



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

Date: Thursday, 8 March 2018

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

**Date:** Friday, 30 November 2018

**Time:** 9.30 am

**Venue:** Wilfred Owen Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND

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

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

**Members of the Committee:**

Thomas Biggins  
Chris Mellings  
Brian Williams  
Michael Wood

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

Malcolm Smith  
David Wright

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

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

**Substitute Members of the Committee:**

Roy Aldcroft (SC)

Roger Evans (SC)

Simon Harris (SC)

Alexander Phillips (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](mailto:tim.ward@shropshire.gov.uk)

# AGENDA

## **1 Apologies and Substitutions**

To receive apologies for absence and notification of any 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 2018 are attached marked 3

## **4 Public Questions**

To receive any questions from members of the public, notice of which has been given in accordance with Procedure Rule 14. The deadline for this meeting is 10.00am on 29 November 2018

## **5 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 the following agenda items 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

## **6 Absolute Return Bond Fund Managers**

To receive a presentation from Louis Paul Hill - Aon

## **7 Absolute Return Bond Fund Manager Presentations**

## **8 Appointment of Absolute Bond Fund Manager (Pages 5 - 54)**

The exempt report of the Head of Treasury and Pensions is attached marked 8

## **9 Equity Protection Strategy Update**

To receive a presentation from Louis Paul Hill - Aon

**10 Investment Monitoring - Quarter to 30 September 2018** (Pages 55 - 102)

The exempt report of the Head of Treasury and Pensions is attached marked 10

**11 LGPS Central Active Global Equities** (Pages 103 - 144)

The exempt report of the Head of Treasury and Pensions is attached marked 11

**12 New Employers** (Pages 145 - 148)

The exempt report of the Pensions Administration Manager is attached marked 12

**13 Record of Breaches** (Pages 149 - 154)

The exempt report of the Pensions Administration Manager is attached marked 13

**14 Exempt Minutes** (Pages 155 - 158)

The exempt minutes of the meeting held on 21 September 2018 are attached marked 14

The following agenda items will be taken in public.

**15 Corporate Governance Report** (Pages 159 - 230)

The report of the Investment Officer is attached marked 15

**16 Pensions Administration Monitoring** (Pages 231 - 254)

The report of the Pensions Administration Manager is attached marked 16



Pensions Committee

30 November 2018

10.00 a.m.

## MINUTES OF THE PENSIONS COMMITTEE MEETING HELD ON 21 SEPTEMBER 2018

10.00 AM - 1.30 PM

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

### Present:

Members of the Committee:  
Councillor Thomas Biggins (Chairman)  
Councillors Chris Mellings and Brian Williams

Co-Opted Members (Voting):  
Councillor David Wright

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

### 23 Apologies and Substitutions

23.1 Apologies for absence were received from Malcolm Smith and Michael Wood

### 24 Disclosable Pecuniary Interests

24.1 There were no declarations of disclosable pecuniary interests

### 25 Minutes of the Previous Meeting

25.1 The minutes of the last meeting held on 27 July 2018 had been circulated

25.2 Resolved:

That the minutes of the meeting held on 27 July 2018 be approved as a true record and signed by the Chairman

### 26 Public Questions

26.1 There were no questions from members of the public

### 27 LGPS Central - Global Equity and Alternatives Update

27.1 Members received a presentation from Colin Pratt, Investment Director LGPS Central which gave an update on the LGPS Central Global Active Equity Multi Manager Fund

## 28 **LGPS Central - Fixed Income Update**

- 28.1 Members received a presentation from Gordon Ross Investment Director, Fixed Income, LGPS Central which gave an update on Fixed Income Investments available through LGPS Central.
- 28.2 Members were reminded that the product offered did not fit with the current strategy of the Pension Fund and in response to a query Mr Ross stated that it was anticipated that a suitable product would be available in the first quarter of 2020

## 29 **Corporate Governance Report**

- 29.1 A report informing members of Corporate Governance and socially responsible investment issues arising in the quarter 1<sup>st</sup> April 2018 to 30<sup>th</sup> June 2018 had been circulated.

- 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 **Pensions Administration Monitoring**

- 30.1 Members received the report of the Pensions Administration Manager which provided Members with monitoring information on the performance of and issues affecting the Pensions Administration Team.
- 30.2 The Pensions Administration Manager advised the meeting that the Annual Benefit Statement had been issued to all active members by the statutory deadline of 31 August and that the majority of members accessed their statement through a secure area on the Pension Fund website with 234 members receiving their statement in paper format posted to their home addresses
- 30.3 The Pensions Administrations Manager reminded the meeting that the Fund maintained a list of Independent Registered Medical Practitioners (IRMP) that employers could use for ill health retirement opinions, and that following a recent review of the list three IRMPs currently on the list had requested to retire from the list. The Pensions Administrations Manager advised members it was proposed that 4 doctors - Dr Sharp, Dr Mcilroy, Dr Ezan and Dr Cathcart be added to the list of IRMPs. She assured Members that the 4 Doctors fulfilled all the qualifications required.
- 30.4 The Pensions Administration Manager advised the meeting that in June Equitable Life had announced that they had entered into an agreement to transfer the Society and all its policies to Reliance Life, and she outlined what changes this would bring about. She informed the meeting that before the changes could take place eligible policyholders would need to vote in favour of the changes and that it was expected that this vote would take place in mid-2019 and advised that there was no immediate action for policyholders.

30.5 The pensions Administration Manager advised Members that the treasury had issued draft amendments to the Directions relating to scheme valuations and cost management process for public service schemes. She outlined the changes and the implications for the LGPS

30.6 Resolved

- a. That Members accept the position as set out in the report and;
- b. That Members approve the addition of Dr Sharp, Dr Mcilroy, Dr Ezan and Dr Cathcart to the Fund's approved list of independent Registered Medical Practitioners

### 31 Exclusion of Press and Public

31.1 Resolved:

That under paragraph 10.2 of the Council's Access to Information Procedure Rules the proceedings of the Committee in relation to the following agenda items 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

### 32 Exempt Minutes of the previous meeting

32.1 The exempt minutes of the last meeting held on 27 July 2018 had been circulated

32.2 Resolved:

That the exempt minutes of the meeting held on 27 July 2018 be approved as a true record and signed by the Chairman

It was agreed that agenda items 13 and 14 would be taken next.

### 33 Update on GAM

33.1 Members received a presentation from Louis Paul Hill.

### 34 Investment Monitoring - Quarter to 30 June 2018

34.1 The Committee received the exempt report of the Head of Treasury and Pensions which provided Members with monitoring information on investment performance and managers for the quarter period to 31 March 2018, and reported on the technical meetings held with managers since the quarter end.

34.2 Resolved:

That the Officer recommendations be agreed

### 35 Equity Protection Update

35.1 Members received a presentation from Louis Paul Hill and Andrew Stals

**36 Modelling of Equity Falls on the Portfolio**

36.1 Members received a presentation from Louis Paul Hill and Andrew Stals which gave an update on the modelling of the effect of equity falls on the portfolio

**37 New Employers**

37.1 Members received the report of the Pensions Administration Manager which gave an update on New Schedule 1 Part 1 Scheme Employers (Academies) and New Schedule 2 Part 2 Scheme Employers (Designated Bodies)

37.2 Resolved

That Members note the content of the report

**38 Record of Breaches**

38.1 Members received the report of the Pensions Administration Manager which updated them on Breaches arising in the quarter 1<sup>st</sup> April 2018 to 31<sup>st</sup> June 2018 that had been recorded in the breaches log.

38.2 Resolved:

That Members note the content of Appendix A.

*(The full version of Minutes 32 to 38 constitutes exempt information under Categories 2 and 3 of paragraph 10.2 of the Council's Access to Information Procedure Rules and has accordingly been withheld from publication.)*

Signed ..... (Chairman)

Date: .....

# Agenda Item 8

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of the Local Government Act 1972.

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<u>Committee and Date</u>
Pensions Committee
30 November 2018
9.30am

<u>Item</u>
Public

## CORPORATE GOVERNANCE MONITORING

**Responsible Officer** Ben Driscoll  
e-mail: [ben.driscoll@shropshire.gov.uk](mailto:ben.driscoll@shropshire.gov.uk)

Tel: (01743) 252079

### 1. Summary

- 1.1 The report is to inform members of Corporate Governance and socially responsible investment issues arising in the quarter 1<sup>st</sup> July 2018 to 30<sup>th</sup> September 2018.

### 2. Recommendations

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

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

- 3.1 Risk Management is part of the Pension Fund's structured decision-making process by ensuring that investment decisions are taken by those best qualified to take them.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.
- 3.3 The Fund's Corporate Governance Policy enables it to influence the environmental policies of the companies in which it invests.
- 3.4 There are no direct Equalities or Community consequences.

### 4. Financial Implications

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

### 5. Background

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

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

## 6. Manager Voting Activity

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

## 7. Responsible Engagement Activity

7.1 During the last quarter BMO Global Asset Management have continued to actively engage with companies on the Fund's behalf. An update on the engagement activities for the quarter is attached at Appendix B in the REO Activity report.

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

Corporate Governance Monitoring report, Pensions Committee 21 September 2018

**Cabinet Member**

N/A

**Local Member**

N/A

**Appendices**

A. Manager Voting Activity Reports.

B. BMO Global Asset Management Responsible Engagement Overlay Reports.

# VOTING AND ENGAGEMENT ACTIVITY

Welcome to your Quarterly Report's Engagement Activity section. Here we share company engagement reports and voting notes on particular issues that we trust you will find of interest.

**Please note that these company reports are firm wide to give you a full picture of Majedie's stewardship work on behalf of all clients. However, the voting record table which follows is bespoke.**

- During the quarter, the Stewardship team attended BHP Billiton's launch of its inaugural Water Stewardship Report. The Resources company announced a new five-year water target of a 15% reduction in fresh water withdrawal by Financial Year 2022 across its operated assets.

We engaged with a number of company management teams over the quarter, examples of which we give below.

- We collaborated with an investor group on examining the proposal by the management team of **Unilever** to move their HQ to The Netherlands, for which the company needed the support of 75% of UK shareholders and 50% of Dutch shareholders. The company described their proposal as a simplification of their listing, but it gave rise to serious concerns for many investors. The issues were both complex and contentious but a key question that we did not think Unilever answered was that this move would have increased Unilever's protection from takeover and thus reduces the function of capital markets in winnowing out underperforming managements. We were therefore minded to vote against. After the end of the quarter the company withdrew the proposal, citing the extent of shareholder opposition.
- We met with the incoming chairman of **Tullow Oil**, Dorothy Thompson, to discuss her approach to governance and leadership. We shared our thoughts on the importance of diversity and how Tullow could benefit from improved decision making by appointing a more diverse board. As always with Resources companies, safety was discussed as the top priority. We offered some suggestions for how Tullow could improve management targets with the aim of giving the business a better focus on returns, capital allocation, and resilience to low oil prices.
- At **Mosaic**, we have met their Investor Relations team numerous times since we invested in the stock. The company recently appointed a new CFO whom we had the chance to meet. We talked in detail through the company's internal financial process, how he thinks this could be improved and the impact it should have on the company: i) better forecasting ii) more up to date information iii) more benchmarking and analysis. The new CFO also asked for our views on a range of topics i) optimal financial leverage for Mosaic ii) our perception of Mosaic iii) the companies communication with investors. We urged them to focus on a less financially leveraged balance sheet and much clearer communications with investors when thinking about profitability at a range of commodity prices.

**BT, AGM:** We voted against the Remuneration Report as we concluded the bonus paid to CEO Gavin Patterson was too high in the context of the company's performance during the period covered by the award.

We noted the Chairman's announcement that Patterson will leave the company and that a search for a successor was underway. We had previously written to the company expressing our desire for a change of CEO following the announcement of the company's results. We therefore voted against Patterson's re-election as CEO.

**Naspers, AGM:** We voted against the Remuneration Policy. Third-party research found that long-term incentives would vest without any requirements for performance conditions to be satisfied, with a portion of some awards vesting after only one year. It was also noted that the total number of shares reserved for equity compensation

purposes was considered excessive. However, the company has committed to settle all equity awards via shares repurchased from the market from April 2018.

We also voted against the report on the Remuneration Policy's implementation, as the CEO received a significant increase in fixed pay of approximately 21% with no explanation provided by the company. In addition, we voted against a number of resolutions that would have led to shareholder dilution, greater board power and the perpetuation of the company's unequal dual class share structure. On the latter, we also voted against the company's repurchase of the non-publicly traded A ordinary shares which had multiple voting rights. The company did not specify how the purchase price would be determined or if a limit would apply to the repurchases, not to mention the potential conflicts of interest that could exist.

**Dixons Carphone, AGM:** Following an engagement call with the Chair of the Remuneration Committee where we discussed the Remuneration Report in detail, we were satisfied to vote in favour of the Report.

**Malin, AGM:** We voted against the Remuneration Report. LTIP awards had been granted to two executives which vested over twenty-three months, whereas industry practice follows a timeframe of at least three or often five years. Furthermore, in the event an Executive Director's contract was terminated, twenty-four months' salary and double the prior year's bonus could be paid, which is not best practice. We also voted against authorising the Board to fix the remuneration of the auditors. Total non-audit fees were twice the amount of the audit fees and this was not good practice. Lastly, we voted against giving authorisation for the market purchase of shares, as the company could have paid up to 10% above the market price.

**Colruyt, AGM:** We voted against the Remuneration Report. This was because Jef Colruyt held a combined Chairman/CEO position and Frans Colruyt had a combined executive and non-executive position, and they were both remunerated for each of their roles. We also voted against Jef Colruyt's re-election as Director, because of his combined position, and his non-executive role meant he would have two board seats. We voted against Wim Colruyt because the nominee was considered non-independent whereas the Board and the Audit Committee were not sufficiently independent. We also voted against approval of the allocation of income, as we disagreed with the distribution of profit shares to certain shareholders as it implied unequal treatment of shareholders. We were content not to oppose these issues previously. However, because Colruyt has chosen to maintain this approach, we decided to vote against.

**XPS Pensions, AGM:** We voted against the Remuneration Report as four of the Executive Directors had received 20% salary increases following the acquisition of Punter Southall. The increases, which were motivated by the company's aim to reduce the gap between the Executives' salaries and the relative market medians, were not justified in our view.

**Northgate, AGM:** We voted against the Remuneration Report as we disagreed with the CEO's salary increase of approximately 10%, which would also benefit his variable remuneration. On engaging with the company, we were advised that the increase had emerged from a benchmarking exercise.

In governance matters, Andrew Allner, a non executive director, had attended fewer than 75% of board meetings over the year. We engaged with the company who advised us that a number of short notice meetings were called by the company, which Allner was unable to attend. The company said that a normal schedule of meetings is expected going forwards. We were therefore content to vote in favour of this director's re-election.

**Ryanair, AGM:** We abstained on the re-election of Kyran McLaughlin as Director (McLaughlin held the role of Senior Independent Director or 'SID'). McLaughlin was due to retire but the death of another director earlier this year meant that he was asked to stay on. We wished to see independence on the Board increased, given the possible loss of voting rights, and McLaughlin had been on the Board for seventeen years. We also felt McLaughlin was off the pace in knowing the duties of a SID in our recent meeting with him in Dublin and our abstention was an indication that we would like him to retire.

**Tungsten, AGM:** We voted against the election of two director candidates as the nominees' candidature had been promoted by another shareholder. We did not think the two candidates were of appropriate quality for the Board, whose current composition we supported. On the Remuneration Report, we noted third-party research concerns on the nature of the options granted to the CEO and CFO, in particular the length of the vesting period and the absence of linked performance hurdles. However, we will engage with the company to ensure this improves in future, as we recognised the current need for the company to use remuneration as a tool to retain talent.

# VOTING POLICY

We introduced our own customised voting policy in the second quarter of 2014. This is run in parallel with ISS's policy recommendations. The majority of areas in which our policy differs from that of ISS are within the smaller company sector, where we are a leading UK participant, and relates to capital raising with pre-emptive shareholder rights and the composition of boards; these issues 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 review our policy annually to ensure it is consistent with current best practice. Below are the specifics of the policy. It is worth noting that we regard a smaller company as having a market capitalisation of £1.7bn or less.

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.
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 if they protect or increase shareholder value.
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. However, in a few limited cases we may support the management if they are making the issuance without pre-emptive rights in the course of a re-financing exercise.
Political Contributions	Vote for.	Vote against. We want to maintain an independent stance.

# VOTING RECORD SUMMARY

Please see below a breakdown of the meetings and resolutions which pertain to your portfolio.

SUMMARY	VOTES	PERCENT
Number of meetings voted at this period	36	
Number of resolutions	518	
Where we voted in line with Management	497	95.9
Where we have not voted in line with Management	21	4.1

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 abstained.

CATEGORY	AGAINST MANAGEMENT	ABSTAIN
Board election & related proposals	4	1
Capitalisation	0	0
Miscellaneous	4	0
Remuneration	0	0
Reorganisations, mergers & anti-takeover	0	0
Routine/Business	13	0
Total	21	1

Sources: Majedie, ISS (Institutional Shareholder Services)

# VOTING RECORD DETAILS

SECURITY NAME	MEETING DATE	MEETING TYPE	MAJEDIE VOTE
	27 Jul 2018	AGM	Voted for all
ACCSYS TECHNOLOGIES	18 Sep 2018	AGM	Voted for all
AMINEX	11 Jul 2018	AGM	Voted for all
BIFFA	18 Jul 2018	AGM	Voted for all
BLOOMSBURY PUBLISHING	18 Jul 2018	AGM	Voted for all
BRITISH LAND	17 Jul 2018	AGM	Against Resolution 18
BT GROUP	11 Jul 2018	AGM	Against Resolutions 2, 5, 19
CARPETRIGHT	06 Sep 2018	AGM	Against Resolution 14
CARPHONE WAREHOUSE GROUP	06 Sep 2018	AGM	Against Resolution 14
CHARLES STANLEY GROUP	24 Jul 2018	AGM	Voted for all
DE LA RUE	26 Jul 2018	AGM	Against Resolution 13
ECKOH	19 Sep 2018	AGM	Voted for all
ELECTROCOMPONENTS	19 Jul 2018	AGM	Voted for all
FASTJET	27 Jul 2018	EGM	Voted for all
FIRSTGROUP	17 Jul 2018	AGM	Against Resolution 19
GREENE KING	07 Sep 2018	AGM	Voted for all
KCOM GROUP	20 Jul 2018	AGM	Voted for all
MARLOWE HOLDINGS	05 Sep 2018	AGM	Against Resolution 6
MOTHERCARE	26 Jul 2018	EGM	Voted for all
MOTHERCARE	12 Jul 2018	EGM	Voted for all
MOTHERCARE	19 Jul 2018	AGM	Against Resolution 11
NCC	26 Sep 2018	AGM	Voted for all
NORTHGATE	18 Sep 2018	AGM	Against Resolution 3
OPHIR ENERGY	20 Aug 2018	EGM	Voted for all
OXFORD INSTRUMENTS	11 Sep 2018	AGM	Voted for all
QINETIQ GROUP	25 Jul 2018	AGM	Against Resolution 15
RENEWI	12 Jul 2018	AGM	Against Resolution 14
RYANAIR	20 Sep 2018	AGM	Abstain on Resolution 3d
SPEEDY HIRE	19 Jul 2018	AGM	Against Resolution 18
SUPERGROUP	11 Sep 2018	AGM	Against Resolution 13
TATE AND LYLE	26 Jul 2018	AGM	Against Resolution 14
TUNGSTEN	21 Sep 2018	AGM	Against Resolutions 5, 6
VERTU MOTORS	25 Jul 2018	AGM	Voted for all
VICTORIA OIL & GAS	07 Aug 2018	EGM	Voted for all
VODAFONE	27 Jul 2018	AGM	Against Resolution 22
XAFINITY	13 Sep 2018	AGM	Against Resolution 3

Source: Majedie

**Vote Summary Report**

Date range covered: 07/01/2018 to 09/30/2018

Location(s): Harris Associates L.P.

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

**Experian plc**

Meeting Date: 07/18/2018 Country: Jersey Primary Security ID: G32655105  
 Record Date: 07/16/2018 Meeting Type: Annual Ticker: EXPN

Primary CUSIP: G32655105 Primary ISIN: GB00B19NLV48 Primary SEDOL: B19NLV4  
 Shares Voted: 123,900

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Voting Policy Rec	Vote Instruction
1	Accept Financial Statements and Statutory Reports	Mgmt	For	For	For	For
2	Approve Remuneration Report	Mgmt	For	For	For	For
3	Elect Dr Ruba Borno as Director	Mgmt	For	For	For	For
4	Re-elect Brian Cassin as Director	Mgmt	For	For	For	For
5	Re-elect Caroline Donahue as Director	Mgmt	For	For	For	For
6	Re-elect Luiz Fleury as Director	Mgmt	For	For	For	For
7	Re-elect Deirdre Mahlan as Director	Mgmt	For	For	For	For
8	Re-elect Lloyd Pitchford as Director	Mgmt	For	For	For	For
9	Re-elect Don Robert as Director	Mgmt	For	For	Refer	For
10	Re-elect Mike Rogers as Director	Mgmt	For	For	For	For
11	Re-elect George Rose as Director	Mgmt	For	For	For	For
12	Re-elect Paul Walker as Director	Mgmt	For	For	For	For
13	Re-elect Kerry Williams as Director	Mgmt	For	For	For	For
14	Reappoint KPMG LLP as Auditors	Mgmt	For	For	For	For
15	Authorise Board to Fix Remuneration of Auditors	Mgmt	For	For	For	For
16	Authorise Issue of Equity with Pre-emptive Rights	Mgmt	For	For	For	For
17	Authorise Issue of Equity without Pre-emptive Rights	Mgmt	For	For	For	For
18	Authorise Issue of Equity without Pre-emptive Rights In Connection with an Acquisition or Other Capital Investment	Mgmt	For	For	For	For
19	Authorise Market Purchase of Ordinary Shares	Mgmt	For	For	For	For

## Vote Summary Report

Date range covered: 07/01/2018 to 09/30/2018

Location(s): Harris Associates L.P.

