



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

Date: Wednesday, 11 March 2020

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

**Date:** Thursday, 19 March 2020

**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  
Leon Murray

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

Jean Smith (Pensioner Representative)  
Laura Hoskison (Employee Representative Shropshire Council)  
Vacancy (Employee Representative)

**Substitute Members of the Committee:**

Roy Aldcroft (SC)

Roger Evans (SC)

Alexander Phillips (SC)

Robert Tindall (SC)

Lee Carter (T&W)

Adrian Lawrence (T&W)

Vacancy (Pensioner Rep)

Vacancy (Employee Rep)

Your Committee Officer is:

**Sarah Townsend** Committee Officer

Tel: 01743 257721

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

# AGENDA

## **1 Apologies 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 Previous Meeting (Pages 1 - 6)**

The Minutes of the meeting held on 24 January 2020 are attached for confirmation, marked 3.

Contact: Sarah Townsend (01743 257721)

## **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 10.00 a.m. on Tuesday, 17 March 2020.

## **5 Climate Risk Model**

Ms Amelia Gaston and Ms Valborg Lie, LGPS Central, will be in attendance to present this item.

## **6 Investment Strategy Review**

Mr Louis-Paul Hill, Aon, will be in attendance to present this item.

## **7 Shropshire County Pension Fund External Audit Plan 2019 - 20 (Pages 7 - 22)**

The report of Grant Thornton is attached, marked 7.

## **8 Informing the Audit Risk Assessment for Shropshire County Pension Fund 2019 - 20 (Pages 23 - 50)**

The report of Grant Thornton is attached, marked 8.

**9 Funding Strategy Statement (Pages 51 - 88)**

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

Contact: Justin Bridges (01743 252072)

**10 Pension Fund Treasury Strategy 2020/21 (Pages 89 - 98)**

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

Contact: Justin Bridges (01743 252072)

**11 Corporate Governance Monitoring (Pages 99 - 162)**

The report of the Investment Officer is attached, marked 11.

Contact: Ben Driscoll (01743 252079)

**12 Pensions Administration Monitoring (Pages 163 - 186)**

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

Contact: Debbie Sharp (01743 252192)

**13 Exclusion of Press and Public**

To consider a resolution under paragraph 10.2 of the Council's Access to Information Procedure Rules that the proceedings of the Committee in relation to Agenda Items 14 to 19 shall not be conducted in public on the grounds that they involve the likely disclosure of exempt information as defined by the categories specified against them.

**14 Exempt Minutes of the Previous Meeting (Exempted by Category 3) (Pages 187 - 190)**

The exempt Minutes of the meeting held on 24 January 2020 are attached for confirmation, marked 14.

Contact: Sarah Townsend (01743 257721)

**15 Equity Protection Update (Exempted by Category 3)**

Mr Louis-Paul Hill, Aon, will be in attendance to present this item.

**16 Insurance Linked Securities Update (Exempted by Category 3)**

Mr Louis-Paul Hill, Aon, will be in attendance to present this item.

**17 Investment Monitoring - Quarter to 30 December 2019 (Exempted by Category 3) (Pages 191 - 234)**

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

Contact: Justin Bridges (01743 252072)

**18 Governance (Exempted by Category 3) (Pages 235 - 240)**

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

Contact: Debbie Sharp (01743 252192)

**19 New Employers (Exempted by Category 3) (Pages 241 - 244)**

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

Contact: Debbie Sharp (01743 252192)

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Pensions Committee

19 March 2020

10.00 a.m.

## **MINUTES OF THE PENSIONS COMMITTEE MEETING HELD ON 24 JANUARY 2020 10.00 - 11.55 AM**

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

### **Present:**

#### Members of the Committee:

Councillor Thomas Biggins (Chairman)  
Councillors Chris Mellings, Brian Williams and Alexander Phillips (Substitute) (substitute for Michael Wood)

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

Councillors Leon Murray and Malcolm Smith

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

Laura Hoskison and Jean Smith

### **36 Apologies and Substitutions**

Apologies for absence were received from Councillor Michael Wood. Councillor Alexander Phillips was in attendance as his substitute.

### **37 Disclosable Pecuniary Interests**

Members were reminded that they must not participate in the discussion or voting on any matter in which they had a Disclosable Pecuniary Interest and should leave the room prior to the commencement of the debate. There were no declarations of Disclosable Pecuniary Interests made.

### **38 Minutes of the Previous Meeting**

That the Minutes of the meeting held on 04 October 2019 be approved and signed by the Chairman as a correct record.

### **39 Public Questions**

One question was received from a member of the public.

**From:** Ms Jo Blackman. Ms Blackman was in attendance to ask her question in relation to divestment from fossil fuels as a financially and ethically responsible

policy. A full copy of the question and response provided is attached to the web page for the meeting and also attached to the signed minutes.

In addition, the Chairman commented that he was conscious of the issues that had been raised and a review of the investment strategy would be undertaken shortly.

#### 40 **Actuarial Valuation Results**

Mr John Livesey, Mercer Human Resource Consulting, was in attendance to present this item which provided Members with the preliminary results of the Shropshire County Pension Fund 2019 Actuarial Valuation.

A presentation was received which recapped on the 2016 valuation results, the preliminary 2019 valuation results, the existing funding strategy and key changes and developments since 2016.

Information was received comparing the 2016 valuation results against the preliminary 2019 valuation results. It was noted that the demographic assumptions had been reviewed, although no major changes had been made. As of 31 March 2016, there was £1,494 million assets compared to the current position of £1,915 million assets. In terms of the funding level, this had increased from 84% as of 31 March 2016, to 94% currently. The future service rate (% of pay) had also increased from 14.9% as of 31 March 2016, to 16.6% currently, which was mainly attributed to investment return outlook.

A question was asked regarding payroll (2020/21 estimate) as the figures were similar to those of 31 March 2016.

#### 41 **Investment Strategy Review**

Mr Louis-Paul Hill, Aon, was in attendance to present this item which provided Members with an investment strategy review update.

It was noted that Officers were currently looking into using an interactive model to improve risk and return efficiency within constraints.

#### **RESOLVED:**

That the investment strategy review update be noted.

#### 42 **Competition and Markets Authority (CMA) - Investment Consultant Objectives**

Mr Louis-Paul Hill, Aon, was in attendance to present this item. He informed Members that on 10 June 2019, the Competition and Markets Authority (CMA) introduced new duties for trustees via an order, which took effect on 10 December 2019. One of the newly introduced duties was for trustees to set objectives for its investment consultant and although the CMA order refers to trustees, the order is also applicable to the Local Government Pension Scheme.

Having set objectives for their investment consultant service, it was noted that trustees and the Local Government Pension Scheme needed to review the performance of each investment consultant provider at least every twelve months

and review the objectives themselves at least every three years, and without delay following any significant change in investment policy.

Members were informed that various investment consultant objectives had been discussed and approved by Officers at their technical meeting held on 21-22 November 2019 and had been set out within yes / no questions for assessment simplicity. However, it was mentioned that Officers and the Pensions Committee may wish to consider defining a marking / scoring approach in due course.

**RESOLVED:**

- (a) That the setting of investment consultant objectives be noted.
- (b) That Officers work with Pensions Committee Members to develop and monitor the investment consultant objectives over the next 12 months.

**43 Corporate Governance Monitoring**

The Committee received the report of the Investment Officer (copy attached to the signed Minutes) which informed Members of Corporate Governance and socially responsible investment issues arising in the quarter 01 July 2019 to 30 September 2019.

The Committee was informed that the Shropshire County Pension Fund had signed up to the UK Stewardship Code (Appendix C) and this had been agreed by the Chairman of the Pensions Committee, the Director of Finance, Governance and Assurance and the Head of Treasury and Pensions.

It was noted that work was currently being undertaken with LGPS Central regarding a Climate Risk Policy and carbon risk footprint. A letter had recently been sent to the Pensions Committee from UNISON Shropshire General Branch in relation to the threat posed by climate change and the investment in companies dedicated to finding and burning more oil, gas and coal. The issues raised by UNISON would be considered at the next meeting of the Pensions Committee, due to be held on 19 March 2020.

**RESOLVED:**

- (a) That the position as set out in the report, Manager Voting Reports (Appendix A) and BMO Global Asset Management Responsible Engagement Overlay Activity Report (Appendix B) be accepted.
- (b) That the statement of compliance with the UK Stewardship Code (Appendix C), agreed by the Chairman of the Pensions Committee and the Director of Finance, Governance and Assurance, December 2019, be noted.

**44 Pensions Administration Monitoring**

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

In relation to cyber security, it was noted that there had been no cyber-attacks specifically directed at Shropshire County Pension Fund data.

It was noted that two minor amendments had been made to the Pensions Administration Strategy Statement to better reflect the process of issuing invoices, for early retirement strain costs, to employers.

**RESOLVED:**

(a) That the position as set out in the report by the Pensions Administration Manager be accepted.

(b) That the amended Pensions Administration Strategy (Appendix B) be approved.

**45 Exclusion of Press and Public**

That under paragraph 10.2 of the Council's Access to Information Procedure Rules, the proceedings of the Committee in relation to Minutes 46 to 50, be not conducted in public on the grounds that they might involve the likely disclosure of exempt information as defined by the categories specified against them.

**46 Exempt Minutes of the Previous Meeting (Exempted by Category 3)**

That the Exempt Minutes of the meeting held on 04 October 2019 be approved and signed by the Chairman as a correct record.

**47 Equity Protection Update (Exempted by Category 3)**

Mr Louis-Paul Hill, Aon, was in attendance to present this item which provided Members with an equity protection update.

**RESOLVED:**

That the equity protection update be noted.

**48 Investment Monitoring - Quarter to 30 September 2019 (Exempted by Category 3)**

The Committee received the exempt report of the Head of Treasury and Pensions (copy attached to the Exempt signed Minutes) which provided Members with monitoring information on investment performance and managers for the quarter period to 30 September 2019 and reported on the technical meetings held with managers since the quarter end.

**RESOLVED:**

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

**49 Governance (Exempted by Category 3)**

The Committee received the exempt report of the Pensions Administration Manager (copy attached to the Exempt signed Minutes) which informed them of regulatory breaches arising in the quarter 01 July 2019 to 30 September 2019, which had been recorded in the breaches log.

**RESOLVED:**

- (a) That the content of Appendix A to the report by the Pensions Administration Manager, which detailed breaches recorded in the last quarter, be noted.
- (b) That the Data Improvement Plan 2020 (Appendix B to the report by the Pensions Administration Manager) be agreed.

**50 New Employers (Exempted by Category 3)**

The Committee received the exempt report of the Pensions Administration Manager (copy attached to the Exempt signed Minutes) which provided Members with details of the following:

- Full details regarding one new employer admission to the Fund under Schedule 2 Part 3 Regulation 1 (d) (i) of the Local Government Pension Scheme Regulations 2013. The admission was due to services transferring from a scheme employer, under a service contract. The admission agreements would need to be sealed with the county seal.
- Update of New Schedule 1 Part 1 Scheme Employers (academies) and New Schedule 2 Part 2 Scheme Employers (designated bodies).

**RESOLVED:**

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

*(The full version of Minutes 46 to 50 constitutes exempt information under Category 3 of paragraph 10.2 of the Council's Access to Information Procedure Rules and has accordingly been withheld from publication).*

Signed ..... (Chairman)

Date: .....

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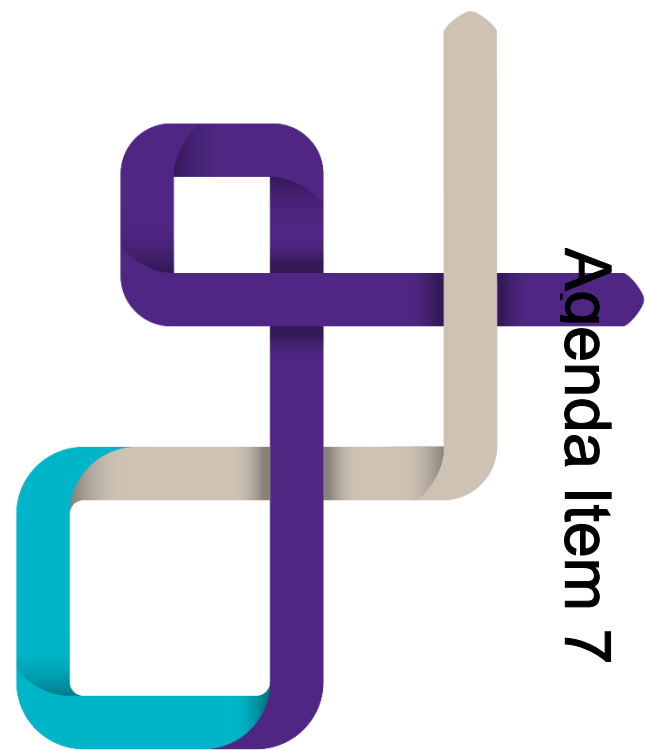
# External Audit Plan

*Year ending 31 March 2020*

Shropshire Pension Fund

19 March 2020

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Your key Grant Thornton  
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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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# 1. Introduction & headlines

## Purpose

This document provides an overview of the planned scope and timing of the statutory audit of Shropshire Pension Fund ('the Pension 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 out 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 [insert name of organisation]. 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 Pension Fund's financial statements that have been prepared by management with the oversight of those charged with governance (the Audit and Governance Committee).

The audit of the financial statements does not relieve management or the Audit and Governance Committee of your responsibilities. It is the responsibility of the Pension Fund to ensure that proper arrangements are in place for the conduct of its business, and that public money is safeguarded and properly accounted for. We have considered how the Pension Fund is fulfilling these responsibilities.

Our audit approach is based on a thorough understanding of the Pension Fund's business and is risk based.

## 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
- the revenue transactions include fraudulent transactions (this is rebutted, please see page 5)
- valuation of level 3 investments

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 £19m (PY £18m) for the Pension Fund, which equates to roughly 1% of your prior year net assets for the year. 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 £0.95m (PY £0.933m).

## Audit logistics

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 will be £22,289 (PY: £20,039) for the Pension Fund, subject to the Pension Fund meeting our requirements set out on page 10.

## 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..

## 2. Key matters impacting our audit

### Factors

#### The wider picture and political uncertainty

- Local Government funding continues to be stretched with increasing cost pressures.
- The market value of LGPS funds at end of March 2019 was £287.2 billion (an increase of £16.3 billion or 6.0%) but for the first time, the LGPS in England & Wales is now cashflow negative, with benefit payments rising to £10.4bn while contributions fell to £9.3bn. There are now over 18,000 employers. Local authorities represent around 18.3% of these and have 74% of the members.
- In January 2020 the UK government and the EU ratified the Withdrawal Agreement and the UK's membership of the EU formally ceased on 31 January. The existence of a 'transition period' to 31 December 2020 means that there will be little practical change for the CCG until at least 2021. However, the nature of the future relationship between the UK and the EU is still to be determined and considerable uncertainty persists. In addition to this, there is considerable economic uncertainty as a result of the coronavirus. The Pension Fund will need to ensure that its investment strategy has considered potential outcomes of both these issues.

#### Governance

- The Scheme Advisory Board (SAB) has published the *Good Governance – Phase II Report*. Proposals include having a single named officer responsible for the delivery of LGPS related activity for a fund, an enhanced annual governance compliance statement and establishing a set of key performance indicators.
- SAB is also consulting on Responsible Investment guidance to assist and help investment decision makers.
- The Pensions Regulator continues to apply pressure on pension schemes to improve the quality of scheme member data. The 2019 valuation process will likely have thrown up some data issues (large or small) that need addressing.

#### Financial reporting and audit – raising the bar

- The Financial Reporting Council (FRC) has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge, and to undertake more robust testing as detailed in Appendix 1.
- Our work in 2018/19 has highlighted areas where financial reporting, in particular Level 3 and Financial Instrument investment valuations and disclosures, needs to be improved, with a corresponding increase in audit procedures.

### Our response

- We will consider whether your financial position leads to material uncertainty about the going concern of the Pension Fund and will review related disclosures in the financial statements.

- We will consider the Pension Fund's responses to the SAB initiatives and whether they impact upon our risk assessment.
- We will consider the impact of any data issues raised as part of the 2019 on the risks identified as part of our 2019/20 audit.

- As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and financial reporting. Our proposed work and fee, as set further in our Audit Plan and is subject to PSAA agreement.

### 3. 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
<b>The revenue cycle includes fraudulent transactions (rebutted)</b>	<p>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.</p> <p>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:</p> <ul style="list-style-type: none"> <li>• there is little incentive to manipulate revenue recognition</li> <li>• opportunities to manipulate revenue recognition are very limited</li> <li>• the culture and ethical frameworks of local authorities, including Shropshire Pension Fund, mean that all forms of fraud are seen as unacceptable</li> </ul> <p>Therefore we do not consider this to be a significant risk for Shropshire Pension Fund.</p>	<p>Therefore we do not consider this to be a significant risk for Shropshire Pension Fund</p>
<b>Management over-ride of controls</b>	<p>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</p> <p>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.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate the design effectiveness of management controls over journals</li> <li>• analyse the journals listing and determine the criteria for selecting high risk unusual journals</li> <li>• test unusual journals recorded during the year and after the draft accounts stage for appropriateness and corroboration</li> <li>• gain an understanding of the accounting estimates and critical judgements applied made by management and consider their reasonableness with regard to corroborative evidence</li> <li>• evaluate the rationale for any changes in accounting policies, estimates or significant unusual transactions.</li> </ul>

### 3. Significant risks identified

Risk	Reason for risk identification	Key aspects of our proposed response to the risk
<b>Valuation of Level 3 Investments</b>	<p>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.</p> <p>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</p> <p>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.</p> <p>Management utilise the services of investment managers and custodians as valuation experts to estimate the fair value as at 31 March 2020.</p> <p>We therefore identified valuation of Level 3 investments as a significant risk, which was one of the most significant assessed risks of material misstatement.</p>	<p>We will:</p> <ul style="list-style-type: none"> <li>• evaluate management's processes for valuing Level 3 investments</li> <li>• 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</li> <li>• independently request year-end confirmations from investment managers and custodians</li> <li>• 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 2020 with reference to known movements in the intervening period and</li> <li>• in the absence of available audited accounts, we will evaluate the competence, capabilities and objectivity of the valuation expert</li> <li>• test revaluations made during the year to see if they had been input correctly into the Pension Fund's asset register</li> <li>• where available review investment manager service auditor report on design effectiveness of internal controls.</li> </ul>

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.

## 4. Other matters

### Other work

The Pension Fund is administered by Shropshire Council (the 'Council'), and the Pension 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 Pension Fund, such as:

- We read any other information published alongside the Council's financial statements to check that it is consistent with the Pension 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.

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### 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 Pension Fund's ability to continue as a going concern" (ISA (UK) 570).

Currently, the accounts of the Pension Fund are expected to be prepared on a going concern basis. We will review management's assessment of the going concern assumption and any material uncertainties, and evaluate the disclosures in the financial statements.

# 5. 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

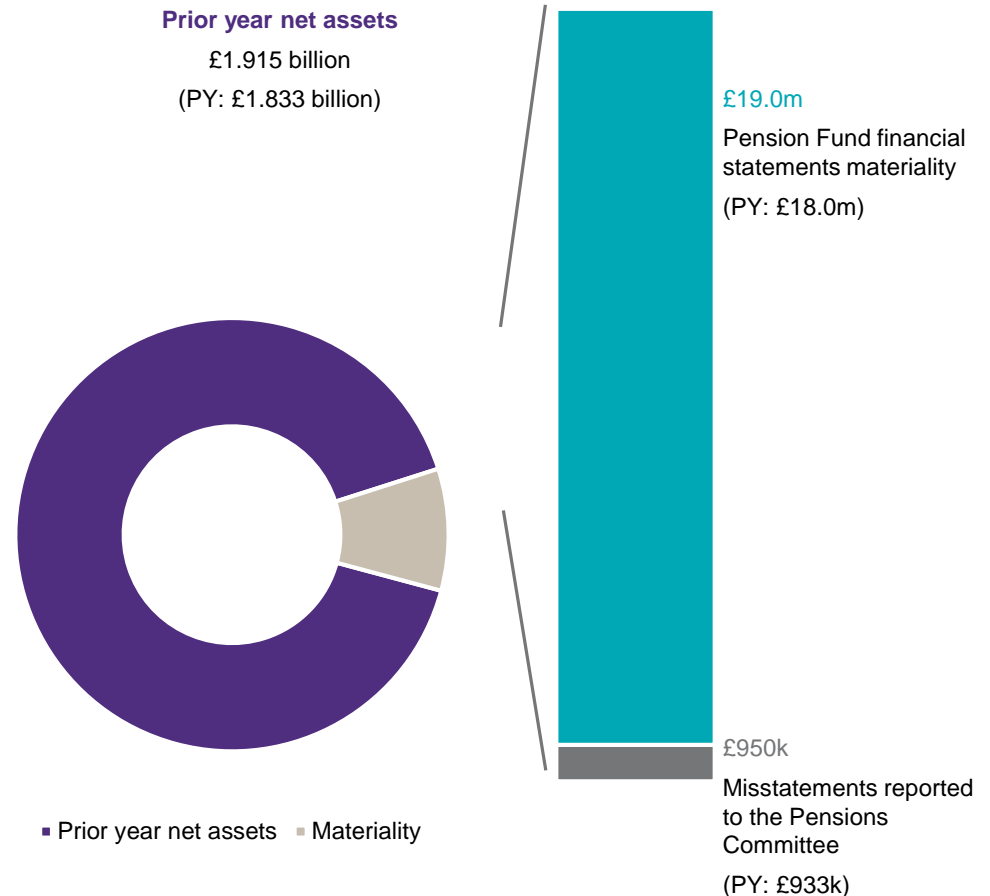
We have determined financial statement materiality based on a proportion of the net assets of the Pension Fund for the financial year. In the prior year we used the same benchmark. Materiality at the planning stage of our audit is £19.0m (PY £18.0m) for the Pension Fund, which equates to 1% of your prior year net assets for the year.

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.

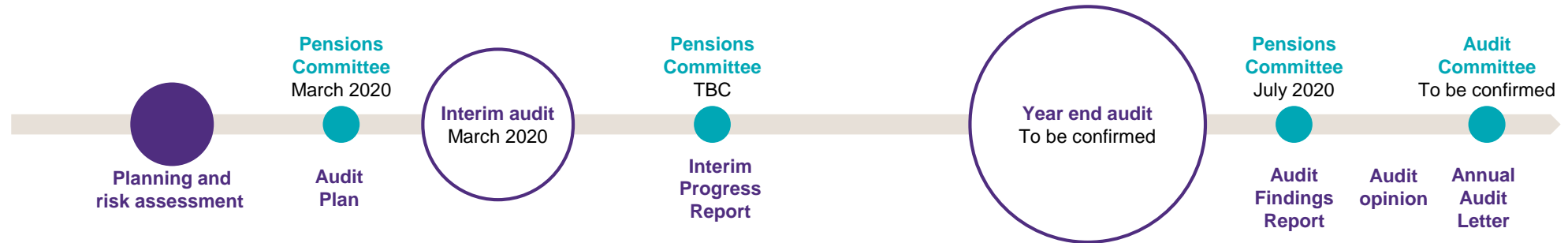
## Matters we will report to the Pensions Committee

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 Pension Fund, we propose that an individual difference could normally be considered to be clearly trivial if it is less than £950k (PY £933k).

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.



## 6. Audit logistics & team



### Richard Percival, Key Audit Partner

Richard's role will be to lead our relationship with you. He will take overall responsibility for the delivery of a high quality audit, meeting the highest professional standards and adding value to the Pension Fund.



### Terry Tobin, Senior Audit Manager

Terry's role will be to be a key contact with the senior management and the Pensions Committee.

### Client responsibilities

Where 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. Where the elapsed time to complete an audit exceeds that agreed due to a client not meeting 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 to the agreed timescales. In addition, delayed audits will incur additional audit fees.

### Our requirements

To minimise the risk of a delayed audit, you need to ensure that you:

- produce draft financial statements of good quality by the deadline you have agreed with us, including all notes, the narrative report and the Annual Governance Statement
- 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.

## 7. Audit fees

### Planned audit fees 2019/20

Across all sectors and firms, the FRC has set out its expectation of improved financial reporting from organisations and the need for auditors to demonstrate increased scepticism and challenge and to undertake additional and more robust testing. Within the public sector, where the FRC has recently assumed responsibility for the inspection of local government audit, the regulator requires that all audits achieve a 2A (few improvements needed) rating.

Our work across the sector in 2018/19 has highlighted areas where local government pension fund financial reporting, in particular, scrutiny of the valuation of hard to value investments needs to be improved. Combined with the FRC requirement that 100% of audits achieve a 2A rating this means that additional audit work is required. We have set out below the expected impact on our audit fee. The table overleaf provides more details about the areas where we will be undertaking further testing.

As a firm, we are absolutely committed to meeting the expectations of the FRC with regard to audit quality and local government financial reporting. Our proposed work and fee at the planning stage, as set out below and with further analysis overleaf, is subject to PSAA agreement.

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	Actual Fee 2017/18	Actual Fee 2018/19	Proposed fee 2019/20
Pension Fund Audit	23,427	18,039	18,039
Additional fees	0	2,000	4,250
<b>Total audit fees (excluding VAT)</b>	<b>23,427</b>	<b>20,039</b>	<b>22,289</b>

### Assumptions:

In setting the above fees, we have assumed that the Pension Fund will:

- prepare a good quality set of accounts, supported by comprehensive and well-presented working papers which are ready at the start of the audit
- provide appropriate analysis, support and evidence to support all critical judgements and significant judgements made during the course of preparing the financial statements
- provide early notice of proposed complex or unusual transactions which could have a material impact on the financial statements.

### Relevant professional standards:

In preparing our fee estimate, we have had regard to all relevant professional standards, including paragraphs 4.1 and 4.2 of the FRC's [Ethical Standard](#) which stipulate that the Engagement Lead (Key Audit Partner) must set a fee sufficient to enable the resourcing of the audit with staff of appropriate skills, time and abilities to deliver an audit to the required professional standard.

# Audit fee variations – Further analysis

## Planned audit fees

The table below shows the planned variations to the original scale fee for 2019/20 based on our best estimate at the audit planning stage. Further issues identified during the course of the audit may incur additional fees.

Audit area	£	Rationale for fee variation
Scale fee	18,039	
Raising the bar	2,800	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms needs to improve across local audit. This will require additional supervision and leadership, as well as additional challenge and scepticism in areas such as journals, estimates, financial resilience and information provided by the entity.
Valuation of level 3 investments	1,450	The Financial Reporting Council (FRC) has highlighted that the quality of work by all audit firms in respect of valuations of hard to value investments needs to improve across the sector. Accordingly, we plan to enhance the scope and coverage of our work to ensure an adequate level of audit scrutiny and challenge over the assumptions and evidence that underpin the valuations of level 3 investments this year to reflect the expectations of the FRC and ensure we issue a safe audit opinion.
Revised scale fee (to be approved by PSAA)	22,289	

## 8. 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

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 Pension Fund.

Service	£	Threats	Safeguards
<b>Audit related:</b>			
	Nil		
<b>Non Audit:</b>			
Provision of IAS 19 Assurances to Scheme Employer auditors	3,000	None	We are required to respond to requests received from other auditors of admitted bodies for assurance in respect of information held by the Fund and provided to the actuary to support their individual IAS 19 calculations. Our estimate is that the fee for this will be £3,000.

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# Appendices

**A. Audit Quality – national context**

# Appendix A: Audit Quality – national context

## What has the FRC said about Audit Quality?

The Financial Reporting Council (FRC) publishes an annual Quality Inspection of our firm, alongside our competitors. The Annual Quality Review (AQR) monitors the quality of UK Public Interest Entity audits to promote continuous improvement in audit quality.

All of the major audit firms are subject to an annual review process in which the FRC inspects a small sample of audits performed from each of the firms to see if they fully conform to required standards.

The most recent report, published in July 2019, shows that the results of commercial audits taken across all the firms have worsened this year. The FRC has identified the need for audits to:

- improve the extent and rigour of challenge of management in areas of judgement
- improve the consistency of audit teams' application of professional scepticism
- strengthen the effectiveness of the audit of revenue
- improve the audit of going concern
- improve the audit of the completeness and evaluation of prior year adjustments.

The FRC has also set all firms the target of achieving a grading of '2a' (limited improvements required) or better on all FTSE 350 audits. We have set ourselves the same target for public sector audits from 2019/20.

## Other sector wide reviews

Alongside the FRC, other key stakeholders including the Department for Business, energy and Industrial Strategy (BEIS) have expressed concern about the quality of audit work and the need for improvement. A number of key reviews into the profession have been undertaken or are in progress. These include the review by Sir John Kingman of the Financial Reporting Council (Dec 2018), the review by the Competition and Markets Pension Fund of competition within the audit market, the ongoing review by Sir Donald Brydon of external audit, and specifically for public services, the Review by Sir Tony Redmond of local Pension Fund financial reporting and external audit. As a firm, we are contributing to all these reviews and keen to be at the forefront of developments and improvements in public audit.

## What are we doing to address FRC findings?

In response to the FRC's findings, the firm is responding vigorously and with purpose. As part of our Audit Investment Programme (AIP), we are establishing a new Quality Board, commissioning an independent review of our audit function, and strengthening our senior leadership at the highest levels of the firm, for example through the appointment of Fiona Baldwin as Head of Audit. We are confident these investments will make a real difference.

We have also undertaken a root cause analysis and put in place processes to address the issues raised by the FRC. We have already implemented new training material that will reinforce the need for our engagement teams to challenge management and demonstrate how they have applied professional scepticism as part of the audit. Further guidance on auditing areas such as revenue has also been disseminated to all audit teams and we will continue to evolve our training and review processes on an ongoing basis.

## What will be different in this audit?

We will continue working collaboratively with you to deliver the audit to the agreed timetable whilst improving our audit quality. In achieving this you may see, for example, an increased expectation for management to develop properly articulated papers for any new accounting standard, or unusual or complex transactions. In addition, you should expect engagement teams to exercise even greater challenge management in areas that are complex, significant or highly judgmental which may be the case for accounting estimates, going concern, related parties and similar areas. As a result you may find the audit process even more challenging than previous audits. These changes will give the audit committee – which has overall responsibility for governance - and senior management greater confidence that we have delivered a high quality audit and that the financial statements are not materially misstated. Even greater challenge of management will also enable us to provide greater insights into the quality of your finance function and internal control environment and provide those charged with governance confidence that a material misstatement due to fraud will have been detected.

We will still plan for a smooth audit and ensure this is completed to the timetable agreed. However, there may be instances where we may require additional time for both the audit work to be completed to the standard required and to ensure management have appropriate time to consider any matters raised. This may require us to agree with you a delay in signing the announcement and financial statements. To minimise this risk, we will keep you informed of progress and risks to the timetable as the audit progresses.

We are absolutely committed to delivering audit of the highest quality and we should be happy to provide further detail about our improvement plans should you require it.



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# Informing the audit risk assessment for Shropshire Pension Fund 2019/20

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Agenda Item 8

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.

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## Purpose

The purpose of this report is to contribute towards the effective two-way communication between Shropshire Pension Fund's external auditors and the Council's Pensions 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 Pensions Committee under auditing standards.

## Background

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

This two-way communication assists both the auditor and the Pensions 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 Pensions Committee and supports the Pensions 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 Pensions Committee's oversight of the following areas:

- General Enquiries of Management
- Fraud,
- Laws and Regulations,
- Going Concern,
- Related Parties, and
- Accounting Estimates.

