



County Offices  
Newland  
Lincoln  
LN1 1YL

31 December 2019

**Pensions Committee**

A meeting of the Pensions Committee will be held on **Thursday, 9 January 2020** in **Committee Room One, County Offices, Newland, Lincoln LN1 1YL** at **10.00 am** for the transaction of business set out on the attached Agenda.

Yours sincerely

A handwritten signature in cursive script that reads 'Debbie Barnes'.

Debbie Barnes OBE  
Head of Paid Service

**Membership of the Pensions Committee**  
**(8 Members of the Council and 3 Co-Opted Members)**

Councillors E W Strengeiel (Chairman), P E Coupland (Vice-Chairman), B Adams, R D Butroid, P M Key, Clio Perraton-Williams, Mrs S Rawlins and Dr M E Thompson

**Co-Opted Members**

Mr A N Antcliff, Employee Representative  
Steve Larter, Small Scheduled Bodies Representative  
R Waller, District Council Representative



**PENSIONS COMMITTEE AGENDA  
THURSDAY, 9 JANUARY 2020**

| <b>Item</b> | <b>Title</b>  | <b>Pages</b> |
|-------------|---|--------------|
| <b>1</b>    | <b>Apologies for Absence</b>  |              |
| <b>2</b>    | <b>Declarations of Members' Interests</b>   |              |
| <b>3</b>    | <b>Minutes of the previous meeting held on 12 December 2019</b>   | 5 - 6        |
| <b>4</b>    | <b>Independent Advisor's report</b><br><i>(To receive a report from Peter Jones, Independent Advisor, which provides a market commentary on the current state of global investment markets)</i>   | 7 - 10       |
| <b>5</b>    | <b>Report by the Independent Chair of the Lincolnshire Local Pension Board</b><br><i>(To receive a report by Roger Buttery, Independent Chairman of the Lincolnshire Local Pension Board which updates the Committee on the work of the Pension Board, provides the Committee with assurances gained from the work of the Board and provides an opportunity for the Committee to consider recommendations from the Board)</i> | 11 - 14      |
| <b>6</b>    | <b>Pension Fund Update Report</b><br><i>(To receive a report by Jo Ray, Head of Pensions, which updates the Committee on Fund matters over the quarter ending 30 September 2019 as well as any current issues)</i>  | 15 - 52      |
| <b>7</b>    | <b>Pensions Administration Report</b><br><i>(To receive a report from Yunus Gajra, WYPF Business Development Manager, which provides the Committee with an opportunity to consider the quarterly report by the Fund's pension administrator, West Yorkshire Pension Fund)</i>   | 53 - 70      |
| <b>8</b>    | <b>Employer Monthly Submissions Update</b><br><i>(To receive a report by Claire Machej, Accounting, Investment and Governance Manager, which provides the Committee with up to date information on Employer Monthly Submissions for the second quarter of the financial year 2019/20 – July to September)</i>   | 71 - 76      |
| <b>9</b>    | <b>Investment Management Report</b><br><i>(To receive a report by Claire Machej, Accounting, Investment and Governance Manager, which covers the management of the Lincolnshire Pension fund assets over the period from 1 July 2019 to 30 September 2019)</i>  | 77 - 100     |

- 10**      **Border to Coast Responsible Investment Policy and Corporate Governance Voting Guidelines Review**      101 - 132  
*(To receive a report by Jo Ray, Head of Pensions, which highlights the changes from the last version for consideration by the Committee and seeks approval for the alignment of the new version to the current Lincolnshire policy and guidelines)*
- 11**      **CONSIDERATION OF EXEMPT INFORMATION**  
In accordance with Section 100 (A)(4) of the Local Government Act 1972, the following agenda items have not been circulated to the press and public on the grounds that they are considered to contain exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended. The press and public may be excluded from the meeting for the consideration of these items of business.
- 12**      **Manager Presentation - Invesco - Global ex. UK Equity Portfolio**      133 - 170  
*(To receive an exempt report which introduces a presentation from Invesco Asset Management who manage the Global ex. UK Equity Portfolio)*
- 13**      **Investment Strategy Update**      171 - 176  
*(To receive an exempt report from Jo Ray, Head of Pensions, which updates the Committee on the Fund's investment strategy)*

**Democratic Services Officer Contact Details**

Name:                                      **Rachel Wilson**  
Direct Dial                                **01522 552107**  
E Mail Address                         [rachel.wilson@lincolnshire.gov.uk](mailto:rachel.wilson@lincolnshire.gov.uk)

**Please Note:** for more information about any of the following please contact the Democratic Services Officer responsible for servicing this meeting

- Business of the meeting
- Any special arrangements
- Copies of reports

Contact details set out above.

All papers for council meetings are available on:  
[www.lincolnshire.gov.uk/committeerecords](http://www.lincolnshire.gov.uk/committeerecords)



## **PENSIONS COMMITTEE 12 DECEMBER 2019**

### **PRESENT: COUNCILLOR E W STRENGIEL (CHAIRMAN)**

Councillors P E Coupland (Vice-Chairman), B Adams, R D Butroid, P M Key, Clio Perraton-Williams, Mrs S Rawlins and Dr M E Thompson

Co-Opted Members: Mr A N Antcliff (Employee Representative), Steve Larter (Small Scheduled Bodies Representative) and R Waller (District Council Representative)

Officers in attendance:-

Andrew Crookham (Executive Director Resources), Peter Jones (Independent Advisor), Claire Machej (Accounting, Investment and Governance Manager), Paul Potter (Investment Consultant), Jo Ray (Head of Pensions) and Emily Wilcox (Democratic Services Officer)

### 37 APOLOGIES FOR ABSENCE

There were no apologies for absence.

### 38 DECLARATIONS OF MEMBERS' INTERESTS

Councillor R Waller declared that his daughter was a contributing member of the Fund.

Steve Larter (Small Scheduled Bodies Representative) declared that he was a deferred member of the Fund.

A Antcliffe and P M Key declared that they were contributing members of the Fund.

### 39 MINUTES OF THE PREVIOUS MEETING HELD ON 3 OCTOBER 2019

RESOLVED:

That the minutes of the meeting held on 3 October 2019 be approved as a correct record and signed by Chairman.

### 40 CONSIDERATION OF EXEMPT INFORMATION

RESOLVED:

That, in accordance with Section 100A of the Local Government Act 1972, the press and public be excluded from the meeting for the following items of business on the grounds that if they were present there could be

**2**

**PENSIONS COMMITTEE**

**12 DECEMBER 2019**

disclosure of exempt information as defined in Paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended.

41 MANAGER PRESENTATION - BORDER TO COAST PENSIONS PARTNERSHIP

Members received a presentation from Andrew Stone and Jamie Roberts (Border to Coast Pensions Partnership).

Member discussed the report, in which a number of points were raised.

RESOLVED:

That the exempt report be noted.

The meeting closed at 10.56 am



## Regulatory and Other Committee

### Open Report on behalf of Andrew Crookham, Executive Director – Resources

|            |                                     |
|------------|-------------------------------------|
| Report to: | <b>Pensions Committee</b>           |
| Date:      | <b>09 January 2020</b>              |
| Subject:   | <b>Independent Advisor's Report</b> |

#### Summary:

This report provides a market commentary by the Committee's Independent Advisor on the current state of global investment markets.

#### Recommendation(s):

That the Committee note the report.

### Background

#### Investment Commentary – January 2020

Stand-off in investment markets? Low long term returns in prospect.

#### Recent market movements

The year 2019 has been a good one for investors. Equities have risen across the globe – by an astonishing 25% in the USA. Other regions around the world have shown increases approaching 20%, including the FTSE 250 index of largely UK based companies. The benchmark FTSE 100 index is up only 10%; it is composed of mainly global companies who earn their profits outside the UK and has been negatively impacted by the strength of the £ sterling. Share prices were, of course, abnormally depressed at the end of December 2018. Bond yields have fallen substantially in 2019, especially at long maturity durations favoured by pension schemes, so bond prices have risen. Hence, there have been substantial increases in the value of portfolios, almost without exception. And yet, there is no doubt that nervousness about these elevated market values is rising amongst professional investors. Markets seem to be reluctant to push much higher. What will 2020 bring?

## **Markets continued trust in Central Banks**

The global economy is experiencing a slow down in its growth rate. But it is at a measured pace and does not seem to be accelerating downwards, despite continued anxiety about the state of world trade as a result of the arguments between the USA and China. There are industries where the falls are significant – the most obvious being the motor vehicle industry. And yet others, eg media, are growing robustly. But, in general, nation states are not experiencing recessionary conditions and their Central Banks will do “whatever it takes”, to quote the words of Mr Draghi, former chairman of the European Central Bank, to see that this does not happen. Short term interest rates continue to trend downwards and may have somewhat further to fall, though some are so low (eg in Europe and Japan) that they are approaching their limits. Expectations are for the US Federal Reserve to keep US short term interest rates on hold for 2020. The markets continue to trust the Central Banks to take the necessary actions, if they are faced with an accelerated economic downturn.

## **UK prospects for 2020**

The decisive outcome of the UK general election does at least provide political stability. It is perhaps too early to attempt precise economic forecasts. Nonetheless, many decisions to invest – by companies in capital projects and by individuals, eg in house purchase - had been deferred and may now be activated. This should provide a welcome boost to UK economic growth, now at around 1% per annum.

## **Global prospects for 2020**

At the time of writing in mid-December, market conditions are benign. Last December saw sharply elevated anxiety about global growth that led to panic in many markets, Wall Street in particular. That episode was exacerbated by very thin markets approaching Christmas and the New Year. Many funds account and report on a calendar year basis and are unwilling to make material changes to their portfolios after mid-December. So, natural long term buyers are absent leaving hedge funds to dominate thin markets with little turnover. As we now know, the US Federal Reserve abruptly changed its previous tightening stance, and January 2019 saw a sharp rise in equity markets, reversing all the falls of late December. Hopefully, there will be no repeat this year.

The yield on the principal government bond markets of the world had fallen to very low levels in 2019. Often the investment returns of such bonds held to maturity is negative, which seems bizarre to non-practitioners. Usually, the underlying logic is to immunise the liabilities against which such assets are being invested from changes in bond yields, especially downwards. But as an investment chosen on their merits alone, compared to say equities or property or venture capital, they have few supporters. The consequence is that global equities are likely to be supported in 2020. Any fall in prices approaching say 10% should see buyers emerge.



## **Longer term investment returns**

The prices of global equities and global bonds are high; in many case at all time highs. Economic prospects are certainly not stellar – but they are respectable. The primary driver for the significant gains has been – and I think will continue to be – Central Bank intervention to prevent either economic recession or inadequate levels of inflation. A consequence is that further large price gains will be muted. So annual returns in the medium to long term on portfolios of stocks and bonds, such as that of the Lincolnshire County Council pension fund, are likely to be low, by historical standards. Probably below 5% per annum for global equities and lower (probably much lower) for bonds.

Peter Jones

17 December 2019

## **Consultation**

### **a) Have Risks and Impact Analysis been carried out?**

Yes

### **b) Risks and Impact Analysis**

The Pension Fund has a risk register which can be obtained by contacting the author of this report.

## **Background Papers**

No Background Papers within the meaning of section 100D of the Local Government Act 1972 have been used in the preparation of this Report.

This report was written by Peter Jones, who can be contacted on 01522 553641 or [claire.machej@lincolnshire.gov.uk](mailto:claire.machej@lincolnshire.gov.uk).

This page is intentionally left blank



## Regulatory and Other Committee

### Open Report on behalf of Andrew Crookham, Executive Director - Resources

|            |  |
|------------|--|
| Report to: | <b>Pensions Committee</b>  |
| Date:      | <b>09 January 2020</b>   |
| Subject:   | <b>Report by the Independent Chair of the Lincolnshire Local Pension Board</b> |

#### Summary:

The purpose of this report is:

- A) To update the Pensions Committee on the work of the Pensions Board (PB) during the last few months;
- B) For the Pensions Committee to receive assurances gained from the PB's work; and
- C) For the Pensions Committee to consider recommendations from the PB.

#### Recommendation(s):

The Pensions Committee is requested to note the report.

### Background

#### 1.0 OUTCOMES FROM PENSION BOARD MEETING ON 3 OCTOBER 2019

1.1 The PB met on the 3 October and its main focus was on the following topics:

- A) **Employer Monthly Submissions and Contribution Monitoring** – the PB considered a further update on the payment of contributions and employer submissions. Generally, the payment of contributions and the Employer Data Submissions on a timely basis are good but there are still a few outliers. For the twelve months ended March 2019, there were 35 cases of the late payment of contributions and 117 cases of the late submission of the monthly returns. For the first three months of the new financial year, there were 12 cases of the late payment of contributions and 46 cases of the late submission of the monthly returns. This is both disappointing and unacceptable. The Board acknowledged that the Pensions Committee had requested a review of the escalation process by the officers. In addition, it was agreed that Chairman of the PB would send a letter to employers

encouraging an improvement in the accuracy and timeliness of monthly contributions data – a copy is attached at Appendix 1.

- B) **Data Scores** – the PB considered a further update from WYPF on the data scores for the Lincolnshire Pension Fund as reported to the Pensions Regulator; these were Common 96.12% and Scheme Specific 85.69%. The target is 100%, particularly for Common Data. WYPF are currently working on a data improvement plan, using a tracing company in an attempt to track lost members. The PB will continue to monitor the position because the Pensions Regulator expects an improvement in data quality for all public sector schemes.
- C) **Pension Benefits in Suspense** – in an earlier report, I mentioned that when a member reaches pension age and they have not been successfully traced, WYPF had set up a HSBC bank account with sub accounts for each pensioner. This avoids any unauthorised payment tax charges for the members once they are found. The Board requested a detailed report on the amounts currently held in these Sub Accounts and the proposed course of action to find the members. The number of temporary deposit accounts currently held for lost contact pensioners and deferred members had increased to 64 (from 56), with a total of £88,282 held by HSBC. The number of temporary deposit accounts held for post 2014 preserved refunds had increased to 38 (from 7), with a small total of almost £2,611 held by HSBC. The PB was advised that WYPF review annually the bank accounts and carry out traces to locate the rightful owners of the funds held on a temporary basis. The PB requested a further update including timescales as to the length of time each unclaimed benefit has been outstanding.
- D) **Other Matters** – the PB also considered and noted the 2019 actuarial valuation provisional report. The PB noted that 99.6% of Annual Benefit Statements had been issued to members by the statutory deadline which was considered to be an excellent achievement. The Board also considered the external audit report on the pension fund.

## Conclusion

### ASSURANCES GAINED BY THE BOARD

- 2.1 The vast majority of employers pay their contributions on time and submit the required documentation. However, there are a few late payers and even more where the data submission is late.
- 2.2 The PB has some concerns about the data scores and cannot provide full assurance on this aspect.
- 2.3 The PB has some concerns over the controls of the Suspense Account for unpaid pension benefits.

**Roger Buttery  
Independent Chairman**

December 2019

**Consultation**

**a) Have Risks and Impact Analysis been carried out??**

No

**b) Risks and Impact Analysis**

N/A

**Background Papers**

No Background Papers within the meaning of section 100D of the Local Government Act 1972 have been used in the preparation of this Report.

This report was written by Roger Buttery, who can be contacted on 01522 553641 or [claire.machej@lincolnshire.gov.uk](mailto:claire.machej@lincolnshire.gov.uk).

This page is intentionally left blank



## Regulatory and Other Committee

### Open Report on behalf of Andrew Crookham, Executive Director – Resources

|            |                                   |
|------------|-----------------------------------|
| Report to: | <b>Pensions Committee</b>         |
| Date:      | <b>9 January 2020</b>             |
| Subject:   | <b>Pension Fund Update Report</b> |

#### Summary:

This report updates the Committee on Fund matters over the quarter ending 30 September 2019 and any current issues.

The report covers:

1. A Funding Level Update
2. Responsible Investments
3. TPR Checklist Dashboard
4. Risk Register Update
5. Asset Pooling Update
6. Good Governance Review
7. Conference and Training Attendance

#### Recommendation(s):

That the Committee note the report.

## Background

### 1. Funding Level Update

The Committee are normally provided with a quarterly update of the funding level. This is based on a roll forward from the latest valuation. The funding level for the March 2019 valuation was reported to the October meeting of this committee, and stood at 93%. As the 2019 actuarial valuation is still in progress, the roll forward position will not be provided by the Actuary until the quarter ending 31 December 2019. This will therefore be included in this report at the March meeting.

## 2. Responsible Investments

### Voting

2.1 Appendix A presents summarised information in respect of how external managers have voted in relation to the Fund's equity holdings. As requested at the October Committee meeting, the narrative has been expanded to include a brief rationale where voting has been different to the management recommendation.

### Local Authority Pension Fund Forum Membership

2.2 The Fund participates in the Local Authority Pension Fund Forum that has a work plan addressing the following matters:

- **Corporate Governance** – to develop and monitor, in consultation with Fund Managers, effective company reporting and engagement on governance issues.
- **Overseas employment standards and workforce management** - to develop an engagement programme in respect of large companies with operations and supply chains in China.
- **Climate Change** - to review the latest developments in Climate Change policy and engage with companies concerning the likely impacts of climate change.
- **Mergers and Acquisitions** - develop guidance on strategic and other issues to be considered by pension fund trustees when assessing M&A situations.
- **Consultations** – to respond to any relevant consultations.

2.3 The latest LAPFF engagement report can be found on their website at [www.lapfforum.org](http://www.lapfforum.org). Some of the highlights during the quarter included:

- During this quarter, LAPFF engaged with 108 companies on issues ranging from human rights and Board composition to climate change reporting and environmental risk.
- Along with Sarasin, Church Commissioners and Royal London Asset Management, LAPFF has been engaging with Glencore over concerns about corruption in the Democratic Republic of Congo. The issues raised during this engagement prompted the Forum to send engagement requests to four other companies embroiled in corruption probes – Shell, ENI, Petrobras and Total.
- LAPFF issued a voting alert related to Sports Direct, a company that has recently faced the ire of investors after its latest results highlighted underwhelming performance as well as substantial unpaid taxes. These



issues led to the company's primary auditor, Grant Thornton, announcing the intention to resign ahead of the company AGM. It is clear to LAPFF that although the Board has undergone significant change in recent years - improving independent oversight at Board level - the new directors have not held Mr Ashley to account. As a result, LAPFF recommended that member funds vote to oppose the entire board, and in addition recommended opposing the report and accounts, which are unlikely to give an accurate view of the business.

- LAPFF also issued a voting alert at Ryanair. LAPFF has requested that the company improve its governance practices for a number of years. Despite signing recognition agreements with a number of unions, Ryanair management still appears to struggle to work constructively with unions and staff to negotiate mutually beneficial terms and conditions of employment. With a board lacking in independence, LAPFF considers the board should be refreshed with a greater proportion of independent directors and skill sets appropriate to address and challenge the current company positions. On this basis, LAPFF recommended that members vote to oppose all board directors who are not independent.
- Changes to secure investment in the Just Transition were discussed at the Liberal Democrat, Conservative and Labour conferences. Organised by the Smith Institute, the meetings provided a platform for LAPFF to set out what these changes should be. Both the LAPFF Chair, Cllr Doug McMurdo, and Vice-chair, Cllr Rob Chapman, identified that partnership was critical to the success of the Just Transition. So a core recommendation from LAPFF was that the UK government should establish a Just Transition Commission, along the lines of the Scottish Commission, to bring public and private sectors together.

2.4 Members of the Committee should contact the author of this report if they would like further information on the Forum's activities.

### **3 TPR Checklist Dashboard**

3.1 To assist in the governance of the Lincolnshire Fund, it assesses itself against the requirements of the Pension Regulator's (TPR's) code of practice 14 for public service pension schemes, as set out in a check list attached at Appendix B. This is presented to the Committee and Board at each quarterly meeting, and any non-compliant or incomplete areas are addressed. This is seen as best practice in open and transparent governance.

3.2 No areas have changed since the last quarter's report.

3.3 The Areas that are not fully completed and/or compliant are listed below.

F1 – Maintaining Accurate Member Data - Do member records record the information required as defined in the Record Keeping Regulations and is it accurate?

*Amber - Scheme member records are maintained by WYPF. Therefore much of the information here and in later questions relates to the records they hold on LCC's behalf. However, as the scheme manager, LCC is required to be satisfied the regulations are being adhered to. Data accuracy is checked as part of the valuation process and the annual benefits statement process. Monthly data submissions and employer training are improving data accuracy, however there are a number of historical data issues that are in the process of being identified and rectified.*

F5 - Maintaining Accurate Member Data - Are records kept of decisions made by the Pension Board, outside of meetings as required by the Record Keeping Regulations?

*Grey – not relevant as we do not expect there to be decisions outside of the PB. This will be monitored.*

H7 - Maintaining Contributions - Is basic scheme information provided to all new and prospective members within the required timescales?

*Amber - New starter information is issued by WYPF, **when they have been notified by employers**. This is done by issuing a notification of joining with a nomination form, transfer form and a link to the website. However, because the SLA relates to when notified, it does not necessarily mean the legal timescale has been met which is within 2 months of joining the scheme. The monthly data returns and employer training are improving this process.*

K7 – Scheme Advisory Board Guidance - Members of a Local Pension Board should undertake a personal training needs analysis and put in place a personalised training plan.

*Remaining Amber - Annual Training Plan of Committee shared with PB and all PB members invited to attend.*

#### **4 Risk Register Update**

4.1 The risk register is a live document and updated as required. Any changes are reported quarterly, and the register is taken annually to Committee to be approved.

4.2 There have been no changes to the risk register since its annual review at the July meeting of this Committee. There is just one risk that remains red, as shown below. This was added in June 2016 as a result of the Brexit vote, and given the continuing uncertainty as to how this will play out, it is felt that the red status is still appropriate.

| Risk 24           | Consequences   | Controls  | Risk Score* |   |
|-------------------|--|---|-------------|---|
|                   |  |   | L           | I |
| UK leaving the EU | Volatility of market<br>Lower gilt yields leading to higher liabilities<br>Inflation increasing liabilities<br>Uncertainty of political direction re pooling | Increased monitoring of managers<br>Review investment strategy<br>Regular communications with Committee and Board |             |   |

\*As a reminder, L is Likelihood and I is Impact.

## 5 Asset Pooling Update

### Sub Funds

- 5.1 As presented by representatives from Border to Coast at the December Committee meeting, the Fund made its first investment with Border to Coast in October, into the Global Equity Alpha Fund. The transition was managed by Blackrock, and overseen by Analytics. Generally the transition went very well, and Analytics has provided an interim report stating that they were satisfied with the transition work undertaken by Blackrock. As explained by Border to Coast, the transition incurred a higher than estimated implementation shortfall (a standard measure for transitions) as the target portfolio significantly out-performed the legacy portfolio during the transition. The final transition report will be shared with the Committee once it is available.
- 5.2 The next investments are into the Investment Grade Credit, in early 2020 and Multi Asset Credit, in the second half of 2020. An overview of both of these funds was included in the Border to Coast presentation in December.
- 5.3 The development of the Alternatives products have progressed well, with the Private Equity, Infrastructure and Private Debt sleeves open and they have made their first commitments. Discussion is still being had with Funds and advisors on the other alternative requirements. As the Committee are aware, Lincolnshire Pension Fund will not be transitioning across to the Alternatives offering until all sleeves are available, and the Committee is satisfied that Border to Coast are able to offer a fully managed solution, akin to the Morgan Stanley mandate currently held.
- 5.4 Officers and advisors across the Partner Funds have continued to work closely with Border to Coast on the development of the sub-fund products, with a number of workshops attended and planned to discuss requirements and agree structures.

## **Joint Committee Meetings**

- 5.5 Prior to the Joint Committee (JC) meeting held on 20 November, members of the JC were given a briefing on Responsible Investment (RI) by Jane Firth, Head of RI at Border to Coast. This provided members with an overview of the work that had been done on RI to date, and also sought to obtain views from the Partner Funds on the future direction. It was agreed that a further meeting solely on RI would be useful, and this is being organised for the new year.
- 5.6 The papers of the November JC were circulated to all Pensions Committee members. The minutes will be circulated once approved, and below are the agenda items for the meeting:
- Election results for the Role of Chairman and Vice Chairman of the Joint Committee and for the Border to Coast Board
  - Joint Committee Budget
  - Responsible Investment Policies – Annual Review 2019
  - Performance Report
  - Border to Coast Asset Transfer Planning 2020-2023
  - Border to Coast ACS – Multi Asset Credit (MAC) Offering
  - Chief Executive Officer (CEO) Report
- 5.6 The election for the second Partner Fund Director (replacing Cllr Sue Ellis - South Yorks) was held and, following a postal ballot, Cllr Jeff Watson (Northumberland) was selected to be put forward to the Border to Coast Board
- 5.7 The next JC meeting is being held on 9 March 2020 and papers will be circulated to Committee members. Any questions or comments on the papers should be directed to Cllr Strengiel, who can raise them at the meeting.

## **Shareholder Matters**

- 5.7 As the Committee are aware, there are two distinct roles that Lincolnshire County Council has with Border to Coast: the shareholder and the investor (or client). The Committee's role is that of investor, and is represented at the Joint Committee by the Chairman of the Pensions Committee. The shareholder role is undertaken by the Executive Director of Resources, and fulfils the role as set out in the Shareholder Agreement, which was approved by Full Council in February 2017.

- 5.8 Ahead of any shareholder approvals, officers, including S151 officers, work closely with Border to Coast to ensure full understanding of the resolution, the impact of it not being approved and discuss this with the JC ahead of any resolution being sent for approval. An informal shareholder meeting is also held on the date of each Joint Committee meeting.
- 5.9 There was just one shareholder resolution since the last report. This was a request to extend the office space for Border to Coast by entering into a lease to secure an additional floor within the current building at Toronto Square. This was passed with the required majority of 75%.
- 5.10 Border to Coast held its annual conference in Leeds on 10 and 11 October. This was well attended with some excellent feedback. The dates for the 2020 conference will be 1 and 2 October.

**6 Good Governance Review – Phase II**

- 6.1 Following on from the phase I of the Good Governance Review detailed at the July meeting of this Committee, phase II has now been completed, and the report was published in November (attached at appendix C). The Scheme Advisory Board (SAB) had agreed to constitute two working groups to take forward the proposals included in the original report. Hymans Robertson was appointed to assist the working groups in this next phase of the good governance project.
- 6.2 The first working group (Standards and Outcomes Workstream) was asked to focus on specifying clearly the outcomes and standards that the SAB wished to see achieved by Funds under the proposed approach, and how these outcomes should be evidenced.
- 6.3 The second working group (Compliance and Improvement Workstream) was asked to focus on establishing the compliance regime that would be required to independently assess funds against this framework.
- 6.4 The phase II report includes detailed implementation proposals from the workstreams, including a list of the changes required to guidance to implement this framework.
- 6.5 The table below summarises the proposed changes.

| Area       | Proposal |  |
|------------|----------|--|
| A. General | A1       | MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. (“the Guidance”). |
|            | A2       | Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. (“the      |

|   |    |  |
|---|----|--|
|   |    | LGPS senior officer”).   |
|   | A3 | Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be signed by the LGPS senior officer and, where different, co-signed by the S151 officer.  |
| B. Conflicts of interest                  | B1 | Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, including reference to key conflicts identified in the Guidance   |
|   | B2 | The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB.   |
| C. Representation                         | C1 | Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party.   |
| D. Knowledge and understanding            | D1 | Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively.   |
|   | D2 | Introduce a requirement for s151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding.  |
|   | D3 | Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.   |
|   | D4 | CIPFA and other relevant professional bodies should be asked to produce appropriate guidance and training modules for s151 officers and to consider including LGPS training within their training qualification syllabus.  |
| E. Service delivery for the LGPS function | E1 | Each administering authority must document key roles and responsibilities relating to its LGPS fund and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority’s scheme of delegation and constitution and be consistent with role descriptions and business processes. |
|   | E2 | Each administering authority must publish an   |

|                               |    |   |
|-------------------------------|----|---|
|                               |    | administration strategy.  |
|                               | E3 | Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.   |
|                               | E4 | Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.  |
|                               | E5 | Each Administering Authority must give proper consideration to the utilisation of pay and recruitment policies, including as appropriate market supplements, relevant to the needs of their pension function. Administering Authorities should not simply apply general council staffing policies such as recruitment freezes to the pensions function. |
| F. Compliance and improvement | F1 | Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts.  |
|                               | F2 | LGA to consider establishing a peer review process for LGPS Funds.  |

6.6 Should SAB and MHCLG accept the proposals contained in the report, phase III of the project will be initiated. This is expected to contain the elements listed below:

- MHCLG to draft the required changes to the Guidance.
- SAB to ask the National Framework to begin work on establishing Independent Governance Review provider framework.
- SAB to establish the 10-15 KPIs referred to within proposal E.3.
- It is envisaged that the governance compliance statement will act as a summary, evidencing the Fund's position on all areas of governance and compliance. Where a fund is non-compliant in a certain area the statement should provide information within and accompanying improvement plan about the steps being taken in order to address non-compliance. SAB to consider drawing up a complete list of the topics that should be included within the governance compliance statement.

6.7 As the Committee can see, there are a number of proposals that the Fund already does, and a number where additional work will have to be

completed to meet the new standards. Officers will bring further detail to the Committee in the new year once it is available.

**7 Conference and Training Attendance**

- 7.1 It is stated in the Committee's Training Policy, approved each July, that following attendance at any conferences, seminars or external training events, members of the Committee and officers will share their thoughts on the event, including whether they recommended it for others to attend.
- 7.2 The Committee and officers are therefore requested to share information on relevant events attended since the last Committee meeting.

**Conclusion**

- 8 The work with Border to Coast continues and the first transition to the Global Alpha sub-fund has completed successfully. Planning is already underway for the next transitions into Investment Grade Credit and Multi-Asset Credit.
- 9 The phase II report of the Good Governance review was published in November and contains a list of proposals for SAB and MHCLG to consider. Should they be accepted, phase III of the review will begin, which will create the framework for the improved governance requirements.

**Consultation**

**a) Have Risks and Impact Analysis been carried out?**

Yes

**b) Risks and Impact Analysis**

The Pension Fund has a risk register which can be obtained by contacting the author of this report.

**Appendices**

|   |                             |
|---|-----------------------------|
| These are listed below and attached at the back of the report |                             |
| Appendix A  | Equity Voting Activity      |
| Appendix B  | TPR Checklist Dashboard     |
| Appendix C  | Good Governance in the LGPS |



## **Background Papers**

No Background Papers within the meaning of section 100D of the Local Government Act 1972 have been used in the preparation of this Report.

This report was written by Jo Ray, who can be contacted on 01522 553656 or [jo.ray@lincolnshire.gov.uk](mailto:jo.ray@lincolnshire.gov.uk).

