



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

Date: Thursday, 19 November 2015

**Committee:**  
**Pensions Committee**

**Date:** Friday, 27 November 2015

**Time:** 10.00 am

**Venue:** Shrewsbury 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)

**Members of the Committee:**

Thomas Biggins  
Anne Chebsey  
Andrew B Davies  
Malcolm Pate

**Co-opted Members (Voting):**

Charles Smith  
Malcolm Smith

**Co-opted Members (Non-Voting):**

Jean Smith (Pensioner Representative)  
Nigel Neat (Employee Representative)  
Vacancy (Employee Representative)

**Substitute Members of the Committee:**

Joyce Barrow (SC)

Roger Evans (SC)

Stuart West (SC)

Michael Wood (SC)

Arnold England (T&W)

Rob Sloan (T&W)

Vacancy (Employee Rep)

Vacancy (Employee Rep)

Vacancy (Pensioner Rep)

Your Committee Officer is:

**Sarah Townsend** Committee Officer

Tel: 01743 257721

Email: [sarah.townsend@shropshire.gov.uk](mailto: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 - 6)

The Minutes of the meeting held on 25 September 2015 are attached for confirmation, marked 3.

Contact: Sarah Townsend (01743 257721)

## 4 **Public Questions**

## 5 **HarbourVest (Private Equity)**

Ms Hannah Tobin and Mr Peter Wilson will give a presentation.

## 6 **BlackRock (Hedge Funds)**

Mr Simon Betteley and Mr John Ware will give a presentation.

## 7 **Brevan Howard (Hedge Funds)**

Ms Anouck De Somer and Mr Magnus Olsson will give a presentation.

## 8 **Alternative Indexation**

Mr John Belgrove and Mr Louis-Paul Hill, from Aon Hewitt, will present this item.

## 9 **Statement of Investment Principles** (Pages 7 - 22)

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

Contact: Justin Bridges (01743 252072)

**10 Corporate Governance Monitoring (Pages 23 - 54)**

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

Contact: Justin Bridges (01743 252072)

**11 Pensions Administration Monitoring (Pages 55 - 62)**

The report of the Pension Administration Manager is attached, marked 11.

Contact: Debbie Sharp (01743 252192)

**12 New Policy - Breaches Policy (Pages 63 - 78)**

The report of the Head of Finance, Governance & Assurance (Section 151 Officer) is attached, marked 12.

Contact: James Walton (01743 255011)

**13 Exclusion of Press and Public**

To consider approving 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 14 to 16 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.

**14 Exempt Minutes (Exempted by Category 3) (Pages 79 - 82)**

The exempt Minutes of the meeting held on 25 September 2015 are attached for confirmation, marked 14.

Contact: Sarah Townsend (01743 257721)

**15 New Admission Bodies (Exempted by Category 3) (Pages 83 - 86)**

The exempt report of the Pension Administration Manager is attached, marked 15.

Contact: Debbie Sharp (01743 252192)

**16 Investment Monitoring - Quarter to 30 September 2015 (Exempted by Category 3) (Pages 87 - 138)**

The exempt report of the Head of Treasury & Pensions is attached, marked 16.

Contact: Justin Bridges (01743 252072)



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Pensions Committee

27 November 2015

10.00 am

## MINUTES OF THE PENSIONS COMMITTEE MEETING HELD ON 25 SEPTEMBER 2015

10.15 AM - 12.37 PM

**Responsible Officer:** Sarah Townsend  
Email: sarah.townsend@shropshire.gov.uk Tel: 01743 257721

### **Present:**

#### Members of the Committee:

Councillor Malcolm Pate (Chairman)  
Councillors Thomas Biggins and Andrew Davies

#### Co-Opted Members (Voting):

Charles Smith

#### Co-Opted Members (Non-Voting):

Nigel Neat and Jean Smith

### 16 **Apologies for Absence and Substitutions**

Apologies for absence were received from Councillors Anne Chebsey and Malcolm Smith.

Apologies for absence were also received from Councillors Arnold England, Roger Evans and Rob Sloan (Substitute Members).

Councillor Charles Smith (Voting Co-opted Member), Mr Nigel Neat (Non-Voting Co-opted Member) and Mr Mike Morris (Pensions Board Member but in attendance as an Observer) were welcomed to their first Pensions Committee meeting.

### 17 **Disclosable Pecuniary Interests**

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.

### 18 **Minutes**

#### **RESOLVED:**

That the Minutes of the meeting held on 26 June 2015 be approved and signed by the Chairman as a correct record.

## 19 Public Questions

There were no public questions.

## 20 Harris Associates (Global Equities)

Mr Euan MacLaren and Mr Mike Manelli gave a presentation on the performance of their Global Equity Portfolio as of 30 June 2015.

Members were firstly provided with an organisational overview before Mr Manelli went on to explain the reasons for the underperformance of the portfolio. Members were also taken through the ten largest and smallest contributors to performance between 30 June 2014 and 30 June 2015, following which, questions were asked in relation to the recent market volatility and the driving factors behind the underperformance.

## 21 Investec Asset Management (Global Equities) and Government Budget Announcement

Mr Stephen Lee and Mr Ian Vose gave a presentation on the performance of the Investec Global Dynamic Equity Fund as of 30 June 2015. Members were informed that since the inception of the Fund on 30 September 2013, it had outperformed its comparative index, the MSCI ACWI (All Country World Index) by 3.7%.

Members were taken through the performance of the portfolio's stocks and their sector attribution between 30 June 2014 and 30 June 2015 together with details of the stocks that had been bought and sold over this period.

Mr Lee also gave a presentation on the Summer Budget 2015 and its impact on the Local Government Pension Scheme. In brief, in 2014, the Hymans Robertson report to the Government provided a structure analysis on Local Government Pension Schemes with the primary purpose of quantifying the potential for cost savings across the LGPS. The Summer Budget 2015 detailed how the findings of this report were to be taken forward. Mr Lee explained that a consultation on "Criteria" had already started and that a further consultation was expected later this year on new investment regulations and "back stop" legislation which would be applied if any fund did not come up with sufficiently ambitious proposals that met this "Criteria".

## 22 LDI Strategy

Mr John Belgrove and Mr Louis-Paul Hill, from Aon Hewitt, gave a presentation on Shropshire Investment Strategy Proposal - Liability Driven Investment (LDI) and Unconstrained Bonds.

Members had the opportunity to ask questions and were informed that the Officer recommendations would be voted upon in the Exempt part of the meeting.



## 23 Internal Audit Outturn Report for Shropshire County Pension Fund 2014/15

The Committee received the report of the Audit Service Manager (copy attached to the signed Minutes) which provided Members with details of the work undertaken by Internal Audit for the year ended 31 March 2015. It was reported that final performance had been good with 100% of the annual Audit Plan being delivered. Four good and one reasonable assurances were made in 2014/15 and a total of nineteen recommendations had been made in the five audit reports related to the year. One 'significant' recommendation was made in the Altair Pension Application audit and the remaining recommendations were rated as 'requiring attention' or 'best practice'.

It was reported that on the basis of the work undertaken and management responses received, the Pension Fund's governance, risk management and internal control processes were sound and working effectively. The Audit Service Manager was therefore able to deliver a positive year end opinion on the Fund's internal control environment for 2014/15.

### **RESOLVED:**

- (a) That performance against the Audit Plan for the year ended 31 March 2015 be endorsed.
- (b) That the Audit Service Manager's positive year end opinion on the Fund's governance, risk management and internal control environment for 2014/15, on the basis of the work undertaken and management responses received, be endorsed.

## 24 External Audit - The Audit Findings for Shropshire County Pension Fund 2014/15

The Committee received the report of the External Auditor, Grant Thornton, (copy attached to the signed Minutes) which highlighted the key matters arising from the audit of Shropshire County Pension Fund's financial statements for the year ending 31 March 2015.

Mr John Gregory and Mr Ashley Wilson were in attendance and advised the meeting that it was anticipated that an unqualified opinion in respect of the Fund's financial statements would be provided and that the key messages arising from the audit were:

- That the draft and final version of the financial statements recorded net assets carried forward of £1,512,730,000 and that no material adjustments affecting the Fund's net assets position had been identified; and
- That a number of minor adjustments to the notes to the financial statements had been agreed with Officers.

Mr Gregory informed the meeting that one non-trivial adjustment that netted to £0.7m had been identified in respect of discrepancies between the values of investments reported by the custodian and fund managers but that Officers were not proposing to amend the 2014/15 financial statements as the values were not materially different.

Following the meeting, it was noticed that there was a typing error on page 6 of the report and that the last paragraph under the heading 'Key issues arising from our audit' needed to be amended to read 'Officers are not proposing to amend for this in 2014/15, as the values are not materially different. If an amendment were made it would **decrease** both the Fund's reported surplus and net assets by £0.7m. The Pensions Committee is asked to approve management's proposed treatment and recognition of this and the associated disclosure within the Letter of Representation (further details are on page 17)'.

**RESOLVED:**

- (a) That the content of the report of the External Auditor, Grant Thornton, be noted.
- (b) That the management's proposed treatment of the one non-trivial adjustment be approved.
- (c) That the signing of the Letter of Representation be approved.

**25 Pension Fund Annual Accounts 2014/15**

The Committee received the report of the Head of Finance, Governance and Assurance (copy attached to the signed Minutes) which provided Members with the Shropshire County Pension Fund Annual Report 2014/15 and an update on the annual audit.

**RESOLVED:**

That the Pension Fund Annual Report 2014/15 be approved.

**26 Corporate Governance Monitoring**

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 01 April 2015 to 30 June 2015.

**RESOLVED:**

That the position as set out in the report, Manager Voting Reports (Appendix A) and F&C Responsible Engagement Overlay Activity Report (Appendix B) be accepted.

**27 Pensions Administration Monitoring**

The Committee received the report of the Pension 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.

It was reported that there was a typing error on paragraph 9.7 of the report and that Shropshire Council Members' term of office ended in 2017 and not 2016 as stated within the report.

It was noted that the Pensions Regulator had provided a free e-learning programme and the Committee were advised to undertake this training. The e-learning

programme could be accessed via the Regulator's "Trustee Toolkit" on their website: <https://trusteetoolkit.thepensionsregulator.gov.uk/>. Committee Members would be contacted further about this in due course.

**RESOLVED:**

That the position as set out in the report by the Pension Administration Manager be accepted.

**28 Collaborative Working with other Local Government Pension Funds**

The Committee received the report of the Head of Treasury and Pensions (copy attached to the signed Minutes) which informed Members of discussions that had been taking place with other Local Government Pension Scheme (LGPS) Administering Authorities and sought delegated authority to continue this work.

The report also provided an update to Members on the wider national position in respect of collaboration within the LGPS, and in particular the potential impact of an announcement contained within the Summer Budget. Members were updated on the National Collaboration work which was being co-ordinated by Hymans in which Joint Working Groups had been set up in order to submit a joint response to Government on two or three pooling options. The Shropshire Fund is one of 25+ other funds involved in contributing to this work.

Members were informed that the seven Funds involved in discussions appeared to have sufficient 'critical mass' to be able to jointly procure passive investment management services at a cost that was significantly lower than the individual Funds were currently paying. It was noted that since the report had been written, an investment consultant, bfinance, had been selected by the seven Funds.

**RESOLVED:**

- (a) That the position as set out in the report be noted.
- (b) That authority be delegated to the Head of Finance, Governance and Assurance in consultation with the Chairman if necessary to conclude the matter of joint procurement of a passive investment manager with other LGPS administering authorities.

**29 Exclusion of Press and Public**

**RESOLVED:**

That under paragraph 10.2 of the Council's Access to Information Procedure Rules, the proceedings of the Committee in relation to Minutes 30 to 32, be not conducted in public on the grounds that they might involve the likely disclosure of exempt information as defined by the category specified against them.

**30 Exempt Minutes (Exempted by Category 3)**

**RESOLVED:**

That the Exempt Minutes of the meeting held on 26 June 2015 be approved and signed by the Chairman as a correct record.

**31 New Admission Bodies (Exempted by Category 3)**

The Committee received the exempt report of the Pension Administration Manager (copy attached to the Exempt signed Minutes) which provided Members with details regarding two new Employer admissions to the Fund, both under Schedule 2 Part 3 Regulation 1(d)(i) of the Local Government Pension Scheme Regulations 2013, due to services transferring from a Scheme Employer, under a service contract. Members were also provided with details of a potential admission to the Fund.

The report also provided confirmation of a new admission, which under the governance arrangements, had been approved by the Chairman of the Pensions Committee between committee meetings, to allow the sealing of the Admission. Confirmation of four new Schedule 1 Part 1 Scheme Employer (Academies) who would or had joined the Fund, along with one closure were also reported.

**RESOLVED:**

That the recommendations in the exempt report by the Pension Administration Manager be approved.

**32 Investment Monitoring - Quarter to 30 June 2015 (Exempted by Category 3)**

The Committee received the exempt report of the Head of Treasury and Pensions (copy attached to the Exempt signed Minutes) which provided Members with monitoring information on investment performance and managers for the quarter period to 30 June 2015 and reported on the technical meetings held with managers since the quarter end.

**RESOLVED:**

That the position as set out in the exempt report by the Head of Treasury and Pensions be noted.

*(The full version of Minutes 31 and 32 constitutes exempt information under Category 3 of Paragraph 10.4 of the Council's Access to Information Rules and has accordingly been withheld from publication).*

Signed ..... (Chairman)

Date: .....



<u>Committee and Date</u>	<u>Item</u>
Pensions Committee	
27 November 2015	
10.00am	
	<b>9</b>
	Public

## STATEMENT OF INVESTMENT PRINCIPLES

**Responsible Officer** Justin Bridges

e-mail: [justin.bridges@shropshire.gov.uk](mailto: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.

<b>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</b>
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Pensions Committee, 20 March 2014, Statement of Investment Principles
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<b>Cabinet Member</b>
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N/A
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<b>Local Member</b>
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N/A
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<b>Appendices</b>
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A - Statement of Investment Principles (revised November 2015)
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# 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. A copy will also be sent to members of the Pension Board.

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 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.

## **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 equity
- government and non-government bonds
- Liability Driven Investment (LDI)
- property and infrastructure
- 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 (as used in the Asset-Liability Modelling study carried out in May 2014) and at 30 September 2015.