## Purpose

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

## General Enquiries of Management

Question	Management response
<p>1. What do you regard as the key events or issues that have a significant impact on the financial statements 2019/20?</p>	<p>No events or issues expected to have a significant impact on financial statements.</p>
<p>2. Have you considered the appropriateness of the accounting policies adopted by Shropshire Pension Fund? Have there been any events or transactions that may cause you to change or adopt new accounting policies?</p>	<p>Yes.</p> <p>No.</p>
<p>3. Is there any use of financial instruments, including derivatives?</p>	<p>Only for efficient portfolio management for risk management purposes in LDI and equity protection strategies.</p>
<p>4. Are you aware of any significant transaction outside the normal course of business?</p>	<p>No</p>

## General Enquiries of Management

Question	Management response
5. Are you aware of any changes in circumstances that would lead to impairment of non-current assets?	No.
6. Are you aware of any guarantee contracts?	N/A
7. Are you aware of the existence of loss contingencies and/or un-asserted claims that may affect the financial statements?	No.
8. Other than in house solicitors, can you provide details of those solicitors utilised by Shropshire Pension Fund during the year. Please indicate where they are working on open litigation or contingencies from prior years?	N/A
9. Have any of the Pension Fund's service providers reported any items of fraud, non-compliance with laws and regulations or uncorrected misstatements which would affect the financial statements?	No.
10. Can you provide details of other advisors consulted during the year and the issue on which they were consulted?	Aon, Mercer & Roger Bartley – Fund's advisors, on investment strategy and valuation.

# Fraud

## Issue

### Matters in relation to fraud

ISA (UK) 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 Pensions Committee and management. Management, with the oversight of the Pensions 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 Pensions Committee should consider the potential for override of controls and inappropriate influence over the financial reporting process.

As Shropshire Pension Fund's external 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 Pensions Committee regarding its processes for identifying and responding to risks of fraud, and
- communication to employees regarding business practices and ethical behaviour.

We need to understand how the Pensions Committee oversees the above processes. We are also required to make inquiries of both management and the Pensions 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 Council's management.

## Fraud risk assessment

Question	Management response
<p>1. Have the Council assessed the risk of material misstatement in the financial statements due to fraud?</p> <p>How has the process of identifying and responding to the risk of fraud been undertaken and what are the results of this process?</p> <p>How do Shropshire Pension Fund's risk management processes link to financial reporting?</p>	<p>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.</p>
<p>2. What have you determined to be the classes of accounts, transactions and disclosures most at risk to fraud?</p>	<p>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.</p>
<p>3. Are you aware of any instances of actual, suspected or alleged fraud, errors or other irregularities either within the Pension Fund as a whole or within specific departments since 1 April 2019?</p> <p>As a management team, how do you communicate risk issues (including fraud) to those charged with governance?</p>	<p>No</p> <p>Regular reports issued to the Pension Committee.</p>

# Fraud risk assessment

Question	Management response
<p>4. Have you identified any specific fraud risks? Do you have any concerns there are areas that are at risk of fraud? Are there particular locations within the Pension Fund where fraud is more likely to occur?</p>	<p>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.</p>
<p>5. What processes do the Pension Fund have in place to identify and respond to risks of fraud?</p>	<p>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.</p> <p>In addition systems and processes are designed by managers and users to minimise the risk of fraud and corruption.</p> <p>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'.</p>
<p>6. How would you assess the overall control environment for the Pension Fund, including: the process for reviewing the effectiveness the system of internal control; internal controls, including segregation of duties; exist and work effectively? If not where are the risk areas and what mitigating actions have been taken? What other controls are in place to help prevent, deter or detect fraud? 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)?</p>	<p>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.</p>

## Fraud risk assessment

Question	Management response
7. Are there any areas where there is potential for misreporting?	No.
<p>8. How do the Pension fund communicate and encourage ethical behaviours and business processes of it's staff and contractors?</p> <p>How do you encourage staff to report their concerns about fraud?</p> <p>What concerns are staff expected to report about fraud?</p> <p>Have any significant issues been reported?</p>	<p>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.</p> <p>No.</p>
9. From a fraud and corruption perspective, what are considered to be high-risk posts?	No posts considered high risk. Clear segregation of duties to minimise risk.
<p>10. Are you aware of any related party relationships or transactions that could give rise to instances of fraud?</p> <p>How do you mitigate the risks associated with fraud related to related party relationships and transactions?</p>	No.

## Fraud risk assessment

Question	Management response
<p>11. What arrangements are in place to report fraud issues and risks to the Pensions Committee?</p> <p>How does the Pensions Committee exercise oversight over management's processes for identifying and responding to risks of fraud and breaches of internal control?</p> <p>What has been the outcome of these arrangements so far this year?</p>	<p>See responses above.</p>
<p>12. Are you aware of any whistle blowing potential or complaints by potential whistle blowers? If so, what has been your response?</p>	<p>No.</p>
<p>13. Have any reports been made under the Bribery Act?</p>	<p>No.</p>

# Law and regulations

## Issue

### Matters in relation to laws and regulations

ISA (UK) 250 requires us to consider the impact of laws and regulations in an audit of the financial statements.

Management, with the oversight of the Pensions Committee, is responsible for ensuring that the Pension Fund'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 Pensions 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
<p>1. How does management gain assurance that all relevant laws and regulations have been complied with?</p>	<p>The Council has a Monitoring Officer and S151 Officer who provide assurance that all relevant laws and regulations have been complied with.</p>
<p>2. What arrangements does the Pension Fund have in place to prevent and detect non-compliance with laws and regulations? Are you aware of any changes to Shropshire Pension Fund's regulatory environment that may have a significant impact on the Pension Fund's financial statements?</p>	<p>Refer to response below.</p>
<p>2. How is the Pensions Committee provided with assurance that all relevant laws and regulations have been complied with?</p>	<p>The Council has a Monitoring Officer and S151 Officer who provide assurance that all relevant laws and regulations have been complied with.</p> <p>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.</p>
<p>3. Have there been any instances of non-compliance or suspected non-compliance with laws and regulation since 1 April 2019 with an on-going impact on the 2019/2020 financial statements?</p>	<p>The Section 151 Officer is not aware of any instances of non-compliance with relevant laws and regulations in 2019-20. The Chair of the Pension Fund Committee is not aware of any instances of non-compliance during 2019/20.</p>
<p>4. Is there any actual or potential litigation or claims that would affect the financial statements?</p>	<p>The Section 151 Officer is not aware of any actual or potential litigation or claims that would affect the financial statements.</p>

## Impact of laws and regulations

Question	Management response
5. What arrangements does Shropshire 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.
6. Have there been any report from other regulatory bodies, such as HM Revenues and Customs which indicate non-compliance?	No such reports have been received.

# Going Concern

Issue  
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## Matters in relation to going concern

ISA (UK) 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.

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

## Going concern considerations

Question	Management response
<p>1. Has the management team carried out an assessment of the going concern basis for preparing the financial statements for Shropshire Pension Fund? What was the outcome of that assessment?</p>	<p>Actuarial valuation just been undertaken. No issues identified.</p>
<p>2. Are the financial assumptions in that report (e.g., future levels of income and expenditure) consistent with Pension Fund's business plan and the financial information provided to the Pension Fund throughout the year?</p>	<p>Yes.</p>

## Going concern considerations

Question	Management response
<p>3. Are the implications of statutory or policy changes appropriately reflected in Business Plan, financial forecasts and report on going concern?</p>	Yes.
<p>4. Have there been any significant issues raised with the Pensions Committee during the year which could cast doubts on the assumptions made? (Examples include adverse comments raised by internal and external audit regarding financial performance or significant weaknesses in systems of financial control).</p>	No.
<p>5. Does a review of available financial information identify any adverse financial indicators including negative cash flow or poor or deteriorating performance against the better payment practice code? If so, what action is being taken to improve financial performance?</p>	No.

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## Going concern considerations

Question	Management response
<p>6. Does Shropshire Pension Fund have sufficient staff in post, with the appropriate skills and experience, particularly at senior manager level, to ensure the delivery of Shropshire Pension Fund's objectives? If not, what action is being taken to obtain those skills?</p>	Yes.
<p>7. Does Shropshire Pension Fund have procedures in place to assess their ability to continue as a going concern?</p>	Yes.
<p>8. Is management aware of the existence of events or conditions that may cast doubt on the Pension Fund's ability to continue as a going concern?</p>	No issues identified.

## Going concern considerations

Question	Management response
<p>Are arrangements in place to report the going concern assessment to the Pensions Committee ?</p> <p>How has the Pensions Committee satisfied itself that it is appropriate to adopt the going concern basis in preparing financial statements?</p>	<p>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.</p>

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# Related Parties

## Issue

### Matters in relation to Related Parties

Shropshire Pension Fund are required to comply with IAS 24 and disclose transactions with entities/individuals that would be classed as related parties. These may include:

- entities that directly, or indirectly through one or more intermediaries, control, or are controlled by the Pension Fund;
- associates;
- joint ventures;
- an entity that has an interest in the authority that gives it significant influence over Shropshire Pension Fund;
- key management personnel, and close members of the family of key management personnel, and
- post-employment benefit plans (pension fund) for the benefit of employees the Pension Fund, or of any entity that is a related party of the Pension Fund.

A disclosure is required if a transaction (or series of transactions) is material on either side, i.e. if a transaction is immaterial from the Pension Fund perspective but material from a related party viewpoint then the Pension Fund must disclose it.

ISA (UK) 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.

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## Relating Parties

Question	Management response
. What controls does the Pension Fund have 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: <ul style="list-style-type: none"><li>• 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.</li><li>• Annual return from senior managers/officers requiring confirmation that read and understood the declaration requirements and stating details of any known related party interests.</li></ul>

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# Accounting estimates

## Issue

### Matters in relation to Related Accounting estimates

Shropshire Pension Fund apply appropriate estimates in the preparation of their financial statements. ISA (UK) 540 sets out requirements for auditing accounting estimates. The objective is to gain evidence that the accounting estimates are reasonable and the related disclosures are adequate.

Under this standard we have to identify and assess the risks of material misstatement for accounting estimates by understanding how the Combined Authority identifies the transactions, events and conditions that may give rise to the need for an accounting estimate.

Accounting estimates are used when it is not possible to measure precisely a figure in the accounts. We need to be aware of all estimates that the Combined Authority is using as part of its accounts preparation; these are detailed in appendix 1 to this report. The audit procedures we conduct on the accounting estimate will demonstrate that:

- the estimate is reasonable; and
- estimates have been calculated consistently with other accounting estimates within the financial statements.

We would ask the Pensions Committee to satisfy itself that the arrangements for accounting estimates are adequate.

# Accounting Estimates

Question	Management response
<p>1. Are management aware of transactions, events, conditions (or changes in these) that may give rise to recognition or disclosure of significant accounting estimates that require significant judgement (other than those in Appendix A)?</p>	No.
<p>2. Are the management arrangements for the accounting estimates, as detailed in Appendix A reasonable?</p>	Yes.
<p>3. How is the Pensions Committee provided with assurance that the arrangements for accounting estimates are adequate ?</p>	See responses above.

## Appendix A Accounting Estimates

Estimate	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a 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



## Appendix A Accounting Estimates

Estimate Page 48	Method / model used to make the estimate	Controls used to identify estimates	Whether Management have used an expert	Underlying assumptions: - Assessment of degree of uncertainty - Consideration of alternative estimates	Has there been a change in accounting method in year?
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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<u>Committee and Date</u>	<u>Item</u>
Pensions Committee	
19 March 2020	
10 am	Public

## FUNDING STRATEGY STATEMENT

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### 1. Summary

- 1.1 The report informs Members of the requirement to publish an updated Funding Strategy Statement. It sets out the Funding Strategy Statement which forms the basis of the 2019 Actuarial Valuation.

### 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. Climate Change Appraisal**

5.1 The Fund takes Responsible Investment very seriously; it is a key process the investment managers go through before investing where thorough due diligence is undertaken considering all risks including climate change. The investment managers vote on the Fund's behalf, BMO engage with companies on the Fund's behalf and the Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and a signatory to the UK Stewardship Code.

## **6. Background**

6.1 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.

6.2 The Shropshire Fund first produced a Funding Strategy Statement in 2004. This Statement was revised in 2017 following the last actuarial valuation. The Statement outlines the basis on which the actuarial valuation of the Fund is conducted. It is now necessary to update the Funding Strategy Statement for the 2019 actuarial valuation.

6.3 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).

## **7. Purpose of the Funding Strategy Statement**

7.1 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.

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

## 8 Consultation and Publication

- 8.1 The preparation of the Statement has run in parallel with the 2019 actuarial valuation. In consultation with Mercer, officers have updated the FSS to incorporate the latest valuation assumptions. A copy of the Funding Strategy Statement (FSS) is attached at Appendix A.
- 8.2 In preparing the FSS the Administering Authority is required to consult with participating employers. Employers were updated on the content of the draft Funding Strategy Statement at the Employers Meeting on 15 November 2019. All employers were sent a draft of the updated FSS and asked for comments back by the 9 March 2020. No comments were received back during the consultation process. Members were made aware of the changes to the draft FSS at the last committee meeting in January 2020, where Mercer provided an update.
- 8.3 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.

## 9. Monitoring and Review

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

<b>List of Background Papers (This MUST be completed for all reports, but does not include items containing exempt or confidential information)</b> Pensions Committee, 24 January 2020, Draft Funding Strategy Statement.
<b>Cabinet Member</b> N/A
<b>Local Member</b> N/A
<b>Appendices</b> A – Funding Strategy Statement

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# FUNDING STRATEGY STATEMENT

## SHROPSHIRE COUNTY PENSION FUND

MARCH 2020

Shropshire Council

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

## EXECUTIVE SUMMARY

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

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

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

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

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



### THE FUND’S OBJECTIVE

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

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

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



### SOLVENCY AND LONG TERM COST EFFICIENCY

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

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

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

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

### RECOVERY PLAN AND CONTRIBUTIONS



As the solvency level of the Fund is 94% at the valuation date i.e. the assets of the Fund are less than the liabilities, a recovery plan needs to be implemented such that additional contributions are paid into the Fund to meet the shortfall. (In a similar manner, where an individual employer is in surplus it may in certain circumstances be appropriate to reduce the overall contributions payable to reflect this, by way of a "surplus offset".)

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 (surplus offset contributions, in cases where there is a funding surplus, will normally be expressed as a percentage of pensionable payroll). 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 target recovery period for the Fund as a whole is 13 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.



### MC CLOUD

The Government has confirmed that a remedy is required for the LGPS in relation to the McCloud judgment. Therefore, the Fund has considered its policy in relation to costs that could emerge from the McCloud judgment in line with the guidance from the Scheme Advisory Board in conjunction with the Actuary. Whilst the remedy is not known and may not be known for some time, for the purpose of this valuation, when considering the appropriate contribution provision, we have assumed that the judgment would have the effect of removing the current age criteria applied to the underpin implemented in 2014 for the LGPS. This underpin therefore would apply to all active members as at 1 April 2012. The relevant estimated costs have been quantified and notified to employers on this basis but also highlighting that the final costs may be different. Employers will be

able to choose to include these estimated costs over 2020/23 in their certified contributions. Alternatively, they will need to make allowance within their budgets and note that additional contributions could be payable if the remedy is known before the next valuation.



## 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 1.85% per annum and for determining the future service (“Primary”) contribution rates is 2.25% 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:

- Mandatory Scheme Employers - for example new academies (see later section)
- Designated bodies - those that are permitted to join if they pass a resolution for example Town and Parish Councils.
- 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.

The key objective for the Fund is to only admit employers where the risk to the Fund is mitigated as far as possible. The different employers pose different risks to the Fund.

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) required to be paid will be paid from the Fund to the exiting employer within 6 months of cessation (or such longer period as may be agreed in the individual case), 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 general 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 normally be subsumed by the guarantor
- Otherwise, any surplus would normally 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.

In practice, in the event of a surplus the Administering Authority will also have regard to the provisions of The Local Government Pension Scheme (Amendment) Regulations 2020 in determining the amount of any exit credit payable, and any such amount determined will be paid to the exiting employer within 6 months of cessation or such longer period as may be agreed in the individual case. The Fund’s Employer Events Framework Policy Document will be updated to set out how the Fund will exercise its discretion in this area, and the relevant sections of that policy document will be deemed to be part of this FSS.

#### **4. Insurance arrangements**

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

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# 1

## INTRODUCTION

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

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

### BENEFITS

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

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

### EMPLOYER CONTRIBUTIONS

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

### PRIMARY RATE

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

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

### **SECONDARY RATE**

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

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

# 2

## PURPOSE OF FSS IN POLICY TERMS

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

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

The purpose of this Funding Strategy Statement is therefore:

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

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

# 3

## AIMS AND PURPOSE OF THE FUND

### THE AIMS OF THE FUND ARE TO:

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

### THE PURPOSE OF THE FUND IS TO:

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

# 4

## RESPONSIBILITIES OF THE KEY PARTIES

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

### KEY PARTIES TO THE FSS

The **Administering Authority** should:

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

The **Individual Employer** should:

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

The **Fund Actuary** should:

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

# 5

## SOLVENCY FUNDING TARGET

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

### SOLVENCY AND LONG TERM EFFICIENCY

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

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

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

### DETERMINATION OF THE SOLVENCY FUNDING TARGET AND 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 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 2020 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 2019 actuarial valuation:

- The Fund does not believe it appropriate for offsets to total contributions in respect of any surplus to be allowed where the employer has a deficit on their termination assumptions, 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.
- The target deficit recovery/surplus offset period for the Fund as a whole will reduce by three years, to 13 years at the 2019 valuation, so as to maintain same "end point". For individual employers who are open to new members, subject to consideration of affordability, as a general rule the deficit recovery/surplus offset period will reduce by 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 deficit 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 Recovery Plan in **Appendix B**).
- 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 2020/23 in respect of an employer's surplus or deficit (the Secondary rate may be expressed as a percentage of pensionable payroll in cases where there is a funding surplus)

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 2023 based on the results of the 2022 actuarial valuation.

- Where increases in employer contributions are required from 1 April 2020, following completion of the 2019 actuarial valuation, if the Administering Authority agrees then the increase from the rates of contribution payable in the year 2020/21 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 6 months of cessation or such longer period as may be agreed in the individual case). 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 either the case being a "risk-sharing" arrangement (where the exiting employer is not responsible for their final position in the Fund), or 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.

Otherwise, 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. In the event of a surplus the Administering Authority will have regard to the provisions of The Local Government Pension Scheme (Amendment) Regulations 2020 in determining the amount of any exit credit payable, and any such amount determined will be paid to the exiting employer within 6 months of cessation or such longer period as may be agreed in the individual case. The Fund's Employer Events Framework Policy Document will be updated to set out how the Fund will exercise its discretion in this area, and the relevant sections of that policy document will be deemed to be part of this FSS.

In the event of parties unreasonably seeking to crystallise the exit credit on termination, the Fund will consider its overall policy and seek to recover termination deficits as opposed to allowing them to be subsumed with no impact on contribution requirements until the next assessment of the contribution requirements for the guarantor. Equally where a guarantor decides not to underwrite the residual liabilities the basis of assessment on termination will assume the liabilities are orphaned and thus the minimum risk basis will apply.

#### **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.

# 6

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

The results of the 2019 valuation show the liabilities to be 94% covered by the current assets, with the funding deficit of 6% 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. This would result in real return of less than CPI 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 54%.

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
<b>Total Equities</b>	<b>47.0</b>	<b>42.0 – 52.0</b>
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
<b>Total Alternatives</b>	<b>25.5</b>	<b>20.5 – 30.5</b>
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
<b>Total Bonds</b>	<b>27.5</b>	<b>22.5 – 32.5</b>
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.

The investment strategy set out above and individual return expectations on those asset classes equate to an overall best estimate average expected return of 2.5% per annum in excess of CPI inflation as at 31 March 2019 i.e. a 50/50 chance of achieving this real return. For the purposes of setting a funding strategy however, the Administering Authority believes that it is appropriate to take a margin for prudence on these return expectations (see further comment in Appendix A).

# 7

## 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.

# 8

## 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.

### COST MANAGEMENT AND THE MCCLOUD JUDGEMENT

The cost management process was set up by HMT, with an additional strand set up by the Scheme Advisory Board (for the LGPS). The aim of this was to control costs for employers and taxpayers via adjustments to benefits and/or employee contributions.

As part of this, it was agreed that employers should bear the costs/risks of external factors such as the discount rate, investment returns and inflation changes, whereas employees should bear the costs/risks of other factors such as wage growth, life expectancy changes, ill health retirement experience and commutation of pension.

The outcomes of the cost management process were expected to be implemented from 1 April 2019, based on data from the 2016 valuations for the LGPS. This has now been put on hold due to age discrimination cases brought in respect of the firefighters and judges schemes, relating to protections provided when the public sector schemes were changed (which was on 1 April 2014 for the LGPS and 1 April 2015 for other Schemes).

It is not known how these cases will affect the LGPS or the cost management process at this time. The Scheme Advisory Board issued guidance which sets out how the McCloud case should be allowed for within the 2019 valuation.

The potential impact of the judgement (based on the information available at the time) has been quantified and communicated to employers as part of the 2019 valuation. Employers will be able to

choose to include these estimated costs over 2020/23 in their certified contributions. Alternatively, they will need to make allowance within their budgets and note that additional contributions could be payable if the remedy is known before the next valuation.

# 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 1.85% per annum above CPI inflation i.e. a real return of 1.85% per annum, equating to a total discount rate of 4.25% 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 1.25% p.a. over the inflation assumption as described above. This includes allowance for promotional increases.

### **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. 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 2.25% per annum above the long term average assumption for consumer price inflation of 2.4% per annum, giving a total discount rate of 4.65% 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 2019 ACTUARIAL VALUATION**

<b>Long-term yields</b>	
Market implied RPI inflation	3.4% p.a.
<b>Solvency Funding Target financial assumptions</b>	
Investment return/Discount Rate	4.25% p.a.
CPI price inflation	2.4% p.a.
Long Term Salary increases	3.65% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.
<b>Future service accrual financial assumptions</b>	
Investment return/Discount Rate	4.65% p.a.
CPI price inflation	2.4% p.a.
Long Term Salary increases	3.9% p.a.
Pension increases/indexation of CARE benefits	2.4% p.a.

### Life expectancy assumptions

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

	<b>Base Table</b>	<b>Improvements</b>	<b>Adjustment (M / F)</b>
Current pensioners:			
Normal health	S3PA	CMI_2018 [1.5%]	93% / 88%
Ill-health	S3PA	CMI_2018 [1.5%]	115% / 126%
Dependants	S3PMA / S3DFA	CMI_2018 [1.5%]	124% / 87%
Future dependants	S3PMA / S3DFA	CMI_2018 [1.5%]	119% / 106%
Current active / deferred:			
Active normal health	S3PA	CMI_2018 [1.5%]	98% / 90%
Active ill-health	S3PA	CMI_2018 [1.5%]	116% / 139%
Deferred	S3PA	CMI_2018 [1.5%]	117% / 104%
Future dependants	S3PMA / S3DFA	CMI_2018 [1.5%]	126% / 113%

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

# APPENDIX B – EMPLOYER RECOVERY PLANS

As the assets of the Fund are less than the liabilities at the effective date, a 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. However, some employers have funding surpluses and in these cases any "surplus offset" will normally be determined as a percentage of pensionable pay.

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 target recovery periods is summarised in the table below. Individual employer circumstances may dictate that a different recovery period is applied in specific cases:

Category	Target Recovery Period	Derivation
Fund Employers	13 years	Determined by reducing the recovery period from the preceding valuation by 3 years.
Open Admitted Bodies	13 years	Determined by reducing the recovery period from the preceding valuation by 3 years.
Closed Employers	Based on the future working lifetime of the membership	Determined by the future working life of the membership.
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 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.

For an employer without a guarantor in the Fund, any surplus offset will normally only be allowed to the extent that the employer has a surplus on its termination basis.

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 2020/23. 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).

**Recovery period:** the target length of time over which the current deficit or surplus is intended to be paid off. A shorter period will give rise to a higher annual contribution in the case of a deficit, 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.

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<u>Committee and Date</u>
Pensions Committee
19 March 2020
10am

<u>Item</u>
Public

## **PENSION FUND TREASURY STRATEGY 2020/21**

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

### **1. Summary**

- 1.1 This report proposes the Pension Fund Treasury Strategy for 2020/21 for the small cash balances that the Administering Authority maintains to manage the day to day transactions of the Fund. These transactions include the payment of pensions and transfers out together with the receipt of contributions from employers and transfers into the Fund. From the 1 April 2010 these balances have been invested separately in accordance with the Pension Fund Treasury Strategy.

### **2. Recommendations**

- 2.1 Members are asked to delegate authority to the Scheme Administrator (Section 151 Officer) to manage the Pension Funds day to day cash balances.
- 2.2 Members are asked to approve, with any comments, the Pension Fund Treasury Strategy.
- 2.3 Members are asked to authorise the Scheme Administrator (Section 151 Officer) to place deposits in accordance with the Pension Fund's Treasury Strategy.
- 2.4 Members are also asked to delegate authority to the Scheme Administrator (Section 151 Officer) to add or remove institutions from the approved lending list and amend cash and period limits as necessary in line with the Administering Authority's creditworthiness policy.

## **REPORT**

### **3. Risk Assessment and Opportunities Appraisal**

- 3.1 Risk Management is part of the Pension Fund's structured decision-making process by ensuring that investment decisions are taken by those best qualified to take them.
- 3.2 The recommendations contained in this report are compatible with the provisions of the Human Rights Act 1998.

- 3.3 Compliance with the CIPFA Code of Practice on Treasury Management, adhering to the Council's Treasury Policy Statement and Treasury Management Practices together with the rigorous internal controls will enable the Fund to manage the risk associated with Treasury Management activities and the potential for financial loss
- 3.4 There are no direct environmental, equalities or climate change consequences arising from this report.

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

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

#### **5. Climate Change Appraisal**

- 5.1 The Fund takes Responsible Investment very seriously; it is a key process the investment managers go through before investing where thorough due diligence is undertaken considering all risks including climate change. The investment managers vote on the Fund's behalf, BMO engage with companies on the Fund's behalf and the Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and a signatory to the UK Stewardship Code.

#### **6. Background**

- 6.1 The Fund has assets of over £2.0 billion which are managed by the Funds Global Custodian, Northern Trust. Shropshire Council as the Administering Authority maintains a small working cash balance (currently around £4 million). This Treasury Strategy relates solely to the Pension Fund cash managed by Shropshire Council as the Administering Authority.
- 6.2 The Administering Authority aims to keep the Pension Fund cash held for day-to-day transactions to a minimum level. Fund cash is currently managed separately and invested on the money markets in accordance with Shropshire Council's Treasury Strategy. A separate Pension Fund account is credited with investment income.
- 6.3 Investment regulations issued by the DCLG in December 2009 no longer permit pension fund cash to be pooled with the cash balances of Shropshire Council from 1st April 2010. In view of these changes a separate Pension Fund Treasury Strategy must be approved each year.

#### **7. Investment Policy**

- 7.1 The Fund's investment policy is based on the Treasury Strategy adopted by Shropshire Council. The investment policy will have regard to the Ministry of Housing Communities for Local Government (MHCLG) Guidance on Local Government Investments, and the revised CIPFA Treasury Management Code of Practice.
- 7.2 The investment priorities for the management of Pension Fund cash balances are the security of capital and the liquidity of its investments. The Fund will also aim to achieve the optimum return on its cash investments commensurate with proper levels of security and liquidity.

- 7.3 The MHCLG guidance requires Shropshire Council to categorise their investments as either “specified” or “non specified” investments. Shropshire Council as Administering Authority for the Pension Fund will adopt these same categorisations for the investment of Pension Fund cash. Specified investments are deemed as “safer” investments and must meet the following conditions:-
- be denominated in Sterling
  - have less than 12 months duration
  - not constitute the acquisition of share or loan capital
  - be invested in the government or a local authority or a body or investment scheme with a “high” credit quality.
- 7.4 The Fund is required to specify its creditworthiness policy and how frequently credit ratings should be monitored. It must also specify the minimum level of such investments.
- 7.5 The Fund is required to look at non specified investments in more detail. It must set out:
- Procedures for determining which categories of non-specified investments should be used
  - The categories deemed to be prudent
  - The maximum amount deemed to be held in each category
  - The maximum period for committing funds
- 7.6 As all of the Funds’ investments will be placed in sterling for periods up to 12 months with highly credit rated institutions all investments will be classified as specified investments. It is recommended that the maximum limit of £4 million is set for other Local Authorities and institutions which are part nationalised and £2 million for institutions which meet the minimum credit ratings but are not supported by the Government. Any changes to the minimum credit ratings or maximum limits must be approved by the Scheme Administrator (Section 151 Officer).
- 7.7 The Fund may use for the prudent management of its cash balances any of the specified investments detailed on Appendix A.
- 7.8 In order not to rely solely on institutions credit ratings there have also been a number of other developments since the credit crunch crisis which require separate consideration and approval. Part Nationalised Banks in the UK effectively take on the creditworthiness of the Government itself i.e. deposits made with them are effectively being made to the Government. This is because the Government owns significant stakes in the banks and this ownership is set to continue. Link Asset Services are still supportive of the Fund using these institutions with a maximum 12 month duration. For this reason National Westminster Bank which are part of the RBS group are included on the approved counterparty list.

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

## 8. Creditworthiness Policy

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

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

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

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

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

- 8.4 Although the maximum period limit is currently 5 years the Fund will take a more prudent approach and not invest for any longer than 12 months.
- 8.5 All credit ratings are monitored continuously and formally updated as and when changes are required by the Administering Authority. The Administering Authority is alerted to changes to ratings of all three agencies through its use of the Link's creditworthiness service. The Fund will use the same policy when constructing its approved lending list. If a counterparty's or investment scheme's rating is downgraded with the result that it no longer meets the Funds minimum criteria, the further use of that counterparty will be withdrawn immediately.
- 8.6 Sole reliance will not be placed on the use of this external service. Officers also use market data and information and regularly monitor the financial press.

## 9. Country Limits

- 9.1 It is recommended that the Fund will only use approved counterparties from countries with a minimum sovereign credit rating of AA- from Fitch Ratings (or equivalent from other agencies). It is recommended that UK institutions continue to be used unless the sovereign credit rating falls below A. Lending is currently restricted to the UK which currently has a sovereign credit rating of AA and Sweden which has the highest possible sovereign rating of AAA. The S151 Officer has delegated authority to revert back to placing investments in countries with a minimum sovereign credit rating of AA- in line with Link's revised creditworthiness policy if required.

## 10. Investment Strategy

- 10.1 The Monetary Policy Committee (MPC) delivered a 0.25% increase in Bank rate to 0.75% in August 2018. It is felt that the bank rate will remain at its current level of 0.75% until March 2021 when it is expected to rise to 1.00%. The Bank rate is then expected to rise to 1.25% by June 2022. This view is based on the latest forecasts obtained by the Authority's treasury advisor, Link Asset Services.
- 10.2 It is anticipated that balances available for investment will be between £1 - 8 million which will be invested short term in accordance with the approved lending list. Separate lending and period limits have been approved for investment of Pension Fund cash.
- 10.3 Short term cash flow requirements limit the scope for longer term investments. For cash flow generated balances we will seek to utilise the business reserve account with Svenska Handelsbanken and short dated deposits (overnight - 3 months) in order to benefit from the compounding of interest.
- 10.4 All investments will be made in accordance with the Funds treasury strategy and in accordance with the MHCLG investment regulations.

## 11. Short Term Borrowing

- 11.1 The current banking and investment arrangements mean the Fund has not needed to borrow on the money markets to fund day to day transactions. The

investment regulations give the Administering Authority an explicit power to borrow for up to 90 days, for the purpose of the pension fund. This will enable borrowing for cash flow purposes such as to ensure that scheme benefits can be made on time. Any borrowing needs to have an identifiable income from which repayment of the borrowed amount and related interest can be funded.