This page is intentionally left blank

APPENDIX A

Manager Voting – July to September 2019

Columbia Threadneedle

| Company Name                           | Country        | Meeting Date      | Meeting Type | Proponent   | Proposal Number | Proposal Text   | Management Recommendation | Vote Instruction | Rationale          |
|--|----------------|-------------------|--------------|-------------|-----------------|---|---------------------------|------------------|--------------------|
| Alibaba Group Holding Limited          | Cayman Islands | 15 July 2019      | Annual       | Management  | 1               | Approve Share Subdivision                                     | For                       | For              |                    |
| Alibaba Group Holding Limited          | Cayman Islands | 15 July 2019      | Annual       | Management  | 2.1             | Elect Daniel Yong Zhang as Director                           | For                       | For              |                    |
| Alibaba Group Holding Limited          | Cayman Islands | 15 July 2019      | Annual       | Management  | 2.2             | Elect Chee Hwa Tung as Director                               | For                       | For              |                    |
| Alibaba Group Holding Limited          | Cayman Islands | 15 July 2019      | Annual       | Management  | 2.3             | Elect Jerry Yang as Director                                  | For                       | For              |                    |
| Alibaba Group Holding Limited          | Cayman Islands | 15 July 2019      | Annual       | Management  | 2.4             | Elect Wan Ling Martello as Director                           | For                       | For              |                    |
| Alibaba Group Holding Limited          | Cayman Islands | 15 July 2019      | Annual       | Management  | 3               | Ratify PricewaterhouseCoopers as Auditors                     | For                       | For              |                    |
| Industria de Diseno Textil SA          | Spain          | 16 July 2019      | Annual       | Management  | 1               | Approve Standalone Financial Statements                       | For                       | For              |                    |
| Industria de Diseno Textil SA          | Spain          | 16 July 2019      | Annual       | Management  | 2               | Approve Consolidated Financial Statements                     | For                       | For              |                    |
| Industria de Diseno Textil SA          | Spain          | 16 July 2019      | Annual       | Management  | 3               | Approve Non-Financial Information Report                      | For                       | For              |                    |
| Industria de Diseno Textil SA          | Spain          | 16 July 2019      | Annual       | Management  | 4               | Approve Allocation of Income and Dividends                    | For                       | For              |                    |
| Industria de Diseno Textil SA          | Spain          | 16 July 2019      | Annual       | Management  | 5               | Fix Number of Directors at 11                                 | For                       | For              |                    |
| Industria de Diseno Textil SA          | Spain          | 16 July 2019      | Annual       | Management  | 6.a             | Reelect Pablo Isla Alvarez de Tejera as Director              | For                       | For              |                    |
| Industria de Diseno Textil SA          | Spain          | 16 July 2019      | Annual       | Management  | 6.b             | Reelect Amancio Ortega Gaona as Director                      | For                       | For              |                    |
| Industria de Diseno Textil SA          | Spain          | 16 July 2019      | Annual       | Management  | 6.c             | Elect Carlos Crespo Gonzalez as Director                      | For                       | For              |                    |
| Industria de Diseno Textil SA          | Spain          | 16 July 2019      | Annual       | Management  | 6.d             | Reelect Emilio Saracho Rodriguez de Torres as                 | For                       | For              |                    |
| Industria de Diseno Textil SA          | Spain          | 16 July 2019      | Annual       | Management  | 6.e             | Reelect Jose Luis Duran Schulz as Director                    | For                       | For              |                    |
| Industria de Diseno Textil SA          | Spain          | 16 July 2019      | Annual       | Management  | 7.a             | Amend Article 13 Re: General Meetings                         | For                       | For              |                    |
| Industria de Diseno Textil SA          | Spain          | 16 July 2019      | Annual       | Management  | 7.b             | Amend Articles Re: Board Committees                           | For                       | For              |                    |
| Industria de Diseno Textil SA          | Spain          | 16 July 2019      | Annual       | Management  | 7.c             | Amend Articles Re: Annual Accounts and Allocation of Income   | For                       | For              |                    |
| Industria de Diseno Textil SA          | Spain          | 16 July 2019      | Annual       | Management  | 8               | Renew Appointment of Deloitte as Auditor                      | For                       | For              |                    |
| Industria de Diseno Textil SA          | Spain          | 16 July 2019      | Annual       | Management  | 9               | Approve Restricted Stock Plan                                 | For                       | For              |                    |
| Industria de Diseno Textil SA          | Spain          | 16 July 2019      | Annual       | Management  | 10              | Authorize Share Repurchase Program                            | For                       | For              |                    |
| Industria de Diseno Textil SA          | Spain          | 16 July 2019      | Annual       | Management  | 11              | Amend Remuneration Policy                                     | For                       | For              |                    |
| Industria de Diseno Textil SA          | Spain          | 16 July 2019      | Annual       | Management  | 12              | Advisory Vote on Remuneration Report                          | For                       | For              |                    |
| PT Bank Rakyat Indonesia (Persero) Tbk | Indonesia      | 02 September 2019 | Special      | Shareholder | 1               | Approve Evaluation of First Semester Performance              | None                      | For              |                    |
| PT Bank Rakyat Indonesia (Persero) Tbk | Indonesia      | 02 September 2019 | Special      | Shareholder | 2               | Approve Company's Recovery Plan                               | None                      | For              |                    |
| PT Bank Rakyat Indonesia (Persero) Tbk | Indonesia      | 02 September 2019 | Special      | Shareholder | 3               | Approve Changes in Board of Company                           | None                      | Against          | Lack of disclosure |
| Diageo Plc                             | United Kingdom | 19 September 2019 | Annual       | Management  | 1               | Accept Financial Statements and Statutory Reports             | For                       | For              |                    |
| Diageo Plc                             | United Kingdom | 19 September 2019 | Annual       | Management  | 2               | Approve Remuneration Report                                   | For                       | For              |                    |
| Diageo Plc                             | United Kingdom | 19 September 2019 | Annual       | Management  | 3               | Approve Final Dividend  | For                       | For              |                    |
| Diageo Plc                             | United Kingdom | 19 September 2019 | Annual       | Management  | 4               | Elect Debra Crew as Director                                  | For                       | For              |                    |
| Diageo Plc                             | United Kingdom | 19 September 2019 | Annual       | Management  | 5               | Re-elect Lord Davies as Director                              | For                       | For              |                    |
| Diageo Plc                             | United Kingdom | 19 September 2019 | Annual       | Management  | 6               | Re-elect Javier Ferran as Director                            | For                       | For              |                    |
| Diageo Plc                             | United Kingdom | 19 September 2019 | Annual       | Management  | 7               | Re-elect Susan Kilsby as Director                             | For                       | For              |                    |
| Diageo Plc                             | United Kingdom | 19 September 2019 | Annual       | Management  | 8               | Re-elect Ho KwonPing as Director                              | For                       | For              |                    |
| Diageo Plc                             | United Kingdom | 19 September 2019 | Annual       | Management  | 9               | Re-elect Nicola Mendelsohn as Director                        | For                       | For              |                    |
| Diageo Plc                             | United Kingdom | 19 September 2019 | Annual       | Management  | 10              | Re-elect Ivan Menezes as Director                             | For                       | For              |                    |
| Diageo Plc                             | United Kingdom | 19 September 2019 | Annual       | Management  | 11              | Re-elect Kathryn Mikells as Director                          | For                       | For              |                    |
| Diageo Plc                             | United Kingdom | 19 September 2019 | Annual       | Management  | 12              | Re-elect Alan Stewart as Director                             | For                       | For              |                    |
| Diageo Plc                             | United Kingdom | 19 September 2019 | Annual       | Management  | 13              | Reappoint PricewaterhouseCoopers LLP as Auditors              | For                       | For              |                    |
| Diageo Plc                             | United Kingdom | 19 September 2019 | Annual       | Management  | 14              | Authorise the Audit Committee to Fix Remuneration of Auditors | For                       | For              |                    |
| Diageo Plc                             | United Kingdom | 19 September 2019 | Annual       | Management  | 15              | Authorise EU Political Donations and Expenditure              | For                       | For              |                    |
| Diageo Plc                             | United Kingdom | 19 September 2019 | Annual       | Management  | 16              | Authorise Issue of Equity                                     | For                       | For              |                    |

| Company Name | Country        | Meeting Date      | Meeting Type | Proponent  | Proposal Number | Proposal Text  | Management Recommendation | Vote Instruction | Rationale |
|--------------|----------------|-------------------|--------------|------------|-----------------|--|---------------------------|------------------|-----------|
| Diageo Plc   | United Kingdom | 19 September 2019 | Annual       | Management | 17              | Approve Irish Sharesave Scheme                                       | For                       | For              |           |
| Diageo Plc   | United Kingdom | 19 September 2019 | Annual       | Management | 18              | Authorise Issue of Equity without Pre-emptive Rights                 | For                       | For              |           |
| Diageo Plc   | United Kingdom | 19 September 2019 | Annual       | Management | 19              | Authorise Market Purchase of Ordinary Shares                         | For                       | For              |           |
| Diageo Plc   | United Kingdom | 19 September 2019 | Annual       | Management | 20              | Authorise the Company to Call General Meeting with Two Weeks' Notice | For                       | For              |           |
| Diageo Plc   | United Kingdom | 19 September 2019 | Annual       | Management | 21              | Adopt New Articles of Association                                    | For                       | For              |           |

## Schroders

No voting carried out during the period.

## Invesco

| Company Name                  | Country | Meeting Date | Meeting Type | Proponent  | Proposal Number | Proposal Text  | Management Recommendation | Vote Instruction |
|-------------------------------|---------|--------------|--------------|------------|-----------------|--|---------------------------|------------------|
| Fiemann AG                    | Germany | 11-Jul-19    | Annual       | Management | 2               | Approve Allocation of Income and Dividends of EUR 1.90 per Share | For                       | For              |
| Fiemann AG                    | Germany | 11-Jul-19    | Annual       | Management | 3               | Approve Discharge of Management Board for Fiscal 2018            | For                       | For              |
| Fiemann AG                    | Germany | 11-Jul-19    | Annual       | Management | 4               | Approve Discharge of Supervisory Board for Fiscal 2018           | For                       | For              |
| Fiemann AG                    | Germany | 11-Jul-19    | Annual       | Management | 5               | Ratify Deloitte GmbH as Auditors for Fiscal 2019                 | For                       | For              |
| Industria de Diseno Textil SA | Spain   | 16-Jul-19    | Annual       | Management | 1               | Approve Standalone Financial Statements                          | For                       | For              |
| Industria de Diseno Textil SA | Spain   | 16-Jul-19    | Annual       | Management | 2               | Approve Consolidated Financial Statements                        | For                       | For              |
| Industria de Diseno Textil SA | Spain   | 16-Jul-19    | Annual       | Management | 3               | Approve Non-Financial Information Report                         | For                       | For              |
| Industria de Diseno Textil SA | Spain   | 16-Jul-19    | Annual       | Management | 4               | Approve Allocation of Income and Dividends                       | For                       | For              |
| Industria de Diseno Textil SA | Spain   | 16-Jul-19    | Annual       | Management | 5               | Fix Number of Directors at 11                                    | For                       | For              |
| Industria de Diseno Textil SA | Spain   | 16-Jul-19    | Annual       | Management | 6               | Reelect Pablo Isla Alvarez de Tejera as Director                 | For                       | For              |
| Industria de Diseno Textil SA | Spain   | 16-Jul-19    | Annual       | Management | 7               | Reelect Amancio Ortega Gaona as Director                         | For                       | For              |
| Industria de Diseno Textil SA | Spain   | 16-Jul-19    | Annual       | Management | 8               | Elect Carlos Crespo Gonzalez as Director                         | For                       | For              |
| Industria de Diseno Textil SA | Spain   | 16-Jul-19    | Annual       | Management | 9               | Reelect Emilio Saracho Rodriguez de Torres as Director           | For                       | For              |
| Industria de Diseno Textil SA | Spain   | 16-Jul-19    | Annual       | Management | 10              | Reelect Jose Luis Duran Schulz as Director                       | For                       | For              |
| Industria de Diseno Textil SA | Spain   | 16-Jul-19    | Annual       | Management | 11              | Amend Article 13 Re: General Meetings                            | For                       | For              |
| Industria de Diseno Textil SA | Spain   | 16-Jul-19    | Annual       | Management | 12              | Amend Articles Re: Board Committees                              | For                       | For              |
| Industria de Diseno Textil SA | Spain   | 16-Jul-19    | Annual       | Management | 13              | Amend Articles Re: Annual Accounts and Allocation of Income      | For                       | For              |
| Industria de Diseno Textil SA | Spain   | 16-Jul-19    | Annual       | Management | 14              | Renew Appointment of Deloitte as Auditor                         | For                       | For              |
| Industria de Diseno Textil SA | Spain   | 16-Jul-19    | Annual       | Management | 15              | Approve Restricted Stock Plan                                    | For                       | For              |
| Industria de Diseno Textil SA | Spain   | 16-Jul-19    | Annual       | Management | 16              | Authorize Share Repurchase Program                               | For                       | For              |
| Industria de Diseno Textil SA | Spain   | 16-Jul-19    | Annual       | Management | 17              | Amend Remuneration Policy  | For                       | For              |
| Industria de Diseno Textil SA | Spain   | 16-Jul-19    | Annual       | Management | 18              | Advisory Vote on Remuneration Report                             | For                       | For              |
| Industria de Diseno Textil SA | Spain   | 16-Jul-19    | Annual       | Management | 19              | Authorize Board to Ratify and Execute Approved Resolutions       | For                       | For              |
| VF Corporation                | USA     | 16-Jul-19    | Annual       | Management | 1               | Elect Director Richard T. Carucci                                | For                       | For              |
| VF Corporation                | USA     | 16-Jul-19    | Annual       | Management | 2               | Elect Director Juliana L. Chugg                                  | For                       | For              |

| Company Name                                 | Country   | Meeting Date | Meeting Type | Proponent  | Proposal Number | Proposal Text   | Management Recommendation | Vote Instruction |
|--|-----------|--------------|--------------|------------|-----------------|---|---------------------------|------------------|
| VF Corporation                               | USA       | 16-Jul-19    | Annual       | Management | 3               | Elect Director Benno Dorer  | For                       | For              |
| VF Corporation                               | USA       | 16-Jul-19    | Annual       | Management | 4               | Elect Director Mark S. Hoplamazian  | For                       | For              |
| VF Corporation                               | USA       | 16-Jul-19    | Annual       | Management | 5               | Elect Director Laura W. Lang  | For                       | For              |
| VF Corporation                               | USA       | 16-Jul-19    | Annual       | Management | 6               | Elect Director W. Alan McCollough   | For                       | For              |
| VF Corporation                               | USA       | 16-Jul-19    | Annual       | Management | 7               | Elect Director W. Rodney McMullen   | For                       | Withhold         |
| VF Corporation                               | USA       | 16-Jul-19    | Annual       | Management | 8               | Elect Director Clarence Otis, Jr.   | For                       | For              |
| VF Corporation                               | USA       | 16-Jul-19    | Annual       | Management | 9               | Elect Director Steven E. Rendle   | For                       | For              |
| VF Corporation                               | USA       | 16-Jul-19    | Annual       | Management | 10              | Elect Director Carol L. Roberts   | For                       | For              |
| VF Corporation                               | USA       | 16-Jul-19    | Annual       | Management | 11              | Elect Director Matthew J. Shattock  | For                       | For              |
| VF Corporation                               | USA       | 16-Jul-19    | Annual       | Management | 12              | Elect Director Veronica B. Wu   | For                       | For              |
| VF Corporation                               | USA       | 16-Jul-19    | Annual       | Management | 13              | Advisory Vote to Ratify Named Executive Officers' Compensation                                      | For                       | For              |
| VF Corporation                               | USA       | 16-Jul-19    | Annual       | Management | 14              | Ratify PricewaterhouseCoopers LLP as Auditors   | For                       | For              |
| Fidelity National Information Services, Inc. | USA       | 24-Jul-19    | Special      | Management | 1               | Issue Shares in Connection with Merger  | For                       | For              |
| Fidelity National Information Services, Inc. | USA       | 24-Jul-19    | Special      | Management | 2               | Increase Authorized Common Stock  | For                       | For              |
| Fidelity National Information Services, Inc. | USA       | 24-Jul-19    | Special      | Management | 3               | Adjourn Meeting   | For                       | For              |
| Worldpay, Inc.                               | USA       | 24-Jul-19    | Special      | Management | 1               | Approve Merger Agreement  | For                       | For              |
| Worldpay, Inc.                               | USA       | 24-Jul-19    | Special      | Management | 2               | Advisory Vote on Golden Parachutes  | For                       | Against          |
| Worldpay, Inc.                               | USA       | 24-Jul-19    | Special      | Management | 3               | Adjourn Meeting   | For                       | For              |
| Macquarie Group Limited                      | Australia | 25-Jul-19    | Annual       | Management | 1               | Elect Michael J Hawker as Director  | For                       | For              |
| Macquarie Group Limited                      | Australia | 25-Jul-19    | Annual       | Management | 2               | Elect Michael J Coleman as Director   | For                       | For              |
| Macquarie Group Limited                      | Australia | 25-Jul-19    | Annual       | Management | 3               | Elect Philip M Coffey as Director   | For                       | For              |
| Macquarie Group Limited                      | Australia | 25-Jul-19    | Annual       | Management | 4               | Elect Jillian R Broadbent as Director   | For                       | For              |
| Macquarie Group Limited                      | Australia | 25-Jul-19    | Annual       | Management | 5               | Approve Remuneration Report   | For                       | For              |
| Macquarie Group Limited                      | Australia | 25-Jul-19    | Annual       | Management | 6               | Approve Participation of Shemara Wikramanayake in the Macquarie Group Employee Retained Equity Plan | For                       | For              |
| Macquarie Group Limited                      | Australia | 25-Jul-19    | Annual       | Management | 7               | Approve the Increase in Maximum Aggregate Remuneration of Non-Executive Directors                   | For                       | For              |
| Macquarie Group Limited                      | Australia | 25-Jul-19    | Annual       | Management | 8               | Approve Issuance of Macquarie Group Capital Notes 4   | For                       | For              |
| SunTrust Banks, Inc.                         | USA       | 30-Jul-19    | Special      | Management | 1               | Approve Merger Agreement  | For                       | For              |
| SunTrust Banks, Inc.                         | USA       | 30-Jul-19    | Special      | Management | 2               | Advisory Vote on Golden Parachutes  | For                       | For              |
| SunTrust Banks, Inc.                         | USA       | 30-Jul-19    | Special      | Management | 3               | Adjourn Meeting   | For                       | For              |
| McKesson Corporation                         | USA       | 31-Jul-19    | Annual       | Management | 1               | Elect Director Dominic J. Caruso  | For                       | For              |
| McKesson Corporation                         | USA       | 31-Jul-19    | Annual       | Management | 2               | Elect Director N. Anthony Coles   | For                       | For              |
| McKesson Corporation                         | USA       | 31-Jul-19    | Annual       | Management | 3               | Elect Director M. Christine Jacobs  | For                       | For              |
| McKesson Corporation                         | USA       | 31-Jul-19    | Annual       | Management | 4               | Elect Director Donald R. Knauss   | For                       | For              |
| McKesson Corporation                         | USA       | 31-Jul-19    | Annual       | Management | 5               | Elect Director Marie L. Knowles   | For                       | For              |
| McKesson Corporation                         | USA       | 31-Jul-19    | Annual       | Management | 6               | Elect Director Bradley E. Lerman  | For                       | For              |
| McKesson Corporation                         | USA       | 31-Jul-19    | Annual       | Management | 7               | Elect Director Edward A. Mueller  | For                       | For              |
| McKesson Corporation                         | USA       | 31-Jul-19    | Annual       | Management | 8               | Elect Director Susan R. Salka   | For                       | For              |
| McKesson Corporation                         | USA       | 31-Jul-19    | Annual       | Management | 9               | Elect Director Brian S. Tyler   | For                       | For              |

| Company Name                   | Country | Meeting Date | Meeting Type | Proponent    | Proposal Number | Proposal Text   | Management Recommendation | Vote Instruction |
|--------------------------------|---------|--------------|--------------|--------------|-----------------|---|---------------------------|------------------|
| McKesson Corporation           | USA     | 31-Jul-19    | Annual       | Management   | 10              | Elect Director Kenneth E. Washington                                | For                       | For              |
| McKesson Corporation           | USA     | 31-Jul-19    | Annual       | Management   | 11              | Ratify Deloitte & Touche LLP as Auditors                            | For                       | For              |
| McKesson Corporation           | USA     | 31-Jul-19    | Annual       | Management   | 12              | Advisory Vote to Ratify Named Executive Officers' Compensation      | For                       | Against          |
| McKesson Corporation           | USA     | 31-Jul-19    | Annual       | Share Holder | 13              | Report on Lobbying Payments and Policy                              | Against                   | For              |
| McKesson Corporation           | USA     | 31-Jul-19    | Annual       | Share Holder | 14              | Reduce Ownership Threshold for Shareholders to Call Special Meeting | Against                   | For              |
| Ralph Lauren Corporation       | USA     | 01-Aug-19    | Annual       | Management   | 1               | Elect Director Frank A. Bennack, Jr.                                | For                       | For              |
| Ralph Lauren Corporation       | USA     | 01-Aug-19    | Annual       | Management   | 2               | Elect Director Joel L. Fleishman                                    | For                       | For              |
| Ralph Lauren Corporation       | USA     | 01-Aug-19    | Annual       | Management   | 3               | Elect Director Michael A. George                                    | For                       | Withhold         |
| Ralph Lauren Corporation       | USA     | 01-Aug-19    | Annual       | Management   | 4               | Elect Director Hubert Joly  | For                       | For              |
| Ralph Lauren Corporation       | USA     | 01-Aug-19    | Annual       | Management   | 5               | Ratify Ernst & Young LLP as Auditors                                | For                       | For              |
| Ralph Lauren Corporation       | USA     | 01-Aug-19    | Annual       | Management   | 6               | Advisory Vote to Ratify Named Executive Officers' Compensation      | For                       | For              |
| Ralph Lauren Corporation       | USA     | 01-Aug-19    | Annual       | Management   | 7               | Approve Omnibus Stock Plan  | For                       | For              |
| Anadarko Petroleum Corporation | USA     | 08-Aug-19    | Special      | Management   | 1               | Approve Merger Agreement  | For                       | For              |
| Anadarko Petroleum Corporation | USA     | 08-Aug-19    | Special      | Management   | 2               | Advisory Vote on Golden Parachutes                                  | For                       | Against          |
| Xilinx, Inc.                   | USA     | 08-Aug-19    | Annual       | Management   | 1               | Elect Director Dennis Segers  | For                       | For              |
| Xilinx, Inc.                   | USA     | 08-Aug-19    | Annual       | Management   | 2               | Elect Director Raman K. Chitkara                                    | For                       | For              |
| Xilinx, Inc.                   | USA     | 08-Aug-19    | Annual       | Management   | 3               | Elect Director Saar Gillai  | For                       | For              |
| Xilinx, Inc.                   | USA     | 08-Aug-19    | Annual       | Management   | 4               | Elect Director Ronald S. Jankov                                     | For                       | For              |
| Xilinx, Inc.                   | USA     | 08-Aug-19    | Annual       | Management   | 5               | Elect Director Mary Louise Krakauer                                 | For                       | For              |
| Xilinx, Inc.                   | USA     | 08-Aug-19    | Annual       | Management   | 6               | Elect Director Thomas H. Lee  | For                       | For              |
| Xilinx, Inc.                   | USA     | 08-Aug-19    | Annual       | Management   | 7               | Elect Director J. Michael Patterson                                 | For                       | For              |
| Xilinx, Inc.                   | USA     | 08-Aug-19    | Annual       | Management   | 8               | Elect Director Victor Peng  | For                       | For              |
| Xilinx, Inc.                   | USA     | 08-Aug-19    | Annual       | Management   | 9               | Elect Director Marshall C. Turner                                   | For                       | For              |
| Xilinx, Inc.                   | USA     | 08-Aug-19    | Annual       | Management   | 10              | Elect Director Elizabeth W. Vanderslice                             | For                       | For              |
| Xilinx, Inc.                   | USA     | 08-Aug-19    | Annual       | Management   | 11              | Amend Qualified Employee Stock Purchase Plan                        | For                       | For              |
| Xilinx, Inc.                   | USA     | 08-Aug-19    | Annual       | Management   | 12              | Amend Omnibus Stock Plan  | For                       | For              |
| Xilinx, Inc.                   | USA     | 08-Aug-19    | Annual       | Management   | 13              | Advisory Vote to Ratify Named Executive Officers' Compensation      | For                       | For              |
| Xilinx, Inc.                   | USA     | 08-Aug-19    | Annual       | Management   | 14              | Ratify Ernst & Young LLP as Auditors                                | For                       | For              |
| Loomis AB                      | Sweden  | 28-Aug-19    | Special      | Management   | 2               | Elect Chairman of Meeting   | For                       | For              |
| Loomis AB                      | Sweden  | 28-Aug-19    | Special      | Management   | 3               | Prepare and Approve List of Shareholders                            | For                       | For              |
| Loomis AB                      | Sweden  | 28-Aug-19    | Special      | Management   | 4               | Approve Agenda of Meeting   | For                       | For              |
| Loomis AB                      | Sweden  | 28-Aug-19    | Special      | Management   | 5               | Designate Inspector(s) of Minutes of Meeting                        | For                       | For              |
| Loomis AB                      | Sweden  | 28-Aug-19    | Special      | Management   | 6               | Acknowledge Proper Convening of Meeting                             | For                       | For              |
| Loomis AB                      | Sweden  | 28-Aug-19    | Special      | Management   | 7               | Determine Number of Members (7) and Deputy Members (0) of Board     | For                       | For              |
| Loomis AB                      | Sweden  | 28-Aug-19    | Special      | Management   | 8               | Elect Lars Blecko and Johan Lundberg as New Directors               | For                       | For              |
| Loomis AB                      | Sweden  | 28-Aug-19    | Special      | Management   | 9               | Approve Remuneration of Directors                                   | For                       | For              |
| Total System Services, Inc.    | USA     | 29-Aug-19    | Special      | Management   | 1               | Approve Merger Agreement  | For                       | For              |
| Total System Services, Inc.    | USA     | 29-Aug-19    | Special      | Management   | 2               | Advisory Vote on Golden Parachutes                                  | For                       | For              |
| Total System Services, Inc.    | USA     | 29-Aug-19    | Special      | Management   | 3               | Declassify the Board of Directors                                   | For                       | For              |

| Company Name                   | Country     | Meeting Date | Meeting Type   | Proponent  | Proposal Number | Proposal Text  | Management Recommendation | Vote Instruction |
|--------------------------------|-------------|--------------|----------------|------------|-----------------|--|---------------------------|------------------|
| Total System Services, Inc.    | USA         | 29-Aug-19    | Special        | Management | 4               | Adjourn Meeting  | For                       | For              |
| Open Text Corporation          | Canada      | 04-Sep-19    | Annual/Special | Management | 1               | Elect Director P. Thomas Jenkins                                 | For                       | For              |
| Open Text Corporation          | Canada      | 04-Sep-19    | Annual/Special | Management | 2               | Elect Director Mark J. Barrenechea                               | For                       | For              |
| Open Text Corporation          | Canada      | 04-Sep-19    | Annual/Special | Management | 3               | Elect Director Randy Fowlie                                      | For                       | For              |
| Open Text Corporation          | Canada      | 04-Sep-19    | Annual/Special | Management | 4               | Elect Director David Fraser                                      | For                       | For              |
| Open Text Corporation          | Canada      | 04-Sep-19    | Annual/Special | Management | 5               | Elect Director Gail E. Hamilton                                  | For                       | For              |
| Open Text Corporation          | Canada      | 04-Sep-19    | Annual/Special | Management | 6               | Elect Director Stephen J. Sadler                                 | For                       | For              |
| Open Text Corporation          | Canada      | 04-Sep-19    | Annual/Special | Management | 7               | Elect Director Harmit Singh                                      | For                       | For              |
| Open Text Corporation          | Canada      | 04-Sep-19    | Annual/Special | Management | 8               | Elect Director Michael Slaunwhite                                | For                       | For              |
| Open Text Corporation          | Canada      | 04-Sep-19    | Annual/Special | Management | 9               | Elect Director Katharine B. Stevenson                            | For                       | For              |
| Open Text Corporation          | Canada      | 04-Sep-19    | Annual/Special | Management | 10              | Elect Director Carl Jurgen Tinggren                              | For                       | For              |
| Open Text Corporation          | Canada      | 04-Sep-19    | Annual/Special | Management | 11              | Elect Director Deborah Weinstein                                 | For                       | For              |
| Open Text Corporation          | Canada      | 04-Sep-19    | Annual/Special | Management | 12              | Ratify KPMG LLP as Auditors                                      | For                       | For              |
| Open Text Corporation          | Canada      | 04-Sep-19    | Annual/Special | Management | 13              | Advisory Vote on Executive Compensation Approach                 | For                       | For              |
| Open Text Corporation          | Canada      | 04-Sep-19    | Annual/Special | Management | 14              | Approve Shareholder Rights Plan                                  | For                       | For              |
| Empire Company Limited         | Canada      | 12-Sep-19    | Annual         | Management | 2               | Advisory Vote on Executive Compensation Approach                 | For                       | For              |
| H&R Block, Inc.                | USA         | 12-Sep-19    | Annual         | Management | 1               | Elect Director Angela N. Archon                                  | For                       | For              |
| H&R Block, Inc.                | USA         | 12-Sep-19    | Annual         | Management | 2               | Elect Director Paul J. Brown                                     | For                       | For              |
| H&R Block, Inc.                | USA         | 12-Sep-19    | Annual         | Management | 3               | Elect Director Robert A. Gerard                                  | For                       | For              |
| H&R Block, Inc.                | USA         | 12-Sep-19    | Annual         | Management | 4               | Elect Director Richard A. Johnson                                | For                       | For              |
| H&R Block, Inc.                | USA         | 12-Sep-19    | Annual         | Management | 5               | Elect Director Jeffrey J. Jones, II                              | For                       | For              |
| H&R Block, Inc.                | USA         | 12-Sep-19    | Annual         | Management | 6               | Elect Director David Baker Lewis                                 | For                       | For              |
| H&R Block, Inc.                | USA         | 12-Sep-19    | Annual         | Management | 7               | Elect Director Victoria J. Reich                                 | For                       | For              |
| H&R Block, Inc.                | USA         | 12-Sep-19    | Annual         | Management | 8               | Elect Director Bruce C. Rohde                                    | For                       | For              |
| H&R Block, Inc.                | USA         | 12-Sep-19    | Annual         | Management | 9               | Elect Director Matthew E. Winter                                 | For                       | For              |
| H&R Block, Inc.                | USA         | 12-Sep-19    | Annual         | Management | 10              | Elect Director Christianna Wood                                  | For                       | For              |
| H&R Block, Inc.                | USA         | 12-Sep-19    | Annual         | Management | 11              | Ratify Deloitte & Touche LLP as Auditors                         | For                       | For              |
| H&R Block, Inc.                | USA         | 12-Sep-19    | Annual         | Management | 12              | Advisory Vote to Ratify Named Executive Officers' Compensation   | For                       | For              |
| LyondellBasell Industries N.V. | Netherlands | 12-Sep-19    | Special        | Management | 1               | Authorize Repurchase of Up to 10 Percent of Issued Share Capital | For                       | For              |
| LyondellBasell Industries N.V. | Netherlands | 12-Sep-19    | Special        | Management | 2               | Approve the Cancellation of Shares                               | For                       | For              |
| NetApp, Inc.                   | USA         | 12-Sep-19    | Annual         | Management | 1               | Elect Director T. Michael Nevens                                 | For                       | For              |
| NetApp, Inc.                   | USA         | 12-Sep-19    | Annual         | Management | 2               | Elect Director Gerald Held                                       | For                       | For              |
| NetApp, Inc.                   | USA         | 12-Sep-19    | Annual         | Management | 3               | Elect Director Kathryn M. Hill                                   | For                       | For              |
| NetApp, Inc.                   | USA         | 12-Sep-19    | Annual         | Management | 4               | Elect Director Deborah L. Kerr                                   | For                       | For              |
| NetApp, Inc.                   | USA         | 12-Sep-19    | Annual         | Management | 5               | Elect Director George Kurian                                     | For                       | For              |
| NetApp, Inc.                   | USA         | 12-Sep-19    | Annual         | Management | 6               | Elect Director Scott F. Schenkel                                 | For                       | For              |
| NetApp, Inc.                   | USA         | 12-Sep-19    | Annual         | Management | 7               | Elect Director George T. Shaheen                                 | For                       | For              |
| NetApp, Inc.                   | USA         | 12-Sep-19    | Annual         | Management | 8               | Amend Omnibus Stock Plan   | For                       | For              |
| NetApp, Inc.                   | USA         | 12-Sep-19    | Annual         | Management | 9               | Amend Qualified Employee Stock Purchase Plan                     | For                       | For              |