Asset class	31 December 2013		30 September 2015	
	Expected Return %	Volatility %	Expected Return %	Volatility %
UK Equities	7.7	20.0	7.3	19.0
Global Unconstrained Equities	10.1	21.8	8.9	21.4
Global Passive Equities	7.7	19.8	7.3	20.5
UK Property	7.1	14.5	6.0	12.5
UK Gilts (15 year duration)	3.6	11.0	2.6	11.0
UK Investment Grade Corporate Bonds (10 year duration)	4.3	9.0	3.5	9.0
UK Index-Linked Gilts (15 year duration)	2.6	9.0	1.9	9.0
Unconstrained Bonds	-	-	5.7	10.0
Global Fund of Hedge Funds	5.4	8.0	4.6	9.0
Multi-Strategy Hedge Funds	5.9	8.3	6.3	12.0
Global Private Equity	9.2	26.0	9.1	27.5
Infrastructure (USD)	8.1	20.4	7.0	19.0
Inflation (CPI)	2.3	-	2.0	-

## 5.2 Investment strategy

The Fund's strategic asset allocation was agreed by Pensions Committee in September 2015 and following implementation, will be as follows:

Asset Class	Allocation	Control Ranges
<b>Total Equity</b>	<b>52.0</b>	<b>47.0 – 57.0</b>
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
<b>Total Alternatives</b>	<b>23.0</b>	<b>18.0 – 28.0</b>
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
<b>Total Bonds</b>	<b>25.0</b>	<b>20.0 – 30.0</b>
Liability Driven Investment (LDI)	3.5	2.0-5.0
Unconstrained Bonds	21.5	17.5-25.5

## 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. 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.

BMO (formerly F&C) provides a responsible engagement overlay on the Fund's UK equity portfolios. BMO 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 64 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 September 2015 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
<b>Active portfolios</b>			
PIMCO Europe Ltd	Unconstrained bonds	1 month Sterling LIBOR	+4% p.a.
BlackRock	Unconstrained bonds	3 month USD LIBOR	+ 4-6% p.a.
GAM	Unconstrained bonds	3 month Sterling LIBOR	+ 3-5% p.a.
BMO	Liability Driven Investment (LDI)	Hedge Benchmark (based on FTSE over 5 yrs Index Linked Gilt Index)	Outperform the benchmark
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	3 month Sterling LIBOR	+6.0% p.a.
BlackRock	Fund of Hedge Funds	3 month Sterling LIBOR	+5.0% p.a.



**Indexed (Passive ) Portfolios**

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
<p>1. Effective decision making</p> <ul style="list-style-type: none"> <li>■ Administrating authorities should ensure that:</li> <li>■ decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation</li> <li>■ Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest</li> </ul>	Comply	<p>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. The Pension Board provide assurance and good governance around the Pension Committee and the process.</p>	
<p>2. Clear Objectives</p> <ul style="list-style-type: none"> <li>■ 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</li> </ul>	Comply	<p>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.</p> <p>Performance and risk parameters are specified in relation to relevant indices and appropriate time periods and are set out in investment mandates.</p>	

<p>3. Risk and liabilities</p> <ul style="list-style-type: none"> <li>■ In setting and reviewing their investment strategy administrating authorities should take account of the form and structure of liabilities.</li> <li>■ These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk</li> </ul>	<p>Comply</p>	<p>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. If required, the actuarial funding position can be reported to the Pensions Committee on a quarterly basis, using information provided by Aon Hewitt.</p>
<p>4. Performance assessment</p> <ul style="list-style-type: none"> <li>■ Arrangements should be in place for formal measurement of performance of the investments, investment managers and advisors</li> <li>■ 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</li> </ul>	<p>Comply</p>	<p>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. The Fund has recently assessed its effectiveness as a decision-making body and aims to spend more time on strategic level and asset allocation decisions compared to meeting managers going forwards.</p>
<p>5. Responsible ownership</p> <ul style="list-style-type: none"> <li>■ Administrating authorities should</li> <li>■ Adopt or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents</li> <li>■ Include a statement of their policy on responsible ownership in the statement of investment principles</li> <li>■ Report periodically to scheme members on the discharge of such responsibilities</li> </ul>	<p>Comply</p>	<p>The SIP includes a statement on responsible ownership.</p> <p>An independent advisor is appointed to engage with companies on socially responsible issues and voting at company meetings is effected through the Fund's investment managers.</p>
<p>6. Transparency and reporting</p> <ul style="list-style-type: none"> <li>■ Administrating authorities</li> </ul>	<p>Comply</p>	<p>A range of documents are published relating to the</p>

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

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.



<u>Committee and Date</u>
Pensions Committee
27 November 2015
10.00am

<u>Item</u>
<b>10</b>
Public

## CORPORATE GOVERNANCE MONITORING

**Responsible Officer** Ed Roberts

e-mail: [ed.roberts@shropshire.gov.uk](mailto:ed.roberts@shropshire.gov.uk)

Tel: (01743) 252078 Fax (01743) 255901

### 1. Summary

- 1.1 The report is to inform members of Corporate Governance and socially responsible investment issues arising in the quarter 1<sup>st</sup> July 2015 to 30<sup>th</sup> September 2015.

### 2. Recommendations

- 2.1 Members are asked to accept the position as set out in the report, Manager Voting Reports at Appendix A and BMO Global Asset Management Responsible Engagement Overlay Activity Report 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. BMO Global 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).

## 7. Responsible Engagement Activity

7.1 During the last quarter BMO Global Asset Management 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 Activity report.

### 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 25 September 2015

#### Cabinet Member

N/A

#### Local Member

N/A

#### Appendices

A. Manager Voting Activity Reports.

B. BMO Global Asset Management Responsible Engagement Overlay Reports.

# VOTING POLICY



We introduced our own customised voting policy in Q1 2014, run in parallel with ISS's policy. The majority of areas in which our policy differs from that of ISS are within the smaller company sector, in which we are a leading participant, and relates to capital raising with pre-emptive shareholder rights; these are by their nature often associated with smaller companies. It is not inconceivable that we will make exceptions and vote against our own policy: as with all our voting, we proceed on a case by case basis.

We regard a smaller company as having a market capitalisation of £1.5bn or less.

Below are the specifics of the policy:

Agenda Type	ISS policy	Majedie Policy
Smaller Company Board Structure	Where Non-Executive Directors (NEDs) are members of internal boards, or where members of the board sit on more than one internal committee, this is regarded as being against best practice, and therefore the recommendation is to vote against such proposals.	Give smaller companies greater flexibility in the composition of their boards for practical reasons, given personnel limitations, unless we take issue with one of the board members.
Issuances with Pre-emptive Rights	Proposals of greater than 33% of Issued Share Capital are against best practice and therefore the recommendation is to vote against.	As shareholders we will be given the right to take up the issuance, and therefore will not be diluted. We therefore vote for such proposals.
Issuances without Pre-emptive Rights	Proposals of greater than 10% of Issued Share Capital are against best practice and therefore the recommendation is to vote against.	Vote in line with ISS as such issuances are potentially dilutive for shareholders.
Political Contributions	Vote for.	Vote against. We like to maintain an independent stance.

# VOTING SUMMARY

Over the quarter, Majedie Asset Management voted at a total of 69 meetings on 824 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	54	
Number of resolutions	617	
Where we voted in line with Management	598	(96.9%)
Where we have not voted in line with Management	19	(3.1%)
Where we voted against ISS's recommendation	35	(5.7%)

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	17	17
Remuneration	2	7
Board election & related proposals	0	11
Capitalisation	0	0
Miscellaneous	0	0
Reorg. and Mergers	0	0
Shareholder proposals	0	0
Total	19	35

Sources: Majedie, ISS (Institutional Shareholder Services)



# VOTING BREAKDOWN

SECURITY	MEETING DATE	MEETING TYPE	MAJEDIE VOTE	IN LINE WITH ISS
888 Holdings (1)	29 Sep 2015	EGM	Abstention on Resolutions 1, 2, 3, 4, 5	No
Accsys Technologies	17 Sep 2015	AGM	Voted for all	Yes
AGA Rangemaster	08 Sep 2015	EGM	Voted for all	Yes
Ambrian (2)	07 Jul 2015	AGM	Voted for all	No
Anite	30 Jul 2015	EGM	Voted for all	Yes
Banca Monte dei Paschi di Siena	15 Sep 2015	EGM	Voted for all	Yes
Blinkx	25 Aug 2015	AGM	Voted for all	Yes
blur Group (3)	11 Aug 2015	EGM	Voted for all	No
BT (4)	15 Jul 2015	AGM	Against Resolution 21	No
Charles Stanley	31 Jul 2015	AGM	Voted for all	Yes
Creston (5)	07 Sep 2015	AGM	Against Resolution 13	No
Dairy Crest (6)	14 Jul 2015	AGM	Against Resolution 13	No
Darty (7)	10 Sep 2015	AGM	Against Resolution 17	No
De La Rue (8)	23 Jul 2015	AGM	Against Resolution 13	No
Eckoh	23 Sep 2015	AGM	Voted for all	Yes
Electrocomponents	23 Jul 2015	AGM	Voted for all	Yes
EMED Mining (9)	29 Jul 2015	AGM	Voted for all	No
FirstGroup (10)	16 Jul 2015	AGM	Against Resolution 18	No
Griffin Mining (11)	15 Jul 2015	AGM	Against Resolution 8	No
Helical Bar	24 Jul 2015	AGM	Voted for all	Yes
Hogg Robinson	24 Jul 2015	AGM	Voted for all	Yes
Home Retail (12)	01 Jul 2015	AGM	Against Resolution 13	No
HomeServe	17 Jul 2015	AGM	Voted for all	Yes
ITM Power (13)	16 Sep 2015	AGM	Against Resolution 1	No
KCOM	31 Jul 2015	AGM	Voted for all	Yes
Koninklijke KPN (14)	11 Sep 2015	EGM	Abstention on Resolutions 1, 4	No
Marks and Spencer (15)	07 Jul 2015	AGM	Against Resolution 23	No
National Grid	21 Jul 2015	AGM	Voted for all	Yes
Optimal Payments	28 Sep 2015	EGM	Voted for all	Yes
Petroceltic	24 Jul 2015	AGM	Voted for all	Yes
Petroceltic (16)	07 Sep 2015	EGM	Against Resolution 1	Yes
QinetiQ (17)	22 Jul 2015	AGM	Against Resolution 14	No
Quintain Estates (18)	20 Jul 2015	AGM	Voted for all	No
RPC	15 Jul 2015	AGM	Voted for all	Yes
Ryanair (19)	24 Sep 2015	AGM	Voted for all	No
Scapa (20)	21 Jul 2015	AGM	Against Resolution 12	No
Shanks Group (21)	23 Jul 2015	AGM	Against Resolution 13	No
Sirius Real Estate (22)	18 Sep 2015	AGM	Voted for all	No
Spark Ventures	06 Aug 2015	EGM	Voted for all	Yes
Spark Ventures	22 Sep 2015	AGM	Voted for all	Yes
Speedy Hire (23)	15 Jul 2015	AGM	Against Resolution 13	No
SSE	23 Jul 2015	AGM	Voted for all	Yes
Tarsus	01 Sep 2015	EGM	Voted for all	Yes

SECURITY	MEETING DATE	MEETING TYPE	MAJEDIE VOTE	IN LINE WITH ISS
Tate & Lyle (24)	29 Jul 2015	AGM	Abstention on Resolution 11, Against Resolution 16	No
Tesco	30 Sep 2015	EGM	Voted for all	Yes
Torotrak (25)	22 Jul 2015	EGM	Against Resolution 5	Yes
Vectura	24 Sep 2015	EGM	Voted for all	Yes
Vectura (26)	24 Sep 2015	AGM	Against Resolution 2	Yes
Vertu Motors	23 Jul 2015	AGM	Voted for all	Yes
Vodafone (27)	28 Jul 2015	AGM	Against Resolution 20	No
WYG (28)	24 Sep 2015	AGM	Voted for all	No
ZincOx Resources	17 Aug 2015	EGM	Voted for all	Yes

Source : ISS (Institutional Shareholder Services)

# VOTING NOTES

- 1) 888 Holdings: ISS recommended a vote against the long-term incentive plan as the maximum individual award has been increased from 100% to 200% of basic salary with no explanation provided, and the Remuneration Committee has granted the discretion to make awards above the new limit in exceptional circumstances. After engaging with management, they assured us, there was no change to the existing Asset and Equity Plan in place, this was just intended to roll it over and that there are protective measures in place to ensure that directors are not overpaid. We note that the 888 management have never exercised this in the past, however, we feel it is important that they are able to use their discretion when incentivising employees.
- 2) Ambrian: Nicolas Rouveyre serves on both the Audit Committee and the Remuneration Committee. Whilst we would prefer to see directors serve on only one committee, we acknowledge that smaller companies need to be permitted greater leeway in the composition of their boards, so we chose to vote in favour.
- 3) Blur Group: ISS recommended a vote against the Financial Statements and Statutory Reports because of ongoing deviations from best practice in the composition of their Board. After engaging with the company, we have been assured by management that there is a firm commitment to separate the CEO and Chairman role by the interim reports in September. There are also plans to appoint a new Audit Director and there is a new Non-Executive Director expected to join. We feel management have made sizable steps to meeting best practice, we therefore voted for. We note that if these changes are not implemented as promised, we would not support the resolution next year.
- 4) BT: we voted in line with Majedie policy with regard to political donations.
- 5) Creston: we voted in line with Majedie policy with regard to political donations.
- 6) Dairy Crest: on Resolution 2, we listened to the company's explanation in a recent meeting with management when they explained that they were in the midst of a year of significant change for the businesses. Therefore there was an exceptional rationale for the proposed awards. On Resolution 13, we voted in line with Majedie policy with regard to political donations.
- 7) Darty: we voted in line with Majedie policy with regard to political donations.
- 8) De La Rue: we voted in line with Majedie policy with regard to political donations.
- 9) EMED Mining: on Resolution 9, ISS recommend vote against awarding grant options to directors and senior managers, owing to short vesting period. Management have finally brought the company to the stage where it is poised for growth. We consider this award is merited under those circumstances. We therefore voted in favour. On Resolution 10, ISS recommend a vote against awarding an equity grant, owing to shares being issued at a discount to the market price. We feel that the amount is not excessive. We therefore voted in favour.
- 10) FirstGroup: we voted in line with Majedie policy with regard to political donations.
- 11) Griffin Mining: On Resolutions 4, 5 and 7, Dal Brynelsen, Rupert Crowe and Adam Usdan serve on the Audit Committee and the Remuneration Committee. Whilst we would prefer to see directors serve on only one committee, we acknowledge that smaller companies need to be permitted greater leeway in the composition of their boards, so we chose to vote in favour. On Resolution 8, ISS recommended a vote against the electronic distribution of company communications as the

resolution also proposes amending the bylaws of the company, permitting a shorter notice period for shareholders and reducing the time that shareholders have to review materials and evaluate their voting decision. We agreed and voted against.