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

Pension Fund Treasury Strategy 2019/20, Pensions Committee 15 March 2019

**Cabinet Member**

N/A

**Local Member**

N/A

**Appendices**

A. Specified Investment Schedule

**SPECIFIED INVESTMENTS***All investments listed below must be sterling-denominated.*

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

Contact: Justin Bridges on (01743) 252072

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

<b>Money Market Funds (CNAV) &amp; Government Liquidity Funds (including CCLA Fund) &amp; Enhanced Money Market Funds (LVNAV &amp; VNAV)</b>	No	Yes	Yes AAA rated & UK sovereign rating. Enhanced MMFs minimum colour Dark Pink/Light Pink & AAA rated	NO	In-house	the period of investment may not be determined at the outset but would be subject to cash flow and liquidity requirements.  Deposits are repayable at call.
<b>Treasury bills</b> <i>[Government debt security with a maturity less than one year and issued through a competitive bidding process at a discount to par value]</i>  <i>Custodial arrangement required prior to purchase</i>	No	Yes	Govt-backed UK Sovereign Rating	NO	In House	1 year

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**Monitoring of credit ratings:**

All credit ratings will be monitored continuously. If a counterparty or investment scheme is downgraded with the result that it no longer meets the Pension Fund's minimum credit criteria, the use of that counterparty / investment scheme will be withdrawn.

Any intra-month credit rating downgrade which the Pension Fund has identified that affects the Pension Fund pre-set criteria will also be similarly dealt with.

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<u>Committee and Date</u>
Pensions Committee
19 March 2020
10.00am

<u>Item</u>
Public

## CORPORATE GOVERNANCE MONITORING

**Responsible Officer** Ben Driscoll

e-mail: [ben.driscoll@shropshire.gov.uk](mailto:ben.driscoll@shropshire.gov.uk)

Tel: (01743) 252079

### 1. Summary

- 1.1 The report is to inform members of Corporate Governance and socially responsible investment issues arising in the quarter 1<sup>st</sup> October 2019 to 31<sup>st</sup> December 2019.

### 2. Recommendations

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

## REPORT

### 3. Risk Assessment and Opportunities Appraisal

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

### 4. Financial Implications

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

### 5. Climate Change Appraisal

- 5.1 The Fund takes Responsible Investment very seriously; it is a key process the investment managers go through before investing where thorough due diligence is undertaken considering all risks including climate change. The

investment managers vote on the Fund's behalf, BMO engage with companies on the Fund's behalf and the Fund is a member of the Local Authority Pension Fund Forum (LAPFF) and a signatory to the UK Stewardship Code.

## 6. Background

- 6.1 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.
- 6.2 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.

## 7. Manager Voting Activity

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

## 8. Responsible Engagement Activity

- 8.1 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 24 January 2020

**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 issues that we trust you will find of interest.

We engaged with several companies over the quarter, examples of which we give below:

- We discussed with **Anglo American** thermal coal, community engagement and steel recycling.

On thermal coal, we spoke with the CEO and the group's Investor Relations about Anglo's longer-term plan to sell out of thermal coal, but selling these will take time. They are sensitive to the market's dislike of thermal coal. The group will maintain its assets in metallurgical coal.

The group has engaged successfully with local communities in Peru ahead of the construction of their new mine, Quellaveco. The group has spent \$30m on local community projects. One interesting way they have done this is by engaging with church/faith groups because they are more engaged in rural communities than local governments. In our most recent meeting with Anglo, management contrasted their approach with that of Southern Copper (another mining group) which has experienced serious problems and delays in constructing one of their Peruvian mines, Tia Maria, because it did not adequately engage with the community first.

This contrast in approaches between Anglo American and Southern Copper is an example of the benefits of community engagement resulting in good economic outcomes for a business. Anglo American has previously had a patchy history with South American projects, e.g. Minas Rio, so this marks an improvement. The stated community engagement has increased our conviction level that the Quellaveco project will be delivered on time. And even if it isn't, Anglo have reduced their risk by selling a stake in the project to an outside investor.

A further interesting point from our discussion included Anglo's aim to recycle 50% of its steel by 2035.

- In the spring we met with board members from **Barrick Gold** to discuss our concerns over the level of pay proposed for the Chairman, along with other thoughts about governance, safety and incentives. In November, we met with the Chair of the Compensation Committee again to discuss how they were taking account of our comments in the structure and quantum of future incentive arrangements for management. We continued to express some concerns and expect it to be an ongoing dialogue.
- At a follow up meeting in October with board members and other investors of the **Royal Bank of Scotland** (RBS), we asked more specifically about how risks and opportunities are managed at the bank, especially given the issues we had raised earlier in 2019. Given the recent issues with its Ulster Bank brand, Brexit uncertainties, the need for all banks to have heightened cyber security, and rapidly changing customer preferences on banking, we asked how the group prioritises its management of issues. We also asked about what it sees as its key opportunities.

RBS says that it does undertake a materiality assessment but could improve on communicating this to investors. The group aims to be a bank that its customers can depend on and is trying to balance this with the highly criticised closing of some of its smaller branches (other banks have been criticised for this as well). RBS sees opportunities in online banking and in providing the type of financial education / assistance for customers that they find helpful. It is also working on ways to retain the highly talented people that it feels it hires, across all levels of the organisation.

During the meeting, we specifically asked RBS to:

- Increase transparency on its key issues, as it has identified and prioritised them.
- Provide more holistic information on the group's strategy and how it plans to get there.
- Talk more about its opportunities in helping customers with financial data and education.
- Think about how to link pay to real targets that the group sets in line with its key issues.

- We met with the board of **Vodafone** as part of the group's wider investor engagement programme. Overall, the group aims to halve its environmental impact by 2025. It is also working on how to link the group's more material ESG metrics with its long-term incentives. Vodafone sees cyber security and adverse political and regulatory measures as two of its biggest risks and is aiming to manage these effectively. The acquisition of Liberty businesses in several countries improved the strategic position of the group in terms of controlling mobile and fixed line operations intra-market. Vodafone aims to offer high quality service, pricing its contracts accordingly and is focused on customer retention and being a content gateway to consumers. A capital-intensive business, the group is keen to reduce its debt over the short to medium term and continue the operational improvements materially reducing costs and strengthening the balance sheet.
- We followed up with **Tullow Oil** after their appointment to the Board of an individual who has experience in a large real estate company, but who did not bring the type of oil or African experience we have been hoping the board would acquire. Tullow says that the group will look for subsequent board appointments to reflect the type of experience we have requested.

At the beginning of the year, we explained our concerns that management's incentives were misaligned and that they were running the business for themselves as employees, rather than owners. During the quarter, the CEO and Head of Exploration left the company following a board review of their effectiveness.

A selection of voting examples from this quarter are provided below:

**Associated British Foods, AGM:** The company did not plan to align its current executives' pension contribution levels with the level received by the wider workforce. This was against new best practice and we consequently voted against the company's proposed remuneration policy. ISS had recommended a vote in favour but also advised that, 'the updated ISS policy guidelines for UK & Ireland, which will be effective from 1 February 2020, states that "for incumbent directors, companies should seek to align the contribution rates with the workforce over time, recognising that many investors in the UK will expect this to be achieved in the near-term". This will be kept under strict review.'

**Volusion Group, AGM:** We voted in favour of the Remuneration Report, against the recommendation of ISS. Their recommendation was based on concern that the notice period of the company's former CFO had only begun from his July 2019 leaving date, rather than when he indicated his intention to retire later in the year, in January 2019. From the company's perspective, when the CFO announced his intention, it had also announced the CFO would continue in his role until a successor had been appointed and for a transitional period thereafter. Consequently, the individual was still in post when a new CFO joined in July 2019 and he remained at the company between July and October 2019 to facilitate a handover to his successor. We were therefore content for the former CFO to receive payment in lieu of notice equivalent to nine additional month's fixed pay, along with additional time-in-service credit for the purposes of the LTIP.

# 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 UK smaller company as one that is outside the FTSE 350.

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



## LGPS Central - ACS

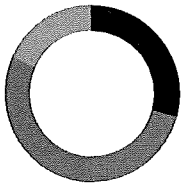
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### Engagement by region

Over the last quarter we engaged with **262** companies held in the LGPS Central - ACS portfolios on a range of **719** environmental, social and governance issues and objectives.

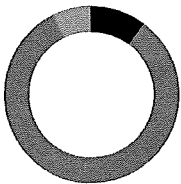
#### Global

We engaged with **262** companies over the last quarter.



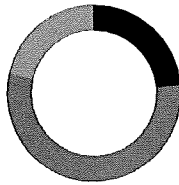
#### Australia & New Zealand

We engaged with **24** companies over the last quarter.



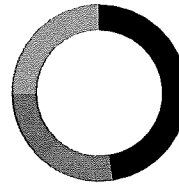
#### Developed Asia

We engaged with **39** companies over the last quarter.



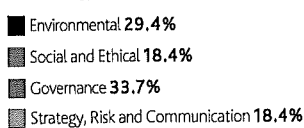
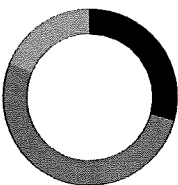
#### Emerging & Developing Markets

We engaged with **19** companies over the last quarter.



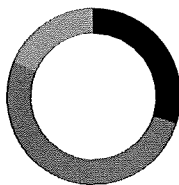
#### Europe

We engaged with **50** companies over the last quarter.



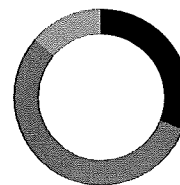
#### North America

We engaged with **86** companies over the last quarter.



#### United Kingdom

We engaged with **44** companies over the last quarter.

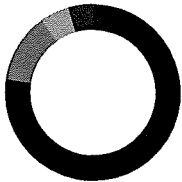


## Engagement by theme

Over the last quarter we engaged with **262** companies held in the LGPS Central - ACS portfolios on a range of **719** environmental, social and governance issues and objectives.

### Environmental

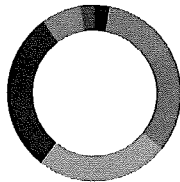
Environmental topics featured in **29.3%** of our engagements over the last quarter.



- Climate Change **77.3%**
- Forestry and Land Use **2.8%**
- Pollution and Waste Management **10.0%**
- Supply Chain Management **5.2%**
- Water **4.7%**

### Social and Ethical

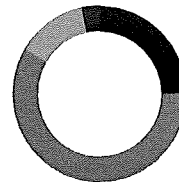
Social and Ethical topics featured in **20.7%** of our engagements over the last quarter.



- Bribery and Corruption **2.7%**
- Conduct and Culture **14.1%**
- Diversity **18.8%**
- Human Capital Management **24.8%**
- Human Rights **29.5%**
- Labour Rights **7.4%**
- Tax **2.7%**

### Governance

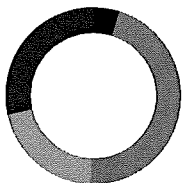
Governance topics featured in **32.0%** of our engagements over the last quarter.



- Board Diversity, Skills and Experience **24.8%**
- Board Independence **10.9%**
- Executive Remuneration **47.8%**
- Shareholder Protection and Rights **13.0%**
- Succession Planning **3.5%**

### Strategy, Risk and Communication

Strategy, Risk and Communication topics featured in **17.9%** of our engagements over the last quarter.



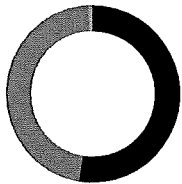
- Audit and Accounting **4.7%**
- Business Strategy **38.8%**
- Cyber Security **7.0%**
- Integrated Reporting and Other Disclosure **20.9%**
- Risk Management **28.7%**

## LGPS Central - ACS

Over the last quarter we made voting recommendations at **285** meetings (**2,269** resolutions). At **131** meetings we recommended opposing one or more resolutions. We recommended voting with management by exception at **two** meetings and abstaining at **two** meetings. We supported management on all resolutions at the remaining **150** meetings.

### Global

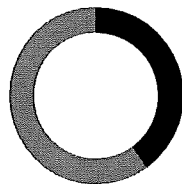
We made voting recommendations at **285** meetings (**2,269** resolutions) over the last quarter.



- Total meetings in favour **52.6%**
- Meetings against (or against AND abstain) **46.0%**
- Meetings abstained **0.7%**
- Meetings with management by exception **0.7%**

### Australia and New Zealand

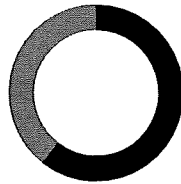
We made voting recommendations at **82** meetings (**488** resolutions) over the last quarter.



- Total meetings in favour **40.2%**
- Meetings against (or against AND abstain) **59.8%**

### Developed Asia

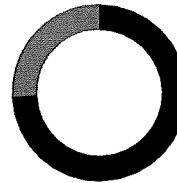
We made voting recommendations at **28** meetings (**192** resolutions) over the last quarter.



- Total meetings in favour **60.7%**
- Meetings against (or against AND abstain) **39.3%**

### Emerging and Frontier Markets

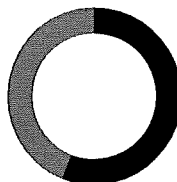
We made voting recommendations at **39** meetings (**266** resolutions) over the last quarter.



- Total meetings in favour **74.4%**
- Meetings against (or against AND abstain) **20.5%**
- Meetings abstained **5.1%**

### Europe

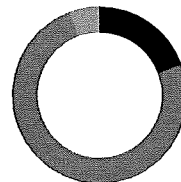
We made voting recommendations at **41** meetings (**290** resolutions) over the last quarter.



- Total meetings in favour **56.1%**
- Meetings against (or against AND abstain) **43.9%**

### North America

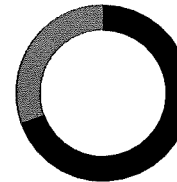
We made voting recommendations at **36** meetings (**417** resolutions) over the last quarter.



- Total meetings in favour **19.4%**
- Meetings against (or against AND abstain) **75%**
- Meetings with management by exception **5.6%**

### United Kingdom

We made voting recommendations at **59** meetings (**616** resolutions) over the last quarter.

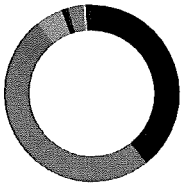


- Total meetings in favour **69.5%**
- Meetings against (or against AND abstain) **30.5%**

The issues on which we recommended voting against management or abstaining on resolutions are shown below.

**Global**

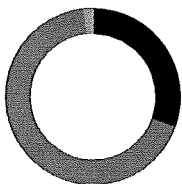
We recommended voting against or abstaining on **311** resolutions over the last quarter.



- Board structure **39.2%**
- Remuneration **43.7%**
- Shareholder resolution **6.4%**
- Capital structure and dividends **4.8%**
- Amend articles **1.3%**
- Audit and accounts **2.9%**
- Poison pill/Anti-takeover device **0.3%**
- Other **1.3%**

**Australia and New Zealand**

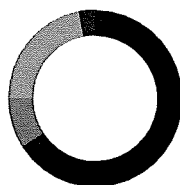
We recommended voting against or abstaining on **112** resolutions over the last quarter.



- Board structure **30.4%**
- Remuneration **58.9%**
- Shareholder resolution **8.9%**
- Capital structure and dividends **1.8%**

**Developed Asia**

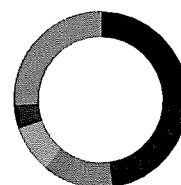
We recommended voting against or abstaining on **32** resolutions over the last quarter.



- Board structure **65.6%**
- Remuneration **9.4%**
- Capital structure and dividends **21.9%**
- Amend articles **3.1%**

**Emerging and Frontier Markets**

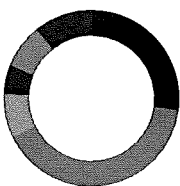
We recommended voting against or abstaining on **23** resolutions over the last quarter.



- Board structure **47.8%**
- Remuneration **8.7%**
- Shareholder resolution **4.3%**
- Capital structure and dividends **8.7%**
- Amend articles **4.3%**
- Audit and accounts **26.1%**

**Europe**

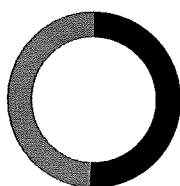
We recommended voting against or abstaining on **37** resolutions over the last quarter.



- Board structure **27.0%**
- Remuneration **40.5%**
- Capital structure and dividends **8.1%**
- Amend articles **5.4%**
- Audit and accounts **8.1%**
- Other **10.8%**

**North America**

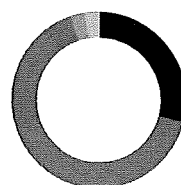
We recommended voting against or abstaining on **69** resolutions over the last quarter.



- Board structure **50.7%**
- Remuneration **39.1%**
- Shareholder resolution **10.1%**

**United Kingdom**

We recommended voting against or abstaining on **38** resolutions over the last quarter.



- Board structure **28.9%**
- Remuneration **60.5%**
- Shareholder resolution **5.3%**
- Capital structure and dividends **2.6%**
- Poison pill/Anti-takeover device **2.6%**



Notices:

LGPS Central Limited is committed to disclosing its voting record on a vote-by-vote basis, including where practicable the provision of a rationale for votes cast against management. The data presented here relate to voting decisions for securities held within the company's Authorised Contractual Scheme (ACS).

Meeting	Company Name	Meeting Type	Voting Action	Agenda Item Numbers	Voting Explanation
01/10/2019	Teleperformance SA	Special	All For		
03/10/2019	Singapore Exchange Ltd.	Annual	All For		
03/10/2019	TransDigm Group Incorporated	Special	Against	1	Apparent failure to link pay and appropriate performance
08/10/2019	The Procter & Gamble Company	Annual	All For		
09/10/2019	CK Asset Holdings Limited	Special	All For		
09/10/2019	Jyske Bank A/S	Special	All For		
09/10/2019	Greene King Plc	Court	All For		
09/10/2019	Greene King Plc	Special	All For		
10/10/2019	Brambles Limited	Annual	Against	2,6,7,8,9	Apparent failure to link pay and appropriate performance
10/10/2019	Transurban Group Ltd.	Annual	All For		
10/10/2019	Colnly SA	Special	Against	11,b	Issue of equity raises concerns about excessive dilution of existing shareholders
10/10/2019	Hargreaves Lansdown Plc	Annual	All For		
11/10/2019	Folli Follie SA	Special	Against	2	Insufficient/poor disclosure
11/10/2019	Raytheon Company	Special	All For		
11/10/2019	United Technologies Corporation	Special	All For		
14/10/2019	Allergan Plc	Special	All For		
15/10/2019	Mapletree Commercial Trust	Special	All For		
15/10/2019	Orora Ltd.	Annual	Against	4	Apparent failure to link pay & appropriate performance
15/10/2019	Telstra Corporation Limited	Annual	All For		
15/10/2019	Ping An Healthcare & Technology Co. Ltd.	Special	All For		
15/10/2019	Prudential Plc	Special	All For		
16/10/2019	Daelim Industrial Co., Ltd.	Special	All For		
16/10/2019	Commonwealth Bank of Australia	Annual	All For		
16/10/2019	CSL Limited	Annual	Against	3,4a,4b	Apparent failure to link pay and appropriate performance
16/10/2019	Origin Energy Limited	Annual	Against	2b 9f	Concerns about remuneration committee performance SH: For shareholder resolution, against management recommendation / Shareholder proposal promotes better management of ESG opportunities and risks
16/10/2019	Treasury Wine Estates Limited	Annual	All For		
16/10/2019	Barratt Developments Plc	Annual	All For		
17/10/2019	Avitzon Holdings Ltd.	Annual	Against	3,4	Apparent failure to link pay and appropriate performance
17/10/2019	Perpetual Limited	Annual	Against	1,3	Apparent failure to link pay and appropriate performance
17/10/2019	Whitehaven Coal Limited	Annual	All For		
17/10/2019	Meridian Energy Limited	Annual	All For		
17/10/2019	Entertainment One Ltd.	Annual/Special	Against	3 8	Apparent failure to link pay and appropriate performance Concerns related to inappropriate membership of committees Concerns about remuneration committee performance
17/10/2019	Paychex, Inc.	Annual	Against	2 1g	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance Concerns related to approach to board diversity
17/10/2019	The Renewables Infrastructure Group Ltd.	Special	All For		
17/10/2019	BHP Group Plc	Annual	Against	7 8,9 21 22	Apparent failure to link pay & appropriate performance Apparent failure to link pay and appropriate performance Fund manager or client vote SH: For shareholder resolution, against management recommendation / Shareholder proposal promotes better management of ESG opportunities and risks
17/10/2019	Rank Group Plc	Annual	Against	2 7,15	Apparent failure to link pay & appropriate performance Overboarded/Too many other time commitments
17/10/2019	Watches of Switzerland Group Plc	Annual	All For		
18/10/2019	SKYCITY Entertainment Group Limited	Annual	All For		
18/10/2019	Ashmore Group Plc	Annual	Against	9	Apparent failure to link pay & appropriate performance
18/10/2019	Dachra Pharmaceuticals PLC	Annual	All For		
21/10/2019	Stockland	Annual/Special	All For		
21/10/2019	Worley Limited	Annual	All For		
22/10/2019	Cochlear Limited	Annual	All For		
22/10/2019	IDP Education Ltd.	Annual	Against	2b	Concerns related to approach to board diversity
22/10/2019	Galapagos NV	Special	Against	5	Issue of equity raises concerns about excessive dilution of existing shareholders
23/10/2019	Wing Tai Holdings Limited	Annual	Against	10,11 9	Concerns to protect shareholder value Issue of equity raises concerns about excessive dilution of existing shareholders
23/10/2019	Auckland International Airport Ltd.	Annual	All For		
23/10/2019	SNAM SpA	Special	All For		
23/10/2019	Parker-Hannifin Corporation	Annual	Against	3 1,5 5	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance Shareholder proposal promotes appropriate accountability or incentivisation
24/10/2019	Sino Land Co. Ltd.	Annual	Against	5,2,5,3 3,2,3,3,3,4 3,1	Issue of equity raises concerns about excessive dilution of existing shareholders Lack of independence on board Lack of independence on board Lack of independent representation at board committees
24/10/2019	APA Group	Annual	Against	1 2	Apparent failure to link pay & appropriate performance Concerns about remuneration committee performance
24/10/2019	Crown Resorts Limited	Annual	Against	3 2d 2b	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance Lack of independence on board Concerns related to Non-audit fees
24/10/2019	Magellan Financial Group Ltd.	Annual	Against	3b	Concerns related to approach to board diversity
24/10/2019	South32 Ltd.	Annual	All For		
24/10/2019	Tobcorp Holdings Limited	Annual	Against	4 2a	Apparent failure to link pay & appropriate performance Concerns to protect shareholder value
24/10/2019	The Star Entertainment Group Limited	Annual	All For		
24/10/2019	Adevinta ASA	Special	All For		
24/10/2019	WPP Plc	Special	All For		
24/10/2019	Renishaw Plc	Annual	Against	4,5	Concerns related to shareholder value
24/10/2019	The City of London Investment Trust Plc	Annual	All For		
25/10/2019	Carsales.Com Limited	Annual	Against	2,6b 3 5	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance Lack of independence on board
25/10/2019	Cleanaway Waste Management Ltd.	Annual	Against	2 3a	Apparent failure to link pay and appropriate performance Concerns related to approach to board diversity Overboarded/Too many other time commitments Concerns about remuneration committee performance
25/10/2019	Insurance Australia Group Ltd.	Annual	Against	1	Apparent failure to link pay & appropriate performance
25/10/2019	Qantas Airways Limited	Annual	Against	5,2	SH: For shareholder resolution, against management recommendation / Shareholder proposal promotes better management of ESG opportunities and risks

Meeting	Company Name	Meeting Type	Voting Action	Agenda Item Numbers	Voting Explanation
25/10/2019	L3Harris Technologies, Inc.	Annual	Against	2 10 1e	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance Concerns related to approach to board diversity
28/10/2019	Domino's Pizza Enterprises Limited	Annual	Against	3	Lack of independence on board
28/10/2019	Mediobanca SpA	Annual	Against	A	Insufficient/poor disclosure
29/10/2019	Bendigo and Adelaide Bank Limited	Annual	Against	7	Apparent failure to link pay and appropriate performance
29/10/2019	Fortescue Metals Group Ltd.	Annual	Against	1,5 2	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance
29/10/2019	Vocus Group Ltd.	Annual	Against	2 4	Apparent failure to link pay and appropriate performance Concerns related to approach to board diversity
29/10/2019	Melso Oyj	Special	All For		
29/10/2019	Seagate Technology Plc	Annual	Against	2 1j 1e	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance Concerns related to approach to board diversity
29/10/2019	Cintas Corporation	Annual	Against	2 4	Apparent failure to link pay & appropriate performance SH: For shareholder resolution, against management recommendation / Shareholder proposal promotes transparency
30/10/2019	Dexus	Annual	All For		
30/10/2019	BB Seguridade Participacoes SA	Special	Against	3	Insufficient basis to support a decision
30/10/2019	China Construction Bank Corporation	Special	All For		
30/10/2019	ASR Nederland NV	Special	All For		
30/10/2019	Wizz Air Holdings Plc	Special	All For		
30/10/2019	Pantheon International Plc	Annual	All For		
30/10/2019	Personal Assets Trust Plc	Special	Against	2	Issue of capital raises concerns about excessive dilution of existing shareholders
31/10/2019	Challenger Limited	Annual	Against	3,4 2a	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance
31/10/2019	Foili Foili SA	Annual	All For		
31/10/2019	The Go-Ahead Group Plc	Annual	Against	2	Apparent failure to link pay and appropriate performance
04/11/2019	GrandVision NV	Special	Against	2	Apparent failure to link pay and appropriate performance
04/11/2019	Genesis Emerging Markets Fund Ltd.	Annual	All For		
04/11/2019	NB Global Floating Rate Income Fund Ltd.	Special	All For		
05/11/2019	Coty Inc.	Annual	Against	2 1,9	Apparent failure to link pay and appropriate performance Concerns related to approach to board diversity Concerns about remuneration committee performance Concerns related to inappropriate membership of committees
05/11/2019	XLA Corporation	Annual	Against	3	Apparent failure to link pay & appropriate performance
05/11/2019	Lam Research Corporation	Annual	Against	2 1,6	Apparent failure to link pay & appropriate performance Concerns about remuneration committee performance
05/11/2019	Amcor Plc	Annual	Against	3 1b	Apparent failure to link pay & appropriate performance Concerns about remuneration committee performance
06/11/2019	Boral Limited	Annual	All For		
06/11/2019	Jumbo SA	Annual	Against	6 5 10 3	Inappropriate bundling of election of directors on a single vote Insufficient/poor disclosure Insufficient/poor disclosure Concerns related to Non-audit fees Performance-related pay/awards for non-executives Apparent failure to link pay and appropriate performance
06/11/2019	Cardinal Health, Inc.	Annual	Against	3 1,10 1,2	Apparent failure to link pay & appropriate performance Concerns about candidate's experience/skills Concerns about remuneration committee performance
06/11/2019	GCP Student Living Plc	Annual	All For		
06/11/2019	Redrow Plc	Annual	Against	11 3	Apparent failure to link pay and appropriate performance Independent Chairman
07/11/2019	Sun Hung Kai Properties Limited	Annual	Against	6 7 3,1e	Concerns to protect shareholder value Issue of equity raises concerns about excessive dilution of existing shareholders Overboarded/Too many other time commitments
07/11/2019	BHP Group Limited	Annual	Against	8,9 7 21 22	Apparent failure to link pay & appropriate performance Apparent failure to link pay & appropriate performance Fund manager or client vote SH: For shareholder resolution, against management recommendation / Shareholder proposal promotes better management of ESG opportunities and risks
07/11/2019	Downer EDI Limited	Annual	All For		
07/11/2019	Flight Centre Travel Group Limited	Annual	All For		
07/11/2019	Spark New Zealand Ltd.	Annual	All For		
07/11/2019	AVI Ltd.	Annual	All For		
07/11/2019	Eutelsat Communications SA	Annual/Special	All For		
07/11/2019	Kinnevik AB	Special	All For		
07/11/2019	Maxim Integrated Products, Inc.	Annual	Against	3 1d	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance
07/11/2019	Tapestry, Inc.	Annual	Against	3 1E	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance
08/11/2019	China Pacific Insurance (Group) Co., Ltd.	Special	All For		
08/11/2019	Pernod Ricard SA	Annual/Special	Against	9 10 21	Apparent failure to link pay & appropriate performance Apparent failure to link pay & appropriate performance Apparent failure to link pay and appropriate performance
11/11/2019	SKC Co., Ltd.	Special	All For		
11/11/2019	Domain Holdings Australia Ltd.	Annual	Against	1,4 2,3	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance
12/11/2019	Newcrest Mining Ltd.	Annual	All For		
12/11/2019	Growthpoint Properties Ltd.	Annual	Abstain	1,2,3,1,4,4	
12/11/2019	Automatic Data Processing, Inc.	Annual	All For		
12/11/2019	Galliford Try Plc	Annual	All For		
13/11/2019	KCC Corp.	Special	All For		
13/11/2019	Aflerpay Limited	Annual	Against	1,5 4	Apparent failure to link pay and appropriate performance Concerns to protect shareholder value
13/11/2019	Charter Hall Group	Annual/Special	All For		
13/11/2019	Coles Group Ltd.	Annual	Against	3	Apparent failure to link pay & appropriate performance
13/11/2019	Computershare Limited	Annual	Against	4	Apparent failure to link pay & appropriate performance
13/11/2019	Contact Energy Limited	Annual	All For		
13/11/2019	Hays plc	Annual	All For		
13/11/2019	JPMorgan Emerging Markets Investment Trust Plc	Annual	All For		
13/11/2019	Smiths Group Plc	Annual	Against	13	Overboarded/Too many other time commitments
14/11/2019	Ansell Limited	Annual	All For		
14/11/2019	Medbank Private Ltd.	Annual	Against	4 3	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance
14/11/2019	Northern Star Resources Ltd.	Annual	All For		
14/11/2019	Ramsay Health Care Limited	Annual	Against	2 3,1	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance
14/11/2019	Sims Metal Management Limited	Annual	Against	6 5	Apparent failure to link pay & appropriate performance Apparent failure to link pay & appropriate performance
14/11/2019	Vicinity Centres	Annual/Special	Against	2	Apparent failure to link pay & appropriate performance
14/11/2019	Westfarmers Limited	Annual	Against	3	Apparent failure to link pay & appropriate performance
14/11/2019	Bld Corp. Ltd.	Annual	All For		
14/11/2019	Ford Otomotiv Sanayi AS	Special	Against	2	Lack of independence on board