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

## Naspers Ltd.

Meeting Date: 08/24/2018

Country: South Africa

Primary Security ID: S53435103

Record Date: 08/17/2018

Meeting Type: Annual

Ticker: NPN

Primary CUSIP: S53435103

Primary ISIN: ZAE000015889

Primary SEDOL: 6622691

Shares Voted: 27,835

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Voting Policy Rec	Vote Instruction
	Ordinary Resolutions	Mgmt				
1	Accept Financial Statements and Statutory Reports for the Year Ended 31 March 2018	Mgmt	For	For	For	For
2	Approve Dividends for N Ordinary and A Ordinary Shares	Mgmt	For	For	For	For
3	Reappoint PricewaterhouseCoopers Inc as Auditors of the Company with Brendan Deegan as the Individual Registered Auditor	Mgmt	For	For	For	For
4	Re-elect Mark Sorour as Director	Mgmt	For	For	For	For
5.1	Re-elect Craig Eneinstein as Director	Mgmt	For	For	For	For
5.2	Re-elect Don Eriksson as Director	Mgmt	For	For	For	For
5.3	Re-elect Hendrik du Toit as Director	Mgmt	For	For	For	For
5.4	Re-elect Gujjin Liu as Director	Mgmt	For	For	For	For
5.5	Re-elect Roberto Oliveira de Lima as Director	Mgmt	For	For	For	For
6.1	Re-elect Don Eriksson as Member of the Audit Committee	Mgmt	For	For	Refer	For
6.2	Re-elect Ben van der Ross as Member of the Audit Committee	Mgmt	For	For	Refer	For
6.3	Re-elect Rachel Jafta as Member of the Audit Committee	Mgmt	For	For	Refer	For
7	Approve Remuneration Policy	Mgmt	For	Against	For	For
8	Approve Implementation of the Remuneration Policy	Mgmt	For	Against	For	For
9	Place Authorised but Unissued Shares under Control of Directors	Mgmt	For	Against	Against	Against
10	Authorise Board to Issue Shares for Cash	Mgmt	For	Against	For	For
11	Authorise Ratification of Approved Resolutions	Mgmt	For	For	For	For
	Special Resolutions	Mgmt				
1.1	Approve Fees of the Board Chairman	Mgmt	For	For	Refer	For
1.2	Approve Fees of the Board Member	Mgmt	For	For	Refer	For

## Vote Summary Report

Date range covered: 07/01/2018 to 09/30/2018

Location(s): Harris Associates L.P.

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

### Naspers Ltd.

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Voting Policy Rec	Vote Instruction
1.3	Approve Fees of the Audit Committee Chairman	Mgmt	For	For	Refer	For
1.4	Approve Fees of the Audit Committee Member	Mgmt	For	For	Refer	For
1.5	Approve Fees of the Risk Committee Chairman	Mgmt	For	For	Refer	For
1.6	Approve Fees of the Risk Committee Member	Mgmt	For	For	Refer	For
1.7	Approve Fees of the Human Resources and Remuneration Committee Chairman	Mgmt	For	For	Refer	For
1.8	Approve Fees of the Human Resources and Remuneration Committee Member	Mgmt	For	For	Refer	For
1.9	Approve Fees of the Nomination Committee Chairman	Mgmt	For	For	Refer	For
1.10	Approve Fees of the Nomination Committee Member	Mgmt	For	For	Refer	For
1.11	Approve Fees of the Social and Ethics Committee Chairman	Mgmt	For	For	Refer	For
1.12	Approve Fees of the Social and Ethics Committee Member	Mgmt	For	For	Refer	For
1.13	Approve Fees of the Trustees of Group Share Schemes/Other Personnel Funds	Mgmt	For	For	Refer	For
2	Approve Financial Assistance In Terms of Section 44 of the Companies Act	Mgmt	For	For	Refer	For
3	Approve Financial Assistance in Terms of Section 45 of the Companies Act	Mgmt	For	For	Refer	For
4	Authorise Repurchase of N Ordinary Shares	Mgmt	For	For	For	For
5	Authorise Repurchase of A Ordinary Shares	Mgmt	For	Against	For	For

### Compagnie Financiere Richemont SA

Meeting Date: 09/10/2018

Country: Switzerland

Primary Security ID: H25662182

Record Date:

Meeting Type: Annual

Ticker: CFR

Primary CUSIP: H25662182

Primary ISIN: CH0210483332

Primary SEDOL: BCRWZ18

Shares Voted: 44,604

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

## Vote Summary Report

Date range covered: 07/01/2018 to 09/30/2018

Location(s): Harris Associates L.P.

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

## Compagnie Financiere Richemont SA

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Voting Policy Rec	Vote Instruction
2	Approve Allocation of Income and Dividends of CHF 1.90 per Registered A Share and CHF 0.19 per Registered B Share	Mgmt	For	For	For	For
3	Approve Discharge of Board of Directors	Mgmt	For	For	Refer	For
4.1	Reelect Johann Rupert as Director and Board Chairman	Mgmt	For	Against	Against	For
4.2	Reelect Josua Malherbe as Director	Mgmt	For	Against	Against	For
4.3	Reelect Nikesh Arora as Director	Mgmt	For	Against	Against	For
4.4	Reelect Nicolas Bos as Director	Mgmt	For	Against	Against	For
4.5	Reelect Clay Brendish as Director	Mgmt	For	For	For	For
4.6	Reelect Jean-Blaise Eckert as Director	Mgmt	For	Against	Against	For
4.7	Reelect Burkhardt Grund as Director	Mgmt	For	Against	Against	For
4.8	Reelect Keyu Jin as Director	Mgmt	For	For	For	For
4.9	Reelect Jerome Lambert as Director	Mgmt	For	Against	Against	For
4.10	Reelect Ruggero Magnoni as Director	Mgmt	For	Against	Against	For
4.11	Reelect Jeff Moss as Director	Mgmt	For	For	For	For
4.12	Reelect Vesna Nevistic as Director	Mgmt	For	Against	Against	For
4.13	Reelect Guillaume Pictet as Director	Mgmt	For	For	For	For
4.14	Reelect Alan Quasha as Director	Mgmt	For	Against	For	For
4.15	Reelect Maria Ramos as Director	Mgmt	For	For	For	For
4.16	Reelect Anton Rupert as Director	Mgmt	For	Against	Against	For
4.17	Reelect Jan Rupert as Director	Mgmt	For	Against	Against	For
4.18	Reelect Gary Saage as Director	Mgmt	For	Against	Against	For
4.19	Reelect Cyrille Vigneron as Director	Mgmt	For	Against	Against	For
4.20	Elect Sophie Guieysse as Director	Mgmt	For	Against	Against	For
5.1	Appoint Clay Brendish as Member of the Compensation Committee	Mgmt	For	For	Refer	For
5.2	Appoint Guillaume Pictet as Member of the Compensation Committee	Mgmt	For	For	Refer	For
5.3	Appoint Maria Ramos as Member of the Compensation Committee	Mgmt	For	For	Refer	For
5.4	Appoint Keyu Jin as Member of the Compensation Committee	Mgmt	For	For	Refer	For
6	Ratify PricewaterhouseCoopers as Auditors	Mgmt	For	For	For	For

## Vote Summary Report

Date range covered: 07/01/2018 to 09/30/2018

Location(s): Harris Associates L.P.

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

## Compagnie Financiere Richemont SA

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Voting Policy Rec	Vote Instruction
7	Designate Etude Gampert & Demierre as Independent Proxy	Mgmt	For	For	For	For
8.1	Approve Maximum Remuneration of Directors in the Amount of CHF 8.9 Million	Mgmt	For	Against	Refer	For
8.2	Approve Maximum Fixed Remuneration of Executive Committee in the Amount of CHF 15.8 Million	Mgmt	For	For	For	For
8.3	Approve Maximum Variable Remuneration of Executive Committee in the Amount of CHF 15.8 Million	Mgmt	For	For	For	For
9	Transact Other Business (Voting)	Mgmt	For	Against	Refer	For

## Diageo plc

Meeting Date: 09/20/2018

Country: United Kingdom

Primary Security ID: G42089113

Record Date: 09/18/2018

Meeting Type: Annual

Ticker: DGE

Primary CUSIP: G42089113

Primary ISIN: GB0002374006

Primary SEDOL: 0237400

Shares Voted: 63,330

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Voting Policy Rec	Vote Instruction
1	Accept Financial Statements and Statutory Reports	Mgmt	For	For	For	For
2	Approve Remuneration Report	Mgmt	For	For	For	For
3	Approve Final Dividend	Mgmt	For	For	For	For
4	Elect Susan Kilsby as Director	Mgmt	For	For	For	For
5	Re-elect Lord Davies of Abersoch as Director	Mgmt	For	For	For	For
6	Re-elect Javier Ferran as Director	Mgmt	For	For	Refer	For
7	Re-elect Ho KwonPing as Director	Mgmt	For	For	For	For
8	Re-elect Nicola Mendelsohn as Director	Mgmt	For	For	For	For
9	Re-elect Ivan Menezes as Director	Mgmt	For	For	For	For
10	Re-elect Kathryn Mikells as Director	Mgmt	For	For	For	For
11	Re-elect Alan Stewart as Director	Mgmt	For	For	For	For
12	Reappoint PricewaterhouseCoopers LLP as Auditors	Mgmt	For	For	For	For
13	Authorise the Audit Committee to Fix Remuneration of Auditors	Mgmt	For	For	For	For

## Vote Summary Report

Date range covered: 07/01/2018 to 09/30/2018

Location(s): Harris Associates L.P.

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

### Diageo plc

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Voting Policy Rec	Vote Instruction
14	Authorise EU Political Donations and Expenditure	Mgmt	For	For	Refer	For
15	Authorise Issue of Equity with Pre-emptive Rights	Mgmt	For	For	For	For
16	Authorise Issue of Equity without Pre-emptive Rights	Mgmt	For	For	For	For
17	Authorise Market Purchase of Ordinary Shares	Mgmt	For	For	For	For
18	Adopt New Articles of Association	Mgmt	For	For	Refer	For
19	Authorise the Company to Call General Meeting with Two Weeks' Notice	Mgmt	For	For	Refer	For

**Vote Summary Report**

Date range covered : 07/01/2018 to 09/30/2018

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

**VMware, Inc.**

Meeting Date: 07/19/2018

Country: USA

Meeting Type: Annual

Ticker: VMW

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Voting Policy Rec	Vote Instruction
2	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	For	For	For
3	Ratify PricewaterhouseCoopers LLP as Auditors	Mgmt	For	For	For	For

**POSCO**

Meeting Date: 07/27/2018

Country: South Korea

Meeting Type: Special

Ticker: A005490

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Voting Policy Rec	Vote Instruction
1	Elect Choi Jeong-woo as Inside Director (CEO)	Mgmt	For	For	For	For

**DXC Technology Company**

Meeting Date: 08/15/2018

Country: USA

Meeting Type: Annual

Ticker: DXC

## Vote Summary Report

Date range covered : 07/01/2018 to 09/30/2018

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

## DXC Technology Company

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Voting Policy Rec	Vote Instruction
1a	Elect Director Mukesh Aghi	Mgmt	For	For	For	For
1b	Elect Director Amy E. Alving	Mgmt	For	For	For	For
1c	Elect Director David L. Herzog	Mgmt	For	For	For	For
1d	Elect Director Sachin Lawande	Mgmt	For	For	For	For
1e	Elect Director J. Michael Lawrie	Mgmt	For	For	For	For
1f	Elect Director Mary L. Kraemer	Mgmt	For	For	For	For
1g	Elect Director Julio A. Portolatin	Mgmt	For	For	For	For
1h	Elect Director Peter Rutland	Mgmt	For	For	For	For
1i	Elect Director Manoj P. Singh	Mgmt	For	For	For	For
1j	Elect Director Robert F. Woods	Mgmt	For	For	For	For
2	Ratify Deloitte & Touche LLP as Auditors	Mgmt	For	For	For	For
3	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	For	For	For

## Oil Co. LUKOIL PJSC

Meeting Date: 08/24/2018

Country: Russia

Meeting Type: Special

Ticker: LKOH

## Vote Summary Report

Date range covered : 07/01/2018 to 09/30/2018

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

## OIL Co. LUKOIL PJSC

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Voting Policy Rec	Vote Instruction
1	Meeting for ADR Holders Approve Reduction in Share Capital through Share Repurchase Program and Subsequent Share Cancellation	Mgmt Mgmt	For	For	Refer	For

## NetApp, Inc.

Meeting Date: 09/13/2018

Country: USA

Meeting Type: Annual

Ticker: NTAP

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Voting Policy Rec	Vote Instruction
1a	Elect Director T. Michael Nevens	Mgmt	For	Against	For	Against
1b	Elect Director Gerald Held	Mgmt	For	For	For	For
1c	Elect Director Kathryn M. Hill	Mgmt	For	For	For	For
1d	Elect Director Deborah L. Kerr	Mgmt	For	For	For	For
1e	Elect Director George Kurian	Mgmt	For	For	For	For
1f	Elect Director Scott F. Schenkel	Mgmt	For	For	For	For
1g	Elect Director George T. Shaheen	Mgmt	For	For	For	For
1h	Elect Director Richard P. Wallace	Mgmt	For	For	For	For

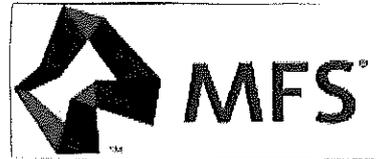
## Vote Summary Report

Date range covered : 07/01/2018 to 09/30/2018

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

### NetApp, Inc.

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Voting Policy Rec	Vote Instruction
2	Amend Omnibus Stock Plan	Mgmt	For	For	For	For
3	Amend Qualified Employee Stock Purchase Plan	Mgmt	For	For	For	For
4	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	For	For	For
5	Ratify Deloitte & Touche LLP as Auditors	Mgmt	For	For	For	For
6	Ratify Existing Ownership Threshold for Shareholders to Call Special Meeting	Mgmt	For	Against	Refer	Against



## Vote Summary Report

Date range covered: 07/01/2018 to 09/30/2018

Location(s): Massachusetts Financial Services

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

## Burberry Group plc

Meeting Date: 07/12/2018

Country: United Kingdom

Primary Security ID: G1700D105

Meeting ID: 1240326

Record Date: 07/10/2018

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	Elect Dr Gerry Murphy as Director	Mgmt	For	For
5	Re-elect Fabiola Arredondo as Director	Mgmt	For	For
6	Re-elect Ian Carter as Director	Mgmt	For	For
7	Re-elect Jeremy Darroch as Director	Mgmt	For	For
8	Re-elect Stephanie George as Director	Mgmt	For	For
9	Re-elect Matthew Key as Director	Mgmt	For	For
10	Re-elect Dame Carolyn McCall as Director	Mgmt	For	For
11	Elect Orna NiChionna as Director	Mgmt	For	For
12	Elect Ron Frasch as Director	Mgmt	For	For
13	Re-elect Julie Brown as Director	Mgmt	For	For
14	Re-elect Marco Gobetti 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: 07/01/2018 to 09/30/2018

Location(s): Massachusetts Financial Services

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

### The Walt Disney Company

<b>Meeting Date:</b> 07/27/2018	<b>Country:</b> USA	<b>Primary Security ID:</b> 254687106	<b>Meeting ID:</b> 1245209
<b>Record Date:</b> 05/29/2018	<b>Meeting Type:</b> Special	<b>Ticker:</b> DIS	
<b>Primary CUSIP:</b> 254687106	<b>Primary ISIN:</b> US2546871060	<b>Primary SEDOL:</b> 2270726	

**Voting Policy:** MFS

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1	Issue Shares in Connection with Acquisition	Mgmt	For	For
2	Adjourn Meeting	Mgmt	For	For

### Microchip Technology Incorporated

<b>Meeting Date:</b> 08/14/2018	<b>Country:</b> USA	<b>Primary Security ID:</b> 595017104	<b>Meeting ID:</b> 1254984
<b>Record Date:</b> 06/21/2018	<b>Meeting Type:</b> Annual	<b>Ticker:</b> MCHP	
<b>Primary CUSIP:</b> 595017104	<b>Primary ISIN:</b> US5950171042	<b>Primary SEDOL:</b> 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	Ratify Ernst & Young LLP as Auditors	Mgmt	For	For
3	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	For

### Check Point Software Technologies Ltd.

<b>Meeting Date:</b> 08/20/2018	<b>Country:</b> Israel	<b>Primary Security ID:</b> M22465104	<b>Meeting ID:</b> 1254298
<b>Record Date:</b> 07/16/2018	<b>Meeting Type:</b> Annual	<b>Ticker:</b> CHKP	
<b>Primary CUSIP:</b> M22465104	<b>Primary ISIN:</b> IL0010824113	<b>Primary SEDOL:</b> 2181334	

## Vote Summary Report

Date range covered: 07/01/2018 to 09/30/2018

Location(s): Massachusetts Financial Services

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

## Check Point Software Technologies Ltd.

### Voting Policy: MFS

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1.1	Reelect Gil Shwed as Director	Mgmt	For	For
1.2	Reelect Marius Nacht as Director	Mgmt	For	For
1.3	Reelect Jerry Ungerman as Director	Mgmt	For	For
1.4	Reelect Dan Propper as Director	Mgmt	For	For
1.5	Reelect David Rubner as Director	Mgmt	For	For
1.6	Reelect Tal Shavit as Director	Mgmt	For	For
2.1	Reelect Yoav Chelouche as External Director	Mgmt	For	For
2.2	Reelect Guy Gecht as External Director	Mgmt	For	For
3	Reappoint Kost, Forer, Gabbay & Kasierer as Auditors and Authorize Board to Fix Their Remuneration	Mgmt	For	For
4	Approve Employment Terms of Gil Shwed, CEO	Mgmt	For	For
A	Vote FOR if you are a controlling shareholder or have a personal interest in one or several resolutions, as indicated in the proxy card; otherwise, vote AGAINST. You may not abstain. If you vote FOR, please provide an explanation to your account manager	Mgmt	None	Against

## Compagnie Financiere Richemont SA

Meeting Date: 09/10/2018

Country: Switzerland

Primary Security ID: H25662182

Meeting ID: 1195067

Record Date:

Meeting Type: Annual

Ticker: CFR

Primary CUSIP: H25662182

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
2	Approve Allocation of Income and Dividends of CHF 1.90 per Registered A Share and CHF 0.19 per Registered B Share	Mgmt	For	For
3	Approve Discharge of Board of Directors	Mgmt	For	For

## Vote Summary Report

Date range covered: 07/01/2018 to 09/30/2018

Location(s): Massachusetts Financial Services

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

## Compagnie Financiere Richemont SA

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
4.1	Reelect Johann Rupert as Director and Board Chairman	Mgmt	For	Against
4.2	Reelect Josua Malherbe as Director	Mgmt	For	Against
4.3	Reelect Nikesh Arora as Director	Mgmt	For	Against
4.4	Reelect Nicolas Bos as Director	Mgmt	For	Against
4.5	Reelect Clay Brendish as Director	Mgmt	For	For
4.6	Reelect Jean-Blaise Eckert as Director	Mgmt	For	Against
4.7	Reelect Burkhardt Grund as Director	Mgmt	For	Against
4.8	Reelect Keyu Jin as Director	Mgmt	For	For
4.9	Reelect Jerome Lambert as Director	Mgmt	For	Against
4.10	Reelect Ruggero Magnoni as Director	Mgmt	For	Against
4.11	Reelect Jeff Moss as Director	Mgmt	For	For
4.12	Reelect Vesna Nevistic as Director	Mgmt	For	Against
4.13	Reelect Guillaume Pictet as Director	Mgmt	For	For
4.14	Reelect Alan Quasha as Director	Mgmt	For	For
4.15	Reelect Maria Ramos as Director	Mgmt	For	For
4.16	Reelect Anton Rupert as Director	Mgmt	For	Against
4.17	Reelect Jan Rupert as Director	Mgmt	For	Against
4.18	Reelect Gary Saage as Director	Mgmt	For	Against
4.19	Reelect Cyrille Vigneron as Director	Mgmt	For	Against
4.20	Elect Sophie Guieysse as Director	Mgmt	For	Against
5.1	Appoint Clay Brendish as Member of the Compensation Committee	Mgmt	For	For
5.2	Appoint Guillaume Pictet as Member of the Compensation Committee	Mgmt	For	For
5.3	Appoint Maria Ramos as Member of the Compensation Committee	Mgmt	For	For
5.4	Appoint Keyu Jin as Member of the Compensation Committee	Mgmt	For	For
6	Ratify PricewaterhouseCoopers as Auditors	Mgmt	For	For
7	Designate Etude Gampert & Demierre as Independent Proxy	Mgmt	For	For
8.1	Approve Maximum Remuneration of Directors in the Amount of CHF 8.9 Million	Mgmt	For	For

## Vote Summary Report

Date range covered: 07/01/2018 to 09/30/2018

Location(s): Massachusetts Financial Services

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

## Compagnie Financiere Richemont SA

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
8.2	Approve Maximum Fixed Remuneration of Executive Committee in the Amount of CHF 15.8 Million	Mgmt	For	For
8.3	Approve Maximum Variable Remuneration of Executive Committee in the Amount of CHF 15.8 Million	Mgmt	For	For
9	Transact Other Business (Voting)	Mgmt	For	Against

## Diageo plc

Meeting Date: 09/20/2018

Country: United Kingdom

Primary Security ID: G42089113

Meeting ID: 1256915

Record Date: 09/18/2018

Meeting Type: Annual

Ticker: DGE

Primary CUSIP: G42089113

Primary ISIN: G60002374006

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	Elect Susan Kilsby as Director	Mgmt	For	For
5	Re-elect Lord Davies of Abersoch as Director	Mgmt	For	For
6	Re-elect Javier Ferran as Director	Mgmt	For	For
7	Re-elect Ho KwonPing as Director	Mgmt	For	For
8	Re-elect Nicola Mendelsohn as Director	Mgmt	For	For
9	Re-elect Ivan Menezes as Director	Mgmt	For	For
10	Re-elect Kathryn Mikells as Director	Mgmt	For	For
11	Re-elect Alan Stewart as Director	Mgmt	For	For
12	Reappoint PricewaterhouseCoopers LLP as Auditors	Mgmt	For	For
13	Authorise the Audit Committee to Fix Remuneration of Auditors	Mgmt	For	For
14	Authorise EU Political Donations and Expenditure	Mgmt	For	For
15	Authorise Issue of Equity with Pre-emptive Rights	Mgmt	For	For

