificates of Deposit issued by credit-rated deposit takers (banks and building societies) NOT covered by the UK Government guarantee: up to 1 year. *Custodial arrangement required prior to purchase*	No	Yes	Yes – Minimum colour band Green	NO	In house buy and hold	1 year
Banks nationalised by high credit rated (sovereign rating) countries	No	Yes	Minimum Sovereign Rating AA-	No	In house	1 year

Investment	Share/ Loan Capital?	Repayable/ Redeemable within 12 months?	Security / 'High' Credit Rating criteria	Capital Expenditure?	Circumstance of use	Maximum period
Banks & Building Societies supported by the UK Government package	**No**	**Yes**	**Yes – Minimum colour band Green**	**No**	**In House**	**1 year**
Government guarantee on all deposits by high credit rated (sovereign rating) countries	**No**	**Yes**	**Yes – Minimum Sovereign Rating AA-**	**No**	**In house**	**1 year**
Bonds issued by multilateral development banks (Euro Sterling Bonds as defined in SI 2004 No 534) or issued by a financial institution guaranteed by UK government with maturities under 12 months. *Custodial arrangement required prior to purchase*	No	Yes	AAA	NO	In-House on a buy and hold basis after consultation/advice from Sector	1 year
Gilt Funds and Bond Funds	No	Yes	AAA	NO	In House	1 year
Gilts : up to 1 year *Custodial arrangement required prior to purchase*	No	Yes	Govt-backed UK Sovereign Rating	NO	In House on a buy and hold basis	1 year

Contact: Justin Bridges on (01743) 252072

Money Market Funds & Government Liquidity Funds (including CCLA Fund) & Enhanced Money Market Funds	No	Yes	Yes AAA rated	NO	In-house	the period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements. Deposits are repayable at call.
Treasury bills [*Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value*] *Custodial arrangement required prior to purchase*	No	Yes	Govt-backed	NO	In House	1 year

Monitoring of credit ratings :
All credit ratings will be monitored continuously and formally updated on a monthly basis. If a counterparty or investment scheme is downgraded with the result that it no longer meets the Pension Fund's minimum credit criteria, the use of that counterparty / investment scheme will be withdrawn.
Any intra-month credit rating downgrade which the Pension Fund has identified that affects the Pension Fund pre-set criteria will also be similarly dealt with.

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Committee and Date	Item
Pensions Committee 20 March 2014 10.30am	10 Public

CORPORATE GOVERNANCE MONITORING

Responsible Officer Ed Roberts
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1. Summary

1.1 The report is to inform members of Corporate Governance and socially responsible investment issues arising in the quarter 1st October 2013 to 31st December 2013.

2. Recommendations

2.1 Members are asked to accept the position as set out in the report, Manager Voting Reports at Appendix A and F&C Responsible Engagement Overlay Viewpoint Reports at Appendix B.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 Risk Management is part of the Pension Fund's structured decision-making process by ensuring that investment decisions are taken by those best qualified to take them.

3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

3.3 The Fund's Corporate Governance Policy enables it to influence the environmental policies of the companies in which it invests.

3.4 There are no direct Equalities or Community consequences.

4. Financial Implications

4.1 There are no direct financial implications arising from this report.

5. Background

5.1 The Shropshire County Pension Fund has been actively voting for over fifteen years at the Annual General Meetings and Extraordinary General Meetings of the companies in which it invests. Voting is carried out by individual Fund Managers on all equity portfolios.

5.2 The Fund is also addressing its social responsibility through a strategy of responsible engagement with companies. F&C Asset Management provide this responsible engagement overlay on the Fund's UK equities portfolio.

6. Manager Voting Activity

6.1 Details of managers voting activity during the quarter relating to equity portfolios are attached (Appendix A).

6.2 The regions covered by these managers and voting activity during the quarter are detailed in the appendix.

7. Responsible Engagement Activity

7.1 During the last quarter F&C have continued to actively engage with companies on the Fund's behalf. An update on the engagement activities for the quarter is attached at Appendix B in the REO Viewpoint reports.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Corporate Governance Monitoring report, Pensions Committee 27 November 2013
Cabinet Member N/A
Local Member N/A
Appendices A. Manager Voting Activity Reports. B. F&C Responsible Engagement Overlay Viewpoint Reports.

VOTING SUMMARY

MAJEDIE
Asset Management

Over the quarter, Majedie Asset Management voted at 34 meetings on 67 resolutions. Please see below a breakdown of the meetings and resolutions which pertain to the UK Equity Fund.

Number of meetings we voted at this quarter	30	
Number of resolutions	55	
Where we voted in line with Management	51	(92.7%)
Where we have not voted in line with Management	4	(7.3%)
Where we voted against ISS's recommendation	4	(7.3%)

Source: Majedie, ISS (Institutional Shareholder Services)

The table below is a breakdown of the number of resolutions where we have either voted against Management or against the recommendation of ISS.

RESOLUTION	AGAINST MANAGEMENT	AGAINST ISS
Routine/Business	4	4
Remuneration	0	0
Capitalisation	0	0
Board election & related proposals	0	0
Reorganisations and Mergers	0	0
Total	4	4

Sources: Majedie, ISS (Institutional Shareholder Services)

VOTING BREAKDOWN

SECURITY	MEETING DATE	MEETING TYPE	MAJEDIE VOTE	IN LINE WITH ISS
@UK (1)	14 Oct 2013	EGM	Voted for all	No
Allergy Therapeutics (2)	20 Nov 2013	AGM	Voted for all	No
Bellway	13 Dec 2013	AGM	Voted for all	Yes
Debenhams	10 Dec 2013	AGM	Voted for all	Yes
Fastnet Oil & Gas	16 Dec 2013	EGM	Voted for all	Yes
Galliford Try (3)	19 Nov 2013	AGM	Against Resolution 15	No
Gemfields	25 Nov 2013	AGM	Voted for all	Yes
Greenko Group (4)	14 Oct 2013	AGM	Voted for all	No
Hargreaves Services	06 Nov 2013	AGM	Voted for all	Yes
Hays (5)	13 Nov 2013	AGM	Against Resolution 15	No
K3 Business Technology (6)	27 Nov 2013	AGM	Voted for all	No
Koninklijke KPN (7)	02 Oct 2013	EGM	Voted for all	No
Mears	21 Nov 2013	EGM	Voted for all	Yes
Nokia	19 Nov 2013	EGM	Voted for all	Yes
Norseman Gold	20 Dec 2013	AGM	Voted for all	Yes
Parkmead (8)	16 Dec 2013	AGM	Abstention on Resolution 8	No
Petropavlovsk	14 Nov 2013	EGM	Voted for all	Yes
Plexus Holdings	05 Dec 2013	AGM	Voted for all	Yes
Rambler Metals and Mining (9)	05 Dec 2013	AGM	Voted for all	No
Raven Russia (10)	23 Dec 2013	EGM	Voted for all	No
Speymill Deutsche Immobilien (11)	16 Dec 2013	AGM	Abstention on Resolutions 1, 2, 3, 4	No
Sylvania Platinum (12)	19 Dec 2013	AGM	Voted for all	No
Telecom Italia (13)	20 Dec 2013	EGM	Did not vote on Resolution 5a. Against Resolutions 1, 4, 7	No
Victoria Oil & Gas (14)	27 Nov 2013	AGM	Voted for all	No
Weatherly International	10 Dec 2013	AGM	Voted for all	Yes
ZincOx Resources	29 Nov 2013	EGM	Voted for all	Yes

Source : ISS (Institutional Shareholder Services)

VOTING NOTES

1) @UK: ISS recommended a vote against the issue of equity both with and without pre-emptive rights, as the amount proposed with shareholder rights (50%) exceeded the recommended amount (33%), as did those without rights (12% against a limit of 10%). We chose to vote in favour on both counts, as we retain our shareholder rights should the issuance take place in the former circumstances; in the latter's case, we feel we trust management to consult us should such a situation arise, and to act in shareholders' interests.

2) Allergy Therapeutics: ISS recommended a vote against the re-election of Stephen Smith as he is a non-independent director (NED) who currently chairs the Audit and Remuneration Committees, and the compositions of these Committees do not adhere to UK best practice recommendations for a company of this size. We like to give smaller companies greater flexibility in the composition of their boards, and so we chose to vote in favour.

3) Galliford Try: our internal guidelines are against the granting of political donations.

4) Greenko Group: ISS recommended a vote against the re-election of Vivek Tandon as he is a non-independent NED and is currently the Chair of the Remuneration Committee, and the composition of this committee does not adhere to UK best practice recommendations. However, we like to give smaller companies greater flexibility over the composition of their boards, so we voted in favour.

5) Hays: our internal guidelines are against the granting of political donations.

6) K3 Business Technology: ISS recommended we abstain regarding the re-election of Thomas Milne as he is the non independent Chairman, and is Chairman of the Audit and Remuneration Committee, which is contrary to UK best practice. However, we feel that smaller companies should be given more flexibility in the composition of their boards, so we chose to vote in favour of his re-election.

7) Koninklijke KPN: ISS recommended a vote against approving the retention cash award of £650,000 to Thorsten Dirks as the proposed discretionary payment is outside the framework of the current remuneration policy and the proposed retention bonus is not conditional upon any performance and risks rewarding underperformance. We feel that Mr Dirks is a crucial member of the management team, who will be instrumental in the running of the firm post the E-Plus sale, so we chose to vote in favour.

8) Parkmead: On Resolution 1, ISS recommended a vote against the Financial Statements and Statutory Reports due to the composition of key committees being non-compliant with recommended practice, most notably Thomas Cross holding the combined role of CEO and Chairman. Our long held view is that smaller companies should be given greater flexibility in the composition of their boards and in this particular case we are supporters of Mr Cross, who is closely aligned with investors. All this considered, we chose to vote in favour. On Resolution 8, ISS recommended a vote against the issue of equity without pre-emptive rights as the amount proposed (15%) exceeded the recommended amount (10%). Although we normally vote against such proposals, we chose to abstain on this occasion, as the amount concerned is only marginally above the recommended limit and we know that management will discuss any issuance with us in advance.

9) Rambler Metals and Mining: ISS recommended a vote against the re-election of John Thomson, Tat Sze and Cong Chen as they are non-independent NEDs, yet sit on the Remuneration and Audit Committees, which does not adhere to best practice. We feel that smaller companies should be afforded greater flexibility in the composition of their boards, so we voted in favour of their appointment.

10) Raven Russia: ISS recommended a vote against the issue of equity without pre-emptive rights, as the amount proposed exceeded the recommended limit of 5% of the enlarged issued share capital for share issuances without pre-emptive rights. The company discussed this with us ahead of the ballot: this is a technical increase of share capital to allow for preference shares to be converted to ordinary shares, which we supported. We therefore voted in favour.

11) Speymill Deutsche Immobilien: The Company has gone into liquidation; we still retain a holding although are unable to sell as there is currently no market. We chose to abstain on all items, given the lack of information emanating from the company.

12) Syvania Platinum: ISS recommended a vote against the re-election of Stuart Murray as he is the non-independent non-executive Chairman and is currently a member of the Remuneration Committee, which is contrary to UK best practice recommendations. We know Mr Murray to be a key member of the board and we feel that smaller companies should be afforded greater flexibility in the composition of their boards and committees, so we voted in favour of his reappointment.

13) Telecom Italia (TI): We voted to support the current board, since the business is currently in a period of turmoil, and has already had significant management change (including a new CEO) in the last six months - some stability at this time seems sensible. Additionally, we agreed with the current board's strategy regarding disposals of non-core businesses, and felt that giving them more time to achieve the best price for TI's foreign units was in the best interests of shareholders. Finally, we concluded that from a governance perspective, TI's many issues would be more easily resolved under the current board than under the proposed new one. Finally, we did not vote for Slate of Directors put forward by Telco (a group of TI share holders) in Item 5(a).

14) Victoria Oil & Gas: ISS recommended we abstain regarding the re-election of Robert Palmer as he is the non-independent Chairman, and is an Executive Director who sits on the Remuneration Committee, which is contrary to UK best practice. However, we feel that smaller companies should be given more flexibility in the composition of their boards, so we chose to vote in favour of his re-election.

Vote Summary Report

Date range covered: 10/01/2013 to 12/31/2013
Location(s): Massachusetts Financial Services
Institution Account(s): MFS Investment Fund - Global Equity Fund

The Procter & Gamble Company

Meeting Date: 10/08/2013 **Country:** USA **Provider Security ID:** 742718109 **Meeting ID:** 825526
Record Date: 08/09/2013 **Meeting Type:** Annual **Ticker:** PG

Primary CUSIP: 742718109 **Primary ISIN:** US7427181091 **Primary SEDOL:** 2704407

Voting Policy: MFS

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1a	Elect Director Angela F. Braly	Mgmt	For	For
1b	Elect Director Kenneth I. Chenault	Mgmt	For	For
1c	Elect Director Scott D. Cook	Mgmt	For	For
1d	Elect Director Susan Desmond-Hellmann	Mgmt	For	For
1e	Elect Director A.G. Lafley	Mgmt	For	For
1f	Elect Director Terry J. Lundgren	Mgmt	For	For
1g	Elect Director W. James McNerney, Jr.	Mgmt	For	For
1h	Elect Director Margaret C. Whitman	Mgmt	For	For
1i	Elect Director Mary Agnes Wilderotter	Mgmt	For	For
1j	Elect Director Patricia A. Woertz	Mgmt	For	For
1k	Elect Director Ernesto Zedillo	Mgmt	For	For
2	Ratify Auditors	Mgmt	For	For
3	Reduce Supermajority Vote Requirement	Mgmt	For	For
4	Approve Non-Employee Director Omnibus Stock Plan	Mgmt	For	For
5	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	For

Grupo Financiero Banorte S.A.B. de C.V.

Meeting Date: 10/14/2013 **Country:** Mexico **Provider Security ID:** P49501201 **Meeting ID:** 830767
Record Date: 10/01/2013 **Meeting Type:** Special **Ticker:** GFNORTEO

Primary CUSIP: P49501201 **Primary ISIN:** MXP370711014 **Primary SEDOL:** 2421041

Voting Policy: MFS

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1	Approve Dividends of MXN 0.7852 Per Share	Mgmt	For	For

Vote Summary Report

Date range covered: 10/01/2013 to 12/31/2013
Location(s): Massachusetts Financial Services
Institution Account(s): MFS Investment Fund - Global Equity Fund

Grupo Financiero Banorte S.A.B. de C.V.