Meeting	Company Name	Meeting Type	Voting Action	Agenda Item Numbers	Voting Explanation
14/11/2019	Broadridge Financial Solutions, Inc.	Annual	All For		
14/11/2019	Fox Corporation	Annual	Against	3 1f 1g	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance Concerns to protect shareholder value
14/11/2019	Western Digital Corporation	Annual	All For		
14/11/2019	European Opportunities Trust plc	Annual	All For		
14/11/2019	Genus Plc	Annual	All For		
15/11/2019	Bic Camera, Inc.	Annual	Against	2.9 2.1	Concerns about overall board structure Concerns related to approach to board diversity
15/11/2019	Fila Korea Ltd.	Special	All For		
15/11/2019	SK Networks Co., Ltd.	Special	All For		
15/11/2019	First Pacific Co. Ltd.	Special	All For		
15/11/2019	Sysco Corporation	Annual	Against	2 1e 1k 4	Apparent failure to link pay & appropriate performance Concerns related to approach to board diversity Overboarded/Too many other time commitments Shareholder proposal promotes appropriate accountability or incentivisation
15/11/2019	The Estee Lauder Companies, Inc.	Annual	Against	3.4 1.3	Apparent failure to link pay & appropriate performance Concerns related to inappropriate membership of committees
18/11/2019	NWS Holdings Limited	Annual	Against	4 5.1,5.3 3a 3d,3e	Concerns related to Non-audit fees Issue of equity raises concerns about excessive dilution of existing shareholders Overboarded/Too many other time commitments Overboarded/Too many other time commitments
18/11/2019	Gree Electric Appliances, Inc. of Zhuhai	Special	All For		
18/11/2019	Midea Group Co. Ltd.	Special	Against	1	Insufficient/poor disclosure
19/11/2019	New World Development Co. Ltd.	Annual	Against	7 3b 6 3a	Apparent failure to link pay and appropriate performance Concerns related to attendance at board or committee meetings Concerns to protect shareholder value Overboarded/Too many other time commitments
19/11/2019	Korea Gas Corp.	Special	All For		
19/11/2019	Mirvac Group	Annual/Special	Against	6	Concerns to protect shareholder value
19/11/2019	REA Group Ltd.	Annual	Against	2.4 3b	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance
19/11/2019	Sonic Healthcare Limited	Annual	All For		
19/11/2019	Wisetech Global Ltd.	Annual	All For		
19/11/2019	The a2 Milk Company Limited	Annual	All For		
19/11/2019	BIM Birlasik Magazalar AS	Special	All For		
19/11/2019	Avnet, Inc.	Annual	Against	2 1h	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance
19/11/2019	Oracle Corporation	Annual	Against	2 5 1.5 1.12,1.13,1.15 1.1,1.4 4	Apparent failure to link pay & appropriate performance Combined CEO/Chair Concerns about remuneration committee performance Concerns about remuneration committee performance Concerns to protect shareholder value SH: For shareholder resolution, against management recommendation / Shareholder proposal promotes transparency
19/11/2019	Dunelm Group Plc	Annual	All For		
20/11/2019	Mapletree Logistics Trust	Special	All For		
20/11/2019	Goodman Group	Annual	Against	5 2	Apparent failure to link pay & appropriate performance Concerns about remuneration committee performance
20/11/2019	Lendlease Group	Annual/Special	Against	4 3 2a 2a,2c	Apparent failure to link pay & appropriate performance Apparent failure to link pay & appropriate performance Concerns about remuneration committee performance Lack of independence on board
20/11/2019	Platinum Asset Management Ltd.	Annual	Against	2a,2c	Lack of independence on board
20/11/2019	Seven Group Holdings Limited	Annual	All For		
20/11/2019	Shopping Centres Australasia Property Group RE Ltd.	Annual	All For		
20/11/2019	PT Unilever Indonesia Tbk	Special	All For		
20/11/2019	Alpha Bank SA	Special	All For		
20/11/2019	Campbell Soup Company	Annual	Against	3 1.8	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance
20/11/2019	News Corporation	Annual	Against	1f 1e	Concerns related to attendance at board or committee meetings Poison pill/anti-takeover measure not in investors interests Concerns related to inappropriate membership of committees
20/11/2019	The Clorox Company	Annual	Against	2 1.4	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance
21/11/2019	CNOOC Limited	Special	All For		
21/11/2019	Bluescope Steel Limited	Annual	All For		
21/11/2019	Qube Holdings Ltd.	Annual	Against	6	Apparent failure to link pay and appropriate performance Concerns related to approach to board diversity
21/11/2019	CDK Global, Inc.	Annual	Against	2 1b	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance
21/11/2019	ResMed Inc.	Annual	Against	3 1c	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance
21/11/2019	Ferguson Plc	Annual	Against	2,3,1b	Apparent failure to link pay and appropriate performance
21/11/2019	Close Brothers Group Plc	Annual	All For		
21/11/2019	JD Wetherspoon Plc	Annual	Against	2 4 8,9	Apparent failure to link pay and appropriate performance, Lack of independence on board Lack of independence on board,lack of independent representation at board committees
21/11/2019	JD Wetherspoon Plc	Special	Against	1	Concerns to protect shareholder value
22/11/2019	Japan Retail Fund Investment Corp.	Special	All For		
22/11/2019	Industrial & Commercial Bank of China Ltd.	Special	All For		
22/11/2019	Signature Aviation Plc	Special	All For		
25/11/2019	argenx SE	Special	Against	3.4	Concerns about reducing shareholder rights
25/11/2019	Future Plc	Special	All For		
25/11/2019	IP Group Plc	Special	All For		
26/11/2019	Beach Energy Limited	Annual	All For		
26/11/2019	Seek Limited	Annual	Against	2.4,5 3a	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance
26/11/2019	Companhia de Saneamento Basico do Estado de Sao Paulo SABESP	Special	All For		
26/11/2019	MONETA Money Bank, a.s.	Special	All For		
26/11/2019	Telia Co. AB	Special	All For		
26/11/2019	London Stock Exchange Group Plc	Special	All For		
27/11/2019	Ascendas Real Estate Investment Trust	Special	All For		
27/11/2019	Harvey Norman Holdings Ltd.	Annual	Abstain Against	7 8 2 5 4	Concerns about overall board structure Apparent failure to link pay & appropriate performance Concerns related to approach to board diversity Lack of independence on board
27/11/2019	Equatorial Energia SA	Special	All For		
27/11/2019	Sasol Ltd.	Annual	Against	1.3,6.1,6.2,6.3,6.4 1.1	Concerns about overall performance Concerns about overall performance
27/11/2019	Chr. Hansen Holding A/S	Annual	All For		

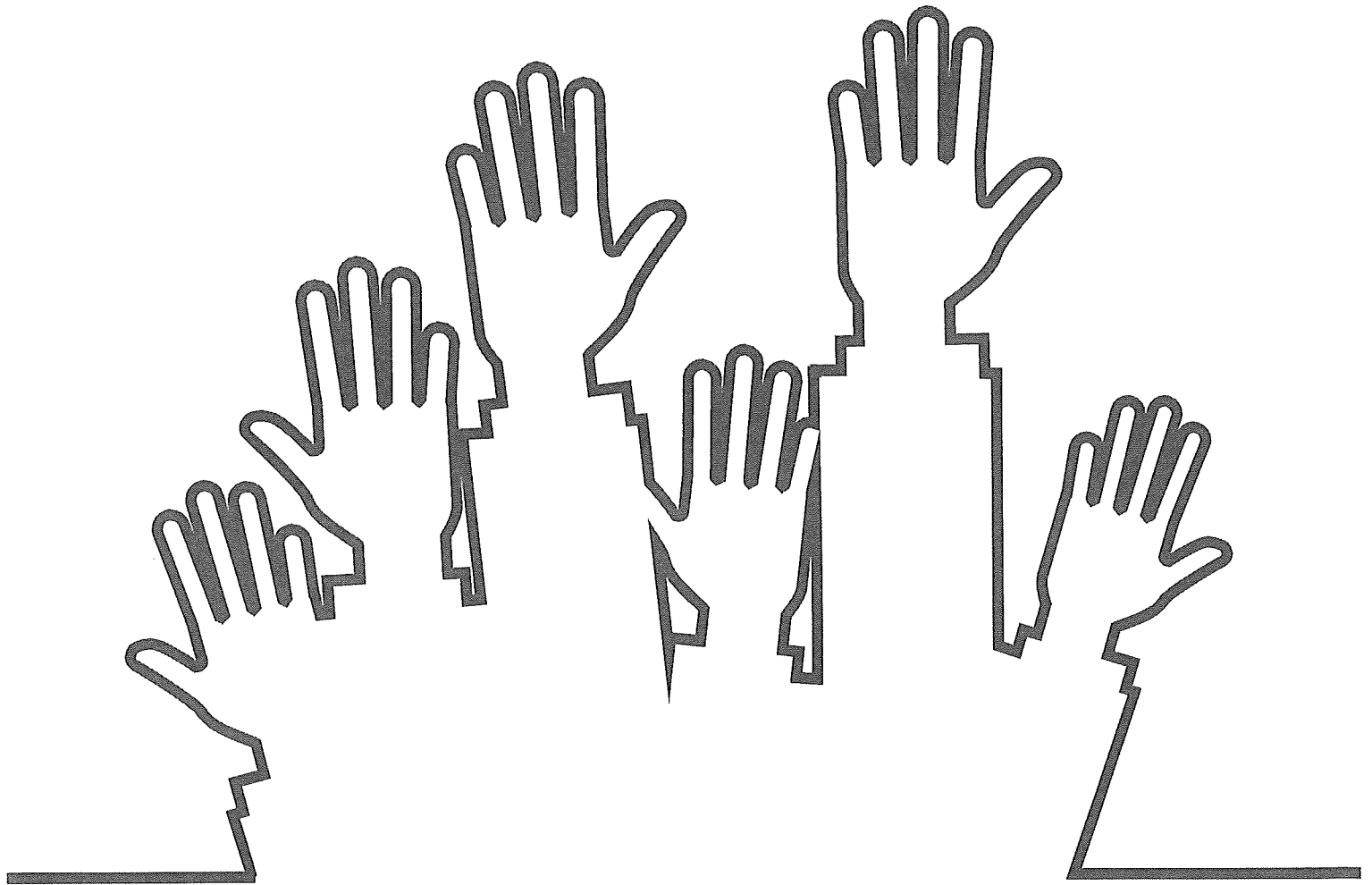
Meeting	Company Name	Meeting Type	Voting Action	Agenda Item Numbers	Voting Explanation
28/11/2019	FAST RETAILING CO., LTD.	Annual	Against	4 2.1 2.2,2.3,2.4	Apparent failure to link pay & appropriate performance Combined CEO/Chair 2- Concerns about overall board structure Concerns about overall board structure
28/11/2019	Shimachu Co., Ltd.	Annual	Against	2.1	Concerns about overall performance Concerns related to approach to board diversity
28/11/2019	Evolution Mining Limited	Annual	Against	1,4,5 2	Apparent failure to link pay and appropriate performance Concerns related to approach to board diversity
28/11/2019	IOOF Holdings Ltd.	Annual	Against	3 2a	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance
28/11/2019	Fletcher Building Ltd.	Annual	All For		
28/11/2019	Discovery Ltd.	Annual	Against	1	Apparent failure to link pay and appropriate performance
29/11/2019	China Travel International Investment Hong Kong Limited	Special	Against	4,1,4,2 1	Lack of independence on board Concerns to protect shareholder value
29/11/2019	Singapore Press Holdings Ltd.	Annual	All For		
29/11/2019	HCL Technologies Limited	Special	All For		
29/11/2019	Galliford Try Plc	Court	All For		
29/11/2019	Galliford Try Plc	Special	All For		
02/12/2019	PGE Polska Grupa Energetyczna SA	Special	All For		
02/12/2019	Bovis Homes Group Plc	Special	Against	3,4	Apparent failure to link pay and appropriate performance
03/12/2019	Oil Co. LUKOIL PJSC	Special	All For		
03/12/2019	Oil Co. LUKOIL PJSC	Special	All For		
03/12/2019	Expedia Group, Inc.	Annual	Against	1g 1f	Concerns related to attendance at board or committee meetings Concerns related to inappropriate membership of committees 2- Concerns to protect shareholder value 3- Lack of independence on board
03/12/2019	Sophos Group Plc	Court	All For		
03/12/2019	Sophos Group Plc	Special	All For		
04/12/2019	TPG Telecom Limited	Annual	Against	1 2	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance
04/12/2019	Telenet Group Holding NV	Special	All For		
04/12/2019	Telenet Group Holding NV	Special	All For		
04/12/2019	Pandora AS	Special	All For		
04/12/2019	Microsoft Corporation	Annual	Against	2	Apparent failure to link pay & appropriate performance
04/12/2019	Atlasian Corp. Plc	Annual	Against	3 14	Apparent failure to link pay and appropriate performance Concerns related to shareholder value
04/12/2019	Spectris Plc	Special	Against	1 2,3,4	Apparent failure to link pay & appropriate performance Apparent failure to link pay and appropriate performance
05/12/2019	Noevir Holdings Co., Ltd.	Annual	All For		
05/12/2019	Nufarm Limited	Annual	All For		
05/12/2019	Coloplast A/S	Annual	Abstain Against	7 5.2	Concerns related to Non-audit fees Apparent failure to link pay & appropriate performance
05/12/2019	Vail Resorts, Inc.	Annual	All For		
05/12/2019	Vinacapital Vietnam Opportunity Fund Ltd. (United Kingdom)	Annual	All For		
05/12/2019	Baillie Gifford Japan Trust Plc	Annual	All For		
05/12/2019	NMC Health Plc	Special	All For		
05/12/2019	Soficat Plc	Annual	All For		
06/12/2019	Altium Limited	Annual	Against	2	Apparent failure to link pay and appropriate performance
06/12/2019	Washington H. Soul Pattinson and Company Limited	Annual	Against	2,4 3a,3b	Apparent failure to link pay and appropriate performance Concerns related to approach to board diversity Concerns about remuneration committee performance
06/12/2019	FIH Mobile Ltd.	Special	All For		
06/12/2019	Medtronic Plc	Annual	All For		
06/12/2019	Adyen NV	Special	All For		
06/12/2019	Copart, Inc.	Annual	Against	2	Apparent failure to link pay & appropriate performance
06/12/2019	Associated British Foods Plc	Annual	All For		
06/12/2019	Whitbread Plc	Special	Against	1 2	Apparent failure to link pay and appropriate performance Apparent failure to link pay and appropriate performance
09/12/2019	PT Bank Mandiri (Persero) Tbk	Special	Against	1	Insufficient/poor disclosure
09/12/2019	Palo Alto Networks, Inc.	Annual	Against	3 1b 1a	Apparent failure to link pay and appropriate performance Concerns related to approach to board diversity Concerns related to approach to board diversity Concerns about remuneration committee performance
10/12/2019	Bank of Queensland Ltd.	Annual	Against	4	Apparent failure to link pay & appropriate performance
10/12/2019	Ping An Insurance (Group) Co. of China Ltd.	Special	All For		
10/12/2019	Vanguard FTSE All-World UCITS ETF	Annual	All For		
10/12/2019	Cisco Systems, Inc.	Annual	Against	4	Shareholder proposal promotes appropriate accountability or incentivisation
10/12/2019	Belway Plc	Annual	Against	2	Apparent failure to link pay & appropriate performance
11/12/2019	Barry Callebaut AG	Annual	Against	3,2,7,3 6,3,4 8	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance Insufficient/poor disclosure
12/12/2019	AMADA HOLDINGS Co., Ltd.	Special	All For		
12/12/2019	Westpac Banking Corp.	Annual	Against	4 2d 6b	Apparent failure to link pay and appropriate performance Concerns to protect shareholder value SH: For shareholder resolution, against management recommendation / Shareholder proposal promotes better management of ESG opportunities and risks
12/12/2019	Schroder Oriental Income Fund Ltd.	Annual	All For		
12/12/2019	Fidelity Special Values Plc	Annual	All For		
13/12/2019	CyberAgent, Inc.	Annual	Against	2,1,2,12,3,3	Concerns about overall board structure
13/12/2019	Greek Organisation of Football Prognostics SA	Special	All For		
15/12/2019	GMO Payment Gateway, Inc.	Annual	Against	3,10,3,11 3,1	Concerns about overall board structure Concerns related to approach to board diversity Concerns about overall board structure
16/12/2019	Woolworths Group Ltd.	Annual/Special	All For		
16/12/2019	First Pacific Co. Ltd.	Special	All For		
16/12/2019	MMC Norisk Nickel PJSC	Special	All For		
16/12/2019	Aroundtown SA	Special	Against	1	Issue of equity raises concerns about excessive dilution of existing shareholders
16/12/2019	Aroundtown SA	Special	Against	1,3,4,5	Lack of independence on board
16/12/2019	Fraser's Group Plc	Special	All For		
17/12/2019	Australia & New Zealand Banking Group Ltd.	Annual	Against	3 7,8	Apparent failure to link pay & appropriate performance SH: For shareholder resolution, against management recommendation / Shareholder proposal promotes better management of ESG opportunities and risks
17/12/2019	Orica Ltd.	Annual	Against	3	Apparent failure to link pay & appropriate performance
17/12/2019	Ambu A/S	Annual	Abstain Against	7 11	Overboarded/Too many other time commitments Apparent failure to link pay & appropriate performance
17/12/2019	ABN AMRO Bank NV	Special	All For		
18/12/2019	Champion Real Estate Investment Trust	Special	All For		
18/12/2019	Open House Co., Ltd.	Annual	All For		
18/12/2019	National Australia Bank Limited	Annual	Against	2 6b,7	Apparent failure to link pay & appropriate performance SH: For shareholder resolution, against management recommendation / Shareholder proposal promotes better management of ESG opportunities and risks
18/12/2019	Folli Follie SA	Special	Against	1,3 2	Insufficient/poor disclosure Insufficient/poor disclosure
18/12/2019	AutoZone, Inc.	Annual	Against	3 1.8	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance
18/12/2019	WH Smith Plc	Special	All For		

Meeting	Company Name	Meeting Type	Voting Action	Agenda Item Numbers	Voting Explanation
19/12/2019	Beijing Capital International Airport Co., Ltd.	Special	All For		
19/12/2019	KGHM Polska Miedz SA	Special	Against	6.4	
19/12/2019	Tatneft PJSC	Special	All For		
19/12/2019	Infrastruttura Wireless Italiana SpA	Special	Against	2	Concerns about reducing shareholder rights
19/12/2019	NortonLifeLock Inc.	Annual	Against	3 1d 4	Apparent failure to link pay and appropriate performance Concerns about remuneration committee performance Shareholder proposal promotes appropriate accountability or incentivisation
19/12/2019	Playtech Plc	Special	Against	1	Apparent failure to link pay and appropriate performance
19/12/2019	AVI Global Trust Plc	Annual	All For		
20/12/2019	Hamamatsu Photonics KK	Annual	Against	2,13	Concerns about overall board structure
20/12/2019	Incitec Pivot Limited	Annual	Against	3,4	Apparent failure to link pay and appropriate performance
20/12/2019	Novolipetsk Steel	Special	All For		
20/12/2019	Ifrad SA	Special	All For		
20/12/2019	Heferic Petroleum SA	Special	Against	3 2	Insufficient/poor disclosure Insufficient/poor disclosure
20/12/2019	Yandex NV	Special	All For		
23/12/2019	SIG Plc	Special	All For		
24/12/2019	FIT Hon Teng Limited	Special	All For		
24/12/2019	Magrit PJSC	Special	All For		
30/12/2019	Companhia Brasileira de Distribucao	Special	Abstain	1	
30/12/2019	Companhia Brasileira de Distribucao	Special	All For		
30/12/2019	Mobilia TeleSystems PJSC	Special	All For		
31/12/2019	iShares MSCI UK Small Cap UCITS ETF	Annual	Against	8	Overboarded/Too many other time commitments



# Active ownership

Q4 2019 ESG Impact Report

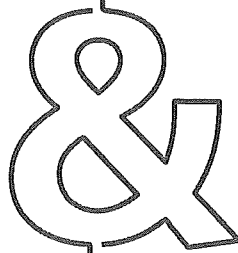


Active ownership means using our scale and influence to bring about **real, positive change to create sustainable investor value.**

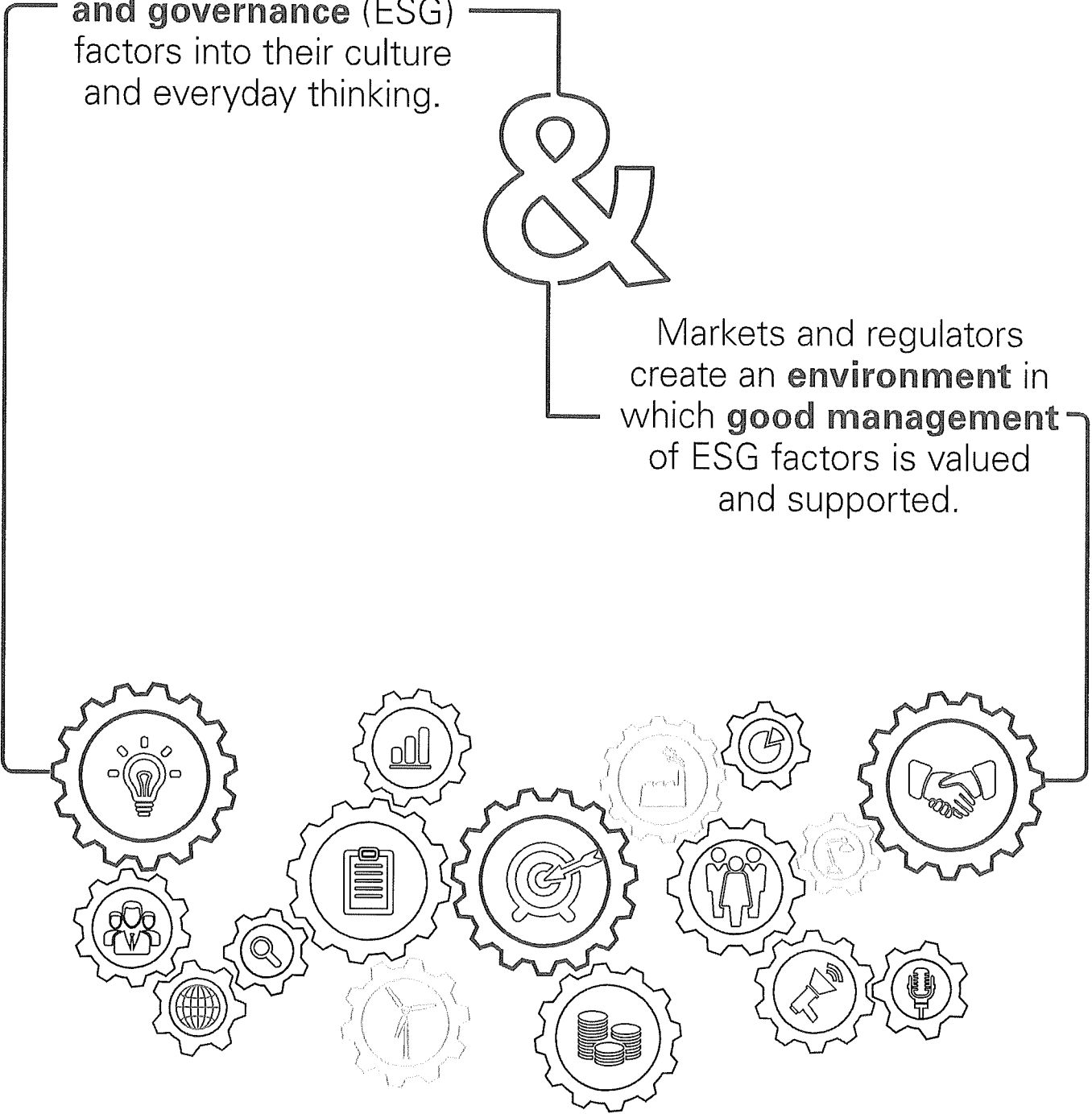
# Our mission

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.

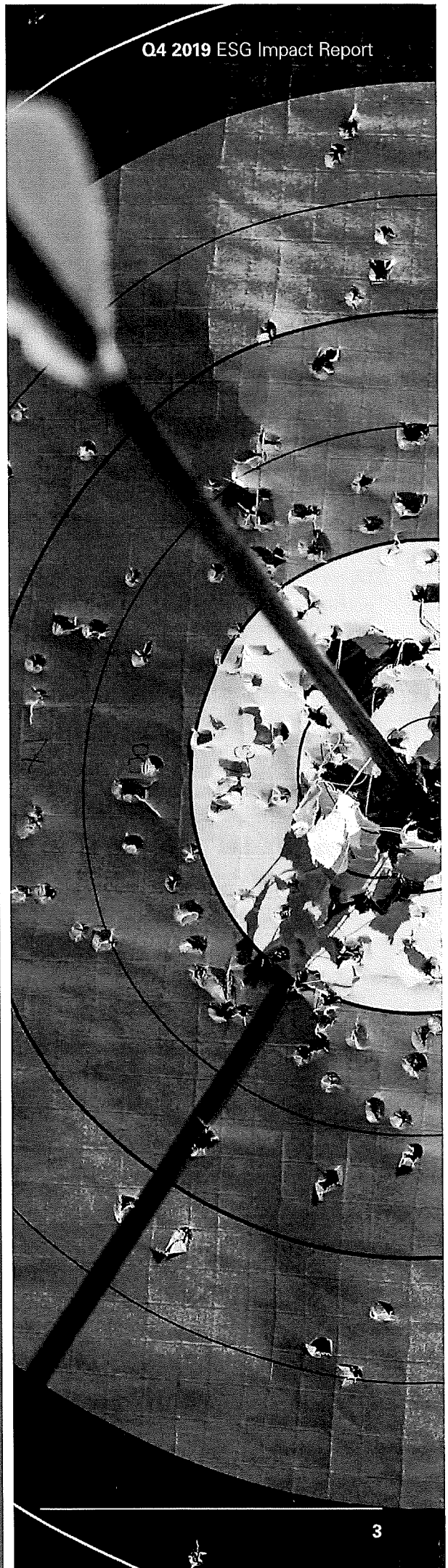
At LGIM, we want to safeguard and grow our clients' assets by ensuring that companies are well positioned for sustainable growth. Our active and enhanced index mandates incorporate ESG factors in the investment process and we consider ESG factors when voting on our holdings in all strategies.

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

## NAVIGATING THE ENERGY TRANSITION

The International Energy Agency (IEA) invited LGIM to its Paris headquarters to speak to representatives of the largest listed and national oil companies, senior academics and investors.

We presented the results of our recent research, warning the energy industry against complacency as it faces an existential challenge with climate policy implementation and the rise in electric vehicle use. We continue to engage with the IEA on the energy transition, including contributing to one of its upcoming reports in 2020.

We are also helping our clients navigate the energy transition, publishing a short [guide](#) to climate for UK government pension schemes<sup>1</sup>. Alongside this, we published blog posts explaining why regulators and investors are acting<sup>2</sup>, [why large-scale divestment is not a climate panacea](#)<sup>3</sup>, and [how to check if asset managers are engaging effectively](#)<sup>4</sup>.

## EMPLOYEE-RELATED ENGAGEMENTS

We have been a supporter of the **Workforce Disclosure Initiative** since its inception in 2017. We believe greater transparency can lead to improvements in the adoption of better workplace culture and inclusion. We also **wrote to eight companies** to encourage them to provide **greater disclosure regarding labour practices**.

We publicly **supported the Living Wage Foundation's efforts** and have assisted the foundation by **co-signing a letter** to a number of UK companies calling on them to pay a living wage and to become accredited.

## RECOGNITION FOR LEADING ENGAGEMENT

We have recently been described by The Guardian as “one of the most outspoken fund managers over the climate crisis”<sup>5</sup>, and our pragmatic approach to engaging on climate change continued to receive external recognition. Independent think tank InfluenceMap reviewed the 15 largest asset managers and found LGIM to be “leading in robust engagement with companies”<sup>6</sup>, further backed by support of climate shareholder proposals.

LGIM is the only fund manager in the top 15 to receive an A+ score for our climate engagement and voting.

“Legal and General exhibited best practice [...] through its Climate Impact Pledge”  
- InfluenceMap

The same view was echoed in the Financial Times (FT), which noted that our stance on climate “is much tougher than across the rest of the industry”<sup>7</sup>.



1. <https://www.lgim.com/files/document-library/knowledge/thought-leadership-content/lgps-intelligence/lgps-intelligence-nov-2019-final.pdf>

2. <https://futureworldblog.lgim.com/categories/themes/changing-climate-changing-investments/>

3. <https://futureworldblog.lgim.com/categories/themes/using-a-sledgehammer-to-crack-a-nut/>

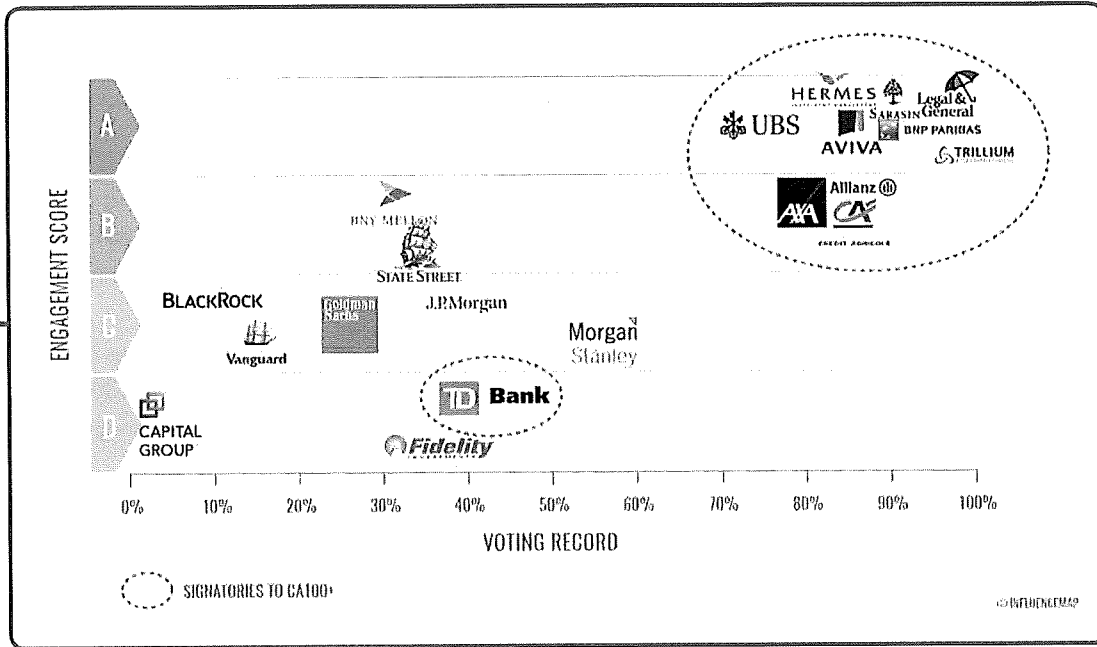
4. <https://futureworldblog.lgim.com/categories/themes/three-steps-for-gauging-your-asset-managers-corporate-engagement/>

5. The Guardian, 22 Nov 2019

6. InfluenceMap – Asset Managers and Climate Change (2019), available at: <https://influencemap.org/report/FinanceMap-Launch-Report-f80b653f6a631cec947a07e44ae4a4a7>

7. FinancialTimes, *Big investors turn screw over climate pollution disclosure*, 12 Dec 2019

HOW ASSET MANAGERS SCORE ON CLIMATE ENGAGEMENT & RESOLUTIONS



Addressing environmental, social and governance issues (ESG) issues is in the financial interest of companies and of our clients. Therefore, our engagements are not driven by any particular ethical agenda. That is why our efforts have support from the top of LGIM: in an op-ed for the FT, Michelle Scrimgeour, our Chief Executive, noted that “the success of companies over the long term is inseparable from the sustainability of the societies in which they operate”, issuing a rallying cry to investors for more forceful engagement and collaboration<sup>8</sup>.

But we recognise the long road ahead. The latest blog from Sacha Sadan, our Director of Corporate Governance, explains that “asset managers can do more – and not just on climate change”<sup>9</sup>

**STAKEHOLDER EVENT IN LONDON**

We held our third annual stakeholder roundtable at our London offices. Following from past years’ events, we implemented many of the suggestions put forward by participants, including providing reasons behind our votes against, applying our minimum standards globally and also proposing and supporting shareholder resolutions.

This year, our clients, representatives from investor engagement groups and other stakeholders from across the industry provided feedback on five key themes we are planning to work on in the future: accountability of directors, audit, income inequality, privacy and security and health. We shall continue to take into account these comments and suggestions for action when framing our engagements.

**NEW JOINERS**

Our corporate governance team expanded this quarter with two new recruits:

- Aina Fukuda, ESG Manager, has joined our Japan office, strengthening our international ESG capabilities. She has responsibility for Japan stewardship and sustainable investments.
- Maria Zhivitskaya, Sustainability and Responsible Investment Manager, has joined our London office during Catherine Ogden’s maternity leave.

<sup>8</sup> FinancialTimes, *Index investors should not be passive owners when it comes to ESG*, 12 Dec 2019  
<sup>9</sup> <https://futureworldblog.lgim.com/categories/themes/asset-managers-must-do-more-and-not-just-on-climate-change/>

# Engagement on social and governance scores

Following the development of LGIM’s proprietary ESG score, we have launched our first engagement campaign to push some of the world’s biggest companies to improve their social and governance practices.