- 12) Home Retail: we voted in line with Majedie policy with regard to political donations.
- 13) ITM Power: ISS recommended a vote against the financial statements and statutory reports owing to concerns surrounding the vesting period of awards granted to Executive Directors during the year under review. We feel that concern over the immediate awards granted to executive directors is warranted, as rigorous performance criteria are important in achieving the company's long term goals. We therefore voted against. On Resolutions 2 to 4 ISS recommended a vote against the election of Robert Pendlebury, Peter Hargreaves, Roger Putnam and Lord Roger as they serve on at least the Audit Committee and the Remuneration Committee, which is against best practice. Whilst we would prefer to see directors serve on only one committee, we acknowledge that smaller companies need to be permitted greater leeway in the composition of their boards. We feel each of these directors makes a significant contribution to the strategic direction of the company and brings useful industry knowledge to the board. We therefore voted in favour.
- 14) Koninklijke KPN: we voted in line with Majedie policy with regard to political donations.
- 15) Marks and Spencer: we voted in line with Majedie policy with regard to political donations.
- 16) Petroceltic: We voted against this shareholder proposal in line with ISS recommendation.
- 17) QinetiQ: we voted in line with Majedie policy with regard to political donations.
- 18) Quintain Estates: ISS recommended we abstain from voting for William Rucker, who serves on both the Remuneration Committee and the Nomination Committee. Whilst we would prefer to see directors serve on only one committee, we acknowledge that smaller companies need to be permitted greater leeway in the composition of their boards, so we chose to vote in favour.
- 19) Ryanair: On Resolution 2, ISS recommended a vote against the Remuneration Report as it lacked sufficient detail. We voted in favour of the Remuneration Report, in line with how we voted last year, as we have no doubt that the company is acting in shareholders' best interests. On Resolution 3, ISS recommended a vote against the David Bonderman as he is currently the Chairman of the Nomination Committee and therefore responsible for the composition of the Board. While we like to see independence on the Board, we are supportive of management and therefore voted in favour. On Resolution 3h, ISS recommended a vote against the re-election of James Osborne as he is no longer independent due to his length of tenure and holding options. We feel that this experience is invaluable and therefore voted to re-elect him on to the Board.
- 20) Scapa: we voted in line with Majedie policy with regard to political donations.
- 21) Shanks Group: we voted in line with Majedie policy with regard to political donations.
- 22) Sirius Real Estate: ISS recommended we vote against re-electing James Peggie, who serves on Audit Committee, Remuneration Committee and the Nomination Committee. Whilst we would prefer to see directors serve on only one committee, we acknowledge that smaller companies need to be permitted greater leeway in the composition of their boards, so we chose to vote in favour.

- 23) Speedy Hire: ISS recommended we vote against the authorisation of payment of the auditors, KPMG, as non-audit fees paid exceed 100% of the audit fees, which is against best practice. We chose to vote in favour as we feel confident that KPMG were acting legitimately in carrying out the audit. On Resolution 13, we voted in line with Majedie policy with regard to political donations.
- 24) Tate & Lyle: ISS recommended vote against the Remuneration Report. The Remuneration Committee has allowed CFO Nick Hampton to exchange a performance-related award granted in connection with his recruitment for an award without performance requirements. The exchange of a performance-related award for an award with no performance conditions is poor practice. The Fund Manager engaged with the Chairman and made his reservations clear. Although we understand their rationale, we disagree with the lack of performance targets. We therefore voted against. On Resolution 16, we voted in line with Majedie policy with regard to political donations.
- 25) Torotrak: ISS recommend vote against a grant of options to Adam Robson (CEO), because in the event of a change of control, he will be entitled to receive pro-rated bonus payments in respect of both the six-month notice period and the subsequent six-month period. We agreed that this is not in the shareholders' best interests and therefore voted against.
- 26) Vectura: ISS recommended a vote against the Remuneration Report as the salary increase awarded to the CEO, Chris Blackwell, was above inflationary levels (7%). The increased salary was granted after he announced his intention to leave the company meaning his termination payment will be based on the increased salary. We therefore voted against the Remuneration Report.
- 27) Vodafone: we voted in line with Majedie policy with regard to political donations.
- 28) WYG: ISS recommended a vote against approving the share incentive plan owing to the lack of performance conditions and vesting period. Management engaged with the Fund Manager during the process and he is supportive of the overall plan. We therefore voted in favour.





### Vote Summary Report

Reporting Period: 07/01/2015 to 09/30/2015

Institution Account(s): Investec Funds Series iii - Global Dynamic

### NXP Semiconductors NV

Meeting Date: 07/02/2015

Country: Netherlands

Meeting Type: Special

Ticker: NXPI

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Voting Policy Rec	Vote Instruction
	Special Meeting	Mgmt				
1A	Approve Acquisition of Freescale Through a Cash and Share Consideration	Mgmt	For	For	Refer	For
1B	Approve Issuance of 12,500,000 Shares in Connection with the Acquisition under Item 1A	Mgmt	For	For	Refer	For
1C	Grant Board Authority to Issue Share Based Remuneration Units Re: Freescale Acquisition	Mgmt	For	For	Refer	For
2A	Elect Gregory L. Summe as Non-executive Director	Mgmt	For	For	For	For
2B	Elect Peter Smitham as Non-executive Director	Mgmt	For	For	For	For

### Red Electrica Corporacion SA

Meeting Date: 07/17/2015

Country: Spain

Meeting Type: Special

Ticker: REE

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Voting Policy Rec	Vote Instruction
1	Receive Report on Process of Splitting Positions of Chairman of the Board and Chief Executive Officer	Mgmt				
2	Fix Number of Directors at 12	Mgmt	For	For	For	For

**Vote Summary Report**

Reporting Period: 07/01/2015 to 09/30/2015

Institution Account(s): Investec Funds Series III - Global Dynamic

**Red Electrica Corporacion SA**

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Voting Policy Rec	Vote Instruction
3	Elect Juan Francisco Lasala Bernad as Director	Mgmt	For	For	For	For
4	Authorize Board to Ratify and Execute Approved Resolutions	Mgmt	For	For	For	For



## Vote Summary Report

Reporting Period: 07/01/2015 to 09/30/2015

Location(s): All Locations

Institution Account(s): 5984 -Shropshire County Pension Fund

## Experian plc

Meeting Date: 07/22/2015

Country: United Kingdom

Primary Security ID: G32655105

Record Date: 07/20/2015

Meeting Type: Annual

Ticker: EXPN

Shares Voted: 204,700

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Vote Instruction
1	Accept Financial Statements and Statutory Reports	Mgmt	For	For	For
2	Approve Remuneration Report	Mgmt	For	Abstain	For
3	Elect Lloyd Pitchford as Director	Mgmt	For	For	For
4	Elect Kerry Williams as Director	Mgmt	For	For	For
5	Re-elect Fabiola Arredondo as Director	Mgmt	For	For	For
6	Re-elect Jan Babiak as Director	Mgmt	For	For	For
7	Re-elect Brian Cassin as Director	Mgmt	For	For	For
8	Re-elect Roger Davis as Director	Mgmt	For	For	For
9	Re-elect Deirdre Mahlan as Director	Mgmt	For	For	For
10	Re-elect Don Robert as Director	Mgmt	For	For	For
11	Re-elect George Rose as Director	Mgmt	For	For	For
12	Re-elect Judith Sprieser as Director	Mgmt	For	For	For
13	Re-elect Paul Walker as Director	Mgmt	For	For	For
14	Reappoint PricewaterhouseCoopers LLP as Auditors	Mgmt	For	For	For
15	Authorise Board to Fix Remuneration of Auditors	Mgmt	For	For	For
16	Authorise Issue of Equity with Pre-emptive Rights	Mgmt	For	For	For
17	Approve Performance Share Plan	Mgmt	For	For	For
18	Approve Co-Investment Plan	Mgmt	For	For	For
19	Approve Share Option Plan	Mgmt	For	For	For
20	Approve UK Tax-Qualified Sharesave Plan	Mgmt	For	For	For
21	Approve UK Tax-Qualified All-Employee Plan	Mgmt	For	For	For
22	Approve Free Share Plan	Mgmt	For	For	For
23	Authorise Issue of Equity without Pre-emptive Rights	Mgmt	For	For	For
24	Authorise Market Purchase of Ordinary Shares	Mgmt	For	For	For

## Vote Summary Report

Reporting Period: 07/01/2015 to 09/30/2015

Location(s): All Locations

Institution Account(s): 5984 -Shropshire County Pension Fund

## Compagnie Financiere Richemont SA

Meeting Date: 09/16/2015

Country: Switzerland

Primary Security ID: H25662182

Record Date:

Meeting Type: Annual

Ticker: CFR

Shares Voted: 65,504

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Vote Instruction
1	Accept Financial Statements and Statutory Reports	Mgmt	For	For	For
2	Approve Allocation of Income and Dividends of CHF 1.60 per Registered A Share and of CHF 0.16 per Bearer B Share	Mgmt	For	For	For
3	Approve Discharge of Board of Directors	Mgmt	For	For	For
4.1	Elect Johann Rupert as Director	Mgmt	For	Against	For
4.2	Elect Jean-Blaise Eckert as Director	Mgmt	For	Against	For
4.3	Elect Bernard Fornas as Director	Mgmt	For	For	For
4.4	Elect Yves-Andre Istel as Director	Mgmt	For	Against	For
4.5	Elect Richard Lepeu as Director	Mgmt	For	For	For
4.6	Elect Ruggero Magnoni as Director	Mgmt	For	Against	For
4.7	Elect Josua Malherbe as Director	Mgmt	For	Against	For
4.8	Elect Simon Murray as Director	Mgmt	For	Against	For
4.9	Elect Alain Dominique Perrin as Director	Mgmt	For	Against	For
4.10	Elect Guillaume Pictet as Director	Mgmt	For	For	For
4.11	Elect Norbert Platt as Director	Mgmt	For	Against	For
4.12	Elect Alan Quasha as Director	Mgmt	For	Against	For
4.13	Elect Maria Ramos as Director	Mgmt	For	For	For
4.14	Elect Lord Renwick of Clifton as Director	Mgmt	For	Against	For
4.15	Elect Jan Rupert as Director	Mgmt	For	Against	For
4.16	Elect Gary Saage as Director	Mgmt	For	Against	For
4.17	Elect Juergen Schrempp as Director	Mgmt	For	Against	For
4.18	Elect The Duke of Wellington as Director	Mgmt	For	Against	For
5.1	Appoint Lord Renwick of Clifton as Member of the Compensation Committee	Mgmt	For	Against	For
5.2	Appoint Yves-Andre Istel as Member of the Compensation Committee	Mgmt	For	Against	For
5.3	Appoint The Duke of Wellington as Member of the Compensation Committee	Mgmt	For	Against	For

## Vote Summary Report

Reporting Period: 07/01/2015 to 09/30/2015

Location(s): All Locations

Institution Account(s): 5984 -Shropshire County Pension Fund

### Compagnie Financiere Richemont SA

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Vote Instruction
6	Ratify PricewaterhouseCoopers SA as Auditors	Mgmt	For	For	For
7	Designate Francois Demierre Morand as Independent Proxy	Mgmt	For	For	For
8	Amend Articles Re: Ordinance Against Excessive Remuneration at Listed Companies	Mgmt	For	Against	For
9.1	Approve Maximum Remuneration of Board of Directors in the Amount of CHF 10.3 Million	Mgmt	For	For	For
9.2	Approve Maximum Fixed Remuneration of Executive Committee in the Amount of CHF 14 Million	Mgmt	For	Against	For
9.3	Approve Variable Remuneration of Executive Committee in the Amount of CHF 23.7 Million	Mgmt	For	For	For
10	Transact Other Business (Voting)	Mgmt	For	Against	Against

### Diageo plc

Meeting Date: 09/23/2015

Country: United Kingdom

Primary Security ID: G42089113

Record Date: 09/21/2015

Meeting Type: Annual

Ticker: DGE

Shares Voted: 186,730

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Vote Instruction
1	Accept Financial Statements and Statutory Reports	Mgmt	For	For	For
2	Approve Remuneration Report	Mgmt	For	For	For
3	Approve Final Dividend	Mgmt	For	For	For
4	Re-elect Peggy Bruzelius as Director	Mgmt	For	For	For
5	Re-elect Lord Davies of Abersoch as Director	Mgmt	For	For	For
6	Re-elect Ho KwonPing as Director	Mgmt	For	For	For
7	Re-elect Betsy Holden as Director	Mgmt	For	For	For
8	Re-elect Dr Franz Humer as Director	Mgmt	For	For	For
9	Re-elect Deirdre Mahlan as Director	Mgmt	For	For	For
10	Re-elect Nicola Mendelsohn as Director	Mgmt	For	For	For
11	Re-elect Ivan Menezes as Director	Mgmt	For	For	For
12	Re-elect Philip Scott as Director	Mgmt	For	For	For
13	Re-elect Alan Stewart as Director	Mgmt	For	For	For

## Vote Summary Report

Reporting Period: 07/01/2015 to 09/30/2015

Location(s): All Locations

Institution Account(s): 5984 -Shropshire County Pension Fund

### Diageo plc

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Vote Instruction
14	Appoint PricewaterhouseCoopers LLP as Auditors	Mgmt	For	For	For
15	Authorise Board to Fix Remuneration of Auditors	Mgmt	For	For	For
16	Authorise Issue of Equity with Pre-emptive Rights	Mgmt	For	For	For
17	Authorise Issue of Equity without Pre-emptive Rights	Mgmt	For	For	For
18	Authorise Market Purchase of Ordinary Shares	Mgmt	For	For	For
19	Authorise EU Political Donations and Expenditure	Mgmt	For	For	For

# Our Corporate Governance & Responsible Investment

## Policy and Practice

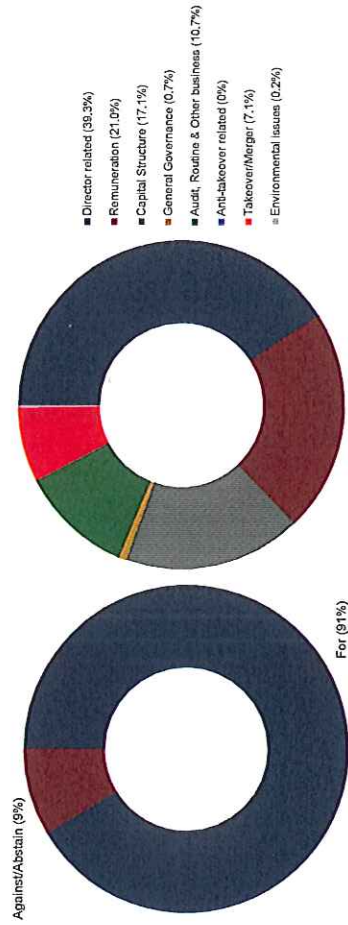
We aim to maximise and protect shareholder value on behalf of our clients by exercising their voting rights. We also engage with companies both directly and collaboratively with other investors to reduce risks of corporate failure and promote best practice. We comply with the principles set out in the UK Stewardship Code and are a signatory to the UN Principles of Responsible Investment (PRI) <http://www.igim.com/uk/en/capabilities/corporate-governance/>

In order to demonstrate key governance issues, voting statistics are divided up into main voting categories. We engage on a range of Environmental, Social, Governance (ESG) and Financial issues and integrate all components where appropriate. All UK votes are disclosed on our website.

We have extended our public voting disclosure to cover the North American and Japanese markets. These can also be found on our webpage.

