Shropshire Council

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

Date: Thursday, 8 March 2018

Committee:
Pensions Committee

Date: **Friday, 15 March 2019**
Time: **10.00 am**
Venue: **Shrewsbury Room, Shirehall, Abbey Foregate, Shrewsbury, Shropshire, SY2 6ND**

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

Claire Porter
Director of Legal and Democratic Services

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

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 30 November 2018 are attached marked 3

4 Public Questions

To receive any questions or petitions 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 14 March 2019

A petition has been received from the Ludlow Quaker Meeting asking Shropshire Council to divest from fossil fuels. A response will be given at the meeting

5 Shropshire Council External Audit Plan 2018 - 19 (Pages 5 - 18)

The report of Grant Thornton is attached marked 5

6 Informing the Audit Risk Assessment for Shropshire Council Pension Fund (Pages 19 - 34)

The report of Grant Thornton is attached marked 6

7 Equity Protection Update

To receive an update from James Sparshott and Graham Wardle (Legal & General)

8 Private Equity

To receive a presentation from Emily Archer and Alex Wolf (Harbourvest)

9 LGPS Central (Infrastructure Update)

To receive a presentation from Mike Hardwick

10 Investment Beliefs Update

To receive an update form Louis Paul Hill (Aon)

11 Investment Strategy Statement (Pages 35 - 54)

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

12 Funding Strategy Statement (Pages 55 - 90)

The report of the Head of Treasury and Pensions is attached marked 12

13 Corporate Governance Report (Pages 91 - 142)

Report of the Investment Officer is attached marked 13

14 Pensions Administration Monitoring (Pages 143 - 196)

The report of the Pensions Administration Manager is attached marked 14

15 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

16 Exempt Minutes of the Last Meeting (Pages 197 - 202)

The exempt minutes of the meeting held on 30 November 2018 are attached marked 16

17 Investment Monitoring - Quarter to 31 December 2018 (Pages 203 - 250)

The exempt report of the Head of Treasury and Pensions is attached marked 17

18 **New Employers** (Pages 251 - 254)

The exempt report of the Pensions Administration Manager is attached marked 18

19 **Record of Breaches** (Pages 255 - 260)

The exempt report of the Pensions Administration Manager is attached marked 19

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Pensions Committee

15 March 2019

10.00 a.m.

MINUTES OF THE PENSIONS COMMITTEE MEETING HELD ON 30 NOVEMBER 2018 9.30 AM - 1.10 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, Brian Williams, Michael Wood and David Wright

Co-Opted Members (Voting):
Councillor David Wright

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

39 **Apologies and Substitutions**

39.1 There were no apologies for absence

40 **Disclosable Pecuniary Interests**

40.1 There were no declarations of disclosable pecuniary interests

41 **Minutes of the Last Meeting**

41.1 The minutes of the last meeting held on 21 September 2018 had been circulated.

41.2 **Resolved:**

That the minutes of the meeting held on the 21 September 2018 be approved as a true record and signed by the Chairman

42 **Public Questions**

42.1 There were no questions from members of the public

43 **Exclusion of Press and Public**

43.1 **RESOLVED:**

That under paragraph 10.2 of the Council's Access to Information Procedure Rules that the proceedings of the Committee in relation to Minutes 44 to 52 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.

44 **Absolute Return Bond Fund Managers**

44.1 Members received a presentation from Louis Paul Hill

45 **Absolute Return Bond Fund Manager Presentations**

45.1 Members received presentations from Absolute Return Bond Fund Managers.

46 **Appointment of Absolute Bond Fund Manager**

46.1 Members received the exempt report of the Head of Treasury and Pensions which provided Members with further information in relation to the appointment of an Absolute Return Bond Manager.

RESOLVED:

That the decisions as detailed in the Exempt Minutes be implemented

47 **Equity Protection Strategy Update**

47.1 Members received a presentation from Louis Paul Hill

48 **Investment Monitoring - Quarter to 30 September 2018**

48.1 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 30 September 2018 and reported on the technical meetings held with managers since the quarter end.

48.2 **Resolved:**

That the Officer recommendations be agreed

49 **LGPS Central Active Global Equities**

49.1 Members received the exempt report of the Head of Treasury and Pensions

49.2 Resolved:

That the officer recommendations be agreed

50 **New Employers**

50.1 The Committee received the exempt report of the Pensions Administration Manager which provided Members with details of the following:

Full details regarding 3 new employer admissions to the Fund due to services transferring from Scheme Employers, under a service contract.

Confirmation that 1 new employer admission, had been approved by the Chairman between committee meetings, to allow the sealing of the Admission.

An update of New Schedule 1 Part 1 Scheme Employers (Academies) and New Schedule 2 Part 2 Scheme Employers (Designated Bodies)

50.2 **Resolved:**

That the Officer recommendations be agreed

51 **Record of Breaches**

51.1 Members received the exempt report of the Pensions Administration Manager which informed them of breaches arising in the quarter 1 July 2018 to 30 September 2018, which had been recorded in the breaches log.

51.2 Resolved:

That the content of Appendix A to the report, be noted.

52 **Exempt Minutes**

52.1 The exempt minutes of the last meeting held on 21 September 2018 had been circulated.

52.2 **Resolved:**

That the exempt minutes of the meeting held on the 21 September 2018 be approved as a true record and signed by the Chairman

(The full version of Minutes 44 to 52 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.)

At this point the meeting returned to public session

53 **Corporate Governance Report**

53.1 A report informing Members of Corporate Governance and socially responsible investment issues arising in the quarter 1st July 2018 to 30th September 2018 had been circulated

53.2 **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.

54 **Pensions Administration Monitoring**

54.1 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.

54.2 The Pensions Administration Manager advised the meeting that 3 vacancies had arisen recently due to 2 members of staff leaving and 1 going on maternity leave. She informed the meeting that these vacancies would be advertised with a view to filling these posts as soon as possible.

54.3 The Pensions Administration Manager informed Members that meetings had been held with IT to seek assurances regarding cyber security and that a statement of compliance would be drawn up, which would conform with the Pensions Regulator guidance.

54.3 The Pensions Administration Manager advised the meeting that currently 39.1% of active members and 31.5% of deferred members were registered to view their records online, figures which compared well with national figures.

54.4 The Pensions Administration Manager advised Members that the Ministry of Housing, Communities and Local Government (MHCLG) had recently opened an eight-week policy consultation called 'LGPS: technical amendments to benefits' and that officers would be preparing a response.

54.5 Resolved:

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

Signed ..... (Chairman)

Date: .....

Grant Thornton

External Audit Plan

Year ending 31 March 2019

Shropshire County Pension Fund

15 March 2019

Contents

Your key Grant Thornton team members are:

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit planning process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect the Pension Fund or all weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

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Introduction & headlines

Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Shropshire County Pension Fund ('the Fund') for those charged with governance.

Respective responsibilities

The National Audit Office ('the NAO') has issued a document entitled Code of Audit Practice ('the Code'). This summarises where the responsibilities of auditors begin and end and what is expected from the audited body. Our respective responsibilities are also set in the Terms of Appointment and Statement of Responsibilities issued by Public Sector Audit Appointments (PSAA), the body responsible for appointing us as auditor of Shropshire County Pension Fund. We draw your attention to both of these documents on the PSAA website.

Scope of our audit

The scope of our audit is set in accordance with the Code and International Standards on Auditing (ISAs) (UK). We are responsible for forming and expressing an opinion on the Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Pensions Committee).

The audit of the financial statements does not relieve management or the Pensions Committee of your responsibilities.

Our audit approach is based on a thorough understanding of the Fund's business and is risk based. We will be using our new audit methodology and tool, LEAP, for the 2018/19 audit. It will enable us to be more responsive to changes that may occur in your organisation.

Significant risks	Those risks requiring special audit consideration and procedures to address the likelihood of a material financial statement error have been identified as: • Management override of controls • Valuation of level 3 investment assets We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings (ISA 260) Report.
Materiality	We have determined materiality at the planning stage of our audit to be £18 million (PY £18.650 million) for the Fund, which equates to approximately 1 per cent of your net assets as at 30 November 2018. We are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. Clearly trivial has been set at £0.9 million (PY £0.933 million).
Audit logistics	Our advance visits will take place in the period January to March and our final visit will be in June and July. Our key deliverables are this Audit Plan and our Audit Findings Report. Our audit approach is detailed in Appendix A. Our fee for the audit is £18,039 (PY: £23,427) for the Fund, subject to management meeting our requirements set out on page 9. Where we are required to respond to requests received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.
Independence	We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

Key matters impacting our audit

Factors

SI 493/2018 – LGPS (Amendment) Regulations 2018

Introduces a new provision for employers to receive credit for any surplus assets in a fund upon ceasing to be a Scheme employer. This could potentially lead to material impacts on funding arrangements and the need for updated of Funding Strategy Statements.

Guaranteed Minimum Pension (GMP)

- Pension funds are continuing to work through the GMP reconciliation process.
- In January 2018 the government extended its "interim solution" for indexation and equalisation for public service pension schemes until April 2021. Currently the view is that the October 2018 High Court ruling in respect of GMP equalisation is therefore not likely to have an impact upon the LGPS.

Changes to the CIPFA 2018/19 Accounting Code

The most significant changes relate to the adoption of IFRS 9 Financial Instruments. In practice, IFRS 9 is anticipated to have limited impact for pension funds as most assets and liabilities held are already classed as "fair value through profit and loss". However, we will obtain management's assessment of the impact of these new standards as part of our audit work.

The Pensions Regulator (tPR)

tPRs Corporate Plan for 2018-2021 includes three new Key Performance Indicators (KPIs) directly related to public service pension schemes and TPR has chosen the LGPS as a cohort for proactive engagement throughout 2018 and 2019.

Pooling

As arrangements in respect of pooling progress the Fund is anticipating moving £228 million of assets (value as at December 2018) to the local pool (administered by LGPS Central) during 2018/19.

Reviewing the work management has undertaken to gain assurances over the controls in place at LGPS Central will form a key element of our audit strategy for the 2018/19 year.

Our response

- We will continue to monitor the position in respect of GMP equalisation and reconciliation. For pension funds the immediate impact is expected to be largely administrative rather than financial.

- We will keep you informed of changes to the financial reporting requirements for 2018/19 through on-going discussions and invitations to our technical update workshops.
- As part of our opinion on your financial statements, we will consider whether your financial statements reflect the financial reporting changes in the 2018/19 CIPFA Code.
- We will keep under review any interaction the Fund has with tPR and tailor our audit approach where necessary.

- Whilst we do not consider the transfer of assets to the pool as a significant risk we will tailor our approach to gain assurance in respect of the completeness and accuracy of the transactions.

Significant risks identified

Significant risks are defined by ISAs (UK) as risks that, in the judgement of the auditor, require special audit consideration. In identifying risks, audit teams consider the nature of the risk, the potential magnitude of misstatement, and its likelihood. Significant risks are those risks that have a higher risk of material misstatement.

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The revenue cycle includes fraudulent transactions	Under ISA (UK) 240 there is a rebuttable presumed risk that revenue may be misstated due to the improper recognition of revenue. This presumption can be rebutted if the auditor concludes that there is no risk of material misstatement due to fraud relating to revenue recognition.	Having considered the risk factors set out in ISA240 and the nature of the revenue streams at the Fund, we have determined that the risk of fraud arising from revenue recognition can be rebutted, because: • there is little incentive to manipulate revenue recognition • opportunities to manipulate revenue recognition are very limited • the culture and ethical frameworks of local authorities, including Shropshire Council as the Administering Authority of Shropshire County Pension Fund, mean that all forms of fraud are seen as unacceptable Therefore we do not consider this to be a significant risk for Shropshire County Pension Fund.
Management over-ride of controls	Under ISA (UK) 240 there is a non-rebuttable presumed risk that the risk of management over-ride of controls is present in all entities. We therefore identified management override of control, in particular journals, management estimates and transactions outside the course of business as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate the design effectiveness of management controls over journals • analyse the journals listing and determine the criteria for selecting high risk unusual journals • test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration • gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence • evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.

Significant risks identified (continued)

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
The valuation of Level 3 investments is incorrect	The Fund revalues its investments on an annual basis to ensure that the carrying value is not materially different from the fair value at the financial statements date. By their nature Level 3 investment valuations lack observable inputs. These valuations therefore represent a significant estimate by management in the financial statements due to the size of the numbers involved and the sensitivity of this estimate to changes in key assumptions. Under ISA 315 significant risks often relate to significant non-routine transactions and judgemental matters. Level 3 investments by their very nature require a significant degree of judgement to reach an appropriate valuation at year end. Management utilise the services of investment managers and/or custodians as valuation experts to estimate the fair value as at 31 March 2019. We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.	We will: • evaluate management's processes for valuing Level 3 investments • review the nature and basis of estimated values and consider what assurance management has over the year end valuations provided for these types of investments to ensure that the requirements of the Code are met • for a sample of investments, test the valuation by obtaining and reviewing the audited accounts, (where available) at the latest date for individual investments and agreeing these to the fund manager reports at that date. Reconcile those values to the values at 31 March 2019 with reference to known movements in the intervening period • in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert

We will communicate significant findings on these areas as well as any other significant matters arising from the audit to you in our Audit Findings Report in July 2019.

Other matters

Other work

The Fund is administered by Shropshire Council (the 'Council'), and the Fund's accounts form part of the Council's financial statements.

Therefore, as well as our general responsibilities under the Code of Practice a number of other audit responsibilities also follow in respect of the Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Fund financial statements on which we give an opinion and is consistent with our knowledge of the Authority.
- We consider our other duties under legislation and the Code, as and when required, including:
    - Giving electors the opportunity to raise questions about your 2018/19 financial statements, consider and decide upon any objections received in relation to the 2018/19 financial statements;
    - issue of a report in the public interest or written recommendations to the Fund under section 24 of the Act, copied to the Secretary of State.
    - Application to the court for a declaration that an item of account is contrary to law under Section 28 or for a judicial review under Section 31 of the Act; or
    - Issuing an advisory notice under Section 29 of the Act.
- We carry out work to satisfy ourselves on the consistency of the pension fund financial statements included in the pension fund annual report with the audited Fund accounts.

Other material balances and transactions

Under International Standards on Auditing, "irrespective of the assessed risks of material misstatement, the auditor shall design and perform substantive procedures for each material class of transactions, account balance and disclosure". All other material balances and transaction streams will therefore be audited. However, the procedures will not be as extensive as the procedures adopted for the risks identified in this report.

Going concern

As auditors, we are required to "obtain sufficient appropriate audit evidence about the appropriateness of management's use of the going concern assumption in the preparation and presentation of the financial statements and to conclude whether there is a material uncertainty about the Fund's ability to continue as a going concern" (ISA (UK) 570). We will review management's assessment of the going concern assumption and evaluate the disclosures in the financial statements.

Materiality

The concept of materiality

The concept of materiality is fundamental to the preparation of the financial statements and the audit process and applies not only to the monetary misstatements but also to disclosure requirements and adherence to acceptable accounting practice and applicable law. Misstatements, including omissions, are considered to be material if they, individually or in the aggregate, could reasonably be expected to influence the economic decisions of users taken on the basis of the financial statements.

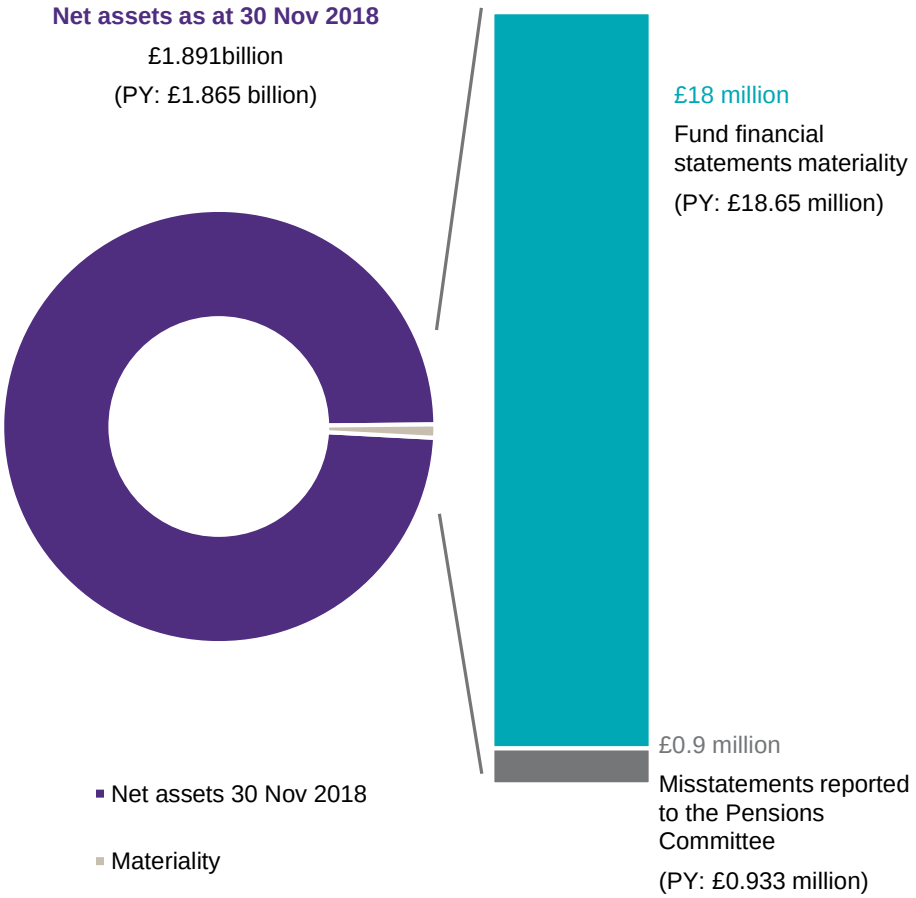
Materiality for planning purposes

We have determined materiality at the planning stage of our audit to be £18 million (PY £18.65 million) for the Fund. We consider the proportion of the net assets of the Fund to be the appropriate benchmark for the financial year. In the prior year we used the same benchmark. Our materiality equates to approximately 1 per cent of your net assets as at 30 November 2018. Given the fluctuating nature of the fund value we have opted to utilise an approximate as opposed to a highly precise value. We reconsider planning materiality if, during the course of our audit engagement, we become aware of facts and circumstances that would have caused us to make a different determination of planning materiality (for example, a significant change in the value of the fund's assets between interim audit date and the year end).

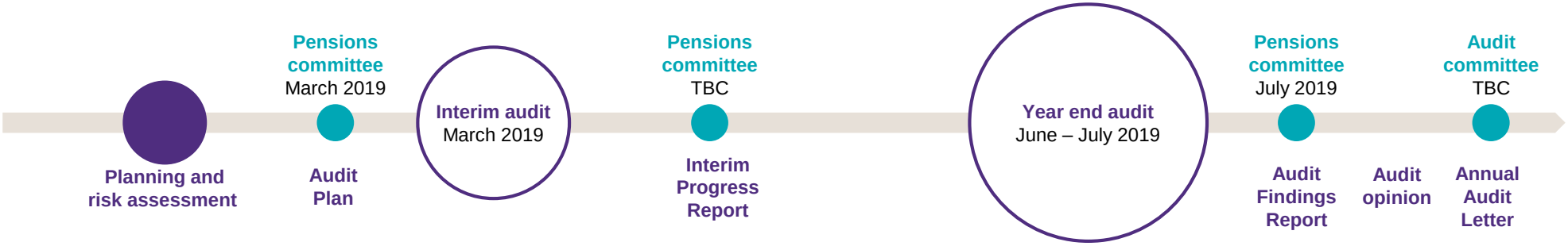
Matters we will report to the Audit Committee

Whilst our audit procedures are designed to identify misstatements which are material to our opinion on the financial statements as a whole, we nevertheless report to the Pensions Committee any unadjusted misstatements of lesser amounts to the extent that these are identified by our audit work. Under ISA 260 (UK) 'Communication with those charged with governance', we are obliged to report uncorrected omissions or misstatements other than those which are 'clearly trivial' to those charged with governance. ISA 260 (UK) defines 'clearly trivial' as matters that are clearly inconsequential, whether taken individually or in aggregate and whether judged by any quantitative or qualitative criteria. In the context of the Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £0.9 million (PY 0.933 million).

If management have corrected material misstatements identified during the course of the audit, we will consider whether those corrections should be communicated to the Pensions Committee to assist it in fulfilling its governance responsibilities.



Audit logistics, team & fees



Richard Percival, Engagement Lead

Richard will be the main point of contact for the Chair, s151 Officer, Head of Treasury and Pensions and Committee members. Richard will ensure our audit is tailored specifically to you, and he is responsible for the overall quality of our audit. Richard will sign your audit opinion.

Terry Tobin, Audit Manager

Terry will work with senior members of the finance team ensuring testing is delivered and any accounting issues are addressed on a timely basis. He will attend Pensions Committees and supervise the on-site team. Terry will draft clear, concise and understandable reports.

David Rowley, Audit Incharge

David will be the day to day contact for the audit, organising our visits and liaising with Authority staff. He will lead the on-site team and will monitor deliverables, manage our query log ensuring that any significant issues and adjustments are highlighted to management as soon as possible.

Audit fees

The planned audit fees are £18,039 (PY: £23,427) for the financial statements audit completed under the Code, which are in line with the scale fee published by PSAA. There is no non-Code (as defined by PSAA) work planned. In setting your fee, we have assumed that the scope of the audit, and the Fund and its activities, do not significantly change.

In the event that additional audit work is required to address risks relating to, for example, movement of funds to LGPS Central or the application of changes to IFRS 9 or changes to the Authority's recognition and accounting treatment of financial assets and/or liabilities, we will consider the need to charge additional fees. Any proposed additional fees will be discussed and agreed with management.

Where we are required to respond to requests received from other auditors of other bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations these will be billed in addition to the audit fee on a case by case basis.

Our requirements

To ensure the audit is delivered on time and to avoid any additional fees, we have detailed our expectations and requirements in the following section 'Early Close'. If the requirements detailed overleaf are not met, we reserve the right to postpone our audit visit and charge fees to reimburse us for any additional costs incurred.

Any proposed fee variations will need to be approved by PSAA.

Early close

Meeting the 31 July audit timeframe

In the prior year, the statutory date for publication of audited local government accounts in England was brought forward to 31 July. Wales and Scotland currently have different deadlines but there is convergence towards earlier close. This is a significant challenge for Pension Funds and auditors alike. For authorities, the time available to prepare the accounts is curtailed, while, as auditors there is a shorter period to complete our work and an even more significant peak in our workload than previously.

We were able to meet the brought forward deadline in the previous period and aim to build on this success for the coming year's audit.

We have carefully planned how we can make the best use of the resources available to us during the final accounts period. As well as increasing the overall level of resources available to deliver audits, we have focused on:

- bringing forward as much work as possible to interim audits
- starting work on final accounts audits as early as possible, by agreeing which authorities will have accounts prepared significantly before the end of May
- seeking further efficiencies in the way we carry out our audits
- working with you to agree detailed plans to make the audits run smoothly, including early agreement of audit dates, working paper and data requirements and early discussions on potentially contentious items.

We are satisfied that, if all these plans are implemented, we will be able to complete your audit and those of our other local government clients in sufficient time to meet the earlier deadline.

Client responsibilities

Where individual clients do not deliver to the timetable agreed, we need to ensure that this does not impact on audit quality or absorb a disproportionate amount of time, thereby disadvantaging other clients. We will therefore conduct audits in line with the timetable set out in audit plans (as detailed on page 9). Where the elapsed time to complete an audit exceeds that agreed due to a client not meetings its obligations we will not be able to maintain a team on site. Similarly, where additional resources are needed to complete the audit due to a client not meeting their obligations we are not able to guarantee the delivery of the audit by the statutory deadline. Such audits are unlikely to be re-started until very close to, or after the statutory deadline. In addition, it is highly likely that these audits will incur additional audit fees.

Our requirements

To minimise the risk of a delayed audit or additional audit fees being incurred, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes
- ensure that good quality working papers are available at the start of the audit, in accordance with the working paper requirements schedule that we have shared with you
- ensure that the agreed data reports are available to us at the start of the audit and are reconciled to the values in the accounts, in order to facilitate our selection of samples
- ensure that all appropriate staff are available on site throughout (or as otherwise agreed) the planned period of the audit
- respond promptly and adequately to audit queries.

In return, we will ensure that:

- the audit runs smoothly with the minimum disruption to your staff
- you are kept informed of progress through the use of an issues tracker and weekly meetings during the audit
- we are available to discuss issues with you prior to and during your preparation of the financial statements.

Independence & non-audit services

Auditor independence

Ethical Standards and ISA (UK) 260 require us to give you timely disclosure of all significant facts and matters that may bear upon the integrity, objectivity and independence of the firm or covered persons relating to our independence. We encourage you to contact us to discuss these or any other independence issues with us. We will also discuss with you if we make additional significant judgements surrounding independence matters.

We confirm that there are no significant facts or matters that impact on our independence as auditors that we are required or wish to draw to your attention. We have complied with the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements.

We confirm that we have implemented policies and procedures to meet the requirements of the Financial Reporting Council's Ethical Standard and we as a firm, and each covered person, confirm that we are independent and are able to express an objective opinion on the financial statements. Further, we have complied with the requirements of the National Audit Office's Auditor Guidance Note 01 issued in December 2017 and PSAA's Terms of Appointment which set out supplementary guidance on ethical requirements for auditors of local public bodies.

Other services provided by Grant Thornton

For the purposes of our audit we have made enquiries of all Grant Thornton UK LLP teams providing services to the Fund. No other services were identified.

Any changes and full details of all fees charged for audit related and non-audit related services by Grant Thornton UK LLP and by Grant Thornton International Limited network member Firms will be included in our Audit Findings report at the conclusion of the audit.

Appendices

A. Audit approach

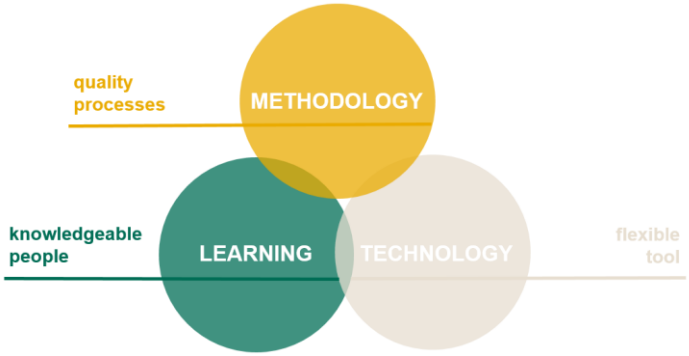
Audit approach

Use of audit, data interrogation and analytics software

LEAP

Audit software

- A globally developed ISA-aligned methodology and software tool that aims to re-engineer our audit approach to fundamentally improve quality and efficiency
- LEAP empowers our engagement teams to deliver even higher quality audits, enables our teams to perform cost effective audits which are scalable to any client, enhances the work experience for our people and develops further insights into our clients' businesses
- A cloud-based industry-leading audit tool developed in partnership with Microsoft



IDEA

- We use one of the world's leading data interrogation software tools, called 'IDEA' which integrates the latest data analytics techniques into our audit approach
- We have used IDEA since its inception in the 1980's and we were part of the original development team. We still have heavy involvement in both its development and delivery which is further enforced through our chairmanship of the UK IDEA User Group
- In addition to IDEA, we also other tools like ACL and Microsoft SQL server
- Analysing large volumes of data very quickly and easily enables us to identify exceptions which potentially highlight business controls that are not operating effectively

Appian

Business process management

- Clear timeline for account review:
  - disclosure dealing
  - analytical review
- Simple version control
- Allow content team to identify potential risk areas for auditors to focus on

Inflo

Cloud based software which uses data analytics to identify trends and high risk transactions, generating insights to focus audit work and share with clients.

REQUEST & SHARE

- Communicate & transfer documents securely
- Extract data directly from client systems
- Work flow assignment & progress monitoring

ASSESS & SCOPE

- Compare balances & visualise trends
- Understand trends and perform more granular risk assessment

VERIFY & REVIEW

- Automate sampling requests
- Download automated work papers

INTERROGATE & EVALUATE

- Analyse 100% of transactions quickly & easily
- Identify high risk transactions for investigation & testing
- Provide client reports & relevant benchmarking KPIs

FOCUS & ASSURE

- Visualise relationships impacting core business cycles
- Analyse 100% of transactions to focus audit on unusual items
- Combine business process analytics with related testing to provide greater audit and process assurance

INSIGHTS

- Detailed visualisations to add value to meetings and reports
- Demonstrates own performance and benchmark comparisons

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Informing the audit risk assessment for Shropshire County Pension Fund

Year ended 31 March 2019

February 2019

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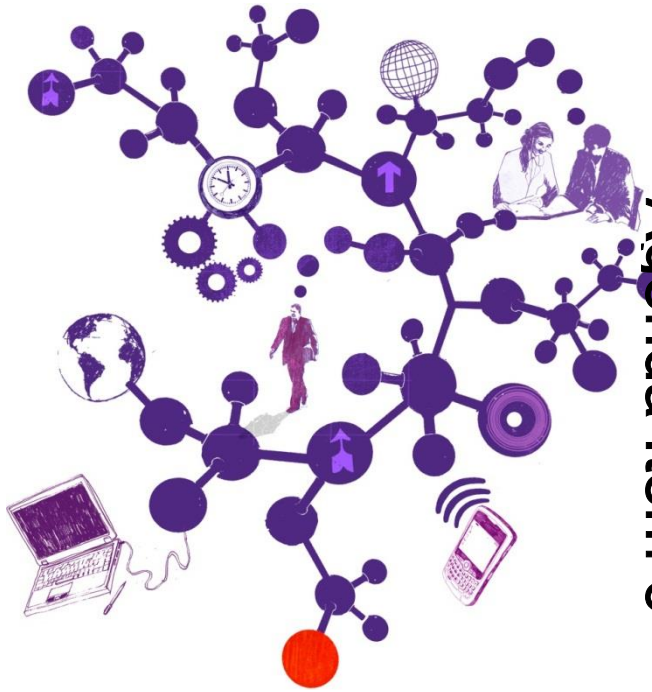

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The contents of this report relate only to the matters which have come to our attention, which we believe need to be reported to you as part of our audit process. It is not a comprehensive record of all the relevant matters, which may be subject to change, and in particular we cannot be held responsible to you for reporting all of the risks which may affect your business or any weaknesses in your internal controls. This report has been prepared solely for your benefit and should not be quoted in whole or in part without our prior written consent. We do not accept any responsibility for any loss occasioned to any third party acting, or refraining from acting on the basis of the content of this report, as this report was not prepared for, nor intended for, any other purpose.

Purpose

Shropshire County Pension Fund is required by law to administer the Pension Scheme within the geographical area of Shropshire and the responsibilities for both administration and investments are met in-house.

The purpose of this report is to contribute towards the effective two-way communication between auditors and the Pension Fund Committee , as 'those charged with governance'. The report covers some important areas of the auditor risk assessment where we are required to make inquiries of the Pension Fund Committee under auditing standards

Background

Under International Standards on Auditing (UK and Ireland) (ISA(UK&I)) auditors have specific responsibilities to communicate with the Pension Fund Committee. ISA(UK&I) emphasise the importance of two-way communication between the auditor and the Pension Fund Committee and also specify matters that should be communicated.

This two-way communication assists both the auditor and the Pension Fund Committee in understanding matters relating to the audit and developing a constructive working relationship. It also enables the auditor to obtain information relevant to the audit from the Pension Fund Committee and supports the Pension Fund Committee in fulfilling its responsibilities in relation to the financial reporting process.

Communication

As part of our risk assessment procedures we are required to obtain an understanding of management processes and the Pension Fund Committee's oversight of the following areas:

- fraud
- laws and regulations
- going concern
- accounting estimates
- related party transactions

This report includes a series of questions on each of these areas and the response we have received from the Council's management. The Audit Committee should consider whether these responses are consistent with the its understanding and whether there are any further comments it wishes to make.