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
2	Receive Board's Report on Public Offering of Shares and Capital Increase	Mgmt		
3	Receive External Auditor's Report on Fiscal Obligations	Mgmt		
4	Authorize Board to Ratify and Execute Approved Resolutions	Mgmt	For	For

Oracle Corporation

Meeting Date: 10/31/2013 **Country:** USA **Provider Security ID:** 68389X105 **Meeting ID:** 830422
Record Date: 09/03/2013 **Meeting Type:** Annual **Ticker:** ORCL

Primary CUSIP: 68389X105 **Primary ISIN:** US68389X1054 **Primary SEDOL:** 2661568

Voting Policy: MFS

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1.1	Elect Director Jeffrey S. Berg	Mgmt	For	Withhold
1.2	Elect Director H. Raymond Bingham	Mgmt	For	Withhold
1.3	Elect Director Michael J. Boskin	Mgmt	For	Withhold
1.4	Elect Director Safra A. Catz	Mgmt	For	Withhold
1.5	Elect Director Bruce R. Chizen	Mgmt	For	Withhold
1.6	Elect Director George H. Conrades	Mgmt	For	Withhold
1.7	Elect Director Lawrence J. Ellison	Mgmt	For	Withhold
1.8	Elect Director Hector Garcia-Molina	Mgmt	For	Withhold
1.9	Elect Director Jeffrey O. Henley	Mgmt	For	Withhold
1.10	Elect Director Mark V. Hurd	Mgmt	For	Withhold
1.11	Elect Director Naomi O. Seligman	Mgmt	For	Withhold
2	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	Against
3	Amend Omnibus Stock Plan	Mgmt	For	Against
4	Ratify Auditors	Mgmt	For	For
5	Establish Human Rights Committee	SH	Against	Against
6	Require Independent Board Chairman	SH	Against	For
7	Provide Vote Counting to Exclude Abstentions	SH	Against	Against

Oracle Corporation

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
8	Adopt Multiple Performance Metrics Under Executive Incentive Plans	SH	Against	For
9	Require Shareholder Approval of Quantifiable Performance Metrics	SH	Against	For

Pernod Ricard

Meeting Date: 11/06/2013 **Country:** France **Provider Security ID:** F72027109 **Meeting ID:** 777932
Record Date: 10/31/2013 **Meeting Type:** Annual/Special **Ticker:** RI

Primary CUSIP: F72027109 **Primary ISIN:** FR0000120693 **Primary SEDOL:** 4682329

Voting Policy: MFS

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
	Ordinary Business	Mgmt		
1	Approve Financial Statements and Statutory Reports	Mgmt	For	For
2	Approve Consolidated Financial Statements and Statutory Reports	Mgmt	For	For
3	Approve Allocation of Income and Dividends of EUR 1.64 per Share	Mgmt	For	For
4	Approve Auditors' Special Report on Related-Party Transactions	Mgmt	For	For
5	Reelect Daniele Ricard as Director	Mgmt	For	For
6	Reelect Laurent Burelle as Director	Mgmt	For	For
7	Reelect Michel Chambaud as Director	Mgmt	For	For
8	Reelect the Company Paul Ricard as Director	Mgmt	For	For
9	Reelect Anders Narvinger as Director	Mgmt	For	For
10	Approve Remuneration of Directors in the Aggregate Amount of EUR 910,000	Mgmt	For	For
11	Advisory Vote on Compensation of Daniele Ricard	Mgmt	For	For
12	Advisory Vote on Compensation of Pierre Pringuet	Mgmt	For	For
13	Advisory Vote on Compensation of Alexandre Ricard	Mgmt	For	For
14	Authorize Repurchase of Up to 10 Percent of Issued Share Capital	Mgmt	For	Against

Pernod Ricard

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
	Extraordinary Business	Mgmt		
15	Authorize Decrease in Share Capital via Cancellation of Repurchased Shares	Mgmt	For	For
16	Authorize Issuance of Equity or Equity-Linked Securities with Preemptive Rights up to Aggregate Nominal Amount of EUR 205 Million	Mgmt	For	For
17	Authorize Issuance of Equity or Equity-Linked Securities without Preemptive Rights up to Aggregate Nominal Amount of EUR 41 Million	Mgmt	For	For
18	Authorize Board to Increase Capital in the Event of Additional Demand Related to Delegation Submitted to Shareholder Vote Above	Mgmt	For	For
19	Authorize Capital Increase of up to 10 Percent of Issued Capital for Contributions in Kind	Mgmt	For	For
20	Authorize Capital Increase of Up to 10 Percent of Issued Capital for Future Exchange Offers	Mgmt	For	For
21	Approve Issuance of Securities Convertible into Debt	Mgmt	For	For
22	Authorize Capitalization of Reserves of Up to EUR 205 Million for Bonus Issue or Increase in Par Value	Mgmt	For	For
23	Approve Employee Stock Purchase Plan	Mgmt	For	For
24	Amend Article 16 of Bylaws Re: Election of Employee Representative	Mgmt	For	For
25	Authorize Filing of Required Documents/Other Formalities	Mgmt	For	For

Cisco Systems, Inc.

Meeting Date: 11/19/2013 **Country:** USA **Provider Security ID:** 17275R102 **Meeting ID:** 831706
Record Date: 09/20/2013 **Meeting Type:** Annual **Ticker:** CSCO

Primary CUSIP: 17275R102 **Primary ISIN:** US17275R1023 **Primary SEDOL:** 2198163

Voting Policy: MFS

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1a	Elect Director Carol A. Bartz	Mgmt	For	For
1b	Elect Director Marc Benioff	Mgmt	For	For

Cisco Systems, Inc.

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1c	Elect Director Gregory Q. Brown	Mgmt	For	For
1d	Elect Director M. Michele Burns	Mgmt	For	For
1e	Elect Director Michael D. Capellas	Mgmt	For	Against
1f	Elect Director John T. Chambers	Mgmt	For	For
1g	Elect Director Brian L. Halla	Mgmt	For	For
1h	Elect Director John L. Hennessy	Mgmt	For	For
1i	Elect Director Kristina M. Johnson	Mgmt	For	For
1j	Elect Director Roderick C. McGeary	Mgmt	For	For
1k	Elect Director Arun Sarin	Mgmt	For	For
1l	Elect Director Steven M. West	Mgmt	For	For
2	Amend Omnibus Stock Plan	Mgmt	For	Against
3	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	For
4	Ratify Auditors	Mgmt	For	For
5	Approve Proxy Advisor Competition	SH	Against	Against

British Sky Broadcasting Group plc

Meeting Date: 11/22/2013 **Country:** United Kingdom **Provider Security ID:** G15632105 **Meeting ID:** 820922
Record Date: 11/20/2013 **Meeting Type:** Annual **Ticker:** BSY

Primary CUSIP: G15632105 **Primary ISIN:** GB0001411924 **Primary SEDOL:** 0141192

Voting Policy: MFS

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1	Accept Financial Statements and Statutory Reports	Mgmt	For	For
2	Approve Final Dividend	Mgmt	For	For
3	Elect Chase Carey as Director	Mgmt	For	For
4	Re-elect Tracy Clarke as Director	Mgmt	For	For
5	Re-elect Jeremy Darroch as Director	Mgmt	For	For
6	Re-elect David DeVoe as Director	Mgmt	For	For
7	Re-elect Nick Ferguson as Director	Mgmt	For	For

British Sky Broadcasting Group plc

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
8	Re-elect Martin Gilbert as Director	Mgmt	For	For
9	Elect Adine Grate as Director	Mgmt	For	For
10	Re-elect Andrew Griffith as Director	Mgmt	For	For
11	Re-elect Andy Higginson as Director	Mgmt	For	For
12	Elect Dave Lewis as Director	Mgmt	For	For
13	Re-elect James Murdoch as Director	Mgmt	For	For
14	Re-elect Matthieu Pigasse as Director	Mgmt	For	For
15	Re-elect Danny Rimer as Director	Mgmt	For	For
16	Re-elect Arthur Siskind as Director	Mgmt	For	For
17	Elect Andy Sukawaty as Director	Mgmt	For	For
18	Reappoint Deloitte LLP as Auditors and Authorise Their Remuneration	Mgmt	For	For
19	Approve Remuneration Report	Mgmt	For	Against
20	Authorise EU Political Donations and Expenditure	Mgmt	For	For
21	Authorise Issue of Equity with Pre-emptive Rights	Mgmt	For	For
22	Authorise Issue of Equity without Pre-emptive Rights	Mgmt	For	For
23	Authorise the Company to Call EGM with Two Weeks' Notice	Mgmt	For	For
24	Authorise Market Purchase of Ordinary Shares	Mgmt	For	For
25	Authorise Off-Market Purchase of Ordinary Shares	Mgmt	For	For
26	Approve the Twenty-First Century Fox Agreement as a Related Party Transaction	Mgmt	For	For
27	Approve 2013 Sharesave Scheme Rules	Mgmt	For	For

AutoZone, Inc.

Meeting Date: 12/18/2013 **Country:** USA **Provider Security ID:** 053332102 **Meeting ID:** 836658
Record Date: 10/21/2013 **Meeting Type:** Annual **Ticker:** AZO

Primary CUSIP: 053332102 **Primary ISIN:** US0533321024 **Primary SEDOL:** 2065955

Vote Summary Report
Date range covered: 10/01/2013 to 12/31/2013
Location(s): Massachusetts Financial Services
Institution Account(s): MFS Investment Fund - Global Equity Fund

AutoZone, Inc.

Voting Policy: MFS

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1.1	Elect Director Douglas H. Brooks	Mgmt	For	For
1.2	Elect Director Linda A. Goodspeed	Mgmt	For	For
1.3	Elect Director Sue E. Gove	Mgmt	For	For
1.4	Elect Director Earl G. Graves, Jr.	Mgmt	For	For
1.5	Elect Director Enderson Guimaraes	Mgmt	For	For
1.6	Elect Director J. R. Hyde, III	Mgmt	For	For
1.7	Elect Director D. Bryan Jordan	Mgmt	For	For
1.8	Elect Director W. Andrew McKenna	Mgmt	For	For
1.9	Elect Director George R. Mrkonic, Jr.	Mgmt	For	For
1.10	Elect Director Luis P. Nieto	Mgmt	For	For
1.11	Elect Director William C. Rhodes, III	Mgmt	For	For
2	Ratify Auditors	Mgmt	For	For
3	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	For

Grupo Financiero Banorte S.A.B. de C.V.

Meeting Date: 12/20/2013 **Country:** Mexico **Provider Security ID:** P49501201 **Meeting ID:** 842439
Record Date: 12/06/2013 **Meeting Type:** Special **Ticker:** GFNORTEO

Primary CUSIP: P49501201 **Primary ISIN:** MXP370711014 **Primary SEDOL:** 2421041

Voting Policy: MFS

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
	Ordinary Business	Mgmt		
1	Amend Resolution Related to Dividend Payment Dates of Jan. 23, 2014 and April 23, 2014 as Approved at Oct. 14, 2013 Ordinary Shareholder Meeting	Mgmt	For	For
2	Authorize Board to Ratify and Execute Approved Resolutions	Mgmt	For	For

Vote Summary Report

Date range covered: 10/01/2013 to 12/31/2013
Location(s): Massachusetts Financial Services
Institution Account(s): MFS Investment Fund - Global Equity Fund

Investec Asset Management (IAM) takes an active and transparent approach to voting and engagement with the companies in our portfolios. We aim to encourage and reward better corporate governance and business integrity. The goal of this is to benefit clients and also improve the broader environmental, social realms in which we invest.

With the year-end approaching, an element of reflection is always important in our final quarterly report. During the course of the year, we were pleased to expand the global environmental, social and governance (ESG) team, adding two new analysts, which helped us reach some significant milestones in 2013.

In October, Investec Asset Management (IAM) was a platinum sponsor of the United Nations Principles of Responsible Investment in Person event held in Cape Town. This is a key event on the continent, especially for South Africa which has seen positive ESG developments over the past couple of years, including the introduction of the Code for Responsible Investing in South Africa and pension fund regulations.

Over the year, we noticed investment consultants and our global client base have increased their focus on ESG issues. This is both encouraging and challenging: detailed and informed questions reflect the growing attention trustees and institutional investors are giving these issues. Some of our smaller pension fund clients have expressed concerns regarding their resource and expertise constraints in this field. In response we offer trustee meetings to spread our views and understanding of ESG issues.

Our research focus through the year has been mixed, but following on from last year's tragic Marikana mine strike, there has been significant focus on mining and how we assess socio-political issues relating to the industry. There is clearly still a lot more that governments, companies, unions and investors can do to improve the situation. While our investigations are not yet concluded, we hope that some of the forthcoming analysis will be useful for investors and the way we think about long-term issues in the mining industry.

We also attended the Asian Corporate Governance Association (ACGA) conference in Seoul during November. IAM has been a member of the ACGA for two years, but this was the first time we met fellow members. Top discussion points included South Korea's chaebols (business conglomerates), insider management in Japan, family controlled ownership in Taiwan and state-owned enterprises in China. Approaches to governance vary across markets and there is no real evidence that one system outperforms the other. However, emerging markets are often considered to have less effective governance. This is a topic we will be researching over the next year with a view to challenging this assumption. The poor governance within the developed market financial services industry over the past few years provides further weight to our belief. It is interesting to note the positive correlation between developments in corporate governance and stock market performance in some Asian markets, including South Korea and Hong Kong.

Following on from the ACGA conference, the ESG team took part in a trip to China to research pollution in Beijing, food safety in inner Mongolia, water management and labour issues. We believe the Chinese government is taking significant measures to address pollution and environmental issues. ESG issues have moved higher up the policy agenda in China as the government becomes increasingly concerned about the link between ESG issues and social unrest.

For further details on our ESG efforts, please visit:
www.investecassetmanagement.com/stewardshipreport, where you can access the latest quarterly Stewardship report.

Voting
Quarter ended 31 December 2013

Voting policy

- We believe in the importance of responsible corporate governance and vote the shares held in your portfolio.
- For any queries specifically related to proxy voting, please email us on proxyvoting@investecmail.com
- Over the period under review, the following votes were cast on your behalf:

Company	Type	Date	For	Against	Abstained	Withheld	Did not vote*
BHP Billiton plc	Annual	24/10/2013	22	1			
Cardinal Health, Inc.	Annual	06/11/2013	12	3			
China Construction Bank Corporation	Special	24/10/2013	2	2			
Cisco Systems, Inc.	Annual	19/11/2013	8	8			
Crown Ltd	Annual	30/10/2013	6				
Telstra Corporation Limited	Annual	15/10/2013	4				

* Due to POA markets or share blocking.
Source: Investec Asset Management.

Investec
Asset Management

LGIM Voting Summary by Topic and Region

Between 01/10/2013 and 31/12/2013		UK			Europe			North America			Japan			Asia Pacific			Total
		FOR	AGAINST	ABSTAIN	FOR	AGAINST	ABSTAIN	FOR	AGAINST	ABSTAIN	FOR	AGAINST	ABSTAIN	FOR	AGAINST	ABSTAIN	
Management Proposals	Board structure	412	6		51	8		301	9	5	23	2		260	48	4	1,129
	Remuneration	89	13		18	6		58	4					161	21	4	374
	Capital structure	303	10		51	2		7			3			74	18		468
	Auditors	122	1		13	2		34			1			26			199
	Voting rights	40						1									41
	General governance	5	1														6
	Routine and company business	84	2		34			1						21	1		143
	Anti-takeover measures				1			5						10			16
	Takeover/merger/reorganisation	30	3		13			2			7	1		35	1		92
	Social issues	12															12
Shareholder Proposals	SP – Anti-takeover measures																
	SP - Board structure		1		2		1	2	1						4		11
	SP - Remuneration							1	1								2
	SP - Capital structure							2									2
	SP - Voting rights																
	SP - General governance								1								1
	SP - Routine and company business								1								1
	SP - Environmental issues								1								1
	SP - Social issues							1									1
Total Votes		1,097	37		183	18	1	415	18	5	34	3		587	93	8	
Total number of resolutions		1,134			202			438			37			688			2,499
Annual General Meetings (AGM)		75			12			34			3			91			215
Extraordinary General Meetings (EGM)		39			16			2			3			24			84
Number of companies voted at		108			27			36			6			113			290

The above table details the voting that has been carried out for the PMC UK, Europe, North America, Japan and Asia Pacific – Equity Index Funds

Shropshire County Council

Responsible Ownership Activity Report Q4 2013

The purpose of the ***reo***® (responsible engagement overlay)* service is to engage with companies held in portfolios with a view to promoting the adoption of better environmental, social and governance (ESG) practices. The ***reo***® approach focuses on enhancing long-term investment performance by making companies more commercially successful through safer, cleaner, and more accountable operations that are better positioned to deal with ESG risks and opportunities. Through a combination of constructive dialogue and active share voting, ***reo***® works to drive behavioural change with companies, and records successful outcomes as 'milestones' – changes in corporate policies or behaviour following intervention.

