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

Date: 17th November 2016

Committee:
Pensions Committee

Date: **Friday, 25 November 2016**
Time: **10.00 am**
Venue: **Shrewsbury Room, Shirehall, Abbey Foregate, Shrewsbury, 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 Davies
Malcolm Pate

Co-opted Members (Voting):
Malcolm Smith
David Wright

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)
Lee Carter (T&W)
Adrian Lawrence (T&W)
Vacancy (Pensioner Rep)
Vacancy (Employee Rep)

Your Committee Officer is:

Tim Ward Committee Officer
Tel: 01743 257713
Email: tim.ward@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 of the last Meeting (Pages 1 - 4)

The minutes of the meeting held on 21 September 2016 area attached for confirmation marked 3

Contact: Tim Ward (01743 257713)

4 Public Questions

To receive any public questions or petitions from the public, notice of which has been given in accordance with Procedure Rule 14. The deadline for this meeting is 5.00 pm on Tuesday 22 November 2016

5 Blackrock (Hedge Funds and Fixed Income)

Peter Hunt, John Ware and James Edwards will give a presentation

6 Harbourvest (Private Equity)

Kathleen Bacon and Emily Archer will give a presentation

7 Mercer (Actuarial Valuation)

John Livesey will give a presentation

8 Corporate Governance Monitoring (Pages 5 - 50)

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

Contact: Justin Bridges (01743 252072)

9 **LGPS Central Investment Pooling** (Pages 51 - 72)

The report of the Head of Finance, Governance & Assurance is attached, marked 9.

Contact: James Walton (01743 258915)

10 **Actuarial Valuation 2016** (Pages 73 - 80)

The report of the Head of Finance, Governance & Assurance is attached, marked 9.

Contact: James Walton (01743 258915)

11 **Funding Strategy Statement** (Pages 81 - 114)

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

Contact: Justin Bridges (01743 252072)

12 **Pensions Administration Monitoring Report** (Pages 115 - 142)

The report of the Pension Administration Manager is attached, marked 12.

Contact: Debbie Sharp (01743 252192)

13 **Exclusion of Press and Public**

To consider a resolution under paragraph 10.2 of the Council's Access to Information Procedure Rules that the proceedings of the Committee in relation to Agenda Items 14 to 18 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 Categories 2 and 3)** (Pages 143 - 146)

The exempt Minutes of the meeting held on 21 September 2016 are attached for confirmation, marked 14.

Contact: Tim Ward (01743 257713)

15 Investment Monitoring Report (Exempted by Category 3)

The exempt report of the Head of Treasury and Pensions is to follow marked 15

Contact Justin Bridges (01743 252072)

16 New Admission Bodies (Exempted by Category 3) (Pages 147 - 150)

The exempt report of the Pensions Administration Manager is attached marked 16

Contact Debbie Sharp (01743 252192)

17 Appeals under the Internal Disputes Resolution Procedure (Exempted by Category 3) (Pages 151 - 154)

The exempt report of the Pension Administration Manager is attached, marked 17.

Contact: Debbie Sharp (01743 252192)

18 Record of Breaches (Exempted by Category 3) (Pages 155 - 160)

The exempt report of the Pension Administration Manager is attached, marked 18.

Contact: Debbie Sharp (01743 252192)

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Shropshire Council

Pensions Committee

25 November 2016

10.00 am

MINUTES OF THE PENSIONS COMMITTEE MEETING HELD ON 21 SEPTEMBER 2016
10.00 AM - 12.38 PM

Responsible Officer: Tim Ward
Email: tim.ward@shropshire.gov.uk Tel: 01743 257713

Present:

Members of the Committee:
Councillor Malcolm Pate (Chairman)
Councillors Thomas Biggins, Anne Chebsey and Andrew Davies

Co-Opted Members (Voting):
Councillors Malcolm Smith and David Wright

Co-Opted Members (Non-Voting):
Jean Smith

18 **Apologies for Absence and Substitutions**

18.1 There were no apologies for absence

19 **Disclosable Pecuniary Interests**

19.1 Members were reminded that they must not participate in the discussion or voting on any matter in which they had a disclosable pecuniary interest and should leave the room prior to the commencement of the debate

20 **Minutes**

20.1 **RESOLVED**

That the minutes of the meeting held on 28 June 2016 be approved and signed by the Chairman as a true record.

21 **Public Questions**

21.1 There were no questions from members of the public

22 **Harris Associates (Global Equities)**

22.2 The meeting received an update from representatives of Harris Associates.in which they gave a background to their company and outlined the various strategies that they were following. The then took questions from the Committee

23 **Internal Audit Quality Assurance Improvement Programme**

23.1 The Committee received the report of the Head of Internal Audit which provided Members with an update on the External Assessment review planned in November 2016.

23.2 **RESOLVED:**

That the Committee endorse the information set out in the report.

24 **Internal Audit Outturn Report for Shropshire County Pension Fund 2015/16**

24.1 The meeting received the report of the Head of Internal Audit which provided members with details of work undertaken by Internal Audit for the year ending 31 March 2016.

24.2 The Head of Internal Audit informed Members that 100% of the plan had been delivered and that five good assurances had been made.

24.3 **RESOLVED:-**

That the Committee endorse: -

a) Performance against the Audit Plan for the year ended 31 March 2016; and
b) The Audit Manager's positive year end opinion on the Fund's governance, risk management and internal control environment for 2015/16 on the basis of the work undertaken and management responses received.

RESOLVED:

That under paragraph 10.2 of the Council's Access to Information Procedure Rules that the proceedings of the Committee in relation to the next item 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.

25 **Unconstrained Equity Recap and Introduction to Harris (Exempted by Category 3)**

25.1 The Committee received a presentation from Aon Hewitt

RESOLVED

That the meeting return to public session

26 **External Audit - The Audit Findings for Shropshire County Pension Fund 2015/16**

26.1 The meeting received the report of Grant Thornton which set out the external audit findings for the Shropshire County Pension Fund. Members were advised that an unqualified audit opinion would be given in respect of the financial statements for the year ending 31 March 2016.

26.2 **RESOLVED:**

That Members note the contents of the report.

27 **Pension Fund Annual Accounts 2015/16**

27.1 The Committee received the report of Head of Finance, Governance and Assurance which provided Members with the Shropshire Council Pension Fund Annual Report 2015/16 and an update on the annual audit.

27.2 **RESOLVED:**

That the Committee approve the Pension Fund Annual Report 2015/16

28 **Pensions Administration Monitoring**

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

28.2 Members were advised that annual benefit statements for deferred worker had been issued at the end of July and that these would be issued electronically next year through the website unless individual members requested to receive a paper copy.

28.3 **RESOLVED:**

That Members accept the position as set out in the report.

29 **Corporate Governance Monitoring**

29.1 Members received the report of the Investment officer which informed Members of Corporate Governance and socially responsible investment issues arising in the quarter 1 April 2016 to 30 June 2016

29.2 **RESOLVED:**

That Members 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

30 **Exclusion of Press and Public**

30.1 **RESOLVED:**

That under paragraph 10.2 of the Council’s Access to Information Procedure Rules that the proceedings of the Committee in relation to the next item 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.

31 **Exempt Minutes (Exempted by Categories 2 and 3)**

31.1 **RESOLVED**

That the exempt minutes of the meeting held on 28 June 2016 be approved and signed by the Chairman as a true record

32 **View Points Survey Results (Exempted by Category 3)**

32.1 Members received a presentation from Mr Louis-Paul Hill, Aon Hewitt on the results of the View Point Survey.

33 **Private Equity Recommendations (Exempted by Category 5)**

33.1 Members received a report which set out private equity recommendations

33.2 **RESOLVED:**

That the recommendations contained in the exempt report be approved

34 **Investment Monitoring - Quarter to 30 June 2016 (Exempted by Category 3)**

34.1 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 31 March 2016, and reported on the technical meetings held with managers since the quarter end.

34.2 **RESOLVED:**

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

(The full version of Minute 25 and Minutes 31 to 34 constitutes exempt information under Categories 2 and 3 of Paragraph 10.4 of the Council's Access to Information Rules and has accordingly been withheld from publication).

Signed .... (Chairman)

Date: ....

Committee and Date	Item
Pensions Committee 25 November 2016 10.00am	**8** Public

CORPORATE GOVERNANCE MONITORING

Responsible Officer Ed Roberts
e-mail: ed.roberts@shropshire.gov.uk Tel: (01743) 252078

1. Summary

1.1 The report is to inform members of Corporate Governance and socially responsible investment issues arising in the quarter 1st July 2016 to 30th September 2016.

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 Opportunies 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 21 September 2016
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

MAJEDIE
Asset Management

We introduced our own customised voting policy in the first quarter of 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 60 meetings on 709 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	46	
Number of resolutions	538	
Where we voted in line with Management	521	(96.8%)
Where we have not voted in line with Management	17	(3.2%)
Where we voted against ISS's recommendation	26	(4.8%)

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	14	14
Capitalisation	2	1
Board election & related proposals	1	5
Shareholder proposals	0	1
Remuneration	0	5
Miscellaneous	0	0
Reorg. and Mergers	0	0
Total	17	26

Sources: Majedie, ISS (Institutional Shareholder Services)

VOTING BREAKDOWN

SECURITY	MEETING DATE	MEETING TYPE	MAJEDIE VOTE	IN LINE WITH ISS
Accrol	30 Sep 2016	AGM	Voted for all	Yes
Accsys Technologies	21 Sep 2016	AGM	Voted for all	Yes
Aminex	02 Aug 2016	EGM	Voted for all	Yes
ARM	30 Aug 2016	EGM	Voted for all	Yes
Atalaya Mining (1)	07 Jul 2016	AGM	Voted for all	No
Bloomsbury Publishing	19 Jul 2016	AGM	Voted for all	Yes
BT (2)	13 Jul 2016	AGM	Against Resolution 21	No
Carpetright (3)	07 Sep 2016	AGM	Against Resolution 14	No
Charles Stanley	29 Jul 2016	AGM	Voted for all	Yes
Conviviality	12 Sep 2016	AGM	Voted for all	Yes
Conygar Investment Company	29 Jul 2016	EGM	Voted for all	Yes
Creston (4)	06 Sep 2016	AGM	Abstention on Resolution 7. Against Resolution 11	No
Dairy Crest (5)	19 Jul 2016	AGM	Against Resolution 13	No
De La Rue (6)	21 Jul 2016	AGM	Against Resolution 16	No
e2v technologies (7)	13 Jul 2016	AGM	Voted for all	No
Eckoh	29 Sep 2016	AGM	Voted for all	Yes
Electrocomponents	20 Jul 2016	AGM	Voted for all	Yes
FastJet (8)	08 Aug 2016	EGM	Against Resolution 4	Yes
FirstGroup (9)	19 Jul 2016	AGM	Against Resolution 17	No
Gresham House	16 Aug 2016	EGM	Voted for all	Yes
Gresham House Strategic Group (10)	25 Jul 2016	AGM	Against Resolution 8	No
Home Retail	27 Jul 2016	EGM	Voted for all	Yes
HomeServe	15 Jul 2016	AGM	Voted for all	Yes
Imagination Technologies	06 Sep 2016	AGM	Voted for all	Yes
J Sainsbury (11)	06 Jul 2016	AGM	Against Resolution 18	No
KCOM	22 Jul 2016	AGM	Voted for all	Yes
LMS Capital	16 Aug 2016	EGM	Voted for all	Yes
Marks and Spencer (12)	12 Jul 2016	AGM	Against Resolution 21	No
National Grid (13)	25 Jul 2016	AGM	Against Resolution 17	No
Premier Farnell	12 Sep 2016	EGM	Voted for all	Yes
Restore	22 Aug 2016	EGM	Voted for all	Yes
Ryanair	27 Jul 2016	EGM	Voted for all	Yes
Ryanair (14)	14 Sep 2016	AGM	Voted for all	No
Scapa (15)	19 Jul 2016	AGM	Against Resolution 15	No
Shanks (16)	14 Jul 2016	AGM	Against Resolution 13	No
Sirius Real Estate	23 Sep 2016	AGM	Voted for all	Yes
Speedy Hire (17)	13 Jul 2016	AGM	Against Resolution 13	No
Speedy Hire (18)	09 Sep 2016	EGM	Against Resolutions 1, 2	No
Tate & Lyle (19)	21 Jul 2016	AGM	Against Resolution 17	No
Vectura (20)	07 Sep 2016	AGM	Voted for all	No
Vertu Motors	20 Jul 2016	AGM	Voted for all	Yes
Vodafone (21)	29 Jul 2016	AGM	Against Resolution 22	No

SECURITY	MEETING DATE	MEETING TYPE	MAJEDIE VOTE	IN LINE WITH ISS
WYG (22)	22 Sep 2016	AGM	Voted for all	No

Source : ISS (Institutional Shareholder Services)

VOTING NOTES

1) Atalaya Mining: On Resolution 13, options stand effectively in lieu of payment as the directors work to turn the business around over this period. We are aware this arrangement is unusual but are extending some flexibility as the directors' increased share ownership will align them more closely with shareholders' interests and therefore voted in favour.

2) BT: We voted in line with Majedie policy with regard to political donations.

3) Carpetright: We voted in line with Majedie policy with regard to political donations.

4) Creston: On Resolution 7, we have some concerns about the range of skills and experience represented around the board table and wished to signal this clearly to the management, therefore we abstained on this appointment. On Resolution 11, we voted in line with Majedie policy with regard to political donations.

5) Dairy Crest: We voted in line with Majedie policy with regard to political donations.

6) De La Rue: On Resolution 2, it is possible to work out the range within which the remuneration calculation will be made. The company has given retrospective information in previous years which encourages us to believe they will again. We also accept the management's argument about commercial sensitivity. On Resolution 16, we voted in line with Majedie policy with regard to political donations.

7) e2v technologies: In the course of the voting period, ISS changed their recommendation from abstain to for following dialogue with the company. Essentially they were persuaded, as were we, that the new level of CEO remuneration was as a result of performance demonstrated in the role. Overall the level of remuneration is in line with the sector.

8) FastJet: We voted against as the proposed issuance of equity without pre-emptive rights exceeds recommended limits of 10%.

9) FirstGroup: We voted in line with Majedie policy with regard to political donations.

10) Gresham House Strategic Group: We voted against as the proposed issuance of equity without pre-emptive rights exceeds recommended limits of 10%.

11) J Sainsbury: We voted in line with Majedie policy with regard to political donations.

12) Marks and Spencer: We voted in line with Majedie policy with regard to political donations.

13) National Grid: We voted in line with Majedie policy with regard to political donations.

14) Ryanair: On Resolution 2, ISS raised concerns about the level of detail the company made available. We considered that there is sufficient information to conclude that the management are acting in the best interests of shareholders. On Resolution 3a, ISS recommended a vote against David Bonderman as he holds 30,000 share options in the company. We consider that the share options do not materially affect his ability to objectively advise the company. On Resolution 3j, ISS recommended a vote against James Osborne as he holds 30,000 share options in the company. We consider that the share options do not materially affect his ability to objectively advise the company.

15) Scapa: On Resolution 2, ISS recommended voting against this item. Long-term incentive awards granted to executive directors under the company's Value Creation Plan (VCP) allowed for the re-testing of performance conditions, which was contrary to recommended market practice. We are generally supportive of their strategy and the CEO has been crucial to the company's success and his retention and continued

incentivisation remain significant to total shareholder return, so we decided to vote in favour. In addition, the top ten shareholders approved this resolution. However, we make governance best practice a critical discussion point in our meetings with management On Resolution 15, we voted in line with Majedie policy with regard to political donations.

16) Shanks: We voted in line with Majedie policy with regard to political donations.

17) Speedy Hire (AGM): Majedie voted against political donations and expenditure in line with our usual policy.

18) Speedy Hire (EGM): On Resolution 1, we engaged at length with the board and reviewed in detail the case made by Toscafund in order to explore the arguments on both sides. While we acknowledge the company has historically had governance issues, they have made considerable strides in addressing them. We anticipate the chairman stepping back to a non-executive role by the end of the year. Other key board positions have been revitalised by the appointment of the CEO last year and the CFO this year. On Resolution 2, we are strongly supportive of the appointment of an additional NED to strengthen the board, however we are unconvinced that David Shearer would provide the necessary neutral advice we look for to hold the board to account. We also note that since Toscafund hold a significant investment in Speedy Hire's competitor, HSS, they have a vested interest in promoting a takeover by Speedy Hire which we do not consider to be in the best interests of all shareholders. We therefore advised the company to run a further independent, proper process to add an additional non-executive to the Board who is fully independent.

19) Tate & Lyle: Majedie voted against political donations and expenditure in line with our usual policy.

20) Vectura: On Resolution 4, ISS recommended a vote against the election of Frank Condella because he is a non-independent Director and is currently a member of the audit committee which is against industry corporate governance best practice. We feel that smaller companies should be afforded greater flexibility in the composition of their boards, so in line with our UK Smaller Companies voting policy, we voted in favour of his appointment.

21) Vodafone: Majedie voted against political donations and expenditure in line with our usual policy.

22) WYG: Mike McTighe serves on the Audit Committee, Remuneration Committee and 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.

Vote Summary Report

Date range covered: 07/01/2016 to 09/30/2016
Location(s): Massachusetts Financial Services
Institution Account(s): MFS Investment Fund - Global Equity Fund

Burberry Group plc

Meeting Date: 07/14/2016 | **Country:** United Kingdom | **Primary Security ID:** G1700D105 | **Meeting ID:** 1066300
Record Date: 07/12/2016 | **Meeting Type:** Annual | **Ticker:** BRBY

Primary CUSIP: G1699R107 | **Primary ISIN:** GB0031743007 | **Primary SEDOL:** 3174300

Voting Policy: MFS

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 Sir John Peace as Director	Mgmt	For	For
5	Re-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	Re-elect Dame Carolyn McCall as Director	Mgmt	For	For
12	Re-elect Christopher Bailey as Director	Mgmt	For	For
13	Re-elect Carol Fairweather as Director	Mgmt	For	For
14	Re-elect John Smith as Director	Mgmt	For	For
15	Reappoint PricewaterhouseCoopers LLP as Auditors	Mgmt	For	For
16	Authorise the Audit Committee to Fix Remuneration of Auditors	Mgmt	For	For
17	Authorise EU Political Donations and Expenditure	Mgmt	For	For
18	Authorise Issue of Equity with Pre-emptive Rights	Mgmt	For	For
19	Authorise Issue of Equity without Pre-emptive Rights	Mgmt	For	For
20	Authorise Market Purchase of Ordinary Shares	Mgmt	For	For
21	Authorise the Company to Call General Meeting with Two Weeks' Notice	Mgmt	For	For

Vote Summary Report

Date range covered: 07/01/2016 to 09/30/2016
Location(s): Massachusetts Financial Services
Institution Account(s): MFS Investment Fund - Global Equity Fund

Microchip Technology Incorporated

Meeting Date: 08/15/2016 **Country:** USA **Primary Security ID:** 595017104 **Meeting ID:** 1078263
Record Date: 06/21/2016 **Meeting Type:** Annual **Ticker:** MCHP

Primary CUSIP: 595017104 **Primary ISIN:** US5950171042 **Primary SEDOL:** 2592174

Voting Policy: MFS

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	Amend Executive Incentive Bonus Plan	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

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

Meeting Date: 08/19/2016 **Country:** Mexico **Primary Security ID:** P49501201 **Meeting ID:** 1080108
Record Date: 08/08/2016 **Meeting Type:** Special **Ticker:** GFNORTE O

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

Voting Policy: MFS

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
	Extraordinary Business	Mgmt		
1.1	Amend Article 5 Re: Location of Corporate Domicile	Mgmt	For	For
1.2	Amend Article 19 Re: Asset Acquisition Operations	Mgmt	For	For
1.3	Amend Article 44 Re: Independent Members of Nomination Committee	Mgmt	For	For
1.4	Resolutions in Item 1.1 Are Subject to Suspense Consistent Condition by Which Authorization Referred to in Article 20 of Law Regulating Financial Groups is Granted, Prior Opinion of National Banking and Securities Commission and Banco de Mexico	Mgmt		

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

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
2	Authorize Board to Ratify and Execute Approved Resolutions	Mgmt	For	For

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

Meeting Date: 08/19/2016 **Country:** Mexico **Primary Security ID:** P49501201 **Meeting ID:** 1080109
Record Date: 08/08/2016 **Meeting Type:** Special **Ticker:** GFNORTE O

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

Voting Policy: MFS

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
	Ordinary Business	Mgmt		
1.1	Approve Cash Dividends of MXN 0.45750654921773 Per Share to Be Paid on Aug. 31, 2016	Mgmt	For	For
1.2	Approve Fourth and Last Payment of Dividend of 2014 to Be Paid on Aug. 31, 2016	Mgmt	For	For
1.3	Approve Cash Dividends of MXN 1.23355355686851 per Share	Mgmt	For	For
1.4	Approve First Payment of Dividend of 2015 to Be Paid on Aug. 31, 2016	Mgmt	For	For
1.5	Approve Second Payment of Dividend of 2015 to Be Paid in May 2017	Mgmt	For	For
2	Authorize Board to Ratify and Execute Approved Resolutions	Mgmt	For	For

Compagnie Financiere Richemont SA

Meeting Date: 09/14/2016 **Country:** Switzerland **Primary Security ID:** H25662182 **Meeting ID:** 1024118
Record Date: **Meeting Type:** Annual **Ticker:** CFR

Primary CUSIP: H25662158 **Primary ISIN:** CH0210483332 **Primary SEDOL:** BCRWZ18

Voting Policy: MFS

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

Compagnie Financiere Richemont SA

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
2	Approve Allocation of Income and Dividends of CHF 1.70 per Registered A Share and CHF 0.17 per Registered B Share	Mgmt	For	For
3	Approve Discharge of Board of Directors	Mgmt	For	For
4.1	Reelect Johann Rupert as Director and Board Chairman	Mgmt	For	Against
4.2	Reelect Yves-Andre Istel as Director	Mgmt	For	For
4.3	Reelect Josua Malherbe as Director	Mgmt	For	Against
4.4	Reelect Jean-Blaise Eckert as Director	Mgmt	For	Against
4.5	Reelect Bernard Fornas as Director	Mgmt	For	Against
4.6	Reelect Richard Lepeu as Director	Mgmt	For	Against
4.7	Reelect Ruggero Magnoni as Director	Mgmt	For	Against
4.8	Reelect Simon Murray as Director	Mgmt	For	For
4.9	Reelect Guillaume Pictet as Director	Mgmt	For	For
4.10	Reelect Norbert Platt as Director	Mgmt	For	Against
4.11	Reelect Alan Quasha as Director	Mgmt	For	For
4.12	Reelect Maria Ramos as Director	Mgmt	For	For
4.13	Reelect Lord Renwick of Clifton as Director	Mgmt	For	For
4.14	Reelect Jan Rupert as Director	Mgmt	For	Against
4.15	Reelect Gary Saage as Director	Mgmt	For	Against
4.16	Reelect Jurgen Schrempp as Director	Mgmt	For	Against
4.17	Reelect The Duke of Wellington as Director	Mgmt	For	For
4.18	Elect Jeff Moss as Director	Mgmt	For	For
4.19	Elect Cyrille Vigneron as Director	Mgmt	For	Against
5.1	Appoint Lord Renwick of Clifton as Member of the Compensation Committee	Mgmt	For	For
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	For
6	Ratify PricewaterhouseCoopers as Auditor	Mgmt	For	For
7	Designate Francoise Demierre Morand Independent Proxy	Mgmt	For	For
8.1	Approve Maximum Remuneration of Board of Directors in the Amount of CHF 7.4 Million	Mgmt	For	For

Compagnie Financiere Richemont SA

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
8.2	Approve Maximum Fixed Remuneration of Senior Executive Committee in the Amount of CHF 9.9 Million	Mgmt	For	For
8.3	Approve Maximum Variable Remuneration of Senior Executive Committee in the Amount of CHF 16.4 Million	Mgmt	For	For
9	Transact Other Business (Voting)	Mgmt	For	Against

Diageo plc

Meeting Date: 09/21/2016 **Country:** United Kingdom **Primary Security ID:** G42089113 **Meeting ID:** 1080851
Record Date: 09/19/2016 **Meeting Type:** Annual **Ticker:** DGE

Primary CUSIP: G42089113 **Primary ISIN:** GB0002374006 **Primary SEDOL:** 0237400

Voting Policy: MFS

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
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 Nicola Mendelsohn as Director	Mgmt	For	For
10	Re-elect Ivan Menezes as Director	Mgmt	For	For
11	Re-elect Philip Scott as Director	Mgmt	For	For
12	Re-elect Alan Stewart as Director	Mgmt	For	For
13	Elect Javier Ferran as Director	Mgmt	For	For
14	Elect Kathryn Mikells as Director	Mgmt	For	For
15	Elect Emma Walmsley as Director	Mgmt	For	For
16	Reappoint PricewaterhouseCoopers LLP as Auditors	Mgmt	For	For

Diageo plc

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
17	Authorise Board to Fix Remuneration of Auditors	Mgmt	For	For
18	Authorise Issue of Equity with Pre-emptive Rights	Mgmt	For	For
19	Authorise Issue of Equity without Pre-emptive Rights	Mgmt	For	For
20	Authorise Market Purchase of Ordinary Shares	Mgmt	For	For
21	Authorise EU Political Donations and Expenditure	Mgmt	For	For

Vote Summary Report
Date range covered: 07/01/2016 to 09/30/2016
Institution Account(s): 5984 -Shropshire County Pension Fund

Experian plc

Meeting Date: 07/20/2016 **Country:** United Kingdom **Primary Security ID:** G32655105
Record Date: 07/18/2016 **Meeting Type:** Annual **Ticker:** EXPN

Primary CUSIP: G32655105 **Primary ISIN:** GB00B19NLV48 **Primary SEDOL:** B19NLV4

Shares Voted: 142,900

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	Elect Luiz Fleury as Director	Mgmt	For	For	For
4	Re-elect Brian Cassin as Director	Mgmt	For	For	For
5	Re-elect Roger Davis as Director	Mgmt	For	For	For
6	Re-elect Deirdre Mahlan as Director	Mgmt	For	For	For
7	Re-elect Lloyd Pitchford as Director	Mgmt	For	For	For
8	Re-elect Don Robert as Director	Mgmt	For	For	For
9	Re-elect George Rose as Director	Mgmt	For	For	For
10	Re-elect Paul Walker as Director	Mgmt	For	For	For
11	Re-elect Kerry Williams as Director	Mgmt	For	For	For
12	Appoint KPMG LLP as Auditors	Mgmt	For	For	For
13	Authorise Board to Fix Remuneration of Auditors	Mgmt	For	For	For
14	Authorise Issue of Equity with Pre-emptive Rights	Mgmt	For	For	For
15	Authorise Issue of Equity without Pre-emptive Rights	Mgmt	For	For	For
16	Authorise Issue of Equity without Pre-emptive Rights	Mgmt	For	For	For
17	Authorise Market Purchase of Ordinary Shares	Mgmt	For	For	For

Compagnie Financiere Richemont SA

Meeting Date: 09/14/2016 **Country:** Switzerland **Primary Security ID:** H25662182
Record Date: **Meeting Type:** Annual **Ticker:** CFR

Primary CUSIP: H25662158 **Primary ISIN:** CH0210483332 **Primary SEDOL:** BCRWZ18