## Vote Summary Report

Date range covered: 07/01/2018 to 09/30/2018

Location(s): Massachusetts Financial Services

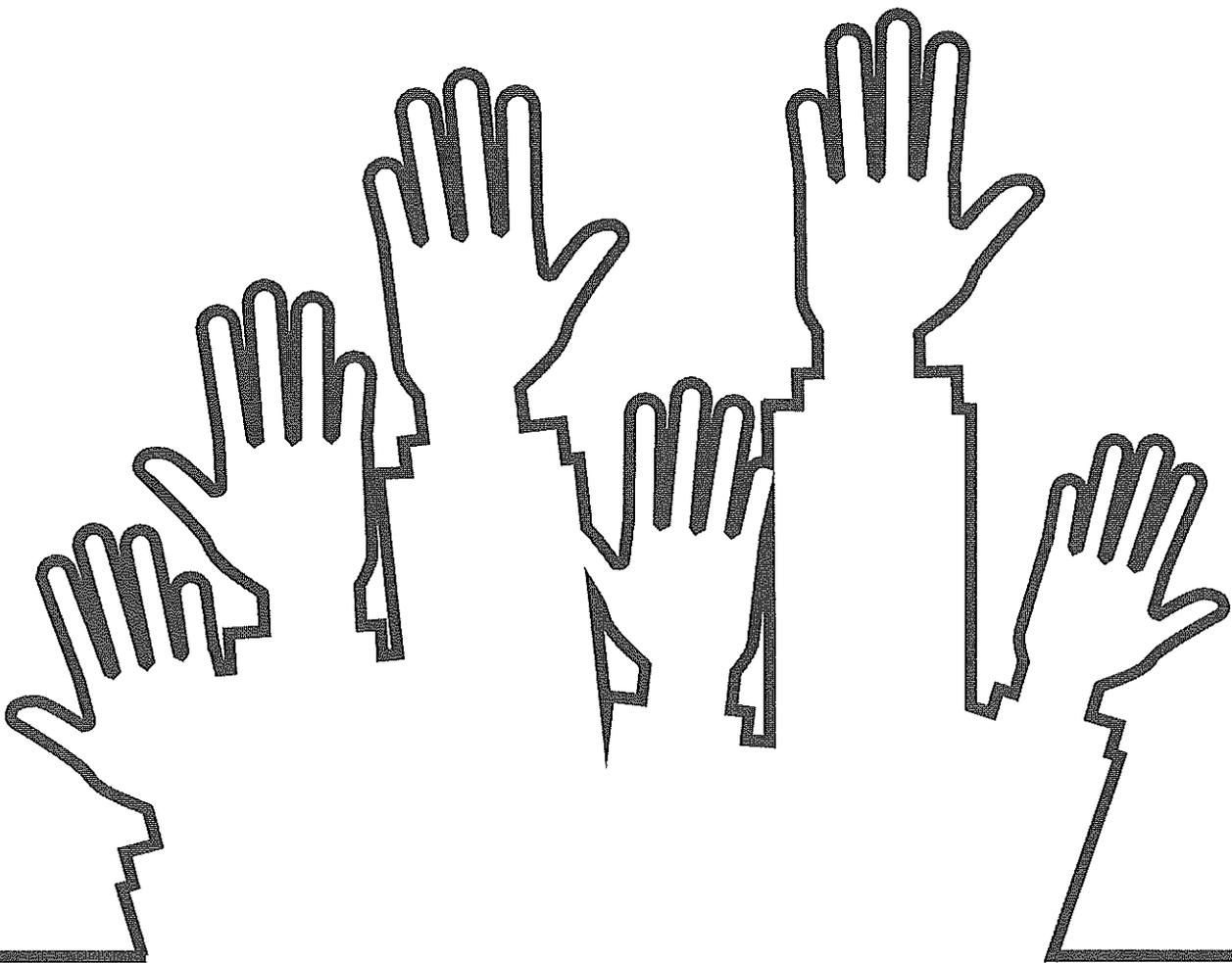
Institution Account(s): MFS Investment Fund - Global Equity Fund

### Diageo plc

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
16	Authorise Issue of Equity without Pre-emptive Rights	Mgmt	For	For
17	Authorise Market Purchase of Ordinary Shares	Mgmt	For	For
18	Adopt New Articles of Association	Mgmt	For	For
19	Authorise the Company to Call General Meeting with Two Weeks' Notice	Mgmt	For	For

# Active ownership

Q3 2018 ESG Impact Report

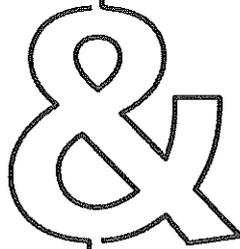


Active ownership means using our scale and influence to bring about **real, positive change** to create sustainable investor value. Page 183

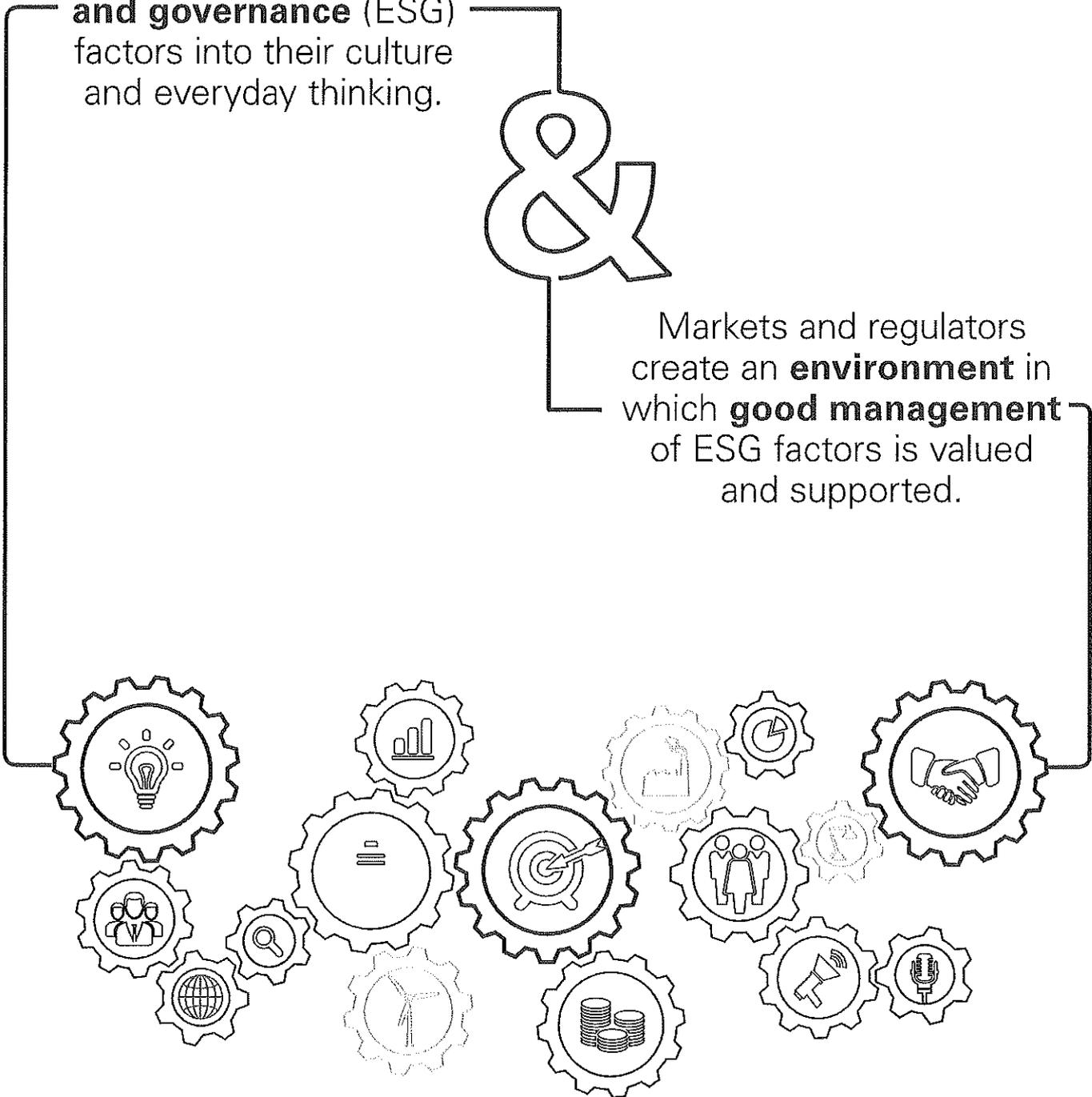
# Our mission

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.

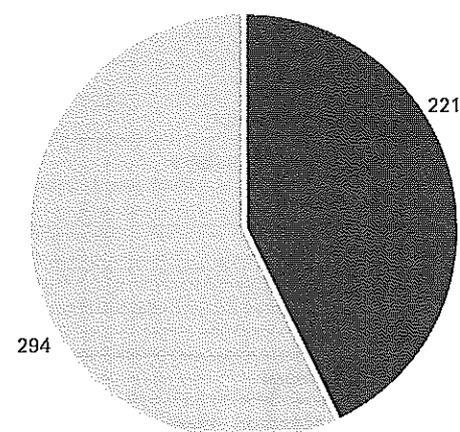


# Global summary

## VOTING TOTALS

Proposal category	For	Against	Abstain	Total
Anti-takeover Related	111	3		114
Capitalisation	810	60		870
Directors related	1989	365	16	2370
Non-salary compensation	315	152		467
Reorganisations and mergers	212	26		238
Routine/Business	1315	71		1386
SH-Compensation	21	2		23
SH-Corp Governance		15		15
SH-Dirs' Related	7	9		16
SH-Gen Econ Issues				
Shareholder - Health/Environment	1	2		3
SH-Other/misc.		3		3
SH-Routine/Business	2	18		20
SH-Soc./Human Rights		1		1
Social Proposal		1		1
Total resolutions	4783	728	16	5527
No. AGMs	365			
No. EGMs	172			
No. of companies voted	515			
No. of companies where voted against/abstain at least one resolution	294			
% no. of companies where at least one vote against	57%			

Number of companies voted for/against/abstain



■ No. of companies supported  
 ■ No. of companies where voted against/abstain at least one resolution

Top three engagement themes this quarter

- Board composition
- Climate Change
- Succession Planning

## COMPANY ENGAGEMENT STATISTICS

Proposal category	Total
Total number of companies	42
Total number of meetings	47
Number of meetings where environmental topics discussed	17
Number of meetings where social topics discussed	21
Number of meetings where governance topics discussed	31
Number of meetings where other topics (e.g. financial and strategy) discussed	19
% of meetings including environmental and social issues discussed	64%

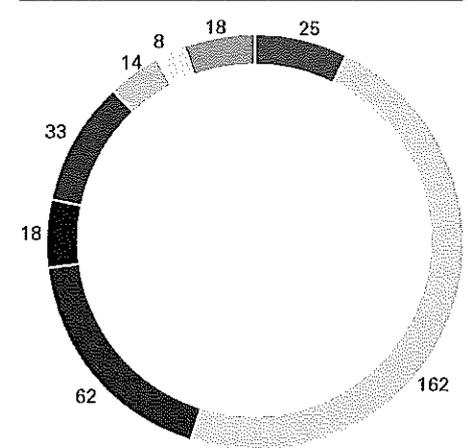
# Regional updates

## Emerging markets

### Q3 2018 VOTING SUMMARY EMERGING MARKETS

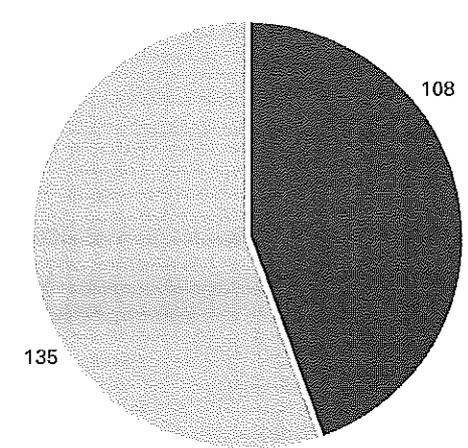
Proposal category	EMERGING MARKETS		
	For	Against	Abstain
Anti-takeover Related			
Capitalisation	270	25	
Directors related	639	146	16
Non-salary compensation	85	62	
Reorganisations and mergers	159	18	
Routine/Business	555	33	
SH-Compensation	20		
SH-Corp Governance		14	
SH-Dirs' Related	4	8	
SH-Gen Econ Issues			
Shareholder resolution - Health/Environment			
SH-Other/misc.			
SH-Routine/Business	2	18	
SH-Soc./Human Rights			
Social Proposal			
<b>Total</b>	<b>1734</b>	<b>324</b>	<b>16</b>
Total resolutions	2074		
No. AGMs	146		
No. EGMs	109		
No. of companies voted	243		
No. of companies where voted against/abstain at least one resolution	135		
% no. of companies where at least one vote against	56%		

**Voting issue breakdown (against and abstain)**



- Capitalisation
- ▨ Directors related
- Non-salary comp.
- Reorg. and mergers
- Routine/Business
- ▨ SH-Corp Governance
- ▨ SH-dirs' related
- ▨ SH-routine/business

**Number of companies voted for/against/abstain**



- No. of companies supported
- ▨ No. of companies where voted against/abstain at least one resolution

'LGIM voted against at least one resolution at 56% of emerging markets companies over the quarter.'

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

# Regional updates

## Asia Pacific

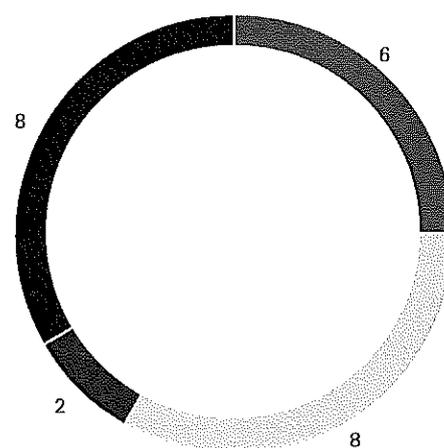
### Q3 2018 VOTING SUMMARY ASIA PACIFIC

Proposal category	ASIA PACIFIC		
	For	Against	Abstain
Anti-takeover Related			
Capitalisation	23	6	
Directors related	97	8	
Non-salary compensation	28	2	
Reorganisations and mergers	6		
Routine/Business	48	8	
SH-Compensation			
SH-Corp Governance			
SH-Dirs' Related			
SH-Gen Econ Issues			
Shareholder resolution - Health/Environment			
SH-Other/misc.			
SH-Routine/Business			
SH-Soc./Human Rights			
Social Proposal			
<b>Total</b>	<b>202</b>	<b>24</b>	
<b>Total resolutions</b>		<b>226</b>	
<b>No. AGMs</b>		<b>23</b>	
<b>No. EGMs</b>		<b>10</b>	
<b>No. of companies voted</b>		<b>33</b>	
<b>No. of companies where voted against/abstain at least one resolution</b>		<b>11</b>	
<b>% no. of companies where at least one vote against</b>		<b>33%</b>	

'LGIM voted against at least one resolution at 33% of Asia Pacific companies over the quarter.'

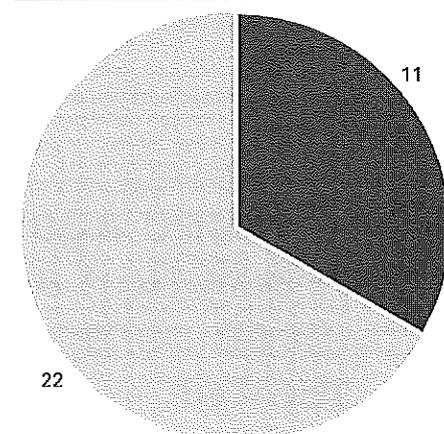
Source for all data LGIM. The votes above represent voting instructions for our main FTSE pooled index funds

### Voting issue breakdown (against)



- Capitalisation
- Directors related
- Non-salary comp.
- Routine/Business

### Number of companies voted for/against



- No. of companies supported
- No. of companies where voted against management

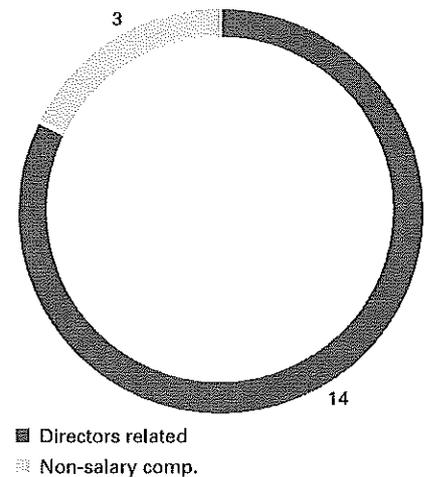
# Regional updates

## Japan

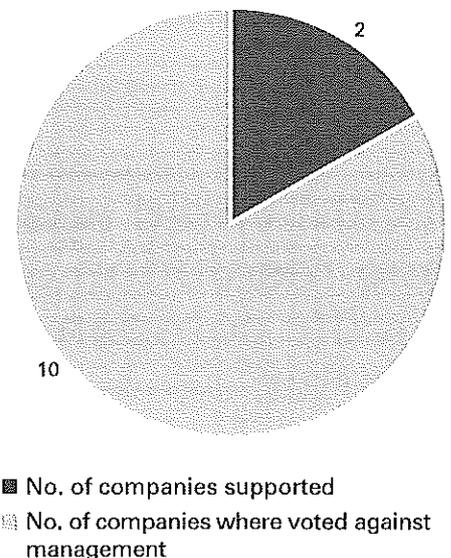
### Q3 2018 VOTING SUMMARY JAPAN

Proposal category	JAPAN		
	For	Against	Abstain
Anti-takeover Related			
Capitalisation			
Directors related	107	14	
Non-salary compensation	2	3	
Reorganisations and mergers	2		
Routine/Business	9		
SH-Compensation			
SH-Corp Governance			
SH-Dirs' Related			
SH-Gen Econ Issues			
Shareholder resolution - Health/Environment			
SH-Other/misc.			
SH-Routine/Business			
SH-Soc./Human Rights			
Social Proposal			
Total	120	17	
Total resolutions		137	
No. AGMs		12	
No. EGMs		0	
No. of companies voted		12	
No. of companies where voted against at least one resolution		10	
% no. of companies where at least one vote against		83%	

Voting issue breakdown (against)



Number of companies voted for/against



'LGIM voted against at least one resolution at 83% of Japanese companies over the quarter.'

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

# Regional updates

## North America

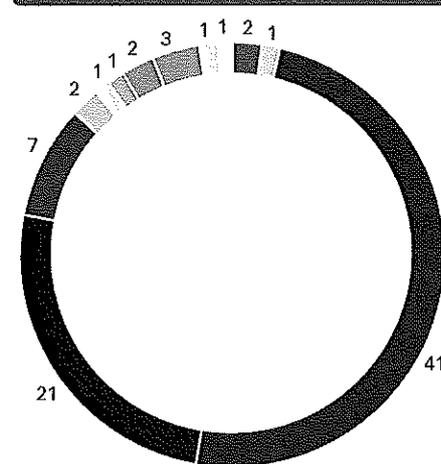
### Q3 2018 VOTING SUMMARY NORTH AMERICA

Proposal category	NORTH AMERICA		
	For	Against	Abstain
Anti-takeover Related	14	2	
Capitalisation	6	1	
Directors related	211	41	
Non-salary compensation	20	21	
Reorganisations and mergers	15		
Routine/Business	26	7	
SH-Compensation	1	2	
SH-Corp Governance		1	
SH-Dirs' Related	3	1	
SH-Gen Econ Issues			
SH-Health/Environment	1	2	
SH-Other/misc.		3	
SH-Routine/Business			
SH-Soc./Human Rights		1	
Social Proposal		1	
<b>Total</b>	<b>297</b>	<b>83</b>	
Total resolutions		380	
No. AGMs		30	
No. EGMs		13	
No. of companies voted		42	
No. of companies where voted against at least one resolution		32	
% no. of companies where at least one vote against		76%	

'LGIM voted against at least one resolution at 76% of North American companies over the quarter.'

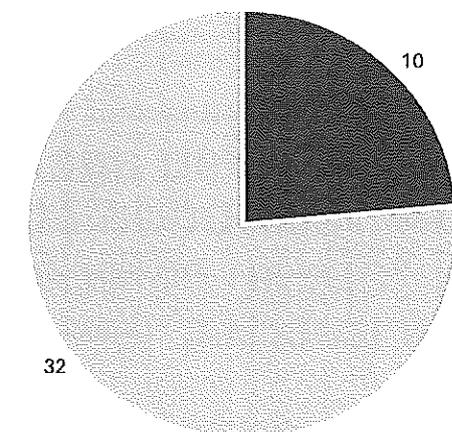
Source for all data LGIM. The votes above represent voting instructions for our main FTSE pooled index funds

Voting issue breakdown (against)



- Antitakeover Related
- Capitalisation
- Directors Related
- Non-Salary Comp.
- Routine/Business
- SH-Compensation
- SH-Corp Governance
- SH-Dirs' Related
- SH-Health/Environ.
- SH-Other/misc.
- SH-Soc./Human Rights
- Social Proposal

Number of companies voted for/against



- No. of companies supported
- No. of companies where voted against management

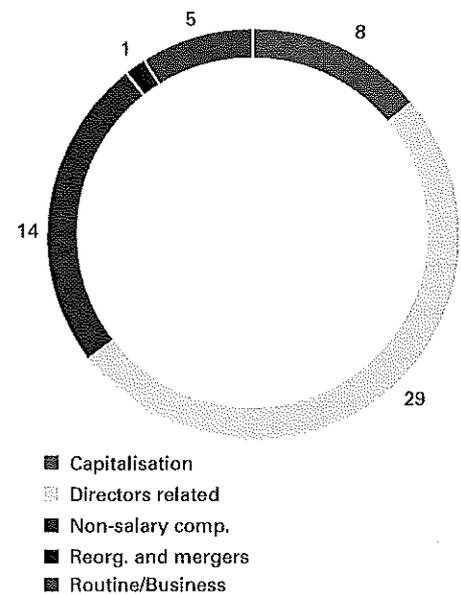
# Regional updates

## Europe

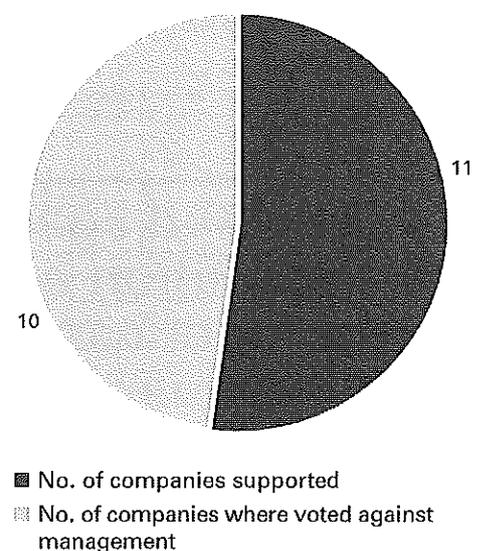
### Q3 2018 VOTING SUMMARY EUROPE

Proposal category	EUROPE		
	For	Against	Abstain
Anti-takeover Related	1		
Capitalisation	17	8	
Directors related	76	29	
Non-salary compensation	19	14	
Reorganisations and mergers	10	1	
Routine/Business	75	5	
SH-Compensation			
SH-Corp Governance			
SH-Dirs' Related			
SH-Gen Econ Issues			
Shareholder resolution - Health/Environment			
SH-Other/misc.			
SH-Routine/Business			
SH-Soc./Human Rights			
Social Proposal			
<b>Total</b>	<b>198</b>	<b>57</b>	
<b>Total resolutions</b>		<b>255</b>	
No. AGMs		11	
No. EGMs		10	
No. of companies voted		21	
No. of companies where voted against at least one resolution		10	
% no. of companies where at least one vote against		48%	

Voting issue breakdown (against)



Number of companies voted for/against



'LGIM voted against at least one resolution at 48% of European companies over the quarter.'