Companies engaged this quarter

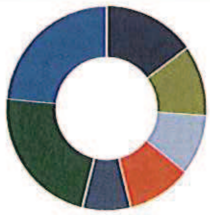
Companies engaged	49
Milestones achieved	11
Countries covered	2

Milestones achieved by issue

Companies engaged by country

United Kingdom	48
Asia (ex Japan)	1

Companies engaged by issue**

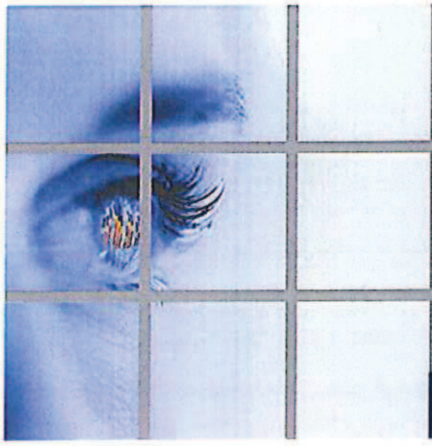


Environmental Standards	17
Business Ethics	13
Human Rights	11
Labour Standards	12
Public Health	9
Corporate Governance	26
Social and Environmental Governance	27

* ***reo***® is currently applied to £81.7 billion (€97.7 billion / $132.2 billion) of assets as at 30 September 2013

** Companies may have been engaged on more than one issue.

F&C Investments



reo® viewpoint

Yo Takatsuki, Senior Analyst, Governance and Sustainable Investment November 2013

Japanese corporate governance: Beyond the tipping point?

For two hundred years Japan isolated itself, resisting change from the outside world. This came to a sudden end in 1854 with the arrival of the warships of American Commodore Matthew Perry. They brought with it the start of a process of rapid modernisation where Western influences were keenly absorbed into Japanese society.

Fast forward to 2013 and Prime Minister Shinzo Abe is trying to have a similarly dramatic effect. His government's policies are attempting to shake the country awake from a 20-year slumber defined by economic stagnation and deflation. How successful his popularly dubbed Abenomics will be in revitalizing Japan in the long-term remains open to debate. But, there is no question that – once again – Japan is open for change.

It is within this political and economic backdrop that F&C reports on a year of significant improvements to corporate governance practices in Japan. Despite its position as one of the largest capital markets in the world, Japan's corporate governance practices severely lag those of its developed world peers, and more recently, even those of some Asian neighbours such as Hong Kong and Singapore. Japan's largest corporations have a history of open resistance to governance reform and a track record of lobbying through industry bodies to dilute proposals for change, including the recent revisions to the Japanese Company Law. This allowed many companies to maintain outdated governance practices of concern to international, minority shareholders. The following problematic practices are a variation on the same theme — no voice for shareholders:

- **Management dominated boards with no outsiders** – As recently as 2010, more than half of the companies on the TOPIX is estimated to have all-insider boards. In effect, most Japanese boards still serve as management boards where strategy and execution is overseen by the same group of people. Minority shareholders are barely represented, if at all. This reflects the traditional weak position of shareholders in the running of a Japanese corporation where arguably management and employees have enjoyed much stronger influence.
- **Extremely low numbers of independent directors** – 0.2% of listed Japanese companies have majority independent boards. This compares to approximately 90% in the US, 50% in the UK and 30% in Singapore[1].
- **Concentration of power** – The chairman of the board is also almost always the most powerful executive in the company. This leads to questions over who is responsible for overseeing the actions and performance of management. It is not uncommon for the chairman to be a direct descendant of the founder. Traditionally, many chairmen further entrench their position through cross-share holdings with companies and banks they have close relationships with.

Nuclear apocalypse and fraud of breathtaking proportion provided some catalyst for change in 2011 as **Tokyo Electric Power Company's (TEPCO)** meltdown disaster at the Fukushima power plant and the **Olympus** accounting scandal focused international investors' attention on Japan. These incidents stimulated public debate on the companies' governance practices, especially on how it could have contributed or failed to stop the cases from occurring. Despite all this, revisions to the Company Law showed the determination of big businesses to maintain its insider dictated approach to corporate governance. A proposal to mandate the appointment of a single outside director was watered down to a "comply or explain" approach requirement following fierce resistance from the powerful Keidanren business lobby.

The return of Abe's Liberal Democratic Party to power in December 2012 sparked a sharp increase in the price of Japanese stocks – with the Nikkei 225 index rising by nearly 60% in six months of his re-election[2]. International investors were the major drivers of this bull-run, rushing into the market by purchasing an estimated net 50 billion dollars of Japanese shares[3]. Estimates suggest that 30% of the Japanese market is now owned by foreign shareholders – an all time high.

The flooding in of international investors with higher expectations for governance practice helped push reform up Japan's political agenda. Unlike previous years, many companies have dropped resistance and accepted change during the course of this year. At the end of September 2013, a record 112 companies (7% of TOPIX index issuers) had moved to end a regime of all-insider boards and opened the board to outsiders for the first time. In the future, 2013 may be the year in which governance reform could be considered to have gone beyond the tipping point.

F&C Acts

F&C has been actively seeking change in Japanese corporate practices since 2000. We co-authored the Asian Corporate Governance Association's (ACGA) "White Paper on Corporate Governance in Japan" in 2008. This landmark study contributed to increasing interest among the international investor community in Japan Inc.'s approach to governance. The paper highlighted three weaknesses that resonate to this day[4]:

- Inadequate supervision of corporate strategy;
- Protecting management from the discipline of the market, thus rendering the development of a healthy and efficient market in corporate control all but impossible;
- Failing to provide the returns that are vitally necessary to protect Japan's social safety net – its pension system.

F&C Investments

[1] ISS data, September 2013
[2] ENikkei 225 rose by 58.99% between 17 December 2012 and 22 May 2013.
[3] Sumitomo Mitsui Trust Bank data, September 2013
[4] ACGA "White Paper on Corporate Governance in Japan", May 2008

Over the years, F&C has encouraged companies to improve board practices through a number of tactics including: writing annually to every Japanese company that F&C and our ***reo***® clients holds to explain our voting policy; exercising our voting rights at annual company meetings; disclosing our reasons for votes against management; engaging companies on environmental, social and governance (ESG) issues one-to-one and on a collaborative basis; and travelling to Japan on a regular basis to meet companies face-to-face. F&C speaks with companies in Japanese as we believe this to be the most effective strategy to get our message heard.

As a response to the Olympus and TEPCO incidents as well as the increased flow of investments into Japan, F&C intensified our engagement in 2012 and 2013. We travelled twice to Tokyo, in September 2012 and in March 2013, where we met with approximately 30 companies face-to-face to discuss material ESG issues. Company meetings included Olympus, TEPCO, **Nippon Steel & Sumitomo Metal, Takeda Pharmaceutical, Japan Tobacco, Sumitomo Corporation** and **Toyota.**

In the spring of this year, we launched a project targeting the 15 largest companies in Japan (by market capitalization) still maintaining an all-insider board. These included **Fanuc, Nintendo** and **Kyocera.** We wrote to the Chairman or President of these companies highlighting the importance for listed companies to have a sufficient number of non-executive board directors from outside the company. Reasons we cited include:

- Independent oversight of management without a conflict of interests;
- Representation of the interests of minority shareholders;
- Strategic thinking that is independent from executives;
- Management experience and expertise developed from outside;
- Diversity of opinion – by including international or female directors.

Six of these companies introduced an external director during the June AGM season. The most surprising was industrial robotics maker Fanuc, as the company had been traditionally secretive, reluctant to meet investors, and resistant to change. In total, F&C has reported to clients 86 corporate governance enhancements in Japan during 2013. These milestones are instances where we identified improvements in board structure that F&C directly commented on via engagement and/or voting activity.

Alongside direct communication with companies, F&C's ongoing strategy in Japan is to engage a wide range of stakeholders. We believe strongly that this is the most effective route to securing change at the company level. In recent months, we have held discussions with:

- **Regulators** including the Japan Financial Services Authority (FSA).
- **Government ministries** such as the Ministry of Economy, Trade and Industry.
- **Business groups** such as the Keidanren.
- **Tokyo Stock Exchange** which is the main Japanese proponents of governance reform.
- **Government advisors and academics**, specifically those who play a critical role in setting the policy agenda and making recommendations.
- **Consultants** who are hired to collect the opinions of international investors.
- **Japanese asset managers and asset owners** who traditionally have played a passive role with investee companies.
- **International institutional investors** such as other Asian Corporate Governance Association members. We also participate actively in the UK-based Japan Focus Group.

F&C 2013 voting record in Japan

As part of our objective to target companies with all-insider boards, F&C tightened its voting rules in Japan this year. We decided to vote against all directors, including Chairman and President, at companies with no external directors.

In 2013 – up to mid-October – F&C had voted at 700 Japanese company meetings. Our 'votes against management' rate is currently 54 per cent. This is a considerable decline from 62 per cent in 2012. This shows that the overall improvement in governance standards in Japan has more than offset the tougher voting rules we have put in place. That said, Japan will almost certainly remain as the market with the highest votes against management recommendations of the 70 or so countries in which F&C voted in 2013.

Major AGMs in 2013 have included Toyota's. The carmaker introduced three outside directors for the first time and F&C supported the entire boards election in reflection of this reform. While at the other extreme, camera giant **Canon** chose to maintain its all-insider board and F&C voted against the entire board including the charismatic Fujio Mitarai. He is joint Chairman, President and CEO. He also served as Chairman of the Keidanren between 2006 and 2010.

They said...

"We believe that familiarity with current on-site conditions is integral to more effective and efficient decision-making. Accordingly, the company does not presently appoint outside directors."

Canon

We said...

"Canon's management appears to be turning in on itself at a time of major operational and strategic challenges for their global business, when instead F&C believes that the introduction of independent outside directors would be a positive dynamic that could act as a catalyst for clearer strategic direction."

Jamie Jenkins, Head of Japanese Equities, F&C Investments

Conclusion and next steps

There is no doubt that Prime Minister Abe has succeeded in forcing a much-needed sense of urgency for economic reform and in stirring the conservative board rooms of Japan Inc. into action. F&C believes that governance reform was in part the fruition of years of consistently calling for change by a small community of international investors. We are encouraged by these developments, but Japan has far to go before its governance practices are close to Western counterparts. As a result, F&C plans to maintain our intensity of engagement in Japan in the coming year.

In addition to ongoing board reform, there are two major developments on the horizon between now and the next annual meeting season in June 2014. First of these is the process to establish the Japanese version of the UK Stewardship Code. The Japanese FSA is leading the efforts and this code is expected to require institutional investors in Japan to improve disclosure of their voting policies and records (almost all asset managers disclose some voting information already), and to engage with investee companies.

[5] Towers Watson

F&C Investments

Japanese asset managers and owners have traditionally played a relatively passive role engaging investee companies. This is largely due to the conflict of interest they face as many of them are part of a large business network (called the keiretsu). This means that either they are subsidiaries of larger corporations – in which they own large blocks of shares – or enjoy long lasting business relationships. Very few (if any) are genuinely independent entities. Maintaining harmony in these business relationships may get in the way of a Japanese asset manager's willingness to engage major corporations, especially at a meaningful level to urge change in areas that would improve investment outcomes. F&C has engaged a number of advisors to the Japanese government who are currently drafting the code. F&C is recommending that any code be bolstered with a requirement for systematic reporting of an asset manager and owner's Stewardship approach and related activities. We believe this has contributed to enhancing the accountability of signatories to the UK Stewardship Code. It is expected that a draft will be finalised by the spring of 2014.

Secondly, some Japanese companies are indicating an improved approach to remuneration. Unlike the US, UK and a number of other Western markets, there is no requirement in Japan for companies to seek non-binding approval from shareholders on executive remuneration packages. Currently, Japanese companies are required only to disclose their compensation policy and pay for directors when it exceeds approximately US$1 million.

F&C's study of Japanese pay practices reveals that while absolute levels of pay are not an issue, the link between pay and performance is weak – especially those indicators related to shareholder returns. The average ratio of fixed to variable pay is three-to-one. Compare this to the US where it is one-to-three[5]. F&C is increasing its engagement with companies on this issue – especially the major commercial banks which are considered to have systemic risk and are likely to receive extraordinary government support in a time of need. This is a risk that affects both share and bond-holders. F&C strives to ensure that the pay policy of executives at Japanese financial institutions reflect the right balance of risk-taking and risk-management. In 2013, we wrote to the Chairmen of **Sumitomo Mitsui Financial Group, Mitsubishi UFJ Financial Group, Mizuho Financial Group,** and **Shizuoka Bank** to highlight our position on this issue.

2014 is expected to be the year of truth for the Japanese Prime Minister. He will be under enormous pressure to start achieving concrete results with his Abenomics policies. F&C believes that many of the goals of the government and international investors are aligned. We both want to see a revitalised corporate Japan that is growing and attracting foreign capital. F&C will capitalize on the government's push for reform by intensively engaging companies which have weak governance practices – especially all-insider boards – and continue to push for a stronger recognition of shareholders' rights.

For clients with access to F&C's ***reo®*** *Partner Portal, the details of all the engagement and milestone highlighted here is available by using the GSI Companies or search function (type in the company name) to find the company. Clients can also click on the Engagement Projects tab to find details of the "Japanese Corporate Governance Project" in which we engaged companies with all-insider boards.*

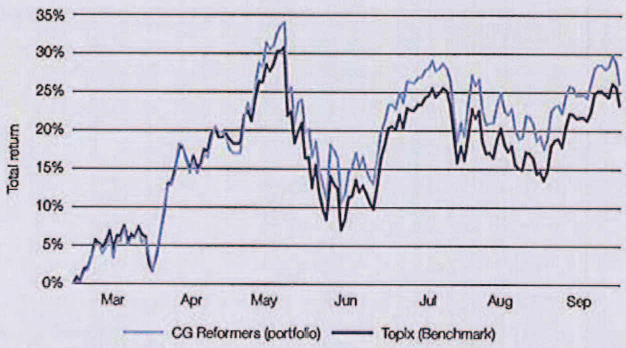
If you would like further details on the information in this note, please contact your ***reo®*** client director.

The impact of governance reform?

A key reason given by many Japanese corporations as to why they do not want to reform their governance structure is the lack of financial benefit for doing so. In recent years, there have been a growing body of academic research supporting the case for good corporate governance and shareholder returns.

To add to this research, F&C investigated the difference in returns between an equity portfolio constituting the companies that introduced an outsider to the board for the first time in 2013 versus the benchmark TOPIX index. In this simple exercise:

- F&C created a portfolio of 112 stocks. Weightings were a derivative based on the parent TOPIX benchmark index. Weightings were allowed to drift.
- The start date was set as March 1st 2013. This was before the companies had started to publicly indicate their plans for director elections in the June AGM season. End date was September 30th 2013 (7-month period).
- Total Return – including returns from share price changes and dividends – (in Japanese Yen) was selected as the measure for investor returns.