Vote Summary Report
Date range covered: 07/01/2016 to 09/30/2016
Institution Account(s): 5984 -Shropshire County Pension Fund

Compagnie Financiere Richemont SA

Shares Voted: 89,204

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 1.70 per Registered A Share and CHF 0.17 per Registered B Share	Mgmt	For	For	For
3	Approve Discharge of Board of Directors	Mgmt	For	For	For
4.1	Reelect Johann Rupert as Director and Board Chairman	Mgmt	For	Against	For
4.2	Reelect Yves-Andre Istel as Director	Mgmt	For	Against	For
4.3	Reelect Josua Malherbe as Director	Mgmt	For	Against	For
4.4	Reelect Jean-Blaise Eckert as Director	Mgmt	For	Against	For
4.5	Reelect Bernard Fornas as Director	Mgmt	For	Against	For
4.6	Reelect Richard Lepeu as Director	Mgmt	For	For	For
4.7	Reelect Ruggero Magnoni as Director	Mgmt	For	Against	For
4.8	Reelect Simon Murray as Director	Mgmt	For	Against	For
4.9	Reelect Guillaume Pictet as Director	Mgmt	For	For	For
4.10	Reelect Norbert Platt as Director	Mgmt	For	Against	For
4.11	Reelect Alan Quasha as Director	Mgmt	For	Against	For
4.12	Reelect Maria Ramos as Director	Mgmt	For	For	For
4.13	Reelect Lord Renwick of Clifton as Director	Mgmt	For	Against	For
4.14	Reelect Jan Rupert as Director	Mgmt	For	Against	For
4.15	Reelect Gary Saage as Director	Mgmt	For	Against	For
4.16	Reelect Jurgen Schrempp as Director	Mgmt	For	Against	For
4.17	Reelect The Duke of Wellington as Director	Mgmt	For	Against	For
4.18	Elect Jeff Moss as Director	Mgmt	For	For	For
4.19	Elect Cyrille Vigneron 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
6	Ratify PricewaterhouseCoopers as Auditor	Mgmt	For	For	For

Compagnie Financiere Richemont SA

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Vote Instruction
7	Designate Francoise Demierre Morand Independent Proxy	Mgmt	For	For	For
8.1	Approve Maximum Remuneration of Board of Directors in the Amount of CHF 7.4 Million	Mgmt	For	For	For
8.2	Approve Maximum Fixed Remuneration of Senior Executive Committee in the Amount of CHF 9.9 Million	Mgmt	For	For	For
8.3	Approve Maximum Variable Remuneration of Senior Executive Committee in the Amount of CHF 16.4 Million	Mgmt	For	For	For
9	Transact Other Business (Voting)	Mgmt	For	Against	Against

Diageo plc

Meeting Date: 09/21/2016 **Country:** United Kingdom **Primary Security ID:** G42089113
Record Date: 09/19/2016 **Meeting Type:** Annual **Ticker:** DGE

Primary CUSIP: G42089113 **Primary ISIN:** GB0002374006 **Primary SEDOL:** 0237400

Shares Voted: 133,430

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 Nicola Mendelsohn as Director	Mgmt	For	For	For
10	Re-elect Ivan Menezes as Director	Mgmt	For	For	For
11	Re-elect Philip Scott as Director	Mgmt	For	For	For
12	Re-elect Alan Stewart as Director	Mgmt	For	For	For
13	Elect Javier Ferran as Director	Mgmt	For	For	For
14	Elect Kathryn Mikells as Director	Mgmt	For	For	For

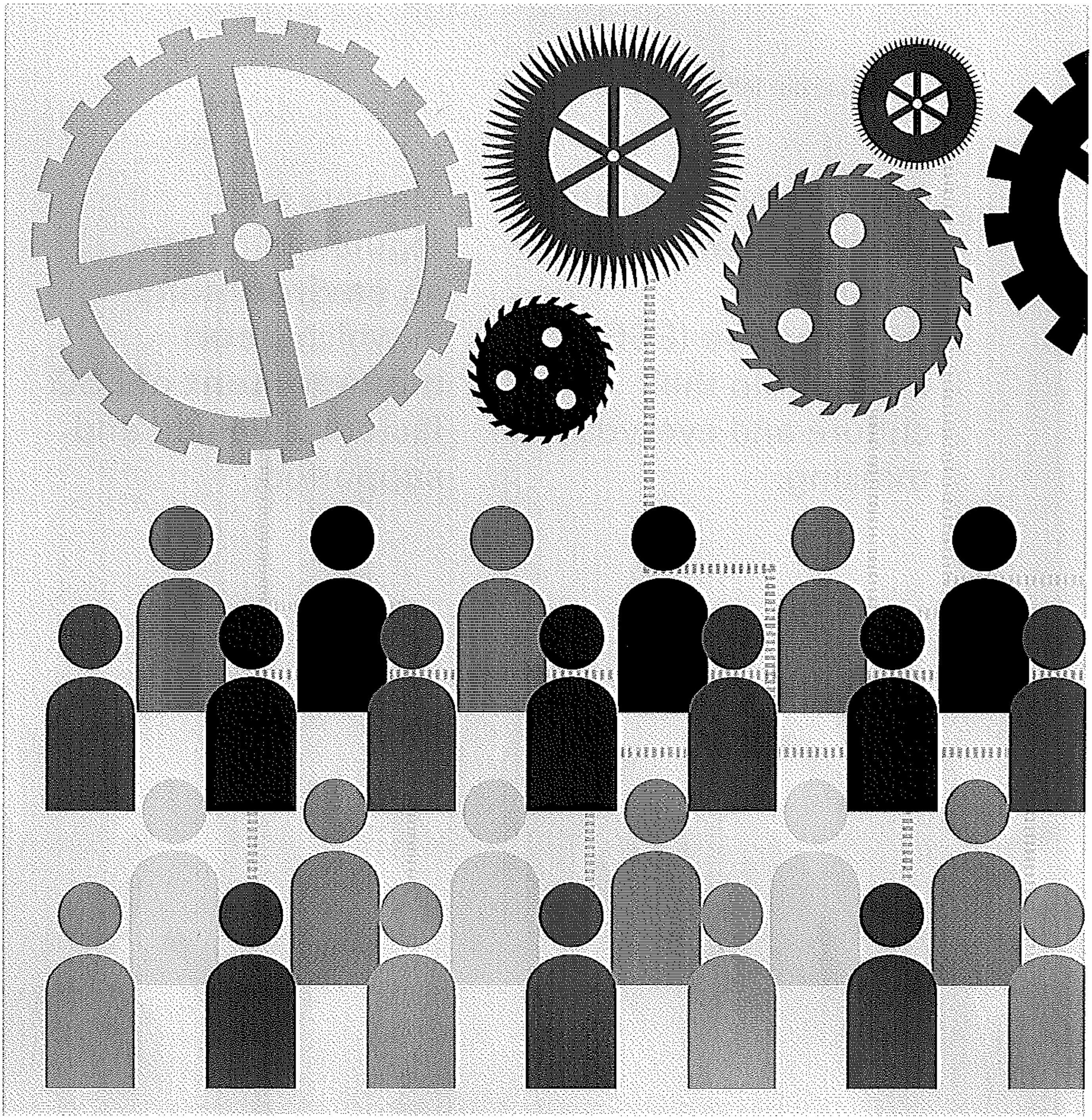
Vote Summary Report
Date range covered: 07/01/2016 to 09/30/2016
Institution Account(s): 5984 -Shropshire County Pension Fund

Diageo plc

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

ESG impact

Q3 2016 quarterly report



Our Q3 2016 quarterly report on environmental, social and governance (ESG) issues

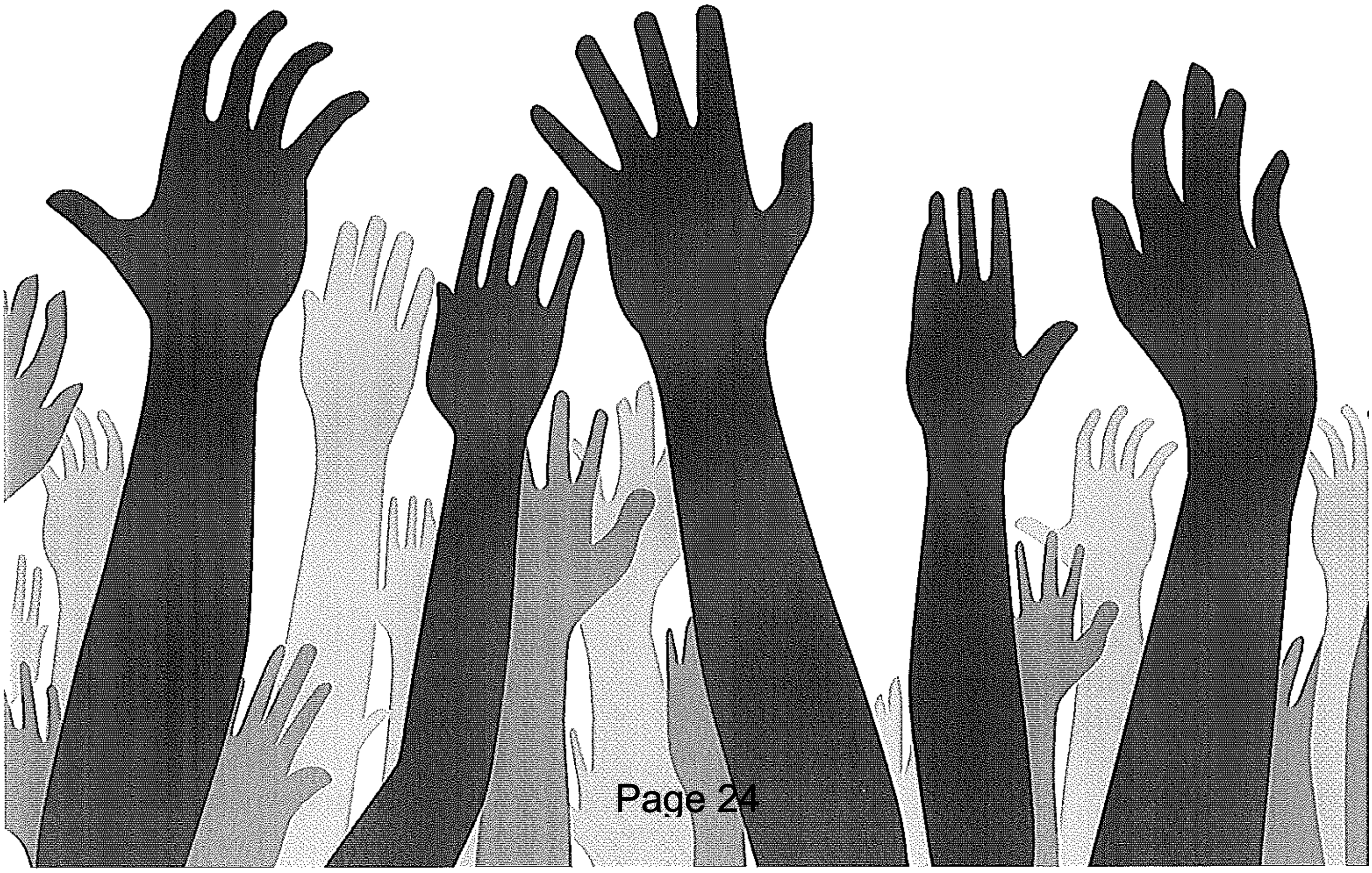
Legal & General
INVESTMENT MANAGEMENT

Our mission

To use our influence to ensure that

Companies integrate **environmental**, **social** and **governance** (ESG) factors into their culture and everyday thinking.

Markets and regulators create an **environment** in which **good management** of ESG factors is valued and supported.

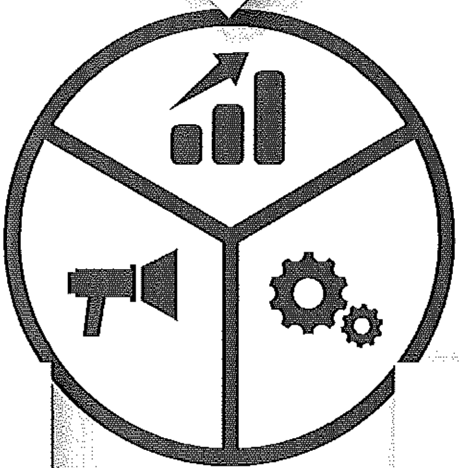


Our focus

Creating sustainable value:

Ensuring that boards and management are best equipped to create resilient and long-term growth.

We want to safeguard and grow our clients' assets by ensuring that companies are well positioned for sustainable growth. To be successful in the long term, companies need to have people at the top who are able to deliver sustainable value. We engage directly and collaboratively with them to highlight key challenges and opportunities in their sector and support strategies that can deliver long-term success.



Influencing the debate:

Identifying and engaging on key themes and emerging governance topics.

We use our scale to influence markets and the regulatory environment to ensure that issues impacting the value of our clients' investments are recognised and appropriately managed. We identify key themes and emerging governance topics so that we can understand these risks and opportunities and react accordingly. This includes working with governments, regulators and other decision-makers to promote a certain course of action and often collaborating with others to effect change.

Improving companies:

Protecting and enhancing our clients' assets by supporting change and holding management accountable for their decisions.

As stewards of our clients' assets, we believe that real change is best achieved through being an engaged and active owner. In doing so, our investment process includes an assessment of how well companies incorporate relevant environmental, social and governance factors into their everyday thinking. We act on our analysis and engage with companies to improve their performance to protect client assets. Voting is also an important tool, which we use to hold management to account.

Latest news and developments - Q3 2016

Press coverage

In September, LGIM made a public statement on voting at the AGM of Sports Direct. As a significant minorit shareholder, we try to use our position as a large shareholder to influence and promote best practice. G ven the on-going concerns with the governance structure and working practices at the company, we made public our view which is a final pa t of our escalation process. We also attended the AGM in person.

For more information please go to the UK section in our quarterly report: www.lgim.com/cgupdate

Non-Executive Director Corporate Governance Seminar

LGIM hosted an exclusive seminar aimed at newer non-executive directors and those who wanted to understand key topical issues from a long term investor perspective. The seminar offered practical and direct advice from LGIM and a number of high-profile plc board membe s on many aspects of the non-executive director role.

A wide variety of topics were discussed including board diversity, executive remuneration, audit and tax, cyber security and climate change. The event was well received and attended by over 80 international guests.

Corporate Governance in Switzerland

In September 2016 we met with the Swiss Stock Exchange, with a number of other international asset managers, to discuss their governance rules, regulations and enforcement powers. Switzerland is one of LGIM's biggest markets in Europe.

We paid particular attention on the protection of minority shareholders within the Swiss market. This has come under increased scrutiny in recent years given rules allowing major shareholders to 'opt-out' of mandatory takeover provisions. This could allow a takeover of a listed company without a premium being offered to minority shareholders (as seen at Sika AG). Additionally, we discussed related party transactions rules, dual-class shares and the process for IPO.

Principles of Responsible Investment (PRI)

In September LGIM attended the PRI in Person in Singapore. The annual conference brings together signatories to the Principles for Responsible Investment and other investment professionals to share experiences and ideas on issues topical to responsible investment. With over 600 attendees from across the globe it's a strong platform for collaboration and learning. Prior to the conference and as a member of the PRI working group on sustainable palm oil, LGIM joined an investor trip to Indonesia.

Alongside 21 other investors we met with local palm oil companies and smallholder farmers, federal and provincial government, local and international NGO's, and community representatives. The objective was to understand progress being made and the challenges still faced by palm oil companies in the implementation of sustainable growing and sourcing practices. Also we emphasised, both to companies and government, the importance of international investors to drive sustainable practices in the palm oil industry.

Master Trust AGM

For the third year running, LGIM presented to the Master Trust Annual Forum on Corporate Governance. The purpose of the presentation was to update the trustees on the topic of Corporate Governance as well as discuss emerging Environmental, Social and Governance issues and promote awareness of the topic.

LGIM Remuneration Principles

As part of our annual policy review process, we have updated our remuneration principles to reflect the cu rent focus and attention on the issue. LGIM has also written to the Corporate Secretarial departments of the FTSE 350 in advance and have supplied them an advanced copy of our views. This is important given that a large number of companies will be currently reviewing their remuneration structure and be putting their binding remuneration policy to a shareholder vote next year at their 2017 AGM. We have had positive feedback on our constructive comments.

For more information on our new remuneration principles, please go to: http://www.lgim.com/library/capabilities/LGIM_Summary_Pay_Principles.pdf

Stewardship Code Statement

LGIM has updated its UK Stewardship Code Statement following feedback received from the Financial Reporting Council (FRC) as part of its review in to reporting by signatories. Following the publication of the results from the FRC's review, we will shortly be placing an updated Stewardship Code statement on our website and will inform clients.

For more information regarding voting statistics and engagement, please go to: www.lgim.com/cgupdate

POLICY AND PRACTICE

We aim to increase 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.lgim.com/uk/en/capabilities/corporate-governance/

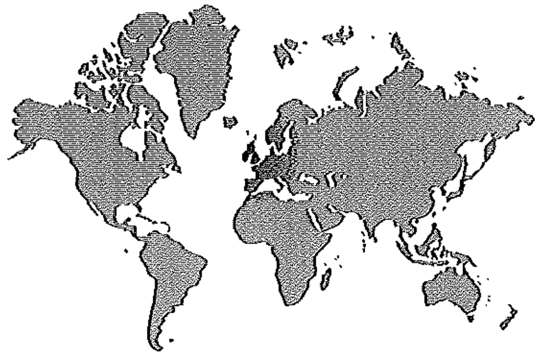
In order to demonstrate key governance issues, voting statistics are divided up into main voting categories. We engage on a range of environmental, social, governance (ESG) and financial issues and integrate all component where appropriate.

All votes in the UK, North American and Japan markets are publicly disclosed on our website along with our voting policies.

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

Regional updates

UK



KEY COMPANY ENGAGEMENTS ON E (ENVIRONMENTAL), S (SOCIAL), G (GOVERNANCE) AND F (FINANCIAL) TOPICS

Speedy Hire plc

Market cap £202m

Industrials

What is the issue:
At their EGM a shareholder resolution was proposed to remove the Chairman of the Board and elect an alternative candidate in his place.

Why is it an issue:
At the time, one of Speedy Hire's major shareholders wanted the company to merge with HSS plc. Speedy Hire's performance during 2015 resulted in a profit warning and the CEO being replaced. This was a difficult decision for the Chairman who as relatively new himself and the company was operating without a Group Finance Director. The idea of merging with HSS seemed a sensible option at that time because HSS was considered a superior business with a reputable management team in place. However, while exploring a tie up with HSS, they started to implement a revised strategy.

In the fi st quarter of 2016, some of that strategy was starting to deliver positive results whilst the performance at HSS started to falter. The Board decided that a tie up with HSS, at this time, was no longer necessary. Speedy's major shareholder disagreed with the Board's decision and called for the removal of the Chairman and to appoint a new Non-Executive Director of their choosing.

What did LGIM do?
LGIM discussed the matter with the Chairmen of Speedy Hire and HSS, the Senior Independent Director at Speedy Hire and the major shareholder that was proposing the resolutions. We also made further inquiries regarding the director they were proposing.

LGIM decided to support the re-election of the Chairman because the strategy of the Board was starting to work and in our perspective as long-term shareholders there were concerns on merging at this time. We also decided to support the election of the proposed new candidate as a Non-Executive Director.

Going forward, we will engage with the individual to make it clear that in supporting his election we expect him to work for the benefit of all shareholders not just his proponent.

The outcome?
The Chairman and the proposed new candidate secured sufficient otes from shareholders for their election. Speedy Hire's performance continues to improve with H1 performance being better than the market expected.

Sports Direct plc **Market cap £1.7bn** **General Retail**	

What is the issue:
Significant g vernance failings by the Board including:

- Poor succession planning for key management positions for a significant perio (e.g. Finance Director);
- Lack of refreshment for independent non-executive board members for the last 5 years;
- Lack of transparency and management of conflicts of interest on related pa ty transactions; and
- Poor oversight on supply chain, health and safety and working conditions for employees

Why is it an issue:
The company's performance has been deteriorating with numerous profit warnings leading up to the AGM. Also, there were concerns around the company's strategy as Sports Direct was purchasing a number of stakes in various listed companies through derivative positions. Access to organise meetings or to get answers about what the company was doing proved difficult

In addition, working practices at the company's Shirebrook warehouse and the company's decision not to sign the Bangladesh Fire & Safety Accord put social issues in spotlight.

MPs also got involved when they breached insolvency rules in the closure of USC. The Founder was summoned by the Parliament business select committee to answer to allegations of a gross abuse of power and breaches of labour practices.

These issues led to reputational damage to the brand, a continued deterioration in performance and shareholder value being destroyed with the share price falling by more than 50% in the last year.

What did LGIM do?
Due to the lack of progress that had been made over the course of our engagement, we continued to vote against the re-election of the Board Chairman for the third consecutive year. We also escalated our voting position to oppose the re-election all of the Non-Executive Directors on the Board and went public on our stance two weeks before the AGM.

LGIM has been proactively engaging with Sports Direct since the company listed in 2007 to request for changes. We highlighted the importance of appointing a dedicated Company Secretary to assist the Board and to appoint an Investor Relations person to communicate with shareholders.

LGIM also supported a shareholder resolution calling on Sports Direct to carry out an independent review into labour practices in the business. Furthermore, we attended the AGM in person and together with other members of the Investor Forum. A meeting was held with the entire board after the AGM calling for an independent enquiry into governance at the company.

Lastly given the lack of transparency regarding Sports Directs supply chain, health and safety policies and working conditions, we requested that the company review its strategy in this area and provide more disclosure.

The outcome?
The Board has appointed a permanent Company Secretary and Investor Relations person filling in ey management positions important for shareholder communication.

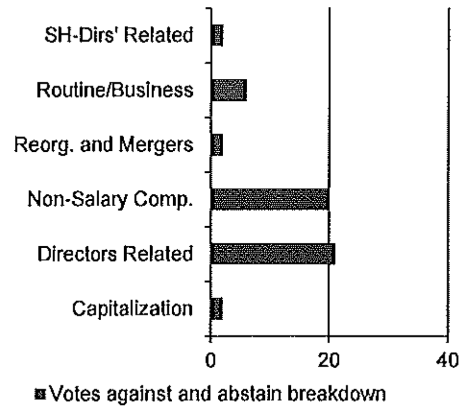
The Board Chairman did not receive sufficient suppo t from independent shareholders – 53% of minority shareholders voted against his re-election. Another AGM will be called in due course to re-elect him again to the position. The Board Chairman has made a public commitment that if things have not improved in the next year, he will step down.

Lastly, the Founder has agreed to an independent review of governance and labour practices even though the shareholder resolution did not pass due to his large shareholding in opposition of the proposal. The CEO also stepped down from the Board two and a half weeks after the AGM. The Founder will take responsibility for the business until another CEO is appointed.

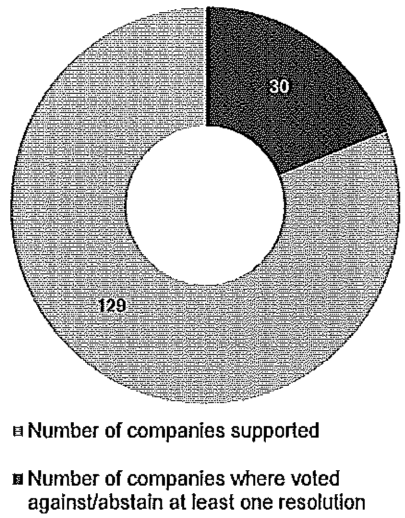
Q3 2016 VOTING SUMMARY UK

Proposal category	UK		
	For	Against	Abstain
Anti-takeover Related	103		
Capitalisation	486	2	
Directors Related	976	21	
Non-Salary Comp.	183	20	
Reorg. and Mergers	30	2	
Routine/Business	595	6	
SH-Compensation			
SH-Corp Governance			
SH-Dirs' Related	1	1	
SH-Gen Econ Issues			
SH-Health/Environ.			
SH-Other/misc.			
SH-Routine/Business		1	
SH-Soc./Human Rights			
Social Proposal			
Total	2374	53	
Total resolutions		2427	
No. AGMs		143	
No. EGMs		25	
No. of companies voted		159	
No. of companies where voted against/abstain at least one resolution		30	
% no. of companies where at least one vote against		19	

Voting issue breakdown (against and abstain)



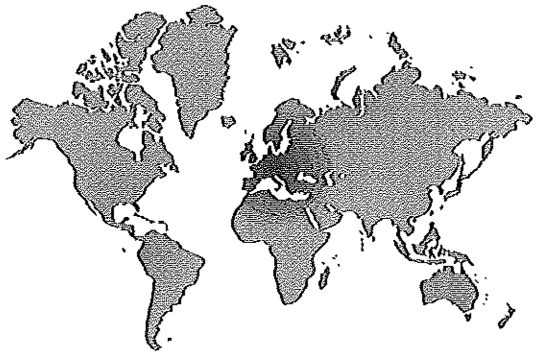
Number of companies voted against/abstain



'LGIM voted against at least one resolution at **19%** of UK companies over the quarter.'

Source for all data LGIM. The votes above represents against management voting instructions for our main FTSE pooled index funds

Regional updates
EUROPE



KEY COMPANY ENGAGEMENTS ON E (ENVIRONMENTAL), S (SOCIAL), G (GOVERNANCE) AND F (FINANCIAL) TOPICS

Italian Voto di Lista System

Market wide

Telecommunication

What is the issue?
Italy has a unique process to ensure the minority shareholder voice is heard – the 'Voto di Lista' – whereby board seats are set aside for candidates nominated by the minority shareholders. LGIM strongly supports this mechanism for providing clear alignment between the board and shareholders. However, as the shareholding base in some companies is becoming widely diversified, this creates te hnical questions as to who is appointing the board

Why is it an issue?
Over 83% of companies in Italy have a dominant shareholder. Major shareholders can provide a long-term vision and a stable capital base for many companies, however it is equally important this power is not used to the detriment of the long-term interest of the company or its minority shareholders. Any proposed changes to the Voto di Lista system due to increasing diversified shareholder bas in many Italian companies, should not undermine the important rights of minority shareholders to nominate directors to the board.

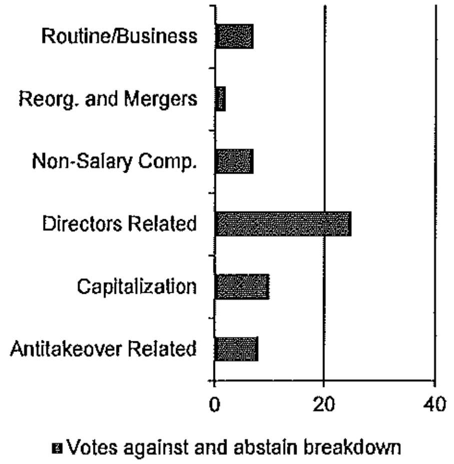
What did LGIM do?
We have engaged with six Italian companies this quarter to understand how they are currently operating the Voto di Lista system, and to ensure an appropriate balance of representatives of controlling shareholder and minority representatives. We also presented at an Italian Corporate Governance conference on the importance of the Voto di Lista system for institutional investors, such as LGIM, including how we would like to see it strengthened.

The outcome?
We will continue to promote institutional investor involvement in the Voto di Lista process and ensure that minority shareholder rights are strengthened.