| Company Name                | Country   | Meeting Date | Meeting Type | Proponent  | Proposal Number | Proposal Text  | Management Recommendation | Vote Instruction |
|-----------------------------|-----------|--------------|--------------|------------|-----------------|--|---------------------------|------------------|
| NetApp, Inc.                | USA       | 12-Sep-19    | Annual       | Management | 10              | Advisory Vote to Ratify Named Executive Officers' Compensation | For                       | For              |
| NetApp, Inc.                | USA       | 12-Sep-19    | Annual       | Management | 11              | Ratify Deloitte & Touche LLP as Auditors                       | For                       | For              |
| Deckers Outdoor Corporation | USA       | 13-Sep-19    | Annual       | Management | 1               | Elect Director John M. Gibbons                                 | For                       | For              |
| Deckers Outdoor Corporation | USA       | 13-Sep-19    | Annual       | Management | 2               | Elect Director Nelson C. Chan                                  | For                       | For              |
| Deckers Outdoor Corporation | USA       | 13-Sep-19    | Annual       | Management | 3               | Elect Director Cynthia (Cindy) L. Davis                        | For                       | For              |
| Deckers Outdoor Corporation | USA       | 13-Sep-19    | Annual       | Management | 4               | Elect Director Michael F. Devine, III                          | For                       | For              |
| Deckers Outdoor Corporation | USA       | 13-Sep-19    | Annual       | Management | 5               | Elect Director Dave Powers                                     | For                       | For              |
| Deckers Outdoor Corporation | USA       | 13-Sep-19    | Annual       | Management | 6               | Elect Director James E. Quinn                                  | For                       | For              |
| Deckers Outdoor Corporation | USA       | 13-Sep-19    | Annual       | Management | 7               | Elect Director Lauri M. Shanahan                               | For                       | For              |
| Deckers Outdoor Corporation | USA       | 13-Sep-19    | Annual       | Management | 8               | Elect Director Brian A. Spaly                                  | For                       | For              |
| Deckers Outdoor Corporation | USA       | 13-Sep-19    | Annual       | Management | 9               | Elect Director Bonita C. Stewart                               | For                       | For              |
| Deckers Outdoor Corporation | USA       | 13-Sep-19    | Annual       | Management | 10              | Ratify KPMG LLP as Auditors                                    | For                       | For              |
| Deckers Outdoor Corporation | USA       | 13-Sep-19    | Annual       | Management | 11              | Advisory Vote to Ratify Named Executive Officers' Compensation | For                       | For              |
| Darden Restaurants, Inc.    | USA       | 18-Sep-19    | Annual       | Management | 1               | Elect Director Margaret Shan Atkins                            | For                       | For              |
| Darden Restaurants, Inc.    | USA       | 18-Sep-19    | Annual       | Management | 2               | Elect Director James P. Fogarty                                | For                       | For              |
| Darden Restaurants, Inc.    | USA       | 18-Sep-19    | Annual       | Management | 3               | Elect Director Cynthia T. Jamison                              | For                       | For              |
| Darden Restaurants, Inc.    | USA       | 18-Sep-19    | Annual       | Management | 4               | Elect Director Eugene I. (Gene) Lee, Jr.                       | For                       | For              |
| Darden Restaurants, Inc.    | USA       | 18-Sep-19    | Annual       | Management | 5               | Elect Director Nana Mensah                                     | For                       | For              |
| Darden Restaurants, Inc.    | USA       | 18-Sep-19    | Annual       | Management | 6               | Elect Director William S. Simon                                | For                       | For              |
| Darden Restaurants, Inc.    | USA       | 18-Sep-19    | Annual       | Management | 7               | Elect Director Charles M. (Chuck) Sonstebly                    | For                       | For              |
| Darden Restaurants, Inc.    | USA       | 18-Sep-19    | Annual       | Management | 8               | Elect Director Timothy J. Wilmott                              | For                       | For              |
| Darden Restaurants, Inc.    | USA       | 18-Sep-19    | Annual       | Management | 9               | Advisory Vote to Ratify Named Executive Officers' Compensation | For                       | For              |
| Darden Restaurants, Inc.    | USA       | 18-Sep-19    | Annual       | Management | 10              | Ratify KPMG LLP as Auditors                                    | For                       | For              |
| NIKE, Inc.                  | USA       | 19-Sep-19    | Annual       | Management | 1               | Elect Director Alan B. Graf, Jr.                               | For                       | For              |
| NIKE, Inc.                  | USA       | 19-Sep-19    | Annual       | Management | 2               | Elect Director Peter B. Henry                                  | For                       | For              |
| NIKE, Inc.                  | USA       | 19-Sep-19    | Annual       | Management | 3               | Elect Director Michelle A. Peluso                              | For                       | For              |
| NIKE, Inc.                  | USA       | 19-Sep-19    | Annual       | Management | 4               | Advisory Vote to Ratify Named Executive Officers' Compensation | For                       | For              |
| NIKE, Inc.                  | USA       | 19-Sep-19    | Annual       | Management | 5               | Ratify PricewaterhouseCoopers LLP as Auditors                  | For                       | For              |
| ASX Limited                 | Australia | 24-Sep-19    | Annual       | Management | 1               | Elect Melinda Conrad as Director                               | For                       | For              |
| ASX Limited                 | Australia | 24-Sep-19    | Annual       | Management | 2               | Elect Ken Henry as Director                                    | For                       | Against          |
| ASX Limited                 | Australia | 24-Sep-19    | Annual       | Management | 3               | Elect Peter Nash as Director                                   | For                       | For              |
| ASX Limited                 | Australia | 24-Sep-19    | Annual       | Management | 4               | Approve Remuneration Report                                    | For                       | For              |
| ASX Limited                 | Australia | 24-Sep-19    | Annual       | Management | 5               | Approve Grant of Performance Rights to Dominic Stevens         | For                       | For              |
| General Mills, Inc.         | USA       | 24-Sep-19    | Annual       | Management | 1               | Elect Director R. Kerry Clark                                  | For                       | For              |
| General Mills, Inc.         | USA       | 24-Sep-19    | Annual       | Management | 2               | Elect Director David M. Cordani                                | For                       | For              |
| General Mills, Inc.         | USA       | 24-Sep-19    | Annual       | Management | 3               | Elect Director Roger W. Ferguson, Jr.                          | For                       | For              |
| General Mills, Inc.         | USA       | 24-Sep-19    | Annual       | Management | 4               | Elect Director Jeffrey L. Harmingning                          | For                       | For              |
| General Mills, Inc.         | USA       | 24-Sep-19    | Annual       | Management | 5               | Elect Director Maria G. Henry                                  | For                       | For              |
| General Mills, Inc.         | USA       | 24-Sep-19    | Annual       | Management | 6               | Elect Director Elizabeth C. Lempres                            | For                       | For              |



| Company Name        | Country | Meeting Date | Meeting Type | Proponent  | Proposal Number | Proposal Text  | Management Recommendation | Vote Instruction |
|---------------------|---------|--------------|--------------|------------|-----------------|--|---------------------------|------------------|
| General Mills, Inc. | USA     | 24-Sep-19    | Annual       | Management | 7               | Elect Director Diane L. Neal                                   | For                       | For              |
| General Mills, Inc. | USA     | 24-Sep-19    | Annual       | Management | 8               | Elect Director Steve Odland                                    | For                       | For              |
| General Mills, Inc. | USA     | 24-Sep-19    | Annual       | Management | 9               | Elect Director Maria A. Sastre                                 | For                       | For              |
| General Mills, Inc. | USA     | 24-Sep-19    | Annual       | Management | 10              | Elect Director Eric D. Sprunk                                  | For                       | For              |
| General Mills, Inc. | USA     | 24-Sep-19    | Annual       | Management | 11              | Elect Director Jorge A. Uribe                                  | For                       | For              |
| General Mills, Inc. | USA     | 24-Sep-19    | Annual       | Management | 12              | Advisory Vote to Ratify Named Executive Officers' Compensation | For                       | For              |
| General Mills, Inc. | USA     | 24-Sep-19    | Annual       | Management | 13              | Ratify KPMG LLP as Auditors                                    | For                       | For              |

This page is intentionally left blank

# The Pension Regulator's and Scheme Advisory Board Compliance Checklist

## Summary Results Dashboard

| No                                   | Completed | Compliant |
|--------------------------------------|-----------|-----------|
| <b>Reporting Duties</b>              |           |           |
| A1                                   | G         | G         |
| A2                                   | G         | G         |
| A3                                   | G         | G         |
| A4                                   | G         | G         |
| <b>Knowledge &amp; Understanding</b> |           |           |
| B1                                   | G         | G         |
| B2                                   | G         | G         |
| B3                                   | G         | G         |
| B4                                   | G         | G         |
| B5                                   | G         | G         |
| B6                                   | G         | G         |
| B7                                   | G         | G         |
| B8                                   | G         | G         |
| B9                                   | G         | G         |
| B10                                  | G         | G         |
| B11                                  | G         | G         |
| B12                                  | G         | G         |
| <b>Conflicts of Interest</b>         |           |           |
| C1                                   | G         | G         |
| C2                                   | G         | G         |
| C3                                   | G         | G         |

| No                                   | Completed | Compliant |
|--------------------------------------|-----------|-----------|
| C4                                   | G         | G         |
| C5                                   | G         | G         |
| C6                                   | G         | G         |
| C7                                   | G         | G         |
| C8                                   | G         | G         |
| C9                                   | G         | G         |
| C10                                  | G         | G         |
| C11                                  | G         | G         |
| <b>Publishing Scheme Information</b> |           |           |
| D1                                   | G         | G         |
| D2                                   | G         | G         |
| D3                                   | G         | G         |
| D4                                   | G         | G         |
| <b>Risk and Internal Controls</b>    |           |           |
| E1                                   | G         | G         |
| E2                                   | G         | G         |
| E3                                   | G         | G         |
| E4                                   | G         | G         |
| E5                                   | G         | G         |
| E6                                   | G         | G         |
| E7                                   | G         | G         |
| E8                                   | G         | G         |

| No                                      | Completed | Compliant |
|---|-----------|-----------|
| <b>Maintaining Accurate Member Data</b> |           |           |
| F1                                      | A         | A         |
| F2                                      | G         | G         |
| F3                                      | G         | G         |
| F4                                      | G         | G         |
| F5                                      |           |           |
| F6                                      | G         | G         |
| F7                                      | G         | G         |
| F8                                      | G         | G         |
| F9                                      | G         | G         |
| F10                                     | G         | G         |
| F11                                     | G         | G         |
| <b>Maintaining Contributions</b>        |           |           |
| G1                                      | G         | G         |
| G2                                      | G         | G         |
| G3                                      | G         | G         |
| G4                                      | G         | G         |
| G5                                      | G         | G         |
| G6                                      | G         | G         |
| G7                                      | G         | G         |
| G8                                      | G         | G         |
| G9                                      | G         | G         |

| No   | Completed | Compliant |
|--|-----------|-----------|
| <b>Providing Information to Members and Others</b> |           |           |
| H1   | G         | G         |
| H2   | G         | G         |
| H3   | G         | G         |
| H4   | G         | G         |
| H5   | G         | G         |
| H6   | G         | G         |
| H7   | G         | A         |
| H8   | G         | G         |
| H9   | G         | G         |
| H10  | G         | G         |
| H11  | G         | G         |
| H12  | G         | G         |
| H13  | G         | G         |
| <b>Internal Dispute Resolution</b>                 |           |           |
| I1   | G         | G         |
| I2   | G         | G         |
| I3   | G         | G         |
| I4   | G         | G         |
| I5   | G         | G         |
| I6   | G         | G         |
| I7   | G         | G         |

| No  | Completed | Compliant |
|---|-----------|-----------|
| I8  | G         | G         |
| I9  | G         | G         |
| <b>Reporting Breaches</b>                 |           |           |
| J1  | G         | G         |
| J2  | G         | G         |
| J3  | G         | G         |
| <b>Scheme Advisory Board Requirements</b> |           |           |
| K1  | G         | G         |
| K2  | G         | G         |
| K3  | G         | G         |
| K4  | G         | G         |
| K5  | G         | G         |
| K6  | G         | G         |
| K7  | A         | A         |
| K8  | G         | G         |
| K9  | G         | G         |
| K10                                       | G         | G         |
| K11                                       | G         | G         |
| K12                                       | G         | G         |
| K13                                       | G         | G         |
| K14                                       | G         | G         |
| K15                                       | G         | G         |

This page is intentionally left blank



# Good governance in the LGPS

---

**Phase II report from Working Groups to SAB**

November 2019

## Process

Following on from the presentation of the Good Governance Report to the SAB on 8 July 2019, the Board agreed to constitute two working groups to take forward the proposals included in the report. Hymans Robertson were appointed to assist the working groups in this next phase of the good governance project.

The first working group (Standards and Outcomes Workstream) was asked to focus on specifying clearly the outcomes and standards that the SAB wishes to see achieved by funds under the proposed approach, and how these outcomes should be evidenced.

The second working group (Compliance and Improvement Workstream) was asked to focus on establishing the compliance regime that will be required to independently assess funds against this framework.

This report has been prepared for the SAB by both working groups and includes detailed implementation proposals for their workstream including a list of the changes required to guidance to implement this framework.

## Thanks to contributors

Thank you to the following who contributed to the working groups and this report.

**Euan Miller** Assistant Director of Pensions (Funding and Business Development), Greater Manchester Pension Fund

**Peter Moore** Chair of CIPFA's Pensions Panel

**Mark Wynn** Director of Corporate Services at Cheshire West and Chester Council, SCT

**Nick Gannon** TPR

**Con Hargrave** MHCLG

**Jenny Poole** Head of Finance & Audit/GO Shared Services at Cotswold District Council

**John Raisin** Independent Advisor

**Joe Dabrowski** Head of DB, LGPS and Standards, PLSA

**Karen McWilliam** Consultant, Aon

**Jeffrey Dong** Chief Treasury Officer at City & County of Swansea, SWT

**Caroline Holland** Director of Corporate Services at London Borough of Merton, SLT

**Nicola Mark** Head of the Norfolk Pension Fund, Practitioner representative to SAB

**Annemarie Allen** Consultant, Barnet Waddingham

**Chris Moore** Director of Corporate Services and Section 151 Officer, Carmarthenshire County Council

**Rachel Brothwood** Director of Pensions, West Midlands Pension Fund

**Robert Holloway** SAB secretariat, LGA

**Jeff Houston** SAB secretariat, LGA

**Jon Richards** Unison

**David Aldous** National Audit Office

**Yvonne Johnson** Chair of the Pension Fund Panel, London Borough of Ealing, Scheme Employer Representative, SAB.

### Hymans Robertson facilitators:

Catherine McFadyen, John Wright, Ian Colvin, Steven Law

# Contents

---

|  |    |
|--|----|
| Terminology .....                              | 1  |
| Workstream 1: Standards and outcomes .....     | 3  |
| Workstream 2: Compliance and improvement ..... | 4  |
| Next steps.....                                | 6  |
| Appendix A: Summary of recommendations.....    | 22 |

---

# Terminology

## Atypical administering authorities

This report has been drafted largely using terminology relevant to the majority of administering authorities who are local authorities. However, it is recognised that there are some administering authorities which do not fit this model. In taking forward any of the proposals outlined in this report it will be necessary to ensure that principles can be applied universally to LGPS funds and that any guidance recognises the unique position of some funds.

## Use of terms

Throughout this document the following terms have a specific meaning unless the context makes clear that another meaning is intended:

**Administering authority** refers to a body listed in part 1 of Schedule 3 to the LGPS Regulations 2013 that is required to maintain an LGPS pension fund. In particular the term is used here when such a body is carrying out LGPS specific functions.

For example “Each administering authority must publish an annual report.”

**Committee.** A committee formed under s101 of the Local Government Act 1972 to which the administering authority delegates LGPS responsibilities and decision making powers. Alternatively, can refer to an advisory committee or panel which makes recommendations on LGPS matters to an individual to whom the administering authority has delegated LGPS decision making responsibility.

For example “The pensions committee should have a role in developing the business plan.”

**Host authority** refers to a council or other body that is also an administering authority but is used to refer to that body when it is carrying out wider non-LGPS specific functions.

For example “Delivery of the LGPS function must be constant with the constitution of the host authority.”

**The fund** carries a more general meaning and is used to refer to the various activities and functions that are necessary in order to administer the LGPS.

For example “Taking this course of action will improve the fund's administration”.

Alternatively, the term is used in the context of the scheme members and employers who contribute to the LGPS arrangements of a specific administering authority.

For example “The number of fund employers has increased in recent years.”



# Workstream 1: Standards and outcomes

## Proposals and background

### A. General

1. It is envisaged that all the proposals made in this document will be enacted via the introduction of new statutory governance guidance which will supersede current and previous guidance, although it will contain elements of existing legislation and guidance where appropriate. This guidance would be issued on behalf of MHCLG, although MHCLG may seek assistance on drafting the guidance.
2. In order to improve the accountability for fund governance, it is proposed that each administering authority must have a single named officer who is responsible for the delivery of the pension function. (“the LGPS senior officer”). This may be the S151 officer, assuming they have the capacity, LGPS knowledge and internal assurance framework to assume that role. Alternatively, the LGPS senior officer role may be undertaken by another officer who has the remit of delivering the LGPS function in its entirety and who is likewise suitably qualified and experienced and has the capacity to assume this role. This should be a person close enough to the running of the fund that they have sight of all aspects of the fund’s business. The role of the responsible person should be assigned through the host authority’s scheme of delegation and constitution. If the person who undertakes this key role within the host authority changes it may be necessary for the role of the responsible person to be reviewed.
3. In order to improve the transparency and auditability of governance arrangements, each fund must produce an enhanced annual governance compliance statement, in accordance with the statutory governance guidance, which sets out details of how each fund has addressed key areas of fund governance. The preparation and sign off of this statement will be the responsibility of the LGPS senior officer and it must be co-signed by the host authority’s s151 officer, where that person is not also the LGPS senior officer. The expectation will also be that committees and local pension boards would be appropriately involved in the process.



---

**A.1** MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. (“the Guidance”).

---

**A.2** Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. (“the LGPS senior officer”).

---

**A.3** Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be signed by the LGPS senior officer and, where different, co-signed by the S151 officer.

---



## B. Conflicts of interest

1. Administering authorities must evidence that conflicts, and in particular, potential and perceived conflicts, as well as actual conflicts are being identified, monitored and managed. Some administering authorities currently only follow the conflicts of interest requirements of the host authority which are typically focused on the elected member register of interest and code of conduct. The Guidance should require all administering authorities to publish a specific LGPS conflicts of interest policy and should stipulate the areas that the policy should address. In addition to registering interests, this will include information on how it identifies, monitors and manages conflicts, including areas of potential conflict that are specific to the LGPS as listed:

- Any commercial relationships between the administering authority or host authority and other employers in the fund/or other parties which may impact decisions made in the best interests of the fund. These may include shared service arrangements which impact the fund operations directly but will also include outsourcing relationship and companies related to or wholly owned by the Council, which do not relate to pension fund operations.
- Contribution setting for the AA and other employers.
- Cross charging for services or shared resourcing between the AA and the fund
- Dual role of the AA as an owner and client of a pool
- Local investment decisions
- Any other roles within the Council being carried out by committee members or officers which may result in a conflict either in the time available to dedicate to the fund or in decision making or oversight. For example, some roles on other finance committees, audit or health committees or finance cabinet should be disclosed.

Each administering authority's policy should address:

- How potential conflicts of interest are identified and managed;
- How officers, employer and scheme member representatives, elected members, members of the local pension board and advisers and contractors understand their responsibilities in respect of ensuring that conflicts of interest are properly managed;
- Systems, controls and processes, including maintaining clear records, for managing and mitigating potential conflicts of interest effectively such that they never become actual conflicts;
- How the effectiveness of its conflict of interest policy is reviewed and updated as required;
- How a culture which supports transparency and the management and mitigation of conflicts of interest is embedded.
- How the specific conflicts that arise from its dual role as both an employer participating in the Fund and the administering authority responsible for delivering the LGPS for that fund are managed.
- In putting together such a policy it is recognised that membership of the LGPS is not, in and of itself, a conflict of interest.

Each fund should be required to make public its conflicts of interest policy.

2. During the Phase I survey a number of respondents said that it would be very helpful to define the extent of fiduciary duties in respect of the individuals, committees and boards involved in LGPS governance. The SAB working group came to the conclusion that that while clarification on the fiduciary question is desirable, the complex legal considerations mean that this is beyond the scope of this project. The Group is aware that the SAB has separately undertaken to collate various references to fiduciary duties and public law principles and provide a guide which illustrates how these might be applied to the LGPS. It would be helpful for The Guidance to make reference to the SAB's findings in this area.

---

**B.1** Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, including reference to key conflicts identified in the Guidance.

---

**B.2** The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB.

---

## C. Representation

1. The initial phase of the Good Governance review highlighted that many pension committees now have non-administering authority employer and scheme member representatives although local practice varies as to whether these members have a vote. Primary legislation in the form of the Local Government Act 1972 allows local authorities wide discretion over committee appointments and delegations and this issue ultimately remains one of local democracy.

The Guidance should require that all administering authorities prepare, maintain and publish their policy on representation and to require that they provide:

- the rationale for their approach to representation for non-administering authority employers and local authority and non-local authority scheme members on any relevant committees; and
- the rationale as to whether those representatives have voting rights or not.

Best practice would suggest that scheme member representation in some form is a desirable goal for administering authorities. In addition to representation on committees, administering authorities should state other ways in which they engage their wider employer and Scheme membership

The Guidance should also acknowledge the important principle that administering authorities may wish to retain a majority vote on decision making bodies in order to reflect their statutory responsibilities for maintaining the fund.

---

**C.1** Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party.

---



## D. Skills and training

1. The Good Governance Review noted the need for enhanced levels of training for key LGPS individuals. While there exists a statutory duty on members of local pension boards to maintain an appropriate level of knowledge and understanding to carry out their role effectively, no such statutory duty applies to those sitting on s101 committees.

The Guidance should mandate a similar knowledge and understanding requirement for those carrying out a delegated decision-making role on s101 committees as well as officers involved in the fund. At committee, knowledge should be considered at a collective level and it should be recognised that new members will require a grace period over which to attain the requisite knowledge.

Training should be delivered as part of a supportive environment and committee and board members will not be required to undertake tests, although it is recognised that best practice would include assessments or other means to identify gaps in knowledge.

The Guidance should clarify that the expectation is that the TPR requirements that apply to Local Pension Boards should equally apply to Committee and senior officers within the context of an appropriate LGPS specific framework, for example the CIPFA knowledge and skills Code of Practice and Framework (currently being updated). As a minimum those sitting on pension committees or the equivalent should comply with the requirements of MiFID II opt-up to act as a professional client but the expectation is that a higher level and broader range of knowledge will be required.

Training records must be maintained.

2. There should be an LGPS training requirement for s151 officers (or those aspiring to the role) as part of their CPD. An appropriate level of LGPS knowledge must be attained by S151 officers of an administering authority. A level of LGPS knowledge should also be attained by S151 officers of other public bodies participating in the LGPS, although it is not expected that that they should have the depth and breadth of knowledge required of the S151 officer of an administering authority. This should be specified and administered by an appropriate professional body.

---

**D.1** Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively.

---

**D.2** Introduce a requirement for s151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding.

---

**D.3** Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.

---

**D.4** CIPFA and other relevant professional bodies should be asked to produce appropriate guidance and training modules for s151 officers and to consider including LGPS training within their training qualification syllabus.

---

## E. Service delivery for the LGPS function

The Good Governance Review proposed that LGPS funds should be able to evidence that their administration and other resource (quantity and competency) is sufficient to meet regulatory requirements and that their budget is appropriate to deliver this. In this context administration refers to all of the tasks and processes required to deliver the Scheme and is not limited to the calculation and payment of benefits. This definition encompasses a funds accountancy function, investment support, employer liaison, systems, communications etc.

1. Clarity around roles, responsibilities and decision making are central to good delivery of the LGPS function. The Guidance should require funds to document roles and responsibilities and develop, maintain and publish a “roles and responsibilities matrix” which sets out who within the organisation is responsible for final sign off, implementation, oversight and recommending the key decisions that the fund is required to make.

The “roles and responsibilities matrix” should reflect the host authority’s scheme of delegation and constitution and be supported by a clearly documented management structure.

2. The Guidance should require that each administering authority must develop, maintain and publish an administration strategy which sets out its approach to the matters mentioned in regulation 59 (2) of the LGPS Regulations 2013 and the Guidance. We recommend that the Board ask that this proposal to be implemented by MHCLG within the LGPS Regulations at their earliest opportunity.
3. A series of some 10 to 15 key indicators or measures of standards of LGPS service delivery to members and employers should be agreed. These indicators should be drawn wherever possible from current reporting structures. All administering authorities must be required to report against these as part of their governance compliance statement.

It is acknowledged that there are inherent difficulties in drawing conclusions when comparisons are not always on a true like for like basis but it is preferable to introduce measures now and seek to improve the measurement approach over time.

4. Each Administering Authority has a specific legal responsibility to administer the LGPS within their geographical region and to maintain a specific reserve for that purpose. It is important therefore that the fund’s budget is set and managed separately from the expenditure of the host authority.

Budgets for pension fund functions should be sufficient to meet all statutory requirements, the expectations of regulatory bodies and provide a good service to Scheme members and employers. The budget setting process should be one initiated and managed by the fund’s officers and the pension committee and assisted by the local pension board.

Required expenditure should be based on the fund’s business plan and deliverables for the forthcoming year. The practice should not simply be to update last year’s budget by an inflationary measure or specify an “available” budget and work back to what level of service that budget can deliver.

The body or individual with delegated responsibility for delivering the LGPS service should have a role in setting that budget. Typically, this will involve the pension committee being satisfied that the proposed budget is appropriate to deliver the fund’s business plan but it is recognised that other governance models exist within the LGPS. Whichever approach is used, it should be clearly set out in the roles and responsibilities matrix and be consistent with the host authority’s scheme of delegation and constitution.





## E. Service delivery for the LGPS function (continued)

Where a proposed budget is approved, the senior LGPS officer will confirm in the governance compliance statement that the administering authority has approved the budget required to deliver the pensions function to the required standard. If the budget is not approved, the senior LGPS officer will declare that in the governance compliance statement, including the impact of that on service delivery as expressed in a reduced business plan.

These statements in the governance compliance statement will be co-signed by the S151 officer where this is not the same person as the senior LGPS officer.

5. Each Administering Authority has a duty to ensure that its pensions function is staffed such as to enable it to deliver an effective pensions service to the all fund employers and members. It is therefore important that the recruitment and retention practices applied to the pensions function facilitate this. For example, the use of market supplements may be necessary to recruit/retain both investment and pensions administration staff. Further, given that the pension fund budget is set and managed separately from the expenditure of the host authority, the impact of general council staffing policies such as recruitment freezes should not be applied to the pension fund by default.

---

**E.1** Each administering authority must document key roles and responsibilities relating to its LGPS fund and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority's scheme of delegation and constitution and be consistent with role descriptions and business processes.

---

**E.2** Each administering authority must publish an administration strategy.

---

**E.3** Each administering authority must report the fund's performance against an agreed set of indicators designed to measure standards of service.

---

**E.4** Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.

---

**E.5** Each Administering Authority must give proper consideration to the utilisation of pay and recruitment policies, including as appropriate market supplements, relevant to the needs of their pension function. Administering Authorities should not simply apply general council staffing policies such as recruitment freezes to the pensions function.

---

# Workstream 2: Compliance and improvement

## F. Compliance and improvement

One of the key features of the original Good Governance Review was the view that in order to ensure required standards are adhered to consistently there needs to be regular independent review of administering authorities governance arrangements.