Fraud

Issue
Matters in relation to fraud ISA (UK&I) 240 covers auditors responsibilities relating to fraud in an audit of financial statements. The primary responsibility to prevent and detect fraud rests with both the Pension Fund Committee and management. Management, with the oversight of the Audit Committee, needs to ensure a strong emphasis on fraud prevention and deterrence and encourage a culture of honest and ethical behaviour. As part of its oversight, the Pension Fund Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process. As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error. We are required to maintain professional scepticism throughout the audit, considering the potential for management override of controls. As part of our audit risk assessment procedures we are required to consider risks of fraud. This includes considering the arrangements management has put in place with regard to fraud risks including: • assessment that the financial statements could be materially misstated due to fraud • process for identifying and responding to risks of fraud, including any identified specific risks • communication with the Pension Fund Committee regarding its processes for identifying and responding to risks of fraud • communication to employees regarding business practices and ethical behaviour. We need to understand how the Pension Fund Committee oversees the above processes. We are also required to make inquiries of both management and the Pension Fund Committee as to their knowledge of any actual, suspected or alleged fraud. These areas have been set out in the fraud risk assessment questions below together with responses from the Council's management.

Fraud risk assessment

Question	Management response
Has the Pension Fund assessed the risk of material misstatement in the financial statements due to fraud? What are the results of this process?	The Pension fund completes its own accounts and the two main statements of account are also included with the main accounts of Shropshire Council, . Fraud risks are identified by Internal Audit in their audit plan covering the council and the pension fund and all fundamental systems which feed the statement including the pension fund accounts are reviewed annually to ensure that controls in place are satisfactory. The statement of pension fund accounts is also subject to an analytical review each year which considers any significant or material changes to figures, to confirm that the accounts are presented without such misstatements.
What processes does the Pension Fund have in place to identify and respond to risks of fraud?	Specific fraud risks are identified in the internal audit planning process noted above; in identifying key controls to be assessed as part of an audit; in targeted fraud prevention work and by raising awareness of the potential for fraud with staff, members and people working and involved with the Council and Pension Fund. This is done through the Counter Fraud, Bribery and Anti-Corruption Strategy, Speaking up about Wrongdoing Policy, online Meritec training package and supporting manual training packages. In addition systems and processes are designed by managers and users to minimise the risk of fraud and corruption. In relation to pensioner payroll, the Fund takes part in the National Fraud Initiative scheme. Any queries identified are investigated and resolved. Fund Managers and their Administrators sends internal control reports and these are reviewed by the pension team and any exceptions reported on. Internal Audit also reviews the internal control reports as part of their annual audit cycle. Quarterly Pension Committee meeting is held to monitor the fund's investment managers and business risk including fraud will be communicated to 'those charged with governance'.
Have any specific fraud risks, or areas with a high risk of fraud, been identified and what has been done to mitigate these risks?	No areas with a high risk of material fraud have been identified. If any risks are identified, recommendations for mitigation are made to managers who then implement as necessary.
Are internal controls, including segregation of duties, in place and operating effectively? If not, where are the risk areas and what mitigating actions have been taken?	Internal controls, including whether segregation of duties exist, are reviewed by Internal Audit as part of their routine and investigative work; exceptions are reported to managers and inform the Internal audit opinion.

Fraud risk assessment

Question	Management response
Are there any areas where there is a potential for override of controls or inappropriate influence over the financial reporting process (for example because of undue pressure to achieve financial targets)?	There is always the potential for an override of controls within systems however our control framework has established secondary compensatory controls in place that would identify any such override taken place. Financial reporting is produced and balanced from the financial system, and the reporting hierarchy allows for checks to be performed throughout the process by the Head of Treasury and Pensions and the S151 Officer., and no areas where there is a potential for override of controls or inappropriate influence over the financial reporting process have been identified.
Are there any areas where there is a potential for misreporting override of controls or inappropriate influence over the financial reporting process?	No, as detailed above, there are compensatory controls in place to flag any overrides of controls.
How does the Pension Fund Committee exercise oversight over management's processes for identifying and responding to risks of fraud? What arrangements are in place to report fraud issues and risks to the Audit Committee?	The Internal Audit Risk Based Plan is approved by Audit Committee of the Council. Internal Audit completes a robust review of internal controls on a risk basis and reports regularly to the Shropshire Council Audit Committee. The Pension Fund Committee is informed of the audit opinions and seek management reassurance on the improvement of controls where the consequences are considered high risk. At each meeting the Audit Committee of the Council receive an update on instances of actual, suspected or alleged fraud investigations that have occurred since the last meeting and their outcomes. The Pensions Fund members are informed at their meetings of any pension based issues.
How does the Pension Fund communicate and encourage ethical behaviour of its staff and contractors?	The Pension Fund follows Shropshire Council's Whistle Blowing policy and guidelines. The Pension Fund shares the whistleblowing policy with the public and all contractors. The terms and conditions within Pension Fund contracts also include ethical considerations for contractors and suppliers. The vision and values for the Pension Fund identify the need for staff to act with integrity in all the undertakings we make and this is tested and reviewed via team meetings and engagement surveys undertaken across the whole organisation.
How do you encourage staff to report their concerns about fraud? Have any significant issues been reported?	Staff are encouraged to report their concerns about fraud as set out in the Speaking up about wrongdoing (whistleblowing) policy and the Council's Counter Fraud, Bribery and Anti-Corruption Strategy.
Are you aware of any related party relationships or transactions that could give rise to risks of fraud?	None identified.
Are you aware of any instances of actual, suspected or alleged, Fraud within the Pension Fund as a whole since 1 April 2018?	None identified.

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Laws and regulations

Issue
Matters in relation to laws and regulations ISA (UK&I) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements. Management, with the oversight of the Audit Committee, is responsible for ensuring that the Council's operations are conducted in accordance with laws and regulations including those that determine amounts in the financial statements. As auditor, we are responsible for obtaining reasonable assurance that the financial statements are free from material misstatement due to fraud or error, taking into account the appropriate legal and regulatory framework. As part of our risk assessment procedures we are required to make inquiries of management and the Audit Committee as to whether the entity is in compliance with laws and regulations. Where we become aware of information of non-compliance or suspected non-compliance we need to gain an understanding of the non-compliance and the possible effect on the financial statements. Risk assessment questions have been set out below together with responses from management.

Impact of laws and regulations

Question	Management response
What arrangements does the Pension Fund have in place to prevent and detect non-compliance with laws and regulations?	Each year the Council's corporate governance arrangements and risk management arrangements are reviewed and reported upon by Internal Audit and Risk Management teams. This would include the Pension Fund if applicable. The Pension Fund has a robust corporate governance and risk management process in place, which are based on approved polices and procedures.
How does management gain assurance that all relevant laws and regulations have been complied with?	The Council has a Monitoring Officer and S151 Officer who provide assurance that all relevant laws and regulations have been complied with. The Pensions Fund has adopted the Local Government Pensions Scheme Regulations. The Pension Committee receive regular reports of compliance from offers, who are suitably qualified. Any non compliance would be reported to management via Internal Audit reports and appropriate plans are put in place to remedy such issues. These would cover the pension fund as applicable.
How is the Pension Fund Committee provided with assurance that all relevant laws and regulations have been complied with?	See above
Have there been any instances of non-compliance or suspected non-compliance with law and regulation since 1 April 2018, or earlier with an on-going impact on the 2018/19 financial statements?	The Section 151 Officer is not aware of any instances of non-compliance with relevant laws and regulations in 2018-19. The Chair of the Pension Fund Committee is not aware of any instances of non-compliance during 2018/19.
What arrangements does the Pension Fund have in place to identify, evaluate and account for litigation or claims?	Risk management, insurance and legal work together to identify and evaluate any potential litigation or claims against the Council. Any potential liabilities are highlighted each year in the Council's Statement of Accounts, which includes consideration of the Pension Fund, which is consolidated into the Council's financial statements.
Is there any actual or potential litigation or claims that would affect the financial statements?	The Section 151 Officer is not aware of any actual or potential litigation or claims that would affect the financial statements.
Have there been any reports from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No such reports have been received.

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Going concern

Issue

Matters in relation to going concern

ISA (UK&I) 570 covers auditor responsibilities in the audit of financial statements relating to management's use of the going concern assumption in the financial statements.

The going concern assumption is a fundamental principle in the preparation of financial statements. Under this assumption entities are viewed as continuing in business for the foreseeable future. Assets and liabilities are recorded on the basis that the entity will be able to realise its assets and discharge its liabilities in the normal course of business.

The code of practice on local authority accounting requires an authority's financial statements to be prepared on a going concern basis. Although the Pension Fund is not subject to the same future trading uncertainties as private sector entities, consideration of the key features of the going concern provides an indication of the Council's financial resilience.

As auditor, we are responsible for considering the appropriateness of use of the going concern assumption in preparing the financial statements and to consider whether there are material uncertainties about the Council's ability to continue as a going concern that need to be disclosed in the financial statements. We discuss the going concern assumption with management and review the Council's financial and operating performance.

Going concern considerations have been set out below and management has provided its response.

Going concern considerations

Question	Management response
Are management or members of the Pensions Fund Committee aware of the existence of events or circumstances that have or will lead to the winding up of the scheme or an entry into a Pensions Protection Fund assessment period.	No such events or circumstances are known of or considered likely in the foreseeable future.
Is management aware of the existence of other events or conditions that may cast doubt on the Pension Fund's ability to continue as a going concern?	No events or conditions have been identified.
Are arrangements in place to report the going concern assessment to the Audit Committee and Pensions fund?	The Pension Fund Committee consider a number of financial reports which provide them with assurance that the Pension Fund continues as a going concern. They also receive reports stating that all controls and risks have been managed appropriately and as Members will have access to all reports produced across the Pension Fund whether public or exempt.

Estimates

Issue
Matters in relation to accounting estimates ISA (UK&I) 540 covers auditor responsibilities relating to estimates in an audit of financial statements. Local authorities use estimates in the preparation of their financial statements. We need to obtain an understanding of: • how management identifies the transactions, events and conditions that give rise to the need for an accounting estimate. • how management actually make the estimates, including the control procedures in place to minimise the risk of misstatement. We need to be aware of all estimates that the Pension Fund use as part of their accounts preparation. These are set out overleaf.

Estimate considerations

Estimate	Method	Controls used to identify estimates	Use of an expert	Underlying assumptions - Assessment of degree of uncertainty - Consideration of alternative estimates	Change in accounting method in year?
Private Equity	Private Equity investments are valued at fair value in accordance with British Venture Capital Association guidelines. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	December valuation is received and cash flow adjustments are used to roll forward the valuation to 31 March as appropriate. Valuation is then compared to the year end capital statement to determine any significant fluctuations.	Custodian and Fund Manager Capital Statement		No
Hedge Fund of Funds	The fund of funds is valued at the sum of the fair values provided by the Administrators of the underlying funds plus any adjustments deemed necessary. These investments are not publicly listed and as such there is a degree of estimation involved in the valuation.	The values of the investment in hedge funds are based on the net asset value provided by the fund manager. Assurance over the valuation are gained from the independent audit of the value.	Fund audited accounts and control reports		No
Accruals	Finance team collate accruals of expenditure and income. Activity is accounted for in the financial year that it takes place, not when money is paid or received.	Review financial systems to identified where goods have been received but not paid for. Requests of service managers to identify any other goods or services received or provided but not paid for.	No	Accruals for income and expenditure often based on known values. Where accruals are estimated the latest available information is used.	No

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Related parties

Issue

Matters in relation to related parties

ISA (UK&I) 550 covers auditor responsibilities relating to related party transactions.

Many related party transactions are in the normal course of business and may not carry a higher risk of material misstatement. However in some circumstances the nature of the relationships and transaction may give rise to higher risks.

For local government bodies, the Code of Practice on Local Authority Accounting in the United Kingdom (the Code) requires compliance with IAS 24: related party disclosures. The Code identifies the following as related parties to local government bodies:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Pension Fund (i.e. subsidiaries)
- associates
- joint ventures in which the Pension Fund is a venturer
- an entity that has an interest in the Pension Fund that gives it significant influence over the Council
- key officers, and close members of the family of key officers
- post-employment benefit plan (pension fund) for the benefit of employees of the Council, or of any entity that is a related party of the Council.

The Code notes that, in considering materiality, regard should be had to the definition of materiality, which requires materiality to be judged from the viewpoint of both the Pension Fund and the related party.

ISA (UK&I) 550 requires us to review your procedures for identifying related party transactions and obtain an understanding of the controls that you have established to identify such transactions. We will also carry out testing to ensure the related party transaction disclosures you make in the financial statements are complete and accurate.

Related party considerations

Question	Management response
Who are the Pension Fund's related parties?	The Pension Fund main related party is Shropshire County Council., with some disclosure in relation to employee who hold key responsibilities.
What are the controls in place to identify, account for, and disclose, related party transactions and relationships?	A number of arrangements are in place for identifying the nature of a related party and reported value including: • Maintenance of a Register of interests for Members, a register for pecuniary interests in contracts for Officers and Senior Managers requiring disclosure of related party transactions. • Annual return from senior managers/officers requiring confirmation that read and understood the declaration requirements and stating details of any known related party interests.

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Committee and Date	Item
Pensions Committee 15 March 2019 10 am	Public

INVESTMENT STRATEGY STATEMENT

Responsible Officer Justin Bridges
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1. Summary

1.1 Members have previously approved the Investment Strategy Statement in March 2017, September 2017 and July 2018. The statement has been updated to include details of the new allocations to Insurance Linked Securities and Property Debt agreed at the Pension Committee in March 2018 and to take account of the increased level of equity protection in place with Legal & General agreed previously by Pension Committee.

2. Recommendations

2.1 Members are asked approve the updated Investment Strategy Statement at Appendix A.

REPORT

3. Risk Assessment and Opportunities Appraisal

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

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

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

4. Financial Implications

4.1 There are no financial implications to consider in this report.

5. Background

5.1 For many years Local Government Pension Funds have been required to maintain a Statement of Investment Principles (SIPs). In broad terms this document laid out the things that were considered by the Fund when making investment decisions and included the types of investments that could be held, how the various risks were taken into account and what the Fund's objectives were.

5.2 The requirement for LGPS administering authorities to prepare an Investment Strategy Statement was brought in under the new Local Government Pension Scheme (LGPS) Investment Regulations which became effective on 1 November 2016. These Regulations removed the restrictions on investments that were formerly in place for the LGPS and, in effect, allowed individual Funds complete discretion about where and how to invest.

5.3 The Regulations also introduced a requirement for administering authorities to formulate, publish and maintain an Investment Strategy Statement. The Investment Strategy Statement has been prepared in accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016.

6. Statutory Background

6.1 The Investment Strategy Statement (ISS) must include;-

- A requirement to invest money in a wide variety of investments;
- The authority's assessment of the suitability of particular investments and types of investments;
- The authority's approach to risk, including the ways in which risks are to be measured and managed;
- The authority's approach to pooling investments, including the use of collective investment vehicles and shared services;
- The authority's policy on how social, environmental or corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments; and
- The authority's policy on the exercise of rights (including voting rights) attaching to investments.

6.2 The pension fund should have flexibility to be able to take into account changes in the market in order to be able to enhance or protect returns. Within Shropshire there is clearly defined governance around the setting of the strategic asset allocation for the Fund by the Pension Committee, with this

strategy being implemented based on decisions agreed at Pension Committee.

6.3 Members previously approved the Investment Strategy Statement in March 2017, September 2017 and July 2018. Appendix A to this report is the updated Investment Strategy Statement which has been amended following the decision at the Pension Committee in March 2018 to appoint an Insurance Linked Securities Manager and Property Debt Manager. The Statement has also been updated to reflect the decision to extend the equity protection options which expired in December and the increased level of protection now in place as agreed previously at Pension Committee. Members are asked to approve the updated Investment Strategy Statement.

7. Monitoring and Review

7.1 The ISS is subject to review if there are any material changes to any aspects of the Fund.

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Pensions Committee, March 2017, September 2017 & July 2018, Investment Strategy Statement.
Cabinet Member N/A
Local Member N/A
Appendices A – Investment Strategy Statement

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1. Introduction

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

All LGPS funds in England and Wales are required to have an Investment Strategy Statement ("ISS" or "Statement"). Regulation 7 of The LGPS (Management and Investment of Funds) Regulations 2016 governs the requirements of this Statement. The Shropshire County Pension Fund (the "Fund") has complied with these requirements.

Under the regulations the Secretary of State has the power to intervene in the investment function of an administering authority if the administering authority does not have regard to the Regulations, guidance or if other concerns are raised. This may include changing the ISS and, in the extreme, the transfer of investment powers to the Secretary of State or another nominated person.

Shropshire Council (the "Authority") is the Administrating Authority for the Fund.

This ISS has been prepared by the Fund's Pension Committee (the "Committee"), following advice received from the Fund's consultant, Aon Hewitt.

The document takes account of the Fund's:

Approach to pooling

- the Authority's approach to the pooling of investments, including the use of collective investment vehicles and shared services.

Asset allocation and risk

- to ensure that asset allocation strategies are sufficiently diversified;
- to include the Authority's assessment of the suitability of asset classes;
- set out the maximum percentage of the total value of all investments that it will invest in in particular asset classes;
- to include the Authority's approach to risk, the assessment of risks and how they are to be managed.

Policies regarding investments

- the Authority's policy on how social, environmental and corporate governance considerations are taken into account in the selection, non-selection, retention and realisation of investments;
- the Authority's policy on the exercise of the rights (including voting rights) attaching to investments.

The ISS will be reviewed every three years after the investment strategy has been reviewed and is confirmed as fit for purpose. In addition the ISS will be reviewed following changes to the investment strategy.

A copy of this ISS will be made available on request to any interested party.

2. Governance

Shropshire Council has delegated responsibility for the management of the Fund to the Pension Committee. The Pension Committee has responsibility for establishing investment policy and ongoing implementation.

The Pension Committee is made up of nine members comprising both elected councillors and a non-voting employee and pensioner representative.

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

Decisions affecting the Fund's investment strategy are taken with appropriate advice from the Fund's advisers. Only persons or organisations with the necessary skills, information and resources take decisions affecting the Fund. The Members of the Pension Committee will ensure they receive training as and when deemed appropriate, to enable them to critically evaluate any advice they receive.

The Committee receives independent investment advice from the following sources:

- Roger Bartley - strategic and overall investment approach advice.
- Aon Hewitt (the Investment Consultant) - analysis and advice of a technical nature in relation to all investment related aspects of the Fund.

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

Local Pensions Board

The role of the Local Pensions Board is to assist in the good governance of the scheme through the monitoring of adherence to statutory duties.

The Board consists of 2 employer and 2 member representatives.

The Pensions Board is not a decision-making body, nor does it hold a scrutiny function; its role is to assist in the compliance with scheme rules.

Investment Principles

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

3. Approach to Pooling

The Fund is a participating member of the LGPS Central Pool. The proposed structure and basis on which the LGPS Central Pool (the "Pool") will operate was set out in the July 2016 submission to Government.

Assets to be Invested in the Pool

The Fund's intention is to invest its assets through the LGPS Central Pool as and when suitable Pool investment solutions become available. An indicative timetable for investing through the Pool was set out in the July 2016 submission to Government.

It is expected that the majority of the Fund's liquid assets will be transferred to the Pool during 2019, although it will take some time for the Pool to restructure the assets into appropriate sub-funds within the Pool. These sub-funds are likely to be set-up over a period of 2 – 3 years, with the timing being dependent on market conditions and operational circumstances, and until such time as the appropriate sub-fund is set up the assets transferred into the Pool will be overseen by LGPS Central on behalf of the Fund. It is not expected that any significant decisions (e.g. replacement of a manager) will be taken on the assets transferred over to the Pool without prior consultation with the Fund, unless it is part of the process that leads to the setting up of a sub-fund.

At present it is expected that any transitory cash will be held outside the Pool (but not strategic cash holdings), and it is possible that currency management will continue to be carried out at an individual fund level.

Structure and Governance of the LGPS Central Pool

The eight administering authorities of LGPS Central will all be equal shareholders of the company. A Shareholders' Forum, comprising of one elected member from each administering authority, will fulfil the shareholders' role in ensuring that the company is managed efficiently and effectively and in the best interests of the funds.

A Joint Committee, also comprising one elected member from each administering authority, has been formed that will hold the company to account on all investment-related issues. The Joint Committee has no decision making powers and all actions that are felt to be appropriate will ultimately require approval at an individual fund level.

A Practitioners' Advisory Forum, comprising of Officers of the administering authorities, has been set up. The intention of this forum is to provide support and guidance to elected members on some of the practical issues, and to act as a conduit between the Joint Committee and the Committees of individual funds.

4. Asset allocation and risk

Strategic Asset Allocation

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

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

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

The Committee formulates the investment strategy with a view to:

- the advisability of investing money in a wide variety of investments;
- the suitability of particular investments and types of investment;
- ensuring that asset allocation strategies are sufficiently diversified.

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

- quoted and unquoted equity;
- government and non-government bonds;
- Liability Driven Investment ("LDI");
- property and infrastructure;
- hedge funds and other alternative investments;
- derivatives, including equity options

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

Investment Beliefs

The following investment beliefs are taken into account when agreeing an asset allocation policy:

- A long term approach to investment will deliver better returns.

- The long term nature of the Fund's liabilities is well suited to a long term approach to investment.

- Asset allocation policy is the most important driver of long term return.

- Risk premiums exist for certain types of asset and taking advantage of these can help to improve investment returns.

- Markets can be inefficient, and sometimes 'mispriced' for long periods of time, and there is a place for both active and passive investment management.

- Diversification across investments with low correlation improves the risk/return profile, but over-diversification is both costly and adds little value.

- The Fund should be flexible enough in its asset allocation policy to take advantage of opportunities that arise as a result of market inefficiencies, and also flexible enough to protect against identifiable short-term risks when this is both practical and cost-effective.

- Responsible investment can enhance long term investment performance and investment managers will only be appointed if they integrate responsible investment into their decision-making processes.

- Investment management fees are important and should be minimised wherever possible, but it is ultimately the net return to investors (i.e. the return after all fees and costs) that is the most important factor.

Asset-liability Study and Expected Returns

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

The asset-liability study takes into account the particular liabilities of the Fund.

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

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

Expected annualised returns are formulated for each asset class based on long term capital market assumptions, using ten year expected returns and volatilities. The returns and volatilities used for each asset class are shown in the table below, and represent the 10 year annualised nominal return assumptions from Aon Hewitt at 30 September 2018. Note these differ from the 31 December 2016 assumptions used at the last Asset-Liability Modelling study.

Asset Class	30 September 2018 Expected Return %	Volatility %
UK Equities	6.5%	19.0%
Global Unconstrained Equities	8.1%	20.6%
Global Passive Equities	6.9%	20.0%
European Property	5.4%	17.0%
UK Index-Linked Gilts (20 year duration)	0.9%	10.5%
Unconstrained Bonds	3.8%	6.0%
Global Fund of Hedge Funds	4.0%	9.5%
Global Private Equity	7.7%	27.5%
Infrastructure	6.8%	19.0%
Inflation (CPI)	2.1%	1.0%
Whole Loans Property Debt	5.1%	8.0%
Insurance-Linked Securities	4.6%	3.5%

As part of the de-risking strategy, in the first half of 2018, the Fund committed c.£66m in Property Debt and c. £32m in Insurance-Linked Securities.

Investment Strategy and Control Ranges

The Fund's strategic asset allocation was agreed by the Pensions Committee in November 2018 as follows:

Asset Class	Allocation	Control Ranges
Total Equities	**47.0**	**42.0 – 52.0**
Unconstrained Global Equities***	11.0	8.0 – 14.0
UK Equities	8.0	5.5 – 10.5
Passive Equities (100% Hedged to GBP)*	28.0	22.0 – 34.0
Total Alternatives	**25.5**	**20.5 – 30.5**
European (Incl UK) Property	5.0	n/a
Private Equity	5.0	n/a
Infrastructure	3.0	n/a
Fund of Hedge Funds**	7.5	n/a
Insurance-Linked Securities	1.5	n/a
Property Debt	3.5	n/a
Total Bonds	**27.5**	**22.5 – 32.5**
Liability Driven Investment (LDI)	3.5	2.0-5.0
Unconstrained Bonds **	24.0	20.0-28.0

* The Fund has implemented an equity derivatives programme with Legal & General Investment Management in order to manage the SCPF's exposure to equity markets over the short to medium term. The strategy protects £580m of equities with £140m of protection expiring in June 2019, another £140m expiring in December 2019, and another £300m expiring in December 2020. The protection targeted is such that when expected dividend income is allowed for, total losses over the terms of the protection will be no greater than 3%, unless the extent of price losses are sufficiently large to result in total returns losses exceeding 23%, in which case the protection structure reduces the total return losses by 20%. For all except the non-US expiries in December 2020, protection was funded by selling potential upside returns on the equity protected with the amount retained varying by region.

**The Fund has recently disinvested from a multi-strategy hedge fund and increased the allocation to fund of hedge funds and unconstrained bonds.

***The Fund transferred its unconstrained active global equities to LGPS Central in March 2019.

Rebalancing Policy

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

Risk

The Committee regards 'risk' as the likelihood that it fails to achieve the objectives set out above and has taken several measures, to minimise this risk so far as is possible. The Fund's Risk Register has more information.

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

- asset-liability mismatch risk (asset allocation risk);
- the need to pay benefits when due (cash-flow risk);
- actions by the investment managers (investment risk);
- the failure of some investments (concentration risk);
- currency and counterparty risk;
- custody risk.

Asset Allocation Mismatch

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

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

- the rate of return on assets;
- salary escalation and price inflation for active members;
- price inflation for deferred members;
- price inflation for pensioners.

In terms of magnitude, the Committee considers asset-liability mismatch risk to be one of the most important to control. Therefore, following each actuarial valuation, the Committee conducts an asset-liability review, which focuses on the impact of asset allocation on expected future funding levels. The Committee considers the results using advanced modelling techniques and, with the assistance of expert advisers, are able to measure and quantify them in terms of their definitions of risk. This allows the Committee to assess the probabilities of critical funding points associated with different investment strategies. Consideration is given to the volatility of a number of parameters (e.g. items associated with accounting measures, contributions etc.), to further assess the potential risks associated with a particular investment strategy.

Cash-flow Risk

The Fund remains open to new members and new accruals. Contributions are received from both active members and employers within the Fund. Active members contribute on a tiered system. Contributions from employers within the Fund are determined based on advice from the Fund Actuary based on the triennial valuation.

The majority of investments held within the Fund are quoted on major markets and may be realised quickly, if required. Certain asset classes, Hedge Funds, Private Equity, Insurance-Linked Securities, Property and Infrastructure are relatively illiquid and may take longer to realise, if required.

Investment Risk

The Committee believe the use of active management within the Fund will increase the likelihood that the Fund will meet its objectives. The decision as to whether to pursue active management is evaluated separately for each asset class, with regard to the potential reward within that asset class for taking on active manager risk.

Active manager risk is then diversified through the use of different investment managers and pooled funds.

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

The Fund's assets are invested in portfolios managed by external investment managers shown in appendix B. They are benchmarked against the indicated indices. Based on expert advice (unless the assets are invested in the LGPS Central Pool in which case this will be delegated to the Pool), investment managers may be replaced at any time and this list may not always be current.

The performance targets for the investment manager(s) are shown in appendix B. Shropshire Council recognises that these targets will not be met in all periods under consideration, but expects that they will be met in the vast majority of long-term periods under consideration. In addition, the return generated on the passive equities is constrained by the equity protection strategy the Fund has in place with Legal & General.

Each investment manager appointed by the Committee (unless the assets are invested in the LGPS Central Pool in which case this will be delegated to the Pool) is bound by the terms and conditions of an Investment Management Agreement where restrictions and targets are clearly documented, including a measure of risk. The pooled fund investments and direct investments are governed by the terms and conditions of the fund and or policy documents.

Frequent monitoring of portfolio performance and exposure characteristics also aids in the ongoing risk management for the Fund (unless the assets are invested in the LGPS Central Pool in which case this will be delegated to the Pool).

Concentration Risk

The split between asset classes has been set to ensure there isn't excessive exposure to any particular asset class or specific risk such as equities or credit risk.

To ensure that asset allocation is sufficiently diversified the Committee considers a full range of investment opportunities including those available through the LGPS Central Pool. In addition investment opportunities outside the pooling arrangements will be considered if they are not already or likely to be available through the Pool, and there are suitable resources to invest in and monitor the investment. These can include contracts related to financial futures or insurance.

Appropriate advice will be sought on alternative asset classes when setting the strategy and as opportunities arise.

Currency and Counterparty Risk

Passive equity investments are fully currency hedged by the investment manager.

Some investment managers may take active currency positions based on their mandates.

The Committee has delegated responsibility for the counterparty risk to the investment manager(s) (unless the assets are invested in LGPS pooled arrangements in which case this will be delegated to the Pool who may further delegate to investment managers).

Legal & General shall manage the Fund's margin or payment requirements arising in respect of the equity protection strategy.

Custody Risk

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

Stock Lending

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

The manager(s) of pooled funds may undertake a certain amount of stock lending on behalf of unit-holders. Where a pooled fund engages in this activity the extent is fully disclosed by the manager (unless the assets are invested in LGPS pooled arrangements in which case this will be delegated to the Pool).

Monitoring

The Committee monitors the strategy and its implementation as follows:

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

The Officers, in conjunction with the Investment Consultant, will regularly review the allocation of assets between the different asset classes.

Service Provider Monitoring

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

Investment Manager Fees

Investment management fees comprise an ad valorem or fixed base fee element and in some cases a performance based element. The ad valorem fee is calculated as a percentage of assets under management. Where applicable, the performance based element is calculated as a percentage of outperformance. The assessment period ranges from one to three years depending on the investment manager and the mandate. The exact details of the fee arrangements are specific to the investment manager and are as agreed in the respective Investment Manager Agreements or pooled fund documentation (unless the assets are invested in the LGPS Central Pool in which case this will be delegated to the Pool).

5. Policies regarding investments

Social, Environmental and Corporate Governance Considerations

Shropshire Council is aware of the UK Stewardship Code and is working towards becoming signatories to the Stewardship Code (the "Code"). Although it has not yet formally signed up to the Code it aims to abide by the principles of the Code where appropriate.

The principles of the UK Stewardship Code are included in Appendix C for information.

BMO (formerly F&C) provides a responsible engagement overlay on the Fund's UK equity portfolios. BMO enters into constructive discussions with companies on the Fund's behalf to put to them the case for improved financial returns through better management of the negative impacts they might have on the environment and society in general.
In addition the Fund is a member of the Local Authority Pension Fund Forum which helps ensure governance is in line with current best practice.

The Exercise of the Rights Attaching to Investments

The Committee has delegated responsibility for the selection, retention and realisation of investments to the investment manager(s) (unless the assets are invested in LGPS pooled arrangements in which case this will be delegated to the Pool who may further delegate to investment managers).

The Committee expects the investment managers to take steps to ensure that environmental, social and governance factors are adequately addressed in the selection, retention and realisation of investments as far as such factors may affect investment performance (unless the assets are invested in LGPS pooled arrangements in which case this will be delegated to the Pool who may further delegate to investment managers).

The Committee supports the principle of good corporate governance. It has reviewed and accepted the corporate governance policies of its investment manager(s) who exercise its voting rights. Votes are cast by proxy. Investment manager(s) provide reports when any voting rights are exercised (unless the assets are invested in LGPS pooled arrangements in which case this will be delegated to the Pool). Only direct investments in traded equity shares carry such voting rights.