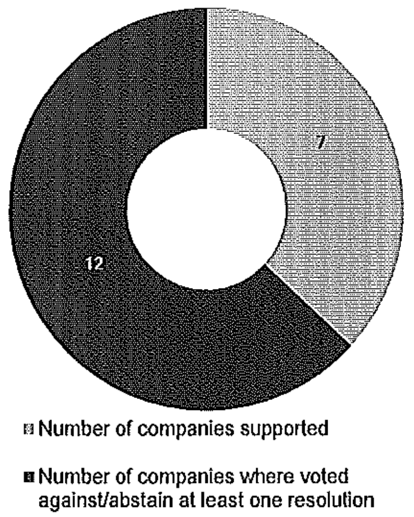
Q3 2016 VOTING SUMMARY EUROPE

Proposal category	EUROPE		
	For	Against	Abstain
Anti-takeover Related		8	
Capitalisation	18	10	
Directors Related	48	25	
Non-Salary Comp.	13	7	
Reorg. and Mergers	6	2	
Routine/Business	43	7	
SH-Compensation			
SH-Corp Governance			
SH-Dirs' Related			
SH-Gen Econ Issues			
SH-Health/Environ.			
SH-Other/misc.			
SH-Routine/Business			
SH-Soc./Human Rights			
Social Proposal			
Total	128	59	
Total resolutions		187	
No. AGMs		9	
No. EGMs		10	
No. of companies voted		19	
No. of companies where voted against/abstain at least one resolution		12	
% no. of companies where at least one vote against		63	

Voting issue breakdown (against and abstain)



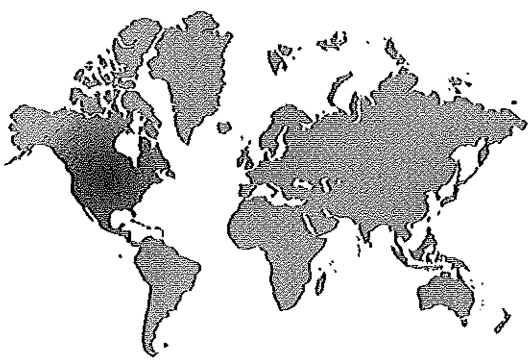
Number of companies voted against/abstain



'LGIM voted against at least one resolution at **63%** of European companies over the quarter.'

Source for all data LGIM. The votes above represents against management voting instructions for our main FTSE pooled index funds

Regional updates
NORTH AMERICA



KEY COMPANY ENGAGEMENTS AND VOTING ON E (ENVIRONMENTAL), S (SOCIAL), G (GOVERNANCE) AND F (FINANCIAL) TOPICS

Microsoft

Market cap: $348bn

Technology

What is the issue?
LGIM had concerns with compensation arrangements which included large discretionary short term awards being based mainly on personal performance. In addition, the maximum payout levels are excessive under incentive schemes and there is a lack of performance conditions attached to awards.

Why is it an issue?
We continue to advocate the sensible use of discretion which can inflate compensatio awards and believe that a maximum bonus target of 200% of salary is sufficient and i line with market practice. Furthermore, long term awards should be based largely on performance metrics to assure alignment and accountability to shareholders rather than executives receiving compensation for holding equity over time.

What did LGIM do?
LGIM has been engaging with Microsoft since 2012 and although we have supported their executive compensation through voting, we have warned the company that if longer term performance periods and reduced discretion was not considered then we would vote against remuneration in the future.

The outcome?
After several engagements with the company management and independent Chair, the ability to use discretion in the short-term compensation plans has been reduced and the company has committed to full disclosure in the event it is used. The maximum long-term incentive award level to the CEO has also been reduced from 400% to 300% of salary and a significant po tion of awards will be based on performance conditions.

Honeywell International

Market cap: $69bn

Industrials

What is the issue?
Rotation of Lead Director role and selection process; Remuneration structure complex and heavily cash based which is not aligned with long term shareholders.

Why is it an issue?
The Lead Director role is critical for companies that have a combined CEO/Chair and we believe the role should be held for more than one year to provide consistency of leadership.

LGIM are advocates of simple remuneration plans to enable transparency and understanding. In addition, plans that are based majority on equity rather than cash are better aligned with company performance and long term shareholder interests.

What did LGIM do?
LGIM has been engaging with the company on these issues since 2014.

The outcome?
In September 2016, the company made the Lead Director role permanent and will disclose selection criteria in proxy statements going forward. Furthermore, the duties of the role will be expanded.

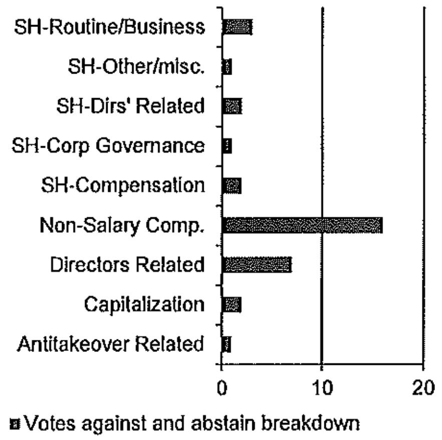
The Company has also taken into account criticism around remuneration and simplifie compensation plans, moving from cash-based Growth Plan to shares based. The long-term incentive plan has extended from a 2yr to a 3yr performance period and the weighting of stock option plans without performance conditions has been reduced.

Securities Exchange Commission (SEC) Consultation on Regulation S-K	**What is the issue?** The SEC issued a consultation on whether business and financial disclosur requirements for listed companies in the US continue to elicit information that is material to investment and voting decisions.
Market wide	**Why is it an issue?** Reporting requirements of listed companies is critical as this is the information investors rely upon to make investment and voting decisions. Therefore when a review is underway it is important for key investors to opine on any changes proposed or to request amendments. **What did LGIM do?** We responded to the consultation and focused on areas such as the issue of short termism and removing the requirement for companies to disclose financial repo ts on a quarterly basis; the need for clear line-item disclosures on ESG issues to enable comparable and consistent information through promotion of standards such as the Sustainability Accounting Standards Board (SASB) and Global Reporting Initiative (GRI); corporate tax planning; human capital management metrics disclosure; corporate political spending disclosure; diversity and skill set reporting. **The outcome?** SEC is continuing to assess responses. **broad impact on the market?** As this is an SEC consultation that impacts the US at market level, being able to input our thoughts on the important topics listed above is an efficient ay to make a broader impact on how we want to see companies reporting going forward as investor expectations and needs have evolved.

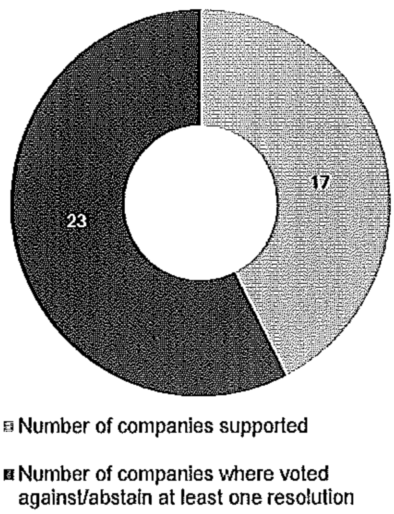
Q3 2016 VOTING SUMMARY NORTH AMERICA

Proposal category	NORTH AMERICA		
	For	Against	Abstain
Anti-takeover Related	13	1	
Capitalisation	12	2	
Directors Related	222	7	22
Non-Salary Comp.	42	16	
Reorg. and Mergers	13		
Routine/Business	39		
SH-Compensation		2	
SH-Corp Governance	1	1	
SH-Dirs' Related		2	
SH-Gen Econ Issues			
SH-Health/Environ.	1	1	
SH-Other/misc.	1	3	
SH-Routine/Business			
SH-Soc./Human Rights			
Social Proposal	1		
Total	345	35	22
Total resolutions		402	
No. AGMs		29	
No. EGMs		11	
No. of companies voted		40	
No. of companies where voted against/abstain at least one resolution		23	
% no. of companies where at least one vote against		58	

Voting issue breakdown (against and abstain)



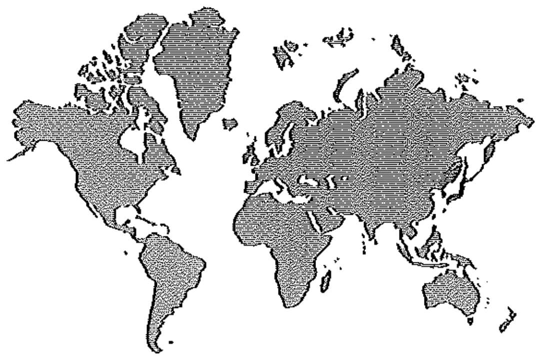
Number of companies voted against/abstain



'LGIM voted against at least one resolution at **58%** of North American companies over the quarter.'

Regional updates

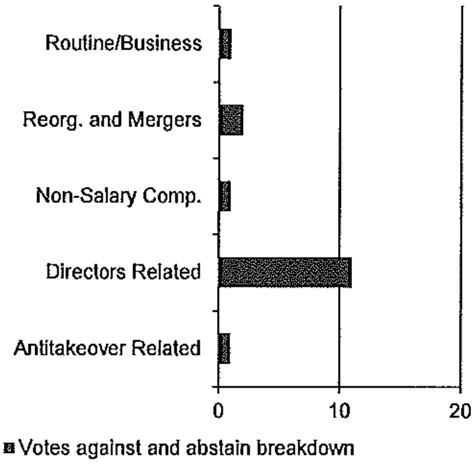
JAPAN



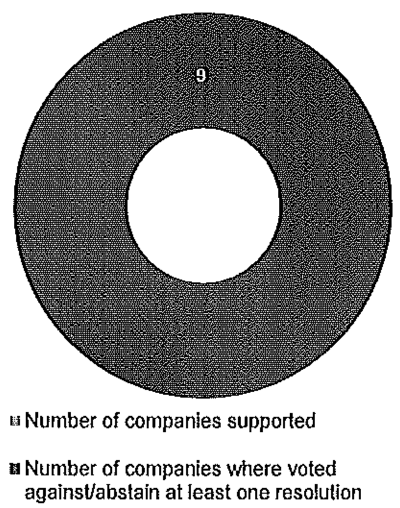
Q3 2016 VOTING SUMMARY JAPAN

Proposal category	JAPAN		
	For	Against	Abstain
Anti-takeover Related		1	
Capitalisation			
Directors Related	80	11	
Non-Salary Comp.	8	1	
Reorg. and Mergers	3	2	
Routine/Business	7	1	
SH-Compensation			
SH-Corp Governance			
SH-Dirs' Related			
SH-Gen Econ Issues			
SH-Health/Environ.			
SH-Other/misc.			
SH-Routine/Business			
SH-Soc./Human Rights			
Social Proposal			
Total	98	16	
Total resolutions		114	
No. AGMs		9	
No. EGMs		0	
No. of companies voted		9	
No. of companies where voted against/abstain at least one resolution		9	
% no. of companies where at least one vote against		100	

Voting issue breakdown (against and abstain)



Number of companies voted against/abstain

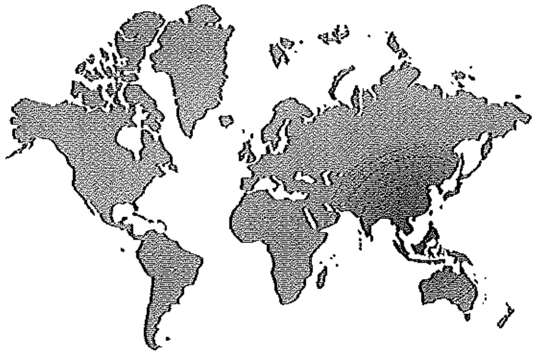


'LGIM voted against at least one resolution at **100%** of Japanese companies over the quarter.'

Source for all data LGIM. The votes above represents against management voting instructions for our main FTSE pooled index funds

Regional updates

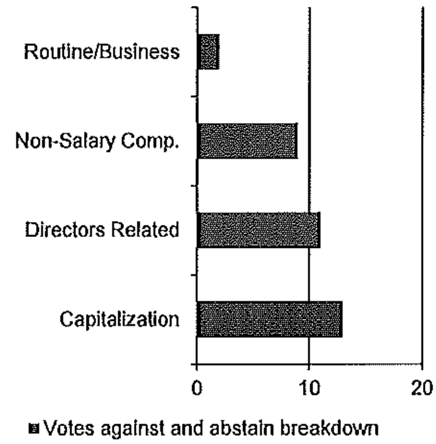
ASIA PACIFIC



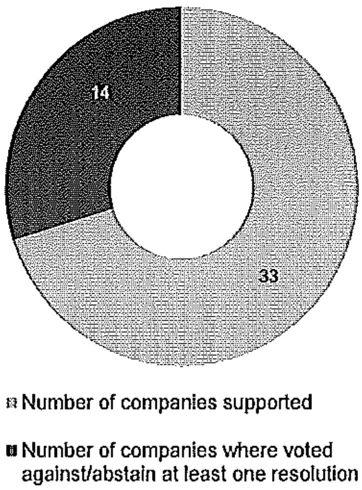
Q3 2016 VOTING SUMMARY ASIA PACIFIC

Proposal category	ASIA PACIFIC		
	For	Against	Abstain
Anti-takeover Related	2		
Capitalisation	29	13	
Directors Related	106	11	
Non-Salary Comp.	26	9	
Reorg. and Mergers	16		
Routine/Business	61	2	
SH-Compensation			
SH-Corp Governance			
SH-Dirs' Related			
SH-Gen Econ Issues			
SH-Health/Environ.			
SH-Other/misc.			
SH-Routine/Business			
SH-Soc./Human Rights			
Social Proposal			
Total	240	35	
Total resolutions		275	
No. AGMs		30	
No. EGMs		18	
No. of companies voted		47	
No. of companies where voted against/abstain at least one resolution		14	
% no. of companies where at least one vote against		30	

Voting issue breakdown (against and abstain)

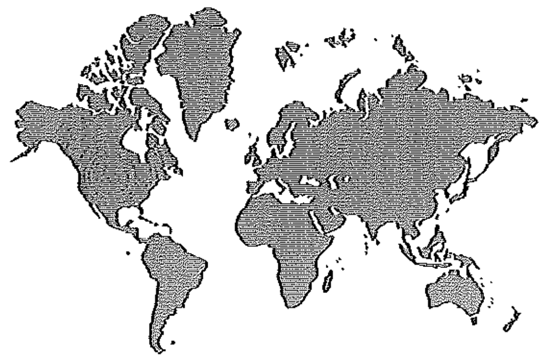


Number of companies voted against/abstain



'LGIM voted against at least one resolution at **30%** of Asia Pacific companies over the quarter.'

Regional updates
EMERGING MARKETS



KEY COMPANY ENGAGEMENTS ON E (ENVIRONMENTAL), S (SOCIAL), G (GOVERNANCE) AND F (FINANCIAL) TOPICS

Agricultural companies based in Emerging Markets

Indonesia, Malaysia, Singapore

PT Astra Agro: £2bn
Golden Agri Resources: £3bn
Wilmar International ltd: £11bn
Sime Darby: £9bn
Indo Agri Resources: £359m

What is the issue:
Environmental and social issues relating to palm oil production raise questions over the industry's future growth model and significant reputational risk for companies.

Why is it an issue:
Palm oil is one of the three highest causes of agricultural-linked deforestation. Alongside the devastation to biodiversity, deforestation and forest degradation are key contributors to rising atmospheric CO_2 levels and climate change, which pose a significant systemic risk for long-term i vestors.

These risks have the potential to affect our clients' assets. The direct risks include government regulation around deforestation; loss of clients due to the development of more stringent sourcing policies by consumer goods companies and loss of a company's social license to operate. The indirect impacts include changes in weather patterns that affect conditions of palm trees and yields/ production capacity.

What did LGIM do?
As a member of PRI working group on sustainable palm oil, LGIM joined an investor trip to Asia to meet with five of the largest palm oil companies across Indonesia and Malaysia. Discussions with management covered a range of issues, including the uptake and application of RSPO certification; the implementation of programmes to improve traceability of supply to the plantation level, to improve smallholder yields and to support smallholder uptake of RSPO; as well as the disbanding of the Indonesian Palm Oil Pledge (IPOP). Meetings were held with Indonesian government representatives including the Peatland Restoration Agency and the Office of the resident.

We pressed for more disclosure from those companies whose reporting is not to the standard necessary for investors to sufficiently assess management of business risk and impact related to palm oil production.

We reiterated our request for RSPO certification to be sought by companies, where this is not yet the case, and outlined the importance of traceability to the plantation level. Finally, we discussed what further action needs to be taken by downstream consumer goods companies to support faster and more effective roll-out of sustainability practices in the palm oil sector.

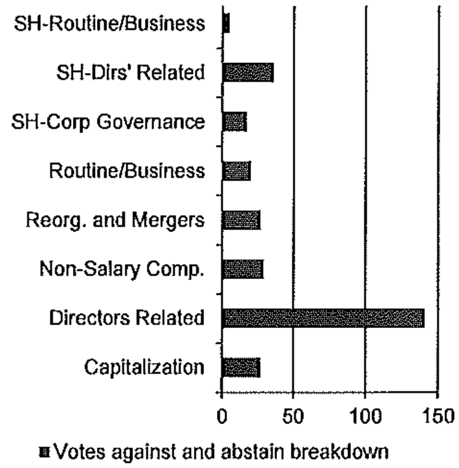
The outcome?
Over time we have seen increased commitments from these companies, including more ambitious targets on RSPO certification; smallholder en agement and training targets; and targets for protecting high carbon reserve and high conservation areas. Programmes and processes for implementing these targets are also becoming more innovative and comprehensive. At the government level the announcement of moratorium on new concessions is encouraging, as too is the stated intention to strengthen ISPO, the Indonesian-led certification process. Effective implementation of these intentions remains to be seen, however overall what we do see is a clear shift of focus by government and companies in Indonesia to improving yields rather than expanding planted areas.

2016, WWF Asian FMCG Guide, Pages 68, 33
Roundtable on Sustainable Palm Oil – a certification for sustai[illegible] practices in palm oi

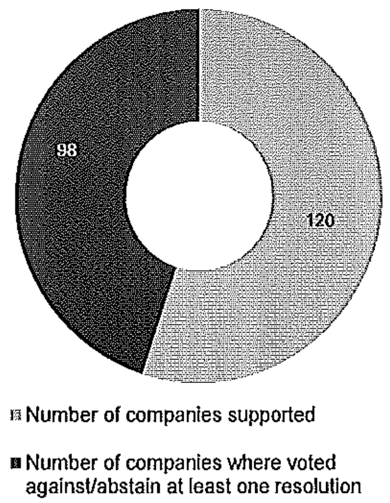
Q3 2016 VOTING SUMMARY EMERGING MARKETS

Proposal category	EMERGING MARKETS		
	For	Against	Abstain
Anti-takeover Related	1		
Capitalisation	328	27	
Directors Related	533	141	14
Non-Salary Comp.	108	29	
Reorg. and Mergers	142	27	
Routine/Business	641	20	
SH-Compensation			
SH-Corp Governance		17	
SH-Dirs' Related	1	36	1
SH-Gen Econ Issues			
SH-Health/Environ.			
SH-Other/misc.			
SH-Routine/Business	1	5	
SH-Soc./Human Rights			
Social Proposal			
Total	1755	302	15
Total resolutions		2072	
No. AGMs		130	
No. EGMs		107	
No. of companies voted		218	
No. of companies where voted against/abstain at least one resolution		98	
% no. of companies where at least one vote against		45	

Voting issue breakdown (against and abstain)



Number of companies voted against/abstain



'LGIM voted against at least one resolution at **45%** of emerging market companies over the quarter.

Source for all data LGIM. The votes above represents against management voting instructions for our main FTSE pooled index funds

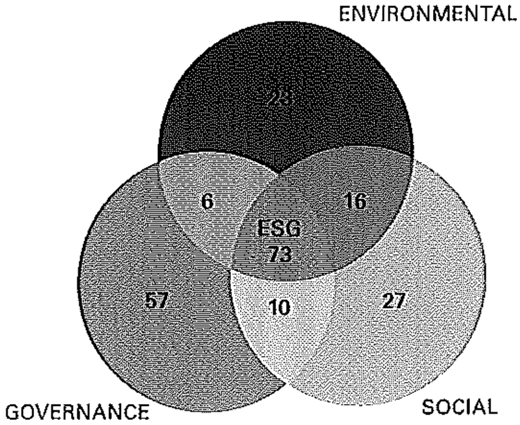
Global summary

VOTING TOTALS

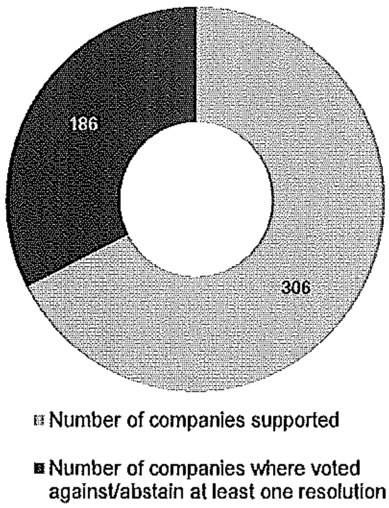
Proposal category	TOTAL
Anti-takeover Related	129
Capitalisation	927
Directors Related	2217
Non-Salary Comp.	462
Reorg. and Mergers	243
Routine/Business	1422
SH-Compensation	2
SH-Corp Governance	19
SH-Dirs' Related	42
SH-Gen Econ Issues	
SH-Health/Environ.	2
SH-Other/misc.	4
SH-Routine/Business	7
SH-Soc./Human Rights	
Social Proposal	1

Total resolutions	5477
No. AGMs	350
No. EGMs	171
No. of companies voted	492

Frequency of ESG topics



Number of companies voted against/abstain



COMPANY ENGAGEMENT STATISTICS

Total number of companies	60
Total number of meetings	73
Number of meetings where environmental topics discussed	23
Number of meetings where social topics discussed	27
Number of meetings where governance topics discussed	57
Number of meetings where other topics (e.g. financial and strategy) discusse	33
% of meetings including environmental and social issues discussed	22%

Top 3 engagement themes this quarter:	**Board composition**	**Strategy**	**Remuneration**

CONTACT US

For further information on anything you have read in this report or to provide feedback, please contact us at corporategovernance@lgim.com. Please visit our website www.lgim.com/corporategovernance where you will also find more information including frequently asked questions.

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M1159

Shropshire County Council

Q3 2016

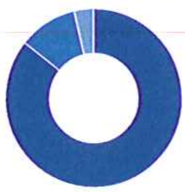
The purpose of the ***reo***® (responsible engagement overlay)* service is to engage with companies held in portfolios with a view to promoting the adoption of better environmental, social and governance (ESG) practices. The ***reo***® approach focuses on enhancing long-term investment performance by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

Companies engaged this quarter

Companies engaged	28
Milestones achieved	1
Countries covered	5

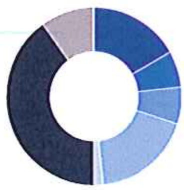
Milestones achieved by issue

Companies engaged by country



United Kingdom	24
Continental Europe	3
Other	1

Companies engaged by issue **



Environmental Standards	10
Business Ethics	4
Human Rights	4
Labour Standards	11
Public Health	1
Corporate Governance	24
Social and Environmental Governance	6

BMO Global Asset Management

* ***reo***® is currently applied to £91.3bn ($121.6billion / €109.6billion) of assets as at 30th June 2016. ** Companies may have been engaged on more than one issue. *** This report has been compiled using data supplied by a third-party electronic voting platform provider. The statistics exclude ballots with zero shares and re-registration meetings. Meetings/ballots/proposals are not considered voted if: ballots have been rejected by voting intermediaries (e.g. where necessary documentation (such as Powers of Attorney, beneficial owner confirmation, etc.) was not in place); instructed as "Do not vote" (e.g. in share-blocking markets); or left uninstructed. This document is for professional advisors only and should not be circulated to other investors. Past performance should not be seen as an indication of future performance. Stock market and currency movements mean the value of, and income from, investments in the Fund are not guaranteed. They can go down as well as up and you may not get back the amount you invest. BMO Global Asset Management is a trading name of F&C Management Limited, which is authorised and regulated by the Financial Conduct Authority.

Priority Companies and Your Fund

The table below highlights the companies on BMO's annual priority engagement list with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. Priority companies are selected through a detailed analysis of client holdings, proprietary ESG risk scores, engagement history and the BMO Governance and Sustainable Investment team's judgement and expertise. Each priority company has defined engagement objectives set at the beginning of each year. Engagement activity levels for priority companies are more intensive than for companies where we engage more reactively. We provide reporting on our engagement with priority companies in the form of case studies which follows the table below. For full list of priority companies please refer to the Appendix at the end of this report. For full details of our engagements with companies please refer to the online *reo*® client portal.

				Themes engaged						
Name	Sector	ESG Rating	Response to engagement	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
Anglo American PLC	Materials	YELLOW	Good	●		●				
Barclays PLC	Financials	YELLOW	Good						●	
BP PLC	Energy	ORANGE	Good	●					●	
GlaxoSmithKline PLC	Health Care	YELLOW	Good						●	
Glencore PLC	Materials	ORANGE	Good	●			●			●
HSBC Holdings PLC	Financials	RED	Good		●				●	●
Royal Dutch Shell PLC	Energy	YELLOW	Good	●						
Tesco PLC	Consumer Staples	GREEN	Good						●	

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Engagements and Your Fund: Red rated

The table below highlights the companies with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. The table is split by ESG risk rating. For full details of our engagements with companies please refer to the online ***reo***® client portal.

Name	Country	Sector	Priority company	ESG Rating	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
					Themes engaged						
HSBC Holdings PLC	United Kingdom	Financials	✔	RED		●				●	●

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Engagements and Your Fund: Orange rated

The table below highlights the companies with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. The table is split by ESG risk rating. For full details of our engagements with companies please refer to the online ***reo***® client portal.

					Themes engaged						
Name	Country	Sector	Priority company	ESG Rating	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
BP PLC	United Kingdom	Energy	✔	ORANGE	●					●	
Experian PLC	Ireland	Industrials		ORANGE						●	
Glencore PLC	Switzerland	Materials	✔	ORANGE	●			●			●
Lloyds Banking Group PLC	United Kingdom	Financials		ORANGE						●	
Smith & Nephew PLC	United Kingdom	Health Care		ORANGE						●	

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Engagements and Your Fund: Yellow rated

The table below highlights the companies with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. The table is split by ESG risk rating. For full details of our engagements with companies please refer to the online *reo*® client portal.

					Themes engaged						
Name	**Country**	**Sector**	**Priority company**	**ESG Rating**	**Environmental Standards**	**Business Ethics**	**Human Rights**	**Labour Standards**	**Public Health**	**Corporate Governance**	**Social and Environmental Governance**
Anglo American PLC	United Kingdom	Materials	✔	YELLOW	●		●				
BAE Systems PLC	United Kingdom	Industrials		YELLOW						●	
Barclays PLC	United Kingdom	Financials	✔	YELLOW						●	
GlaxoSmithKline PLC	United Kingdom	Health Care	✔	YELLOW						●	
Royal Bank of Scotland Group PLC	United Kingdom	Financials		YELLOW						●	
Royal Dutch Shell PLC	Netherlands	Energy	✔	YELLOW	●						
Sage Group PLC/The	United Kingdom	Information Technology		YELLOW						●	
Ted Baker PLC	United Kingdom	Consumer Discretionary		YELLOW				●		●	
Tullow Oil PLC	United Kingdom	Energy		YELLOW	●						
Unilever PLC	United Kingdom	Consumer Staples		YELLOW		●				●	●

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Engagements and Your Fund: Green rated

The table below highlights the companies with which we have engaged on your behalf in the past quarter and which you currently hold within your portfolio. The table is split by ESG risk rating. For full details of our engagements with companies please refer to the online *reo*® client portal.