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

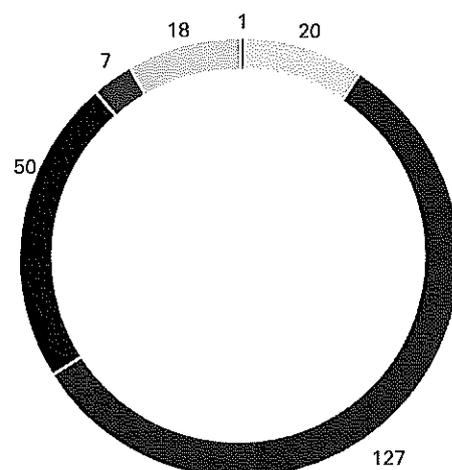
# Regional updates

## UK

### Q3 2018 VOTING SUMMARY UK

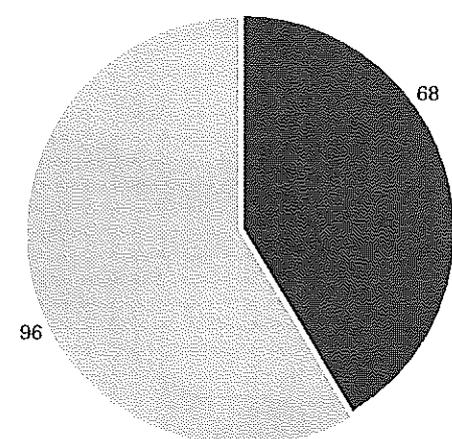
Proposal category	UK		
	For	Against	Abstain
Anti-takeover Related	96	1	
Capitalisation	494	20	
Directors Related	859	127	
Non-Salary Comp.	161	50	
Reorg. and Mergers	20	7	
Routine/Business	602	18	
SH-Compensation			
SH-Corp Governance			
SH-Dir's' Related			
SH-Gen Econ Issues			
SH-Health/Environ.			
SH-Other/misc.			
SH-Routine/Business			
SH-Soc./Human Rights			
Social Proposal			
<b>Total</b>	<b>2232</b>	<b>223</b>	
<b>Total resolutions</b>	<b>2455</b>		
No. AGMs	143		
No. EGMs	30		
No. of companies voted	164		
No. of companies where voted against at least one resolution	96		
% no. of companies where at least one vote against	59%		

Voting issue breakdown (against)



- Antitakeover
- Capitalisation
- Directors related
- Non-salary comp.
- Reorg. and mergers
- Routine/Business

Number of companies voted for/against



- No. of companies supported
- No. of companies where voted against management

'LGIM voted against at least one resolution at 59% of UK companies over the quarter.'

Source for all data LGIM. The votes above represent voting instructions for our main FTSE pooled index funds  
 \*This vote concerned a company incorporated in Bermuda, therefore the LGIM UK policy did not apply.

LGIM's Head of Defined Contribution, Emma Douglas, also published an [article](#)<sup>2</sup> in Investment Europe re-iterating the importance of the proposals around fiduciary duty and ESG integration.

#### UK Corporate Governance Code review

In July, the Financial Reporting Council (FRC) released the 2018 UK Corporate Governance Code. The new Code is shorter than the previous version focusing on its key principles rather than prescriptive provisions. It also highlights that for companies to succeed in the

long term, they need to maintain successful relationships with a wide range of stakeholders, not just shareholders.

The new Code introduced a provision to enable greater board engagement with the workforce in order to understand their views and a focus on boards creating a culture to preserve value over the longer term. Other main changes were related to board succession, diversity and greater focus of remuneration committees to take account of workforce remuneration when setting director pay.

**LGIM is broadly supportive of these updates. However, we would have liked to see the FRC go further in some areas** such as promoting and endorsing the Taskforce on Climate-related Financial Disclosures (TCFD) reporting guidelines in the Code. A link to our response can be found [here](#)<sup>3</sup>.

Later this year, the FRC is due to publish its consultation on the UK Stewardship Code. LGIM will be responding to this consultation building on from the comments made in our response to the UK Code consultation.

2. <http://www.investmenteurope.net/opinion/fiduciary-duty-is-no-obstacle-to-esg-integration-says-lgim/>

3. <http://www.lgim.com/files/document-library/capabilities/lgim-response-to-frc-uk-cg-and-stewardship-codes.pdf>



# Public policy engagement

## Voicing our concerns and pushing for change

### **Petition to the Security and Exchange Commission (SEC) on disclosure of ESG information**

In 2016 LGIM responded to the SEC consultation on Business and Financial Disclosure. This was an opportunity for us to comment on the potential enhancement of financial and ESG information available to investors. The SEC noted that the main response to this consultation was the high demand by stakeholders for more and better disclosure generally. This consultation was also the first time since the 1970s for both reporting companies and investors to convey their views to the SEC concerning what additional environmental or social information should be disclosed to complement the governance disclosure already required.

Following little response from SEC, LGIM joined forces with other investors to push further for change. **A collaboration of investors including LGIM submitted a petition to the SEC for changes to disclosure** which set out the arguments that:

(1) SEC has clear statutory authority to require disclosure of ESG information, and doing so will promote market efficiency, protect the competitive position of American public companies

and the US capital markets, and enhance capital formation;

- (2) ESG information is material to a broad range of investors today;
- (3) Companies struggle to provide investors with ESG information that is relevant and reliable;
- (4) Companies' voluntary ESG disclosure is intermittent, incomplete, incomparable, and inconsistent, and ESG disclosure in required SEC filings is similarly inadequate;
- (5) SEC rulemaking will reduce the current burden on public companies and provide a level playing field for the many American companies engaging in voluntary ESG disclosure; and
- (6) Petitions and stakeholder engagement seeking different kinds of ESG information suggest, in aggregate, that it is time for the SEC to regulate in this area.

This collaboration clearly shows that investors think the time has come for the SEC to act to develop a mandatory rule for clearer, consistent, comparable, high-quality ESG disclosure by all companies subject to SEC public-reporting requirements. We await a response from the SEC.

### **Department for Work and Pensions (DWP) consultation: clarifying and strengthening trustees' investment duties**

LGIM submitted a response to the DWP consultation in July regarding the fiduciary duties of trustees. We welcomed the recognition by the DWP of the importance of trustees to better understand and integrate material ESG issues when formulating their investment principles in members' interests.

To further develop progress in this area, we requested that the DWP provides guidance on materiality and the distinction between the members' interests and members' views to enable trustees to better understand how best to develop a robust process for understanding and engaging pension scheme members. In addition, we were supportive of the amendments to the Statement of Investment Principles (SIP) as being the key area of focus when examining how best to embed ESG considerations into investments. Through this procedure, we believe the Defined Benefit and Defined Contribution investment chains are incentivised to create the proper structures and frameworks needed to consider these issues.

**Case study:**

Sky plc

**Market cap:** GBP 27 bn**Sector:** Media**Country:** UK

**What is the issue?** 21st Century Fox owned a 39% interest in Sky plc, a European satellite TV operator. In December 2016, 21st Century Fox offered to acquire the 61% it did not own, offering £10.75 per share and valuing Sky at £11.7bn. The board of Sky accepted the bid for 21st Century Fox to take full control of Sky. This was subsequently placed under investigation by the Competition and Markets Authority and Office of Communications (Ofcom) on public interest grounds. A year later, Disney offered to buy the Entertainment assets of 21st Century Fox for US\$ 52.4bn (£39bn). This included the 39% stake in Sky plc. US telecommunications company Comcast Inc. also made an offer for 21st Century's entertainment assets. This resulted in Disney increasing its offer for the entertainment assets to US\$ 71.3bn (£54bn). In April 2018, Comcast made a £12.50 cash offer valuing Sky plc at £22bn.

**Why is it an issue?** Major transactions present risks and opportunities for investors. LGIM always seeks to protect and enhance our clients' assets. We therefore wanted to make sure our clients' interests would be protected and this involved achieving the best price for Sky's shares. Given the timing of the bid offers and acquisition of a 39% stake in Sky by Disney, there was a risk Disney would block the Comcast bid. Disney informed the Takeover Panel that it did not intend to make an offer for the remaining 61% of share capital. The Takeover Panel ruled that the chain principle would apply and Disney would therefore have to make a bid for the remaining shares it did not own. Disney was only prepared to pay £10.75 per share, being the price originally offered by 21st Century Fox. A number of investors including LGIM believed £10.75 per share did not reflect the increased valuation Disney placed on 21st Century Fox's entertainment assets when it raised its offer to US\$71.3bn (£54bn).

**What did LGIM do?** In 2016, LGIM along with minority shareholders questioned the board of Sky on its decision-making process in re-appointing James Murdoch as board chair, given that his family owned 39% of the company. In 2017, LGIM engaged with the board following its decision to accept the bid of 21st Century Fox of £10.75 per share. We wanted to get an insight into what led to the board's acceptance of the bid. We also raised the issue of the timing of the appointment of James Murdoch to the board of Sky, taking into account that the bid by 21st Century Fox occurred shortly after his appointment to the board. In July 2018, the Takeover Panel convened a Hearing Committee to consider the price that Disney should pay in applying the chain principle. LGIM submitted a letter to the Takeover Panel Hearing Committee giving support to the panel for its application of the chain principle and requesting that they Disney should be made to increase the offer for Sky in line with its increased offer for 21st Century Fox's entertainment assets.

**What was the outcome?** The bids finally resulted in an auction being conducted by the Takeover Panel to determine who should gain control of Sky plc. Comcast's sealed bid of £17.28 per share was the highest and valued Sky plc at £30.6 bn. This is a positive outcome for our clients because at the time of the initial offer from 21st Century Fox for Sky, in December 2016, the share price was around £7.50 per share. The final bid from Comcast of £17.28 per share represents more than 100% increase on Sky shares from before the initial bid. Comcast completed its takeover of Sky in October 2018.

## Case studies



**Case study:**  
Deutsche Telekom  
**Market cap:** EUR 66.73bn  
**Sector:**  
Telecommunications  
**Country:** Germany

**What is the issue?** A meeting was held with the supervisory board chairman to discuss the corporate governance structure at the company and remuneration framework.

**Why is it an issue?** The German corporate governance framework consists of a dual board system where the management board has responsibility for managing the company. A supervisory board is also appointed to oversee and advise members of the management board. Important decisions involving the company are usually escalated to the supervisory board for the final decision. It is therefore important that both the supervisory and management boards work well together for corporate governance at the company to be effective.

**What did LGIM do?** LGIM held a meeting with the supervisory board chairman to gain a better insight into how they monitor and oversee management activities. Succession was also discussed in order to understand how the supervisory board monitors this issue.

In addition, we encouraged the company to appoint a Lead Independent Director on its board as we believe they provide an important counter-balance to the chair.

**What was the outcome?** The chairman highlighted that the company takes ESG issues seriously and its activities in this area are closely interconnected with their licence to operate in society.

He mentioned that there was fluid communication between the management and supervisory boards and believes executives work well together. The supervisory board also has good insight into the activities of the business, throughout the company, from top to bottom.

Lastly, he explained that succession is regularly discussed at board level. He assured us that he evaluates the performance of individual supervisory board directors after every board meeting.

**Case study:**

BT Group Plc

**Market cap:** GBP 22.8bn**Sector:**

Telecommunications

**Country:** UK

**What is the issue?** In June, the company announced that the CEO was stepping down and that succession process was underway to find his replacement. We also noted the poor performance of the company.

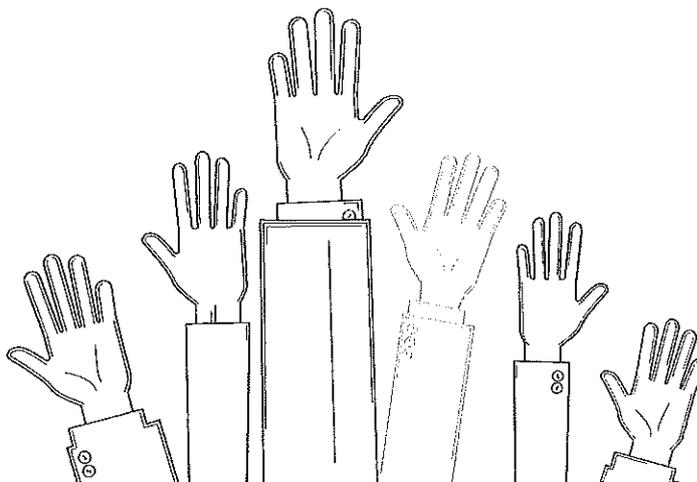
**Why is it an issue?** It is important that the candidate with the right set of skills, knowledge and experience is selected in order to execute the company's strategy successfully.

**What did LGIM do?** Within a few days of the announcement, LGIM held a meeting with the chairman to discuss the current performance of the company, the structure of the board and future strategic issues.

The succession planning for the CEO was also discussed to identify the key attributes needed to lead the company over the next five years. We highlighted a preference for an individual with good experience of running large, technical and complex businesses and someone who can maintain good relationships with regulators.

**What was the outcome?** The chairman noted our comments on succession planning and will inform the market of any updates at the appropriate time.

We will continue to monitor the company's performance and succession planning of the CEO.



## Case studies



**Case study:**

42 North American companies members of the National Association of Manufacturers

**What is the issue?** The National Association of Manufacturers is involved with the curtailing of shareholders' ability to file proposals linked to material business issues impacting the sustainability of companies, in particular in relation to climate change issues.

**Why is it an issue?** They convey a negative message about investor engagement and shareholder resolutions. They argue that shareholder resolutions on climate change are politically motivated and may negatively affect company performance and shareholder value. This is clearly at odds with the policies and experiences of many of its members who have forward-looking policies and programmes on climate change and understand the business case for actively addressing it.

**What did LGIM do?** LGIM co-signed a letter with a group of international stakeholders to 42 North American companies that are members of the Association.

The letters asked for clarification of each of the companies' awareness and views of the Associations' angle and objectives. It also asked whether they would communicate disagreement with the positions being taken by the Association and state this publically to inform concerned investors.

**What was the outcome?** The group is currently awaiting responses. LGIM shall also raise the issue when it engages directly with any of the affected companies.

# Company engagement

## Case studies

### Case study:

TalkTalk

Market cap: GBP 1.3bn

### Sector:

Telecommunications

Country: UK

**What is the issue?** In February 2018, the company raised £200m through a share placing. However, the method chosen by the company to raise the cash did not include pre-emption rights and was therefore not in line with best practice.

In addition, shareholders did not have the opportunity to vote on the transaction given that the Financial Conduct Authority (FCA) increased the threshold exempting companies from the need to publish a prospectus from 10% to 20% of the issued share capital.

**Why is it an issue?** Pre-emption rights give existing shareholders the right to acquire new shares issued by a company. This is fundamental shareholder protection measure which prevents investors from being diluted.

Despite the amendments to the FCA prospectus rules, the Pre-Emption Group which sets best practice for the market, decided not to amend its limit of up to 10% of the issued share capital for non pre-emptive issues.

**What did LGIM do?** At the time of the large placing, LGIM made a press comment in the *Times* on the importance of pre-emption rights for shareholders in the company's decision. We also noted that the placing was made at a time where the company's share price was at its lowest in five years.

We subsequently opposed the re-election of the chairman and the senior independent director at the company's AGM due to concerns with the decision taken on this transaction. We also voted against the remuneration report and the re-election of non-independent directors and authorities to raise capital.

**What was the outcome?** At the AGM, a significant number of independent shareholders voted against the re-election of directors and authorities to issue shares both with and without pre-emption rights.

Given the large opposition by independent minority shareholders, LGIM would expect a response to the issues raised. We will push with other investors for protection of shareholder rights.

# Raising the bar on stewardship

## Scrutiny on political influence and executive pay

We believe in being active owners of the companies we invest in on your behalf. An independent report recognises LGIM for using its influence to drive change at companies.

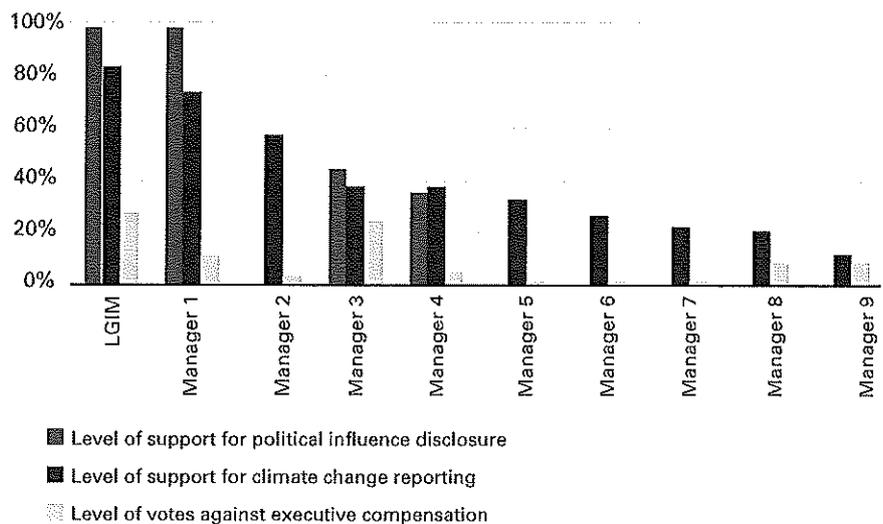
We challenge companies to be transparent about their use of shareholder money, and how this adds value. We will voice our concerns when we believe executive pay rises only reflect short-term performance. Looking at key US shareholder votes in 2018, the report found **LGIM showed the highest level of opposition to company management on the issue of executive pay, compared to any of the world's 10 largest asset managers.**

**LGIM was also the top supporter of resolutions calling on companies to report on their political spending.**

Continuing a trend from last year, **LGIM also had the highest level of support for resolutions on climate change disclosure.** Read the report here: <https://5050climate.org/news/2018-key-climate-vote-survey/>

### Raising standards at companies

In June 2018 we made public our first annual ranking of corporate leaders and laggards on climate change<sup>3</sup>. We highlighted examples of best practice that we wanted to see emulated more widely, while also sounding the alarm about signs of inaction by voting against several company chairs and divesting eight companies from our *Future World* range of funds.



Climate 50/50 Project – Asset Manager Climate Scorecard 2018, analysis of the voting records of the world's 12 largest asset managers that report mutual fund votes, focused on resolutions at US energy and utility companies. 11 largest asset managers by AUM shown).

**We are now preparing for the next round, analysing and scoring companies' climate strategies.** We have already written to the lowest scorers, setting out our expectations on issues such as reduced emissions or better reporting. We have started with those companies where improvements are most needed, but will continue until we will have covered around half of the market capitalisation in six key global sectors. By focusing on large companies, we aim to create a ripple effect across industries, pushing the leaders to do more and the laggards to catch up with peers.

Already, seven of the eight companies that have been divested have since contacted us, asking for suggestions

on how to improve their ranking and potentially be reinstated in the funds.

Hardly a month passes without new examples of companies stepping up on climate change. Following our engagement, Standard Chartered, one of the UK's largest banks, has announced it will no longer finance new coal-fired power plants, or the expansion of existing plants.

In parallel to working with companies, we believe regulators have an essential role to play in the transition to a low-carbon economy. Our call on the International Organisation of Securities Commissions, the global standard-setters for securities, to raise the bar on the issue of climate disclosure has been covered in the media<sup>4</sup>.

3. Available here: [http://www.lgim.com/web\\_resources/lgim-thought-leadership/Files/LGIM-Climate-Impact-Pledge-The-results-so-far-Umbrella.pdf](http://www.lgim.com/web_resources/lgim-thought-leadership/Files/LGIM-Climate-Impact-Pledge-The-results-so-far-Umbrella.pdf)

4. <https://www.ipe.com/news/esg/lgim-backs-call-for-iosco-to-foster-harmonised-climate-risk-reporting/www.ipe.com/news/esg/lgim-backs-call-for-iosco-to-foster-harmonised-climate-risk-reporting/10026286.fullarticle>



# Enhancing ESG integration in active funds

Integration of environmental, social and governance (ESG) considerations into our active investment processes is one of the ways in which LGIM embeds the principles of responsible investing across the business<sup>1</sup>.

A company's ESG profile is most comprehensively assessed by looking at two different drivers of investment returns. The first is how its business activities can impact its bottom line; for example, the risk of pollution by a miner leading to the loss of a key licence to extract resources from a country. The second is how long-term trends may determine consumer demand for products and services; for example, the implications of the global battle against plastic for petrochemical companies and demand for oil.