LGIM votes in all major developed markets including: Europe, North America, Japan and Asia Pacific, and have minimised abstentions. We also vote in the major emerging markets and have started reporting on our activities in this region.

## Voting Decisions Against/Abstain Votes by Topic



Source: Legal & General Investment Management

## Latest News and Development

### Appointment of new Corporate Governance Manager

We are pleased to announce the appointment of Jeannette Andrews to the LGIM Corporate Governance team. Jeannette has over 12 years of experience in Corporate Governance, most recently as the Senior Analyst at USS Investment Management Ltd. Jeannette also holds the CFA Charter and was recognised by Financial News as one of the 40 under 40 Rising Stars of Asset Management in 2014.

### Presence in the US and International Corporate Governance Network (ICGN) Conference

Clare Payn, Head of Corporate Governance North America, has been relocated to our Chicago office for a minimum of a year. Her presence in the region will build on our growing profile and will enable LGIM to gain better access and to meet many more companies and market participants.

In addition, Clare was a panellist at the ICGN conference in Boston on the topic of ESG integration where we shared with the audience how to integrate ESG into the investment process, the obstacles and successes around this.

### Principles of Responsible Investment Conference in London

We attended the annual Principles of Responsible Investment (PRI) conference in September where 800 global delegates attended. We presented our work on corporate tax on a panel and attended events on a variety of topics including: Climate Change, Japanese FSA, CEO-level discussion on future of responsible investment.

### Master Trust Annual Forum

For the second year running, LGIM presented to the Master Trust Annual Forum on Corporate Governance. The purpose of the presentation is to educate the trustees on the topic of Corporate Governance as well as discuss recent trends and issues. The feedback has been positive on understanding Corporate Governance.

### Italy Trip

LGIM was a panel member at the Geogeson Annual Conference in Rome covering the 2015 Proxy Season in Italy. The presentation centred upon corporate governance practices in the UK but also covered European topics such as double voting rights.

### Hong Kong Stock Exchange (HKSE) consultation on ESG

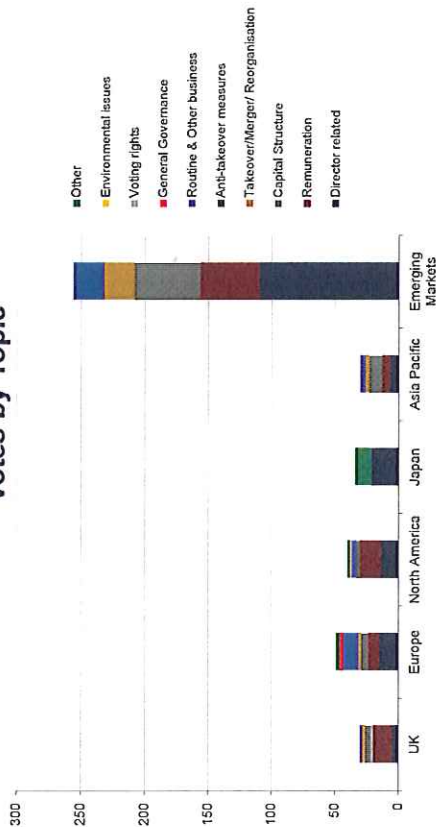
We submitted a response to the HKSE giving our views around guidance on ESG reporting in companies. There were six main areas of focus in our submission including materiality, integrated reporting and the use of global reporting standards.

### Fundamentals – Climate Change

In the latest LGIM thought piece, Fundamentals, we discussed the impacts of climate change and energy transition. We outline some of the biggest changes that are taking place in the policy and energy space and the role of investors, like us, to engage on the topic and provide solutions. A link to this report will shortly be available on our website.

# Our Corporate Governance & Responsible Investment

Regional Breakdown of AGAINST and ABSTAIN Votes by Topic



## Europe

**Compagnie Financiere Richemont SA** M.Cap: CHF41.3bn Luxury Goods Switzerland

The company's Board does not satisfy the criteria of independent balance under corporate governance guidelines. We engaged with the company and decided to vote against a number of non-independent directors where the reasons that affect their independence were due to long serving tenure and lack of shareholding in the business.

## US

**Bank of America** M.Cap: \$163.8bn Banking and Finance US

An EGM was called asking support to combine the roles of Chairman and CEO. After engaging with the company we voted against this proposal as the company had previously revoked a majority supported proposal to ensure the company would always have an independent Chair. We also had concerns about the balance of power on the Board and the robustness of the succession policy for board members. The EGM proposal only received yes votes from 63% of shareholders, meaning that 37% of shareholders did not support the company's proposal which is relatively a high protest vote in the US.

## Japan

**Kuroda Electric Co Ltd.** M.Cap: ¥92.1bn Industrial Japan

Shareholder activist, Yoshiaki Murakami's private companies requested the nominations of four outside directors (including himself) to the board. Their concern was about the company's major surpluses of cash which wasn't paid out to its shareholders, and they believed that the appointment of new outside directors would provide valuable insight through their extensive knowledge and experience in finance. We voted against the appointment of the outside directors to the Board as we believed their proposed dividend payout ratio was too aggressive at 100% and not in line with promoting long-term shareholder value.

## Asia -Pacific

**Samsung C&T** M.Cap: KRW28.8tn Industrial South Korea

We voted against the takeover deal by Cheil Industries Inc. Samsung C&T was facing tough economic conditions due to competition in the construction sector and falling commodity prices in its trading business. The company argued that the deal would bring about synergies, but we did not believe this would compensate for both the significant undervaluation and dilution of shares. Instead, it appeared the interests of the founding family were put above shareholders as Samsung Group and the affiliates' stake in the company increased significantly from 14% to 40%. The merger passed in a landmark proxy, with 69.5% of shares in favour, just 3.5% above the required amount. This was a big protest vote in South Korea.

**AGL Energy** M.Cap: AUD10.9bn Utilities Australia

We supported the shareholder resolution to amend the company's constitution to require the board to develop a business model that incorporates climate change mitigation efforts. Despite having some commitments to address climate change, such as decommissioning all coal-fired power plants by 2050, the company does not have quantitative emissions reduction targets or emissions intensity reduction targets. Since AGL is Australia's largest emitter of greenhouse gases, we believe that the company needs to take a more ambitious approach towards mitigating climate change.

## Key Voting Decisions

### United Kingdom

**Sports Direct International** M.Cap: £4.6bn Retail UK  
 LGIM voted against the re-election of the Board Chairman for two years in a row to express our continuing concerns of the governance at the Company and slow pace of change on the Board. We also requested increased transparency surrounding their supply chain which has not been disclosed. The acquisition strategy still remains unclear and while communication with shareholders has improved the company fails to be supported by the usual communication lines you would expect from a FTSE company. The Chairman received a 22% vote against his re-election by independent shareholders.

**Dairy Crest** M.Cap: £838m Food Producers UK  
 We voted against the Remuneration Report due to the lack of transparency surrounding bonus payments and the decision to go ahead with the one-off transaction award to the CEO despite significant opposition from us and other shareholders. The resolution received a 36.6% vote against. We subsequently engaged with the company to explore why they went ahead with the award despite a high opposition.

**Intermediate Capital Group** M.Cap: £1.7bn Financial Services UK  
 We voted against the Remuneration Report due to poor disclosure of management's total remuneration package. The resolution received a 34% vote against. We subsequently met with the company's Chairman and Chairman of the Remuneration Committee to discuss remuneration as well as other governance topics.

## Our Corporate Governance & Responsible Investment

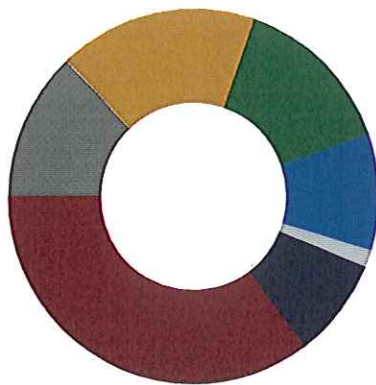
### LGIM Voting Summary by Topic and Region

Between 01/07/2015 and 30/09/2015	UK		Europe		North America		Japan		Asia Pacific		Emerging Markets		Total	
	FOR	AGAINST	FOR	AGAINST	FOR	AGAINST	FOR	AGAINST	FOR	AGAINST	FOR	AGAINST		
Director related	998	5	60	15	241	4	10	42	15	107	6	374	109	1986
Remuneration	209	15	12	9	33	12		3		32	6	60	46	437
Capital structure	455	5	14	5	3	3				22	10	350	52	919
Voting rights														
General governance														
Audit, Routine and company business	610	2	56	10	38	4		4	1	48	1	568	24	1366
Anti-takeover related	108				8					1				117
Takeover/merger/reorganisation	25	2	3	2	12			4		6	3	86	24	167
Social issues														
SP – Anti-takeover measures														
SP – Director related			2		4				6		1	8		22
SP - Remuneration					1	4								5
SP - Capital structure														
SP - Voting rights														
SP – Corporate Governance								1				12		16
SP - Routine and company business					1					3		11		17
SP – Health/Environment						1								1
SP - Social issues														
SP - Other														
<b>Total Votes</b>	2405	29	147	49	346	30	10	54	34	219	27	1469	255	22
<b>Total number of resolutions</b>	2434		196		386			88		246		1725		5075
<b>Annual General Meetings (AGM)</b>	146		10		31			7		26		124		344
<b>Extraordinary General Meetings (EGM)</b>	28		9		10			2		10		116		175
<b>Number of companies voted at</b>	165		19		40			9		34		204		471

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

# Our Corporate Governance & Responsible Investment

## Engagement Topics & Frequencies



- E - Environment/ Sustainability
- S - Social/employee issues
- G - Board Structure
- G - Remuneration
- Capital Structure
- G - Takeover/Merger
- G - General Governance

## Key Company Engagements on E(Environmental), S(Social), G(Governance) and F(Financial) Topics

<b>BP</b>	M.Cap: £67.5bn	Oil & Gas	UK	EGF
Subject: Board structure, Environment and strategy				
A meeting was held with the Board Chairman to discuss the performance of the company and strategy in a low oil price environment and following the settlement in the US. Furthermore, we raised the issue of succession planning for management to ensure that there is an orderly process. Lastly, we discussed the issue of climate change and went through the opportunities and risks for the business in a low carbon environment and pushed for increased disclosure.				
<b>Ladbroke's</b>	M.Cap: £1bn	Gaming	UK	G
Subject: Merger and board structure				
Earlier in the year it was announced that the Chairman and CEO were to leave the business and a new CEO took over on April 1st 2015. In July, the company announced a proposed merger with the Coral Group, as well as a new strategy. We engaged with both Ladbroke's and Coral regarding the strategic rationale for the deal, the risks around completion (particularly in relation to the Competition and Markets Authority Review) and the governance arrangements for the combined group. It has subsequently been announced that the Ladbroke's CFO will be leaving the company in early 2016. We are continuing to engage with the company to push for a stronger Board going forward, whether in combination with Coral or as a standalone entity.				
<b>BHP Billiton</b>	M.Cap: £58.4bn	Mining	UK	E
Subject: Sustainability				
The Company presented to investors a Climate Change Portfolio Analysis. The aim was to provide an insight in to the scenario planning approach on the issue of climate change including the potential portfolio implications of a transition to a 2 degrees world i.e. a low carbon future. The Company described four scenarios which have also been tested against shock events. Its conclusion was that the company's portfolio remains resilient in a 2 degrees world with opportunities to mitigate the impact on the portfolio and to invest in many capital-efficient growth projects. We will continue to engage with the Company to ensure this analysis remains robust and relevant.				
<b>Monsanto/Syngenta</b>	M.Cap:\$41bn/CHF30bn	Agriculture	US/Switzerland	G
Subject: Takeover				
We met both management teams individually on the potential hostile takeover by Monsanto of Syngenta. Monsanto has subsequently walked away from the transaction. However, we continue to engage with Syngenta on governance concerns to help reduce the substantial discount to the potential offer and hold the board accountable for creating shareholder value in the future.				
<b>McKesson</b>	M.Cap: \$44bn	Pharmaceuticals	US	G
Subject: Board structure and remuneration				
We collaborated with two other investors and spoke to the Lead Independent Director of the Board regarding board leadership, and remuneration concerns. The company has an evergreen contract in place with its CEO which brings into question the likelihood of the CEO/Chair roles ever being split. Positive remuneration changes have been made in the past but there is still room for the company to improve termination agreement specifics for the CEO.				
<b>Interserve</b>	M.Cap: £869.8m	Support Services	UK	ES
Subject: Environmental and Social				
We met the Company to discuss how they integrate ESG into the company's vision, strategy and operations, and to understand how this could translate into stronger, sustainable financial performance. The company also sought our views on how to effectively communicate this to investors. As a result of our meeting, the company will review their ESG disclosure policies, as well as their integrated reporting structure and content. The targeted result is to ensure their sustainable business strategy is more readily valued by the market. In addition, the Company changed its long serving auditors in line with best practice.				

Meetings covering one or more of ESG and F topics*	Number of meetings		
	E	S	G
	18	24	97
			41
Environment/sustainability			18
Social/employee issues			24
Board Structure			20
Remuneration			14
Capital Structure			2
Takeover/merger			12
General Governance**			49

\*Please note meetings may be double counted as we often discuss more than one issue in a meeting.

\*\*General Governance category covers topics including general corporate governance issues, company performance and strategy, audit and risk, and voting rights.