Currency: Japanese Yen
Source: Bloomberg

The results show that at the end of the experiment period on September 30th the portfolio had outperformed the benchmark by 2.8%. The largest difference in performance was in mid-August where the portfolio was outperforming by 4.8%.

The portfolio and benchmark tracked each other closely for the first two months of the experiment period. Then from early May through to the middle of the voting season in June, the portfolio outperformed by 4% or so. It is interesting to observe that the period in which the biggest gains were made coincided with when the disclosures for board director elections took place. We also saw very similar results when the portfolio was benchmarked against FTSE Japan (the industry benchmark for Japanese equity funds).

Of course, there are severe limitations in a study of this basic nature and short timescale. F&C accepts that there is little concrete data that could be concluded from this study in the long-run and a similar result may not be replicated in 2014. Nevertheless, F&C considers it interesting that employing governance reform as an investment strategy would have had this outcome in 2013. We hope this adds to the points of discussion amongst all stakeholders interested in governance reform in Japan.

F&C Investments

Committee and Date	Item
Pensions Committee 20 March 2014 10.30 a.m.	**11** Public

FUNDING STRATEGY STATEMENT

Responsible Officer Justin Bridges
e-mail: justin.bridges@shropshire.gov.uk Tel: (01743) 252072 Fax (01743) 255901

1. Summary

1.1 The report informs Members of the requirement to publish an updated Funding Strategy Statement. It sets out the Funding Strategy Statement which forms the basis of the 2013 Actuarial Valuation.

2. Recommendations

2.1 Members are asked to approve the updated Funding Strategy Statement.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

3.2 There are no direct environmental, equalities or climate change consequences arising from this report.

3.3 Regular monitoring against published Funding Strategy Statement will give early warning of areas of difficulty.

4. Financial Implications

4.1 There are no financial implications to consider in this report as the value of the fund does not affect the resources of the Council.

5. Background

5.1 The requirement for LGPS administering authorities to prepare a Funding Strategy Statement was brought in under the Local Government Pension Scheme (England and Wales) (Amendment) Regulations 2004.

5.2 The Shropshire Fund first produced a Funding Strategy Statement in 2004. This Statement was revised in 2010 at the last actuarial valuation. The Statement outlines the basis on which the actuarial valuation of the Fund is conducted. It is now necessary to update the Funding Strategy Statement for the 2013 actuarial valuation.

6. Purpose of the Funding Strategy Statement

6.1 The Funding Strategy Statement (FSS) aims to;-

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

6.2 The FSS applies to the Fund as a whole whilst at the same time recognising that there will be conflicting objectives which need to be reconciled. The FSS is written and implemented by the administering authority. The position of individual employers is reflected in the FSS but it is a single strategy for the Fund as a whole. In recognising the position of individual employers in a single strategy statement the FSS supports the long term sustainability of the pension fund.

7 Consultation and Publication

7.1 The preparation of the Statement has run in parallel with the 2013 actuarial valuation. In consultation with Mercers, officers have updated the FSS to incorporate the latest valuation assumptions. The FSS includes the Independent Actuary's recommendation to collect deficit recovery amounts as lump sum payments rather than as a percentage of salaries. A copy of the Funding Strategy Statement (FSS) is attached at Appendix A.

7.2 In preparing the FSS the Administering Authority is required to consult with participating employers. Employers were consulted on the updated content of the Funding Strategy Statement during February 2014. All employers were sent a draft of the FSS and asked for comments none of which were received.

7.3 Members are asked to approve the updated FSS. Following approval copies will be distributed electronically to employers, investment managers, independent advisors and trade unions representing contributors. It will also be available on the website.

8. Monitoring and Review

8.1 The FSS must be reviewed formally at least every three years at the time of the triennial valuation. The FSS will be monitored in the inter-valuation period. It will be revised and published to reflect any material change in policy or to the Statement of Investment Principles. Scheme employers will be consulted regarding any changes.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Pensions Committee, 24 November 2010, Funding Strategy Statement.
Cabinet Member N/A
Local Member N/A
Appendices A – Funding Strategy Statement

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APPENDIX A

SHROPSHIRE COUNTY PENSION FUND (SCPF)

2013 Funding Strategy Statement (FSS)

This Statement has been prepared by Shropshire Council (the Administering Authority) to set out the funding strategy for the Shropshire County Pension Fund (the SCPF), in accordance with Regulation 35 of the Local Government Pension Scheme (Administration) Regulations 2008 (as amended) and the guidance paper issued by the Chartered Institute of Public Finance and Accountancy (CIPFA) Pensions Panel.

1. INTRODUCTION

The Local Government Pension Scheme (Administration) Regulations 2008 (as amended) ("the Administration Regulations") provide the statutory framework from which the Administering Authority is required to prepare a FSS. The key requirements for preparing the FSS can be summarised as follows:

§ After consultation with all relevant interested parties involved with the Fund, the Administering Authority will prepare and publish their funding strategy.

§ In preparing the FSS, the Administering Authority must have regard to :-

  § the guidance issued by CIPFA for this purpose; and

  § the Statement of Investment Principles (SIP) for the SCPF published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 (as amended);

§ The FSS must be revised and published whenever there is a material change in either the policy on the matters set out in the FSS or the Statement of Investment Principles.

Benefits payable under the SCPF are guaranteed by statute and thereby the pensions promise is secure. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time, facilitating scrutiny and accountability through improved transparency and disclosure.

The Scheme is a defined benefit arrangement with principally final salary related benefits from contributing members up to 1 April 2014 and Career Averaged Revalued Earnings ("CARE") benefits earned thereafter. There is also the introduction of a "50:50 Scheme Option", where members can elect to accrue 50% of the full scheme benefits and pay 50% of the normal member contribution.

The benefits provided by the SCPF are specified in the governing legislation (the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) ("the BMC Regulations") and the Administration Regulations referred to above). New legislation contained in the Local Government Pension Scheme Regulations 2013 ("the 2013 Regulations") governs the SCPF from 1 April 2014. The required levels of employee contributions from 1 April 2014 are also specified in the 2013 Regulations.

Employer contributions are determined in accordance with the Administration Regulations which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate. Contributions to the SCPF should be set so as to "secure its solvency", whilst the actuary must also have regard to the desirability of maintaining as nearly constant a rate of contribution as possible. The actuary must have regard to the FSS in carrying out the valuation.

2. PURPOSE OF THE FSS IN POLICY TERMS

Funding is the making of advance provision to meet the cost of accruing benefit promises. Decisions taken regarding the approach to funding will therefore determine the rate or pace at which this advance provision is made. Although the Regulations specify the fundamental principles on which funding contributions should be assessed, implementation of the funding strategy is the responsibility of the Administering Authority, acting on the professional advice provided by the actuary.

The purpose of this Funding Strategy Statement is:

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

The intention is for this strategy to be both cohesive and comprehensive for the SCPF as a whole, recognising that there will be conflicting objectives which need to be balanced and reconciled. Whilst the position of individual employers must be reflected in the statement, it must remain a single strategy for the Administering Authority to implement and maintain.

3. AIMS AND PURPOSE OF THE SCPF

The aims of the Fund are to:

- enable employer contribution rates to be kept as nearly constant as possible and at reasonable cost to the taxpayers, scheduled, resolution and admitted bodies
- manage employers' liabilities effectively
- ensure that sufficient resources are available to meet all liabilities as they fall due, and
- maximise the returns from investments within reasonable risk parameters.

The purpose of the Fund is to:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of scheme benefits, transfer values, costs, charges and expenses as defined in the Local Government Pension Scheme (Administration) Regulations 2008 (as amended), the Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended), the 2013 Regulations and in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009.

4. RESPONSIBILITIES OF THE 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 SCPF's actuary
- prepare and maintain an FSS and a SIP, both after due consultation with interested parties, and
- monitor all aspects of the SCPF's performance and funding and amend FSS/SIP.

The Individual Employer should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- 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 Authority 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
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters,
- advise on funding strategy, the preparation of the FSS, and the inter-relationship between the FSS and the SIP.

5. SOLVENCY ISSUES AND TARGET FUNDING LEVELS

Funding Objective

To meet the requirements of the Administration Regulations the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "**funding target**") assessed on an ongoing past service basis including allowance for projected final pay. In the long term, the employer rate would ultimately revert to the Future Service Contribution Rate.

Determination of the Funding Target and Recovery Period

The principal method and assumptions to be used in the calculation of the funding target are set out in Appendix 1.

Underlying these assumptions are the following two tenets:

- that the Scheme is expected to continue for the foreseeable future; and

- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Administering Authority to take a longer term view when assessing the contribution requirements for certain employers. As part of this valuation, when looking to potentially stabilise contribution requirements, the Administering Authority will consider whether the following can be built into the funding plan:-

- some allowance for changes in market conditions that have occurred since the valuation date;

- some further allowance for interest rates and bond yields to revert to higher levels over the medium to long term.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful.

As part of each valuation separate employer contribution rates are assessed by the actuary for each participating employer or group of employers. These rates are assessed taking into account the experience and circumstances of each employer, following a principle of no cross-subsidy between the distinct employers in the Scheme.

In attributing the overall investment performance obtained on the assets of the Scheme to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Scheme as a whole (except where an employer adopts a bespoke investment strategy – see below).

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2013 actuarial valuation:

- A default recovery period of 19 years will apply.

- In addition, at the discretion of the Administering authority, a maximum deficit recovery period of 25 years will apply. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. A shorter period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan below).

- In current circumstances, as a general rule, the Fund does not believe it appropriate for contribution reductions to apply. As a result, employers' contributions will be subject to a "floor", such that total contributions are not reduced relative to the 2010 valuation contribution plan, unless this can be achieved using a deficit recovery period lower than the default.

- The employer contributions will be expressed and certified as two separate elements:

    - a percentage of pensionable payroll in respect of the future accrual of benefit

    - a schedule of lump sum amounts over 2014/17 in respect of the past service deficit, subject to review from April 2017 based on the results of the 2016 actuarial valuation.

- On the cessation of an employer's participation in the Scheme, the actuary will be asked to make a termination assessment. Any deficit in the Scheme in respect of the employer will be due to the Scheme as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Scheme to another participating employer. The full termination policy can be found on our website www.shropshirecountypensionfund.co.uk

However, the Administering Authority has ultimate discretion where the particular circumstances of any given Employer warrant a variation from these objectives.

In determining the above objectives the Administering Authority has had regard to:

- the responses made to the consultation with employers on the FSS principles
- relevant guidance issued by the CIPFA Pensions Panel
- the need to balance a desire to attain the target as soon as possible against the short-term cash requirements which a shorter period would impose, and
- the Administering Authority's views on the strength of the participating employers' covenants in achieving the objective.

Deficit Recovery Plan

If the assets of the scheme relating to an employer are less than the funding target at the effective date of any actuarial valuation, a recovery plan will be put in place, which requires additional contributions from the employer to meet the shortfall.

Additional contributions will be expressed as annual monetary lump sums, subject to review based on the results of each actuarial valuation.

In determining the actual recovery period to apply for any particular employer to employer grouping, the Administering Authority may take into account some or all of the following factors:

- the size of the funding shortfall;
- the business plans of the employer;
- the assessment of the financial covenant of the Employer; and the security of future income streams
- any contingent security available to the Fund or offered by the Employer such as guarantor or bond arrangements, charge over assets, etc.
- length of expected period of participation in the Fund.

The assumptions to be used in these Recovery Plan calculations are set out in Appendix 2.

The Normal Cost of the Scheme (Future Service Contribution Rate)

In addition to any contributions required to rectify a shortfall of assets below the funding target, contributions will be required to meet the cost of future accrual of benefits for members after the valuation date (the "normal cost"). The method and assumptions for assessing these contributions are also set out in Appendix 1.

6. LINK TO INVESTMENT POLICY SET OUT IN THE STATEMENT OF INVESTMENT PRINCIPLES

The results of the 2013 valuation show the liabilities at 31 March 2013 to be 76% covered by the current assets, with the funding deficit of 24% being covered by future deficit contributions.

In assessing the value of the SCPF's liabilities in the valuation, allowance has been made for asset out-performance as described in Appendix 1, taking into account the investment strategy adopted by the SCPF, as set out in the SIP.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which closely matches the liabilities and represents the least risk investment position. Such a portfolio would consist of a mixture of long-term index-linked and fixed interest gilts. Investment of the SCPF's assets in line with the least risk portfolio would minimise fluctuations in the SCPF's ongoing funding level between successive actuarial valuations.

Departure from a least risk investment strategy, in particular to include equity type investments, gives the prospect that out-performance by the assets will, over time, reduce the contribution requirements. The funding target might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current benchmark investment strategy, as set out in the SIP, is:

Asset Class (Summary)	**%**
Unconstrained Global Equity	24.0
UK Equity	8.0
Passive Equity (100% Hedged to GBP)	20.0
European (Incl UK) Property	5.0
Private Equity	5.0
Infrastructure	3.0
Fund of Hedge Funds	5.0
Multi-Strategy Hedge Funds	5.0
UK Index Linked Bonds	10.0
Global Credit (100% hedged to GBP)	7.5
Absolute Return Bonds	7.5

The funding strategy adopted for the 2013 valuation is based on an overall assumed asset out-performance of 1.75% per annum over and above the returns on long-dated gilts.

7. IDENTIFICATION OF RISKS AND COUNTER MEASURES

The funding of defined benefits is by its nature uncertain. Funding of the SCPF is based on both financial and demographic assumptions. These assumptions are specified in the Appendices and the actuarial valuation report. When actual experience is not in line with the assumptions adopted a surplus or shortfall will emerge at the next actuarial assessment and will require a subsequent contribution adjustment to bring the funding back into line with the target.

The Administering Authority has been advised by the actuary that the greatest risk to the SCPF's funding is the investment risk inherent in the predominantly equity (or return seeking) based strategy, so that actual asset out-performance between successive valuations could diverge significantly from the overall out-performance assumed in the long term.

What are the Risks?

Financial

- Investment markets fail to perform in line with expectations
- Market yields move at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Effect of possible increase in employer's contribution rate on service delivery and admitted/scheduled bodies

Demographic

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)

Insurance of certain benefits

The contributions for any employer may be varied as agreed by the Actuary and Administering Authority to reflect any changes in contribution requirements as a result of any benefit costs being insured with a third party or internally within the Fund.

Regulatory

- Further changes to Regulations, e.g. more favourable benefits package, potential new entrants to scheme, e.g. part-time employees
- Changes to national pension requirements and/or HMRC rules

Governance

- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements)
- Administering Authority not advised of an employer closing to new entrants
- An employer ceasing to exist with insufficient funding or adequacy of a bond.
- Changes in Committee membership.

8. MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement, and has also consulted with employing organisations.

A full review of this Statement will occur no less frequently than every three years, to coincide with completion of a full actuarial valuation. Any review will take account of then current economic conditions and will also reflect any legislative changes.