1. The new MHCLG guidance should set out a process for an Independent Governance Review, to include the features set out below.
  - a. It will be mandatory for each Fund to commission an Independent Governance Review (“IGR”) which will audit the fund’s Governance Compliance Statement and review compliance with the requirement of the new statutory guidance.
  - b. There should be a standardised framework and process for IGRs which covers all areas set out in new MHCLG guidance.
  - c. It is critical that the IGR should be conducted by appropriate persons who:
    - properly understand the LGPS;
    - are sufficiently at arm’s length from the administering authority’s pensions function, that is, they do not have an existing contractual relationship with the administering authority which conflicts with their ability to carry out a properly independent and objective assessment of governance standards and compliance with new statutory requirements; and
    - are in some way “accredited” to ensure consistent standards of review.
  - d. To ensure consistent standards from those conducting IGRs, a procurement framework should be put in place which sets out the standard requirements, standard reporting and standard fee for an LGPS IGR. Ideally this should be in place for 2020/21.
  - e. Suppliers who can demonstrate they are suitably qualified and knowledgeable may be appointed to the framework, from which any LGPS Funds may appoint an external supplier.
  - f. Alternatively, administering authorities may choose to have their IGR review carried out by their own internal audit or another appropriate party to the same standards as the framework.
  - g. Each administering authority should have an IGR completed biennially, by a date which will be notified by the SAB.
  - h. The SAB may direct, as a result of concerns about the governance of a fund (or for another reason), that an administering authority must have an IGR completed outside of the two-year cycle.
  - i. The IGR will report findings to the body and/or individual with delegated responsibility for delivery of the LGPS as set out in the roles and responsibilities matrix and to the local pension board.
  - j. The administering authority must develop an improvement plan to address any issues raised in the IGR.
  - k. The report from the IGR and improvement plan must be published and also be submitted to SAB and relevant SAB sub-committees.
  - l. SAB will put in place a panel of independent experts to scrutinise the IGR reports, looking for outliers and areas of concern. The panel of experts will be drawn from LGPS stakeholders to include the s151 community and other parties as appropriate.
  - m. The SAB panel may enter into discussions with funds where the panel find the IGR report or agreed improvement plan or progress against a previous improvement plan are considered to be unsatisfactory. Additionally, they may refer the unsatisfactory IGR to TPR or further escalate to MHCLG.
  - n. Failure to submit an IGR report by the required date will result in automatic referral.
  - o. A dry run is recommended in parallel with the timeline for drafting the required Guidance.
  - p. Nothing in this process overrides an individual’s responsibility to report breaches of the law under the Pensions Act 2004 or any other professional or legal whistleblowing obligations.





## F. Compliance and improvement (continued)

2. LGA run a peer challenge process for some areas of local government. It is a process commissioned by a council and involves a small team of local government officers and councillors spending time at the council as peers to provide challenge and share learning. It is suggested that a similar peer challenge process is established for the LGPS.

---

**F.1** Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified.

IGR reports to be assessed by a SAB panel of experts.

---

**F.2** LGA to consider establishing a peer review process for LGPS Funds.

---

### Summary of the compliance and improvement process

Annually, each administering authority to produce a governance compliance statement signed by the senior LGPS officer and S151 which demonstrates compliance with LGPS requirements.

Biennially, each administering authority to commission an Independent Governance Review (IGR).

IGR reports to senior LGPS officer, pensions committee and pensions board.

IGR report goes to a SAB panel of experts for assessment. Panel could request further details of improvement plans, make recommendations or report to TPR & MHCLG



# Next steps

The Working Group recommends that SAB and MHCLG accept the recommendations in this report and initiate phase III of the project.

Phase III should contain the following elements:

1. MHCLG to draft the required changes to the Guidance.
2. SAB to ask the National Framework to begin work on establishing Independent Governance Review provider framework.
3. SAB to establish the 10-15 KPIs referred to within proposal E.3.
4. It is envisaged that the governance compliance statement will act as a summary, evidencing the Fund's position on all areas of governance and compliance. Where a fund is non-compliant in a certain area the statement should provide information within and accompanying improvement plan about the steps being taken in order to address non-compliance. SAB to consider drawing up a complete list of the topics that should be included within the governance compliance statement.



Appendix A

# Summary of recommendations

| Area   | Proposal   |
|--|--|
| <b>A. General</b>                                | <b>A.1</b> MHCLG will produce statutory guidance to establish new governance requirements for funds to effectively implement the proposals below. (“the Guidance”).  |
|  | <b>A.2</b> Each administering authority must have a single named officer who is responsible for the delivery of all LGPS related activity for that fund. (“the LGPS senior officer”).  |
|  | <b>A.3</b> Each administering authority must publish an annual governance compliance statement that sets out how they comply with the governance requirements for LGPS funds as set out in the Guidance. This statement must be signed by the LGPS senior officer and, where different, co-signed by the S151 officer.   |
| <b>B. Conflicts of interest</b>                  | <b>B.1</b> Each fund must produce and publish a conflicts of interest policy which includes details of how actual, potential and perceived conflicts are addressed within the governance of the fund, including reference to key conflicts identified in the Guidance.   |
|  | <b>B.2</b> The Guidance should refer all those involved in the management of the LGPS, and in particular those on decision making committees, to the guide on statutory and fiduciary duty which will be produced by the SAB.  |
| <b>C. Representation</b>                         | <b>C.1</b> Each fund must produce and publish a policy on the representation of scheme members and non-administering authority employers on its committees, explaining its approach to representation and voting rights for each party.  |
| <b>D. Knowledge and understanding</b>            | <b>D.1</b> Introduce a requirement in the Guidance for key individuals within the LGPS, including LGPS officers and pensions committee members, to have the appropriate level of knowledge and understanding to carry out their duties effectively.  |
|  | <b>D.2</b> Introduce a requirement for s151 officers to carry out LGPS relevant training as part of their CPD requirements to ensure good levels of knowledge and understanding.   |
|  | <b>D.3</b> Administering authorities must publish a policy setting out their approach to the delivery, assessment and recording of training plans to meet these requirements.  |
|  | <b>D.4</b> CIPFA and other relevant professional bodies should be asked to produce appropriate guidance and training modules for s151 officers and to consider including LGPS training within their training qualification syllabus.   |
| <b>E. Service delivery for the LGPS function</b> | <b>E.1</b> Each administering authority must document key roles and responsibilities relating to its LGPS fund and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the host authority’s scheme of delegation and constitution and be consistent with role descriptions and business processes.    |
|  | <b>E.2</b> Each administering authority must publish an administration strategy.   |
|  | <b>E.3</b> Each administering authority must report the fund’s performance against an agreed set of indicators designed to measure standards of service.   |
|  | <b>E.4</b> Each administering authority must ensure their committee is included in the business planning process. Both the committee and LGPS senior officer must be satisfied with the resource and budget allocated to deliver the LGPS service over the next financial year.  |
|  | <b>E.5</b> Each Administering Authority must give proper consideration to the utilisation of pay and recruitment policies, including as appropriate market supplements, relevant to the needs of their pension function. Administering Authorities should not simply apply general council staffing policies such as recruitment freezes to the pensions function. |
| <b>F. Compliance and improvement</b>             | <b>F.1</b> Each administering authority must undergo a biennial Independent Governance Review and, if applicable, produce the required improvement plan to address any issues identified. IGR reports to be assessed by a SAB panel of experts.  |
|  | <b>F.2</b> LGA to consider establishing a peer review process for LGPS Funds.  |





## Regulatory and Other Committee

### Open Report on behalf of Andrew Crookham - Executive Director of Resources

|            |                                       |
|------------|---------------------------------------|
| Report to: | <b>Pensions Committee</b>             |
| Date:      | <b>09 January 2020</b>                |
| Subject:   | <b>Pensions Administration Report</b> |

#### Summary:

This is the quarterly report by the Fund's pension administrator, West Yorkshire Pension Fund.

Yunus Gajra, the Business Development Manager from WYPF, will update the committee on current administration issues.

#### Recommendation(s):

That the Committee note the report.

## Background

### 1.0 Performance and Benchmarking

1.1 WYPF uses workflow processes developed internally to organise their daily work with target dates and performance measures built into the system. The performance measures ensure tasks are prioritised on a daily basis, however Team Managers have the flexibility to re-schedule work should time pressure demand.

1.2 The table below shows the performance against key areas of work for the period 1 July 2019 to 30 September 2019.

| KPI's for the period 1.7.19 to 30.9.19 |             |                           |                  |                       |                    |                    |
|--|-------------|---------------------------|------------------|-----------------------|--------------------|--------------------|
| WORKTYPE                               | TOTAL CASES | TARGET DAYS FOR EACH CASE | TARGET MET CASES | MINIUM TARGET PERCENT | TARGET MET PERCENT | AVERAGE TIME TAKEN |
| AVC In-house (General)                 | 92          | 10                        | 91               | 85                    | 98.91              | 1.18               |
| Age 55 Increase to Pension             | 1           | 20                        | 1                | 85                    | 100                | 20                 |
| Change of Address                      | 334         | 5                         | 327              | 85                    | 97.9               | 1.58               |

| WORKTYPE                                      | TOTAL CASES | TARGET DAYS FOR EACH CASE | TARGET MET CASES | MINIMUM TARGET PERCENT | TARGET MET PERCENT | AVERAGE TIME TAKEN |
|---|-------------|---------------------------|------------------|------------------------|--------------------|--------------------|
| Change of Bank Details                        | 54          | 5                         | 50               | 85                     | 92.59              | 1.59               |
| DWP request for Information                   | 8           | 10                        | 7                | 85                     | 87.5               | 4.13               |
| Death Grant Nomination Form Received          | 1,603       | 20                        | 1,563            | 85                     | 97.5               | 4.36               |
| Death Grant to Set Up                         | 20          | 5                         | 20               | 85                     | 100                | 1.5                |
| Death In Retirement                           | 141         | 5                         | 132              | 85                     | 93.62              | 2.26               |
| Death In Service                              | 3           | 5                         | 3                | 85                     | 100                | 1                  |
| Death on Deferred                             | 8           | 5                         | 8                | 85                     | 100                | 1.63               |
| Deferred Benefits Into Payment Actual         | 706         | 5                         | 700              | 90                     | 99.15              | 2.6                |
| Deferred Benefits Into Payment Quote          | 822         | 35                        | 789              | 85                     | 95.99              | 6.84               |
| Deferred Benefits Set Up on Leaving           | 1,101       | 10                        | 1,005            | 85                     | 91.28              | 10.13              |
| Divorce Quote                                 | 44          | 20                        | 43               | 85                     | 97.73              | 3.95               |
| Enquiry                                       | 8           | 5                         | 8                | 85                     | 100                | 1.38               |
| Estimates for Deferred Benefits into Payment  | 4           | 10                        | 4                | 90                     | 100                | 1.5                |
| General Payroll Changes                       | 77          | 5                         | 73               | 85                     | 94.81              | 5.71               |
| Initial Letter Death in Service               | 3           | 5                         | 3                | 85                     | 100                | 1.67               |
| Initial letter Death in Retirement            | 141         | 5                         | 140              | 85                     | 99.29              | 1.68               |
| Initial letter Death on Deferred              | 8           | 5                         | 8                | 85                     | 100                | 3                  |
| Monthly Posting                               | 877         | 10                        | 858              | 95                     | 97.83              | 1.83               |
| NI adjustment to Pension at State Pension Age | 8           | 20                        | 8                | 85                     | 100                | 15.88              |
| Payment of Spouses _Child Benefits            | 55          | 10                        | 55               | 100                    | 100                | 1.51               |
| Pension Estimate                              | 132         | 10                        | 107              | 75                     | 81.06              | 7.36               |
| Pension Saving Statement                      | 2           | 20                        | 2                | 100                    | 100                | 1                  |
| Refund Payment                                | 241         | 10                        | 239              | 95                     | 99.17              | 1.76               |
| Refund Quote                                  | 299         | 35                        | 294              | 85                     | 98.33              | 2.88               |
| Retirement Actual                             | 190         | 3                         | 173              | 90                     | 91.05              | 1.22               |
| Set Up New Spouse Pension                     | 55          | 5                         | 55               | 85                     | 100                | 1.16               |

|                       |             |                           |                  |                        |                    |                    |
|-----------------------|-------------|---------------------------|------------------|------------------------|--------------------|--------------------|
| Spouse Potential      | 14          | 20                        | 14               | 85                     | 100                | 6.36               |
| WORKTYPE              | TOTAL CASES | TARGET DAYS FOR EACH CASE | TARGET MET CASES | MINIMUM TARGET PERCENT | TARGET MET PERCENT | AVERAGE TIME TAKEN |
| Transfer In Actual    | 49          | 35                        | 49               | 85                     | 100                | 6.57               |
| Transfer In Quote     | 63          | 35                        | 63               | 85                     | 100                | 1.68               |
| Transfer Out Payment  | 19          | 35                        | 19               | 85                     | 100                | 7.58               |
| Transfer Out Quote    | 141         | 20                        | 137              | 85                     | 97.16              | 6.04               |
| Update Member Details | 2,154       | 20                        | 2,145            | 100                    | 99.58              | 1.36               |

## 2.0 Scheme Information

2.1 Membership numbers in the Lincolnshire Fund are as follows:

| Numbers                  | Active | Deferred | Undecided | Pensioner | Frozen |
|--------------------------|--------|----------|-----------|-----------|--------|
| LGPS                     | 22,641 | 27,703   | 828       | 23,172    | 2,662  |
| Percentage of Membership | 29.40  | 35.98    | 1.07      | 30.09     | 3.46   |
| Change from Last Quarter | -65    | -444     | -179      | +666      | +28    |

2.2 Age Profile of the Scheme

| Status | Age Groups |       |       |       |       |       |       |       |       |       |       |     | TOTAL  |
|--------|------------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-------|-----|--------|
|        | U20        | 20-25 | 26-30 | 31-35 | 36-40 | 41-45 | 46-50 | 51-55 | 56-60 | 61-65 | 66-70 | 70+ |        |
| Active | 314        | 1,470 | 1,510 | 1,943 | 2,468 | 2,702 | 3,724 | 3,722 | 2,908 | 1,568 | 241   | 71  | 22,641 |

2.3 Employer Activity - During July 2019 to September 2019

|                                    |            |
|------------------------------------|------------|
| New Academies and Education Trusts | 6          |
| New Town and Parish Council        | 0          |
| New Admission Bodies               | 1          |
| <b>Total of New Employer</b>       | <b>7</b>   |
| Employers Exited                   | 1          |
| <b>Total Numbers of employers</b>  | <b>293</b> |

## 3.0 Member and Employer Contact

3.1 Over the quarter July to September we received **1** online customer response.

Over the quarter July to September we received **2** online customer responses.

Over the same quarter **190** Lincolnshire member's sample survey letters were sent out and **25 (13.2%)** returned.

Overall Customer Satisfaction Score;

| July to September 2018 | October to December 2018 | January to March 2019 | April to June 2019 | July to September 2019 |
|------------------------|--------------------------|-----------------------|--------------------|------------------------|
| 81.6%                  | 81%                      | 81.3%                 | 83.5%              | 87.9%                  |

Appendix 1 – Customer survey results.

### 3.2 Employer Training

Over the quarter July to September two Employer sessions were held in Lincolnshire, Ill Health and Employer Responsibilities. Customer satisfaction scores were 96.09% and 98.43% respectively.

Appendix 2 – Employer feedback summary.

## 4.0 Internal Disputes Resolution Procedures

- 4.1 All occupational pension schemes are required to operate an IDRPs. The LGPS has a 2-stage procedure. Stage 1 appeals, which relate to employer decisions or actions, are considered by a person specified by each employer to review decisions (the 'Adjudicator'). Stage 1 appeals relating to appeals against administering authority decisions or actions are considered the Pension Fund Manager. Stage 2 appeals are considered by WYPF.

### **Stage 1 appeals against the fund**

No appeals currently outstanding.

### **Stage 1 appeals against scheme employers**

One appeal decision in this period. One appeal currently outstanding.

| Date of appeal | Reason for appeal                                   | Current position /Outcome  | Date decision letter sent |
|----------------|---|--|---------------------------|
| 13/2/2019      | Appeal against being refused an ill health pension. | Referred to GLL as scheme employer. No copy of decision letter received – being chased up. |                           |
| 28/6/2019      | Appeal against being refused an ill health pension. | Referred to LCC as scheme employer. Turned down.   | 27/8/2019                 |
| 31/7/2019      | Appeal against service details.                     | Referred to LCC as scheme employer.  |                           |
| 3/7/2019       | Appeal against overpayment of pension.              | Referred back to WYPF to contact employer to clarify how                                   | 1/8/2019                  |



|  |  |  |  |
|--|--|--|--|
|  |  | they intend to proceed with the overpayment. |  |
|--|--|--|--|

### **Stage 2 appeals**

| <b>Date application received</b> | <b>Reason for appeal</b>  | <b>Current position/Outcome</b> | <b>Date decision letter sent</b> |
|----------------------------------|---|---------------------------------|----------------------------------|
| 4/5/2019                         | Reason for employment terminating / access to unreduced benefits. | Turned down.                    | 2/8/2019                         |
| 23/9/2019                        | Maladministration - Incorrect ABS                                 | Being worked on.                |                                  |

### **Ombudsman**

#### 4.2 One case outstanding

| <b>Date application received</b> | <b>Details of complaint</b>  | <b>Current position/outcome</b>   | <b>Date complete</b> |
|----------------------------------|--|---|----------------------|
| 29/1/2019                        | Appeal against employer decision of employer not to waive the 'rule of 85' to allow unreduced benefits to be paid. | Turned down. Ombudsman is satisfied that LCC decisions made were in accordance with regulations and discretionary policy. | 13/8/2019            |
| 5/7/2019                         | Appeal against service used in pension calculation.  | Being dealt with by LCC Legal. Information provided to them. Further information provided to LCC Legal in September.      |                      |

## **5.0 Administration Update**

### 5.1 Trivial Commutation

Work has started on giving members the option to commute their trivial pension for a one off lump sum payment. Members who have a pension of under £500 per annum have been targeted in the first instance. Two hundred and thirty six members fall into this category.

## **6.0 Current Technical Issues**

See Appendix 3

## **7.0 Shared service Budget**

### 7.1 Shared Service spend

Projected spend of £6.73m against budget of £7.71m, underspend of £0.97m. Main change from period 4 to 6 is mainly due to allocation of some actuary costs to pension admin to separate out employer and member technical work from strategic and valuation work. There is a contingency provision of £0.87m to fund cost of restructure.

- 7.2 Actuary cost relating to work on members' processes across our shared service offering including review of ABS, data and cost of restructure. Cost relating to valuation and employer related work is not included in Pension administration.

| WYPF PENSION ADMIN                       | 2019/20           | 2019/20           | 2019/20           | 2019/20                 |
|--|-------------------|-------------------|-------------------|-------------------------|
|  | Estimate          | Forecast PD04     | Forecast PD06     | Variance (Est vs Frcst) |
|  | £                 | £                 |                   | £                       |
| <b><u>Expenditure</u></b>                |                   |                   |                   |                         |
| Accommodation                            | 227,960           | 314,460           | 314,460           | -86,500                 |
| Actuarial Costs                          | 0                 | 0                 | 164,810           | -164,810                |
| Computer Costs                           | 548,070           | 531,430           | 453,490           | 94,580                  |
| Employee Costs                           | 5,277,900         | 5,642,060         | 5,643,820         | -365,920                |
| Internal Recharges from Bradford Council | 203,150           | 241,750           | 211,200           | -8,050                  |
| Printing and Postage                     | 502,810           | 648,700           | 658,580           | -155,770                |
| Other Running Costs                      | 82,710            | 130,090           | 162,680           | -79,970                 |
| Transaction costs                        | 0                 | 0                 | 0                 | 0                       |
| DEPARTMENTAL SUPPORT COST                | 0                 | -884,290          | -873,660          | 873,660                 |
| CONTINGENCY                              | 865,740           | 0                 | 0                 | 865,740                 |
|  | <b>7,708,340</b>  | <b>6,624,200</b>  | <b>6,735,380</b>  | <b>972,960</b>          |
| <b><u>Income</u></b>                     |                   |                   |                   |                         |
| WYPF                                     | -5,645,810        | -6,454,003        | -6,565,183        | 919,373                 |
| Shared Service Income                    | -2,012,530        | -10,197           | -10,197           | -2,002,333              |
| Other income                             | -50,000           | -160,000          | -160,000          | 110,000                 |
| <b>WYPF PENSION ADMIN</b>                | <b>-7,708,340</b> | <b>-6,624,200</b> | <b>-6,735,380</b> | <b>-972,960</b>         |

- 7.2 Lincolnshire projected shared service charges

| Pension Admin Breakdown Per member | members 2019/20 | Forecast Pd 08 2018/19 | Final 2018/19 | Draft Budget 2019/20 | PD04 2019/20 | PD06 2019/20 |
|------------------------------------|-----------------|------------------------|---------------|----------------------|--------------|--------------|
| Cost per member                    |                 | £14.58                 | £15.01        | £16.25               | £15.84       | £16.11       |
| Lincolnshire                       | 77,386          | £1,128,508             | 77,042        | £1,252,310           | £1,220,495   | 1,240,980    |

## Conclusion

WYPF and LPF continue to work closely as shared service partners to provide an efficient and effective service to all stakeholders within the Lincolnshire Pension Fund.

## Appendices

|   |                           |
|---|---------------------------|
| These are listed below and attached at the back of the report |                           |
| Appendix 1  | Customer survey results   |
| Appendix 2  | Employer Feedback summary |
| Appendix 3  | Current Issues            |

## Consultation

### a) Have Risks and Impact Analysis been carried out??

Yes

### b) Risks and Impact Analysis

The Pension Fund has a risk register which can be obtained by contacting the Pensions Manager.

## Background Papers

No background papers within Section 100D of the Local Government Act 1972 were used in the preparation of this report.

This report was written by Yunus Gajra, who can be contacted on 01274 432343 or [yunus.gajra@wypf.org.uk](mailto:yunus.gajra@wypf.org.uk).

This page is intentionally left blank

**Customer Survey Results - Lincolnshire Members  
(1<sup>st</sup> July to 30<sup>th</sup> September 2019)**

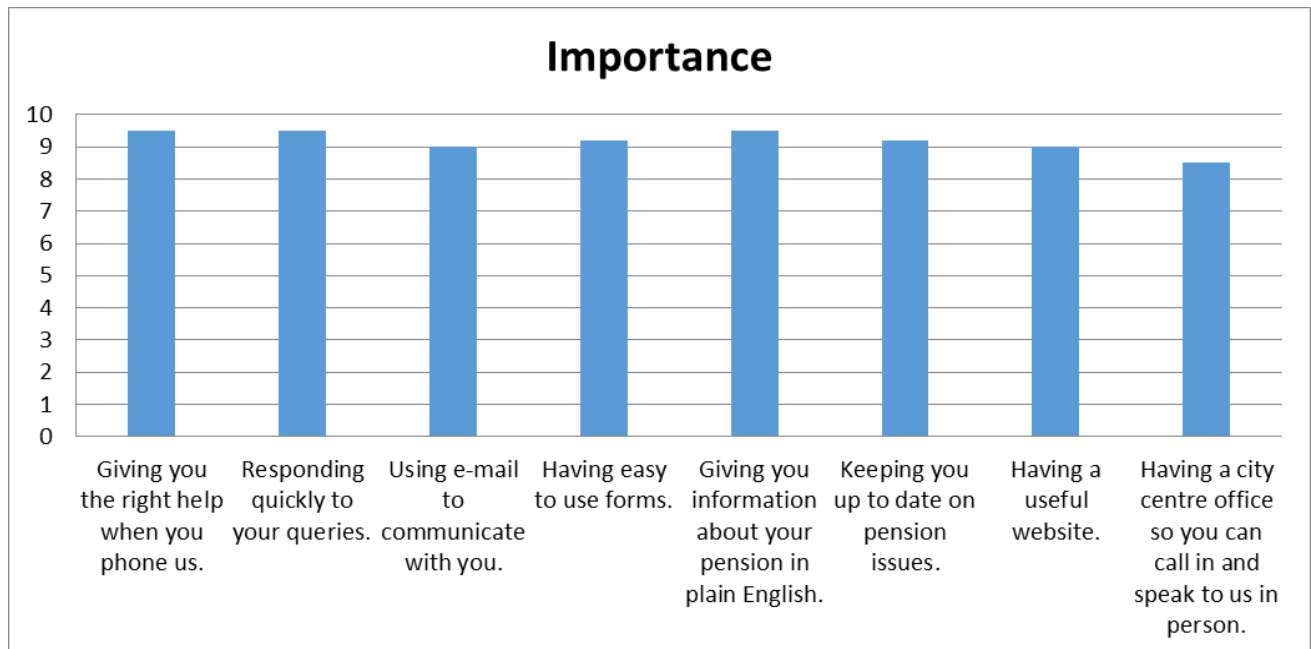
Over the quarter July to September we received **2** online customer responses.

Over the quarter July to September **190** Lincolnshire member's sample survey letters were sent out and **25 (13.2%)** returned:

Overall Customer Satisfaction Score;

| July to September 2018 | October to December 2018 | January to March 2019 | April to June 2019 | July to September 2019 |
|------------------------|--------------------------|-----------------------|--------------------|------------------------|
| 81.6%                  | 81%                      | 81.3%                 | 83.5%              | 87.9%                  |

The charts below give a picture of the customers overall views about our services;



**Sample of positive comments:**

| <b>Member Number</b> | <b>Comments</b>  |
|----------------------|--|
| 8059637              | Excellent, the pension claim was smooth.<br>My first email enquiry about my pension was dealt promptly and as far as my employer had confirmed my retirement, receipt of lump sum was very quick.<br>Thank you   |
| 811510               | Having had electronic paper and written communications with WYPF recently, everything I have been asked for has been provided as early and promptly possible.<br>Excellent verbal communication from staff who I have been spoken to on the telephone. |
| 8097404              | Very speedy hassle free service.<br>I only contacted you twice after you contacted me. I wish all services were this easy. Outstanding.  |
| 8121114              | Competent and professional with clear communications in writing and over the telephone with most pension jargon explained. Took bit longer what I anticipated.<br>Cheryl Jepson was particularly helpful.  |
| Online               | Efficient, clear to understand figures and provided within 3 weeks which is acceptable.<br>I have no bad comments to make about how I was treated, I were given a timescale which was adhered to, so I can only praise how I were dealt with.          |

## Complaints/Suggestions:

| Member Number | Comments   | Corrective/ Preventive Actions   |
|---------------|--|--|
| 8018848       | <p>It has not been the best experience I am afraid.</p> <p>It has a big decision to retire early. Trying to get a figure for my pension forecast was slow, laborious and long waited. Very unhelpful when I tried to phone except for one nice lady. It seemed that even though it was my money we were telling about WYPF were reluctant to give me a figure. Sorry but there is a huge scope for improvement. One lady I spoke to was so grumpy that it push me off ringing again. Perhaps that is the reason why she answers the phone to put people off.</p> | <p>Response sent by Dipika;</p> <p>Thank you for taking time to complete and return our customer survey.</p> <p>I am sorry that you are not completely happy with the service that West Yorkshire Pension Fund (WYPF) has provided.</p> <p>I have reviewed your pension record and note you were asked to request an estimate via your employer.</p> <p>Before members make a decision to retire we ask members to contact their employer to request an estimate of benefits on the member's behalf. The employer is able to provide us with the accurate pay figures we need to calculate member's pension benefits.</p> <p>Unfortunately, there was some delay in updating your account with the monthly postings before the 2019 ABS could be issued. As soon as this was identified, it was put right and your 2019 ABS issued.</p> <p>I note your comments about how you felt regarding the level of service you received when you telephoned our offices. I would like to apologise for this as WYPF aim to provide our members with a good service.</p> <p>Your comments have been noted and will be reviewed by our senior management team during the next review of customer service.</p> <p>Please contact me if I can be of any further assistance.</p> |

This page is intentionally left blank



**Employer Feedback  
Quarter 3 July – September 2019**

**Ill Health – July 2019****Feedback score:**

**LPF            96.09%**

| <b>Comment</b>   | <b>Action taken</b>    |
|--|------------------------|
| Possibly some 'live' cases where we need to discuss possible options and outcomes. Maybe the ombudsman ones could be done without knowing the outcome? | Passed to course owner |
| Possible reference to actual LGPS regulations  | Passed to course owner |

**A summary of the compliments**

- Course structure and pace was good
- Very interesting course. Covered all the questions I had regarding ill health. Course material and packs excellent as always
- The workshops are always run smoothly and kept to timescales

**Employer Responsibilities – September 2019****Feedback score:**

**LPF            98.53%**

| <b>Comment</b> | <b>Action taken</b> |
|----------------|---------------------|
| None recorded  |                     |

**A summary of the compliments**

- Was very interesting and learnt a lot for things we need to do as an employer
- An excellent workshop, very thorough and clear - lots to take back to work!
- Good content and hand-outs, left with more knowledge

This page is intentionally left blank

## Current Issues

### 1) Actuarial guidance review update

MHCLG have issued a revised version of the actuarial factor spreadsheet – the updated version now includes factors for:

- annual allowance scheme pays
- inverse commutation
- conversion of AVCs to transfer credits
- conversion of accumulated AVCs for added pension (pre 2014)
- conversion of accumulated AVCs for added pension (post 2014).

The factors took effect from **21 June 2019**.

### 2) Annual allowance scheme pays

There has been a change in methodology and new actuarial guidance has been issued to reflect this change. There has also been a change from earlier versions of the guidance in that only a single factor table is included in the current version i.e. scheme pays factors for calculating the pension offset for a member who is not retiring immediately and who is under their Normal Pension Age (NPA).

### 3) Ill health certificates updated

A revised version of the ill health certificates have been published. The certificates are updated to include:

- the updates made by the LGPS (Amendment) Regulations 2018 [SI 2018/493],
- changes to the State Pension age, and
- a number of other minor corrections.

### 4) SCAPE discount rate – impact on actuarial guidance – update

MHCLG has recently issued revised late retirement guidance. The new guidance and factors are effective from 1 September 2019. The new methodology removes the 'cliff edge' effect which reduced the value of LGPS benefits held by members who were over their Normal Pension Age (NPA) when the factors last changed in January 2017.

We expect a revised version of the guidance to be published in the coming weeks.

### 5) Survivor guide published

LGPC have recently published a technical guide covering survivor benefits in the LGPS. The guide sets out the LGPC Secretariat's understanding of the membership that is used to calculate survivor benefits. The guide reflects the changes in survivor

benefits for civil partners and the spouses of same-sex marriages, brought about by the LGPS (Miscellaneous Amendment) Regulations 2018.

MHCLG plans to introduce statutory guidance for administering authorities, in respect of past trivial commutation and transfer payments that are affected by the change in survivor benefits for civil partners and same sex spouses.

## **6) Good governance project - update**

As you are aware, the Scheme Advisory Board (SAB) had published their Good Governance Report on 31 July 2019. Hymans Robertson project team will assist SAB in taking forward the next stage of the project. Two working groups will be established to:

- define what is meant by good governance outcomes and provide the accompanying guidance, and
- focus on options for the independent assessment of outcomes and the mechanisms to improve the delivery of those outcomes.

Both groups will comprise of a variety of stakeholders to ensure a wide range of views and options are considered. The aim is for an options report to be ready for consideration by SAB in November 2019. Any proposals agreed by SAB will be subject to a full stakeholder consultation before being put to MHCLG. Details of both working groups will be published on the SAB website in due course.

## **7) Consultation: Exit payments cap – update**

As you are aware, HM Treasury (HMT) had launched a consultation called 'Restricting exit payments in the public sector: consultation on implementation of the regulations'. The consultation closed on 3 July 2019.

HMT received approximately 600 responses, and it is likely they will publish their response in the autumn of 2019. We understand that HMT are to introduce the cap no sooner than 1 April 2020.