Appendix A

Myners Principles for Institutional Investment Decision Making

Principle	Comply or explain	Comment/Examples
1. Effective decision making ▪ Administrating authorities should ensure that: ▪ decisions are taken by persons or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementation ▪ Those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest	Comply	Pension Committee takes decisions relating to setting investment objectives and strategic asset allocation, appointment of investment managers. Pension Committee members, substitute members and Officers participate in an annual training day, attend educational seminars and receive occasional papers and presentations at committee meetings. The training requirements of new Pensions Committee members are addressed and appropriate training programmes made available, with a formal Training Programme being submitted to the Committee for consideration on an annual basis.
2. Clear Objectives ▪ An overall investment objective should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers and the attitude to risk of both the administrating authority and scheme employers, and these should be clearly communicated to advisors and investment managers	Comply	A Fund specific investment objective is set to maintain a funding level at, or close to 100% and within this, to endeavour to maintain low and stable employers contribution rates. As set out in the Funding Strategy Statement, the actuary takes account of a range of factors on the Fund's liabilities in setting contribution rates as part of the valuation process. Performance and risk parameters are specified in relation to relevant indices and appropriate time periods and are set out in investment mandates.
3. Risk and liabilities ▪ In setting and reviewing their investment strategy administrating authorities should take account of the form and structure of liabilities. ▪ These include the implications for local tax payers, the strength	Comply	Asset/Liability review is carried out every three years and the actuary takes account of a range of factors on the Fund's liabilities as set out in the Fund's Funding Strategy Statement which addresses the issues of financial assumptions, longevity and strength of covenant. If required, the actuarial funding position can be reported to the Pensions Committee on a quarterly

of the covenant for participating employers, the risk of their default and longevity risk		basis, using information provided by Aon Hewitt.
4. Performance assessment ▪ Arrangements should be in place for formal measurement of performance of the investments, investment managers and advisors ▪ Administrating authorities should also periodically make a formal assessment of their own effectiveness as a decision-making body and report on this to scheme members	Comply	The Officers have an independent performance measurer in place. They also receive regular updates from Aon Hewitt regarding managers and the Officers meet regularly with their managers and advisors to review their performance. The Fund has recently assessed its effectiveness as a decision-making body and aims to spend more time on strategic level and asset allocation decisions compared to meeting managers going forwards.
5. Responsible ownership ▪ Administrating authorities should ▪ Adopt or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholders and agents ▪ Include a statement of their policy on responsible ownership in the statement of investment principles ▪ Report periodically to scheme members on the discharge of such responsibilities	Comply	The Investment Strategy Statement includes a statement on responsible ownership. An independent advisor is appointed to engage with companies on socially responsible issues and voting at company meetings is effected through the Fund's investment managers.
6. Transparency and reporting ▪ Administrating authorities should ▪ Act in a transparent manner, communicating with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives ▪ Provide regular communication to scheme members in the form they consider most appropriate	Comply	A range of documents are published relating to the Fund's investment management and governance including the Governance Compliance Statement, Funding Strategy Statement, Investment Strategy Statement, Communication Policy Statement and Annual report and accounts. These documents are available in full on the Fund's website and any amendments are published. Stakeholders are also invited to attend the annual meeting of the Fund.

Appendix B

Investment manager mandates

Investment Manager	Asset class	Benchmark	Target
		Active portfolios	
PIMCO Europe Ltd	Unconstrained bonds	1 month Sterling LIBOR	+4% p.a.
BlackRock	Unconstrained bonds	3 month USD LIBOR	+ 4-6% p.a.
T. Rowe Price	Unconstrained bonds	3 month Sterling LIBOR	+ 3% p.a.
BMO	Liability Driven Investment (LDI)	Hedge Benchmark (based on typical pension fund's liability profile)	Outperform the benchmark
Majedie Asset Management	UK Equities	FTSE All Share	+2% p.a. over rolling 3 year periods
MFS Investment Management	Global Equities	MSCI World	+1% p.a. over rolling 3 year periods
Investec Asset Management	Global Equities	MSCI All Country World NDR	+ 3-5% p.a. over rolling 3 year periods
Harris Associates	Global Equities	MSCI World	+ 2-3% p.a. over 3 to 5 years
Harbour Vest Partners Limited	Private Equity Fund of Funds	Broad public equities index	+ 3-5% p.a.
Global Infrastructure Management	Infrastructure	n/a	RPI +5% p.a.
Aberdeen Property Investors	European (incl UK) Property	Composite of INREV VA Europe Index, vintage 2005 – 2008 and IPD UK All Balanced Funds Index	RPI +4% p.a.
BlackRock	Fund of Hedge Funds	3 month Sterling LIBOR	+5.0% p.a.
DRC Capital	Property Debt	n/a	Absolute 6.0% p.a.
Securis	Insurance-Linked Securities	US Government 3-month treasury bill	+5.0% p.a.
		Indexed (Passive) Portfolios	
Legal & General Investment Management	Global Equity	FTSE Developed World – GBP Currency Hedged	Match benchmark*

* The Fund has implemented an equity derivatives programme with Legal & General Investment Management in order to manage the SCPF's exposure to equity markets over the short to medium term.

LGPS Central active global equity sub fund performance target 1.5% p.a. above FTSE global equity benchmark on a rolling 3 year period.

Appendix C

Principles of the UK Stewardship Code

1. Publicly disclose their policy on how they will discharge their stewardship responsibilities.
2. Have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed.
3. Monitor their investee companies.
4. Establish clear guidelines on when and how they will escalate their stewardship activities.
5. Be willing to act collectively with other investors where appropriate.
6. Have a clear policy on voting and disclosure of voting activity.
7. Report periodically on their stewardship and voting activities.

Committee and Date	Item
Pensions Committee 15 March 2019 10 am	Public

FUNDING STRATEGY STATEMENT

Responsible Officer Justin Bridges
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1. Summary

1.1 The report informs Members of the requirement to publish and update as appropriate its Funding Strategy Statement. It sets out the Funding Strategy Statement which has been updated to reflect 2018 legislative change.

2. Recommendations

2.1 Members are asked to approve the Funding Strategy Statement at Appendix A.

REPORT

3. Risk Assessment and Opportunities Appraisal

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

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

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

4. Financial Implications

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

5. Background

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

5.2 The Shropshire Fund first produced a Funding Strategy Statement in 2004. This Statement was revised in 2017 following the 2016 actuarial valuation. The Statement outlines the basis on which the actuarial valuation of the Fund is conducted.

5.3 The Administering Authority is required to monitor the progress of the funding strategy between full actuarial valuations and review the strategy if it is considered appropriate. The overarching regulations of the LGPS were updated on 19th April 2018 through an amending Statutory Instrument; Local Government Pension Scheme (Amendment) Regulations 2018. The Fund has therefore taken the view to update the FSS to reflect this legislative change.

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

6. Purpose of the Funding Strategy Statement

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

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

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

7 Consultation and Publication

7.1 The Statement has been updated in consultation with Mercer. A copy of the Funding Strategy Statement (FSS) is attached at **Appendix A**.

7.2 Historically, the Regulations did not allow a surplus of assets over liabilities to be paid out of the Fund when an employer terminates (for example when the last active member leaves the Fund or the admission agreement comes to an end) whereas a payment would be required to cover any residual deficit or this deficit would be subsumed by another body in the Fund. The Regulation change means that if an employer exits the Fund and the resultant actuarial assessment shows a surplus, the cash amount can now be returned to the exiting employer. The Fund therefore now needs to consider how this change of position interacts with the current policies in place (the termination policy in the FSS and employer events framework).

7.3 Currently, the general policy for employers that exit the Fund with a guarantee from a guarantor (usually the original employer or letting authority) is for a termination assessment to be done and for the guarantor to subsume the residual assets, liabilities and deficit. The Fund therefore does not request an upfront payment of the deficit from the guarantor or the outgoing employer. The impact on the guarantor would therefore emerge as part of the following actuarial valuation within the contribution requirements. The Fund does not intend to change this policy. The FSS has therefore been updated to include cases where the exiting employer is in surplus. In this case, the residual assets and liabilities and hence the surplus will transfer back to the guarantor taking into account any separate contractual agreements that have been put in place between the exiting employer and the guarantor.

7.4 This policy ensures consistent treatment with a deficit or surplus at termination when there is a separate guarantor. The policy for these employers is currently that any deficit on termination is collected from the exiting employer but a surplus could not be returned under the Regulations. The updated Policy will be;

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 3 months of cessation, subject to the exiting employer providing sufficient notice to the Fund of their intent to exit).

- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

7.5 The policy for employers who do not have a guarantor participating in the Fund will be:

- In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 3 months of cessation, subject to the exiting employer providing sufficient notice to the Fund of their intent to exit).

- In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as a lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

7.5 In preparing the FSS the Administering Authority is required to consult with participating employers. All employers were sent a draft of the updated FSS and asked for comments back by the 14 March 2019. No comments were received back at the date of preparing this report.

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

8. Monitoring and Review

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

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Pensions Committee, 17 March 2017, Funding Strategy Statement.
Cabinet Member N/A
Local Member N/A
Appendices A – Funding Strategy Statement

FUNDING STRATEGY STATEMENT

SHROPSHIRE COUNTY PENSION FUND

FEBRUARY 2019

Shropshire Council

DRAFT

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

EXECUTIVE SUMMARY

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

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

The details contained in this Funding Strategy Statement will have a financial and operational impact on all participating employers in the Shropshire County Pension Fund.

It is imperative therefore that each existing or potential employer is aware of the details contained in this statement.

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

THE FUND'S OBJECTIVE

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

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

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

SOLVENCY AND LONG TERM COST EFFICIENCY

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

Employer contributions are also set in order to achieve long term cost efficiency. Long term cost-efficiency implies that contributions must not be set at a level that is likely to give rise to additional costs in the future. For example, deferring costs to the future would be likely to result in those costs

being greater overall than if they were provided for at the appropriate time. Equally, the FSS must have regard to the desirability of maintaining as nearly constant a primary rate of contribution as possible.

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

DEFICIT RECOVERY PLAN AND CONTRIBUTIONS

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

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

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

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

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

ACTUARIAL ASSUMPTIONS

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

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

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

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

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

EMPLOYER ASSET SHARES

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

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

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

FUND POLICIES

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

1. Covenant assessment and monitoring

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

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

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

2. Admitting employers to the Fund

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

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

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

3. Termination policy for employers exiting the Fund

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

The process applying on termination will depend on whether the exiting employer has a guarantor within the Fund:

Termination with no guarantor

Where there is no guarantor who could subsume the liabilities of the exiting employer, the Fund's policy is to use more prudent assumptions to assess the termination position, to protect the remaining Fund employers.

Any exit payments due will be paid immediately by the exiting employer, although instalment plans or temporary suspension of the payment may be considered by the Administering Authority on a case by case basis.

Any exit credits (surplus assets over liabilities) will be paid from the Fund to the exiting employer within 3 months of cessation, in line with the assessment performed by the Actuary. This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date.

Termination with a guarantor

Where there is a guarantor who could subsume the liabilities, the termination position is assessed using an "ongoing" valuation basis, so consistent with the funding target assumptions.

The Fund's policy is that recovery of deficit and surplus should be treated in a consistent manner. Therefore:

- Where all parties agree to such treatment, any deficit or surplus would be subsumed by the guarantor
- Otherwise, any surplus would be paid to the exiting employer, and any deficit would be paid immediately by the exiting employer if possible, and the guarantor otherwise,

although instalment plans or temporary suspension of the payment may be considered by the Administering Authority on a case by case basis

The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it based on the advice of the Actuary.

4. Insurance arrangements

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

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A - ACTUARIAL METHOD AND ASSUMPTIONS
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C - GLOSSARY OF TERMS

1
INTRODUCTION

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

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

BENEFITS

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

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

EMPLOYER CONTRIBUTIONS

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

PRIMARY RATE

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

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

SECONDARY RATE

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

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

2
PURPOSE OF FSS IN POLICY TERMS

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

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

The purpose of this Funding Strategy Statement is therefore:

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

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

3
AIMS AND PURPOSE OF THE FUND

THE AIMS OF THE FUND ARE TO:

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

THE PURPOSE OF THE FUND IS TO:

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

4
RESPONSIBILITIES OF THE KEY PARTIES

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

KEY PARTIES TO THE FSS

The **Administering Authority** should:

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

The **Individual Employer** should:

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

The **Fund Actuary** should:

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

5
SOLVENCY FUNDING TARGET

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

SOLVENCY AND LONG TERM EFFICIENCY

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

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

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

DETERMINATION OF THE SOLVENCY FUNDING TARGET AND DEFICIT RECOVERY PLAN

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

Underlying these assumptions are the following two tenets:

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

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

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

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

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

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

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

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

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

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

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

- On the cessation of an employer's participation in the Fund, in accordance with the Regulations, the Fund Actuary will be asked to make a termination assessment. In such circumstances the approach will depend on whether the employer has a guarantor in the in Fund:

Termination with no guarantor

Where there is no guarantor who could subsume the liabilities of the exiting employer, the Fund's policy on assessing the termination position is as follows:

EMPLOYERS WITH NO GUARANTOR IN THE FUND WHO JOINED PRIOR TO 1 JULY 2012	EMPLOYERS WITH NO GUARANTOR IN THE FUND WHO JOINED AFTER 1 JULY 2012
Using a corporate bond basis, with the discount rate based on the long dated Sterling AA Corporate Bond yield of appropriate duration, and allowing for a more prudent assessment of future mortality trends.	Using a "least risk" funding basis based on government bonds of appropriate duration, and allowing for a more prudent assessment of future mortality trends.

In the case of a deficit, the Fund would require the exiting employer to pay the termination deficit to the Fund as an immediate lump sum cash payment (unless agreed otherwise by the Administering Authority at their sole discretion) following completion of the termination process.

In the case of a surplus, the Fund pays the exit credit to the exiting employer following completion of the termination process (within 3 months of cessation). This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date.

Termination with a guarantor

Where there is a guarantor who could subsume the liabilities, the termination position is assessed using an "ongoing" valuation basis so consistent with the funding target assumptions.

The Fund's policy is that any assets, liabilities and deficit or surplus would be subsumed by the guarantor and taken into account at the following valuation. This is subject to agreement from all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor.

If all parties do not agree then:

- In the event of a surplus, this will be paid directly to the exiting employer in line with the process for unguaranteed employers outlined above (despite any other agreements that may be in place between the exiting employer and guarantor)
- In the event of a deficit, the Fund will seek to recover this from the exiting employer in the first instance. However, if this is not possible, then to maintain a consistent approach between treatment of surplus and deficit, the Fund will then seek to recover the deficit from the guarantor via an additional cash payment, unless otherwise agreed with the Administering Authority

Where applicable the Fund will inform the guarantor of the exiting employer's request to receive the surplus before making payment of the exit credit. However, in the event of any disagreement between the parties ultimately the Fund will have to comply with the Regulations and therefore pay any exit credit. The Fund will not enter into discussions if there is any disagreement over the refund of any surplus – it will be up to the guarantor to

contest the surplus payment citing the commercial contract in place and the desire for equal treatment in the event of a deficit.

The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it based on the advice of the Actuary.

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

FUNDING FOR NON-ILL HEALTH EARLY RETIREMENT COSTS

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

7

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

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

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

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

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

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

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

The current strategy is:

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

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

8

IDENTIFICATION OF RISKS AND COUNTER-MEASURES

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

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

FINANCIAL

The financial risks are as follows:-

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

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

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

DEMOGRAPHIC

The demographic risks are as follows:-

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

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

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

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

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

INSURANCE OF CERTAIN BENEFITS

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

REGULATORY

The key regulatory risks are as follows:-

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

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

GOVERNANCE

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

Governance risks are as follows:-

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

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

9
MONITORING AND REVIEW

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

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

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

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

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

APPENDIX A - ACTUARIAL METHOD AND ASSUMPTIONS

METHOD

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

FINANCIAL ASSUMPTIONS – SOLVENCY FUNDING TARGET

Investment return (discount rate)

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

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

Inflation (Consumer Prices Index)

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

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

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

Salary increases

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

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

Pension increases/Indexation of CARE benefits

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

DEMOGRAPHIC ASSUMPTIONS

Mortality/Life Expectancy

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

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

Commutation

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

Other Demographics

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

Expenses

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

Discretionary Benefits

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

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

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

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

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

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

EMPLOYER ASSET SHARES

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

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

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

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

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

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

Life expectancy assumptions

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

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

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

APPENDIX B – EMPLOYER DEFICIT RECOVERY PLANS

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

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

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

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

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

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

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

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

Other factors affecting the Employer Deficit Recovery Plans

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

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

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

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

APPENDIX C - GLOSSARY

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

Committee and Date	Item
Pensions Committee 15 March 2019 9.30am	Public

CORPORATE GOVERNANCE MONITORING

Responsible Officer Ben Driscoll
e-mail: 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 1st October 2018 to 31st December 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 Opportunies Appraisal

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

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

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

3.4 There are no direct Equalities or Community consequences.

4. Financial Implications

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

5. Background

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

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

6. Manager Voting Activity

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

7. Responsible Engagement Activity

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

List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information) Corporate Governance Monitoring report, Pensions Committee 30 November 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 summary which follows is bespoke.

- During the quarter, Majedie's Head of Stewardship, Sarah Maynard, joined the Investment Association's Stewardship Committee.

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

- We met with Andrew Parsons, who covers Group Sustainable Development at the Mining company Gold Fields, to discuss Environmental, Social and Governance (ESG) factors facing the company. We discussed employee healthcare, education and living conditions in their African and South American operations. We also spoke about their approach to safety, environmental protection, and relationship with the government and regulators.
- We had several meetings with the managements of Barrick Gold and Randgold after they announced their intention to merge. We wanted to fully understand the rationale for the combination, and how it would change the risk profile of the business. After some relatively tough questioning, we concluded that it was in the best interests of shareholders and would bring a much-needed infusion of operational talent to Barrick Gold.

Colruyt, EGM: The company proposed the issuance of equity without pre-emptive rights but the amount proposed (99.8%) far exceeded our policy limit of 10%. We therefore voted against. The company also wanted the ability to be able to issue shares without pre-emptive rights as an anti-takeover tool. We were content to allow this previously, however given the company continued to seek this practice at a time when corporate governance standards have been raised, we decided to vote against.

Photo-Me International, AGM: We voted against the appointment of Grant Thornton as the company's auditors. We supported a change of auditor, but we did not agree with the choice of Grant Thornton following the issues surrounding Patisserie Valerie. We also voted against the re-election of two directors, John Lewis and Francoise Coutaz-Replan. In the case of the former, this Director had served on the Board for a decade and we believed that refreshing the leadership would be a benefit to the company. On the latter, best practice requires an independent non-executive director in this role. In our view, this Director could not be regarded as independent, therefore we voted against her re-election.

Oracle, AGM: We shared third-party research concerns on the level of remuneration paid to executives and therefore voted against the ratification of named executive officers' compensation. We also withheld votes from the elections of three Compensation Committee members, George H. Conrades, Leon E. Panetta, and Naomi O. Seligman, as we agreed there had been an insufficient response to last year's failed say-on-pay vote. We also withheld votes from the election of Governance Committee members, Bruce R. Chizen, Jeffrey S. Berg and Leon E. Panetta, as the CEO, Larry Ellison, can pledge shares, approximately $14bn worth, to secure indebtedness. This could potentially expose shareholders to risk and raises the issue of risk oversight. The practice had not changed from last year and therefore we decided it was time to oppose this activity. In addition, we backed shareholder proposals, opposed by management, to report on the gender pay cap, to report on political contributions, to report on lobbying payments and policy, and to require the company to have an independent board chairman.

Petra Diamonds, AGM: We voted against the re-election of CEO, Christoffel Dippenaar. This was due to poor performance, and consistent with our previous opposition to his re-election. We noted he was remaining in the

post until the company found a successor, however we believed the company could have managed without him in the interim, and thus avoid the expense of keeping him in the post.

Conygar Investments, AGM: We voted in favour of Michael Wigley's re-election as Director given the Board had been effective. However, we will speak to the CEO about the length of this Director's tenure (15 years). We also voted against the issue of equity without pre-emptive rights as the amount proposed (approximately 14%) exceeded our Voting Policy's limit of 10%.

BAIC Motor Group, EGM: We voted against the amendment to the Articles of Association regarding the Chinese Communist Party Committee, as we disagreed with the presence of a political committee within a company. Third party research also noted that the amendment was not considered to adequately provide for accountability and transparency to shareholders.

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	27	
Number of resolutions	234	
Where we voted in line with Management	215	91.9
Where we have not voted in line with Management	19	8.1

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	3	0
Capitalisation	0	0
Miscellaneous	9	0
Remuneration	0	0
Reorganisations, mergers & anti-takeover	0	0
Routine/Business	7	0
Total	19	0

Sources: Majedie, ISS (Institutional Shareholder Services)

VOTING RECORD DETAILS

SECURITY NAME	MEETING DATE	MEETING TYPE	MAJEDIE VOTE
ASSOCIATED BRITISH FOODS	07 Dec 2018	AGM	Against Resolution 14
BARRICK GOLD	05 Nov 2018	EGM	Voted for all
BERKELEY ENERGIA	22 Nov 2018	AGM	Against Resolution 4
BHP GROUP	17 Oct 2018	AGM	Voted for all
CARETECH	15 Oct 2018	EGM	Voted for all
CASH FUNDS	26 Nov 2018	EGM	Voted for all
COMMUNISIS	28 Nov 2018	EGM	Voted for all
COMMUNISIS	28 Nov 2018	Court	Voted for all
CONYGAR INVESTMENT	21 Dec 2018	AGM	Against Resolution 10
DFS FURNITURE	30 Nov 2018	AGM	Against Resolution 18
DUNELM	29 Nov 2018	AGM	Voted for all
FASTJET	07 Dec 2018	EGM	Voted for all
GRC INTERNATIONAL	26 Oct 2018	AGM	Voted for all
HAYS	14 Nov 2018	AGM	Against Resolution 14
JARDINE LLOYD THOMPSON	07 Nov 2018	EGM	Voted for all
JARDINE LLOYD THOMPSON	07 Nov 2018	Court	Voted for all
KENMARE RESOURCES	05 Dec 2018	EGM	Voted for all
MCBRIDE	23 Oct 2018	AGM	Against Resolution 11
NORSEMAN GOLD	31 Dec 2018	AGM	Withhold on Resolutions 1, 2, 3, 4, 5, 6
PATISSERIE	01 Nov 2018	EGM	Voted for all
PETRA DIAMONDS	23 Nov 2018	AGM	Against Resolution 6
PHOTO-ME INTERNATIONAL	24 Oct 2018	AGM	Against Resolutions 4, 6, 8
RANK GROUP	18 Oct 2018	AGM	Against Resolutions 14, 15
SIG	07 Nov 2018	EGM	Voted for all
SPEYMILL DEUTSCHE	28 Dec 2018	AGM	Did not vote on Resolutions 1, 2, 3, 4
SYLVANIA PLATINUM	23 Nov 2018	AGM	Voted for all
VOLUTION	12 Dec 2018	AGM	Against Resolution 13

Source: Majedie

Vote Summary Report
Date range covered: 10/01/2018 to 12/31/2018
Location(s): Harris Associates L.P.
Institution Account(s): 5984 -Shropshire County Pension Fund

Oracle Corp.

Meeting Date: 11/14/2018 **Country:** USA **Primary Security ID:** 68389X105
Record Date: 09/17/2018 **Meeting Type:** Annual **Ticker:** ORCL

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

Shares Voted: 96,100

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Voting Policy Rec	Vote Instruction
1.1	Elect Director Jeffrey S. Berg	Mgmt	For	Withhold	For	For
1.2	Elect Director Michael J. Boskin	Mgmt	For	For	For	For
1.3	Elect Director Safra A. Catz	Mgmt	For	For	For	For
1.4	Elect Director Bruce R. Chizen	Mgmt	For	Withhold	For	For
1.5	Elect Director George H. Conrades	Mgmt	For	Withhold	For	For
1.6	Elect Director Lawrence J. Ellison	Mgmt	For	For	For	For
1.7	Elect Director Hector Garcia-Molina	Mgmt	For	For	For	For
1.8	Elect Director Jeffrey O. Henley	Mgmt	For	For	For	For
1.9	Elect Director Mark V. Hurd	Mgmt	For	For	For	For
1.10	Elect Director Renee J. James	Mgmt	For	For	For	For
1.11	Elect Director Charles W. Moorman, IV	Mgmt	For	For	For	For
1.12	Elect Director Leon E. Panetta	Mgmt	For	Withhold	For	For
1.13	Elect Director William G. Parrett	Mgmt	For	For	For	For
1.14	Elect Director Naomi O. Seligman	Mgmt	For	Withhold	For	For
2	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	Against	For	For
3	Ratify Ernst & Young LLP as Auditors	Mgmt	For	For	For	For
4	Report on Gender Pay Gap	SH	Against	For	Against	Against
5	Report on Political Contributions	SH	Against	For	Against	Against
6	Report on Lobbying Payments and Policy	SH	Against	For	Against	Against
7	Require Independent Board Chairman	SH	Against	For	Against	Against

CNH Industrial NV

Meeting Date: 11/29/2018 **Country:** Netherlands **Primary Security ID:** N20944109
Record Date: 11/01/2018 **Meeting Type:** Special **Ticker:** CNHI

Primary CUSIP: N20944109 **Primary ISIN:** NL0010545661 **Primary SEDOL:** BDX85Z1

Vote Summary Report
Date range covered: 10/01/2018 to 12/31/2018
Location(s): Harris Associates L.P.
Institution Account(s): 5984 -Shropshire County Pension Fund

CNH Industrial NV

Shares Voted: 718,942

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Voting Policy Rec	Vote Instruction
	Special Meeting Agenda	Mgmt				
1	Open Meeting	Mgmt				
2.a	Elect Hubertus M. Mühlhäuser as Executive Director	Mgmt	For	For	For	For
2.b	Elect Suzanne Heywood as Executive Director	Mgmt	For	Against	Against	For
3	Close Meeting	Mgmt				

Investec
Asset Management

Vote Summary Report
Date range covered : 10/01/2018 to 12/31/2018

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

Microsoft Corp.

Meeting Date: 11/28/2018 **Country:** USA
Meeting Type: Annual **Ticker:** MSFT

Proposal Number	Proposal Text	Proponent	Mgmt Rec	ISS Rec	Voting Policy Rec	Vote Instruction
1.1	Elect Director William H. Gates, III	Mgmt	For	For	For	For
1.2	Elect Director Reid G. Hoffman	Mgmt	For	For	For	For
1.3	Elect Director Hugh F. Johnston	Mgmt	For	For	For	For
1.4	Elect Director Teri L. List-Stoll	Mgmt	For	For	For	For
1.5	Elect Director Satya Nadella	Mgmt	For	For	For	For
1.6	Elect Director Charles H. Noski	Mgmt	For	For	Against	For
1.7	Elect Director Helmut Panke	Mgmt	For	For	Against	For
1.8	Elect Director Sandra E. Peterson	Mgmt	For	For	For	For
1.9	Elect Director Penny S. Pritzker	Mgmt	For	For	For	For
1.10	Elect Director Charles W. Scharf	Mgmt	For	For	For	For
1.11	Elect Director Arne M. Sorenson	Mgmt	For	For	For	For
1.12	Elect Director John W. Stanton	Mgmt	For	For	For	For
1.13	Elect Director John W. Thompson	Mgmt	For	For	For	For
1.14	Elect Director Padmasree Warrior	Mgmt	For	For	For	For
2	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	For	For	For
3	Ratify Deloitte & Touche LLP as Auditors	Mgmt	For	For	For	For

Vote Summary Report
Date range covered : 10/01/2018 to 12/31/2018

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

Vote Summary Report

Date range covered: 10/01/2018 to 12/31/2018
Location(s): Massachusetts Financial Services
Institution Account(s): MFS Investment Fund - Global Equity Fund

Whitbread Plc

Meeting Date: 10/10/2018 **Country:** United Kingdom **Primary Security ID:** G9606P197 **Meeting ID:** 1269366
Record Date: 10/08/2018 **Meeting Type:** Special **Ticker:** WTB

Primary CUSIP: G9606P197 **Primary ISIN:** GB00B1KJJ408 **Primary SEDOL:** B1KJJ40

Voting Policy: MFS

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1	Approve Sale by the Company of Costa Limited	Mgmt	For	For

Coty, Inc.

Meeting Date: 11/06/2018 **Country:** USA **Primary Security ID:** 222070203 **Meeting ID:** 1269246
Record Date: 09/12/2018 **Meeting Type:** Annual **Ticker:** COTY

Primary CUSIP: 222070203 **Primary ISIN:** US2220702037 **Primary SEDOL:** BBBSMJ2

Voting Policy: MFS

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1.1	Elect Director Lambertus J.H. Becht	Mgmt	For	For
1.2	Elect Director Sabine Chalmers	Mgmt	For	For
1.3	Elect Director Joachim Faber	Mgmt	For	For
1.4	Elect Director Olivier Goudet	Mgmt	For	For
1.5	Elect Director Peter Harf	Mgmt	For	For
1.6	Elect Director Paul S. Michaels	Mgmt	For	For
1.7	Elect Director Camillo Pane	Mgmt	For	For
1.8	Elect Director Erhard Schoewel	Mgmt	For	For
1.9	Elect Director Robert Singer	Mgmt	For	For
2	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	For
3	Ratify Deloitte & Touche LLP as Auditors	Mgmt	For	For

Vote Summary Report

Date range covered: 10/01/2018 to 12/31/2018
Location(s): Massachusetts Financial Services
Institution Account(s): MFS Investment Fund - Global Equity Fund

Akzo Nobel NV

Meeting Date: 11/13/2018 **Country:** Netherlands **Primary Security ID:** N01803100 **Meeting ID:** 1271245
Record Date: 10/16/2018 **Meeting Type:** Special **Ticker:** AKZA

Primary CUSIP: N01803100 **Primary ISIN:** NL0000009132 **Primary SEDOL:** 5458314

Voting Policy: MFS

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
	Special Meeting	Mgmt		
1	Approve Capital Repayment and Share Consolidation	Mgmt	For	For

Oracle Corp.

Meeting Date: 11/14/2018 **Country:** USA **Primary Security ID:** 68389X105 **Meeting ID:** 1270058
Record Date: 09/17/2018 **Meeting Type:** Annual **Ticker:** ORCL

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

Voting Policy: MFS

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1.1	Elect Director Jeffrey S. Berg	Mgmt	For	For
1.2	Elect Director Michael J. Boskin	Mgmt	For	For
1.3	Elect Director Safra A. Catz	Mgmt	For	For
1.4	Elect Director Bruce R. Chizen	Mgmt	For	For
1.5	Elect Director George H. Conrades	Mgmt	For	For
1.6	Elect Director Lawrence J. Ellison	Mgmt	For	For
1.7	Elect Director Hector Garcia-Molina	Mgmt	For	For
1.8	Elect Director Jeffrey O. Henley	Mgmt	For	For
1.9	Elect Director Mark V. Hurd	Mgmt	For	For
1.10	Elect Director Renee J. James	Mgmt	For	For
1.11	Elect Director Charles W. Moorman, IV	Mgmt	For	For
1.12	Elect Director Leon E. Panetta	Mgmt	For	For
1.13	Elect Director William G. Parrett	Mgmt	For	For
1.14	Elect Director Naomi O. Seligman	Mgmt	For	For

Vote Summary Report

Date range covered: 10/01/2018 to 12/31/2018
Location(s): Massachusetts Financial Services
Institution Account(s): MFS Investment Fund - Global Equity Fund

Oracle Corp.