The Administering Authority will monitor the progress of the funding strategy between full actuarial valuations. If considered appropriate, the funding strategy will be reviewed (other than as part of the triennial valuation process), for example:

§ if there has been a significant change in market conditions, and/or deviation in the progress of the funding strategy

§ if there have been significant changes to the SCPF membership, or LGPS benefits

§ if there have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy e.g. closure to new entrants

§ if there have been any significant special contributions paid into the SCPF

Shropshire Council as Administering Authority for the Shropshire County Pension Fund

APPENDIX 1

ACTUARIAL VALUATION AS AT 31 MARCH 2013

Method and assumptions used in calculating the funding target

Method

The actuarial method to be used in the calculation of the funding target is the Projected Unit method, under which the salary increases assumed for each member are projected until that member is assumed to leave active service by death, retirement or withdrawal from service. This method implicitly allows for new entrants to the scheme on the basis that the overall age profile of the active membership will remain stable. As a result, for those employers which are closed to new entrants, an alternative method is adopted (the Attained Age method), which makes advance allowance for the anticipated future ageing and decline of the current closed membership group.

Financial assumptions

Investment return (discount rate)

A yield based on market returns on UK Government gilt stocks and other instruments which reflects a market consistent discount rate for the profile and duration of the Scheme's accrued liabilities, plus an Asset Out-performance Assumption ("AOA") 1.75% per annum.

The asset out-performance assumptions represent the allowance made, in calculating the funding target, for the long term additional investment performance on the assets of the Fund relative to the yields available on long dated gilt stocks as at the valuation date.

Inflation (Consumer Prices Index)

The inflation assumption will be taken to be the investment market's expectation for RPI inflation as indicated by the difference between yields derived from market instruments, principally conventional and index-linked UK Government gilts as at the valuation date, reflecting the profile and duration of the Scheme's accrued liabilities, but subject to the following two adjustments:

§ an allowance for supply/demand distortions in the bond market is incorporated, and

§ due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index, The overall reduction to RPI inflation implied by the market at the valuation date is 1.0% per annum.

Salary increases

The assumption for real salary increases (salary increases in excess of price inflation) in the long term will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. However, allowance has been made for expected short term pay restraint for all employers in the fund. The resultant salary increase assumption for the first three years is 1% per annum.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the RPI (e.g. Guaranteed Minimum Pensions in respect of service prior to April 1997).

Demographic assumptions

Mortality

The mortality in retirement assumptions will be based on up-to-date information in relation to self-administered pension schemes published by the Continuous Mortality Investigation (CMI), making allowance for future improvements in longevity and the experience of the scheme. The mortality tables used are set out below, which include adjustments reflecting the SCPF characteristics. The derivation of the mortality assumption is set out in a separate paper as supplied by the Actuary. Current members who retire on the grounds of ill health are assumed to exhibit average mortality equivalent to that for a good health retiree at an age 4 years older. Existing ill health retirees are assumed to be 3 years older. For all members, it is assumed that the accelerated trend in longevity seen in recent years will continue in the longer term and as such, the assumptions build in a level of longevity 'improvement' year on year in the future in line with the CMI projections with a long-term improvement trend of 1.5% per annum.

The mortality before retirement assumption has also been adjusted based on LGPS wide experience.

Commutation

It has been assumed that, on average, 50% of retiring members will take the maximum tax-free cash available at retirement and 50% will take the standard 3/80ths cash sum. The option which members have to commute part of their pension at retirement in return for a lump sum is a rate of £12 cash for each £1 p.a. of pension given up.

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of retirement in normal health and in ill health and the proportions married/civil partnership assumption have been modified from the last valuation. In addition, allowing for take-up of the 50:50 option will be made up to a maximum of 10% of current and future members for certain employers (who have sufficient size of current contributing members). Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. Administration expenses are allowed for by adding 0.5% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

Method and assumptions used in calculating the cost of future accrual

The cost of future accrual (normal cost) will be calculated using the same actuarial method and assumptions as used to calculate the funding target except that the financial assumptions adopted will be as described below.

The financial assumptions for assessing the future service contribution rate should take account of the following points:

- contributions will be invested in market conditions applying at future dates, which are unknown at the effective date of the valuation, and which are not directly linked to market conditions at the valuation date; and

- the future service liabilities for which these contributions will be paid have a longer average duration than the past service liabilities.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real return (i.e. return in excess of price inflation) of 3.0% per annum, with a long term average assumption for consumer price inflation of 2.6% per annum. These two assumptions give rise to an overall discount rate of 5.6% p.a (i.e. 3.0% plus 2.6%).

Adopting this approach the future service rate is not subject to variation solely due to different market conditions applying at each successive valuation, which reflects the requirement in the Regulations for stability in the "Common Rate" of contributions. In market conditions at the effective date of the 2013 valuation this approach gives rise to a slightly more optimistic stance (i.e. allows for a higher AOA) in relation to the cost of accrual of future benefits compared to the market related basis used for the assessment of the funding target.

At each valuation the cost of the benefits accrued since the previous valuation will become a past service liability. At that time any mismatch against the asset out-performance assumptions used for the funding target is fully taken into account in assessing the funding position.

Summary of key whole Fund assumptions used for calculating funding target and cost of future accrual (the "normal cost") for the 2013 actuarial valuation

Long-term gilt yields	
Fixed interest	3.2% p.a.
Index linked	-0.4% p.a.
Past service Funding Target financial assumptions	
Investment return/Discount Rate	4.95% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases	4.1% p.a.
Pension increases/indexation of CARE benefits	2.6% p.a.
Future service accrual financial assumptions	
Investment return	5.6% p.a.
CPI price inflation	2.6% p.a.
Long Term Salary increases	4.1% p.a.*
Pension increases/indexation of CARE benefits	2.6% p.a.

*For past service liability calculations only, in the short term salaries are assumed to increase at 1% per annum for three years.

Demographic assumptions

The post retirement mortality tables adopted for this valuation are as follows:

Life expectancy at 65 in 2013		Base table	Adjustment	Improvement model	Long term rate
CURRENT ANNUITANTS	Normal health	S1PxA	89% / 89%	CMI_2012	1.5%
	Ill health	S1PxA	Normal health + 3 years	CMI_2012	1.5%
	Dependants	S1PMA/S1DFA	139% / 104%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	104% / 94%	CMI_2012	1.5%
CURRENT ACTIVES / DEFERREDS	Actives normal health	S1PxA	89% / 84%	CMI_2012	1.5%
	Actives ill health	S1PxA	Normal health + 4 years	CMI_2012	1.5%
	Deferreds	S1PxA	106% / 96%	CMI_2012	1.5%
	Future dependants	S1PMA/S1DFA	101% / 94%	CMI_2012	1.5%

Other demographic assumptions are noted below:

Withdrawal	As for 2010 valuation
Other demographics	Based on LG scheme specific experience.
50:50 Option	Up to 10% take-up for certain employers

APPENDIX 2

Assumptions used in calculating contributions payable under the recovery plan

The contributions payable under the recovery plan are calculated using the same assumptions as those used to calculate the funding target, with the two exceptions.

Changes in Financial Conditions after the Valuation Date

Subsequent to the valuation date, market conditions moved such that the funding position improved, most notably due to an increase in long-dated real yields. It has been agreed that these funding level improvements, as measured approximately up to the end of August 2013, will be taken into account in determining the recovery plans for employers.

Further Future Yield Reversion

In addition to the above, for certain employers which are considered by the Administering Authority to provide a high level of financial covenant and are required to increase contributions (compared to the 2014/15 levels that would have been payable under the previous funding plan), an allowance may be made as part of the recovery plan for interest rates and bond yields to revert to higher levels over a period of 10 years.

In isolation, the effect of this increase in yields is to reduce the funding deficit by primarily lowering the value of the fund’s liabilities over time, thus reducing the level of deficit contributions required by the employer during the recovery period. The effective further increase in fixed and index linked gilt yields, as measured as at 31 August 2013, is 0.4% p.a. reflecting assumed increases in gilt yields over a 10 year period.

As indicated above, this variation to the assumptions in relation to the recovery plan can only be applied for those employers which the Administering Authority deems to be of sufficiently high financial covenant to support the anticipation of increased gilt yields over the entire duration of the recovery period. No such variation in the assumptions will apply in any case to any employer which does not have a funding deficit at the valuation (and therefore for which no recovery plan is applicable). Where a funding deficit exists the impact of the anticipated increases in gilt yields will be limited so that the total employer contributions emerging from the valuation will be no less the 2014/15 levels that would have been payable under the previous funding plan.

Committee and Date	Item
Pensions Committee 20 March 2014 10.30	12 Public

STATEMENT OF INVESTMENT PRINCIPLES

Responsible Officer Justin Bridges
e-mail: justin.bridges@shropshire.gov.uk Tel: (01743) 252072

1. Summary

1.1 The report provides Members with an update to the Pension Fund's Statement of Investment Principles to reflect changes to the Fund's investment management arrangements. The Chartered Institute of Public Finance and Accountancy (CIPFA) have published guidance on the application of the Myners Principles in the Local Government Pension Scheme (LGPS) and the Statement of Investment Principles outlines the Fund's compliance with these principles.

2. Recommendations

2.1 The Committee is asked to approve, with or without comment, the revised Statement of Investment Principles at Appendix A.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 The Statement of Investment Principles sets out the Fund's approach to managing risk within its investments.

3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

3.3 There are no direct environmental, equalities or climate change consequences of this proposal. The Statement of Investment Principles sets out the Pension Fund's approach to Ethical, Environmental and Socially Responsible Investments.

3.4 The Statement of Investment Principles is published on the Scheme's website.

4. Financial Implications

4.1 There are no direct financial implications arising from this report.

5. Background

5.1 Pension Schemes within the Local Government Pension Scheme are required to publish a Statement of Investment Principles (SIP) and to further publish any changes to the SIP.

5.2 Shropshire's original SIP was published in 2000 and revisions have been made each year if required since then to reflect changes to the strategic asset allocation and investment management arrangements of the Fund. Following any changes to the SIP it is published and made available on the website.

6. Statement of Investment Principles

6.1 The SIP outlines the Shropshire County Pension Fund investment objectives. The primary long term objective is to achieve and maintain a funding level at, or close to 100% of the Fund's estimated liabilities; and within this, to endeavour to maintain low and stable employers' contribution rates.

6.2 The SIP also outlines the types of investments held, the approach to risk and diversification, expected returns on investments and the Funds approach to social, environmental and ethical investments.

7. Myners Principles

7.1 In response to the Treasury report *Updating the Myners Principles:A Response to Consultation* (October 2008), Local Government Pension Schemes are required to prepare, publish and maintain statements against a set of six principles for pension fund investment, scheme governance, disclosure and consultation. These principles replace the ten Myners principles published in 2001 which Local Government Pension Schemes were required to report against previously.

7.2 The Chartered Institute of Public Finance Accountancy (CIPFA) has published guidance on the application of the six Myners Principles to the Local Government Pension Scheme. The Fund is required to take a 'comply or explain' in the following six areas;-

- Effective decision making
- Clear objectives
- Risk and liabilities
- Performance assessment
- Responsible ownership

- Transparency and reporting

7.3 The Fund's compliance against the six principles is published within the SIP. Attached at Appendix A is the revised Statement of Investment Principles for Members approval.

8. Publication

8.1 The revised Statement of Investment Principles (SIP) will be published and distributed to investment advisors, investment managers and scheme employers following approval. The SIP will also be available on the Fund website.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information Pensions Committee, 18 June 2013, Statement of Investment Principles
Cabinet Member N/A
Local Member N/A
Appendices A - Statement of Investment Principles (revised March 2014)

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APPENDIX A

Shropshire County Pension Fund

Statement of Investment Principles

1. Introduction

The purpose of the Statement of Investment Principles ('the Statement') is to document the principles, policies and beliefs by which the Pensions Committee of the Shropshire County Pension Fund ("the Fund") manages the Fund's assets. This document takes account of:

- The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009
- The requirements of the Pensions Act 2004
- The requirements of the Occupational Pension Schemes (Investment) Regulations 2005;
- The principles of the Myners Code
- CIPFA guidance

The Local Government Pension Scheme ("LGPS"), of which the Fund is a part, is established under the Superannuation Act 1972 and is regulated by a series of Regulations made under the 1972 Act.

Shropshire Council is the Administrating Authority for the Fund

The Pensions Committee consulted with employing bodies and received written advice from the Fund's investment consultant, Aon Hewitt, on this statement.

There are close links between this statement and two other statements. The Funding Strategy Statement ("FSS") sets out the main aims of the fund and explains how employers' contribution rates are set to achieve those aims. The Governance Compliance Statement sets out the structure of delegations of responsibilities for the Fund.

A copy of this Statement will be sent to each investment manager hired by the Fund, the auditor, the actuary and the investment consultant.

The Statement will be reviewed annually and when there is a significant change in the Fund's circumstances.

2. Governance

Shropshire Council has delegated to the ***Pensions Committee*** the administration of the Pension Fund, and the functions relating to local government pensions, etc., as set out in Schedule 1 to the Functions Regulations. The main areas of investment responsibility include:

- determination of strategic asset allocation;
- determination of portfolio structure;
- selection and appointment of external investment managers; and
- ongoing monitoring and evaluation of the investment arrangements.

The Pensions Committee is made up of nine members comprising both elected councillors and non-voting employee and pensioner representatives.

Members of the Pensions Committee recognise that they have a duty to safeguard, above all else, the financial interests of the Fund's beneficiaries. Beneficiaries, in this context, are considered to be the Fund Members (pensioners, employees and employers), together with local Council Tax Payers.

2.1 Advice and Consultation

Members of the Committee receive independent investment advice from the following sources

- Roger Bartley - strategic and overall investment approach advice.
- Aon Hewitt - analysis and advice of a technical nature in relation to all investment related aspects of the pension fund including (but not limited to) portfolio construction, manager monitoring and appointment, and interpretation of performance measurement information.

The Fund's Scheme Administrator has responsibilities under S151 of the Local Government Act 1972 and provides financial (non-investment) advice to the Committee, including advice on financial management, issues of compliance with internal regulations and controls, budgeting and accounting and liaison with independent advisers.

2.2 Liabilities

The LGPS is a defined benefit pension scheme which provides benefits related to the final salary of members. The Scheme is a contributory defined benefit arrangement, with active members and employing authorities contributing to the Scheme.

The value of the Fund's ongoing liabilities is sensitive to various demographic (principally longevity) and financial factors. The financial factors relevant to the fund's investment policy are:

- the rate of return on assets;
- salary escalation for active members;
- price inflation for pensioners; and
- long-term interest rates.

2.2 Maturity and Cashflow

The Fund remains open to new members and new accruals. Contributions are received from both active members and Employing authorities. Active members contribute on a tiered system. Employing authorities contributions are determined based on advice from the Fund's actuary based on the triennial valuation. Cash inflows from contributions currently exceed cash outflows (benefit payments).

3. Objectives

The Fund's primary long term investment objective is to achieve and maintain a funding level at, or close to, 100% of the Fund's estimated liabilities; and within this, to endeavour to maintain low and stable employers' contribution rates. Given the constraints on local authority spending, volatility in the employer's contribution rate is undesirable.

4. Risks

The Committee regards 'risk' as the likelihood that it fails to achieve the objectives set out above and has taken several measures, which are set out in this Statement, to minimise this risk so far as is possible.

In particular, in arriving at the investment strategy and the production of this Statement, the Committee have considered the following key risks:

- asset-liability mismatch risk (asset allocation risk)
- the need to pay benefits when due (cash-flow risk)

- actions by the investment managers (investment risk)
- the failure of some investments (concentration risk)
- currency and counterparty risk
- custody risk

In terms of magnitude, the Committee considers asset-liability mismatch risk to be one of the most important to control. Therefore, following each actuarial valuation, the Committee conducts an asset/liability review, which focuses on the impact of asset allocation on expected future funding levels. The Committee considers the results using advanced modelling techniques, and, with the assistance of expert advisers, are able to measure and quantify them in terms of their definitions of risk. This allows the Committee to assess the probabilities of critical funding points associated with different investment strategies.