## Vote Summary Report

Date range covered: 07/01/2015 to 09/30/2015

Location(s): Massachusetts Financial Services

Institution Account(s): MFS Investment Fund - Global Equity Fund

## Time Warner Cable Inc.

**Meeting Date:** 07/01/2015

**Country:** USA

**Primary Security ID:** 88732J207

**Meeting ID:** 978809

**Record Date:** 05/07/2015

**Meeting Type:** Annual

**Ticker:** TWC

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1a	Elect Director Carole Black	Mgmt	For	For
1b	Elect Director Thomas H. Castro	Mgmt	For	For
1c	Elect Director David C. Chang	Mgmt	For	For
1d	Elect Director James E. Copeland, Jr.	Mgmt	For	For
1e	Elect Director Peter R. Haje	Mgmt	For	For
1f	Elect Director Donna A. James	Mgmt	For	For
1g	Elect Director Don Logan	Mgmt	For	For
1h	Elect Director Robert D. Marcus	Mgmt	For	For
1i	Elect Director N.J. Nicholas, Jr.	Mgmt	For	For
1j	Elect Director Wayne H. Pace	Mgmt	For	For
1k	Elect Director Edward D. Shirley	Mgmt	For	For
1l	Elect Director John E. Sununu	Mgmt	For	For
2	Ratify Ernst & Young LLP as Auditors	Mgmt	For	For
3	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	Against
4	Report on Lobbying Payments and Policy	SH	Against	For
5	Pro-rata Vesting of Equity Awards	SH	Against	Against

## Burberry Group plc

**Meeting Date:** 07/16/2015

**Country:** United Kingdom

**Primary Security ID:** G1700D105

**Meeting ID:** 985871

**Record Date:** 07/14/2015

**Meeting Type:** Annual

**Ticker:** BRBY

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1	Accept Financial Statements and Statutory Reports	Mgmt	For	For
2	Approve Remuneration Report	Mgmt	For	For

## Vote Summary Report

Date range covered: 07/01/2015 to 09/30/2015

Location(s): Massachusetts Financial Services

Institution Account(s): MFS Investment Fund - Global Equity Fund

### Burberry Group plc

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
3	Approve Final Dividend	Mgmt	For	For
4	Re-elect Sir John Peace as Director	Mgmt	For	For
5	Elect Fabiola Arredondo as Director	Mgmt	For	For
6	Re-elect Philip Bowman as Director	Mgmt	For	For
7	Re-elect Ian Carter as Director	Mgmt	For	For
8	Re-elect Jeremy Darroch as Director	Mgmt	For	For
9	Re-elect Stephanie George as Director	Mgmt	For	For
10	Re-elect Matthew Key as Director	Mgmt	For	For
11	Elect Carolyn McCall as Director	Mgmt	For	For
12	Re-elect David Tyler as Director	Mgmt	For	For
13	Re-elect Christopher Bailey as Director	Mgmt	For	For
14	Re-elect Carol Fairweather as Director	Mgmt	For	For
15	Re-elect John Smith as Director	Mgmt	For	For
16	Reappoint PricewaterhouseCoopers LLP as Auditors	Mgmt	For	For
17	Authorise the Audit Committee to Fix Remuneration of Auditors	Mgmt	For	For
18	Authorise EU Political Donations and Expenditure	Mgmt	For	For
19	Authorise Issue of Equity with Pre-emptive Rights	Mgmt	For	For
20	Authorise Issue of Equity without Pre-emptive Rights	Mgmt	For	For
21	Authorise Market Purchase of Ordinary Shares	Mgmt	For	For
22	Authorise the Company to Call EGM with Two Weeks' Notice	Mgmt	For	For
23	Adopt New Articles of Association	Mgmt	For	For

### Microchip Technology Incorporated

Meeting Date: 08/14/2015

Record Date: 06/18/2015

Country: USA

Meeting Type: Annual

Primary Security ID: 595017104

Ticker: MCHP

Meeting ID: 991709

## Vote Summary Report

Date range covered: 07/01/2015 to 09/30/2015

Location(s): Massachusetts Financial Services

Institution Account(s): MFS Investment Fund - Global Equity Fund

### Microchip Technology Incorporated

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1.1	Elect Director Steve Sanghi	Mgmt	For	For
1.2	Elect Director Matthew W. Chapman	Mgmt	For	For
1.3	Elect Director L.B. Day	Mgmt	For	For
1.4	Elect Director Esther L. Johnson	Mgmt	For	For
1.5	Elect Director Wade F. Meyercord	Mgmt	For	For
2	Approve Conversion of Securities	Mgmt	For	For
3	Ratify Ernst & Young LLP as Auditors	Mgmt	For	For
4	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	For

### Dassault Systemes

Meeting Date: 09/04/2015

Country: France

Primary Security ID: F2457H472

Meeting ID: 993796

Record Date: 09/01/2015

Meeting Type: Special

Ticker: DSY

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
	Extraordinary Business	Mgmt		
1	Authorize up to 2 Percent of Issued Capital for Use in Restricted Stock Plans	Mgmt	For	Against
2	Authorize Capital Issuances for Use in Employee Stock Purchase Plans	Mgmt	For	For
3	Amend Article 2 of Bylaws Re: Corporate Purpose	Mgmt	For	For
4	Authorize Filing of Required Documents/Other Formalities	Mgmt	For	For

### Compagnie Financiere Richemont SA

Meeting Date: 09/16/2015

Country: Switzerland

Primary Security ID: H25662182

Meeting ID: 936774

Record Date:

Meeting Type: Annual

Ticker: CFR

## Vote Summary Report

Date range covered: 07/01/2015 to 09/30/2015

Location(s): Massachusetts Financial Services

Institution Account(s): MFS Investment Fund - Global Equity Fund

## Compagnie Financiere Richemont SA

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1	Accept Financial Statements and Statutory Reports	Mgmt	For	For
2	Approve Allocation of Income and Dividends of CHF 1.60 per Registered A Share and of CHF 0.16 per Bearer B Share	Mgmt	For	For
3	Approve Discharge of Board of Directors	Mgmt	For	For
4.1	Elect Johann Rupert as Director	Mgmt	For	Against
4.2	Elect Jean-Blaise Eckert as Director	Mgmt	For	Against
4.3	Elect Bernard Fornas as Director	Mgmt	For	Against
4.4	Elect Yves-Andre Istel as Director	Mgmt	For	For
4.5	Elect Richard Lepeu as Director	Mgmt	For	Against
4.6	Elect Ruggero Magnoni as Director	Mgmt	For	Against
4.7	Elect Josua Malherbe as Director	Mgmt	For	Against
4.8	Elect Simon Murray as Director	Mgmt	For	For
4.9	Elect Alain Dominique Perrin as Director	Mgmt	For	Against
4.10	Elect Guillaume Pictet as Director	Mgmt	For	For
4.11	Elect Norbert Platt as Director	Mgmt	For	Against
4.12	Elect Alan Quasha as Director	Mgmt	For	For
4.13	Elect Maria Ramos as Director	Mgmt	For	For
4.14	Elect Lord Renwick of Clifton as Director	Mgmt	For	Against
4.15	Elect Jan Rupert as Director	Mgmt	For	Against
4.16	Elect Gary Saage as Director	Mgmt	For	Against
4.17	Elect Juergen Schrempp as Director	Mgmt	For	Against
4.18	Elect The Duke of Wellington as Director	Mgmt	For	Against
5.1	Appoint Lord Renwick of Clifton as Member of the Compensation Committee	Mgmt	For	Against
5.2	Appoint Yves-Andre Istel as Member of the Compensation Committee	Mgmt	For	For
5.3	Appoint The Duke of Wellington as Member of the Compensation Committee	Mgmt	For	Against
6	Ratify PricewaterhouseCoopers SA as Auditors	Mgmt	For	For

## Vote Summary Report

Date range covered: 07/01/2015 to 09/30/2015

Location(s): Massachusetts Financial Services

Institution Account(s): MFS Investment Fund - Global Equity Fund

### Compagnie Financiere Richemont SA

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
7	Designate Francois Demierre Morand as Independent Proxy	Mgmt	For	For
8	Amend Articles Re: Ordinance Against Excessive Remuneration at Listed Companies	Mgmt	For	For
9.1	Approve Maximum Remuneration of Board of Directors in the Amount of CHF 10.3 Million	Mgmt	For	For
9.2	Approve Maximum Fixed Remuneration of Executive Committee in the Amount of CHF 14 Million	Mgmt	For	Against
9.3	Approve Variable Remuneration of Executive Committee in the Amount of CHF 23.7 Million	Mgmt	For	For
10	Transact Other Business (Voting)	Mgmt	For	Against

### Time Warner Cable Inc.

Meeting Date: 09/21/2015

Country: USA

Primary Security ID: 88732J207

Meeting ID: 998119

Record Date: 07/28/2015

Meeting Type: Special

Ticker: TWC

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1	Approve Merger Agreement	Mgmt	For	For
2	Advisory Vote on Golden Parachutes	Mgmt	For	Against

### Diageo plc

Meeting Date: 09/23/2015

Country: United Kingdom

Primary Security ID: G42089113

Meeting ID: 994850

Record Date: 09/21/2015

Meeting Type: Annual

Ticker: DGE

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1	Accept Financial Statements and Statutory Reports	Mgmt	For	For
2	Approve Remuneration Report	Mgmt	For	For
3	Approve Final Dividend	Mgmt	For	For
4	Re-elect Peggy Bruzelius as Director	Mgmt	For	For

## Vote Summary Report

Date range covered: 07/01/2015 to 09/30/2015

Location(s): Massachusetts Financial Services

Institution Account(s): MFS Investment Fund - Global Equity Fund

### Diageo plc

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
5	Re-elect Lord Davies of Abersoch as Director	Mgmt	For	For
6	Re-elect Ho KwonPing as Director	Mgmt	For	For
7	Re-elect Betsy Holden as Director	Mgmt	For	For
8	Re-elect Dr Franz Humer as Director	Mgmt	For	For
9	Re-elect Deirdre Mahlan as Director	Mgmt	For	For
10	Re-elect Nicola Mendelsohn as Director	Mgmt	For	For
11	Re-elect Ivan Menezes as Director	Mgmt	For	For
12	Re-elect Phillip Scott as Director	Mgmt	For	For
13	Re-elect Alan Stewart as Director	Mgmt	For	For
14	Appoint PricewaterhouseCoopers LLP as Auditors	Mgmt	For	For
15	Authorise Board to Fix Remuneration of Auditors	Mgmt	For	For
16	Authorise Issue of Equity with Pre-emptive Rights	Mgmt	For	For
17	Authorise Issue of Equity without Pre-emptive Rights	Mgmt	For	For
18	Authorise Market Purchase of Ordinary Shares	Mgmt	For	For
19	Authorise EU Political Donations and Expenditure	Mgmt	For	For

# Shropshire County Council

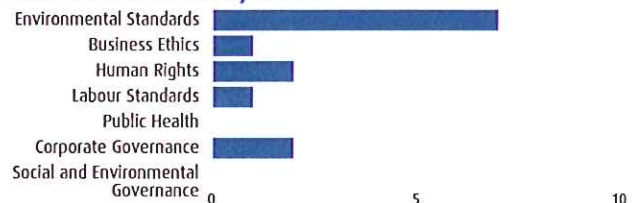
Q3 2015

The purpose of the **reo**<sup>®</sup> (responsible engagement overlay)<sup>\*</sup> 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**<sup>®</sup> 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**<sup>®</sup> works to drive behavioural change with companies, and records successful outcomes as 'milestones' – changes in corporate policies or behaviour following intervention.

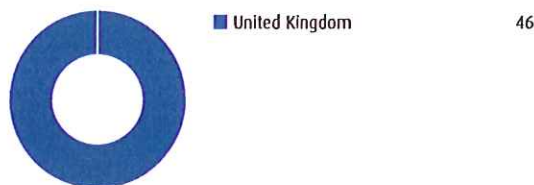
## Companies engaged this quarter

Companies engaged	46
Milestones achieved	13
Countries covered	1

## Milestones achieved by issue



## Companies engaged by country



## Companies engaged by issue <sup>\*\*\*</sup>



# Company Engagement and Your Fund

Name	Country	Priority Company	Engagement	Milestone	In this report	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
Acal PLC	United Kingdom	✓	✓	✓	✓							
Anglo American	United Kingdom	✓	✓	✓	✓							
Antofagasta	United Kingdom	✓	✓									
Associated British Foods	United Kingdom	✓	✓									
Barclays	United Kingdom	✓	✓	✓	✓							
BG Group	United Kingdom	✓	✓									
BP	United Kingdom	✓	✓	✓	✓							
British American Tobacco	United Kingdom	✓	✓	✓	✓							
Burberry Group plc	United Kingdom	✓	✓									
Centrica Plc	United Kingdom	✓	✓									
Clipper Logistics Plc	United Kingdom	✓	✓	✓	✓							
Compass Group	United Kingdom			✓	✓							
Dixons Carphone PLC	United Kingdom			✓	✓							
Drax Group	United Kingdom	✓	✓									
Eurasian Natural Resources Corp (ENRC)	United Kingdom	✓	✓									
European Bank for Reconstruction and Development (EBRD)	United Kingdom	✓	✓									
Experian Plc	United Kingdom	✓	✓	✓	✓							
Fiat Chrysler Automobiles NV	United Kingdom	✓	✓									
Gas Natural	United Kingdom	✓	✓									
Greggs	United Kingdom	✓	✓									
Halma	United Kingdom	✓	✓	✓	✓							
J Sainsbury	United Kingdom	✓	✓	✓	✓							
Jupiter US Smaller Companies PLC	United Kingdom	✓	✓	✓	✓							
Lloyds Banking Group	United Kingdom			✓	✓							
Majestic Wine	United Kingdom	✓	✓									
Marks & Spencer	United Kingdom	✓	✓									
Marks & Spencer Plc	United Kingdom	✓	✓									
National Grid	United Kingdom	✓	✓									
Next plc	United Kingdom	✓	✓									
Photo-Me International	United Kingdom	✓	✓									
Premier Oil Plc	United Kingdom	✓	✓	✓	✓							
Randgold Resources Ltd	United Kingdom	✓	✓									
Reckitt Benckiser Group PLC	United Kingdom	✓	✓	✓	✓							
Rotork	United Kingdom	✓	✓	✓	✓							
Royal Bank of Scotland Group	United Kingdom			✓	✓							
Royal Dutch Shell	United Kingdom	✓	✓	✓	✓							
Shire Plc	United Kingdom	✓	✓	✓	✓							
Sports Direct International	United Kingdom	✓	✓									
SSE Plc	United Kingdom	✓	✓									



# Company Engagement and Your Fund

Name	Country	Priority Company	Engagement	Milestone	In this report	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
Standard Chartered Plc	United Kingdom		✓	✓	✓	🌍	👤	👁️	👤	🏥	📄	🌿
SThree Plc	United Kingdom		✓		✓			👁️	👤		📄	
Supergroup Plc	United Kingdom		✓						👤			
Tesco Plc	United Kingdom		✓		✓				👤			
Transport for London (TfL)	United Kingdom		✓		✓	🌍						
Tullow Oil	United Kingdom		✓			🌍	👤					
Vedanta Resources	United Kingdom		✓	✓	✓	🌍	👤	👁️	👤		📄	🌿
Wesfarmers	United Kingdom		✓		✓				👤			
WII Smith	United Kingdom		✓						👤			
WM Morrison Supermarkets	United Kingdom		✓						👤			
WPP Group Plc	United Kingdom		✓		✓						📄	

# reo<sup>®</sup> Viewpoint – Public

August 2015

Matthias Beer, Associate Director; Juan Salazar, Associate Director; Kajetan Czyz, Analyst, Governance and Sustainable Investment (GSI)

This research provides overview and analysis of our engagement activities on the theme of “stranded assets”. A series of detailed confidential reports on the oil and gas, coal and the utility sectors have been published to our responsible engagement overlay service – reo – clients in 2015.

## Stranded Assets – Mitigating investment risk posed by climate change

- Political movement on climate change, and advances in alternative energy technologies, are turning the transition to a lower-carbon future from theory into reality. This is presenting a key challenge to fossil fuel businesses, and investors in these companies.
- A core part of the response is investor engagement which aims at pressing investee companies in carbon intensive sectors to address the risks to their business strategy and to be transparent to stakeholders.
- Our GSI team has engaged almost 100 companies in 24 countries, across the oil and gas, mining and utility sectors.