## **8) Consultation on changes to TPO – Government response published**

On 19 December 2018 the government published a consultation seeking views on proposals for a new function at the Pensions Ombudsman (TPO) for the earlier resolution of disputes prior to a determination; allowing employers to make complaints or refer disputes to TPO on behalf of themselves; and associated signposting provisions.

On 8 August 2019 the government published its response to the consultation. On the whole, responders were supportive of the government's proposals. Going forward, the government will:

- collaborate with HMT and the FCA to ensure the services work to support the best interests of parties that will use those services, and
- bring forward legislation to provide a framework for the proposals.

Any amendments to signposting requirements will need to be set out in secondary legislation. If needed, draft regulations will follow on from the necessary primary legislation.

## **9) Tailored review of TPO – outcome published**

In November 2018 DWP led a tailored review (last review 2014) of The Pensions Ombudsman (TPO) to ensure that the body remains fit for purpose, well governed and properly accountable for what it does. The government published the outcome of this review on 27 August 2019. Findings indicated that:

- TPO is a well-respected and effective organisation.
- there was strong support from all consulted stakeholders for the quality, clarity and impartiality of its determinations on pension disputes.
- there was improvement to case clearance times, whilst embracing an ambitious internal change agenda.

Areas identified for improvement include:

- developing the governance and performance framework for the organisation to reflect the increasing size, complexity and maturity of its work.
- ensuring that both DWP and TPO take a more robust approach to scoping and tracking efficiencies. This is expected to yield from the investment TPO has received in its digital infrastructure and the potential to more radically streamline case handling.
- building on the outward facing engagement to position TPO more strategically, working with other relevant organisations to enhance the impact on raising standards more broadly in pensions administration.

The next tailored review will take place in around five years' time and should consider the progress made against the recommendations of this review.

This page is intentionally left blank



## Regulatory and Other Committee

### Open Report on behalf of Andrew Crookham, Executive Director – Resources

|            |  |
|------------|--|
| Report to: | <b>Pensions Committee</b>                  |
| Date:      | <b>09 January 2020</b>                     |
| Subject:   | <b>Employer Monthly Submissions Update</b> |

#### Summary:

This paper provides the Committee with up to date information on Employer Monthly Submissions for the second quarter of the financial year 2019/20 (July to September).

#### Recommendation(s):

The Committee note the report and consider if there are any further actions they wish to take against employers submitting late or inaccurate payments or data.

#### Background

1. There are just under 270 employers within the Lincolnshire Pension Fund. All employers have a statutory responsibility, as set out within the Pensions Act 1995, to ensure that they pay over any contributions due to the Fund by the 19th of the month following their payroll. The Fund considers an employer a 'late payer' if either the cash and/or the data is received after this date.
2. Concern was raised by both the Pension Committee and the Pensions Board at their meetings in October 2019 about the continuing number of employers submitting late or incorrect data and contributions. Officers agreed to review the Fund's arrangements for monitoring contributions and report back to the Committee and Board. In reviewing arrangements the following actions have been taken:
  - The Fund has enquired with other funds as to the processes they have in place to monitor contributions – the Fund remains content that our processes are robust and at least as comprehensive as other funds.
  - The Chair of the Pensions Board has written to all employers and payroll providers, in November, reminding them of their statutory responsibilities for providing information to the Pension Fund.

- The Fund has revisited internal processes to ensure that these remain focussed and robust. From this review we have: revisited and clarified responsibilities between the Fund and West Yorkshire, as the Funds administrator, to ensure that tasks are being completed in the right place and on a timely basis. Standard communications issued to employers have also been reviewed, to ensure they are clear, and that they understand exactly what error has occurred and the action required to correct it.
  - The Fund has revisited its escalation processes to ensure that any issues are addressed at the earliest opportunity. Employers submitting late information are reviewed monthly within the Pensions Team. Repeat offenders are referred to the West Yorkshire Pension Fund Representatives who contact them to offer advice and see if any further training is required. The Head of Pensions will also consider the need to contact the employer's strategic contact to further escalate the matter.
- 3 The Fund continues to monitor the receipt of payments and data from employers each month. Within the Pensions Team, the Finance Technician post is responsible for monitoring employer contributions, checking the timeliness of submissions and accuracy at a high level. Additional checks are also undertaken by the West Yorkshire Finance Team on the detail within the data submissions (such as employer contribution rates), and the pensions system itself identifies errors, queries, or where further information is required from the employer (e.g. additional leavers' information).
  - 4 After any late payment (including data submission) an email is sent to the employer reminding them of their responsibilities. In addition to emailing employers, the Fund and West Yorkshire Finance Team are in regular contact with employers and their payroll providers to prompt payments/data submissions and clarify any queries. Much work has been put into building a good relationship with the employers and payroll providers, to assist in understanding the process and the data required.
  - 5 A summary of all late contributions or data submissions since April 2019 is set out in table one below.

**Table One: Late contributions and data submissions to September 2019**

| Month                    | Payment of Contributions |            | Submission of Data |            |
|--------------------------|--------------------------|------------|--------------------|------------|
|                          | Count                    | Percentage | Count              | Percentage |
| <i>April</i>             | 6                        | 2.3%       | 14                 | 5.3%       |
| <i>May</i>               | 3                        | 1.1%       | 10                 | 3.8%       |
| <i>June</i>              | 3                        | 1.1%       | 23                 | 8.7%       |
| July                     | 9                        | 3.4%       | 15                 | 5.7%       |
| August                   | 6                        | 2.3%       | 12                 | 4.5%       |
| September                | 3                        | 1.1%       | 11                 | 4.2%       |
| <b>Total for 2019/20</b> | <b>30</b>                |            | <b>85</b>          |            |



- 6 The analysis shows the number of employers making late contributions is a relatively small percentage of the overall number of employers. A higher number of employers submit their data returns late, or have made an incorrect submission by the deadline date (i.e. their data contains errors, or does not agree to the contributions paid across). The main reasons for late payments in the quarter relates to changes in payroll staff at employers and employers changing payroll provider.
- 7 None of these breaches individually have been material and therefore have not been reported to the Pensions Regulator; however, they have been included en masse in the breaches register.
- 8 If any employer makes contribution payments or submits data late in three out of six months on a rolling basis, they will receive a fine, unless they are able to offer extenuating circumstances. Fines are currently set at a minimum of £136. Table two below sets out the number of fines issued since April 2019. Details of the individual employers fined in quarter one can be found at **Appendix A**.

**Table Two: Late contributions fines to September 2019**

| April | May | June | July | August | September |
|-------|-----|------|------|--------|-----------|
| 2     | 2   | 5    | 4    | 3      | 3         |

## **Conclusion**

- 9 This report provides quarterly monitoring information on the timeliness and accuracy of employer submissions to help the Pensions Committee understand if there are any issues arising from late payments or data and any further actions which are required to address employers not meeting their statutory responsibilities.
- 10 Employer submissions have increased in prominence as the number of employers within the scheme has increased. The Fund has responded to this by having a dedicated resource to monitor employer submissions and working closely with West Yorkshire and employers to reduce the numbers of late payers.
- 11 The Fund has reviewed its processes for contribution monitoring to ensure that they remain robust and appropriate.

## **Consultation**

### **a) Have Risks and Impact Analysis been carried out?**

Yes

## **b) Risks and Impact Analysis**

The Pension Fund has a risk register which can be obtained by contacting the author of this report.

### **Appendices**

|   |  |
|---|--|
| These are listed below and attached at the back of the report |  |
| Appendix A  | Late Contribution Fines July to September 2019 |

### **Background Papers**

No Background Papers within the meaning of section 100D of the Local Government Act 1972 have been used in the preparation of this Report.

This report was written by Claire Machej, who can be contacted on 01522 553641 or [claire.machej@lincolnshire.gov.uk](mailto:claire.machej@lincolnshire.gov.uk).

**Late contributions fines July to September 2019****July 2019**

| <b>Employer</b>                  | <b>Late Submissions</b>  |
|----------------------------------|--|
| Aspens                           | Late Payment: April 2019, May 2019, June 2019 and July 2019  |
| Crowland Parish Council          | Late Data and Payment: March 2019 and April 2019<br>Payment and Data do not match: June 2019 and July 2019 |
| St Lawrence Acaedemy, Horncastle | Late Data: May 2019<br>Payment and Data do not match: March 2019 and July 2019                             |
| Springwell Academy               | Payment and Data do not match: February 2019, June 2019 and July 2019                                      |

**August 2019**

| <b>Employer</b>                  | <b>Late Submissions</b>   |
|----------------------------------|---|
| Aspens                           | Late Payment: April 2019, May 2019, June 2019, July 2019 and August 2019                    |
| Banovallum Academy, Honcastle    | Payment and Data do not match: June 2019, July 2019 and August 2019                         |
| St Lawrence Acaedemy, Horncastle | Late Data: May 2019<br>Payment and Data do not match: March 2019, July 2019 and August 2019 |

**September 2019**

| <b>Employer</b>          | <b>Late Submissions</b>   |
|--------------------------|---|
| Boston High School       | Payment and Data do not match: July 2019, August 2019 and September 2019                |
| Thomas Cowley Academy    | Late Payment: April 2019<br>Payment and Data do not match: July 2019 and September 2019 |
| Cranwell Primary Academy | Late Data: June 2019<br>Payment and Data do not match: July 2019 and September 2019     |

This page is intentionally left blank

## Regulatory and Other Committee

### Open Report on behalf of Andrew Crookham, Executive Director – Resources

|            |                                     |
|------------|-------------------------------------|
| Report to: | <b>Pensions Committee</b>           |
| Date:      | <b>09 January 2020</b>              |
| Subject:   | <b>Investment Management Report</b> |

#### Summary:

This report covers the management of the Lincolnshire Pension Fund assets over the period from 1 July 2019 to 30 September 2019.

The report covers:

1. Fund Summary – Asset Allocation and Performance
2. Hymans Robertson Manager Ratings
3. Individual Manager Updates

#### Recommendation(s):

That the Committee note this report.

## Background

### 1. Fund Summary – Asset Allocation and Performance

- 1.1 Over the period covered by this report, the value of the Fund increased in value by £57.0m (2.3%) to £2,514.2m on 30 September 2019.

#### Asset Allocation

- 1.2 The Fund's overall position relative to its benchmark is set out in the table over the page. The most significant movements in the quarter were seen on global equities (-8.8% or -£98.9m) and Fixed Income (+50.2% or £144.1m). During September the Fund rebalanced global equities, by transferring £134m from Morgan Stanley Global Brands to fixed income (Blackrock Interim). This was to address the overweight position in global equities and the underweight position in fixed income seen in the previous quarter. At the end of September the remaining global equity holdings with Columbia Threadneedle, Schroders and Morgan Stanley Global Brands were transitioned into the Border to Coast Global Equity Alpha Fund.

| Asset Class     | Q3 2019<br>£m  | Q2 2019<br>£m  | Asset<br>Allocation<br>% | Strategic<br>Asset<br>Allocation<br>% | Difference<br>% |
|-----------------|----------------|----------------|--------------------------|---------------------------------------|-----------------|
| UK Equities     | 449.4          | 443.7          | 17.9                     | 18.0                                  | (0.1)           |
| Global Equities | 1,026.8        | 1,125.7        | 40.8                     | 40.0                                  | 0.8             |
| Alternatives    | 342.7          | 338.0          | 13.6                     | 15.0                                  | (1.4)           |
| Property        | 202.8          | 202.2          | 8.1                      | 9.0                                   | (0.9)           |
| Infrastructure  | 47.7           | 47.6           | 1.9                      | 2.5                                   | (0.6)           |
| Fixed Income    | 431.2          | 287.1          | 17.2                     | 15.5                                  | 1.7             |
| Cash            | 13.5           | 12.8           | 0.5                      | 0.0                                   | 0.5             |
| <b>Total</b>    | <b>2,514.2</b> | <b>2,457.2</b> |                          | <b>100.0</b>                          |                 |

1.3 Appendix A shows the Fund's distribution as at 30 September. At the end of September, following the asset changes described at paragraph 1.2 above, the Fund reviewed its Strategic Asset Allocations and has been able to amend the benchmarks for the following asset classes in line with the previous decisions by the Committee (in October 2018 and June 2019):

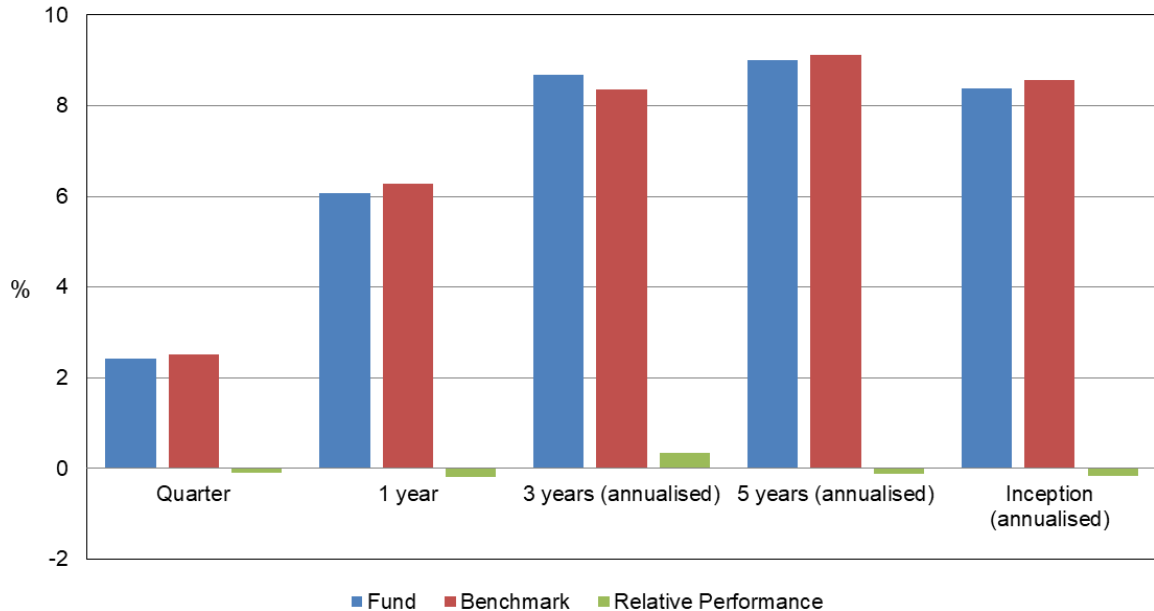
- A reduction in the UK Equities Benchmark from 20% to 18% (the ultimate target benchmark is 15%); and
- An increase in Fixed Income Benchmark from 13.5% to 15.5% (ultimate target is: 7.5% to Investment Grade Credit, 5.0% to Passive Index Linked Gilts and 3.5% to Multi Asset Credit).

1.4 Future transitions to the new Investment Grade Credit (7.5%) and Multi Asset Credit (3.5%) Sub-Funds with Border to Coast are planned for 2020. These will be funded from the current Blackrock Interim holding.

1.5 As at 30 September, at a portfolio level, Blackrock Interim (+1.25%) had breached its tolerance levels. At asset class level fixed income (+0.2%) had also breached its tolerance level. Rebalancing will not generally be undertaken ahead of the transitions to Border to Coast. Holdings in this fund/asset class will be transitioned into the Border to Coast Investment Grade Credit and Multi Asset Credit Sub-funds in 2020.

## Fund Performance

- 1.6 The graph and table below shows the Fund's performance against the benchmark over the quarter, one year, three years, five years and since inception. The Fund has a target to outperform the strategic benchmark by 0.75% per annum.



|             | Fund % | Benchmark % | Relative Performance % |
|-------------|--------|-------------|------------------------|
| Quarter     | 2.42   | 2.52        | (0.11)                 |
| 1 year      | 6.08   | 6.27        | (0.19)                 |
| 3 years*    | 8.69   | 8.36        | 0.33                   |
| 5 years*    | 9.00   | 9.11        | (0.11)                 |
| Inception** | 8.39   | 8.56        | (0.17)                 |

\*Annualised from Yr 3. \*\*Since Inception figures are from March 1987

- 1.7 Over the quarter, the Fund produced a return of 2.42% (as measured by Northern Trust), underperforming the benchmark by 0.11%. The Fund was also behind the benchmark over the one and five year periods and since inception, but ahead of the benchmark by 0.33% over the 3 year period.
- 1.8 Appendix B shows the market returns over the three and twelve months to 30 September 2019.

## 2. Hymans Robertson Manager Ratings

- 2.1 Hymans Robertson, as the Fund's Investment Consultant, regularly meets managers to discuss current issues, management changes and performance. Each manager is then allocated one of four ratings between negative and preferred. The table below shows Hymans Robertson's rating for managers appointed by the Lincolnshire Pension Fund.
- 2.2 During the quarter there have not been any changes to manager ratings. Officers continue to monitor managers closely and arrange meetings to discuss any potential issues.

| Manager                                | Rating    |          |          |          |           |
|--|-----------|----------|----------|----------|-----------|
|  | No Rating | Negative | Suitable | Positive | Preferred |
| Invesco Global Equities (Ex-UK)        |           |          | X        |          |           |
| Columbia Threadneedle Global Equity    |           |          |          | X        |           |
| Schroders Global Equity                |           |          |          | X        |           |
| Morgan Stanley Global Brands           |           |          | X        |          |           |
| Morgan Stanley Alternative Investments |           |          | X        |          |           |
| Blackrock Fixed Interest               |           |          |          | X        |           |
| Aviva Pooled Property Fund             |           |          | X        |          |           |
| Standard Life Pooled Property Fund     |           |          | X        |          |           |
| Blackrock Property                     |           |          | X        |          |           |
| Infracapital Greenfield Partners I     |           |          |          | X        |           |
| Pantheon Global Infrastructure         |           |          |          |          | X         |

## 3. Individual Manager Update

- 3.1 The manager index returns for equity, fixed interest and alternative managers are shown in the table over the page. A detailed report on each manager outlining the investment process, performance, purchases and sales can be found after the table at 3.2.
- 3.2 Over the quarter, only one manager showed a positive return relative to their benchmark, Morgan Stanley Alternatives. Invesco, Columbia Threadneedle, Schroders, Morgan Stanley Global Brands and Blackrock Interim were behind their benchmarks, whilst Legal and General and Blackrock (fixed Interest) matched their benchmarks.



## Manager Performance

| Manager                                  | 3 months ended 30 Sept 2019 |                |                  | Previous 12 months |                      |                      | Since Inception** |                |                      | Target p.a.<br>% |
|--|-----------------------------|----------------|------------------|--------------------|----------------------|----------------------|-------------------|----------------|----------------------|------------------|
|  | Manager Return %            | Index Return % | Manager Return % | Index Return %     | Relative Variance %* | Relative Variance %* | Manager Return %  | Index Return % | Relative Variance %* |                  |
| Legal & General (UK Equities)            | 1.2                         | 1.2            | 0.0              | 2.8                | 2.8                  | 0.0                  | 5.5               | 5.3            | 0.1                  | Match Index      |
| Invesco (Global Equities (ex UK))        | 2.9                         | 4.0            | (1.0)            | 3.9                | 8.1                  | (3.9)                | 10.1              | 9.5            | 0.6                  | +1.0             |
| Columbia Threadneedle (Global Equities)  | 3.0                         | 3.4            | (0.4)            | 11.9               | 7.9                  | 3.8                  | 11.4              | 10.0           | 1.3                  | +2.0             |
| Schroders (Global Equities)              | 2.1                         | 3.3            | (1.1)            | 6.4                | 7.3                  | (0.8)                | 10.3              | 10.7           | (0.3)                | +3.0             |
| Morgan Stanley Global Brands             | 2.9                         | 3.8            | (0.9)            | 15.7               | 7.8                  | 7.3                  | 16.1              | 14.7           | 1.2                  | n/a              |
| Blackrock (Fixed Interest)               | 5.7                         | 5.7            | 0.0              | 13.9               | 13.8                 | 0.0                  | 7.6               | 7.5            | 0.1                  | Match Index      |
| Blackrock Interim (Fixed Interest)       | 1.0                         | 1.1            | (0.1)            | 3.7                | 3.7                  | 0.0                  | 1.6               | 1.6            | 0.1                  | Match Index      |
| Morgan Stanley (Alternative Investments) | 2.1                         | 1.2            | 0.9              | 6.6                | 4.9                  | 1.5                  | 4.8               | 4.9            | (0.1)                | 3M LIBOR + 4%    |

\*Relative Variance is the scale of the performance achieved. This measures the proportional out/under performance of a portfolio relative to the benchmark.

\*\*Since Inception performance figures are annualised

**Lincolnshire Pension Fund**  
**Global Equities – Invesco (Global Ex UK Enhanced)**  
**Quarterly Report September 2019**

**Investment Process**

This portfolio is mandated to track the MSCI World ex UK Index, with a performance target of +1% and a tracking error of 1%. The aim is to achieve long-term capital growth from a portfolio of investments in large-cap global companies. Active performance is generated through a quantitative bottom-up investment process, driven by stock selection and based on four concepts: Earnings Expectations, Market Sentiment, Management & Quality and Value.

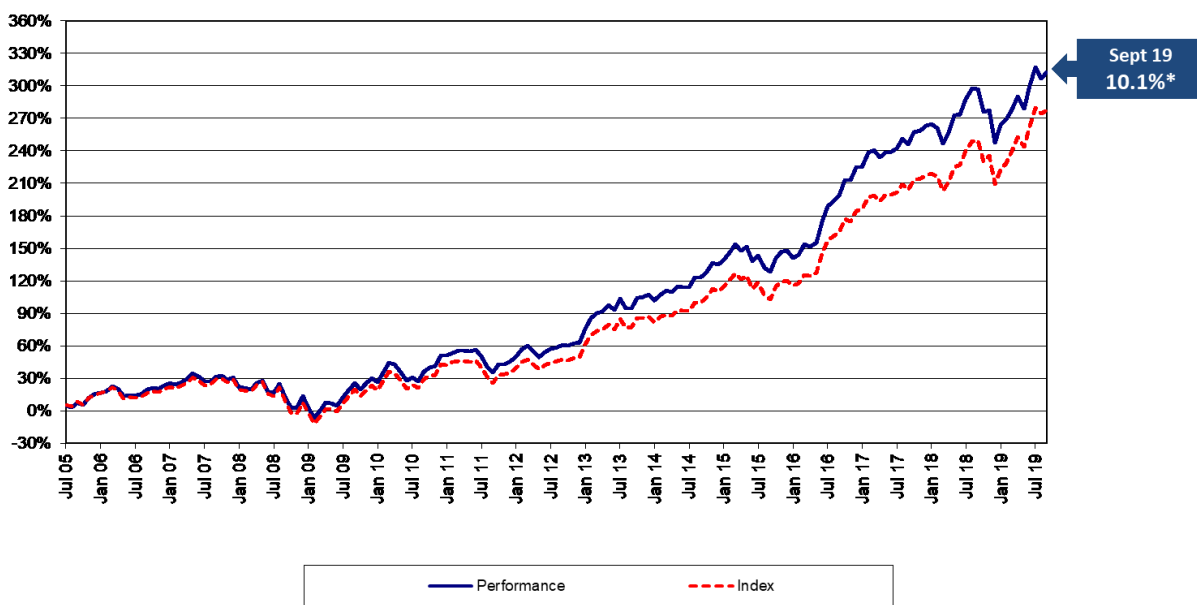
**Portfolio Valuation**

|                   |                   |
|-------------------|-------------------|
| Value at 30.06.19 | Value at 30.09.19 |
| £578,157,999      | £596,278,554      |

**Performance**

In this quarter the strategy underperformed its benchmark. The relative performance is based on different aspects: from a factor perspective, performance continued to be negatively impacted by weak returns from the Value factor. Despite a strong recovery in the first half of September, Value detracted significantly over the third quarter. On the other hand, Momentum was able to offset somewhat and added to active performance. Quality was able to contribute positively as well. Implied active sector weights had in total no significant impact on the active return, where slightly negative contributions from overweights in IT stocks were offset by positive contributions from underweights in materials stocks. Contributions from countries and currencies, a residual of the stock selection, had no significant influence on the relative performance as well. Impact from other factors was slightly negative, mainly driven by the exposures to stocks with a smaller average market capitalisation.

**Invesco Performance Since Inception**



\* Annualised Manager Performance since inception

|                      | Quarter % | 1 Year % | 3 Year* % | 5 Year* % | Inception<br>* % |
|----------------------|-----------|----------|-----------|-----------|------------------|
| Invesco              | 2.9       | 3.9      | 11.4      | 13.1      | 10.1             |
| MSCI World ex UK     | 4.0       | 8.1      | 12.5      | 13.6      | 9.6              |
| Relative Performance | (1.0)     | (3.9)    | (1.0)     | (0.4)     | 0.6              |

\* annualised, inception date 01/07/2005

## Turnover

| Holdings at<br>30.09.19 | Holdings at<br>30.06.19 | Turnover in Qtr<br>% | Turnover in<br>Previous Qtr % |
|-------------------------|-------------------------|----------------------|-------------------------------|
| 493                     | 417                     | 17.10                | 13.20                         |

## Purchases and Sales

During the last quarter, a number of stock adjustments were made to the portfolio as a result of the stock selection process. American Tower, Woolworths and SBA Communications were added, with trade weights of 0.34%, 0.27% and 0.26%, respectively. Furthermore, positions in Novartis and Home Depot were increased, with trade weights of 0.55% and 0.26%, respectively. On the other side, positions in L'Oreal, Kering, Roche, Starbucks and Aflac were decreased, with trade weights of 0.48%, 0.41%, 0.37%, 0.37% and 0.35%, respectively.

## Largest Overweights

|           |       |
|-----------|-------|
| Citigroup | 0.69% |
| Roche     | 0.67% |
| Peugeot   | 0.63% |
| Mitsui    | 0.58% |
| Starbucks | 0.52% |

## Largest Underweights

|             |         |
|-------------|---------|
| Salesforce  | (0.32%) |
| Toyota      | (0.31%) |
| Wells Fargo | (0.31%) |
| Netflix     | (0.30%) |
| Walt Disney | (0.30%) |

\* Measured against MSCI World ex UK (NDR)

## Top 10 Holdings

|   |                  |             |
|---|------------------|-------------|
| 1 | Microsoft        | £17,086,937 |
| 2 | Apple            | £15,876,189 |
| 3 | Alphabet         | £10,159,424 |
| 4 | Amazon           | £9,777,612  |
| 5 | Procter & Gamble | £7,680,109  |

|    |                 |            |
|----|-----------------|------------|
| 6  | Roche           | £6,986,893 |
| 7  | Citigroup       | £6,472,319 |
| 8  | JP Morgan Chase | £5,962,623 |
| 9  | Facebook        | £5,899,776 |
| 10 | Bank of America | £5,702,365 |

## Hymans Robertson View

Invesco has announced that Chief Investment Officer of the Henley Investment Centre, Nick Mustoe will be stepping down after nine years in the role. He will be succeeded by Stephanie Butcher, who is a European equity portfolio manager. Jennifer Nerlich, former member of the Global Portfolio Analytics team, was promoted as Portfolio Manager. Helena Korczok-Nestorov, whose focus was on portfolio construction and trading, has retired. The portfolio continues to be team-managed.

Hymans Robertson continue to rate Invesco at 'Suitable'.

## Risk Control

The ex-ante tracking error of the fund slightly decreased to 0.93% (ex post target 1%). With 96%, the major part of the active risk was associated with the stock selection factors.

**Lincolnshire Pension Fund  
Global Equities – Schroders  
Quarterly Report September 2019**

**Investment Process**

This portfolio is mandated to outperform the MSCI All Countries World Daily Net Index by 2% to 4% over rolling three year periods, gross of fees. This is achieved through an investment approach that is designed to add value relative to the benchmark through both stock selection and asset allocation decisions. Schroders believe that stock markets are inefficient and they can exploit this by undertaking fundamental research and taking a long term view.

**Portfolio Valuation**

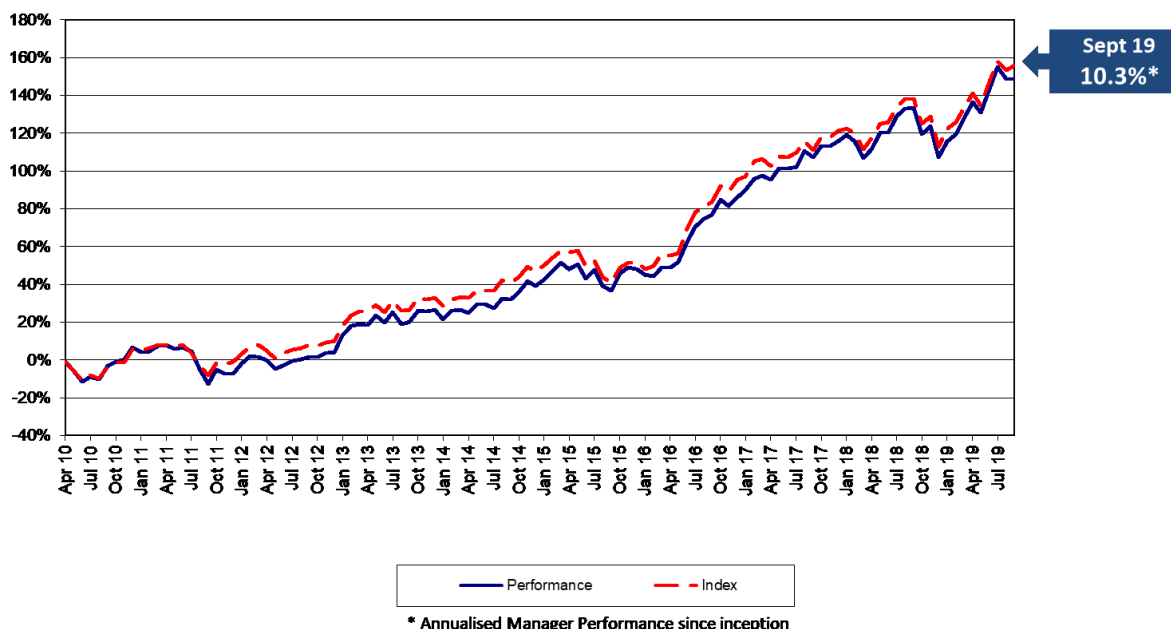
|                   |                   |
|-------------------|-------------------|
| Value at 30.06.19 | Value at 30.09.19 |
| £145,304,605      | £3,284,040        |

Note: This value represents remaining cash holdings following the transition of assets to Border to Coast Global Equity Alpha

**Performance**

The portfolio underperformed the benchmark in this quarter. By sector, positions in financials, industrials and technology detracted the most, the underweight position in the utilities sector also dragged performance. Communication services holdings were supportive. Performance was weak across most major regions in aggregate, with North American names lagging the most. The underweight position in emerging markets was supportive.