Consideration is given to the volatility of a number of parameters (e.g. items associated with accounting measures, contributions etc.), to further assess the potential risks associated with a particular investment strategy.

The process of risk management continues through to implementation. The decision as to whether to pursue active management is evaluated separately for each asset class, with regard to the potential reward within that class for taking on active risk. Active risk is then diversified through the use of different investment managers and pooled funds. Each investment manager appointed by the Committee is bound by the terms and conditions of an Investment Management Agreement where restrictions and targets are clearly documented, including a measure of risk. The pooled fund investments and direct investments are governed by the terms and conditions of the fund and or policy documents. Frequent monitoring of portfolio performance and exposure characteristics also aids in the ongoing risk management for the Fund.

5. Strategic Asset Allocation

The Committee regards the choice of asset allocation policy as the decision that has most influence on the likelihood of achieving their investment objective. The Committee retains direct responsibility for this decision which is made on the advice of their investment adviser with input from their Fund actuary and in consultation with the Employing Authorities.

The investment strategy will normally be reviewed every three years. In addition if there is a significant change in the capital markets, in the circumstances of the Fund or in governing legislation then an earlier review may be conducted.

In keeping within the regulatory framework set out in the LGPS regulations, the Committee formulates the investment strategy with a view to

- the advisability of investing money in a wide variety of investments
- the suitability of particular investment and types of investment

The Committee will consider a full range of investment opportunities including:

- quoted and unquoted private equity
- government and non-government bonds
- property
- hedge funds and other alternative investments

The Committee further considers the legality of all investments for compliance with the LGPS.

The Committee determines the strategic asset allocation policy after considering projections of the Fund’s assets and liabilities which are calculated by the Fund’s investment adviser, in liaison with the Fund’s actuary. This asset-liability study examines different combinations of assets to determine which combination will best meet the Fund’s objectives.

5.1 Expected return on investments

The study takes into account the particular liabilities of the Fund.

In addition to a full specification of the Fund's benefits, the study will make important assumptions about the behaviour of various asset classes (such as their expected return over long periods of time and the variability of those returns) and the liabilities in the future. In framing these assumptions, it is assumed that:

- Equities may be expected to outperform other asset classes over the long term, but the returns are more unpredictable over the short term. Gilts in turn can be expected to outperform cash deposits but with greater variability.
- Asset classes do not perform in the same way; some may go up in value while others are going down.
- The performance of certain asset classes (particularly index-linked gilts) is more closely linked to the behaviour of inflation than others and so they represent a good match for liabilities linked to inflation.

Expected annualised returns are formulated for each asset class based on long term capital market assumptions, using ten year expected returns and volatilities. The returns and volatilities used for each asset class are shown in the table below, and represent the current 10 year annualised nominal return assumptions from Aon Hewitt at 31 December 2013.

Asset class	Expected Return %	Volatility %
UK Equities	7.7	20.0
Global Unconstrained Equities	10.1	21.8
Global Passive Equities	7.7	19.8
UK Property	7.1	14.5
UK Gilts (15 year duration)	3.6	11.0
UK Investment Grade Corporate Bonds (10 year duration)	4.3	9.0
UK Index-Linked Gilts (15 year duration)	2.6	9.0
Global Fund of Hedge Funds	5.4	8.0
Multi-Strategy Hedge Funds	5.9	8.3
Global Private Equity	9.2	26.0
Infrastructure (USD)	8.1	20.4
Inflation (CPI)	2.3	-

5.2 Current strategy

The Fund's current strategic asset allocation was agreed by Pensions Committee in March 2014.

Asset Class	Allocation	Control Ranges
Total Equity	**52.0**	**47.0 – 57.0**
Unconstrained Global Equity	24.0	20.0 – 28.0
UK Equity	8.0	5.5 – 10.5
Passive Equity (100% Hedged to GBP)	20.0	16.0 – 24.0
Total Alternatives	**23.0**	**18.0 – 28.0**
European (Incl UK) Property	5.0	n/a
Private Equity	5.0	n/a
Infrastructure	3.0	n/a
Fund of Hedge Funds	5.0	n/a
Multi-Strategy Hedge Funds	5.0	n/a
Total Bonds	**25.0**	**20.0 – 30.0**
UK Index Linked Bonds	10.0	7.5 – 12.5
Global Credit (100% Hedged to GBP)	7.5	5.0 – 10.0
Absolute Return Bonds	7.5	5.0 – 10.0

5.3 Rebalancing policy

Officers will review the position of the fund quarterly to ensure the assets are within the control ranges listed above, and will rebalance as appropriate.

5.4 Currency hedging policy

The Committee considers currency risk as an unrewarded risk – one that is expected to increase the volatility of the Fund, but not increase return. Global Credit and passive equity investments are fully currency hedged by the investment managers.

6. Implementation

The Committee have appointed investment managers to manage the Fund's investments as set out in the Appendix.

The Committee believe the use of active management within the Fund will increase the likelihood that the Fund will meet its objectives.

The Committee also avails of passive management where they believe the extra risk and costs of active management would not benefit the Fund and to manage overall risk.

The activities of each manager are governed by their Investment Management Agreement. This includes details on the portfolio performance objectives and risk limits as well as information on permissible investments.

6.1 Selection & realisation of investment

Each investment manager has full discretion in terms of stock selection within the constraints of the investment management agreement signed with each manager. The majority of investments held within the Fund are quoted on major markets and may be realised quickly, if required. Certain asset classes, Hedge funds, Private Equity, Property and Infrastructure are relatively illiquid and may take longer to realise, if required.

The current list of investment managers and pooled funds used with a view to implementing the above strategy is set out in the Appendix A to this document. The Appendix is included for information only, and does not form part of the Statement of Investment Principles.

6.3 Security Lending

The fund reactivated its security lending policy with Northern Trust in February 2011, having temporarily paused the lending activity in the period after the collapse of Lehmans. The collateral arrangements for the lending programme have been tightened on advice from Aon Hewitt, and the programme restarted.

The manager(s) of pooled funds may undertake a certain amount of stock lending on behalf of unit-holders. Where a pooled fund engages in this activity the extent is fully disclosed by the manager.

6.2 Custody

The Committee regards the safekeeping of the Fund's assets as of paramount importance and has appointed Northern Trust company as global custodian and record-keeper of the Fund's assets.

7. Review and Control

The Committee are satisfied that they have adequate resources to monitor the investment arrangements.

7.1 Performance Measurement

The Committee monitors the strategy and its implementation as follows.

- The Committee receives, on a quarterly basis, a written report on the returns of the fund and asset classes together with supporting analysis.
- The performance of the total fund is also measured against the strategic benchmark, which is comprised of the asset class benchmarks weighted by the strategic allocations, and against agreed outperformance targets.
- The performance of the fund in each asset class is measured against the relevant benchmark. A comparison against a universe of portfolios with similar mandates will also be made from time to time.

7.2 Service Provider Monitoring

The Committee reviews from time to time the services provided by the investment adviser and other service providers as necessary to ensure that the services provided remain appropriate for the Fund.

8. Environmental, Social and Governance and Exercise of Rights

The Committee expects the investment managers to take steps to ensure that environmental, social and governance factors are adequately addressed in the selection, retention and realisation of investments as far as such factors may affect investment performance.

F&C provides a responsible engagement overlay on the Fund's UK equity portfolios. F&C enters into constructive discussions with companies on the Fund's behalf to put to them the case for improved financial returns through better management of the negative impacts they might have on the environment and society in general.

The Fund is also a member of the Local Authorities Pension Fund Forum (LAPFF), which seeks to combine like-minded bodies to promote the above issues. At present 49 Local Authorities are members of this forum with a combined asset value of 75% of local government pension fund assets.

8.1 Myners Investment Principles

Details to the extent to which the Pensions Committee complies with the six Myners principles and the extent to which management and investment arrangements at Shropshire comply (in accordance with the existing CIPFA guidance), and where not, what action is proposed in order to comply are set out in Appendix B.

9. Investment Manager and Adviser Fees

Investment management fees comprise an ad valorem or fixed base fee element and in some cases a performance based element. The ad valorem fee is calculated as a percentage of assets under management. Where applicable, the performance based element is calculated as a percentage of outperformance. The assessment period ranges from one to three years depending on the investment manager and the mandate. The exact details of the fee arrangements are specific to the investment manager and are as agreed in the respective Investment Manager Agreements.

Appendix A: Current Investment Managers

Fund assets are invested in portfolios managed by external investment managers shown in the table below. They are benchmarked against the indicated indices. The table shows whether portfolios are managed on a segregated or pooled basis, and their outperformance target. Based on expert advice, investment managers may be replaced at any time and this list may not always be current.

This appendix shows the position at March 2014 and has been appended to the Statement of Investment Principles for information only, and does not form part of the Statement.

Investment Manager	Asset class	Benchmark	Target
	Active portfolios		
PIMCO Europe Ltd	Absolute Returns	1 month Stirling LIBOR	+4% p.a.
	Global Credit	Barclays Corporate (ex-Treasuries, ex-Securitised)	+1.0% p.a. over rolling 3yr periods
Majedie Asset Management	UK Equities	FTSE All Share	+2% p.a. over rolling 3 year periods
MFS Investment Management	Global Equities	MSCI World	+2% p.a. over rolling 3 year periods
Investec Asset Management	Global Equities	MSCI All Country World NDR	+3-5% p.a. over rolling 3 year periods
Harris Associates	Global Equities	MSCI World	+2-3% p.a. over 3 to 5 years
Harbour Vest Partners Limited	Private Equity Fund of Funds	Broad public equities index	+ 3-5% p.a.
Global Infrastructure Management	Infrastructure	n/a	RPI+5% p.a.
Aberdeen Property Investors	European (incl UK) Property	Composite of INREV VA Europe Index, vintage 2005 – 2008 and IPD UK All Balanced Funds Index	RPI+4% p.a.
Brevan Howard	Multi-Strategy Hedge Fund	3month Stirling LIBOR	+6.0% p.a.
BlackRock	Fund of Hedge Funds	3month Stirling LIBOR	+5.0% p.a.
	Indexed (Passive) Portfolios		
Legal & General Investment	UK Index linked Bonds	FTSE (over 5 yrs) Index Linked stocks	Match benchmark

Management			
Legal & General Investment Management	Global Equity	FTSE Developed World – GBP Currency Hedged	Match benchmark

Appendix B: Myners Principles Compliance Statement

Principle	Comply or explain	Comment/Examples	Development needs
1. Effective decision making ▪ Administrating authorities should ensure that: ▪ decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation ▪ Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest	Comply	Pensions Committee takes decisions relating to setting investment objectives and strategic asset allocation, appointment of investment managers. Pensions Committee members, substitute members and officers participate in an annual training day, attend educational seminary and receive occasional papers and presentations at committee meetings. The training requirements of new Pensions Committee members are addressed and appropriate training programmes made available, with a formal Training Programme being submitted to the Committee for consideration on an annual basis.	
2. Clear Objectives ▪ An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers and the attitude to risk of both the administrating authority and scheme employers, and these should be clearly communicated to advisors and investment managers	Comply	A Fund specific investment objective is set to maintain a funding level at, or close to 100% and within this, to endeavour to maintain low and stable employers contribution rates. As set out in the Funding Strategy Statement, the actuary takes account of a range of factors on the Fund's liabilities in setting contribution rates as	

		part of the valuation process. Performance and risk parameters are specified in relation to relevant indices and appropriate time periods and are set out in investment mandates.	
3. Risk and liabilities ▪ In setting and reviewing their investment strategy administrating authorities should take account of the form and structure of liabilities. ▪ These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk	Comply	Asset/Liability review is carried out every three years and the actuary takes account of a range of factors on the Fund's liabilities as set out in the Fund's Funding Strategy Statement which addresses the issues of financial assumptions, longevity and strength of covenant. The actuarial funding position will be monitored on a quarterly basis by the Pensions Committee, using information provided by Aon Hewitt.	
4. Performance assessment ▪ Arrangements should be in place for formal measurement of performance of the investments, investment managers and advisors ▪ Administrating authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members	Partial Compliance – there is more work planned in 2014/2015	The Officers have an independent performance measurer in place. They also receive regular updates from Aon Hewitt regarding managers and the Officers meet regularly with their managers and advisors to review their performance.	Consideration to be given to how the Fund assesses its effectiveness as a decision-making body – more work to be completed in 2014/2015.
5. Responsible ownership ▪ Administrating authorities should ▪ Adopt or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on	Comply	The SIP includes a statement on responsible ownership. An independent advisor is appointed to engage with companies on	

the responsibilities of shareholders and agents ▪ Include a statement of their policy on responsible ownership in the statement of investment principles ▪ Report periodically to scheme members on the discharge of such responsibilities		socially responsible issues and voting at company meetings is effected through the Fund's investment managers.	
6. Transparency and reporting ▪ Administrating authorities should ▪ Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives ▪ Provide regular communication to scheme members in the form they consider most appropriate	Comply	A range of documents are published relating to the Fund's investment management and governance including the Governance Compliance Statement, Funding Strategy Statement, Statement of Investment Principles, Communication Policy Statement and Annual report and accounts. These documents are available in full on the Fund's website and any amendments are published. Stakeholders are also invited to attend the annual meeting of the scheme.	

Committee and date	Item
Pensions Committee 20 March 2014 10.30am	**13** Public

PENSIONS ADMINISTRATION MONITORING REPORT

Responsible Officer Debbie Sharp
Email: Debbie.sharp@shropshire.gov.uk Tel: 01743 252192 Fax: 01743 255901

1. Summary

1.1 The report provides Members with monitoring information on the performance of and issues affecting the Pensions Administration Team.

2. Recommendations

2.1 Members are asked to accept the position as set out in the report.

REPORT

3. Risk Assessment and Opportunities Appraisal

3.1 **Risk Management**
Performance is considered and monitored to ensure regulatory timescales and key performance indicators are adhered to.

3.2 **Human Rights Act Appraisal**
The recommendations contained in this report are compatible with the Human Rights Act 1998.

3.3 **Environmental Appraisal**
There is no direct environmental, equalities or climate change consequence of this report.

3.4 **Financial Implications**
There are no direct financial implications arising from this report. Managing team performance and working with other Administering Authorities ensures costs to scheme employers for Scheme Administration are reduced. However, it must be noted that the introduction of the 2014 LGPS and the increased governance being introduced by the Public Services Pension Act 2013 will increase the resources required by the administration team.

4. Performance and Team Update

4.1 The team's output and performance levels to the end of February 2014 are attached at **Appendix A**.

4.2 Procedures outstanding at the end of the month continued to rise steeply during the last three months. The Council's VR programme continues to impact on the team, increasing work levels much higher than normally expected. The team are currently processing the large number of agreed Voluntary Redundancies with leave dates during March and April, the bulk having a leave date of 31 March 2014 together with an increased number of quotes across all Fund employers but especially the Council. This is reflective in the figures on the chart.

4.3 The team has also been working on ensuring all data is up to date in readiness for the year end procedure for 2013/2014. This has meant a catch up of all electronic data exchanged between the two main scheme employers, ensuring that all starters, leavers and part time hours changes have been updated. This increased work load is also reflected in the figures on the chart.