					Themes engaged						
Name	Country	Sector	Priority company	ESG Rating	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
AstraZeneca PLC	United Kingdom	Health Care		GREEN		●				●	●
BT Group PLC	United Kingdom	Telecommunication Services		GREEN						●	
Centrica PLC	United Kingdom	Utilities		GREEN	●						
Diageo PLC	United Kingdom	Consumer Staples		GREEN	●		●			●	
Marks & Spencer Group PLC	United Kingdom	Consumer Discretionary		GREEN	●	●	●	●	●	●	●
Mears Group PLC	United Kingdom	Industrials		GREEN						●	
Mondi PLC	South Africa	Materials		GREEN						●	
National Grid PLC	United Kingdom	Utilities		GREEN						●	
Next PLC	United Kingdom	Consumer Discretionary		GREEN				●		●	
Standard Chartered PLC	United Kingdom	Financials		GREEN						●	
Tesco PLC	United Kingdom	Consumer Staples	✓	GREEN						●	
Vodafone Group PLC	United Kingdom	Telecommunication Services		GREEN						●	

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

Milestones and Your Fund

The table below highlights the companies with which we have recorded milestones on your behalf in the past quarter and which you currently hold within your portfolio. Milestones are engagement outcomes which we have identified and is rated on the extent to which it protects investor value. For full details of our engagements which led to these milestones please refer to the online ***reo***® client portal.

					Themes engaged						
Name	Country	Sector	Priority company	ESG Rating	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Social and Environmental Governance
Barclays PLC	United Kingdom	Financials	✓	YELLOW	●						

ESG Risk Rating: Rating of a company's ESG risk exposure and risk management compared to industry peers. Source: MSCI ESG Research Inc.

Top quartile: GREEN Second quartile: YELLOW Third quartile: ORANGE Bottom quartile: RED

ESG Viewpoint

September 2016

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Human capital management as a mainstream performance indicator

Goal: Incorporate human capital management as a key indicator of corporate performance

Engagement since: 2007 and intensively since 2013

Sectors involved: Consumer staples, energy, information technology, materials

Key Summary

- Over the past few years, we have stepped up our engagement on human capital management in companies' direct operations and supply chains to reflect its impact on company performance, as well as the growing global concerns around inequality and unfair labour practices.
- Even in labour intensive industries, a company's workforce continues to be viewed purely as a cost, despite a growing number of corporations referring to employees as their greatest asset.
- Reporting remains weak and lacks transparency as companies assume that the provision of human capital management information is not considered material as part of the fundamental stock analysis process.
- While there is still significant work to be done, we have observed encouraging progress in a number of our engagements and we continue to advocate for a greater inclusion of human capital management performance indicators as part of our issuer due diligence process.

Background

The materials sector, specifically mining, has had more than its fair share of issues related to labour management and therefore we have been engaging with a number of mining companies on this for several years. We escalated our engagement in 2012 on the back of violent strikes at Lonmin's Marikana mine. We travelled to South Africa in 2014 following a wider strike in the country's mining industry, which resulted in a negotiation deadlock over wages and wiped out over $400 million in revenues. The connection between these long-neglected labour management issues and the performance of the companies involved was undeniably material.

At the time, we pressed those companies to adopt a more progressive approach to managing labour relations. We asked the companies to formalise relations with trade unions to safeguard fair employee representation, to work more collaboratively across the sector to improve working conditions (including safety and wages) and to demonstrate greater engagement with local communities and governments.

The learnings from our engagement with mining companies on labour issues presented us with an opportunity to undertake similar work with garment manufacturers, as well as with retailers sourcing from vulnerable areas. After the Rana Plaza disaster in 2013, we travelled to Bangladesh where we had the opportunity to engage directly with local suppliers, activists, non-governmental organisations, multi-stakeholder institutions and brands about the pace and impact of safety and worker rights' reform in the garment industry.

We focused on the material impact on performance should companies fail to address basic working conditions to safeguard the wellbeing of workers. It was evident that the conditions which led to the Rana Plaza catastrophe were a by-product of under-investment in structures and facilities by factory operators and poor governance by regulators. We encouraged companies to collaborate to achieve higher safety and worker protection standards, to improve governance and regulation, and to link improved human resource management with higher productivity. Our continuous engagement on this topic has contributed to expedite the much needed change and to address the failures caused by previous lax provisions, thus creating greater impact. As we continued to roll out our work on various topics related to human capital management, including our engagement project on the living wage in the textile industry, the materiality of our topics of engagement continued to become increasingly prominent. The companies we were engaging with on various labour issues were certainly facing performance issues as well. Consequently, we sought to develop a framework to bring the discussion on human capital management risks and opportunities to the mainstream. We then co-led a number of global investors in a collaborative project and formulated a guide for analysts to incorporate the topic of human capital management as part of their stock research process and ultimately into investment decisions.

Accounting for human capital opportunities and risks

We have been engaging on this issue since 2007 (see timeline below). Since our focus on this area intensified in 2013, we have undertaken more than 500 engagements on human capital management issues and have achieved over 30 milestones since we escalated our work on this topic after the issues around Lonmin's Marikana mine.

Such vast numbers prompted us to take a more all-encompassing approach to our engagement on this topic and to create a framework to facilitate the incorporation of human capital management questions at the core of company analysis.

Engagement timeline

Our Engagement	Background	Action	Verdict
2007 – Tesco's supply chain issues.	Persistent allegations of poor labour standards in supply chain.	Escalated engagement to the office of Tesco's chairman and worked with other stakeholders.	Tesco strengthened implementation of its labour standards policy and enhanced disclosure.
2007 – Wal-Mart's declining performance and poor employment practices.	Repeated violations of domestic employment policies that indicate failures in internal controls.	Participated in multi-investor engagement to encourage the company to enhance anti-discrimination policies. Site visit to audit supply chain.	Wal-Mart agrees to enhance its non-discrimination policy and training for global workforce. Site visit resulted in enhanced whistle-blower mechanisms.
2010 – Managing commodity labour standards in global clothing and retail.	Endemic child and forced labour in the important Uzbekistan cotton harvest threatening reputation of and supply to clothing brands and retailers.	Encouraged brands to cease sourcing of Uzbek cotton unless produced under frameworks with appropriate labour standards.	Leading brands respond and forge new partnerships to tackle a complex supply chain issue.
2010 – Spotting "rotten apples" in IT supply chains: labour standards and human rights risks in the tech sector.	Manufacturing for tech industry takes place in markets with underdeveloped labour frameworks and minerals are sourced from troubled regions subject to human rights issues.	Engaged companies to protect and improve supply chain labour standards and human rights, in order to reduce the risk of labour violations, avoid work stoppages and avert reputational risk.	Promoted enhanced disclosure of supply chain management labour standards and compliance with internationally accepted practices.
2011 – US food retailers and employee relations.	Ongoing employment-related risks for food retailers in the US, including anti-union allegations which impact performance.	Sector-wide engagement focused on promoting policies and practices that are implemented throughout entire operations and not only where mandated by domestic regulations.	Varied levels of response by target companies with very diverse standards. Successful identification of best practices to foster appropriate benchmarking and identification of leaders and laggards.

Our Engagement	Background	Action	Verdict
2012 - South Africa's mining strikes.	Sector-wide strikes over employment conditions representing material costs to companies operating in South Africa.	Pressed companies to design effective and direct communication strategies between management and employees, and to reframe remuneration arrangements.	Engagement contributed to enhanced dialogue between companies and unions leading to improved reputational risk management.
2013 – Bangladesh garment industry.	Appalling working conditions exposed following the Rana Plaza disaster which threaten the viability of an important part of the garment industry's supply chain and the reputation of companies sourcing from Bangladesh.	Extensive engagement, including site visits to Bangladesh factories. Pressed companies to endorse and uphold internationally accepted standards for better working arrangements and conditions throughout the supply chain.	Through our escalated engagement, including site visits and collaboration with other stakeholders, we were able to influence the pace and impact of reforms and to encourage companies to prioritise real-life improvements.
2015 – Bangladesh garment industry; phase two.	Follow up engagement on sustainable supply chain to address remaining issues of non-compliance by certain suppliers.	Promoted greater collaboration across companies to achieve higher safety and worker protection standards and to link improved human resource management with higher productivity.	Considerable increase in transparency of disclosures related to work on sustainable sourcing by participating companies. Investment in building safety also increased, improving workers' conditions.

Conventionally, most of the time spent on company research has been on financial performance indicators. However, with the ever-growing trend of integration of environmental, social and governance (ESG) factors into the investment research process, it is unsurprising that certain non-financial metrics are starting to make their way into the list of data points included when considering companies as part of stock selection. The United Nations' Sustainable Development Goals have provided an additional momentum to this trend and investors' interest in how well companies manage environmental, social and governance factors continues to grow.

Human capital management has become an area increasingly scrutinised by analysts given the likely material impact on performance. Nevertheless, given that there is still no systematic market-wide demand for performance data in this area, company disclosure remains substandard. We have been co-leading the joint-investor Human Capital Management Coalition's Analysts Questions Project. This seeks to encourage better disclosure from issuers on this topic and to aid investment analysts in their due diligence process.

We have structured the framework with the aim of facilitating early identification of potential risks and/or opportunities via a few high-level questions. We assess the need for escalation based on the robustness of the company's answers to the following in relation to their own direct operations as well as their supply chains:

- What is the company's human capital management strategy?
- What metrics does the company use to measure strategic success? Why?
- How does the company benchmark progress and what are its future targets?
- How does the company analyse the relationship between these metrics and performance?

Beyond the initial assessment, we have identified five areas of human capital management with measurable performance indicators that enable us to better quantify opportunities and risks. These five areas are:

- Talent attraction and retention
- Workforce composition
- Employee engagement
- Health (safety and wellness)
- Returns (financial impact of investments in human capital)

Our extensive engagement on a wide range of human capital issues has evidenced the material impact that these can have on company performance. Our view is that this trend will continue as investors – and a growing number of issuers – increasingly see a company's workforce as an asset worth developing instead of a cost that needs to be curtailed. human capital management will therefore undeniably continue to gain relevance as part of company analysis. We believe that our proposed framework is a practical and applicable approach for investors to use that will bring these issues into the mainstream and move the agenda forward as the demand for improved corporate disclosures on human capital increases.

Committee and Date	Item
Pension Committee 25 November 2016	**9** Public

LGPS CENTRAL - INVESTMENT POOLING

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1. Summary

1.1 This report outlines the changes that will be required to the operational and governance arrangements for the Shropshire County Pension Fund following recent amendment of the Local Government Pension Scheme (LGPS) Investment Regulations.

1.2 The revised regulations require all LGPS administering authorities in England and Wales to enter into joint (pooled) arrangements with other LGPS pension funds for the management of their investment assets, with effect from 1st April 2018, in order to achieve scale economies and increase investment capacity.

1.3 The Shropshire County Pension Fund has been working with seven partner funds on a proposal which will meet the criteria for pooling laid down by the Secretary of State, by establishing a jointly owned investment management company, to be known as 'LGPS Central'.

1.4 The proposal to establish LGPS Central is supported by a comprehensive business case, approved at Pensions Committee on 28 June 2016. The business case has been reviewed by a joint Department for Communities and Local Government/Treasury (HMT) Review Panel, and Ministerial consent has been received. Each participating Pension Fund will be taking the recommendations set out in this report to their respective administering authority Full Council Meeting's in order to approve these recommendations and formally approve the pooling arrangements. Proceeding with the proposals set out in this report, therefore, is subject to the approval of all the participating Pension Funds, which will be sought at their respective Council meetings over the coming months.

2. Recommendations

Pension Committee are asked to recommend that Council approve the following recommendations:-

2.1 To enter into an Inter Authority Agreement with Cheshire West & Chester Council, Derbyshire County Council, Leicestershire County Council, Nottinghamshire County Council, Staffordshire County Council, Wolverhampton City Council and Worcestershire County Council to establish a joint pension fund investment pool, in accordance with the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and pursuant to that Inter Authority Agreement set up; and operate a Joint Committee under s102 of the Local Government Act 1972 to oversee the joint investment arrangements.

2.2 To agree that Cheshire West and Chester shall provide governance and administrative support to the Joint Committee on behalf of the participating Council's, subject to the appropriate cost sharing arrangements in respect of officer time and other expenses.

2.3 To become a joint shareholder of LGPS Central; a private company, limited by shares, held solely by the participating funds named in recommendation 2.1, on a 'one fund, one vote' basis; incorporated for investment management purposes and regulated under the Financial Services and Markets Act 2000.

2.4 To authorise the Shropshire Council Member who holds either the position of Chair or Vice Chair of the Shropshire County Pension Fund, to appoint themselves or other Shropshire Council Members of the Pension Committee to undertake the following roles:

i) To act as the Council's representative on the Joint Committee;
ii) To exercise the Council's voting rights as a shareholder of LGPS Central, to be exercised in consultation with the Head of Finance Governance & Assurance (s151 Officer) where the vote is in respect of a Reserved Matter as set out in Schedule 1 of the Shareholders agreement;

and each Member so appointed shall have delegated authority to undertake such roles.

2.5 To agree that the Shropshire Council Members appointed under recommendation 2.4 above shall be authorised to appoint a substitute, provided that substitute is a Shropshire Council Member of the Pensions Committee, and agree that, wherever possible, the Member (or their substitute) appointed to the Joint Committee shall not be the same Member as currently appointed to the Shareholder Forum, so as to avoid potential conflicts of interest.

2.6 To agree that the signatory on behalf of the Council as Shareholder shall be the Council's Head of Legal & Democratic Services.

2.7 To appoint the Head of Finance Governance & Assurance (s151 Officer) and Scheme Administrator of the Pension Fund or their nominated representative to represent the Council on a Practitioner

Advisory Forum, providing joint officer support to the Joint Committee and Shareholder Forum.

2.8 To approve the revised terms of reference for the Shropshire County Pension Fund Committee as set out in Appendix 3 to this report.

2.9 To delegate authority to the Head of Finance Governance & Assurance (s151 Officer) in consultation with the Shropshire Council Chair or Vice Chair of the Pension Committee to negotiate and agree all necessary legal agreements to establish a joint asset pool and investment management company as outlined in this report and to implement the recommendations and to authorise their execution.

REPORT

3. Risk Assessment and Opportunities Appraisal

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

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

4. Financial Implications

4.1 There is no direct impact on the Council's revenue or capital budgets as all costs (including regulatory capital) will be met from the Pension Fund.

4.2 The estimated cost of setting up the jointly owned company is £3.2 million, this will be shared equally between the participating funds, with Shropshire's share being around £400,000. There will also be significant transition costs as existing investment mandates are unwound and funds are transferred into new collective investment vehicles. It is not possible to accurately predict these costs, but the business case includes an estimate of £50million. Transition costs will be shared between the funds on an equitable basis.

4.3 In addition, as the new company will be a regulated entity, under Financial Conducts Authority (FCA) rules, it will need to hold regulatory capital to guarantee its solvency. The regulatory capital requirement is expected to be in the region of £10 million (£1.25 million per pension fund).

4.4 Estimated net total savings for the pool are in the region of £182 million over a period from 2018/19 to 2032/33, with annual savings of around £29 million being achieved by the end of this period. The comparative figures for the Shropshire County Pension Fund are £41.8 million and £3.5 million respectively.

5. Background

5.1 The LGPS is one of the largest funded pension schemes in the world with combined assets of around £200 billion. These are managed by

89 local administering authorities, who historically, have maintained separate arrangements of scheme assets, overseen by their respective Pension Fund Committees.

5.2 Between them it is estimated that administering authorities incur total administrative and management costs of around £500 million per year, a significant proportion of which relates to investment management fees paid to external fund managers. Funds often use the same managers, offering the same or similar services but appointed under separate agreements and on different fee terms.

5.3 Funds also vary significantly in scale; large funds enjoy direct access to a wide range of investment markets and products and can often negotiate more competitive fees, whilst smaller funds have more restricted options due to lower levels of investible resources, and expertise and have less negotiating power in the market.

5.4 Over the past two and half years the government has explored a number of options for improving the efficiency and sustainability of the scheme, and has undertaken extensive consultation on the potential to deliver savings through greater collaboration. A national cost benefit exercise, led by Hymans Robertson concluded that significant savings could be achieved through greater use of collective investment approaches, provided that certain regulatory restrictions were removed.

5.5 Subsequently, the government announced its intention to introduce a new regulatory framework which would facilitate collective investing and issued guidance and criteria to help administering authorities to develop proposals for pooling aimed at reducing costs and improving efficiency. Initial proposals were required by February 2016, followed by more detailed business case submissions in July 2016, with a target implementation date of 1st April 2018. The government also announced that ‘backstop’ powers would be introduced to allow the Secretary of State to intervene where authorities failed to bring forward sufficiently ambitious proposals in accordance with the guidance and criteria issued.

5.6 The reasons for the recommendations are to allow the Council to comply with updated LGPS Investment Regulations which came into effect in November 2016, requiring all administering authorities to commit to an investment pooling arrangement which meets the criteria and guidance laid down by the Secretary of State in November 2015.

5.7 Where authorities fail to comply with the criteria and guidance, the Secretary of State has powers to intervene, and to issue a Direction requiring changes to investment strategies and investment management arrangements, or the transfer of the investment functions of an administering authority, either to himself or a nominated party.

5.8 The proposal to establish LGPS Central is supported by a comprehensive business case, which demonstrates the potential for significant savings in investment costs and management fees over the longer term, without detriment to investment performance and local accountability.

6. LGPS Central

6.1 Prior to the government's announcement, the Shropshire County Pension Fund has already established close working links with a number of other funds in, and around, the Midlands area and had begun to explore the scope for wider collaboration, starting with a successful joint procurement exercise in 2015, which resulted in a substantial fee saving on the funds' passively managed equity portfolio. The fee reduction achieved was in the region of 50%; in cash terms around £100k per annum for the Shropshire Fund.

6.2 These informal links become the starting point for wide discussions in the context of the formal requirement for pooling, resulting in a joint proposal from Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Shropshire, Staffordshire, West Midlands and Worcestershire to create 'LGPS Central', with combined assets of £35 billion.

6.3 Following confirmation from the Minister that this proposal was acceptable, a joint working group of officers, supported by external advisors, developed a detailed business case setting out how LGPS Central will meet the four key assessment criteria laid down by the government :-

Criteria 1 – Asset pool(s) that achieve the benefits of scale (£25 billion plus)

Criteria 2 – Strong governance and decision making

Criteria 3 – Reduced costs and value for money

Criteria 4 – Improved capacity and capability to invest in Infrastructure

6.4 Detailed reports have been presented to the Shropshire County Pension Fund Committee, explaining the key elements of the business case and seeking their approval for the proposed governance, oversight and management structure of the pool, which is summarised in Appendix 1.

6.5 The structure will allow participating funds to exercise control (both individually, and collectively) over the new arrangements, not only as investors in the pooled fund, but also as shareholders of the operator company, LGPS Central.

6.6 Whilst assets will be managed on a pooled basis, each fund will be able to exercise their investor rights independently, although clearly, benefits of scale will most effectively harnessed where parties work together, in a co-ordinated way to align their decision making. An important example being social, environmental and governance policies and policies on the exercise of voting rights, where cross-voting between funds within the same pool would be both costly to administer and counter-productive.

6.7 The Joint Committee will be the forum for dealing with common investor issues, and for collective monitoring of the performance of the pool against the objectives set out in the LGPS Central business case submission. The Joint Committee will however, have no formal decision making powers and recommendations will require the approval of individual authorities, in accordance with their local constitutional arrangements. An overview of the draft Inter Authority Agreement setting out the relationship between the participating pension Funds and the operation of the Joint Committee is set out in Appendix 2.

6.8 The Shareholder Forum, operating under company law, will have formal decision making powers. The Shropshire County Pension Fund will have equal voting rights alongside the other participating funds, and unanimous decisions will be required on key strategic matters, which will be specified in the company Shareholders Agreement and Articles of Association. This will include the appointment and dismissal of the company's senior executives, approval of the company's strategic plan and any significant financial transactions, such as major acquisitions and lending or borrowing. An overview of the Shareholder Agreement and key principles of the Articles of Association is set out in Appendix 2.

6.9 The degree of control to be exercised by the Shareholders through their reserve powers will be greater than is generally the case, in order to satisfy the Teckal exemption criteria (as now set out in Regulation 12 of the Public Contracts Regulations 2015) and allow the company to undertake services on behalf of the investor funds without a formal procurement process.

6.10 In order to avoid potential conflicts of interest and to maintain clarity over the governance arrangements, it is recommended that the Council nominates different representatives to the Joint Committee and the Shareholder Forum.

6.11 The government has also made clear their expectation that pooled entities must be registered with the Financial Conduct Authority (FCA) and regulated under the Financial Services and Markets Act 2000, to ensure appropriate safeguards over the management of client monies. As such, the new LGPS Central company will be subject to on-going oversight by the regulator and key management positions, including the company directors will need to be 'approved persons', able to demonstrate appropriate knowledge, expertise and track record in investment management. They will also carry significant legal, personal liability for their actions and decisions.

6.12 The relative merits of buying, or renting an established operator to manage the day to day running of the pool, have been carefully considered against the benefits of setting up a jointly owned company, with associated shareholder rights. The constituent funds unanimously agreed that the latter option, whilst more expensive, offers significant advantages in terms of great flexibility and control, and this is the basis upon which the business case has been developed.

6.13 Staff who are currently employed by the partner Funds to manage their investments will transfer under the Transfer of Undertakings (Protection of Employment) regulations (TUPE) to the new company. As the Shropshire County Pension Fund does not currently have an in-house investment team, no staff transfer implications are anticipated for the Council, although the ability to access internal investment resources through the pool offers potential for additional future savings.

6.14 The detailed business case has been reviewed by a joint DCLG/HMT Review Panel, and Ministerial consent to proceed has been received.

7. Impact on the role of the Shropshire Pension Fund Committee

7.1 The current terms of reference for the Shropshire County Pension Fund are attached in Appendix 2, along with suggested amendments to reflect their post-pooling responsibilities.

7.2 For the most part, the role of the Committee will be unaffected by the implementation of pooling and the creation of LGPS Central. The Committee will continue to be responsible for monitoring the overall management, performance and administration of the fund, and for setting investment strategy, including the overall allocation of assets, which is the critical factor in determining investment performance.

7.3 Importantly, they will also continue to be responsible for communicating with individual scheme members, whose benefits are guaranteed in law, and are therefore not affected by the new pooling arrangements or investment performance.

7.4 Responsibility for appointing investment managers and overseeing their performance, including any decision to dismiss, will however transfer to the Company, as will tactical decisions on the implementation of the overall investment strategy and the choice of specific investment vehicles.

8. Legal Aspects

8.1 Shropshire as an administering authority, will enter in to the joint agreements forming LGPS Central, establishing a Joint Committee, representation on the relevant bodies described and modifying the terms of reference of the Shropshire Pension Fund Committee, in reliance on the exclusive rights given to local authorities to undertake administrative arrangements of this nature in sections 101, 102, 112 and 113 of the Local Government Act 1972 and the regulations made under these Acts; together with the general power within section 2 of the Localism Act 2011 and the supporting provisions within section 111 of the Local Government Act 1972.

8.2 These powers are exercised as a response to the Chancellor's requirement in 2015 to pool pension assets to seek savings in management and administrative costs. The proposals are subject to approval by the Secretary of State. Whilst the government has not yet imposed a statutory mechanism for implementing pooled funds, there is a provision included in the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 that came into force on 1 November 2016 whereby the Secretary of State can require those administering authorities who do not come forward with sufficiently ambitious proposals to pool their assets with others. Shropshire has determined to be proactive in its arrangements and develop the model of pooled funds as described in this report via devolved powers.

9. Risks and how Reduced

9.1 The key risks are:-

- failure to achieve the statutory implementation deadline of 1st April 2018
- failure to manage costs and savings in line with the agreed business case
- failure to meet the requirements of the FCA regulator
- failure to recruit appropriately skilled and experienced senior personnel to the new company

9.2 Comprehensive programme governance arrangements are in place to ensure that the statutory deadline for the implementation of pooling is achieved and that costs and savings are managed in accordance with the agreed business case. The s151 officers of each of the participating funds sit on the LGPS Central Programme Board and regular joint meetings are held between the Chairs and Vice-Chairs of the respective Pension Fund Committees to ensure effective member oversight of progress and delivery. The Shropshire County Pension Fund Committee and Local Pensions Board are also being updated regularly on key developments and decisions, as are the fund employers.

9.3 Expert advisers have been appointed to provide support on legal matters, FCA registration, taxation and overall programme management, and professional recruitment consultants are being appointed to assist and advise on executive recruitment and remuneration.

10. Alternative options

10.1 The options of renting or buying an operator to manage the pool (rather than setting up a wholly owned company), have been considered and rejected due to market risk (limited supplier choice), and on governance grounds. The option of setting up a non-incorporated shared service arrangement has also been rejected due to significant regulatory risk. It is planned that monthly briefing notes will be circulated to Pension Committee members in order to keep them informed of the progress in setting up the LGPS Central investment pool. The first one was produced in May 2016.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Pensions Committee, 28 June 2016, LGPS Central Investment Pooling Shareholders Agreement Inter Authority Agreement Articles of Association
Cabinet Member Malcolm Pate, Leader
Local Member N/A
Appendices 1 – Eversheds governance structure paper 2 – Overview of governance documents 3 – Pension Committee Terms of Reference

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EVERSHEDS

LGPS Central

Summary of LGPS Central Governance Structure

7 November 2016

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8 November 2016

LGPS Central
Summary of LGPS Central Governance Structure

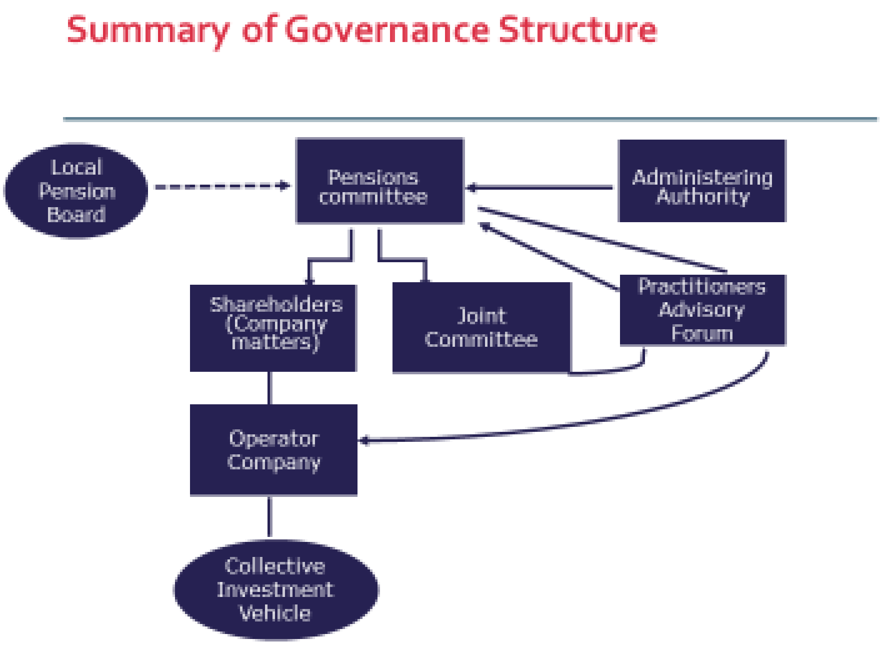
This advice note has been prepared solely for LGPS Central (and its participating authorities) to provide a summary explanation of the structure of the LGPS Central governance arrangements and may be circulated to authorities' committees when seeking approval for the structure. We do not accept liability to any other person in respect of this advice note. This note is intended to be a summary of the structure and the detailed and definitive provisions of the governance structure can be found in the company's Articles of Association, the Shareholders Agreement and the Inter Authority Agreement (containing the Joint Committee's terms of reference and constitution and the terms of reference for the Practitioners Advisory Forum).