There is a major energy transition taking place, the effects of which will impact investors and companies globally for the foreseeable future. Drivers include:

- Leaders of the G7 leading industrial nations agreeing in June to cut greenhouse gases with the objective of ending the use of fossil fuels by the end of this century;
- Renewable sources accounting for more than 40% of new global electricity generating capacity<sup>1</sup>;
- China, the world’s biggest carbon emitter, committing to peaking its climate warming gas emissions by 2030 and;
- United Nations leading negotiations on a global agreement on mitigating climate change which could be adopted in Paris in December.

The result of all this is that the dominance of fossil fuels – the engine of global growth since the Industrial Revolution – is under threat. This transformation will not happen overnight but we consider the evolving dynamics of the energy system to be a structural, macroeconomic trend. This will have implications for

the future growth and profitability of companies dependent on fossil fuel extraction and use. There will be winners and losers from this change, with companies that are able to make their business models more robust to a wide range of future energy scenarios more likely to finish in the winning camp.

### The ‘stranded assets’ challenge

In recent years, the dialogue between investors and companies concerning climate change has focused increasingly around the so-called concept of “stranded assets”. This is based on studies which have argued that under certain scenarios where carbon emissions will be restricted, such as for example the establishment of a robust and legally-binding global climate change deal, there will be a limited amount of carbon that could be emitted in to the atmosphere (also known as the “carbon budget”).

Analysis<sup>2</sup> has shown that 60-80% of the known reserves of publicly listed companies which extract coal, oil and gas are unburnable and would have to remain in the ground if global warming is to be limited to two degrees centigrade. Even if

<sup>1</sup> Frankfurt School and United Nation Environment Programme analysis “Global Trends in Renewable Energy Investment 2014”

<sup>2</sup> Carbon Tracker Initiative’s 2013 analysis “Unburnable carbon 2013: Wasted capital and stranded assets”.

policy falls short of the two degrees goal, rapid technological changes could lead to the demand for fossil fuels (oil and coal in particular) declining sooner than expected. These forces put companies' long-term projects at risk of not realising their projected value – i.e. fossil fuel assets may become “stranded”.

The systemic risk this poses to economies and markets has been seen as sufficiently serious by the Bank of England to incorporate it into their core economic research programme and, more recently, for the G20 nations to request the international Financial Stability Board to convene an enquiry on the subject. The question increasingly being raised to investors is: as the risks become more apparent, could failing to take any account of climate risk be seen as a breach of fiduciary duty?

### Responding to the challenge through company engagement

There are many ways in which investors can be more proactive in their consideration of climate risk, but one of the most widely-used has been engagement, with the aim of challenging investee companies on their climate risk preparedness.

Over the past two years, we have been at the forefront of raising concerns around potential asset stranding with a wide range of executives and boards within the oil and gas, mining and electric utility sectors. We are now seeing that the concepts of stranded assets and a limited carbon budget have begun to resonate within these industries - and increasingly at board level - in ways that previous discussions on climate change did not.

Much of our activity occurred in the context of collaborative investor initiatives, where we took a lead role in the dialogue with many companies. We engaged a total of 95 companies - 58 in oil and gas, 15 in mining and 22 utilities, including 46 meetings. In addition to targeting large-cap companies such as **Exxon**, **Royal Dutch Shell**, **BP**, **Anglo American** and **Glencore**, we also reached out to emerging market and mid-cap oil and gas companies like **Pemex** and **Husky**.

Our main engagement objectives are:

- **Risk management:** To encourage companies to stress-test and disclose the range of possible future energy scenarios used for their strategy planning.
- **Transparency and Commitment:** To provide greater disclosure on carbon risks embedded in their assets and to set clearer targets for mitigating these risks by reducing exposure to high-cost, high-carbon projects.
- **Board oversight:** To strengthen board expertise on climate change economics and improve oversight to ensure that business models are resilient to rapid energy transition pathways.
- **Political advocacy:** To ensure that lobbying activities are consistent with the company's stated climate change policies and to support publicly policy mechanisms, such as carbon pricing, that are designed to drive an orderly transition toward a lower carbon economy.

### Industry response

**Oil and Gas:** The sector has until recently been highly inward-looking, struggling to face up to the potential speed of change in the energy system. The concept of stranded assets is now slowly starting to resonate, with boards and CEOs beginning to take notice. Investor pressure has injected momentum into the debate. Highly publicised shareholder resolutions on climate change, namely those at Shell and BP's recent annual shareholder meetings which received 98% support, have been particularly instrumental. Some companies are now beginning to take more seriously the need for enhanced risk management frameworks to examine the economic impact of climate change on their business.

Compared to a few years ago, there are also indications that more corporate resources are being dedicated to look into the climate change challenge. By developing a better capability to anticipate these impacts, leading companies should be able to divert investments away from assets that face a higher risk of economic stranding. There are some encouraging steps in terms of public repositioning and instances of reviews to risk management assumptions, but it is too early to assess the impact these will have on companies' long-term strategies and investment decisions. Despite a sharp fall in crude prices in the past year, we still often encounter “business-as-usual”, sceptical industry attitudes that revolve around bullish commodity price and demand forecasts. These underpin the management rationale for continued investments in high-cost assets which require a high oil price to break even.

In how companies present themselves to stakeholders and policymakers, a more visible rift has opened up lately between some of the European and US majors. While the Europeans are becoming increasingly eager to be seen as part of the solution to climate change, the largest US oil companies continue to resist any strengthening of climate policy.

**Coal mining:** In the past couple of years, weakening demand and a glut in the supply of thermal coal, used to make electricity, have had a dramatic downward impact on prices and mine asset valuations. At the same time, they are significantly exposed to risks from policy moves to curb global emissions as thermal coal is highly carbon intensive.

Companies in the industry have responded differently to these risks. The largest diversified miners do not see the risks materialising in a way that would make their coal assets become stranded. Their assessment hinges on the diversification of their portfolios, the positioning of most of their assets at the low end of the cost curve, and that pay-back periods for most present and future investments in coal are relatively short. We consider these views valid, yet continue to press companies to improve disclosures on their assumptions.

Pure coal players, on the other hand, remain particularly vulnerable, especially those based in the U.S. as shale oil and gas production increases. Companies based in, or exporting to, emerging markets are less vulnerable. Similar to the export-oriented diversified miners, they are betting on coal remaining

Continued

the fuel of choice to continue spurring economic growth in these markets in the next two to three decades. However the change in the energy strategy in China – the world's largest consumer - shows the risks to this assumption.

**Electric utilities:** European electricity generating companies face their own challenges. These are in the form of overcapacity of power supply, increasing penetration of renewables (now 20% of total power capacity) and an energy policy reform which is aiming to accommodate intermittent renewables within the existing power market.



“Utilities must adapt to this new paradigm or risk being squeezed out.”

**Moody's**

Utilities have responded to these challenges in a number of ways. Firstly, there has been a consolidation of assets with unprofitable plants being mothballed, closed or sold – **GDF Suez**, **Centrica** and **EDP** are good examples. A second approach involves moving towards more regulated markets e.g. transmission and distribution or in developing countries. The third response is developing energy services and trying to get closer to the end client. This is specifically a response to a growing number of competitors from outside the sector (e.g. **Tesla**, **Google**, **Apple**) offering storage, smart grid and smart home solutions which in the medium term can cause a structural reduction in demand for electricity.

### Conclusion and next steps

Amongst leading companies, more time and resources are being dedicated to analyse the implications of the climate change challenge. This is, in part, a direct result of investor engagement.

However, with a small number of exceptions, analysis is not yet feeding through into action. Companies in the carbon-intensive industries are still falling short of pro-actively developing a systematic approach to address structural risks which an accelerated shift toward lower carbon energy would entail. Many of the measures being introduced remain relatively short-term fixes – such as dealing with a fall in commodity prices - and genuine long-term robust planning to tackle climate change risk is still rarely forthcoming.

Climate change is no longer a risk to investments that can be considered purely long-term and arising far away in the future. Already, coal miners and electric utilities are increasingly facing the urgent need to develop alternative business models to stay relevant and profitable. As momentum builds towards a global deal in Paris later this year, we will continue to press management and board directors to closely examine the economic impact of climate change on their business.

### Engagement vs. Divestment?

The “stranded assets” concept has fuelled a broad debate among investors and spurred a variety of responses ranging from outright sector exclusion<sup>3</sup> to selective divestments of the most carbon intensive companies<sup>4</sup>. Alongside these moves, the debate has also led to a significant increase in engagement activity by investors pressing companies to develop strategies for transition to a low-carbon economy<sup>5</sup>.

Much of the debate on stranded assets risks in the fossil fuel sector has centered on the question to what extent investors should engage companies on this issue more actively or take a divestment approach. Selective divestment approaches appear to be getting more traction with mainstream investors, as reflected in the recent announcements by the Norwegian sovereign wealth fund and the French insurer **Axa**, committing to reduce their exposure to coal industry investments. We would argue that engagement and divestment approaches are not exclusive to each other when considering a responsible investment approach on climate change.

In pushing companies for greater justification of riskier investments within their portfolios – be that in high-cost oil projects, thermal coal, or carbon-intensive utility assets – our engagement aims to achieve disclosure enhancements that ultimately should enable investors to distinguish better between companies' exposure to, and ability to manage, energy transition risks. Our dialogue thus not only tries to improve company approaches to deal with stranded assets risks, but it also aims at facilitating more informed decisions around how organisations wish to remain invested in the fossil fuel sector in the coming years.

Engagement and divestment therefore, rather than representing two disconnected and opposing strategies, can be considered as complementary approaches. Both aim at addressing the same issue – pushing companies and helping investors to anticipate and prepare for the pace of change ahead and to allocate capital in ways that enable a rapid and orderly transition toward a lower carbon economy.

<sup>3</sup> See e.g. <http://350.org/>

<sup>4</sup> See e.g. the recent decision of the Norwegian Government Pension Fund to not divest outright but opt instead for active ownership and selective exclusion on a case-by-case basis. <https://www.regjeringen.no/en/aktuelt/Report-from-the-Expert-Group-on-investments-in-coal-and-petroleum-companies1/id2342780/>

<sup>5</sup> For an overview, see reo Viewpoint “Global warming mitigation gaining momentum”, October 2014



<u>Committee and date</u> Pensions Committee	<u>Item</u>
27 November 2015	11
10.00am	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. Administration risks are identified and managed and are reported to committee on an annual basis.

#### 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

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. Reconciling the Funds Guaranteed Minimum Pension Liabilities with HMRC will have a direct cost for the Fund but if this is not undertaken the Fund risks taking on

financial liabilities it didn't need to and having its data called into question by the Fund Actuary.

#### 4. Performance and Team Update

- 4.1 The team's output and performance level to the end of October 2015 is attached at **Appendix A**.
- 4.2 For September and October the procedures completed each month increased to over 1000 which has contributed to the outstanding procedures reducing. This is very encouraging and demonstrates that the work being done to target backlog areas together with the fact the vacant posts have been recruited to in now having a positive effect on reducing the outstanding work. It is hoped that if this can be sustained the back log will be greatly reduced going into the Valuation.
- 4.3 The middleware service called I-Connect (supplied by I-connect Ltd) has now gone live across 11 employers who use Telford & Wrekin Council as their payroll provider. Telford & Wrekin's main payroll and 2 other externals are due to go live in November 2015.
- 4.4 The Systems team are still working closely with Shropshire Council and iConnect to ensure their payrolls go live before March 2016 to ensure a smooth year end process in readiness for the Valuation.
- 4.5 The transfer of Funds for those Pensioners and Deferred Beneficiaries who were part of the Ministry of Justice transfer to Greater Manchester Pension is proceeding. The transfer of records has already been undertaken and the Funds are to be transferred on 1 December.

#### 5. Help Desk Statistics

- 5.1 The following chart shows the number of queries received through the helpline number.

	Aug 2015	Sept 2015	Oct 2015
Telephone calls received	844	1031	854
Queries dealt with by helpdesk at first point of contact %*	90.88%	91.85%	89.11%
Users visiting the Website	1917	256**	1984

\* 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.

\*\*This figure is low due to a problem with the configuration of google analytics by the Web Team for this month only.

## **6. GMP Reconciliation**

- 6.1 Work is continuing on this project. It is hoped that the Fund accountant can help on this project.
- 6.2 Costs to outsource this work have been obtained and a report on the preferred way forward will be brought to committee at the next meeting.

## **7. HMT Consultation on Exit Payments Cap**

- 7.1 HM Treasury has published the results of their consultation on a proposed public sector exit payment cap on redundancy payoffs. They have confirmed their intent to limit exit payments in the Public sector to £95K. The cap is proposed to include the value of the employer cost associated with early access to an unreduced pension for those employees in the Scheme and over age 55.
- 7.2 This proposal conflicts with the current LGPS regulations so will require a change in legislation. Quite how this would be incorporated into the LGPS regulations remains to be seen.

## **8. Communications**

- 8.1 An Employers meeting was held on 20 October 2015 in the Council Chamber at the Shirehall and 38 employers were represented. The agenda on the day was as follows:
- Update from Scheme Administrator – James Walton
  - Valuation 2016 – John Livesey, Mercers
  - End of contracting out from 2016/ Outsourcing and the LGPS – Debbie Sharp, Pensions Administration Manager
  - AVCs and the LGPS – Mike Johnstone, The Prudential
  - Pensions Taxation and the Summer Budget - Helen Tomkins, Pensions Operations Lead
  - CARE, Final Pay and Data Quality – Cheryl Morrell, Pensions System and Support Lead
  - Employer Discretion policies - Rebecca Purfit, Communications Officer

The meeting was filmed and all presentations will be available online in the coming weeks, for employers who couldn't attend the meeting, to watch. A feedback form was given out on the day and some of the feedback received is below:

- All employers who attended the meeting rated it as good, very good or excellent.
- All employers who completed the feedback form agreed that they knew more about the LGPS after attending the meeting.

- All employers who attended the meeting said they would attend the next employers meeting.
- The most popular sessions were: Ending of Contracting Out, CARE Final pay and Data Quality and Employers Discretions and Policies in the LGPS.

It is interesting to note that following the employers meeting views to the website including the employer area and the employer meeting increased dramatically.

- 8.2 **Annual Benefit Statements 2016** - Work has already started on the production of Annual Benefit Statements for 2016. As reported in September 2015 the Fund is moving to online statements from summer 2016 for its active members. A project group has been set up involving the key officers, focusing on areas such as specification, data testing, system requirements and implementation. Currently the Fund are looking at ways of efficiently promoting the use of Member Self Service during 2016(MSS), via posters in the workplace etc, in the run up to only producing the Statements on -line. Collaboration with other Funds undertaking the same communications exercise may be considered to ensure the costs associated with this exercise are good value.
- 8.3 A newsletter for all active members is currently in draft, with a view to being issued towards the end of the year. This newsletter will ensure the regulatory requirements of the Occupational and Personal Pension Scheme Regulations 2013 are met.
- 8.4 **Statements of policy about exercise of discretionary functions** - Under regulation 60. – (1) of the LGPS 2013 regulations employers are required to formulate, publish and keep under review a policy statement in relation to the exercise of a number of discretions under the LGPS rules. Reminders have been issued to Scheme Employers to ensure they are aware that since the change in regulations from the 1 April 2014 they must make a new policy which now includes the discretions introduced as a result of the Scheme changes. Until recently the Fund had only managed to obtain policies from a relatively small number of employers therefore a template was purchased from Pentag Ltd for employers, without a policy, to use. Since the template has been shared with employers together with the training provided at the employers meeting, the Fund has doubled the amount of policies it now holds. The Fund has also been contacted by a further 5 employers who have confirmed they are currently drafting or awaiting approval of their policy. Each employer policy is being published on the Fund's website. In the coming months further reminders will be sent to those employers who have not yet made a discretions policy.