4.4 A project will be started over the coming months to look at Task Flow within the Pensions System and to analyse the reporting of statistics. Further investigation of what is reported and work not currently included in Task Flow will also be looked at.

4.5 Team resource is an issue as the New 2014 scheme is also being introduced on 1 April 2014. Additional resource has been identified and a revised structure is to be introduced from 1st April.

5. Help Desk Statistics

5.1 The following chart shows the number of queries received through the helpline number and the number of emails received by the generic Pensions email inbox.

	November 2013	**December 2013**	**January 2014**
Telephone calls answered	702	513	886
Queries dealt with by helpdesk at first point of contact %*	95%	93%	95%
Emails received and responded by the helpdesk	307	169	354
Face to face visits to the office	60	63	86

Hits to the Pension Fund website	7704	6682	7795

* Where queries have not been dealt with by helpdesk, this will usually mean that the calls have been picked up by the rest of the team outside of the helpdesk.

5.2 Communication via all methods of contact is continuing to rise. During the year 2012/13, 8932 calls were taken and 3034 emails. In the 11 months to 28 Feb 2014 the team has already received 10,371 calls, an increase of over 16%, and 3636 emails, an increase of 20%. As you can see we have already far exceeded in 11 months the enquiries received over 12 months in the previous year.

6. Communications

6.1 As previously reported, a project has been ongoing to look at issuing a combined P60, Payslip and details of April's Pension Increase. New artwork has been used and the project is on track to go live in April 2014. With having 3 documents merged into one and using a mail house to print and post, considerable time and therefore cost, will be saved as in the past the team have had to print these all separately and hand pack the individual documents into envelopes for posting.

6.2 The Retired Members Meeting has been booked for 30 June 2014. Intouch, retired members' information booklet, which is going out with the P60/payslip/PI document for April 2014, asks retired members how useful they find the meetings.

6.3 A leaflet has been sent to all scheme employees who have been highlighted as earning over £45k with regard to pension tax changes from April 2014. This can be found on the web site.

6.4 Staffordshire PF and Warwickshire PF have agreed on a joint deferred statement with Shropshire PF for 2013/14. It is anticipated that these statements will be issued towards the end of June 2014.

6.5 Shropshire Council HR Team recently organised an opportunities fair for employees who have or are due to be taking Voluntary Redundancy. The Pensions Communications officer and 2 other team members attended. Appointments were booked solidly all day and employees were also able to bring in their documents necessary to allow release of their redundancy payment and retirement benefits.

6.6 The new pension's website is on schedule to be launched on 1 April 2014. It will be easier for employees to access information and forms including the Annual Report. Currently there isn't an area specific to the work undertaken by the Pensions Committee so this is planned which will include a link directly through to Committee papers.

6.7 The design and production of Annual report for 2013/14 has started to be planned for this year following the production of the Pension Fund accounts.

6.8 Pension Committee member training day has been booked for 18th July 2014 and will be held again in the Hayden Smith room at the Theatre Severn in Shrewsbury.

7. Annual meeting

7.1 This years Annual Meeting will be held on Friday 21 November 2014. Due to the very low numbers at Telford last year, it has been decided to hold only one meeting which will be at Theatre Severn in Shrewsbury.

8. Local Government Pension Scheme 2014

8.1 As previously reported the new Local Government Pension Scheme Regulations 2014 come into force from 1 April 2014. This will move the Scheme from Final Salary to a CARE Benefit Scheme. At the time of writing the Transitional Regulations were still to be laid before Parliament. These regulations are imperative with regards to the protections that will be in place for all employees in the scheme as at 31 March 2014. This has meant that all preparations have been done on the last version shared to Scheme Administrators only.

8.2 New scheme information sessions for employees started on the 20 February 2014. A total of 7 sessions are being held around the county and employers have been asked to display posters to notify employees of the sessions. A presentation will be given followed by a drop in session.

8.3 Under the Disclosure Regulations, we are required to notify all active members of the scheme as at 31 March 2014 of the new scheme changes. This communication is planned to go to home addresses.

8.4 New scheme documentation is being worked on including an updated scheme guide and leaflets.

8.5 The Pensions Team attended a full day of training on the New Scheme which was delivered by Tim Hazelwood for the Local Government Organisation. This was very well received and each member of the team now has a comprehensive set of notes.

8.6 The new Scheme Regulations require employers to have a policy in place by 30th June 2014 on a number of Employer Discretions. In order to comply with this the LGA are holding training sessions for employers. Shropshire Pensions Fund has arranged an in-house event on 25th April 2014 which is cheaper for employers than booking direct with LGA individually. A number of employers will be attending and sharing the cost.

8.7 An Employer discussion group took place on 21 January 2014. Representatives from Shropshire Council, Telford & Wrekin Council, Wrekin Housing Trust and Harper Adams University College were in attendance to discuss issues facing employers in new scheme. This particularly focused on the many changes that will be needed to payroll systems.

8.8 Recent developments to the www.lgps2014.gov.uk website include a new video for members, FAQ's and Modellers. The new video deals with the topic of protections for scheme members paying into the LGPS before April 2014. A leaflet covering protections for existing scheme members of the LGPS is now also available together with a Frequently Asked Question section. The LGA has also developed a modeller to show how a pension will be worked out in the LGPS from 1 April 2014 onwards and how a CARE benefit account will look.

9. Consultation on the Pension Regulators Codes of Practice/ Governance

9.1 The Public Services Pensions Act 2013 (the 2013 Act) provides for the reform of the benefits, governance and administration of the major public services pension schemes. The 2013 Act provides for explicit regulatory oversight of public sector schemes by the Pensions Regulator (tPR) and for them to consult on and issue codes of practice.

9.2 On 10 December tPR issued a consultation on Draft code of practice 14: Governance and administration of public service pension schemes and Draft public service pension schemes regulatory strategy. The consultation can be found at: http://www.thepensionsregulator.gov.uk/doc-library/regulating-public-service-pension-schemes.aspx

9.3 The LGPS, as a public sector scheme, is about to enter a new era where tPR will have a greater role in overseeing it, with particular focus on governance and administration. The Draft Regulatory Strategy is attached at **Appendix B**.

9.4 The consultation closed on 17 February. A response on behalf of the Fund, agreed by the Chair and the Scheme Administrator, was sent and is attached at **Appendix C.**

9.5 The Fund will need to monitor, develop and also be able to demonstrate compliance in the following areas:

- Knowledge and understanding for members of pension boards
- Conflicts of interest
- Internal controls
- Record keeping
- Internal dispute resolution
- Reporting breaches of law

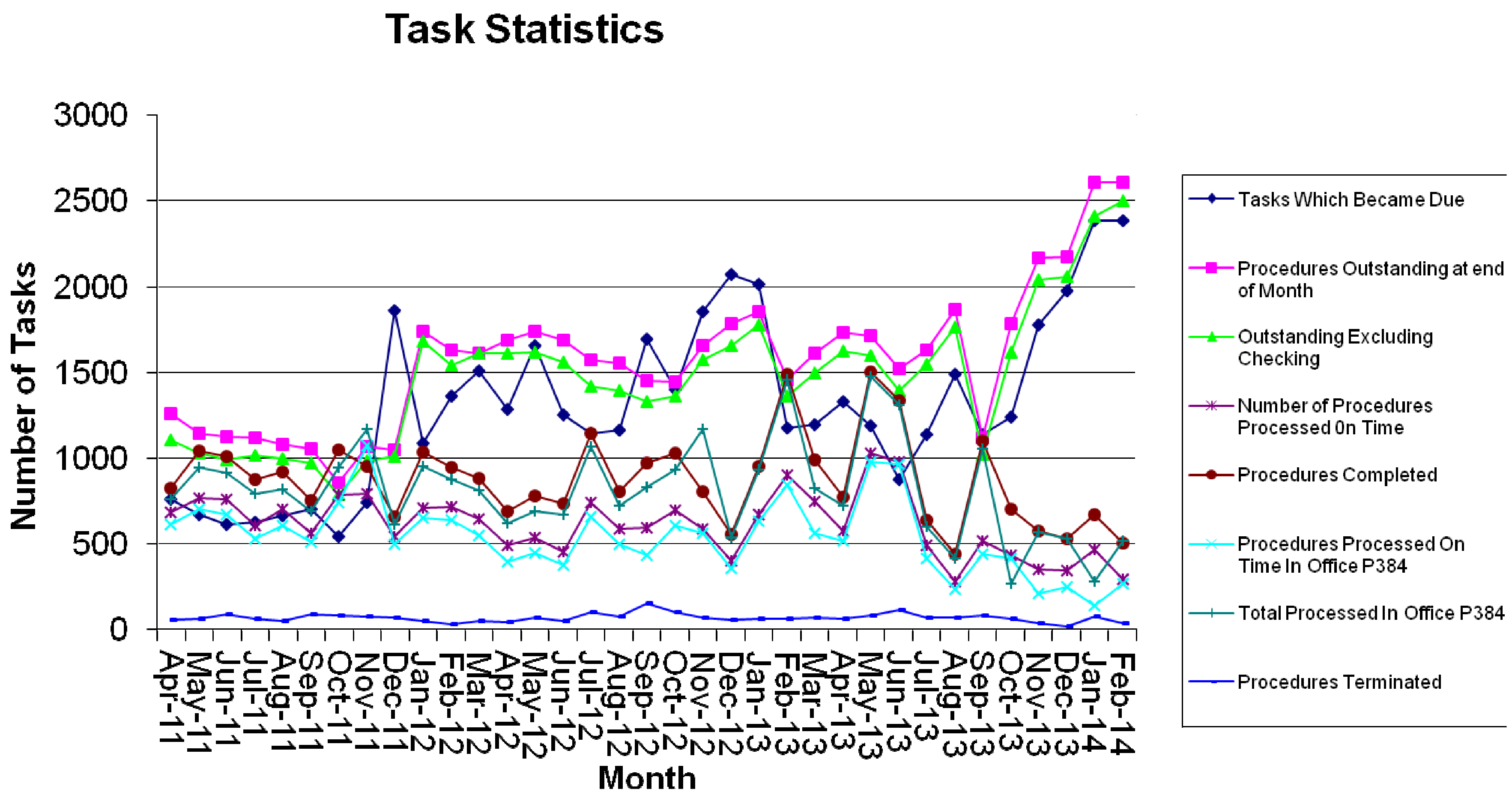
9.6 The extended role of **tPR** is just one challenge being introduced by the 2013 Act together with new scheme designs, cost management mechanisms and the requirement to introduce Pension Boards and Scheme Advisory Boards.

9.7 All schemes are required to have a Pension Board who is responsible for complying with the guidance when made. This board may need to be in addition to the current committee as the LGPS is administered at a local level. Decisions on whether changes to the committee structure are required at Shropshire in order to comply with the 2013 Act, the Local Government Pension Scheme Regulations and tPR guidance are still to be agreed.

9.8 This guidance must be complied with from 1 April 2015. However it is expected to be best practice to have Shadow Pension Boards in place from September 2014.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Pensions Committee Meeting 20 September 2013 Pensions Administration Report
Cabinet Member (Portfolio Holder) NA
Local Member NA
Appendices Appendix A – Performance Monitoring Appendix B – Draft Regulatory Strategy – The Pension Regulator Appendix C - Response to the Pension Regulator's consultation

Item 13 Appendix A



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Draft regulatory strategy

Public service pension schemes

Ensuring high standards of governance and administration in public service pension schemes

December 2013

The Pensions Regulator

Contents

Summary

1. Public service pension schemes form a significant part of the pensions landscape, providing pension benefits for around 12 million people.

2. In setting our strategic approach to regulating these schemes The Pensions Regulator is largely guided by the statutory objective to promote, and to improve understanding of, the good administration of pension schemes.

3. We will implement our strategy by understanding and assessing the risks to our objectives, defining our desired outcomes, deciding on the actions to be taken and determining when and where to intervene.

4. Our approach to the regulation of public service schemes is consistent with our normal approach in focusing on education and enablement. Where education and enablement fails to drive behaviour to the necessary standard we have a number of enforcement options available to us.

5. We will measure the impact of our activities on the regulated community and will keep our regulatory approach under review to ensure it remains appropriate and effective.

Introduction

6. This regulatory strategy sets out our approach to regulating public service pension schemes[1] pursuant to our statutory objectives.

7. Our approach to regulating work-based pensions sets out the overarching standards and principles by which we operate as an organisation.

8. Our current **Corporate Plan**[2] sets out, under this strategy, the objectives, key priorities and key performance indicators for the current business year in relation to public service schemes.

1 As defined in section 318 of the Pensions Act 2004.

2 www.tpr.gov.uk/plan

Background to this strategy

9. The Public Service Pensions Act 2013 (the 2013 Act)[3] sets out new arrangements for the creation of schemes for the payment of pensions (and other benefits). It enables the establishment of pension schemes for civil servants, the judiciary, local government workers, teachers, health service workers, fire and rescue workers, members of police forces, and the armed forces[4]. The 2013 Act recognises that the equivalent predecessor schemes will remain as legacy schemes, and provides for these schemes to be 'connected' to the new schemes (unless excluded) so that these and the new schemes can be governed, administered and regulated together.

10. For a number of other schemes, the largest being that of the United Kingdom Atomic Energy Authority, the 2013 Act requires the public authority responsible to close the scheme to future benefit accrual and to arrange for future service in one of the other new public service pension schemes or to create a replacement non-final salary scheme[5].

11. Schemes established under the 2013 Act and connected schemes are the public service schemes to which this strategy relates. Between them, the public service schemes provide pension benefits for around 12 million people. Public service schemes are established primarily as defined benefit (DB) schemes under which members are promised a level of benefit upon retirement usually determined by length of service and salary. The defined benefits under the new schemes will be calculated on a career average revalued earnings basis, whereas for service up to April 2015 (April 2014 for the schemes for local government workers) most are on a final salary basis.

12. Some public service schemes also enable members to join separate defined contribution (DC) schemes on an additional voluntary contribution basis.

13. The 2013 Act expanded our role in relation to public service schemes. In setting our strategic approach to regulating public service schemes we are guided by two of our five statutory objectives[6]:

    a. To protect the benefits of members of occupational pension schemes; and

    b. To promote, and to improve understanding of, the good administration of work-based pension schemes[7].

3
The Northern Ireland Assembly is currently considering draft legislation to make similar provision in respect of schemes for which they have legislative competence.

4
It is anticipated that these schemes will come into effect by April 2015 (April 2014 for local government workers), superseding existing schemes for service after that date.

5
See sections 30 and 31 of the 2013 Act.

6
See section 5(1) of the Pensions Act 2004.

7
Under section 5(3) of the Pensions Act 2004, a work-based pension scheme is: (a) an occupational pension scheme, (b) a personal pension scheme where there are direct payment arrangements, or (c) a stakeholder pension scheme.

14. These objectives shape our approach but we have discretion over how we achieve them. Given that the benefits in DB public service schemes are set out in legislation and are backed by the relevant public authority, it is not likely that the protection of member benefits will need to be a significant factor in our regulatory approach in relation to those schemes.

15. In relation to DC public service schemes the protection of member benefits will be relevant to our considerations (but we will take into account the degree of any element of public guarantee incorporated into individual scheme arrangements).

16. Irrespective of the kind of benefits due under a scheme, all public service schemes should be governed and administered in accordance with the requirements of the law. Across all public service schemes, governance and administration standards and practices impact upon the overall service provided to members (and other beneficiaries), including the payment of benefits. Good governance and administration should improve the efficiency of public service schemes and mean that they are more cost effective for employers, including the government departments responsible for the schemes.