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
2	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	Against
3	Ratify Ernst & Young LLP as Auditors	Mgmt	For	For
4	Report on Gender Pay Gap	SH	Against	For
5	Report on Political Contributions	SH	Against	For
6	Report on Lobbying Payments and Policy	SH	Against	For
7	Require Independent Board Chairman	SH	Against	For

Pernod Ricard SA

Meeting Date: 11/21/2018 **Country:** France **Primary Security ID:** F72027109 **Meeting ID:** 1267952
Record Date: 11/16/2018 **Meeting Type:** Annual/Special **Ticker:** RI

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

Voting Policy: MFS

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
	Ordinary Business	Mgmt		
1	Approve Financial Statements and Statutory Reports	Mgmt	For	For
2	Approve Consolidated Financial Statements and Statutory Reports	Mgmt	For	For
3	Approve Allocation of Income and Dividends of EUR 2.36 per Share	Mgmt	For	For
4	Approve Auditors' Special Report on Related-Party Transactions	Mgmt	For	For
5	Reelect Martina Gonzalez-Gallarza as Director	Mgmt	For	Against
6	Reelect Ian Gallienne as Director	Mgmt	For	Against
7	Reelect Gilles Samyn as Director	Mgmt	For	Against
8	Elect Patricia Barbizet as Director	Mgmt	For	For
9	Approve Remuneration of Directors in the Aggregate Amount of EUR 1.25 Million	Mgmt	For	For
10	Approve Remuneration Policy of Alexandre Ricard, Chairman and CEO	Mgmt	For	For
11	Approve Compensation of Alexandre Ricard, Chairman and CEO	Mgmt	For	For

Vote Summary Report

Date range covered: 10/01/2018 to 12/31/2018
Location(s): Massachusetts Financial Services
Institution Account(s): MFS Investment Fund - Global Equity Fund

Pernod Ricard SA

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
12	Authorize Repurchase of Up to 10 Percent of Issued Share Capital	Mgmt	For	For
	Extraordinary Business	Mgmt		
13	Authorize Capital Issuances for Use in Employee Stock Purchase Plans	Mgmt	For	For
14	Authorize Capital Issuances for Use in Employee Stock Purchase Plans Reserved for Employees of the Group's Subsidiaries	Mgmt	For	For
15	Amend Article 11 of Bylaws Re: Shareholding Disclosure Thresholds, Notification Limit	Mgmt	For	Against
16	Amend Article 11 of Bylaws Re: Shareholding Disclosure Thresholds, Shares Held Indirectly	Mgmt	For	For
17	Amend Article 29 of Bylaws Re: Alternate Auditors	Mgmt	For	For
18	Authorize Filing of Required Documents/Other Formalities	Mgmt	For	For

Medtronic Plc

Meeting Date: 12/07/2018 **Country:** Ireland **Primary Security ID:** G5960L103 **Meeting ID:** 1262560
Record Date: 10/09/2018 **Meeting Type:** Annual **Ticker:** MDT

Primary CUSIP: G5960L103 **Primary ISIN:** IE00BTN1Y115 **Primary SEDOL:** BTN1Y11

Voting Policy: MFS

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1	Elect Director Richard H. Anderson	Mgmt	For	For
1b	Elect Director Craig Arnold	Mgmt	For	For
1c	Elect Director Scott C. Donnelly	Mgmt	For	For
1d	Elect Director Randall J. Hogan, III	Mgmt	For	For
1e	Elect Director Omar Ishrak	Mgmt	For	For
1f	Elect Director Michael O. Leavitt	Mgmt	For	For
1g	Elect Director James T. Lenehan	Mgmt	For	For
1h	Elect Director Elizabeth G. Nabel	Mgmt	For	For
1i	Elect Director Denise M. O'Leary	Mgmt	For	For
1j	Elect Director Kendall J. Powell	Mgmt	For	For

Vote Summary Report

Date range covered: 10/01/2018 to 12/31/2018
Location(s): Massachusetts Financial Services
Institution Account(s): MFS Investment Fund - Global Equity Fund

Medtronic Plc

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
2	Approve PricewaterhouseCoopers LLP as Auditors and Authorize Board to Fix Their Remuneration	Mgmt	For	For
3	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	For

Cisco Systems, Inc.

Meeting Date: 12/12/2018 **Country:** USA **Primary Security ID:** 17275R102 **Meeting ID:** 1276245
Record Date: 10/15/2018 **Meeting Type:** Annual **Ticker:** CSCO

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

Voting Policy: MFS

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1a	Elect Director M. Michele Burns	Mgmt	For	For
1b	Elect Director Michael D. Capellas	Mgmt	For	Against
1c	Elect Director Mark Garrett	Mgmt	For	For
1d	Elect Director Kristina M. Johnson	Mgmt	For	For
1e	Elect Director Roderick C. McGeary	Mgmt	For	For
1f	Elect Director Charles H. Robbins	Mgmt	For	For
1g	Elect Director Arun Sarin	Mgmt	For	For
1h	Elect Director Brenton L. Saunders	Mgmt	For	For
1i	Elect Director Steven M. West	Mgmt	For	For
2	Amend Qualified Employee Stock Purchase Plan	Mgmt	For	For
3	Advisory Vote to Ratify Named Executive Officers' Compensation	Mgmt	For	For
4	Ratify PricewaterhouseCoopers LLP as Auditors	Mgmt	For	For
5	Require Independent Board Chairman	SH	Against	Against
6	Adjust Executive Compensation Metrics for Share Buybacks	SH	Against	Against

Vote Summary Report

Date range covered: 10/01/2018 to 12/31/2018
Location(s): Massachusetts Financial Services
Institution Account(s): MFS Investment Fund - Global Equity Fund

AutoZone, Inc.

Meeting Date: 12/19/2018 **Country:** USA **Primary Security ID:** 053332102 **Meeting ID:** 1277219
Record Date: 10/22/2018 **Meeting Type:** Annual **Ticker:** AZO

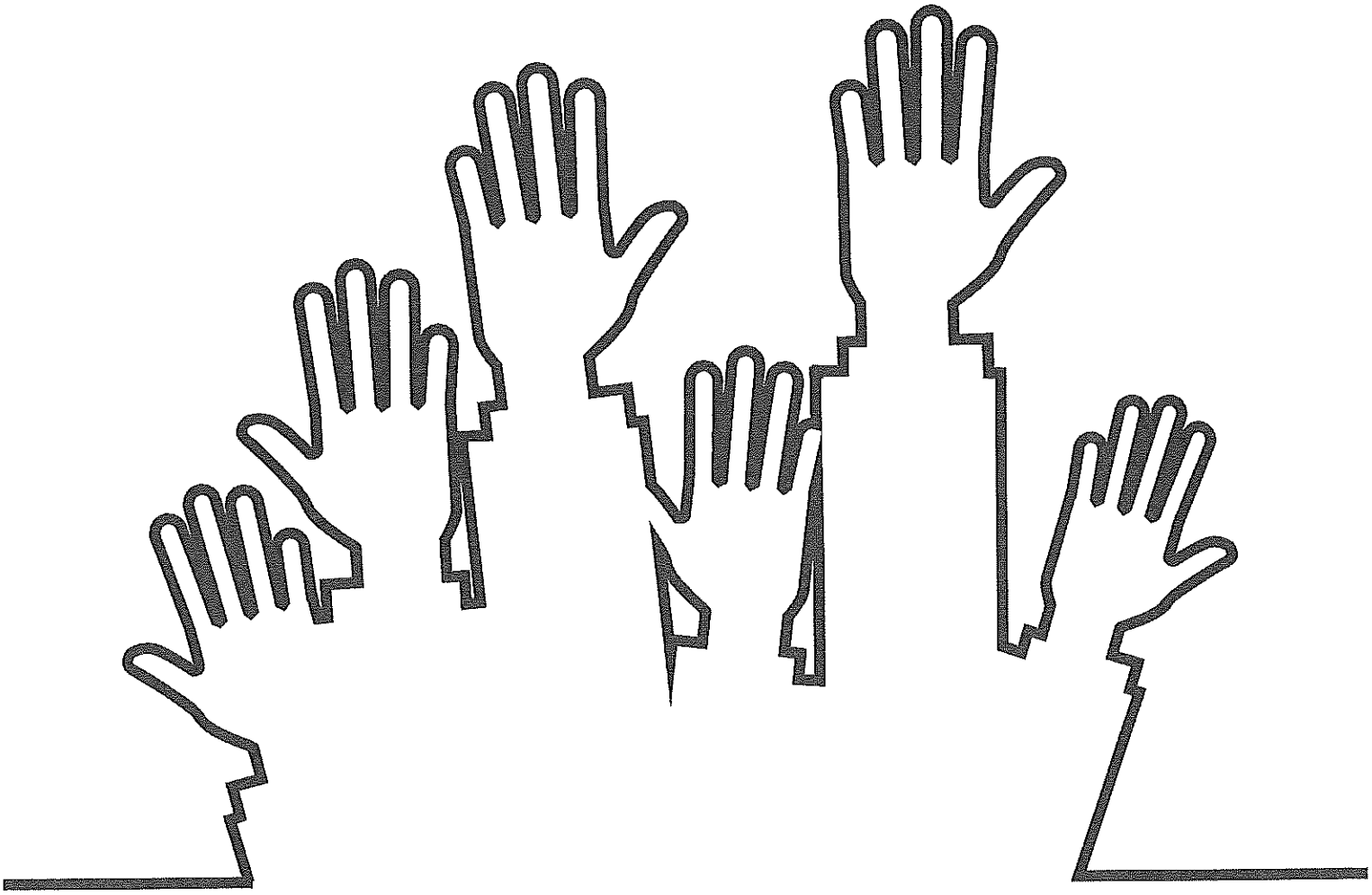
Primary CUSIP: 053332102 **Primary ISIN:** US0533321024 **Primary SEDOL:** 2065955

Voting Policy: MFS

Proposal Number	Proposal Text	Proponent	Mgmt Rec	Vote Instruction
1.1	Elect Director Douglas H. Brooks	Mgmt	For	For
1.2	Elect Director Linda A. Goodspeed	Mgmt	For	For
1.3	Elect Director Earl G. Graves, Jr.	Mgmt	For	For
1.4	Elect Director Enderson Guimaraes	Mgmt	For	For
1.5	Elect Director D. Bryan Jordan	Mgmt	For	For
1.6	Elect Director Gale V. King	Mgmt	For	For
1.7	Elect Director W. Andrew McKenna	Mgmt	For	For
1.8	Elect Director George R. Mrkonic, Jr.	Mgmt	For	For
1.9	Elect Director Luis P. Nieto	Mgmt	For	For
1.10	Elect Director William C. Rhodes, III	Mgmt	For	For
1.11	Elect Director Jill Ann Soltau	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

Active ownership

Q4 2018 ESG Impact Report



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

Legal & General
INVESTMENT MANAGEMENT

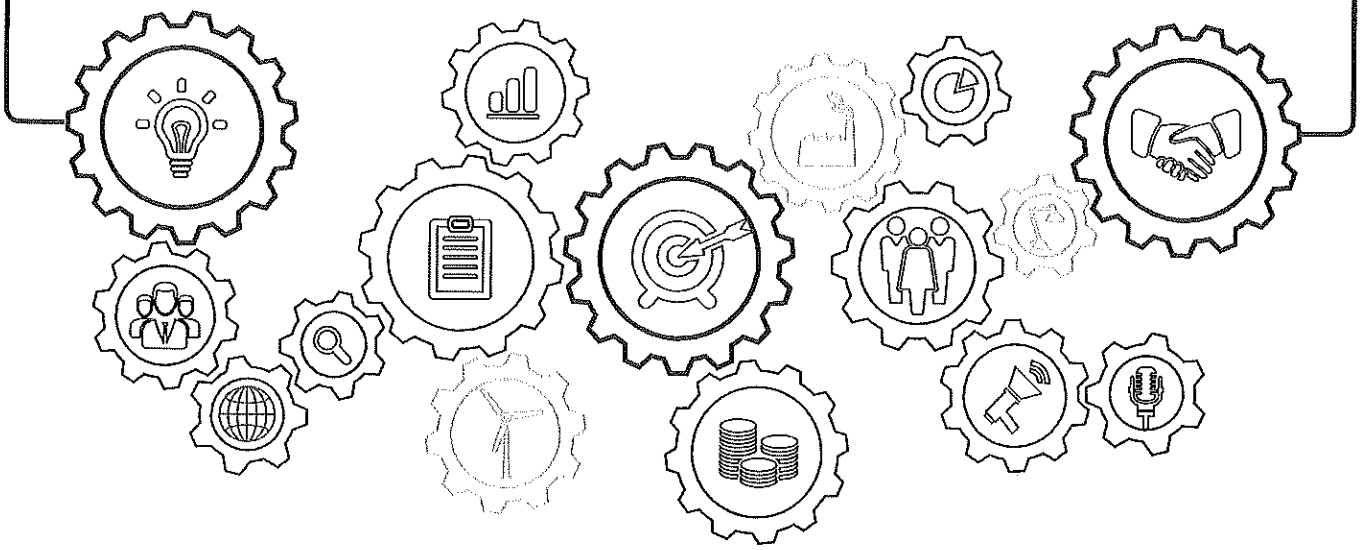
Our mission

To use our influence to ensure that:

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

&

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



Our focus

1 Holding boards to account

To be successful, companies need to have people at the helm who are well equipped to create resilient long-term growth. By voting and engaging directly with companies, we encourage management to control risks and benefit from emerging opportunities.

We seek to protect and enhance our clients' assets by engaging with companies and holding management to account for their decisions. Voting is an important tool in this process, and one which we use extensively.

2 Creating sustainable value

We believe it is in the interest of all stakeholders for companies to build sustainable business models that are also beneficial to society. We work to prevent market behaviour that destroys long-term value creation.

At LGIM, we want to safeguard and grow our clients' assets by ensuring that companies are well positioned for sustainable growth. Our active and enhanced index mandates incorporate ESG factors in the investment process and we consider ESG factors when voting on our holdings in all strategies.

We engage directly and collaboratively with companies to highlight key challenges and opportunities, and to support strategies that can deliver long-term success.

3 Promoting market resilience

As a long-term investor for our clients, it is essential that markets are able to generate sustainable value. In doing so, companies should become more resilient to change and therefore benefit the whole market.

We use our scale and influence to ensure that issues impacting the value of our clients' investments are recognised and appropriately managed. This includes working with key decision-makers such as governments and regulators, and collaborating with asset owners to bring about positive change.

Action and impact

Our focus areas in the fourth quarter

AWARDS

For the fourth consecutive year, LGIM's Corporate Governance team received the 2018 ICSA award for Best Investor Engagement. This award rewards the investor who, in the judgment of FTSE 350 company secretaries, conducted the most constructive engagement during the year. It recognises LGIM for demonstrating a high standard of stewardship engagement in the market.

LGIM's efforts to promote greater diversity in the workplace and in the companies in which we invest were recognised by the Diversity Initiative of the Year award at the 17th annual Financial News Asset Management Awards Europe. LGIM was particularly noted for being a strong advocate of diversity on boards since 2011, and for voting against companies with no women on the board since 2015.

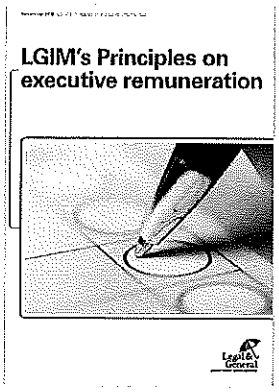
LGIM'S STAKEHOLDER ROUNDTABLE

For the second consecutive year, LGIM invited a number of stakeholders including clients and practitioners to provide their views and feedback on our corporate governance and sustainability policies. Many topics were discussed and this included diversity, executive remuneration, global health challenges, income inequality and sustainable development goals.

This roundtable was an opportunity for LGIM to help get a better understanding of various stakeholders' views. We regularly review our policies and seek to incorporate feedback to ensure our policies continue to reflect their investment beliefs and are aligned with best practice. We will be using the outcomes from the discussion to strengthen our 2019 policies.

COUNCIL OF INSTITUTIONAL INVESTORS CONFERENCE IN NEW YORK

LGIM attended this important conference that gathers together US and international investors, asset owners and thought leaders to discuss key ESG topics. The conference sessions included human rights, diversity, climate change, and ESG integration. It is also an opportunity for us to meet with some of our investee companies one on one. We met with a number of S&P 500 companies including McDonalds, Southern Company, UnitedHealth Group, Bank of America, Wells Fargo, and Intel. We raised various engagement issues such as climate change, board structure and sustainability.



NEW PAY PRINCIPLES

As executive pay remains an issue, LGIM updated its **Principles on Executive Remuneration document**[1] to reflect and align with recent legislative and best practice developments in the area. For instance, we took into account recent changes introduced in the UK Corporate Governance Code and The Companies (Miscellaneous Reporting) Regulations 2018.

1. https://documentlibrary.lgim.com/documentlibrary/literature.html?cid=12649&lib=55458

We also decided to strengthen our stance on a number of topics including:

- Pensions – by requiring companies to reduce the pension provisions in line with the general workforce for new executives or where there is a change in role. Failure to do so by companies will result in LGIM voting against their pay policy from 2020.

- Annual bonuses – by not supporting annual bonus limit increases.

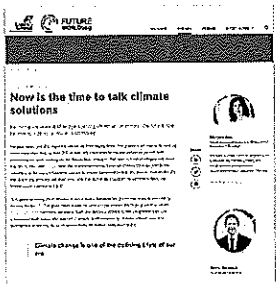
- Shareholding guidelines – we now expect executive shareholdings to be at least 4 to 5 times their salaries for FTSE 100 companies.

FUTURE WORLD BLOGS: INFLUENCING THE INVESTMENT DEBATE

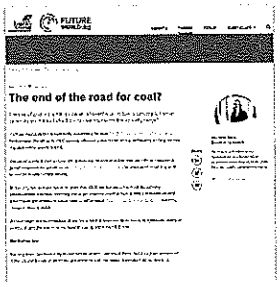
Earlier this year, LGIM's **FutureWorld blog**[2] was launched. It provides a platform for our investment professionals and colleagues across the business to explore the major themes and issues that are shaping the investment landscape, both today and in the future.

The Corporate Governance team has taken advantage of this new platform to highlight the investment implications of ESG issues:

- Following the release of the IPCC report on a 1.5°C pathway, we discussed the importance of **redirecting private capital flows towards low-carbon energy investments**[3]. The price tag for keeping global temperature rise below 1.5°C and averting a climate catastrophe is estimated at $2.4 trillion – presenting investors with a significant opportunity.



- The world needs to begin an urgent and large-scale **phase-out of coal-fired power generation**[4], in order to stay within the 1.5°C limit. While the economic outlook for coal in the US and Europe is dim, thanks to the rise of shale gas and higher carbon prices, major Asian economies such as India and China remain dependent on this most polluting of fossil fuels.



- Our most recent blog lays out **investors' expectations on housing associations**[5] in the wake of the Grenfell Tower tragedy.

For more information, please go to: **www.lgim.com/cgupdate**

2. https://futureworldblog.lgim.com/home
3. https://futureworldblog.lgim.com/categories/themes/now-is-the-time-to-talk-climate-solutions/
4. https://futureworldblog.lgim.com/categories/themes/the-end-of-the-road-for-coal/
5. https://futureworldblog.lgim.com/categories/insights/why-housing-associations-must-focus-on-their-core-purpose/

Strengthening the board composition of European companies

LGIM has launched two engagement campaigns on board composition aimed at strengthening the board of 43 of the largest European companies.

By putting in place these targeted engagement campaigns, LGIM seeks to engage in a dialogue with board members of Europe's largest companies on board composition issues. Progress will be monitored and absence of action may result in voting sanction.

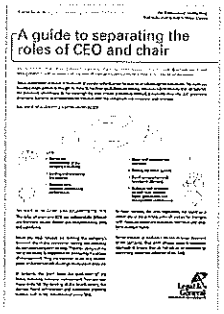
THE SEPARATION OFTHE ROLES OF BOARD CHAIR AND CEO

LGIM has been expressing its concerns to companies who combine the roles of board chair and CEO for many years. And it seems that companies increasingly recognise the benefits of separation of the two functions. In 2008 just 39% of US boards were splitting the two roles compared to 51%[6] in 2017.

Whilst the combination of the two functions is not always allowed or common practice in some markets, we note **France** and **Spain** have high numbers of combined chair & CEOs.

LGIM believes the two positions should be separated. We find that the perceived advantages of the concentration of power in the hands of a single individual do not outweigh the risks of such a structure. A separate chair and CEO provides a balance of authority and responsibility that is in both the company's and investors' best interests.

We are currently engaging with 14 CAC 40 (France) companies and 3 IBEX 35 (Spain) companies to encourage their boards to split the two roles when putting in place a new succession plan.


A guide to separating the roles of CEO and chair

For more details on LGIM's position, please consult our Board Guide on the topic available on our **website**[7].

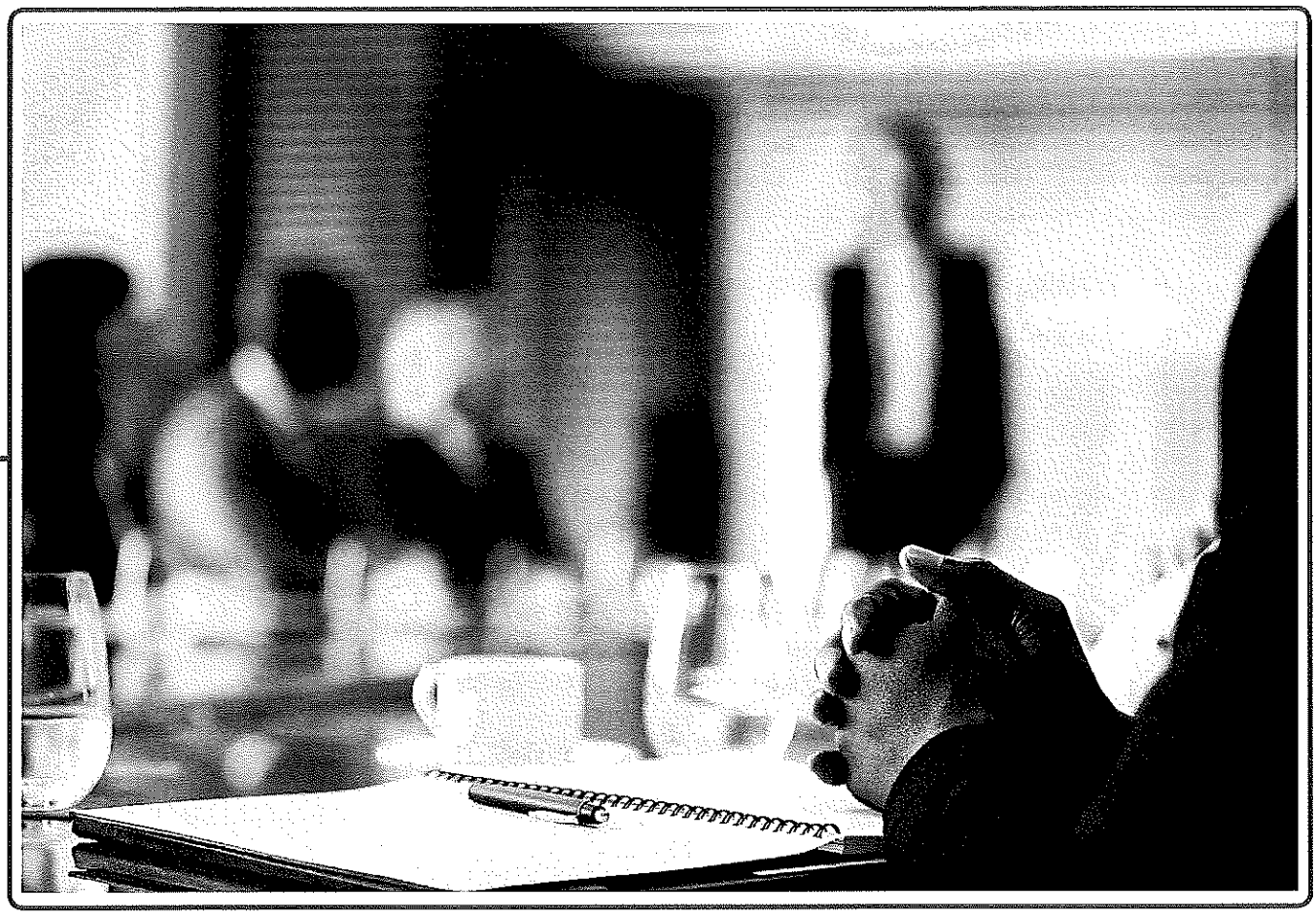
THE APPOINTMENT OF A LEAD INDEPENDENT DIRECTOR (LID) ON THE BOARD

LGIM believes the presence of a LID is indispensable on a well-run board as they play a key role in supporting the board chair and are also an independent counter-power. Their presence on boards is however not established in all markets.

LGIM encourages all companies to appoint a LID, whether or not such a role is incorporated within national corporate governance codes. We ask companies to go beyond what is in the code and better align with what is considered global best practice.

In France, whilst it is common practice to see a LID on the board, it is almost always in cases where there is also a combined chair & CEO. The French Governance Code is not prescriptive on the topic. It says companies "may" appoint an independent LID, "particularly when it has been decided to combine" the role of chair and CEO[8].

6. Source: Spencer Stuart Board Index 2018 – United States
7. http://www.lgim.com/files/ document-library/capabilities/separating-the-roles-of-ceo-and-board-chair.pdf
8. Corporate Governance Code of Listed Corporations, AFEP MEDEF, June 2018

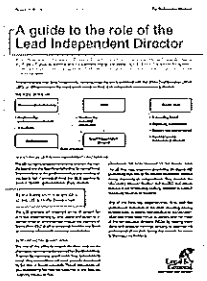


For LGIM, a LID does not replace a board chair. The two roles are distinct and complementary. **A LID's presence on the board is vital to ensure there is an independent counter-balance to the chair.**

We are currently discussing the benefits of appointing a LID with 8 CAC 40 companies. We are also pushing on this topic at public policy level. In our response to the 2018 consultation on the French Governance Code, LGIM formally asked the bodies responsible for the drafting of the code (AFEP and MEDEF) to consider raising the profile of the LID on the board.

In **Germany**, the corporate governance code does not recommend the appointment of a LID on the board. It is common to see the presence of a deputy chair who is an employee representative and therefore not independent. Again, LGIM believes the roles of the deputy chair and the LID are different and designed to be complementary. **This is a conversation we are currently having with 18 DAX 30 companies.**

As Germany is currently consulting stakeholders on its Corporate Governance Code, LGIM will formally ask in our response for a recommendation to appoint a LID on German boards to be introduced.


A guide to the role of the Lead Independent Director

For more details on LGIM's position, please consult our Board Guide on the topic available on our **website**[9]. This piece also recently featured on the **Harvard Law School Forum on Corporate Governance and Financial Regulation**[10].

9. http://www.lgim.com/files/_document-library/capabilities/the-role-of-the-lead-independent-director.pdf
10. https://corpgov.law.harvard.edu/2018/11/25/the-role-of-the-lead-independent-director/

Sustainability

FUTURE WORLD PROTECTION LIST – REDUCING CLIENT EXPOSURE TO ESG RISKS

The Future World Protection List (FWPL) is an exclusion list which has been specifically developed for LGIM's Future World fund range, as a measure to reduce our clients' exposure to ESG risks. Companies are incorporated into the list if they fail to meet minimum standards of globally accepted business practices. Future World funds will not hold securities issued by these companies, or will significantly reduce their exposure. **In 2019, LGIM will also vote against the election of the chair of the board, across our entire equity holdings.** Where the chair of the board is not up for a vote at the AGM, then LGIM will vote against the next most senior board representative.

The FWPL includes companies which meet any of the following criteria:

- Involvement in the manufacture and production of controversial weapons.
- Perennial violators of the United Nations Global Compact (UNGC), a set of sustainable and socially responsible business principles.
- Pure coal miners – companies solely involved in the extraction of coal.

US pharmaceutical company Johnson & Johnson provides an example of the kinds of risk the FWPL is designed to try and help mitigate.

In Q4 the company was identified as a perennial violator of the UNGC, subsequently added to the FWPL and divested from all relevant funds. This was due to their involvement in multiple lawsuits regarding the possible tainting with carcinogenic asbestos of its baby power, in addition to other product-related incidents of alleged corporate malfeasance. In December, a **Reuters report**[11] alleged that Johnson & Johnson had known for decades about traces of asbestos in its talcum powder. The company's share price subsequently fell by more than **10%**[12].

HELPING OUR CLIENTS ACHIEVE IMPACT

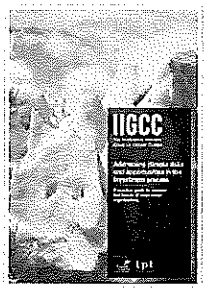
'We know climate change is an important issue – but what do we need to do to take action *tomorrow*?' This is a question we often get asked.

From our food to our travel, there is much we can change in in our personal lives, but we know that, ultimately, it is money that will help us reach a low-carbon future.

So how can we take action through investments? To help clients answer this question, LGIM has co-authored a guide for pension scheme trustees and the boards of asset owner organisations, published by the Institutional Investors Group on Climate Change (IIGCC).

The guide offers practical suggestions, from getting climate change onto the board agenda to developing an investment strategy, managing risk and setting targets. It includes, among other things, discussion of:

- The link between climate change and **fiduciary duty**[13]
- How climate risk relates to asset allocation
- Carbon footprinting and climate scenario analysis



Access the new guide: **Addressing climate risks and opportunities in the investment process**[14].

11. https://www.reuters.com/investigates/special-report/johnsonandjohnson-cancer/
12. http://www.cityam.com/270605/johnson-johnson-shares-plunge-wake-asbestos-report
13. https://futureworldblog.lgim.com/categories/forum/will-climate-change-get-trustees-hot-under-the-collar/
14. http://www.lgim.com/files/_document-library/capabilities/iigcc-guide-addressing-climate-risks-and-opportunities-in-the-investment-process.pdf

Climate change is one of the defining trials of our era. But many people who can effect real change, including trustees and board members, are unsure as to how they can address it. We know much can be done and it has to be now – the guide outlines key steps through which we can all work towards a prosperous, low-carbon future.

TRANSITION RISK / RETURN INITIATIVE

We remain concerned about the quality and lack of urgency related to climate risk disclosure in the US private sector, as compared to the European market. This is of particular consequence given the political polarisation in the country on matters related to climate change.

Therefore, our US office (LGIMA) has lent its support to the Transition Risk/ Return Initiative (TRRI). This is a joint corporate and investor-led roundtable series focused on market and policy efforts, to reconcile existing climate-related corporate risk governance best practices with US financial regulation and sustainable finance system innovation. The forum aims to bridge gaps between companies and investors to establish guidance for the US market on the measurement, accounting and financial valuation of short-and long-term climate risk management, within the Task force on Climate-related Financial Disclosures (TCFD) framework.

LGIMA has provided financial support, content and participant input to the roundtable series, in addition to speaking at the TRRI's inaugural event, sharing our perspective as an investor on climate risk and our actions on the topic.

SUSTAINABILITY ACCOUNTING STANDARD BOARD INVESTOR ADVISORY GROUP

As part of our efforts to improve the availability and quality of corporate ESG reporting globally, LGIMA has joined the internationally recognised Sustainability Accounting Standards Board (SASB) Investor Advisory Group.

The SASB is a non-profit organization established to enable businesses around the world to identify, manage and communicate financially-material sustainability information to their investors. The Investor Advisory Group is comprised of leading asset owners and asset managers who recognise the need for consistent, comparable and reliable disclosure of material and decision-useful ESG information.

To this end, SASB is undertaking crucial work, attempting to codify material ESG standards. LGIM strongly supports the organisation's rigorous, transparent and collaborative process, and we encourage the broader adoption of SASB's standards by the private sector. We believe our leadership on climate issues and our experience engaging with companies to improve ESG disclosure will be an asset to SASB, as the organisation grows in scale and expands globally.

SASB connects businesses and investors on the financial impacts of sustainability

77 industry-specific disclosure standards

Used by companies and investors globally

ESG in Asia

In November, LGIM attended various meetings in Hong Kong and China to discuss green finance and corporate governance in the region. The Asian Corporate Governance Association (ACGA) also held its conference this year in Beijing and Shanghai which was an opportunity to meet with local companies, regulators and other investment institutions to better understand topical governance issues in China.

MEETING WITH SECURITIES AND FUTURES COMMISSION (SFC) IN HONG KONG ON GREEN FINANCE

The SFC is the independent statutory body charged with regulating the securities and futures markets in Hong Kong. The SFC is responsible for fostering orderly securities and futures markets, to protect investors and help promote Hong Kong as an international financial centre.

As part of its remit, the SFC is examining Green Finance and announced a five pronged approach to promote greater interest in this area.