**List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)**

Pensions Committee Meeting 25 September 2015 Pensions Administration Report

**Cabinet Member (Portfolio Holder)**

NA

**Local Member**

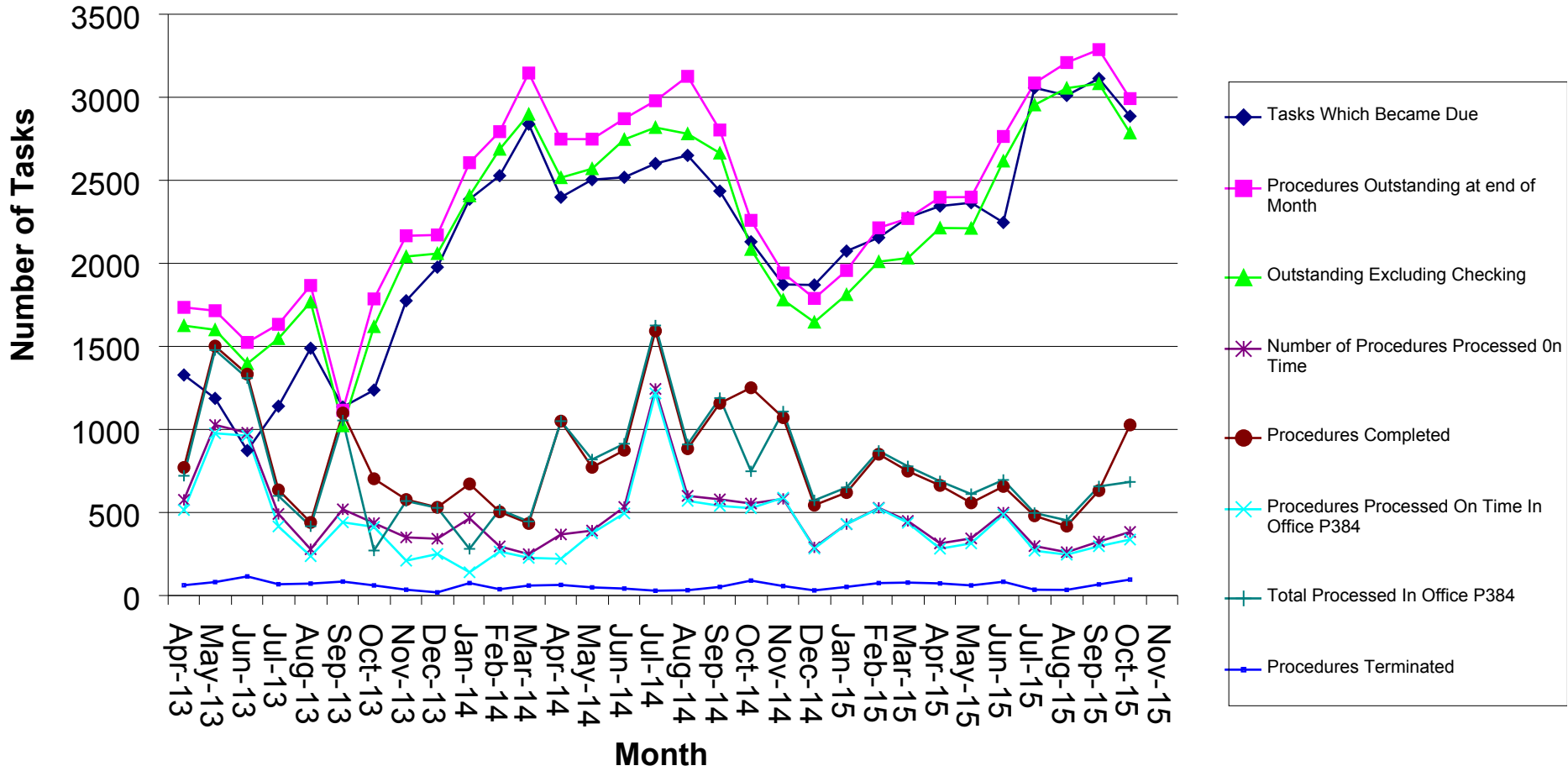
NA

**Appendices**

Appendix A – Performance Monitoring

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### Task Statistics



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<u>Committee and Date</u>	<u>Item</u>
Pensions Committee	<b>12</b>
27 November 2015	
10.00am	Public

## NEW POLICY – BREACHES POLICY

**Responsible Officer** James Walton

e-mail: [James.walton@shropshire.gov.uk](mailto:James.walton@shropshire.gov.uk)

Tel: (01743)  
255011

Fax (01743)  
252184

### 1. Summary

- 1.1 The report outlines the requirement for all individuals with a role in the LGPS (including members of the Committee, members of the Local Pension Board and officers) have a duty to report breaches of law when they have reasonable cause to believe that a breach has occurred. There should be no reliance placed on waiting for others to report breaches

The Pensions Regulator's Code of Practice, which became official guidance for the LGPS on 1st April 2015, includes practical guidance and expected standards (i.e. best practice) in relation to reporting breaches. This policy and procedure has been designed to comply with the guidance and ensure that Shropshire County Pension Fund follows best practice in this area.

### 2. Recommendations

- 2.1 The Committee is asked to approve, with or without comment, the Breaches Policy at Appendix A.

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

- 3.1 Risk management is considered by Committee in making decisions under the governance arrangements outlined.
- 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.

- 3.4 The policy will be issued to employers and published on the Scheme's website.

#### **4. Financial Implications**

- 4.1 There are no direct financial implications arising from this report.
- 4.2 Compliance with The Pension Regulators guidance does reduce the likelihood of being fined for non-compliance or wrong doing.

#### **5. Background**

- 5.1 All individuals with a role in the LGPS have a duty to report breaches of Law when they have reasonable cause to believe that:
- A legal duty relevant to the administration of the scheme has not been, or is not being, complied with; and
  - The failure to comply is likely to be of material significance to the Regulator.
- 5.2 This includes officers of the administering authority (Shropshire Council), the Pensions Committee, Shropshire local pension board (LPB) members, scheme employers, professional advisers (e.g. actuary, fund managers) as well as any other person involved in advising the administering authority in relation to the scheme.
- 5.3 A person can be subject to a civil penalty if he or she fails to comply with this requirement without a reasonable excuse. The duty to report breaches overrides any other duties the individuals listed above may have. However the duty to report does not override 'legal privilege'. This means that, generally, communications between a professional legal adviser and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.
- 5.4 The Pensions Regulator's Code of Practice, which became official guidance for the LGPS on 1st April 2015, includes practical guidance and expected standards (i.e. best practice) in relation to reporting breaches. This policy and procedure has been designed to comply with the guidance and ensure that Shropshire LGPS follows best practice in relation to reporting breaches.
- 5.5 Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and making investment or investment-related decisions.
- 5.6 All reporters should have procedures in place to meet their reporting duty and there should be no reliance placed on waiting for others to report. Practical guidance in relation to this legal requirement is included in The Pensions Regulator's Code of Practice and this policy and procedure has been developed to reflect that guidance.

5.7. The policy and procedure set out in Appendix A details how individuals responsible for reporting and whistleblowing can identify, assess and report (or record if not reported) a breach of law relating to the Fund. It aims to ensure individuals responsible are able to meet their legal obligations, avoid placing any reliance on others to report. The procedure will also assist in providing an early warning of possible malpractice and reduce risk.

## 6. Conclusion

- 6.1 Following approval this policy will be issued to all employers and published on the website.
- 6.2 All individuals with a role in the LGPS have a duty to report breaches of law when they have reasonable cause to believe that a breach of material significance to the Pensions Regulator has taken place. Where a breach is not deemed material there is a requirement to record the breach.
- 6.3 In line with guidance issued by the Pensions Regulator, Shropshire LGPS has developed a policy and procedure for ensuring those responsible for reporting and whistleblowing can identify, assess and report (or record if not reported) a breach of law relating to the Fund.

<b>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</b>
<b>Cabinet Member</b> N/A
<b>Local Member</b> N/A
<b>Appendices</b> A – Breaches Policy

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# SHROPSHIRE PENSION BOARD

## Reporting Breaches Procedure

### 1. Introduction

- 1.1 This document sets out the procedures to be followed by certain persons involved with the Shropshire County Pension Fund, the Local Government Pension Scheme managed and administered by Shropshire Council, in relation to reporting breaches of the law to the Pensions Regulator.
- 1.2 Breaches can occur in relation to a wide variety of the tasks normally associated with the administrative function of a scheme such as keeping records, internal controls, calculating benefits and making investment or investment-related decisions.
- 1.3 This Procedure document applies, in the main, to:
- all members of the Shropshire Pension Board;
  - all officers involved in the management of the Pension Fund ;
  - personnel of the pensions administrator providing day to day administration services to the Fund, and any professional advisers including auditors, actuaries, legal advisers and fund managers; and
  - officers of employers participating in the Shropshire County Pension Fund who are responsible for pension matters.

### 2. Requirements

- 2.1 This section clarifies the full extent of the legal requirements and to whom they apply.

#### 2.2 Pensions Act 2004

Section 70 of the Pensions Act 2004 (the Act) imposes a requirement on the following persons:

- a trustee or manager of an occupational or personal pension scheme;
- a member of the pension board of a public service pension scheme;
- a person who is otherwise involved in the administration of such a scheme an occupational or personal pension scheme;
- the employer in relation to an occupational pension scheme;
- a professional adviser in relation to such a scheme; and
- a person who is otherwise involved in advising the trustees or managers of an occupational or personal pension scheme in relation to the scheme, to report a matter to The Pensions Regulator as soon as is reasonably practicable where that person has reasonable cause to believe that:  
(a) a legal duty relating to the administration of the scheme has not been or is not being complied with, and

(b) the failure to comply is likely to be of material significance to The Pensions Regulator.

The Act states that a person can be subject to a civil penalty if he or she fails to comply with this requirement without a reasonable excuse. The duty to report breaches under the Act overrides any other duties the individuals listed above may have. However the duty to report does not override 'legal privilege'. This means that, generally, communications between a professional legal adviser and their client, or a person representing their client, in connection with legal advice being given to the client, do not have to be disclosed.

### 2.3 **The Pension Regulator's Code of Practice**

Practical guidance in relation to this legal requirement is included in The Pension Regulator's Code of Practice including in the following areas:

- implementing adequate procedures.
- judging whether a breach must be reported.
- submitting a report to The Pensions Regulator.
- whistleblowing protection and confidentiality.

### 2.4 **Application to the Shropshire County Pension Fund**

This procedure has been developed to reflect the guidance contained in The Pension Regulator's Code of Practice in relation to the Shropshire County Pension Fund and this document sets out how the Board will strive to achieve best practice through use of a formal reporting breaches procedure.

## 3 **The Shropshire County Pension Fund Reporting Breaches Procedure**

The following procedure details how individuals responsible for reporting and whistleblowing can identify, assess and report (or record if not reported) a breach of law relating to the Shropshire County Pension Fund. It aims to ensure individuals responsible are able to meet their legal obligations, avoid placing any reliance on others to report. The procedure will also assist in providing an early warning of possible malpractice and reduce risk.

### 3.1 **Clarification of the law**

Individuals may need to refer to regulations and guidance when considering whether or not to report a possible breach. Some of the key provisions are shown below:

- Section 70(1) and 70(2) of the Pensions Act 2004:  
[www.legislation.gov.uk/ukpga/2004/35/contents](http://www.legislation.gov.uk/ukpga/2004/35/contents)
- Employment Rights Act 1996:  
[www.legislation.gov.uk/ukpga/1996/18/contents](http://www.legislation.gov.uk/ukpga/1996/18/contents)
- Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 (Disclosure Regulations):  
[www.legislation.gov.uk/uksi/2013/2734/contents/made](http://www.legislation.gov.uk/uksi/2013/2734/contents/made)
- Public Service Pension Schemes Act 2013:  
[www.legislation.gov.uk/ukpga/2013/25/contents](http://www.legislation.gov.uk/ukpga/2013/25/contents)
- Local Government Pension Scheme Regulations (various):

<http://www.lgpsregs.org/timelineregs/Default.html> (pre 2014 schemes)  
<http://www.lgpsregs.org/index.php/regs-legislation> (2014 scheme)

- The Pensions Regulator's Code of Practice:  
<http://www.thepensionsregulator.gov.uk/codes/code-governance-administration-publicservice-pension-schemes.aspx>  
In particular, individuals should refer to the section on 'Reporting breaches of the law', and for information about reporting late payments of employee or employer contributions, the section of the code on 'Maintaining contributions'.

Further guidance and assistance can be provided by the Head of Finance Governance & Assurance (s151 Officer) and Monitoring Officer, provided that requesting this assistance will not result in alerting those responsible for any serious offence (where the breach is in relation to such an offence).

### 3.2 **Clarification when a breach is suspected**

Individuals need to have reasonable cause to believe that a breach has occurred, not just a suspicion. Where a breach is suspected the individual should carry out further checks to confirm the breach has occurred. Where the individual does not know the facts or events, it will usually be appropriate to check with the Head of Finance Governance & Assurance, the Monitoring Officer, a member of the Pensions Committee or Pension Board or others who are able to explain what has happened. However there are some instances where it would not be appropriate to make further checks, for example, if the individual has become aware of theft, suspected fraud or another serious offence and they are also aware that by making further checks there is a risk of either alerting those involved or hampering the actions of the police or a regulatory authority. In these cases The Pensions Regulator should be contacted without delay.