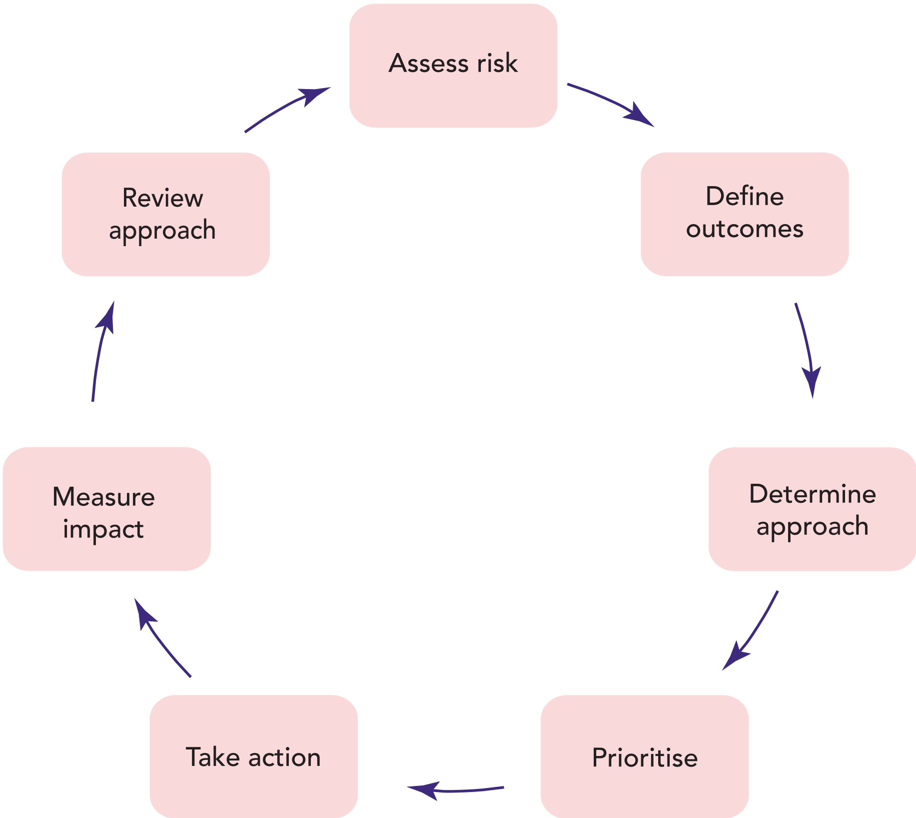
17. We will therefore consider the risks that poor governance and administration standards and practices, and failures to operate schemes within the requirements of the law, present to public service schemes and how those risks may be mitigated by action to educate, enable and, where necessary, enforce.

Implementing our strategy

18. To implement our strategy we will:

- understand risks across public service schemes
- develop and communicate policies which set out good outcomes and what schemes should do
- determine how best we can use our regulatory tools, from education to enforcement, to mitigate the risks we have identified and achieve our desired outcomes
- decide on our priorities so that we target those schemes and issues which present the greatest risks and where we can make the most impact
- apply our regulatory tools
- measure the effectiveness of our policies and actions; and
- continuously review and evolve our approach to make sure it remains effective.

Our strategy in action



19. We aim to be transparent in our expectations and our actions. We will therefore publish policies and statements which set out the risks as we understand them, the desired outcomes and our intended approach.

20. We are keen to work in partnership with the regulated community to inform our understanding of risk as well as our policy and operational development. We will regularly engage with scheme managers, pension board members, employers, administrators and advisers to ensure that our policies are appropriate, relevant and well understood and that we are aware of sector themes, innovations and concerns. These steps, the outcome of our activities and the analysis of the impact of our approach feed into our policy development and risk assessment processes.

Assessing risk

21. A sound understanding of the risks in the system, in particular the risks that we can influence, is key to the success of our strategy and drives all our activities from policy development to the design of our operational processes.

22. We aim to consider risk both at macro and micro level to:

    - identify and assess emerging risks and trends proactively to inform our understanding of the public service schemes which in turn informs our policy and operational development
    - identify public service schemes (or other targets) for further consideration. We will do this proactively or reactively following reports and submissions made to us.

23. Our understanding of risks is informed by our experience of regulating other work-based pension schemes, data we collect on public service schemes and our assessment of how future developments could impact on their governance and administration arrangements. It relies on fit-for-purpose data which is timely, comprehensive, relevant and of good quality.

Areas of risk focus

24. As governance, the management of risks, administration and problem resolution influence the overall member outcomes, our consideration of risk across public service schemes focuses on elements from these areas. When undertaking a risk assessment the main areas we will consider are:

    - **Knowledge and understanding:** members of pension boards will need to be conversant with the regulations (or rules) and administration policies of their scheme and have the appropriate knowledge and understanding of pensions law to be able to assist their scheme manager effectively
    - **Records:** secondary legislation will specify the records required to be kept. The completeness and accuracy of these records will be key to the effective and efficient operation of schemes, including ensuring that the right benefit is paid to the right person at the right time. This will be supported by the operation of appropriate internal controls
    - **Member communication:** the quality of the information provided to members in terms of accuracy, timeliness and clarity is an important factor in achieving good member outcomes

- **Dealing with internal disputes:** public service schemes are usually large and complex and things will sometimes go wrong. The processes for investigating and resolving disputes quickly and effectively have a key role in contributing to the effective governance and administration of schemes.

25. Focusing on individual elements of risk in isolation is often a poor indicator of overall risk. In our risk assessment we consider risks in the round to inform our judgment as to whether further action is necessary.

Segmentation

26. To help understand and mitigate the risks across the various public service schemes we will identify whether particular schemes have similar characteristics (for example size, method of funding, or employer type) that are drivers of risk or have significant implications for the way schemes should behave. We will consider whether segmenting the regulated community by these characteristics can help us understand the issues and develop more effective and targeted policies and approaches for these segments.

27. The legislation requires public service schemes to be governed and administered according to a common framework of requirements so many of the issues will apply across the whole regulated community. However, we recognise that for other aspects our strategy may need to be applied in different ways in relation to different sections/segments. For example, we may consider the specific implications of schemes which are funded – such as those for local government workers and some public body schemes – separately from those which operate on a 'pay as you go' basis, or we may consider those schemes with participation by a large and diverse employer base separately from those with a single or few participating employers.

Setting policies

28. Having understood the risk presented we seek to define what our desired outcomes are. These may be universally applicable to all schemes or be different for different segments, subject to an individual public service scheme's or group of employers' circumstances. At the highest level this represents our policy for that particular risk or issue.

29. Our policies are principle-based and outcome-focused (rather than rule-based) because we believe that while compliance with the legal requirements is important, focusing on qualitative compliance promotes flexibility, encourages best practice and sector innovation and increases the likelihood of public service schemes delivering outcomes in line with the legal requirements and standards and conduct set out in the code.

Deciding our approach

30. We have a range of regulatory tools from education to enablement to enforcement to achieve our policies. We describe how these are implemented below.

31. Our primary focus in public service schemes is to educate and enable those within the public sector to meet the legal requirements and the standards and practices we expect, but we will take enforcement action where necessary.

32. How we deploy our regulatory tools depends on the nature of those risks and how they can best addressed. For instance, a risk which poses a significant threat may potentially be mitigated by using all our tools while low risk issues may be mitigated principally by educational activities. While aiming for consistency, we also consider proportionality including the circumstances of any party subject to our actions and the likelihood and impact on them and other parties in deciding how to apply our regulatory tools.

Risk-based prioritisation

33. Our approach to understanding and taking action on risks is integrated. Therefore, while a public service scheme may come to our attention for a particular risk or issue, we look across all the risks to delivering good governance and administration to understand the overall risk and where action may have the greatest impact.

34. We use a wide range of information to assess risks posed by public service schemes and decide whether to act. However, we recognise the limitations inherent in data and intelligence collected, and, therefore, expert human judgment will play a central and key role in our decision-making.

35. Public service schemes cover a range of sizes from millions of members downwards but most are large schemes in the context of our scheme landscape. While we will target our resources towards the greatest overall risk, we will cover the complete regulated community in our broader activities. These will be in the form of targeted guidance, education campaigns and the promotion of identified good practice and warning of emerging risks and issues.

36. Identifying a public service scheme for further consideration does not imply that the scheme is non-compliant. Instead, based on the information we have, these schemes exhibit the greatest risks. Equally, where we receive information on a public service scheme and, having considered that information, decide not to take further action, this should not be interpreted as meaning that the scheme is necessarily compliant but rather that the level of risk does not meet our policy criteria.

Implementing our approach

Education and enablement

37. Scheme managers and pension boards will play the central role in ensuring that public service schemes are governed and administered effectively and that the right benefits are paid to the right people at the right time. We expect scheme managers and pension board members to carry out their roles competently and have sufficient skills, knowledge and understanding to be able to do so. We acknowledge the complexity of their roles and the fast-changing and challenging conditions facing them and employers alike.

38. In view of this complexity we place great emphasis on education and believe this is the most efficient means to reach those involved in the governance and administration of public service schemes. We rely on scheme managers, pension boards and employers to work together and we will provide guidance and support to help them do so.

39. We will use our website to provide user-friendly guidance and support for scheme managers and pension board members. Our website will direct scheme managers and pension board members to resources including relevant codes, guidance, e-learning materials and policy statements.

40. Enabling is a means to target support to those specific public service schemes and their employers where risk is the greatest and where we consider we can have the most impact. We will do this through direct engagement with those schemes and employers.

Enforcement

41. Enforcement is usually an option when educating and enabling does not improve standards sufficiently. When considering enforcement action important factors include:

    a. the evidence

    b. the grounds for the use of powers

    c. the range of powers available

    d. whether action is reasonable and proportionate (for example, past conduct and mitigation steps); and

    e. the impact of action on the parties affected and the wider impact within the regulatory framework.

42. Generally the key focus of our activities will be to support and enable scheme managers and pension board members to deliver better standards and practices of governance and administration without having to resort to the use of our enforcement powers. However, we may go straight to enforcement action in those instances where, for example:

- there is sufficient evidence of a breach
- there is an immediate and material risk or it has already crystallised; and/or
- the delay arising from going through the engagement process outlined above is considered likely to cause a material risk.

43. In addition to any action that we may take, including enforcement action, we may also refer matters to other regulatory bodies where appropriate.

Measuring impact

44. We primarily measure our impact against our statutory objectives. In our annual report we will report on the exercise of our functions in relation to public service schemes.

45. In addition, we will measure the progress of:

- schemes' knowledge, understanding and compliance with pensions legislation
- the effectiveness of the regulatory tools we have provided and the extent to which we have influenced change using information from actions such as our thematic reviews and governance survey
- the results of each activity we undertake, for example through education campaigns, thematic reviews or individual cases.

46. We will keep our regulatory approach under review to ensure that it remains effective, informed by our assessment of impact and our ongoing engagement with the regulated community.

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Draft regulatory strategy
Public service pension schemes

The Pensions Regulator

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Response to Regulating public service pension schemes

Bob Scruton
The Pensions Regulator
Napier House
Trafalgar Place
Brighton
BN1 4DW

Dear Mr Scruton,

Comments from the Shropshire County Pension Fund in response to the consultation on the draft code of practice no. 14 Governance and Administration of Public Service Pension Schemes.

Draft public service code

1. *Does the code sufficiently address the standards of conduct and practice necessary to evidence compliance with pensions' legislation? If not, why not? What improvements would you recommend?*

We believe it mostly does. Areas that need expanding are covered in answers to questions, 6, 9, 10, 11, 14 and 15 below.

2. *Does the level of guidance included in the code provide sufficient detail to enable scheme managers and members of pension boards to comply with pensions' legislation and undertake their role effectively?*

We do believe the level of detail is mostly sufficient. Areas that need expanding are covered in answers to questions 6, 9, 10, 11, 14 and 15 below.

3. *The code relates only to the specific matters on which we are required to issue a code under section 90A(2) of the Pensions Act 2004. Are there any other legal requirements*

which you think should be brought within the scope of the code? Are there parts of the code which you think go beyond legal requirements, practical guidance or good practice?
The code seems to cover the legal requirements, practical guidance and good practice covered in the Pensions Act 2004.

Section 1: Introduction
4. *Have we targeted the code at the right groups of people? If not, which have been overlooked?*
Yes

5. *Is there any further information or explanation you would like to see in the terms used section of the introduction?*
None it seems to be comprehensive.

6. *Does the code strike the right balance between being as concise as possible and providing enough practical guidance relating to the underlying legal obligations?*
Further guidance may be needed in practice around managing risk as interpretation may differ from Fund to Fund around adequate internal controls.

Section 2: Governing your scheme
7. *Do we adequately describe the level of knowledge and understanding required of members of pension boards? If not, why not?*
We believe it is.

8. *Does the practical guidance adequately address the risks of the different types of conflicts of interest which may occur? Could you provide better examples of key conflicts which should be provided in the code?*
We believe it is adequately covered.

9. *Does the practical guidance in the code sufficiently capture all of the duties, including any fiduciary duties, owed by pension board members? Do you consider that such duties may arise in the context of public service schemes? Please explain your response*.
This is difficult to answer at this point in time and feel that scheme specific guidance may be required to supplement this code.

Section 3: Managing risks

10. *Have we set out clearly what actions are expected of scheme managers and members of pension boards in relation to risk management and internal controls?*

As mentioned at Q6 we feel this may be open to individual interpretation and further guidance may be required in practice.

Section 4: Administering your scheme

11. *Does the public service code include sufficient practical guidance on the standards of administration that we expect? Are there any parts of the code that you think are too prescriptive?*

In practice there may not be sufficient guidance for scheme administrators. For example point 124 seems to place responsibility on schemes to reconcile in flows of funds against expected contributions also point 135 reconciliation of member records to employer data – without access to employers payrolls this is already difficult to police. Also point 128 needs to be more specific on what constitutes a member's record.

12. *We provide examples of what failures to pay contributions are likely to be materially significant to the regulator. Are there any other examples or scenarios that should be included?*

We feel these are adequate and as internal controls are already in place this should not cause difficulties.

Section 5: Resolving issues

13. *Have we made clear the circumstances under which breaches of pensions legislation should be reported to us?*

We believe so.

Draft public service regulatory strategy

14. *Does the strategy, together with the public service code, sufficiently address risks to good governance and administration?*

Refer back to answer to Q6. Further guidance may be beneficial around risks regarding internal controls.

15. *Does the strategy explain adequately the approach we will take in regulating public service schemes?*
It does seem to however an early review may be necessary to pick up operational issues. It is good to see that a partnership approach is to be continued.

Impact assessment
16. *The impact assessment undertaken by the Treasury concluded that the new governance, administration and regulatory oversight provisions should not result in additional costs for schemes. The code gives practical guidance and sets standards of conduct and practice in relation to those new provisions. Do you agree that the public service code and public service regulatory strategy do not place an additional regulatory burden on schemes? If you do not agree, please explain and quantify additional costs.*
We do not agree that these provisions should not result in additional costs for schemes. Governance is assessed as strong currently however to ensure compliance is documented /demonstrated, particularly in knowledge and understanding for pension board members, conflicts of interest and internal control, the Shropshire Fund has identified that additional resource of up to one additional post is required. This will be monitored closely after implementation.

Kind regards

Debbie Sharp

Pensions Administration Manager
Shropshire County Pension Fund

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Agenda Item 16

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