1. **Background**

1.1 We have been asked to provide a high level summary of the LGPS Central governance structure, in particular setting out the roles and interactions of the key bodies, including LGPS Central Limited, the shareholder representatives, the Joint Committee and the Practitioners Advisory Forum.

1.2 Please note that the administering authorities retain their core duties and responsibilities as the administering authorities of their respective LGPS funds. Administering authorities may need to review their current internal governance arrangements to see if they will need reviewing once pooling is implemented (and/or to deal with the transition period whilst assets are being moved over to the pool).

1.3 In broad terms the governance structure is summarised in the following diagram:



2. **LGPS Central Limited**

2.1 LGPS Central Limited is a private company limited by shares. The company was incorporated in England and Wales on 13 October 2016 with registered number 10425159 under the Companies Act 2006. Its registered office is at Mander House, Wolverhampton.

2.2 The company has been formed to act as an alternative investment fund manager to run and operate one or more collective investment vehicles (including an Authorised Contractual Scheme ("ACS")) to allow the administering authorities to pool their respective investments. In due course the company will become authorised by the Financial Conduct Authority.

2.3 The company will be run by a board of directors which will comprise of three non-executive directors and two executive directors. Directors are appointed (and can be removed) by the shareholders.

2.4 The company will have eight shareholders, Cheshire West and Chester Borough Council, Derbyshire County Council, Leicestershire County Council, Nottinghamshire County Council, Shropshire Council, Staffordshire County Council, Wolverhampton City Council and Worcestershire County Council. West Midlands Combined Authority is not a shareholder but will be represented through Wolverhampton City Council.

3. **Shareholder Representatives**

3.1 Shareholder meetings will be the forum for dealing with the shareholder rights of the eight administering authorities as individual shareholders in the Operator. This is distinct from investor/customer matters dealt with by the Joint Committee (see below).

3.2 Each shareholder exercises one vote. Certain major decisions (e.g. changes to articles of association, rights in shares, buy-back of shares etc) which would have an effect on the shareholders' rights are usually required, through the Companies Act 2006, to be approved by the shareholders at a general meeting called by the directors of the company.

3.3 Shareholders can also via a 'Shareholders' Agreement' provide that the company can only take certain actions with their prior approval (such as adopting strategic plan, board changes, entry into/termination of certain key contracts, changes to key employee terms and conditions).

3.4 In order to retain sufficient control over the company to address 'Teckal' issues from a procurement perspective, the Shareholders Agreement needs to provide that certain key strategic shareholder decisions will require unanimous approval of all the shareholders before they can be approved at a shareholder meeting. These are known as 'reserved matters' and are set out in the Shareholders Agreement.

3.5 Meetings of the shareholders are subject to the requirements of the Articles of Association of the Operator, the terms of the Shareholders Agreement and general company law. They are therefore subject to different rules to a Joint Committee meeting (for example in relation to areas such as access to information and voting rules) and for this reason shareholder meetings need to be kept separate from Joint Committee meetings.

3.6 It is intended that shareholders will meet at least two times a year.

3.7 Each authority will be represented at shareholder meetings by an appointed representative of that authority. This may or may not be the same individual that represents the authority on the Joint Committee. This is a matter for each authority to decide.

3.8 Having different individuals at the shareholder level and on the Joint Committee would clearly help to manage conflicts of interest (should they arise) and may assist in retaining clarity of governance functions being carried out. However it should equally be possible to put in place an appropriate conflicts policy to deal with potential conflicts.

4. **Joint Committee**

4.1 The Joint Committee will be the forum for discussing common investor/customer issues relating to the Operator and the ACS.

4.2 Each administering authority will be an individual investor in the ACS (and any other pooled vehicles managed by the Operator) and therefore each authority will have investor rights afforded by the suite of key investor documents which, in the case of the ACS, are made up of the constitutive deed, application form, key investor information, prospectus and FCA handbook of rules and guidance. These investor rights are embedded in those documents and cover matters including the right to withdraw from the pooled vehicle, investor reporting (including frequency and content) and investor voting rights (for example, on proposed changes to the pooled vehicle).

4.3 The administering authorities do not want to delegate their actual key investment decision making powers or investor rights to the Joint Committee. Instead these will be retained for exercise by the individual administering authorities through their pension committees in the normal way, subject to consideration of any recommendations the Joint Committee may make.

4.4 It is expected the Joint Committee will meet twice a year (with support from the Practitioners Advisory Forum) to discuss and agree a common consensus view on investor issues such as:

4.4.1 Operator service delivery and KPIs; and

4.4.2 other Pool related investment issues, for example adopting common approaches to investment policies (for example common social, environmental and corporate governance policies or policies on voting rights).

4.5 The Joint Committee would not make binding decisions on any of these issues but would make recommendations back to each administering authority (via the Practitioners Advisory Forum) to individually approve. Where any issues do need to be resolved, these will be decided by a majority vote and again each administering authority represented on the committee exercises one vote.

4.6 A joint committee structure established under the Local Government Act 1972 provides a tried and tested structure that delivers a clear and transparent separation of shareholder matters and investor/customer matters.

5. **Practitioners Advisory Forum**

5.1 The Forum will be made up of an officer from each administering authority (such as the Section 151 officer or a pension fund officer). The Forum is not a legal entity but a working group of officers. The terms of the Forum will be set out in an Inter Authority Agreement confirming how the Forum will be comprised, operate and be resourced and funded.

5.2 As this is a working group of officers, no statutory functions can be delegated to the Forum. The Role of the Forum is:

5.2.1 To support the meetings of the Joint Committee and action the Joint Committee's recommendations back to the administering authorities;

5.2.2 To act as a mechanism to facilitate discussions between the individual administering authorities as investors and the Operator; and

5.2.3 To analyse the Pool-wide investment performance of the Operator, including its investment costs, customer service and delivery of wider investor services such as voting and responsible investment. The Forum will also review risk management and compliance arrangements from an investor perspective.

5.3 The Practitioners Advisory Forum would not have a formal role at shareholder meetings but could attend to deliver presentations etc.

LGPS Central
Summary of LGPS Central Governance Structure

Eversheds LLP

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Privileged and confidential

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APPENDIX 2

SUMMARY OF GOVERNANCE DOCUMENTATION

As per the governance structure set out in Appendix 1, the governance arrangements are comprised in the following draft documents:

- Articles of Association
- Shareholders Agreement
- Inter Authority Agreement

The documents relate to the Council's differing roles (as the Administrating Authority for the Pension Fund) in the project as both a Shareholder in the company, LGPS Central, and as an investment customer of LGPS Central.

Shareholder documents

As the Shareholder, the Council's role will be as a joint owner of the company with the collective discussions of the joint owners taking place at private Shareholder meetings, carried out in accordance with company law. This role, and the relationship between the joint owners would be governed by the Articles and the Shareholders Agreement.

Articles of Association

As LGPS Central Limited is a private company limited by shares, the company's Articles of Association are essentially the Company's constitution governing how it operates, the powers and responsibilities of the Directors and they ensure the company complies with company law.

The Articles include the following issues relevant to the role of the Shareholders:

- the liability of the shareholders being limited to the amount unpaid on their £1 share;
- the process by which a Shareholder may cease to be a shareholder in the company on at least 12 months' notice;
- the process for the declaration of dividends and any payment of dividends to the Shareholders;
- arrangements for the calling and the operation of Shareholder meetings, which will require a quorum of 4, where every Shareholder has one vote;

The Shareholders have no role in the day to day operation of the company, which are carried out by the Board of Directors, but are consulted on key strategic and operational matters of the company and these matters are set out in the list of Reserved Matters in the Shareholders Agreement.

Shareholders Agreement

This is an agreement between the Shareholders and the Company which supplements some of the issues contained within the Articles and sets out the objectives and financing of the company. It establishes some co-operation between the Shareholders of the company to set out their common objectives as joint owners of the company and sets out a framework as to how the Shareholders will act in relation to the company.

The Agreement includes:

- the requirement for the company to develop strategic plans and annual budgets;
- that dividends are to be distributed after profits are used to reduce Annual Operating Charge payable by each Shareholder;
- provision for Shareholder meetings to be held 2 times a year;
- agreement between the Shareholders about their conduct, including acting in good faith towards each other and acting to promote and develop the company;
- further detail around the process for exit by a Shareholder;
- the establishment of a policy and a committee to agree the remuneration of Directors, with any increase in remuneration and the policy to be approved by a Shareholder majority of 75%;
- the list of Reserved Matters which require Shareholder approval prior to being implemented by the company and a process to resolve a deadlock situation between Shareholders, which include:
  - the need for unanimous decisions on:
    - extending the agreed scope of the business undertaken by the company;
    - alter the company's Articles;
    - admit any additional shareholders or investors;
    - decisions to wind the company up;
    - appointment and removal of Directors;
    - appointing and removing auditors;
    - approving annual accounts;

  - the need for majority decisions on:
    - establishing and amending any employee pension scheme;
    - declaration and payment of dividends;
    - adopting or amending a written conflicts policy;
    - entering into capital commitments or operating leases above set limits, unless approved in the strategic plan.

Investment Customer documents

As an investor in the collective investment vehicle operated by the company, the Council has a customer role relating to the Pension Fund's investments. As set out in Appendix 1, discussions between the Pension Funds investing as the company's customers will take place through the Joint Committee, whose meetings will operate through the usual public law requirements for such committee meetings.

Inter-Authority Agreement

The Agreement establishes the Joint Committee between the Councils acting as the Administering Authorities on behalf of the investing Funds and sets out the Committee's role and operation matters which includes:

- setting out the shared objectives of the members of the Committee;

- establishing Cheshire West and Chester Council as the lead authority to administer the Joint Committee, with the ability to recover its costs;
- a requirement for 2 meetings a year;
- sets the scope of discussions to be held by the Committee, which include matters requiring investor approval and matters relating to the company's delivery of investment services to the Funds;
- process for withdrawal and termination of the agreement, and for dispute resolution
- a constitution for the Joint Committee, including each Council being represented by one elected member, the appointment of a Chair and establishing a quorum of 5;
- Terms of Reference for the Joint Committee and the Practitioners Advisory Forum and the relationship between the two bodies.

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APPENDIX 3

COMMITTEE TERMS OF REFERENCE – PROPOSED CHANGES

Pension Fund Committee

Under the Cabinet structure in local government, management of the pension fund is a non-executive function and this is reflected in the Shropshire Council Governance Structure.

The Pensions Committee was established in 1994 with responsibilities for all matters relating to the management and administration of the Shropshire County Pension Fund. The Pensions Committee is a standing committee of the Council and is linked to Full Council by virtue of the Chairman or Vice Chairman being a Shropshire Council member. It meets formally at least quarterly and more frequently if formal decisions are required. In between meeting's Chairman's approval may be sought.

The Pension Fund Committee's key responsibilities are to advise the Council on the management of the Shropshire County Pension Fund, including the management and administration of benefits and strategic management of Fund assets. The Committee is supported by the advice from an independent advisor and investment consultant. One advises on strategic issues and overall investment approach and the investment consultant provide analysis and advice of a technical nature in relation to portfolio construction, interpretation of performance measurement and the monitoring of investment managers. The following terms of reference for the Pension Committee have previously been approved in the Governance Compliance Statement in accordance with LGPS Regulations 2013:-

Terms of Reference:

a) To advise the Council on the arrangements for the proper administration of the Shropshire County Pension Fund in accordance with the Local Government Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009;
b) To advise employing organisations and employees within the Fund of their benefits, contributions and the financial performance of the Fund;
c) To advise and assist the Council on the determination of any matters of general policy relating to the investment of the Pension Fund;
d) To approve the annual report and accounts of the Fund and hold an Annual Meeting.

The Pensions Committee formal terms of reference (above) are interpreted as including:

a) Admission of employing organisations to the Fund where discretion is permitted;
b) Appointment of external advisors and actuaries to assist with the administration of the Fund, and of external managers for the management of the Fund's portfolio of assets;
c) Approval of the periodic formal valuation of the Fund;
d) Consideration of the advice of the Council's external investment advisers and of the Scheme Administrator;
e) Determination of the objectives and general investment approach to be adopted by external fund managers;
f) Review and monitoring of investment transactions and the overall investment performance of the Fund;
g) To develop and implement shareholder policies on corporate governance issues;
h) To review and approve on a regular basis the content of the Statement of Investment Principles and to monitor compliance of the investment arrangements with the Statement;
i) To review the Funding Strategy Statement in detail at least every three years ahead of the

triennial valuations being carried out, in order to inform the valuation process;
j) To review and approve on a regular basis the Communications Policy for the Fund;

The role of Scheme Administrator is held by the officer who 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.

Legal advice is provided by the Head of Legal and Democratic Services.

The remit for the LGPS vests formal statutory responsibility for the LGPS and fund investment with the administering authority which is answerable for the effective and prudent management of the scheme.

The terms of reference of the Committee need to be amended due to the pooling of investments in LGPS Central Ltd from 1 April 2018. The wording to be inserted is highlighted in bold text and the wording to be removed in red text.

- **Selection, appointment and dismissal of an investment pooling operator to manage the assets of the Fund.**
- **Determining what the administering authority requires the pool to provide to enable it to execute its local investment strategy effectively.**
- **Receiving and considering reports and recommendations from the oversight committee, and ensuring that the Fund's investor rights and views are represented effectively.**
- **Identifying and managing the risk associated with investment pooling**
- **Ensuring that appropriate measures are in place to monitor and report on the ongoing costs of investment pooling.**
- **Ensuring the responsible investment, corporate governance and voting policies of the Fund are delivered effectively.**
- Appointment of external advisors and actuaries to assist with the administration of the Fund, and of external managers for the management of the Fund's portfolio of assets
- Determination of the objectives and general investment approach to be adopted by external fund managers;
- To review and approve on a regular basis the content of the Statement of Investment
- Principles **Investment Strategy Statement** and to monitor compliance of the investment arrangements with the Statement.
- **Reviewing and advising on the development of an Funding Strategy Statement, Administration Policy, Governance Compliance Statement, Breaches Policy & Training Policy and publish a Pension Fund Annual Report**

The rest of the terms of reference remain the same. The Council are asked to approve the revised terms of reference.

Committee and Date	Item
Pensions Committee 25 November 2016 10.00	**10** Public

ACTUARIAL VALUATION 2016

Responsible Officer James Walton
e-mail: james.walton@shropshire.gov.uk Tel: (01743) 258915

1. Summary

1.1 The report introduces the formal presentation of the 2016 Actuarial Valuation Report from the Fund's Actuary, Mercer.

2. Recommendations

2.1 Members are asked to formally approve, with any comments, the Actuarial Valuation Report.

REPORT

3. Risk Assessment and Opportunities Appraisal

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

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

3.3 The Fund is required to be formally valued by the Actuary every 3 years in order to determine the overall funding level and set employer contribution rates.

4. Financial Implications

4.1 The financial implications to consider are outlined in the Appendix to this report and have been communicated to employers within the Fund at a recent meeting held on 10 November 2016.

5. Background

5.1 Members will be aware that Funds within the Local Government Pension Scheme are required to be actuarially valued every three years. The last valuation was undertaken as at 31 March 2013, at which time the funding level was determined to be 76% (i.e. the assets held to meet future liabilities were valued at 76% of those liabilities.)

6. 2016 Valuation

6.1 The current valuation has been taken as at 31 March 2016 and a summary of the valuation results is attached at Appendix A. The 2016 funding level of 84% is in line with expectations. The Fund's Actuary, John Livesey, from Mercer will present his valuation report to Committee. Officers have discussed the valuation outcome in detail with John Livesey and have agreed with the assumptions he has made within the report.

6.2 During the last three years the Fund's value has increased by 21% from £1.235 billion to £1.494 billion. Over this period the liabilities of the Fund have increased from £1.618 billion to £1.772 billion.

6.3 As previously discussed, the results incorporate a change in the way the discount rate has been determined, by basing it on the long-term expected real returns on the Fund's assets, with an appropriate margin for prudence. Short-term pay growth has been adjusted to reflect continuing pay restraint in the public sector. The Actuary has used recent mortality experience to assess the most appropriate longevity assumptions in the 2016 valuation. In view of the low take-up of the 50/50 option which is now available under the LGPS, the Actuary has assumed no members joining the Fund will take up this option in future (at the 2013 actuarial valuation a 10% take-up assumption was made).

7. Scheme Employers

7.1 The provisional results of the valuation exercise and the recommendations for contribution rates have been discussed with finance officers from scheme employers at a meeting on 10 November 2016.

7.2 The Actuary is continuing to recommend that the results of the actuarial valuation are expressed as a percentage of salary for future service together with an £ amount for any deficit recovery and is aimed at helping employers to budget for the costs of deficit recovery.

7.3 The attached report highlights the revised employer contribution rates arising from the 2016 actuarial valuation at overall Fund level. Contribution rates for individual employers reflect their own circumstances.

7.4 Members are requested to approve, with any comments, the Actuary's recommendations. The position of the Fund will be monitored during the period up to the next valuation as at 31 March 2019.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)
Actuarial Valuation 2013, Pension Committee, 27 November 2013

Cabinet Member
N/A

Local Member
N/A

Appendices

A- Summary of Results of Actuarial Valuation as at 31 March 2016

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MERCER

SHROPSHIRE COUNTY PENSION FUND – APPENDIX A

Summary of Results of Actuarial Valuation as at 31 March 2016

1. Introduction

1.1 We have carried out our preliminary calculations on the actuarial valuation of the Fund as at 31 March 2016 and reported the results to the Administering Authority. The results are summarised in this note.

1.2 Subject to the Committee's approval and any discussions with individual employers, we will produce our formal report on the valuation in due course.

2. Valuation Approach and Assumptions

2.1 As for the 2013 actuarial valuation of the Fund, we have adopted a market-based approach. Therefore, we have taken the Fund's assets at their market value on the valuation date. The liabilities have been calculated in a consistent manner by discounting the benefits at market-related rates of interest.

2.2 There are three Fund-specific financial elements of the market value basis, namely:

- The expected rate of CPI inflation, including any adjustments due to current market circumstances.
- The extent to which we expect the return on the Fund's investments to exceed these assumed levels of CPI inflation (the "real discount rate / rate of return").
- The expected rate of Pensionable Pay increases in excess of inflation ("real Pensionable Pay growth").

2.3 We have assumed:

- A 2.35% per annum (pre and post-retirement) real discount rate for past service. This is consistent with the corresponding assumption at the 2013 valuation. This is based on the Fund’s long term investment strategy and long term expectations of the performance of different asset classes, and includes an appropriate degree of prudence.

- For future service the assumption is a real discount rate of 2.75% per annum above CPI. The comparable assumption at the 2013 valuation was 3.0% per annum above CPI.

- Pay growth of 1% per annum for the first four years, reverting to a long-term real pensionable pay growth of 1.5% per annum above CPI thereafter. The long-term pay growth assumption is consistent with that used in the 2013 valuation. (In the 2013 valuation we also made an allowance for the known short-term pay freeze for public sector employers.)

- CPI inflation of 1.0% below market-implied RPI inflation, the same as at 2013.

2.4 The main financial assumptions adopted are therefore as follows:

		Past Service % pa	Future Service % pa
-	Investment return (pre-retirement)	4.55	4.95
-	Investment return (post-retirement)	4.55	4.95
-	Salary inflation	3.7*	3.7
-	Pension increases	2.2	2.2

**For past service it is assumed that pay will increase at 1% p.a. for first four years, before reverting to the long term assumption of 3.7% pa.*

2.5 Some changes have been made to the non-financial assumptions adopted in the previous valuation. We have carried out investigations into the mortality, incapacity/ill health retirements and proportions married experience of Mercer's local authority client funds, and the Shropshire Fund in particular. We have incorporated the results of those investigations into our actuarial valuation calculations.

2.6 As in the previous valuation, no advance allowance for early retirements (other than in ill-health) has been included in our calculations. Such retirements will be funded by additional payments (on top of the recommended employer's contribution rate) as and when they occur.

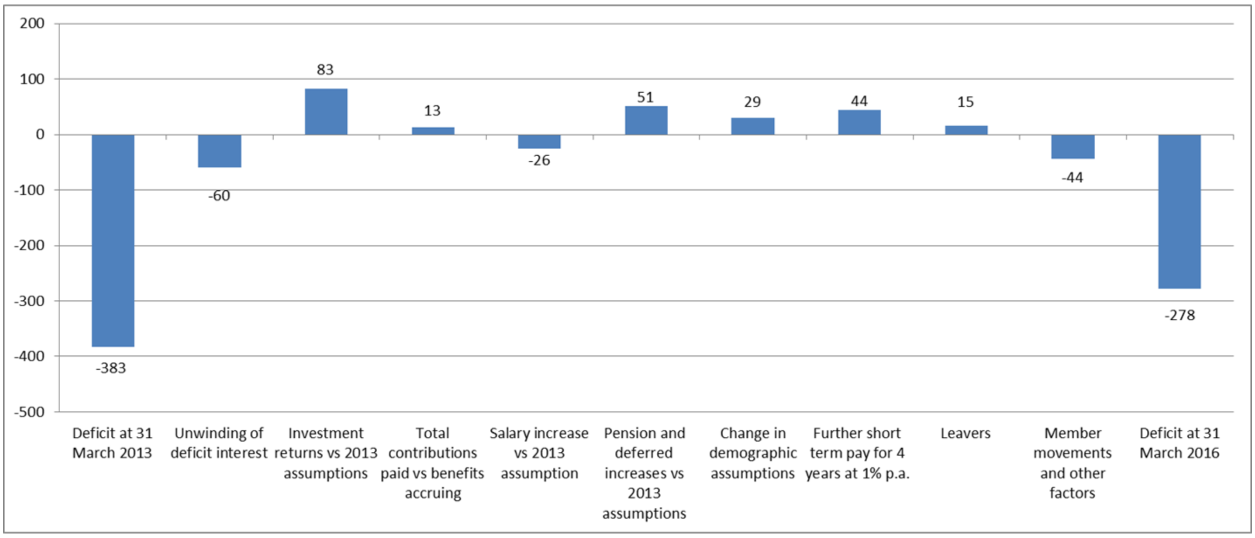
3. Valuation Results

3.1 The position relating to past service liabilities of the Fund as a whole is summarised as follows:

			£ million
Market value of assets			1,494
Value of benefits in respect of			
-	current active members	538	
-	preserved (deferred) pensioners	385	
-	pensioners, widow(er)s and dependants	849	
Total accrued liabilities			1,772
Past service deficit			278
Funding level			84%

The previous valuation of the Fund as at 31 March 2013 disclosed a past service deficit of £383m. The current valuation at 31 March 2016 discloses a past service deficit of £278. A reconciliation of the deficit at 2013 to the 2016 position, taking account of the various factors that can impact on the funding level, is set out below.

Analysis of past service shortfall (£m)



3.2 The Common Contribution Rate for future service (ignoring the past service deficit) is 14.7% of pensionable salaries (14.0% of pensionable salaries at the 2013 valuation). The increase in Common Contribution Rate is largely due to the changes in financial assumptions and membership profile, offset slightly by the changes to the demographic assumptions.

3.3 The deficit disclosed needs to be recovered by increasing employer contributions above the Common Contribution Rate. The deficit recovery period for the whole Fund position is 16 years (see 3.4 for further comments on deficit recovery periods for individual employers). The additional amount needed to recover the deficit over this period is £18.6m in 2017/18, increasing each year by 3.7% (the equivalent £ figure at the 2013 actuarial valuation was £19.2m in 2017/18, increasing at 4.1% p.a.).

3.4 The contribution rates for individual employers reflect their own circumstances. The default deficit recovery period for individual employers is 16 years. However, in most cases an employers recovery period will be the period adopted for the 2013 valuation reduced by three years, leading to recovery periods ranging from 16 years to 22 years for most employers (although employers that did not accept new Fund entrants typically had a shorter recovery period).

3.5 Where an employer in deficit would otherwise see a reduction in total contributions, their deficit recovery period will instead be reduced such that their total contributions (for the year 2017/18) are in line with those expected under the 2013 plan.

3.7 It is the intention that in general the 2016 valuation target rates are payable in full from 1 April 2017. Phasing of any increases may be considered in special circumstances but is subject to consent from the Administering Authority.

3.8 The position of the Fund should be kept under regular review during the period to the next formal actuarial valuation as at 31 March 2019.

Mercer Limited
November 2016

This paper is addressed to Shropshire Council as Administering Authority of the Shropshire County Pension Fund on the understanding that:

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Committee and Date	Item
Pensions Committee 25 November 2016 10 am	11 Public

FUNDING STRATEGY STATEMENT

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

1. Summary

1.1 The report informs Members of the requirement to publish an updated Funding Strategy Statement. It sets out the draft Funding Strategy Statement which forms the basis of the 2016 Actuarial Valuation.

2. Recommendations

2.1 Members are asked to note the updated draft Funding Strategy Statement, the final document will require approval at the next Pension Committee in March following the consultation period with employers.

REPORT

3. Risk Assessment and Opportunities Appraisal

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

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

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

4. Financial Implications

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

5. Background

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

5.2 The Shropshire Fund first produced a Funding Strategy Statement in 2004. This Statement was revised in 2014 following the last actuarial valuation. The Statement outlines the basis on which the actuarial valuation of the Fund is conducted. It is now necessary to update the Funding Strategy Statement for the 2016 actuarial valuation and consult with employers.

5.3 The draft Funding Strategy Statement has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

6. Purpose of the Funding Strategy Statement

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

- establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;

- establish contributions at a level to "secure the solvency" of the pension fund and the "long term cost efficiency"; and

- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

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

7 Consultation and Publication

7.1 The preparation of the Statement has run in parallel with the 2016 actuarial valuation. In consultation with Mercer, officers have updated the FSS to incorporate the latest valuation assumptions. A copy of the draft Funding Strategy Statement (FSS) is attached at Appendix A.

7.2 In preparing the FSS the Administering Authority is required to consult with participating employers. Employers were updated on the content of the draft Funding Strategy Statement at the recent Employers Meeting on 10

November 2016. All employers have been sent a draft of the updated FSS and asked for comments back by the 8 December 2016.