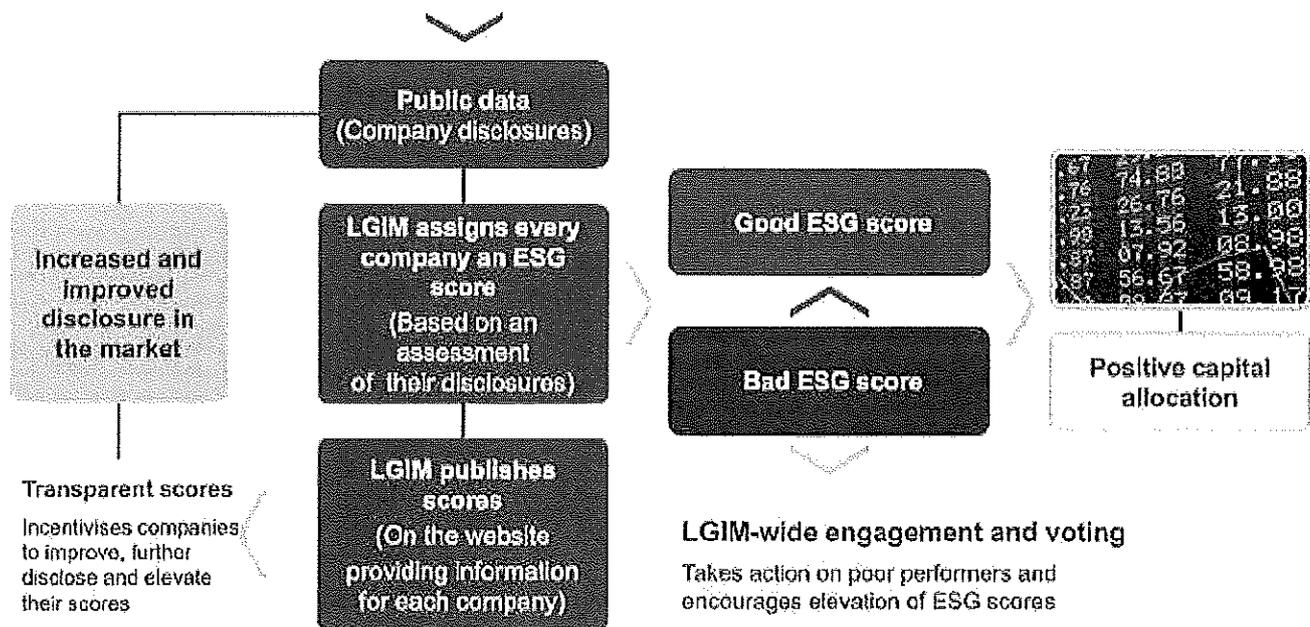
Thinking about these issues is not new to us, however we have been working to develop and enhance our tools and processes for assessing how companies are managing ESG factors and to integrate these findings into active fund management.

Firstly, through the evaluation of long-term themes; in our working groups on energy, demographics, technology and politics, we generate valuable insights into how companies are adapting to a rapidly changing world. Secondly, through consideration of LGIM's Active ESG View, which

provides a picture of ESG risks and opportunities embedded within each company. We believe that incorporating the View into analysis helps mitigate investment risks and increases the probability of better long-term outcomes.

Our ESG View forms an essential component of the overall active research process. It takes the inputs that form the LGIM ESG Score as a starting point for assessing ESG quality, and then goes a step further by incorporating additional granular quantitative and qualitative inputs.

## Fully utilising our influence on the market



<sup>1</sup>The reason we take such an active approach to responsible investing is that we believe it can not only mitigate risks, but also lead to better long-term financial outcomes, without sacrificing performance.

### UNILEVER – ENGAGEMENT SUCCESS

This quarter, Unilever announced its intention to unify their dual corporate structure and move their headquarters to the Netherlands. The approval of 75% of shareholders was needed by the company. LGIM took the unusual step of pre-declaring our voting intention ahead of the extraordinary shareholder meeting of Unilever which was due to be held at the end of October.

Sacha Sadan, Director of Corporate Governance, commented to the press on LGIM’s decision to vote against these proposals:

*“We understand Unilever has explored a number of alternatives in reaching its final decision. However, we do not believe Unilever has made a compelling case for many PLC shareholders to support the recommendation in favour of Dutch incorporation. Therefore, we intend to vote against Unilever’s proposed resolution.”*

We also explained our position to our clients in a detailed briefing statement.

Our vote decision was covered by the main national media including the Financial Times and BBC. On 5 October, the board announced it had decided to withdraw its proposal to simplify Unilever’s dual-headed legal structure given that this proposal did not receive support from a significant group of shareholders.

### EXPANSION OF VOTING COVERAGE

LGIM expanded its voting coverage to the following nine new markets this quarter: Chile, Colombia, Czech Republic, Greece, Pakistan, Philippines, Qatar, Turkey, United Arab Emirates.

Our voting covered 97% of the FTSE All-World Index constituents by market capitalisation in 2017 and we aim to continue to further expand our coverage where it is possible to do so. Please note that our global voting policy applies to these new markets. More information on our policy is available on our [website](#).

### NEW JOINERS

Our corporate governance team expanded this quarter with the appointment of John Hoepfner as Head of US Stewardship and Sustainable Investments of LGIM America. John is working in our Chicago office in liaison with the London team, and helps develop our ESG activity at LGIMA.

James Malone also joined the team in London as a Corporate Governance Analyst and supports the team in its voting and engagement activities globally.

For more information, please go to: [www.lgim.com/cgupdate](http://www.lgim.com/cgupdate)

# Shropshire County Council

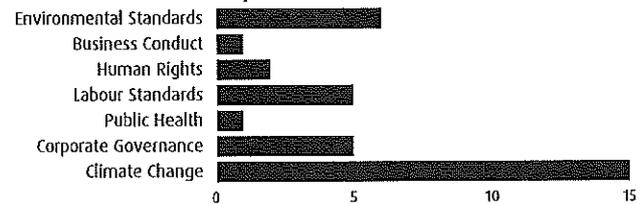
Q3 2018

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

### Companies engaged this quarter

Companies engaged	87
Milestones achieved	35
Countries covered	12

### Milestones achieved by issue



### Companies engaged by country



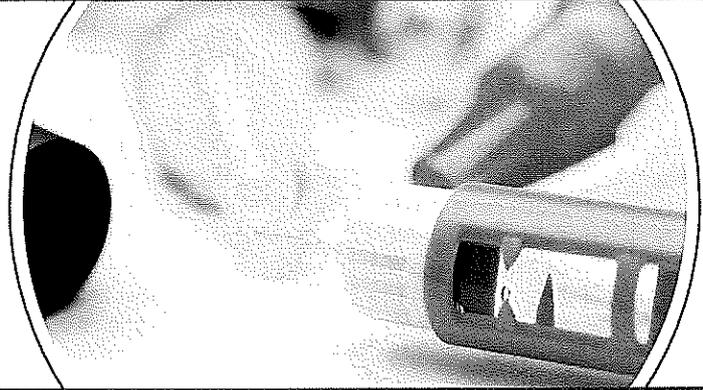
### Companies engaged by issue<sup>\*\*\*</sup>





# ESG Viewpoint

June 2018



**Yo Takatsuki**  
Director, Governance and Sustainable  
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## Breaking Bad: Business ethics in the pharmaceutical sector

➤ **Sector:** Pharmaceuticals

➤ **Issue:** Business conduct

➤ **Engagement since:** 2008

➤ **Goal:** Comprehensive overhauling of policies and management systems to mitigate risk of employee misconduct and regulatory breaches as well as reforming corporate culture

- Regulatory violations resulting from corrupt employee conduct has emerged as a key concern in the pharmaceutical industry alongside product quality and safety
- Ever increasing fines and settlements, alongside the cost of remedial actions, undermine profitability and harms companies' societal license to operate
- BMO has engaged extensively on this issue and seen improvements in management programmes and systems; but true reform of corporate culture is only just starting



### Key risks

The value of investments and any income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested.

Screening out sectors or companies may result in less diversification and hence more volatility in investment values.

Business ethics breaches have emerged as the most material ESG concern for investors in the pharmaceutical and broader healthcare sector, and has been the key focus of our engagement with the sector in recent years. The industry has been repeatedly become embroiled in allegations with regards to marketing and sales related fraud and other lapses in compliance. Companies have been hampered by substantial risks and mounting costs associated with the prosecution by authorities. We estimate that \$50 billion have been paid out by leading pharmaceutical companies in the past decade in conduct related regulatory, settlements fines and costs.



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The US Department of Justice (DoJ) has led the charge against the sector and they have become particularly emboldened post the 2008 global financial crisis to pursue ever larger settlements. Alongside the increased financial penalties, we have been concerned by the reputational damage and operational impact arising from stricter scrutiny of companies and enforcement of regulation in the US, UK and Europe. Key trends we see are “extraterritorial” legislation, meaning that companies may be prosecuted in countries other than their home jurisdiction, as well as strong enforcement actions on companies that fail to prevent corrupt practices through adequate measures<sup>1</sup>. Issues leading to regulatory action include:

- Minimising side-effects
- Off-label promotion
- Price manipulation
- Bribery, kick-backs and other inducements
- Anti-competitive behaviour
- Healthcare system fraud such as false claims

Many of the leading global pharmaceutical companies have fallen foul of these violations. These include **GlaxoSmithKline (GSK)**, **Johnson & Johnson**, **Pfizer** and **Novartis** amongst others. Neither have these breaches been confined to the major developed markets. We have seen a rapid shift in regulatory intolerance to corrupt practices in emerging markets where there had been a perception that rule of law was weak and paying bribes was a cost of doing business. This has been most notable in China, as

President Xi Jinping has overseen a widescale crackdown on graft. GSK was fined \$490 million after it was found guilty of bribery in 2014<sup>2</sup>.

### Materiality assessment

The focus on the financial impact has largely been on the immediate cost of dealing with the violations – namely the headline amount of the regulatory settlement. However, we consider this amount to be only a portion of the overall commercial harm that a company suffers when its employees are caught ‘breaking bad’. We have identified the following areas which on their own may not be significant but in total can be material to the company’s performance. Much of this is also relevant to the financial industry which has struggled with similar issues.

- **Regulatory fine or settlement:** this is often the headline figure that receives the most publicity in the public domain. However, this only amounts to a portion of the total cost incurred over time to resolve breaches. The size of these settlements has become larger – into the billions of dollars and euros – in recent years.
- **Litigation costs and legal provisions:** aside from the legal costs of dealing with specific violations, companies set aside reserves to deal with other regulatory penalties or litigation or damages that are expected to be paid out in the future for similar violations in other jurisdictions.
- **Independent compliance monitor:** the DoJ instructs an independent compliance monitor to be established as part of any deal following a regulatory action. This can be an integral part of any deferred prosecution agreement that has been agreed between DoJ and the company. This involves the DoJ selecting and placing a senior regulatory expert within the company to assess whether the company is living up to commitments it has made. They are free to hire what resources they need to do their job including additional compliance experts and external consultants – this can amount to hundreds of people in the case of large violations. All of this must be paid for by the company during the duration of the monitor. The resulting cost can run to tens, if not hundreds, of millions of dollars per year.
- **Strengthening compliance, internal controls, and audit programmes:** the most obvious increase in ongoing cost is in this area and it has been a major area of new recruitment for companies.
- **Board and senior management effort:** ensuring a successful navigation of the period of the deferred prosecution agreement and meeting the monitor’s expectation of reform takes board and senior management time. This is an opportunity cost as management’s effort and

<sup>1</sup> For example the US Foreign Corrupt Practices Act and the UK Bribery Act

<sup>2</sup> Full analysis of the GSK’s China incident is available in ESG Viewpoint “Bribery in China: Lessons from GSK” February 2014

time could otherwise be spent delivering on the strategy and growing the business.

- **Longer-term damage to commercial model:** this is the cost to the business arising from damage to reputation, brand and societal license to operate. Major controversies can undermine products and commercial models which may have been reliant on business practices which are regulated out of use.

### Engagement action

Sales practices in the pharmaceutical sector have been an area of long-term concern to us and we have been conducting engagement on this issue for more than a decade, both one-on-one and collaboratively in the US with investor groups led by the United Auto Workers. Our engagement intensified as the regulatory fines and settlements mounted and the poor business conduct within the industry became increasingly material to investors. A key turning point was GSK incurring in quick succession a US\$3 billion settlement in the US in 2012 for bribing doctors, and the China incident in 2013/14.

Since the start of 2014, we have engaged more than 70 global healthcare companies on this issue including many of the world's leading research and generic pharmaceutical companies. We have travelled to the US, Europe, Japan and China to meet companies and the key recommendations we have been making to businesses are:

- **Clear oversight and accountability from senior executives and the board:** a strong tone from the top that there is zero tolerance of corrupt business practices is essential. There should be clear lines of authority at the board level with regular reporting via the Chief Compliance Officer, and consideration of establishing a board-level committee dedicated to compliance and business ethics risks.
- **Corporate culture reform:** as well as the top-level messaging on cultural reform, we recommend that companies track whether this is translating into change. We have been asking companies to measure and track culture change, and to disclose the results to assure investors, employees and other stakeholders that culture is reforming. Metrics can include more granular whistleblowing usage data (with geographic and business division breakdowns), and aggregated results of staff surveys/training on regulatory compliance.
- **Robust policies and sufficiently resourced management systems:** revising Codes of Conduct, establishing responsible sales and marketing policies, improving risk assessment processes, and strengthening internal controls should be a matter of course. Companies should clarify whether they are backing a single global standard or are taking a market-by-market approach. The former option is more ambitious but more challenging to implement, while the latter is more susceptible to "regulatory arbitrage" by companies which exploit the weak or non-existent rules in many countries.

- **Linking business conduct and regulatory breaches with pay:** targets driven purely by an individual's sales record can incentivise employees to break rules to meet targets and get a larger pay-out. Companies such as GSK have phased these out, replacing them with a wider range of metrics including qualitative ones such as customer satisfaction. Companies should also have a clawback policy – which allows for recovery of bonus and other incentive compensation paid to executives and employees found to be involved in misconduct causing financial or reputational harm to the company (see 'Accountability in pay').



Since the start of 2014, we have engaged more than 70 global healthcare companies.

### Risk assessment

Over the years, we have occasionally encountered somewhat cynical views that ethics issues are purely a cost of doing business. We do not subscribe to this view. Our analysis has been that there are some companies which have repeatedly attracted litigations, regulatory investigations and settlements, while there are others – with robust practices – which have not attracted any. For example, according to research in the 2016 Access to Medicine Index, only **Gilead** and **Novo Nordisk** (of 20 major global pharmaceutical companies in the rankings) avoided settlements for breaches of criminal or civil laws or regulations relating to corruption or unethical marketing between 2013-2016 (inclusive).

So, how can investors identify companies which are at higher or lower risk of potential violations? Our engagement has allowed us to narrow down to three risk factors.

1. **Countries of operation:** does the company operate in markets which are likely to result in high penalties for regulatory breaches (the US) or in markets where the regulatory quality and rule of law are weak?
2. **How staff are paid:** does the company rely on revenue growth from aggressively growing sales and/or are sales teams incentivised with big bonuses for hitting ambitious (but unrealistic) sales targets? Is the key performance measure for sales teams solely revenue based or does it include other factors such as quality of sales, customer satisfaction and regulatory knowledge?
3. **Drugs portfolio strength:** does this company have a drugs portfolio in a strong competitive position? Would sales staff possibly need to induce doctors in other ways than just the efficacy of the drugs themselves?

### Accountability in pay

Clawback is defined as the provision by which companies can recover bonuses (and other variable pay) after they have vested and have been paid out. These provisions have become increasingly commonplace in certain industries such as banks and pharmaceuticals, and in markets such the US, UK, Switzerland and France. They traditionally cover material financial restatements but there are now increasing moves for clawbacks to also cover instances where employees are held accountable for a broad range of misconduct. We consider clawbacks as an essential and effective way for employers to both incentivize certain behaviours and to hold employees accountable for their actions.

Given the severe financial penalties which can result from staff misconduct, there is growing recognition that effective compensation policies can deter unethical behaviour. In light of this, a working group comprised of **Amgen, Bristol-Myers Squibb Company, Eli Lilly, Johnson & Johnson, Merck & Co., Pfizer**, and thirteen institutional investors (including BMO Global Asset Management), endorsed a set of principles called the 'Principal Elements of a Leading Recoupment Policy' (April 2013) aimed at deterring ethical breaches<sup>3</sup>.

In 2016, we conducted an engagement project in which we urged 30 leading pharmaceutical companies to establish:

1. **A compensation clawback policy** –which would allow for recovery of bonus and other incentive compensation paid to executives and any employee who is involved in misconduct causing financial or reputational harm to the company. We provided a suggested model clawback policy<sup>4</sup>.
2. **Clear disclosures and regular reporting of clawback policy implementation** which would allow investors and other interested stakeholders to assess whether the clawback policy has been put to use. This should include details of whether the clawback was used in the reporting period, the nature of the incident which prompted it and that monetary value was clawed back.

While many companies were willing to implement a Clawback policy covering misconduct, very few were willing to commit to ongoing annual disclosures of whether clawbacks were used in the reporting period. **Shire** was one of the few to do so. We also conducted engagement on the same issue with major financial companies. It is worth noting that **JPMorganChase** have now agreed to do so, and clawback reporting is available in its annual proxy statement.

### Verdict

Over the past five years, we have seen a widespread recognition from the pharmaceutical industry that conduct of employees poses a serious risk to commercial performance. We have seen efforts by the companies to improve senior executive and board-level oversight and accountability on this issue, and to; revise and strengthen management systems to assess, identify and monitor potential conduct-related regulatory breaches. Many of the companies are open and willing to discuss the issue and the challenge of reform in an honest fashion. We have had good access to senior executives and board members for in-depth discussions. This has provided signal of how seriously companies are taking reform.



We have had good access to senior executives and board members for in-depth discussions. This has provided signal of how seriously companies are taking reform.

What we are still not seeing sufficiently is companies clearly linking these issues to pay outcomes in a transparent fashion, nor are we seeing meaningful performance reporting in this area. On the latter point, US companies in particular have been reluctant to disclose how they are performing in this area.

Finally, despite the fact that companies are taking the issue seriously, we need to be realistic in recognising that genuine culture change takes time, particularly for the large multinational firms. Top-level messages being heard and followed by employees in distant markets is one of the key hurdles in implementing long-term change, with the loyalty of employees in many markets often likely to be with their line manager than a Chief Executive in another continent. The time in the industry is for companies not to just say that culture reform is taking place but to show investors the hard evidence that it really is happening.

<sup>3</sup> [http://www.uawtrust.org/AdminCenter/Library.Files/Media/501/In%20the%20News/UAW%20RMBT%20-%20Recoupment%20Press%20Release%20-April%204%202013%20830%20AM%20\\_FINAL.pdf](http://www.uawtrust.org/AdminCenter/Library.Files/Media/501/In%20the%20News/UAW%20RMBT%20-%20Recoupment%20Press%20Release%20-April%204%202013%20830%20AM%20_FINAL.pdf)

<sup>4</sup> For clients of the *reio* engagement overlay service this is provided as a confidential appendix to this ESG Viewpoint

### How BMO Global Asset Management can help you

BMO Global Asset Management incorporates material ESG issues into its investment processes across asset classes. We also offer our Responsible Funds range, which invests in companies operating sustainably and excludes those not meeting our ethical and ESG criteria, and our *reo*<sup>®</sup> engagement service, through which we provide engagement and voting services covering global equities and credit.

Contact us to find out more.

 [bmogam.com/responsible-investing](http://bmogam.com/responsible-investing)

### Sustainable Investment Awards

**INVESTMENT**  
WEEK

**SUSTAINABLE INVESTMENT AWARDS 2016**

**WINNER**

Best Ethical Investment  
Fund Management Group

Best Ethical Investment  
Fund Management  
Group 2016

**INVESTMENT**  
WEEK

**SUSTAINABLE INVESTMENT AWARDS 2016**

**WINNER**

Best Sustainable Investment  
Fund Management Group

Best Sustainable Investment  
Fund Management  
Group 2016

Past performance should not be seen as an indication of future performance.

*reo*<sup>®</sup> is a registered trademark of F&C Asset Management plc.

**BMO**  **Global Asset Management**



# Advancing SDGs through engagement

August 2018



**Vicki Bakhshi**  
Director, GSI



**Emma Lupton**  
Associate,  
Analyst, GSI

❖ **Why:** The Sustainable Development Goals (SDGs) provide a universally-recognised framework for assessing and accelerating progress towards a more sustainable world.

❖ **What:** As shareholders we discuss important environmental and social issues with the companies we, and our clients, invest in to create positive behavioural change.

❖ **How:** We are engaging with companies on SDG targets where we can have the most impact and influence.

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### Key risk

Capital is at risk and investors may not get back the original amount invested.

### What are the Sustainable Development Goals?

The Sustainable Development Goals (SDGs) set out a roadmap for a more sustainable global economy and society by 2030. Developed by the United Nations, they were endorsed in 2015 by all 193 member states. They build on the Millennium Development Goals (MDGs), but are broader in scope, and have a critical difference – whilst the MDGs focused on government actions, the SDGs look to all stakeholders, including the financial sector and business, to support implementation.



(Figure 1)

The SDGs are structured around 17 Goals (Figure 1). Each Goal has a set of targets setting out specific objectives to achieve the Goal, with a total of 169 targets across the 17 Goals.

Since the SDGs came into force in January 2016, they have been increasingly widely adopted as a common and consistent way to articulate sustainability; a survey of 470 corporate sustainability reports by PwC<sup>1</sup> found that 62% referenced the SDGs. Amongst policymakers, the SDGs are one of the key foundations of the European Commission's Action Plan on Sustainable Finance, as well as the G7 Summit which took place this year in Canada.

### What is the role of investors?

Finance has a critical role to play in achieving the SDGs, by channelling capital towards solutions. We believe that the financial sector cannot be a passive bystander to sustainability challenges, and should work actively alongside corporates and governments within their privileged and trusted position as stewards of capital.



“Our clients, rightly, have high expectations when entrusting their money to us. In my view, fulfilling those expectations is not just about the quarterly financial returns we deliver to them. It is also, I believe, about being a responsible member of the investor community, and supporting the development of a sustainable global economy – which, ultimately, will underpin our own and our clients’ long-term prosperity and security.”

– Richard Wilson, CEO & CIO, BMO Global Asset Management

We also believe that utilising the SDGs can have advantages from a fiduciary duty standpoint<sup>2</sup>, by providing a macroeconomic view of the key trends in sustainability that can help to shape investor thinking about future opportunities.

Ultimately, achieving the vision of the 2030 Agenda, of a stable environment and society, is essential for laying the foundations to long-term global prosperity and investment performance.

Recognising these points, a growing number of investors are already working to embed the SDGs in their processes. Examples of actions include:

- ✦ Selecting one or more SDG to frame the social and environmental objectives of a pension fund
- ✦ Mapping existing investments to the SDGs, across portfolios or asset classes
- ✦ Setting targets for a proportion of future investments to align with SDGs
- ✦ Using SDGs in company engagement
- ✦ Referencing SDGs in reporting on responsible investment activities

Goal 17 (Partnership for the Goals) strongly promotes a collaborative approach, and investors are joining together to share information about their approach to the SDGs, given the importance of the Goals. One example is the PRI-led ‘SDGs in Active Ownership Working Group’, which we are an active member of. This group is looking at SDG application from a listed equity and corporate fixed income perspective.

### A roadmap for SDG engagement

The link between the SDGs and engagement, in our view, is one of the most direct ways that investors can see real sustainability impact from the actions they take.