### 3.3 **Determining whether the breach is likely to be of material significance**

To decide whether a breach is likely to be of material significance an individual should consider the following, both separately and collectively:

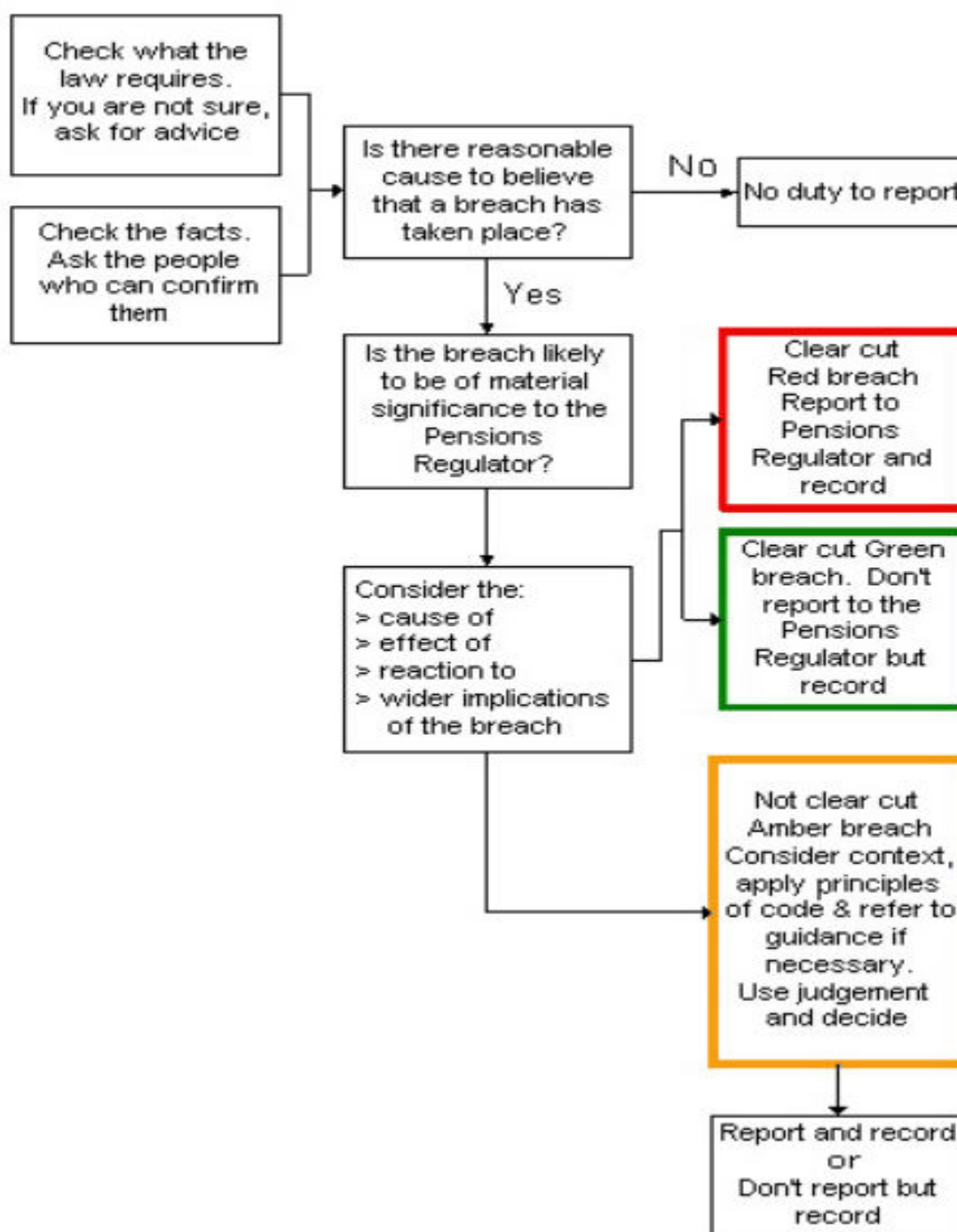
- cause of the breach (what made it happen);
- effect of the breach (the consequence(s) of the breach);
- reaction to the breach; and
- wider implications of the breach.

Further details on the above four considerations are provided in Appendix A to this procedure.

The individual should use the traffic light framework described in Appendix B to help assess the material significance of each breach and to formally support and document their decision.

- ### 3.4
- A decision tree is provided below to show the process for deciding whether or not a breach has taken place and whether it is materially significant and therefore requires to be reported.

## Decision-tree: deciding whether to report



- 3.5 **Referral to a level of seniority for a decision to be made on whether to report**  
 Shropshire Council has a designated Monitoring Officer to ensure the Council acts and operates within the law. They are considered to have appropriate experience to help investigate whether there is reasonable cause to believe a breach has occurred, to check the law and facts of the case, to maintain records of all breaches and to assist in any reporting to The Pensions Regulator, where appropriate. If breaches relate to late or incorrect payment of contributions or pension benefits, the matter should be highlighted to the Head of Finance

Governance & Assurance or the Head of Treasury & Pensions at the earliest opportunity to ensure the matter is resolved as a matter of urgency. Individuals must bear in mind, however, that the involvement of the Monitoring Officer is to help clarify the potential reporter's thought process and to ensure this procedure is followed. The reporter remains responsible for the final decision as to whether a matter should be reported to The Pensions Regulator.

The matter should not be referred to any of these officers if doing so will alert any person responsible for a possible serious offence to the investigation (as highlighted in section 2). If that is the case, the individual should report the matter to The Pensions Regulator setting out the reasons for reporting, including any uncertainty – a telephone call to the Regulator before the submission may be appropriate, particularly in more serious breaches.

### **3.6 Dealing with complex cases**

The Head of Finance Governance & Assurance or Monitoring Officer may be able to provide guidance on particularly complex cases. Information may also be available from national resources such as the Scheme Advisory Board or the LGPC Secretariat (part of the LG Group - <http://www.lgpsregs.org/>). If timescales allow, legal advice or other professional advice can be sought and the case can be discussed at the next Board meeting.

### **3.7. Timescales for reporting**

The Pensions Act and Pension Regulators Code require that if an individual decides to report a breach, the report must be made in writing as soon as reasonably practicable. Individuals should not rely on waiting for others to report and nor is it necessary for a reporter to gather all the evidence which The Pensions Regulator may require before taking action. A delay in reporting may exacerbate or increase the risk of the breach. The time taken to reach the judgements on “reasonable cause to believe” and on “material significance” should be consistent with the speed implied by ‘as soon as reasonably practicable’. In particular, the time taken should reflect the seriousness of the suspected breach.

### **3.8 Early identification of very serious breaches**

In cases of immediate risk to the scheme, for instance, where there is any indication of dishonesty, The Pensions Regulator does not expect reporters to seek an explanation or to assess the effectiveness of proposed remedies. They should only make such immediate checks as are necessary. The more serious the potential breach and its consequences, the more urgently reporters should make these necessary checks. In cases of potential dishonesty the reporter should avoid, where possible, checks which might alert those implicated. In serious cases, reporters should use the quickest means possible to alert The Pensions Regulator to the breach.

### **3.9 Recording all breaches even if they are not reported**

The record of past breaches may be relevant in deciding whether to report a breach (for example it may reveal a systemic issue). Shropshire Council will maintain a record of all breaches identified by individuals and reporters should therefore provide copies of reports to the Head of Finance Governance &

Assurance. Records of unreported breaches should also be provided as soon as reasonably practicable and certainly no later than within 20 working days of the decision made not to report. These will be recorded alongside all reported breaches. The record of all breaches (reported or otherwise) will be included in the quarterly Monitoring Report at each Pension Committee, and this will also be shared with the Pension Board.

### 3.10 **Reporting a breach**

Reports must be submitted in writing via The Pensions Regulator's online system at [www.tpr.gov.uk/exchange](http://www.tpr.gov.uk/exchange), or by post, email or fax, and should be marked urgent if appropriate. If necessary, a written report can be preceded by a telephone call. Reporters should ensure they receive an acknowledgement for any report they send to The Pensions Regulator. The Pensions Regulator will acknowledge receipt of all reports within five working days and may contact reporters to request further information. Reporters will not usually be informed of any actions taken by The Pensions Regulator due to restrictions on the disclosure of information.

As a minimum, individuals reporting should provide:

- full scheme name (Shropshire County Pension Fund);
- description of breach(es);
- any relevant dates;
- name, position and contact details;
- role in connection to the scheme; and
- employer name or name of scheme manager (the latter is Shropshire Council).

If possible, reporters should also indicate:

- the reason why the breach is thought to be of material significance to The Pensions Regulator;
- scheme address (provided at the end of this procedures document);
- scheme manager contact details (provided at the end of this procedures document);
- pension scheme registry number (**PSR – ?????**); and
- whether the breach has been reported before.

The reporter should provide further information or reports of further breaches if this may help The Pensions Regulator in the exercise of its functions. The Pensions Regulator may make contact to request further information.

### 3.11 **Confidentiality**

If requested, The Pensions Regulator will do its best to protect a reporter's identity and will not disclose information except where it is lawfully required to do so. If an individual's employer decides not to report and the individual employed by them disagrees with this and decides to report a breach themselves, they may have protection under the Employment Rights Act 1996 if they make an individual report in good faith.

### 3.12 **Reporting to Pensions Committee and Pension Board**

A report will be presented to the Pensions Committee and the Pension Board on a quarterly basis setting out:

- all breaches, including those reported to The Pensions Regulator and those unreported, with the associated dates;
- in relation to each breach, details of what action was taken and the result of any action (where not confidential);
- any future actions for the prevention of the breach in question being repeated; and
- highlighting new breaches which have arisen in the last year/since the previous meeting.

This information will also be provided upon request by any other individual or organisation (excluding sensitive/confidential cases or ongoing cases where discussion may influence the proceedings). An example of the information to be included in the quarterly reports is provided in Appendix C to this procedure.

### 3.13 **Review**

This Reporting Breaches Procedure was originally developed in August 2015. It will be kept under review and updated as considered appropriate by the Head of Finance Governance & Assurance. It may be changed as a result of legal or regulatory changes, evolving best practice and ongoing review of the effectiveness of the procedure.

## **Further Information**

If you require further information about reporting breaches or this procedure, please contact:

Justin Bridges – Head of Treasury & Pensions  
Email: [justin.bridges@shropshire.gov.uk](mailto:justin.bridges@shropshire.gov.uk)  
Telephone: 01743 252072

Debbie Sharp – Pension Administration Manager  
Email: [debbie.sharp@shropshire.gov.uk](mailto:debbie.sharp@shropshire.gov.uk)  
Telephone: 01743 252192

Shropshire County Pension Fund, Shropshire Council, Shirehall, Abbey Foregate, Shrewsbury, SY2 6ND

Designated officer contact details:

1) Head of Finance Governance & Assurance – James Walton  
Email: [james.walton@shropshire.gov.uk](mailto:james.walton@shropshire.gov.uk)  
Telephone: 01743 255011

2) Monitoring Officer – Claire Porter  
Email: [claire.porter@shropshire.gov.uk](mailto:claire.porter@shropshire.gov.uk)

Telephone: 01743 252763



### **Determining whether a breach is likely to be of material significance**

To decide whether a breach is likely to be of material significance individuals should consider the following elements, both separately and collectively:

- cause of the breach (what made it happen);
- effect of the breach (the consequence(s) of the breach);
- reaction to the breach; and
- wider implications of the breach.

#### **The cause of the breach**

Examples of causes which are likely to be of concern to The Pensions Regulator are provided below:

- acting, or failing to act, in deliberate contravention of the law;
- dishonesty;
- incomplete or inaccurate advice;
- poor administration, i.e. failure to implement adequate administration procedures;
- poor governance; or
- slow or inappropriate decision-making practices.

When deciding whether a cause is likely to be of material significance individuals should also consider:

- whether the breach has been caused by an isolated incident such as a power outage, fire, flood or a genuine one-off mistake.
- whether there have been any other breaches (reported to The Pensions Regulator or not) which when taken together may become materially significant.

#### **The effect of the breach**

Examples of the possible effects (with possible causes) of breaches which are considered likely to be of material significance to The Pensions Regulator in the context of the LGPS are given below:

- Committee/Board members not having enough knowledge and understanding, resulting in pension boards not fulfilling their roles, the scheme not being properly governed and administered and/or scheme managers breaching other legal requirements.
- Conflicts of interest of Committee or Board members, resulting in them being prejudiced in the way in which they carry out their role and/or the ineffective governance and administration of the scheme and/or scheme managers breaching legal requirements.
- Poor internal controls, leading to schemes not being run in accordance with their scheme regulations and other legal requirements, risks not being properly identified and managed and/or the right money not being paid to or by the scheme at the right time.

- Inaccurate or incomplete information about benefits and scheme information provided to members, resulting in members not being able to effectively plan or make decisions about their retirement.
- Poor member records held, resulting in member benefits being calculated incorrectly and/or not being paid to the right person at the right time.
- Misappropriation of assets, resulting in scheme assets not being safeguarded.
- Other breaches which result in the scheme being poorly governed, managed or administered.

#### **The reaction to the breach**

A breach is likely to be of concern and material significance to The Pensions Regulator where a breach has been identified and those involved:

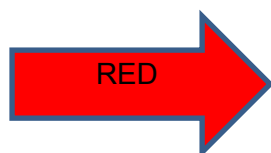
- do not take prompt and effective action to remedy the breach and identify and tackle its cause in order to minimise risk of recurrence;
- are not pursuing corrective action to a proper conclusion; or
- fail to notify affected scheme members where it would have been appropriate to do so.

#### **The wider implications of the breach**

Reporters should also consider the wider implications when deciding whether a breach must be reported. The breach is likely to be of material significance to The Pensions Regulator where the fact that a breach has occurred makes it more likely that further breaches will occur within the Fund or, if due to maladministration by a third party, further breaches will occur in other pension schemes.

### Traffic light framework for deciding whether or not to report

It is recommended that those responsible for reporting use the traffic light framework when deciding whether to report to The Pensions Regulator. This is illustrated below:



Where the cause, effect, reaction and wider implications of a breach, when considered together, are likely to be of material significance.

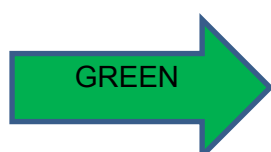
These must be reported to The Pensions Regulator.

Example: Several members' benefits have been calculated incorrectly. The errors have not been recognised and no action has been taken to identify and tackle the cause or to correct the errors.



Where the cause, effect, reaction and wider implications of a breach, when considered together, may be of material significance. They might consist of several failures of administration that, although not significant in themselves, have a cumulative significance because steps have not been taken to put things right. You will need to exercise your own judgement to determine whether the breach is likely to be of material significance and should be reported.

Example: Several members' benefits have been calculated incorrectly. The errors have been corrected, with no financial detriment to the members. However the breach was caused by a system error which may have wider implications for other public service schemes using the same system.



Where the cause, effect, reaction and wider implications of a breach, when considered together, are not likely to be of material significance. These should be recorded but do not need to be reported.

Example: A member's benefits have been calculated incorrectly. This was an isolated incident, which has been promptly identified and corrected, with no financial detriment to the member. Procedures have been put in place to mitigate against this happening again.

All breaches should be recorded even if the decision is not to report.

When using the traffic light framework individuals should consider the content of the red, amber and green sections for each of the cause, effect, reaction and wider implications of the breach, before you consider the four together. Some useful examples of this is framework is provided by The Pensions Regulator at the following link:

[http:// www.thepensionsregulator.gov.uk/codes/code-related-report-breaches.aspx](http://www.thepensionsregulator.gov.uk/codes/code-related-report-breaches.aspx)



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