7.3 Members are asked to note the updated FSS. Once the consultation period is over the final document will go to the next Pension Committee for approval in March. Following approval copies will be distributed electronically to employers, investment managers, independent advisors and trade unions representing contributors. It will also be available on the website.

8. Monitoring and Review

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

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Pensions Committee, 20 March 2014, Funding Strategy Statement.
Cabinet Member N/A
Local Member N/A
Appendices A – Draft Funding Strategy Statement

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DRAFT

FUNDING STRATEGY STATEMENT

SHROPSHIRE COUNTY PENSION FUND

NOVEMBER 2016

Shropshire Council

This Funding Strategy Statement has been prepared by Shropshire Council (the Administering Authority) to set out the funding strategy for the Shropshire County Pension Fund (the "Fund"), in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 (as amended) and guidance issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

EXECUTIVE SUMMARY

Ensuring that the Shropshire County Pension Fund (the “Fund”) has sufficient assets to meet its pension liabilities in the long term is the fiduciary responsibility of the Administering Authority (Shropshire Council). The Funding Strategy adopted by the Shropshire County Pension Fund will therefore be critical in achieving this.

The purpose of this Funding Strategy Statement (“FSS”) is to set out a clear and transparent funding strategy that will identify how each Fund employer’s pension liabilities are to be met going forward.

> The details contained in this Funding Strategy Statement will have a financial and operational impact on all participating employers in the Shropshire County Pension Fund.
>
> It is imperative therefore that each existing or potential employer is aware of the details contained in this statement.

Given this, and in accordance with governing legislation, all interested parties connected with the Shropshire County Pension Fund have been consulted and given opportunity to comment prior to this Funding Strategy Statement being finalised and adopted. This statement takes into consideration all comments and feedback received.

THE FUND’S OBJECTIVE

The Administering Authority’s long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due. This objective will be considered on an employer specific level where appropriate.

The general principle adopted by the Fund is that the assumptions used, taken as a whole, will be chosen sufficiently prudently for pensions already in payment to continue to be paid, and to reflect the commitments that will arise from members’ accrued pension rights.

The funding strategy set out in this document has been developed alongside the Fund’s investment strategy on an integrated basis taking into account the overall financial and demographic risks inherent in the Fund. The funding strategy includes appropriate margins to allow for the possibility of events turning out worse than expected. Individual employer results will also have regard to their covenant strength and the investment strategy applied to the asset shares of those employers.

SOLVENCY AND LONG TERM COST EFFICIENCY

Each employer’s contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund’s liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time. Equally, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

When formulating the funding strategy, the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the Local Government Pension Scheme (the "LGPS") so far as relating to the Fund.

DEFICIT RECOVERY PLAN AND CONTRIBUTIONS

As the solvency level of the Fund is 84% at the valuation date i.e. the assets of the Fund are less than the liabilities, a deficit recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts (flat or increasing year on year) and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford given other competing cost pressures. This may result in some flexibility in recovery periods by employer which would be at the sole discretion of the Administering Authority. The recovery periods will be set by the Fund, although employers will be free to select any shorter deficit recovery period if they wish. Employers may, in certain circumstances at the discretion of the Administering Authority, also elect to make prepayments of contributions which could result in a cash saving over the valuation certificate period.

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the contributions at the expected monetary levels from the preceding valuation (including any indexation in deficit payments over the recovery period). Full details are set out in this FSS.

The target recovery period for the Fund as a whole is 16 years at this valuation which is 3 years shorter than the target recovery period from the previous valuation. Subject to affordability and other considerations individual employer recovery periods would also be expected to reduce by 3 years at this valuation.

Where there is an increase in contributions required at this valuation the employer may, at the Administering Authority's discretion, be permitted to step-up their total contributions over a period of 3 years.

ACTUARIAL ASSUMPTIONS

The actuarial assumptions used for assessing the funding position of the Fund and the individual employers, the "Primary" contribution rate, and any contribution variations due to underlying surpluses or deficits (i.e. the "Secondary" rate) are set out in an Appendix to this FSS.

The discount rate in excess of CPI inflation (the "real discount rate") has been derived based on the expected return on the Fund's assets allowing for the long term strategy set out in its

Investment Strategy Statement (ISS). When assessing the appropriate prudent discount rate, consideration has been given to the level of expected asset returns in excess of CPI inflation (i.e. the rate at which the benefits in the LGPS generally increase each year). It is proposed at this valuation the real return over CPI inflation for determining the past service liabilities is 2.35% per annum and for determining the future service ("Primary") contribution rates is 2.75% per annum.

Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole. Such cases will be determined by the Section 151 Officer and reported to the Committee.

The demographic assumptions are based on the Fund Actuary's bespoke analysis for the Fund, also taking into account the experience of the wider LGPS where relevant.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension Fund that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving each employer's asset share.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

FUND POLICIES

In addition to the information/approaches required by overarching guidance and Regulation, this statement also summarises the Fund's practice and policies in a number of key areas:

1. Covenant assessment and monitoring

An employer's financial covenant underpins its legal obligation and crucially the ability to meet its financial responsibilities to the Fund now and in the future. The strength of covenant to the Fund effectively underwrites the risks to which the Fund is exposed. These risks include underfunding, longevity, investment and market forces.

The strength of employer covenant can be subject to substantial variation over relatively short periods of time and, as such, regular monitoring and assessment is vital to the overall risk management and governance of the Fund. The employers' covenants will be assessed and monitored objectively in a proportionate manner, and an employer's ability to meet their obligations in the short and long term will be considered when determining its funding strategy.

After the valuation, the Fund will continue to monitor employers' covenants in conjunction with their funding positions over the inter-valuation period. This will enable the Fund to anticipate and pre-empt any material issues arising and thus adopt a proactive approach in partnership with the employer.

2. Admitting employers to the Fund

Various types of employers are permitted to join the LGPS under certain circumstances, and the conditions upon which their entry to the Fund is based and the approach taken is determined by the Fund's admission policy. Examples of new employers include:

- Fund Employers
- Designated bodies - those that are permitted to join if they pass a resolution
- Admission bodies - usually arising as a result of an outsourcing or a transfer to an entity that provides some form of public service and their funding primarily derives from local or central government.

Certain employers may be required to provide a guarantee or alternative security before entry will be allowed, in accordance with the Regulations and Fund policies.

3. Termination policy for employers exiting the Fund

When an employer ceases to participate within the Fund, it becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of the benefits of the exiting employer's current and former employees, along with a termination contribution certificate.

Where there is no guarantor who would subsume the liabilities of the exiting employer, the Fund's policy is that a discount rate linked to government bond yields and a more prudent longevity assumption is used for assessing liabilities on termination. Any exit payments due should be paid immediately although instalment plans will be considered by the Administering Authority on a case by case basis. The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it.

4. Insurance arrangements

The Fund may consider whether ill health retirement costs can be insured either through a third party insurer or by setting up an internal captive insurance arrangement which pools these risks for eligible employers. If such an arrangement is implemented the relevant employer contribution rates will be adjusted accordingly.

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1
INTRODUCTION

The Local Government Pension Scheme Regulations 2013 (as amended) ("the 2013 Regulations") and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") (collectively; "the Regulations") provide the statutory framework from which the Administering Authority is required to prepare a Funding Strategy Statement (FSS). The key requirements for preparing the FSS can be summarised as follows:

- After consultation with all relevant interested parties involved with the Shropshire County Pension Fund (the "Fund"), the Administering Authority will prepare and publish their funding strategy;
- In preparing the FSS, the Administering Authority must have regard to:
  - the guidance issued by CIPFA for this purpose; and
  - the Investment Strategy Statement (ISS) for the Fund published under Regulation 12 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended);
- The FSS must be revised and published whenever there is a material change in either the policy set out in the FSS or the ISS.

BENEFITS

The benefits provided by the Fund are specified in the governing legislation contained in the Regulations referred to above. Benefits payable under the Fund are guaranteed by statute and thereby the pensions promise is secure for members. The FSS addresses the issue of managing the need to fund those benefits over the long term, whilst at the same time facilitating scrutiny and accountability through improved transparency and disclosure.

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

EMPLOYER CONTRIBUTIONS

The required levels of employee contributions are specified in the Regulations. Employer contributions are determined in accordance with the Regulations (which require that an actuarial valuation is completed every three years by the actuary, including a rates and adjustments certificate specifying the "primary" and "secondary" rate of the employer's contribution).

PRIMARY RATE

The "Primary rate" for an employer is the contribution rate required to meet the cost of the future accrual of benefits, ignoring any past service surplus or deficit, but allowing for any employer-specific circumstances, such as its membership profile, the funding strategy adopted for that employer, the actuarial method used and/or the employer's covenant.

The Primary rate for the whole fund is the weighted average (by payroll) of the individual employers' Primary rates.

SECONDARY RATE

The "Secondary rate" is an adjustment to the Primary rate to arrive at the total rate of contribution each employer is required to pay. The Secondary rate may be expressed as a percentage adjustment to the Primary rate, and/or a cash adjustment in each of the three years beginning 1 April in the year following the actuarial valuation.

Secondary rates for the whole fund in each of the three years shall also be disclosed. These will be the calculated weighted average based on the whole fund payroll in respect of percentage rates and the total amount in respect of cash adjustments.

2
PURPOSE OF FSS IN POLICY TERMS

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

The Administering Authority's long term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

The purpose of this Funding Strategy Statement is therefore:

- to establish a clear and transparent fund-specific strategy which will identify how employers' pension liabilities are best met going forward by taking a prudent longer-term view of funding those liabilities;
- to establish contributions at a level to "secure the solvency" of the pension fund and the "long term cost efficiency",
- to have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

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

3
AIMS AND PURPOSE OF THE FUND

THE AIMS OF THE FUND ARE TO:

- manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due
- enable employer contribution rates to be kept at a reasonable and affordable cost to the taxpayers, scheduled, resolution and admitted bodies, while achieving and maintaining fund solvency and long term cost efficiency, which should be assessed in light of the profile of the Fund now and in the future due to sector changes
- maximise the returns from investments within reasonable risk parameters taking into account the above aims.

THE PURPOSE OF THE FUND IS TO:

- receive monies in respect of contributions, transfer values and investment income, and
- pay out monies in respect of Fund benefits, transfer values, costs, charges and expenses as defined in the 2013 Regulations, the 2014 Transitional Regulations and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

4
RESPONSIBILITIES OF THE KEY PARTIES

The efficient and effective management of the Fund can only be achieved if all parties exercise their statutory duties and responsibilities conscientiously and diligently. The key parties for the purposes of the FSS are the Administering Authority (and, in particular the Pensions Committee the individual employers and the Fund Actuary and details of their roles are set out below. Other parties required to play their part in the fund management process are bankers, custodians, investment managers, auditors and legal, investment and governance advisors, along with the Local Pensions Board created under the Public Service Pensions Act 2013.

KEY PARTIES TO THE FSS

The **Administering Authority** should:

- operate the pension fund
- collect employer and employee contributions, investment income and other amounts due to the pension fund as stipulated in the Regulations
- pay from the pension fund the relevant entitlements as stipulated in the Regulations
- invest surplus monies in accordance the Regulations
- ensure that cash is available to meet liabilities as and when they fall due
- take measures as set out in the Regulations to safeguard the fund against the consequences of employer default
- manage the valuation process in consultation with the Fund's actuary
- prepare and maintain a FSS and an ISS, both after proper consultation with interested parties, and
- monitor all aspects of the Fund's performance and funding, amending the FSS/ISS as necessary
- effectively manage any potential conflicts of interest arising from its dual role as both fund administrator and a Fund employer, and
- establish, support and monitor a Local Pension Board (LPB) as required by the Public Service Pensions Act 2013, the Regulations and the Pensions Regulator's relevant Code of Practice.

The **Individual Employer** should:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all contributions, including their own as determined by the actuary, promptly by the due date
- develop a policy on certain discretions and exercise those discretions as permitted within the regulatory framework
- make additional contributions in accordance with agreed arrangements in respect of, for example, augmentation of Fund benefits, early retirement strain, and
- have regard to the Pensions Regulator's focus on data quality and comply with any requirement set by the Administering Authority in this context, and
- notify the Administering Authority promptly of any changes to membership which may affect future funding.

The **Fund Actuary** should:

- prepare valuations including the setting of employers' contribution rates at a level to ensure fund solvency after agreeing assumptions with the Administering Authority and having regard to their FSS and the Regulations
- prepare advice and calculations in connection with bulk transfers and individual benefit-related matters such as pension strain costs, ill health retirement costs etc
- provide advice and valuations on the termination of admission agreements
- provide advice to the Administering Authority on bonds and other forms of security against the financial effect on the Fund of employer default
- assist the Administering Authority in assessing whether employer contributions need to be revised between valuations as required by the Regulations
- advise on funding strategy, the preparation of the FSS and the inter-relationship between the FSS and the ISS, and
- ensure the Administering Authority is aware of any professional guidance or other professional requirements which may be of relevance to the Fund Actuary's role in advising the Fund.

5

SOLVENCY FUNDING TARGET

Securing the "solvency" and "long term cost efficiency" is a regulatory requirement. To meet these requirements the Administering Authority's long term funding objective is for the Fund to achieve and then maintain sufficient assets to cover 100% of projected accrued liabilities (the "funding target") assessed on an ongoing past service basis including allowance for projected final pay where appropriate. In the long term, an employer's total contribution rate would ultimately revert to its Primary rate of contribution.

SOLVENCY AND LONG TERM EFFICIENCY

Each employer's contributions are set at such a level to achieve full solvency in a reasonable timeframe. Solvency is defined as a level where the Fund's liabilities i.e. benefit payments can be reasonably met as they arise.

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs being greater overall than if they were provided for at the appropriate time.

When formulating the funding strategy the Administering Authority has taken into account these key objectives and also considered the implications of the requirements under Section 13(4)(c) of the Public Service Pensions Act 2013. As part of these requirements the Government Actuary's Department (GAD) must, following an actuarial valuation, report on whether the rate of employer contributions to the Fund is set at an appropriate level to ensure the "solvency" of the pension fund and "long term cost efficiency" of the LGPS so far as relating to the Fund.

DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY PLAN

The principal method and assumptions to be used in the calculation of the funding target are set out in **Appendix A**. The Employer Deficit Recovery Plans are set out in **Appendix B**.

Underlying these assumptions are the following two tenets:

- that the Fund is expected to continue for the foreseeable future; and
- favourable investment performance can play a valuable role in achieving adequate funding over the longer term.

This allows the Fund to take a longer term view when assessing the contribution requirements for certain employers.

In considering this the Administering Authority, based on the advice of the Actuary, will consider if this results in a reasonable likelihood that the funding plan will be successful potentially taking into account any changes in funding after the valuation date up to the finalisation of the valuation by 31 March 2017 at the latest.

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

The Administering Authority, following consultation with the participating employers, has adopted the following objectives for setting the individual employer contribution rates arising from the 2016 actuarial valuation:

- The Fund does not believe it appropriate for contribution reductions to apply compared to the existing funding plan (allowing for indexation where applicable) where deficits remain unless there is compelling reason to do so.

- Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole. Such cases will be determined by the Section 151 Officer and reported to the Committee.

- Subject to consideration of affordability, as a general rule the deficit recovery period will reduce by at least 3 years for employers at this valuation when compared to the preceding valuation. This is to target full solvency over a similar (or shorter) time horizon. Employers will have the freedom to adopt a recovery plan on the basis of a shorter period if they so wish. Subject to affordability considerations and other factors, a bespoke period may be applied in respect of particular employers where the Administering Authority considers this to be warranted (see Deficit Recovery Plan in **Appendix B**). These principles have resulted in an target recovery period of 16 years being adopted across all Fund employers.

- Individual employer contributions will be expressed and certified as two separate elements:
    - the **Primary rate**: a percentage of pensionable payroll in respect of the cost of the future accrual of benefits
    - the **Secondary rate**: a schedule of lump sum monetary amounts over 2017/20 in respect of an employer's surplus or deficit

  For any employer, the total contributions they are actually required to pay in any one year is the sum of the Primary and Secondary rates (subject to an overall minimum of zero). Both elements are subject to further review from April 2020 based on the results of the 2019 actuarial valuation.

- Where increases in employer contributions are required from 1 April 2017, following completion of the 2016 actuarial valuation, if the Administering Authority agrees then the increase from the rates of contribution payable in the year 2017/18 may be implemented in steps, over a maximum period of 3 years.

- On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. Any deficit in the Fund in respect of the employer will be due to the Fund as a termination contribution, unless it is agreed by the Administering Authority and the other parties involved that the assets and liabilities relating to the employer will transfer within the Fund to another participating employer.

- In all cases the Administering Authority reserves the right to apply a different approach at its sole discretion, taking into account the risk associated with an employer in proportion to the Fund as a whole. Any employer affected will be notified separately.

FUNDING FOR NON-ILL HEALTH EARLY RETIREMENT COSTS

Employers are required to meet all costs of early retirement strain by immediate capital payments into the Fund.

7 LINK TO INVESTMENT POLICY AND THE INVESTMENT STRATEGY STATEMENT (ISS)

The results of the 2016 valuation show the liabilities to be 84% covered by the current assets, with the funding deficit of 16% being covered by future deficit contributions.

In assessing the value of the Fund's liabilities in the valuation, allowance has been made for growth asset out-performance as described below, taking into account the investment strategy adopted by the Fund, as set out in the ISS.

It is not possible to construct a portfolio of investments which produces a stream of income exactly matching the expected liability outgo. However, it is possible to construct a portfolio which represents the "minimum risk" investment position which would deliver a very high certainty of real returns above assumed CPI inflation. Such a portfolio would consist of a mixture of long-term index-linked, fixed interest gilts and possible swaps.

Investment of the Fund's assets in line with this portfolio would minimise fluctuations in the Fund's funding position between successive actuarial valuations.

If, at the valuation date, the Fund had been invested in this portfolio, then in carrying out this valuation it would not be appropriate to make any allowance for growth assets out-performance or any adjustment to market implied inflation assumption due to supply/demand distortions in the bond markets. This would result in real return versus CPI inflation of nil per annum at the valuation date. On this basis of assessment, the assessed value of the Fund's liabilities at the valuation would have been significantly higher, resulting in a funding level of 51%.

Departure from a minimum risk investment strategy, in particular to include growth assets such as equities, gives a better prospect that the assets will, over time, deliver returns in excess of CPI inflation and reduce the contribution requirements. The target solvency position of having sufficient assets to meet the Fund's pension obligations might in practice therefore be achieved by a range of combinations of funding plan, investment strategy and investment performance.

The current strategy is:

Asset Class	Allocation	Control Ranges
Total Equity	**52.0**	**47.0 – 57.0**
Unconstrained Global Equity	24.0	20.0 – 28.0
UK Equity	8.0	5.5 – 10.5
Passive Equity (100% Hedged to GBP)	20.0	16.0 – 24.0
Total Alternatives	**23.0**	**18.0 – 28.0**
European (Incl UK) Property	5.0	n/a
Private Equity	5.0	n/a
Infrastructure	3.0	n/a
Fund of Hedge Funds	5.0	n/a
Multi-Strategy Hedge Funds	5.0	n/a
Total Bonds	**25.0**	**20.0 – 30.0**
Liability Driven Investment (LDI)	3.5	2.0-5.0
Unconstrained Bonds	21.5	17.5-25.5

The investment strategy and return expectations set out above equate to an overall best estimate average expected return of around 3.25% per annum in excess of CPI inflation. For the purposes of setting funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations.

8

IDENTIFICATION OF RISKS AND COUNTER-MEASURES

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

The Administering Authority has been advised by the Fund Actuary that the greatest risk to the funding level is the investment risk inherent in the predominantly equity based strategy, so that actual asset out-performance between successive valuations could diverge significantly from that assumed in the long term.

FINANCIAL

The financial risks are as follows:-

- Investment markets fail to perform in line with expectations
- Market outlook moves at variance with assumptions
- Investment Fund Managers fail to achieve performance targets over the longer term
- Asset re-allocations in volatile markets may lock in past losses
- Pay and price inflation significantly more or less than anticipated
- Future underperformance arising as a result of participating in the larger asset pooling vehicle.

Any increase in employer contribution rates (as a result of these risks), may in turn impact on the service delivery of that employer and their financial position.

In practice the extent to which these risks can be reduced is limited. However, the Fund's asset allocation is kept under constant review and the performance of the investment managers is regularly monitored.

DEMOGRAPHIC

The demographic risks are as follows:-

- Longevity horizon continues to expand
- Deteriorating pattern of early retirements (including those granted on the grounds of ill health)
- Unanticipated acceleration of the maturing of the Fund resulting in materially negative cashflows and shortening of liability durations
- The level of take-up of the 50:50 option at a higher or lower level than built into the actuarial assumptions.

Increasing longevity is something which government policies, both national and local, are designed to promote. It does, however, result in a greater liability for pension funds.

Apart from the regulatory procedures in place to ensure that ill-health retirements are properly controlled, **employing bodies should be doing everything in their power to minimise the**

number of ill-health retirements. Early retirements for reasons of redundancy and efficiency do not affect the solvency of the Fund because they are the subject of a direct charge.

With regards to increasing maturity (e.g. due to further cuts in workforce and/or restrictions on new employees accessing the Fund), the Administering Authority regularly monitors the position in terms of cashflow requirements and considers the impact on the investment strategy.

INSURANCE OF CERTAIN BENEFITS

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

REGULATORY

The key regulatory risks are as follows:-

- Changes to Regulations, e.g. changes to the benefits package, retirement age, potential new entrants to Fund,
- Changes to national pension requirements and/or HMRC Rules

Membership of the LGPS is open to all local government staff and should be encouraged as a valuable part of the contract of employment. However, increasing membership does result in higher employer monetary costs.

GOVERNANCE

The Fund has done as much as it believes it reasonably can to enable employing bodies and Fund members (via their representatives on the Local Pension Board) to make their views known to the Fund and to participate in the decision-making process.

Governance risks are as follows:-

- The quality of membership data deteriorates materially due to breakdown in processes for updating the information resulting in liabilities being under or overstated
- Administering Authority unaware of structural changes in employer's membership (e.g. large fall in employee numbers, large number of retirements) with the result that contribution rates are set at too low a level
- Administering Authority not advised of an employer closing to new entrants, something which would normally require an increase in contribution rates
- An employer ceasing to exist with insufficient funding or adequacy of a bond. Where there is a guarantor body in place, any outstanding funding deficit that is not recovered from the outgoing employer / bond will need to be paid by the guarantor (or the assets and liabilities for the outgoing employer will need to be subsumed by the guarantor). For cases where there is no guarantor or bond in place, any outstanding funding deficit that is not recovered from the outgoing employer will need to be subsumed by the Fund as a whole and spread across all employers.
- Changes in the Committee membership.

For these risks to be minimised much depends on information being supplied to the Administering Authority by the employing bodies. Arrangements are strictly controlled and monitored, but in most cases the employer, rather than the Fund as a whole, bears the risk.

9
MONITORING AND REVIEW

The Administering Authority has taken advice from the actuary in preparing this Statement, and has consulted with the employers participating in the Fund.

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

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

- has been a significant change in market conditions, and/or deviation in the progress of the funding strategy
- have been significant changes to the Fund membership, or LGPS benefits
- have been changes to the circumstances of any of the employing authorities to such an extent that they impact on or warrant a change in the funding strategy
- have been any significant special contributions paid into the Fund.

When monitoring the funding strategy, if the Administering Authority considers that any action is required, the relevant employing authorities will be contacted. In the case of admitted bodies, there is statutory provision for rates to be amended between valuations but it is unlikely that this power will be invoked other than in exceptional circumstances.

APPENDIX A - ACTUARIAL METHOD AND ASSUMPTIONS

METHOD

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

FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET

Investment return (discount rate)

The discount rate has been derived based on the expected return on the Fund assets base on the long term strategy set out in the Investment Strategy Statement (ISS). It includes appropriate margins for prudence. When assessing the appropriate discount rate consideration has been given to the returns in excess of CPI inflation (as derived below). The discount rate at the valuation has been derived based on an assumed return of 2.35% per annum above CPI inflation i.e. a real return of 2.35% per annum, equating to a total discount rate of 4.55% per annum. This real return will be reviewed from time to time based on the investment strategy, market outlook and the Fund's overall risk metrics.

Where warranted by an employer's circumstances, the Administering Authority retains the discretion to apply a discount rate based on a lower risk investment strategy for that employer to protect the Fund as a whole.

Inflation (Consumer Prices Index)

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

- an allowance for supply/demand distortions in the bond market is incorporated, and
- an adjustment due to retirement pensions being increased annually by the change in the Consumer Price Index rather than the Retail Price Index

The overall reduction to RPI inflation at the valuation date is 1.0% per annum.

Salary increases

In relation to benefits earned prior to 1 April 2014, the assumption for real salary increases (salary increases in excess of price inflation) will be determined by an allowance of 1.5% p.a. over the inflation assumption as described above. This includes allowance for promotional increases. In the shorter term, the long term salary increase assumption has been replaced by an assumption of 1.0%

per annum for the period to 2019/20, reflecting expected short term pay restraint in the public sector over this period.

Pension increases/Indexation of CARE benefits

Increases to pensions are assumed to be in line with the inflation (CPI) assumption described above. This is modified appropriately to reflect any benefits which are not fully indexed in line with the CPI (e.g. Guaranteed Minimum Pensions where the LGPS is not required to provide full indexation).

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy

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

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

Commutation

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

Other Demographics

Following an analysis of Fund experience carried out by the Actuary, the incidence of ill health retirements, withdrawal rates and the proportions married/civil partnership assumption have been modified from the last valuation. In addition, no allowance will be made for the future take-up of the 50:50 option (an allowance of 10% of current and future members (by payroll) for certain employers was made at the last valuation). Where any member has actually opted for the 50:50 scheme, this will be allowed for in the assessment of the rate for the next 3 years. Other assumptions are as per the last valuation.

Expenses

Expenses are met out the Fund, in accordance with the Regulations. This is allowed for by adding 0.6% of pensionable pay to the contributions as required from participating employers. This addition is reassessed at each valuation. Investment expenses have been allowed for implicitly in determining the discount rates.

Discretionary Benefits

The costs of any discretion exercised by an employer in order to enhance benefits for a member through the Fund will be subject to additional contributions from the employer as required by the

Regulations as and when the event occurs. As a result, no allowance for such discretionary benefits has been made in the valuation

METHOD AND ASSUMPTIONS USED IN CALCULATING THE COST OF FUTURE ACCRUAL (OR PRIMARY RATE)

The future service liabilities are calculated using the same assumptions as the funding target except that a different financial assumption for the discount rate is used. A critical aspect here is that the Regulations state the desirability of keeping the "Primary Rate" (which is the future service rate) as stable as possible so this needs to be taken into account when setting the assumptions.

As future service contributions are paid in respect of benefits built up in the future, the FSR should take account of the market conditions applying at future dates, not just the date of the valuation, thus it is justifiable to use a slightly higher expected return from the investment strategy. In addition the future liabilities for which these contributions will be paid have a longer average duration than the past service liabilities as they relate to active members only.

The financial assumptions in relation to future service (i.e. the normal cost) are not specifically linked to investment conditions as at the valuation date itself, and are based on an overall assumed real discount rate of 2.75% per annum above the long term average assumption for consumer price inflation of 2.2% per annum, giving a total discount rate of 4.95% per annum.