We recognise that ESG factors could play an increasingly important role in determining the performance of certain assets. As a result, we developed the LGIM ESG score, a proprietary and rules-based approach to scoring many of the companies we invest in on the basis of their ESG profile. The LGIM ESG score combines an environmental score, a social score and a governance score, with adjustments made for a company’s overall levels of transparency with regards to ESG issues.

Focused on assessing companies’ performance against common market-wide ESG issues and themes which can potentially affect long-term returns, the LGIM ESG scores utilises a total of **28 key ESG data points**.

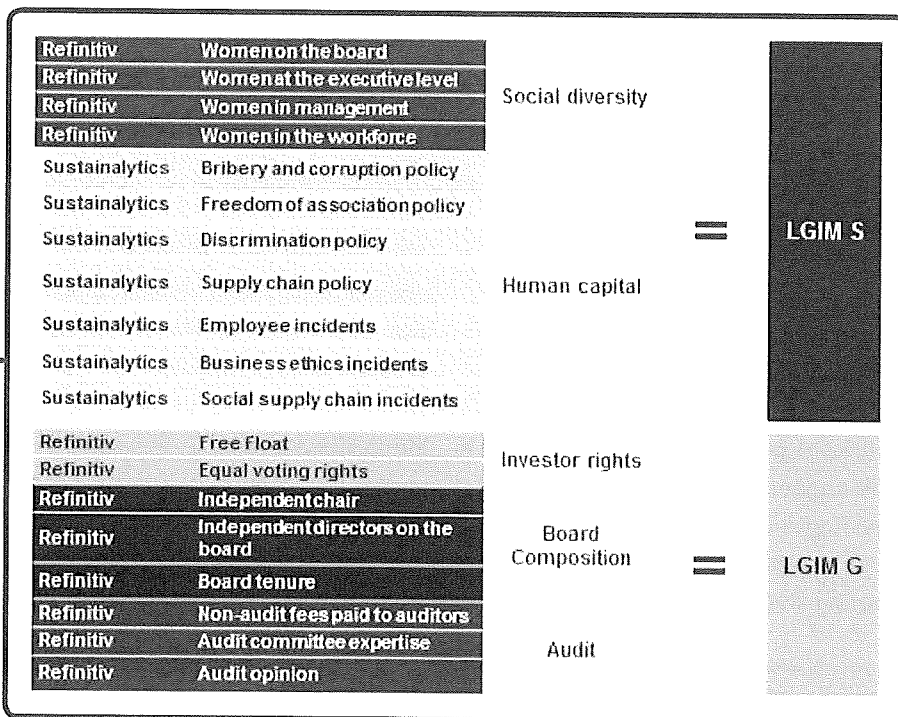
For example, a company may receive a low social score because women account for less than 30% of its employee base. This score would be made using data provided by market leading provider Refinitiv.

The LGIM ESG score has principally been created and is used for the following purposes:

All companies are assessed using the same indicators. We acknowledge a given issue might not be as important to every company’s short-term bottom line, however, it can have an enormous impact on the market as a whole if not addressed. This focus on the overall market health differentiates our ESG scores from others in the market.

1. To improve market standards globally and monitor ESG developments of our entire investment universe using quantitative measures;
2. To incentivise companies to improve their ESG profile through a transparent methodology;
3. To create investment solutions for our clients.

## SOCIAL AND GOVERNANCE DATA POINTS:



The overall company scores are made public on our [website](#)<sup>1</sup> and are updated biannually. We believe this will contribute to incentivise companies to improve their ESG profile.

**LGIM'S GLOBAL ESG SCORE**

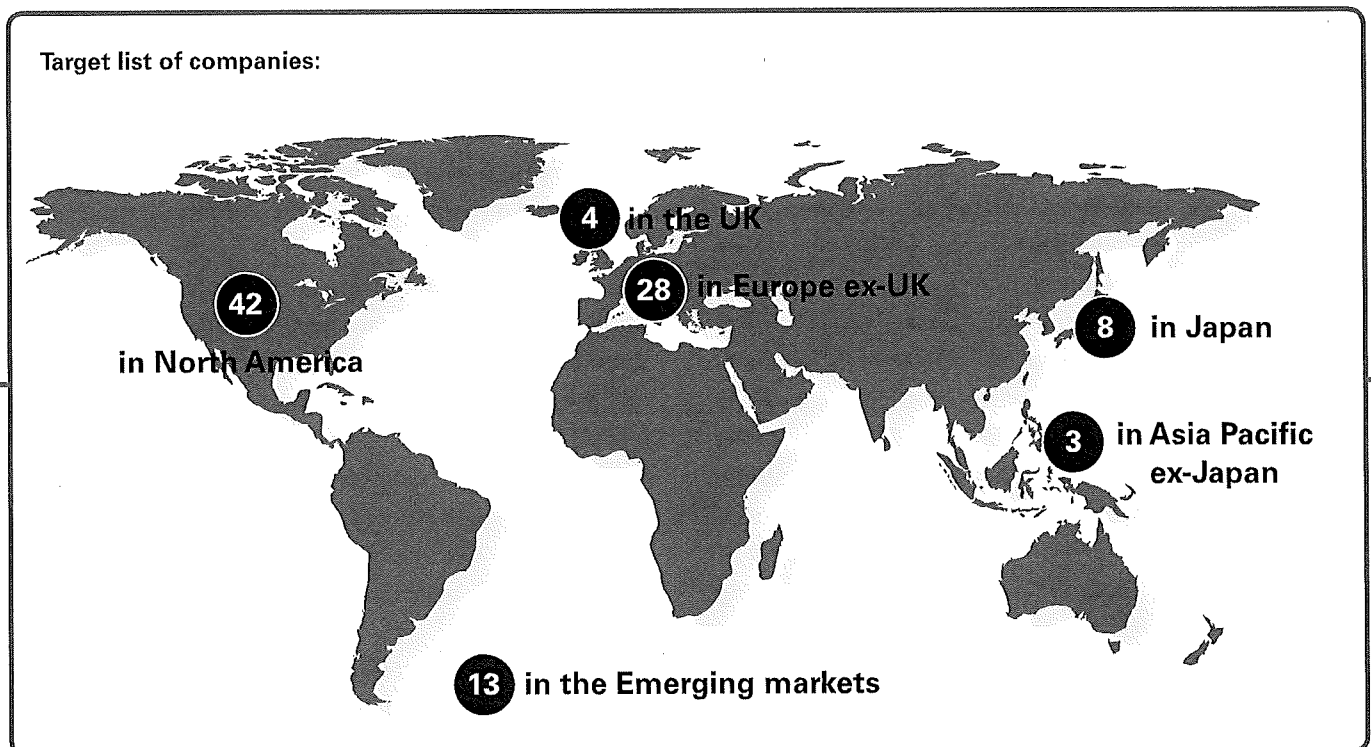
September 2019

COMPANY NAME	LGIM ESG SCORE
1&1 DRILLISCH AG	32
360 SECURITY TECHNOLOGY IN-A	19
3I GROUP PLC	74
3M CO	43
3SBIO INC	44
51JOB INC-ADR	37
58.COM INC-ADR	34
A2 MILK CO LTD	46
AAC TECHNOLOGIES HOLDINGS IN	38

As a long-term and active investor, we are extensively engaging with the world's biggest companies on climate change and the below 2°C transition through our Climate Impact Pledge engagement, using third party provider data and a (qualitative) engagement overlay.

**Under this campaign, we have focused our current engagement efforts on the biggest companies we are invested in through our equity and fixed income offerings, which also have the lowest LGIM social and/or governance score(s). This resulted in a target list of 98 companies across many regions. In the past, the lack of reliable data meant our approach in these engagement areas was largely qualitative in nature. The creation of the LGIM ESG scores enables us to use reliable, available and consistent data on key social and governance issues.**

We sent a letter to the board chair of each of these companies. Many companies have already contacted us to better understand how to improve their score(s).



1. <https://www.lgim.com/uk/en/capabilities/corporate-governance/gender-diversity-scores/>

# Diversity campaigns

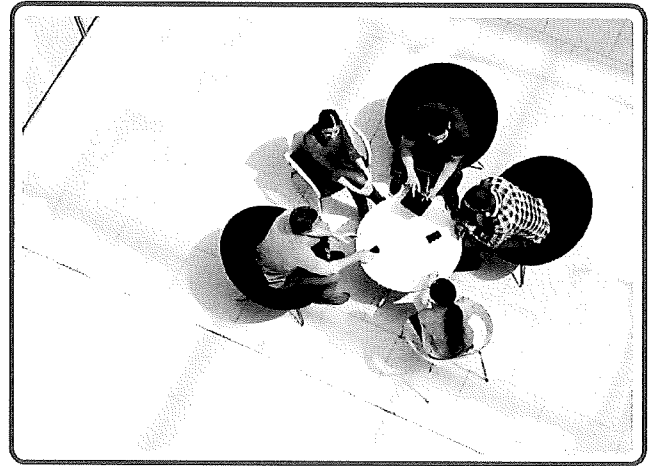
## UK GENDER DIVERSITY SCORES

We place significant emphasis on companies' board and leadership team composition. This is to ensure they are equipped to deliver in the future for the benefit of our clients. We believe that groups with a diverse set of views and perspectives can deliver better decisions. Therefore, since 2011 we have been engaging with UK companies on the benefits of having gender diverse boards and leadership teams.

Our commitment to this issue culminated in the development of **LGIM's gender diversity score** in 2018, to analyse the largest UK companies on their gender diversity throughout the organisation. These scores are also a data source for our index fund, the L&G Future World Gender in Leadership UK Index Fund. It gives greater weight to companies that have higher gender diversity scores and less weight to companies that have lower scores. The scores are an input into the index which is tracked by the fund.

When we launched these scores, **we wrote to the companies in the bottom 10%** from a gender diversity perspective. The objective was to help these companies understand our expectations and incentivise them to improve their approach to gender diversity. The scores are updated every six months and are published on our [website](#)<sup>1</sup> to provide full transparency. Our aim is to encourage companies to disclose clearly in their annual reports a breakdown of their gender diversity beyond board level to include their executive committee, management level and across their workforce. By not disclosing this information alongside their diversity policies, we may be underestimating their current progress; therefore we are encouraging better transparency.

We renewed our engagement this quarter by sending letters to 30 laggard companies. Given the importance of these gender diversity scores, we commit to **writing to the laggards annually** to push further the diversity



agenda. We will also track the progress in their scores over time. We have already seen progress, as **between April 2018 and April 2019, 50% of companies we wrote to have improved their score by three points or more.**

## EUROPE GENDER DIVERSITY CAMPAIGN

Globally our aspiration is to have a minimum of 30% women representation on boards and executive committees. Whilst we recognise that some European countries have quotas in place for board level representation, we are consistently pushing for a minimum threshold of 25% women on the board in these markets from 2020, and we will look to strengthen this in the coming years.

As part of these efforts, **we wrote to 20 of the largest European companies that have poor gender balance at board level.** Our letter set out the importance we place on gender balance within companies at all levels, and that we expect companies to have a minimum of 30% women as an aspirational target for all seniority levels. We also stressed the importance of clearly disclosing the gender split of the board, executives, management and the workforce, and ensuring that this data is publically available.

We shall continue to assess the progress of the companies we engaged with and to push for improvement.

1. <https://www.lgim.com/uk/en/capabilities/corporate-governance/gender-diversity-scores/>

# Climate Impact Pledge: third engagement cycle underway

We conducted our annual review of the frameworks we use to assess companies' strategy on climate change. This is an effective way of understanding how their businesses are adapting to the risks and opportunities presented by a low-carbon transition. Our reviews ensure that our analysis accurately reflects evolving sector best practice across industries, and that our ambitions are escalated in response to the financial threat of accelerating climate change.

We are explicitly asking companies to make changes to their 'business as usual' by adapting to the constraints of a low-carbon transition and ensure that they are well-positioned to meet the objectives of the Paris Agreement of limiting temperature rise to well-below 2°C. Some of the key topics which we are discussing across the targeted sectors are highlighted below:

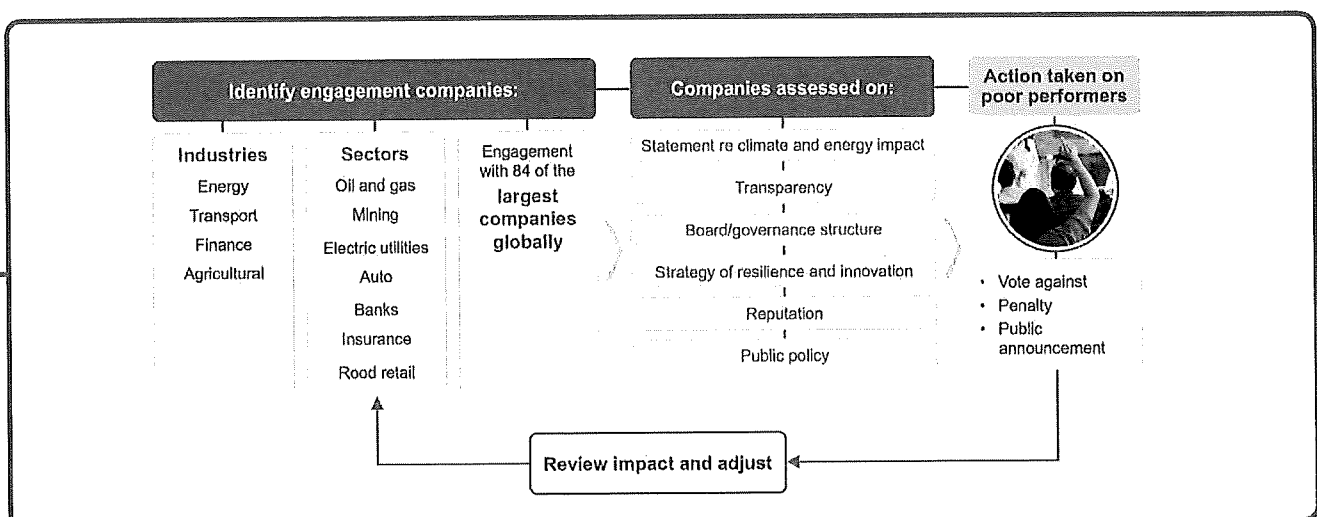
- **Food** – is the company setting targets to transition portfolios towards less emissions-intensive products? Is it engaging with its supply chain to improve soil health, eliminate deforestation and reduce agricultural emissions?
- **Oil & gas and mining** – is the company disclosing what percentage of its assets that would be viable if the world's energy consumption transitions in line with a 2°C scenario?

- **Financials** – is the company setting targets to reduce the emissions associated with its financing activities in line with a trajectory to keep temperature rise well-below 2°C?
- **Autos and electric utilities** – is the company setting targets to reduce the greenhouse gas emissions from its vehicle fleet or electricity generation line with a well-below 2°C trajectory?

## RESULTS OF ENGAGEMENT

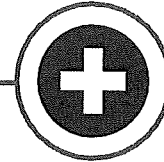
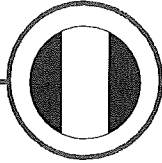
Following the methodology review, we began the third yearly cycle of Climate Impact Pledge engagements in September. To date, we have sent **almost 60 letters** to some of the world's largest companies, highlighting the areas related to climate change where we want them to improve or go further. The team has held **around 50 meetings** with companies to date, and since then we have seen some significant progress.

For example, Hong Kong-based electric utility **CLP** announced in December that it will not invest in any additional coal-fired generation capacity and will phase out its existing coal-plants by 2050. Additionally, **Commonwealth Bank of Australia** announced earlier this year that it will only finance new oil & gas projects if they are demonstrated to be compatible with the goals of the Paris Agreement.



# Engagements in Europe

A summary of the corporate governance team's engagements in the European (ex-UK) market this quarter.



## ITALY

We participated in a conference on ESG in Rome and also met with four companies with headquarters in the city:

- With **Poste Italiane** we discussed strategy, including its extensive national coverage as well its relationship/competition with Amazon. We also engaged on Poste Italiane's sustainability programme and its digital educational initiative for older customers.
- With **Eni** we discussed its remuneration structure and stressed the importance of transparency.
- With **Enel** we discussed its diversity programme. Enel's board is 33% female and is led by a woman. The company has a public target for shortlisting in recruitment and we encouraged it to go further and have public targets in general. Enel works with universities and high schools to increase the pool of female recruits.
- We also discussed diversity with **Terna** where the level of gender diversity on the board is at a high 44% but below the board level the numbers drop significantly. We encouraged the company to widen its recruitment pool.

## SWITZERLAND

We participated in the Swiss Corporate Governance Dialog conference in Zurich where investors and corporates gathered to discuss the state of corporate governance in Switzerland. This was also an opportunity to have a direct and open discussion with board members and high-level representatives of many Swiss companies.

**Diversity** on the board but also at various seniority levels was a key topic of our discussions with Swiss companies. A revision of the Swiss corporate law could soon see the introduction of a rule to have 30% of positions on the board of directors and 20% of positions on executive boards to be held by women.

Industrials company **Kardex** does not have a woman on its board and presented the challenges it faces in recruiting talented women on its board. This contrasted with construction company **Implenia** which, despite operating in a sector with generally lower rates of female participation, managed to achieve 29% diversity at board level and 22% at executive committee level.

We also noted that Swiss boards could benefit from a better understanding of the role of **board effectiveness reviews**, especially given their importance<sup>1</sup> for boards and investors. Only 8% of Swiss Market Index (SMI) companies underwent an externally facilitated board review in 2018 and two-thirds of SMI Mid companies did not refer to board assessment practices in their annual report.<sup>2</sup> We asked the board of financial services company **Baloise Holdings** to consider undertaking external board effectiveness reviews. This allows for an independent assessment of the board to be made by a fresh pair of eyes with experience in assessing many other boards.

1. <https://www.lgini.com/uk/en/capabilities/corporate-governance/influencing-the-debate/>

2. Source: 2018 Switzerland, Spencer Stuart Board Index

# Case study

**Case study:**

Novartis

**Market cap:**

£176 billion

**Sector:**

Pharmaceuticals

**Country:**

Switzerland

**What is the issue?** Novartis received approval from the US Food and Drug Administration (FDA) for a drug called Zolgensma, which was developed by its subsidiary, AveXis, in May 2019. The drug is approved for children up to two years of age suffering from the deadly muscle wasting disease spinal muscular atrophy. It is to date the world's most expensive drug (USD 2.1 million).

In mid-March of 2019, Novartis via AveXis, was alerted to allegations of data manipulation in a subset of data. An internal investigation was undertaken. Novartis did not alert the FDA of its initial findings until the end of June. The FDA conducted on-site inspections in July/August, following which it issued a so-called 483 form<sup>3</sup> which outlined concerns over the timing of self-disclosure to the FDA. It is to be noted that the FDA has continued to support the use of the drug.

**Why is it an issue?** We are concerned that Novartis did not consider it necessary to immediately alert the FDA when it discovered the internal data manipulation. We believe this sends the wrong message from the very top to the rest of the organisation, especially in light of the chief executive's commitment that Novartis must hold itself to the "highest ethical standards and always aim to win and maintain the trust of society and [its] many stakeholders".

**What did LGIM do?** Soon after the publication of the FDA letter, we met with Novartis together with our Active Equities team.

We clearly communicated our disappointment that the company had not immediately contacted the FDA. We also shared our concerns that this showed poor judgement from management and sent the wrong signals throughout the organisation.

We recently followed this up with another meeting, and shared our expectation for this issue to be reflected in executive pay.

**What was the outcome?** The company has publicly committed to the FDA that it will, going forward, notify the authority within five business days after receipt of "any credible allegation" related to data integrity during a filing.

We will monitor the publication of Novartis' annual report and will analyse the remuneration report and pay awards granted for financial year 2019 and take into account any actions taken in this regard when voting at the 2020 annual general meeting.

3. An FDA Form 483 is issued to firm management at the conclusion of an inspection when an investigator(s) has observed any conditions that in its judgment may constitute violations of the Food Drug and Cosmetic (FD&C) Act and related Acts.

# Public policy update

Over the past quarter we have been actively engaged, and closely following, a wide variety of policy and regulatory developments around the world. The corporate governance team has a new dedicated ESG Public Policy Analyst, Alexander Burr, who joined our London office in September.



## UNITED KINGDOM

### New and improved UK Stewardship Code:

In October, the much-anticipated revised UK Stewardship Code was officially released<sup>1</sup>. The new code is the culmination of over two years of consultation from the UK's Financial Reporting Council (FRC) and comes into effect this year. We sought fundamental reform to the Stewardship Code in four key areas:

- what the code covers;
- how signatories disclose against it;
- assurance of reporting; and
- enforcement or oversight mechanism.

We were delighted that three of our four key asks have been embedded into the revised 2020 Stewardship Code. With respect to the content of the code, this has been importantly **extended to all global asset classes and funds that we manage**. This increases the code's relevance to our clients and provides that stewardship ought to be embedded within the signatories' investment culture, rather than selectively applied to certain regions, funds or investment styles.

The **disclosure requirements of signatories** for the 2020 Stewardship Code have been transformed. Instead of a tick box compliance process, Stewardship Code signatories will have to **evidence** how the code is applied through a public annual Outcome and Activities report. The reporting requirements are detailed, and we believe ought to provide the right level of information to assist stakeholders in assessing the quality of stewardship being undertaken.

Finally, the FRC will be **assessing compliance** with the code and its reporting against its own assessment framework. Potential signatories will be refused if reporting expectations are not met. This provides an important mechanism to ensure stewardship activities are undertaken by signatories.

We will continue to work with the FRC to develop an assessment framework that is sufficiently robust. From 2020 you should also expect to see expanded reporting of our stewardship activities across asset classes to better reflect best practice as set out in the code.

### Audit:

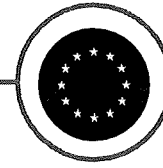
In December the FRC announced new rules that would **prohibit audit firms from providing almost any non-audit activity for their audit clients**, including the provision of recruitment and remuneration services. In recent years we have strengthened our voting policy on the provision of non-audit work having received feedback from clients in previous year's stakeholder events. We have also highlighted the risk of the provision of non-audit work to auditors independence in various consultations on the audit sector in the last two years, including the Competitions & Market Authority. We are pleased the FRC has acted so strongly to address this conflict.

### Sustainable Development Goals (SDGs):

We provided input for a consultation on a proposal to establish a framework for recommended SDGs disclosures. This was produced by chartered accountant groups in the UK, Australia and New Zealand.

We fully support the objectives set out by the SDGs and recognise that reporting against the SDGs can be a challenging task for organisations. We are therefore greatly supportive of efforts to develop a framework that helps organisations to report transparently and consistently against their SDG contributions.

1. <https://www.frc.org.uk/investors/uk-stewardship-code>



## UNITED STATES

In the US we have been working together with Legal & General Investment Management America (LGIMA) to engage with the Securities Exchange Commission (SEC) on several important points.

In October we, alongside 28 global institutional investors (part of the 'Human Capital Management Coalition') wrote<sup>2</sup> to the SEC with regards to the modernisation of regulation on human capital disclosures. It is our view that a combination of rules-based disclosures and more open-ended principles-based disclosures is necessary to accurately assess how companies are managing their human capital.

Over the past months we have also been working with LGIMA as well as The Council of Institutional Investors<sup>3</sup> (CII) and the UN PRI<sup>4</sup> to voice concerns<sup>5</sup> on two proposals on proxy voting advice. The SEC's proposed rules on shareholder proposals and proxy advisers would introduce a major impediment to ESG integration, which has traditionally depended on dedicated investors engaging with management and access to unbiased and efficient proxy voting advice. If adopted, these would be the most significant changes to the voting rights of shareholders in decades and in our view would severely jeopardise the interests of individual and institutional investors.

2. <https://www.sec.gov/comments/s7-11-19/s71119.htm>

3. <https://www.cii.org/correspondence>

4. <https://www.unpri.org/sustainable-markets/briefings-and-consultations>

5. <https://www.sec.gov/comments/4-725/4-725.htm>

## EUROPEAN UNION

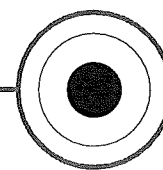
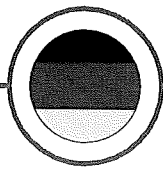
At a European Union level, we have continued to closely follow the important and in-depth technical work outlined in the Commission's action plan on sustainable finance. Specific areas of interest for us over the past few months have been the finalisation of:

- 1) the **EU Taxonomy**, a clear and detailed EU classification system for sustainable activities. It creates a common language for all actors in the financial system and aims to stop 'greenwashing';
- 2) **Climate Change Benchmark regulation**; and
- 3) **Sustainable-related disclosure regulation**. The benchmark and disclosure regulations have now been finalised and the taxonomy is going through the final stages of political approval.

We are delighted to see that tackling climate and environmental-related challenges continues to be at the top of the political agenda for the EU. This has been highlighted by the European Commission's recent paper on the European Green Deal – an ambitious strategy that aims to transform the EU into a net-zero emissions economy by 2050, where economic growth is decoupled from resource use.

At the United Nations' climate change conference, we, as part of the Institutional Investors Group on Climate Change (IIGCC), showed our strong support for the establishment of a **2050 net-zero emissions target for the EU** in an open letter to EU leaders.

# Public policy update (cont.)



## GERMANY

As a major long-term investor in German equity and bonds, we have engaged with the German government and Parliament on the transposition of the **EU Shareholder Rights Directive II**, aimed at strengthening shareholder rights, into German law. Two focus areas for us have been:

- 1) **Remuneration of the management board** – we expressed our strong preference for the government's proposal to introduce a binding shareholder vote on the remuneration policy. We believe this would strengthen Germany's corporate governance system and align it with other European member states, reinforce the protection of its minority shareholders and ultimately improve market standards. The German Parliament adopted the final piece of legislation in November, with an advisory vote for both the remuneration policy and report. Whilst this is not our preferred approach, we welcome the introduction of the say-on-pay system in Germany, which was only optional until this point.
- 2) **Related party transactions** - we encouraged the government to review the proposed threshold for disclosure and approval of related party transactions that was set out in the draft law. We asked for a more stringent threshold to be set to allow for a greater amount of related party transactions to be put under the scrutiny of minority shareholders. We believed this would better ensure their protection, mitigate the risk of a related party taking advantage of its position and help the market cost of capital. A more stringent threshold of 1.5% of assets was put in place by the law adopted in November.

## JAPAN

We have closely followed the **Amendment to the Foreign Exchange and Foreign Trade Act**. The amendment requires foreign investors to file a 'pre-acquisition notification' to the government if they intend to acquire 1% or more of a listed company in a restricted sector. It also requires foreign investors intending to influence management on a range of governance or business issues to file a pre-notification of their intentions. We have been supportive of the efforts of the Asian Corporate Governance Association (ACGA) and the International Corporate Governance Network (ICGN) to seek clarification from the Japanese government on whether this applies to asset managers and have also met with the Japanese Financial Services Agency in this regard. For now, it would appear asset managers are exempt.

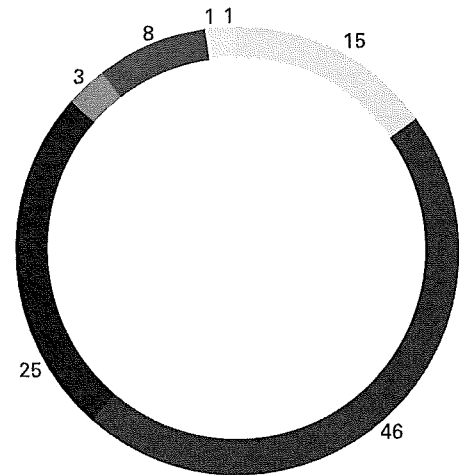
# Regional updates

## UK

### Q4 2019 VOTING SUMMARY UK

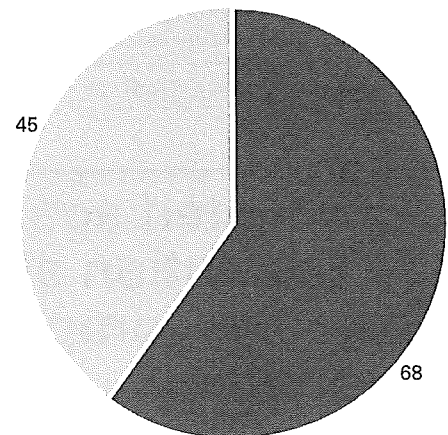
Proposal category	UK		
	For	Against	Abstain
Anti-takeover Related	46		
Capitalisation	252	15	
Directors Related	439	46	
Non-salary Compensation	95	25	
Reorganisation and Mergers	28	3	
Routine/Business	339	8	
Shareholder Proposal - Compensation			
Shareholder Proposal - Corporate Governance			
Shareholder Proposal - Directors Related			
Shareholder Proposal - General Economic Issues			
Shareholder Proposal - Health/Environment			
Shareholder Proposal - Other/Miscellaneous			
Shareholder Proposal - Routine/Business		1	
Shareholder Proposal - Social/Human Rights			
Shareholder Proposal - Social		1	
<b>Total</b>	<b>1199</b>	<b>99</b>	
<b>Total resolutions</b>	<b>1298</b>		
No. AGMs	78		
No. EGMs	43		
No. of companies voted	113		
No. of companies where voted against management on at least one resolution	45		
% no. of companies where at least one vote against	40%		

Votes against management



- Capitalisation
- Directors Related
- Non-salary Compensation
- Reorganisation and Mergers
- Routine/Business
- Shareholder Proposal - Routine/Business
- Shareholder Proposal - Social

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 40% of UK companies over the quarter.'