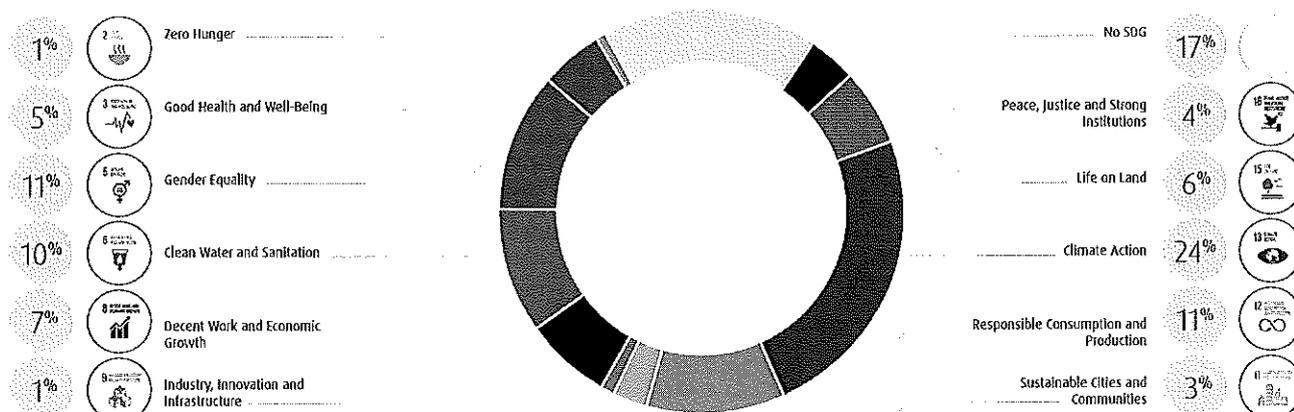
The principle of using investor engagement to promote positive financial impact, through working with companies to address material ESG risks, is well-established. What is so far less discussed is how we can articulate the positive societal and environmental impacts of engagement. We believe the SDGs provide an ideal framework to analyse this wider impact, by providing a comprehensive taxonomy for describing sustainability objectives which is commonly understood by investors, corporates and governments.

At BMO Global Asset Management our starting point was to establish a baseline by analysing the links between our existing engagement activities and the SDGs. This process started in 2016, when our approach was based on mapping our seven high-level engagement topics<sup>3</sup> to the 17 SDGs.

<sup>1</sup> Global SDG Reporting Challenge, PwC, 2017

<sup>2</sup> The SDG investment case, UN PRI, 2017

<sup>3</sup> At the time these were: Environmental Standards, Business Ethics, Human Rights, Labour Standards, Public Health, Corporate Governance and Social and Environmental Governance



2017 engagement data, excluding post-AGM letters

(Figure 2)

In 2017, we took our analysis further by matching our 43 more granular engagement sub-themes to the 17 Goals. (Figure 2)<sup>4</sup>.

The highest proportion of SDG-linked engagement related to Goal 13 (Climate Action). Other engagement activities linked strongly to Goal 12 (Responsible Production and Consumption), Goal 5 (Gender Equality) and Goal 6 (Clean Water and Sanitation).

17% of our engagement activities didn't directly support a specific SDG; these were instances where we engaged on corporate governance issues alone. In our mapping work, we concluded that corporate governance engagement does not have a link to any single Goal. Rather, we see good governance and board-level oversight as a foundation for the achievement of all 17 Goals, with well-governed companies better able to manage sustainability risks and opportunities. The main exception in this mapping is our engagement on board diversity, much of which covers gender diversity issues, which we see as supporting Goal 5 (Gender Equality).

We have continued to develop our methodology in 2018 on how to engage in relation to the SDGs and have now mapped the 169 SDG targets to our engagement sub-themes, and vice versa, enabling us to have a more granular approach.

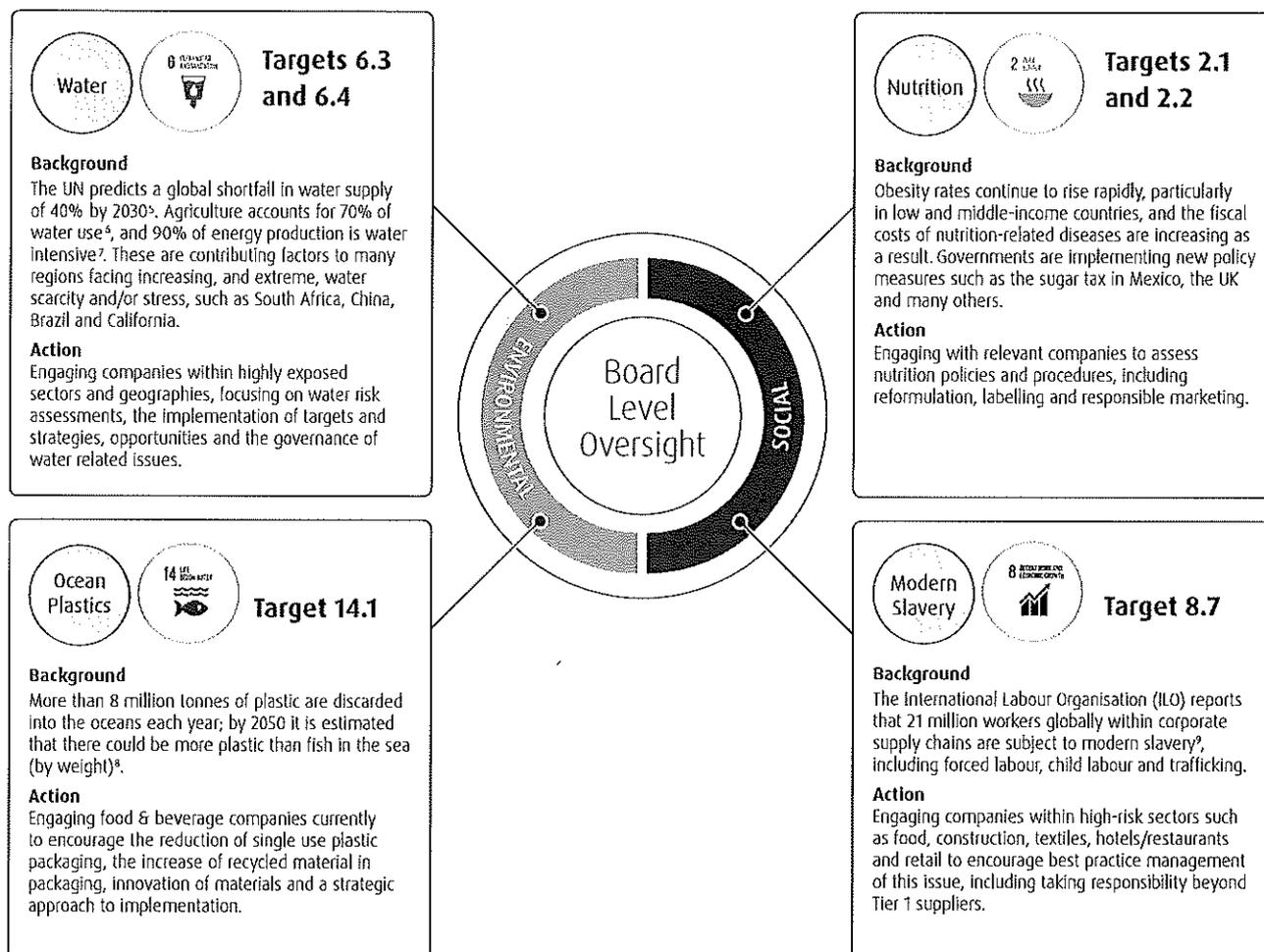
Not all 169 targets are directly applicable for investors and companies, as some are more effectively addressed by other stakeholders, such as policy makers. We have, therefore, identified 40-50 targets to initially focus on, where we believe our engagement can have the most impact to influence positive change.



The process of analysing the targets underpinning the SDGs has helped to strengthen our asks and recommendations to companies.

Mapping is a key step towards establishing a baseline and to be able to report effectively on how actions support the SDGs. But investors can go further by using the SDGs as a way to shape the engagement agenda itself. For us, the process of analysing the targets underpinning the SDGs has helped to strengthen our asks and recommendations to companies, and we are increasingly referencing specific SDG targets in our communication with companies; examples of which are set out in Figure 3.

<sup>4</sup> 2017 Responsible Investment Review, BMO, 2018



(Figure 3)

**Goal 2, Target 2.1:** By 2030, end hunger and ensure access by all people, in particular the poor and people in vulnerable situations, including infants, to safe, nutritious and sufficient food all year round.

**Goal 2, Target 2.2:** By 2030, end all forms of malnutrition, including achieving, by 2025, the internationally agreed targets on stunting and wasting in children under 5 years of age, and address the nutritional needs of adolescent girls, pregnant and lactating women and older persons.

**Goal 6, Target 6.3:** By 2030, improve water quality by reducing pollution, eliminating dumping and minimizing release of hazardous chemicals and materials, halving the proportion of untreated wastewater and substantially increasing recycling and safe reuse globally.

**Goal 6, Target 6.4:** By 2030, substantially increase water-use efficiency across all sectors and ensure sustainable withdrawals and supply of freshwater to address water scarcity and substantially reduce the number of people suffering from water scarcity.

**Goal 8, Target 8.7:** Take immediate and effective measures to eradicate forced labour, end modern slavery and human trafficking and secure the prohibition and elimination of the worst forms of child labour, including recruitment and use of child soldiers, and by 2025 end child labour in all its forms.

**Goal 14, Target 14.1:** By 2025, prevent and significantly reduce marine pollution of all kinds, in particular from land-based activities, including marine debris and nutrient pollution.

<sup>5</sup>UN, 2016, <sup>6</sup>FAO, 2016, <sup>7</sup>UNESCO, 2014, <sup>8</sup>UNEP, 2018, <sup>9</sup>OECD, 2016



“The 2030 Agenda is our roadmap and its goals and targets are tools to get there.”

**UN Secretary-General António Guterres**

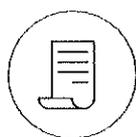
Our experience so far is that corporates welcome this development in engagement approach. With demands growing for sustainability reporting that is time intensive to produce, there is increasing pressure to prioritise and find ways to communicate on

sustainability effectively, to satisfy a wide range of stakeholders. By working with the common language of the SDGs, investors and corporates can build a more effective engagement relationship.

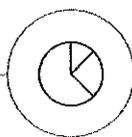
### A shift in perspective

We see the SDGs and their application as emblematic of a shift in perspective in the investment industry. There has already been progression within responsible investment from values to valuation, as investors came to realise that the ESG issues previously seen as purely ethical could be financially material, and then worked to integrate these into mainstream investment processes.

We believe a further shift is now taking place towards impact, as the financial sector takes greater responsibility for the consequences of its decisions on the wider economy and society; and the SDGs are at the heart of this. We believe this a positive trajectory for our industry and and we will continue to strive for leadership within this area.



Values



Valuation



Impact

Views and opinions have been arrived at by BMO Global Asset Management and should not be considered to be a recommendation or solicitation to buy or sell any products that may be mentioned.



# ESG Viewpoint

September 2018



**David Sneyd**  
Vice President, Analyst, GSI

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The value of investments and any income derived from them can go down as well as up as a result of market or currency movements and investors may not get back the original amount invested.

## Blockchain solutions to ESG problems

- Cryptocurrencies have been surrounded by hype and controversy – but the technology behind them, blockchain, is rapidly demonstrating its potential as a powerful sustainability solution.
- Blockchain offers advantages where information needs to be accurately stored and shared amongst multiple parties, with uses already identified in ESG related areas including supply chain management, renewable energy distribution and proxy voting.
- At the same time, this relatively new technology has several issues to overcome. These include high energy intensity, lack of regulations and industry standards, and data privacy laws.

With their dramatic rise, and subsequent fall, in value over the course of this year, cryptocurrencies like Bitcoin and Ethereum have sparked heated debate in 2018. Unlike conventional currencies that are reliant upon a central banking system, these virtual currencies use encryption tools to facilitate financial transactions directly between users in a decentralised manner over a network.

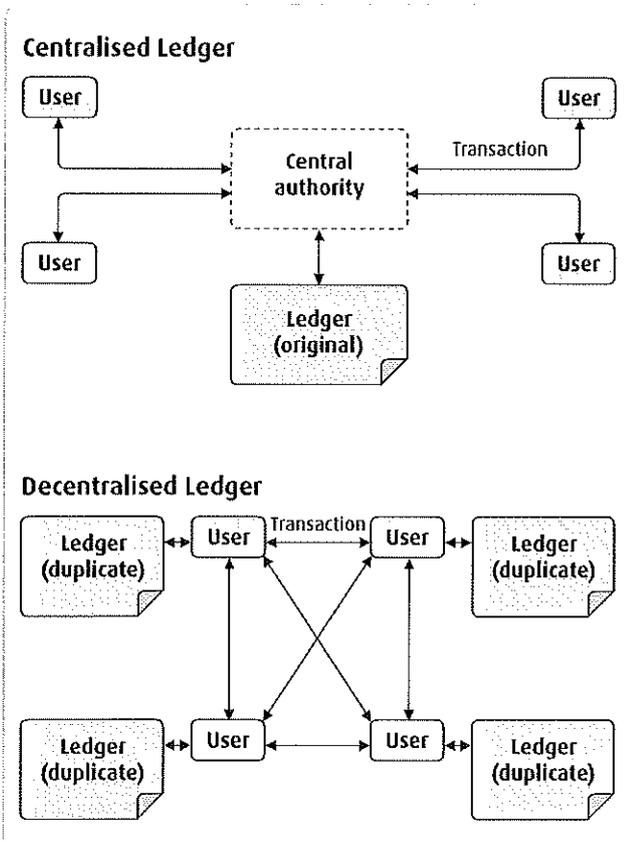
Although the broader investor community remains sceptical of the speculative nature of these new currencies, the architecture that underlies them, namely blockchain technology, has got much more traction. Estimates put spending on blockchain at US\$2.1 billion in 2018, double of that in 2017, with the potential to reach US\$9.2 billion by 2021<sup>1</sup>. As part of this, we have seen several blue-chip companies now heavily investing in the technology with a view to developing a far broader set of applications. This includes providing solutions to many of the environmental, social and governance (ESG) issues that companies face every day.

**What is blockchain technology?**

Having been invented over 10 years ago as part of Bitcoin’s development, blockchain technology is a method by which information is stored and shared between different parties.

In its simplest form it can be best described as a “distributed ledger” technology. A “ledger” is essentially a list that gathers in one place a collection of transactions or records of information. “Distributed” means that this ledger is shared between a network of peers rather than stored in a central location and administered by a single authority.

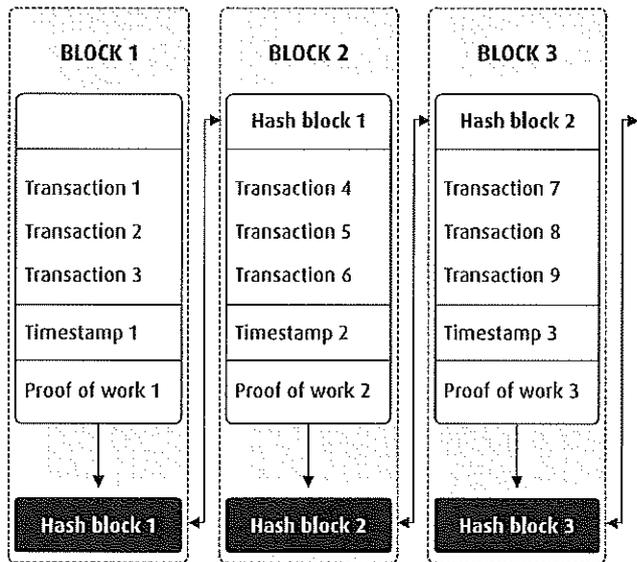
**Figure 1: Centralised vs decentralised distribution**



Blockchain technology achieves this by creating a continuously growing list of records, called blocks, which are linked together in a sequence to create the ledger. Each block is linked to the previous block using cryptography in a form that is virtually impossible to decode, and can contain information such as a location or other attribute. This means that inside every block is a complete history of everything that has ever happened in the chain before it. This information is packaged through “hashing”, which is a cryptography technique that takes an input and turns it into a fixed-size alphanumeric string of characters.

Whenever someone on the network wishes to make an entry, or create a new block, the proposed transaction is broadcast to everyone on the network, which is then evaluated by network users running a complex algorithm (“proof-of-work”), or solving a mathematical puzzle, to check it is valid against a pre-set criteria that evolves as the ledger grows. This is needed because anyone on the network, whether they are known to be trustworthy or not, can attempt to add information into the blockchain, making it necessary for all new information to be reviewed and confirmed before being accepted. Consensus amongst users is then required and achieved by a majority of those on the network individually concluding that the proposed transaction is valid against some pre-set criteria. The block is then created, time-stamped and given a unique identifier. Finally, each user within the network is provided with an updated version of the ledger, complete with this latest transaction.

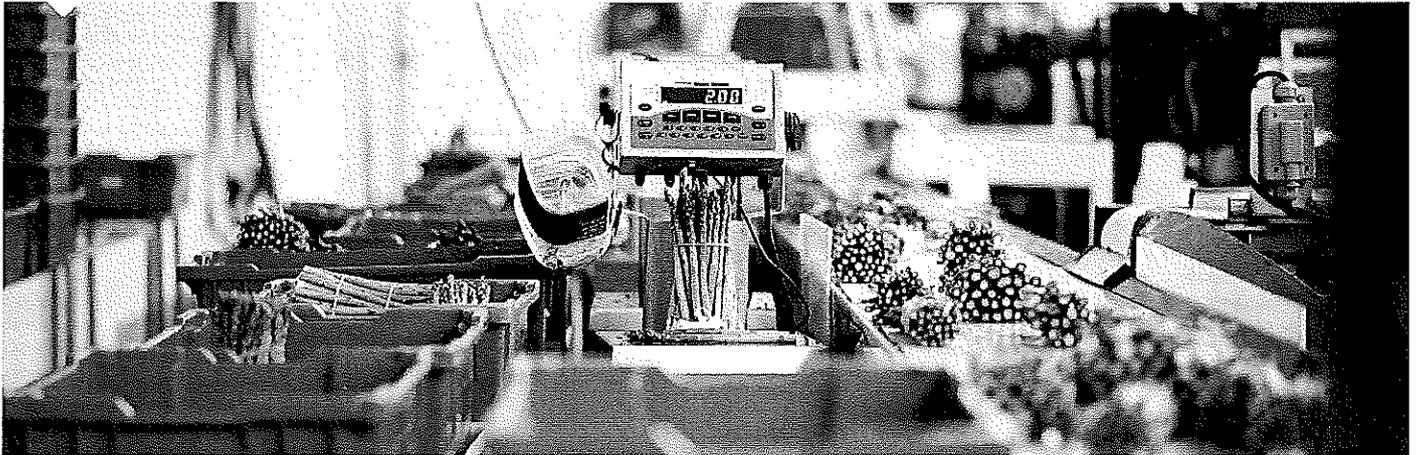
**Figure 2: Illustration of a blockchain**



There are two main types of network in which blockchain systems operate. Cryptocurrency networks are public in nature, meaning that anyone can join the network and read the ledger, or use it to send transactions. Public networks typically allow users (but not transactions) to remain anonymous. Those on the network who are willing contribute the processing power to build and verify blocks through the process previously described are rewarded through coins or tokens, such as Bitcoins, through an arrangement known as “mining”.

By comparison, private blockchain networks allow control over who can conduct transactions or access the ledger, and do not reward the processing of transactions through mining, but instead take on the cost of processing themselves.

<sup>1</sup>Source: IDC Worldwide Semi-annual Blockchain Spending Guide, 2017



### What makes blockchain technology useful?

Blockchain offers a new method by which to record information in a manner that is more open, but also secure, and share it with multiple users. Whilst it was developed for cryptocurrencies, the potential applications go far beyond this, given that the accurate recording and distribution of information is central to a lot of how companies operate. The attributes that make it useful for other applications include:

- **More collaborative** – with no central authority needed to facilitate or control transactions, this means that two or more parties who do not know one another can work confidentially together without the need for middle-men, which can add inefficiencies and expense
- **More transparent** – the ledger provides an open and detailed list of every transaction or record of information, accessible by all in public networks, or a selected audience for private networks
- **More secure** – the ledger is not stored in one location, but rather duplicated across the entire network, meaning the ledger cannot be manipulated, stolen or corrupted from a single location
- **More accurate** – the blockchain is constructed by consensus of users in the network, with each new block automatically checked before it is added
- **More consistent** – users on the network have identical copies of the ledger as opposed to there being multiple individual copies that are stored locally and can become unsynchronised
- **More timely** – the blockchain updates at set intervals, with the ledger held by each individual user being updated near-instantly

### What ESG problems could it solve?

There are a number of areas that companies are trying to exploit this technology to the benefit of stakeholders:

- **Supply chain traceability**

It is commonplace for companies to have supply chains involving hundreds of suppliers, with individual products passing through multiple parties before reaching the end-consumer. This can lead to real challenges for companies who wish to ensure that their own expectations on conduct and quality, such as product safety, environmental or labour standards, are maintained throughout the supply chain.

Using blockchain technology, companies are able to record the journeys of their products more accurately and more cheaply. With all suppliers invited into the network, every time a product changes hands within the supply chain, its precise location and time-stamp is documented by creating a new block, with the ledger creating a permanent history of every product from its manufacture through to its sale.

Given the number of suppliers involved, a centralised process would be cumbersome and would need to involve intermediaries to liaise between parties. However, with a blockchain network each party is synchronised in the information it receives, with each transaction validated by other users on the network. Having an accurate record of where a product has come from and who has been involved can be invaluable for responding to product recalls or understanding the exposure from issues being found with a specific supplier.

Food giant **Walmart** recently described how adopting blockchain within its live food business reduced the time

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Using blockchain technology, companies are able to record the journeys of their products more accurately and more cheaply.

to track produce from six days to two seconds. Chinese e-commerce giant **JD.com** has also announced similar plans to use blockchain technology to monitor their meat supply chain against the use of illegal drugs by pig farmers, which is a real issue in the region.

- **Renewable Energy Distribution**

On an electricity grid, electrons generated from renewable sources are indistinguishable from those generated by fossil fuels, which is an issue for end-consumers who may have a preference for green energy. To keep track of how much clean energy is produced, a system based on tradable certificates works by renewable-power plants logging their output in a spreadsheet, which is then sent to a registry provider, where the data gets entered into a separate system and a certificate is created. A second set of intermediaries broker deals between buyers and sellers of these certificates, and yet another party verifies the certificates after they are purchased. This whole process increases inefficiencies in the system and reduces the attractiveness of investing in green power.