EMPLOYER ASSET SHARES

The Fund is a multi-employer pension Fund that is not formally unitised and so individual employer asset shares are calculated at each actuarial valuation. This means it is necessary to make some approximations in the timing of cashflows and allocation of investment returns when deriving the employer asset share.

In attributing the overall investment performance obtained on the assets of the Fund to each employer a pro-rata principle is adopted. This approach is effectively one of applying a notional individual employer investment strategy identical to that adopted for the Fund as a whole unless agreed otherwise between the employer and the Fund at the sole discretion of the Administering Authority.

At each review, cashflows into and out of the Fund relating to each employer, any movement of members between employers within the Fund, along with investment return earned on the asset share, are allowed for when calculating asset shares at each valuation.

Other adjustments are also made on account of the funding positions of orphan bodies which fall to be met by all other active employers in the Fund.

SUMMARY OF KEY WHOLE FUND ASSUMPTIONS USED FOR CALCULATING FUNDING TARGET AND COST OF FUTURE ACCRUAL (THE "PRIMARY RATE") FOR THE 2016 ACTUARIAL VALUATION

Long-term yields	
Market implied RPI inflation	3.2% p.a.
Solvency Funding Target financial assumptions	
Investment return/Discount Rate	4.35% p.a.
CPI price inflation	2.2% p.a.
Long Term Salary increases	3.7% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.
Future service accrual financial assumptions	
Investment return/Discount Rate	4.95% p.a.
CPI price inflation	2.2% p.a.
Long Term Salary increases	3.7% p.a.
Pension increases/indexation of CARE benefits	2.2% p.a.

Life expectancy assumptions

The post retirement mortality tables adopted for this valuation, along with sample life expectancies, are set out below:

	Base Table	Improvements	Adjustment (M / F)
Current pensioners:			
Normal health	S2PA	CMI_2015 [1.5%]	95% / 83%
Ill-health	S2PA	CMI_2015 [1.5%]	Normal health + 3 years
Dependants	S2PMA / S2DFA	CMI_2015 [1.5%]	115% / 93%
Future dependants	S2PMA / S2DFA	CMI_2015 [1.5%]	113% / 96
Current active / deferred:			
Active normal health	S2PA	CMI_2015 [1.5%]	95% / 83%
Active ill-health	S2PA	CMI_2015 [1.5%]	Normal health + 4 years
Deferred	S2PA	CMI_2015 [1.5%]	95% / 83%
Future dependants	S2PMA / S2DFA	CMI_2015 [1.5%]	113% / 96%

Other demographic assumptions are set out in the Actuary's formal report.

APPENDIX B – EMPLOYER DEFICIT RECOVERY PLANS

As the assets of the Fund are less than the liabilities at the effective date, a deficit recovery plan needs to be adopted such that additional contributions are paid into the Fund to meet the shortfall.

Deficit contributions paid to the Fund by each employer will be expressed as £s amounts and it is the Fund's objective that any funding deficit is eliminated as quickly as the participating employers can reasonably afford based on the Administering Authority's view of the employer's covenant and risk to the Fund.

Recovery periods will be set by the Fund on a consistent basis across employer categories where possible and communicated as part of the discussions with employers. This will determine the minimum contribution requirement and employers will be free to select any shorter deficit recovery period and higher contributions if they wish, including the option of prepaying the deficit contributions in one lump sum (either on annual basis or a one-off payment). This will be reflected in the monetary amount requested via a reduction in overall £ deficit contributions payable.

The determination of the recovery periods is summarised in the table below:

Category	Target Deficit Recovery Period	Derivation
Fund Employers	16 years	Determined by reducing the recovery period from the preceding valuation by at least 3 years and to ensure contributions do not reduce versus those expected from the existing plan.
Open Admitted Bodies	16 years	Determined by reducing the recovery period from the preceding valuation by at least 3 years and to ensure contributions do not reduce versus those expected from the existing plan.
Closed Employers	Minimum of 16 years and the future working lifetime of the membership	Determined by the future working life of the membership, and to ensure contributions do not reduce versus those expected from the existing plan.
Employers with a limited participation in the Fund	Determined on a case by case basis	Length of expected period of participation in the Fund

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

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

The objective is to recover any deficit over a reasonable timeframe, and this will be periodically reviewed. Subject to affordability considerations a key principle will be to maintain the contributions at the expected monetary levels from the preceding valuation (allowing for any indexation in deficit payments over the recovery period).

Other factors affecting the Employer Deficit Recovery Plans

As part of the process of agreeing funding plans with individual employers, the Administering Authority will consider the use of contingent assets and other tools such as bonds or guarantees that could assist employing bodies in managing the cost of their liabilities or could provide the Fund with greater security against outstanding liabilities. All other things equal this could result in a longer recovery period being acceptable to the Administering Authority, although employers will still be expected to at least cover expected interest costs on the deficit.

It is acknowledged by the Administering Authority that, whilst posing a relatively low risk to the Fund as a whole, a number of smaller employers may be faced with significant contribution increases that could seriously affect their ability to function in the future. The Administering Authority therefore would be willing to use its discretion to accept an evidenced based affordable level of contributions for the organisation for the three years 2017/2020. Any application of this option is at the ultimate discretion of the Fund officers and Section 151 officer in order to effectively manage risk across the Fund. It will only be considered after the provision of the appropriate evidence as part of the covenant assessment and also the appropriate professional advice.

For those bodies identified as having a weaker covenant, the Administering Authority will need to balance the level of risk plus the solvency requirements of the Fund with the sustainability of the organisation when agreeing funding plans. As a minimum, the annual deficit payment must meet the on-going interest costs to ensure, everything else being equal, that the deficit does not increase in monetary terms.

Notwithstanding the above, the Administering Authority, in consultation with the actuary, has also had to consider whether any exceptional arrangements should apply in particular cases.

APPENDIX C - GLOSSARY

Actuarial Valuation: an investigation by an actuary into the ability of the Fund to meet its liabilities. For the LGPS the Fund Actuary will assess the funding level of each participating employer and agree contribution rates with the administering authority to fund the cost of new benefits and make good any existing deficits as set out in the separate Funding Strategy Statement. The asset value is based on market values at the valuation date.

Administering Authority: the council with a statutory responsibility for running the Fund and that is responsible for all aspects of its management and operation.

Admission bodies: A specific type of employer under the Local Government Pension Scheme (the “LGPS”) who do not automatically qualify for participation in the Fund but are allowed to join if they satisfy the relevant criteria set out in the Regulations.

Benchmark: a measure against which fund performance is to be judged.

Best Estimate Assumption: an assumption where the outcome has a 50/50 chance of being achieved.

Bonds: loans made to an issuer (often a government or a company) which undertakes to repay the loan at an agreed later date. The term refers generically to corporate bonds or government bonds (gilts).

Career Average Revalued Earnings Scheme (CARE): with effect from 1 April 2014, benefits accrued by members in the LGPS take the form of CARE benefits. Every year members will accrue a pension benefit equivalent to 1/49th of their pensionable pay in that year. Each annual pension accrued receives inflationary increases (in line with the annual change in the Consumer Prices Index) over the period to retirement.

CPI: acronym standing for “Consumer Prices Index”. CPI is a measure of inflation with a basket of goods that is assessed on an annual basis. The reference goods and services differ from those of RPI. These goods are expected to provide lower, less volatile inflation increases. Pension increases in the LGPS are linked to the annual change in CPI.

Covenant: the assessed financial strength of the employer. A strong covenant indicates a greater ability (and willingness) to pay for pension obligations in the long run. A weaker covenant means that it appears that the employer may have difficulties meeting its pension obligations in full over the longer term or affordability constraints in the short term.

Deficit: the extent to which the value of the Fund’s past service liabilities exceeds the value of the Fund’s assets. This relates to assets and liabilities built up to date, and ignores the future build-up of pension (which in effect is assumed to be met by future contributions).

Deficit recovery period: the target length of time over which the current deficit is intended to be paid off. A shorter period will give rise to a higher annual contribution, and vice versa.

Discount Rate: the rate of interest used to convert a cash amount e.g. future benefit payments occurring in the future to a present value.

Employer's Future Service Contribution Rate: the contribution rate payable by an employer, expressed as a % of pensionable pay, as being sufficient to meet the cost of new benefits being accrued by active members in the future. The cost will be net of employee contributions and will include an allowance for the expected level of administrative expenses.

Employing bodies: any organisation that participates in the LGPS, including admission bodies and Fund employers.

Equities: shares in a company which are bought and sold on a stock exchange.

Fund / Scheme Employers: employers that have the statutory right to participate in the LGPS. These organisations (set out in Part 1 of Schedule 2 of the 2013 Regulations) would not need to designate eligibility, unlike the Part 2 Fund Employers.

Funding or solvency Level: the ratio of the value of the Fund's assets and the value of the Fund's liabilities expressed as a percentage.

Funding Strategy Statement: this is a key governance document that outlines how the administering authority will manage employer's contributions and risks to the Fund.

Government Actuary's Department (GAD): the GAD is responsible for providing actuarial advice to public sector clients. GAD is a non-ministerial department of HM Treasury.

Guarantee / guarantor: a formal promise by a third party (the guarantor) that it will meet any pension obligations not met by a specified employer. The presence of a guarantor will mean, for instance, that the Fund can consider the employer's covenant to be as strong as its guarantor's.

Investment Strategy: the long-term distribution of assets among various asset classes that takes into account the Funds objectives and attitude to risk.

Letting employer: an employer that outsources part of its services/workforce to another employer, usually a contractor. The contractor will pay towards the LGPS benefits accrued by the transferring members, but ultimately the obligation to pay for these benefits will revert to the letting employer.

Liabilities: the actuarially calculated present value of all benefit entitlements i.e. Fund cashflows of all members of the Fund, built up to date or in the future. The liabilities in relation to the benefit entitlements earned up to the valuation date are compared with the present market value of Fund assets to derive the deficit and funding/solvency level. Liabilities can be assessed on different set of actuarial assumptions depending on the purpose of the valuation.

LGPS: the Local Government Pension Scheme, a public sector pension arrangement put in place via Government Regulations, for workers in local government. These Regulations also dictate eligibility (particularly for Scheduled Bodies), members' contribution rates, benefit calculations and certain governance requirements.

Maturity: a general term to describe a Fund (or an employer's position within a Fund) where the members are closer to retirement (or more of them already retired) and the investment time horizon is shorter. This has implications for investment strategy and, consequently, funding strategy.

Members: The individuals who have built up (and may still be building up) entitlement in the Fund. They are divided into actives (current employee members), deferreds (ex-employees who have not yet retired) and pensioners (ex-employees who have now retired, and dependants of deceased ex-employees).

Minimum risk basis: an approach where the discount rate used to assess the liabilities is determined based on the market yields of Government bond investments based on the appropriate duration of the liabilities being assessed. This is usually adopted when an employer is exiting the Fund.

Orphan liabilities: liabilities in the Fund for which there is no sponsoring employer within the Fund. Ultimately orphan liabilities must be underwritten by all other employers in the Fund.

Percentiles: relative ranking (in hundredths) of a particular range. For example, in terms of expected returns a percentile ranking of 75 indicates that in 25% of cases, the return achieved would be greater than the figure, and in 75% cases the return would be lower.

Phasing/stepping of contributions: when there is an increase/decrease in an employer's long term contribution requirements, the increase in contributions can be gradually stepped or phased in over an agreed period. The phasing/stepping can be in equal steps or on a bespoke basis for each employer.

Pooling: employers may be grouped together for the purpose of calculating contribution rates, (i.e. a single contribution rate applicable to all employers in the pool). A pool may still require each individual employer to ultimately pay for its own share of deficit, or (if formally agreed) it may allow deficits to be passed from one employer to another.

Prepayment: the payment by employers of contributions to the Fund earlier than that certified by the Actuary. The amount paid will be reduced in monetary terms compared to the certified amount to reflect the early payment.

Present Value: the value of projected benefit payments, discounted back to the valuation date.

Profile: the profile of an employer's membership or liability reflects various measurements of that employer's members, i.e. current and former employees. This includes: the proportions which are active, deferred or pensioner; the average ages of each category; the varying salary or pension levels; the lengths of service of active members vs their salary levels, etc.

Prudent Assumption: an assumption where the outcome has a greater than 50/50 chance of being achieved i.e. the outcome is more likely to be overstated than understated. Legislation and Guidance requires the assumptions adopted for an actuarial valuation to be prudent.

Rates and Adjustments Certificate: a formal document required by the LGPS Regulations, which must be updated at least every three years at the conclusion of the formal valuation. This is completed by the actuary and confirms the contributions to be paid by each employer (or pool of employers) in the Fund for the three year period until the next valuation is completed.

Real Return or Real Discount Rate: a rate of return or discount rate net of (CPI) inflation.

Recovery Plan: a strategy by which an employer will make up a funding deficit over a specified period of time ("the recovery period"), as set out in the Funding Strategy Statement.

Scheduled bodies: types of employer explicitly defined in the LGPS Regulations, whose employers must be offered membership of their local LGPS Fund. These include Councils, colleges, universities, police and fire authorities etc, other than employees who have entitlement to a different public sector pension scheme (e.g. teachers, police and fire officers, university lecturers).

Section 13 Valuation: in accordance with Section 13 of the Public Service Pensions Act 2014, the Government Actuary's Department (GAD) have been commissioned to advise the Department for Communities and Local Government (DCLG) in connection with reviewing the 2016 LGPS actuarial valuations. All LGPS Funds therefore will be assessed on a standardised set of assumptions as part of this process.

Solvency Funding Target: an assessment of the present value of benefits to be paid in the future. The desired funding target is to achieve a solvency level of a 100% i.e. assets equal to the accrued liabilities at the valuation date assessed on the ongoing concern basis.

Valuation funding basis: the financial and demographic assumptions used to determine the employer's contribution requirements. The relevant discount rate used for valuing the present value of liabilities is consistent with an expected rate of return of the Fund's investments. This includes an expected out-performance over gilts in the long-term from other asset classes, held by the Fund.

50/50 Scheme: in the LGPS, active members are given the option of accruing a lower personal benefit in the 50/50 Scheme, in return for paying a lower level of contribution.

Committee and date
Pensions Committee
25 November 2016
10.00am
Public

PENSIONS ADMINISTRATION MONITORING REPORT

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

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 introduced by the Public Services Pension Act 2013 has increased 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. LGPS having to fully index GMP's will increase costs for the Fund going forward.

4. Performance and Team Update

4.1 The team's output and performance level to the end of October 2016 is attached at **Appendix A**.

4.2 The chart shows that tasks becoming due and those outstanding increased during October 2016. Also statistics are showing that some month's levels are now higher than historically expected. This is mainly due to the timing of employers uploading data through the iConnect service. If this occurs later in the month the number of tasks still outstanding will be higher as the team have not been able to process these tasks before the end of the month. Collecting the data electronically has meant workloads across the team have increased as we are receiving far more data changes than we did in the past. This will improve the quality of the data held.

4.3 The systems team are looking at getting more employers to send data through the iConnect service. This will start with rolling out a new "online" version to smaller employers, which allows them to input data via an online return rather than submitting a spreadsheet that the team have to manually upload. Guides will be issued together with a full training programme delivered either in person or where this is not possible by telephone.

4.4 At the last committee, an update was given on the Pensions Administration Audit and Systems Audit for the year 2015/16. The ratings for both were good, the highest rating available. The audits for 2016/17 are about to be undertaken.

5. Help Desk Statistics

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

	Aug 2016	Sept 2016	Oct 2016
Telephone calls received	794	904	835
Queries dealt with by helpdesk at first point of contact %*	93.83%	90.60%	92.81%
Users visiting the Website	7864	3390	3208

* 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.

6 Communications

6.1 Annual Benefit Statements (ABS) for active members were issued electronically, on Member Self Service (MSS), in August 2016. This is a secure electronic means where by members log into their own account to view their ABS. The service also allows them to do their own projections.

6.2 Significant work has been undertaken to increase the number of members logging on to the system. In September 2016 letters were issued to all members who had not yet registered on MSS. This included an "activation key" which is needed to register for the first time. As a result the number of individual active members using MSS increased from 13% as at 31 May 2016 to 26% as at the 31 October 2016. More communication work is planned to further increase this uptake.

6.3 It is interesting to note the following Website traffic statistics;

- When members were informed that their ABS was ready to view, there were 686 hits on one day
- The following week the average visits per day were 300-400 compared to the usual 100 hits per day.
- Hits to the website remained high during September but had reduced by the end of the month to the normal level.
- There was a further increase in activity when the Activation key letters were sent out. Including 842 hits in a single day.
- In October an email was sent with information on the Annual Report and advertising the Annual Meeting, this gave another increase of 454 hits in a single day.
- During the past 3 month period 7,236 people visited the "view your pension account online" page.

6.4 Presentations and 1-2-1's were held at Severnside Housing, Wrekin Housing Trust, Telford & Wrekin Council and South Shropshire Housing. These were held throughout September and October at the request of the employers. In total 105 members took up the opportunity to have a 1-2-1 consultation with a member of the pension's team.

6.5 The retired members' newsletter InTouch attached at **Appendix B** was issued in early November. It covers an update from Jean Smith, pensioner representative and also features an update from the Pensions Manager and covers various pension issues such as death benefits in retirement.

6.6 A newsletter for active members is being prepared in collaboration with 5 other LGPS Funds. The newsletter will cover pension and taxation rules, FAQs the pension's team usually receives and will encourage more members to sign up to MSS.

6.7 The Annual Report is available on the Fund's website and a link to this was emailed to all members to view.

6.8 The Prudential organised presentations with Shropshire Council and Telford & Wrekin between July and October. This covered Additional Voluntary Contribution options within the LGPS. In most cases these were supported by a member from the Pensions Team. Over 247 members attended across the two employers and the presentations were well received.

7 The Pensions Regulator

7.1 The Pensions Regulator recently reminded public service schemes of their duty to publish information on their pension boards or risk being fined (up to £5,000 for an individual and up to £50,000 in any other case). Fines can be imposed for any compliance failure against the Public Service Pensions Act 2013 and the Regulator's Code of Practice. The Fund's website contains the information required.

7.2 The Regulator has launched an interactive self-assessment tool for public service pension schemes, including the LGPS. The tool is designed to help a scheme identify issues and areas for improvement, and what actions to take to ensure it is being run effectively and meeting their legal requirements and complying with the guidance set out in the Regulator's code of practice number 14.

8 Government publish response to College insolvency consultation

8.1 Following the Government consultation undertaken earlier this year to introduce insolvency provisions for further education and sixth form colleges in England, the Department for Education has published its formal response.

8.2 The response notes that the LGPS was a common issue raised in responses and the Government respond to a number of the concerns raised about the potential impacts on the LGPS. In particular, the Government's views are as follows:

- Following the area review process, the risk of college insolvency will be very low and the special administration regime (SAR) will be a tool of last resort.
- However, in the event of a college insolvency event, most cases would not result in the crystallisation of a pension deficit as there would be a merger with, or transfer to, another provider.
- Pension funds should nevertheless assess the strength of each employer's covenant.
- Providing guarantees from Government for college liabilities would not be appropriate as colleges do not form part of the public sector. The comparison with academies, for whom the Government does

provide a limited guarantee, is therefore not fitting because academies are public bodies.
- During an insolvency event, the Government would consider whether ongoing pension contributions should form part of the costs of administration to be funded by Government.

8.3 The Government will now take forward their plans via primary legislation when parliamentary time permits.

9. Publication of LGPS (E&W) statistics 2015/16

9.1 Following the completion of the 2015/16 SF3 data collection forms by LGPS administering authorities in England and Wales, DCLG have published their results.
The key points from the England release are:
- Total Local Government Pension Scheme expenditure in England in 2015-16 was £10.0 billion. On a like-for-like basis the increase was £0.6 billion or 6.1%
- Total Local Government Pension Scheme income in England in 2015-16 was £12.4 billion. On a like-for-like basis the decrease was £0.2 billion or 1.4%.
- Employers' contributions to the Local Government Pension Scheme in 2015-16 amounted to £6.6 billion and employees' contributions to the scheme were £2.0 billion.
- The market value of the Local Government Pension Scheme funds in England at the end of March 2016 was just over £200 billion.
- The Local Government Pension Scheme in England encompasses more than 5.06 million people. Of this number, 1.8 million are employees who are still contributing to the scheme, 1.5 million are pensioners and 1.8 million are former employees who are entitled to a pension at some time in the future

10 Publication of September 2016 CPI rate

10.1 On 18 October 2016, the Office for National Statistics (ONS) announced that the Consumer Prices Index (CPI) rate of inflation for September 2016 was 1.0%.

10.2 Government policy in recent years has been to base both pensions increase under the Pensions (Increase) Act 1971 and revaluation of pension accounts under section 9 of the Public Service Pensions Act 2013 on the rate of CPI for September of the previous year.

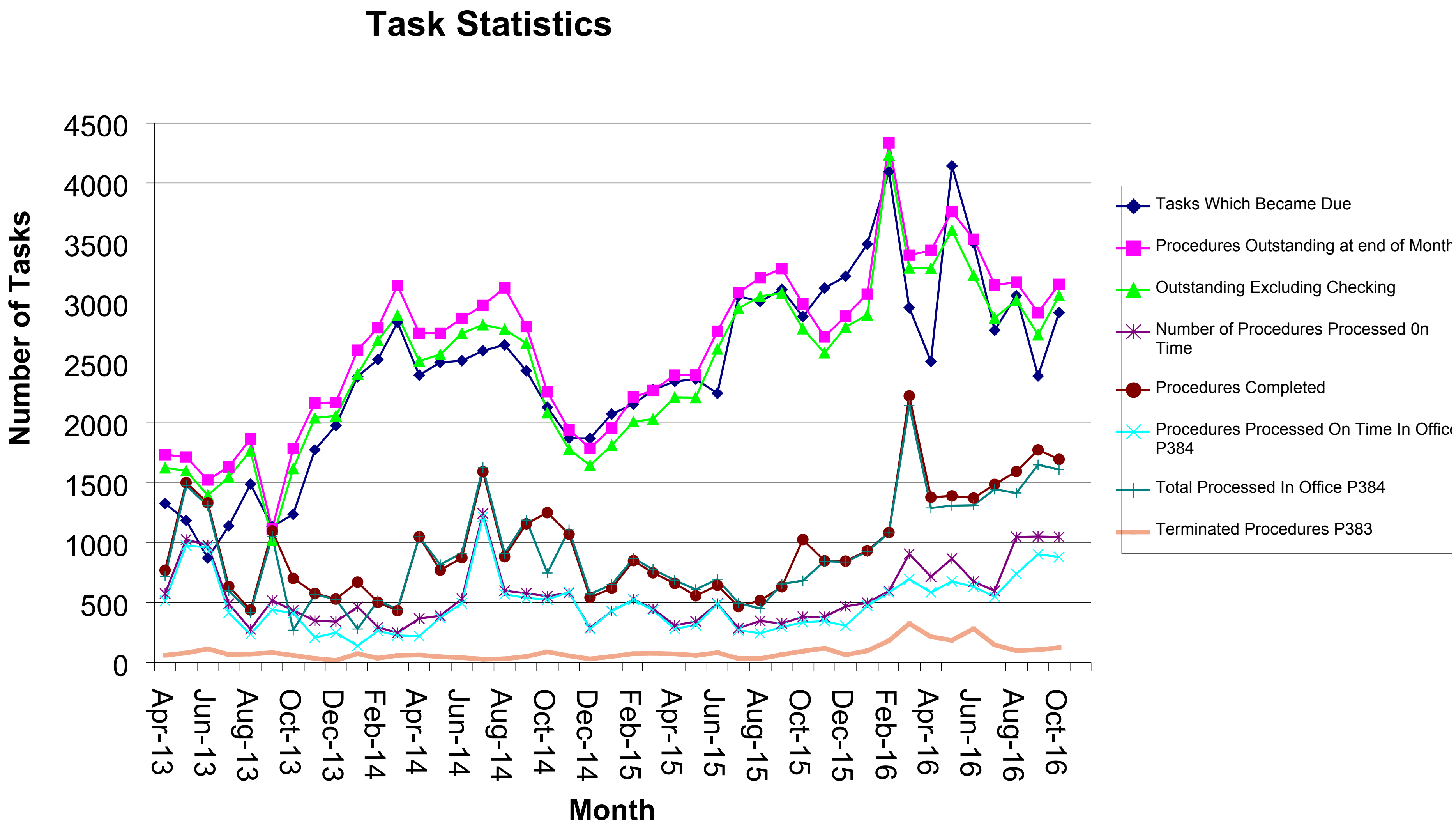
10.3 We await confirmation from the Government in due course that revaluation and pensions increase for April 2017 will apply in the LGPS at a rate of 1.0%.

11 Scheme Advisory Board – implications for the LGPS of a significant increase in academy employers

11.1 The Scheme Advisory Board (SAB) has commissioned PWC to investigate the implications for the LGPS of a significant increase in academy employers and to develop options to manage those implications. They will present their findings to the SAB in March 2017 in the form of a comprehensive report covering the administrative, actuarial, legal and investment issues relating to the implications identified and options proposed. Between now and the end of the year PWC will be looking to engage with stakeholders, including administering authorities, to gain their input.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Pensions Committee Meeting 21 September 2016 Pensions Administration Report
Cabinet Member (Portfolio Holder) NA
Local Member NA
Appendices Appendix A – Performance Monitoring Appendix B – InTouch

Appendix A



Task Statistics
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1500
1000
500
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Jun-13
Aug-13
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Feb-14
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Jun-14
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Apr-16
Jun-16
Aug-16
Oct-16
Month
Tasks Which Became Due
Procedures Outstanding at end of Month
Outstanding Excluding Checking
Number of Procedures Processed 0n Time
Procedures Completed
Procedures Processed On Time In Office P384
Total Processed In Office P384
Terminated Procedures P383

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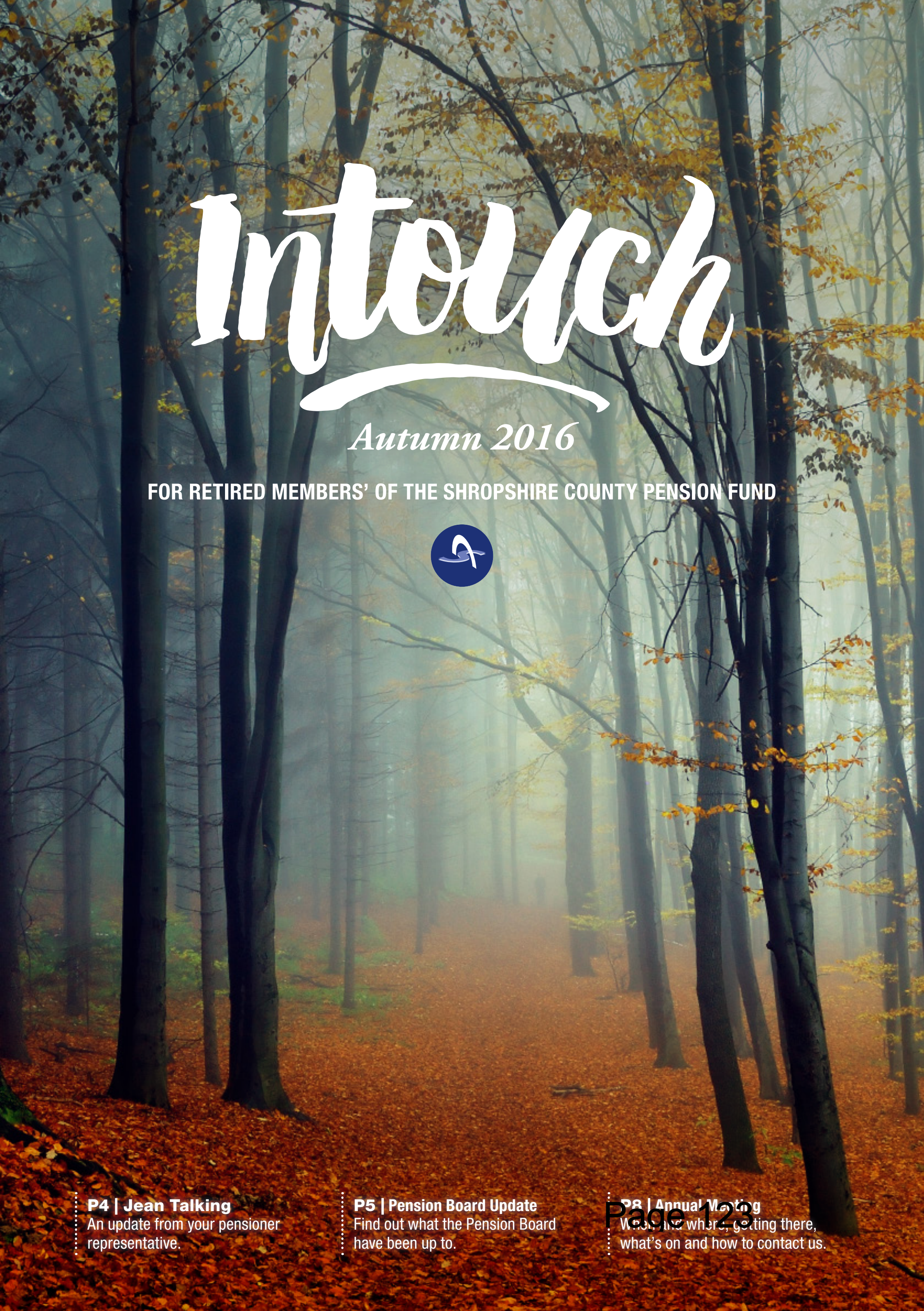

Intouch

Autumn 2016

FOR RETIRED MEMBERS' OF THE SHROPSHIRE COUNTY PENSION FUND

P4 | Jean Talking
An update from your pensioner representative.

P5 | Pension Board Update
Find out what the Pension Board have been up to.

P8 | Annual Meeting
When and where, getting there, what's on and how to contact us.

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FUTURE PAY DATES

When are pensions paid?
Your pension is normally paid on the 29th of each month unless that falls on a bank holiday or weekend, when it will be paid on the previous working day closest to the 29th.

We no longer send out payslips unless your pension payment has changed by £5 from the previous month. Don't forget you can securely view your payslips and P60s, see page 13 for more information.

Below are your 2016/17 pay dates:

October 2016	Friday 28th
November 2016	Tuesday 29th
December 2016	Thursday 22nd
January 2017	Friday 27th
February 2017	Tuesday 28th
March 2017	Wednesday 29th
April 2017	Friday 28th

PAY DATES FOR THE REST OF 2017 WILL BE ADDED TO OUR WEBSITE OVER THE NEXT COUPLE OF MONTHS.

Welcome

Welcome to the Autumn 2016 edition of InTouch. Not to long ago I had the opportunity to catch up with many of you at the Retired Members' Meeting. I hope that you found the presentations from Affinity Connect and West Mercia Police as helpful and informative as I did. If you have any suggestions on guest speakers for next year's meeting, please get in contact with the team.

Here in the pensions office we have been very busy as this year is the Fund's Triennial Valuation, the results of which we will report in the Spring 2017 edition of this magazine. For a more detailed explanation on the Valuation and its importance please turn to page 7.

This year's Annual Meeting is taking place on the 2nd December. The Annual Meeting updates you on all of the latest Pension Fund news and provides a chance to ask the pensions team any questions you may have about your benefits.

This will be your opportunity to find out about the initial Valuation results, how the LGPS investment pooling project is progressing, plus hear one of our investment managers speak. Definitely not to be missed!

On page 4 you can find out what your pensioner representative, Jean Smith, has been up to over the last few months. As always if you have any questions for Jean please contact the team and we will pass them on for you.

We also have an update on page 6 on how the Pension Board have been getting on. The board members have been working on your behalf attending training sessions, board meetings and pension events.

Thank you for reading, and I hope you take the opportunity to catch up with the team at the Annual Meeting in December.

DEBBIE SHARP
PENSIONS ADMINISTRATION MANAGER
SHROPSHIRE COUNTY PENSION FUND

"Jean talking"

I do hope you have enjoyed the summer with its assortment of weather. The Annual Retired Members meeting was held on 29th June, which was one of the wettest days of the year, but it did not deter members with a good attendance. The speakers and the stands were very interesting and it was a most enjoyable morning.

Since last talking to you, I have attended two pensions committee meetings, the Retired Members' Meeting, the Annual Training Day and I am now preparing for the next committee meeting in September.

The three-year valuation of the Pension Fund is taking place this year interim results should be available in November 2016, and provided at the Annual Meeting. Despite the Brexit vote being a surprise to the financial markets, there has not been any significant effect on the Pension Fund as foreign exchange rates have helped global funds.

Over the last quarter to the end of March the Pension Fund increased by 1.2%. The rolling three-year performance of the Fund is 7.2% per annum compared to a benchmark of 6.1%. Infrastructure delivered a return of 19.7% p.a., Fixed Income Managers achieved a return of 3.9% p.a. and Private Equity earned 15.4% p.a.

I mentioned in my Spring article that the Government had issued Investment Reform Criteria and Guidance for Pension Funds to pool their funds to have assets of at least £25 billion in total. Shropshire Pension Fund is progressing well with creating an investment pool with Cheshire, Derbyshire, Leicestershire, Nottinghamshire, Staffordshire, West Midlands (including West Midlands Integrated Transport Authority) and Worcestershire. In July, the above Funds' submitted a detailed business case to the Government for creation of a multi-asset investment pool called LGPS Central.

The business case addresses the government's four criteria for investment pooling as follows:

1. **Scale:** £34 billion of assets that exceeds the governments expected figure of at least £25 billion
2. **Governance:** Expected to meet the Governments criteria for robust governance
3. **Cost savings and value for money:** With projected savings of £200 million by 2034 net of transitional, set-up and operating costs, delivered through economies of scale, mandate rationalisation, fee negotiations and more use of direct management
4. **Infrastructure investment of 5% or more of assets:** The pool is exploring National Infrastructure investment platforms

The pooling arrangements are expected to be in place by 1st April 2018. However, each authority will still maintain its own identity and local accountability whilst achieving savings.

I do hope you will be able to attend the Annual Pensions meeting that is taking place in the Council Chamber at the Shirehall in Shrewsbury on Friday 2nd December 2016.

JEAN SMITH
PENSIONER REPRESENTATIVE
PENSIONS COMMITTEE

Valuation

A Valuation of the Fund is undertaken to ensure that the Fund's assets are sufficient to meet the Fund's liabilities.

The Valuation analyses scheme membership by type, assesses the Fund's financial position, sets out the assumptions for future inflation and investment returns and then provides a schedule of the contribution rates for each of the Fund's employing bodies. The Valuation happens every three years with the previous one being undertaken as at 31st March 2013.

Shropshire County Pension Fund's Actuary, Mercer, carries out the valuation and reports their findings in the actuarial report. Mercer are currently working on the data for the 2016 report. The valuation reports for 2013 and 2010 can be found on the Pension Fund website, and once released in spring next year, the 2016 actuarial report will also be uploaded to the website.

The 2013 valuation showed that the Fund had assets to cover 76% of the Fund's liabilities. The 2016 valuation will focus on membership up to 31st March 2016 and the results will be released by 31st March 2017. We will report the Actuary's findings in the Spring 2017 edition of InTouch.

Local Pension Board

Update from the Chairman

What it does & how it works

What is the Pension Board's function?
Every Public Service pension scheme is required to have a Pension Board. The role of the Board is to help to ensure that the scheme complies with governance and administrative requirements - in other words to see that the scheme is working properly in accordance with its own rules and for the benefit of its members.

Who are the people on the Shropshire County Pension Board?
All Pension Boards have to have an equal number of employer representatives and member representatives - and there has to be a minimum of four Board members in total.

The Shropshire Pension Board has four representatives, and they are:
Stuart Wheeler - who is an employer representative and who is the Head of Human Resources, Marketing and Communications at Severnside Housing.

Liz Furey - who is the Director of Finance at Harper Adams University, and Liz is an employer representative.

Pat Hockley - who has an extensive career background in contract management and commissioning. Pat is a member representative.

Mike Morris - who is also a member representative, and Chair of the Pension Board, and whose background is financial management and Commissioning.

These four Board members are supported by Shropshire County Pension Fund and Administrative staff who provide detailed updates on legislation, as well as reports and responses to any information which the Board calls for.

How often does the Pension Board meet - and where?
The Pension Board meets at least twice a year, usually at the Shirehall in Shrewsbury, and those meeting dates are shown, in advance, on the Council's website - and they are open to the public. If anyone wants to raise a question they can do so by sending it in writing, in advance of the meeting so it can be answered at the meeting itself.

How do the Board members keep their knowledge up to date?
As you would expect, the Pensions Regulator gives us clear guidance on the content and amount of training and knowledge that a Pension Board member must have.
The Board takes its training responsibilities very seriously and each of the four members attends regular training updates, both at the Shirehall and also at special training events designed specifically for Pension Board members. These are delivered regionally and nationally, usually though the Local Government Association.

What are the costs of running the Pension Board?
The four Board members are not paid a salary for their Pension Board work. They can reclaim expenses for attending Pension Board and training meetings. They can also receive a standard meeting allowance for attendance in line with Shropshire Councillors agreed rates - if they choose to do so.

What subjects has the Board been looking at over the past year?
As well as receiving updates on legislative and administrative regulations the Board receives administration updates from the Shropshire Pensions administration team and reviews reports received from the Shropshire County Pensions Committee.

The Board also can request special reports on any issue which it wishes to examine in detail.

Over the past year these have included:

- A report on communication and safeguarding of hard to reach groups
- An update on the valuation of the Shropshire County Pension Scheme
- A report on the early implication and impact of BREXIT on the Pension fund
- An update on the current and future training needs of the Shropshire Board members
- Continuing reports on pension related complaints - and their resolution
- There are no restrictions on the questions or topics the Pension Board member can ask - or the report it can call for. All of the Board agendas and public reports are available online and can be accessed via the Funds website.

What does the future hold for the Pension Board?
Firstly, Board members will need to continually update their knowledge - particularly in the light of changing regulations - and the implications and results of economic and social changes over next few years.

Also, the forthcoming LGPS 'pooling' arrangements, will be closely scrutinised by the Pensions Committee and the Pension Board particularly during the transition phases. More information on the LGPS pooling project can be found on the Fund website.

Board members will continue to attend the meetings of the Shropshire County Pension Committee. The Board are not members of the Pensions Committee - nor do they seek to influence it - but they do act as informed observers.

The Board has a particularly busy year ahead and wishes to encourage pension fund members to take an active interest in its meetings and reports.

Annual Meeting

You are invited to the Fund's 2016 Annual Meeting.

Where & When

The Council Chamber

Shirehall

Shrewsbury

SY2 6ND

• • •

2nd December 2016

• • •

11.00am until 1.00pm

Getting there

Parking: There are limited additional spaces in the 'overflow' car park which is located opposite the 'White Horse' pub off the A5064 (London Road) if spaces in the visitors car park next to the Shirehall are full. There is disabled parking available directly outside the front of the Shirehall.

Further parking can be found in the Abbey Foregate car park located 15 minutes walk from the Shirehall.

Bus: A bus runs every 15 minutes from the main bus station in Shrewsbury town centre stopping directly outside the Shirehall. Buses run in both directions and numbers/ destinations include the 8 Sutton Road, 81 Wellington, X5 Telford, 436 Bridgnorth and the 96 Ironbridge.

The above details were correct at the time of printing. For the most up-to-date information please visit the arriva website directly at: www.arrivabus.co.uk

What's On?

The meeting will provide an overview of all the latest Pension Fund news including the interim results of this year's Valuation, updates on the LGPS pooling arrangements and a report on how the Fund has performed over the last year.

Tea, coffee and biscuits will be available and members of the Pensions Team will be on hand to answer any questions you may have about your LGPS benefits.

We hope to see you there!

Contact us

Let us know you will be attending by returning the form at the bottom of the page.

OR

Telephone: 01743 252130
Email: pensions@shropshire.gov.uk

Annual Meeting Reply Slip

I would like to attend the Annual Meeting on 2nd December 2016 *(please tick)*

Name:

Payroll ref:

Tel:

Email:

PLEASE RETURN TO: PENSION SERVICES, SHIREHALL, ABBEY FOREGATE, SHREWSBURY, SHROPSHIRE, SY2 6ND

Reporting the death of a Scheme Member

As a retired member of the LGPS, in the event of death your benefits will no longer be payable but your loved ones may be entitled to benefits. The benefits that may be payable in the event of your death are:

The process

It is essential that the Fund is notified of a death as quickly as possible so that the process of establishing whether beneficiary benefits are due can be started without delay. If the estate is complex this can take a while.

1. When contacting the Fund it would behelpful if the following information is provided:
   - Full name and address of the deceased
   - The date of death and where the death was registered
   - Reference number such as National Insurance number or Payroll Reference Number
   - Full name and address of the Next of Kin and a contact telephone number
2. The Fund will then write to the Next of Kin to request to see the death certificate and any other relevant certificates, and declarations about marital status and any eligible children.
3. When entitlement has been established and the relevant benefits have been calculated, the recipient will be informed and the appropriate payments made.

Lump Sum Death Grant

A Lump Sum Death Grant payment can be due as a one off payment. Any payment of a Lump Sum Death Grant depends on when you left the LGPS, and any payment due is at the discretion of the Pension Fund. But remember, you can nominate your beneficiaries by completing an expression of wish form.

A Lump Sum Death Grant may be payable if you are under the age of 75 at the date of your death. How any Death Grant would be calculated would depend on the date that you retired from the Scheme.

Left before 1st April 2008
A lump sum death grant would have been payable if you left the LGPS before 1st April 2008 and died with less than 5 years pension paid. This period of 5 years has now elapsed.

Left between 1st April 2008 and 31st March 2014

A lump sum death grant is payable if you left the LGPS between 1st April 2008 and 31st March 2014 and die under age 75 with less than 10 years pension paid. **The amount payable is:** 10 times your annual pension less the total amount of annual pension already paid.

Left after 31st March 2014

A lump sum death grant will be paid if you die and less than 10 years pension has been paid and you are under age 75. The amount payable would be based on the regulations in force for each tranche of service, pre and post April 2014:

- **Post April 2014 membership:** 10 times your annual pension in respect of your membership of the Scheme after 31st March 2014 (prior to giving up any pension for a tax free cash lump sum), less any pension already paid to you in respect of your post 31st March 2014 membership and the amount of any tax-free cash lump sum you chose to take by giving up some of the pension you built up after 31st March 2014 when you drew your pension at retirement.
- **Pre April 2014 membership:** 10 times the level of your annual pension in respect of your membership of the Scheme before 1st April 2014 (after giving up any pension for a tax free cash lump sum), less any pension already paid to you in respect of your pre 1st April 2014 membership.

If you are also an active member of the LGPS when you die

If you are also an active member of the LGPS and die in service, the death grant payable would be calculated as above **or** the death in service lump sum death grant of three times your assumed pensionable pay, whichever is greater.

› Survivors' pension

Current scheme regulations allow a survivors' pension to be paid in the event of your death to a spouse, civil partner, cohabiting partner or to any eligible children. Survivors' pensions become effective from the day after death and any pension that may be payable will depend on the membership you had previously built up and when you left the LGPS.

Any spouses' benefits payable in the event of your death would depend on the following periods of membership:

- Widows' pensions are based on membership from 6th April 1978 or the date when you joined the scheme if later
- Widowers' and civil partners are based on membership after 6th April 1988 or the date when you joined the scheme if later.

Widowers' pension benefits are based on post 5th April 1988 membership only, unless you are a female member who has previously made an election for any period from 1st April 1972 to 5th April 1988 to count.

If you die leaving one or more eligible children, your children are entitled to a child's pension. If there is more than one eligible child, the pension will be shared equally among the children.

latest news & updates

Annual Report

The Annual Report highlights the important issues affecting the Fund over the previous financial year, together with full details about the Fund's administration, management and financial performance.

Financial statements contained in the report record the transactions of the Scheme during the year ended 31st March 2016.

You can read the 2015/16 Annual Report, and previous reports, on the Fund website or by visiting the Shirehall, Shrewsbury to view a paper copy.

The Fund published its Annual Report for 2015/16 on the 30 September 2016.

The LGPS – Implications of the EU referendum

The following statement has been issued by the Department for Communities and Local Government following the decision in June 2016 for Britain to leave the European Union:

"*The vast majority of EU legislation which impacts either directly or indirectly on the LGPS such as the Institutions for Occupational Retirement Provision (IORPs) is already written into UK legislation. Accordingly the scheme will need to continue to comply with such legislation until such time as Britain leaves the EU after which it would of course be the prerogative of a future UK government to seek to repeal some or all of this legislation subject to the terms of any new trade arrangements made with the EU.*

With regard to UK government policy and legislative plans for the LGPS the situation is 'no change'. Regulatory changes, policy objectives and the timescales for implementing them remain as they were before the vote."

Your pensioner representative Jean Smith mentioned in her article on page 4, that there has not been any significant impact on the Shropshire Fund as a result of Brexit. This will be monitored at Pensions Committee and Jean will ensure that retired members of the scheme are kept informed of the latest news and updates through her reports for InTouch. You can review the papers and reports of the the latest committee minutes on the Fund website.

The latest issues affecting the Fund will be covered in greater detail at the Annual Meeting on 2nd December. Please see page 8 for further information about this year's meeting.

Shropshire County Pension Fund participates in the National Fraud Initiative.

This initiative requires that payroll and pensions data be made available for bodies responsible for auditing and administering public funds.

Being part of the National Fraud Initiative means we may share information with other public bodies, such as the Department for Work and Pensions, in order to prevent and detect fraud. All data will be dealt in line with the Data Protection Act 1998 and the Code of Data Matching Practice 2008.

MORE ON THE NATIONAL FRAUD INITIATIVE CAN BE OBTAINED BY CONTACTING AUDIT SERVICES ON:
TELEPHONE: 01743 257737
WWW.SHROPSHIRE.GOV.UK/PRIVACY/NATIONAL-FRAUD-INITIATIVE

Keeping In Touch

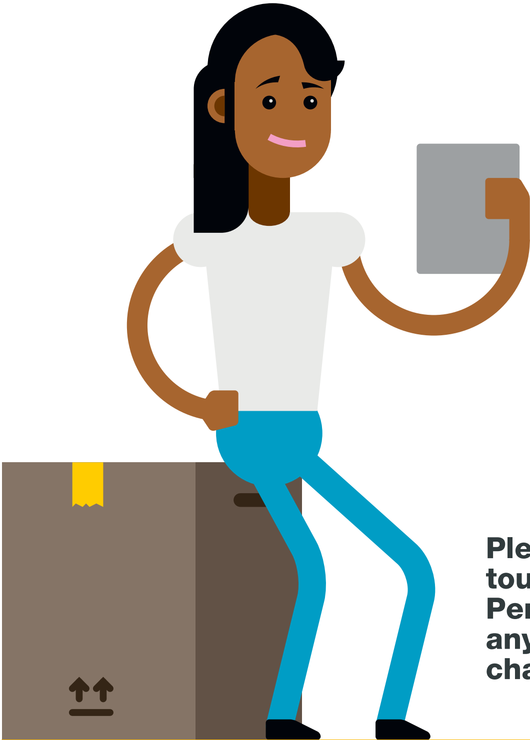
Changed your bank account?

To notify the Fund of a change to your bank details, please complete and return the Bank Details form which can be found on the Fund website, or send a signed letter to the Fund. Please be aware that payments can only be made to bank accounts registered in the name of the member who is in receipt of the pension.

Has your marital status changed?

If you have recently married, entered into a civil partnership, or undergone a divorce, please let the Fund know. You will be asked to provide your original marriage certificate, civil partnership certificate or Decree Absolute to authorise the change.

IF YOU WOULD LIKE MORE INFORMATION ABOUT SHROPSHIRE COUNTY PENSION FUND YOU CAN VISIT OUR WEBSITE.
WWW.SHROPSHIRECOUNTYPENSIONFUND.CO.UK



Please remember to keep in touch with Shropshire County Pension Fund and notify us if any of your personal details change.

Moved house recently?

If you have recently moved house it is important to inform the Fund of your new postal address. Address changes cannot be accepted over the phone as a signature is required to authorise the change, therefore if you need to notify us of a change of address, please send a signed letter to the Pension Fund or complete and return the Address Change Form which can be found on our website.

Are your nominated beneficiaries up-to-date?

As a retired member of the LGPS, a death grant lump sum may be payable in the event of your death. It is important to check your death grant nominations regularly, particularly after a change in personal circumstances. If you would like to update your death grant nominations, please complete the Expression of Wish form which can be found on the Pension Fund website.

CONTACT US
WRITE: PENSION SERVICES, SHIREHALL, ABBEY FOREGATE, SHREWSBURY, SHROPSHIRE, SY2 6ND
TELEPHONE: 01743 252130

Alzheimer's Society

Fighting against dementia

Around 23 million people in the UK know a close friend or family member with dementia. Retired LGPS member Katie Foster is one of them.

Katie, who has lived in Shropshire for over 30 years, lost her dad Tim to Alzheimer's in 2007. But she wants to do something positive rather than watch it happen to others. Katie is determined to support dementia research and help find a way to beat this devastating condition.

LEARN MORE ABOUT ALZHEIMER'S RESEARCH UK AT:
WWW.ALZHEIMERSRESEARCHUK.ORG

Katie has always lived a busy life. She became part of the Shropshire County Pension Fund after working at Ironbridge Gorge Museum for almost 20 years as Head of Marketing & PR. She now hopes to find more time to help Alzheimer's Research UK, the UK's leading dementia research charity, in establishing regional fundraising groups in Shropshire.

Alzheimer's can cause an array of symptoms, including memory loss, confusion and problems carrying out daily tasks such as eating, washing and dressing. Katie said:

"One of the hardest things when caring for my dad was trying to get him to wash or change his clothes. He wouldn't do it himself and got very agitated if I tried to press him. To make things worse, he was registered blind due to glaucoma, adding greatly to the confusion and isolation that dementia can cause.

"As his dementia advanced, my dad increasingly seemed to live in the past. He was a prisoner of war for five years after being taken prisoner defending Dunkirk in 1940. Many of his comrades were killed, and he ended up in a PoW camp in Poland. In the last year of his life, he often thought he was back in the camp and had very vivid visions of it. People often just think of forgetfulness when they think of dementia, but it's so much more than that."

Alzheimer's Research UK powers world class studies into dementia research, focusing on prevention, diagnosis and treatments. Studies show that one in three people over 65 will die with some form of dementia.

Fundraising groups play a crucial part in the fight against dementia, which currently affects around 5,000 people in Shropshire alone. Volunteers with a range of skills are required for the groups, which will aim to raise vital funds and awareness for the charity by arranging events and activities in the local community. Katie commented:

"I've always enjoyed getting involved in fundraising and, having seen my father with dementia, I knew I wanted to support Alzheimer's Research UK. Dementia is one of few conditions that takes away someone's personality and changes who they truly are.

"I hope others will join me in raising money for this vital cause and helping future generations who, thanks to this research, hopefully won't have to watch a much-loved relative or friend disappear in front of them as dementia takes hold."

What is dementia?

- The term dementia is used to describe a collection of symptoms, including a decline in memory, reasoning and communication skills.
- Over time people with dementia can have trouble with everyday tasks such as feeding and dressing themselves, walking, talking and in the later stages even swallowing.
- There are many forms of dementia - Alzheimer's disease is the most common, followed by vascular dementia.
- Dementia is caused by diseases of the brain. It is not an inevitable part of ageing.

TO FIND OUT MORE ABOUT JOINING AN ALZHEIMER'S RESEARCH UK FUNDRAISING GROUP, PLEASE CONTACT ZOE BAGGOTT, SHROPSHIRE-BASED REGIONAL FUNDRAISING OFFICER:
TELEPHONE: 07469 852501 | **EMAIL:** ZOE.BAGGOTT@ALZHEIMERSRESEARCHUK.ORG

What are you doing now?

What do members do in their retirement?
What do I do in my retirement? Not a lot you might say.

My first task on retirement was to sort out family photographs and papers which had been kept in two shoe boxes over the years. In which, I found a small box of badges I had worn during my service in the Royal Marines and their Reserves. This awoke my interest in the corps “once a marine always a marine” as they say. So, I joined the Royal Marines Historical Society.

I started to visit bric-a-brac shops and it is surprising what can be found in such shops, military antique shops, military fairs and auctions. So started my collection of memorabilia. But, I found there was more to it than just collecting. I needed to know how to spot an original badge, what was a reproduction and there are many on the market, and how to clean a gilt badge without removing the gilt.

Then, how you record your badges, such as date purchased, condition, when worn and by which officers. Finally how to display your badges. There are a number of books on the subject which are a great help to a beginner.

Collecting takes up much of my time in particular if there is need to research a badge which is not shown in any reference book. The Corps museum is a good source of reference, but there are others.

I now have some 2,000 items in my collection, including Royal Marines Light Infantry and Royal Marines Artillery badges. These two arms of the corps were amalgamated in 1923.

The earliest item I have is an Olten Ranks Cross Bar Plate worn between 1802 and 1828 which was worn at the Battle of Trafalgar in 1805. In addition to Royal Marines badges I also collect Army cloth shoulder titles and have some 300 of these. Some regiments have a variety of different titles.

Just to get me started, after sorting out my family photographs and papers I went on to produce my family tree, going back to 1710.

A busy retirement.

HAROLD BERRY
RETIRED MEMBER
SHROPSHIRE COUNTY PENSION FUND

Pensions Online

Click register under 'View your payslips'

Register today by visiting:

www.shropshirecountypensionfund.co.uk

Information about your LGPS pension

Pension Payment dates

Latest News and Updates

View your payslips & P60s

Forms and guidance

Contact us

If you can read this but know someone who cannot, please contact us on (01743) 252130 so we can provide this information in a more suitable format. If you wish to contact us on any issue in this magazine or have a query regarding your pension, please contact the Pensions Team. Office hours are Monday to Thursday 8.30am to 5pm and Friday 8.30am to 4pm. If you would prefer to discuss your pension in person, you are welcome to come in and see us at the address below:

Pension Services, Shropshire Council,
Shirehall, Abbey Foregate, Shrewsbury, SY2 6ND

Email: pensions@shropshire.gov.uk
Website: www.shropshirecountypensionfund.co.uk
Tel: 01743 252130

OTHER USEFUL CONTACTS

Tax Office
Tel: 0300 200 3300
or from outside the UK 0044 1619 308 705

Department for Work and Pensions
Tel: 0345 606 0265 (For State Pension queries.)
Website: www.gov.uk

Do you need this magazine in an alternative format?

If so, please contact us.

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