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

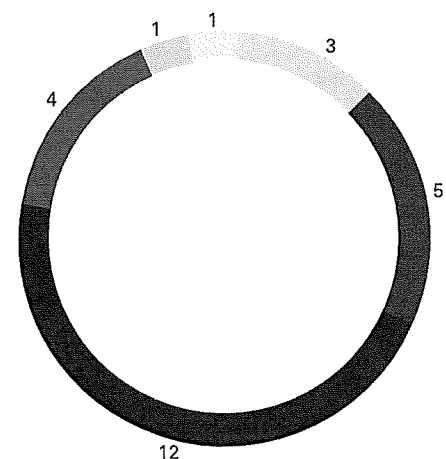
# Regional updates

## Europe

### Q4 2019 VOTING SUMMARY EUROPE

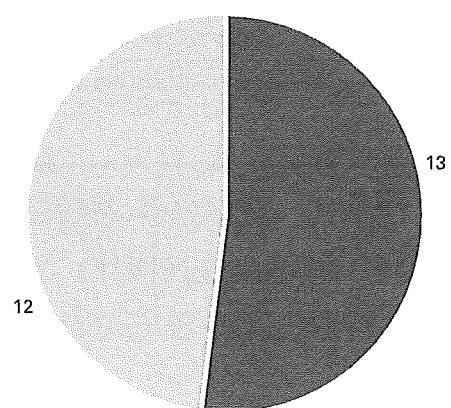
Proposal category	EUROPE		
	For	Against	Abstain
Anti-takeover Related			
Capitalisation	37	3	
Directors related	55	3	2
Non-salary Compensation	19	12	
Reorganisations and Mergers	2		
Routine/Business	58	2	2
Shareholder Proposal - Compensation			
Shareholder Proposal - Corporate Governance		1	
Shareholder Proposal - Directors Related			
Shareholder Proposal - General Economic Issues			
Shareholder Proposal - Health/Environment			
Shareholder Proposal - Other/Miscellaneous	4	1	
Shareholder Proposal - Routine/Business			
Shareholder Proposal - Social/Human Rights			
Shareholder Proposal - Social			
<b>Total</b>	<b>175</b>	<b>22</b>	<b>4</b>
Total resolutions	201		
No. AGMs	8		
No. EGMs	17		
No. of companies voted	25		
No. of companies where voted against management on at least one resolution	12		
% no. of companies where at least one vote against	48%		

Votes against management and abstentions



- Capitalisation
- Directors Related
- Non-salary Compensation
- Routine/Business
- Shareholder Proposal - Corporate Governance
- Shareholder Proposal - Other/Miscellaneous

Number of companies voted for/against abstentions



- No. of companies where supported management
- No. of companies where voted against management (including abstentions)

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

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

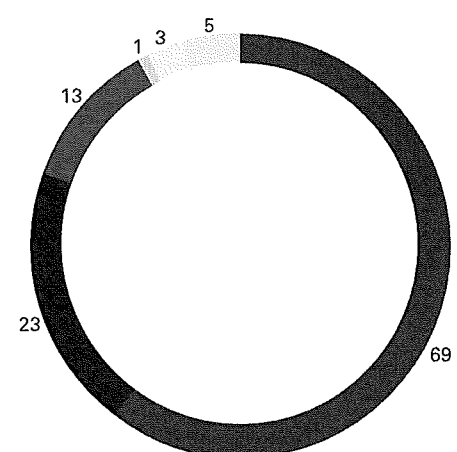
# Regional updates

## North America

### Q4 2019 VOTING SUMMARY NORTH AMERICA

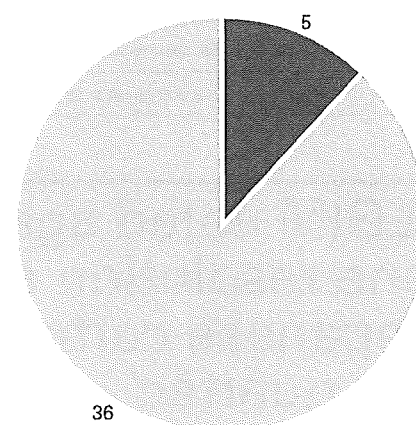
Proposal category	NORTH AMERICA		
	For	Against	Abstain
Anti-takeover Related	4		
Capitalisation	13		
Directors Related	273	69	
Non-salary Compensation	23	23	
Reorganisations and Mergers	4		
Routine/Business	26	13	
Shareholder Proposal - Compensation			
Shareholder Proposal - Corporate Governance		1	
Shareholder Proposal - Directors Related	1		
Shareholder Proposal - General Economic Issues			
Shareholder Proposal - Health/Environment			
Shareholder Proposal - Other/Miscellaneous		3	
Shareholder Proposal - Routine/Business		5	
Shareholder Proposal - Social/Human Rights			
Shareholder Proposal - Social			
Total	344	114	
Total resolutions	458		
No. AGMs	35		
No. EGMs	6		
No. of companies voted	41		
No. of companies where voted against management on at least one resolution	36		
% no. of companies where at least one vote against	88%		

#### Votes against management



- Directors Related
- Non-salary Compensation
- Routine/Business
- Shareholder Proposal - Corporate Governance
- Shareholder Proposal - Other/Miscellaneous
- Shareholder Proposal - Routine/Business

#### Number of companies voted for/against



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

'LGIM voted against at least one resolution at 88% 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

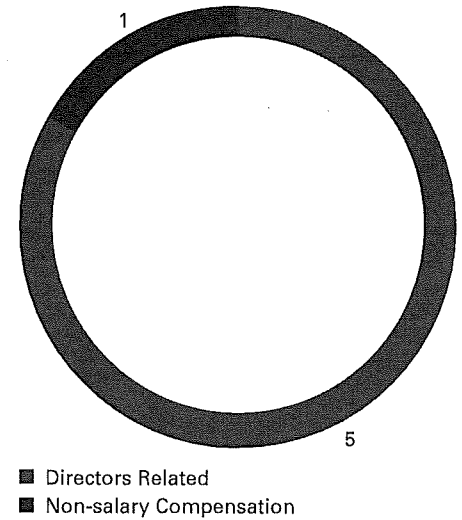
# Regional updates

## Japan

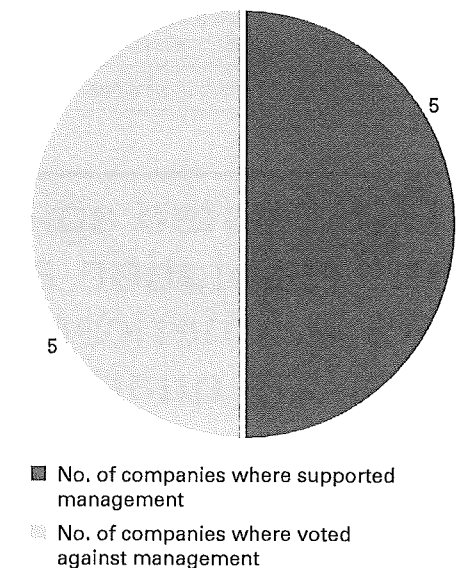
### Q4 2019 VOTING SUMMARY JAPAN

Proposal category	JAPAN		
	For	Against	Abstain
Anti-takeover Related			
Capitalisation			
Directors Related	79	5	
Non-salary Compensation	2	1	
Reorganisations and Mergers	4		
Routine/Business	8		
Shareholder Proposal - Compensation			
Shareholder Proposal - Corporate Governance			
Shareholder Proposal - Directors Related			
Shareholder Proposal - General Economic Issues			
Shareholder Proposal - Health/Environment			
Shareholder Proposal - Other/Miscellaneous			
Shareholder Proposal - Routine/Business			
Shareholder Proposal - Social/Human Rights			
Shareholder Proposal - Social			
Total	93	6	
Total resolutions	99		
No. AGMs	9		
No. EGMs	1		
No. of companies voted	10		
No. of companies where voted against management on at least one resolution	5		
% no. of companies where at least one vote against	50%		

Votes against management



Number of companies voted for/against



'LGIM voted against at least one resolution at 50% of Japanese companies over the quarter.'

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

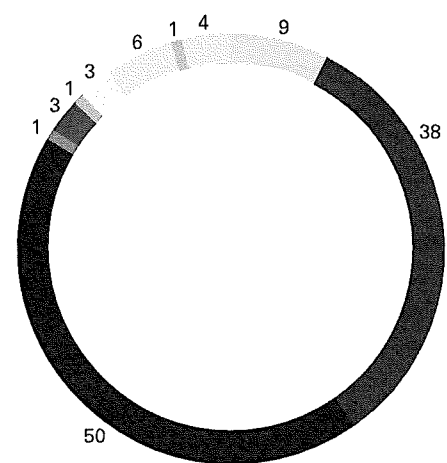
# Regional updates

## Asia Pacific

### Q4 2019 VOTING SUMMARY ASIA PACIFIC

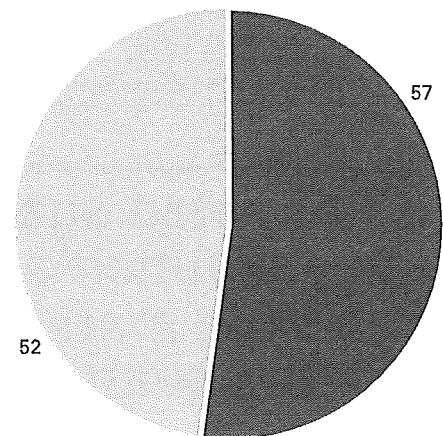
Proposal category	ASIA PACIFIC		
	For	Against	Abstain
Anti-takeover Related	9		
Capitalisation	24	9	
Directors Related	251	38	
Non-salary Compensation	136	50	
Reorganisations and Mergers	31	1	
Routine/Business	54	3	
Shareholder Proposal - Compensation			
Shareholder Proposal - Corporate Governance			
Shareholder Proposal - Directors Related		1	
Shareholder Proposal - General Economic Issues			
Shareholder Proposal - Health/Environment	1	3	
Shareholder Proposal - Other/Miscellaneous			
Shareholder Proposal - Routine/Business	4	6	
Shareholder Proposal - Social/Human Rights	1	1	
Shareholder Proposal - Social	2	4	
<b>Total</b>	<b>513</b>	<b>116</b>	
Total resolutions		629	
No. AGMs		92	
No. EGMs		17	
No. of companies voted		109	
No. of companies where voted against management on at least one resolution		52	
% no. of companies where at least one vote against		48%	

**Votes against management**



- Capitalisation
- Directors Related
- Non-Salary Compensation
- Reorganisation and Mergers
- Routine/Business
- Shareholder Proposal - Directors Related
- Shareholder Proposal - Health/Environment
- Shareholder Proposal - Routine/Business
- Shareholder Proposal - Social/Human Rights
- Shareholder Proposal - Social

**Number of companies voted for/against**



- No. of companies where supported management
- 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

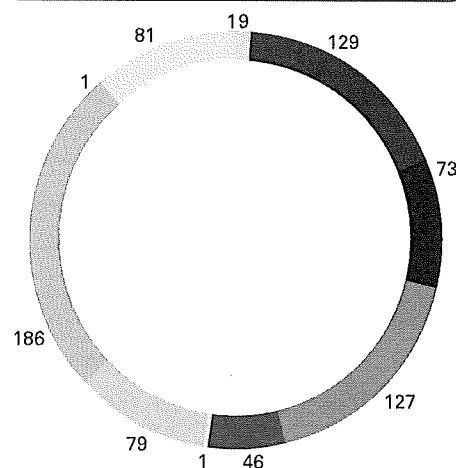
# Regional updates

## Emerging markets

### Q4 2019 VOTING SUMMARY EMERGING MARKETS

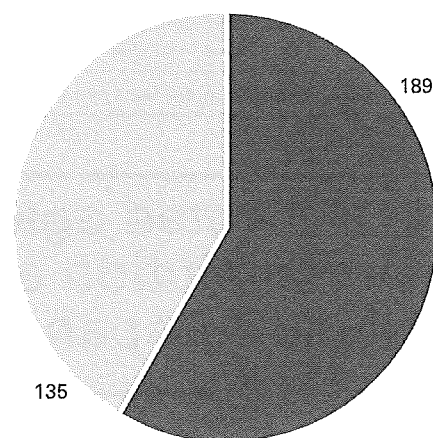
Proposal category	EMERGING MARKETS		
	For	Against	Abstain
Anti-takeover Related			
Capitalisation	358	9	
Directors Related	735	75	54
Non-salary Compensation	64	73	
Reorganisations and Mergers	371	127	
Routine/Business	390	46	
Shareholder Proposal - Compensation	6	1	
Shareholder Proposal - Corporate Governance		79	
Shareholder Proposal - Directors Related	14	186	
Shareholder Proposal - General Economic Issues			
Shareholder Proposal - Health/Environment		1	
Shareholder Proposal - Other/Miscellaneous			
Shareholder Proposal - Routine/Business	5	81	
Shareholder Proposal - Social/Human Rights			
Shareholder Proposal - Social		1	
<b>Total</b>	<b>1943</b>	<b>679</b>	<b>54</b>
<b>Total resolutions</b>	<b>2676</b>		
No. AGMs	50		
No. EGMs	278		
No. of companies voted	324		
No. of companies where voted against management /abstained on at least one resolution	135		
% no. of companies where at least one vote against	42%		

Votes against management and abstentions



- Capitalisation
- Directors Related
- Non-salary Compensation
- Reorganisations and Mergers
- Routine/Business
- Shareholder Proposal - Compensation
- Shareholder Proposal - Corporate Governance
- Shareholder Proposal - Directors Related
- Shareholder Proposal - Health/Environment
- Shareholder Proposal - Routine/Business
- Shareholder Proposal - Social

Number of companies voted for/against/abstentions



- No. of companies where supported management
- No. of companies where voted against management (includes abstentions)

‘LGIM voted against at least one resolution at 42% of emerging markets companies over the quarter.’

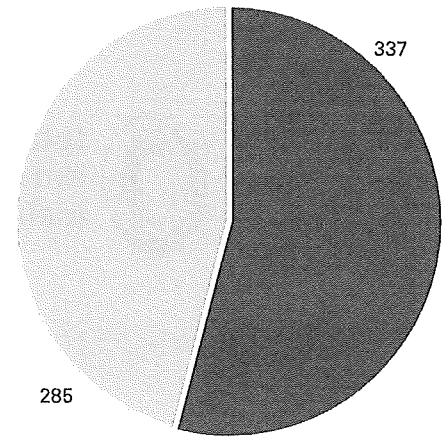
Source for all data LGIM. The votes above represent voting instructions for our main FTSE pooled index funds

# Global Voting summary

## VOTING TOTALS

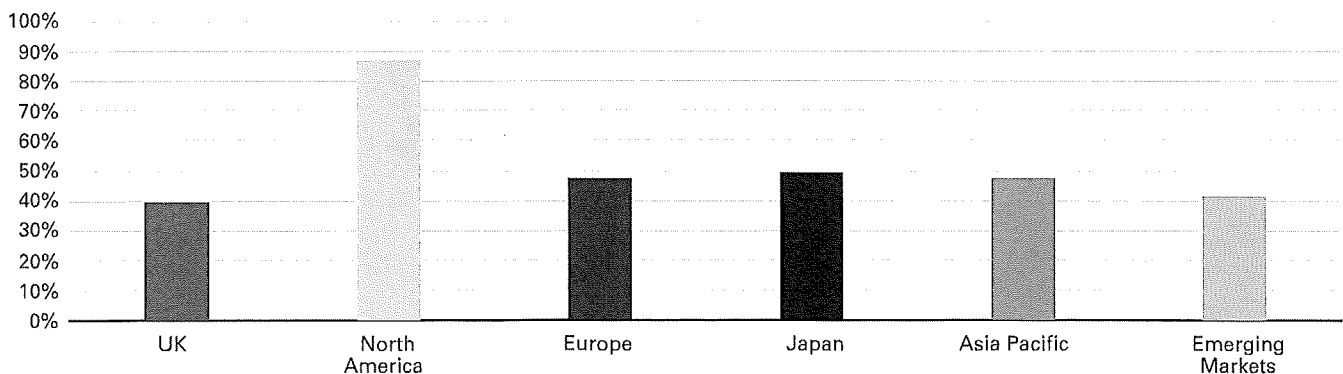
Proposal category	For	Against	Abstain	Total
Anti-takeover Related	59			59
Capitalisation	684	36		720
Directors Related	1832	236	56	2124
Non-salary Compensation	339	184		523
Reorganisations and Mergers	440	131		571
Routine/Business	875	72	2	949
Shareholder Proposal - Compensation	6	1		7
Shareholder Proposal - Corporate Governance		81		81
Shareholder Proposal - Directors Related	15	187		202
Shareholder Proposal - General Economic Issues				
Shareholder Proposal - Health/Environment	1	4		5
Shareholder Proposal - Other/Miscellaneous	4	4		8
Shareholder Proposal - Routine/Business	9	93		102
Shareholder Proposal - Social/Human Rights	1	1		2
Shareholder Proposal - Social	2	6		8
<b>Total resolutions</b>	<b>4267</b>	<b>1036</b>	<b>58</b>	<b>5361</b>
No. AGMs	272			
No. EGMs	362			
No. of companies voted	622			
No. of companies where voted against management /abstained on at least one resolution	285			
% no. of companies where at least one vote against	46%			

Number of companies voted for/against/abstentions



- No. of companies where supported management
- ▒ No. of companies where voted against management (includes abstention)

% of companies with at least one vote against (includes abstentions)



# Global Engagement Summary

Number of companies engaged with **267**

**330** total engagements during the quarter including:

**146** engagement meetings or calls

**184** engagement emails or letters

Number of engagements on environmental topics:

**96**

Number of engagements on social topics:

**138**

Number of engagements on governance topics:

**164**

Number of engagements on other topics (e.g. financial and strategy):

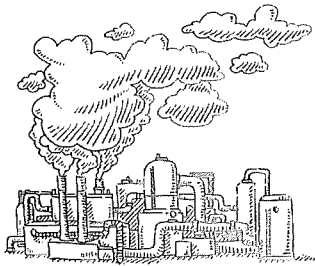
**47**

% of engagements on environmental and social topics:

**67%**

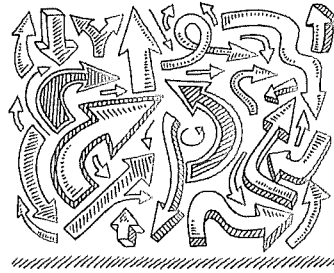
# Top five engagement topics:

1



Climate Change

2



Diversity

3



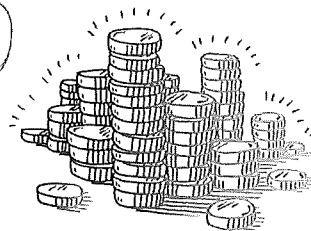
Governance Score

4



Social Score

5



Remuneration

## 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](mailto:corporategovernance@lgim.com). Please visit our website [www.lgim.com/corporategovernance](http://www.lgim.com/corporategovernance) where you will also find more information including frequently asked questions.

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M2045 GM

# Shropshire County Council

Q4 2019

The purpose of the **reo**<sup>®</sup> (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**<sup>®</sup> approach focuses on enhancing long-term investment performance by making companies more commercially successful through safer, cleaner, and more accountable operations that are better positioned to deal with ESG risks and opportunities.

## Engagement in review

In November, the U.S. Securities and Exchange Commission (SEC) proposed additional rules for regulation of the proxy voting process, including tighter rules for proxy advisory firms and higher thresholds for re-submission of shareholder resolutions. If finalised, the new rules would weaken shareholder access to independent proxy voting advice, potentially impede discussion of emerging ESG issues. The PRI sent a letter to the SEC opposing the proposed changes, which we signed.

On a more positive note, the UK's Financial Reporting Council (FRC) published in October an ambitious new UK Stewardship Code that seeks to set a higher standard for effective stewardship. We actively participated in the Code's consultation process and we aim to be early adopters and plan to integrate many of the requirements of the new Stewardship Code in our Responsible Investment reporting in early 2020, one year ahead of required reporting cycle.

As evidenced by the outcome of this year's annual UN climate conference, governments struggle to bridge the gap between what science demands and the world's current emissions. Despite the disappointment, actions by investors and companies signal important indicators of progress. Investors are mobilizing on climate action at a dizzying speed. A global investor statement to governments on climate change, drafted by IIGCC was endorsed by 631 investors. And Climate Action 100+ has played a key role driving many companies, including some of the world's largest, to publicly declare their support for the Paris Agreement and/or announce zero net emissions commitments. We continue to be active participants in both initiatives.

## Environmental challenges of Indonesia's natural bounty

### Engagement trip

We travelled to Indonesia to meet some of the country's largest companies, as well as other actors helping to advance ESG practices. Most of our discussions touched on environmental challenges linked to the exploitation and use of natural resources.

We met with palm oil giant **Indofood** to discuss challenges resulting from its withdrawal from the Roundtable on Sustainable Palm Oil (RSPO) earlier in 2019, prompted by allegations of labour violations and meaning its palm oil can no longer be RSPO-certified. We shared our concerns that this can lead to lower environmental and social practices across Indofood's planted area and supply chain. We also had a meeting with **Bank Mandiri**, during which we continued our discussion on the financing of palm oil and other agricultural commodities. Our meetings with **Adaro Energy** and **United Tractors (UT)**, both in the coal mining industry, focused on the long-term risks to their businesses. Both companies confirmed that conversations on business diversification feature heavily during board meetings. But ultimately, they remain bullish on coal as the preferred fuel to cover Asia's growing energy needs.

Finally, we met with the financial services regulator, OJK, and the Indonesian chapter of the World Wildlife Fund (WWF).

## BASF SE – a look into the world's largest chemical plant

### Engagement field trip

In November we organized a site visit for reo clients to BASF's plant in Ludwigshafen, Germany - the largest chemical complex in the world. We had a tour of the site, with in-depth explanations about energy production and consumption, internal transport infrastructure and workplace safety measures. We were particularly interested in discussing progress on safety practices after the 2016 explosion that killed five workers. The accident led to stronger safety oversight and more stringent performance goals.

We also spoke about efforts to address potential physical impacts from climate change, like the drought on the Rhine river in 2016. Mitigation measures include options for low-tide boats, enhanced forecasting, more storage on site, and alternative transport routes. Finally, we discussed initiatives around diversity, carbon management and litigation risks.

## Navigating the social costs of sourcing cobalt for the green revolution

### Engagement collaboration

We attended a roundtable on responsible cobalt sourcing hosted by the PRI as part of our involvement in their project on the theme. The event brought together companies, investors, intergovernmental bodies and NGOs to discuss the issues surrounding sourcing from the Democratic Republic of Congo (DRC).

Despite the boom in demand, the social issues around DRC-based large-scale mining (LSM) and artisanal or small-scale mining (ASM) remain, such as bribery and corruption, pollution, the use of child and slave labour, unsafe working conditions and funding local militia.

The political and operating environment in the DRC remains complex. Any solution must, therefore, involve multistakeholder co-operation. Although LSM is less exposed to many of the issues seen with ASM, in practice ASM cobalt continues to enter the mix that large miners distribute, and it contributes more economic benefits to local communities than LSM.

A technological solution currently being explored is blockchain, although there were mixed messages on how well this could work in practice, particularly with ASM. Our expectation is to continue exploring the issue alongside other investors in the collaborative engagement project.

## Targeting the opioid epidemic

### Engagement collaboration

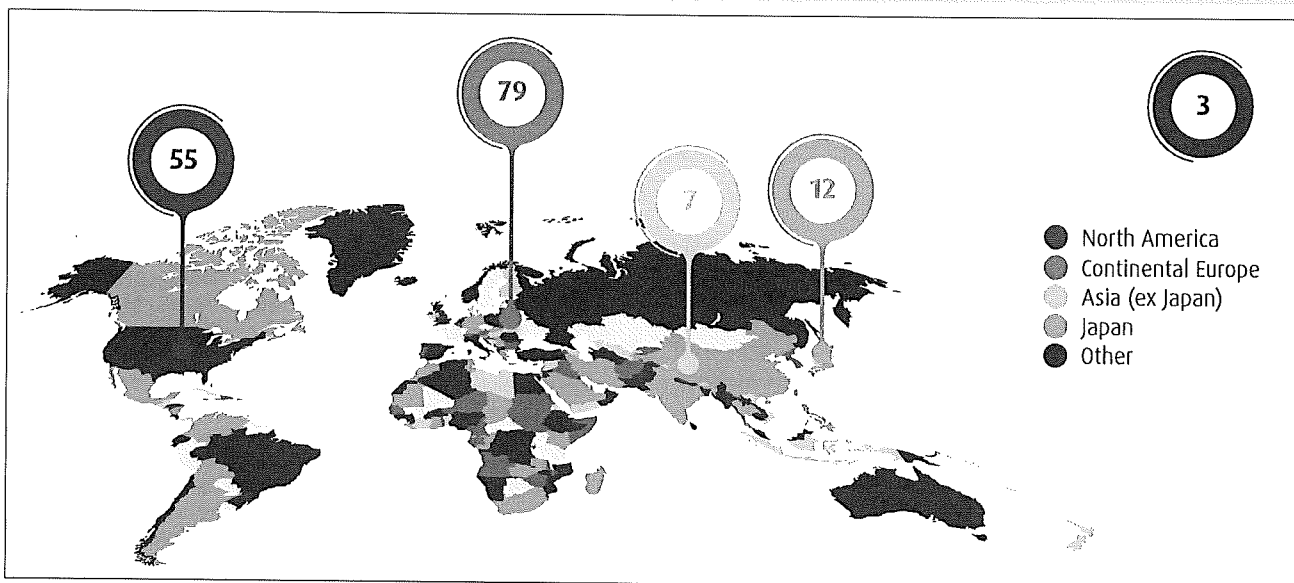
We decided to join IOPA (Investors for Opioid Accountability), which was established in response to the opioid crisis. The U.S. Centers for Disease Control and Prevention reported that in 2017, opioid overdoses caused 47,600 deaths in the U.S. Companies in the opioid supply chain have come under intense legislative and regulatory scrutiny for their role in contributing to the crisis.

The IOPA has focused on manufacturers, distributors, and retail pharmacies, asking them to employ governance tools to improve corporate practices, culture, board accountability, compensation incentives, and risk mitigation. In 2020 we are committed to engaging other key companies in the opioid supply chain and will use the platform provided by the IOPA to encourage the implementation of practices to strengthen governance through Board oversight.

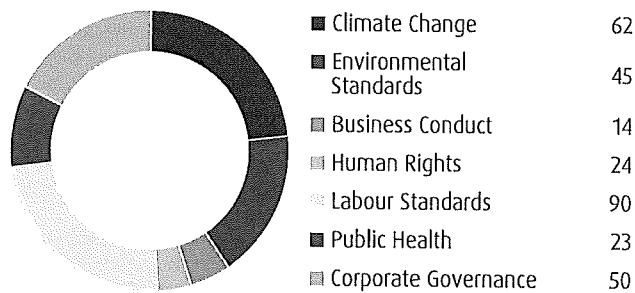
Companies engaged this quarter

Companies Engaged	Milestones achieved	Countries covered
156	49	15

Companies engaged by region



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



Milestones achieved by issue



<sup>\*</sup> *reo* is currently applied to £131bn (\$161billion / €147billion) of assets as at 30th September 2019.

<sup>\*\*</sup> Companies may have been engaged on more than one issue.

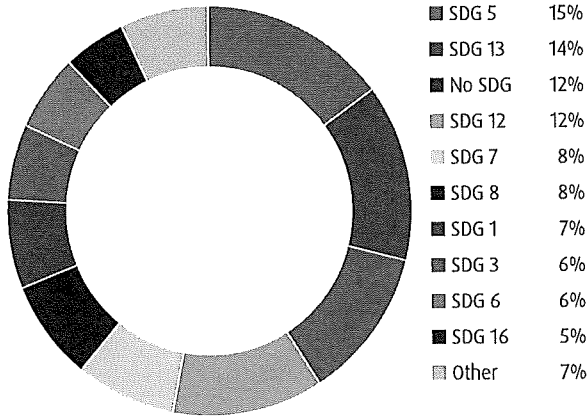
<sup>\*\*\*</sup> This report has been compiled using data supplied by a third-party electronic voting platform provider. The statistics exclude ballots with zero shares and re-registration meetings. Meetings/ballots/proposals are not considered voted if: ballots have been rejected by voting intermediaries (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 uninstruted. 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.

### Engagements and Sustainable Development Goals (SDGs)

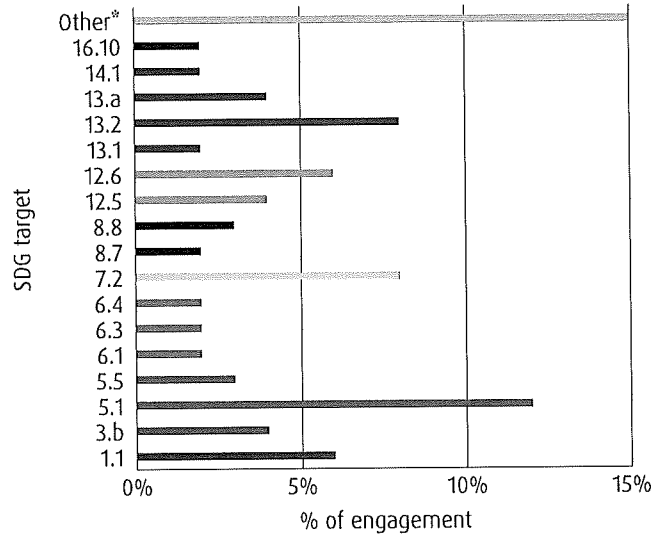
The 17 Sustainable Development Goals (SDGs) were developed by the UN and cross-industry stakeholders with a view to providing a roadmap towards a more sustainable world.

We use the detailed underlying SDG targets to frame company engagement objectives, where relevant, as well as to articulate the positive societal and environmental impacts of engagement. Engagements are systematically captured at a target level, to enable greater accuracy and achieve higher impact.

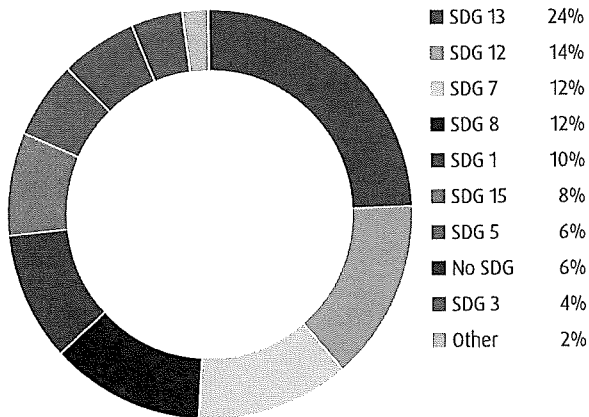
Engagement: SDG level



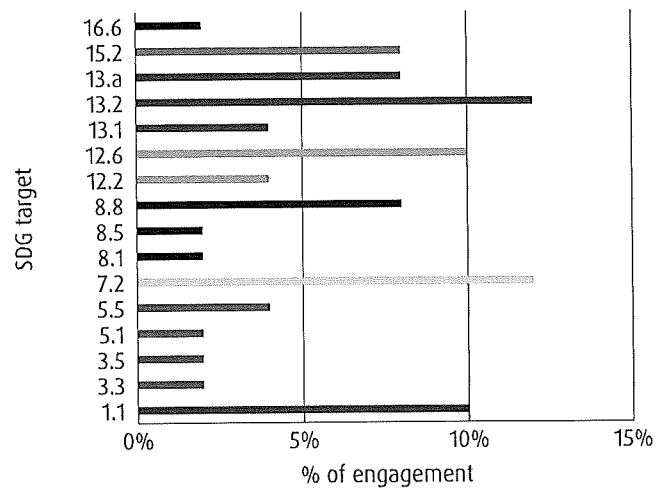
Engagement: SDG target level



Milestone: SDG level



Milestone: SDG target level



\*Other represents SDG targets less than 2% of the relevant SDG Goal.



# 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 Responsible 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 details of our engagements with companies please refer to the online *reo*® client portal.