**Schroders Performance Since Inception**



|                      | Quarter % | 1 Year % | 3 Year* % | 5 Year* % | Inception * % |
|----------------------|-----------|----------|-----------|-----------|---------------|
| Schroders            | 2.1       | 6.4      | 12.0      | 13.5      | 10.3          |
| MSCI ACWI (Net)      | 3.3       | 7.3      | 11.7      | 12.7      | 10.7          |
| Relative Performance | (1.1)     | (0.8)    | 0.4       | 0.8       | (0.3)         |

\*annualised, Inception date April 2010

## Purchases and Sales

Amongst a number of trades enacted over the quarter Alibaba was purchased. The company's core e-commerce business is performing strongly and margins are likely to improve because of increased cost discipline. The company's most recent results showed strong growth in revenue and customer numbers. Discover Financial was also added after the US owner of Discover Bank and Diners Club International reported strong growth in revenue and profits in the second quarter.

Holdings in International Paper (IP) were sold as the thesis that the paper market would start to consolidate is not playing out. IP was thwarted in its bid to buy Smurfit Kappa Group in Europe and although free cash flows have been stable over the past few years, pricing in the US is now weaker than expected and volatility could increase.

### Top 5 Contributions to Return

|                  |      |
|------------------|------|
| Alphabet Class A | 0.3% |
| Proctor & Gamble | 0.3% |
| Comcast          | 0.2% |
| Home Depot       | 0.1% |
| T-Mobile US      | 0.1% |

### Bottom 5 Contributions to Return

|                 |        |
|-----------------|--------|
| Anthem          | (0.3%) |
| AIA Group       | (0.3%) |
| Apple           | (0.3%) |
| Cabot Oil & Gas | (0.2%) |
| Erste Bank      | (0.2%) |

## Hymans Robertson View

Hymans Robertson continue to rate Schroders Global Alpha at 'Positive'.

The Fund's assets with the manager have been transferred to the Border to Coast Global Equity Alpha Sub-Fund from the end of the quarter.

## Risk Control

The portfolio can have a maximum 10% off-benchmark exposure; any increase in this would require the consent of the Pension Fund.

**Lincolnshire Pension Fund  
Global Equities – Columbia Threadneedle  
Quarterly Report September 2019**

**Investment Process**

The portfolio is designed to outperform the MSCI All Countries World Index by 2% per annum, gross of fees, over rolling three-year periods. The team focus on quality growth companies with high or rising returns on investor capital, and sustained or improving competitive advantage. The focus is on stock selection, with a well-diversified portfolio designed to deliver superior risk adjusted returns.

**Portfolio Valuation**

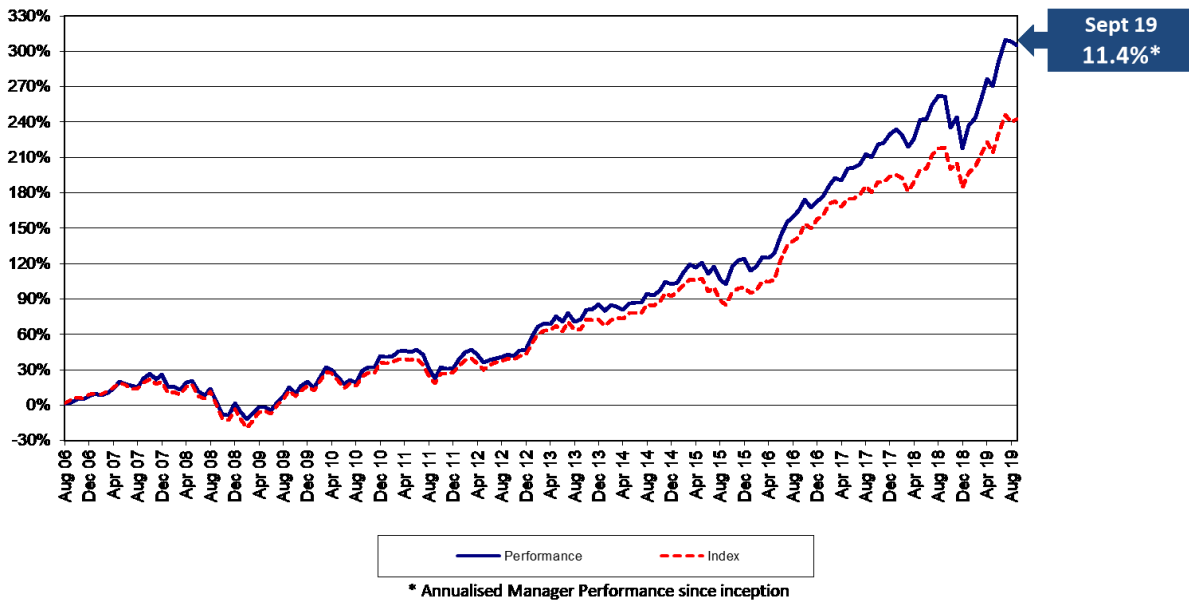
|                   |                   |
|-------------------|-------------------|
| Value at 30.06.19 | Value at 30.09.19 |
| £163,679,286      | £3,911,012        |

Note: This value represents remaining cash balance following the transition of assets to Border to Coast Global Equity Alpha

**Performance**

Gross of fees, the fund underperformed its index but remained well ahead of the benchmark over the year to date. Sector allocation was unhelpful, with the utilities underweight detracting most. Stock selection was slightly negative, as gains from our picks in communication services were offset by detraction from those in healthcare.

**Columbia Threadneedle Performance Since Inception**



|                       | Quarter % | 1 Year % | 3 Year* % | 5 Year* % | Inception * % |
|-----------------------|-----------|----------|-----------|-----------|---------------|
| Columbia Threadneedle | 3.0       | 11.9     | 15.1      | 15.9      | 11.4          |
| MSCI ACWI             | 3.4       | 7.9      | 12.2      | 13.3      | 10.0          |
| Relative Performance  | (0.4)     | 3.8      | 2.6       | 2.3       | 1.3           |

\* annualised, inception date 01/08/2006

## Purchases and Sales

Positions were initiated in payments services provider Fidelity National Information Services (FIS). The firm's acquisition of Worldpay should shift it into high-growth markets and enhance its global distribution. FIS should benefit from trends in cashless transactions, e-commerce and wealth creation in emerging markets. Video-game publisher Electronic Arts (EA) was also purchased. EA boasts a robust sports franchises, and is well-placed to benefit from trends such as the move from packaged sales to digital. Medtronic was also added to the portfolio. The company has healthy market share in several fast-growing areas of its industry.

To fund these purchases Rio Tinto was sold, as its shares neared record highs and it is felt that iron ore prices could potentially decline. Additionally, profits were taken from RELX.

### Top 5 Contributions to Return

|              |       |
|--------------|-------|
| Alphabet     | 0.53% |
| Equinix      | 0.35% |
| Trex Company | 0.29% |
| Microsoft    | 0.26% |
| Lam Research | 0.23% |

### Bottom 5 Contributions to Return

|                    |         |
|--------------------|---------|
| EOG Resources      | (0.19%) |
| Diamondback Energy | (0.19%) |
| HDFC Bank          | (0.22%) |
| Illumina           | (0.24%) |
| Centene            | (0.25%) |

## Hymans Robertson View

Mark Burgess, EMEA CIO and Deputy Global CIO, has resigned and will take a career break. William Davies, current Global Head of Equities, will become CIO EMEA reporting to Colin Moore, Columbia Threadneedle's Global CIO.

Hymans Robertson continue to rate Columbia Threadneedle at 'Positive'.

The Fund's assets with the manager have been transferred to the Border to Coast Global Equity Alpha Sub-Fund from the end of the quarter.

## Risk Control

The portfolio can have a maximum 10% off-benchmark exposure; any increase in this would require the consent of the Pension Fund.

**Lincolnshire Pension Fund**  
**Global Equities – Morgan Stanley Global Brands**  
**Quarterly Report September 2019**

**Investment Process**

The Global Brands Fund is an open-ended investment company incorporated in the United Kingdom. The aim of the Fund is to provide long term capital appreciation through investing in a concentrated high quality global portfolio of companies with strong “intangible assets”. The Fund is benchmarked against the MSCI World Index. Managers aim to gain an absolute return to the Fund rather than a relative return against their benchmark index.

**Portfolio Valuation**

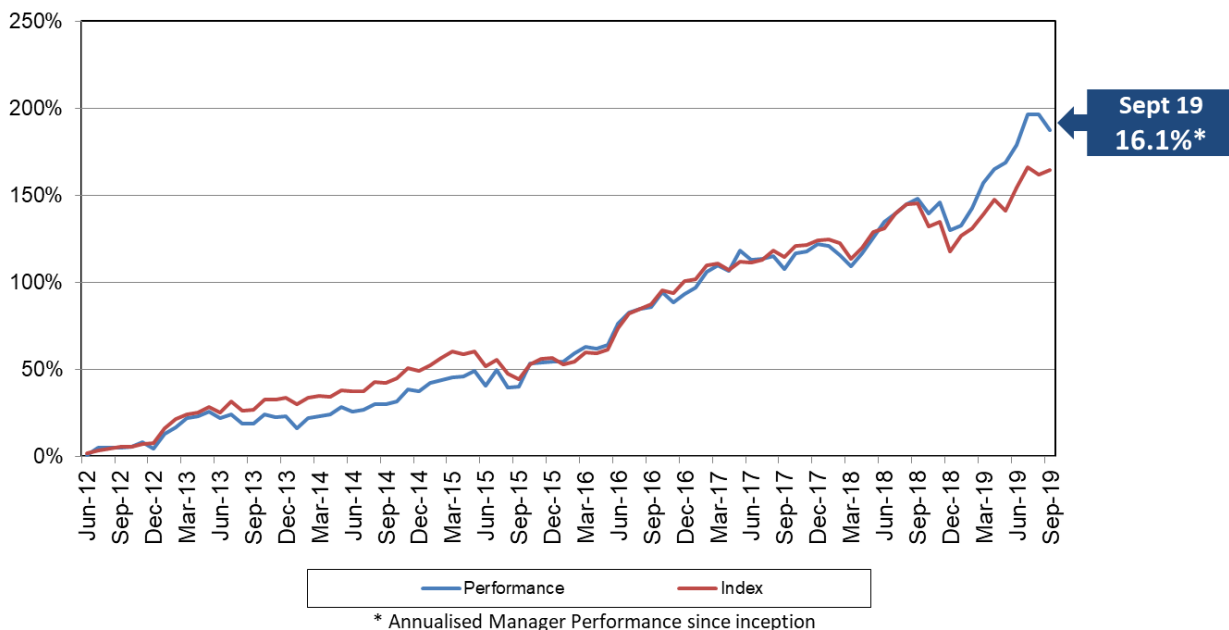
| Value at 30.06.19 | Value at 30.09.19 |
|-------------------|-------------------|
| £238,555,342      | £2,318,446        |

Note: This value represents remaining cash balance following the transition of assets to Border to Coast Global Equity Alpha

**Performance**

For the quarter, the portfolio returned 2.9%, against 3.8% for the MSCI World Index. Positive sector allocation was not enough to cancel out the negative stock selection. The primary source of positive sector allocation was the overweight in consumer staples, while the absence of energy stocks and the overweight in information technology also helped. In terms of the stock selection, the outperformance in health care and consumer discretionary was outweighed by the underperformance in consumer staples, information technology and communication services.

**Morgan Stanley Global Brands Performance Since Inception**





|                              | Quarter % | 1 Year % | 3 Year* % | 5 Year* % | Inception* % |
|------------------------------|-----------|----------|-----------|-----------|--------------|
| Morgan Stanley Global Brands | 2.9       | 15.7     | 15.6      | 17.2      | 16.1         |
| MSCI World Index             | 3.8       | 7.8      | 12.2      | 13.2      | 14.7         |
| Relative Performance         | (0.9)     | 7.3      | 3.1       | 3.5       | 1.2          |

\*annualised, inception date 18/06/2012

## Purchases and Sales

Overall portfolio activity was fairly quiet for the quarter. A position was initiated in Thermo Fisher Scientific, a life sciences company that is a key supplier to the health care industry, be it chemicals used in drug research and production, diagnostic tests or analytical instruments. The high percentage of consumables ensures that there is plenty of recurring revenue, while management has a proven track record of successful acquisitions, plugging new technologies and solutions into the massive client base.

The modest position in Clorox was sold, given the elevated multiple of 24x calendar year 2020 earnings.

### Top Contributors to Return

|                      |       |
|----------------------|-------|
| Microsoft            | 0.58% |
| Zoetis               | 0.45% |
| Baxter International | 0.42% |

### Bottom Contributors to Return

|                          |         |
|--------------------------|---------|
| SAP                      | (0.68%) |
| Fox Corporation          | (0.17%) |
| Factset Research Systems | (0.16%) |

## Top Ten Holdings

| Company              | Industry                         | % Weighting |
|----------------------|----------------------------------|-------------|
| Microsoft            | Software                         | 8.06        |
| Reckitt Benckiser    | Household Products               | 7.61        |
| Philip Morris        | Tobacco                          | 6.93        |
| Visa                 | IT Services                      | 5.24        |
| SAP                  | Software                         | 5.20        |
| Accenture            | IT Services                      | 4.69        |
| Unilever             | Personal Products                | 4.50        |
| Baxter International | Health Care Equipment & Supplies | 4.42        |
| Danaher Corp         | Health Care Equipment & Supplies | 3.78        |
| Coca-Cola            | Beverages                        | 3.68        |

## Hymans Robertson View

Hymans Robertson continue to rate Morgan Stanley Global Brands at 'Suitable'.

The Fund's assets with the manager have been transferred to the Border to Coast Global Equity Alpha Sub-Fund from the end of the quarter.

**Lincolnshire Pension Fund  
Global Equities – Border to Coast Global Equity Alpha  
Quarterly Report September 2019**

**Investment Process**

The Border to Coast Global Equity Alpha Sub-Fund is designed to outperform the MSCI All Countries World Index by 2% per annum. The fund is made up of five high quality managers, which have been selected for their long term track record and blend of complementary investment styles and range of market caps. The fund will benefit from diversification due to low correlation between managers sources of outperformance. All five managers also consider responsible investment factors when making investment decisions.

**Portfolio Valuation**

|                           |
|---------------------------|
| Opening Value at 30.09.19 |
| £420,969,096              |

**Performance, information will be reported in the next quarterly report.**

**Lincolnshire Pension Fund**  
**UK Equities – Legal & General (LGIM)**  
**Quarterly Report September 2019**

**Investment Process**

This pooled fund employs a tracking strategy, aiming to replicate the performance of the FTSE All-Share Index to within +/-0.25% p.a. for two years out of three. The fund follows a pragmatic approach to managing an index fund, either investing directly in the securities of that index or indirectly through other LGIM funds. The fund may also hold index and single stock futures for efficient portfolio management.

**Portfolio Valuation**

|                   |                   |
|-------------------|-------------------|
| Value at 30.06.19 | Value at 30.09.19 |
| £443,711,925      | £449,373,212      |

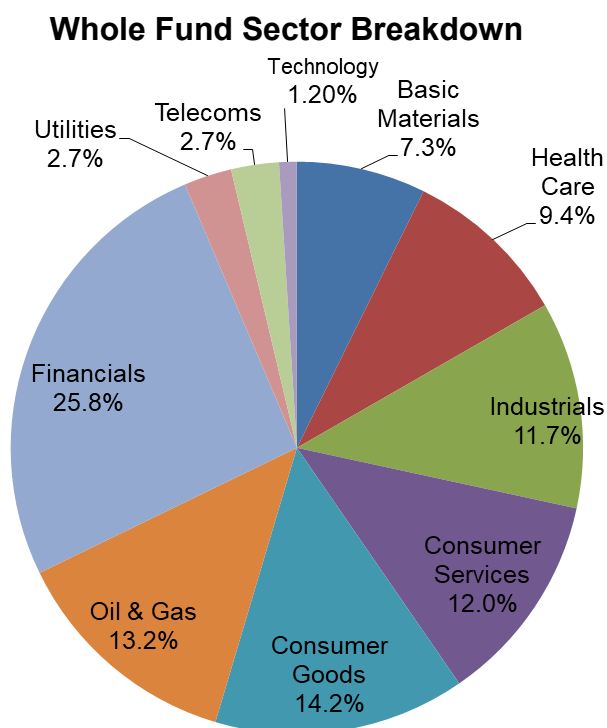
**Performance**

Over all periods the portfolio has performed as expected.

|                      | Quarter % | 1 Year % | 3 Year* % | 5 Year* % | Inception* % |
|----------------------|-----------|----------|-----------|-----------|--------------|
| LGIM                 | 1.2       | 2.8      | N/A       | N/A       | 5.5          |
| Benchmark            | 1.2       | 2.8      | N/A       | N/A       | 5.3          |
| Relative Performance | 0.0       | 0.0      | N/A       | N/A       | 0.1          |

\*annualised, inception date February 2017

| <b>Top Ten Holdings</b>  |                    |
|--------------------------|--------------------|
| <b>Company</b>           | <b>% Weighting</b> |
| HSBC                     | 5.4                |
| BP                       | 4.4                |
| Royal Dutch Shell A      | 4.2                |
| AstraZeneca              | 4.1                |
| Royal Dutch Shell B      | 3.9                |
| Glaxosmithkline          | 3.7                |
| Diageo                   | 3.3                |
| British American Tobacco | 2.9                |
| Unilever                 | 2.3                |
| Rio Tinto                | 2.0                |
| <b>Total</b>             | <b>36.2</b>        |



**Lincolnshire Pension Fund  
Passive Bonds – Blackrock  
Quarterly Report September 2019**

**Investment Process**

Blackrock manage a passive bond mandate for the Pension Fund. The portfolio is made up of three pooled funds; an index-linked bond fund, a corporate bond fund and an overseas bond fund. All three funds are designed to match the return of their relevant benchmarks. The manager uses two methods to manage index-tracking funds; full replication and stratified sampling.

Full replication involves holding each of an index's constituent bonds in exactly the same proportion as the index. This method is used where the number of constituents in an index is relatively low and liquidity is above a certain level.

Stratified sampling is the method used when full replication is not possible or appropriate. This approach subdivides the benchmark index according to various risk characteristics, such as currency/country, maturity, credit rating, sector of issuer etc. Each subset of bonds is then sampled to select bonds for inclusion within the pooled fund.

The table below shows the indexing method for each of the three pooled funds in which the Fund invests.

| <b>Pooled Fund</b>                                       | <b>Indexing Method</b> |
|--|------------------------|
| Aquila Life Corporate Bond All Stocks Index Fund         | Sampled                |
| Aquila Life Over 5 Years UK Index-Linked Gilt Index Fund | Full Replication       |
| Aquila Life All Stocks UK Gilt Index Fund                | Sampled                |

**Portfolio Valuation**

| <b>Portfolio</b>                             | <b>30.06.19<br/>£</b> | <b>31.09.19<br/>£</b> |
|--|-----------------------|-----------------------|
| Corporate Bond All Stocks Index Fund         | 74,361,065            | 77,076,237            |
| Over 5 Years UK Index-Linked Gilt Index Fund | 43,134,061            | 46,942,860            |
| All Stocks UK Gilts*                         | 29,071,502            | 30,879,621            |
| Cash (residual)                              | 1                     | 1                     |
| <b>Total</b>                                 | <b>146,566,629</b>    | <b>154,898,719</b>    |

\*Switched from Overseas Bond Index Fund in February 17

**Performance**

Over all periods the portfolio has performed as expected.

|                      | <b>Quarter<br/>%</b> | <b>1 Year<br/>%</b> | <b>3 Year*<br/>%</b> | <b>5 Year*<br/>%</b> | <b>Inception<br/>* %</b> |
|----------------------|----------------------|---------------------|----------------------|----------------------|--------------------------|
| Blackrock            | 5.7                  | 13.9                | 4.0                  | 7.8                  | 7.6                      |
| Composite Benchmark  | 5.7                  | 13.8                | 3.9                  | 7.6                  | 7.5                      |
| Relative Performance | 0.0                  | 0.0                 | 0.1                  | 0.1                  | 0.1                      |

\*annualised since inception 28/07/10

**Hymans Robertson View**

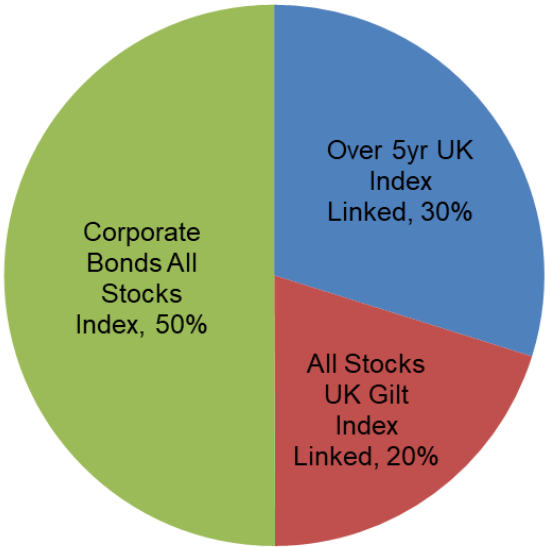
Hymans Robertson continue to rate Blackrock fixed interest at 'positive'.

**Allocation**

The target allocation between the three funds is:

|  |     |
|--|-----|
| Aquila Life Corporate Bond All Stocks Index Fund         | 50% |
| Aquila Life Over 5 Years UK Index-Linked Gilt Index Fund | 30% |
| Aquila Life All Stocks UK Gilt Index Fund                | 20% |

The pie chart below shows the allocation as at 30 September 2019.



**Lincolnshire Pension Fund**  
**Passive Bonds – Blackrock interim**  
**Quarterly Report September 2019**

**Investment Process**

Since the termination of BMO's Absolute Return bond fund, that element of the Fund's asset allocation has been temporarily housed in an interim Blackrock fund of short dated corporate bonds. The fund is managed passively, and aims to achieve index returns in line with the iBoxx Sterling Non-Gilts 1-5 Year Index.

**Portfolio Valuation**

|                   |                   |
|-------------------|-------------------|
| Value at 30.06.19 | Value at 30.09.19 |
| £140,528,868      | £276,350,552      |

Note: An additional £10m was invested in July 2018

**Performance**

Over all periods the portfolio has performed as expected.

|                      | Quarter<br>% | 1 Year<br>% | 3 Year*<br>% | 5 Year*<br>% | Inception*<br>% |
|----------------------|--------------|-------------|--------------|--------------|-----------------|
| Blackrock Interim    | 1.0          | 3.7         | 1.8          | n/a          | 1.6             |
| Benchmark            | 1.1          | 3.7         | 1.8          | n/a          | 1.6             |
| Relative Performance | (0.1)        | 0.0         | 0.0          | n/a          | 0.1             |

\*annualised since inception 14/09/16

**Hymans Robertson View**

Hymans Robertson continue to rate Blackrock fixed interest at 'positive'.

**Lincolnshire Pension Fund**  
**Alternative Investments – Morgan Stanley**  
**Quarterly Report September 2019**

**Investment Process**

Morgan Stanley manages a bespoke absolute return alternative investment mandate for the Fund. The portfolio is invested in alternatives only, with no exposure to traditional equities or bonds. Investments are made to complement the existing Fund allocation. The manager has a target to beat the return of 3 Month LIBOR + 4%. Morgan Stanley also manage the legacy private equity investments, however they are excluded from this report.

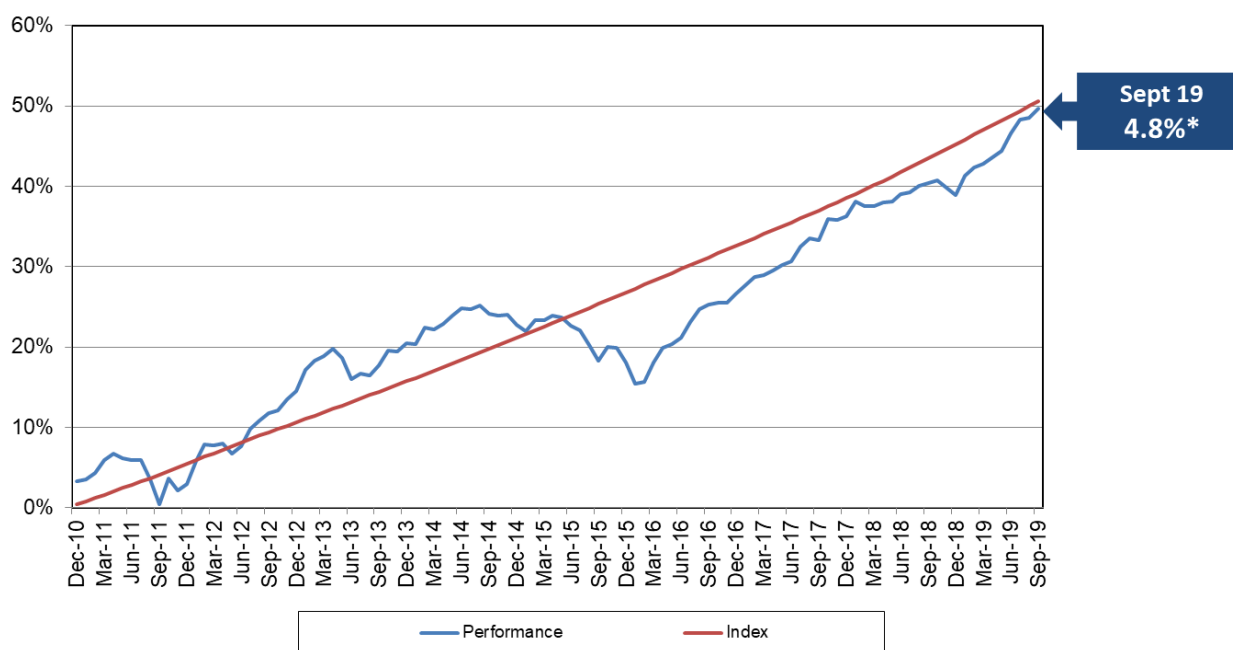
**Portfolio Valuation**

|                   |                   |
|-------------------|-------------------|
| Value at 30.06.19 | Value at 30.09.19 |
| £314,418,318      | £320,651,811      |

**Performance**

The total alternatives portfolio (excluding legacy private equity holdings) returned 2.1% during the quarter. Most asset classes contributed positively with absolute returns driven by private markets, hedge fund and credit allocations. Manager selection added to returns while tactical decisions were more muted for the period. Outperformance in private markets, commodities and hedge funds was particularly beneficial.

**Morgan Stanley AIP Performance Since Inception**



\* Annualised Manager Performance since inception

|                      | Quarter % | 1 Year % | 3 Year* % | 5 Year* % | Inception* % |
|----------------------|-----------|----------|-----------|-----------|--------------|
| Morgan Stanley       | 2.1       | 6.6      | 6.1       | 3.8       | 4.8          |
| 3 Month LIBOR + 4%   | 1.2       | 4.9      | 4.7       | 4.7       | 4.9          |
| Relative Performance | 0.9       | 1.5      | 1.3       | (0.8)     | (0.1)        |

\* annualised since inception date 24/11/2010 (excludes legacy PE portfolio assets)

## Allocation

Morgan Stanley has split out investments into a bespoke portfolio of alternatives comprising four different asset allocations:

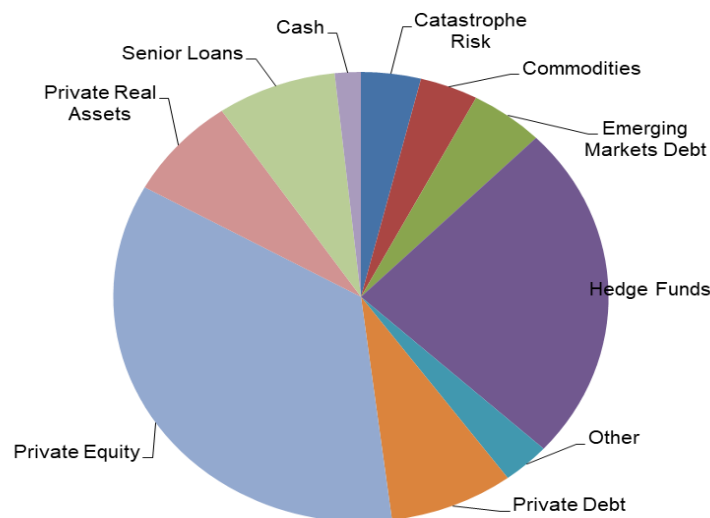
- **Alpha** These are pure return seeking products based on Manager skill. The Alpha investments include Hedge Funds, Global Tactical Asset Allocation (GTAA) and Active Currency.
- **Long Term Real Asset** These are long term investments that seek to access illiquidity premium. Investments include Private Equity, Infrastructure, Real Estate, Commodities and Inflation – linked strategies.
- **Credit** These are the purchase of the lower rated bonds where higher default is more likely. Manager selection is important to ensure the correct bonds are purchased that will appreciate following rating upgrades and merger and acquisition activity. Credit opportunities include Emerging Market Debt, High Yield Bonds, Senior Loans and Convertibles.
- **Discovery** These are new opportunities of investments and can include Frontier Markets, Distressed Opportunities and Volatility.

The table and pie chart below show the strategy and asset class positions of the Morgan Stanley portfolio as at 30 September 2019.

### Strategy

|            |        |
|------------|--------|
| Alpha      | 28.26% |
| Credit     | 12.96% |
| Real Asset | 55.23% |
| Discovery  | 2.30%  |
| Cash       | 1.25%  |

### Asset Class





## **Hymans Robertson View**

Hymans Robertson rate Morgan Stanley Alternatives at 'suitable'. There has been no change in rating from the previous quarter.

## **Risk Control**

Portfolio volatility since inception is 3.42%, within the guidelines specified by the mandate.

## Conclusion

This reporting period saw the value of the Fund increase by £57.0m to £2,514.2m. At the end of the period the asset allocation, compared to the strategic allocation, was:

- overweight fixed income and cash; and
- underweight UK equities, global equities, property, infrastructure and alternatives

Over the quarter, the Fund produced a positive return of 2.42%, underperforming the benchmark which returned 2.52%.

## Consultation

### a) Have Risks and Impact Analysis been carried out?

Yes

### b) Risks and Impact Analysis

The Pension Fund has a Risk Register which can be obtained by contacting the author of this report.