By comparison, blockchain technology offers the opportunity for smaller-scale energy producers to trade energy peer-to-peer with consumers in their local area, rather than submit their power into the grid. Such an initiative has been launched by the British energy company **Centrica**, within its local energy market programme.

An automated system could take data on the amount of energy produced from renewable sources, record this, broker a price and then send it out to homes on the local grid while recording incoming payments for energy purchased. Through the use of smart contracts, which execute automatically when pre-set conditions are met, transactions can be made and recorded on the blockchain without a central distributor. This simplifies what is an otherwise complicated multi-layer system, with power producers, transmission system operations, distribution system operators and suppliers all contributing to transaction costs.

- **Anti-money laundering**

For financial institutions the current "Know Your Customer" (KYC) process, which involves performing a thorough background check on clients in order to detect fraud or suspected money laundering, can take days or even weeks



Without a single point of entry, it is more difficult for hackers to either steal the data or corrupt it for ransom purposes.

to satisfy the increasingly stringent demands of regulators.

Using blockchain technology, the process of monitoring customer activity in real-time can be substantially improved by providing more timely information to all of those involved. Due to the shared nature of the ledger, a database of all client activity and background information would be available to those on the network, with any updates to a client's status or fraudulent transaction could be communicated and updated in near real-time.

It also allows for better co-operation with different financial institutions, who can all join the same network, as cryptography can be used to ensure that only transaction information is shared without revealing confidential information on individual customers. To do so, financial institutions will need to think hard about how confidential information is shared, but with the right data governance and access controls, these concerns can be overcome. Ultimately, the risk of non-compliance due to delayed or inaccurate reporting would be greatly diminished.

- **Cybersecurity**

Protecting confidential data is more important for companies than ever before. By storing data across its network, the blockchain and its use of a distributed ledger eliminates the vulnerabilities that come with data being held centrally. Without a single point of entry, it is more difficult for hackers to either steal the data or corrupt it for ransom purposes.

The use of a distributed platform also adds resilience to a company's operations against a Distributed Denial of Service (DDoS), being one of the most common types of attacks. DDoS attacks attempt to make online services unavailable by overwhelming servers with traffic from multiple sources, causing the infrastructure to become overloaded. As the infrastructure behind the blockchain is distributed amongst many users, it does not have a single point of failure, so if one user goes down then the integrity of the network is maintained, as long as at least one of the users remains connected.

- **Proxy voting**

Shareholders' ability to exercise their voting rights is an important tool in fulfilling their stewardship responsibilities and holding companies to account. However, the current proxy voting system can be cumbersome and inefficient, with vote instructions being transmitted through a series of disconnected intermediaries. The currently proxy systems do not easily allow for auditing or reconciliation of votes at shareholder meetings, as many of those within the instruction chain, such as sub-custodians, custodians and company registrars, have separate record-keeping systems.

The 2018 voting season saw blockchain used at a shareholder meeting for the first time, with proxy distributor **Broadridge Financial Solutions** providing just such a service at **Banco Santander's** 2018 AGM. By using blockchain technology

a company can create a distributed ledger for each shareholder meeting, with all shareholders eligible to vote at the meeting added as members into the network. Each time a vote instruction is made, an additional block is added to the blockchain containing the specific instructions. The main advantage would be that is it tamper-proof and since there is only one record-keeping system, it removes the need to reconcile different databases. Overall this can give more confidence in the integrity of the vote results from that meeting.

### Risks of blockchain technology

Despite the potential benefits that can come from implementing blockchain technology to address business issues, as an emerging technology there are still many risks connected to its deployment that need to be resolved before the full potential of blockchain can be realised:

- **High energy use** – with each user on the network required to individually process cryptographic calculations and the requirement for mining to power its operation, the processing power (and therefore electrical power) needed to implement a blockchain network is substantial. By means of illustration, one estimate suggests that the bitcoin network used just over 32 terawatt hours last year, which is more than the nation of Denmark over the same period.
- **Unregulated landscape** – as the technology is still relatively new there is still a time lag on regulation being introduced, which makes investment riskier as there could be substantial compliance costs on the horizon if today's architecture designs are not compliant with tomorrow's laws. This is particularly relevant given that blockchain is being rapidly integrated within finance services, which is a heavily regulated industry.
- **No internationally recognised standard** – although the overall concept of what constitutes a blockchain network is relatively fixed, the exact mechanics of how it works can vary widely. This can result in different blockchain networks becoming siloed and unable to

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One estimate suggests that the bitcoin network used just over 32 terawatt hours last year, which is more than the nation of Denmark over the same period.

cross-communicate, limiting their usefulness at scale. It also increases the cost of investment as development is more difficult, with an equivalent situation being having to build an operating system, such as Android or iOS, every time you wish to develop an app.

**Relatively slow** – applications that use blockchain technology need to process the entire history of that blockchain every time a change is made, meaning that transactions can be slow compared to normal computer processing. For example, Bitcoin handles seven transactions a second and Ethereum around 13, whereas payments company **MasterCard** is capable of handling more than 44,000 per second.

- **Compliance with data laws** – the 'Right to be Forgotten', which has most recently been enshrined in the EU's General Data Protection Regulation (GDPR), poses a challenge to a technology that guarantees that nothing will be erased within a blockchain.

Unlike the cryptocurrencies that gave birth to its underlying architecture, more companies seem to be taking blockchain technology seriously and reflecting that in their investment. On the face of it this seems to be for good reason, with what is promised being a fundamental shift in how we store and share information. There are already a wide range of applications currently in development, including many that address traditional ESG problems, with the initial results on improving efficiency looking promising.

That being said, investors should be aware of the scale of the task at hand in trying to integrate relatively early stage technology into long-established processes and business ecosystems. The issues identified can and probably will be overcome with additional research, development and co-operation, but this process will be expensive, take time and, as industry standards emerge, ultimately result in there being winners and losers.

What is clear is that, given the current level of investment and its wide range of potential applications, blockchain technology is not going away. It might not grab the headlines in the way that its cryptocurrency cousins have done so before it, but in the background (or rather back-office) and behind-the-scenes it could provide exciting opportunities in helping companies tackle the sustainability issues that their businesses face.

### How BMO Global Asset Management can help you

BMO Global Asset Management incorporates material ESG issues into its investment processes across asset classes. We also offer our Responsible Funds range, which invests in companies operating sustainably and excludes those not meeting our ethical and ESG criteria, and our *reo*<sup>®</sup> engagement service, through which we provide engagement and voting services covering global equities and credit.

Contact us to find out more.

 [bmogam.com/responsible-investing](https://bmogam.com/responsible-investing)

Capital is at risk and investors may not get back the original amount invested.

*reo*<sup>®</sup> is a registered trademark of F&C Asset Management plc.

**BMO**  **Global Asset Management**

# 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.

Name	Sector	ESG Rating	Response to engagement	Themes engaged						
				Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
Amazon.com Inc	Consumer Discretionary	RED	Poor				●			
Associated British Foods PLC	Consumer Staples	GREEN	Adequate			●	●	●		
Bayer AG	Health Care	YELLOW	Adequate		●			●		
Becton Dickinson and Co	Health Care	GREEN			●			●		
BHP Billiton Ltd	Materials	YELLOW	Good	●					●	
CVS Health Corp	Health Care	YELLOW			●			●		
General Electric Co	Industrials	YELLOW	Poor	●		●	●			
GlaxoSmithKline PLC	Health Care	YELLOW	Good					●		
HSBC Holdings PLC	Financials	YELLOW	Good		●				●	
International Consolidated Airlines Group SA	Industrials	RED	Adequate				●	●	●	
Johnson & Johnson	Health Care	YELLOW	Adequate					●		
Kerry Group PLC	Consumer Staples	GREEN	Good	●		●	●		●	
Mettler-Toledo International Inc	Health Care	GREEN			●					
Nestle SA	Consumer Staples	GREEN	Good	●					●	
Novartis AG	Health Care	ORANGE	Good		●			●		
Roche Holding AG	Pharmaceuticals, Biotechnology	GREEN	Adequate					●		
Ryanair Holdings PLC	Industrials	YELLOW	Good				●		●	
VF Corp	Consumer Discretionary	GREEN	Poor			●	●			
Vistra Energy Corp	Utilities	RED								●
XPO Logistics Inc	Industrials	RED	Adequate	●			●		●	●

**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	Themes engaged							
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change	
Amazon.com Inc	United States	Consumer Discretionary	✓	RED				●				
Crown Holdings Inc	United States	Materials		RED	●							
Danske Bank A/S	Denmark	Financials		RED		●				●		
General Motors Co	United States	Consumer Discretionary		RED								●
International Consolidated Airlines Group SA	United Kingdom	Industrials	✓	RED				●	●	●		
Pfizer Inc	United States	Health Care		RED					●			
SMC Corp/Japan	Japan	Industrials		RED	●	●				●		
Vistra Energy Corp	United States	Utilities	✓	RED								●
XPO Logistics Inc	United States	Industrials	✓	RED	●			●		●		●
Yum! Brands Inc	United States	Consumer Discretionary		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*<sup>®</sup> client portal.

Name	Country	Sector	Priority company	ESG Rating	Themes engaged							
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change	
Ameren Corp	United States	Utilities		ORANGE	●						●	
CCL Industries Inc	Canada	Materials		ORANGE	●							
eBay Inc	United States	Information Technology		ORANGE			●	●				
FMC Corp	United States	Materials		ORANGE	●							
Lloyds Banking Group PLC	United Kingdom	Financials		ORANGE		●						
Novartis AG	Switzerland	Health Care	✓	ORANGE		●			●			
Sealed Air Corp	United States	Materials		ORANGE	●							
Toppan Printing Co Ltd	Japan	Industrials		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.

Name	Country	Sector	Priority company	ESG Rating	Themes engaged						
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
Arkema SA	France	Materials		YELLOW	●				●		●
Bayer AG	Germany	Health Care	✓	YELLOW		●			●		
BHP Billiton Ltd	Australia	Materials	✓	YELLOW	●					●	
Coca-Cola Co/The	United States	Consumer Staples		YELLOW	●				●		
CVS Health Corp	United States	Health Care	✓	YELLOW		●			●		
Daiichi Sankyo Co Ltd	Japan	Health Care		YELLOW					●	●	
DNB ASA	Norway	Financials		YELLOW		●					
General Electric Co	United States	Industrials	✓	YELLOW	●		●	●			
GlaxoSmithKline PLC	United Kingdom	Health Care	✓	YELLOW					●		
HSBC Holdings PLC	United Kingdom	Financials	✓	YELLOW		●				●	
Johnson & Johnson	United States	Health Care	✓	YELLOW					●		
Mitsui Chemicals Inc	Japan	Materials		YELLOW	●				●		●
Mondelez International Inc	United States	Consumer Staples		YELLOW	●						
Obayashi Corp	Japan	Industrials		YELLOW		●		●			
Remy Cointreau SA	France	Consumer Staples		YELLOW	●				●		
Royal Mail PLC	United Kingdom	Industrials		YELLOW				●		●	●
Ryanair Holdings PLC	Ireland	Industrials	✓	YELLOW				●		●	
Showa Denko KK	Japan	Materials		YELLOW	●				●		●
Starbucks Corp	United States	Consumer Discretionary		YELLOW	●						
Tesco 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.

Name	Country	Sector	Priority company	ESG Rating	Themes engaged						
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
AbbVie Inc	United States	Health Care		GREEN					●		
Acuity Brands Inc	United States	Industrials		GREEN				●			
Agnico Eagle Mines Ltd	Canada	Materials		GREEN	●	●	●	●			
Alphabet Inc	United States	Information Technology		GREEN		●					
Apple Inc	United States	Information Technology		GREEN		●					
Ashtead Group PLC	United Kingdom	Industrials		GREEN						●	
Associated British Foods PLC	United Kingdom	Consumer Staples	✓	GREEN			●	●	●		
Astellas Pharma Inc	Japan	Health Care		GREEN					●		
AstraZeneca PLC	United Kingdom	Health Care		GREEN					●		
Becton Dickinson and Co	United States	Health Care	✓	GREEN		●			●		
Brenntag AG	Germany	Industrials		GREEN				●			
Bristol-Myers Squibb Co	United States	Health Care		GREEN					●		
Burberry Group PLC	United Kingdom	Consumer Discretionary		GREEN	●						
Cie Financiere Richemont SA	Switzerland	Consumer Discretionary		GREEN	●	●					
Coca-Cola European Partners PLC	United Kingdom	Consumer Staples		GREEN	●				●		
Coca-Cola HBC AG	Switzerland	Consumer Staples		GREEN	●						
Croda International PLC	United Kingdom	Materials		GREEN	●				●		●
CSL Ltd	Australia	Health Care		GREEN		●			●		
Diageo PLC	United Kingdom	Consumer Staples		GREEN						●	
easyJet PLC	United Kingdom	Industrials		GREEN				●	●		
Eisai Co Ltd	Japan	Health Care		GREEN		●			●		
Eli Lilly & Co	United States	Health Care		GREEN					●		
Gilead Sciences Inc	United States	Health Care		GREEN					●		
ISS A/S	Denmark	Industrials		GREEN		●		●			
J Sainsbury PLC	United Kingdom	Consumer Staples		GREEN	●						
Julius Baer Group Ltd	Switzerland	Financials		GREEN		●					
Kansai Paint Co Ltd	Japan	Materials		GREEN	●				●		●
Kerry Group PLC	Ireland	Consumer Staples	✓	GREEN	●		●	●		●	
Marine Harvest ASA	Norway	Consumer Staples		GREEN	●				●		
Merck & Co Inc	United States	Health Care		GREEN					●		
Merck KGaA	Germany	Health Care		GREEN		●			●		
Mettler-Toledo International Inc	United States	Health Care	✓	GREEN		●					
Microsoft Corp	United States	Information Technology		GREEN		●					
Mondi PLC	United Kingdom	Materials		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

# Engagements and Your Fund: Green rated

Name	Country	Sector	Priority company	ESG Rating	Themes engaged						
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
MTU Aero Engines AG	Germany	Industrials		GREEN		●		●			
National Grid PLC	United Kingdom	Utilities		GREEN		●					
Nestle SA	Switzerland	Consumer Staples	✓	GREEN	●					●	
Next PLC	United Kingdom	Consumer Discretionary		GREEN			●	●			
Novo Nordisk A/S	Denmark	Health Care		GREEN		●					
Prudential Financial Inc	United States	Financials		GREEN					●	●	
Roche Holding AG	Switzerland	Pharmaceuticals, Biotechnology	✓	GREEN					●		
Royal Bank of Canada	Canada	Financials		GREEN						●	
Sanofi	France	Health Care		GREEN					●		
Shimizu Corp	Japan	Industrials		GREEN		●		●			
Smiths Group PLC	United Kingdom	Industrials		GREEN				●			
Smurfit Kappa Group PLC	Ireland	Materials		GREEN	●						
Takeda Pharmaceutical Co Ltd	Japan	Health Care		GREEN		●			●		
VF Corp	United States	Consumer Discretionary	✓	GREEN			●	●			
Wolters Kluwer NV	Netherlands	Industrials		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.

Name	Country	Sector	Priority company	ESG Rating	Themes engaged						
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
 Danske Bank A/S	Denmark	Financials		RED		●					
Royal Mail PLC	United Kingdom	Industrials		YELLOW						●	
 Ryanair Holdings PLC	Ireland	Industrials	✓	YELLOW				●			
 Akzo Nobel NV	Netherlands	Materials		GREEN							●
Banco Bilbao Vizcaya Argentaria SA	Spain	Financials		GREEN							●
Barrick Gold Corp	Canada	Materials		ORANGE							●
BHP Billiton Ltd	Australia	Materials	✓	YELLOW	●						●
BP PLC	United Kingdom	Energy	✓	YELLOW							●
Exxon Mobil Corp	United States	Energy		YELLOW							●
Freeport-McMoRan Inc	United States	Materials		RED			●				
Gap Inc/The	United States	Consumer Discretionary		GREEN				●			
HSBC Holdings PLC	United Kingdom	Financials	✓	YELLOW							●
J Sainsbury PLC	United Kingdom	Consumer Staples		GREEN	●			●			
Kerry Group PLC	Ireland	Consumer Staples	✓	GREEN	●						
Marks & Spencer Group PLC	United Kingdom	Consumer Discretionary		GREEN	●			●			
McKesson Corp	United States	Health Care		RED						●	
Mondi PLC	United Kingdom	Materials		GREEN							●
NetApp Inc	United States	Information Technology		RED						●	
Novartis AG	Switzerland	Health Care	✓	ORANGE					●		
Royal Dutch Shell PLC	Netherlands	Energy	✓	YELLOW							●
Standard Chartered PLC	United Kingdom	Financials		GREEN							●
Unicharm Corp	Japan	Consumer Staples		ORANGE							●
Wm Morrison Supermarkets PLC	United Kingdom	Consumer Staples		GREEN				●			
Yaskawa Electric Corp	Japan	Information Technology		GREEN						●	
Yum! Brands Inc	United States	Consumer Discretionary		RED	●						
 Aeon Co Ltd	Japan	Consumer Staples		GREEN							●
Anthem Inc	United States	Health Care		RED							●
Applied Materials Inc	United States	Information Technology		GREEN							●
Barrick Gold Corp	Canada	Materials		ORANGE				●			
Burberry Group PLC	United Kingdom	Consumer Discretionary		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

Name	Country	Sector	Priority company	ESG Rating	Themes engaged									
					Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change			
Cisco Systems Inc	United States	Information Technology		GREEN										
CRH PLC	Ireland	Materials		GREEN										
US Bancorp	United States	Financials	✓	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



Committee and date  
Pensions Committee

30 November 2018

09.30am

Item

Public

## PENSIONS ADMINISTRATION MONITORING REPORT

**Responsible Officer** Debbie Sharp

Email: [debbie.sharp@shropshire.gov.uk](mailto:debbie.sharp@shropshire.gov.uk)

Tel: 01743 252192

### 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. 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. Further compliance with TPR code has highlighted areas where further costs could be incurred.

#### 4. Performance and Team Update

- 4.1 The team's output and performance level to the end of October 2018 is attached at **Appendix A**. The chart shows that tasks outstanding remained at a steady level, some of these will not yet be due for processing. Encouragingly, the number being completed on time and within target is continuing to show improvement.
- 4.2 The team are working on a project to ensure that outdated workflow cases are replaced with simplified processes and correct target dates for effective measuring. Monthly project meetings take place between staff from both the operations team and systems team to progress this work.
- 4.3 Staff vacancies have recently arisen within the team as 3 members of staff have decided to leave the team. Two of these posts are permanent and one is a maternity cover. The team will be advertising to fill these vacancies quickly.
- 4.4 Meetings have taken place with IT for assurance to be sought with regards to Cyber Security. The Pensions Regulator guidance will be addressed by formulating a statement of compliance. Although the Council undertook a disaster recovery exercise across their main systems, the Pensions Administration system was excluded on the day. This has been raised with IT for re – scheduling, during the next quarter. Penetration testing by an external company will also be undertaken once the new MSS product goes live.

#### 5. Help Desk Statistics

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

	August 2018	September 2018	October 2018
Telephone calls received	677	681	758
Queries dealt with by helpdesk at first point of contact %*	87.40%	89.28%	86.93%
Users visiting the Website	2,848	1,859	2,529
Member drop ins	72	58	60

\* 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.

- 5.2 The Helpdesk also responds to a number of emails on a daily basis the following table shows these numbers:

	August 2018	September 2018	October 2018
Emails Received	496	514	550
% of emails responded to within 3 working days	100%	100%	100%
Average number per day	21.57	25.70	23.91

## 6 Communications and Governance

- 6.1 The Fund monitors member take up of its online area Member Self Service (MSS), known by members as 'My Pension Online'. The Annual Benefit Statements for both active and deferred members are now available to view on 'My Pension Online' unless a member has requested a paper copy. As at November 2018 a total of 39.1% active members and 31.5% of deferred members were registered to view their records on 'My Pension Online'. The project to upgrade the current 'My Pension Online' system is still ongoing. Installation of the upgraded system was delayed due to additional work required to ensure the system met the security requirements of the Council. Upon recommendation from the Information Governance Officer an initial penetration test has been completed, by Shropshire IT staff, on this system and no high-level risks were found. 4 improvements were recommended and 3 out of 4 of the issues were resolved immediately – the final issue is currently being worked on. Training was provided to officers by the system supplier Heywoods on 24 October 2018. A user acceptance testing (UAT) period started on 5 November and is expected to last 4 weeks. If the UAT is successful the upgrade is expected to go live early December 2018 – a month later than previously reported.

### 6.2 Pensions Board vacancy

Following interviews on 19 September 2018, to fill the current member representative vacancy on the Pensions Board, retired member John Hall was appointed to the position. John has attended the Annual meeting on 15<sup>th</sup> November and the Board meeting on 16<sup>th</sup> November.

### 6.3 Developments to the pensions website

Following recommendations from the Council's IT web team the pensions website is being moved onto a new content management system called Umbraco. This is the same system the Council uses for its main website. The new system allows the team to have greater control of the website i.e. displaying newsflash messages, and provides a larger platform for content as the pensions website

continues to grow. The new website also provides better usability when being accessed via a smart phone or tablet. Training has been provided by the web team to the main team users and it is due to be switched on at the end of November 2018.

## **7. Pensioner Payroll Implementation**

7.1 Pensioner payroll on Altair went live in October 2018 as previously reported. Testing was completed and parallel runs were reconciled. An internal audit was undertaken on the project governance and documentation and this received a good rating.

7.2 The project now moves to phase 2 which is the merge of the payroll database to the main Altair admin database. This is being undertaken during November and December 2018.

7.3 Within this phase the team will also look at how the immediate payments facility can be used for making payments through the Payroll system instead of through the Council's finance system.

7.4 The project is still on schedule and within budget.

## **8. 2018 Budget announcement**

8.1 In the 2018 Budget, 29 October, the Chancellor of the Exchequer confirmed the reduction in the SCAPE discount rate from CPI + 2.8% to CPI + 2.4% in the 2018 Budget.

8.2 The SCAPE discount rate is used to set the employer contribution rates in the unfunded public service pension schemes and determine the actuarial factors used across all public service pension schemes. The reduced rate is effective from 29 October for the calculation of actuarial factors in the LGPS – this means that some non-club transfers, some interfund calculations and all CETVs for divorces are on hold until new factors are issued. It is expected that new factors will be issued by the Secretary of State in due course, within approximately 6 weeks (i.e. early December 2018). Quotations affected by these factors cannot be issued and are currently being stockpiled and monitored. It is not necessary to suspend Club transfers. Communication to members, documentation and internal processes all have to be updated during this period.

8.3 MHCLG have also confirmed that the remainder of the scheme's actuarial factors will be amended to take account of the reduction in the SCAPE discount rate in due course. It is expected that these revised factors will be issued around February/March 2019. Communication to members who request a retirement quote or who are leaving with an effective date on or after 1 February 2019 has been put in place.

- 8.4 Changes will be required to the pensions administration system to update the factors when issued. Which will then enable the stockpiled calculations to be worked on.

**9. Ministry of Housing, Communities and Local Government (MHCLG) open consultation on technical amendments to benefits**

- 9.1 MHCLG have recently opened an eight-week policy consultation called 'LGPS: technical amendments to benefits', found in **Appendix B**. The consultation looks at three areas:

- Survivor benefits – including changes to pensions paid to survivors of civil partnerships or same-sex marriages to be equal to those provided to widows of male members.
- Introducing a general power for MHCLG to issue statutory guidance.
- Correcting the unintended error in the LGPS (Amendment) 2018 Regulations to provide that deferred members who left under the 1995 Regulations are able to take payment of their LGPS pension without the need for their former employer's consent from age 55, with the appropriate reduction for early payment.

The consultation closes at 11:45pm on 29 November 2018 and officers aim to respond. Any introduction of new or revised legislation brings with it additional administration and communication work for the team.

**10. Consultation on options for separation of host authority and pension fund**

- 10.1 In 2015, the LGPS Scheme Advisory Board (SAB) commissioned KPMG to undertake a project to examine the issues and challenges of separating the pension's functions of LGPS administering authorities from the host authority. As part of SAB's 2018/19 work programme, a further project was established to see how the recommendations that emerged from the exercise undertaken in 2015 could be made to work in practice. In August 2018, SAB invited interested parties to assist in developing options for change. Three bids were received before the closing date of 21 September and these are currently being considered by the LGA secretariat and the SAB. Updates on this consultation will be shared with members once received.

- 10.2 Members may wish to note a comment provided in the SAB paper:

*'It is to be emphasised that the project is in no way a criticism of the excellent work undertaken by both elected members and officers in managing the scheme. In particular the Board recognises the non-political, 'pension fund first' approach taken by elected members on pension committees and the professionalism of Section 151 officers.'*

*Rather this project seeks to enhance the regulatory, structural and procedural support available to them.'*

## 11. National confidence assessment

- 11.1 In August 2018, the Fund received an invitation to take part in a national survey aimed at Committee and Pension Board members to gather feedback on the confidence of the roles and responsibilities of those tasked with managing the LGPS Fund. Survey participants were asked to rank how confident they felt on 8 topics within the assessment.
- 11.2 The findings and analysis provide insight into the all LGPS Funds in 2018. 1 member of the pensions board and 3 members of the Pensions Committee participated in the survey and the results have been shared separately with the committee and board. The results are currently being reviewed by officers with the view that the findings will feed into training provided in 2019.

**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 2018 Pensions Administration Report

**Cabinet Member (Portfolio Holder)**

NA

**Local Member**

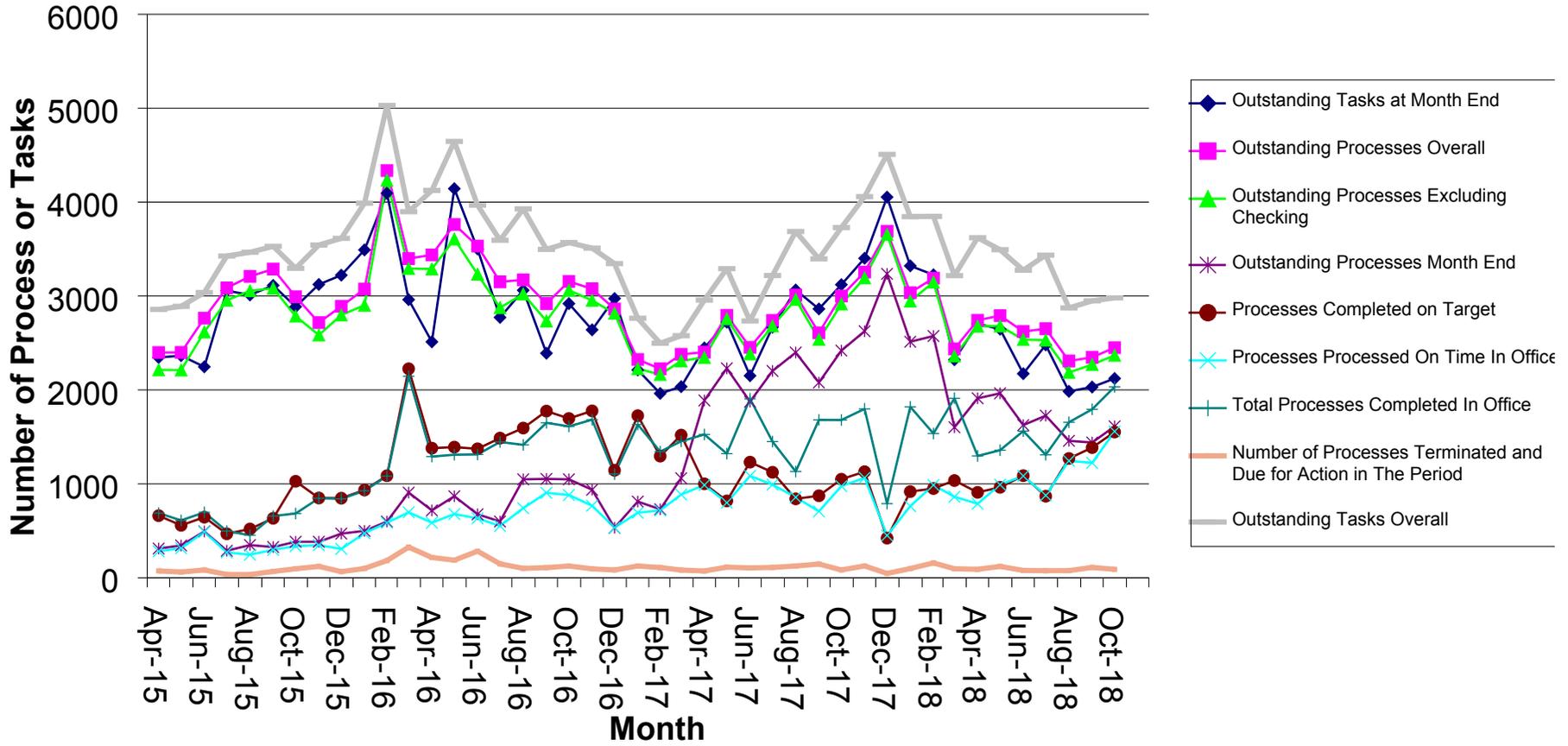
NA

**Appendices**

Appendix A – Performance Chart

Appendix B - MHCLG consultation document

### Process and Task Statistics



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Ministry of Housing,  
Communities &  
Local Government

# Local Government Pension Scheme: Technical Amendments to Benefits

Policy Consultation



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If you have any enquiries regarding this document/publication, complete the form at <http://forms.communities.gov.uk/> or write to us at:

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Fry Building  
2 Marsham Street  
London  
SW1P 4DF  
Telephone: 030 3444 0000

For all our latest news and updates follow us on Twitter: <https://twitter.com/mhclg>

October 2018

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# Scope of the consultation

Topic of this consultation:	This consultation seeks views on proposed amendments to the rules of the Local Government Pension Scheme. These amendments are necessary to respond to recent legal judgments and maintain existing pensions policy objectives.
Scope of this consultation:	MHCLG is consulting on changes that will affect members of the LGPS and those who may be entitled to survivor benefits from them.
Geographical scope:	These proposals relate to the Local Government Pension Scheme in England and Wales only.
Impact Assessment:	<p>The government believes that any impact on protected groups as a result of these reforms would simply be a natural consequence of the composition of the local government workforce and does not believe that there would be a disproportionate impact on particular groups aside from as a consequence of this.</p> <p>How much individual members or their beneficiaries may benefit from these reforms will be determined by a combination of factors, including when they were employed, their pensionable earnings, the length of any pensionable service and the specific benefits of the scheme to which the deceased belonged. We do not hold data from which these costs could be modelled with any accuracy, however we do not anticipate that these extra costs will be material to the Scheme as a whole.</p>

## Basic Information

To:	This consultation will be of greatest interest to members of the the Local Government Pension Scheme, as well as those who might be entitled to survivor benefits from them. Any change to the Local Government Pension Scheme is likely to be of interest to other stakeholders as well, such as local pension fund administrators, those who advise them, other LGPS employers and local taxpayers.
Body/bodies responsible for the consultation:	LGF Reform and Pensions Team, Ministry of Housing, Communities and Local Government.
Duration:	This consultation will last for 8 weeks from 4 October 2018
Enquiries:	For any enquiries about the consultation please contact <a href="mailto:LGpensions@communities.gsi.gov.uk">LGpensions@communities.gsi.gov.uk</a>
How to respond:	Please respond by email to:

[LGpensions@communities.gsi.gov.uk](mailto:LGpensions@communities.gsi.gov.uk)

Alternatively, please send postal responses to:

LGF Reform and Pensions Team  
Benefits Consultation  
Ministry for Housing, Communities and Local Government  
2nd Floor, Fry Building  
2 Marsham Street  
London  
SW1P 4DF

When you reply it would be very useful if you confirm whether you are replying as an individual or submitting an official response on behalf of an organisation and include:

- your name,
- your position (if applicable),
- the name of organisation (if applicable),
- an address (including post-code),
- an email address, and
- a contact telephone number

If you are responding in writing, please make it clear which questions you are responding to.

# Introduction – Purpose of the Reforms

The Local Government Pension Scheme is a statutory scheme established under the Superannuation Act 1972. Its rules and benefits are set out in regulations<sup>1</sup>.

The legislation governing the LGPS has been changed at various points in time. This has generally been in order to maintain the affordability and effectiveness of the LGPS, as well as to reflect wider legal changes. Changes have also been necessary to reflect the changing composition and working practices of those delivering local public services.

Since the Human Rights Act 1998 came into force, LGPS funds also need to interpret those rules consistently with the human rights of scheme members. Recently there have been a number of challenges on grounds that the plain meaning of the rules can be inconsistent with the human rights of those affected by them.

The purpose of this consultation is to propose some changes to the scheme to accommodate judgments already made and to give some flexibility to respond to future developments.

A number of those challenges have focussed on the issue of survivor benefits. The Scheme provides a variety of insurance-style benefits on the death of a scheme member. The nature of these benefits has changed over time in line with societal developments and evolving family structures. For example, for all active members, the scheme now includes equal benefits for the partners of survivors irrespective of the legal form of their relationship (i.e. marriage, civil partnership or co-habitation).

As the scope of these benefits has expanded over the years to take in wider numbers of beneficiaries, so has the cost of providing them. To manage this cost, it is long-standing government policy that benefits should only exceptionally be improved retrospectively and that only members with active membership at the time the benefit is brought in should be entitled to them.

However, there are instances when the rules around benefits have to be redrawn, and this consultation covers a number of those.

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<sup>1</sup> Principally the Local Government Pension Scheme Regulations 2013

# Survivor Benefits

## Amendment to benefits payable to same-sex married or civil partners

One successful legal challenge was brought in the case of Walker v Innospec<sup>2</sup>. Mr Walker was not a member of the LGPS, he was a member of a private defined benefit scheme. On 12th July 2017, the Supreme Court found that Mr Walker's male spouse was entitled to the same benefits which would be paid if Mr Walker had left a widow in an opposite sex marriage. The judgment meant that the survivor's pension would be calculated on all the years of Mr Walker's service with Innospec provided that, at the date of Mr Walker's death, they remained married. Prior to the judgment, pension schemes had been able to make use of a provision within the Equality Act 2010 which allowed service accrued before 5 December 2005 to be disregarded in calculating the pension entitlement of a surviving civil partner or surviving same-sex spouse.

The implication of this judgment for all pension schemes with similar benefits, like the LGPS, is that survivors of registered civil partnerships or same-sex marriages should be provided with benefits equal to those the scheme member would have left to an opposite sex surviving spouse. In the LGPS, surviving partners in a civil partnership or same sex marriage of either sex are all currently afforded benefits equivalent to widowers.

This change would be significant as earlier LGPS schemes, on which the pensions of certain members are still determined, recognise past service back to 1978 for widows of post-service marriages but only back to 1988 for widowers of post-service marriages.

The Government has decided that all public service pension schemes should implement changes to provide that survivors of registered civil partnerships or same-sex marriage will be provided with benefits that replicate those provided to widows. These changes will be implemented in LGPS as though they had applied from the date civil partnerships and same-sex marriages were implemented. Hence there will be a need for LGPS administering authorities to revisit all awards made under the current rules to partners affected and pay any additional sums that are due.

Many same-sex survivors of a public service pension scheme member will benefit from this change. How much they benefit will be determined by a combination of factors, including when the deceased was employed, their pensionable earnings, the length of any pensionable service and the specific benefits of the scheme to which the deceased belonged.

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<sup>2</sup> Judgment available at : <https://www.supremecourt.uk/cases/uksc-2016-0090.html>

This differential treatment between widows and widowers has been held to be lawful by the Supreme Court in a long line of cases. The European Court of Justice judgment in Barber required schemes to provide equal survivor benefits for males who survive their female spouse in relation to service only from May 1990. The LGPS meets this requirement, but it is not proposed at this point to equalise benefits for all males who survive their female spouse on the same basis as they are provided to females who survive their male spouse. The costs of doing so would be significant - £2.8bn across different public sector schemes. The government had separately consulted widely on this issue in the joint HMT and DWP review of survivor benefits in Occupational Pension Schemes: <https://www.gov.uk/government/publications/occupational-pension-schemes-review-of-survivor-benefits>. No final decisions have been made on these issues and the Government will respond on this matter separately and in due course.

### **Question One - Do you agree with this approach?**

**We intend to undertake separately a technical consultation on draft amendment regulations to give effect to this change in the current and previous Schemes.**

## Power to issue statutory guidance

A further successful challenge was brought in the very similar cases of Brewster<sup>3</sup> and Elmes<sup>4</sup>. In February of last year the Supreme Court handed down its judgment in the case of Brewster. The claimant, who was the unmarried partner of a deceased member of the Northern Irish Local Government Pension Scheme, successfully argued that the requirement for her partner to have provided a written nomination of her as the recipient of his survivor benefits was unlawful.

The LGPS in England and Wales maintained a similar nomination requirement for several years (between 2008 and 2014). Prior to 2008 no unmarried partners were recognised for survivor benefit purposes and from 1 April 2014 no nomination form was required to establish eligibility. The change in 2014 was made in part in response to legal action that was brought by the unmarried partner of a deceased scheme member, Ms Elmes. Her circumstances were almost identical to those in Brewster and the rules were changed in LGPS ahead of the judgment in Brewster. Ms Elmes' case was stayed behind Brewster and has since been settled in the claimant's favour.

On 17 August last year the Department wrote to funds asking them to review their records and see whether they now need to offer a survivor pension to partners whose claim for a benefit had been rejected at the time the nomination requirement was in force. However,

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<sup>3</sup> Judgment available at: <https://www.supremecourt.uk/cases/uksc-2014-0180.html>

<sup>4</sup> The judgment is not yet available

there will also be cases where as the fund judged that there was no eligible surviving partner any dependent children were given a larger pension than they would have received had there been an eligible partner. Accordingly, where a partner is now found to be eligible for a survivor benefit (which would be backdated to the scheme member's death) the children's pension would need to be reduced and, in theory, the overpayment recovered.

Although it was not necessary for this to be decided in the case before him, the Judge in Elmes queried what account would need to be taken by funds of the rights of the children affected.

The Department's view of the implications of this case was set out in the letter of 17 August 2017. However, that letter recognised that the Department's view had no legal force as the Secretary of State had no power to issue statutory guidance in this area. Accordingly it is possible for funds to reach different and inconsistent conclusions about to the entitlements of beneficiaries in identical positions.

This is contrary to the Government's view that the LGPS is a single scheme administered locally. It was always our intention that equivalent members' benefits should be the same everywhere. These issues are sensitive and to avoid funds taking different approaches, the government proposes to create a power to issue statutory guidance on the operation of the scheme's rules. The aim of this is to deliver greater standardisation of approach, in particular on how the interpretative duties under the Human Rights Act are met. An alternative would be to amend the rules of the scheme in relation to each judgment as it is made. Such an approach would be less flexible to inevitable changes in position as case law develops. It would also require a greater call on Parliamentary time.

### **Question Two - Do you agree with this approach?**

**We intend to undertake separately a separate technical consultation on draft amendment regulations to give effect to this change.**

# Technical Amendment

## Early access to benefits for deferred members of 1995 Scheme

The Government consulted in 2016 on amendments to the LGPS regulations<sup>5</sup>. These proposals set out the Government's wish to remove the requirement for persons aged between age 55 and 60 to obtain their employer's consent before drawing their benefits early (with the appropriate actuarial reduction for early payment). This intention was restated in the Government response published earlier this year. In that response we said that we proposed to remove the need for an employer to give consent when a member who left the LGPS with deferred benefits prior to 1 April 2008, and is aged between 55 and 59, chooses early payment of their benefits.

Regulations were made on 17 April 2018 that were intended to have that effect but it has since become apparent that in relation to one group of members the Regulations have not had the intended effect. Our intention was that Regulation 24 of the 2018 Amendment Regulations [SI 2018/493] should modify the LGPS Regulations 1995 (as preserved) to provide that this option is extended to members over the age of 55 who left the LGPS with a deferred benefit under that scheme.

This has not been achieved because the 1995 Scheme rules were constructed differently from other Schemes. The 1995 Scheme provided that a person may elect for early payment of their benefits *within three months of attaining age 60*, or if later, the date on which they ceased to be employed in local government employment. The Amendment Regulations reduced the age at which that choice could be exercised to 55, but left this as a single, one-off point at which that flexibility could be exercised.

Successor LGPS schemes had adopted a different formulation and allowed members early access to their *benefits on or after* reaching the earliest age at which benefits could be drawn down early. This gave them an on-going flexibility to make an election at any time after having reached the revised minimum age.

The amendments made earlier this year have created a lacuna whereby members who left active membership of the LGPS prior to 1 April 1998 and who were aged between 55 and 60 are likely to have lost the option to elect for early payment of benefits. We therefore intend to amend the regulations again to fully achieve the initial policy aim, which is to allow all deferred members over the age of 55 to draw down their pensions early, with the appropriate actuarial reduction.

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<sup>5</sup> <https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations>

It is also proposed to allow anyone who has been prevented from getting early access to their pensions because of this oversight to be able to backdate their application to 14 May 2018. This facility will be available for 6 months from the coming into force of the amendment to the 1995 scheme rules.

**Question Three - Do you agree with this approach?**

**We intend to undertake a separate technical consultation on draft amendment regulations to give effect to this change to the 1995 Scheme.**

## Equality Impact Assessment

Each of these measures is intended to increase equality of treatment between scheme members. They extend or clarify entitlements under the scheme for certain groups of members who previously have not had the benefit of them.

The government believes that any other impact on protected groups as a result of these reforms would simply be a natural consequence of the composition of the local government workforce and does not believe that there would be a disproportionate impact on particular groups aside from as a consequence of this.

**Question Four – Do you agree with this assessment? Please identify any evidence you think would support your response.**

# About this consultation

This consultation document and consultation process have been planned to adhere to the Consultation Principles issued by the Cabinet Office.

Representative groups are asked to give a summary of the people and organisations they represent, and where relevant who else they have consulted in reaching their conclusions when they respond.

Information provided in response to this consultation, including personal data, may be published or disclosed in accordance with the access to information regimes (these are primarily the Freedom of Information Act 2000 (FOIA), the Data Protection Act 2018 (DPA), the General Data Protection Regulation, and the Environmental Information Regulations 2004).

If you want the information that you provide to be treated as confidential, please be aware that, as a public authority, the Department is bound by the Freedom of Information Act and may therefore be obliged to disclose all or some of the information you provide. In view of this it would be helpful if you could explain to us why you regard the information you have provided as confidential. If we receive a request for disclosure of the information we will take full account of your explanation, but we cannot give an assurance that confidentiality can be maintained in all circumstances. An automatic confidentiality disclaimer generated by your IT system will not, of itself, be regarded as binding on the Department.

The Ministry of Housing, Communities and Local Government will process your personal data in accordance with the law and in the majority of circumstances this will mean that your personal data will not be disclosed to third parties. A full privacy notice is included at Annex A.

Individual responses will not be acknowledged unless specifically requested.

Your opinions are valuable to us. Thank you for taking the time to read this document and respond.

Are you satisfied that this consultation has followed the Consultation Principles? If not or you have any other observations about how we can improve the process please contact us via the [complaints procedure](#).

# Annex A

## **Personal data**

The following is to explain your rights and give you the information you are be entitled to under the Data Protection Act 2018.

Note that this section only refers to your personal data (your name address and anything that could be used to identify you personally) not the content of your response to the consultation.

### **1. The identity of the data controller and contact details of our Data Protection Officer**

The Ministry of Housing, Communities and Local Government (MHCLG) is the data controller. The Data Protection Officer can be contacted at [dataprotection@communities.gsi.gov.uk](mailto:dataprotection@communities.gsi.gov.uk)

### **2. Why we are collecting your personal data**

Your personal data is being collected as an essential part of the consultation process, so that we can contact you regarding your response and for statistical purposes. We may also use it to contact you about related matters.

### **3. Our legal basis for processing your personal data**

Section 21 of the Public Service Pension Act 2013 requires the scheme authority, in this case the Secretary of State, to consult such persons as he believes are going to be affected before making any regulations for the Local Government Pension Scheme. MHCLG will process personal data only as necessary for the effective performance of that duty.

### **3. With whom we will be sharing your personal data**

We do not anticipate sharing personal data with any third party.

### **4. For how long we will keep your personal data, or criteria used to determine the retention period.**

Your personal data will be held for two years from the closure of the consultation

### **5. Your rights, e.g. access, rectification, erasure**

The data we are collecting is your personal data, and you have considerable say over what happens to it. You have the right:

- a. to see what data we have about you
- b. to ask us to stop using your data, but keep it on record
- c. to ask to have all or some of your data deleted or corrected
- d. to lodge a complaint with the independent Information Commissioner (ICO) if you think we are not handling your data fairly or in accordance with the law. You can contact the ICO at <https://ico.org.uk/>, or telephone 0303 123 1113.

### **6. Your personal data will not be sent overseas**

- 7. Your personal data will not be used for any automated decision making.**
- 8. Your personal data will be stored in a secure government IT system.**

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