A meeting was held between LGIM and the SFC to share ideas on how this objective could be achieved including mandating disclosure by companies of environmental and climate-related information (such as the Task Force on Climate-related Financial Disclosures) and developing a regulatory framework to help asset owner understanding of green products.

LGIM will continue to engage and share our experiences with the SFC as it develops its policy in this area.

ACGA CONFERENCE IN BEIJING AND SHANGHAI

LGIM attended a three day conference in Beijing on corporate governance developments in Chinese companies. Discussions mainly centred around the role and influence of the Chinese government on corporate boards. This follows amendments in the constitutional documents of Chinese companies to set up a Party Committee. The lack of transparency and uncertainty on the function of the Party Committee increases the governance risk in companies.

Other topical issues discussed at the conference include the changing ownership models in companies, the role of ESG data and better stewardship by investors and companies.

A two day delegation trip was also held in Shanghai where investors met representatives of the Shanghai Stock Exchange to understand developments in standard setting of corporate governance. Local companies were also present. This enabled investors to ask questions on how boards manage risk, including bribery and corruption, and understand how they consider emerging issues such as climate change.

Company engagement

Case studies

Case study:
Royal Dutch Shell plc
Market cap: £208 bn
Sector: Oil and gas

What is the issue? In May 2018, a shareholder resolution was put forward by an activist group, calling on Shell to adopt binding targets to reduce its carbon emissions, with the ultimate aim to turn Shell into a renewable energy provider.

Why is it an issue? Up to two-thirds of the world's fossil fuels cannot be burned if the world is to avoid catastrophic climate change. Meeting this challenge will have a profound effect on the oil and gas industry. Under the Climate Impact Pledge, LGIM has been putting pressure on the world's largest oil & gas companies, including Shell, to align their business with a low-carbon future.

What did LGIM do? At the time of the AGM, LGIM agreed with Shell's management that the resolution was too prescriptive, and decided to vote against it.

We believe the use of carbon emission targets is essential in the fight against climate change. Since the vote, we have joined forces with other investors to encourage Shell to clarify its plans to reduce emissions and improve its climate resilience.

What was the outcome? In a win for investors, Shell announced in December 2018 that they will introduce comprehensive emission targets, linked to executive pay. An industry-leading move, the targets will include not just emissions from Shell's operations, but also from burning its oil and gas products, by far the largest contributor to the company's carbon footprint.

Linking these targets to the pay of executives represents another important step, particularly as the sector has historically incentivised its executives to continually grow their oil and gas reserves. By contrast, the targets encourage Shell to prepare for a world where the use of its main products eventually begins to decline, helping to usher in a low-carbon future.

Case studies

Case study:
Energa SA and Enea SA
Market cap: £1.67bn (joint)
Sector: Utilities
Country: Poland

What is the issue? Coming just as Poland was due to host the annual UN climate change negotiations, state-run utilities Enea and Energa announced joint plans to build a large new coal power station at Ostrołeka C.

Why is it an issue? Burning coal to generate electricity has severe impacts on human health and is a major driver of climate change.

With a history of uneven support from the Polish government, the project had not secured financing when the two utilities approved it. Described by ratings agency Fitch as 'credit-negative', the coal project is under pressure from tightening EU regulations and cleaner, cheaper technologies.

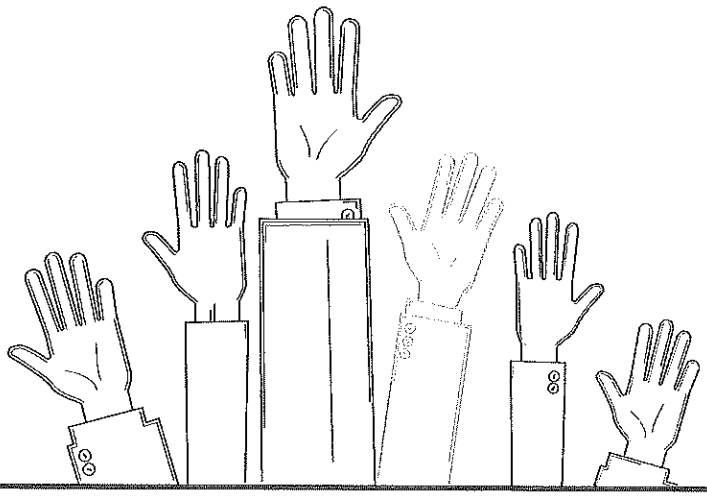
Through its index funds, LGIM is by default invested in Enea and Energa. The decision to go ahead poses a financial risk for LGIM and other shareholders, in addition to having negative environmental and health effects.

What did LGIM do? LGIM opposed the proposal to build the plant, when it was put to a vote at Enea's extraordinary general meeting in September 2018.

We then coordinated a letter to the two Polish utilities reiterating our opposition. This letter was signed by four other major institutional investors, representing a total of £2,078 bn assets under management as at 30 June 2018.

Even as their competitors pivot to renewable energy, the two utilities appear to remain committed to the coal project. We therefore decided to speak out publicly about its environmental and financial risks, receiving press coverage from major news agencies[15].

What was the outcome? In a world first, in late October 2018 an environmental law group has launched a lawsuit against Enea. Citing LGIM's concerns, the group claim the utility's directors are failing in their duty to manage climate-related financial risks. We will continue to engage and monitor the situation as it develops.



15. https://news.bloombergenvironment.com/environment-and-energy/giant-pension-fund-says-polish-coal-power-plan-doesnt-stack-up

Case study:
Unilever plc
Market cap: £111bn
Sector: Personal Goods

What is the issue? Following an unsolicited bid from US company Kraft Heinz in 2017, Unilever initiated a strategic review.

In March 2018, Unilever announced their intention to remove the dual corporate structure and make the Netherlands the company's country of incorporation.

Why is it an issue? The change of domicile would have had a number of material implications for many of our clients.

Due to the Plc shares no longer being eligible for inclusion in FTSE UK Indices, LGIM would have been forced sellers across many of our index funds. In our Life funds, the forced sale would have crystallised a capital gain tax liability equating to millions of pounds. In addition, the reinvestment would have created stamp duty implication. Also, the Netherlands have strong protection rules against hostile takeovers.

Clients invested in the Dutch shares could have been impacted by the Dutch Dividend Withholding Tax.

What did LGIM do? LGIM engaged with the Unilever board privately on a number of occasions on our own and also collectively with other investors through the Investor Forum. Each time, emphasising our long-term interest and support for the company and asking them to safeguard the ability of our clients to maintain their investment in Unilever and benefit from its continued success.

The board remained resolute in their decisions and therefore, LGIM voted against the restructuring, voiced our concerns in public and declared our voting intention publicly in advance of the shareholder meeting.

What was the outcome? The board of Unilever subsequently decided to withdraw the resolutions to simplify the company's dual structure shortly before the shareholder meeting. They took into account that a significant group of shareholders had expressed concerns.

What's next? LGIM will be meeting with the Chairman of the company in 2019 to discuss the matter further.

Public Policy

LGIM believes that confidence in audited numbers is a fundamental part of an investor's decision making process. We have made this a key topic of engagement. During the last quarter, LGIM responded to two important public policy consultations on audit quality and audit firm competition in the UK.

Kingman Review of the Financial Reporting Council (FRC)

In April, the Secretary of State requested an independent review of the FRC which is the UK's financial reporting regulator overseeing audit quality work by audit firms. The government also requested that the review sets out proposals to make the regulator a beacon for the best in governance, transparency and independence.

LGIM submitted a response to the consultation in August advocating for major reform in company regulation and to set high corporate governance standards and promote reliable financial reporting from companies. **Our proposals included setting up a new company regulator with an established purpose and function set out in primary legislation and to have wider powers to help achieve its objective. A stronger regulator would help restore public trust in the financial system, ensure the effective functioning of UK capital markets and safeguard the UK as a world-leading financial and commercial hub.**

Following our submission, the outcome of the review was released in December. **We were pleased to see that proposals from the review included replacing the FRC with a new independent regulator with clear statutory powers and objectives and named the Audit, Reporting and Governance Authority.** We will monitor the regulatory landscape as the new regulator is established and provide feedback on its function.

Competition Market Authority (CMA) review of the Audit Market

As a significant equity and credit investor, there is a responsibility to ensure that global markets operate efficiently and uphold the highest levels of transparency to protect the integrity over the long term.

Following on our response to the CMA's 2012 consultation to improve the audit market by mandating auditor rotation, LGIM also responded to their recent consultation on the review of the audit market.

LGIM believes that the primary concern in the audit market is that of poor audit quality and that trust in audit has been shaken due to recent high profile cases arising. This has had a knock-on-effect on not only investors but other stakeholders such as employees and the public.

In an effort to improve the functioning of the audit market, increase professional scepticism and promote better competition, we proposed a number of solutions for the CMA to consider.This included the operational separation of the assurance side of the audit firm from the rest of its advisory services, strengthening the role of audit committees to hold auditors to account for the quality of work they undertake and realigning the remuneration structure of audit partners to audit quality over the longer term. A copy of our submission can be found **here**[16].

In December, at the time the Kingman Review findings were released, the CMA published its interim report taking into account some of our main suggestions.

16. https://www.gov.uk/cma-cases/statutory-audit-market-study

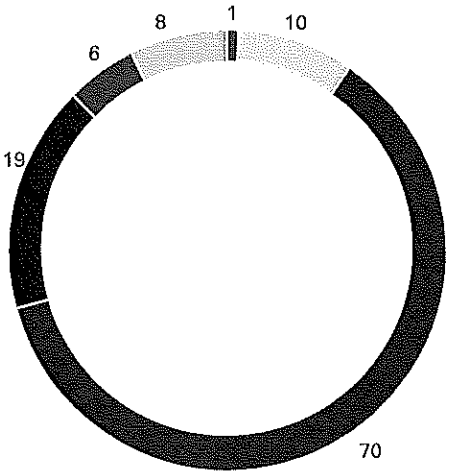
Regional updates

UK

Q4 2018 VOTING SUMMARY UK

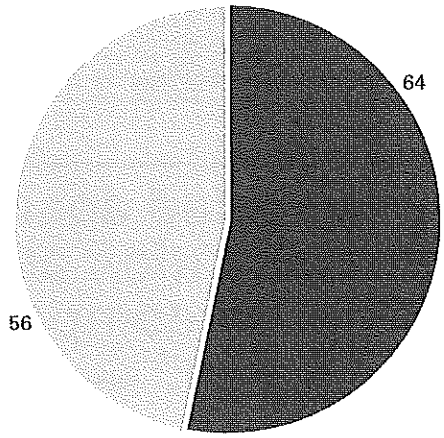
Proposal category	UK		
	For	Against	Abstain
Anti-takeover Related	40	1	
Capitalisation	272	10	
Directors Related	377	70	
Non-Salary Comp.	96	19	
Reorg. and Mergers	27	6	
Routine/Business	327	8	
SH-Compensation			
SH-Corp Governance			
SH-Dirs' Related			
SH-Gen Econ Issues			
SH-Health/Environ.			
SH-Other/misc.			
SH-Routine/Business			
SH-Soc./Human Rights			
Social Proposal			
Total	1139	114	
Total resolutions	1253		
No. AGMs	78		
No. EGMs	52		
No. of companies voted	120		
No. of companies where voted against at least one resolution	56		
% no. of companies where at least one vote against	47%		

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 47% of UK companies over the quarter.'

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

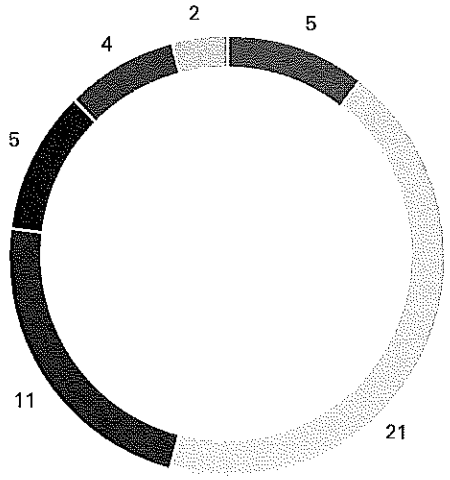
Regional updates

Europe

Q4 2018 VOTING SUMMARY EUROPE

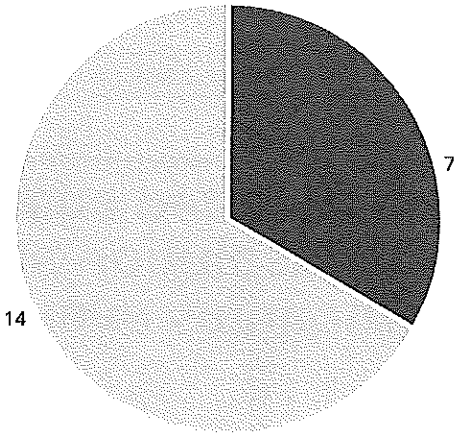
Proposal category	EUROPE		
	For	Against	Abstain
Anti-takeover Related	1	2	
Capitalisation	17	5	
Directors related	41	19	2
Non-salary compensation	18	11	
Reorganisations and mergers	5		
Routine/Business	55	5	
SH-Compensation			
SH-Corp Governance			
SH-Dirs' Related		4	
SH-Gen Econ Issues			
Shareholder resolution - Health/Environment			
SH-Other/misc.			
SH-Routine/Business			
SH-Soc./Human Rights			
Social Proposal			
Total	137	46	2
Total resolutions	185		
No. AGMs	9		
No. EGMs	12		
No. of companies voted	21		
No. of companies where voted against at least one resolution	14		
% no. of companies where at least one vote against	67%		

Voting issue breakdown (against and abstain)



- Capitalisation
- Directors related
- Non-salary comp.
- Routine/Business
- SH-Dirs' Related
- Antitakeover Related

Number of companies voted for/against/abstain



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

'LGIM voted against at least one resolution at 67% of European companies over the quarter.'

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

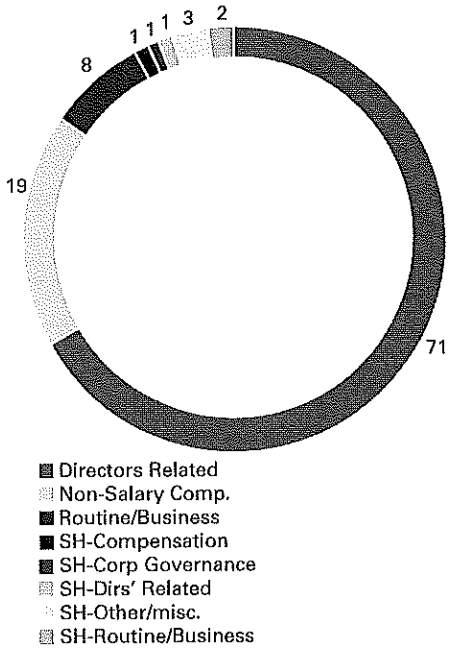
Regional updates

North America

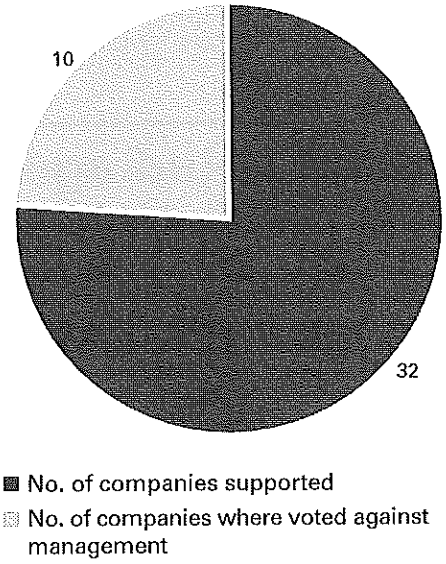
Q4 2018 VOTING SUMMARY NORTH AMERICA

Proposal category	NORTH AMERICA		
	For	Against	Abstain
Anti-takeover Related	5		
Capitalisation	7		
Directors related	249	71	
Non-salary compensation	31	19	
Reorganisations and mergers	7		
Routine/Business	27	8	
SH-Compensation	2	1	
SH-Corp Governance		1	
SH-Dirs' Related		1	
SH-Gen Econ Issues			
SH-Health/Environment			
SH-Other/misc.		3	
SH-Routine/Business		2	
SH-Soc./Human Rights			
Social Proposal			
Total	328	106	
Total resolutions	434		
No. AGMs	32		
No. EGMs	10		
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%		

Voting issue breakdown (against)



Number of companies voted for/against



> '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

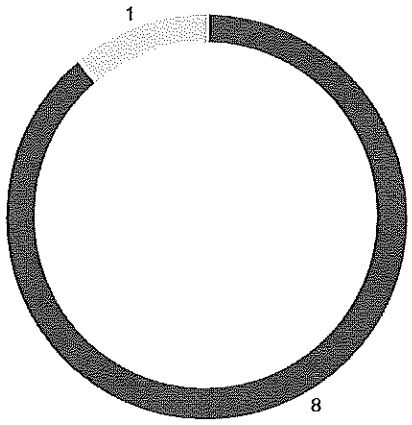
Regional updates

Japan

Q4 2018 VOTING SUMMARY JAPAN

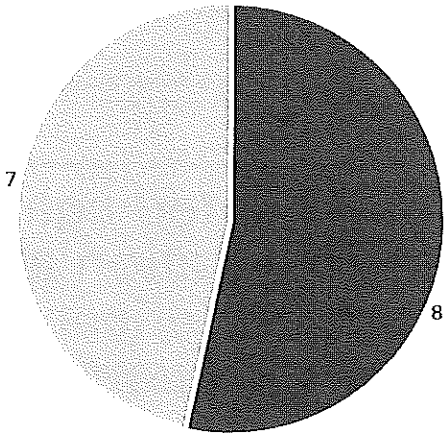
Proposal category	JAPAN		
	For	Against	Abstain
Anti-takeover Related			
Capitalisation			
Directors related	82	8	
Non-salary compensation	1	1	
Reorganisations and mergers	8		
Routine/Business	9		
SH-Compensation			
SH-Corp Governance			
SH-Dirs' Related			
SH-Gen Econ Issues			
Shareholder resolution - Health/Environment			
SH-Other/misc.			
SH-Routine/Business			
SH-Soc./Human Rights			
Social Proposal			
Total	100	9	
Total resolutions	109		
No. AGMs	9		
No. EGMs	6		
No. of companies voted	15		
No. of companies where voted against at least one resolution	7		
% no. of companies where at least one vote against	47%		

Voting issue breakdown (against)



Directors related
Non-salary comp.

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 47% of Japanese companies over the quarter.'

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

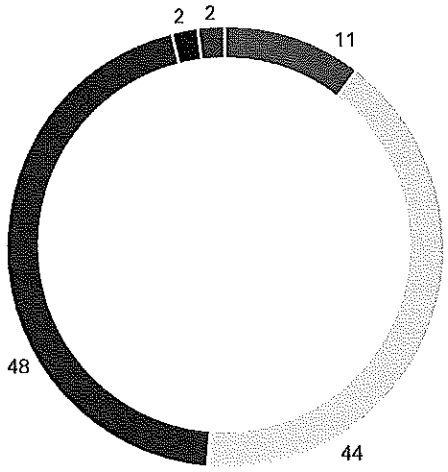
Regional updates

Asia Pacific

Q4 2018 VOTING SUMMARY ASIA PACIFIC

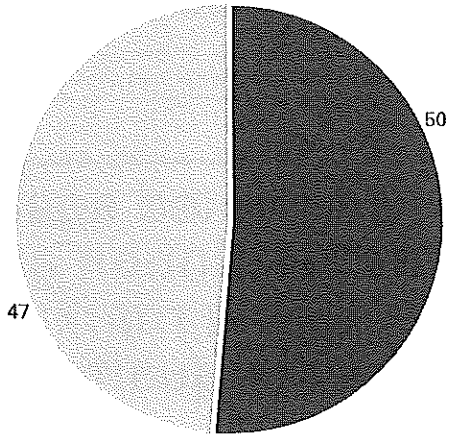
Proposal category	ASIA PACIFIC		
	For	Against	Abstain
Anti-takeover Related	9		
Capitalisation	19	11	
Directors related	248	44	
Non-salary compensation	129	48	
Reorganisations and mergers	14		
Routine/Business	40	2	
SH-Compensation			
SH-Corp Governance			
SH-Dirs' Related	1		
SH-Gen Econ Issues			
Shareholder resolution - Health/Environment	2	2	
SH-Other/misc.			
SH-Routine/Business	4		
SH-Soc./Human Rights	2		
Social Proposal	1		
Total	469	107	
Total resolutions	576		
No. AGMs	83		
No. EGMs	17		
No. of companies voted	97		
No. of companies where voted against/abstain at least one resolution	47		
% no. of companies where at least one vote against	48%		

Voting issue breakdown (against)



- Capitalisation
- Directors related
- Non-salary comp.
- Routine/Business
- SH-Health/Environ.

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 48% 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

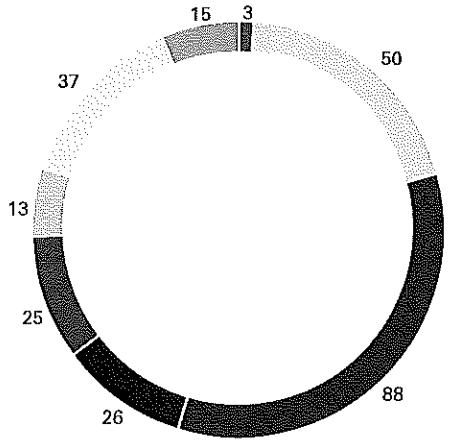
Regional updates

Emerging markets

Q4 2018 VOTING SUMMARY EMERGING MARKETS

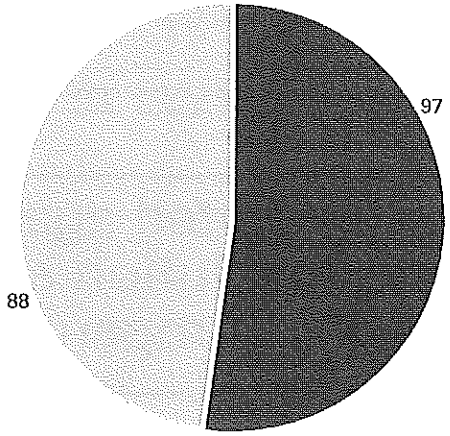
Proposal category	EMERGING MARKETS		
	For	Against	Abstain
Anti-takeover Related			
Capitalisation	226	3	
Directors related	480	48	2
Non-salary compensation	44	88	
Reorganisations and mergers	253	26	
Routine/Business	295	25	
SH-Compensation	1		
SH-Corp Governance	3	13	
SH-Dirs' Related	22	37	
SH-Gen Econ Issues			
Shareholder resolution - Health/Environment			
SH-Other/misc.			
SH-Routine/Business	2	15	
SH-Soc./Human Rights			
Social Proposal			
Total	1326	255	2
Total resolutions	1583		
No. AGMs	46		
No. EGMs	143		
No. of companies voted	185		
No. of companies where voted against/abstain at least one resolution	88		
% no. of companies where at least one vote against	48%		

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/abstained

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

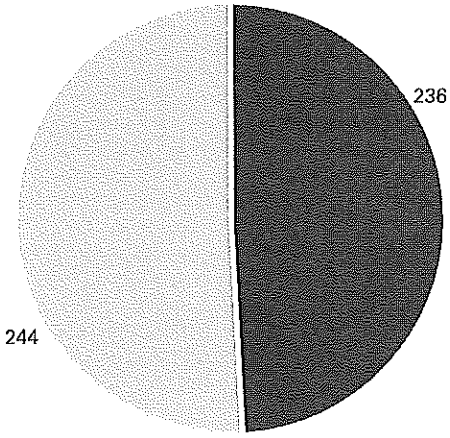
Source for all data LGIM. The votes above represent voting instructions for our main FTSE pooled index funds

Global summary

VOTING TOTALS

Proposal category	For	Against	Abstain	Total
Anti-takeover Related	55	3		58
Capitalisation	541	29		570
Directors related	1477	260	4	1741
Non-salary compensation	319	186		505
Reorganisations and mergers	314	32		346
Routine/Business	753	48		801
SH-Compensation	3	1		4
SH-Corp Governance	3	14		17
SH-Dirs' Related	23	42		65
SH-Gen Econ Issues	0	0		0
Shareholder - Health/Environment	2	2		4
SH-Other/misc.	0	3		3
SH-Routine/Business	6	17		23
SH-Soc./Human Rights	2	0		2
Social Proposal	1	0		1
Total resolutions	3499	637	4	4140
No. AGMs	257			
No. EGMs	240			
No. of companies voted	480			
No. of companies where voted against/abstain at least one resolution	244			
% no. of companies where at least one vote against	51%			

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**
- **Remuneration**

COMPANY ENGAGEMENT STATISTICS

Proposal category	Total
Total number of companies	74
Total number of meetings	80
Number of meetings where environmental topics discussed	37
Number of meetings where social topics discussed	20
Number of meetings where governance topics discussed	52
Number of meetings where other topics (e.g. financial and strategy) discussed	27
% of meetings including environmental and social issues discussed	58%

CONTACT US FOR MORE INFORMATION

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

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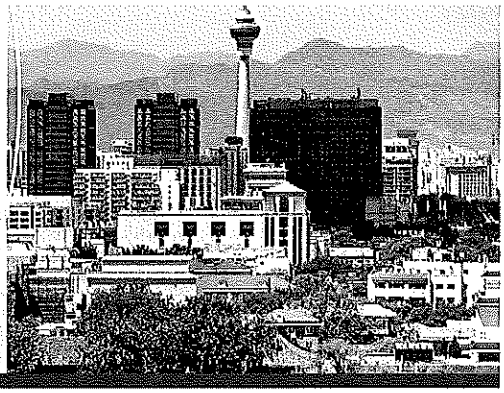
Asian Corporate Governance Association (ACGA)
– Conference Report



Juan Salazar
Responsible Investment

Public pressure and the ability to attract foreign capital are driving progress in environmental, social and governance (ESG) practices across Asia. This became evident as governance experts gathered in Beijing for ACGA's 2018 annual conference. Expert navigation of these changes will contribute to our ability to conduct ESG research and engagement activities effectively.

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Background

We attended the ACGA's 18th annual conference in Beijing, the largest one to date with more than 300 delegates present. A significant majority of delegates came from Asia, particularly Greater China, which speaks volumes about the rising attention investors and companies in the region are paying to environmental, social and governance (ESG) issues. This is hardly surprising – both the public and private sectors are under increasing pressure to respond to the consequences of extreme weather events, pollution problems and demographic change. Despite some setbacks, like the introduction of dual class share structures in Hong Kong and Singapore, the recognition that better governance standards will help attract foreign investment flows and open capital markets has started to take hold.

China catches up

The conference had a clear focus on China, with sessions structured around topics such as accounting and auditing developments, the state of tech innovation, state sector reform and governance reforms.

Compared to other markets in Asia, China had been moving rather slowly in implementing ESG-related reforms. The revision of its Code of Corporate Governance for Listed Companies earlier in 2018 is an indication that the pace of change is picking up. The revamped code includes greater emphasis on ESG disclosure, investor stewardship and director accountability. Furthermore, the China Securities Regulatory Commission introduced new requirements that, by 2020, will mandate all listed companies and bond issuers to disclose ESG risks associated with their operations.

Investors will need to develop a robust understanding of how to navigate these changes, considering that governance in China is a unique hybrid of local and global standards. The incorporation of Party Committees, required for all companies under the new Code, provides a striking example. The presence of Communist Party units has long been a fact of doing business in China, where they exist in nearly 70 percent of privately-owned companies. Executives had regarded these units as more symbolic

Continued

than anything to worry about. Formalising their existence as committees has raised concerns that the Party might play a role in companies' operational decision-making – potentially leading to decisions made for political rather than business reasons. Investors should, therefore, seek greater clarity around the composition, mandate and role of Party Committees.

State-Owned-Enterprises
Trade frictions with the United States are likely to have led the Chinese government to step on the gas in its long-gestating attempts to improve the competitiveness of the country's sluggish state sector. State owned enterprise (SOE) reform has unequivocally moved up the policy agenda, with the government trying to capitalise on the progress achieved so far. SOEs across a range of industries have improved their performance by shedding excess capacity, optimising balance sheets through debt reduction, and introducing executive share incentive schemes. We believe the ultimate success of the reform process will be in part determined by the adoption of robust governance practices, particularly in the areas of board effectiveness, transparency and shareholder protection.

ESG – finally sweeping into Asia?

It will take time for policymakers to take decisive action to uncouple economic growth from resource consumption across Asian economies, or implement measures to enhance protection of minority shareholders. In the meantime, financial industry participants can and should play a part in accelerating this transition by helping move capital markets onto a more sustainable basis.

We left the conference encouraged that our ability to play this part, through our ESG research and engagement activities with Asian companies, will improve going forward. Two reasons support this view.

Firstly, regulators and stock exchanges across the region continue to develop and implement stronger ESG reporting standards and ESG practice guidelines. Secondly, there is growing appetite from local investors, including through minority investors associations, to lend their voices to foreign investors' calls for better ESG practices.

The two forces above, together with the drive to remain relevant as millennials and younger generations rise, are helping mark a turning point in the way Asian companies look at ESG. However, some challenges remain for this turning point to happen more quickly.

Board effectiveness: There is insufficient recognition that a board with a strong set of skills is critical for the long-term success of companies. Most non-executive directors are lawyers, accountants or academics that lack relevant expertise, fail to constructively challenge management, or are not tuned into governance or sustainability issues. Moreover, investors often lack access to directors.

Compliance-focused approach: Companies continue to see governance and sustainability management as a compliance requirement rather than a strategic imperative. This effectively means that board effectiveness is rarely a concern, materiality does not really inform their sustainability practices, and they have difficulty addressing questions about how their businesses are going to evolve in the face of long-term, ESG trends.

Next steps

A solid grasp of the different local contexts has significantly contributed to improving the depth and breadth of our active ownership activities with companies in Asia. Going forward, we will closely follow how ESG management and reporting practices evolve across the region to assess potential implications for our approach to engagement.

Our ability to drive positive change is largely shaped by the trust we can build with the people running the companies in our clients' portfolios. We will have a higher chance of building that trust by engaging in discussions informed by the history, culture and conditions within which companies across the region have evolved.

BMO Global Asset Management

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Shropshire County Council

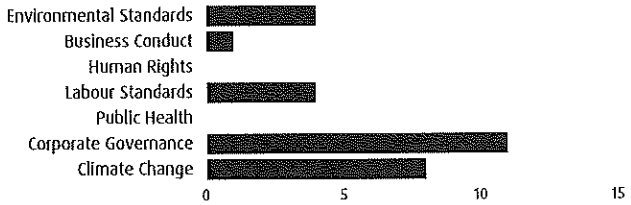
Q4 2018

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

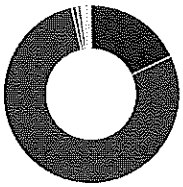
Companies engaged this quarter

Companies engaged	116
Milestones achieved	28
Countries covered	14

Milestones achieved by issue

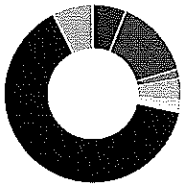


Companies engaged by country



Continental Europe	21
North America	91
Asia (ex Japan)	1
Japan	1
Other	2

Companies engaged by issue ***



Environmental Standards	11
Business Conduct	26
Human Rights	3
Labour Standards	7
Public Health	4
Corporate Governance	115
Climate Change	13

BMO Global Asset Management

* ***reo*** is currently applied to £146bn ($191billion / €165billion) of assets as at 31st October 2018. ** Companies may have been engaged on more than one issue. *** This report has been compiled using data supplied by a third-party electronic voting platform provider. The statistics exclude ballots with zero shares and re-registration meetings. Meetings/ballots/proposals are not considered voted if: ballots have been rejected by voting intermediaries (e.g. where necessary documentation (such as Powers of Attorney, beneficial owner confirmation, etc.) was not in place); instructed as "Do not vote" (e.g. in share-blocking markets); or left uninstructed. This document is for professional advisors only and should not be circulated to other investors. Past performance should not be seen as an indication of future performance. Stock market and currency movements mean the value of, and income from, investments in the Fund are not guaranteed. They can go down as well as up and you may not get back the amount you invest. © 2019 BMO Global Asset Management. All rights reserved. BMO Global Asset Management is a trading name of F&C Management Limited, which is authorised and regulated by the Financial Conduct Authority.

Priority Companies and Your Fund

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

				Themes engaged						
Name	Sector	ESG Rating	Response to engagement	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
AES Corp/VA	Utilities	YELLOW	Good						●	
Albemarle Corp	Materials	ORANGE	Good						●	
Amazon.com Inc	Consumer Discretionary	RED	Poor				●		●	
Arconic Inc/PA	Industrials	ORANGE	Adequate					●	●	
AutoZone Inc	Consumer Discretionary	RED	Poor				●		●	
Becton Dickinson and Co	Health Care	YELLOW	Adequate		●			●		
BHP Group Ltd	Materials	YELLOW	Good	●						●
CVS Health Corp	Health Care	YELLOW	Adequate		●				●	
Fortis Inc/Canada	Utilities	GREEN	Good						●	●
GlaxoSmithKline PLC	Health Care	YELLOW	Good		●					
International Consolidated Airlines Group SA	Industrials	RED	Adequate		●		●		●	
Johnson & Johnson	Health Care	YELLOW	Adequate						●	
L Brands Inc	Consumer Discretionary	RED	Good						●	
Mettler-Toledo International Inc	Health Care	GREEN	Adequate		●					
Nestle SA	Consumer Staples	GREEN	Good	●	●			●	●	
Royal Dutch Shell PLC	Energy	YELLOW	Good		●		●		●	●
Sage Group PLC/The	Information Technology	YELLOW	Adequate		●					
UniCredit SpA	Financials	YELLOW	Good		●					
US Bancorp	Financials	ORANGE	Adequate						●	
Wells Fargo & Co	Financials	RED	Adequate		●				●	
Western Union Co/The	Information Technology	GREEN	Good		●				●	

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

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

Engagements and Your Fund: Red rated

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

					Themes engaged						
Name	Country	Sector	Priority company	ESG Rating	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
Amazon.com Inc	United States	Consumer Discretionary	✔	RED				●		●	
Anadarko Petroleum Corp	United States	Energy		RED						●	
AutoZone Inc	United States	Consumer Discretionary	✔	RED				●		●	
Canadian Natural Resources Ltd	Canada	Energy		RED						●	
FleetCor Technologies Inc	United States	Information Technology		RED						●	
General Dynamics Corp	United States	Industrials		RED			●			●	
International Consolidated Airlines Group SA	United Kingdom	Industrials	✔	RED		●		●		●	
JPMorgan Chase & Co	United States	Financials		RED						●	
L Brands Inc	United States	Consumer Discretionary	✔	RED						●	
Lear Corp	United States	Consumer Discretionary		RED						●	
Netflix Inc	United States	Consumer Discretionary		RED						●	
Pfizer Inc	United States	Health Care		RED						●	
RioCan Real Estate Investment Trust	Canada	Real Estate		RED						●	
SmartCentres Real Estate Investment Trust	Canada	Real Estate		RED						●	
UnitedHealth Group Inc	United States	Health Care		RED		●				●	
Wells Fargo & Co	United States	Financials	✔	RED		●				●	

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

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

Engagements and Your Fund: Orange rated

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

					Themes engaged						
Name	Country	Sector	Priority company	ESG Rating	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
Albemarle Corp	United States	Materials	✔	ORANGE						●	
Ameren Corp	United States	Utilities		ORANGE						●	
Arconic Inc/PA	United States	Industrials	✔	ORANGE					●	●	
Bank of America Corp	United States	Financials		ORANGE						●	
Barrick Gold Corp	Canada	Materials		ORANGE						●	
BCE Inc	Canada	Telecommunication Services		ORANGE						●	
Costco Wholesale Corp	United States	Consumer Staples		ORANGE						●	
F5 Networks Inc	United States	Information Technology		ORANGE						●	
Illumina Inc	United States	Health Care		ORANGE						●	
Kinder Morgan Inc/DE	United States	Energy		ORANGE						●	
Marriott International Inc/MD	United States	Consumer Discretionary		ORANGE						●	
Methanex Corp	Canada	Materials		ORANGE						●	
Restaurant Brands International Inc	Canada	Consumer Discretionary		ORANGE						●	
S&P Global Inc	United States	Financials		ORANGE						●	
Sealed Air Corp	United States	Materials		ORANGE	●						●
Spirit AeroSystems Holdings Inc	United States	Industrials		ORANGE						●	
US Bancorp	United States	Financials	✔	ORANGE						●	
Walgreens Boots Alliance Inc	United States	Consumer Staples		ORANGE						●	

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

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

Engagements and Your Fund: Yellow rated

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

					Themes engaged						
Name	Country	Sector	Priority company	ESG Rating	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
AES Corp/VA	United States	Utilities	✔	YELLOW						●	
BB&T Corp	United States	Financials		YELLOW						●	
Becton Dickinson and Co	United States	Health Care	✔	YELLOW		●			●		
BHP Group Ltd	Australia	Materials	✔	YELLOW	●						●
Canadian National Railway Co	Canada	Industrials		YELLOW						●	
Commerzbank AG	Germany	Financials		YELLOW							●
CVS Health Corp	United States	Health Care	✔	YELLOW		●				●	
Discover Financial Services	United States	Financials		YELLOW						●	
DowDuPont Inc	United States	Materials		YELLOW						●	
Duke Energy Corp	United States	Utilities		YELLOW						●	●
First Republic Bank/CA	United States	Financials		YELLOW						●	
GlaxoSmithKline PLC	United Kingdom	Health Care	✔	YELLOW		●					
Goldman Sachs Group Inc/The	United States	Financials		YELLOW						●	
Great-West Lifeco Inc	Canada	Financials		YELLOW						●	
Hydro One Ltd	Canada	Utilities		YELLOW						●	
Invesco Ltd	United States	Financials		YELLOW						●	
Johnson & Johnson	United States	Health Care	✔	YELLOW						●	
Kroger Co/The	United States	Consumer Staples		YELLOW	●						
Lincoln National Corp	United States	Financials		YELLOW						●	
Lloyds Banking Group PLC	United Kingdom	Financials		YELLOW		●				●	
Manpowergroup Inc	United States	Industrials		YELLOW						●	
Middleby Corp/The	United States	Industrials		YELLOW						●	
Newell Brands Inc	United States	Consumer Discretionary		YELLOW						●	
Omnicom Group Inc	United States	Consumer Discretionary		YELLOW						●	
Roper Technologies Inc	United States	Industrials		YELLOW						●	
Royal Dutch Shell PLC	Netherlands	Energy	✔	YELLOW		●		●		●	●
Royal Mail PLC	United Kingdom	Industrials		YELLOW				●		●	
Sage Group PLC/The	United Kingdom	Information Technology	✔	YELLOW		●					
SNC-Lavalin Group Inc	Canada	Industrials		YELLOW						●	
Target Corp	United States	Consumer Discretionary		YELLOW				●		●	
TransCanada Corp	Canada	Energy		YELLOW						●	
UniCredit SpA	Italy	Financials	✔	YELLOW		●					
Unilever PLC	United Kingdom	Consumer Staples		YELLOW						●	

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

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

Engagements and Your Fund: Green rated

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

					Themes engaged						
Name	Country	Sector	Priority company	ESG Rating	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance	Climate Change
AIA Group Ltd	Hong Kong	Financials		GREEN		●		●		●	
American Express Co	United States	Financials		GREEN		●				●	
ARC Resources Ltd	Canada	Energy		GREEN						●	
Bank of Nova Scotia/The	Canada	Financials		GREEN						●	
BlackRock Inc	United States	Financials		GREEN						●	
Brookfield Asset Management Inc	Canada	Financials		GREEN						●	
Burberry Group PLC	United Kingdom	Consumer Discretionary		GREEN	●						
Canadian Imperial Bank of Commerce	Canada	Financials		GREEN						●	
CBRE Group Inc	United States	Real Estate		GREEN						●	
Charles Schwab Corp/The	United States	Financials		GREEN						●	
Coca-Cola HBC AG	Switzerland	Consumer Staples		GREEN	●						
Cochlear Ltd	Australia	Health Care		GREEN						●	
Cognizant Technology Solutions Corp	United States	Information Technology		GREEN						●	
Cummins Inc	United States	Industrials		GREEN						●	
DNB ASA	Norway	Financials		GREEN		●					
easyJet PLC	United Kingdom	Industrials		GREEN		●					
Enel SpA	Italy	Utilities		GREEN							●
Fortis Inc/Canada	Canada	Utilities	✔	GREEN						●	●
Franco-Nevada Corp	Canada	Materials		GREEN						●	
George Weston Ltd	Canada	Consumer Staples		GREEN						●	
Gilead Sciences Inc	United States	Health Care		GREEN						●	
HP Inc	United States	Information Technology		GREEN						●	
Ingenico Group SA	France	Information Technology		GREEN		●					
Intact Financial Corp	Canada	Financials		GREEN						●	
Kansas City Southern	United States	Industrials		GREEN						●	
Loblaw Cos Ltd	Canada	Consumer Staples		GREEN						●	
Metro Inc	Canada	Consumer Staples		GREEN						●	
Mettler-Toledo International Inc	United States	Health Care	✔	GREEN		●					
Microsoft Corp	United States	Information Technology		GREEN		●					
Moody's Corp	United States	Financials		GREEN						●	
National Bank of Canada	Canada	Financials		GREEN						●	
Nestle SA	Switzerland	Consumer Staples	✔	GREEN	●	●			●	●	
Onex Corp	Canada	Financials		GREEN						●	
Owens Corning	United States	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

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
Pinnacle West Capital Corp	United States	Utilities		GREEN						●	
Salesforce.com Inc	United States	Information Technology		GREEN						●	
Segro PLC	United Kingdom	Real Estate		GREEN						●	
Smurfit Kappa Group PLC	Ireland	Materials		GREEN	●						
Suncor Energy Inc	Canada	Energy		GREEN	●		●			●	●
Teck Resources Ltd	Canada	Materials		GREEN						●	
Telefonica SA	Spain	Telecommunication Services		GREEN			●				●
Toronto-Dominion Bank/The	Canada	Financials		GREEN						●	
UBS Group AG	Switzerland	Financials		GREEN		●				●	
Vermilion Energy Inc	Canada	Energy		GREEN						●	
Vertex Pharmaceuticals Inc	United States	Health Care		GREEN						●	
Waters Corp	United States	Health Care		GREEN						●	
Western Union Co/The	United States	Information Technology	✔	GREEN		●				●	
Whitbread PLC	United Kingdom	Consumer Discretionary		GREEN	●						
Yaskawa Electric Corp	Japan	Information Technology		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
✪✪✪											
AES Corp/VA	United States	Utilities	✔	YELLOW							●
Danske Bank A/S	Denmark	Financials		RED						●	
Royal Dutch Shell PLC	Netherlands	Energy	✔	YELLOW							●
Waste Connections Inc	United States	Industrials	✔	RED						●	
✪✪											
Akzo Nobel NV	Netherlands	Materials		GREEN						●	
American Express Co	United States	Financials		GREEN						●	
Antofagasta PLC	Chile	Materials		GREEN							●
Banco Santander SA	Spain	Financials		GREEN		●					
Burberry Group PLC	United Kingdom	Consumer Discretionary		GREEN				●			
Chevron Corp	United States	Energy		ORANGE							●
Cognizant Technology Solutions Corp	United States	Information Technology		GREEN						●	
Exxon Mobil Corp	United States	Energy		YELLOW							●
General Dynamics Corp	United States	Industrials		RED						●	
Industria de Diseno Textil SA	Spain	Consumer Discretionary		GREEN				●			
McKesson Corp	United States	Health Care		RED						●	
Microsoft Corp	United States	Information Technology		GREEN						●	
Mondelez International Inc	United States	Consumer Staples		YELLOW	●						
Mondi PLC	United Kingdom	Materials		GREEN	●						
Occidental Petroleum Corp	United States	Energy		YELLOW							●
Palo Alto Networks Inc	United States	Information Technology		ORANGE				●		●	
Rio Tinto Ltd	United Kingdom	Materials		YELLOW	●						
Unilever NV	United Kingdom	Consumer Staples		YELLOW						●	
Union Pacific Corp	United States	Industrials		ORANGE						●	
Whitbread PLC	United Kingdom	Consumer Discretionary		GREEN				●			
✪											
Ajinomoto Co Inc	Japan	Consumer Staples		YELLOW							●
Burberry Group PLC	United Kingdom	Consumer Discretionary		GREEN	●						
Reckitt Benckiser Group 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

Committee and date	Item
Pensions Committee 15 March 2019 10.00am	Public

PENSIONS ADMINISTRATION MONITORING REPORT

Responsible Officer Debbie Sharp
Email: 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.

2.2 To approve, with or without comment, the revised Governance Compliance Statement at Appendix C

2.3 To approve, with or without comment, the revised Employer Events Policy at Appendix D.

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 January 2019 is attached at **Appendix A**. The chart shows that tasks outstanding fell towards the end of the quarter, some of these will not yet be due for processing. These are either single standalone tasks or tasks that are part of a case. Cases are a complete process that hold steps (tasks) for a procedure to be completed. It is encouraging to see that 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 It was last reported that 3 vacancies had arisen on the team and these have now been recruited to. Two of these posts are permanent and one is a maternity cover. Training plans are in place for the new staff.

4.4 Communication is going to employers shortly reminding them of their data requirements and reconciliations needed for the year end 31 March 2019. Revised deficit schedule will also be issued for the uprated lump sum amounts due from some employers in 2019/20.

4.5 A work project plan is being finalised to ensure all year end data is posted to individual records and data cleansing is undertaken in readiness for the 2019 Valuation.

4.6 The systems team undertook a disaster recovery exercise with the Council's IT department in January 2019. The purpose of this exercise is to ensure the Pensions Administration system can be moved to a back up server in the event of the main server being unavailable. A test plan is followed and the team were able to work as normal from the back up server.

4.7 The team's risk log has been updated and the risks identified are listed at **Appendix B**.

5. Help Desk Statistics

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

	November 2019	December 2018	January 2019
Telephone calls received	859	568	936
Queries dealt with by helpdesk at first point of contact %*	89.98%	90.14%	83.44%
Users visiting the Website	2,004	1,551	2,049
Member drop ins	56	36	62

* 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:

	November 2018	December 2018	January 2019
Emails Received	547	352	570
% of emails responded to within 3 working days	100%	100%	100%
Average number per day	25	24	26

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 January 2019 a total of 39% active members and 32% 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. Further delays to the project have occurred throughout user acceptance testing which have been addressed and resolved with the system supplier. As previously reported internal penetration test has been

completed and external penetration testing is currently being organised upon recommendation from the IT. Following this it is a go live date will be organised.

6.2 Regulation 55 of the Local Government Pension Scheme Regulations 2013 sets out that the Administering Authority must prepare a written statement setting out:

(a) whether the authority delegates its functions, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;
(b) if the authority does so-

(i) the terms, structure and operational procedures of the delegation
(ii) the frequency of any committee or sub-committee meetings
(iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and if so, whether those representatives have voting rights;
(c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying; and
(d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 106 (local pension boards: establishment).

(2) An administering authority must keep a statement prepared under paragraph (1) under review, and make such revisions as are appropriate, following a material change to any of the matters mentioned in that paragraph.

(3) Before preparing or revising a statement under this regulation, an administering authority must consult such persons as it considers appropriate.

(4) An administering authority must publish its statement under this regulation, and any revised statement.

6.3 The Governance Compliance Statement has been reviewed to ensure its content still meets the current regulations. No significant changes were required to the content covering the governance structure of the Fund except for a section which has been added covering LGPS Central Limited.

6.4 The Governance Compliance Statement also lists the discretionary policies that the Fund must formulate, publish, and keep under review. There are many discretionary policies, some that must(mandatory) some that may(non-mandatory) be maintained by Administering Authorities. The Governance Compliance Statement has always published all the mandatory discretions required under

the regulations, but only some of the non-mandatory discretions. To facilitate stronger governance most of the other non-mandatory discretionary policies have been added. The revised statement is attached in **Appendix C.**

6.5 The Local Government Pension Scheme (LGPS) regulations were updated on 19th April 2018 through an amending Statutory Instrument; Local Government Pension Scheme (Amendment) Regulations 2018 which brought changes to how the Fund deals with exit payments when an employer leaves the Fund. Historically, the Regulations did not allow a surplus of assets over liabilities to be paid out of the Fund when an employer terminates (for example when the last active member leaves the Fund or the admission agreement comes to an end) whereas a payment would be required to cover any residual deficit or this deficit would be subsumed by another body in the Fund. The Regulation change means that if an employer exits the Fund and the resultant actuarial assessment shows a surplus, the cash amount can now be returned to the exiting employer. To make it clearer what would happen in the event of a Scheme employer exiting, in particularly what would happen when an employer, who is a contractor, because of a ceding employer outsourcing a service, the Employer Events Policy has been updated and a tracked changes version can be found in **Appendix D**.

6.6 The LGA is aware that the payment of exit credits is causing some issues, particularly where there is a side contractual agreement in place with the employer and also where contractors are no longer extending contracts/admission agreements but are looking to terminate the contract and re-bid in order to receive payment of an exit credit.

6.7 LGA have met with MHCLG on this issue. MHCLG have agreed that whilst the general thrust of the regulation requiring an exit credit is right, they will consider making a regulatory change or issuing statutory guidance to provide that where the employer bears no risk, this can be taken account in the calculation of an exit credit payment.

7. Pensioner Payroll Implementation

7.1 Pensioner payroll merge of the payroll database to the main Altair admin database, as reported in November 2018, was successfully completed in December 2018.

7.2 The team will now look at how the immediate payments facility can be used for making some payments through the Payroll system instead of through the Council's finance system.

7.4 The project was delivered within budget.

8. Cost Management Update

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 most of the actuarial factors in the LGPS – factors affected by this change for LGPS calculations have now been updated.

8.3 MHCLG had also confirmed that the remainder of the scheme's actuarial factors would be amended to take account of the reduction in the SCAPE discount rate in due course. These were issued in February 2019 and were effective from 1 st February 2019.

8.4 All factor changes have been added to the pensions administration system.

8.5 On 21 December 2018 The Court of Appeal held that transitional protections that protected older judges and firefighters from the public sector pension scheme changes in 2015, were unlawfully discriminatory. This case is known as the 'McCloud case'.

8.6 Following the judgment, on 30 January 2019 the Government published a written statement that paused the HMT cost management process for public service pension schemes, pending the outcome of the application to appeal the McCloud case to the Supreme Court. This was supplemented by the publication of the Public Service Pensions (Valuations and Employer Cost Cap) (Amendment and Savings) Directions 2019, on 15 February 2019.

8.7 On 8 February 2019, SAB confirmed it had no option but to pause its own cost management process pending the outcome of McCloud. As a result there are currently no changes to benefits planned in respect of the cost management process (either the LGPS process or HMT process) from 1 April 2019. This situation will be reviewed once McCloud is resolved which is not expected for some months.

8.8 Mre information on this can be found at; http://www.lgpsboard.org/index.php/structure-reform/cost-management/ccmcloud

8.9 SAB asked Administering Authorities, by 1 March 2019, with regards to the 2019 valuations would they would prefer):-

A) To receive guidance from the SAB designed to promote a consistency of approach on how McCloud and/or cost management should be taken account of as part of the 2019 triennial valuation exercise. Such guidance would take the form that;

i. If there is no finalised outcome on McCloud/Cost cap (including a commitment by government to detailed benefit changes) by 31st August 2019 then the scheme benefit design used in the valuation should be as set out in current regulations.
ii. Each administering authority would then, with their Actuary, consider how they approach (and reflect in their FSS) the risk around this matter in the same way as they would for other financial, employer and demographic risks.
iii. Once the outcome of McCloud is known and appropriate benefit changes are made administering authorities would, if they deem appropriate, re-visit employer contributions under such guidance or provision in regulation as may be available at that time.
iv. A consistent approach to delaying or method of estimating exit credits and payments

Or

B) To have no central guidance and instead leave it to each administering authority to determine their own approach to their valuation (including any potential cost from McCloud or cost cap) taking advice from their actuarial adviser.

8.10 Officers on behalf of the committee, after liaising with the Fund Actuary have informed SAB that our preference is A. As B will lead to too many inconsistencies across the 89 Administering Authorities.

9. LGPS (Miscellaneous Amendment) 2018 Regulations – laid before Parliament 18 December 2018

9.1 New regulations have been introduced following a consultation that closed on 29 November. The regulations amend the LGPS 2013 Regulations by;

- addressing the Walker v Innospec judgment by providing that survivors of registered civil partners or same sex marriages are provided with benefits that replicate those provided to widows.
- Introducing a general power for the Secretary of State to issue statutory guidance.
- Making a technical amendment to allow early access to benefits between the age of 55 and NRD (as defined by the LGPS Regulations 19953), for deferred members who left before 1 April 1998.

9.2 The changes will need to be communicated to scheme members, as required under regulation 8 and Part 1 of Schedule 2 of the Occupational and Personal Pension Schemes (Disclosure of information) Regulations 2013. Communication of the changes should take place within three months of the date of change (i.e. by 10 April 2019). Shropshire is part of the national Communications Working Group who met on 15 January 2019 and have agreed to provide template wording to be used to communicate the changes.

10. Scheme Advisory Board separation project – renamed 'Good Governance in the LGPS'

10.1 The LGPS Scheme Advisory Board (SAB) commissioned Hymans to undertake a project to examine the issues and challenges of separating the pension's functions of LGPS administering authorities from the host authority.

10.2 This project has now been renamed ''Good Governance in the LGPS'. Hymans Robertson are to make recommendations to enhance the LGPS function within local authority structures. This work will begin immediately and Hymans Robertson will be in touch with administering authorities with details of the project, including information on how to complete a questionnaire and further engagement plans.

10.3 SAB wrote to TPR in November 2018 expressing concerns about the burdens being imposed by TPR on individual administering authorities. TPR replied in December 2018 and in due course will meet with SAB to discuss the issues further.

11. MHCLG issue consultation on fair deal

11.1 On 10 January 2019 MHCLG circulated a policy consultation and draft regulations on ' Fair Deal '– Strengthening pension protection in the LGPS. The consultation contains proposals to strengthen the pension protections that apply when an employee of a LGPS employer is compulsorily transferred to the employment of a service provider. The proposed amendments to the LGPS Regulations 2013 would, in most cases, give transferred staff a continued right to membership of the LGPS. These changes are intended to bring the LGPS in line with the government's October 2013 Fair Deal guidance that applies in relation to transfers from central government.

11.2 The consultation closes on 4 April 2019.

11.3 An Officer response will be sent on behalf of the Pension Committee in due course. In addition, an Officer of the Fund is part of a sub-group, on behalf of the national LGHPS Technical Group, who will review the impact of the consultation and make recommendations for response by the National Group. The sub-group will be working closely with the LGA and MHCLG.

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 – Pension Administration Risk Register Appendix C - Governance Compliance Statement Appendix D – Employer Events Policy

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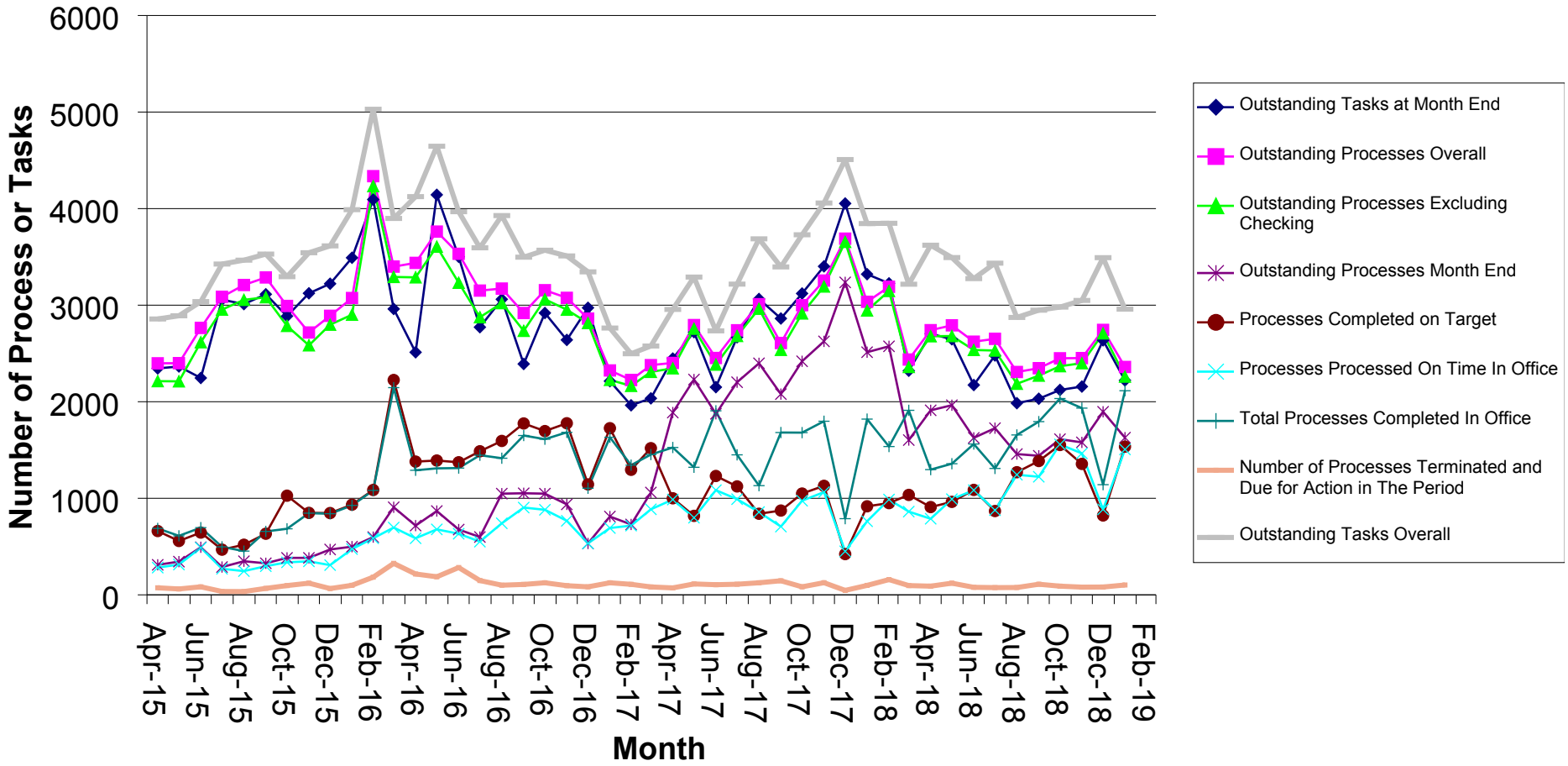
Process and Task Statistics



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EXTRACT FROM RISK REGISTER	Finance, Governance & Assurance - Pensions	Nov-18	Debbie Sharp

A	B	C	D	E	F	G	H	K	L	M
Risk No.	Description of Risk	Officer responsible	Current Controls In Place	Residual Risk Rating (with current controls in place) Likelihood	Impact	Risk Rating (E X F)	Risk Exposure High Medium Low Very Low	Additional Controls / Actions Required	Timescale for implementation of additional controls/actions required	Year End Target Score High Medium Low Very Low
1	Incorrect information / benefits - provided to members of the scheme	Debbie Sharp	Benefits calcualtions are checked. All supporting calcualtions are provided to the member. Team Training. Employer Training. Review of Letters / statements. Identify Employer training required following receipt of year end returns. Employers providing data on a monthly basis.	5	2	10	Med	Payroll database - Altair database matchup to be undertaken. Mortality Screening and address checking to be undertaken to improve data and be GDPR compliant	31/03/2019	Low
2	The insolvency of an employer places additional liabilities on the Fund and ultimately the remaining employers. Orphan liabilities.	Debbie Sharp	Admission agreements, bonds in some cases. Shorter deficit recovery periods. FSS. Annual Employer covenant check .	2	2	4	V Low	Electronic control of membership numbers through a management dashflow	31/03/2019	V Low
3	Vulnerable to loss of or over-reliance of key staff due to long term sickness or staff turnover resulting in reduction of service to scheme employers.	Debbie Sharp	Procedures notes updated. Team restucted in 2014 & 2017/18 to allow for succesion planning. Training undertaken annually. Training Policy put in place and training log.	3	3	9	Med			Med
4	Failure of ITC, hardware supported by SC, impacting adversly ability to run Altair pension adminstration system.	Debbie Sharp, Ian Churms	DR in place. Tested annually. Reliance on SC inhouse IT departmen. DR highlighted back up server issues, so migrated to virtual servers in first quarter of 2018.	3	3	9	Med	Full DR to be undertaken on virtual servers to see if previous risks have now been mitigated.	31/03/2019	Low
5	Failure of support systems: Resource Link, SAMIS, CIVICA Icon cheque processing, COGNOS which will result in incorrect data collection, payment of benefits and incorrect accounting.	Debbie Sharp, Donna Stokes	Reliance on SC DTP	4	4	16	High	ERP being implemented by Council. Will replace Finance system. Resourcelink being replaced Pensioners to be transferred to a pensioner payroll module on Altair. Projects interdependant and very little resouce is available to support this project.	31/03/2019	Med
6	Failure of telephony system: Lync phones- resulting in no commmunication with customers	Debbie Sharp, Karen Davies	Reliance on SC IT	4	3	12	Med			Med
7	Failure of Administration Team to perform their tasks,including for the reason of lack of resource specifically leading to incorrect; data, triennial Fund valuations or failure to provide accurate and timely advice to employers.	Debbie Sharp	Annual Audits, internal & external. Internal procedures and checks. National Fraud initiative for pensioner data. Membership reconciliations, Performance against Adminstration Strategy. Close working relationships with employers. Assurance from Actuary on data quality for Valuation.	3	3	9	Med	Employer satisfaction questionnaire to determine satisfaction with and level of service provided.	31/03/2019	Med
8	Failure of Employers to provide accurate data leading to incorrect benefit statement / payments or Fund valuations.	Debbie Sharp	Employer training. Communication. Administration Strategy Statement. Team training. Internal controls including contribution collection audits and positive action by Pension Team. Iconnect implemented for all employers data now collected monthly. Employers trained on TPR code. Employer training to cover errors picked up on year end returns. Introduced Breaches recording, monoitoring &reporting.	3	4	12	Med			Med

EXTRACT FROM RISK REGISTER	Finance, Governance & Assurance - Pensions	Nov-18	Debbie Sharp

A	B	C	D	E	F	G	H	K	L	M
Risk No.	Description of Risk	Officer responsible	Current Controls In Place	Residual Risk Rating (with current controls in place) Likelihood	Impact	Risk Rating (E X F)	Risk Exposure High Medium Low Very Low	Additional Controls / Actions Required	Timescale for implementation of additional controls/actions required	Year End Target Score High Medium Low Very Low
9	Loss or inappropriate disclosure of personal data leading to fines and reputational loss	Debbie Sharp/Ian Churms	ICT security used such as data encryption, secure email and document management software with strict security profiles. Secure working environments. Information protection L1 training undertaken by all staff annually and Level 2 by 2 members of staff. Secure working environment in place. Memorandum of understanding now in place with employers. Consent for members now on website.	2	4	8	Med	Further improvements required by GDPR to be investigated to ensure this risk does not inadvertently increase in risk rating. Privacy notices to be addedd to all applicable letters/documents	31/03/2019	Med
10	Late payment of contributions by Fund Employers leading to Pension Fund having to report to TPR and possible be fined.	Debbie Sharp	Employer training / guidance on website. Employer newsletter. Contributions check & balance. Adhere to internal governace compliance statement. Adherence to TPR code of practice.Breaches log monitoring to watch for serial breaches. Engage with employers to work for improvements in performance.	2	3	6	Low			Low
11	Policies or strategies of the Administerting Authority adversely impacting on the work of the Pensions Team for the Shropshire County Pension Fund	Debbie Sharp	Segregation of duties, delegated decision making to Pensions Committee and Scheme Administration (Section 151 officer). Quarterly report to Pensions Committee on Administration. Embedding of Pensions Board and Pensions Regulator Code and Scheme Advisory Board. Agreement for recruitment decision to be made by Section 151 officer as scheme administrator .	3	4	12	Med			Med
12	Not undertaking work to reconcile GMP data in line with ending of contracting out legislation resulting in possible overpayments and additional costs to the Pension Fund.	Debbie Sharp	GMP's have historically been processed when received and leavers notified to HMRC. Any missing ones for pensioners requested. Initial work was undertaken in 15/16 to identify size of issue. Decision made for stage 1 &2 to be undertaken by third party during 2016/17. Stage 3 started in first quarter 2018.	4	3	12	Med	Resource to be found to support project work for Stage 3. Upload tool purchased from software provider. Project to be run during 2019/19 to reconcile, rectify and correct all records on Altair	31/03/2019	Med
13	Members and officers lack the skills and knowledge required to make informed decisions on behalf of the stakeholders, leading to adverse performance feedback, potential legal challenge and poor value for money.	Debbie Sharp Justin Bridges	Member training plan in place. Training requirement audit undertaken. Access to on-line TPR training tools and expert advisors. Officer Training plan in place fed by PDR's. Attendance at national and regional forums and collaborative working with other Funds.	2	4	8	Med			Med
14	Failure to identify and report breaches of the law, in accordance with the requirements of the Pensions Regulator leading to reputational damage, fines and criminal penalties.	Debbie Sharp	Breaches Policy in place together with log which is reported to Committee, Board and Fund Administrator. Training undertaken by key staff.	3	4	12	Med			Med

EXTRACT FROM RISK REGISTER	Finance, Governance & Assurance - Pensions	Nov-18	Debbie Sharp

A	B	C	D	E	F	G	H	K	L	M
Risk No.	Description of Risk	Officer responsible	Current Controls In Place	Residual Risk Rating (with current controls in place) Likelihood	Impact	Risk Rating (E X F)	Risk Exposure High Medium Low Very Low	Additional Controls / Actions Required	Timescale for implementation of additional controls/actions required	Year End Target Score High Medium Low Very Low
15	Non compliance with the law around LGPS Benefit Administration leading to fines by the Pensions Regulator and loss of confidence in the Fund.	Debbie Sharp	The use of a good LGPS administration software solution together with staff training mitigates the risks to the Council. The Council is part of a consortium for the current system CLASS which keeps the cost of development down by funding coming from a pooled resource.	3	4	12	Med			Med
16	Failure to go live on Altair Payroll Sytem at approproate time which results in non-payment of pensions.	Debbie Sharp	Close working with Payroll, IT & Finance teams and ERP project team. Project Management/ module implementation being supported by consultants from Software supplier.	4	4	16	High	ERP Project team & SC officers to provide full support to Pensioner Payroll implementation. Also reliant on ERP project running inline with proposed timetable.	30/09/2018	Med

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SHROPSHIRE COUNTY
PENSION FUND

GOVERNANCE COMPLIANCE STATEMENT

March 2019

Introduction

1. This statement has been prepared by Shropshire Council (the administering authority) to set out the governance compliance statement for the Shropshire County Pension Fund (the fund), in accordance with The Local Government Pension Scheme Regulations 2013 (regulation 55 refers) as amended.

2. It has been prepared by the administering authority in consultation with appropriate interested persons.

Purpose of the governance compliance statement

3. The regulations on governance compliance statements require an administering authority, after consultation with such persons as they consider appropriate, to prepare, maintain and publish a written statement setting out:

a) whether it delegates its functions, or part of its functions, in relation to maintaining a pension fund to a committee, sub-committee or officer of the authority;
b) and, if so, it must state:
- The terms of reference, structure and operational procedures of the delegation;
- The frequency of any committee/sub-committee meetings;
- Whether the committee/sub-committee includes representatives of employing authorities (including non-scheme employers) or scheme members and, if there are such representatives, whether they have voting rights.

c) The extent to which delegation, or the absence of a delegation, complies with guidance by the Secretary of State and, to the extent that it does not so comply, the reasons for not complying.
d) Details of the terms, structure and operational procedures relating to the local pension board established under regulation 106 (local pension boards: establishment).

Governance of Shropshire County Pension Fund

4. Shropshire Council as the administering authority delegates its functions under the regulations to the Pensions Committee.

5. Under the cabinet structure in local government, management of the pension fund is a non-executive function, and this is reflected in Shropshire Council's governance structure listed in Shropshire Council's Constitution.

6. The Pensions Committee was established in 1994 with responsibility for all matters relating to the management and administration of the Shropshire County Pension Fund. The Pensions Committee is a standing committee of the council and is linked to full council by the chairman or vice chairman being a Shropshire Council member.

7. Shropshire County Pension Fund's Pension Board was established by Shropshire Council in 2015 under the powers of Section 5 of the Public Service Pensions Act 2013 and in accordance with regulation 106 of the Local Government Pension Scheme Regulations 2013. The Pension Board operates independently of the Pensions Committee, details of which are set out in its terms of reference.

Pensions Committee

8. The Pensions Committee reports to full council. It meets formally at least quarterly and more frequently if formal decisions are required. In between meetings the chairman's approval may be sought.

Terms of reference

a) To advise the council on the arrangements for the proper administration of the Shropshire County Pension Fund in accordance with the Local Government Regulations 2013 and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and any other relevant legislation;
b) To advise employing organisations and employees within the fund of their benefits, contributions and the financial performance of the fund;
c) To advise and assist the council on the determination of any matters of general policy relating to the investment of the pension fund;
d) To approve the annual report and accounts of the fund and to hold an annual meeting.

Operational procedures

9. Under the Pensions Committee's terms of reference, operational procedures include but are not limited to:

- Admission of employing organisations to the fund where discretion is permitted;
- Appointment of external advisors and actuaries to assist with the administration of the fund, and of external managers for the management of the fund's portfolio of assets;
- Approval of the periodic formal actuarial valuation of the fund;
- Consideration of the advice of the fund's external investment advisers and of the scheme administrator;
- Determination of the objectives and general investment approach to be adopted by external fund managers;
- Review and monitoring of investment transactions and the overall investment performance of the fund;
- To develop and implement shareholder policies on corporate governance issues;
- To review and approve on a regular basis the content of the investment strategy statement and to monitor compliance of the investment arrangements with the statement;
- To review the investment strategy statement in detail ahead of the actuarial valuations being carried out and assist the valuation process;
- To review and approve on a regular basis the communications policy, administration strategy statement, funding strategy statement, investment strategy statement and any other regulatory policy adopted by the Fund.

Structure of the Pensions Committee

Organisation	Allocation
Shropshire Council	four members
Borough of Telford and Wrekin Council (co-opted)	two members
Employees (co-opted)	two (non-voting) members
Retired members (co-opted)	one (non-voting) members

10. Shropshire Council) always holds either the chairmanship or vice chairmanship. The position of chairman and vice chairman rotate between Shropshire Council and the Borough of Telford & Wrekin on a yearly basis.

11. The committee is supported by the advice from an independent advisor and investment consultant. The independent advisor advises on strategic issues and overall investment approach. The investment consultant provides analysis and advice of a technical nature in relation to portfolio construction, interpretation of performance measurement and the monitoring of investment managers. The committee can delegate implementation of investment decisions to the Officers as they see fit. The Officers and investment consultant tend to meet separately on a quarterly basis at technical meetings to support this.

12. The role of scheme administrator is held by the officer who has responsibilities under S151 of the Local Government Act 1972 and provides financial (non-investment) advice to the committee. This includes advice on financial management, issues of compliance with internal regulations and controls, budgeting and accounting, and liaison with independent advisers. Legal advice is provided by Shropshire Council's Legal and Democratic Services. Formal statutory responsibility for the LGPS and fund investment lies with the administrating authority who are answerable for the effective and prudent management of the scheme.

13. The power to co-opt rests with the council in full assembly and not with committees. Although, in practice the selection of persons to serve as co-opted members is usually left to committees. The co-opted members from the Borough of Telford & Wrekin are voting members.

14. The Pensions Committee can elect a co-opted member as its chairman, but in this instance the chairman is unable to:

- attend Shropshire Council meetings and pilot Pension Committee proposals through the full assembly;
- answer questions put to him/her there;
- represent the Pensions Committee on other committees within Shropshire Council or within LGPS Central

15. However, a Shropshire Council Vice-Chairman can deputise for the co-opted member chairman. Only Shropshire Council members can represent the Fund at LGPS Central meetings.

Pension Board

Introduction and role

16. Shropshire County Pension Fund's local Pension Board was established by Shropshire Council in 2015 under the powers of Section 5 of the Public Service Pensions Act 2013 and in accordance with regulation 106 of the Local Government Pension Scheme Regulations 2013. Meetings are normally held at the offices of Shropshire Council and are held a minimum of twice each calendar year.

Terms

17. The role of the local Pension Board as defined by regulation 106 (1) of the LGPS Regulations, is to assist the administering authority to:

- secure compliance with the LGPS regulations and any other legislation relating to the governance and administration of the LGPS
- secure compliance with requirements imposed in relation to the LGPS by the Pensions Regulator

ensure the effective and efficient governance and administration of the LGPS for the Shropshire County Pension Fund.

Structure

18. The Pension Board shall consist of four voting members:

- Two employer representatives
- Two scheme member representatives.

The Pensions Board operates a quorum constituting as two members, made up of one employer and one member representative.

19. Employer representatives shall be office holders or senior employees of employers of the fund or have experience of representing scheme employers in a similar capacity. Subject to restrictions as set out in the LGPS regulations, employer representatives can also include elected members. Member representatives shall be scheme members of the Shropshire County Pension Fund and have the capacity to represent scheme members of the fund.

20. An independent member and substitute members may also be included in the structure of the Pension Board at the discretion of the appointment panel. Substitute members for employer and scheme member representatives will have voting rights, but an independent member, or any other members appointed to the Pension Board by the appointment panel will not.

21. The appointment panel made up of the Legal Monitoring Officer and the Head of Finance, Governance & Assurance at Shropshire Council (or their deputies) will determine any eligibility and/or selection criteria that will apply to Pension Board members having due regard to the LGPS regulations and any other relevant code of practice and guidance (statutory or otherwise). The selection process for representative members will be:

- Employer representatives – each employer will be invited to nominate one representative to represent employers on the Pension Board.
- Scheme member representatives – all active, deferred and retired scheme members will be invited to submit applications to join the Pension Board.

22. The applications and nominations will then be subject to a selection process determined and carried out by the appointment panel. The chair and deputy chair will be determined by the appointment panel.
The term of office will be for four years with a possible extension for up to two years.

- Duties and role of the chair in so far as they:
  I. will ensure all meetings are productive and effective
  II. ensure opportunity for all views to be heard, and
  III. seek to reach consensus and that decisions are properly put to vote where necessary.

23. Former or existing members of the Pension Board can be reappointed (under the appointment procedures) with no limit on the number of terms they may have.

Operational procedures

24. The council considers that the Pension Board is an oversight body and it is not a decision-making body in relation to the management of the pension fund but makes recommendations to assist in such management. In undertaking its role, the Pension Board will ensure it:

- carries out duties effectively and efficiently
- complies with relevant legislation and
- complies with the code of practice on the governance and administration of public service pension schemes issued by The Pension Regulator and any other relevant statutory or non-statutory guidance.

Under the Pensions Board's terms of reference operational procedure include but are not limited to:

- The reporting of any concerns over a decision made by the Pension Committee to the Pension Committee subject to the agreement of at least 50% of voting Pension Board members if all voting members are present. If not, all voting members are present then the agreement should be of all voting members who are present, where the meeting remains quorate.
- Escalation route and procedures if necessary, regarding a breach of regulation /The Pension Regulator's code of practice previously reported to the Pensions Committee but not rectified in reasonable time.
- The requirement of members to be able to demonstrate their appropriate knowledge and understanding and to refresh and keep their knowledge up to date. In addition to the requirements under the Public Service Pensions Act, it includes compliance with the pension fund's training policy insofar as it relates to Pension Board members.

Governance guidelines

Myners principles

25. In 2001, a Government sponsored review of Institutional Investment by Paul Myners set out ten principles for best practice for UK pension fund investment aimed to enhance pension fund decision making. In October 2008 the Government revised the Myners Principles. In doing so, the Government opted for six (rather than ten) higher level principles and expects Funds to report against these principles. The extent of the Fund's compliance with each of the guidelines is set out in Appendix A of Investment Strategy Statement.

The Pensions Regulator (TPR)

26. The Public Service Pensions Act 2013 introduced a new framework for the governance and administration of public service pension schemes and provides extended regulatory oversight by the Pensions Regulator from 1 April 2015. The Fund uses the TPR's regulatory tools and measures itself against TPR's codes of practice to meet its statutory objectives and to review standards. Pension boards must also comply with certain legal requirements, including assisting the Fund in relation to securing compliance with scheme regulations and other legislation relating to the governance and administration of the scheme, any requirements of the regulator and with any other matters specified in scheme regulations.

Scheme Advisory Board (SAB)

27. The Local Government Pension Scheme Advisory Board is a body set up under Section 7 of the Public Service Pensions Act 2013 and The Local Government Pension Scheme Regulations 110-113. On 1st April 2015 the Board was established as a statutory body. The purpose of the Board is to encourage best practice, increase transparency, and coordinate technical and standards issues. Governance and administration standards issued by the SAB is used by the Fund, pensions committee and the pension board.

28. The Myners principle, the TPR guidance and the statutory position have led the council as administering authority to conclude that the current governance arrangements within the Fund provides the appropriate balance between accountability and inclusion.

LGPS Central limited

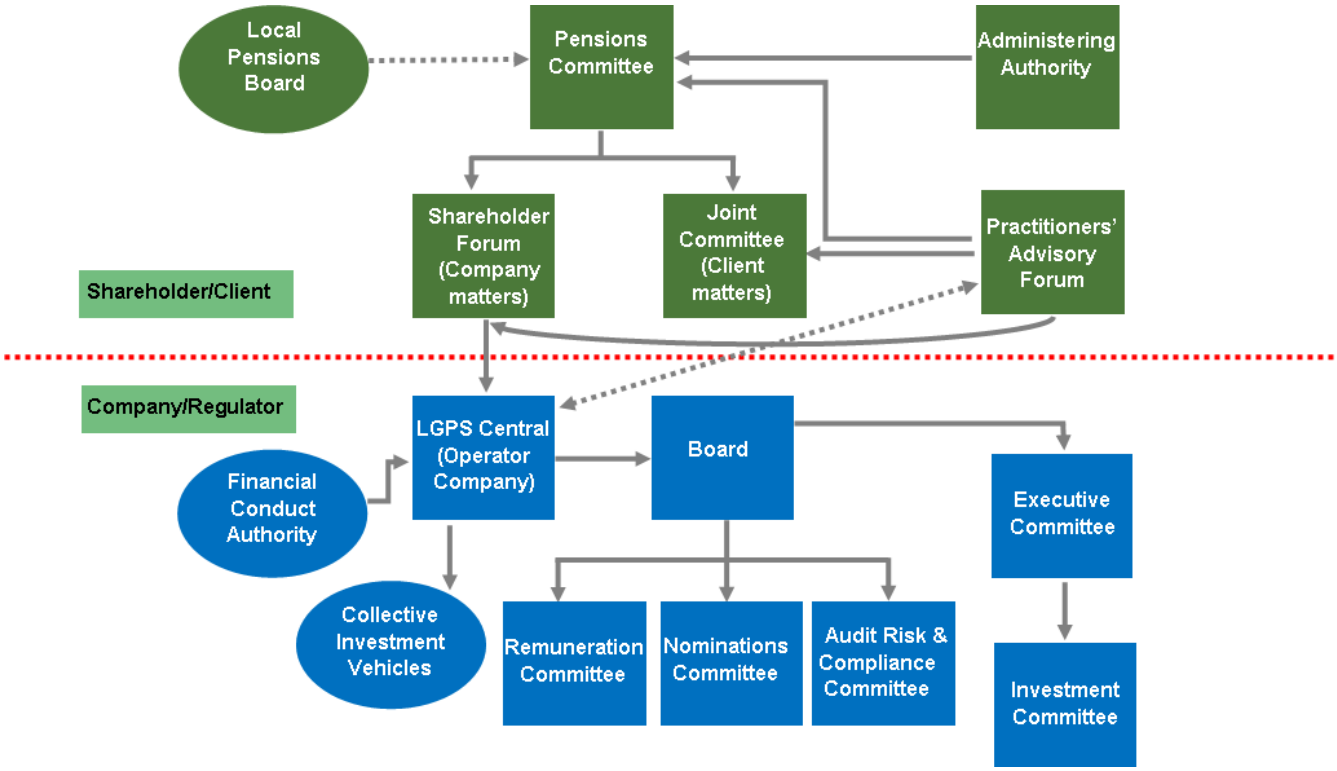
29. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 formally introduced the concept of asset pooling. Because of this, the Shropshire County Pension Fund has joined with eight other LGPS funds across the Midlands (partner funds) to form an asset pool, known as LGPS Central.

30. LGPS Central Limited is the company formed by the partner funds which is authorised as the operator of the Authorised Contractual Scheme (ACS), to provide investment services to the partner funds, by the Financial Conduct Authority (FCA). The company is therefore subject to the regulator's conduct of business rules and has established its internal governance framework to ensure strict adherence both to its regulatory obligations to the FCA and with the Companies' Acts.

31. It is important to note that the councils of each of the partner funds retain their core duties and responsibilities as the administering authorities of their respective LGPS funds.

32. Asset allocation decisions remain with the partner funds. Manager selection for assets transitioned into the ACS and for assets managed under discretionary agreements by the operator is the responsibility of LGPS Central Limited. Manager selection for the remainder of the pool's assets currently remains with the partner funds. The operator is responsible for selecting the custodian for the assets in the ACS; the partner funds are responsible for selecting the custodian for the remaining assets.

33. LGPS Central Limited was formed on 1 April 2018 and impacts the roles of the Pensions Committee. However, changes will be gradual as the transfer of the management activity to the new company progresses. Consequently, the existing governance arrangements and terms of reference need to run concurrently with new terms required to facilitate changes.



34. The above governance structure of LGPS Central will allow partner funds to exercise control (both individually and collectively) over the pooling arrangements; not only as investors in the ACS but also as shareholders of the operator company.

35. The LGPS Central Joint Committee has been set up in accordance with provisions of the Local Government Act 1972 to provide oversight of the delivery of the objectives of the pool, the delivery of client service, the delivery against the LGPS Central business case and to deal with common investor issues. The membership of the joint committee consists of one elected member from each council within the LGPS Central pool. A trade union representative is also appointed as a non-voting member of the joint committee to represent the scheme members across the councils' pension funds. Shropshire's representative on the LGPS Central Joint Committee is the chair or vice chair of the Pensions Committee (Shropshire Council member).

36. The primary role of the Shareholders' Forum is to oversee the operation and performance of LGPS Central Ltd and to represent the ownership rights and interests of the shareholding councils within the LGPS Central pool. The Shareholders' Forum is independent of the company and its meetings are distinct from company meetings, however, members of the Shareholders' Forum represent the councils at Company Meetings. The councils as individual investors in the company have in place local arrangements to enable their shareholder representatives to vote at company meetings.
The Shropshire Pension Fund, as a shareholder in LGPS Central has equal voting rights alongside the other partner funds and unanimous decisions are required on certain reserved matters before the actions can be implemented. These are specified in the company's shareholder agreement and articles of association. Other matters not directly related to the control of the company to manage its operation are subject to a majority approval (75%).

37. Shropshire's representative on the Shareholders Forum is the chair or vice chair of the pensions committee (Shropshire Council member).

38. The Practitioners' Advisory Forum (PAF) is a working group of officers appointed by the shareholding councils within the LGPS Central pool to support the delivery of the objectives of the pool and to provide support for the pool's joint committee and shareholders' forum. PAF seeks to manage the Pool's conflicting demands and interests, either between the participating Councils or between the Councils (collectively) and the Company, recognising that speaking with "one voice" reduces the duplication of costs and resources and maximises the benefits of scale. PAF will also report back to partner fund's Pensions Committees on matters requiring their attention.

39. Shropshire's representatives on PAF are the Head of Finance Governance & Assurance and the Head of Treasury and Pensions.

40. Terms of reference have been approved for the joint committee, the Shareholders' Forum and the Practitioners' Advisory Forum. These are "live" documents which are likely to evolve as the practical day to day experience of working within the LGPS Central pool evolves.

Delegation to officers

41. Under the Local Government Pension Scheme Regulations 2013 Shropshire County Pension Fund is required to formulate a policy on local discretions which can be found in Appendix A.

42. In addition to these fund discretions there are certain employer discretions, which employers must formulate a policy. All policies received by the fund are published on the fund's website.

Arrangements outside of formal governance

43. The Council is committed to the widest inclusion of all stakeholders in consultation and communication outside of the formal governance arrangements. The arrangements include:

With employing authorities

44. The fund's primary long-term investment objective is to achieve and maintain a funding level at, or close to, 100% of the fund's estimated liabilities; and within this, to endeavour to maintain stable employer contribution rates. Employing authorities are pro-actively consulted on the funding strategy statement on which the valuation and employer contribution rates are based.

45. The ratio of membership from the various employing authorities in the Shropshire County Pension Fund is:

Organisation	Contributors %
Shropshire Council	47
Borough of Telford and Wrekin Council (co-opted)	24
Parish / town councils	1
Other scheme employers	19
Admitted bodies	9
Total	100

46. The Shropshire County Pension Fund involves all scheme employers, irrespective of size, in consultations and communications. The information to be supplied by employers to enable the administering authority to discharge its functions, is outlined in the pensions administration strategy statement which can be found on the pension fund's website: www.shropshirecountypensionfund.co.uk

47. Over the last decade, consultation with employing authorities on pension fund investment, actuarial matters and proposed central government changes to the regulations has evolved. A large step forward was afforded by the introduction of investment strategy statement and funding strategy statements, the consultation process surrounding them, and where these statements can be accessed.

48. All employers are invited to regular employer meetings which provide information on changes in regulations, investment matters and actuarial valuations. All employing authorities are also kept abreast of events, by email, and they are encouraged to get in touch if they have questions. There is also a dedicated area for employers on the Shropshire County Pension Fund website. This information includes the employers' guide and information for new employers.

49. The fund undertakes annual monitoring of its actuarial valuation position. Employer organisations are kept up to date of the latest position and its likely impact on employer contributions as assessed during the actuarial valuation. At triennial valuations the scheme actuary presents to the employers meeting to explain changes in the funding level and implications on employer contribution rates. Employers meetings are also used to discuss the funding strategy statements and data requirements for FRS101/102 and IAS19.

50. An annual meeting is held each year to which all employers and scheme members are invited. The meeting outlines the investment performance of the Shropshire County Pension Fund and any changes to the fund's investment strategy, as well as regulation changes and administration issues. A fund manager also presents at the meeting and allows employers and scheme members the opportunity to ask questions.

With scheme members

51. Employees are represented on the Pensions Committee by two non-voting members (both union members) who have an active role in the selection of managers, performance monitoring, investment

strategy and responses to consultations on regulation changes. Retired members are represented by a non-voting retired member.

52. All employees, as well as representatives from employer organisations, are invited to the annual meeting each year. All retired and deferred members also receive an invite to the annual meeting which is usually held in November in the county. The meeting is filmed and made available online to enable members unable to attend in person to watch. The meeting is well attended and provides a useful opportunity for members to meet their employee or retired member representative, learn about the fund, and ask questions.

53. Where possible every member of the scheme receives pensions newsletters. The fund's annual report is published on the pension fund's website and an email notification (where an email address is held) is issued notifying the website update. The full communication policy can be found on the fund's website. This policy outlines the fund's approach to communicating with members, representatives of members, prospective members and employing authorities; including the format, frequency, and method of communications.

The pension fund's website includes further information on:

- Annual report and accounts
- Investment strategy statement (including compliance with Myner's principles)
- Funding strategy statement
- Communications policy
- Actuarial valuation
- Investments and LGPS central

54. The pensions team has a very good informal working relationship with the unions and is always there to assist with any problems in understanding the regulations.

Training policy

55. The fund recognises the importance of ensuring that all staff and members charged with the financial management and decision making with regard to the Pension Scheme are equipped with the knowledge and skills to discharge the duties and responsibilities allocated to them.

56. Considering the requirements following the LGPS governance changes emerging from the Public Service Pensions Act 2013, officers continually review the fund's training policy to ensure that all stakeholders are well equipped to carry out their duties as effectively and efficiently as possible. The training policy applies to:

- Pension fund officers and managers
- Pensions Committee members
- Local Pensions Board members.

57. The training policy is regularly reviewed and once an updated policy is adopted, steps are taken to ensure all parties meet their requirements.

Myner's first principle states that administering authorities should ensure that:

'Decisions should only be taken by persons or organisations with the skills, knowledge, advice, and resources necessary to make them effectively and monitor their implementation. Those persons or

organisations have sufficient expertise to be able to evaluate and challenge the advice they receive and manage conflicts of interest'

58. The fund holds an annual members' training day when members of the committee and the board attend training and are exposed to presentations on topical issues, such as hedge funds, private equity, actuarial valuations, infrastructure etc. Training is also provided at the start of some committee and pension board meetings.

Appendix A: Shropshire County Pension Fund discretions policies

List of discretionary policies applicable to members with membership under the following regulations:

- **The Local Government Pension Scheme Regulations 2013 [prefix R]**
- **The Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 [prefix TP]**
- **The Local Government Pension Scheme (Administration) Regulations 2008 [prefix A]**
- **The Local Government Pension Scheme (Benefits, Membership and Contributions) Regulations 2007 (as amended) [prefix B]**
- **The Local Government Pension Scheme (Transitional Provisions) Regulations 2008 [prefix T]**
- **The Local Government Pension Scheme Regulations 1997 (as amended) [prefix L]**

Regulation	Discretion	Fund policy	Delegated to
A52 (2) TP17 (5) TO (8) R40 (2) R43 (2) R46 (2) R82 (2) LGPS 1997 38 (1) & 155 (4) R17 (12)	Payment of death grant	The death grant will normally be paid to, or amongst, nominated beneficiaries as directed by the deceased member through a completed expression of wish form. Where no nomination has been made, a death grant would normally be paid to the deceased's personal representatives (in that capacity). Where both of these options are seen to be inappropriate or impossible, (for instance perhaps because nominees have died, circumstances appear to have changed since the nomination was made, or other persons claiming some or all of the death grant or would seem to have a claim) we may pay the grant as we see fit to, or split it between surviving nominees or personal representatives or any person appearing to us to have been a relative or dependant of the deceased at any time.	Scheme administrator
R17 (12)	Decide to whom any AVC/SCAVC monies (including life assurance monies) are to be paid on death of the member	The approach for this discretion will be the same as stated above in payment of death grant.	Scheme administrator
Rsch1 & TP 17 (9)	Decide to treat child (who has not reached the age of 23) as being in continuous full-time education or vocational training despite a break	To be reinstated where break does not exceed one academic year.	Scheme administrator

B27 (5)	Split of children's pensions	To be paid in equal proportions to the children.	Scheme administrator
A52 (A) B27 (5)	Payment of children's pensions to parent or guardian	To be paid to child and only paid to parent or guardian in exceptional circumstances.	Scheme administrator
R30(8) TP3 (1), TPSch2, paras 2 (1) and 2 (2) B30 (5) and B30A (5) TL4, L106(1) & D11(2)(c)	Where the employer has become defunct: whether to waive, in whole or in part, actuarial reduction on benefits which a member voluntarily draws before normal pension age including any actuarial reduction on pre and/or post April 2014 benefits	Due to the potential costs of waiving actuarial reduction it is recommended that it be applied only on strong compassionate grounds e.g. where evidence shows that long-term care is being given to a dependent relative (solely dependent on the employee) and that this is likely to continue for many years. However, the cost of pension strain will be given significant relevance in reaching a decision.	Scheme administrator
TPSch 2, paras 1 (2) and 2 (2) TPSch 2, para 1(2) & 1(1)(f) and R60	Where the employer has become defunct: Whether to 'switch on' the 85 year rule for a member voluntarily drawing benefits on or after age 55 and before age 60	The fund will not agree to apply the 85 year rule where members choose to voluntarily draw their benefits on or after age 55 and before age 60 except in exceptional circumstances where the interests of the fund have been considered and it is in its financial or operational interests to do so. Each case - will be considered on the merits of the financial and / or operational business case put forward	Scheme administrator
R30 (8)	Where the employer has become defunct: Whether to waive, in whole or in part, actuarial reduction on benefits paid on flexible retirement	The fund will not agree to flexible retirement except in circumstances where the interests of the employer have been considered and it is in its financial or operational interests to do so. Each case - will be considered on the merits of the financial and / or operational business case put forward, - will set out whether, in additional to any pre 1 April 2008 benefits, the member will be permitted, as part of the flexible retirement agreement, to take a) all, some or none of their 1 April 2008 to 31 March 2014 benefits, and /or b) all, some or none of their post 31 March 2014 benefits, and - will require the approval of the scheme administrator.	Scheme administrator
B39 & T14 (13)	Commutation of small	To be commuted in all cases where	Scheme

R34 (1) (b) (c)	pensions	capital value of the benefits is within HMRC limits other than in exceptional circumstances. The member/dependent must make a formal request including the exceptional circumstance they wish to be considered. Each formal request to not commute benefits will be assessed on its circumstances and merits.	administrator
R71 (1)	Whether to charge interest on payments by employers which are over due	To be paid with employees' contribution by the 19th of month following the month to which they relate. If contributions are overdue by a month or more then interest may be charged depending on the individual circumstances.	Scheme administrator
A28 (2) TP15 (1) (d)	Charge for estimate of transfer of AVC to main scheme to buy additional pension	First calculation free thereafter £50 per estimate	Scheme administrator
LGPS 97 - 92	Recovery of contribution equivalent premium	To be recovered in all cases permitted by the regulations	Scheme administrator
A83 (9) R100 (7)	Acceptance of transfer value	To be refused if insufficient to meet Guaranteed Minimum Pension liability	Scheme administrator
R100(6-8)	Extend normal time limit for acceptance of a transfer value beyond twelve months from joining the LGPS	The fund will only extend the twelve-month time limit within which a scheme member must make an election to transfer other pension rights into the LGPS after joining the LGPS: - where the member asked for transfer investigations to be commenced within twelve months of joining the LGPS but a quotation of what the transfer value will purchase in the LGPS has not been provided to the member within eleven months of joining the LGPS. The time limit for such a member to make a formal election to transfer pension rights into the LGPS is the 3 months transfer guarantee period ; - where the available evidence indicates the member made an election within twelve months of joining the LGPS, but the election was not received by the pension fund administering authority; - where the available evidence	Scheme administrator

		indicates the member had not been informed of the twelve-month time limit due to maladministration. - The fund's decision would also be to support the employer's decision where it is reasonable and evidenced that they are fully aware of the consequences and increased liabilities that will incur by agreeing this and it is not contradicting their own policy on this discretion.	
Financial Rules of the administering authority, Shropshire Council.	Overpayment of pension	Overpayments of less than £100 are not to be recovered where they occur during the month of death and where recovery is likely to cause hardship or be impractical.	Scheme administrator
R69 (1) (4) R80(1)(b) & TP22(1)	Decide the frequency and form of payments and information to accompany payments to be made over to fund (as listed in regulation R69) by employers and whether to make an admin charge.	All payments deducted from members must be paid to the fund by the 19th of the month following the month they were deducted. Any other payments must be paid immediately on receipt of the invoice. Further information on the formal procedures employers must adhere to are set out in the administration strategy statement.	Pensions committee
A60 (8) R76 (4) R79 (2)	Procedure to be followed by administration authority when exercising its stage two IDRP functions and whether administering authority should appeal against employer decision (or lack of a decision).	Full procedure is documented in the IDRP guide which can be found on the fund's website: www.shropshirecountypensionfund.co.uk	Scheme administrator
TP3 (13) A70 (1) A71 (4) (c)	Abatement of pensions following re-employment	From the 1 June 2006 the abatement and suspension of pension policy operated by the council changed and since this date no adjustments are required to funded pensions in respect of re-employment, regardless of the level of earnings. This policy applies to the funded element of the pension only and not the added year's compensation. This will still be	Scheme administrator

		subject to adjustment as per the regulations.	
B10 (2) TP3 (6) TP4 (6)(c) TP8 (4) TP10 (2) a TP17 (2)(b) Tsch1 L23(9)	Where a member dies before making an election of average of three years pay for final pay purposes or when a deceased member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts / restrictions occurring pre 1 April 2008.	Election to be made by the fund on behalf of the deceased member.	Scheme administrator
A52 A B27 (5) R83	Payments for persons (other than an eligible child) incapable of managing their affairs	If it appears that a person (other than an eligible child as defined in the appropriate regulations) is entitled to the payment of benefits under the scheme but is, by reason of mental disorder or otherwise, incapable of managing his or her affairs, taking regard to the circumstances of the case and medical guidance, where appropriate, the benefits, or any part of them, will be paid to a person having care of the person entitled, or such other person as the scheme administrator may determine, to be applied for the benefit of the person entitled. The Fund's trivial commutation policy will be followed for small pensions.	Scheme administrator

		In all other cases, where there is a long term annual pension payable the Fund will require evidence of a either power of attorney when the annual pension exceeds £1000; in cases where the annual pension benefit is below £1000, medical and documentary evidence will be required.	
B25 RSch1 TP17 (9)(b)	Decide evidence required to determine financial dependence of co-habiting partner on scheme member or financial interdependence of cohabiting partner	A fund's declaration form is required to be completed and signed confirming the regulatory requirements have been met and supported by the appropriate evidence.	Scheme administrator
TSch 1 & L23 (9) B42 (1) (c) R49 (1) (c)	Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under two or more regulations in respect of the same period of scheme membership	Benefit which is more beneficial to member to be paid.	Scheme administrator
31 (2)	Recharging payments to employers for annual compensation	A 1% handling fee of the total recharge of compensation being paid on behalf of the employer, will be levied.	Scheme administrator
R36 (3) A56 (2)	Approve medical advisors used by employers (for ill health benefits)	The medical advisors used by the employers for opinion on ill-health benefits must meet the requirements set out in the LGPS regulations	Pensions Committee
R68 (2) TPSch 2, para 2 (1)(3)	Whether to require any strain on fund costs to be paid 'up front' by employing authority following flexible retirement or release of benefits before age 60	All strain is required to be paid in full immediately on receipt of invoice. The process is outlined in the pensions administration strategy statement. The fund may agree, on request from an employer, to an alternative repayment period if exceptional circumstances are shown.	Scheme administrator

R16 (1)	Whether to turn down a request to pay an APC/SCAPC over a period of time where it would be impractical to allow such a request (e.g.) where the sum being paid is very small and could be paid as a single payment)	Requests to pay an APC/SCAPC via a lump sum will be refused if cost is less than £50.	Scheme administrator
Regulation 2 of the Registered Pension Schemes (Modification of Scheme Rules) Regulations 2011	Whether to offer 'Voluntary Scheme Pays' to members and the circumstances when this would apply.	To offer the use of 'Voluntary Scheme Pays' (VSP) where; • a member's pension savings within the Fund are subject to the tapered annual allowance, **and** • the tax breach stems only from the member's Shropshire County Pension Fund LGPS benefits rather than via growth in multiple pension schemes, **and** • The application is received in writing by Shropshire County Pension Fund by 30 November in the tax year following the year to which the tax charge relates to, should the member wish the tax to be paid by 31 January to ensure no late payment penalties become due, if not then no later than the Mandatory scheme pays deadline.	Scheme administrator
R4(2)(b)	Whether to agree to an admission agreement with a Care Trust, NHS Scheme employing authority or Care Quality Commission.	The Fund will only agree an admission agreement providing the body meets the eligibility criteria laid down in the regulations; the admission is fully guaranteed so that no liabilities fall back on the Fund and an admission agreement is signed by all relevant parties.	Pensions Committee
R3(1A), R3(5) & RSch 2, Part 3, para 1	Whether to agree to an admission agreement with a body applying to be an admission body.	The Fund will only agree an admission agreement providing the body meets the eligibility criteria laid down in the regulations; the admission is fully guaranteed so that no liabilities fall back on the Fund and an admission agreement is signed by all relevant parties.	Pensions Committee
RSch2, Part 3,	Whether to agree that an admission	The Fund will allow admission agreements to be back dated so long as	Scheme

para 14	agreement may take effect on a date before the date on which it is executed.	all contributions due are paid to the Fund with appropriate interest.	Administrator
RSch 2, Part 3, para 9(d)	Whether to terminate an admission agreement in the event of: - insolvency, winding up or liquidation of the body. - breach by that body of its obligations under the admission agreement. - failure by that body to pay over sums due to the Fund within a reasonable period of being requested to do so	The Fund will terminate an admission agreement in any of these three events as covered in the admission agreement.	Scheme Administrator
RSch 2, Part 3, para 12(a)	Define what is meant by “employed in connection with”.	Defined in the admission agreement as working for at least 50% of normal working time on the transferred service.	Scheme Administrator
R16(10)	Whether to require a satisfactory medical before agreeing to an application to pay an APC / SCAPC.	The Fund does not require a satisfactory medical but members are expected to sign a declaration confirming they are in reasonably good health before an application to pay an APC/SCAPC will be accepted.	Scheme Administrator
R16(10)	Whether to turn down an application to pay an APC / SCAPC if not satisfied that the member is in reasonably good health.	The Fund would turn down an application if it was not satisfied that the member was in reasonably good health.	Scheme Administrator
R22(3)(c)	Pension account may be kept in such form as is considered appropriate.	The members Care Average Revalued Earnings (CARE) account will be kept in electronic form on the pension administration system.	Scheme Administrator
TP10(9)	Where there are multiple ongoing employments, in the	The main ongoing employment, which would usually be the record with the greatest hours, is normally the record	Scheme Administrator

	absence of an election from the member within 12 months of ceasing a concurrent employment, decide to which record the benefits from the ceased concurrent employment should be aggregated.	with which the ceased concurrent employment will be aggregated.	
R32(7)	Whether to extend the time limits within which a member must give notice of the wish to draw benefits before normal pension age or upon flexible retirement	The Fund would look at any request on an individual basis taking into account the exceptional circumstances raised by the member.	Scheme Administrator
R38(3) B31(4)	Where the employer has become defunct: Decide whether deferred beneficiary meets criteria of being permanently incapable of former job because of ill health and is unlikely to be capable of undertaking gainful employment before normal pension age or for at least three years, whichever is the sooner.	The Fund will consider the relevant regulations and criteria following receipt of an opinion from the Independent Registered Medical Practioner (IRMP).	Scheme Administrator
R38(6) B31(7)	Where the employer has become defunct: Decide whether a suspended ill health tier 3 member is unlikely to be capable of undertaking gainful employment before normal pension age because of ill health.	The Fund will consider the relevant regulations and criteria following receipt of an opinion from the Independent Registered Medical Practioner (IRMP).	Scheme administrator
R54(1)	Whether to set up a separate admission	The Fund has not set up a separate admission agreement fund.	Scheme Administrator

	agreement fund.		
R64(2ZA)	Whether to extend the period beyond 3 months from the date an Employer ceases to be a Scheme Employer, by which to pay an exit credit.	The Fund will look at each case on an individual basis taking into account the reason why the extension may be required.	Scheme Administrator
R64(2A)	Whether to suspend (by way of issuing a suspension notice), for up to 3 years, an employer's obligation to pay an exit payment where the employer is again likely to have active members within the specified period of suspension.	The Fund will look at each case on an individual basis taking into account the reason why the extension may be required.	Scheme Administrator
R64(4)	Whether to obtain revision of employer's contribution rate if there are circumstances which make it likely a Scheme employer will become an exiting employer	The Fund may request a revision of employers contribution rate upon advice from the Actuary.	Scheme Administrator
R70 &TP22(2)	Whether to issue employer with notice to recover additional costs incurred as a result of the employer's level of performance.	The Fund will issue a notice to recover additional costs and in line with the Pensions Administration Strategy Statement.	Scheme Administrator
R98(1)(b)	Agree to bulk transfer payment.	The Fund will agree to a bulk transfer payment following Actuary advice.	Scheme Administrator
TR15(1)(c) &TSch1 & L83(5)	Extend time period for capitalisation of added years contract.	The Fund will look at each case on an individual basis taking into account the reason why the extension may be required.	Scheme Administrator

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SHROPSHIRE COUNTY PENSION FUND

Employer Events Policy

March 2019

Contents

1. Introduction
2. An LGPS employer's lifetime
3. Joining the Fund
4. Triennial Actuarial Valuation
5. Monitoring and planning for exit
6. Exit from the Fund
7. Employer costs and charges

1. Introduction

1. This Employer Events Framework policy document has been prepared by Shropshire Council acting in its capacity of Administering Authority of the Shropshire County Pension Fund ("the Fund"). All terms and definitions are as set out in the Local Government Pension Scheme Regulations 2013 (as amended) ("the 2013 Regulations") and the Local Government Pension Scheme (Transitional Provisions, Savings and Amendment) Regulations 2014 ("the 2014 Transitional Regulations") (collectively; "the Regulations").

2. The purpose of this document is to describe the various "life stages" of an employer that participates in the Fund. It summarises the events and possible outcomes from those events right through until it withdraws from the Fund. Whilst the Administering Authority reserves the right to treat each case on its merits, this document sets out its primary policy position.

3. All key staff at current and prospective employers should review this policy document and appraise themselves as regards their own employer's position, including the potential financial and operational implications.

4. Any questions or queries arising from this policy should, in the first instance, be directed to:

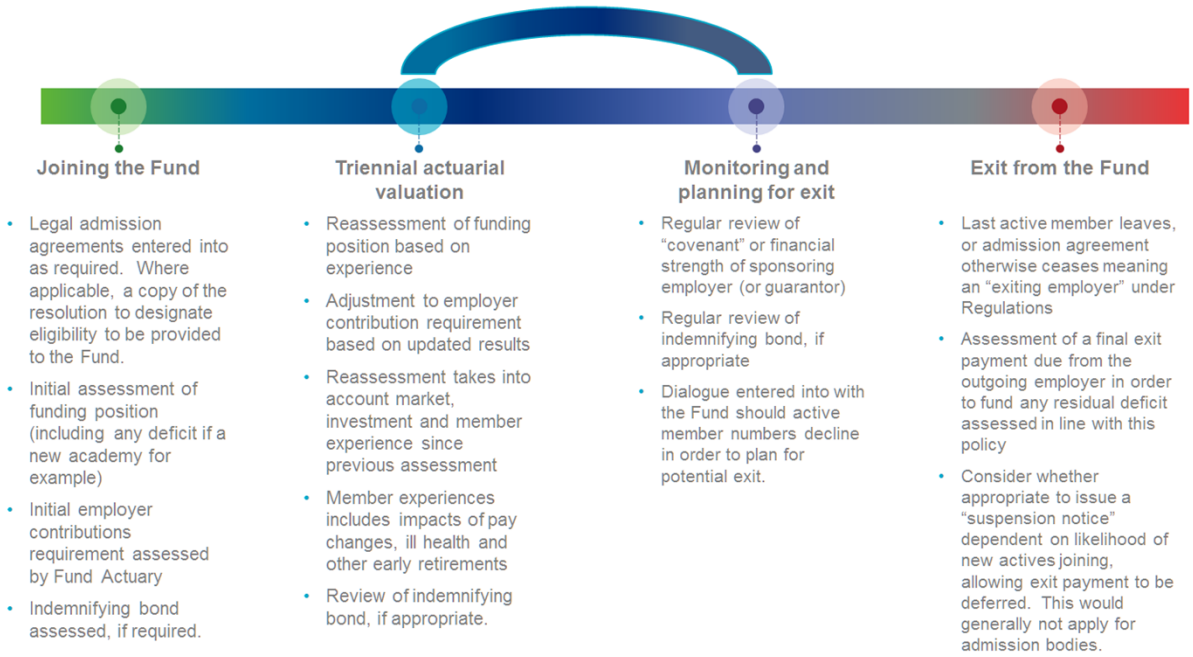
Debbie Sharp

Pensions Administration Manager
debbie.sharp@shropshire.gov.uk

2. An LGPS employer's lifetime

5. In order to provide some context to this Employer Events Framework, set out below are the major stages of an employer's lifetime within the Local Government Pension Scheme.

6. Senior staff at each employer should familiarise themselves with these high level stages. Depending on the specific circumstances applying to an employer at each stage, there will be associated operational and financial implications as regards its interests with the pension fund.



7. Depending on the lifetime of the employer, they may go through a number of triennial valuations and subsequent monitoring activities before reaching a final event that would trigger their exit from the Fund.

8. The remainder of this policy paper discusses each of the stages noted above, and sets out some detail of these stages and the Fund's primary policy position and approach. The Administering Authority however, reserves the right to treat each case on its merits which may involve alternatives where justified.

3. Joining the Fund

Scheme Employers

9. All Scheme Employers (as defined under Schedule 2 Part 1 of the Regulations) are entitled to join the Fund under the Regulations. These bodies include tax raising bodies, those funded by central government (academies and colleges) and universities (reliant on non-government income).

10. Other Scheme Employers (specifically those defined under Schedule 2 Part 2 of the Regulations) can designate eligibility to join the scheme for individuals or groups, where they pass a resolution to that effect. A copy of this resolution will be required by the Administering Authority at the outset, and any subsequent amendments to the resolution should also be provided.

Academy conversions

11. Where a school has elected to convert to Academy status, the Fund's policy is for the new Academy to inherit the school's share of the historic local authority deficit prior to its conversion. This is in accordance with the Department for Education (DfE) guidance issued when the Academy conversion programme was extended to cover all schools. Full details of how this is assessed are set out in a later section of this document, as is the treatment offered to Academies within Multi-Academy Trusts (MATs).

Admission bodies

12. An admission body is an employer which, if it satisfies certain regulatory criteria, can apply to participate in the Fund.

13. Admission bodies can join the Fund if:

- They provide a service for a scheme employer as a result of an outsourcing (formerly known as Transferee Admission Bodies)
- They provide some form of public service and their funding in most cases derives primarily from local or central government. In reality they take many different forms but essentially they are "not for profit" organisations (formerly known as Community Admission Bodies).

14. If its application is accepted by the Administering Authority, it will then enter into an "admission agreement". The admission agreement sets out the conditions of participation of the admission body, in accordance with the Regulations, including which employees (or categories of employees) are eligible to become members of the Fund.

15. Any specific arrangements outside the normal regulations agreed between the letting authority and the new entity will be covered in the commercial agreement. This includes but is not limited to cases where pension costs are shared, or indeed fully passed back to the original employer. The Administering Authority must be informed at the outset of any specific arrangements entered into. This may result in increased/more detailed requirements when providing member data to the Administering Authority.

Indemnifying bonds and/or guarantors

16. All admission bodies will be required, in accordance with Regulations, to provide an indemnifying bond from an appropriate third party. This bond must be actuarially assessed to the satisfaction of the Administering Authority, and kept under regular review.

17. In circumstances where a scheme employer within the Fund has formally agreed to act as guarantor to an admission body, the Regulations allow for a bond not to be put in place. The Fund's primary position on this is that a bond should still be put in place in order to better protect all employers within the Fund (including the guarantor). The Fund's view is that the frequency of the review of any bond amount should be:

GUARANTEE ARRANGEMENT	FREQUENCY OF BOND REVIEW
Admission body with no guarantor	Annual reassessment
Admission body with a guarantor	Triennial reassessment (carried out as part of the valuation)

Initial funding calculations

18. Essentially there are two main approaches used for new employers depending on their specific circumstances:

- Fully funded at the start: the value of the liabilities of the transferring group of members is assessed and the assets that are notionally reallocated within the Fund from the original employer to the new employer body are equal to this amount, meaning no initial surplus or deficit.
- Partially funded at the start: where the assets notionally reallocated are less than the value of the liabilities transferring. The method of assessment for this initial deficit can vary depending on the specifics of each case.

19. (As noted earlier, bespoke commercial arrangements can also be entered into between the new entity and the letting authority which may be different to these and must be communicated to the Administering Authority.)

20. It is most common for admission bodies to join the Fund on a "fully funded" basis. There can be exceptions to this where an outsourcing body has structured the commercial arrangements such that the new body takes on a deficit. Academies will also normally take on a deficit at inception, and their treatment is set out in a later section.

Initial contribution rate assessment

21. The initial contribution rate assessment will be an actuarial calculation of the future service pension cost that applies appropriate to the members transferring to the new entity. This assessment will take account of:

- The pay levels of the transferring group (and so the implied employee contribution rate)
- The timing the benefits are expected to fall due (depending on any applicable transitional protections for certain members)
- Whether the new body will be open, or closed to new entrants
- Whether any funding deficit is ultimately transferred and the period over which it is expected to repay that deficit.

Risk assessment

22. The Regulations require that an actuarial risk assessment is carried out to the satisfaction of the Administering Authority. It is this assessment that would inform the required indemnifying bond that is discussed in an earlier section.

23. As a minimum, the Fund would require any bond amount to cover any assessed funding deficit as at the time the risk assessment is performed. Added to this would be any potential early retirement strain costs that could arise on the premature (or normal) termination of the body. These would arise on the grounds that on redundancy, certain members could be eligible for the immediate payment of benefits on an unreduced basis.

24. It is recognised that the parties involved may wish to depart from the above default position on commercial grounds, and the Fund would be open to considering alternatives on a case-by-case basis.

Academy deficit assessment

25. As noted above, for new academies the approach taken will be that a deficit will be transferred to the new academy, unless a formal decision to the contrary is made by the local authority.

26. The Fund's policy is for this transferring deficit to be calculated as the capitalised amount of deficit funding contributions (based on the local authority deficit recovery period) the school would have made to the Fund had it not converted to academy status. This deficit amount is subject to a limit to ensure that the asset share of the new academy is not less than zero.

27. The details below show an illustrative example of an academy conversion:

Original Council position ***(including the school before conversion to Academy)***	
Overall assets (£k)	750,000
Overall liabilities (£k)	900,000
Overall deficit (£k)	150,000
Funding level	83%
Overall payroll (£k p.a.)	90,000
Deficit contribution (£k p.a.) (payable for 22 years)	7,000
Deficit contribution expressed as a % of pay	7.8%

Split of payroll between Council and new academy	
Payroll being transferred to new academy (£k p.a.):	5,000
Residual payroll (£k p.a.):	85,000

Split of deficit and deficit contributions between Council and new academy	
Deficit contributions payable (£k p.a.):	
- in respect of all remaining staff prior to transfer (7.8% of £5m)	390
- in respect of remaining staff prior to transfer (7.8% of £85m)	6,610
Total post conversion *(same total as pre-conversion)*	7,000
Implied deficit transferred (390 / 7,000 x 150,000) (£k):	8,400
Implied residual deficit (6,610 / 7,000 x 150,000) (£k):	141,600
Total deficit *(unchanged pre and post conversion)* (£k)	150,000

28. The final table below shows how this may result in wide ranging funding levels, depending on the profile of the transferring members following the conversion. Transferring groups of older members, and/or those with long service will, on average, have higher liabilities. As noted earlier, deficits will be limited such that the asset share of the new academy is not less than zero.

Assets, liabilities, funding levels and deficit contributions for the new academy

Low liability example	£k
Liabilities transferred	9,000
Deficit transferred	8,400
Assets	600
Funding level	7%
Deficit contributions (£k p.a.)	390

High liability example	£k
Liabilities transferred	20,000
Deficit transferred	8,400
Assets	11,600
Funding level	58%
Deficit contributions (£k p.a.)	390

Multi Academy Trusts

29. Multi Academy Trusts (MATS) are groups of academies managed and operated by one proprietor. The employer of staff in academies is the proprietor of the Academy Trust and not the individual academy within the Trust. It is therefore the proprietor

who is the employer for LGPS purposes making the MAT legally responsible for staff across all schools in the group.

30. In cases where numerous academies are operated by the same managing Trust, the Fund's initial position is to maintain separate records for each of the constituent academies. This means that each constituent academy may have varying contribution requirements according to their own circumstances/membership. Any new academies joining an existing MAT in this case would have their own funding position and contribution requirements assessed separately.

31. However, if desired, the Fund would be willing to allow a decision to combine. This would be a one-off and irrevocable choice of the MAT as at commencement. If a combined basis decision were to be made, for the purposes of the pension fund, the MAT (including all constituent academies) would be treated as a single combined employer. This decision would have implications for all future actuarial calculations for the MAT; an overall funding position and the same "average" contribution requirement would to apply to all constituent academies. It also means pension fund accounting under FRS101 / FRS102 / IAS19 could only be produced for the entire body. Any new academies joining an existing MAT in the Fund would contribute at the grouped employer contribution rate already established for the MAT. This would be next reviewed at the triennial valuation (see next section), taking experience into account including any new deficit taken on when new academies join.

4. Triennial actuarial valuation

32. In accordance with the Regulations, every three years the Administering Authority is required to have a full actuarial valuation carried out by its appointed Fund Actuary. Not only is this required by law, it also serves as a critically important governance tool when running the pension fund.

33. The Fund Actuary is required to assess the financial health of the Fund as a whole by quantifying the value of the liabilities of the Fund (i.e. benefits due to be paid in the future) compared to the assets held (the ratio of its assets to liabilities is often referred to as the solvency level). The Administering Authority's long-term objective is for the Fund to achieve a 100% solvency level over a reasonable time period and then maintain sufficient assets in order for it to pay all benefits arising as they fall due.

34. This assessment is repeated for each separate employer within the Fund and the employer contributions (primary and secondary rates) are adjusted appropriately to achieve that long-term objective in accordance with the Fund's Funding Strategy Statement (FSS). The Regulations also require that employer contributions are set in order to achieve long-term cost efficiency, meaning that they must not be set at a level that is likely to give rise to additional costs in the future.

Factors that influence the actuarial valuation results

35. A number of factors affect the valuation results emerging and these include but are not limited to those listed below. Employers should familiarise themselves with this section noting that decisions taken by them and/or the members can have an impact on the valuation results emerging:

REGULATORY / GOVERNANCE	MARKET / ECONOMIC	MEMBERSHIP EVENTS AND EXPERIENCE
Scheme design changes	Observed and expected levels of CPI inflation	Observed mortality experience and any changes to future life expectancies (and rate of improvement)
Cost Management adjustments as a result of experience analysis performed by the Government Actuary's Department (GAD)	Investment returns delivered from assets held by the Fund	Take-up of the 50:50 scheme
Underlying changes to pensions landscape (e.g. changes to State Pension Age)	Expected future investment returns to be delivered by Fund assets	Incidence of any ill health or early retirement benefits (including on redundancy terms)
		Salary growth experience vs assumption
		Aggregation of any previously accrued benefits
		Take-up of tax-free cash option

36. The triennial actuarial valuation is a process that means the employer contribution requirements can and do change from time to time. Employers should be aware that the contribution requirements are not fixed.

37. Of course commercial arrangements can be put in place between admission bodies and the original body such that variations are shared, or indeed fully passed back to the original employer (known as "pass through" arrangements). These can be specific to each case, but the fundamental points related to this are:

- It is vital for the Administering Authority to be provided with full details of any bespoke commercial arrangements, and
- pension costs do change for many reasons and employers should be aware of this.

5. Monitoring and planning for exit

Employer monitoring

38. The Fund adopts a regular monitoring and review plan to ensure that it can always act proactively to act in the best interests of all pension fund employers. This is illustrated by the policy adopted for bond reviews and their frequency, but also the Fund will be carrying out high level covenant (employer financial strength) assessments.

Covenant Assessments

39. An employer's covenant underpins its legal obligation and ability to meet its financial responsibilities now and in the future. The strength of covenant depends upon the robustness of the legal agreements in place and the likelihood that the employer can meet them. The covenant effectively underwrites the risks to which the Fund is exposed, including underfunding, longevity, investment and market forces.

40. An assessment of employer covenant focuses on determining the following:

- Type of body and its origins
- Nature and enforceability of legal agreements
- Whether there is a bond in place and the level of the bond
- Whether a more accelerated recovery plan should be enforced
- Whether there is an option to call in contingent assets
- Is there a need for monitoring of ongoing and termination funding ahead of the next actuarial valuation?

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

Risk Criteria

42. The assessment criteria upon which an employer should be reviewed could include:

- Nature and prospects of the employer's industry
- Employer's competitive position and relative size
- Management ability and track record
- Financial policy of the employer
- Profitability, cashflow and financial flexibility
- Employer's credit rating
- Position of the economy as a whole

43. Not all of the above would be applicable to assessing employer risk within the Fund; rather a proportionate approach to consideration of the above criteria would be made, with further consideration given to the following:

- The scale of obligations to the pension scheme relative to the size of the employer's operating cashflow

- The relative priority placed on the pension scheme compared to corporate finances
- An estimate of the amount which might be available to the scheme on insolvency of the employer as well as the likelihood of that eventuality.

Assessing employer covenant

44. The employer covenant will be assessed from time to time objectively and its ability to meet its obligations will be viewed in the context of the Fund's exposure to risk and volatility based on publically available information and/or information provided by the employer. The monitoring of covenant strength along with the funding position (including on the termination basis) enables the Fund to anticipate and pre-empt employer funding issues and thus adopt a proactive approach.

45. In order to accurately monitor employer covenant, it may be necessary for research to be carried out into employers' backgrounds and, in addition, for those employers to be contacted to gather as much information as possible. Focus will be placed on the regular monitoring of employers with a proactive rather than reactive view to mitigating risk.

Covenant risk management

46. The focus of the Fund's risk management is the identification and treatment of the risks and it will be a continuous and evolving process which runs throughout the Fund's strategy. Mechanisms that will be explored with certain employers, as necessary, will include but are not limited to the following:

1. Parental Guarantee and/or Indemnifying Bond
2. Transfer to a more prudent actuarial basis (e.g. the termination basis)
3. Shortened recovery periods and increased cash contributions
4. Managed exit strategies
5. Contingent assets and/or other security such as escrow accounts.

Planning for exit

47. Under the Regulations, the Administering Authority has the power to revisit any previously certified contributions if it becomes of the opinion that a change in circumstances means it is likely to exit from the Fund.

48. The Administering Authority's opinion of this scenario will be essentially driven by the following considerations and these will be in addition to the scheduled end date of any admission agreement:

EVENT	COMMENT
Notification from the employer of its intention to exit (or if it is expecting to reduce the number of members)	Dialogue will be entered into, and work commenced on managing a future exit payment

EVENT	COMMENT
A more than 50% reduction in the number of active members between accounting period end dates	This would trigger a dialogue between the Administering Authority and the employer to understand the reasons for the change. This may lead to planning for exit work including a review of contribution requirements
If there is a reduction of active members to leaving only two*	This would initially trigger a dialogue between the Administering Authority and the employer to understand the underlying position. It is highly likely that planning for exit work would commence including a review of contribution requirements.

*the Administering Authority would treat each of these cases on its merits e.g. employers with very small numbers to start with would be considered appropriately in that context.

6. Exit from the fund

Termination Policy

49. When an employer becomes an exiting employer (for example the last active leaving, or an admission agreement terminates for any reason), the employer becomes an exiting employer under the Regulations. The Fund is then required to obtain an actuarial valuation of that employer's liabilities in respect of benefits of the exiting employer's current and former employees along with a termination contribution certificate.

50. It is the Fund's policy position that such an actuarial valuation will be commissioned for all cases, unless a decision is taken to the contrary specific to a particular case. In all cases where this valuation is carried out, regardless of whether the assessment reveals a deficit or a surplus, a termination contribution certificate will be issued by the Fund Actuary.

Termination Assumptions

51. The following approaches will be used by the Fund Actuary to assess the required exit payment that may be due. The approach will be based on the most recent actuarial valuation assumptions, updated to the cessation date, and adjusted for the specific circumstances. Specific differences in treatment between certain groups of employer (usually admission bodies) are as defined below:

Employers with no guarantor in the Fund who joined prior to 1 July 2012	Employers with no guarantor in the Fund who joined after 1 July 2012	Employers with a guarantor within the Fund
Using a corporate bond basis, with the discount rate based on the long dated Sterling AA Corporate Bond yield of appropriate duration, and allowing for a more prudent assessment of future mortality trends.	Using a "least risk" funding basis based on government bonds of appropriate duration, and allowing for a more prudent assessment of future mortality trends.	Using an "ongoing" valuation basis so consistent with the funding target assumptions.

52. Treatment of termination deficit / surplus

The Fund's policy on the treatment of a deficit or surplus on termination is also dependent on whether the exiting employer has a guarantor in the Fund. The policy is designed to ensure consistent treatment of surplus and deficit.

a) Termination with no guarantor

Any deficit will be recovered from the exiting employer via the payment of a termination deficit. In the case of a surplus, the Fund will pay the exit credit to the exiting employer.

b) Termination with a guarantor

Any assets, liabilities and deficit or surplus would be subsumed by the guarantor and taken into account at the following valuation. This is subject to agreement from all interested parties who will need to consider any separate contractual agreements that have been put in place between the exiting employer and the guarantor.

If all parties do not agree to this then:

- In the event of a surplus, this will be paid directly to the exiting employer
- In the event of a deficit, the Fund will seek to recover this from the exiting employer in the first instance. However, if this is not possible, then to maintain a consistent approach between treatment of surplus and deficit, the Fund will then seek to recover the deficit from the guarantor

Where the exiting employer and guarantor do not agree the Fund will not enter into discussions if there is any disagreement over the appropriateness of refunding any surplus to the exiting employer – it will be up to the guarantor to contest the surplus payment citing the commercial contract in place and the desire for equal treatment in the event of a deficit.

The Administering Authority also reserves the right to modify this approach on a case by case basis if circumstances warrant it based on the advice of the Actuary.

53. Managing the exit payment/credit

The Regulations give power to the Fund to manage the arrangements relating to exit payments. These are:

1. To issue a "suspension notice" for a period up to 3 years, if, in the reasonable opinion of the Administering Authority, the employer is likely to have one or more active members join the Fund within the period of the notice.
2. To mutually agree an instalment repayment plan over a reasonable period into the future.

54. The Fund will consider these options on a case-by-case basis after entering into a dialogue with an employer. In principle, however, the Fund's general position is:

- for exit payments to be paid immediately and in full as they fall due (including by a guarantor where a deficit cannot be recovered from an exiting employer), and
- any "suspension notice" would only apply for a maximum period as remains to the next triennial valuation. If a suspension notice is applied, any contributions not related to pay (e.g. lump sum payments as set on the Rates and Adjustments Certificate) will continue to be paid to the Fund as certified.

Where a credit is payable to the exiting employer in the case of a surplus, the Fund will pay the exit credit following completion of the termination process within 3 months of cessation. This is subject to the exiting employer providing sufficient notice to the Fund of their intent to exit; any delays in notification will impact on the payment date.

7. Employer costs and charges

55. All employers that participate within the Fund will be required to make contributions to it in accordance with the underlying Regulations. Specifically, employers will be required to:

- deduct contributions from employees' pay correctly after determining the appropriate employee contribution rate (in accordance with the Regulations)
- pay all employer future service and deficit contributions, as determined by the Fund Actuary, promptly by the due date
- make additional contributions as required in respect of, for example, augmentation of Fund benefits and early retirement strains, and
- pay any professional fees as determined by the Fund that are incurred on account of actions or events applicable to that employer, and
- pay any fines or sanctions issued to it in accordance with the Fund's Pension Administration Strategy Statement or underlying legislation.

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