## Appendices

|  |   |
|--|---|
| These are listed below and attached at the back of the report. |   |
| Appendix A   | Fund Distribution as at 30 September 2019 |
| Appendix B   | Market returns as at 30 September 2019    |

## Background Papers

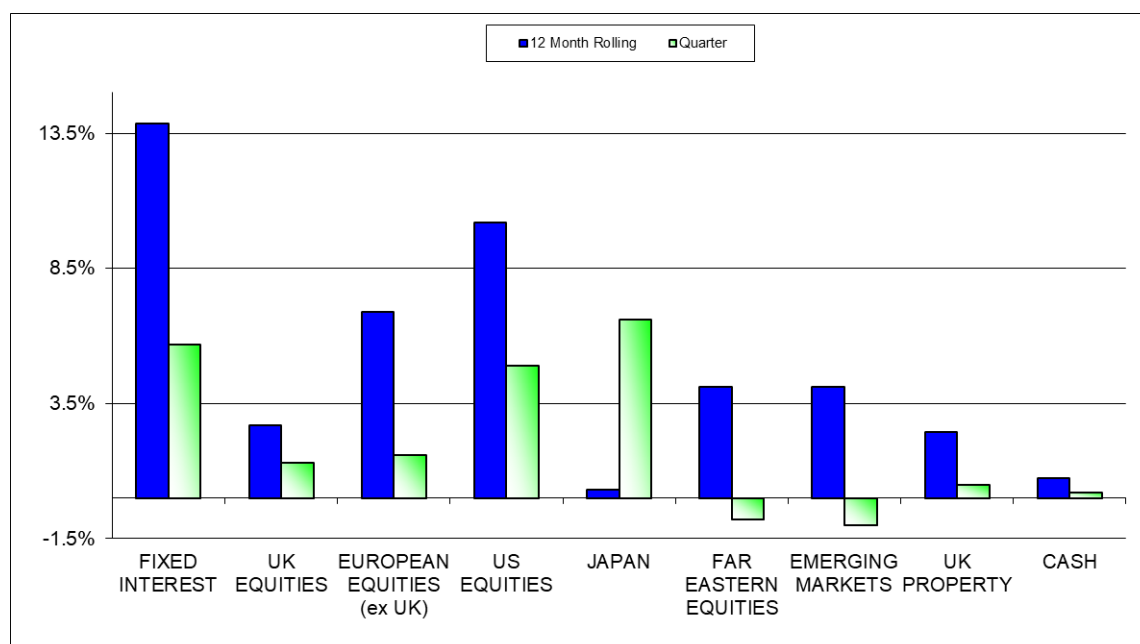
No Background Papers within the meaning of section 100D of the Local Government Act 1972 have been used in the preparation of this Report.

This report was written by Claire Machej, who can be contacted on 01522 553641 or [claire.machej@lincolnshire.gov.uk](mailto:claire.machej@lincolnshire.gov.uk).

## DISTRIBUTION OF INVESTMENTS

| INVESTMENT                    | 30 September 2019    |                      |                       | 30 June 2019         |                      |                       | COMPARATIVE STRATEGIC BENCHMARK |                 |
|-------------------------------|----------------------|----------------------|-----------------------|----------------------|----------------------|-----------------------|---------------------------------|-----------------|
|                               | VALUE<br>£           | % OF INV<br>CATEGORY | % OF<br>TOTAL<br>FUND | VALUE<br>£           | % OF INV<br>CATEGORY | % OF<br>TOTAL<br>FUND | %                               | TOLERANCE       |
| <b>UK EQUITIES</b>            |                      |                      |                       |                      |                      |                       |                                 |                 |
| UK Index Tracker              | 69,130               | 0.0%                 | 0.0%                  | 33,771               | 0.0%                 | 0.0%                  |                                 |                 |
| Legal & General               | 449,304,082          | 30.4%                | 17.9%                 | 443,711,925          | 28.3%                | 18.1%                 | 18.0%                           | +/- 2%          |
| <b>TOTAL UK EQUITIES</b>      | <b>449,373,212</b>   |                      | <b>17.9%</b>          | <b>443,745,696</b>   |                      | <b>18.1%</b>          | <b>18.0%</b>                    |                 |
| <b>GLOBAL EQUITIES</b>        |                      |                      |                       |                      |                      |                       |                                 |                 |
| Invesco                       | 596,278,554          | 40.4%                | 23.7%                 | 578,157,999          | 36.8%                | 23.5%                 | 22.5%                           | +/- 2.5%        |
| Threadneedle                  | 3,911,012            | 0.3%                 | 0.2%                  | 163,679,286          | 10.4%                | 6.7%                  |                                 |                 |
| Schroders                     | 3,284,040            | 0.2%                 | 0.1%                  | 145,304,605          | 9.3%                 | 5.9%                  |                                 |                 |
| Morgan Stanley                | 2,381,446            | 0.2%                 | 0.1%                  | 238,555,342          | 15.2%                | 9.7%                  |                                 |                 |
| Border to Coast               | 420,969,096          | 28.5%                | 16.7%                 |                      |                      |                       | 17.5%                           | +/- 2%          |
| <b>TOTAL GLOBAL EQUITIES</b>  | <b>1,026,761,148</b> |                      | <b>40.8%</b>          | <b>1,125,697,232</b> |                      | <b>45.8%</b>          | <b>40.0%</b>                    |                 |
| <b>TOTAL EQUITIES</b>         | <b>1,476,134,361</b> | <b>100%</b>          | <b>58.7%</b>          | <b>1,569,442,928</b> | <b>100.0%</b>        | <b>63.9%</b>          | <b>58.0%</b>                    | <b>+/- 6%</b>   |
| <b>ALTERNATIVES</b>           | <b>342,718,717</b>   |                      | <b>13.6%</b>          | <b>337,964,693</b>   |                      | <b>13.8%</b>          | <b>15.0%</b>                    | <b>+/- 1.5%</b> |
| <b>PROPERTY</b>               | <b>202,826,431</b>   |                      | <b>8.1%</b>           | <b>202,221,298</b>   |                      | <b>8.2%</b>           | <b>9.0%</b>                     | <b>+/- 1.5%</b> |
| <b>INFRASTRUCTURE</b>         | <b>47,744,912</b>    |                      | <b>1.9%</b>           | <b>47,603,560</b>    |                      | <b>1.9%</b>           | <b>2.5%</b>                     | <b>+/- 1.5%</b> |
| <b>FIXED INTEREST</b>         |                      |                      |                       |                      |                      |                       |                                 |                 |
| Blackrock Interim             | 276,350,552          | 64.1%                | 11.0%                 | 146,566,628          | 51.1%                | 6.0%                  | 8.75%                           | +/- 1%          |
| Blackrock                     | 154,898,722          | 35.9%                | 6.2%                  | 140,528,868          | 48.9%                | 5.7%                  | 6.75%                           | +/- 1%          |
| <b>TOTAL FIXED INTEREST</b>   | <b>431,249,274</b>   | <b>100%</b>          | <b>17.2%</b>          | <b>287,095,495</b>   | <b>100.0%</b>        | <b>11.7%</b>          | <b>15.5%</b>                    | <b>+/- 1.5%</b> |
| <b>TOTAL UNALLOCATED CASH</b> | <b>13,525,112</b>    |                      | <b>0.5%</b>           | <b>12,845,922</b>    |                      | <b>0.5%</b>           | <b>0.0%</b>                     | <b>+ 0.5%</b>   |
| <b>TOTAL FUND</b>             | <b>2,514,198,807</b> |                      | <b>100%</b>           | <b>2,457,173,895</b> |                      | <b>100.0%</b>         | <b>100.0%</b>                   |                 |

**CHANGES IN MARKET INDICES  
MARKET RETURNS TO 30 SEPTEMBER 2019**



| INDEX RETURNS               | 12 Months to Sept 19 % | Jul-Sept 19 % |
|-----------------------------|------------------------|---------------|
| <b>FIXED INTEREST</b>       | 13.8%                  | 5.7%          |
| <b>UK EQUITIES</b>          | 2.7%                   | 1.3%          |
| <b>EUROPEAN EQUITIES</b>    | 6.9%                   | 1.6%          |
| <b>US EQUITIES</b>          | 10.2%                  | 4.9%          |
| <b>JAPANESE EQUITIES</b>    | 0.3%                   | 6.6%          |
| <b>FAR EASTERN EQUITIES</b> | 4.1%                   | -0.8%         |
| <b>EMERGING MARKETS</b>     | 4.1%                   | -1.0%         |
| <b>UK PROPERTY</b>          | 2.4%                   | 0.5%          |
| <b>CASH</b>                 | 0.8%                   | 0.2%          |



## Regulatory and Other Committee

### Open Report on behalf of Andrew Crookham, Executive Director - Resources

|            |  |
|------------|--|
| Report to: | <b>Pensions Committee</b>  |
| Date:      | <b>9 January 2020</b>  |
| Subject:   | <b>Border to Coast Responsible Investment Policy and Corporate Governance Voting Guidelines Review</b> |

#### Summary:

Border to Coast Pensions Partnership (Border to Coast) reviews their Responsible Investment (RI) Policy and Corporate Governance and Voting Guidelines annually. This report highlights the changes from the last version for the Committee to consider, and to approve the alignment of the new version to the current Lincolnshire policy and guidelines.

#### Recommendation(s):

That the Committee:

- 1) Considers the proposed Border to Coast Responsible Investment Policy and Corporate Governance and Voting Guidelines;
- 2) Agrees to align the Lincolnshire RI Policy and Voting Guidelines to Border to Coast's; and
- 3) Notes the report.

#### Background

1. The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. Stewardship, day-to-day administration and implementation have been delegated to Border to Coast once assets transition, with appropriate monitoring and challenge to ensure this continues to be in line with Fund requirements. To leverage scale and for operational purposes, Border to Coast, in conjunction with Partner Funds, has an RI Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach.
2. Border to Coast reviews their RI policy and Corporate Governance & Voting Guidelines (the Voting Guidelines) annually or when material changes need to be made. The annual review process commenced in August to ensure any revisions required would be in place ahead of the 2020 proxy voting season.

As part of the review procedure, input is taken from the Joint Committee and the Partner Funds, to ensure that Border to Coast is able to represent a strong, unified voice. The Joint Committee considered the draft documents at its meeting on 20 November 2019, and all of the Partner Funds have taken them to their respective Committees.

3. Following the creation of the original policies in 2017, the Committee approved the recommendation to create a Lincolnshire Pension Fund RI Policy and Voting Guidelines that were aligned to the Border to Coast documents. These are realigned following each annual review, after any amendments to the Border to Coast policies have been considered by the Committee. The proposed revised Border to Coast policies (attached at appendix A and B).
4. Responsible Investment and sustainability are central to Border to Coast's corporate and investment ethos and a key part of delivering the Partner Funds' objectives. There may be reputational risk if Border to Coast is perceived to be failing in their commitment of this objective.

#### **Key changes to the RI Policy**

5. The RI policy underwent a substantial rewrite last year to allow Border to Coast to satisfy future PRI (Principles of Responsible Investment) reporting requirements, whilst maintaining consistency with the principles previously adopted. This year the review has taken into account SRD II (Shareholder Rights Directive II) requirements which are incorporated into the FCA's rule changes published at the end of May 2019, and also further improvements to satisfy PRI reporting.
6. ESG factors are considered when analysing potential and ongoing investments. The table covering potential issues has been expanded to include additional ESG issues as examples; this is not an exhaustive list. The additions are seen as posing increasing risks to investors, with regulation, and increased government and political pressure. For example, water stress has been added as risks are both regional and multidimensional, and for some industries it is a material issue. Single-use plastics has also risen up the agenda, driven by consumers, with implications for a number of industries.
7. The climate change section of the policy has been expanded to include extra detail on the systemic risk. As Border to Coast is already implementing the specific points in the policy the wording has been changed to reflect this.
8. One area not included in the revised policy is Border to Coast's approach to exclusions. This is an area covered in the PRI reporting framework. Border to Coast do not currently have an exclusion policy or any red-lines for investing and will need to undertake further work to assess investment implications and impact if they were to adopt any red-lines and/or exclusions and how this would affect Partner Funds' assets held outside the pool.
9. The amendments to the RI policy are highlighted in the table below:

| Section                                  | Page  | Type of Change             | Rationale  |
|--|-------|----------------------------|--|
| Introduction                             | 4     | Addition/clarification     | Investment time horizon  |
| Integrating RI into investment decisions | 5     | Addition                   | Additional ESG issues: water stress, data privacy, single-use plastics, political lobbying.      |
| Climate Change                           | 7/8   | Addition                   | Extra detail on climate change as a systemic risk. Additional detail on risks and opportunities. |
|  |       | Clarification              | Change from "will therefore look at" to "is".  |
| Stewardship<br>Use of proxy advisors     | 8/9   | New sub-section            | To comply with the SRD II, need to name and describe use of proxy advisors.                      |
| Engagement                               | 10    | Restructuring              | Bullet points for engagement status.   |
|  | 11    | Addition                   | Detail on engagement process – required by PRI and SRD/FRC.                                      |
| Escalation                               | 11    | Addition – new sub-section | Detail on options when initial engagement ineffective – required by PRI.                         |
| Due-diligence and monitoring             | 11/12 | Addition – new sub-section | Detail of audit of stewardship activities – required by RI.                                      |
| Communication and reporting              | 12    | Clarification              | Change from "consider" to "will also be reporting in line with TCFD recommendations".            |

10. The policy is very closely aligned to how the Lincolnshire Fund considers it should act as a responsible investor, with no contentious issues.

### **Key changes to the Corporate Governance and Voting Guidelines**

11. The Corporate Governance & Voting Guidelines were expanded at the last review to reflect global corporate governance trends, not just UK best practice.
12. Following Robeco's (the advisor to Border to Coast) evaluation this year a number of minor revisions were proposed to align the Voting Guidelines with the ICGN Global Governance Principles and the UK Corporate Governance Code. Border to Coast want to avoid ambiguity within the Voting Guidelines, however best practice can vary across markets and jurisdictions; an example

being Japan where the Company Law does not require the separation of the roles of chairman and CEO. This is an area for future consideration as to whether voting guidelines for some individual markets need developing.

13. Amendments are highlighted in the table below and are a mixture of minor additions and clarifications to reflect global variations of market practice.

| <b>Section</b>                                | <b>Page</b> | <b>Type of Change</b>  | <b>Rationale</b>   |
|---|-------------|------------------------|--|
| Company Boards – composition and independence | 5           | Addition/clarification | Change of "9 years" to "9-12 years".<br>Clarification that this will also depend upon market practice.   |
| Leadership                                    | 6           | Addition               | Changed "mst" to "should" to cover market practice outside the UK.   |
| Diversity                                     | 7           | Clarification          | Additional wording to clarify stance.  |
| Board Evaluation                              | 7/8         | Addition               | Good practice for Board to disclose these evaluations.   |
| Directors' remuneration                       | 9           | Addition               | Transparency on pay ratios.  |
| Long term incentives                          | 9           | Addition               | Encourage Executive Directors to hold stock to align interests with those of shareholders.   |
| Directors' contracts                          | 10          | Addition               | Limit termination benefits in-line with market best practice.  |
| Audit   | 10          | Addition               | Publish audited financial statements ahead of shareholder deadline – to cover the Korean market where this does not always happen.<br>Additional text to cover audit tender requirements for markets outside the UK. |
| Political donations                           | 11          | Clarification          | Ensure money not being used to fund political parties.   |
| Lobbying                                      | 11          | Clarification          | Alignment of company and trade association values.   |

14. The guidelines reflect best global practice and there are no contentious issues.



15. Officers recommend that the Committee considers the proposed Border to Coast RI Policy and Corporate Governance and Voting Guidelines, and approves the realignment of the Lincolnshire Fund's current RI Policy and Corporate Governance and Voting Guidelines.

**Conclusion**

16. The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. The day-to-day stewardship administration and implementation will be delegated to Border to Coast by the Partner Funds, once assets are transitioned. To leverage scale and for operational purposes, Border to Coast, in conjunction with Partner Funds, has an RI Policy and accompanying Corporate Governance and Voting Guidelines to ensure clarity of approach on behalf of Partner Funds. Border to Coast reviews these policies at least annually, and any changes are brought back to the Joint Committee and the underlying Pension Committees for consideration.
17. The Committee are recommended to consider the draft documents and approve the realignment of the Lincolnshire Pension Fund's current documents.

**Consultation**

**a) Have Risks and Impact Analysis been carried out?**

Yes

**b) Risks and Impact Analysis**

The Pension Fund has a risk register which can be obtained by contacting the author of this report.

**Appendices**

|   |  |
|---|--|
| These are listed below and attached at the back of the report |  |
| Appendix A  | Border to Coast Responsible Investment Policy              |
| Appendix B  | Border to Coast Corporate Governance and Voting Guidelines |

This report was written by Jo Ray, who can be contacted on 01522 553656 or jo.ray@lincolnshire.gov.uk.

This page is intentionally left blank

# Responsible Investment Policy

**Border to Coast Pensions Partnership**



November 2019

## Document Control

### 1. Version and Review History

| Version no. | Version Description  | Approver        | Date                       |
|-------------|--|-----------------|----------------------------|
| V0.1        | Initial policy   | Joint Committee | October 2017               |
| V0.2        | 1 <sup>st</sup> draft presented to OOG reflecting review by Robeco, UK Corporate Governance Code, best in class asset managers and asset owners. | CEO             | 10 <sup>th</sup> Oct 2018  |
| V0.3        | 2 <sup>nd</sup> draft reflecting OOG amendments  | CEO             | 19 <sup>th</sup> Oct 2018  |
| V0.4        | 1 <sup>st</sup> draft presented to IC and OOG reflecting review by Robeco, ICGN Governance Principles, best in class asset owners and managers   | CEO             | 26 <sup>th</sup> September |
| V0.5        | 2 <sup>nd</sup> draft reflecting OOG amendments  | CEO             | 18 <sup>th</sup> Oct 2019  |

### 2. Approval and Sign Off

| Approved By   | Position | Version | Date                      |
|---------------|----------|---------|---------------------------|
| Rachel Elwell | CEO      | 0.3     | 19 <sup>th</sup> Oct 2018 |
| Rachel Elwell | CEO      | 0.5     | 18 <sup>th</sup> Oct 2019 |

### 3. Board Approval

| Approved By | Version | Date                     |
|-------------|---------|--------------------------|
| The Board   | 0.3     | 7 <sup>th</sup> Nov 2018 |
| The Board   | 0.5     | 5 <sup>th</sup> Nov 2019 |

### 4. Key Dates

| Event            | Date       |
|------------------|------------|
| Effective Date   | 01/01/2019 |
| Next Review Date | 01/01/2020 |

### 5. Key Roles

| Stakeholder | Role   | Status   |
|-------------|--|----------|
| Head of RI  | Document owner responsible for the management and amendment process, along with ensuring distribution of the framework | Drafter  |
| CEO         | Review ongoing drafts to ensure completeness   | Reviewer |

|                                      |  |          |
|--------------------------------------|--|----------|
| Border to Coast Investment Committee | Review and recommend for approval to Board                   | Reviewer |
| OOG                                  | Review ongoing drafts to ensure completeness                 | Reviewer |
| Border to Coast Joint Committee      | Review policy and any material alterations made thereafter   | Reviewer |
| Border to Coast Board                | Approve policy and any material alterations made thereafter. | Approver |
| Border to Coast Staff                | Informed of policy and manage delivery in practice           | Informed |

DRAFT

## Responsible Investment Policy

This Responsible Investment Policy details the approach that Border to Coast Pensions Partnership will follow in fulfilling its commitment to our Partner Funds in their delegation of responsible investment (RI) and stewardship responsibilities.

### 1. Introduction

Border to Coast Pensions Partnership Ltd is an FCA-authorized investment fund manager (AIFM). It operates investment funds for its twelve shareholders which are Local Government Pension Scheme funds (Partner Funds). The purpose is to make a difference to the investment outcomes for our Partner Funds through pooling to create a stronger voice; working in partnership to deliver cost effective, innovative, and responsible investment now and into the future; thereby enabling great, sustainable performance.

Border to Coast takes a long-term approach to investing and believes that businesses that are governed well and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Environmental, social and governance (ESG) issues can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore need to be considered across all asset classes in order to better manage risk and generate sustainable, long term returns. Well-managed companies with strong governance are more likely to be successful long-term investments.

Border to Coast is an active owner and steward of its investments, both internally and externally managed, across all asset classes. The commitment to responsible investment is communicated in the Border to Coast UK Stewardship Code compliance statement. As a long-term investor and representative of asset owners, we will therefore, hold companies and asset managers to account regarding environmental, societal and governance factors that have the potential to impact corporate value. We will incorporate such factors into our investment analysis and decision making, enabling long-term sustainable investment performance for our Partner Funds. As a shareowner, Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It will practice active ownership through voting, monitoring companies, engagement and litigation.

The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. Stewardship day-to-day administration and implementation have been delegated to Border to Coast by the Partner Funds, on assets managed by Border to Coast, with appropriate monitoring and challenge to ensure this continues to be in line with Partner Fund requirements. To leverage scale and for operational purposes, Border to Coast has, in conjunction with Partner Funds, developed this RI Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach on behalf of Partner Funds.

### 2. What is responsible investment?

Responsible investment (RI) is the practice of incorporating ESG issues into the investment decision making process and practicing investment stewardship, to better manage risk and generate sustainable, long-term returns. Financial and ESG analysis together identify broader

risks leading to better informed investment decisions and can improve performance as well as risk-adjusted returns.

Investment stewardship includes active ownership, using voting rights, engaging with investee companies, influencing regulators and policy makers, and collaborating with other investors to improve long-term performance.

### 3. Governance and Implementation

Border to Coast takes a holistic approach to sustainability and as such it is at the core of our corporate and investment thinking. Sustainability, which includes RI, is considered and overseen by the Board and Executive Committees. Specific policies and procedures are in place to demonstrate the commitment to RI, which include the Responsible Investment Policy and Corporate Governance & Voting Guidelines. Border to Coast has a dedicated staff resource for managing RI within the organisational structure.

The RI Policy is jointly owned and created after collaboration and engagement with our twelve Partner Funds. The Chief Investment Officer (CIO) is accountable for implementation of the policy. The policy is monitored with regular reports to the CIO, Investment Committee, Board, Joint Committee and Partner Funds. It is reviewed at least annually or whenever revisions are proposed and updated as necessary.

### 4. Skills and competency

Border to Coast will, where needed, take proper advice in order to formulate and develop policy. The Board and staff will maintain appropriate skills in responsible investment and stewardship through continuing professional development; where necessary expert advice will be taken from suitable RI specialists to fulfil our responsibilities.

### 5. Integrating RI into investment decisions

Border to Coast will consider material ESG factors when analysing potential investments. ESG factors tend to be longer term in nature and can create both risks and opportunities. It is therefore important that, as a long-term investor, we take them into account when analysing potential investments.

The factors considered are those which could cause financial and reputational risk, ultimately resulting in a reduction in shareholder value. ESG issues will be considered and monitored in relation to both internally and externally managed assets. The CIO will be accountable for the integration and implementation of ESG considerations. Issues considered include, but are not limited to:

| <b>Environmental</b>   | <b>Social</b>   | <b>Governance</b>  | <b>Other</b>  |
|--|---|--|---|
| Climate change<br>Resource & energy management<br>Water stress | Human rights<br>Child labour<br>Supply chain<br>Human capital<br>Employment standards | Board independence/<br>diversity<br>Executive pay<br>Tax transparency<br>Auditor rotation<br>Succession planning<br>Shareholder rights | Business strategy<br>Risk management<br>Cyber security<br>Data privacy<br>Bribery & corruption<br>Single use plastics<br>Political lobbying |

### **5.1. Listed Equities (Internally managed)**

Border to Coast looks to understand and evaluate the ESG-related business risks and opportunities companies face. We consider the integration of ESG factors into the investment process as a complement to the traditional financial evaluation of assets; this results in a more informed investment decision-making process. Rather than being used to preclude certain investments, it is used to provide an additional context for stock selection.

ESG data and research from specialist providers is used alongside general stock and sector research when considering portfolio construction, sector analysis and stock selection. The Head of RI will work with colleagues to raise awareness of ESG issues. Voting and engagement should not be detached from the investment process; therefore, information from engagement meetings will be shared with the team to increase knowledge, and portfolio managers will be involved in the voting process.

### **5.2. Private Markets**

Border to Coast believes that ESG risk forms an integral part of the overall risk management framework for private market investment. An appropriate ESG strategy will improve downside protection and help create value in underlying portfolio companies. Border to Coast will take the following approach to integrating ESG into the private market investment process:

- ESG issues will be considered as part of the due diligence process for all private market investments.
- A manager's ESG strategy will be assessed through a specific ESG questionnaire agreed with the Head of RI and reviewed by the alternatives investment team with support from the Head of RI as required.
- Managers will be requested to report annually on the progress and outcomes of ESG related values and any potential risks.
- Ongoing monitoring will include identifying any possible ESG breaches and following up with the managers concerned.

### **5.3. Fixed Income**

ESG factors can have a material impact on the investment performance of bonds, both negatively and positively, at the issuer, sector and geographic levels. ESG analysis will therefore be incorporated into the investment process for corporate and sovereign issuers to manage risk. The challenges of integrating ESG in practice are greater than for equities with the availability of data for some markets lacking.

The approach to engagement also differs as engagement with sovereigns is much more difficult than with companies. Third-party ESG data will be used along with information from sources including UN bodies, the World Bank and other similar organisations. This together with traditional credit analysis will be used to determine a bond's credit quality. Information will be shared between the equity and fixed income teams regarding issues which have the potential to impact corporates and sovereign bond performance.

### **5.4. External Manager Selection**

RI will be incorporated into the external manager appointment process including the request for proposal (RFP) criteria and scoring and the investment management agreements. The RFP will include specific reference to the integration of ESG by managers into the investment process and to their approach to engagement.



Voting is carried out by Border to Coast for both internally and externally managed equities where possible and we expect external managers to engage with companies in alignment with the Border to Coast RI policy.

The monitoring of appointed managers will also include assessing stewardship and ESG integration in accordance with our policies. All external fund managers will be expected to be signatories or comply with international standards applicable to their geographical location. Managers will be required to report to Border to Coast on their RI activities quarterly.

## 5.5. Climate change

Border to Coast will actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect its investments. These pose significant investment risks and opportunities with the potential to impact the long-term shareholder value of investments across all asset classes. Climate change is a systemic risk with potential financial impacts associated with the transition to a low-carbon economy and physical impacts under different climate scenarios. Transition will affect some sectors more than others, notably energy, utilities and sectors highly reliant on energy. However, within sectors there are likely to be winners and losers which is why divesting from and excluding entire sectors may not be appropriate.

Risks and opportunities can be presented through a number of ways and include:

- Physical impacts – damage to land, infrastructure and property due to extreme weather events, rising sea levels and flooding
- Technological changes - technological innovations such as battery storage, energy efficiency, and carbon capture and storage will displace old technologies with winners and losers emerging
- Regulatory and policy impact - financial impairment due to policy and regulation changes such as carbon pricing or levies, capping emissions or withdrawal of subsidies.
- Transitional risk - financial risk associated with the transition to a low-carbon economy, also known as carbon risk. It may entail extensive policy, legal, technology, and market changes to address mitigation and adaptation requirements related to climate change, creating investment opportunities as well as risks.
- Litigation risk - litigation is primarily aimed at companies failing to mitigate, adapt or disclose.

Border to Coast is:

- Assessing its portfolios in relation to climate change risk where practicable.
- Incorporating climate considerations into the investment decision making process.
- Engaging with companies in relation to business sustainability and disclosure of climate risk in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)<sup>1</sup> recommendations.
- Encouraging companies to adapt their business strategy in alignment with a low carbon economy.

---

<sup>1</sup> The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) - The TCFD developed recommendations on climate-related financial disclosures that are applicable to organisations (including asset owners) across sectors and jurisdictions.

<https://www.fsb-tcfd.org/publications/finalrecommendations-report/>

- Supporting climate related resolutions at company meetings which we consider reflect our RI policy.
- Encouraging companies to publish targets and report on steps taken to reduce greenhouse gas emissions.
- Co-filing shareholder resolutions at company AGMs on climate risk disclosure after due diligence, that are deemed to be institutional quality shareholder resolutions consistent with our RI policies.
- Monitoring and reviewing its fund managers in relation to climate change approach and policies.
- Participating in collective initiatives collaborating with other investors including other pools and groups such as LAPFF.
- Engaging with policy makers with regard to climate change through membership of the Institutional Investor Group on Climate Change (IIGCC).

## 6. Stewardship

As a shareholder Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It will practice active ownership through voting, monitoring companies, engagement and litigation. As a responsible shareholder, we are a signatory to the UK Stewardship Code<sup>2</sup> and the UN Principles of Responsible Investment<sup>3</sup>.

### 6.1. Voting

Voting rights are an asset and Border to Coast will exercise its rights carefully to promote and support good corporate governance principles. It will aim to vote in every market in which it invests where this is practicable. To leverage scale and for practical reasons, Border to Coast has developed a collaborative voting policy to be enacted on behalf of the Partner Funds which can be viewed on our website at: Corporate Governance & Voting Guidelines. Where possible the voting policies will also be applied to assets managed externally. Policies will be reviewed annually in collaboration with the Partner Funds. There may be occasions when an individual fund wishes Border to Coast to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this.

#### 6.1.1 Use of proxy advisers

Border to Coast appointed Robeco as Voting and Engagement provider to implement the set of detailed voting guidelines and ensure votes are executed in accordance with policies. A proxy voting platform is used with proxy voting recommendations produced for all meetings voted managed by Robeco as the Voting & Engagement provider. Robeco's proxy voting advisor (Glass Lewis. Co) provides voting recommendations based upon Border to Coast's Corporate Governance & Voting Guidelines ('the Voting Guidelines'). A Robeco team of dedicated voting analysts analyse the merit of each agenda item to ensure voting recommendations are aligned with the Voting Guidelines. Border to Coast's Investment Team receives notification of voting recommendations ahead of meetings which are assessed on a case-by-case basis by portfolio managers and responsible investment staff prior to votes being executed. A degree of flexibility will be required when interpreting the Voting Guidelines to

<sup>2</sup> The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders.

<https://www.frc.org.uk/Our-Work/CodesStandards/Corporate-governance/UK-Stewardship-Code.aspx>

<sup>3</sup> The Principles for Responsible Investment (PRI) is the world's leading advocate for responsible investment enabling investors to publicly demonstrate commitment to responsible investment with signatories committing to supporting the six principles for incorporating ESG issues into investment practice.

reflect specific company and meeting circumstances allowing the override of voting recommendations from the proxy adviser.

Robeco evaluates their proxy voting agent at least annually, on the quality of governance research and the alignment of customised voting recommendations and Border to Coast's Voting Guidelines. This review is part of Robeco's control framework and is externally assured. Border to Coast also reviews the services provided by Robeco on a regular basis.

Border to Coast has an active stock lending programme. Where stock lending is permissible, lenders of stock do not generally retain any voting rights on lent stock. Procedures are in place to enable stock to be recalled prior to a shareholder vote. Stock will be recalled ahead of meetings, and lending can also be restricted, when:

- The resolution is contentious.
- The holding is of a size which could potentially influence the voting outcome.
- Border to Coast needs to register its full voting interest.
- Border to Coast has co-filed a shareholder resolution.
- A company is seeking approval for a merger or acquisition.
- Border to Coast deems it appropriate.

Proxy voting in some countries requires share blocking. This requires shareholders who want to vote their proxies depositing their shares shortly before the date of the meeting (usually one week) with a designated depository.