Name	Sector	ESG Rating	Response to engagement	Themes engaged						
				Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance
Amazon.com Inc	Consumer Discretionary		Poor	●			●	●		
AutoZone Inc	Consumer Discretionary		Poor							●
BASF SE	Materials		Good	●	●	●		●		●
Bayer AG	Health Care		Adequate					●		
BP PLC	Energy		Good	●						●
CK Asset Holdings Ltd	Real Estate			●	●			●		
Crown Holdings Inc	Materials									
Dominion Energy Inc	Utilities		Good	●						●
G4S PLC	Industrials						●	●		
GlaxoSmithKline PLC	Health Care		Good						●	●
HSBC Holdings PLC	Financials		Good	●						●
Japan Tobacco Inc	Consumer Staples			●			●			
Johnson & Johnson	Health Care		Adequate						●	
Novartis AG	Health Care		Good			●			●	
Philip Morris International Inc	Consumer Staples		Good	●	●		●	●		
Renault SA	Consumer Discretionary									●
Royal Dutch Shell PLC	Energy		Good	●			●			●
SAP SE	Information Technology		Adequate					●		
Suncor Energy Inc	Energy			●						
Tesla Inc	Consumer Discretionary				●		●	●		
Tyson Foods Inc	Consumer Staples								●	
Vistra Energy Corp	Utilities			●						●
Volkswagen AG	Consumer Discretionary		Adequate					●		
Wells Fargo & Co	Financials		Adequate			●				●

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

Top quartile: Second quartile: Third quartile: Bottom quartile:



# Engagements and Your Fund: Red rated

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

Name	Country	Sector	Priority company	Themes engaged								
				Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance		
AutoZone Inc	United States	Consumer Discretionary	✓									
CK Infrastructure Holdings Ltd	Hong Kong	Utilities		●	●		●	●				●
Dollar General Corp	United States	Consumer Discretionary										
G4S PLC	United Kingdom	Industrials	✓				●	●				
Japan Tobacco Inc	Japan	Consumer Staples	✓	●			●	●				
JPMorgan Chase & Co	United States	Financials		●	●							
NRG Energy Inc	United States	Utilities			●							
Pfizer Inc	United States	Health Care			●					●		●
Tyson Foods Inc	United States	Consumer Staples	✓							●		
US Bancorp	United States	Financials						●				●
Vistra Energy Corp	United States	Utilities	✓	●								●
Volkswagen AG	Germany	Consumer Discretionary	✓					●				
Waste Connections Inc	United States	Industrials										●
Wells Fargo & Co	United States	Financials	✓				●					●
Whirlpool Corp	United States	Consumer Discretionary			●		●					
Zayo Group Holdings Inc	United States	Communication Services					●	●				

**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: Second quartile: Third quartile: Bottom quartile:

# 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.

Name	Country	Sector	Priority company	Themes engaged						
				Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance
Albermarle Corp	United States	Materials		●	●					
Alleghany Corp	United States	Financials		●						
Amazon.com Inc	United States	Consumer Discretionary	✓	●			●	●		
Arconic Inc/PA	United States	Industrials		●					●	
AVEVA Group PLC	United Kingdom	Information Technology						●		
Bank of America Corp	United States	Financials		●	●					
Bayer AG	Germany	Health Care	✓							
Cellnex Telecom SA	Spain	Communication Services				●	●	●		
CK Asset Holdings Ltd	Hong Kong	Real Estate	✓	●	●					
Costco Wholesale Corp	United States	Consumer Staples						●		
Crown Holdings Inc	United States	Materials	✓							
Daimler AG	Germany	Consumer Discretionary						●		
F5 Networks Inc	United States	Information Technology			●		●	●		
Fresenius Medical Care AG & Co KGaA	Germany	Health Care								
General Dynamics Corp	United States	Industrials		●						●
Halma PLC	United Kingdom	Information Technology				●		●		●
Hargreaves Lansdown PLC	United Kingdom	Financials						●		
Hoya Corp	Japan	Health Care							●	
Japan Exchange Group Inc	Japan	Financials								●
Mondelez International Inc	United States	Consumer Staples			●					●
Power Assets Holdings Ltd	Hong Kong	Utilities		●	●		●	●		●
Seven & i Holdings Co Ltd	Japan	Consumer Staples				●				●
Sumitomo Corp	Japan	Industrials								●
Vitasoy International Holdings Ltd	Hong Kong	Consumer Staples		●						●
Walgreens Boots Alliance Inc	United States	Consumer Staples			●					
Wirecard AG	Germany	Information Technology								●

**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: [shaded box] Second quartile: [shaded box] Third quartile: [shaded box] Bottom quartile: [shaded box]

# Engagements and Your Fund: Yellow rated

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

Name	Country	Sector	Priority company	Themes engaged						
				Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance
AIA Group Ltd	Hong Kong	Financials							●	
Ameriprise Financial Inc	United States	Financials								●
Apple Inc	United States	Information Technology				●				
Barrick Gold Corp	Canada	Materials		●	●		●			●
BHP Group Ltd	Australia	Materials		●	●	●	●			●
BP PLC	United Kingdom	Energy	✓	●						●
British American Tobacco PLC	United Kingdom	Consumer Staples			●					
Continental AG	Germany	Consumer Discretionary								
CVS Health Corp	United States	Health Care							●	●
Deutsche Lufthansa AG	Germany	Industrials								
Deutsche Telekom AG	Germany	Communication Services								
Devon Energy Corp	United States	Energy		●						●
DNB ASA	Norway	Financials				●				●
Dominion Energy Inc	United States	Utilities	✓	●						●
Eni SpA	Italy	Energy		●						
Goldman Sachs Group Inc/The	United States	Financials		●	●					
HSBC Holdings PLC	United Kingdom	Financials	✓	●						●
Johnson & Johnson	United States	Health Care	✓						●	
Koninklijke Ahold Delhaize NV	Netherlands	Consumer Staples							●	
Linde PLC	United Kingdom	Materials								
Lloyds Banking Group PLC	United Kingdom	Financials								●
Lululemon Athletica Inc	Canada	Consumer Discretionary					●			
McDonald's Corp	United States	Consumer Discretionary							●	
Mitsubishi Corp	Japan	Industrials								●
Newell Brands Inc	United States	Consumer Discretionary								
Novartis AG	Switzerland	Health Care	✓			●			●	
Ocado Group PLC	United Kingdom	Consumer Discretionary		●						
Philip Morris International Inc	United States	Consumer Staples	✓	●	●		●			
RWE AG	Germany	Utilities		●						●
Shimadzu Corp	Japan	Information Technology			●				●	
Smith & Nephew PLC	United Kingdom	Health Care								●
STERIS PLC	United States	Health Care			●				●	
Suez	France	Utilities			●				●	●
Sysco Corp	United States	Consumer Staples								●
Tesla Inc	United States	Consumer Discretionary	✓		●		●			

**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:  Second quartile:  Third quartile:  Bottom quartile:

# Engagements and Your Fund: Yellow rated

Name	Country	Sector	Priority company	Themes engaged						
				Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance
Tractor Supply Co	United States	Consumer Discretionary								
Under Armour Inc	United States	Consumer Discretionary			●					
United Utilities Group PLC	United Kingdom	Utilities								
Zalando SE	Germany	Consumer Discretionary								●

**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: [ ] Second quartile: [ ] Third quartile: [ ] Bottom quartile: [ ]

# Engagements and Your Fund: Green rated

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

Name	Country	Sector	Priority company	Themes engaged						
				Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance
adidas AG	Germany	Consumer Discretionary								
AES Corp/VA	United States	Utilities			●					
Allianz SE	Germany	Financials								
Alphabet Inc	United States	Information Technology				●	●			
American Express Co	United States	Financials								●
Associated British Foods PLC	United Kingdom	Consumer Staples			●					
Australia & New Zealand Banking Group Ltd	Australia	Financials		●						
BASF SE	Germany	Materials	✓	●	●	●				●
Bayerische Motoren Werke AG	Germany	Consumer Discretionary								
Beiersdorf AG	Germany	Consumer Staples								
BNP Paribas SA	France	Financials		●	●					
Boliden AB	Sweden	Materials			●	●				
British Land Co PLC/The	United Kingdom	Real Estate								
CaixaBank SA	Spain	Financials		●	●					●
Cameco Corp	Canada	Energy		●						
CLP Holdings Ltd	Hong Kong	Utilities		●						
Coca-Cola HBC AG	Switzerland	Consumer Staples			●					●
Compass Group PLC	United Kingdom	Consumer Discretionary		●						
ConocoPhillips	United States	Energy		●						
Covestro AG	Germany	Materials								
Covivio	France	Real Estate								●
Credit Suisse Group AG	Switzerland	Financials		●	●					
DCC PLC	Ireland	Industrials								
Deutsche Bank AG	Germany	Financials								
Deutsche Boerse AG	Germany	Financials								
Deutsche Post AG	Germany	Industrials								
E.ON SE	Germany	Utilities								
Enel SpA	Italy	Utilities		●						
Fast Retailing Co Ltd	Japan	Consumer Discretionary								
Flutter Entertainment PLC	Ireland	Consumer Discretionary								
GlaxoSmithKline PLC	United Kingdom	Health Care	✓							●
HeidelbergCement AG	Germany	Materials								
Henkel AG & Co KGaA	Germany	Consumer Staples								
Hennes & Mauritz AB	Sweden	Consumer Discretionary								
Hormel Foods Corp	United States	Consumer Staples								●

**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: Second quartile: Third quartile: Bottom quartile:

# Engagements and Your Fund: Green rated

Name	Country	Sector	Priority company	Themes engaged						
				Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance
Infiniteon Technologies AG	Germany	Information Technology								
Ingenico Group SA	France	Information Technology								
Intel Corp	United States	Information Technology		●						●
JD Sports Fashion PLC	United Kingdom	Consumer Discretionary		●	●					
Jeronimo Martins SGPS SA	Portugal	Consumer Staples							●	
JFE Holdings Inc	Japan	Materials		●						●
Merck KGaA	Germany	Health Care								
Mettler-Toledo International Inc	United States	Health Care			●					
Microsoft Corp	United States	Information Technology								●
Mitsubishi Materials Corp	Japan	Materials		●						
Muenchener Rueckversicherungs-Gesellschaft AG in Muenchen	Germany	Financials								
National Grid PLC	United Kingdom	Utilities		●						
Newcrest Mining Ltd	Australia	Materials		●	●					
Nippon Yusen KK	Japan	Industrials		●						
Oversea-Chinese Banking Corp Ltd	Singapore	Financials		●	●					
PepsiCo Inc	United States	Consumer Staples		●						
Procter & Gamble Co/The	United States	Consumer Staples			●					
Prudential Financial Inc	United States	Financials			●					●
Renault SA	France	Consumer Discretionary	✓							●
Rentokil Initial PLC	United Kingdom	Industrials								
Repsol SA	Spain	Energy		●	●					●
Roche Holding AG	Switzerland	Health Care							●	
Royal Dutch Shell PLC	Netherlands	Energy	✓	●						●
Sanofi	France	Health Care							●	
SAP SE	Germany	Information Technology	✓							
Shionogi & Co Ltd	Japan	Health Care							●	
Siemens AG	Germany	Industrials								
Smurfit Kappa Group PLC	Ireland	Materials								
Societe Generale SA	France	Financials		●						●
Standard Chartered PLC	United Kingdom	Financials								●
Suncor Energy Inc	Canada	Energy	✓	●						
Tesco PLC	United Kingdom	Consumer Staples		●						
thyssenkrupp AG	Germany	Materials								
TOTAL SA	France	Energy		●						●
Travelers Cos Inc/The	United States	Financials								●
UBS Group AG	Switzerland	Financials								●
VF Corp	United States	Consumer Discretionary			●					
Vonovia SE	Germany	Real Estate								●

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: [ ] Second quartile: [ ] Third quartile: [ ] Bottom quartile: [ ]

# Engagements and Your Fund: Green rated

Name	Country	Sector	Priority company	Themes engaged								
				Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health	Corporate Governance		
Whitbread PLC	United Kingdom	Consumer Discretionary										
Wm Morrison Supermarkets PLC	United Kingdom	Consumer Staples										

**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:  Second quartile:  Third quartile:  Bottom quartile: 

# 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					
					Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour Standards	Public Health
Amazon.com Inc	United States	Consumer Discretionary	✓	[Rating Bar]	●					
CLP Holdings Ltd	Hong Kong	Utilities		[Rating Bar]	●					
Dominion Energy Inc	United States	Utilities	✓	[Rating Bar]	●					
National Grid PLC	United Kingdom	Utilities		[Rating Bar]	●					
Vistra Energy Corp	United States	Utilities	✓	[Rating Bar]	●					
Volkswagen AG	Germany	Consumer Discretionary	✓	[Rating Bar]	●					
Anglo American PLC	United Kingdom	Materials	✓	[Rating Bar]	●					
ArcelorMittal SA	Luxembourg	Materials		[Rating Bar]	●					
Bayer AG	Germany	Health Care	✓	[Rating Bar]	●				●	
BHP Group Ltd	Australia	Materials		[Rating Bar]	●			●		
Boeing Co/The	United States	Industrials		[Rating Bar]						●
Chubu Electric Power Co Inc	Japan	Utilities	✓	[Rating Bar]	●					
Credit Suisse Group AG	Switzerland	Financials		[Rating Bar]	●					
Guidewire Software Inc	United States	Information Technology		[Rating Bar]						●
Iberdrola SA	Spain	Utilities		[Rating Bar]	●					
Intel Corp	United States	Information Technology		[Rating Bar]	●					
Repsol SA	Spain	Energy		[Rating Bar]	●					
VF Corp	United States	Consumer Discretionary		[Rating Bar]	●					
Vistra Energy Corp	United States	Utilities	✓	[Rating Bar]						●
Walgreens Boots Alliance Inc	United States	Consumer Staples		[Rating Bar]						●
Amazon.com Inc	United States	Consumer Discretionary	✓	[Rating Bar]						
Bayer AG	Germany	Health Care	✓	[Rating Bar]						●
BNP Paribas SA	France	Financials		[Rating Bar]	●					
Bunge Ltd	United States	Consumer Staples		[Rating Bar]		●				
Clorox Co/The	United States	Consumer Staples		[Rating Bar]						●
Copart Inc	United States	Industrials		[Rating Bar]						●
Deutsche Lufthansa AG	Germany	Industrials		[Rating Bar]						●
Dominion Energy Inc	United States	Utilities	✓	[Rating Bar]	●					
Goldman Sachs Group Inc/The	United States	Financials		[Rating Bar]	●					
Hermes International	France	Consumer Discretionary		[Rating Bar]	●					

**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: [Lightest Grey] Second quartile: [Light Grey] Third quartile: [Medium Grey] Bottom quartile: [Darkest Grey]

# Milestones and Your Fund

Name	Country	Sector	Priority company	ESG Rating	Themes engaged						
					Climate Change	Environmental Standards	Business Ethics	Human Rights	Labour standards	Public Health	Corporate governance
JPMorgan Chase & Co	United States	Financials									
Mondelez International Inc	United States	Consumer Staples				●					
PepsiCo Inc	United States	Consumer Staples				●					
RPM International Inc	United States	Materials			●						
RWE AG	Germany	Utilities									
SAP SE	Germany	Information Technology	✓								
Smurfit Kappa Group PLC	Ireland	Materials				●					
SSE PLC	United Kingdom	Utilities									
Standard Chartered PLC	United Kingdom	Financials			●						
Steel Dynamics Inc	United States	Materials			●						
UniCredit SpA	Italy	Financials			●						
Vistra Energy Corp	United States	Utilities	✓		●						●
Volkswagen AG	Germany	Consumer Discretionary	✓								
Waste Connections Inc	United States	Industrials									
Wilmar International Ltd	Singapore	Consumer Staples				●					

**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:  Second quartile:  Third quartile:  Bottom quartile: 



# ESG Viewpoint

November 2019



**Catherine McCabe**  
Analyst, Responsible  
Investment



**Alice Evans**  
Co-Head of Responsible  
Investment

## Antimicrobial resistance – an investor perspective on a pressing global threat

At BMO Global Asset Management, one of our key corporate engagement topics is antimicrobial resistance (AMR), which is a pressing global challenge. During September's PRI in Person conference in Paris, we took the opportunity to co-host a side event with FAIRR to shed light on the issues facing companies, and how our engagement can make a meaningful difference.

We were very encouraged by investors' high level of interest in AMR and understanding of the need to raise awareness of this material risk. Although AMR is a major challenge, there are clear pathways to reducing its development and spread, and in our experience, investor engagement can be a powerful force for positive change.


### What is AMR?

AMR is a natural phenomenon in which microorganisms develop resistance to antimicrobial agents. However, it is being accelerated by poor stewardship of antibiotics in healthcare and farming: antimicrobial resistant microbes can spread between people and animals, and from person to person. As a result, a growing number of common bacterial infections – including urinary tract infections, gonorrhoea, tuberculosis and pneumonia – are becoming more difficult to treat.

The **FAIRR Initiative** is a collaborative investor network that raises awareness of the ESG risks and opportunities caused by intensive livestock production. FAIRR's research into antibiotic use in global supply chains has been the cornerstone of our engagement with food companies, and we were delighted that Maria Lettini, Executive Director, was able to join our event to share her insights into FAIRR's engagement programme on antibiotic stewardship.



## Contact us

 [bmogam.com](http://bmogam.com)

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A continued rise in resistance could lead to the number of deaths from drug-resistant infections rising from approximately 700,000 today to 10 million by 2050, potentially reducing global GDP by 2-3.5%<sup>1</sup>. Moreover, routine operations, such as hip replacements, could become high-risk procedures. In short, AMR presents a major risk to public health and the global economy.

**Our engagement**

We support the World Health Organization’s “One Health” philosophy: stakeholders in human, animal, food and environmental health need to collectively take action. Our engagement on AMR therefore takes a cross-sector approach, encompassing food producers and purchasers, and pharmaceutical companies pursuing antimicrobial research & development.

**Engagement with food producers and purchasers**

Drawing on FAIRR’s research into antibiotic use in global protein supply chains, we have initially focused on engaging food producers and purchasers. The WHO estimates that 80% of all antibiotics sold are used in food-producing animals, and we believe that investors have a key role to play in raising awareness of the issues associated with the routine use of antibiotics in animal agriculture – from the consumer-facing retailer all the way up the supply chain – and in communicating best practices in antimicrobial stewardship.

**Our aim is to encourage companies to adopt best practices.**

**Animal protein producers**

- Antibiotics policy
- Phasing out all routine uses of antibiotics
- Supervision of antibiotic use
- Reducing the use of “medically important” antibiotics
- Animal welfare practices and management
- Auditing and monitoring
- Transparency

**Restaurants and supermarket chains**

Clear communication of these best practices to suppliers – closer collaboration is needed

We recognise that there are significant challenges facing food producers and purchasers in addressing AMR, not least because the intensification of animal production has led to greater dependence on antimicrobials<sup>2</sup>.

**Engagement with pharmaceutical companies**

The challenges which pharmaceutical companies are striving to overcome are no less acute, and economic, regulatory and scientific barriers are hindering the discovery and development of novel antibiotics<sup>3</sup>. Leveraging the Access to Medicine Foundation’s research for its AMR Benchmark, our engagement with pharmaceutical companies is focused on:

- **Research & Development**
  - Economic challenges
- **Manufacturing & production**
  - Environmental risk management to minimise the risk of antibiotic manufacturing discharge contaminating local water sources
  - Transparency on environmental risk management policies and procedures
  - Good manufacturing practices, to ensure high-quality antibiotic production
- **Appropriate Product Stewardship**
  - Educational programmes
  - Brochure and/or packaging adaptations
  - AMR surveillance

**Initial progress**

The majority of the 38 companies we contacted have been very receptive, and we have had in-depth calls with companies based in North America, Europe, and Japan, including major international companies such as GlaxoSmithKline and McDonald’s.

In our experience, companies are well-informed about the risks associated with antibiotic overuse, and it is now unusual for food and pharmaceutical companies not to have an antibiotic policy (or equivalent). This shift is reflected in FAIRR’s project on the restaurant industry: the number of companies with a publicly available antibiotic policy increased from 1 in 2016 to 17 in 2019. However, very few food companies have committed to phase out all routine uses of antibiotics, and there is a widespread lack of transparency.

<sup>1</sup> [https://amr-review.org/sites/default/files/AMR%20Review%20Paper%20-%20Tackling%20a%20crisis%20for%20the%20health%20and%20wealth%20of%20nations\\_1.pdf](https://amr-review.org/sites/default/files/AMR%20Review%20Paper%20-%20Tackling%20a%20crisis%20for%20the%20health%20and%20wealth%20of%20nations_1.pdf)

<sup>2</sup> <http://www.fao.org/antimicrobial-resistance/key-sectors/animal-production/en/>

<sup>3</sup> <https://www.tandfonline.com/doi/full/10.1080/17460441.2018.1515908>



In contrast, pharmaceutical companies' transparency on AMR-related issues is comparatively good, and in our dialogue they have been open about how new economic models could stimulate antibiotic development. Collaboration on environmental risk management has increased, enabled via the Pharmaceutical Supply Chain Initiative (PSCI) Audit Sharing Platform, on which supplier audits can be viewed by PSCI members. The AMR Industry Alliance is also having an important impact, including the publication of detailed guidance on how to manage the risk of contamination arising from waste resulting from antibiotic manufacturing processes.

#### Next steps

We will build on our dialogue with companies, broadening the scope of our project to include animal health companies, and continue to benchmark best practices and encourage more robust commitments on addressing AMR.

In our next Viewpoint on this topic, we plan to delve into the findings and outcomes of our engagement with both food and pharmaceutical companies, and explain in detail how our collaboration with FAIRR and the Access to Medicine Foundation have informed our approach to engagement with individual companies.

“

Antimicrobial resistance poses a formidable challenge to achieving Universal Health Coverage and threatens progress against many of the Sustainable Development Goals, including in health, food security, clean water and sanitation, responsible consumption and production, and poverty and inequality<sup>4</sup>.

<sup>4</sup>[https://www.who.int/docs/default-source/documents/no-time-to-wait-securing-the-future-from-drug-resistant-infections-en.pdf?sfvrsn=5b424d7\\_6](https://www.who.int/docs/default-source/documents/no-time-to-wait-securing-the-future-from-drug-resistant-infections-en.pdf?sfvrsn=5b424d7_6)

### Key risks

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

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

The information, opinions, estimates or forecasts contained in this document were obtained from sources reasonably believed to be reliable and are subject to change at any time.

### How BMO Global Asset Management can help you

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

#### Best ESG Research Team 2018

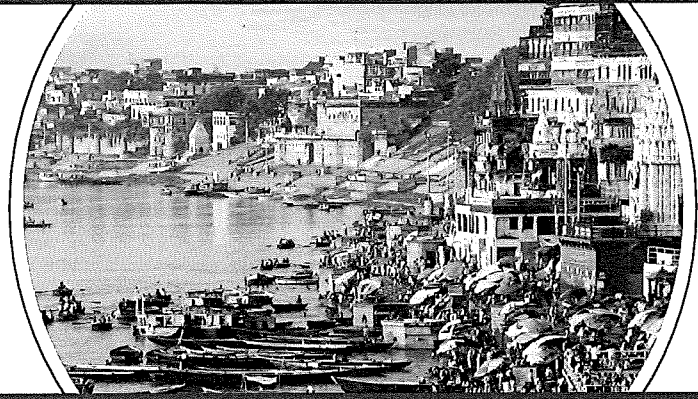
**INVESTMENT**  
WEEK  
**SUSTAINABLE & ESG**  
**INVESTMENT AWARDS 2018**

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**WINNER**  
Best ESG  
Research Team

# ESG Viewpoint



October 2019






**Juan Salazar**  
Director, Analyst,  
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Telephone calls may be recorded.

## Access for Growth – promoting responsible access to healthcare and finance in India

India's vast untapped market for healthcare and financial services offers significant growth prospects for companies looking to serve it. We believe that beyond reaping the financial benefits of increasing revenues, companies can and should play an active role in improving people's livelihoods by making these services affordable and inclusive. Our research and engagement trip to the country earlier in the summer allowed us to gain valuable insights into companies' efforts in these areas.


India's economic success over the past three decades has helped lift millions of its citizens out of poverty. However, access to basic services such as healthcare and finance remains elusive for millions more, particularly those living in rural areas. In this viewpoint, the second related to our recent engagement trip to India, we highlight the initiatives some companies are taking to provide access to healthcare and finance, as well as some of the gaps that need to be bridged to enhance long-term shared value creation.

“ ”

Access to basic services such as healthcare and finance remains elusive for millions, particularly those living in rural areas.

### The healthcare dilemma in India

India is often known as being the pharmacy of the global South. A significantly low-cost base that supports a large talent pool of scientists and engineers, and a favourable regulatory environment, have helped the country become a hub for pharmaceutical research and development. The industry has focused on producing cheap generic drugs to improve access to medicines, both in India and across the world. Yet the chronically low share of public funds spent on healthcare as a percentage of GDP – just over 1% – is a key reason why universal access to affordable healthcare, including medicines, continues to elude the country.



A study by the Public Health Foundation of India estimated that about 55 million Indians were pushed into poverty in a single year because of having to fund their own healthcare.

### Affordable healthcare

Increasing levels of non-communicable diseases (NCD) such as heart disease and diabetes have led to a significant rise in the cost of healthcare in India. This has had negative impacts on the livelihoods of households as the lack of comprehensive health schemes, either public or private, means that healthcare expenses are usually incurred by people from their own pockets. Within the context of a public health system hampered by weak infrastructure, poor healthcare delivery mechanisms and serious quality issues, people have little choice but to seek healthcare in more expensive private institutions.

Out-of-pocket healthcare payments on medicines and treatments can lead to catastrophic expenditures that push patients and their families into the medical poverty trap. A study by the Public Health Foundation of India estimated that about 55 million Indians were pushed into poverty in a single year because of having to fund their own healthcare<sup>1</sup>.

Many Indian pharmaceutical companies have made great strides in adopting innovative practices to deliver cost-effective and affordable medicines, in line with Sustainable Development Goal (SDG) 3 – 'ensure healthy lives and promote well-being for all'. **Cipla** and **Biocon**, two of the companies we met, stand out. Cipla's access to medicines strategy is not only premised on pricing, but also on high-profile awareness campaigns, patient and doctor education, and optimised distribution logistics to reach lower-tier cities and rural India. Biocon's innovation strategy involves the development of affordable follow-on versions of biologic drugs, or biosimilars, to provide cost-effective alternatives.

We also met two growing healthcare service providers whose ethos is treatment affordability. **Narayana Health** and **Healthcare Global Enterprises (HGE)** have successfully leveraged technology, efficient delivery systems and economies of scale to make high-quality cardiology and oncology treatments, respectively, accessible and affordable. Importantly, both companies have developed

pricing structures that set the cost of treatments according to patients' income levels.

We were encouraged by companies' efforts to help bridge the healthcare gap for India's poorest. Going forward, we called for increased collaboration with government to expand affordable access by cutting supply chain inefficiencies, improving the sharing of drug price information among hospitals, introducing stricter drug pricing controls and furthering investments in research and innovation.

### Quality standards

Several major Indian generics companies have been found to adjust their manufacturing standards depending on the country buying their drugs, which translates into lower-quality medicines being sold to low-income countries with lax regulatory oversight. These practices can easily wipe out the benefits of increased access to affordable medicines.

We spoke at length to **Cipla** and **Alkem Laboratories** about these issues. We were impressed by Cipla's commitment to quality and safety – all plants meet exacting standards, i.e. those required by EU and US regulators, regardless of which market drugs are sold to. Moreover, quality indicators are part of the compensation structure/scorecard for executives.

We plan to continue engaging with major Indian pharma companies to implement similar practices, focusing on quality governance, manufacturing standards and data integrity. We will also press for improved transparency on findings from regulatory

“ ”

We were encouraged by companies' efforts to help bridge the healthcare gap for India's poorest.

<sup>1</sup> Sakthivel Selvaraj, Habib Hasan Farooqui, Anup Karan, "Quantifying the financial burden of households' out-of-pocket payments on medicines in India: a repeated cross-sectional analysis of National Sample Survey data, 1994-2014", January, 2018



inspections as well as the nature of any letters or warnings and, importantly, on remedial actions taken by management to address the concerns raised.

### Financial inclusion 2.0

India has achieved significant progress towards financial inclusion this decade. When the first Global Findex Database was released by the World Bank in 2011, it stated that only 40% of adult Indians had a bank account. The second version of the database<sup>2</sup>, released in 2018, indicated that almost 80% of adult Indians have bank accounts – a noteworthy addition of approximately 300 million accounts in just a few years.

Importantly, groups that are traditionally excluded shared in these gains. Women saw a 30% increase in account ownership, and the poorest households saw a 40% increase. This remarkable progress was driven by a number of financial inclusion measures launched by the government, coupled with successful efforts from public and private financial institutions to capitalise on opportunities resulting from these measures. However, India has been less successful in usage of financial services, as only an estimated 20% of the population actually use the accounts. People continue to rely on the informal sector, which could explain the mainly dormant bank accounts.

“ ”

We share the belief that financial inclusion can and should play a significant role in attaining many SDGs, including eliminating poverty (SDG 1), promoting gender equality (SDG 5) and creating jobs (SDG 8).

During our trip, we met two financial institutions – **Housing Development Finance Corporation (HDFC)** and **HDFC Bank** (in which the former holds a 21% stake) to discuss their financial inclusion initiatives.

HDFC, the country's largest mortgage lender, has actively participated in a government subsidy scheme to provide affordable housing to homebuyers in middle to low income groups. In 2018-19, the company approved 37% of home loans in volume terms and 18% in value terms to customers from the lower income segments, i.e. those with annual household incomes of up to \$8,700. HDFC also partnered with the International Finance Corporation (IFC) to set up a fund for on-lending to developers of affordable housing projects across India.

Given the potential for shared value creation, we expressed our support for these efforts. Going forward, we plan to engage with HDFC to enhance its approach to incorporating sustainable construction considerations into its mortgage lending activities.

Our conversation with HDFC Bank focused on social impact measurement, and specifically how to better capture the outcomes and impact for customers and the bank, as well as for broader society, of financial inclusion efforts. This will require a shift from metrics on access, such as the number of individuals opening accounts for the first time, towards metrics that focus on account usage and financial health. The bank confirmed it has retained specialist third parties to improve its understanding of how financial products and services are consumed and their effect on living standards. We expect this to help identify and address challenges that prevent new users to fully shift away from the informal financial sector.

We will closely monitor progress and outputs of this work, whilst continuing to engage on areas of financial inclusion, including the delivery of financial literacy programmes and digital banking strategies. We share the belief that financial inclusion can and should play a significant role in attaining many SDGs, including eliminating poverty (SDG 1), promoting gender equality (SDG 5) and creating jobs (SDG 8).

<sup>2</sup> <https://globalfindex.worldbank.org/>

### Concluding remarks

Companies in the healthcare and financial industries in India, and across emerging markets in general, that incorporate access and inclusion considerations into their business strategies are well positioned to take advantage of the growth opportunities an expanding customer base can present. Capturing new, previously underserved customers in an accountable, transparent and ethical way will have lasting effects beyond the potentially positive impacts on companies' bottom line and shareholder value. Access to basic services linked to healthcare and finance empower people, promote gender equality and increase consumption – all critical enablers for socioeconomic development. As active owners, we can wield powerful influence to promote change that not only addresses material ESG risks but also supports sustainable and equitable development.

### Key risks

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Investing in emerging markets is generally considered to involve more risk than developed markets.

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**WINNER**  
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Committee and date  
Pensions Committee

19 March 2020

10.00am

Item

Public

## PENSIONS ADMINISTRATION MONITORING REPORT

**Responsible Officer** Debbie Sharp

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

Tel: 01743 252192

### 1. Summary

- 1.1 The report provides members with monitoring information on the performance of and issues affecting the pensions administration team.

### 2. Recommendations

- 2.1 Members are asked to accept the position as set out in the report and;
- 2.2 To approve, with or without comment, the revised Communications Policy Statement at Appendix B.

## 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 fund's guaranteed minimum pension liabilities (GMPs) 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.

### 3.5 **Climate change appraisal**

1. Energy and fuel consumption: No effect
2. Renewable energy generation: No effect
3. Carbon offsetting or mitigation: No effect
4. Climate Change adaptation: No effect

## 4. **Performance and Team Update**

4.1 The team's output and performance level to February 2020 is attached at **Appendix A**.

4.2 This shows that the amount of work currently being processed by the Administration team has been consistent for a while. There is no indication of any significant back logs of work and the team would be unable to increase output without an increase in resources. The chart does not reflect all work undertaken by the team. It indicates the number of measurable calculation processes; for quotations and actual events, that Re undertaken on scheme member records which are recorded through the workflow system. These processes are retirements, deferred retirements, transfers in, transfers out, refunds, deferred refunds, amendments to records, death benefits, and data received from iConnect.

4.3 Communication will be issued this month to employers reminding them of their data requirements and reconciliations needed for the year end 31 March 2020. Revised deficit payment schedules will also be issued for the deficit lump sum amounts due as a result of the 2019 Valuation, from some employers in 2020/21.

## 5. **Help Desk Statistics**

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

	November 2019	December 2019	January 2020
Telephone calls received	710	440	919
Queries dealt with by helpdesk at first point of contact %*	88.87%	92.5%	90.53%

Users visiting the Website	1,968	1,597	2,585
Member drop ins	72	70	78

\* 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 2019	December 2019	January 2020
Emails Received	511	391	752
% of emails responded to within 3 working days	100%	100%	100%
Average number per day	24.33	24.44	32.72

## 6. Communications

- 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 2020 a total of 43% active members and 35% of deferred members were registered to view their records on 'My Pension Online'.
- 6.2 The upgrade to My Pension Online was completed with the new system going live on the 7<sup>th</sup> January 2020. All members registered to use the system have been informed that My Pension Online has a 'new look' and have been encouraged to login.
- 6.3 An employer webinar took place on 22/01/2020. 14 employers registered to attend, and the turnout on the day was 10 employers. A survey was emailed out after the webinar and the results showed that:
- 80% found the webinar helpful.
  - 100% would attend another webinar
  - Topics requested for future webinars include the admitted bodies process, how to calculate pensionable pay and ill-health retirement.
- 6.4 A future webinar is provisional booked in for 25/03/2020. The topic of the webinar is the year end process.

- 6.5 Regulation 61 of the Local Government Pension Scheme regulations states that the Fund must prepare, maintain and publish a written statement setting out its policy concerning communication with;
- (a) members;
  - (b) representatives of members;
  - (c) prospective members; and
  - (d) Scheme employers.
- 6.6 The Fund has updated this policy to better reflect the current communication methods in place and to take into consideration future developments.
- 6.7 The revised Policy is attached at Appendix B. The committee is asked to approve the Policy with or without comment.

## 7. Employer performance

- 7.1 In line with the Shropshire County Pension Fund administration strategy, employers must pay their contributions by the 19<sup>th</sup> of the month. Accompanying data must also be submitted via i-Connect by this date. The below table shows the percentage of employers who have met the deadline over three months to end of February 2020. This table also includes information about employers who make monthly deficit payments. Information about employers who did not meet these deadlines is covered in the governance report.

	December 2019	January 2020	February 2020
i-Connect data	95.65%	96.48%	92.96%
Monthly contributions	94.20%	95.77%	95.07%
Monthly deficit	89.71%	91.18%	95.59%

## 8. Cyber security

- 8.1 The Data Protection Act 2018, along with guidance from The Pensions Regulator, sets out rules that pension funds must follow to make sure they have good cyber security. Shropshire County Pension Fund takes data security very seriously and works closely with Shropshire Council's IT team and any companies providing pensions software to confirm that the systems holding personal data are protected.
- 8.2 Shropshire Council have policies and processes in place with regards to system security and cyber attacks. All staff are required to do annual training on cyber security and the Council issue statistics where attacks to systems have been blocked. Shropshire Council's IT security officer has confirmed that should any attacks become apparent on any of the Pensions Systems then we would be immediately made aware. To date no attacks to our systems have been reported. There is no update to the Council's statistics since the last report.

## **9. Mortality and member tracing service**

9.1 The fund has been working with a contractor to undertake address tracing and mortality screening to help keep member records up to date. From the start of the contract on 1 August 2019 up until 31 January 2020 there have been 37 deaths identified within the membership which the Fund were not aware of. This figure was made up of:

- 16 pensioners/survivors' records
- 1 deferred record
- 20 frozen refund records

## **10. GMP reconciliation/rectification update**

10.1 At the previous committee meeting on 24 January 2020, we reported that we were unable to write out to members affected by the reconciliation exercise as we had planned. This was due to delays in receiving information from HMRC. This delay has now been communicated to members via an email update and posted on the website. An article is also being drafted for inclusion in the Spring version of the InTouch magazine.

## **11. McCloud**

11.1 At the Scheme Advisory Board (SAB) meeting in February, the Board agreed to create two working groups to help implement the outcome of the McCloud judgment for the LGPS. These will be:

- a small policy group to help MHCLG consider areas of policy not determined by HMT.
- a larger implementation group made up of practitioners, member representatives, actuaries, software providers, employers and representatives from the Scottish and Northern Irish schemes. It will consider the challenges of implementing and communicating the scheme changes.

11.2 A consultation on the LGPS regulation changes is expected in the spring; however, there might be a long delay before new regulations come into force. This will depend on the level of changes to primary legislation. This waiting period could lead to uncertainty for members which might make legal claims against the LGPS and employers more likely. SAB will be issuing communications for employers and scheme members in this period.

## **12. The LGPS (Amendment) Regulations 2020 – exit credits**

12.1 On 27 February 2020, MHCLG published a partial response to the consultation covering changes to the local valuation cycle and the management of employer risk. The response covers the proposals on

exit credits only. MHCLG will submit a further response to the other proposals covered by this consultation in due course.

- 12.2 The response confirms that most respondents supported the proposal to allow administering authorities to take account of an employer's exposure to risk when calculating an exit credit. MHCLG confirms in the response that they will amend the LGPS regulations so that:
- administering authorities may determine the amount of any exit credit payment due, having regard to any relevant considerations
  - the period within which an exit credit must be paid is increased from three months to six months
  - administering authorities will not be obliged to enquire into the precise risk sharing arrangement adopted
  - any exit credits that have not been paid shall only be due if the administering authority exercises its discretion to pay them
  - any exit credits that have already been paid shall be treated as if the administering authority exercised its discretion to pay that amount – an administering authority may not seek to change the amount paid
  - the Pensions Ombudsman has jurisdiction to hear complaints if any dispute is not resolved using the internal dispute resolution process
  - administering authorities should set out their exit credit policy in their Funding Strategy Statement (FSS).
- 12.3 The Local Government Pension Scheme (Amendment) Regulations 2020 giving effect to these proposals were laid in Parliament on 27 February 2020. They come into force on 20 March 2020 but have effect from 14 May 2018.

- 12.4 The Shropshire FSS and Employer Events Policy will be amended to take account of this regulation change.

### **13. 2020 Public Service Pension Scheme (PSPS) Indexation and Revaluation**

- 13.1 On 25 February 2020, the Government made a written statement on indexation and revaluation. The statement confirms that the following LGPS benefits will both increase by 1.7% In April 2020:
- pensions in payment, and
  - active member career average benefits.

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

Pensions Committee Meeting 24 January 2020 Pensions Administration Report

**Cabinet Member (Portfolio Holder)**

NA

**Local Member**

NA

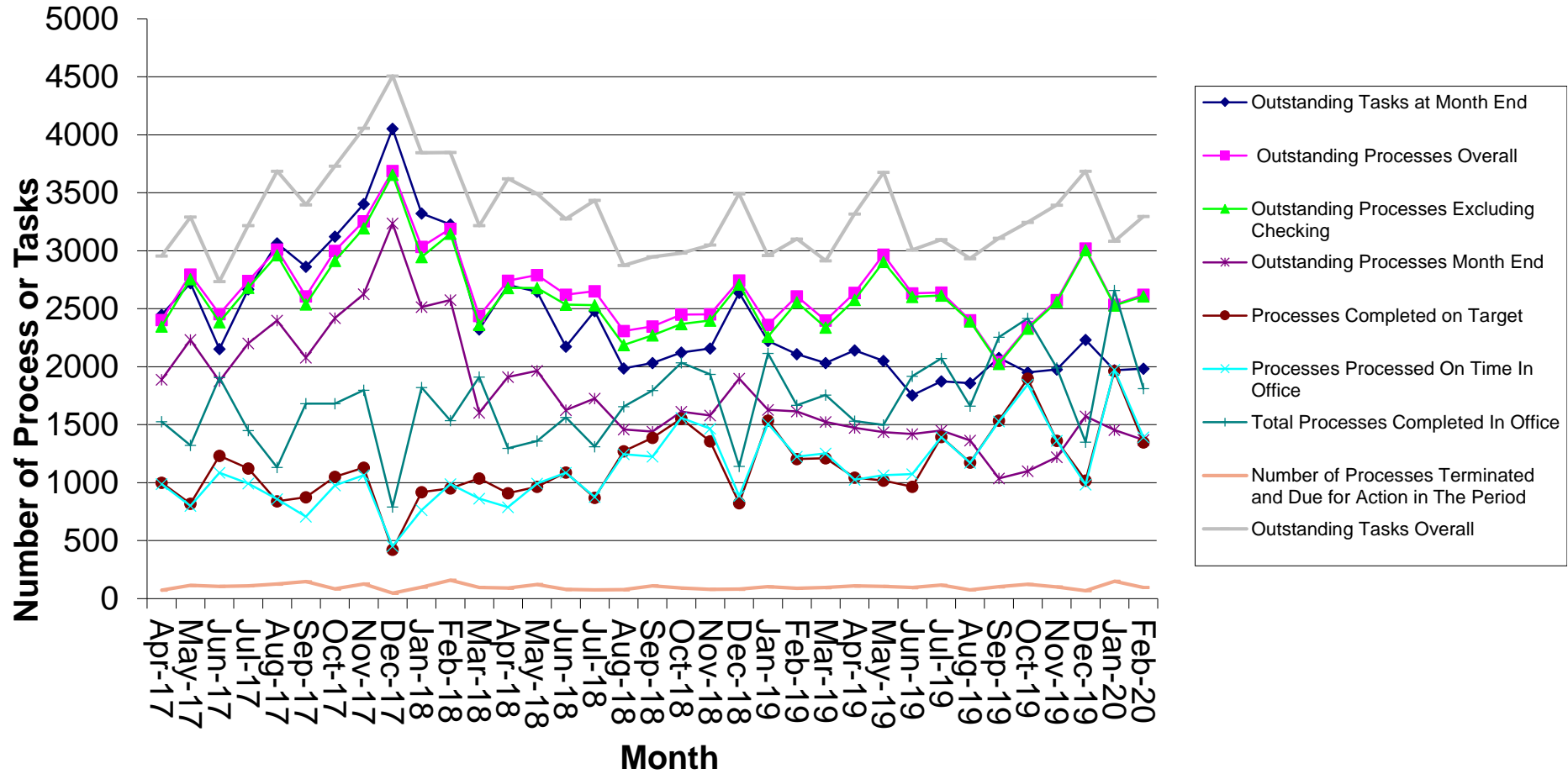
**Appendices**

Appendix A – Performance Chart

Appendix B – Communication Policy

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## Process and Task Statistics



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# **COMMUNICATIONS POLICY STATEMENT**



## Introduction

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This statement has been prepared in accordance with Regulation 61 of the Local Government Pension Scheme (Administration) Regulations 2013 by Shropshire County Pension Fund (the 'fund'). It sets out its communications approach with scheme members, employers and other interested stakeholders.

The fund deals with over 199 employers and over 46,000 scheme members made up of contributing members, deferred members and retired members in relation to the Local Government Pension Scheme (LGPS).

The main aim of the Shropshire County Pension Fund is to provide members and employers with an efficient pension administration service providing secure pension benefits which have been worked out accurately and paid on time. Timely and clear communication with both members and employers plays a key role in helping employers meet their statutory obligations and helps members' plan their retirement.

The fund designs and delivers communications to scheme members and employers in a way that makes sure they can understand the LGPS. Information should be clear and simple to understand, as well as being accurate and easily accessible. It is important that members can understand their pension arrangements and make informed decisions when needed and employers understand their statutory responsibilities.

The Pensions Team work to maintain a thorough knowledge of the regulations to keep the confidence of its members. The Pensions Team should always be the first-place staff members turn to for LGPS pension information during their working life and in retirement.

The fund also takes part in several national groups, with the aim of sharing best communication practices. The Joint Communications Group allows the fund to work with other Local Government Authorities, giving group members the chance to share communication resources and develop joint projects, such as newsletters and member guides. The fund is also part of the Local Government Pensions Committee (LGPC), which publishes national communication material.

## Principles of communication

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The fund has adopted five key principles that supports all its communication. The fund is committed to making sure:

- Communication is factual and presented in plain, easy to understand language.
- Communication is designed in a manner appropriate to its audience.
- Communication is issued in a timely manner.
- Communication keeps up with the developments and improvements in new technology.
- Communication is planned, co-ordinated and reviewed.

Digital communication is used by the fund to deliver scheme information, increase member engagement and to give regular updates to employers. It can help meet member demand and expectation to regularly access pension information. It can also reduce the fund's environmental footprint by decreasing paper and printing usage. When information is asked for in paper format, a sustainable printing service will be used.

The fund makes every effort to make communication materials available in other formats such as large print, braille, audio tape and different languages, if requested.

The Local Government Pension Scheme is a desirable benefit for attracting employees to work in local government. For employers, it is a key part of their recruitment and retention package. The fund is also the last, and often the only, link between former staff members and their employers. The fund therefore has an important role in making sure effective communications continue even when members have left employment, have a deferred pension, or a pension in payment. The fund keeps in touch with all members and if contact is lost (for example, if a member has moved and not told the fund), a tracing exercise can be carried out to find the member and update their personal details.

The Pensions Team are committed to responding quickly to member requests for information, whether by face-to-face, email or letter. Information is given within set internal and regulatory timescales taking into consideration The Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 and other overriding legislation. The turnaround time for dealing with requests is normally ten days.

When a request for information has been made, an acknowledgement receipt will be given. If it is going to take longer than ten days to provide the information, members will be told when they are likely to receive it.

## How the fund communicates

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### **Scheme literature**

A wide range of scheme literature is produced and updated by the fund for both members and employers. Copies are available on the fund website and can be provided in paper format upon request. All paper and electronic guides are made using similar branding and include full contact details for the Pensions Team. The fund has basic and full scheme guides which cover the scheme benefits, who is eligible and retirement options. Both new and prospective members are provided with basic information about the LGPS, such as how benefits are worked out, how member and employer contributions are calculated etc via the scheme guides.

### **One-to-one meetings**

For members who prefer 'face-to-face' communication, the fund's office is at the Shirehall in Shrewsbury, and appointments can be made with a member of the team. Pre-booked appointments are encouraged and if a member drops in, they will be seen if a member of the team is available. The fund will organise one-to-one meetings at employer workplaces periodically. Employers can also ask for one-to-one meetings, but these requests will be considered depending on location and member interest.

### **Helpdesk**

The fund has a dedicated helpdesk which deals with all the incoming post, emails and telephone calls. The helpdesk contact details are published on all scheme literature. The helpdesk telephone number is 01743 252130 and email address is [pensions@shropshire.gov.uk](mailto:pensions@shropshire.gov.uk)

The helpdesk is open from 8.45am to 5.00pm Monday – Thursday and 8.45am to 4.00pm on Friday. During team meetings and busy periods an automated answering service will be in place.

### **Website**

The fund has a website, [www.shropshirecountypensionfund.co.uk](http://www.shropshirecountypensionfund.co.uk), which holds most of the scheme information including copies of scheme literature, policies and annual reports. There is a latest news page which is used to keep members up to date. There is also a news page on the employer's area of the website specifically aimed at employers. The website has been adapted to make sure it is accessible to view on electronic devices such as tablets and mobile phones. The website has been developed in line with accessibility standards and has a published compliance statement.

### **My Pension Online**

A secure online portal gives members access to their pension record. The facility provides members with the opportunity to update their personal details, view annual benefit statements and perform benefit projections, as well as change death grant nominations. Members in receipt of a pension are also able to change bank details, check their annual pension and view monthly payments. The online system can be accessed via the fund's website homepage.

### **Material changes to the scheme**

The fund will inform members when any material changes are made to the LGPS via the website, email alerts or newsletter unless a paper notification has been requested. This information is normally given as soon as possible after the change takes effect, but in any event within three months after the change.

### **Email alerts**

The fund asks all members for an email address, so they can be contacted by the fund with the latest scheme news.

### **Presentations**

The fund delivers standard or tailored presentations on a wide range of pension topics for both employers and members around the county. These presentations are provided by fund staff at the request of employers, or organised by the fund, at geographically convenient locations. Presentations keep members informed of any changes that may affect their benefits.

### **Newsletters**

'Pension update' is the fund's in-house newsletter for active and deferred members and is sometimes produced as a collaborative project with other funds. This newsletter is issued periodically and aims to provide topical news articles and the latest information about the scheme and pensions in general. The newsletters are usually issued via email and published on the fund website.

InTOUCH is the fund's in-house newsletter for retired members. The newsletter is a useful way of providing updates on relevant changes in legislation, topical news and member articles.

### **Annual report, accounts & meeting**

The annual report is a statutory financial reporting document showing the funds accounts over the previous twelve months, along with details on both investment and administration performance. Members and employers are notified when the report has been published via email and the news pages of the Fund website. An overview of the report and accounts are the focus of the fund's Annual Meeting.

### **Annual meeting**

All members and employers are invited to attend the annual meeting. The meeting gives members the opportunity to meet the Pension Committee and the members of staff who administer the scheme. The fund's management team also use this meeting as an opportunity to provide updates on the latest fund news. The fund is committed to making the meeting widely accessible to all members and ensuring the meeting content is of both interest and relevance. The annual meeting regularly covers scheme benefit changes, valuation position and investments in an interesting and informative manner. How the fund considers economic, social and governance issues with its investments is also covered at each meeting. The annual meeting is filmed, and the video can be viewed on the fund website.

## **Videos**

When needed, the fund uses short videos to help explain the scheme. The annual meeting and employers meeting are filmed and published on the website for members and employers to view if they are unable to attend.

## **Annual benefit statements**

It is a statutory requirement to provide annual benefit statements to both active and deferred members. Annual benefit statements are issued via My Pension Online unless a paper copy has been requested. The statements include various pension details such as the current value of benefits, how they are calculated and when they become payable. The format of the statement is continually reviewed to provide members with the required statutory information in a clear and concise manner. Statements for active members must be issued by the 31 August each year and members are notified via email when statements become available to view.

## **Pension savings statement**

A Pensions Saving Statement will be supplied to a member by the 6 October each year if their pension savings in the fund, during a pension input period, are more than the annual allowance limit.

## **Active members - new starters**

When eligible members are enrolled into the scheme, the employer is instructed to provide basic scheme information by issuing a scheme booklet either in paper format or via a link to the fund website. The fund also provides basic scheme information to new starters following a new employment notification. The fund produces a brief scheme guide on the Local Government Pension Scheme. This should be provided by scheme employers to all new employees as part of their letter of employment, terms and conditions – some employers choose to email this to new employees.

## **Retirement process booklet**

All active members on reaching retirement receive a comprehensive booklet providing information on the scheme and the retirement process.

## **Corporate induction courses**

Officers of the fund are invited to attend or to contribute to employer corporate inductions (including e-learning) for prospective members or new joiners.

## **Promotional campaigns**

The fund periodically produces dedicated marketing literature that is sent to those who choose not to join or opt to leave the scheme. This literature promotes the benefits of having an occupational pension and gives members who have opted out an option to re-join the scheme.

## **P60 notification**

Each member receiving a pension will have a P60 issued each year by the statutory deadline of 31 May.

## **Pension increase notification**

Following the publication of a Pensions Increase (Review) order, the fund will adjust the relevant pensions in payment according to the order and make available the new annual pension amount to the member.

## **Existence checks of retired members living abroad**

The fund will, when appropriate, undertake to establish the continued existence of pensioner members living abroad.

## **Other employer communications**

The increasing role of communication within all organisations means that more employers have staff newsletters, intranets and other communication facilities. The fund actively works to provide their employees with the best information and opportunities regarding the scheme and often provides information to be made available on intranets and websites.

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## Employer specific communications

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### **New or prospective employers**

Scheme information is given to all new and prospective scheme employers via information booklets or the employer's areas on the fund website.

### **Employer meetings & training sessions**

Meetings and training sessions are arranged for employers on a regular basis. They are used to communicate issues with employers. For example; benefit regulation changes, administration changes, employer contribution rates and the funding level of the fund at each actuarial valuation.

### **Employers' guide**

An employers' guide is available to all employers, explaining the processes, procedures and forms needed to effectively discharge their pension administration responsibilities. The employers' guide is held on the employers' area of the website [www.shropshirecountypensionfund.co.uk](http://www.shropshirecountypensionfund.co.uk)

### **Employers bulletins**

Regular email bulletins are sent to all employers who are registered contacts. These emails aim to tell employers about the latest news, issues, events and regulatory changes. The bulletin is also used to communicate any consultations about policy and regulations.

### **Monthly data requirements and end of year procedure**

Employers must send monthly data to the Pensions Team for their scheme members to make sure their pension record is accurate. Employers in the fund must use a "middleware" facility called i-Connect that helps the fund and employers by improving the flow of member data from employers to the fund, minimizing the risk of fines from the Pension Regulator by ensuring data is regularly supplied. The cost of this system is met by the fund. Guides for using i-Connect are published on the employer's area on the fund website.

Each year employers must submit a year end return and compliance statement. Employers are contacted towards the end of the financial year with the year-end template, forms and instructions for completion.

### **Webinars**

Webinars are used to give information to employers without them having to travel for meetings. Employers can learn from the comfort of their desks and ask questions while the presentation is taking place. Webinar content varies depending on feedback received from employers and target specific topics where they feel they lack knowledge. Webinars can also be recorded and sent to employers who were unable to attend.

### **Reporting breaches**

The fund has a reporting breaches policy and procedure. This makes sure anyone responsible for reporting and whistle blowing can find, assess and report (or record if not reported) a breach of pensions law. All potential breaches of the law are recorded by the fund and the scheme employer informed that it has been recorded as a breach. Each employing authority must choose a named individual to act as the main point of contact about any aspect of administering the LGPS. If an employer has built up multiple recorded breaches, the main contact will be told and asked to help resolve any outstanding issues and reduce the risk of reoccurrence.

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## Governance and communications

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### **Pension Committee**

The Pension Committee is made up of member representatives, employing authorities, trade union representatives and a retired member representative. The committee has an ongoing training programme for members and officers to ensure that decision making is on an informed basis. Training forms part of the quarterly committee meeting.

Knowledge building and training is provided via the fund's officers, advisors and external training courses. Pension Committee reports are available on the council's website [www.shropshire.gov.uk](http://www.shropshire.gov.uk) and by following

the link for 'Committees, meetings and decisions' and on the 'Pension Committee' page on [www.shropshirecountypensionfund.co.uk](http://www.shropshirecountypensionfund.co.uk)

## **Pensions Board**

Under the LGPS Governance Regulations 2015, a Pension Board was introduced on 1 April 2015 to ensure effective governance and administration of the Scheme.

The Local Pension Board is responsible for assisting Shropshire Council, the Scheme Manager, to secure compliance with:

- The Local Government Pension Scheme Regulations;
- Any other legislation relating to the governance and administration of the Scheme, and;
- Requirements imposed by The Pensions Regulator in relation to the Scheme and to ensure the effective governance and administration of the Scheme.

The Pension Board consists of an equal number of employee and employee representatives. Training forms part of the Pensions Board meeting.

Pension Board reports are available on the council's website [www.shropshire.gov.uk](http://www.shropshire.gov.uk) and by following the link for 'Committees, meetings and decisions' and on the 'Pension Board' page on [www.shropshirecountypensionfund.co.uk](http://www.shropshirecountypensionfund.co.uk)

Surveys and self-assessments of the knowledge and skills of both the Pensions Committee and Pensions Board members are regularly undertaken. More information can be found in the Training Policy.

## **Management team**

The Scheme Administrator (s 151 officer) is responsible for the Pensions Administration Team and the Pension Investment Team. The Pensions Management Team meets on a weekly basis to discuss items in relation to the running of the team and regulation changes. It comprises the Pensions Administration Manager and Team Leaders. A similar monthly meeting is held between the Head of Treasury & Pensions, the Pensions Administration Manager and investment staff. Any items raised from such meetings can be escalated to the Scheme Administrator.

## **Team meetings**

Team meetings involving all staff are held monthly. Notes of all meetings and items arising from such meetings are passed through to the Head of Treasury & Pensions and to the Scheme Administrator, if necessary.

## **Training**

The fund seeks to continually improve the ability of staff to communicate effectively and to understand the importance of good communication. Both general and pension-specific training is provided to all staff as part of the fund's commitment to staff development. This includes the Public Sector Pension Scheme modules on the Pensions Regulators online e-portal. The fund conducts performance appraisals for its entire staff. The fund's training requirements are documented in the Training Policy held on the fund website.

## **Intranet and email**

Each member of staff has access to email and a storage drive which contains electronic copies of many of the key documents, procedures, minutes and circulars.

## **Policy documents**

All the fund's approved policies can be found on the website [www.shropshirecountypensionfund.co.uk](http://www.shropshirecountypensionfund.co.uk).

## **Local Authority Pensions Web**

All senior members of the Pensions Team have access to the Local Authority Pensions Web where information can be exchanged with other Local Authority Pension colleagues.

## Communication with other bodies

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### **Mercer (*Pension Fund Actuary*)**

The fund performs an actuarial valuation as required by the regulations. The actuary also deals with interim valuations when needed and gives information and advice about a range of issues affecting the fund. These issues include dealing with new and ceasing employers, bulk transfers and regulatory changes.

### **Legal advice**

The fund obtains legal advice from Shropshire Council as appropriate on benefits administration and investment matters. External legal advice is also obtained as and when required.

### **Ministry of Housing, Communities and Local Government (MHCLG)**

The fund communicates with the MHCLG while in consultation on proposals for change to the scheme regulations or any other legislation matters.

### **Trade unions or member representatives**

The Fund liaises with trade unions or other member representatives to ensure that details of the LGPS availability are brought to their members' attention and assist in providing information, in circumstances such as negotiations under TUPE, to make sure, whenever possible, continued access to the LGPS. The fund works with the trade unions to check the scheme is understood by all interested parties. The fund ensures that all pension-related issues are communicated effectively with the trade unions through representation on the Pensions Committee or via member representatives on the Pensions Board.

### **Press & media**

The fund, in conjunction with the council's communications unit, actively engages with the press and other media organisations in order to ensure clarity, facts and fair representation.

### **Shrewsbury Regional Pension Officer's Group (*SPOG*)**

The Shropshire County Pension Fund (*SCPF*) hosts the Shrewsbury Pension Officers Group which meets on a quarterly basis. The group, comprised of a number of local authority funds, discuss technical queries and legislation matters of common interest.

### **National working groups**

The fund is involved at national level in an LGPS technical officer group, Local Government Association (LGA) communications working group and LGPS Central Strategic Administration group.

### **Joint working with other pension funds**

To reduce costs, the fund leads on collaborative working with other pension funds. Representatives from each fund meet quarterly to discuss communications issues.

### **Investment Practitioner Group**

The fund has an active involvement in the Investment Practitioner Group for the region where common investment issues between funds are discussed.

### **Software provider group**

Members of the team attend user group meetings with the pensions administration software provider, to make sure the administration system can deal with regulation changes when they happen, and to discuss how the system is used on a day-to-day basis.

## How communication is measured

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### **Surveys**

Surveys are issued to members periodically with various correspondences, including retirements and benefit quotes. Surveys are also published to the website and via email. This allows the fund to evaluate the service provided. Survey responses are collated and reviewed at regular intervals when running a satisfaction exercise.

### **Employer satisfaction survey**

A survey is given to employers, periodically to allow the fund to review the service and methods of communication provided to employers. The responses are collated and used to identify any employer requirements and possible areas for improvement.

### **Compliments, complaints and comments**

Any compliments, complaints or comments made in letter, e-mail or verbally, are recorded. The fund aims to always learn from the feedback received and to make improvements to the service.

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## **Data Protection**

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### **Data Protection Act**

The fund is required to hold and keep a record of certain information on scheme members which is needed to administer the fund. The fund is a data controller under the Data Protection Act 2018 and is required to protect the information it holds about scheme members and communicate the legal basis for holding, storing and using the information. The fund has published a summary and full privacy notice for scheme members and employers. Statements on 'how we use your data' are published on documentation supplied to scheme members.

The fund is committed to keeping member data safe and uses Shropshire Council's policies on information sharing. Pension benefits information can only be provided directly to the scheme member and cannot be requested by a third-party. Information shared with employers will only be supplied when necessary and via a secure portal or email encryption. Further information can be found in the fund's full privacy notice.

All fund officers are required to undertake annual 'Protecting Information' training.

### **Dealing with freedom of information requests**

The Freedom of Information Act (FOI) means that members of the public and organisations have rights of access to information held by public bodies. Requests for information under the Freedom of Information Act or similar legislation should be sent to: [information.request@shropshire.gov.uk](mailto:information.request@shropshire.gov.uk)

## Fund publications

Document	Issued	Aimed at	Availability	Reviewed
Brief scheme guide	Upon notification of a new employment/ when requested	All members	Paper on request/ website	Annually and as regulations change
Full scheme guide	As required	All members	Paper on request/website	Annually and as regulations change
Retirement process booklet	With retirement forms	To retiring active members	Paper/ website	Annually and as regulations change
Thinking of retiring- guide for active members	To active members when required	Active members	Website	Annually and as regulations change
Thinking of retiring- guide for deferred members	To deferred members when required	Deferred members	Website	Annually and as regulations change
Leaving before retirement booklet	As required	Prospective Deferred Members	Website	Annually and as regulations change
Topping up your pension guide	As required	Active members	Paper on request/ website	Annually and as regulations change
Internal Dispute Resolution Procedure (IDRP) booklet	As required	All members and employers	Paper on request/ website	Annually and as regulations change
Divorce booklet	As required	All members	Paper on request/PDF on website	Annually and as regulations change
Annual benefit statements	Annually by 31 August	Active/deferred/pension credit	Paper on request /online via My Pension Online	Annually
P60	Annually by 31 May	Pensioner members/dependents	Paper	Annually
Pensions increase notification	Annually	Pensioner members	Paper/My Pension Online	Annually
Monthly pension payment confirmation	Monthly	Pensioner members/dependents	My Pension Online	Monthly

Annual report	Annually in line with regulations	All stakeholders	Paper upon request/website	Annually
Members newsletter	As required	Active/deferred members	Paper when requested/on website	As regulations change/when required
InTouch-pensioner newsletter	As required	Retired members	Paper/website	As required
Valuation report	Every three years	Employers/ all stakeholders	Website/overview at Annual Meeting	Every three years
Investment strategy statement	Continuously	All members/ stakeholders	Website	As required*
Governance compliance statement	Continuously	All members/ stakeholders	Website	As required*
Administration strategy statement	Continuously	Scheme employers	Website	As required*
Funding strategy statement	Continuously	Employers	Website	Every three years
Reporting breaches policy	Continuously	All stakeholders	Website	As required*
Training policy	Continuously	All stakeholders	Website	As required*
Employer events policy	Continuously	All employers	Website	As required*
Communications policy statement	Continuously	All stakeholders	Website	As required*

\*At least every three years

### Fund meetings, presentations and training

Event	Frequency	Available to	Availability	Reviewed
Annual meeting	Annually	All members/ employers/ Fund managers	Presentation/ Face-to-face/ video on website	Annually
Workplace presentations	As required	Prospective/active members	Face-to-face	As required
Induction presentations	When requested by employer	Prospective members	Face-to-face	As required
Employer meetings and training	As required	Scheme employers	Face-to-face/ webinars/videos on website	As regulations change/as required

### Other fund communications

Method	Frequency	Available to	Availability	Reviewed
Website	Continually	All stakeholders	Online	Continuously
Help desk	Within office hours	All members/ employers and all other stakeholders	Face-to-face appointment/ telephone/ paper correspondence /email	N/A
Email alerts	As required, when there is a significant website update /event/ regulation change	All members/ employers	Email	As required
Pension consultations	As required	Active members	Face to face	As required
New starter letter	Monthly	Active members	Paper	As regulations change/as required
Encouraging new members campaign	When required	Prospective eligible members	When required	When required
Existence checks of pensioners living abroad	As required	Pensioner members	As required	As required
Service quality survey	Continually	Active/ deferred/ retired members	Paper/ email	As required
Employers guide including forms	As required	Employers	Website	As regulations change/ as required
Employers email bulletin	As required	Employers	Email alerts	As regulations change/ as required
Employer satisfaction survey	As required	Employers	Paper/online survey	As required

## Contact details

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If you can read this but know someone who cannot, please contact us on (01743) 252130 so we can give this information in a more suitable format.

If you want to contact us, please contact our pension helpdesk.

**Office Hours:**

Monday- Thursday 8.45am -5.00pm  
Friday 8.45am - 4.00pm

We run a drop-in service on Monday to Thursday office hours.

If you would prefer to discuss your pension in person, you are welcome to come in and see us at the address below:

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

**Email:** [pensions@shropshire.gov.uk](mailto:pensions@shropshire.gov.uk)

**Tel:** 01743 252130

**Web:** [www.shropshirecountypensionfund.co.uk](http://www.shropshirecountypensionfund.co.uk)

**Administered By**



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