During this blocking period, shares cannot be sold until after the meeting has taken place; the shares are then returned to the shareholders' custodian bank. We may decide that being able to trade the stock outweighs the value of exercising the vote during this period. Where we want to retain the ability to trade shares, we may abstain from voting those shares.

Where appropriate Border to Coast will consider co-filing shareholder resolutions and will notify Partner Funds in advance. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

## 6.2. Engagement

The best way to influence companies is through engagement; therefore, Border to Coast will not divest from companies principally on social, ethical or environmental reasons. As responsible investors, the approach taken will be to influence companies' governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights. The services of specialist providers may be used when necessary to identify issues of concern. Meeting and engaging with companies are an integral part of the investment process. As part of our stewardship duties we monitor investee companies on an ongoing basis and take appropriate action if investment returns are at risk. Engagement takes place between portfolio managers and investee companies across all markets where possible.

Border to Coast has several approaches to engaging with investee holdings:

- Border to Coast and all twelve Partner Funds are members of the Local Authority Pension Fund Forum (LAPFF). Engagement takes place with companies on behalf of members of the Forum across a broad range of ESG themes.

- We will seek to work collaboratively with other like-minded investors and bodies in order to maximise Border to Coast's influence on behalf of Partner Funds, particularly when deemed likely to be more effective than acting alone. This will be achieved through actively supporting investor RI initiatives and collaborating with various other external groups e.g. LAPFF, the Institutional Investors Group on Climate Change, other LGPS pools and other investor coalitions.
- Due to the proportion of assets held in overseas markets it is imperative that Border to Coast is able to engage meaningfully with global companies. To enable this and complement other engagement approaches, an external voting and engagement service provider has been appointed.
- Engagement will take place with companies in the internally managed portfolios with portfolio managers and the Responsible Investment team engaging directly across various engagement streams; these will cover environmental, social, and governance issues as well as UN Global Compact<sup>4</sup> breaches.
- We will expect external managers to engage with investee companies and bond issuers as part of their mandate on our behalf and in alignment with our RI policy.

Engagement conducted can be broadly split into two categories: engagement based on financially material ESG issues, or engagement based on (potential) violations of global standards such as the UN Global Compact.

When engagement is based on financially material ESG issues, engagement themes and companies are selected in cooperation with our engagement service provider based on an analysis of financial materiality. Such companies are selected based on their exposure to the engagement topic, the size and relevance in terms of portfolio positions and related risk.

For engagement based on potential company misconduct, cases are selected through the screening of news flows to identify breaches of the UN Global Compact principles or OECD guidelines for multinational enterprises. Both sets of principles, cover a broad variety of basic corporate behaviour norms around ESG topics. Portfolio holdings are screened on 1) validation of a potential breach, 2) the severity of the breach and 3) the degree of to which management can be held accountable for the issue. For all engagements, SMART engagement objectives are defined.

In addition, internal portfolio managers and the Responsible Investment team monitor holdings which may lead to selecting companies where engagement may improve the investment case or can mitigate investment risk related to ESG issues.

We will engage with regulators, public policy makers, and other financial market participants as and when required. We will encourage companies to improve disclosure in relation to ESG and to report and disclose in line with the TCFD recommendations.

---

<sup>4</sup>UN Global Compact is a shared framework covering 10 principles, recognised worldwide and applicable to all industry sectors, based on the international conventions in the areas of human rights, labour standards, environmental stewardship and anti-corruption.

### **6.2.1 Escalation**

Border to Coast believe that engagement and constructive dialogue with the companies in which it invests is more effective than excluding companies from the investment universe. However, if engagement does not lead to the desired result escalation may be necessary. A lack of responsiveness by the company can be addressed by conducting collaborative engagement with other institutional shareholders, registering concern by voting on related agenda items at shareholder meetings, attending a shareholder meeting in person and filing/co-filing a shareholder resolution. If the investment case has been fundamentally weakened, the decision may be taken to sell the company's shares.

### **6.3 Due Diligence and monitoring procedure**

Internal procedures and controls for stewardship activities are reviewed by Border to Coast's external auditors as part of the audit assurance (AAF) control review. Robeco, as the external Voting and Engagement provider is also monitored and reviewed by Border to Coast on a regular basis to ensure that the service level agreement is met.

Robeco also undertakes verification of its active ownership activities. Robeco's external auditor audits active ownership controls on an annual basis; this audit is part of the annual International Standard for Assurance Engagements control.

## **7. Litigation**

Where Border to Coast holds securities, which are subject to individual or class action securities litigation, we will, where appropriate, participate in such litigation. There are various litigation routes available dependent upon where the company is registered. We will use a case-by-case approach to determine whether or not to participate in a class action after having considered the risks and potential benefits. We will work with industry professionals to facilitate this.

## **8. Communication and reporting**

Border to Coast will be transparent with regard to its RI activities and will keep beneficiaries and stakeholders informed. This will be done by making publicly available RI and voting policies; publishing voting activity on our website quarterly; reporting on engagement and RI activities to the Partner Funds quarterly; and in our annual RI report.

We will also be voluntarily reporting in line with the TCFD recommendations.

## **9. Training and assistance**

Border to Coast will offer the Partner Funds training on RI and ESG issues. Where requested, assistance will be given on identifying ESG risks and opportunities in order to help develop individual fund policies and investment principles for inclusion in the Investment Strategy Statements.

## 10. Conflicts of interest

Border to Coast has a suite of policies which cover any potential conflicts of interest between itself and the Partner Funds which are applied to identify and manage any conflicts of interest.

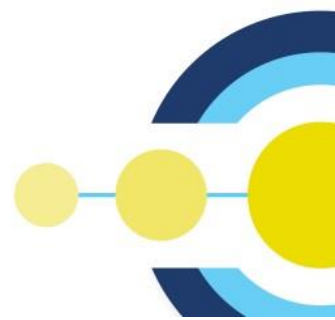
DRAFT

# Corporate Governance & Voting Guidelines

**Border to Coast Pensions Partnership**



November 2019



## Document Control

### 1. Version and Review History

| Version no. | Version Description   | Approver        | Date                       |
|-------------|---|-----------------|----------------------------|
| V0.1        | Initial policy  | Joint Committee | October 2017               |
| V0.2        | 1 <sup>st</sup> draft presented to OOG reflecting review by Robeco, UK Corporate Governance Code, best in class asset managers and asset owners.        | CEO             | 10 <sup>th</sup> Oct 2018  |
| V0.3        | 2 <sup>nd</sup> draft reflecting OOG amendments   | CEO             | 19 <sup>th</sup> Oct 2018  |
| V0.4        | 1 <sup>st</sup> draft presented to IC and OOG reflecting review by Robeco, UK Corporate Governance Code, SRDII, best in class asset managers and owners | CEO             | 26 <sup>th</sup> Sept 2019 |
| V0.5        | 2 <sup>nd</sup> draft reflecting OOG amendments   | CEO             | 18 <sup>th</sup> Oct 2019  |

### 2. Approval and Sign Off

| Approved By   | Position | Version | Date                      |
|---------------|----------|---------|---------------------------|
| Rachel Elwell | CEO      | 0.3     | 19 <sup>th</sup> Oct 2018 |
| Rachel Elwell | CEO      | 0.5     | 18 <sup>th</sup> Oct 2019 |

### 3. Board Approval

| Approved By | Version | Date                     |
|-------------|---------|--------------------------|
| The Board   | 0.3     | 7 <sup>th</sup> Nov 2018 |
| The Board   | 0.5     | 5 <sup>th</sup> Nov 2019 |

### 4. Key Dates

| Event            | Date       |
|------------------|------------|
| Effective Date   | 01/01/2020 |
| Next Review Date | 01/01/2021 |

### 5. Key Roles

| Stakeholder | Role   | Status  |
|-------------|--|---------|
| Head of RI  | Document owner responsible for the management and amendment process, along with ensuring distribution of the framework | Drafter |





|                                      |  |          |
|--------------------------------------|--|----------|
| CEO                                  | Review ongoing drafts to ensure completeness                 | Reviewer |
| Border to Coast Investment Committee | Review and recommend for approval to Board                   | Reviewer |
| OOG                                  | Review ongoing drafts to ensure completeness                 | Reviewer |
| Border to Coast Joint Committee      | Review policy and any material alterations made thereafter   | Reviewer |
| Border to Coast Board                | Approve policy and any material alterations made thereafter. | Approver |
| Border to Coast Staff                | Informed of policy and manage delivery in practice           | Informed |



## 1. Introduction

Border to Coast Pensions Partnership believes that companies operating to higher standards of corporate governance along with environmental and social best practice have greater potential to protect and enhance investment returns. As an active owner Border to Coast will engage with companies on environmental, social and governance (ESG) issues and exercise its voting rights at company meetings. When used together, voting and engagement can give greater results.

An investment in a company not only brings rights but also responsibilities. The shareholders' role includes appointing the directors and auditors and to be assured that appropriate governance structures are in place. Good governance is about ensuring that a company's policies and practices are robust and effective. It defines the extent to which a company operates responsibly in relation to its customers, shareholders, employees, and the wider community. Corporate governance goes hand-in-hand with responsible investment and stewardship. Border to Coast considers the UK Corporate Governance Code and other best practice global guidelines in formulating and delivering its policy and guidelines.

## 2. Voting procedure

These broad guidelines should be read in conjunction with the Responsible Investment Policy. They provide the framework within which the voting guidelines are administered and assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances. Voting decisions are reviewed with the portfolio managers. Where there are areas of contention the decision on voting will ultimately be made by the Chief Investment Officer. A specialist proxy voting advisor is employed to ensure that votes are executed in accordance with the policy.

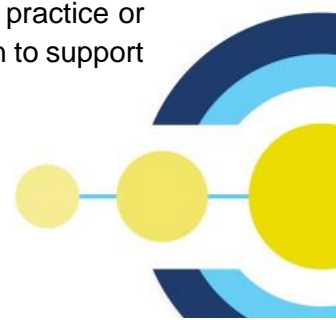
Where a decision has been made not to support a resolution at a company meeting, Border to Coast will, where able, engage with the company prior to the vote being cast. This will generally be where it holds a declarable stake or is already engaging with the company. In some instances, attendance at AGMs may be required.

Border to Coast discloses its voting activity on its website and to Partner Funds on a quarterly basis.

We will support incumbent management wherever possible but recognise that the neglect of corporate governance and corporate responsibility issues could lead to reduced shareholder returns.

We will vote **For**, **Abstain** or **Oppose** on the following basis:

- We will support management that acts in the long-term interests of all shareholders, where a resolution is aligned with these guidelines and considered to be in line with best practice.
- We will abstain when a resolution fails the best practice test but is not considered to be serious enough to vote against.
- We will vote against a resolution where corporate behaviour falls short of best practice or these guidelines, or where the directors have failed to provide sufficient information to support the proposal.



### **3. Voting Guidelines**

#### **Company Boards**

The composition and effectiveness of the board is crucial to determining corporate performance, as it oversees the running of a company by its managers and is accountable to shareholders. Company behaviour has implications for shareholders and other stakeholders. The structure and composition of the board may vary between different countries; however, we believe that the following main governance criteria are valid across the globe.

#### **Composition and independence**

The board should have a balance of executive and non-executive directors so that no individual or small group of individuals can control the board's decision making. They should possess a suitable range of skills, experience and knowledge to ensure the company can meet its objectives. Boards do not need to be of a standard size: different companies need different board structures and no simple model can be adopted by all companies.

The board of large cap companies, excluding the Chair, should consist of a majority of independent non-executive directors although local market practices shall be taken into account. Controlled companies should have a majority of independent non-executive directors, or at least one-third independent directors on the board. As non-executive directors have a fiduciary duty to represent and act in the best interests of shareholders and to be objective and impartial when considering company matters, the board must be able to demonstrate their independence. Non-executive directors who have been on the board for a significant length of time, from nine to twelve years (depending on market practice) have been associated with the company for long enough to be presumed to have a close relationship with the business or fellow directors. We aspire for a maximum tenure of nine years but will review resolutions on a case-by-case basis where the local corporate governance code recommends a maximum tenure between nine and twelve years.

The nomination process of a company should therefore ensure that potential risks are restricted by having the right skills mix, competencies and independence at both the supervisory and executive board level. It is essential for boards to achieve an appropriate balance between tenure and experience, whilst not compromising the overall independence of the board. The re-nomination of board members with longer tenures should be balanced out by the nomination of members able to bring fresh perspectives. It is recognised that excessive length of tenure can be an issue in some markets, for example the US where it is common to have a retirement age limit in place rather than length of tenure. In such cases it is of even greater importance to have a process to robustly assess the independence of long tenured directors. Where it is believed an individual can make a valuable and independent contribution, tenure greater than nine years will be assessed on a case-by-case basis.

The company should, therefore, have a policy on tenure which is referenced in its annual report and accounts. There should also be sufficient disclosure of biographical details so that shareholders can make informed decisions. There are a number of factors which could affect independence, which includes but is not restricted to:

- Representing a significant shareholder.
- Serving on the board for over nine years.



- Having had a material business relationship with the company in the last three years.
- Having been a former employee within the last five years.
- Family relationships with directors, senior employees or advisors.
- Cross directorships with other board members.
- Having received or receiving additional remuneration from the company in addition to a director's fee, participating in the company's share option or performance-related pay schemes, or being a member of the company's pension scheme.

## **Leadership**

The role of the Chairman (he or she) is distinct from that of other board members and should be seen as such. The Chairman should be independent upon appointment and should not have previously been the CEO. The Chairman should also take the lead in communicating with shareholders and the media. However, the Chairman should not be responsible for the day to day management of the business: that responsibility rests with the Chief Executive. The role of Chair and CEO should not be combined as different skills and experience are required. There should be a distinct separation of duties to ensure that no one director has unfettered decision making power.

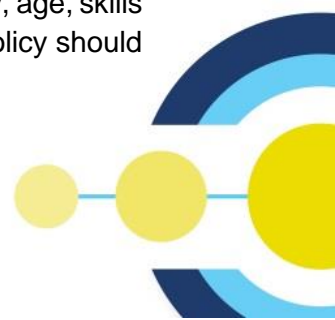
However, Border to Coast recognises that in many markets it is still common to find these positions combined. Any company intending to combine these roles must justify its position and satisfy shareholders in advance as to how the dangers inherent in such a combination are to be avoided; best practice advocates a separation of the roles. A senior independent non-executive director should be appointed, in-line with local corporate governance best practice, if roles are combined to provide shareholders and directors with a meaningful channel of communication, to provide a sounding board for the chair and to serve as an intermediary for the other directors and shareholders. Led by the senior independent director, the non-executive directors should meet without the chair present at least annually to appraise the chair's performance.

## **Non-executive Directors**

The role of non-executive directors is to challenge and scrutinise the performance of management in relation to company strategy and performance. To do this effectively they need to be independent; free from connections and situations which could impact their judgement. They must commit sufficient time to their role to be able to carry out their responsibilities. A senior independent non-executive director should be appointed to act as liaison between the other non-executives, the Chairman and other directors where necessary.

## **Diversity**

Board members should be recruited from as broad a range of backgrounds and experiences as possible. A diversity of directors will improve the representation and accountability of boards, bringing new dimensions to board discussions and decision making. Companies should broaden the search to recruit non-executives to include open advertising and the process for board appointments should be transparent and formalised in a board nomination policy. Companies should have a diversity policy which references gender, ethnicity, age, skills and experience and how this is considered in the formulation of the board. The policy should



give insight into how diversity is being addressed not only at board level but throughout the company and be disclosed in the Annual Report.

In line with the government-backed Davies report and the Hampton-Alexander review we will vote against chairs of the nomination committee at FTSE350 companies where less than 30% of directors serving on the board are female. We will promote the increase of female representation on boards globally in line with best practice in that region and will generally expect companies to have at least one female on the board.

### **Succession planning**

We expect the board to disclose its policy on succession planning, the factors considered and where decision-making responsibilities lie. A succession policy should form part of the terms of reference for a formal nomination committee, comprised solely of independent directors and headed by the Chairman or Senior Independent Director except when it is appointing the Chairman's successor. External advisors may also be employed.

### **Directors' availability and attendance**

It is important that directors have sufficient time to devote to the company's affairs; therefore, full time executives should not hold more than one non-executive position in a FTSE 100 company, or similar size company in other regions; nor the chairmanship of such a company. In the remaining instances, directors working as full-time executives should serve on a maximum of two publicly listed company boards.

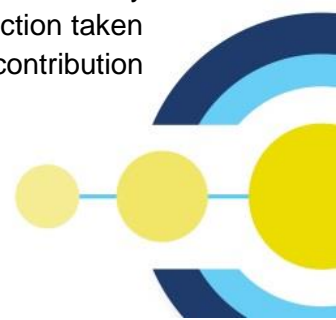
With regard to non-executive directors, there can be no hard and fast rule on the number of positions that are acceptable: much depends upon the nature of the post and the capabilities of the individual. Shareholders need to be assured that no individual director has taken on too many positions. Full disclosure should be made in the annual report of directors' other commitments and attendance records at formal board and committee meetings. A director should attend a minimum of 75% of applicable board and committee meetings to ensure commitment to responsibilities at board level.

### **Re-election**

For a board to be successful it needs to ensure that it is suitably diverse with a range of skills, experience and knowledge. There is a requirement for non-executive directors to be independent to appropriately challenge management. To achieve this, boards need to be regularly refreshed to deal with the issues of stagnant skill sets, lack of diversity and excessive tenure; therefore, all directors should be subject to re-election annually, or in-line with local best practice.

### **Board evaluation**

A requisite of good governance is that boards have effective processes in place to evaluate their performance and appraise directors at least once a year. The annual evaluation should consider its composition, diversity and how effectively members work together to achieve objectives. The board should disclose the process for evaluation and, as far as reasonably possible, any material issues of relevance arising from the conclusions and any action taken as a consequence. Individual director evaluation should demonstrate the effective contribution



of each director. An internal evaluation should take place annually with an external evaluation required at least every three years.

### **Stakeholder engagement**

Companies should take into account the interests of and feedback from stakeholders which includes the workforce. Taking into account the differences in best practice across markets, companies should have an appropriate system in place to engage with employees.

Engagement and dialogue with shareholders on a regular basis are key for companies; being a way to discuss governance, strategy, and other significant issues.

### **Directors' remuneration**

Shareholders at UK companies have two votes in relation to pay; the annual advisory vote on remuneration implementation which is non-binding, and the triennial vote on forward-looking pay policy which is binding. If a company does not receive a majority of shareholder support for the pay policy, it is required to table a resolution with a revised policy at the next annual meeting.

It must be noted that remuneration structures are varied, with not one model being suitable for all companies; however, there are concerns over excessive remuneration and the overall quantum of pay. Research shows that the link between executive pay and company performance is negligible. Excessive rewards for poor performance are not in the best interests of a company or its shareholders. Remuneration levels should be sufficient to attract, motivate and retain quality management but should not be excessive compared to salary levels within the organisation and with peer group companies. There is a clear conflict of interest when directors set their own remuneration in terms of their duty to the company, accountability to shareholders and their own self-interest. It is therefore essential that the remuneration committee is comprised solely of non-executive directors and complies with the market independence requirement.

Remuneration has serious implications for corporate performance in terms of providing the right incentives to senior management, in setting performance targets, and its effect on the morale and motivation of employees. Corporate reputation is also at risk. Remuneration policy should be sensitive to pay and employee conditions elsewhere in the company, especially when determining annual salary increases.

Where companies are potentially subject to high levels of environmental and societal risk as part of its business, the remuneration committee should also consider linking relevant metrics and targets to remuneration to focus management on these issues.

The compensation provided to non-executive directors should reflect the role and responsibility. It should be structured in a manner that does not compromise independence, enhancing objectivity and alignment with shareholders' interests. Non-executive directors should, therefore, not be granted performance-based pay. Although we would not expect participation in Long-term Incentive Plans (LTIPs), we are conscious that in some exceptional instances Non-executives may be awarded stock, however the proportion of pay granted in stock should be minimal to avoid conflicts of interest.



To ensure accountability there should be a full and transparent disclosure of directors' remuneration with the policy published in the annual report and accounts. The valuation of benefits received during the year, including share options, other conditional awards and pension benefits, should be provided. Companies should also be transparent about the ratio of their CEO's pay compared to the median, lower and upper quartiles of their employees.

- **Annual bonus**

Bonuses should reflect individual and corporate performance targets which are sufficiently challenging, ambitious and linked to delivering the strategy of the business and performance over the longer-term. Bonuses should be set at an appropriate level of base salary and should be capped. Provisions should be in place to reduce or forfeit the annual bonus where the company has experienced a significant negative event.

- **Long-term incentives**

Remuneration policies have over time become more and more complex making them difficult for shareholders to adequately assess. Border to Coast therefore encourages companies to simplify remuneration policies.

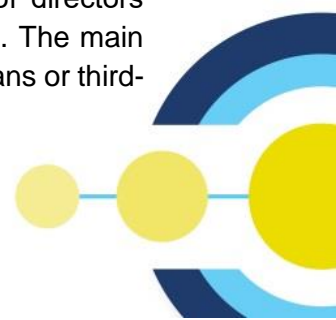
Performance-related remuneration schemes should be created in such a way to reward performance that has made a significant contribution to shareholder value. The introduction of incentive schemes to all employees within a firm is encouraged and supported as this helps all employees understand the concept of shareholder value. However, poorly structured schemes can result in senior management receiving unmerited rewards for substandard performance. This is unacceptable and could adversely affect the motivation of other employees.

Incentives are linked to performance over the longer-term in order to create shareholder value. If restricted stock units are awarded under the plan, the vesting period should be at least three years to ensure that the interests of both management and shareholders are aligned in the long-term. Employee incentive plans should include both financial and non-financial metrics and targets that are sufficiently ambitious and challenging. Remuneration should be specifically linked to stated business objectives and performance indicators should be fully disclosed in the annual report.

The performance basis of all such incentive schemes under which benefits are potentially payable should be clearly set out each year, together with the actual performance achieved against the same targets. We expect clawback or malus provisions to be in place for all components of variable compensation. We encourage Executive Directors to build a significant shareholding in the company to ensure alignment with the objectives of shareholders. These shares should be held for at least two years post exit.

### **Directors' contracts**

Directors' service contracts are also a fundamental part of corporate governance considerations. Therefore, all executive directors are expected to have contracts that are based upon no more than twelve months' salary. Retirement benefit policies of directors should not be excessive, and no element of variable pay should be pensionable. The main terms of the directors' contracts including notice periods on both sides, and any loans or third-



party contractual arrangements such as the provision of housing or removal expenses, should be declared within the annual report. Termination benefits should be aligned with market best practice.

## **Corporate reporting**

Companies are expected to report regularly to shareholders in an integrated manner that allows them to understand the company's strategic objectives. Companies should be as transparent as possible in disclosures within the Report and Accounts. As well as reporting financial performance, business strategy and the key risks facing the business, companies should provide additional information on ESG issues that also reflect the directors' stewardship of the company. These could include, for example, information on a company's human capital management policies, its charitable and community initiatives and on its impact on the environment in which it operates.

Every annual report (other than those for investment trusts) should include an environmental section, which identifies key quantitative data relating to energy and water consumption, emissions and waste etc., explains any contentious issues and outlines reporting and evaluation criteria. It is important that the risk areas reported upon should not be limited to financial risks. We will encourage companies to report and disclose in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and the Workforce Disclosure Initiative in relation to human capital reporting.

## **Audit**

The audit process must be objective, rigorous and independent if it is to provide assurance to users of accounts and maintain the confidence of the capital markets. To ensure that the audit committee can fulfil its fiduciary role, it should be established as an appropriate committee composition with at least three members who are all independent non-executive directors and have at least one director with a relevant audit or financial background. Any material links between the audit firm and the client need to be highlighted, with the audit committee report being the most appropriate place for such disclosures. Audited financial statements should be published in a timely manner ahead of votes being cast at annual general meetings.

FTSE 350 companies should tender the external audit contract at least every ten years. Reappointment of the same firm with rotation of the audit partner, will not be considered as sufficient. If an auditor has been in place for more than ten fiscal years, their appointment will not be supported. For the wider market, the external audit contract should be put out to tender at least every ten years. Where an auditor has resigned, an explanation should be given. If the accounts have been qualified or there has been non-compliance with legal or regulatory requirements, this should be drawn to shareholders' attention in the main body of the annual report. If the appropriate disclosures are not made, the re-appointment of the audit firm will not be supported.





## **Non-Audit Fees**

There is concern over the potential conflict of interest between audit and non-audit work when conducted by the same firm for a client. Companies must therefore make a full disclosure where such a conflict arises. There can be legitimate reasons for employing the same firm to do both types of work, but these need to be identified. As a rule, the re-appointment of auditors will not be supported where non-audit fees are considerably in excess of audit fees in the year under review, and on a three-year aggregate basis, unless sufficient explanation is given in the accounts.

## **Political donations**

There are concerns over the reputational risks and democratic implications of companies becoming involved in funding political processes, both at home and abroad. Companies should disclose all political donations, demonstrate where they intend to spend the money and that it is the interest of the company and shareholders. Where these conditions are not met, or there is insufficient disclosure that the money is not being used for political party donations, political donations will be opposed.

## **Lobbying**

A company should be transparent and publicly disclose direct lobbying, and any indirect lobbying through its membership of trade associations. We will assess shareholder proposals regarding lobbying on a case-by-case basis; however, we will generally support resolutions requesting greater disclosure of trade association and industry body memberships, any payments and contributions made, and requiring alignment of company and trade association values.

## **Shareholder rights**

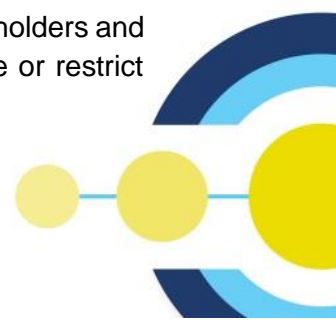
As a shareowner, Border to Coast is entitled to certain shareholder rights in the companies in which it invests (Companies Act 2006). Boards are expected to protect such ownership rights.

- **Dividends**

Shareholders should have the chance to approve a company's dividend policy and this is considered best practice. The resolution should be separate from the resolution to receive the report and accounts. Failure to seek approval would elicit opposition to other resolutions as appropriate.

- **Voting rights**

Voting at company meetings is the main way in which shareholders can influence a company's governance arrangements and its behaviour. Shareholders should have voting rights in equal proportion to their economic interest in a company (one share, one vote). Dual share structures which have differential voting rights are disadvantageous to many shareholders and should be abolished. We will not support measures or proposals which will dilute or restrict our rights.



- **Authority to issue shares**

Companies have the right to issue new shares in order to raise capital but are required by law to seek shareholders' authority. Such issuances should be limited to what is necessary to sustain the company and not be in excess of relevant market norms.

- **Disapplication of Pre-emption Rights**

Border to Coast supports the pre-emption rights principle and considers it acceptable that directors have authority to allot shares on this basis. Resolutions seeking the authority to issue shares with and without pre-emption rights should be separate and should specify the amounts involved, the time periods covered and whether there is any intention to utilise the authority.

### **Share Repurchases**

Border to Coast does not necessarily oppose a company re-purchasing its own shares but it recognises the effect such buy backs might have on incentive schemes where earnings per share measures are a condition of the scheme. The impact of such measures should be reported on. It is important that the directors provide a full justification to demonstrate that a share repurchase is the best use of company resources, including setting out the criteria for calculating the buyback price to ensure that it benefits long-term shareholders.

### **Memorandum and Articles of Association**

Proposals to change a company's memorandum and articles of association should be supported if they are in the interests of Border to Coast, presented as separate resolutions for each change, and the reasons for each change provided.

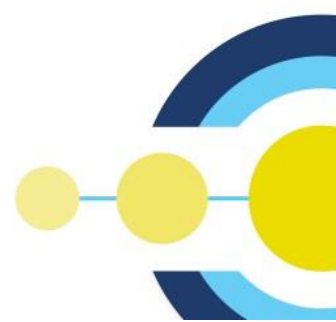
### **Mergers and acquisitions**

Border to Coast will normally support management if the terms of the deal will create rather than destroy shareholder value and makes sense strategically. Each individual case will be considered on its merits. Seldom will compliance with corporate governance best practice be the sole determinant when evaluating the merits of merger and acquisition activity, but full information must be provided to shareholders on governance issues when they are asked to approve such transactions. Recommendations regarding takeovers should be approved by the full board.

### **Articles of Association and adopting the report and accounts**

It is unlikely that Border to Coast will oppose a vote to adopt the report and accounts simply because it objects to them per se; however, there may be occasions when we might vote against them to lodge dissatisfaction with other points raised within this policy statement. Although it is a blunt tool to use, it can be an effective one especially if the appropriate Chair or senior director is not standing for election.

If proposals to adopt new articles or amend existing articles might result in shareholders' interests being adversely affected, we will oppose the changes.



## **Virtual Shareholder General Meetings**

Many companies are considering using electronic means to reach a greater number of their shareholders. An example of this is via a virtual annual general meeting of shareholders where a meeting takes place exclusively using online technology, without a corresponding in-person meeting. There are some advantages to virtual only meetings as they can increase shareholder accessibility and participation; however, they can also remove the one opportunity shareholders have to meet face to face with the Board to ensure they are held to account. We would expect an electronic meeting to be held in tandem with a physical meeting. Any amendment to a company's Articles to allow virtual only meetings will not be supported.

## **Shareholder Proposals**

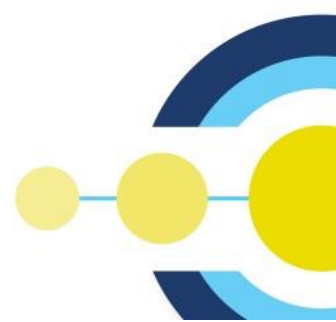
We will assess shareholder proposals on a case by case basis. Consideration will be given as to whether the proposal reflects Border to Coast's Responsible Investment policy, is balanced and worded appropriately, and supports the long-term economic interests of shareholders.

## **Investment trusts**

Border to Coast acknowledges that issues faced by the boards of investment companies are often different to those of other listed companies. The same corporate governance guidelines do not necessarily apply to them; for example, investment companies can operate with smaller boards. However, the conventions applying to audit, board composition and director independence do apply.

The election of any representative of an incumbent investment manager onto the board of a trust managed or advised by that manager will not be supported. Independence of the board from the investment manager is key, therefore management contracts should not exceed one year and should be reviewed every year. In broad terms, the same requirements for independence, diversity and competence apply to boards of investment trusts as they do to any other quoted companies.

We may oppose the adoption of the report and accounts of an investment trust where there is no commitment that the trust exercises its own votes, and there is no explanation of the voting policy.



This page is intentionally left blank

# Agenda Item 12

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank



# Agenda Item 13

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A  
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank