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County Offices
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23 November 2022

Pensions Committee

A meeting of the Pensions Committee will be held on **Thursday, 1 December 2022** in the **Council Chamber, County Offices, Newland, Lincoln LN1 1YL** at **10.00 am** for the transaction of business set out on the attached Agenda.

Yours sincerely

Debbie Barnes OBE
Chief Executive

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

Councillors E W Strengiel (Chairman), P E Coupland (Vice-Chairman), M G Allan, M A Griggs, T J N Smith, Dr M E Thompson and 2 Vacancies

Co-Opted Members

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

PENSIONS COMMITTEE AGENDA
THURSDAY, 1 DECEMBER 2022

authority administration discretions and delegations for various investment decisions)

12 **Border to Coast Responsible Investment Policy, Corporate Governance and Voting Guidelines and Climate Change Policy Annual Review** 193 - 242

(To receive a report by Jo Ray, Head of Pensions, which highlights the changes to Border to Coast's Responsible Investment (RI) Policy and Corporate Governance and Voting Guidelines for consideration since the last time it was reviewed)

13 **Border to Coast Governance Review** 243 - 348

(To receive a report by Jo Ray, Head of Pensions, which presents the outcome of the governance review undertaken on the key company documents of Border to Coast to the Committee, for consideration)

14 **Annual Report and Accounts 2021/22: The External Auditor's Audit Completion Report** 349 - 386

(To receive a report by Claire Machej, Accounting, Investment and Governance Manager, which presents the Audit Completion Report from Mazars, the Fund's External Auditor, on the 2021/22 audit of the financial statements)

15 **Funding Strategy Statement and Climate Analysis Report** 387 - 450

(To receive a report by Jo Ray, Head of Pensions, which brings to the Committee the draft Funding Strategy Statement and the Climate Analysis Report, produced by the Fund's Actuary, for consideration and comment)

16 **CONSIDERATION OF EXEMPT INFORMATION**

In accordance with Section 100 (A)(4) of the Local Government Act 1972, agenda item 17 has not been circulated to the press and public on the grounds that it is considered to contain exempt information as defined in paragraph 3 of Part 1 of Schedule 12 A of the Local Government Act 1972, as amended. The press and public may be excluded from the meeting for the consideration of this item of business.

17 **Investment Performance Report** 451 - 524

(To receive an exempt report from Claire Machej, Accounting, Investment and Governance Manager, which provides information in relation to investment performance)

Democratic Services Officer Contact Details

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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.

Please note: This meeting will be broadcast live on the internet and access can be sought by accessing Agenda for Pensions Committee on Thursday, 1st December, 2022, 10.00 am (moderngov.co.uk)

All papers for council meetings are available on:
https://www.lincolnshire.gov.uk/council-business/search-committee-records

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Lincolnshire COUNTY COUNCIL Working for a better future

PENSIONS COMMITTEE
22 SEPTEMBER 2022

PRESENT: COUNCILLOR E W STRENGIEL (CHAIRMAN)

Councillors M G Allan, T J N Smith and Dr M E Thompson

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

Roger Buttery attended the meeting as an observer

Officers in attendance:- Claire Machej (Accounting, Investment and Governance Manager), Jo Ray (Head of Pensions) and Thomas Crofts (Democratic Services Officer)

Others in attendance: Kelly Steele and Melanie Durrant (Barnett Waddingham)

24 APOLOGIES FOR ABSENCE

Apologies for absence were received from Councillor P Coupland.

25 DECLARATIONS OF MEMBERS' INTERESTS

Councillor R Waller (District Council Representative) declared an interest as his daughter and her partner were members of the Pension Fund.

Andy Antcliff (Employee Representative) declared an interest as a contributing member of the Pension Fund and an employee of Lincolnshire County Council.

Councillor M G Allan declared an interest as a pensioner member of the Pension Fund.

26 MINUTES OF THE PREVIOUS MEETING HELD ON 14 JULY 2022

RESOLVED

That the minutes of the meeting held on 14 July 2022 be approved as a correct record and signed by Chairman.

27 INDEPENDENT ADVISOR'S REPORT

Consideration was given to a report prepared by the Committee’s Independent Advisor which provided a market commentary on the current state of global investment markets.

RESOLVED

That the update be noted.

28 REPORT BY THE INDEPENDENT CHAIR OF THE LINCOLNSHIRE LOCAL PENSION BOARD

Consideration was given to a report by the Independent Chair of the Lincolnshire Local Pension Board which updated the Pensions Committee on the work of the Board during the past few months. During the last meeting, the Board focused on the following matters:

- The Board was encouraged by the fund administrator's proposed use of an optical reader to improve data quality and update historical records.
- The Board felt that the risk register followed a good approach.
- The Board welcomed the further review, by West Yorkshire Pension Fund, of performance metrics for the administration service to improve the utility of set targets.
- The service was commended for achieving the high levels of assurance found by internal audit.
- Members of the Board were satisfied with the annual report.
- Jo Ray was congratulated for being appointed to the PLSA Local Authority Committee and her future input was welcomed.

Members agreed that performance indicator reporting could be broken down to improve clarity.

RESOLVED

That the report be noted.

29 PENSION FUND UPDATE REPORT

Consideration was given to a report presented by the Head of Pensions which updated the Committee on Fund matters for the quarter ending 30 June 2022 and any other current issues. Matters included Funding and Performance Update; TPR Checklist Dashboard and Code of Practice; Breaches Register Update; Risk Register Update; Asset Pooling Update; the Department of Levelling-Up, Housing and Communities consultation on governance and the reporting of climate change risks; and conference and training attendance.

The Committee discussed the report and were advised of the following:

- Performance could only be compared to benchmark data, which showed a slight outperformance. Due to the long-term nature of the Fund's investments, it was important to focus on the longer term performance of managers rather than quarterly performance reports.

- Members were advised that investing in renewable energy was an investment opportunity, and that the Fund did not have a policy to divest from companies that were not fully producing renewable energy.
- Nominal fines were issued by the Fund for late and inaccurate employer contribution payments and data, and significant breaches were reported to the pensions regulator, who could issued substantial fines.
- The impacts of changes in government were unknown at present.

Members discussed the impact of divesting in fossil fuels in the current cost of living crisis and welcomed further policies on the matter from the Government.

RESOLVED

That the report be noted.

30 RESPONSIBLE INVESTMENT UPDATE REPORT

Consideration was given to a report presented by the Accounting, Investment and Governance Manager which provided the Committee with an update on the Responsible Investment activity during the first quarter of the financial year 2022/23 (April to June inclusive). This included activity for the Local Authority Pension Fund, Border to Coast Pensions Partnership, Robeco, and Legal and General Investment Management; Border to Coast Environmental, Social and Governance Reporting; and voting records.

RESOLVED

That the Responsible Investment activity undertaken during the quarter be noted.

31 PENSIONS ADMINISTRATION REPORT

Consideration was given to a report prepared by the Fund’s pension administrator, West Yorkshire Pension Fund (WYPF). The Committee was guided through the report – attention was drawn to the following matters:

- Performance had fallen in some areas due to prioritisation of tasks, which had a direct impact on the triennial valuation and McCloud work, combined with issues regarding staff resources.
- Internal audit had found good levels of assurance.
- The Pensions Dashboard, alongside McCloud, was another resource intensive project that was currently underway.

The Committee discussed the report and were advised of the following:

- A table was to be included within the report outlining the administrator’s staff vacancies and recruited positions.

- The meaning of the interfund performance indicators was explained and reassurance was given that, although targets were not met, this did not immediately impact scheme members, as these were employees moving between employers within the Fund, rather than being transferred in or out of the Lincolnshire fund.

Members sought clarity on the overspend on employment costs from WYPF.

RESOLVED

1. That the report be noted.
2. That WYPF clarify their overspend on employment costs to Members.

32 EMPLOYER MONTHLY SUBMISSIONS UPDATE

Consideration was given to a report presented by the Accounting, Investment and Governance Manager, which provided the Committee with up-to-date information on Employer Monthly Submissions for the first quarter of the financial year 2022/23 (April to June inclusive). The Committee was guided through the report.

- There had been two payroll providers who made late submissions for six employers during the first quarter. This was due to difficulties regarding data extraction from their payroll systems; however, cash contributions had been paid over on time.
- One late submitter was now up-to-date.
- The other late submitter was still struggling with IT systems but was being offered support to resolve the delay.
- No fine had been issued as yet in 2022/23.

The Committee discussed the report and were advised of the following:

- The minimum and maximum fines that could be issued by Lincolnshire County Council, as the administrator, were £136 and £300, respectively.
- Employers were warned three times before a fine was issued.

RESOLVED

That the report be noted.

33 ANNUAL REPORT AND ACCOUNTS 2021/22: EXTERNAL AUDIT UPDATE REPORT

The Committee received a report which provided an update from the Fund's external auditor, on the 2021/22 audit of the financial statements. The report detailed the outstanding work and findings from the work completed to date.

Members were provided with the opportunity to ask questions – the following points were raised during discussion:

- Members welcomed that the audit's findings were received on a more timely basis than in previous years.
- In terms of timescales, the external auditors final report was to be submitted to the Audit Committee in November 2022 and the Pension Fund accounts will be considered as part of the combined Statement of Accounts with the County Council's accounts.
- The Pension Fund continued to lobby for the Statement of Accounts for the County Council and the Pension Fund to be separated, as they often delay each other at different times.

RESOLVED

That the report be noted.

34 PERFORMANCE MEASUREMENT ANNUAL REPORT

Consideration was given to a report which set out the Pension Fund's longer term investment performance for the period ending 31 March 2022. Members were guided through the report and information was outlined regarding 10-year returns, 5-year returns, 3-year returns, 1-year returns, and long-term performance analysis.

Members were provided with the opportunity to ask questions – the following points were raised during discussion:

- Pension payments were expected to increase next year due to the rise in inflation.
- It was anticipated the interest rates would continue to rise.
- The report presented data in relation to what had happened regarding performance, and did not project future issues.

RESOLVED

That the report be noted.

35 2022 VALUATION - DRAFT RESULTS

Consideration was given to a presentation by Barnett Waddingham, which covered the draft whole Fund results of the 2022 triennial valuation to the Committee.

- The presentation covered the progress of the valuation to date, the initial results for the whole Fund, the Funding Strategy Statement, and the next steps. The following was also reported:
- Contribution rates were expected to remain stable.
- The need for greater prudence meant that improvements in the funding position were not as good as predicted.

- Work concerning the McCloud ruling were underway.
- Inflation was predicted to be a longer-term issue than previously thought.
- The impact of the pandemic on the Fund was unclear and did not have a significant bearing on base longevity assumptions. However, increases in life expectancy were slowing.

The proposed assumptions accounted for salary and pension increases and expected investment returns.
Overall, the Fund was in a good position.

Members were provided with the opportunity to ask questions – the following points were raised during discussion:

- Life expectancy increases had decreased for the first time which had a positive impact on fund liabilities. However, scheme members were retiring earlier and so contributions were reducing. The actuarial methodology covered a six month period to smooth volatility.
- Rising contribution rates potentially posed issues for smaller employers. Employer surgeries were being offered to all employers as part of the valuation results communication process to assist employers.
- As required by Government Actuaries Department (GAD), a number of climate risk scenarios have been modelled in the funding strategy and the report will be shared as part of the final Valuation results.

RESOLVED

1. That the Committee note the report and comments made.
2. That the Committee approve the draft results.

36 CONSIDERATION OF EXEMPT INFORMATION

RESOLVED

That under Section 100(A) of the Local Government Act 1972, the press and public be excluded from the meeting for the following item of business on the grounds that it is considered to contain exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972, as amended.

37 INVESTMENT PERFORMANCE REPORT

Consideration was given to a report which reviewed investment performance. A number of questions were asked and answered.

RESOLVED

That the exempt report be noted.

The meeting closed at 12.51 pm

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Lincolnshire COUNTY COUNCIL Working for a better future

PENSIONS COMMITTEE
13 OCTOBER 2022

PRESENT: COUNCILLOR E W STRENGIEL (CHAIRMAN)

Councillors P E Coupland (Vice-Chairman), M G Allan, T J N Smith and Dr M E Thompson

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

Officers in attendance:- Claire Machej (Accounting, Investment and Governance Manager), Jess Wosser-Yates (Democratic Services Officer), Jo Ray (Head of Pensions) and Thomas Crofts (Democratic Services Officer)

38 APOLOGIES FOR ABSENCE

There were no apologies for absence.

39 DECLARATIONS OF MEMBERS' INTERESTS

Councillor R Waller (District Council Representative) declared an interest as his daughter and her partner were members of the Pension Fund.

Andy Antcliff (Employee Representative) declared an interest as a contributing member of the Pension Fund and an employee of Lincolnshire County Council.

Councillor M G Allan declared an interest as a pensioner member of the Pension Fund.

Councillor P Coupland declared an interest as South Holland District Council's representative at PSPS Ltd.

40 PENSIONS COMMITTEE STRUCTURE AND TERMS OF REFERENCE - PROPOSED CHANGE

Consideration was given to a report by the Head of Pensions, which proposed changes to the structure of the Pensions Committee following the Scheme Advisory Board Good Governance Review, as well as amendments to the terms of reference in the Council's constitution to better reflect the requirements of the Pensions Committee.

RESOLVED:

1. That the Committee approve the proposed Committee structure change to increase the number of Committee members by one enabling a place for a representative from the Academies sector.
2. That the Committee approve the proposed updates to the terms of reference in the Council's constitution.

The meeting closed at 10.04 am

Lincolnshire COUNTY COUNCIL Working for a better future

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

Report to:	**Pensions Committee**
Date:	**01 December 2022**
Subject:	**Independent Advisor's Report**

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 discuss the report and consider whether any further information is required.

Background

Investment Commentary – December 2022

Has the rate of Inflation peaked? How will markets react?

The rate of inflation might well have peaked, both in the UK and globally. And if it has not, it should do so in the next several months. Wholesale gas prices have fallen substantially from their high point in the late summer – and oil prices have weakened somewhat. All being well, the northern hemisphere should just about get through the coming winter without severe energy blackouts. Some load shedding (where large industrial enterprises are denied supply for a period of hours at peak times) should, hopefully, enable private consumers to manage without interruption.

Markets

Equity markets were seemingly poised, in late summer, to rise once they were convinced that inflation rates (especially in the USA) had peaked and would fall rapidly. Pronouncements from most of the world's Central Banks have poured scorn on that idea. Bankers have repeatedly emphasised that their key objective is to achieve their target inflation rates within a reasonable time period – and for most that is a target of around 2%. Most headline inflation rates are still close to 10%. Avoiding a recession seems not to be in Bankers' remit.

Attention is also focussed on unemployment, which continues to run at historically low levels. Until this shows some signs of increasing, Central Banks will be fearful of excessive wage settlements, which could well embed themselves into more general inflationary expectations. And of course, some supply chain shortages remain – which heighten fears that high inflation will remain "sticky".

In September and October, many equity markets fell more than 10% - in a reversal of their previous optimism. That seemed principally to be based on listening to recent pronouncements from Central Banks that short term interest rates are likely to be "higher for longer". In turn, that led to falls in government bond markets, notably in the UK, spooked by the former Chancellor's "mini budget". So, markets are presently in a somewhat fragile state, although there has been some buoyancy in recent weeks.

Economic prospects

Many commentators (and I include myself) are of the view that it will be next to impossible to avoid a global recession in 2023, in view of higher domestic energy charges, rising supermarket bills, soaring mortgage interest rates and increased housing rents. These effects are not confined to the UK but are widespread in the developed world. The debate is more about how deep and for what duration. The International Monetary Fund, for example, is of the opinion that a global downturn can be avoided. A shallow but short-lived recession might well allow markets (both equity and bonds) to regain their poise, if inflation were thought likely to fall quickly. But anything approaching a slump would certainly have a more devastating effect on equities, with the fear that price inflation might vanish to be replaced by price falls. Such a scenario could well, of course, lead to government bond markets regaining their poise: but that might well not spill over into corporate bonds, if default rates were to rise significantly.

Government bond markets

The falls in these markets in 2022 have been astonishing and committee members may well be unaware of their magnitude. For example, 30 year UK Gilt Edged Stock (a direct obligation of the UK government) offered a yield of somewhat over 1% per annum in January and is now about 3.5%. The price fall amounts to about 40%. At their low point in price, after the previous Chancellor's mini budget, the fall reached an amazing 50%, exacerbated by some pension funds being 'forced sellers" to finance their cash needs under their Liability Driven Investment ("LDI") contracts. This latter fall completely dwarfed the falls in most equity markets.

Institutional cash flows

Institutional cash flows remain robust. Are these government yields now sufficiently attractive to tempt buyers into bond markets on a large scale? On one measure, compared to the current rates of inflation of around 10%, clearly not. There is a substantial loss in real, inflation adjusted, terms. If inflation were to fall rapidly towards targets of say 2% - then maybe. Many commentators think inflation will be "sticky" in 2023, averaging maybe 4% (albeit on a falling trend). Central Banks would probably respond with short term interest rates of say 5% per annum. If government bond markets are not yet sufficiently attractive, where does the cash go? One possibility is alternatives, especially private equity. But these are notoriously slow to lower their valuations to reflect the changed economic circumstance and, in particular, the falls in equities and bonds. That only leaves quoted equity markets. So, in spite of sentiment towards them being fickle, I suspect most developed global equity markets are close to forming a base.

Postscript: UK Chancellor's Autumn Statement

Mr Hunt gave his statement very close to my deadline for the submission of this report. The package was wide ranging – in order to spread the burden of tax increases and benefit upgrades as broadly as possible. He expects a recession in the UK in 2023. A succinct summary of the measures is therefore difficult, especially so soon after the announcement. The markets took the package calmly – as was no doubt one of the Chancellor's objectives. I will report more fully when we meet in December.

Conclusion

Peter Jones
18th November 2022

Consultation

a) Risks and Impact Analysis

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

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 Peter Jones, who can be contacted on 01522 553641 or claire.machej@lincolnshire.gov.uk.

Lincolnshire COUNTY COUNCIL Working for a better future

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

Report to:	**Pensions Committee**
Date:	**01 December 2022**
Subject:	**Report by the Independent Chair of the Lincolnshire Local Pension Board**

Summary:

The purpose of this report is:

A) To update the Pensions Committee on the work of the Pension 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):

That the Committee consider the work of the Pension Board and the assurances gained from their work.

Background

1.0 OUTCOMES FROM THE PENSION BOARD MEETING ON 22 SEPTEMBER 2022

1.1 The PB met on the 22 September and the main focus was on the following issues:

a) Data Improvement Plan

b) Temporary Bank Accounts

c) Internal Audit

d) External Audit Update Report

e) Draft Actuarial Valuation Results

1.2 **Data Quality Report** – the PB received a further update from WYPF on the data scores for the improvement plan. Much of the missing data is historic and therefore currently it is not reported in the data fields. WYPF IT have identified a suitable supplier for intelligent character recognition software which can potentially identify data quality items from scanned paperwork on a member's record. Once this is operational, WYPF is expecting a significant improvement in the Scheme Specific scores in 2023. The PB will continue to monitor the position because the Pensions Regulator expects an improvement in data quality for all public sector schemes.

1.3 **Temporary Bank Accounts** – for a number of years, WYPF has set up a number of temporary bank accounts with HSBC for deferred or pensioner beneficiaries who are entitled to a pension scheme benefit (be it a refund of contributions or a lump sum/pension) but for whom WYPF has lost contact or who will not claim their benefits. The PB received a report showing the number of temporary bank accounts created by the Fund to hold monies due to beneficiaries in the scheme. There were 36 temporary deposit accounts totalling £37,885 in respect of pensioners and deferred members. This is a reduction on the number of accounts previously held as some beneficiaries have been traced. The total number of temporary accounts for post 2014 refunds was 466, totalling £59,331. The PB supported the use of follow up visits for contacting beneficiaries with significant benefits.

1.4 **Internal Audit** – Bradford Council's Internal Audit Team had undertaken two reviews of the pensions service. The first covered the Shared Service Partner Admission. Internal Audit's opinion was that the standard of control of identified risks in the system is good. Internal Audit made six recommendations for improvement all of which have now been implemented. The second covered New Pensions and Lump Sums Deferred Pensions. Internal Audit's opinion was that the standard of control of identified risks in the system is good. Internal Audit made one recommendation for improvement which Managers are currently looking at implementing.

1.5 **External Audit Update Report** – the PB also considered a progress report on the external audit of the Annual Report & Accounts for 2021/2022. The audit of the Fund Statement of Accounts was largely complete and the external auditor is expected to give an unqualified audit opinion in November. However, the audit of the Council's Statement of Accounts is likely to delay the approval of the Fund's Statement of Accounts because currently they are considered together which is disappointing. The PB has previously requested the external audit of the fund to be outside the Council's Statement of Accounts.

1.6 **Draft Valuation Results** – the PB considered the draft 2022 valuation results. As primary contribution rates were expected to increase for some employers, there were concerns regarding the sustainability of contributions because many employers are struggling to manage the increasing cost of inflation.

1.7 **The Retirement Process** – the review of services to members approaching retirement was deferred as WYPF staff were unable to join the meeting because of IT issues.

Conclusion

2.0 <u>ASSURANCES GAINED BY THE BOARD</u>

2.1 The PB has concerns about the progress on the data scores and cannot provide full assurance on this aspect.

2.2 The PB welcomed the reduction in the number of temporary bank accounts for pensioners and deferred members but is keen for the WYPF to make further efforts to ensure that pension entitlements are paid to the beneficiaries.

2.3 The PB was pleased that the Bradford City's Internal Audit Team continue to place high assurance on the work of the pensions administration function undertaken by the WYPF.

2.4 The PB was delighted that the external auditor is expected to give an unqualified opinion on the Fund Statement of Accounts which demonstrates the excellent stewardship by the Lincoln Pension's Team and WYPF.

2.5 The PB has concerns at the affordability of any increase in contribution rates for some employers following the draft actuarial valuation results.

Roger Buttery
Independent Chairman

November 2022

Consultation

a) Risks and Impact Analysis

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

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 Roger Buttery, who can be contacted on 01522 553641 or claire.machej@lincolnshire.gov.uk.

Lincolnshire COUNTY COUNCIL
Working for a better future

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

Report to:	**Pensions Committee**
Date:	**1 December 2022**
Subject:	**Pension Fund Update Report**

Summary:

This report updates the Committee on Fund matters for the quarter ending 30 September 2022 and any other current issues.

The report covers:

1. Funding and Performance Update
2. TPR Checklist Dashboard and Code of Practice
3. Breaches Register Update
4. Risk Register Update
5. Asset Pooling Update
6. Budget and Workplan Update
7. Investment Consultant Change
8. Conference and Training Attendance

Recommendation(s):

That the Committee:

1) consider and discuss the report and agree whether any action or additional information is required; and
2) approve the proposed changes to the risk register.

Background

1. Funding and Performance Update

1.1 Over the period covered by this report, the value of the Fund's invested assets fell by £49.2m (-1.8%) to £2,855.3m on 30 September 2022.

Asset Allocation

1.2 Appendix A shows the Fund's distribution as at 30 September. At an asset class level, due property is now within its tolerance levels, having been underweight for a period of time. This is mainly due to relative movements across asset classes. Cash is overweight, as this is being used to fund expected drawdowns in property and infrastructure investments.

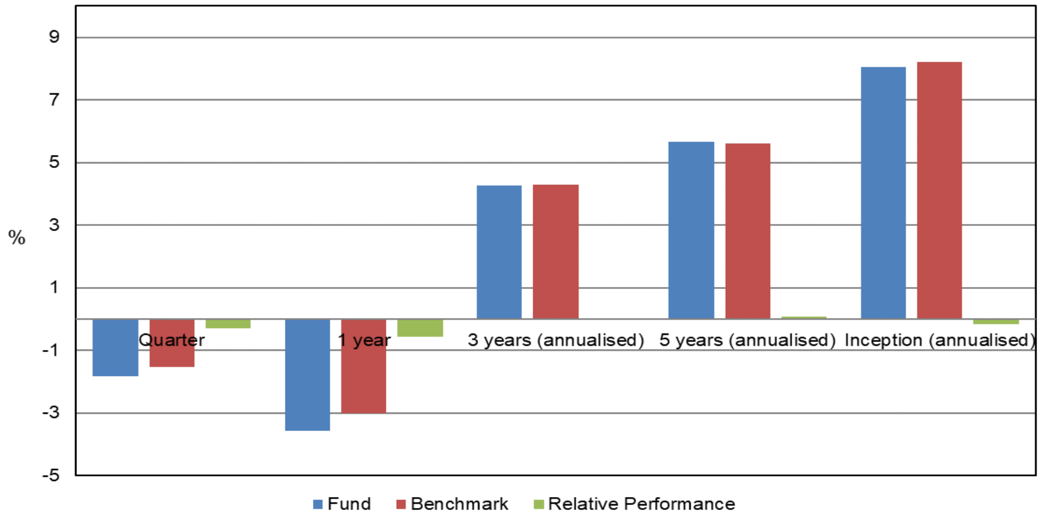
1.5 The Fund's overall position relative to its benchmark is set out in the table below.

Asset Class	Q3 2022 £m	Q2 2022 £m	Asset Allocation %	Strategic Asset Allocation %	Difference %
UK Equities	446.2	459.8	15.6	15.0	0.6
Global Equities	1,119.5	1,114.0	39.2	40.0	(0.8)
Alternatives	675.8	673.6	23.8	21.5	2.3
Property	255.4	269.0	8.9	10.0	(1.1)
Fixed Interest	288.8	324.5	10.1	12.5	(2.4)
Cash	69.6	63.5	2.4	1.0	1.4
Total *	**2,855.3**	**2,904.5**	**100.0**	**100.0**	

(* Excludes transactional cash and Border to Coast shareholding)

Fund Performance

1.6 The graph and table below show 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	(1.82)	(1.52)	(0.30)
1 year	(3.58)	(3.02)	(0.56)
3 years*	4.27	4.30	(0.03)
5 years*	5.67	5.60	0.07
Inception**	8.04	8.20	(0.16)

*Annualised from 3yrs. **Since Inception figures are from March 1987

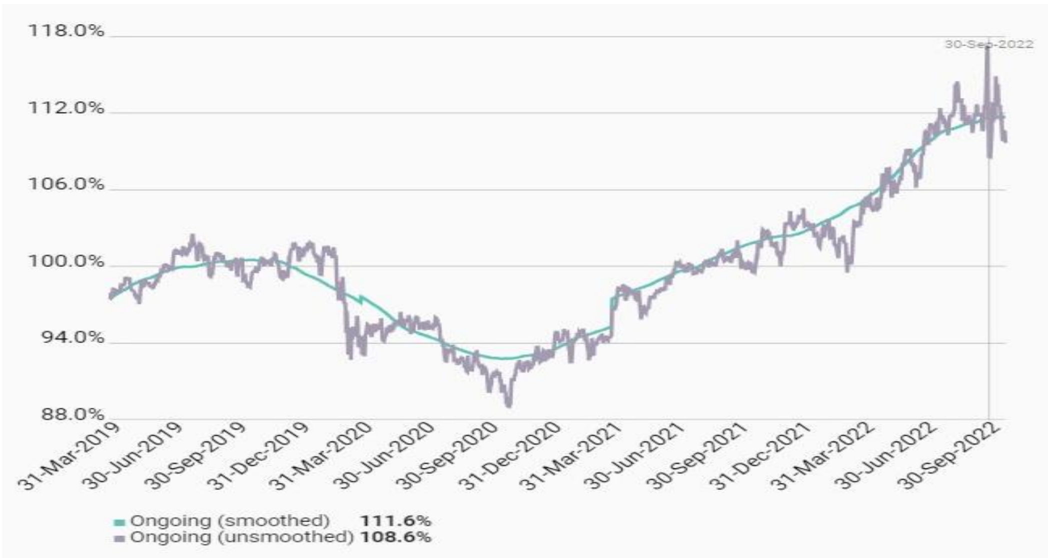
1.7 Over the quarter, the Fund produced a negative return of -1.82% (as measured by Northern Trust), underperforming the benchmark by 0.3%. The Fund was ahead of the benchmark over the five-year period, but slightly underperformed over 1 year, 3 years and since inception. Details of managers' performance are covered in the Investment Performance report later in the agenda.

1.8 Appendix B shows the market returns over the three and twelve months to 30 September 2022.

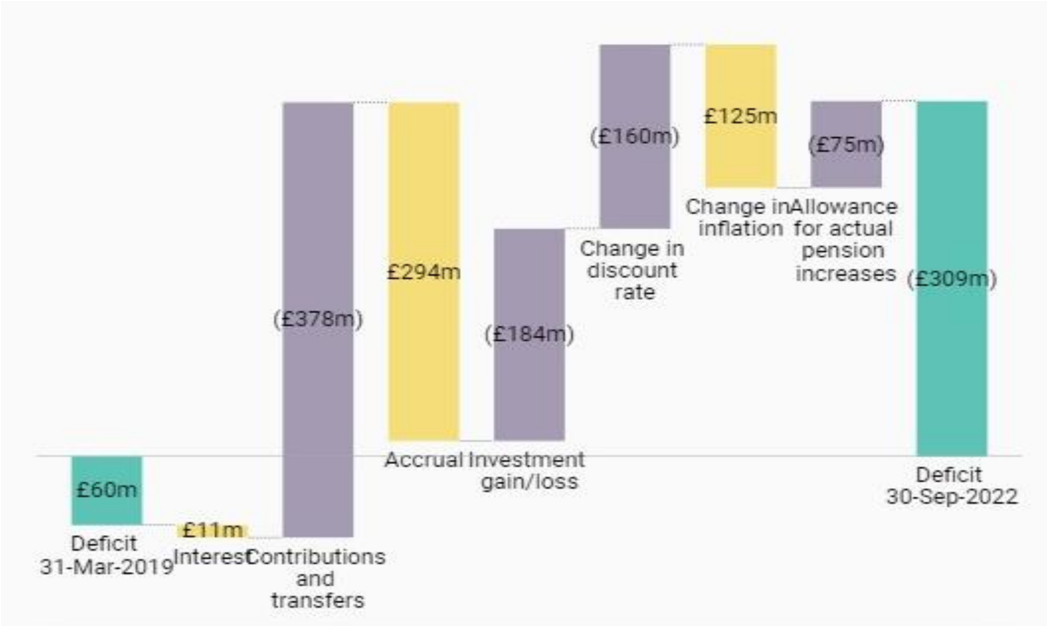
Funding Level

1.9 The funding update is provided to illustrate the estimated development of the funding position of the Lincolnshire Pension Fund from the latest formal valuation, 31 March 2019, to the current quarter end, 30 September 2022. The accuracy of this type of funding update will decline over time, as the period since the last valuation increases. This is because the funding update does not allow for changes in individual members' data since the last valuation. It is, however, a useful tool to assist the Committee to identify whether the time is right to reduce the overall risk in the asset allocation of the Fund, as it approaches a higher funding level.

1.10 At the last formal valuation, reworked under the methodology of Barnet Waddingham, the funding level was 97.5%, with assets and liabilities measured at £2.33bn and £2.39bn respectively. Since the valuation date, the funding level has increased by 14.1% to 111.6%. The graph below shows the volatility of the changes over the period since then, both on a smoothed and unsmoothed basis.



1.11 Over the period 31 March 2019 to 30 September2022 the deficit, in real money, has fallen from £60m to a surplus of £309m. The investment gain has been positive, as has the movement in the discount rate, with an offset by the change in inflation over the period. Since the valuation, contributions and transfers have been greater than the accrual of new benefits. The table below shows the analysis of the change in deficit.



2. TPR Checklist Dashboard and Code of Practice

2.1 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 C. 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.

2.2 There have been no changes since the last quarter's report. The areas that are not fully completed and/or compliant are listed below.

B12 – Knowledge and Understanding – Have the pension board members completed the Pension Regulator's toolkit for training on the Code of Practice number 14?

Amber – As set out in the Fund's Training policy, it is a mandatory requirement that all PC members complete this in addition to the PB members and provide copies of the completion certificate to the Head of Pensions. However, whilst all Board members have completed this training, due to the change in Pensions Committee membership following the May elections, certificates have not yet been received from all the new Committee members. As set out in the training policy, members do have a six month window to complete this mandatory training, which should therefore have been completed by November 2021. At the time of writing this report, one certificate had not been received and the member has been approached to complete it.

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 – Training is a standing agenda item and opportunities are shared with the Pension Board as they arise. Pension Board members all complete a training log annually to record all training undertaken.

3. Breaches Reporting - update

3.1 The Fund and those charged with its governance have a requirement to log and, where necessary, report breaches to the Pensions Regular. The Breaches Register attached at appendix D shows those breaches logged over the last twelve months. Since the last quarter end, one breach has been added, detailed below:

- **Late payment of contributions** – a separate paper is presented to the Committee at paper 9, updating the Committee on all monthly employer contribution breaches over quarter.

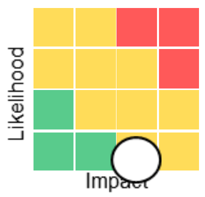
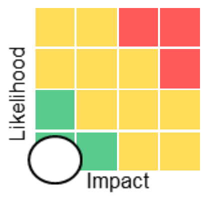
4. Risk Register Update

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.

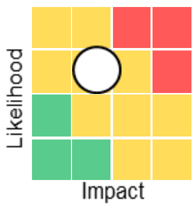
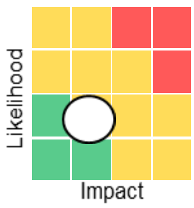
4.2 Consideration was given to how the increasing inflation issue could be reflected in the risk register, and discussion was had with the Principal Risk Officer. It was agreed that from a pension fund perspective, this is an issue rather than a risk so it would not be included on the risk register as an item, however, it might affect some of the existing risks on the register.

4.3 Given these discussions, one risk has been added and one risk amended to reflect the current inflation environment.

Risk I5 added to the investment and funding risks, with substantial assurance, and a static direction of travel:

Description	**Current risk score**	**Target risk score**	**Actions**
Cashflow - not enough income to meet pension payments due, as a result of: • increasing pension payments due to inflation • reduction in active members and therefore contributions • increase in retirements and therefore pensioners • reduction in employers' secondary contributions due to higher funding levels			**Existing** • Asset allocation review to increase income generating assets when required • Cashflow monitoring **New & Developing** • expanded cashflow monitoring with Actuary as part of 2022 valuation • work with Border to Coast on income options from their investment vehicles

Risk O3 in the operational risks has been expanded and updated, with substantial assurance, and a static direction of travel:

Description	Current risk score	Target risk score	Actions
Increased risk of employers exiting as a result of: • reducing employer covenant strength • unaffordability of scheme • reducing membership Leading to: • costly cessation surplus payments • deficit payments not meeting actual long-term liabilities • insolvency of employers			Existing • Admission agreements • Pass through policy • Exit credit policy • Bonds • Employer covenant monitoring • Contribution monitoring • Employer communication • PFR roles New & Developing • Actuaries Employer Database being developed • Developing additional employer monitoring internally

5. Asset Pooling Update

Sub Funds

5.1 Work has continued with the development of the real estate funds, with the next expected transition for Lincolnshire expected to be into the Core Global Property fund, due to be launched in 2023.

5.2 The transitions to include an Emerging Market ex China manager and a China manager to the Global Equity Alpha Fund, as discussed at the July Committee, is planned to happen before the calendar year end. Officers have had workshops with the transition managers to understand the transition planning.

5.3 Since the last Committee meeting, Border to Coast has held workshops and meetings with officers and advisors covering quarterly external and internal funds, property, alternatives, and Responsible Investment.

Joint Committee Meetings

5.4 The last Joint Committee was held on Thursday 29 September 2022, ahead of the Border to Coast Annual Conference in Leeds, and papers were shared with the Committee. The agenda items were:

The following items were included in the agenda:

- Joint Committee Election Results – Cllr Doug McMurdo was elected Chairman and Cllr Patrick Mulligan was elected Vice Chairman.
- Joint Committee Budget
- Responsible Investment Update
- Summary of Investment Performance and Market Returns
- Governance Review – more information is presented in paper 12 on this agenda
- Net Zero Implementation Plan
- TCFD Consultation
- Annual Reviews
    - UK Listed Equity
    - Overseas Developed Equity Sub-Fund
    - Alternatives
- CEO Report
- Performance Report
- Update on Emerging Matters

5.5 The next meeting of the Joint Committee is being held on 30 November, and papers will be shared with this Committee once they become available. Any questions or comments on the papers should be directed to Cllr Strengiel, Chairman of the Pensions Committee, who can raise them at the meeting.

Shareholder Matters

5.6 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. A review of the governance documents is nearing completion, and further information is included in paper 12 on this agenda.

5.7 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.

5.8 There has been one shareholder resolutions since the last meeting, which was approved by Lincolnshire:

- The appointment of Cllr David Coupe (Teesside Pension Fund) as a Partner Fund-nominate non-executive director of Border to Coast.

6. Budget and Workplan Update

6.1 The Pension Fund budget and business plan were brought to the Committee at the March 2022 meeting. The paragraphs below update the Committee on the budget position to 30 September, and to highlight any areas on the key tasks from the business plan for 2022/23 where progress is behind expectations.

6.2 The budget for operating the Lincolnshire Pension Fund for 2022/23 plus actual costs incurred up to the end of September 2022 are set out in the table below, with additional narrative at 6.3:

	Original Budget 2022/23 £'000	Q2 Actuals 2022/23 £'000	Variance Budget vs. Actuals Q2 £'000
Administration Costs			
- Charge from Shared Services Administrator	1,287	1,398	111
- Other	1	0	-1
Investment Management Expenses			
- Management Fees	9,500	-947	-10,447
- Performance Related Fees	1,500	-1,570	-3,070
- Other Fees	1,000	33	-967
Oversight and Governance Costs			
- Contracted Services	450	136	-314
- Recharge of Actuarial Services	-160	-24	136
- Recharge from Administering Authority (inc. Staffing Costs)	258	128	-130
- Border to Coast Governance Costs	315	304	-11
- Other Costs	30	5	-25
	14,181	**-537**	**-14,718**

6.3 Administration Costs: The annual administration charge from West Pension Fund has been received and paid. The actual cost is higher than the budget, as the number of members was higher than originally forecast.

Investment Management Costs: Most of the Fund's investments are made via pooled vehicles. The costs for these investments are mainly accounted for annually in March from the sector wide Cost Transparency Initiative, where investment managers provide information on indirect costs deducted from investments at source. For directly charged fees billing from managers is in arrears. There are six months of costs and the performance fee for one manager from 2021/22 outstanding.

Costs incurred on management fees reflect the size of the portfolio and investment returns. Costs in this area are very difficult to predict, particularly when markets and volatile.

Oversight and Governance Costs: Contracted services, the recharge of actuarial services and the recharge from the admin authority are spread throughout the financial year. It is expected that these budgets will be fully utilised by year end.

Pension Fund Business Plan Update

6.4 The key tasks set out in the Business Plan are set out below, with narrative to explain whether it is on track or otherwise:

Subject	**2022/23 Actions**	**Progress**
Pensions Committee and Board meetings	Ensure all papers are prepared and presented in a clear and concise manner. Ensure that all relevant matters are reported to the Committee and /or Board. Induction and training for any new Committee members following the election or new Board members following the end of current terms of office.	On-going – all meetings held as expected. No new Committee members over the period. One mandatory TPR training outstanding.
Asset Pooling with Border to Coast	Continued partnership with Border to Coast to develop appropriate sub-funds for investment and ensuring appropriate oversight and governance of the company. Expected investment into Overseas Property sub-fund (Q3/4) and further development of the UK property and alternative options.	On-going. Overseas Property now expected to launch later in 2023. Alternative solution agreed.
Alternative Investments	Working with Morgan Stanley, Border to Coast and the Investment Consultant, and the Committee, to agree the optimal solution for the management of the Fund's alternative	Agreed to retain Morgan Stanley and amend the mandate to focus on a more concentrated private markets portfolio. Morgan Stanley to

	investments in the short to medium term.	continue with full service solution. IMA agreed from 1 October 2023.
Administration Service (including employer data quality)	Continued partnership and oversight of West Yorkshire Pension Fund (WYPF) in the delivery of the administration service and to improve the reporting on data quality and management information. Work to be undertaken to look at the options for the administration service as the shared service arrangement comes to the end of its term in March 2024. Benchmarking exercise to be carried out in Summer 2022.	On-going – generally a good administration service provided. Work progressing on the reporting. Discussions with the limited potential alternative administrators being had, further work to be done in Q1 2023 to bring a recommendation paper to the Committee in March 2023.
Annual Report and Accounting	A detailed project plan has been put in place, built on experience from previous years and updated for new requirements. On-going engagement with the external auditors to ensure all requirements can be met in a timely manner.	Delayed receipt of opinion due to issues with the Council's accounts. Pension Fund accounts ready by deadline with an expected unqualified opinion to be received at the same time as the Councils.
Responsible Investment (RI)	Continued information and training for the Committee and Board to understand RI. Working closely with external managers and Border to Coast to ensure that it is embedded across all investment decisions.	On-going – improved stewardship reporting, close working with Border to Coast and Stewardship Code Statement submitted for 21/22 and awaiting FRC approval.
Work by the Scheme Advisory Board (SAB)	Participate in projects were possible and respond to any actions required – e.g. Good Governance Review, data quality.	Progress delayed due to other priorities in SAB. Consultation now expected early 2023. High level review undertaken, awaiting

	Undertake a high-level governance review in Summer 2022 to identify potential gaps against the Good Governance proposed recommendations.	final guidance to do full review and take recommendations to Committee.
Employer Accounting	Work with employers, the Actuary and WYPF to ensure employers understand their choices, accurate and timely data is sent to the Actuary and accounting reports are received and understood by employers.	On-going – all reports issued as required to date.
Staffing and Structure Review	To successfully recruit to the Principal Investment, Accounting and Governance Officer post and integrate them into the team.	Recruitment unsuccessful. Changing to a career grade post to develop within the team. Expecting to recruit in 2023.
Triennial Valuation	Work with the Fund Actuary, Committee, Board, WYPF and employers to ensure good quality data is used for the triennial valuation, employer rates are stable and affordable and that the process is understood and communicated to all stakeholders. Produce an updated Funding Strategy Statement (FSS), after consultation with employers, for the statutory deadline of 31 March 2023.	Data sent to the Actuary in good condition and on time. Draft whole Fund results taken to the Committee's September meeting. Employer results sent out in November and employer meeting organised for 23 November. FSS sent to employers for consultation.

6.5 As can be seen from the table above, year-to-date most key tasks are on track or completed, except for work with the Scheme Advisory Board and the year-end accounts sign off, where delays are beyond the control of the Pensions team.

7 Investment Consultant Change

7.1 The Fund's current Lead Investment Consultant, David Morton, is leaving Hymans Robertson at the end of the year to move to pastures new. His colleague, Iain

Campbell, will remain as our Investment Consultant, with David Morton is being replaced by David Walker, Hymans Robertson's Chief Investment Officer.

7.2 Further information on David's background is set out below:

David is an actuary and Partner at Hymans and has been there for over 20 years. As Chief Investment Officer (CIO), David is responsible for setting the investment research agenda, developing thought leadership and understanding the investment needs across the firm. Prior to this, David was Head of LGPS Investments for over five years, developing our advice and services for public sector clients.

David currently advises five public sector clients and three private sector clients across the whole range of investment services, including the setting of high-level investment strategy, advice on detailed asset allocation and investment manager structures, managing manager procurement and selection exercises, evaluation and mapping of investment arrangements into LGPS pools, and monitoring investment arrangements. David also supports clients in carrying out reviews of a project basis and is currently helping the South Yorkshire Pension Fund with their strategic review incorporating net zero requirements.

David has significant experience in engaging with key LGPS stakeholders including Treasury and DLUHC, responding to consultations and regulatory change in the interests of our clients. He is a member of the England and Wales Scheme Advisory Board Investment Engagement and Governance Sub-committee.

David is Chair of Hymans Research Oversight Group, ensuring LGPS clients' interests are central to discussions when considering new investment ideas and whether they provide attractive investment opportunities for clients. This includes evolving the approach to responsible investments, developing policy at fund level but also engagement as an investment consultancy having become a founding member of the Investment Consultants Net Zero Initiative in 2021.

David's professional qualifications are:

- Fellow of the Faculty of Actuaries (2009); and
- Certificate in Investment and Finance (Faculty of Actuaries).

7.3 David Walker will attend the January meeting of this Committee with Iain Campbell, to provide the training requested on asset classes.

8 Conference and Training Attendance

8.1 It is stated in the Committee's Training Policy, approved each July, that following attendance (virtual or otherwise) at any conferences, seminars, webinars 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.

8.2 There have been three conferences since the last meeting. The Border to Coast Annual Conference held in Leeds on 29/30 September was attended by the Chairman of the Committee, Cllr Mike Thompson, Andy Antcliff, and Fund officers. The Room151 Investment Forum was held in London on 2 November and was attended by the Head of Pensions, who also attended the Pension Managers Conference in Torquay on 15/16 November. Conference notes produced by Hymans Robertson are attached at appendices E and F for the two latter conferences.

8.3 The Committee and officers are requested to share information on relevant events they have participated in since the last Committee meeting.

8.4 And finally, Claire Machej, Accounting, Investment and Governance Manager, won the 2022 LGC Rising Star Award for Fund officers. This should have been presented at the LGC conference held at the beginning of September, but the awards were cancelled. There was some stiff competition for this award, and it is a great achievement for Claire.

Conclusion

9. The Fund is 111.6% funded (on a roll-forward basis) as at the end of March, with an overall value of invested assets of £2,855.3m.

10. There have been two proposed amendments to the Fund's risk register, reflecting the impact of the changes in inflation and its outlook, that the Committee are asked to approve.

Consultation

a) Risks and Impact Analysis

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

Appendices

These are listed below and attached at the back of the report	
Appendix A	Distribution of Investments
Appendix B	Market Returns
Appendix C	TPR Checklist Dashboard
Appendix D	Breaches Register
Appendix E	Conference Highlights – Room151 LGPS Investment Forum
Appendix F	Conference Highlights – Pension Managers Conference

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 Jo Ray, who can be contacted on 01522 553656 or jo.ray@lincolnshire.gov.uk.

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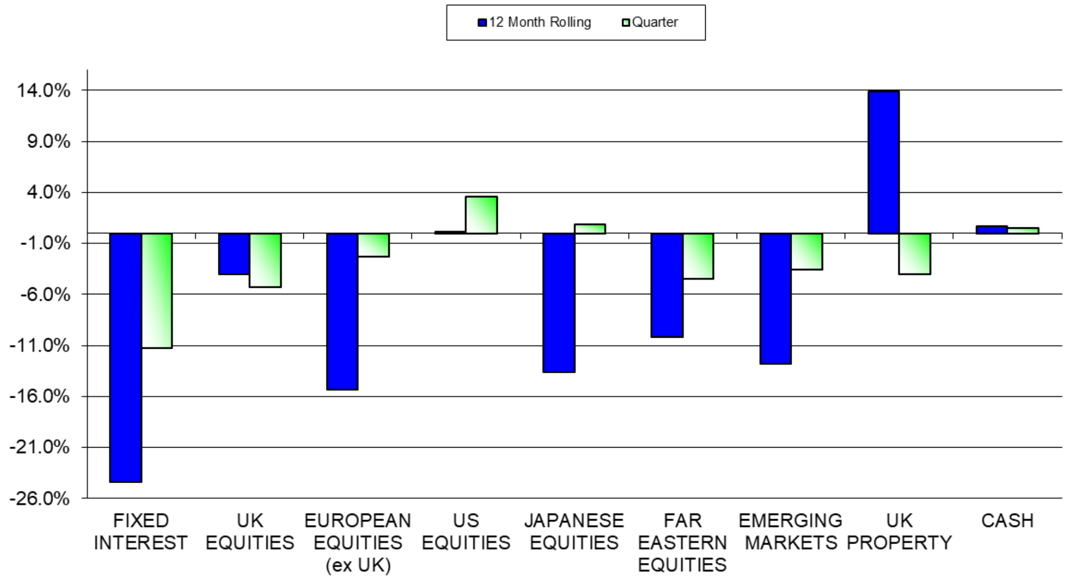
DISTRIBUTION OF INVESTMENTS

INVESTMENT	30 September 2022			30 June 2022			COMPARATIVE STRATEGIC BENCHMARK	
	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	VALUE £	% OF INV CATEGORY	% OF TOTAL FUND	%	TOLERANCE
UK EQUITIES								
Border to Coast UK Listed Equity	446,248,331	28.5%	15.6%	459,840,064	29.2%	15.8%	15.0%	+/- 2.0%
TOTAL UK EQUITIES	**446,248,331**		**15.6%**	**459,840,064**		**15.8%**	**15.0%**	
GLOBAL EQUITIES								
LGIM Future World	432,330,570	27.6%	15.1%	432,515,565	27.5%	14.9%	15.0%	+/- 2.0%
Border to Coast Global Equity Alpha	687,139,249	43.9%	24.1%	681,518,834	43.3%	23.4%	25.0%	+/- 2.5%
TOTAL GLOBAL EQUITIES	**1,119,469,819**		**39.2%**	**1,114,034,399**		**38.3%**	**40.0%**	
TOTAL EQUITIES	**1,565,718,150**	**100.0%**	**54.8%**	**1,573,874,463**	**100.0%**	**54.1%**	**55.0%**	
ALTERNATIVES *	**675,770,384**		**23.8%**	**673,589,741**		**23.2%**	**21.5%**	**+/- 3.0%**
PROPERTY	**255,369,101**		**8.9%**	**268,998,993**		**9.3%**	**10.0%**	**+/- 1.5%**
FIXED INTEREST								
Blackrock	119,669,226	41.4%	4.2%	133,891,143	41.3%	4.6%	5.0%	+/- 1.0%
Border to Coast Investment Grade Credit	169,158,952	58.6%	5.9%	190,603,102	58.7%	6.6%	7.5%	+/- 1.0%
TOTAL FIXED INTEREST	**288,828,178**	**100.0%**	**10.1%**	**324,494,245**	**100.0%**	**11.2%**	**12.5%**	**+/- 1.5%**
TOTAL INVESTED CASH	**69,615,123**		**2.4%**	**63,517,562**		**2.2%**	**1.0%**	**+ 0.5%**
TOTAL INVESTED ASSETS	**2,855,300,936**		**100%**	**2,904,475,004**		**100%**	**100.0%**	

* including Multi-Asset Credit and Infrastructure

APPENDIX A

CHANGES IN MARKET INDICES
MARKET RETURNS TO 30 SEPTEMBER 2022



INDEX RETURNS	**12 Months to Sept 2022 %**	**Jul-Sept 2022 %**
FIXED INTEREST	-24.3%	-11.3%
UK EQUITIES	-4.0%	-5.3%
EUROPEAN EQUITIES	-15.3%	-2.3%
US EQUITIES	0.1%	3.6%
JAPANESE EQUITIES	-13.6%	0.9%
FAR EASTERN EQUITIES	-10.2%	-4.5%
EMERGING MARKETS	-12.8%	-3.6%
UK PROPERTY	13.9%	-4.0%
CASH	0.7%	0.48%

Appendix C

The Pension Regulator’s and Scheme Advisory Board Compliance Checklist

Summary Results Dashboard

No	Completed	Compliant
	Reporting Duties	
A1	G	G
A2	G	G
A3	G	G
A4	G	G
	Knowledge & Understanding	
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	A	A
	Conflicts of Interest	
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
	Publishing Scheme Information	
D1	G	G
D2	G	G
D3	G	G
D4	G	G
	Risk and Internal Controls	
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
	Maintaining Accurate Member Data	
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
	Maintaining Contributions	
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
	Providing Information to Members and Others	
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
	Internal Dispute Resolution	
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
	Reporting Breaches	
J1	G	G
J2	G	G
J3	G	G
	Scheme Advisory Board Requirements	
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

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Appendix D

Lincolnshire Pension Fund Record of Breaches

Date	Category (e.g. administration, contributions, funding, investment, criminal activity)	Description and cause of breach	Possible effect of breach and wider implications	Reaction of relevant parties to breach	Reported / Not reported (with justification if not reported and dates)	Outcome of report and/or investigations	Outstanding actions
Dec 21	Contributions – updates	Late payments	Cashflow issues, data not provided to WYPF to action – e.g. retirements	Made aware and fined in some circumstances	Not reported – not material to LPF		Continuing training and communications with employers Review of process
March 22	Contributions – updates	Late payments	Cashflow issues, data not provided to WYPF to action – e.g. retirements	Made aware and fined in some circumstances	Not reported – not material to LPF		Continuing training and communications with employers Review of process
June 22	Contributions – updates	Late payments	Cashflow issues, data not provided to WYPF to action – e.g. retirements	Made aware and fined in some circumstances	Not reported – not material to LPF		Continuing training and communications with employers
Sept 22	Contributions – updates	Late payments	Cashflow issues, data not provided to WYPF to action – e.g. retirements	Made aware and fined in some circumstances	Not reported – not material to LPF		Continuing training and communications with employers

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Conference highlights

Room151's 3rd LGPS Investment Forum (2 November 2022)

Chris King
Investment Consultant

Nick Jellema
Senior Investment Consultant

Steven Scott
Senior Actuarial Consultant

A wide range of thought-provoking topics were discussed by high quality speakers at the 2022 Room151 Investment Forum. The day was expertly conducted by the Chair to ensure that delegates left the conference with a much greater understanding of the current investment outlook amidst volatile political and market conditions.

Registration & introduction

Aoifinn Devitt, Moneta

- Aoifinn welcomed delegates to the conference and asked them to really question the detail behind what they hear from the presenters.

Strategic asset allocations; valuations, inflation and the macro-economic landscape

Chris King, Hymans Robertson; Jos North, Ruffer; Kevin McDonald, ACCESS; George Graham, South Yorkshire Pension Fund

- CK described the decade of austerity for 2010-20 as contributing to lower inflation and recognised that looser fiscal policy appears likely in the coming years. An audience survey showed the vast majority expected realised inflation to be averaging 2.5 – 5% p.a. for the next 10 years.
- JN described the recent turmoil in relation to LDI as indicative of the point at which an 'Inflation prone economy' meets an 'Inflation intolerant financial system' – he flagged that leverage and liquidity would continue to create anomalies in markets and challenged all investors to consider if they have a plan to deal with such a new regime.
- KMcD asked whether the asset allocations within the LGPS were still relevant in such a new regime, but was confident that the LGPS could cope with the challenge, recognising that LGPS investment strategies have evolved in the past and will do so again
- GG noted the shift towards cashflow neutrality or negativity for many schemes and espoused the benefits of income-generating assets to combat this.

Impact, local investments and levelling up. What is the role for the LGPS?

Heather Fleming, Gresham House; Peter Wallach, Merseyside Pension Fund; Sean Johns, Cornwall County Council

- HF highlighted the significant social and regional inequality in the UK, and hoped that local investment and Levelling Up could seek to address this challenge. Opportunities exist for investment in UK renewable energy, housing and forestry but clarity from DLUHC would help LGPS funds to make better progress.
- SJ discussed the experience of the Cornwall Fund with local investments. It was noted that conflict can arise due to elected members seeking investment in their own locality. Ensuring such investments are at "arms length" from members is crucial.
- PW added that the governance burden of such local investments should not be underestimated and also questioned whether more speculative local investments are necessary for LGPS funds.

Keynote: Stewardship in active investing

Edward Bonham Carter, Jupiter Asset Management

- EBC described the engagement actions taken by Jupiter, highlighting the impact of engagement with:
  - Royal Mail to focus their attention on health and safety in non-UK parts of their business
  - GlaxoSmithKline involving a focus on their R&D spending and whether there was sufficient accountability of delivery.
  - BP, who EBC noted had taken a more proactive stance to climate change, when considered relative to peers.
- EBC also noted that publicly listed investments are a great way to ensure sufficient capital makes its way to companies and that a reasonable cost of capital is delivered. However, listed companies generally mean that the disparity of shareholders makes engagement pressure a challenge.

The economists' outlook

Piers Hillier, RLAM; Kallum Pickering, Berenberg

- PH spoke about the 4 key macroeconomic factors contributing to the current challenges, these being the strength of the dollar; the 'Mexican standoff' between the UK Government and the Bank of England; Russia / Ukraine; and China.
- KP compared the current situation to the early 90s, when we had high inflation and rising interest rates and noted that by the mid-90s the recovery was complete, and we were experiencing high growth. The reason for the turnaround then was strong balance sheets and there is justification to believe that we may see a similar recovery this time round.
- KP described how the BoE were able to respond quickly to avert a disaster (in respect of pension schemes invested in LDI) and noted that news of the BoE starting to sell gilts barely made the newsreels. This is evidence of the BoE working as an effective Regulator.
- PH shared his experience of the recent crisis and noted that were it not for the trade associations, the BoE may not have intervened in time.

Equities in Focus: ESG, allocation and the role of passive and active

Henrik Wold Nilsen, Storebrand; Chris Murphy, Baillie Gifford; Laura Collis, NESPF; Rachel Brothwood, West Midlands Pension Fund; Sandra Carlisle, Jupiter Asset Management

- HWN described some of the flaws of climate-conscious index funds and Paris-aligned funds, noting that each Paris-aligned benchmark is very different in design, with tracking errors of 2-3% p.a. between seemingly 'similar' strategies – so, it is very difficult to have confidence that you are 'picking the right one'

- CM discussed the recent market consensus over the challenges of growth equity investment and significant underperformance during 2022, noting that the past 10 years had generally been furtive ground for growth equity managers as low interest rates, low inflation, and technology had driven growth of the Tech sector. He finished by encouraging. He encouraged the LGPS to embrace volatility which can breed opportunity over the long-run.

CIO Panel

David Vickers; Brunel Pension Partnership; Jason Fletcher, London CIV; John Harrison, Border to Coast; Gordon Ross, LGPS Central

- DV set out the upcoming priorities for Brunel as being a review of current products and making sure these remain fit for purpose, supporting the LGPS with local investment, and demonstrating progress on net-zero.
- JF informed us that the London CIV were looking to launch new products, including a UK housing fund focussing on affordable housing and which meets clients' needs
- JH, describing himself as a 'failed retiree', explained how Border to Coast were still in 'build' mode.
- GR noted that LGPS Central were in a similar place – the 'low hanging fruit' has been picked and a deep dive is now planned to ensure that the managers and products are fit for purpose.
- DV explained how we have been in this new paradigm (higher inflation and interest rates) for a while, we just didn't notice until recent events, and it will take time for the market to price all of this in.
- JF added that, whilst higher yields on lower risk assets may appear attractive, the LGPS should continue to look long term and focus allocation around equities.
- On the subject of currency, GR suggested that Funds take steps to reduce the risk of adverse currency moves. DV noted that Funds typically do not make an active decision on hedging this risk and suggested that this should form part of their key considerations when investing in overseas equities.
- JH concluded by highlighting the benefits of the collaborative culture in the LGPS and his hope that the pools work together in the future for the benefit of the LGPS.

The future for fixed income: inflation, labelled bonds and beyond

Lucia Meloni, Candriam; Helen Anthony, Janus Henderson; Bola Tobun, London Brough of Enfield

- LM set out how war in Ukraine has highlighted the dependency on external energy in the west, the solution to which is the development of clean energy to reduce reliance on Russia. Investing in Fixed Income helps divert funds to these new technologies.
- HA provided an outlook for inflation and a view that the impending recession, the effect of debt accumulation, and changing demographics will drive deflation in the near term.
- BT explained the strategy being pursued by the Enfield Fund and the merits of including Fixed Income in the strategy, in particular in an environment where benefit outflows exceed contribution income.

Private markets: allocation trends and net-zero concerns

Jing Vivatrat, Franklin Templeton; James Penney, Darwin Alternatives; Graham Cook, Environment Agency Pension Fund; Paul Guilliotti, Richmond & Wandsworth Councils

- JV explained the new 'green rush' of consumers demanding sustainable technological solutions to the climate crisis. This means that ESG is no longer a 'risk' to be managed, but a source of future returns. In terms of opportunities, it is important to look at the whole value chain and identify where the investment is needed, for example, investment in energy storage and battery recycling is needed to help meet targets for reduced emissions from transportation.

- JP set out how Darwin is seeking niche opportunities to help achieve net zero targets in the leisure industry and explained how these strategies can have an impact without forcing individuals to make significant lifestyle changes.
- GC set out the commitments made by the Environment Agency Pension Fund and the action plan in place to support investment in climate solutions, through private debt and private equity investments.
- GC reminded us that the primary focus for the LGPS should be on generating returns and that those companies addressing the climate issue now will be the ones who thrive in the future and become dominant in the marketplace.
- PG explained the changes made in recent years by Richmond and Wandsworth to meet ambitious net zero targets. Big focus is on educating members and explaining how targets will be met.

Housing: impact investing and income strategies

Emma Gullifer, Columbia Threadneedle; Simon Chisholm, Resonance; David Spreckley, London Borough of Barnet; Paddy Dowdall, GMPF

- EG explained the breadth of opportunities in residential housing and Columbia Threadneedle's focus on 'build to rent' due to strong demand and short supply, a diverse demand base, and inflation linked income.
- SC set out the very clear need for significant investment in social housing and the attraction of this to the LGPS, namely, low correlation with wider economy, long term inflation linking, and Government backed rental income.
- DS then described the work being done in Barnet to create new residential properties and noted the risk of overlap between what the LGPS and the Local Authorities are doing locally and concentration risk.
- PD agreed with the attraction of residential housing investment but offered a warning with regards to direct investments, specifically, the risk of rogue operators, the significant resources required, and the risk of the LGPS being exposed to 'right to buy'.

Guest speaker: the geopolitics of investing in the 2020s

Dr Elizabeth Stephens, Geopolitical Risk Advisory

- The era of soft power resolving global conflict is over. Geopolitical risk is back with a bang.
- Western Governments now expect companies to comply with severe restrictions to help meet their geopolitical aims. The economic and financial considerations are secondary.
- Policies in China are increasingly become less friendly to western investment. Any investments made will be channelled by the Chinese Government towards projects that support their aims.
- There are many sources of power that drive geopolitical events (such as people, gas, water, wheat), and a key source of power today is semiconductors (microchips) – our entire lives now depend on these. The US government are restricting Chinese access to semiconductors which is depriving them of the ability to develop artificial intelligence.
- With this, the US has effectively declared economic war on China.

- In response, China is increasing its influence around the world. The West can therefore no longer rely on the support from emerging countries, and this may lead to companies having to 'pick a side'
- EU relations with China are also of concern to the US as China seek to expand its sphere of influence.
- In response to these geopolitical challenges investors need to be prepared to view the world differently and think the unthinkable.

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Conference highlights

South West Councils' Pension Manager Conference (15-16 November 2022)

Susan Black
Head of Governance, Administration & Projects

Ian Colvin
Head of Benefits Consulting

Alan Johnson
Governance Consultant

Claire McDines
Trainee GAP Consultant

The annual LGPS Pension Managers' Conference took place in Torquay this week. The conference, run by South West Councils, covered a range of topics including the Pensions Dashboard, impact to the LGPS of the cost of living crisis, the future of LGPS administration teams, cyber risk and the 2022 valuations.

Day 1 - Chairman's welcome

Pat Luscombe

- The chairman welcomed everyone to the conference, noting the recent theme of continuous change and challenges for administration teams.
- He commented on the excellent work done across administration teams in the LGPS to rise to meet these challenges.

LGA update

Lorraine Bennett, LGA

- Lorraine's session covered the various changes in government departments which have slowed progress in many areas. We are still expecting and waiting for government progress including Goodwin, exit pay, levelling up, pooling and GMP.
- McCloud remedy response to consultation is expected in November but will not include draft regulations, which will be in a further consultation early next year.
- There has been discussion about whether the annual allowance revaluation of CARE pensions should be moved to 6 April every year, bringing it into line with the date at which the opening value for annual allowance calculations is increased. This would involve a considerable amount of work.
- Good governance consultation expected early 2023 and will include something on workforce planning.
- We are still awaiting the changes necessary to deal with Goodwin. The SAB chair has written to the minister to request an update.

‘Non pensions’ pension challenges

Emma Mayall and Georgia Ryan, Greater Manchester Pension Fund

- Emma spoke about the steps GMPF have taken over the last 5 years to lay the foundations for change, such investing in technology, hybrid working and revisiting the team structure and jobs to equip staff for the future.
- Georgia discussed the three specific areas from GMPF’s perspective: Cyber security, third party contract management and supporting fund governance. GMPF has fund-specific policies and strategies aligned to TPR expectations. The fund worked with specialists to complete a cyber audit, create a cyber incident response plan, and used the National Cyber Security Centre resources, including Exercise in a Box.
- There was reminder that the policies and procedures have to be implemented and that responsibility for this lies with all parties at the fund. This includes providers to the fund and there is a need to make sure that when change happens the potential cyber and data impacts are considered to ensure any risks are identified and managed.

Workshops

Recruitment and retention

Yunus Gajra, West Yorkshire Pension Fund; Jonathan Clewes, Nottingham Pension Fund

- Yunus and Jonathan provided an overview of findings from the recent LGA survey on recruitment and retention. This exercise highlighted the challenges faced by most if not all funds. With an average of five open vacancies across funds there is a feeling of everyone being in the same boat.
- Several issues were identified as contributing to the difficulties in recruiting and retaining staff. It is felt that pay scales are not competitive and private sector pay increases or career opportunities may be more attractive to potential employees. The option to work from home is giving employees a wider pool of employers to choose from. The complex high-volume work involved is not recognised by job evaluation and higher KPIs are putting pressure on staff. It was also noted that pension qualifications don’t always meet the training needs of the LGPS.
- Following this a number of potential solutions were discussed, including but not limited to; a national rebrand of LGPS roles and careers, producing a framework for skills and knowledge, establishing national standardised job profiles, providing an LGPS qualification, better utilising the apprenticeship levy, introducing a graduate scheme, and involving the pensions board in discussions with host authority HR about pay.
- It was also felt that more joined up working with the LGA and SAB to reduce complexity of the Scheme would be beneficial.

Meeting your Pensions Dashboard duties

Angela Bell, The Pension Regulator

- The Pensions Dashboard: Angela Bell from TPR confirmed the timeline for LGPS funds to be ready to connect and respond to matching requests is 30 September 2024. In advance of this funds should review the guidance and resources available and, in particular, speak with their administration or software providers. Links were provided for further information
- There is a checklist available on the Regulator’s website which funds were encouraged to use to help track their progress.
- The Regulator commented that frozen refunds would not be in scope for the dashboard.

- Where data is requested from funds via the dashboard, there is likely to be a 10 day turnaround time for public sector schemes.
- The Regulator will view failure to return information as a similar level of breach as returning incorrect information.
- The Regulator's focus will be on wilful non-compliance, and the response to these cases will be robust.

McCloud data issues

Rachel Abbey, LGA; Virginia Burke, Aon

- A brief update was provided on current progress nationally. This was followed by group discussions about what progress has been made, the proposed assumptions where data is missing, and what would be helpful
- The feeling generally was that most employers are providing the required data, but there are certain employers within funds who either cannot or are not providing the required data, and so assumptions may well be required for these.
- In terms of those assumptions, it was acknowledged that the method of estimating reckonable service based on the ratio of CARE pay to full time pay is not perfect. However, it is the best that can be done, and should be to the benefit of the member where there is uncertainty
- In terms of what else can be done to support funds, guidance on communications would be appreciated, as would some example scenarios where the underpin bites, to highlight particular cases to be aware of.

High inflation, cost of living crisis and the LGPS

Melanie Durrant and Jeff Houston, Barnett Waddingham

- Melanie and Jeff hosted an interesting, if somewhat sobering, workshop about the impact of inflation on our day-to-day living and the knock-on effect this could have on the LGPS.
- Jeff began by providing an overview of the recent history of inflation and then set a fun quiz that highlighted none of us really know what anything costs. He then talked us through the causes of the inflationary situation we find ourselves in and sent us off to talk about the impact on cashflows, employers and members.
- It's not a pretty picture with the 10.1% pension increase having a compounded effect on cashflows, the potential for increased member opt-outs, more employers leaving or downsizing, a reduction in contributions and an increased likelihood of the McCloud underpin biting. This may be somewhat offset by delayed retirements, employee contribution bands and less commutation but this is still somewhat of an unknown.
- What can funds do? Consider employer contributions on an individual basis, engage with members and employers – make sure they know the benefits of the scheme and what they will be giving up, promote 50/50 section, ensure you understand cashflows and investments held.

LGPS Actuarial update

Michelle Doman, Mercer Ltd

- This session provided a summary of valuation results, and highlighted that there is a general reduction in funds' deficits overall, with many contribution rates remaining broadly stable.
- Market conditions have changed since the valuation date, particularly the increase in inflation, and volatility in gilt markets.

- Michelle warned that there might be an increase in employers who want to exit the LGPS. This is due to current conditions which make it favourable for certain employers to leave the Scheme.
- It is not all bad news! The current market turbulence presents potential investment opportunities and these should be discussed with investment advisors.
- Funds should continue to monitor funding developments – from now until 2025 valuation. Where monitoring indicates changes to a funding plan are required, you do have powers (if written into FSS) to make changes between valuations.

LGPS Pensions Admin – shifting the focus from cost to value

John Simmonds, CEM Benchmarking UK Ltd

- John provided a summary of analysis carried out on large UK funds comparative to global funds, particularly North American funds. This focussed on the admin expenditure, and what that means for service delivery to members.
- Fundamentally it would appear that the UK is underinvested in admin. The median spend per member in North American funds sits at £46 per member compared to a median spend of £22 per member in UK schemes. The outlay on regular IT is also three time less in UK schemes than North American.
- Transaction volumes are a key driver of admin costs, with 70% of costs tied up in head count.
- Service delivery is not purely about cost but delivering a commensurate service. John commented that our addiction to SLAs in this country is not helping service delivery as we're missing the voice of the member.
- The Canadian model is deemed to stand apart from all others with clear blue water between management bodies and those authorities they represent.

Cyber security and the LGPS

Nick Stones, Pinsent Masons LLP

- Under the Pensions Act, scheme managers are responsible for operating internal controls, which measure and reduce cyber risk.
- Within the new code of practice there is the requirement to maintain a cyber response plan.
- Nick used a case study to highlight the importance of understanding who needs to be involved, and of having clear timescales which must be met. An example was given of cyber insurance policies only paying out if reported promptly and following certain procedure – there is a need to be aware of these factors.
- He highlighted the need to develop an incident response plan, and to walk through scenarios to ensure responsibilities are understood.

Day 2 – Chairman's welcome

Pat Luscombe

- Pat welcomed everyone for day 2 and paid a short tribute to Tim Hazelwood.

The Future of LGPS administration teams

Ian Colvin, Hymans Robertson

- Ian's session considered some of the wider forces impacting LGPS administration teams and what that might mean for those responsible for delivering LGPS admin.

- Artificial Intelligence – AI tools will be able to learn from large data sets and spot patterns and trends, deal directly with scheme members and refine our administrative process. The point was emphasised that human input will be a continued necessity.
- Workforce planning was considered and the importance of setting objectives and analysing the skills gaps funds think exist.
- The session concluded with some thoughts about how these changes will impact administration teams of the future, including the need for diversity in teams, adapting to new roles and training and support to develop the skills required for these changing roles.

Legal update

Daragh McGinty, Osborne Clarke

- Daragh spoke about the IDRP process, noting the key points to ensure compliance with requirements such as appointing an adjudicator within 6 months of complaint for stage 1, and that a written decision should be made within 2 months for a stage 2 complaint.
- Tips for minimising scope for further complaints – plain English communications, not over-promising and keeping member updated with progress. Noted that compensation for distress can still be awarded if case not handled correctly.
- Emphasised the need for employers to fully understand the requirements on them, including how to manage the medical assessment process.
- Case studies looked at, and highlighted that funds have absolute discretion for death grants.

Automation and technology for the LGPS – panel session

Des Hogan, Equiniti; Richard James, Civica; David Rich, Heywood Pension Technologies

The software providers took part in a Q&A session. Some of the main points which came across were:

- Giving tools to employers to encourage self-service will save admin teams time in the long run.
- All providers agreed there was a move towards paperless communications, but noting that there is still mistrust and suspicion from some members of online portals for example. Other examples were given such as videos to explain annual benefit statements and more engaging communications to encourage engagement with members.
- In term of improving bulk processes, the providers spoke about increasing the use of automated checks, and automating the generation of queries.
- In terms of the challenges, the end goal is to reach the point where the member is the administrator. There was broad agreement that data quality is the main obstacle which must be overcome

Chair's closing remarks

- Pat indicated that the conference had been a huge success, and thanked the attendees for their participation.

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Lincolnshire COUNTY COUNCIL
Working for a better future

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

Report to:	**Pensions Committee**
Date:	**01 December 2022**
Subject:	**Responsible Investment Update Report**

Summary:

This paper provides the Committee with an update on Responsible Investment activity during the second quarter of the financial year 2022/23 (July to September inclusive).

Recommendation(s):

The Committee consider the report and discuss the Responsible Investment activity undertaken during the quarter.

Background

1.1 This report provides a summary of various Responsible Investment (RI) activities that have been undertaken on behalf of the Fund during the quarter, and updates the Committee on any new initiatives relating to good stewardship. This includes work by Local Authority Pension Fund Forum (LAPFF), Border to Coast Pensions Partnership (BCPP), Robeco, who are appointed by Border to Coast to provide voting and engagement services, and Legal and General Investment Management.

2.0 <u>Local Authority Pension Fund Forum – RI Activity</u>

2.1 The Fund participates in the Local Authority Pension Fund Forum. LAPFF acts to promote the highest standards of corporate governance to protect the long-term value of local authority pension fund assets. The Forum's current engagement themes include: climate risk, social risk, governance risk and reliable accounting risk. They also act by collaborating with other investors and by responding to governance and industry consultations.

Outcomes Achieved through LAPFF Engagement

2.2 The latest LAPFF engagement report can be found on their website at www.lapfforum.org. Some highlights from their work during the quarter include:

- The second quarter of 2022/23 saw the LAPFF Chairman, Cllr Doug McMurdo, visit Brazil as part of LAPFF's broader work on mining and human rights. LAPFF believe that social and environmental impacts by investee companies are financially material for investors. During his trip, Cllr McMurdo met with communities affected by the 2015 Mariana (owned by BHP and Vale) and 2019 Brumadinho (owned by Vale) dam collapses. He also met with the Chair of Vale and senior executives from the company. At the end of the trip, he met with a number of Brazilian investors at a meeting led by ESG-focused asset manager, JGP Asset Management, with whom LAPFF has been partnering on this project.

- LAPFF engaged with 35 companies on issues ranging from employment standards, climate change, board composition and human rights. Including:
    - National Grid, where a voting alert was issued about concerns with its transition plan. A meeting was held with the Head of Sustainability and Company Secretary ahead of the AGM to discuss concerns, followed by attendance at the AGM, where progress on Scope 3 targets was challenged.
    - Electric Vehicle Manufacturers about their approach to responsible mineral sourcing and a 'Fair and Just Transition'. LAPFF met with Ford to discuss its approach to human rights and responsible mineral sourcing. The meeting was a short, but was followed up with a range of questions which the company has promised to answer. The company's participation in the Initiative for Responsible Mining Assurance was discussed.

- Collaborative engagement during the quarter included:
    - LAPFF continue to investigate issues with the forced labour of Uyghurs in China;
    - Work with Rathbones' Vote Against Slavery which is engaging with FTSE350 companies that fail to comply with Section 54 of the UK's Modern Slavery Act; and
    - Working with Access to Nutrition Index (ATNI), LAPFF is co-leading an engagement with Kellogg's. A meeting was held with the company in August to discuss progress.

- LAPFF responded to 'A Call for Evidence' on a Sector-Neutral Framework for private sector transition plans in mid-July from the Transition Plan Taskforce (TPT). TPT was set up by the UK government to develop a 'gold standard' for climate transition plans. The TPT aims to help financial institutions and companies prepare rigorous transition plans.

2.3 Further details on their work during the quarter can be found in the quarterly engagement report. Members of the Committee should contact the author of this report if they would like further information on the Forum's activities.

3.0 <u>Border to Coast Pensions Partnership – RI Activity</u>

3.1 Border to Coast is the pooling company chosen by Lincolnshire Pension Fund. Border to Coast is a strong advocate of RI and believe 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. As a representative of asset owners, they practice active ownership by holding companies and asset managers to account on Environmental, Social and Governance (ESG) issues that have the potential to impact corporate value. They also use shareholder rights by voting at company meetings, monitoring companies, carrying out engagement, and litigation.

3.2 Their approach to RI and stewardship is set out in their Responsible Investment Policy, Corporate Governance and Voting Guidelines and Climate Change Policy. These documents can be viewed on the Border to Coast website. They also publish a quarterly stewardship newsletter detailing the activity they have undertaken during the quarter. A copy of the report for the latest quarter can be found at on their website (Quarterly Stewardship Report Q3 2022). Highlights from their work during the quarter include:

- An overview of the quarter's RI activity which included: the publication of their Responsible Investment and Stewardship (RI) Report and Taskforce on Climate-related Financial Disclosures (TCFD) Report for 2021/22; the launch of the Net Zero Implementation Plan which details how they will address the systematic risk of climate change, drive reductions in real world carbon emissions, and reduce their carbon footprint to net zero by 2050 or sooner; and the Border to Coast annual conference which was held at the end of September.

- An industry update providing details of: the rise of anti-ESG sentiment in the US; the UN biodiversity conference (COP15) which will take place in December 2022; publication of a framework to assess banks on how they are transitioning to net zero, published by the Transition Pathway Initiative (TPI), in collaboration with the Institutional Investor Group on Climate Change (IIGCC); and the Principles for Responsible Investment (PRI) global consultation on it's future vision, mission and purpose.

- High level information on voting activity for the quarter across all Border to Coast funds. Border to Coast voted at 134 meetings during the quarter, covering 1,599 agenda items. In 56% of meetings Border to Coast cast at least one vote against the recommendations of management.

- Engagement activity, which included 248 engagements, carried out by: external managers appointed by Border to Coast; Robeco, as the Pool's engagement and voting manager; internal portfolio managers; and by LAPFF.

3.3 A year after Border to Coast announced their commitment to reach net zero greenhouse gas emissions by 2050 or sooner, they have published their full Net Zero Implementation Plan. This is a target-driven plan detailing how they will address the systemic risk of climate change, drive reductions in real world carbon emissions, and reduce their carbon footprint.

4.0 Robeco – RI Activity

4.1 In addition to the direct RI work undertaken by Border to Coast, they have appointed Robeco to provide voting and engagement services. A copy of their quarterly activity report can be found on the Border to Coast website (Robeco Quarterly Active Ownership Report Q3 2022).

4.2 During the quarter Robeco have voted at 134 AGM's, the percentage of meetings where they have at least one vote against management is 56%. During the quarter they have engaged with companies on 55 occasions on topics including: the environment, social and corporate governance matters. This quarter's report provides details on the launch of Robeco's Sustainable Investing (SI) Open Access Initiative, which involves sharing their data with clients and academics; two new engagement themes: on diversity and inclusion, and on the environmental side a stream on natural resource management, as well as an update on their ongoing engagement activity.

5.0 Legal and General Investment Management – RI Activity

5.1 Legal and General Investment Management (LGIM) manage 15% of the Fund's portfolio, which is invested in the Future World Fund (global equities). The Future World Fund invests systematically in a globally diversified portfolio of quoted company shares. The index is designed to favour investment in companies which exhibit characteristics that have historically led to higher returns or lower risk than the market as a whole, and companies which are less carbon-intensive or earn green revenues. LGIM also builds ESG factors and responsible investing into all its investment activity. More information on this can be found on their website: LGIM Responsible Investing.

5.2 On a quarterly basis they publish an ESG Impact Report (LGIM Quarterly ESG Impact Report Q3 2022) detailing their activity during the quarter, across all their investment products. The report covers their ESG activity, significant and summary voting activity, a global public policy update and information on engagement activity. During the quarter LGIM voted against management 482 times, and engaged 137 times with 114 companies on topics including: remuneration, gender diversity, and climate change.

5.3 LGIM also produce an ESG Report specifically for the Future World Fund. This details key ESG metrics including carbon footprint and weighted average carbon intensity data, as well as voting and engagements statistics for the last 12 months. This report is available on the LGIM website (Future World Fund ESG Report Q3 2022).

6.0 Voting

6.1 To enable the Fund to fulfil its stewardship responsibilities as an active shareholder, the active equity managers are required to report on their voting on a quarterly basis.

6.2 Border to Coast has produced summary proxy voting reports, which are attached at appendix A (Global Equity Alpha) and B (UK Listed Equities). Full details of the votes cast during the period July to September 2022 can be found on the Border to Coast website: Integrated Full Details Voting Report Q3 2022.

7.0 Border to Coast Environmental, Social and Governance (ESG) Reporting

7.1 Border to Coast have worked with MSCI, the investment research company, to provide quarterly ESG and carbon reports. The reports include an ESG rating, weighted score for the quarter and the direction of travel, as well as information on the best and worse companies in the sub-fund. The report also includes details on carbon emissions and intensity.

7.2 For the quarter ended 30 September 2022 the ESG reports can be found at:

- Appendix C: Global Equity Alpha Sub-fund;
- Appendix D: UK Listed Equity Sub-fund; and
- Appendix E: Sterling Investment Grade Credit Sub-fund.

7.3 *"This disclosure was developed using information from MSCI ESG Research LLC or its affiliates or information providers. Although Lincolnshire County Council Pension Fund information providers, including without limitation, MSCI ESG Research LLC and its affiliates (the "ESG Parties"), obtain information (the "Information") from sources they consider reliable, none of the ESG Parties warrants or guarantees the originality, accuracy and/or completeness, of any data herein and expressly disclaim all express or implied warranties, including those of merchantability and fitness for a particular purpose. The Information may only be used for your internal use, may not be reproduced or re-disseminated in any form** *and may not be used as a basis for, or a component of, any financial instruments or products or indices. Further, none of the Information can in and of itself be used to determine which securities to buy or sell or when to buy or sell them. None of the ESG Parties shall have any liability for any errors or omissions in connection with any data herein, or any liability for any direct, indirect, special, punitive, consequential or any other damages (including lost profits) even if notified of the possibility of such damages."*

**In accordance with the Licence Agreement between Border to Coast Pensions Partnership Limited and MSCI ESG Research (UK) Limited.*

7.4 In summary:

- <u>Global Equity Alpha</u> – marginal increases in the weighted ESG score in both the Fund and benchmark saw both increase their rating to 'AAA' over the quarter. This was driven primarily by a strong trend of upgrades over recent periods, including several material holdings: Bank of America, Bayer, Booking Holding, Adient and Airbnb.

  The fund's carbon intensity metrics saw mixed changes over the period, with weighted average carbon intensity (WACI) relatively stable, while absolute portfolio emissions increased by c.18% relative to the benchmark. The increase was driven by a greater allocation to Heidelberg Cement over the period, a company that accounts for c.37% of total portfolio emissions alongside an increasing exposure to aviation. Exposure to fossil fuel reserves comes primarily from the Fund's allocation to diversified mining company, Glencore, which represents c.0 8% of the overall Fund.

- <u>UK Listed Equity</u> – the ESG weighted score remained consistent in the quarter, retaining its 'AAA' rating and is slightly above the benchmark. This is due to the fund holding a higher weighting of companies considered to be 'Leaders' and no 'Laggards'. The fund is generally underweight the lowest ESG rated companies relative to the benchmark.

  The Fund is currently below the benchmark for carbon emissions, carbon intensity and WACI. Carbon emissions increased in the quarter mainly driven by a slightly increased weighting to Shell and BP, plus BP reporting higher annual emissions. WACI and carbon intensity remained stable in the quarter.

- <u>Sterling Investment Grade Credit</u> – the fund is rated 'AA'. The ESG weighted score was stable over the quarter, being marginally below that of the benchmark index overall. The lower scoring relative to the benchmark is driven by active positioning, with the fund holding fewer companies considered to be 'Leaders'. Despite this the fund retains its very high rating of AA, which is classed as 'Leader'.

It is worth noting that whilst the availability and quality of ESG data has been improving in recent years, there can still be material gaps across the fixed income market. This is particularly prevalent where a debt-issuing entity does not also issue publicly listed equity, which, in most cases, the fixed income issuer maps to.

The fund is currently above the benchmark for WACI owing to portfolio positioning, whilst portfolio emissions on an absolute basis remain below the benchmark. No single position dominates the portfolio WACI or carbon emissions metrics. Exposure to companies owning fossil fuel reserves is lower relative to the benchmark. The largest contributors include: Equinor, Centrica and BASF.

8.0 Stewardship Code 2022

8.1 The Financial Reporting Council (FRC) introduced the new UK Stewardship Code in 2020. The Code sets high stewardship standards for those investing money on behalf of UK savers and pensioners, and those who support them. The Code comprises twelve ‘apply and explain’ principles for asset owners, under the headings:

- Purpose and governance;
- Investment approach;
- Engagement; and
- Exercising rights and responsibilities.

8.2 To become a signatory to the Code, organisations must submit a Stewardship Report demonstrating how they have applied the Code’s Principles in the previous 12 months to the FRC. The FRC will assess the report, and if it meets their reporting expectations, the organisation will be listed as a signatory to the Code. Once listed, organisations must report annually to remain a signatory.

8.3 The Fund became one of the first Local Authority Pension Fund signatories to the Code, following submission of a report for 2020/21. Appendix F is the Fund’s second submission and covers stewardship activities and outcomes for the financial year 2021/22. Feedback from the FRC on the latest submission, and confirmation that the Fund remains a signatory to the Code, is expected in the first quarter of 2023.

Conclusion

9.1 This report brings to the Committee information on the various Responsible Investment (RI) activities that have been undertaken on behalf of the Fund during the quarter.

Consultation

a) Risks and Impact Analysis

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

Appendices

These are listed below and attached at the back of the report	
Appendix A	Border to Coast Global Equity Alpha Voting Activity
Appendix B	Border to Coast UK Listed Equity Voting Activity
Appendix C	Border to Coast Pensions Partnership - ESG Quarterly Report - Global Equity Alpha
Appendix D	Border to Coast Pensions Partnership - ESG Quarterly Report - UK Listed Equity
Appendix E	Border to Coast Pensions Partnership - ESG Quarterly Report - Investment Grade Credit
Appendix F	Lincolnshire Pension Fund Stewardship Code Submission 2021/22

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 Claire Machej, who can be contacted on 01522 553641 or claire.machej@lincolnshire.gov.uk.

Border to Coast Global Equity Alpha

Proxy Voting Report

Period: July 01, 2022 - September 30, 2022

Votes Cast	179	Number of meetings	15
For	156	With management	153
Withhold	0	Against management	26
Abstain	0		
Against	23		
Other	0		
Total	**179**	**Total**	**179**

In 67% of meetings we have cast one or more votes against management recommendation.

General Highlights

Increased scrutiny on Board Elections

Board elections, the process in which investors have the right to elect directors to the company's Board of Directors during shareholder meetings, have consistently been one of the fundamental aspects of corporate governance. Corporate boards are responsible for sufficient oversight and can act as a sounding board for management by providing insights and foresight on directors' relevant fields of expertise. Good corporate governance is defined by distinct responsibilities between executive and non-executive directors, with board committees delving into specific matters that require more time and resources. Global best practice requires corporate boards to have sufficient independence levels, both overall and within separate board committees, while safeguarding a relevant and diversified set of skills, expertise, and experience amongst directors to reflect all stakeholders' perspectives.

Historically, there has not been much scrutiny around the election of board directors. Especially not in the absence of a proxy contest or dedicated campaign to vote Against certain directors. Often investors went along with management's recommendations as the majority of board elections are considered routine items at companies' annual general meetings (AGMs). However, over the past years we have witnessed a rise in interest from the public as to how investors use their voting rights, which along with other trends resulted in increased scrutiny from shareholders regarding board elections. First of all, this means investors are increasingly demanding the possibility to hold individual directors accountable. This is for instance not possible in the case of a slate election method, where board directors are jointly put forward in one list (a slate). Secondly, investors continue to prefer the ability to re-elect directors on an annual basis, which is not the case when the election frequency is set to more than one year or when a board is staggered, meaning that only a rotating part of the board is eligible for (re-)election.

Besides investor preferences regarding the different election types and frequencies, director opposition by shareholders has increased over the past couple of years. The 2022 proxy voting report by Semler Brossy showed that the percentage of directors from Russel 3000 companies receiving less than 95% support rates from investors has increased from 22% five years ago to 30% in 2022. Insufficient board independence, gender diversity concerns or potential overcommitment, have been standard drivers of voting Against a director's election. However, nowadays shareholders use the election of board directors to signal discontent around broader topics like environmental and social concerns.

Market Highlights

Market developments in the United States

The US is often cited as a model of good governance characterized by a focus on shareholder rights and robust disclosure requirements. The US corporate governance model is, however, far from being a static system. In the past decades, it has undergone significant changes. These changes were spurred by the accounting scandals of the early 2000s and the 2008 financial crisis, which directed significant scrutiny towards public company boards and raised awareness regarding the far-reaching impacts of poor corporate governance. The Covid-19 pandemic, climate change, and the increase in global wealth and income inequality have again dramatically reshaped the corporate governance landscape. Investors have increased their expectations and are using their rights more than ever to hold companies accountable. Against this backdrop, regulators continued to roll out initiatives to reform the corporate governance system to adapt to these new realities.

One major change that was recently rolled out in the US was the Securities and Exchange Commission's (SEC) adoption of new rules requiring that all companies use 'universal proxy cards' for any meetings involving contested elections. The new rules, which apply to shareholder meetings after August 31, 2022, will overhaul the mechanisms by which proxy contests have been carried out in the US thus far. Prior to the amendments, shareholders voting by proxy were unable to 'mix and match' nominees put forward by the incumbent board and the dissident shareholder, as they could if voting in person. These shareholders were therefore faced with a binary choice – to vote either for one slate or the other, resulting in no or sweeping change. The new rules require both the incumbent board and the dissident shareholder to provide shareholders with a slate including the names of all dissident and registrant nominees, allowing shareholders voting by proxy to choose nominees from either side. We welcome this change as it places investors voting in person and by proxy on equal footing.

In a separate initiative, the SEC proposed certain amendments to Rule 14a-8, which governs the process by which shareholder proposals are included in a company's proxy statement. Under this rule, a company may omit a shareholder proposal from its proxy statement if the proposal falls within one of 13 substantive bases for exclusion. The proposed amendments focus in particular on the substantial implementation, duplication, and resubmission of proposals, aiming to "improve the shareholder proposal process and promote consistency." In recent years, the current rules drew criticism over concerns that the existing standards for exclusion were not consistently implemented, thereby leading to unpredictable outcomes. The new rules address these concerns by ensuring a more transparent framework for the rule's application. We support the changes and expressed our position by participating in the public consultation launched by the SEC on the new rules.

Another development we are closely following is the California Gender Board Diversity Law. In May 2022, the California law requiring increased female representation on public company boards headquartered in the state was struck down. The decision came weeks after a court invalidated a bill requiring California-based publicly listed corporations to have board members from underrepresented communities. This outcome prompted concerns that the rulings will stifle future efforts to enact diversity regulations in the US. Despite this, companies continue to face mounting pressure from shareholders to increase diversity in the boardroom. At the same time, the Nasdaq Board Diversity Rules, which became effective in August 2022, signal that the focus on diversity remains ongoing and that companies should continue striving to ensure an adequate level of board diversity.

Voting Highlights

Prosus NV - 08/24/2022 - Netherlands
Proposals: Remuneration Report, Remuneration Policy Executive and Non-Executive Directors & Authority to Repurchase Shares.

Prosus N.V. engages in the e-commerce and internet businesses. It operates internet platforms, such as classifieds, payments and fintech, food delivery, travel, education, retail, health, social, and other internet platforms.

The company's 2022 Annual General Meeting (AGM) occurred amidst high scrutiny over the continued rise in Prosus' valuation discount. In this context, three resolutions were particularly noteworthy.

First, Prosus asked shareholders to approve a share buyback authority enabling the board to repurchase shares representing up to 50% of the issued share capital over a period of 18 months. We voted For the resolution, having assessed that the proposed buyback is an effective means to address Prosus' steep valuation discount. The proposal was supported by an overwhelming majority (ca. 93%).

Second, Prosus asked for approval on certain changes to the remuneration policy aimed at incentivizing the executive team to focus on reducing the discount to NAV. Specifically, the company proposed to not award any LTI for FY2023 and to instead issue a special discount-linked STI, to be earned based on whether a "material reduction" of the discount to NAV is achieved by the end of FY2023. Per the company's disclosure, the board retains full discretion to assess the materiality of the reduction. We voted Against the resolution based on our concerns that the proposed changes place excessive focus on short-term performance and that the proposed plan lacks sufficient transparency. The resolution was approved with 12% dissent.

Finally, we voted Against Prosus' remuneration report, which was opposed by 14% of the votes cast. In line with our voting policy, we assessed this report based on our proprietary remuneration framework and identified concerns with regards to pay magnitude and transparency.

Alibaba Group Holding Ltd - 09/30/2022 - Cayman Islands
Proposal: Board elections

Alibaba Group Holding Limited, through its subsidiaries, provides technology infrastructure and marketing reach to merchants, brands, retailers, and other businesses to engage with their users and customers in the People's Republic of China and internationally.

At the company's annual general meeting (AGM), the focus was on the election of directors. As in previous years, the Alibaba Partnership, a formal partnership agreement that was initiated by the founders of the Group in 2010, has the exclusive right to nominate or, in limited situations, appoint up to a simple majority of the members of the company's board. Currently, 4 out of the 11 directors on the board are appointed by the Partnership. The Partnership's nomination right is not fully exercised since its nominees do not currently comprise a majority of the board.

We decided to oppose the re-election of the more respective accountable member of the nomination committee, as the board fails to incorporate the appropriate level of gender diversity. Additionally, we voted Against the Chairman of the board because of his double role also as the CEO and because there is no lead independent director. Compared to previous years, we acknowledge that there have been positive developments regarding the company's corporate governance structure, including an increase in the board's overall independence and a now 100% independent compensation committee.

However, we expect these improvements to continue, considering the company's anticipated primary listing on the Hong Kong Stock Exchange. In preparation for this listing, the company will adopt an Employee Stock Ownership Plan (ESOP) to comply with the amended Chapter 17 of the Hong Kong Listing Rules, which will be subject to shareholders' approval at an upcoming EGM. We provided input to the company to help them identify the material issues they should consider when they design their new ESOP.

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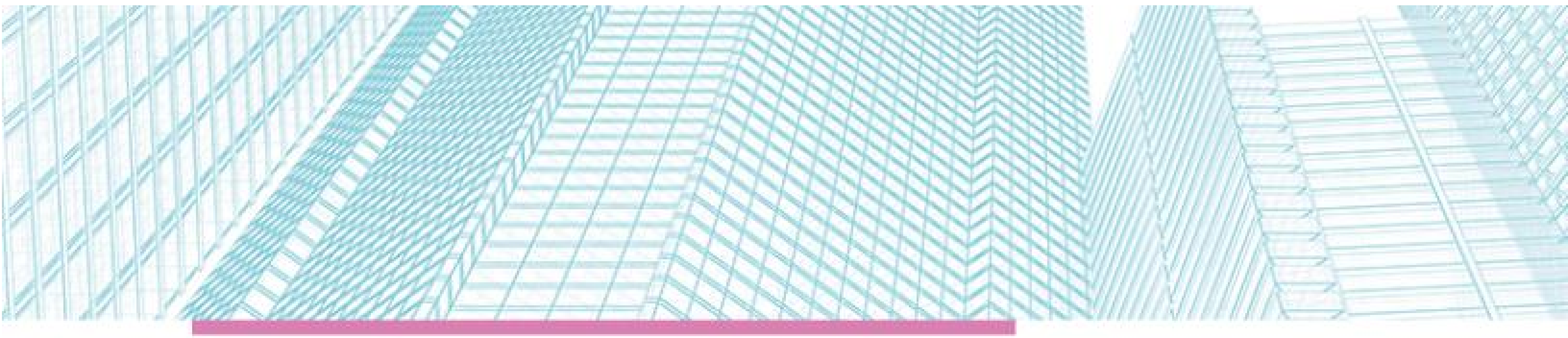
Border to Coast UK listed
Equity Fund



Proxy Voting Report

Period: July 01, 2022 - September 30, 2022

Votes Cast	467	Number of meetings	31
For	435	With management	435
Withhold	0	Against management	32
Abstain	0		
Against	32		
Other	0		
Total	**467**	**Total**	**467**

In 59% of meetings we have cast one or more votes against management recommendation.

General Highlights

Increased scrutiny on Board Elections
Board elections, the process in which investors have the right to elect directors to the company's Board of Directors during shareholder meetings, have consistently been one of the fundamental aspects of corporate governance. Corporate boards are responsible for sufficient oversight and can act as a sounding board for management by providing insights and foresight on directors' relevant fields of expertise. Good corporate governance is defined by distinct responsibilities between executive and non-executive directors, with board committees delving into specific matters that require more time and resources. Global best practice requires corporate boards to have sufficient independence levels, both overall and within separate board committees, while safeguarding a relevant and diversified set of skills, expertise, and experience amongst directors to reflect all stakeholders' perspectives.

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BORDER TO COAST GLOBAL EQUITY ALPHA FUND

ESG & CARBON REPORT

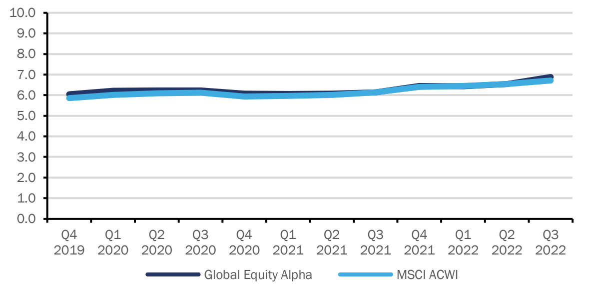
Q3 2022

MSCI ESG RATING

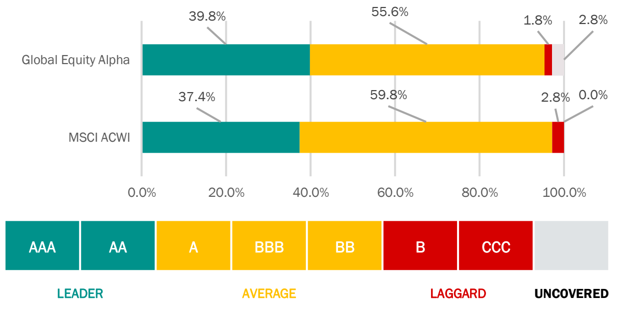
AAA

	Q3 2022 Position [1]			Key	
	MSCI ESG Rating	Weighted ESG Score	vs. Benchmark	(green)	Fund has an equal or better *Weighted ESG Score* than the benchmark.
Global Equity Alpha	AAA [1]	6.9 [1]	(green)	(amber)	Fund has a *Weighted ESG Score* within 0.5 of the benchmark.
MSCI ACWI	AAA [1]	6.7 [1]		(red)	Fund has a *Weighted ESG Score* more than 0.5 below the benchmark.

MSCI Weighted Score Trend[1]



MSCI ESG Weightings Distribution[1]



Highest ESG Rated Issuers [1]	% Portfolio Weight	% Relative Weight	MSCI Rating
ASML Holding	2.0%	+1.6%	AAA [1]
Microsoft Corporation	1.1%	-2.1%	AAA [1]
Diageo	0.8%	+0.6%	AAA [1]
Allianz SE	0.8%	+0.7%	AAA [1]
AutoDesk	0.7%	+0.6%	AAA [1]

Lowest ESG Rated Issuers [1]	% Portfolio Weight	% Relative Weight	MSCI Rating
Vitesco Technologies Group	1.3%	+1.3%	B [1]
META Platforms	0.5%	-0.1%	B [1]
Airbnb	0.9%	+0.9%	BB [1]
Berkshire Hathaway	0.8%	+0.1%	BB [1]
Adient	0.7%	+0.7%	BB [1]

Quarterly ESG Commentary

- Marginal increases in the Weighted ESG score in both the Fund and benchmark saw both increase their rating to ‘AAA’ over the quarter, this was driven primarily by a strong trend of upgrades over recent periods.
- Upgrades this quarter included several material holdings, including Bank of America, Bayer, Booking Holdings, Adient and Airbnb.

Feature Stock: Adient

Adient is a global leader in auto seating, a consolidated industry, where it holds around a third of the market share. Its major competitor is Lear Corporation whose seating division has consistently earned higher margins than Adient. The long-term valuation case is based on the belief that Adient should be able to achieve seating margins close to Lear’s. It has taken some time for the Company to resolve legacy issues and the balance sheet remains a work in progress.

More recently, the pandemic and subsequent auto industry supply chain constraints have also been a delaying factor. The Fund Manager believes the current CEO, Doug Del Grosso, has however been positive for the Company and the current management are the ones to help realise the value in the investment.

More generally, Adient is well-positioned in the auto sector for the electrification transition. Seating is technology agnostic, and the Company has already won significant contracts for the supply of seats for electric vehicles. On climate change, the company was flagged as a laggard by MSCI, and it has responded with policy improvements, including a Sustainability Report for 2021 with reduction targets across scope 1, 2 and 3 emissions and new product design protocol. The Company received an upgrade in its MSCI rating to BB in Q3 2022.

.

[1]Source: MSCI ESG Research 30/09/2022

BORDER TO COAST GLOBAL EQUITY ALPHA FUND

ESG & CARBON REPORT

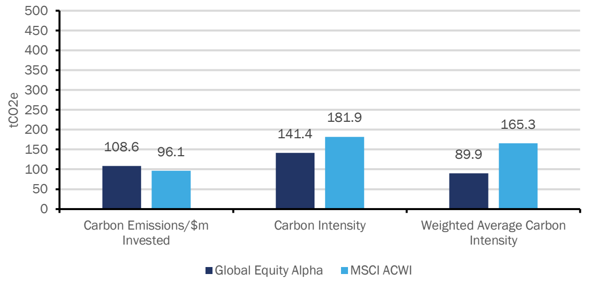
Q3 2022

MSCI ESG RATING

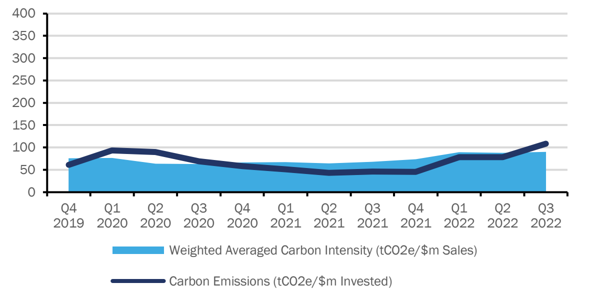
AAA

BORDER TO COAST PENSIONS PARTNERSHIP

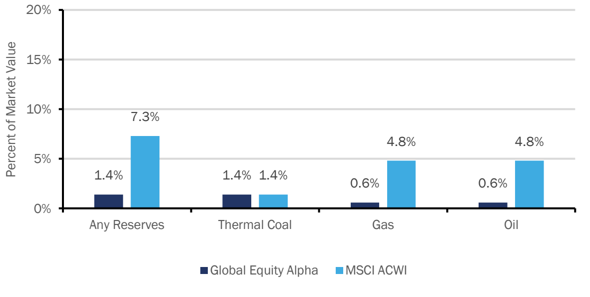
Carbon Emissions and Intensity[1]



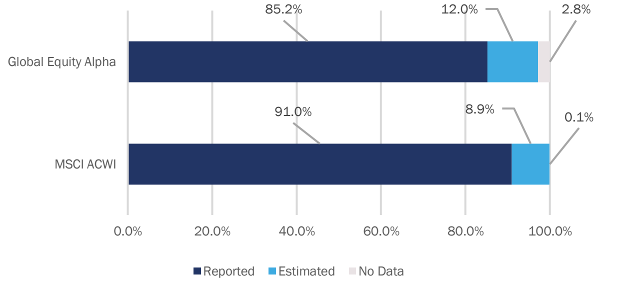
Weighted Average Carbon Intensity Trend[1]



Weight of Holdings Owning Fossil Fuel Reserves[1]



Availability of Carbon Emissions Data (% of Market Value)[1]



Largest Contributors to Weighted Average Carbon Intensity [1]

	% Portfolio Weight	% Relative Weight	Contribution	CA100+	TPI Level
Holcim	0.6%	+0.5%	26.8% [1]	Yes	4
HeidelbergCement	0.6%	+0.6%	22.6% [1]	Yes	3
Linde	1.0%	+0.7%	14.9% [1]	No	3
EasyJet	0.4%	+0.4%	4.6% [1]	No	3
Jet2	0.5%	+0.5%	3.1% [1]	No	N/A

Quarterly Carbon Commentary

- Carbon metrics saw mixed changes over the period, with Weighted Average Carbon Intensity (WACI) relatively stable, while absolute portfolio emissions increased by c.18% relative to the benchmark.
- The increase was driven by a greater allocation to HeidelbergCement over the period, a company that accounts for c.37% of total portfolio emissions alongside an increasing exposure to aviation.
- Exposure to fossil fuel reserves comes primarily from the Fund's allocation to diversified mining company, Glencore, which represents c.0.8% of the overall Fund.

Feature Stock: Jet2

Jet2 is one of the UK's largest airlines and tour operators, offering package holidays and low-cost airline flights. The Company has robust growth prospects as we continue to emerge from the pandemic and has a history of disrupting more traditional incumbents (for example, Thomas Cook) and achieving impressive returns in a traditionally difficult industry.

Despite having one of the most modern and efficient airline fleets, Jet2 has historically lagged some of its peers in terms of its net zero and carbon strategy. It has sought to address this in recent years, most notably after it released its Net Zero Sustainability Strategy in September 2021. CO2 per passenger kilometre fell 19% between 2011 and 2020 through measures such as fleet modernisation, aircraft modifications and operational adjustments. The Company is aiming for net zero by 2050 at the latest. Recognising that aviation is a hard-to-abate sector, in 2022 the Company launched a carbon offset scheme, and has committed to reporting annually on its targets. Finally, the Company is lobbying for government measures on support for sustainable aviation fuel and air traffic measures which Jet2 believe could reduce emissions by 10%.

[1]Source: MSCI ESG Research 30/09/2022

Issuers Not Covered [1]		
Reason	ESG (%)	Carbon (%)
company not covered	1.4%	1.4%
Investment Trust/ Funds	1.4%	1.4%

[1]Source: MSCI ESG Research 30/06/2022

Important Information

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* In accordance with the licence agreement between Border to Coast and MSCI

[1]Source: MSCI ESG Research 30/09/2022

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BORDER TO COAST
UK LISTED EQUITY FUND

ESG & CARBON REPORT

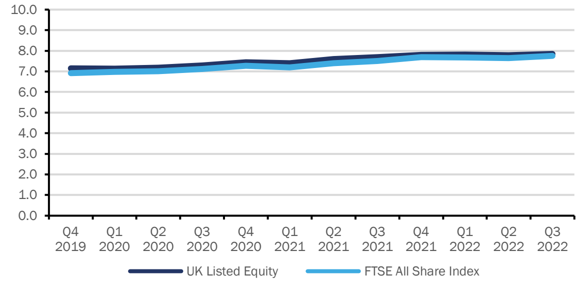
Q3 2022

MSCI ESG RATING
AAA

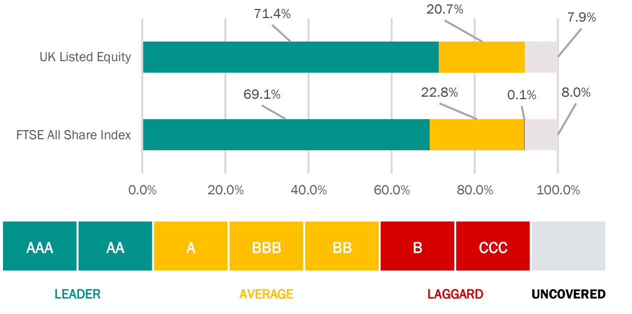
BORDER TO COAST PENSIONS PARTNERSHIP

	Q3 2022 Position [1]			Key	
	MSCI ESG Rating	Weighted ESG Score	vs. Benchmark		Fund has an equal or better *Weighted ESG Score* than the benchmark.
UK Listed Equity	AAA [1]	7.9 [1]			Fund has a *Weighted ESG Score* within 0.5 of the benchmark.
FTSE All Share Index	AAA [1]	7.8 [1]			Fund has a *Weighted ESG Score* more than 0.5 below the benchmark.

MSCI Weighted Score Trend[1]



MSCI ESG Weightings Distribution[1]



Highest ESG Rated Issuers [1]				Lowest ESG Rated Issuers [1]			
	% Portfolio Weight	% Relative Weight	MSCI Rating		% Portfolio Weight	% Relative Weight	MSCI Rating
Diageo	4.4%	+0.3%	AAA [1]	TP ICAP	0.4%	+0.3%	BB [1]
Relx	2.3%	+0.3%	AAA [1]	British American Tobacco	3.1%	-0.3%	BBB [1]
National Grid	1.9%	+0.3%	AAA [1]	Glencore	2.1%	-0.8%	BBB [1]
CRH	1.2%	+0.2%	AAA [1]	Smith & Nephew	0.6%	+0.2%	BBB [1]
Legal & General Group	0.7%	+0.1%	AAA [1]	Fresnillo	0.3%	+0.3%	BBB [1]

Quarterly ESG Commentary

- The ESG Weighted score remained consistent in the quarter, retaining its ‘AAA’ Rating and slightly above the benchmark. This is due to the Fund holding a higher weighting of companies considered to be ‘Leaders’ and no ‘Laggards’.
- The Fund is generally underweight the lowest ESG rated companies relative to the benchmark.

Feature Stock: TP ICAP

TP ICAP Group plc is a leading electronic market infrastructure and information provider. It offers intermediary services, contextual insight, trade execution, pre-trade / settlement services, data-led solutions. The Company’s main business divisions include Global Broking, Energy & Commodities, Agency Execution and Parameta Solutions. TP ICAP is a market leader in the inter-dealer broker (IDB) market with 40% of the market share and operates in 26 countries with 2,500 brokers. The group strategy is to diversify away from the core money broking business, which is a mature market, by developing digital assets, data solutions, electronic trading and liquidity pools. The Company scores well on ‘Governance’ with strong ethics controls in place to prevent excessive risk taking and potential malpractice. As the business model moves from voice trading to electronic trading this oversight can be strengthened further.

TP ICAP is rated BB (“Average”) by MSCI. However, the Company lacks a peer group that is directly comparable. This means that any metric that relies on relative scoring may be misleading. For example, MSCI rates TP ICAP lower on initiatives for ESG / sustainable investing relative to peers. However, many of these initiatives are more applicable to banks and financial institutions. TP ICAP’s initiatives in carbon credits, renewable energy certificate markets, climate indices and weather derivatives have grown from a low relative base alongside underlying market development. The Company has benefited from a low attrition and staff turnover rate, this has meant that the Company scores lower on ‘diversity’ and ‘human capital development’ relative to its peers. However, the Company has set improvement targets and remains in line to meet them.

[1]Source: MSCI ESG Research 30/09/2022

BORDER TO COAST UK LISTED EQUITY FUND

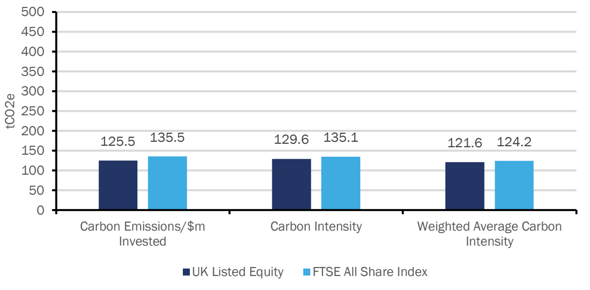
ESG & CARBON REPORT

Q3 2022

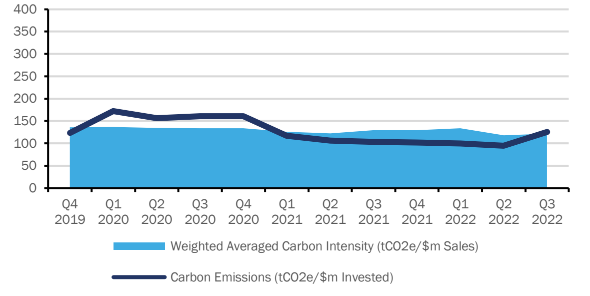
MSCI ESG RATING
AAA

BORDER TO COAST PENSIONS PARTNERSHIP

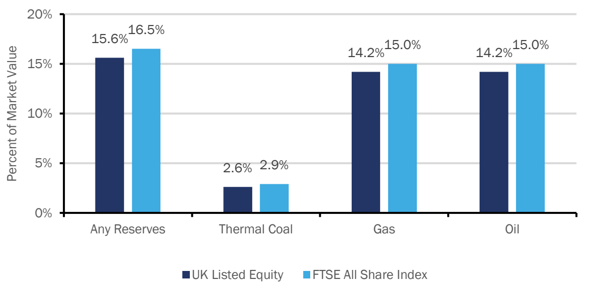
Carbon Emissions and Intensity[1]



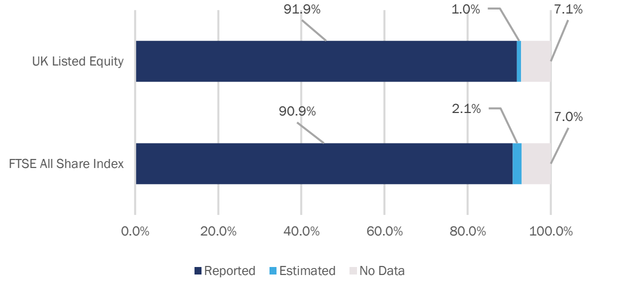
Weighted Average Carbon Intensity Trend[1]



Weight of Holdings Owning Fossil Fuel Reserves[1]



Availability of Carbon Emissions Data (% of Market Value)[1]



Largest Contributors to Weighted Average Carbon Intensity [1]

	% Portfolio Weight	% Relative Weight	Contribution	CA100+	TPI Level
Shell	7.5%	+0.4%	29.1% [1]	Yes	4
CRH	1.2%	+0.2%	12.8% [1]	Yes	4
Rio Tinto	2.1%	-0.3%	9.4% [1]	Yes	4
BP	2.0%	+0.3%	7.7% [1]	Yes	4*
National Grid	2.9%	-0.4%	5.6% [1]	Yes	4

Quarterly Carbon Commentary

- The Fund is currently below the benchmark for carbon emissions, carbon intensity and weighted average carbon intensity (WACI).
- Carbon emissions increased in the quarter mainly driven by a slightly increased weighting to Shell and BP, and BP reporting higher annual emissions. WACI and carbon intensity remained stable in the quarter.

Feature Stock: Rio Tinto

Rio Tinto plc is an international mining company. The Company has interests in mining for aluminium, borax, coal, copper, gold, iron ore, lead, silver, tin, uranium, zinc, titanium dioxide feedstock, diamonds, talc and zircon.

Rio Tinto is a significant emitter of carbon with scope 1 and 2 emissions of 31.1mt in 2021, the majority of this derived from the Aluminium business. Aluminium is an essential metal for the low-carbon transition used in lowering carbon emissions from vehicles, aircraft and other carbon producers where weight is a factor. Currently the industrial process taking the bauxite raw material and smelting into pure aluminium takes an enormous amount of electricity and thus the carbon footprint of production is poor. However, this is being mitigated by the utilisation of low carbon energy in the smelting process and Rio Tinto now sources 75% of its power from renewable sources such as hydro, wind, and solar.

In 2020, it set a target to reduce scope 1 and 2 carbon emission intensity by 30% by 2030 (using 2018 as a baseline) and this has now been increased to 50%. The company will invest $7.5bn in carbon reduction between 2022 and 2030 to achieve this goal. Rio Tinto has a net zero target across all operations by 2050.

[1]Source: MSCI ESG Research 30/09/2022

Issuers Not Covered [1]		
Reason	ESG (%)	Carbon (%)
Company not covered	0.8%	0.0%
Investment Trust/ Funds	7.1%	7.1%

[1]Source: MSCI ESG Research 30/09/2022

Important Information

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* In accordance with the licence agreement between Border to Coast and MSCI

[1]Source: MSCI ESG Research 30/09/2022

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BORDER TO COAST STERLING INVESTMENT GRADE CREDIT FUND

ESG & CARBON REPORT

Q3 2022

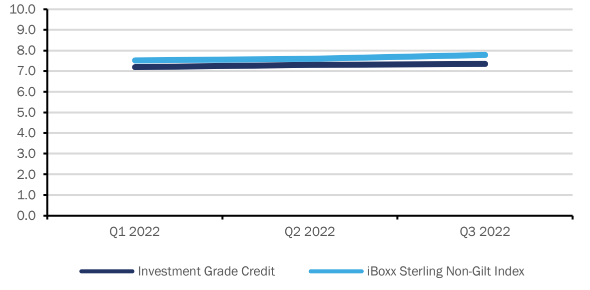
MSCI ESG RATING

AA

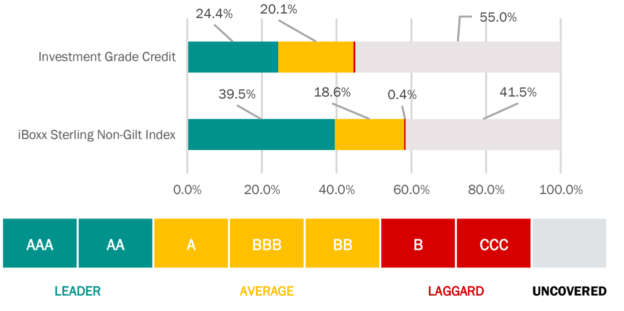
BORDER TO COAST PENSIONS PARTNERSHIP

	Q3 2022 Position [1]			Key	
	MSCI ESG Rating	Weighted ESG Score	vs. Benchmark		Fund has an equal or better *Weighted ESG Score* than the benchmark.
Investment Grade Credit	AA [1]	7.4 [1]			Fund has a *Weighted ESG Score* within 0.5 of the benchmark.
iBoxx Sterling Non Gilt Index	AAA [1]	7.8 [1]			Fund has a *Weighted ESG Score* more than 0.5 below the benchmark.

MSCI Weighted Score Trend[1]



MSCI ESG Weightings Distribution[1]



Highest ESG Rated Issuers [1]				Lowest ESG Rated Issuers [1]			
	% Portfolio Weight	% Relative Weight	MSCI Rating		% Portfolio Weight	% Relative Weight	MSCI Rating
European Investment Bank	1.6%	-2.9%	AAA [1]	America Movil	0.5%	+0.1%	B [1]
Orsted	0.6%	+0.2%	AAA [1]	Wells Fargo & Company	0.6%	-0.2%	BB [1]
Legal & General Group	0.6%	+0.1%	AAA [1]	Estados Unidos Mexicanos	0.3%	+0.1%	BB [1]
Yorkshire Building Society	0.5%	+0.2%	AAA [1]	TP ICAP	0.2%	+0.1%	BB [1]
The Bank of Nova Scotia	0.5%	+0.3%	AAA [1]	Dexia Credit Local	0.1%	-0.5%	BB [1]

Quarterly ESG Commentary

- The ESG Weighted score was stable over the quarter, remaining below that of the benchmark index overall.
- The lower scoring relative to the benchmark is driven by active positioning, with the Fund holding fewer companies considered to be ‘Leaders’. Despite this the Fund retains its very high rating of AA, which is classed as a 'Leader'.
- While the availability and quality of ESG data has been improving in recent years, there can still be material gaps across the fixed income market. This is particularly prevalent where a debt-issuing entity does not also issue publicly-listed equity, which, in most cases, the fixed income issuer maps to.

Feature Stock: Wells Fargo

Wells Fargo & Company, a diversified financial services company, provides banking, investment, mortgage, and consumer and commercial finance products and services in the United States and internationally. The Company’s performance has been stable, with relatively solid fundamentals and strong returns making it an attractive inclusion in a high-quality credit portfolio.

ESG performance is weak relative to peers with particularly poor governance performance alongside lower than average performance on social factors such as the development of human capital. Engagement has been undertaken with ESG rating improvements and the development of ESG initiatives being discussed, including the net zero commitments. The Company has been addressing its most prominent legal and regulatory issues in recent years, this triggered an outlook update to stable from negative by Moody’s earlier this year. Wells Fargo are part of the Fund Manager’s wider counterparty engagement programme, which involves an ESG questionnaire and subsequent detailed ESG deep dive meetings to discuss the outcomes; these meetings will commence once the Manager receives the completed survey.

[1]Source: MSCI ESG Research 30/09/2022

BORDER TO COAST STERLING INVESTMENT GRADE CREDIT FUND

ESG & CARBON REPORT

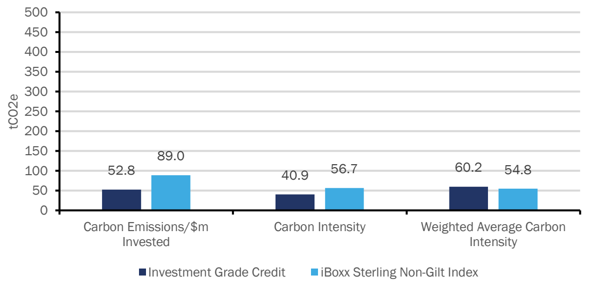
Q3 2022

MSCI ESG RATING

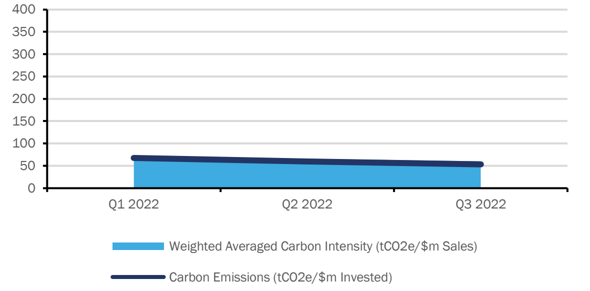
AA

PENSIONS PARTNERSHIP

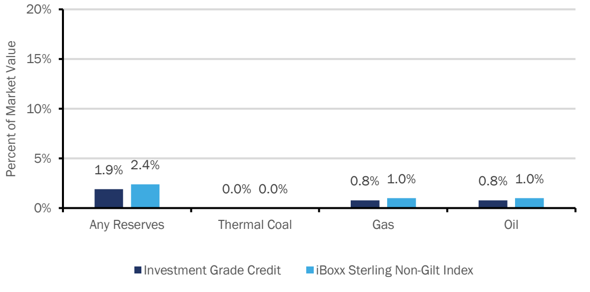
Carbon Emissions and Intensity[1]



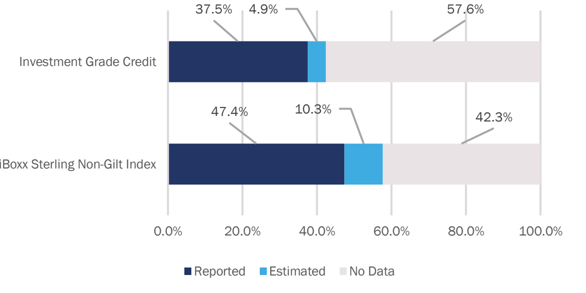
Weighted Average Carbon Intensity Trend[1]



Weight of Holdings Owning Fossil Fuel Reserves[1]



Availability of Carbon Emissions Data (% of Market Value)[1]



Largest Contributors to Weighted Average Carbon Intensity [1]

	% Portfolio Weight	% Relative Weight	Contribution	CA100+	TPI Level
EDF	1.0%	-0.2%	13.4% [1]	Yes	4
London Power Networks	0.5%	+0.4%	10.2% [1]	No	N/A
Duke Energy Corporation	0.1%	+0.1%	8.4% [1]	Yes	3
Transport for London	0.8%	+0.4%	8.3% [1]	No	N/A
South Eastern Power Networks	0.1%	+0.1%	7.2% [1]	No	N/A

Quarterly Carbon Commentary

- The Fund is currently above the benchmark for weighted average carbon intensity (WACI) owing to portfolio positioning, while portfolio emissions on an absolute basis remain below the benchmark. No single position dominates the portfolio WACI or carbon emissions metrics.
- Exposure to companies owning fossil fuel reserves is lower relative to the benchmark. The largest contributors include Equinor, Centrica and BASF.

Feature Stock: South Eastern Power Networks

South Eastern Power Networks owns, operates and manages the electricity distribution network in the south-east of England, and is one of the 14 electricity distribution networks in Great Britain. The Company is one of the three distribution networks owned by UK Power Networks, which also owns London Power Networks.

South Eastern Power Networks are a solid company and one of the top picks in the sector in terms of balance sheet robustness, with low leverage and a simple capital structure. Being primarily involved in the distribution of electricity results in a relatively low emissions footprint pertaining to carbon within the energy sector, however clearly emissions do remain. The Company has set a target to reduce its business carbon footprint by 2% each year for the 2023-2028 Ofgem price control period, following which this will be reviewed. In line with the UK government's move to a low carbon economy, UK Power Networks plans to connect renewables to the grid. Apart from asset replacement arising from the rollout of smart meters, the Company is also developing an electric vehicle charging network.

[1]Source: MSCI ESG Research 30/09/2022

Issuers Not Covered [1]		
Reason	ESG (%)	Carbon (%)
Company not covered	49.6%	52.2%
Investment Trust/ Funds	5.4%	5.4%

[1]Source: MSCI ESG Research 30/06/2022

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[1]Source: MSCI ESG Research 30/09/2022

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Appendix F

LINCOLNSHIRE COUNTY COUNCIL PENSION FUND

STEWARDSHIP CODE 2021/22

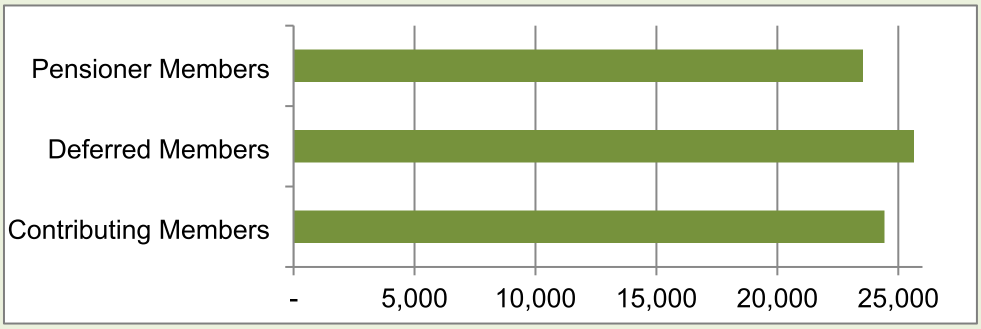
"Stewardship is the responsible allocation, management and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society"

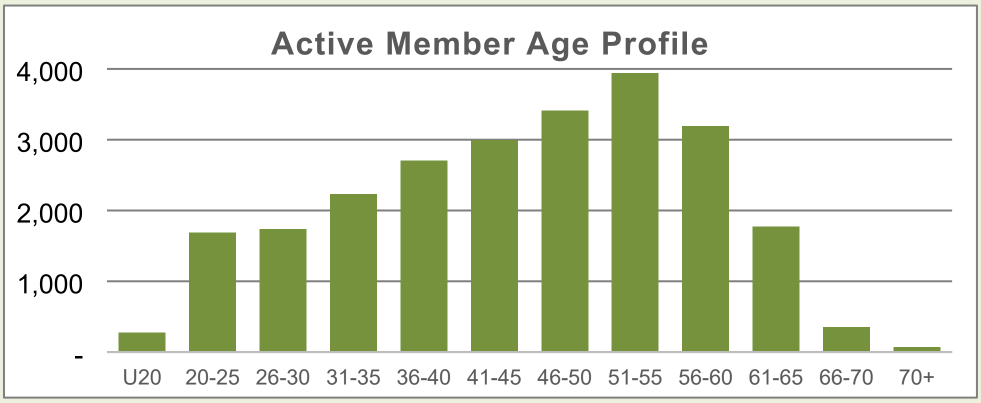
Background and Context

Fund Facts (as at 31 March 2022)

Membership

73,608



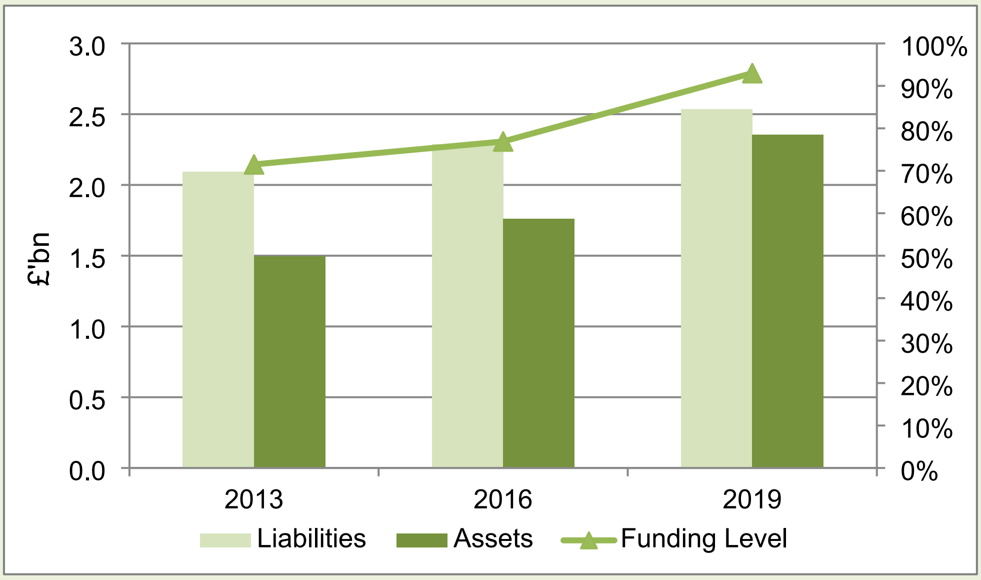
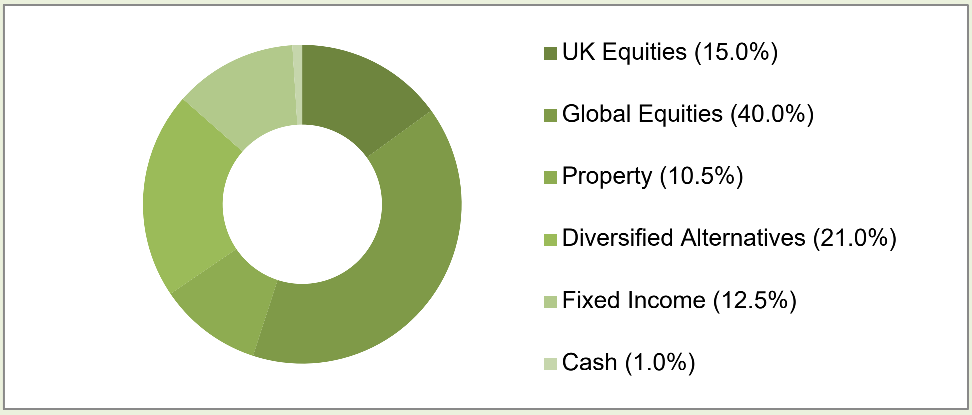
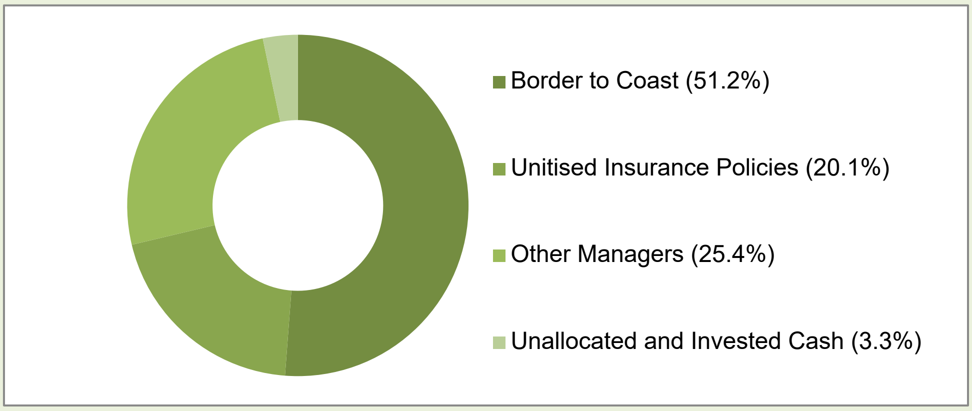
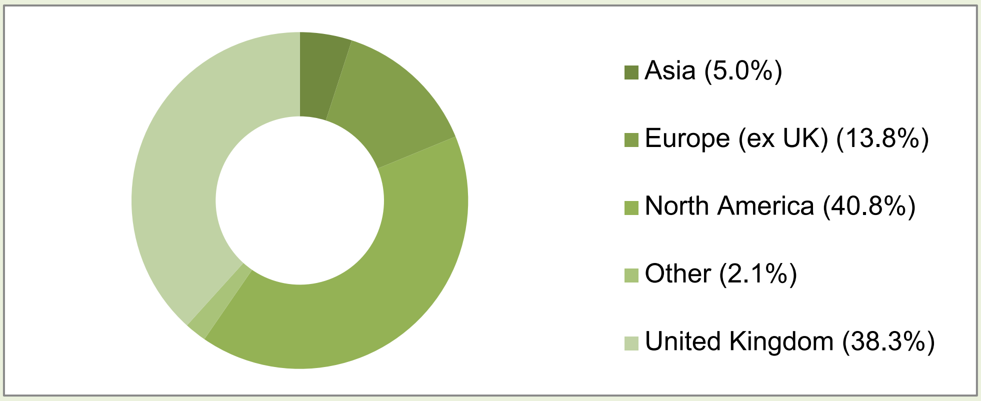


Employers

260

Contributing employers, either in Lincolnshire, or providing services to these employers, include:

Employer Type	Number
Councils and Police	10
Academies	175
Community Admission Bodies	4
Further Education Bodies	4
Internal Drainage Boards	9
Resolution Bodies	2
Small Scheduled Bodies	30
Transferee Admission Bodies	26

Funding Position	
Invested Assets **£3.1bn**	  

Lincolnshire Pension Fund

Lincolnshire Pension Fund (the "Fund") is part of the Local Government Pension Scheme (LGPS), which is a statutory scheme established by an Act of Parliament and governed by the Public Services Pensions Act 2013 (PSPA 2013). It is a contributory defined benefit scheme to provide pensions and other related benefits for all eligible employees of local government and other participating employers. The LGPS is a multi-employer scheme which is open to new membership. The LGPS operates on a 'funded' basis, this means that contributions from employees and employers are paid into a fund which is invested, and from which pensions are paid.

As the scheme is well funded and open to new members, with the majority of its employers being secure, tax-backed employers, the Fund is able to take a long-term view on investments and generally looks over a twenty year plus period when assessing its investment strategy. A young scheme member joining today may not be entitled to take their pension for another 50 years, so all investment decisions are made with a long-term focus.

Scheme regulations are set on a national basis, but individual Funds are managed by designated administering authorities at a local level. The LGPS, unlike private pension schemes, does not have Trustees but has a committee made up of elected Councillors and other interested parties, representing other employers in the Fund and scheme members. The Fund's Pensions Committee performs similar duties to Trustees, under the administering authority of Lincolnshire County Council, and is the decision-making body responsible for the investments and the administration of benefits under the scheme.

The Fund has oversight and scrutiny from a Local Pension Board, established under the PSPA 2013. The Board's role is to assist the Committee in securing good governance and administration of benefits for the scheme members and employers.

The purpose of the Fund is to provide pensions and other associated benefits to Lincolnshire's LGPS members when they fall due. In order to do this, it seeks to achieve sustainable, risk-adjusted performance of its investments over the long-term. More information on the Fund can be found in its Annual Report and Accounts.

Fund Governance Structure

Lincolnshire County Council, as Administering Authority for the Fund, has delegated the investment arrangements of the Pension Fund to the Pensions Committee (the "Committee"), who decide on the investment policy most suitable to meet the liabilities of the Fund. Terms of Reference for the Committee are set out in the Council's Constitution (on page 48).

The Committee is made up of County Councillors, and employer and scheme member representatives as detailed in the table below. This ensures that both employers, who bear the financial risk of the Fund, and scheme members who will be, or are, receiving benefits from the scheme, are involved in the decision-making process. All members of the Committee have full voting rights. All councillors are required to follow the code of conduct set out within the constitution.

Body/category of bodies represented:	Membership
Lincolnshire County Council (elected Councillors)	8
District Council Representative (West Lindsey District Council)	1
Small Scheduled Body Representative (Witham Internal Drainage Boards)	1
Scheme Member Representative (Unison)	1
Total:	**11**

The Committee meet quarterly to provide oversight and challenge across all areas of the Fund. In addition to this, a further two meetings are held for manager presentations and there are two training meetings each year.

The Committee has a fiduciary duty to its employers and members and is required to take account of financially material considerations, whatever their source, and this includes environmental, social and governance considerations, including climate change. It recognises the vital role of being a responsible asset owner to meet its requirements to be a long-term sustainable investor.

In order to effectively carry out their role, the Committee obtain professional advice as and when required, from suitably qualified persons, including external advisers, investment managers and officers of the Council. The Fund's principle professional advisors are summarised in the table below:

Investment Consultant:	Hymans Robertson
Independent Advisor:	Peter Jones
Main Asset Managers (managing over 5% of assets):	Border to Coast Pension Partnership (Border to Coast) Legal and General Investment Management BlackRock Investment Management Morgan Stanley
Voting and Engagement Advisor:	Local Authority Pension Fund Forum (LAPFF)

Internally, the Committee is supported by Officers of the Council including the Executive Director of Resources (S151 Officer to the Fund), Assistant Director – Finance, Head of Legal Services (Monitoring Officer), Head of Pensions, and Accounting, Investment and Governance Manager. The key officers involved in the day-to-day management of the Fund, are set out below, with relevant qualifications and experience:

Name and title	Experience	Relevant Qualifications	Years Relevant Experience
Jo Ray Head of Pensions	Jo started in the Pensions team in 1999, as an Investment Officer, and has worked through positions of Assistant Investment Manager, Investment Manager and has been Head of Pensions since 2008. She has covered every aspect including internal portfolio management, fund accounting and governance. Prior to the pensions team Jo working in the accountancy and financial systems teams at the Council.	IMC	23
Claire Machej Accounting, Investment and Governance Manager	Claire joined the team in 2018, having previously worked as a Head of Finance for the Council in the Corporate team. She is a fully qualified accountant and has completed stage one of the IMC qualification and expects to complete the second stage in early 2023.	CPFA (studying IMC)	4

Additionally, the County Council established a Local Pension Board (the "Board") under Regulations 105 to 109 of the Local Government Pension Scheme Regulations 2013 (as amended) which operates independently of the Pension Fund Committee. The purpose of the Board is to assist the Administering Authority in its role as a scheme manager, as set out in the Board's Terms of Reference. Such assistance is to:

a) Secure compliance with the Regulations, any other legislation relating to the governance and administration of the Scheme, and requirements imposed by the Pensions Regulator in relation to the Scheme, and;

b) Ensure the effective and efficient governance and administration of the Scheme.

The Board consists of four voting members; two representing Scheme Members and two representing Scheme Employers, and an Independent Chairman.

Pooling – Border to Coast Pensions Partnership

To meet the government's requirement to pool assets, the Fund joined Border to Coast Pensions Partnership ('Border to Coast') with eleven other like-minded Funds. Border to Coast was created in 2018 as a wholly owned private limited company registered in England and Wales, authorised and regulated by the Financial Conduct Authority (FCA) as an alternative investment fund manager (AIFM).

It is the Fund's intention to invest its assets via Border to Coast as and when suitable sub-funds become available. To date, the Fund has transitioned assets into four Border to Coast sub-funds: Global Equity Alpha, UK Listed Equity, Investment Grade Credit and Multi Asset Credit. This represented 51.2% of the Fund assets as at 31 March 2022. As Border to Coast will, overtime, be the main asset manager for the Fund's investments, a strong oversight and governance structure has been created.

The governance structure has been developed to allow Border to Coast to function efficiently and for Funds to control and hold it to account. Each member Fund has two roles with Border to Coast: that of shareholder and owner of the Company (at Lincolnshire this role is carried out by the Executive Director of Resources, the S151 Officer for the Council), and as an investor in the products managed by Border to Coast, which is the responsibility of the Pensions Committee. Oversight of the Company is undertaken through a Joint Committee, made up of the Chairs of the Partner Fund Pensions Committees. On a day-to-day basis, Fund Officers and Border to Coast work together to develop policies, sub-funds and provide continuous feedback to Border to Coast. The roles and responsibilities of Border to Coast, the Fund and its other stakeholders can be found in the Border to Coast Governance Charter.

Employers and Scheme Members

The Fund, as a participant in the LGPS, is a defined benefit scheme. The Lincolnshire Fund has around 74,000 members who will or do receive benefits from the scheme. The Fund also has 260 active employers contributing to the scheme at 31 March 2022.

As a defined benefit scheme, the benefits received by members are set out in statute, as are contribution rates for active members. Unlike a defined contribution scheme, employers, rather than scheme members, bear the investment risk and are responsible for making up any funding shortfall that arises because of poorly performing investments. Contribution rates for employers are calculated at the triennial valuation, alongside the overall funding position.

The Fund regularly engages with both employers and members to ensure they are aware of developments which may have an impact on them.

Funding Strategy Statement and Investment Strategy Statement

Within LGPS regulations, the Fund is required to have and publish a Funding Strategy Statement and an Investment Strategy Statement.

Funding Strategy Statement (FSS)

This document is prepared in collaboration with the Fund's actuary and, after consultation with the Fund's employers and investment adviser, it is approved by the Pensions Committee. It sets out the process for the setting of employer contribution rates. The FSS is reviewed in detail at least every three years as part of the triennial valuation process.

The FSS sets out the objectives of the Fund's funding strategy:

- To ensure the long-term solvency of the Fund, using a prudent long-term view. This will ensure that sufficient funds are available to meet all members'/dependants' benefits as they fall due for payment;

- To ensure that employer contribution rates are reasonably stable where appropriate;

- To minimise the long-term cash contributions which employers need to pay to the Fund, by recognising the link between assets and liabilities and adopting an investment strategy which balances risk and return;

- To reflect the different characteristics of different employers in determining contribution rates. This involves the Fund having a clear and transparent funding strategy to demonstrate how each employer can best meet its own liabilities over future years; and

- To use reasonable measures to reduce the risk to other employers and ultimately to the Council Tax payer from an employer defaulting on its pension obligations.

Investment Strategy Statement (ISS)

This document sets out the primary objective of the Fund, which is to provide pension benefits for members and their dependents, as and when they fall due. It states how the Committee aims to fund the benefits in such a manner that, in normal market conditions, all accrued benefits are fully covered by the value of the Fund's assets.

The ISS sets out the agreed investment beliefs, responsible investment beliefs, investment strategy, the approach to risk and how it will pool investments.

Round Up of the Year

The Covid-19 pandemic continued to impact markets during 2021, and the investment and administration teams slowly moved back to the office to work in a hybrid style, as much of the UK was moving to. Communication with employers and scheme members remained mainly virtual. The invasion of Ukraine by Russia in early 2022 caused much concern across the globe, and markets reacted accordingly. However, as an open defined benefit scheme, our focus is on the long term and the Funds investment strategy and approach were reviewed but unchanged. During the year meetings with the Committee and Board gradually moved back to in-person, as did some meetings with Border to Coast, Fund managers and other partners.

Key stewardship activity undertaken across the year:

- Working with the alternatives manager to increase the focus on private markets and include a specific bias towards investments in clean and renewable assets;

- Workshops with Border to Coast on Responsible Investment (RI) policies;

- Workshops with Border to Coast on achieving net zero within the investment vehicles;

- Approving the Border to Coast RI policies and aligning our own policies;

- Expansion of the standalone stewardship report, part of the quarterly suite of Committee reports; and

- Voting and engaging on key issues with a wide range of global companies, through our asset pool and LAPFF.

Areas for improvement in the stewardship activities undertaken by the Fund are highlighted in the action plan at appendix A.

PRINCIPLE 1: Purpose, investment beliefs, strategy & culture enable stewardship that creates long-term value for employers & beneficiaries leading to sustainable benefits for the economy, the environment and society

Activity:
The Fund's policies are the mechanism through which it expresses and implements its investment beliefs, strategy, and culture. They provide the framework for effective governance and stewardship – both of Fund assets and of the Fund as a whole. The Fund considers that having investment beliefs clearly defined assists it to choose managers and other service providers whose approach is most closely aligned to our own. These beliefs were developed through facilitated decision-making which challenged Committee members to consider investment and RI beliefs, to develop a strategy for the long-term benefit of the Funds employers and members. The Fund formally reviews its Investment Strategy Statement and other policies annually in March to ensure that they remain fit for purpose (i.e. continue to reflect the Fund's purpose and investment beliefs as well as meeting regulatory requirements), and to provide an opportunity for the Committee to discuss and reflect on the current policy and consider if any changes are required. Details of the review of the policies in March 2021, in preparation for the year ended 31 March 2022, can be found at agenda item 12 in the Committee Papers. As a number of the Committee were newly appointed in May 2021, following Council elections, all new Committee members undertook induction training to ensure beliefs and culture are understood and embedded. In addition, the investment beliefs and the responsible investment beliefs were reviewed in a training session held in February 2022. This involved a three-hour session facilitated by the Investment Consultant, exploring in depth whether the current sets of beliefs were still representative of the Committee’s views, and challenging them to ensure that they could be translated into investment strategy. Following this session, a paper was brought to the March 22 Committee to agree the final beliefs, which can be found at item 10 in the Committee Papers. The Pensions Committee, whilst being a political Committee under Local Government Regulations, is regularly reminded of its fiduciary duty to the scheme beneficiaries rather than to the Council or the elected members’ constituents. The Committee monitors the responses to the members satisfaction surveys carried out by the administration provider, which are reported to each quarterly Committee meeting.

Outcome:

The five new members of the Pension Committee all received one-to-one training from the Head of Pensions before their first Committee meeting in July 2021. The training pack covered all aspects of managing the pension fund, including their fiduciary duty responsibilities. The training pack is attached here:

Committee and
Board intro - June 202

The Committee reviewed and updated its Investment Beliefs that are detailed in our ISS and, as part of the review, added an overarching statement across the investment beliefs stating:

It is recognised that environmental, social and governance (ESG) issues are important to the long-term success of the Fund, and the Committee aims to integrate consideration of these issues into all aspects of the Fund's investment arrangements.

The full detail on the beliefs can be found at item 10 in the Committee Papers, however after much discussion and debate, only one amendment was made to the RI Beliefs which is set out below with reasoning:

Belief 2: The Committee considers that company engagement, rather than disinvestment, is the better approach to fulfilling their responsible investment objectives. However, should a company not respond to engagement, disinvestment should be considered.

Disinvestment on a whole sector basis is not within the Committee's beliefs. Disinvestment is a blunt tool that is not believed to provide the best outcomes over the medium to long term. The Fund will, through its managers and other organisations, engage with companies to bring change, but will consider company disinvestment if engagement fails. While disinvestment on a whole sector basis is not considered appropriate, the Fund will not invest in companies whose products do not comply with the Geneva Convention.

This has been amended to change "could" to "should" on the consideration of disinvestment in companies not responding to engagement. In addition, the line in the narrative on companies not complying with the Geneva convention has been added.

The Pensions administration service reports show that generally scheme members are happy with the service received. The 2021/22 Fund Annual report showed the satisfaction levels across the four previous survey periods, and is shown below:

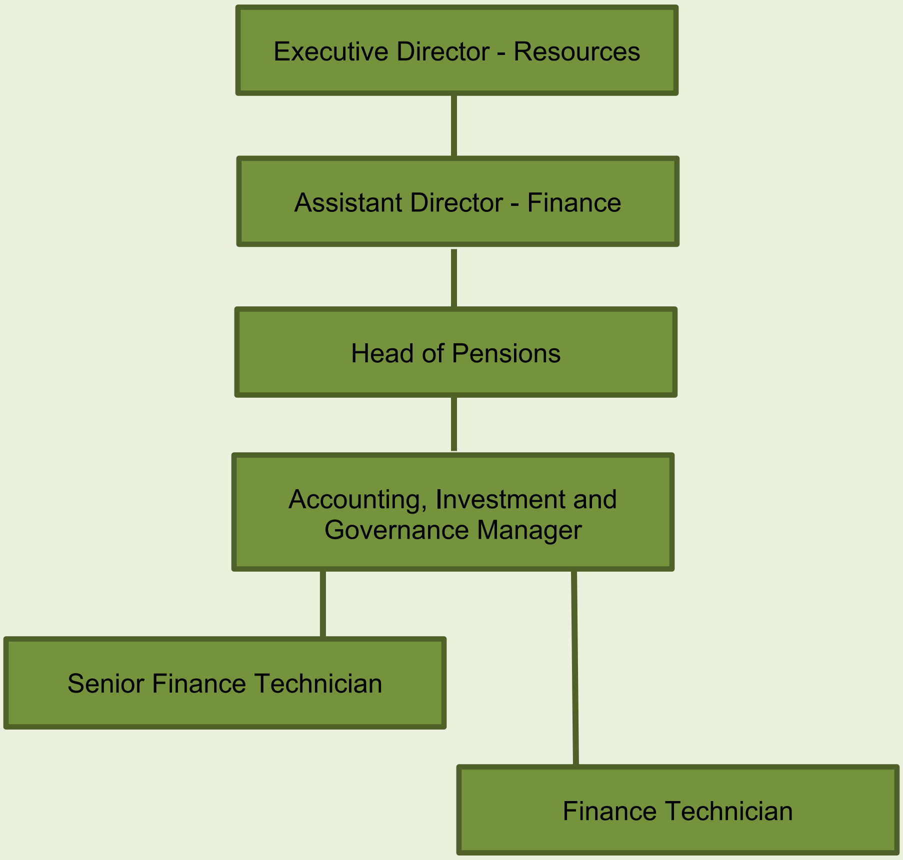
April – June 2021	July – Sept 2021	Oct – Dec 2021	Jan – March 2022
81.7%	96.9%	91.5%	95.3%

PRINCIPLE 2: Signatories' governance, resources and incentives support stewardship

Activity:

As is fully detailed in the background, Fund governance is the responsibility of the Pensions Committee, as set out within statute. To assist the Committee in discharging their responsibilities, quarterly meetings are held which provide various reports to enable them to have oversight and challenge across all areas of the Fund, including investments and responsible investment.

The structure of the internal team responsible for the management of the Pension Fund is shown below:



The Head of Pensions is responsible for the day-to day management of the Fund, and the Accounting, Investment and Governance Manager works closely with her and is responsible for the stewardship monitoring and reporting. Details of the experience of the key personnel are shown in the background, under Fund Governance. There is no performance management or reward system in place at the Council.

The structure was reviewed in early 2022, and a new post was established to enable more time to be spent on monitoring managers and their stewardship activities, in addition to providing other support in the team.

As the internal team is very small, the Fund operates an external manager structure, with all assets managed externally and with the Fund using expert professional services to support its stewardship activities:

- Border to Coast, the Fund's asset pool which invests on its behalf, who have a dedicated and growing team working on RI matters for all pooled investments, from tendering and selecting managers, to ongoing monitoring once a manager is selected and supporting industry wide initiatives. Border to Coast's Stewardship report can be found on its website at [Responsible Investment - Border To Coast - Sustainable Pension Investments];

- Robeco, who are the pool's appointed voting and engagement specialist, provide professional stewardship services to the Fund for the investments held with Border to Coast; and

- The final source of support in this area for the Fund is provided by the Local Authority Pension Fund Forum (LAPFF). LAPFF is a sector wide group with membership from 86 local authority pension funds (with assets valued at £350bn) and six LGPS pooling companies. LAPFF acts for its members on engagement with companies, providing voting alerts, collaborating with others to increase the voice of shareholders and responds to consultations on behalf of its members.

The Fund has established annual RI processes which allow the Committee to have the opportunity to contribute to the direction of RI work for the Fund. Quarterly activity then allows the Committee oversight of activities undertaken. This starts in December with the review and approval of RI and Voting policies. The policies relate to all Fund investments and are aligned with Border to Coast policies to ensure a consistent application across all Fund assets. The Committee also reviews key policy documents in March to ensure they reflect the current views of the Fund. The fund then reports RI activity to the Committee on a quarterly basis to highlight the stewardship activity undertaken over that period, to provide assurance and give them the opportunity to review and challenge the work undertaken on the Fund's behalf.

The Pensions team within the Council is very small, made up of just four employees. These have all been appointed through the Council's recruitment process, which monitors diversity across the Council. The Council has a diversity and inclusion policy and encourages a supportive and inclusive culture. People from different backgrounds, cultures and experiences bring value to the workplace and we believe that diversity and inclusion bring benefits. We work better and improve services if we have a supportive environment. By respecting these differences, colleagues, customers, communities, and other stakeholders can feel valued.

Within the Pensions team, there are two females and two males. The make-up of the Pensions Committee, as set out in the background, is taken from elected members, scheme employers and a scheme member representative. Diversity of backgrounds and opinions is brought into the Committee as Councillor members come from different political groups, with wide-ranging life and career experience. In addition, the co-opted members come from various backgrounds reflecting the views of employers and scheme members.

The Council encourages diversity across the Councillor members; however the Pension Fund has no influence over council candidates and committee members.

Outcome:
The Fund has a clearly defined and documented set of RI policies that it works to, which are published and available to all stakeholders. They are aligned with Border to Coast's policies so that we are all working towards the same aims and objectives. They were last approved by the Committee in December 2021. The quarterly Stewardship Report has continued to be developed to allow members of the Committee greater opportunity to review stewardship activity undertaken on its behalf and influence the work of the Fund. The reports from LGIM, an external manager covering 15% of the Fund's assets, is now included in the stewardship report. This is a public report to allow the Fund's stakeholders to be aware of what we are doing. In addition, carbon exposure, as reported by Border to Coast, is included in the quarterly Investment Management report, which is a private report. Work has been underway on 2021/22 to enable these reports to be included in the public stewardship report for 2022/23. The governance approach to support stewardship by using external professionals and the group weight of either Border to Coast partners or LAPFF ensures that maximum impact is achieved through the engagement and research done by professional experts. The Fund operates with a small internal team covering all Fund matters from investments to administration to governance. It believes that the use of external experts in this field provides the best use of resources for the Fund. It also allows the Fund to have a greater impact, as by working with others the Fund has a larger profile when approaching the market and individual companies. The Committee meeting structure is currently being reviewed to enable greater time for the Committee to discuss stewardship issues and actions and it is expected to be approved and implemented for the 2022/23 Council year. Recruitment to the new post identified as part of the structure review, a Principal Investment, Governance and Accounting Officer, was unsuccessful. A further review is being undertaken to create a career grade to grow someone into the role. It is expected that this will be recruited in 2023.

PRINCIPLE 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first

Activity:
The make-up of the Pensions Committee is mainly County Councillors, who are elected to serve their constituents within Lincolnshire; however their role in managing the Pension Fund is to serve the beneficiaries and employers of the Fund. All members of the Committee undertake initial training when they join the Committee (see the training slides included in Principle 1). This training covers the Code of Conduct and Conflicts of Interest Policy and explains the role of the Committee to serve beneficiaries and employers. While making decisions for the Pensions Committee other political and county council considerations should be disregarded. This message is reinforced throughout the year at Committee meetings and as and when investment opportunities are discussed.

Outcome:
The Code of Conduct and Conflicts of Interest Policy is reviewed annually by the Committee and is published on the Fund's website. The policy explains what a conflict of interest is and provides examples for Committee Members of potential conflicts. The policy stipulates that all potential conflicts of interest must be declared initially on appointment and then at each meeting of the Committee as matters arise in the normal course of business. The policy also explains how conflicts will be dealt with and resolved. The Fund also maintains a register which captures potential and actual conflicts. Within the Conflicts of Interests Policy, Committee members are specifically required to have consideration of their stewardship responsibilities in managing the Pension Fund. There were five new members of the Committee during the year, and all undertook the training mentioned above. There may be a conflict of interest when making investment decisions if an opportunity arose in the local area. The investment might be beneficial to the local electorate, but not for the Fund. To avoid any potential conflict of interest, the Fund does not have any strategic commitment to local investment, and no local investments have been made in the 2021/22 financial year.

PRINCIPLE 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system

Activity:

The Fund conducts a full risk assessment of its activities which is reviewed annually by the Committee and Board, and is published as part of the Fund's Annual Report. The risk register includes the risk to the Fund's investments from market fluctuations, interest rates, currency, credit and failure by its investment managers or custodian. In addition, the Fund recognises the risk to investments from ESG factors including the impact of Climate Change that could materially impact long-term investment returns.

The Fund's foremost mitigation against market-wide and systemic risk is a well-diversified investment strategy. Therefore, it is important the Committee receives the appropriate training and that it commissions advice to be able to select from and monitor a wide variety of investments. The Fund has an appointed investment consultant for its strategic asset allocation, investment strategy and manager monitoring.

Part of the work undertaken by LAPFF on behalf of Lincolnshire Pension Fund and other members, is at a market-wide level. During the year LAPFF continued its focus in this area on failure in the audit and accounting regime, where regulation is 'consumer' based, rather than offering protection to shareholders. They also addressed the concept of "Paris-aligned" accounts, to assist in emphasising the disclosure of climate change risks. One of the key market-wide risks they have been concentrating on is that of a just transition to a low carbon economy.

With the Russian invasion of Ukraine, minds were concentrated on the geopolitical risks and the widespread impacts across the globe. The speed at which it happened and the shockwaves throughout global economies heightened the need to better understand and assess these risks. The Fund increased its communications with managers and requested regular reporting on Russian investments and activity in companies with high exposures to Russia. In addition, consideration has been given to where similar events could occur, and wider reporting of how geopolitical risks are considered by managers in their investment decision making process has been requested.

Outcome:

The Russian invasion brought geopolitical risks to the fore, and the Fund reported on a weekly basis initially to the Committee on direct and in-direct investment exposure to Russia, then moved to monthly reporting as markets stabilised. Communication with managers was increased to fully understand the impact on the Fund and any potential wider impact due to the sanctions or price moves as a result of the situation.

The Fund relies heavily on its managers to identify and respond to market-wide and systemic risks but plays a key role in challenging and questioning what they are doing, to seek assurance on their processes and procedures.

Border to Coast, the manager with the largest exposure to Russia, held a meeting with partner funds to explain the impact of the situation and what the options were, to enable discussion and involvement in the decisions to be made on those investments. It was agreed that as and when markets normalised, further discussion would be had about the actions to be taken. The Fund sought and obtained clarity on the wider risk framework around geopolitical issues and was content that it was effectively managed across all asset classes.

The identification and management of risk is a key part of the discussions and monitoring that the Pension Fund undertakes on a quarterly basis as a minimum. An example is from the January 2022 Committee, where the Committee challenged Border to Coast on their investments in China and other countries with poor human rights records, and how they monitored countries and companies across all risks.

LAPFF continues to make and support recommendations for improving company reporting to highlight market wide risks, particularly around climate change. As part of their ongoing engagement with companies, they encourage them to lead by example in how they respond to market and systemic risks.

PRINCIPLE 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities

Activity:

The Fund has a number of relevant policies that are reviewed as detailed below:

- The Investment Strategy Statement is reviewed annually or immediately after any significant change in investment policy and contains the Fund's RI beliefs. See principle 1 above.
- The Responsible Investment Policy and Corporate and Voting Policy is reviewed annually. This is reviewed and approved by the Committee in January in advance of the start of the voting season. It is aligned with the Border to Coast policies to ensure consistency of our policies across all holdings.
- The Conflicts of Interest Policy is reviewed annually. See principle 3 above
- The Training Policy is reviewed annually, and a training plan approved each year in July.
- The Risk Management Policy and Risk Register are approved annually and any changes to the risk register are reported to the Committee on a quarterly basis.

The Fund receives quarterly reports on stewardship activities undertaken by Border to Coast, Robeco and LAPFF, including voting activity, which are brought together in a report and presented to the Pensions Committee for discussion.

The Fund has been working with Border to Coast, in its advisory role, to provide an oversight report of the responsible investment and stewardship activity undertaken by LGIM, to provide an independent view.

The Fund sought assurance from the reporting it received from managers on their stewardship activity.

Outcome:

Policies have been reviewed at least annually. This ensures that they are kept up to date and are regularly considered by the Committee, which ensures that the policies continue to reflect their views on the direction of the Fund.

The Pension Board, as part of its regular consideration of the risk register at its September 2021 meeting, made recommendations to the Committee's December 2021 meeting, through the Board's quarterly report, to introduce a new risk to the risk register. The Committee considered the recommendations and approved the additions.

Work on RI and Stewardship policies starts in advance of their review and approval by the Committee in December. During the year Fund officers work with Border to Coast to identify what is important to each Fund and how this should shape the direction of the Pool and Fund RI policies. In addition to this, work is undertaken with the Joint Committee to identify their priorities. This information is important to ensure all Funds can support and will approve aligned RI policies. This streamlines the activities undertaken by Border to Coast.

Following the work the Fund had done with Border to Coast in their advisory role, the Committee received a report from Border to Coast in their oversight role of LGIM's stewardship activity for the year to March 2022. The report covered the areas of:

- Firm-level Policies and Resourcing;
- Investment Process and Research;
- Stewardship and Collaboration; and
- Climate Change

The oversight summary provided was that overall, LGIM was considered to meet the standards expected of an asset manager considered to be a leader in the responsible investment space.

The Fund has reviewed the Stewardship Code Statements from its key asset managers, Border to Coast and LGIM, to receive assurance that their reporting is fair, balanced, and understandable, which in turn enables the Fund to report that way. Both managers were successful in their submissions to the FRC for 2020/21.

PRINCIPLE 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them

Activity:
Communication and feedback from scheme members and employers are undertaken in a variety of ways: • Annual employers meeting; • Scheme member newsletters; • Consultation with employers on key policy documents; • All Committee and Board Meetings are open to members of the public and papers are published and available for review; • The Fund publishes an Annual Report containing up to date details of investments and stewardship; • Key policy documents are published on the Pension Fund website; • Contact details for the Fund are also published for any comments from scheme members or employers; • Direct contact with scheme members and employers; and • Direct representation, with full voting rights, on the Committee and Board of scheme members and employers other than the County Council. The Autumn 2021 Scheme member newsletter invited all our scheme members to contact us with their views, as set out in the extract below: *Stewardship and responsible investment are an integral part of the Fund's investment strategy and decision making, and the Fund works closely with Border to Coast to ensure that it invests in a sustainable way. Through Border to Coast, and also in its membership with the Local Authority Pension Fund Forum (LAPFF), the Fund engages with companies on key environmental, social and governance issues, such as carbon reduction, executive pay, human rights, and fair accounting. The Fund is always keen to hear its members' views on stewardship, so please contact us at pensions@lincolnshire.gov.uk with any comments you may have.* This was considered to be the most economical way of reaching out to all the 74,000 scheme members. As detailed in the background, the investment time horizon is 20 plus years, and that is on a rolling basis, as the Fund is open to new members who may not be receiving their pension for another 50 years or more. Given the long-term relationship that scheme members have with the Fund, the Fund tries to ensure that members are aware of how their pension is invested and managed. As is also stated, the risk of investment decisions sits solely with the employers, in that their contribution rates will rise if returns are below that required. Scheme members' benefits are set out in statute and fully guaranteed, so whilst consideration of their investment preferences is given, and the Fund communicates how it manages its stewardship responsibilities, the main

objective is to ensure returns are sufficient to meet the long-term liabilities without large increases in employer contribution rates.

Outcome:
The annual employer meeting was held virtually on 2 March 2022. One of the presentations covered Stewardship and Responsible Investment specifically covering the Lincolnshire Fund and activities undertaken during that year. These are interactive meetings where all employers can question, challenge and input into the direction and activities of the Fund. Over the year the Fund has responded to a number of requests from scheme employers on RI related matters proposals. An example of this was as part of a presentation to all district council employers held in March 2022, which covered the Fund's position on investments in Russia, updates on the Fund's RI related policies and sharing the quarterly stewardship reports with them. This included follow-up conversations as to how these employers could respond to queries from their employees on these areas. Membership of the Committee and Board includes employer and scheme member representatives. Through the Committee and Board meetings held over the year, these representatives have had the opportunity to input into and comment on the fund's stewardship and investment approach. The Fund is happy to engage with employers and scheme members on an ad hoc basis to provide additional information on Stewardship matters. Such responses are reflected on and used to consider the development of wider future communications. Unfortunately, the request set out within the Autumn 2021 newsletter for views from scheme members received no responses, despite it being sent to all 74,000 scheme members. This has therefore not proved to be an effective method to encourage feedback. The Fund is working with its administrators to see what methods might encourage more engagement.

PRINCIPLE 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities

Activity:
The Fund's responsible investment beliefs and approach to assessing investments are included within the Investment Strategy Statement. This core policy document explains how the Fund seeks to systematically integrate stewardship and investment to fulfil its responsibilities. The Committee believe that, as long-term investors, integrating environmental, social, and corporate governance considerations into the investment management process improves risk adjusted returns and creates long term sustainable investments. To support this, the Committee reviewed its Investment and RI Investment beliefs, as set out in principle one. As part of this process the Committee undertook an in-depth consideration of its general investment beliefs and its RI beliefs, receiving training and completing a comprehensive survey to develop these principles. The Fund invests in a wide variety of asset classes across a number of investment managers, but predominately with Border to Coast who currently manage all actively managed equities and bonds. The Fund has worked with Border to Coast and other partner funds to formulate the company's approach to responsible investment and to ensure that it is aligned to the policies of the partner funds (including Lincolnshire). The Fund's RI Policy states that when analysing potential investments (across all funds, asset classes and geographies), they expect investment managers to consider ESG factors, including climate change, as an integral part of the investment decision-making process. Of particular relevance are factors which could cause environmental and reputational risk ultimately leading to a reduction in long-term value. The Fund considers the ESG credentials, policies, and procedures as part of the appointment process for all prospective managers with the aim of ensuring that ESG is well established in the managers appointed. The monitoring of appointed managers by Border to Coast includes assessing stewardship and ESG integration into the investment process and on-going management of the investments held in accordance with the approved policies. The Committee requires that all asset managers report on stewardship and ESG matters on a regular basis and be responsive to any queries. The Fund monitors the asset manager's stewardship activities, including their involvement in collaborative engagement activities, such as supporting the Transition Pathway Initiative, and Climate Action 100+. The Fund monitors Border to Coast to ensure that it is fully integrated through quarterly reporting, quarterly meetings, and the annual report. In addition partner funds are heavily involved in the development of new funds having sight of the appointment process for managers and the due diligence undertaken.

Outcome:

Border to Coast's work during the year included improving their process of ESG integration and investment stewardship alongside training for the Border to Coast Board, the Joint Committee and Partner Fund pension committees and officers on a range of RI and stewardship-related topics. More detail can be found in their RI and Stewardship Report for 2021/22.

Following the investment into LGIM's Future World Fund, the Fund appointed Border to Coast to provide an oversight service to monitor the effectiveness of the stewardship of LGIM and provided a report to the Fund as mentioned in principle 5.

Below are some examples of the outcomes from manager engagement with the companies in which they are invested on our behalf, showing how incorporating ESG factors into investment decisions and on-going monitoring can achieve positive benefits for the Fund and therefore its clients and beneficiaries:

Border to Coast – Engagement with a European Investment Bank (listed equity)

Reason for engagement: The company was involved in separate client-related incidents, suggesting risk management oversight failures. Losses were incurred, and some personnel changes were made as a result. Many investors were concerned about the strength of risk management processes, governance structures and board competence.

Objectives: The aim of the engagement was to ensure that appropriate changes were made to restore confidence in the bank's risk management capabilities.

Scope and process: Meetings were held with the bank's CEO, CFO, and board members to address perceived failures of risk management and responses. The company did not immediately address the chairmanship of the board's risk committee. Engagement expectations were not met, and several investors publicly stated that they would vote against this board member's re-election. Prior to the annual shareholder meeting, the risk committee chair announced his retirement from the board. Engagement continued as the bank further addressed its risk oversight processes.

Outcome: The departure of the risk committee chair represented a significant change in leadership in this area. Additional engagements also focused on the operational integration of risk management, with executives taking on key roles demonstrating relevant experience in the field. Engagement and voting played a significant role in the bank's risk management improvements.

Border to Coast – Engagement with BP plc (listed equity and fixed income)

Reason for engagement: Carbon data of portfolios is monitored on an ongoing basis; this helps understand the climate-related risks inherent in our portfolios. Adequate disclosure by companies is, therefore, an important part of this process. The Carbon Disclosure Project ('CDP') is a leading initiative for climate data management and as such BP, as a major emitter of greenhouse gas emissions, would be a welcome addition to the CDP carbon database.

Objectives: To seek enhanced carbon data and emissions disclosure from BP.

Scope and process: Engagement with the Company took place over a number of months, instigated initially by letter, with follow up meetings also held with the Company's Investor Relations team.

Outcomes: BP was open to engagement and emphasised that it aimed to be recognised as an industry leader in reporting transparency. The Company has made good progress in this space and is listening to feedback. Following increasing investor focus in this area, BP confirmed it would be responding to the CDP disclosure questionnaire.

PRINCIPLE 8: Signatories monitor and hold to account managers and/or service providers

Activities:

The Fund monitors its investment managers and service providers, to hold them to account in the following ways:

- Asset managers provide monthly and quarterly performance reports which are received and reviewed by fund officers. Review here includes compliance with investment management agreements.
- Quarterly investment performance is reported to the Pensions Committee, highlighting any concerns. Where a manager's performance raises concern more frequent information is shared with the Committee.
- Annual presentations to the Pensions Committee and a three-year review period from all asset managers managing significant allocations in the fund, including an update of stewardship activities undertaken.
- Quarterly stewardship report to the Committee combining information from managers' quarterly stewardship and voting reports, highlighting engagement activities and where investment managers have voted against company recommendations. In addition this report updates the Committee on work undertaken by LAPFF on our behalf.
- Investment Consultant and Investment Advisor are monitored regularly against an agreed set of objectives.
- Border to Coast provide an advisory service to monitor the engagement and voting activity of LGIM, as one of the Fund's investment managers.

In addition to the above, as a partner fund within Border to Coast, further work is undertaken on our behalf in monitoring service providers to the pool. This includes:

- Provision of responsible investment and engagement support across all pooled investments (for example review of carbon content within portfolios).
- Analysis of voting records on a monthly basis and reporting of any variances to agreed policies by a third-party voting advisor.

Border to Coast provide an advisory service on the investment with LGIM to ensure that they are meeting the requirements of the Fund's and Border to Coast's RI policies, as detailed in Principle 5.

On a quarterly basis Border to Coast provide portfolios analysed against MSCI ESG Weighted Score and the MSCI ESG rating along with the ESG Rating Distribution (AAA to CCC). In its commentary, Border to Coast feature an investment each quarter to describe its nature, ESG rating risk, ESG impacts and direction of travel. This is presented to the Committee for discussion and challenge, where appropriate.

Outcomes:
The Committee were content that the service being delivered by the Independent Investment Advisor met their needs, and no changes to the objectives were required. The advisory agreement with LGIM was completed in 2021/22, with the first annual report received as of 31 March 2022. Border to Coast provided reassurance to the Committee that they were content with the quality of the processes and activity undertaken. The Committee has a better understanding of the ESG risks within the portfolios and how these are managed by Border to Coast and the underlying managers and can challenge the rationale of any investments that it deems a high risk. An example of this is from the January 2022 Pensions Committee, where Border to Coast Equity managers presented, and there was much discussion and questioning from the Committee on the investment case for China.

PRINCIPLE 9: Signatories engage with issuers to maintain or enhance the value of assets

Activity:
All investment management activity is delegated to external investment managers. The Fund's RI policy sets out its expectations of managers, as shown below: • Assess their portfolios in relation to climate change risk where practicable. • Incorporate climate considerations into the investment decision making process. • Engage 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) recommendations. • Encourage companies to adapt their business strategy in alignment with a low carbon economy. • Support climate related resolutions at company meetings where they reflect our RI policy. • Encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions. • Use the Transition Pathway Initiative (TPI) toolkit to assess companies and inform company engagement and voting. • Vote against company Chairs in high emitting sectors where the climate change policy does not meet minimum standards, and/or rated Level 0 or 1 by the TPI, where there is no evidence of a positive direction of travel. • Co-file 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. • Monitor and review their fund managers in relation to climate change approach and policies. • Participate in collective initiatives collaborating with other investors including other pools and groups such as LAPFF. • Engage with policy makers with regard to climate change through membership of the Institutional Investor Group on Climate Change (IIGCC). • Report on the actions undertaken with regards to climate change on an annual basis. Engagement activities are a regular feature of the monitoring of the Fund's investment managers by the Fund's officers, and by the Committee through the quarterly RI Update report.

Outcome:
Examples of stewardship activities that have been published and reported to the Committee are: - During the quarter ended 31 December 2021, LAPFF undertook engagements with companies across the topics of environmental risk, audit practices, social risk, employment standards, governance, human rights, and climate change. The outcomes of these engagements are shown in the company progress report, included in their [quarterly engagement report](), and examples are: **Mining and Human Rights Report** **Objective:** Over the last couple of years, LAPFF has engaged intensively with mining companies on their human rights practices. The engagement has focused on the participation of affected stakeholders in mining company activities and decision-making. Based on these engagements, LAPFF aimed to produce a report on its views regarding mining companies and human rights. **Achieved:** LAPFF engaged business and human rights expert, Professor Robert McCorquodale, to lead on drafting the report. As sections of the report were drafted, they went to the LAPFF Executive and Business meetings for approval. Although the reports were written from an investor perspective, they have been presented through a human rights lens. The five sections were as set out below: - the first covered the basics of the international human rights law framework.   - the second followed with an explanation of how this framework applies to the mining sector, with examples of how human rights can be violated by mining companies and case studies based on human rights related litigation in the mining sector.   - The third presented LAPFF's views on engagements with top holdings – Anglo American, BHP, Glencore, Rio Tinto, and Vale – including how LAPFF understands these companies to be engaging with affected stakeholders.   - The fourth set out examples of where LAPFF believes that the five companies mentioned have not met their human rights responsibilities.   - The fifth contains a conclusion and recommendations for LAPFF members and other investors, for companies, and for public officials.   **In Progress:** These five reports have also been consolidated into a single draft report that LAPFF has circulated for comment to the five companies addressed and to affected communities whose accounts have been included in the report. After comments have been received, they will be assessed and integrated as appropriate before the report is released publicly.   **Standard Chartered** **Objective:** A meeting was held with Standard Chartered chair, José Viñals, to determine how the bank is progressing working with clients to reduce

carbon emissions and align with the bank's net zero by 2050 policy. Member concerns had been relayed to the chair about the bank's funding of Adaro, a major coal supplier which Standard Chartered's own analysis shows its activities to be aligned with an increase of 5-6°C in global warming.

Achieved: The company issued a roadmap for its progress to net zero in October which included 2030 targets to reduce financed emissions for thermal coal mining and oil and gas power, as well as plans to mobilise US$300 billion in green and transition finance by 2030. There was further engagement in November, which confirmed an absolute target for coal, and that no investments would support any project expanding capacity.

In Progress: We have remained in touch with NGO contacts who have considered filing a resolution to the 2022 AGM asking for commitments not yet evident in the company's current transition plans. The company confirmed it will put a Say on Climate/Transition plan to the vote at the 2022 AGM.

- Border to Coast publish a quarterly stewardship report detailing the activity undertaken on our behalf, and examples are:
  - **Engagement Theme Update: Global Controversy**

    Events such as the war in Ukraine, the military regime in Myanmar, and the climate crisis have driven a renewed focus on the social responsibility of companies and their operations. In response to this, our voting and engagement partner, Robeco, has recently updated its approach to assessing the behaviour of companies through their enhanced engagement program. This new approach aims to ensure robust governance around oversight, alongside strengthened assessment of a company's behaviour with respect to commonly accepted international norms and ethical standards, such as the UN Global Compact (UNGC) and Organisation for Economic Co-operation and Development (OECD) Guidelines. Specifically, the updated approach includes:

    - A strengthened oversight through a newly established Controversial Behaviour Committee, focusing on assessment of company behaviour and implications.
    - The sourcing of robust data on UN Global Compact and OECD Guidelines breaches
    - Onboarding a dedicated controversy engagement specialist to lead the renewed process and enhanced engagements with companies.

  - **Engagement Theme Closure: Single-Use Plastics**
    In 2019, Robeco launched an engagement program with a focus on achieving a material shift towards a more circular plastic packaging model, with a view to addressing the waste issue of single-use plastics.
    Active dialogue was held with several companies, encouraging collaboration with each other, governments, NGOs, and other stakeholders along the plastic value chain on topics such as innovation, recycling and lobbying for regulatory change.
    Five of our portfolio companies were included in the scope of the engagement (Danone, Henkel, Nestle, PepsiCo, and Proctor & Gamble) and

after three years of engagement, positive progress was seen in all five companies in a variety of areas, examples include:

• Nestle: Made progress in its roadmap to eliminate harmful plastics and deforestation mitigation. The process is expected to complete in 2024 through fully eliminating products made up of a mix of plastics and papers, including laminates, caps, and PVC liners.

• PepsiCo: Has established best practice in avoiding waste via its SodaStream platform. The platform enables users to track their intake, set goals and measure their positive environmental contribution via plastic bottles avoided.

Fund Officers have also received and monitored activity from other managers, examples are:

- LGIM, who manage approximately 15% of the Fund's assets in their Future World Fund, provide an annual active ownership report, highlighting their approach to active engagement and what they have done over the year.

  In 2021, LGIM, on our behalf, had 312 meetings or calls with companies, had 461 written engagements, with the top four engagement topics being climate change, remuneration, LGIM ESG score and company disclosure and transparency.

PRINCIPLE 10: Signatories, where necessary, participate in collaborative engagement to influence issuers

Activity:

As explained above and in the Fund's RI policy, all investment management activity is delegated to external investment managers. As part of this delegation the Fund's investment managers are able to decide if collaboration with other investors will benefit the engagement activities they carry out of the Fund's behalf.

Furthermore, through Lincolnshire's membership of the Border to Coast pool, the eleven partner funds have collectively pooled around £60bn of assets. Border to Coast is collaborating on RI activities through a unified RI policy and Corporate Governance and Voting guidelines which set the framework for the investment managers and enable them to utilise the combined weight of capital of the Border to Coast partner funds, to positively engage with the companies they invest with. Beyond the partner funds, Border to Coast collaborates with other investor groups to increase their influence.

In addition, the Fund's membership of LAPFF, representing around £350bn in assets under management, provides an effective means of collaboration. LAPFF itself is open to discussing any other forms of collective action with other investors and groups, expanding their reach.

Outcome:

The Fund monitors its investment managers' engagement activities through regular reports and discussions and welcomes instances where it sees its investment managers working with other investors. Examples include:

- Border to Coast coordinates quarterly Responsible Investment workshops with partner funds which work collaboratively to consider RI issues and coordinate responses to maximise the impact of the Partner Funds. At these workshops current RI issues and engagements are discussed and proposed responses to consultations and initiatives shared. There are opportunities to share resources to maximise the impact of partner funds and BCPP through a collaborative approach to our shared interests.
- Border to Coast, on behalf of the partner funds, is partnered with a number of organisations including: LAPFF, on a range of issues; Climate Action 100+, the 30% Club which promotes board and senior management diversity; the Workforce Disclosure Initiative; the LGPS Scheme Advisory Board Code of Transparency; the Institutional Investor Group on Climate Change; and the Investor Mining and Tailings Safety Initiative.
- Border to Coast collaborated in the support for net zero aligned audits campaign. In November 2021, along with 22 other investors, they co-signed a letter to the 'Big 4' auditors: PwC, Deloitte, EY, and KPMG. The letter set out expectations for auditors to provide net zero aligned audits of financial

statements and associated disclosures. This reflects the growing importance for investors to be able to understand whether companies are considering the material financial implications of the transition and providing appropriate disclosures. They also supported the equivalent letter to the French 'Big 4' auditors, sent in February 2022.

- Border to Coast have continued as a supporter of the Workforce Disclosure Initiative ('WDI'), and this year they have engaged with twelve companies as part of the annual survey to collect human capital management data, emphasising the importance of this type of data for investors and encouraged companies to respond. In Q2 2021, the WDI launched its findings report for its 2020 survey results. The survey covered topics including wage levels, staff turnover and workers' rights. 141 companies responded, up 20% from the previous year, with every economic sector covered.

- LAPFF joined the Asia Collaborative Engagement Platform for Energy Transition. Co-ordinated by Asia Research and Engagement (ARE), this initiative has brought about engagement with the region's largest listed financial institutions, as well as buyers and producers of fossil fuels.

  The first AGM of note was that of Mitsubishi UFJ Financial Group, where members were advised to vote in favour of a resolution for disclosure of the group's strategy to align financing and investments with the goals of the Paris Agreement. LAPFF joined a collaborative investor call organised by ARE which sought further information on the strategy, and particularly on how the bank would address concerns over its provision of finance to fossil fuel expansion and deforestation. In May, the bank made a net zero declaration and joined the net zero banking alliance.

- LAPFF has also worked in collaboration with the Institutional Investor Group on Climate Change as part of its participation in Climate Action 100+ (CA100+) an investor collaboration to ensure the world's largest corporate greenhouse gas emitters take necessary action on climate change.

  LAPFF is joint lead investor on ArcelorMittal and National Grid under this initiative, as well as being part of wider collaborative groups with several other companies. One such company is Lyondell Basell, where LAPFF participated in the AGM, asking the chair to put the company climate strategy to a vote at the 2022 AGM and annually thereafter.

- LAPFF joined a collaborative engagement effort headed by the Access to Nutrition Index. Alongside a host of other investors, LAPFF has written to key companies in the food and beverage sector which featured on the Index. These engagements seek to provide better levels of governance and accountability by introducing remuneration metrics linked to nutrition targets and what marketing companies are doing to encourage better eating habits.

PRINCIPLE 11: Signatories, where necessary, escalate stewardship activities to influence issuers

Activity:
The Fund sets out in its RI Policy how it expects its investment managers to take the appropriate action when operating on its behalf engaging in stewardship activities, this includes actions to escalate their approach when appropriate.

Outcome:

The Fund monitors its investment managers' engagement activities through regular reports and discussions and expects its investment managers to take the appropriate action when operating on its behalf engaging in stewardship activities, this includes actions to escalate their approach when appropriate.

The Fund has clear escalation expectations of its managers, should engagement not lead to the desired result. This is set out in its RI policy, which is aligned to that of Border to Coast. The Funds policy on escalation is:

The Fund (LPF) believes that engagement and constructive dialogue with companies is more effective than excluding companies from the investment universe. However, if engagement does not lead to the desired result, escalation may be necessary. LPF expects its appointed investment managers to monitor engagement activities and where progress is not made within a reasonable timeframe, then to escalate the process. This could be addressed in a number of ways: 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. Where the investment case has been fundamentally weakened, LPF expects its appointed investment managers to sell the company's shares.

Examples of escalation from the Fund's managers are set out below.

- During 2021/22 Border to Coast engaged with an integrated mining company, which was highlighted for enhanced engagement due to several high profile environmental and health and safety issues. During the engagement, objectives were set for the company around their policies, transparency, mitigation, and risk management systems. Unfortunately, insufficient progress was made against the objectives and significant concern remained regarding the lack of oversight and lapses in risk management at the company. In response, Border to Coast:
  - assessed the materiality of the holding;
  - held internal meetings with the Portfolio Manager, research team, and RI team;
  - contacted other large shareholders, to understand their stewardship approach to monitoring and mitigating associated ESG risks to increase knowledge;

- held a meeting with the company and finally discussed the findings at the Investment Strategy Committee meeting to determine the appropriate action.

Following conclusion of the above escalation process, they recognised the company's progress whilst acknowledging there was further work required. The decision was taken by the Portfolio Manager to reduce the position in the company.

- At Border to Coast, during the annual review of an external manager, the RI team downgraded a manager due to the identification of perceived weaknesses across both integration of ESG and stewardship. The outcome of the review was reported to their Investment Committee and escalated with the manager, with whom they held further calls to discuss the improvements needed. Following this, there has been a material increase in the quality of the manager's disclosures and Border to Coast have greater confidence in the integration of ESG factors.

- Where LGIM's concerns are severe, or repeatedly ignored by the company, they will escalate their vote to address directors' accountability for such failures by opposing their re-election. They have done so at Informa, where their concerns over inappropriately structured and generous pay were not addressed over the years, and at Cineworld, which introduced highly geared share incentives for directors while staff were laid off or furloughed. The rationale for any votes against management are disclosed on their website and at times may also be pre-declared as was the case for Informa and Cineworld.

PRINCIPLE 12: Signatories actively exercise their rights and responsibilities

Activity:
Exercising rights and responsibilities is fundamental to improving investment outcomes. Rights exist primarily through shareholdings but can be derived through other means. When making an investment, the associated rights and responsibilities are clearly understood by the Fund and its investment managers from the outset. As an indirect asset owner the Fund requires external managers to make best use of these rights so that its responsibilities are fulfilled to the greatest effect. As mentioned in previous principles, external managers are required to report on how they have actively exercised their rights and responsibilities. The Border to Coast voting policy is reviewed each year considering developing corporate governance standards and evolving best practice. This review is led by Border to Coast with the eleven partner funds being heavily involved. The policy is also reviewed by Robeco, using the International Corporate Governance Network Global Principles, the UK Stewardship Code, and the UN Principles for Responsible Investment as benchmarks. As the Fund has aligned its policy to that of Border to Coast, the approaches are identical. The Fund's Corporate Governance and Voting Guidelines sets out how it expects managers to approach supporting or opposing company management, depending upon the circumstances. This also sets out the expectations that the Fund has of its managers: *The Fund requires all appointed investment managers to vote on its behalf, in line with best practice guidelines. As both a shareholder and a client of Border to Coast, the Fund continues to monitor their voting policy and guidelines to ensure that they are aligned with the Fund's principles and reflect current best practice. Managers are required to report their voting and engagement activity on a quarterly basis.* Voting records where votes are cast against management, and additional wider voting activity provided by Border to Coast on the Fund's investments, is included in the quarterly RI Update Report to the Committee. The managers of the Fund's equity holdings are Border to Coast and LGIM, and the Fund seeks assurance from them on the process of managing the voting rights for shares held. Border to Coast has a dedicated Responsible Investment team which sits within the Investment Team and acts as a centre of expertise and helps manage and co-ordinate our activities. This team is supported by Robeco, the voting and engagement provider and other strategic partners. This team is responsible for ensuring that all voting rights are actively managed across the equity investments. LGIM believes voting is a fundamental tool used by investors to signal support for, or concern with, management actions to promote good corporate governance in the marketplace. The Investment Stewardship team exercises LGIM's voting rights globally, holding directors and companies to account.

The Fund’s active fixed income investments are managed by Border to Coast through its externally managed vehicles. Voting decisions relating to bondholder meetings has been outsourced to the relevant external managers as this is an investment decision.

Where investments are made directly by the Fund, officers seek to gain a place on the advisory committee to oversee and influence investment and stewardship decisions.

Outcome:

A number of changes were made to the Corporate Governance and Voting policy as a result of the review in 2021. They include:

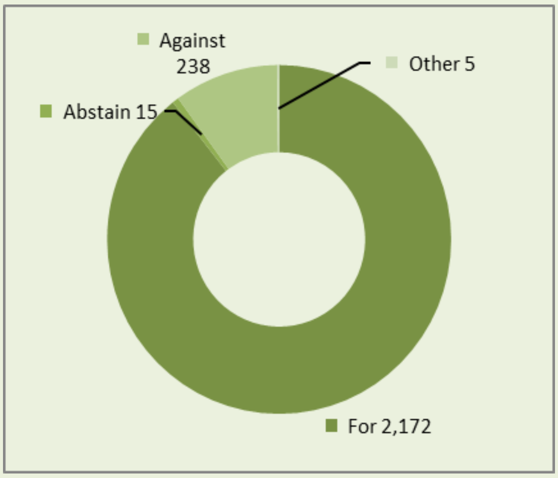
- strengthening the position on ethnic diversity at FTSE100 companies;
- splitting out executives’ long-term incentives from other employees; and
- strengthening voting stance to include CA100+ net zero benchmark indicators.

Details of all the changes are available in the December 2021 meeting papers of the Committee.

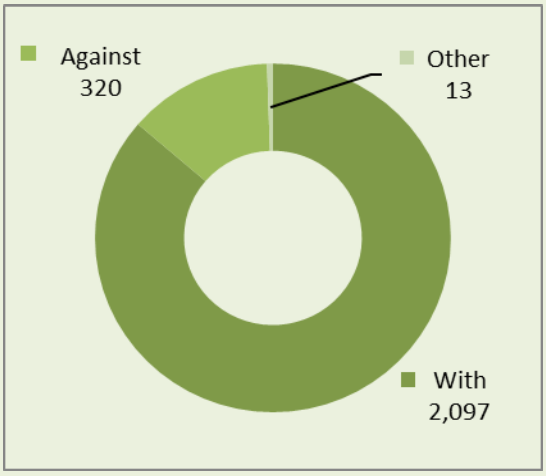
Examples of some manager's voting records for 2021/22 are shown below:

Votes cast for Border to Coast's Global Equity Alpha Fund (165 meetings)

Votes Cast

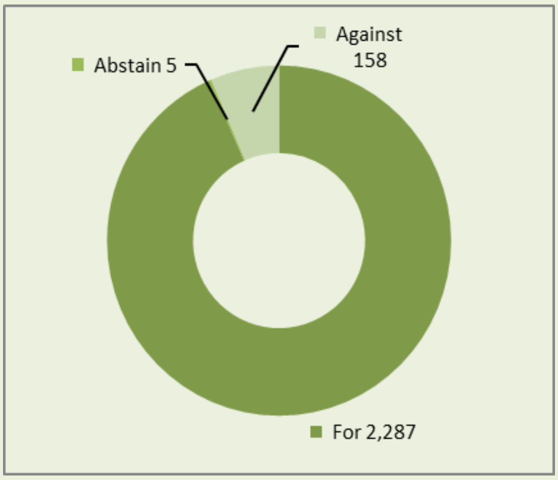


With or Against Management

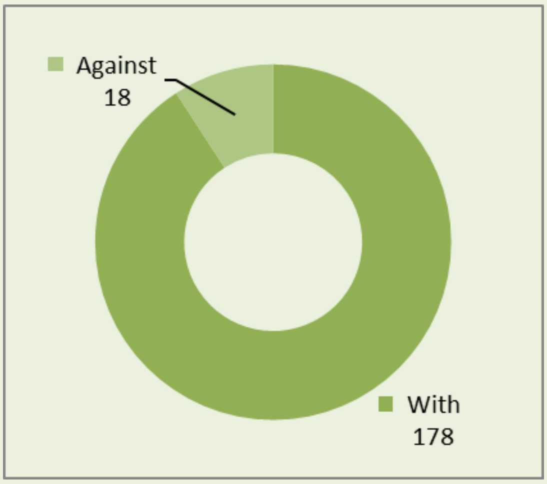


Votes cast for Border to Coast's UK Listed Equity Fund (141 meetings)

Votes Cast



With or Against Management



During 2021/22 the Head of Pensions has been appointed to the advisory committee for two residential property funds that the Fund invested in, and these meet on a quarterly basis.

Appendix A – Action Plan

Principle:	Action:	Target Date
PRINCIPLE 1: Purpose, investment beliefs, strategy & culture enable stewardship that creates long-term value for employers & beneficiaries leading to sustainable benefits for the economy, the environment and society	Consideration of any stewardship implications in the Investment Strategy Review.	October 2022
	To include a session on stewardship of investments and responsible investment beliefs at the Annual Employers Meeting in February and include a poll to better understand their views.	February 2023
PRINCIPLE 2: Signatories' governance, resources and incentives support stewardship	Continue quarterly reports and enhance where opportunities arise. Ensure that carbon reporting and ESG Statements can be moved from private into the public papers.	July 2023
	Provide more training to the Committee to better understand current issues and to clarify the Fund's strategy – e.g. net zero, work on reviewing the Investment Strategy.	On-going
	Change to the Committee structure to include more diversity by introducing a representative from the Academy Sector.	December 2022
	Following the unsuccessful appointment of a new post to provide additional resource for stewardship monitoring, develop a career grade post, who will come with different experience and will develop pensions/investment skills.	March 2023
PRINCIPLE 3: Signatories manage conflicts of interest to put the best interests of clients and beneficiaries first	Annual review of policy.	March 2023
	Provide any new members with training on conflicts as part of their induction training.	As required

Principle:	Action:	Target Date
PRINCIPLE 4: Signatories identify and respond to market-wide and systemic risks to promote a well-functioning financial system	Continue working with Border to Coast and LAPFF.	On-going
	To identify any opportunities for further collaborative work with other organisations.	On-going
	The Fund will further develop its risk assessment of the impact of Climate Change on its investments and plans to undertake an assessment with its investment managers of the impact of Climate Change on its investments.	On-going
	Respond to the DLUCH consultation on climate reporting and any other investment related consultations.	On-going
PRINCIPLE 5: Signatories review their policies, assure their processes and assess the effectiveness of their activities	Expansion of Stewardship reporting to include significant private market managers.	March 2023
	To include stewardship within the overall external governance review of the Fund.	Awaiting Good Governance Review Outcome
PRINCIPLE 6: Signatories take account of client and beneficiary needs and communicate the activities and outcomes of their stewardship and investment to them	Continue to include information on stewardship in the Member Newsletter and request direct feedback.	October 2022
	Explore with the administrator how we might engage with scheme members on Investment and Stewardship matters for feedback and input.	March 2023
	Develop a Stewardship page on the LPF website - providing key information to any interested parties.	December 2022
	Explore with employers (via the Annual Employers Meeting) how we could engage further with them on investment and Stewardship matters.	March 2023
	Employer meeting will provide an update on stewardship.	March 2023

Principle:	Action:	Target Date
PRINCIPLE 7: Signatories systematically integrate stewardship and investment, including material environmental, social and governance issues, and climate change, to fulfil their responsibilities	The Fund will continue to work with Investment Managers to make improvements in asset classes that are less developed in this area, for example: Morgan Stanley on Alternatives.	On-going
PRINCIPLE 8: Signatories monitor and hold to account managers and/or service providers	Increase information required from other managers (non-Border to Coast) to provide enhanced monitoring.	On-going
	Discussion with Border to Coast on changes to Global Equity Alpha fund with the addition of Emerging Markets and China Managers.	July 2022
PRINCIPLE 9: Signatories engage with issuers to maintain or enhance the value of assets	Expand the quarterly RI Update report to include more examples of engagement to provide more information to the Committee and Board, to assist them to challenge activity undertaken on our behalf. Include reference to the FWF ESG Report published quarterly.	On-going
	Work with Border to Coast and Morgan Stanley, the Fund's main alternatives manager, to expand the coverage of engagement across other asset classes.	On-going
PRINCIPLE 10: Signatories, where necessary, participate in collaborative engagement to influence issuers	Continue to work closely with Border to Coast and LAPFF to ensure that any collaboration is effective.	On-going

Principle:	Action:	Target Date
PRINCIPLE 11: Signatories, where necessary, escalate stewardship activities to influence issuers	Where LAPFF issue voting alerts - share with managers and follow up to understand how they are voting on these issues and challenge where voted differently.	On-going
	Continue to challenge managers and request reporting of escalations, to ensure that they are fulfilling their responsibilities.	On-going
PRINCIPLE 12: Signatories actively exercise their rights and responsibilities	To work with managers other than Border to Coast to understand how and where they are able to actively influence investment and stewardship decisions outside of the equity space, on our behalf.	On-going

Lincolnshire COUNTY COUNCIL Working for a better future

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

Report to:	**Pensions Committee**
Date:	**1 December 2022**
Subject:	**Pensions Administration Report**

Summary:

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

Matt Mott, Governance and Business Development Manager from WYPF, will update the Committee on current administration issues.

Recommendation(s):

That the Committee discuss the activity and performance of the administration service during the last quarter.

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 over the page shows the performance against key areas of work for the period 1 July 2022 to 30 September 2022.

KPI's for the period 01.07.22 to 30.09.22						
WORKTYPE	TOTAL CASES	TARGET DAYS FOR EACH CASE	TARGET MET CASES	MINIMUM TARGET PERCENT	TARGET MET PERCENT	AVERAGE TIME TAKEN
Age 55 Increase to Pension	1	20	1	85	100	1
AVC In-house (General)	53	20	52	85	98.11	3.28
Change of Address	277	10	260	85	93.86	2.32
Change of Bank Details	84	10	75	85	89.29	7.12
Death Grant Nomination Form Received	391	20	373	85	95.4	4.36
Death Grant to Set Up	33	10	32	85	96.97	3.97
Death In Retirement	137	10	120	85	87.59	4.65
Death In Service	3	10	2	85	66.67	12
Death on Deferred	21	10	18	85	85.71	8.33
Deferred Benefits Into Payment Actual	259	5	256	90	98.84	1.14
Deferred Benefits Into Payment Quote	344	35	289	85	84.01	20.37
Deferred Benefits Set Up on Leaving	397	20	196	85	49.37	35.97
Divorce Quote	44	20	41	85	93.18	12.98
Divorce Settlement Pension Sharing order Implemented	3	80	3	100	100	9.67
DWP request for Information	1	20	1	85	100	1
Estimates for Deferred Benefits into Payment	2	10	1	90	50	26.5
General Payroll Changes	94	10	94	85	100	1
Initial letter Death in Retirement	137	10	137	85	100	1
Initial Letter Death in Service	3	10	3	85	100	1

Initial letter Death on Deferred	21	10	21	85	100	1.43
Interfund Linking In Actual	39	35	25	85	64.1	44.21
Interfund Linking In Quote	55	35	28	85	50.91	48.45
Interfund Out Actual	78	35	41	85	52.56	78.06
Interfund Out Quote	78	35	66	85	85	18.42
Monthly Posting	926	10	881	95	95.14	2.5
NI adjustment to Pension at State Pension Age	14	20	14	85	100	10.71
Payment of Spouses _Child Benefits	73	5	66	90	90.41	2.38
Pension Estimate	151	10	86	90	56.95	14.03
Phone Call Received	1311	3	1268	95	96.72	1
Refund Actual	82	10	82	95	100	1
Refund Quote	154	35	150	85	97.4	4.84
Retirement Actual	168	3	166	90	98.81	1
Spouse Potential	10	20	8	85	80	8.8
Transfer In Actual	56	35	56	85	100	8.25
Transfer In Quote	73	35	73	85	100	2.33
Transfer Out Payment	11	35	10	85	90.91	19.73
Transfer Out Quote	135	35	129	85	95.56	8.79
Update Member Details	363	20	363	100	100	1

Comment – The KPI for Death In Service was not met this quarter due to one case in September not being processed within the target days. There was a delay in getting pay information from the employer.

Comment – The KPI for Deferred Benefits Into Payment Quote was not met this quarter due to a significant increase in the requests for quotes from members. There has also been a significant increase in retirements across all funds and these have been prioritised. This area of work is also under review to be automated and a significant amount of testing has already been done.

Comment – The KPI for Deferred Benefits Set Up On Leaving was not met this quarter due to staff working on older cases to reduce outstanding numbers.

Comment – The KPI for Estimates for Deferred Benefits into Payment was not met this quarter due to one case which was not completed within the target days. There has been a significant increase in the number of estimates requested for both active and deferred members. The date for this estimate was 3 months or more in the future and other estimates with dates within 3 months were prioritised.

Comment – The KPI's for some of the Interfund areas of work has not been met this quarter due to historic cases being processed for ABS production. Employers across all funds are currently sending in leaver notifications that have been outstanding. This has had an impact on the levels of work and has increased the numbers of linkings and interfunds out.

Comment – The KPI for Pension Estimate has not been met this quarter due to a number of cases not being checked within the target days. The reason for the estimates not being done in time was they had dates 3 months or more in the future and other estimates with dates within 3 months were prioritised over them. Team Early Leavers have been working hard to reduce the number of outstanding estimates and have significantly reduced the numbers over the last 6 weeks from 350 to 130 estimates (across all funds). This has been helped by members of the Team being trained to check estimates due to the increase in numbers received.

Comment – The KPI for Spouse Potential was not met this quarter due to other areas of work being prioritised within the Pensioner Services Team. Although all work is important this area of work does not impact on the payment of benefits, however, all members that have notified WYPF of their marital status should be referred to their ABS/original retirement documents in the first instance.

2.0 Scheme Information

2.1 Membership numbers in the Lincolnshire Fund are as follows:

Numbers	Active	Deferred	Pensioner	Frozen	Undecided
LGPS	25,212	25,826	26,599	2,497	1,051
Percentage of Membership	31.06	31.81	32.76	3.08	1.30
Change from Last Quarter	+40	-118	+261	-9	+371

2.2 Age Profile of the Scheme

	Age Groups												
Status	U20	20 - 25	26 - 30	31- 35	36 - 40	41- 45	46 - 50	51- 55	56 - 60	61- 65	66 - 70	70 +	**Total**
Active	279	1774	1888	2328	2795	3046	3406	4084	3322	1858	356	76	**25,212**

2.3 Employer Activity - During 1 July 2022 to 30 September 2022

New Academies and Education Trusts	3
New Town and Parish Council	0
New Admission Bodies	1
Total of New Employer	**4**
Employers Exited	0
Total Numbers of employers	**279**

3.0 Member and Employer Contact

3.1 Over the quarter July to September 2022 we received **1** online customer responses.

Over the quarter July to September 2022, **153** Lincolnshire member's sample survey letters were sent out and **21 (13.8%)** returned:

Overall Customer Satisfaction Score:

July to September 2021	**October to December 2021**	**January to March 2022**	**April to June 2022**	**July to September 2022**
96.9%	91.5%	95.3%	80.2%	90.4%

Appendix A – Customer Surveys

3.2 Employer Training

Over the quarter 1 July 2022 to 30 September 2022 we held the following webinars which were attended by employers across all four Funds that WYPF administer:

- Final pay
- Final pay – the deep dive
- Understanding cumulative pension pay (CPP)
- The ill health process
- Information needed for HMRC checks

All previous webinars have been recorded and are available to employers on the employer website.

4.0 Internal Dispute Resolution Procedure (IDRP)

4.1 All occupational pension schemes are required to operate an IDRP. 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 by the Head of Pensions. Stage 2 appeals are considered by WYPF.

Stage 1 appeals against the fund

One appeal is currently outstanding.

Date of appeal	Reason for appeal	Current position /Outcome	Date decision letter sent
24/05/2022	Appeal against pay figures used in pension estimate.	Appeal upheld as the assessment of final pay had not taken into account the provisions of the 1997 Regulations. Referred back to Service Centre (WYPF) who have requested the employer (LCC) to undertake a further assessment.	25/07/2022
03/08/2022	Appeal against delays in providing a retirement quote.	The appeal was turned down. However, in view of the delays in providing a retirement quote and the lack of response when the member was chasing this, Jo Ray requested a further response from WYYPF with regard to what actions were being taken to prevent this from re-occurring. A response has since been provided.	12/09/2022
16/08/2022	Appeal against notification that in the event of her death her partner is not eligible for a survivors pension.	The appeal was turned down. The member left in 1985 and therefore there is no survivor's benefit entitlement in the event of death. We did make reference to the Goodwin Ruling in the Teachers Scheme and that, whilst this may have some impact on LGPS, we did not know yet what this might be.	06/10/2022
06/09/2022	Appeal against being refused a refund of contributions.	Acknowledgement sent to the member – 20/09/2022. A report has been requested from the Member Services Manager – 29/09/2022. Draft decision letter sent to Jo Ray – 02/11/2022.	

Stage 1 appeals against scheme employers

One appeal is currently outstanding.

Date of appeal	Reason for appeal	Current position /Outcome	Date decision letter sent
22/09/2022	Appeal against being turned down for ill health pension.	Acknowledgement sent to member and referred to LCC as the scheme employer – 23/09/2022. LCC have confirmed that they are currently working on this appeal – 20/10/2022.	

Stage 2 appeals

One appeal is currently outstanding.

Date application received	Reason for appeal	Current position/outcome	Date decision letter sent
11/07/2022	Appeal against refusal of employer to award an ill health pension.	Consent form received from member – 12/08/2022. Information requested from LCC as scheme employer – 26/08/2022. Response not received form LCC. A reminder has been sent and a holding letter has been sent to the member – 21/09/2022. Information received from LCC- 06/10/2022. Decision letter being drafted – 27/10/2022.	

4.2 **Ombudsman**

There are currently no appeals outstanding.

5.0 Administration Update

5.1 Employer Work

During this period WYPF worked on three new Academies/Prime location schools and ten new admission bodies.

Academies/Prime location schools

- Two of the academies joined the Fund from 1 September 2022 with a further new academy forming from a merger of two existing academies and a further new academy is due to join from 1 November 2022.

Admission bodies

- Three admissions relate to outsourcings which are due to take place in 2023
- Seven admissions relate to transfers that have taken place, but the admission is still being concluded

5.2 Staffing

Finance - There are currently no vacancies in the Finance Team.

Service Centre - There are currently 13 Pension Officer vacancies in the Service Centre and after the recent round of recruitment, 6 candidates were offered a post and references and qualifications are currently being requested. Once these are received contracts will be issued. The next round of interviews began on 06/10/2022 to fill the other vacancies.

Technical Team - There are currently no vacancies in the Technical Team.

Employer Relations Team - Two Additional Employer Pension Fund Representative (EPFR) posts have been created in the Employer Relations Team. One of these posts will be an EPFR for Fire Clients and the other an additional post for LG Clients. After the recent round of interviews, they recruited to one of the posts and the new EPFR will start on 24/10/2022. The other post will be re-advertised but there is no date at the present time when this will be.

5.3 Shared Service **(Budget point 8.1 – e. employees)**

Since setting the budget in January 2022, we have increased the number of staff across the service. The vacancies being filled are extra to the original budget which is why there has been an overspend. However, the overspend on salaries is being managed within the total WYPF service budget.

5.4 Audits undertaken by Bradford Councils Internal Audit:

a) **Annual Benefits Statement**

It is audit's opinion that the standard of control of identified risks in the system is **excellent.**

The audit review has determined that the identified risks are being effectively managed. The control environment is as expected and supports the achievement of key business objectives.

Internal Audit made **0** recommendations for improvement.

5.5 Data quality scores

Pension schemes are required by the Pensions Regulator (TPR) to report their common and scheme specific data scores in the annual scheme returns in November. Common data - used to identify scheme members and includes name, address, national insurance number and date of birth. Scheme-specific data – essential to calculate benefit entitlement such as pensionable pay and service history. It also encompasses data relating to events that occur during an individual's membership, for example transfers.

The current data scores for Lincolnshire Pension Fund are:

Common	95.97%
Scheme Specific	86.04%

5.6 Data improvement

We have now received the proposal from Civica for access to the image server for the intelligent character recognition software and they have quoted a cost of £140,000. We are now looking at alternatives to the Civica proposal. We are also developing a data quality programme through February/March 2023 as a pre-cursor to the pensions dashboard matching requirements.

5.7 MyPension

WYPF have requested Civica for a change to the functionality on MyPension which will allow WYPF to see how many members have viewed their Annual Benefit Statement. We are currently waiting for Civica to confirm when this will be released. We have not yet received confirmation from Civica when this will happen and a request for an update has been sent.

5.8 Annual Benefit Statements (ABS) and Deferred Benefit Statements (DBS)

This year's statements have been issued electronically. Members have been asked to sign up to the secure 'MyPension' portal to access their statements. However, members who still prefer a paper version will be able to opt out and receive one.

As at 31 August 2022 97.4% of ABS's and 99.9% of DBS's have been produced for Lincolnshire members who are eligible to receive one. The remaining ABS's are due to queries on records with Employers and outstanding transfers and linkings which are being worked on.

It is our intention to review the ABS process over the next 12 months to ensure going forward more statements are produced for members.

6.0 Current Technical Issues

See Appendix B.

7.0 Web Registrations

The number of members registered for online member web are:

Status	April to June 22	% of membership	July to September 22	% of membership
Active	9,819	39.01%	10,334	40.99%
Deferred	7,524	29.00%	8,004	30.99%
Pensioner	9,328	35.42%	9,710	36.51%

8.0 Shared service Budget

8.1 WYPF Shared Service cost monitoring September 2022

WYPF SHARED SERVICE	2021/22 OUTTURN PD13 £000	2021/22 COST PER MBR	2022/23 BUDGET £000	2022/23 ACTUAL PD06 SEP £000	2022/23 FORECAST PD06 SEP £000	2022/23 VAR BGT - PD06 FAV (ADV) £000	2022/23 COST PER MBR PD6 COST PER	2023/24 FORECAST YR1 £000	2023/24 COST PER MBR
Accommodation	203	£0.42	125	39	179	-54	£0.36	334	£0.67
Actuary	0	£0.00	0	0	0	0	£0.00	0	£0.00
CBMDC Support Services	210	£0.44	215	0	231	-16	£0.47	251	£0.50
Computer	439	£0.91	216	645	756	-540	£1.54	614	£1.22
Contingency - Invest to save	0	£0.00	500	0	306	194	£0.62	500	£1.00
Employees	3,820	£7.94	4,224	2,063	4,392	-168	£9.04	4,337	£8.65
Other Running Costs	180	£0.38	191	124	196	-5	£0.40	259	£0.52
Printing & stationery	371	£0.77	295	221	388	-93	£0.79	438	£0.87
Transaction Costs	0	£0.00	0	0	0	0	£0.00	0	£0.00
WYPF Support Services	1,582	£3.29	2,275	0	2,016	259	£4.10	2,517	£5.02
WYPF SHARED SERVICE EXPENDITURE	**6,805**	**£14.15**	**8,041**	**3,092**	**8,464**	**-423**	**£17.32**	**9,250**	**£18.45**
			£17.67				**-£0.34**		**£0.78**
MEMBER NUMBER		**480,970**	**482,400**				**492,360**		**501,432**
PARTNERS ARE CHARGED	**2,450,447**	**173,174**		**177,797**	**3,084,725**				
TOTAL (in 2223 £1 was added to £16.67 for McCloud).	**6,805,822**	**480,970**	**£17.67**	**490,899**	**8,516,950**		**£17.35**		

Net overspend of £0.42m projected. Overspend projected on accommodation, computer – due to McCloud remedy system costs provisions, increased staffing resources for Pension Admin, printing and stationery. Underspend – transfer of funds from investments to save and support increased staffing resources, computing and IT, increased spend for computer supplies will be funded by the extra £1 charge per member across shared services.

Current indication of cost per member 2023/24 is £18.45, increase mainly due to inflation on service contracts and general cost pressures.

Planned cost per member was £17.67 (£16.67 + £1 for McCloud), latest is £17.32 (£16.32 + £1 for McCloud).

a. **Accommodation** overspend of £0.05m – planned repairs and cost of utilities, however, there is reduced foot fall in the building, with resulting reduction in cleaning and general maintenance.

b. **CBMDC support service cost** - projecting an overspend of £0.02m, we have been informed of a review of central support charges, with our increased number of staff in recent years, we are expecting a small increase.

c. **Computer costs / IT** – overspend of £0.54m, mainly due to service suppliers cost inflation pressure averaging 10% and provisions being made for McCloud system development. This is being funded by increase charges per member of £1.00 for total shared members of 490,899 (WYPF 313,102; partners 177,797).

d. **Invest to save** – out of a provision of £0.5m, £0.31m is left. £0.19m is being used to fund staffing resources mainly within Pension Admin, and additional spend for computing cost and IT across WYPF (network, servers, equipment etc. separate from McCloud).

e. **Employees** – overspend of £0.17m, mainly due to increased staffing resources in pension admin. Whilst, salary increment and increased staffing resources is needed in all areas to address constant shifting regulations, the good news is we have seen more success in recruiting more staff in the Pension Admin area.

f. **Printing and stationery** overspend of £0.10m, increased printed communications for new shared service partners' members. We expect this forecast to go down from increased uptake of digital services.

g. **WYPF support services** cost is fully recharged to Pension Admin and Investment Management proportional to service provided, this is reviewed annually. Currently projecting underspend, due to vacancies and we also have a number of projects that are being delivered using internal resources resulting in efficiency savings.

Lincolnshire LGPS	MBR NO MAR22	2021/22 REVISED BUDGET	2021/22 ACTUAL	VAR BDGT-ACT PD12	2021/22 COST PER MBR	2022/23 BUDGET	MBR NO AUG22	2022/23 COST PER MBR PD06	2022/23 FORECAST PD06
CHARGE ACTUAL / FORECAST	79,131	£1,141,570	£1,122,078	£19,492	14.18	£1,398,245	81,101	£17.32	£1,404,669

2021/22 EST PER MBR MAY2021	MBR NO ESTIMATE MAR24	EST CST PER MBR 23/24	EST 2023/24
CHARGE ACTUAL / FORECAST	82,595	£18.45	£1,523,880

9.0 Awards

WYPF has not been shortlisted for any awards at the current time.

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 A	Customer Surveys
Appendix B	Current Technical Issues

Consultation

a) a) Risks and Impact Analysis

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

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 Matt Mott, who can be contacted at matt.mott@wypf.org.uk

Customer Survey Results - Lincolnshire Members
(1st July to 30th September 2022)

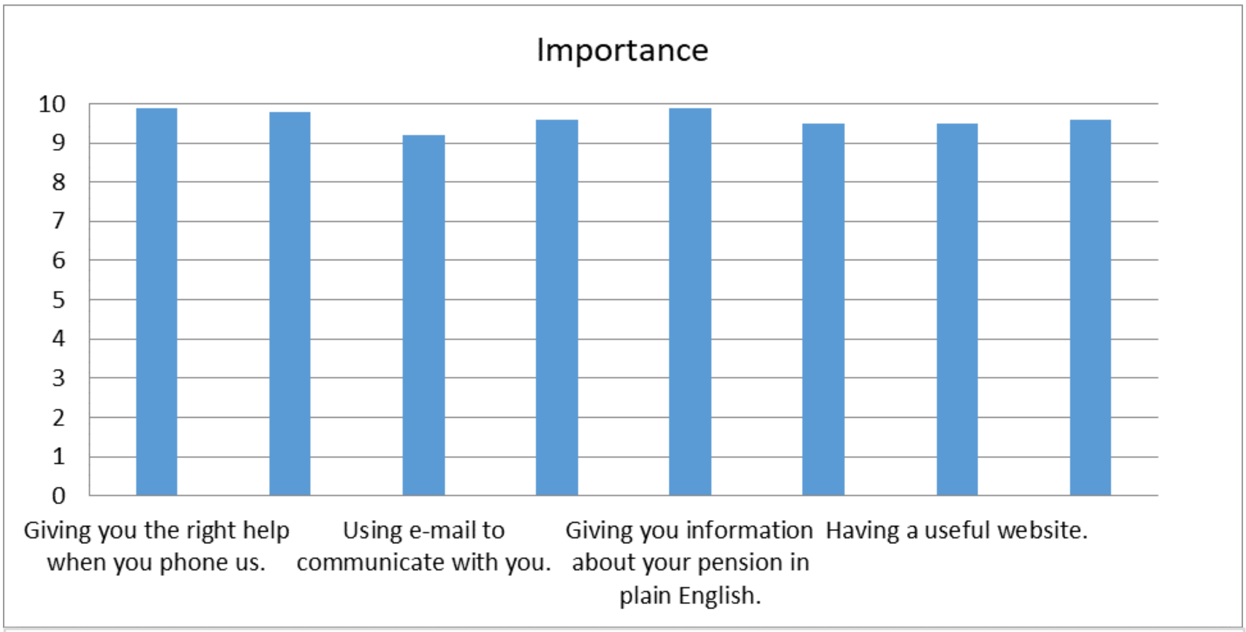
Over the quarter July to September we received **1** online customer response.

Over the quarter July to September **153** Lincolnshire member's sample survey letters were sent out and **21 (13.8%)** returned:

Overall Customer Satisfaction Score;

July to September 2021	October to December 2021	January to March 2022	April to June 2022	July to September 2022
96.9%	91.5%	95.3%	80.2%	90.4%

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



Sample of positive comments:

Member Number	Comments
8056174 Email	Hello I would like to say thank you for all your help over the past 8 months. Kirsten has been particularly patient and helpful and David. I had a pleasant surprise when checking my bank account today. Again thank you, your customer service as a company is excellent and all staff have been so helpful and pleasant. take care Sandy Burns
8126602	Very helpful and dealt with quickly. Excellent service, polite and professional staff, thank you.
8069064	I prefer written communication rather than online services. Generally, I have very good service.
8126763	Friendly and helpful, sorted out issues.

Complaints/Suggestions:

Member Number	Comments	Summary of Acknowledgement Letter Sent to Member
8139697	My queries have been answered. I have recently transferred in 2 previous pensions, the transfer value although sent by letter cannot be found anywhere on my online record. The two transfers showing on my record don't mean anything to me, apart from the company name, what do the headings mean, no information to explain.	Response sent by Lucy - Letter sent to member 11/08/2022 to acknowledge survey comments and respond to member's query regarding her transfer in values. Raised with Stuart D who confirmed that the TV IN page on MPO was in development to include CARE benefits as well as per 14 service.

Appendix B

Current Technical Issues

HMT

HMT consultation on public sector exit payments

On 8 August 2022, HM Treasury (HMT) launched a consultation on public sector exit payments. The Government is proposing to introduce:

• an expanded approval process for employee exits and special severance payments

• additional reporting requirements.

The guidance is intended to apply to all bodies that are classified as 'Central Government'. This **does not** include local authorities or bodies under devolved administrations. The guidance **will apply** to academies.

The new approvals requirement would apply to decisions made by employers to agree to an exit where the total payment to be made would be more than £95,000. This includes relevant statutory, contractual or discretionary payments. This would include any strain cost where an LGPS member aged over 55 leaves due to redundancy or efficiency. A further approval will be needed if special severance payments – payments in excess of contractual obligations – are to be offered.

Employers will need to report any exit to HMT if the total payments made in relation to it exceed £95,000.

You can find more information about the proposals in the draft HMT guidance on public sector exits draft HMT guidance on public sector exits.

The consultation closes on 17 October 2022.

TPO

TPO publishes corporate plan

The Pensions Ombudsman's (TPO) corporate plan for 2022 to 2025 has been published. The corporate plan outlines TPO's key performance indicators, strategic goals and priorities for the period, along with the actions required to deliver those priorities.

New Pensions Ombudsman On 31 August 2022, Dominic Harris was confirmed as the new Pensions Ombudsman (TPO). See bulletin 227 for more information.

He will start his appointment from 16 January 2023. The current Pensions Ombudsman, Anthony Arter, will remain in post until 15 January 2023.

News – September 2022

On 6 September 2022, TPO published its September 2022 news.

It contains information about September's events, TPO resources and the latest determinations.

TPR warns employers about auto-enrolment duties

On 26 September 2022, the Pensions Regulator (TPR) published a press release warning employers to ensure they are complying with their automatic enrolment duties.

The warning follows a series of in-depth compliance inspections with more than 20 large employers earlier this year. The employers are from the transport, hospitality, finance and retail sectors. TPR found several common errors in respect of calculating pension contributions and communications to staff.

Scheme Advisory Board (SAB)

You can use the links below to find out about the latest updates on the work of the SAB and its committees:

• the latest SAB meeting and agenda papers

• the latest committee meetings and agenda papers

• the latest Responsible Investment Advisory Group meetings and agenda papers

• the latest news items

Letter about discrimination in the LGPS sent to minister

On 26 August 2022, Cllr Roger Phillips, Chair of the SAB, wrote to the Local Government Minister, Paul Scully. The letter to the minister recommends amending the regulations on death grants and survivor benefits.

The SAB expressed concern about continuing to restrict death grants to cases where the member died before age 75. It considers the restriction may be at risk of legal challenge and should be removed.

The SAB reminded the minister that the LGPS rules on survivor benefits have not yet been amended to reflect the Goodwin judgment. It has previously recommended the Government investigate the feasibility of removing all differences in the survivor benefit rules.

Pension Dashboards

DWP confirms frozen refunds are out of scope for initial dashboards

On 3 August 2022, the Department for Work and Pensions (DWP) confirmed that frozen refunds will be out of scope for initial dashboards because they are not considered to be member benefits

We expressed our disappointment and informed DWP that we will keep them updated about any issues this creates for the LGPS when we first start receiving find requests.

Guidance on Value Data for pensions dashboards

The Pensions Administration Standards Association (PASA) has published Guidance on Value Data for pensions dashboards. PASA recognises that the regulations are yet to be finalised and that some uncertainty remains. The guidance includes a checklist of steps administrators can take now, despite these uncertainties. These steps will help administrators to:

• gain an understanding of what the Value Data requirements mean for their scheme

• identify where gaps exist, what the options are for filling those gaps and whether they should wait to see DWP's final regulations before making a decision

• decide if there is work they can do in advance of the designated staging date.

As reported in Bulletin 227, public service pension schemes will have to provide Value Data to pensions dashboards by 1 April 2025, although they can supply it earlier if they choose to.

You can read more about the launch in the PASA press release – Value Data guidance.

Data matching guidance updated

PASA has updated its guidance on dashboards data matching conventions. The PASA dashboards data matching conventions guidance was originally issued in December 2021. It has been updated to include a call to action, set out the next steps being worked on and provide links to other industry guidance.

You can read more about the updates and the reasons for them in the PASA press release - DMC guidance.

LGA response to PDP's consultation and call for input on standards and guidance

LGA responded to this consultation on 31 August 2022. The Pensions Dashboards Programme (PDP) launched the consultation on 19 July 2022. LGA covered this in Bulletin 227.

In the LGA response, they call on PDP to:

• include a flow chart and checklist to assist pension schemes understand their responsibilities when they use a third-party Integrated Service Provider (ISP) to connect to the dashboard ecosystem

• make it mandatory for users to input their national insurance number in the find data

• be mindful that the LGPS has a different McCloud remedy to the unfunded public service schemes. Any McCloud warnings or wording will need to cover the unfunded schemes and the LGPS

• make it clear to users that frozen refunds are not included on pensions dashboards

• provide more information on how the complaints procedure will work.

They also expressed concern about the proposed timeframe of 30 days for connecting via a third-party connection because of the number of funds and other public service schemes that use the same pension software providers.

The LGA response can be found on the:

• non-scheme consultations page of http://www.lgpsregs.org/

LGPS Governance Conference 2023

Booking is now open for the LGPS Governance Conference 2023.

The conference will take place on 19 and 20 January 2023 at the Cardiff Marriott Hotel. You can attend the conference in person or join us online.

The conference is aimed at elected members and others who attend pension committees/panels and local pension boards. Past delegates include elected members, trades union representatives, member and employer representatives, as well as a variety of officers who attend and support committees.

You can book and view the programme using the links below. An updated programme with confirmed speakers will be published shortly. We are unable to take manual bookings.

• book to attend in person

• book to attend virtually.

The booking page for all LGA events is www.local.go.uk/events.

Lincolnshire COUNTY COUNCIL *Working for a better future*

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

Report to:	**Pensions Committee**
Date:	**01 December 2022**
Subject:	**Employer Monthly Submissions Update**

Summary:

This paper provides the Committee with up-to-date information on Employer Monthly Submissions for the second quarter of the financial year 2022/23 (July to September inclusive).

Recommendation(s):

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

Background

1.1 There are 274 contributing 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 contributions due to the Fund on a timely basis. The date these are due is set out in the Fund's Administration Strategy, which all employers have signed up to, and has been set as 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.

1.2 The Fund has in place robust processes for monitoring the receipt of payments and data from employers. Within the Pensions Team, the Finance Technician is responsible for monitoring employer contributions monthly. Additional checks on the detailed data submissions and employer rates are undertaken by the West Yorkshire Finance Team. The pensions system itself also identifies errors, queries, or where further information is required from the employer (e.g. additional leavers' information).

1.3 After any late payment (including data submission) an email is sent to the employer reminding them of their responsibilities. In addition to emailing employers, both the Lincolnshire and West Yorkshire Pension Fund teams 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 employers and payroll providers, to assist in understanding the monthly process they need to complete and the data they are required to supply.

1.4 A summary of all late contributions or data submissions since April 2022 is set out in table one below. Appendix A sets out the employers who were late, and details when the outstanding payment or information was received.

Table One: Late contributions and data submissions to September 2022

Month	Payment of Contributions		Submission of Data		Payment of Contributions and Submission of Data		Data and Payments do not Match / Incorrect Rate	
April	*0*	*0.0%*	*6*	*2.2%*	*1*	*0.4%*	*5*	*1.8%*
May	*2*	*0.7%*	*9*	*3.3%*	*0*	*0.0%*	*2*	*0.7%*
June	*4*	*1.5%*	*10*	*3.7%*	*0*	*0.0%*	*6*	*2.2%*
July	2	0.7%	9	3.3%	0	0.0%	1	0.4%
August	1	0.4%	8	2.9%	2	0.7%	2	0.7%
September	2	0.7%	5	1.8%	1	0.4%	5	1.8%
Total	**11**		**47**		**4**		**21**	

1.5 The analysis shows the number of employers making a late payment of contributions or missing both payment of contributions and data is a relatively small percentage of the overall number of employers. There are higher numbers of employers submitting their data late, or submitting data that does not agree to the cash payment made to the Fund. Overall, the occurrences of late data submissions and payments in quarter two are roughly comparable to the levels seen across 2021/22, which was generally a strong year for employer contributions.

1.6 The July and August late data figures include missed submissions from two payroll providers, responsible for six employers, who were dealing with staffing/IT system issues. This issue has been fully resolved at one payroll provider, and all submissions for their four employers are up to date. The second payroll provider is still working to provide the outstanding data. This is being actively monitored by Fund officers who are in regular contact with the payroll provider/employers.

1.7 There are still a number of data submissions each month that do not match the cash payments made to the Fund. Generally, these discrepancies are small in cash terms, however, employers have, and will continue to be contacted asking why these differences have arisen and to review their processes to ensure variances do not occur on future submissions. If there are issues with the data submitted, the Fund will liaise with employers and WYPF to ensure the necessary amendments are made. For example, two of these errors in September were resolved within 24 hours of the respective employers being made aware.

1.8 None of the 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.

1.9 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 sets out the number of fines issued since April 2022.

Table Two: Late contributions fines to September 2022

April	*May*	*June*	July	August	September
0	*0*	*0*	0	2	3

1.10 Quarter two saw the first issuance of administrative fines since December 2020. The two fines issued in August were to the two employers discussed at paragraph 1.6 above. The three fines issued in September again included the two employers discussed above, plus one further employer who has missed the deadline for data and/or cash in three of the last six months.

1.11 Four employers are at an immediate risk of an administrative fine if they are late with cash and/or data during quarter three. All employers are notified when any part of their contributions is received late, and these employers are aware that they are at risk of a fine.

Conclusion

2.1 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 submissions and any further actions which are required to address employers not meeting their statutory responsibilities.

2.2 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.

Consultation

a) Risks and Impact Analysis

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

Appendices

These are listed below and attached at the back of the report	
Appendix A	Employers late payments and/or data contributions - quarter two 2022/23 (July to September inclusive)

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 Claire Machej, who can be contacted on 01522 553641 or claire.machej@lincolnshire.gov.uk.

Late Contributions and Payments July to September 2022

July 2022

Employer	Late Cash Contributions	Date received	Late Data Submissions	Date received	Payment of Contributions & Submission of Data	Date received	Payment and Data Don't Match
HUTTOFT PRIMARY ACADEMY	YES	05/09/2022	NO		NO		NO
KEELBY PRIMARY ACADEMY	YES	06/09/2022	NO		NO		NO
PUBLIC SECTOR PARTNERSHIP	NO		YES	02/09/2022	NO		NO
EAST LINDSEY DISTRICT COUNCIL	NO		YES	06/09/2022	NO		NO
SOUTH HOLLAND DISTRICT COUNCIL	NO		YES	31/08/2022	NO		NO
BOSTON BOROUGH COUNCIL	NO		YES	08/09/2022	NO		NO
CAISTOR YARBOROUGH ACADEMY	NO		YES	24/08/2022	NO		NO
LINCOLN COLLEGE	NO		YES	Due by end of Nov '22	NO		NO
WILLIAM FARR ACADEMY	NO		YES	Due by end of Nov '22	NO		NO
PINCHBECK PARISH COUNCIL	NO		YES	05/09/2022	NO		NO
METHERINGHAM PRIMARY SCHOOL	NO		YES	24/08/2022	NO		NO
AMBERGATE SPORTS COLLEGE	NO		NO		NO		YES
	Total = 2		Total = 9		Total = 0		Total = 1

Appendix A

August 2022

Employer	Late Cash Contributions	Date received	Late Data Submissions	Date received	Payment of Contributions & Submission of Data	Date received	Payment and Data Don't Match
FUTURE CLEANING	YES	05/10/2022	NO		NO		
ACTIVE NATION	NO		YES	28/09/2022	NO		
BOURNE TOWN COUNCIL	NO		YES	22/09/2022	NO		
THE KINGS ACADEMY	NO		YES	05/10/2022	NO		
LINCOLN COLLEGE	NO		YES	Due by end of Nov '22	NO		
LONG BENNINGTON ACADEMY	NO		YES	20/10/2022	NO		
LOUTH TOWN COUNCIL	NO		YES	04/10/2022	NO		
METHERINGHAM PRIMARY	NO		YES	14/10/2022	NO		
WILLIAM FARR ACADEMY	NO		YES	Due by end of Nov '22	NO		
ST BERNARDS ACADEMY	NO		NO		YES	13/10/2022	
ST LAWRENCE ACADEMY	NO		NO		YES	13/10/2022	
EAST LINDSEY DISTRICT COUNCIL	NO		NO		NO		YES
GLL	NO		NO		NO		YES
	Total = 1		Total = 8		Total = 2		Total = 2

September 2022

Employer	Late Cash Contributions	Date received	Late Data Submissions	Date received	Payment of Contributions & Submission of Data	Date received	Payment and Data Don't Match
KEELBY PRIMARY ACADEMY	YES	21/10/2022	NO		NO		
SPALDING GRAMMAR ACADEMY	YES	25/10/2022	NO		NO		
GRANTHAM COLLEGE	NO		YES	31/10/2022	NO		
KESTEVEN AND SLEAFORD HIGH SCHOOL	NO		YES	21/10/2022	NO		
LINCOLN COLLEGE	NO		YES	Due by end of Nov '22	NO		
WILLIAM FARR ACADEMY	NO		YES	Due by end of Nov '22	NO		
WRANGLE COUNTY PRIMARY	NO		YES	26/10/2022	NO		
LINCOLN CHRIST'S HOSPITAL ACADEMY	NO		NO		YES	20/10/2022	
CRANWELL COUNTY PRIMARY	NO		NO		NO		YES
FOSSEWAY ACADEMY	NO		NO		NO		YES
HORNCASTLE EDUCATION TRUST	NO		NO		NO		YES
UNIVERSITY ACADEMY HOLBEACH	NO		NO		NO		YES
WARREN WOOD COMMUNITY ACADEMY	NO		NO		NO		YES
	Total = 2		Total = 5		Total = 1		Total = 5

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Lincolnshire COUNTY COUNCIL
Working for a better future

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

Report to:	**Pensions Committee**
Date:	**01 December 2022**
Subject:	**Committee Meetings and Delegations**

Summary:

This paper brings to the Committee proposed amendments to the committee meeting timetable, updates the delegations of the administering authority administration discretions, and sets out delegations for various investment decisions which have previously not been documented. The aim of these amendments is to enable more time at Committee meetings for discussion and training, and to better document and improve the overall governance of the Pension Fund.

Recommendation(s):

That the Committee consider and discuss the paper and:

1) Approve the new Committee meeting timetable; and
2) Approve the proposed delegations for the administration discretions and the investment decision process.

Background

1. As the Committee are aware, the Scheme Advisory Board (SAB) has undertaken a governance review of the LGPS, which resulted in a draft Good Governance Review report (Good Governance Final Report February 2021.pdf (lgpsboard.org)) being published in 2021 and which was shared with the Committee. DLUHC have approved the recommendations, with some minor changes, and it is expected that there will be a consultation shortly with the requirements coming into effect from 1 April 2023. Officers have been reviewing the guidance to see where improvements or changes could be made to better meet the new requirements, ahead of them being introduced.

Committee meeting timetable

2. The current timetable for Committee meetings allows for four quarterly meetings, two manager presentation meetings and two training meetings each year. Officers have been considering whether there is a more effective way of using the eight

meetings to ensure there is enough time to cover all the information we need to, at the appropriate level, and to enable more time for training sessions. This will help meet the new requirements for a mandatory level of training for all members being brought in under the Good Governance Review.

3. The proposal at appendix A retains the eight meetings but splits the agenda to have four meetings covering investments and stewardship and four meetings covering administration and governance, enabling additional time for more detailed discussion, presentations, and training on various topics throughout the year.

4. Appendix A sets out the expected agenda items at each meeting, and the list below shows the proposed months for the meetings, similar to the current timetable, but allowing for when certain papers need to go before Committee for approval, such as the policies each March, or the accounts each July.

   - January – Admin and Governance
   - March – Admin and Governance
   - April – Investment and RI
   - June – Investment and RI
   - July – Admin and Governance
   - September – Investment and RI
   - October – Admin and Governance
   - December – Investment and RI

5. If the Committee are content with the new meeting timetable proposal, then it would be implemented from the new Council year, following the AGM in May 2023.

6. In addition to the timetable of the meetings being changed, there are some amendments suggested to the paper content, to allow more time for discussion on the key strategic areas that the Committee are responsible for.

7. The main areas where change is recommended are:

   - Pensions Administration report – concentrating on the key areas of performance and benchmarking, a shared service update and a regulatory update – this covers the more strategic areas that the Committee should be concentrating on. The detail that is currently covered would still be reported to the Board, whose remit is for more oversight of the administration and concerns/issues can be reported back in the Chairman’s Board Update report.

   - Investment Management Report – invite the investment consultant to present at each investment meeting and go through their report on managers and performance, which should enable greater discussion for the Committee.

   - Annual Policies Review – split the large number of policies to review every three years, rather than every year, but bringing any material changes when needed. This will enable the Committee more time to understand and discuss the policies rather than reviewing them all in one meeting.

Administering Authority Administration Discretions and Investment Delegations

8. The guidance will require each administering authority to document key roles and responsibilities relating to the LGPS and publish a roles and responsibilities matrix setting out how key decisions are reached. The matrix should reflect the authority's scheme of delegation and constitution.

9. The Committee has already agreed amendments to improve the terms of reference set out in the constitution, which will be taken to Full Council in December for approval. The Fund has a set of administering authority discretions, which were last approved following scheme changes in 2014, but does not currently formally document the delegations for investment decisions to be made.

10. To enable this requirement to be fully met, work has been undertaken to review the administration discretions (at appendix B) to update titles and ensure they are still fit for purpose. In addition, the delegations for investment decisions (at appendix C) have been documented, which reflect current practice.

Conclusion

11. The Pensions Committee timetable has been reviewed to reflect the recommendations being made in the Good Governance Review, and it is recommended to update the committee timetable, as set out in appendix A. If the Committee approve the changes, these will take effect following the Council's AGM in May 2023.

12. In addition, the administering authority administration discretions have been reviewed and updated, and the investment decision making delegations have been formally set out for the Committee to approve. This will also enable the upcoming requirements of the Good Governance review to be met.

Consultation

a) Risks and Impact Analysis

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

Appendices

These are listed below and attached at the back of the report

Appendix A	Committee Meeting Proposal
Appendix B	Administering Authority Administration Discretions
Appendix C	Administering Authority Investment Delegations

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 Jo Ray, who can be contacted on 01522 553656 or jo.ray@lincolnshire.gov.uk.

Appendix A

Proposed Committee Meetings from June 2023 (following AGM)

June — Investment and RI Meeting:
- Stewardship Update Report
- Independent Investment Advisor Report
- Investment Management Report
- Manager Presentation / Training Session

July — Admin and Governance Meeting:
- Local Board Report
- Fund Update Report
- Pensions Admin Update
- Draft Annual Report and Accounts
- Training Plan
- Training Session

September — Investment and RI Meeting:
- Stewardship Update Report
- Independent Investment Advisor Report
- Investment Management Report
- Annual Property and Infrastructure Report
- Manager Presentation / Training

October — Admin and Governance Meeting:
- Local Board Report
- Fund Update Report
- Pensions Admin Update
- Risk Register Review
- Annual Fund Performance
- Annual External Audit Update
- Training Session

December — Investment and RI Meeting:
- Stewardship Update Report
- Independent Investment Advisor Report
- B2C RI Policy and Guidelines
- Investment Management Report
- Manager Presentation / Training Session

January — Admin and Governance Meeting:
- Local Board Report
- Fund Update Report
- Pensions Admin Update
- Annual Employer Monitoring Report
- Annual External Audit Update - *if required*
- Training Session

Appendix A

March

Admin and Governance Meeting:

- Local Board Report
- Fund Update Report
- Pensions Admin Update
- Policies for approval - *rolling 3 year review, unless major changes*
- Annual Report and Accounts
- Business plan and budget setting
- Training Session

April

Investment and RI Meeting:

- Stewardship Update Report
- Independent Investment Advisor Report
- Investment Management Report
- Manager Presentation / Training Session

Appendix B

LINCOLNSHIRE PENSION FUND – ADMINISTERING AUTHORITY ADMINISTRATION DISCRETIONS

Discretions approved by the Pensions Committee on xxxxxx on behalf of the administering authority

Regulation No- **R – 2013 Regs** **TP – 2014 Transitional Regs** **A – Administration Regs** **B – Benefit Regs** **L– 1997 Regs** **T – Transitional Regs**	**Description of discretion**	**Lincolnshire Pension Fund Policy**	**Decision Maker:**
R4(2)(b) Admission Body agreements	Whether to agree to an admission agreement with a Care Trust, NHS Scheme employing authority or care Quality Commission	This decision will be made on a case by case basis, with the decision made in the best interests of the Pension Fund.	Executive Director - Resources/Assistant Director – Finance/Head of Pensions (LGPS)
R5(5) & **R**Sch2, Part 3, para 1 Admission Body agreements	Whether to agree to an admission agreement with a body applying to be an admission body	This decision will be made on a case by case basis, with the decision made in the best interests of the Pension Fund.	Executive Director - Resources/Assistant Director – Finance/Head of Pensions (LGPS)
RSch 2,Part 3, para 9(d) Admission Body agreements	Whether to terminate a transferee admission agreement in the event of • insolvency, winding up or liquidation of the body • breach by that body of its obligations under the admission agreement failure by that body to pay over sums due to the Fund within a reasonable period of being requested to do so	This decision will be made on a case by case basis, with the decision made in the best interests of the Pension Fund.	Executive Director - Resources/Assistant Director – Finance/Head of Pensions (LGPS)

Regulation No- **R – 2013 Regs** **TP – 2014 Transitional Regs** **A – Administration Regs** **B – Benefit Regs** **L– 1997 Regs** **T – Transitional Regs**	**Description of discretion**	**Lincolnshire Pension Fund Policy**	**Decision Maker:**
RSch 2, Part 3, para 12(a) Admission Body agreements	Define what is meant by "employed in connection with".	Where the majority of an employee's duties relate to a particular service defined in the contract between the ceding employer and the admitted body.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
R16(1) Additional pension contributions	Whether to turn down a request to pay an APC/SCAPC over a period of time where it would be impractical to allow such a request (e.g. where the sum being paid is very small and could be paid as a single payment)	APC's will be accepted where the minimum monthly contribution is at least £10.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
R16(10) Proof of good health	Whether to require a satisfactory medical before agreeing to an application to pay an APC / SCAPC Whether to turn down an application to pay an APC / SCAPC if not satisfied that the member is in reasonably good health	Any scheme member wishing to pay additional pension contributions will need completion of a GP declaration, unless it is to cover lost pension due to absence of up to 36 months or they have already reached their state retirement age.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
TP15(1)(b) & **A**28(2) Charging for estimates	Whether to charge member for provision of estimate of additional pension that would be provided by the Scheme in return for transfer of in house AVC/SCAVC funds (where AVC/SCAVC arrangement was entered into before 1/4/2014)	No charge will normally be made for enquiries.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)

Regulation No- **R – 2013 Regs** **TP – 2014 Transitional Regs** **A – Administration Regs** **B – Benefit Regs** **L– 1997 Regs** **T – Transitional Regs**	**Description of discretion**	**Lincolnshire Pension Fund Policy**	**Decision Maker:**
R17(12) Additional voluntary contributions	Decide to whom any AVC/SCAVC monies (including life assurance monies) are to be paid on death of the member	Where it is clear, having taken account of all the circumstances: • payment would normally be in accordance with expression of wish, or • payment would be in accordance with the Will or Grant of Probate / Letters of Administration, via the estate. Where there is any doubt, legal advice will be taken.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
R22(3)(c)	Pension accounts may be kept in such form as is considered appropriate	Pension accounts will be kept in accordance with the Pensions Administration system.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
TP10(9)	Decide, in the absence of an election from the member within 12 months of ceasing a concurrent employment, which ongoing employment benefits from the concurrent employment which has ceased should be aggregated (where there is more than one ongoing employment)	This decision will be made on a case by case basis, with the decision made in the best interests of the member.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)

Regulation No- R – 2013 Regs TP – 2014 Transitional Regs A – Administration Regs B – Benefit Regs L– 1997 Regs T – Transitional Regs	Description of discretion	Lincolnshire Pension Fund Policy	Decision Maker:
R30(8) Orphan members	Whether to waive, in whole or in part, actuarial reduction on benefits paid on flexible retirement	This decision will be made on a case by case basis.	Executive Director - Resources/Assistant Director - Finance
R30(8) Orphan members	Whether to waive, in whole or in part, actuarial reduction on benefits which a member voluntarily draws before normal pension age	This decision will be made on a case by case basis.	Executive Director - Resources/Assistant Director - Finance
R68(2) Employer payments	Whether to require any strain on Fund costs to be paid "up front" by employing authority following payment of benefits under **R**30(6) (flexible retirement), **R**30(7) (redundancy / business efficiency), or the waiver (in whole or in part) under **R**30(8)that would otherwise have been applied to benefits which a member voluntarily draws before normal pension age or to benefits drawn on flexible retirement	The administering authority will recharge all strain on the Fund costs in accordance with the Rates and Adjustment Certificate and guidance produced by the Fund Actuary. Invoices will be raised when benefits are released. In special circumstances, payments may be made over three or five years at the request of the employer and with the agreement of the Pension Fund.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
TPsch 2, paras1(2) and 2(2) Orphan members	Whether to "switch on" the 85 year rule for a member voluntarily drawing benefit on or after age 55 and before age 60	This decision will be made on a case by case basis.	Executive Director - Resources/Assistant Director - Finance
TP3(1), **TP**Sch 2, paras 2(1) and 2(2). **B**30(5) and **B**30A(5) Orphan members	Whether to waive any actuarial reduction on pre and/or post April 2014 benefits	This decision will be made on a case by case basis.	Executive Director - Resources/Assistant Director - Finance

Regulation No- **R – 2013 Regs** **TP – 2014 Transitional Regs** **A – Administration Regs** **B – Benefit Regs** **L– 1997 Regs** **T – Transitional Regs**	**Description of discretion**	**Lincolnshire Pension Fund Policy**	**Decision Maker:**
TPSch 2, para 2(3) Employer payments	Whether to require any strain on Fund costs to be paid "up front" by employing authority following flexible retirement under **R**30(6), or waiver of actuarial reduction under TPSch 2, para 2(1) or release of benefits before age 60 under B30 of B30A	The administering authority will recharge all strain on the Fund costs in accordance with the Rates and Adjustment Certificate and guidance produced by the Fund Actuary. Invoices will be raised when benefits are released. In special circumstances, payments may be made over three or five years at the request of the employer and with the agreement of the Pension Fund.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
R32(7) Notice period	Whether to extend the time limits within which a member must give notice of the wish to draw benefits before normal pension age or upon flexible retirement	Not to extend the three month notice currently required.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
B34(1) Pension commutation	Decide whether to commute small pension	Members and beneficiaries who meet the criteria for trivial commutation will be offered commutation as an option.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)

Regulation No- **R – 2013 Regs** **TP – 2014 Transitional Regs** **A – Administration Regs** **B – Benefit Regs** **L– 1997 Regs** **T – Transitional Regs**	**Description of discretion**	**Lincolnshire Pension Fund Policy**	**Decision Maker:**
A36(3) Approved medical advisors for ill health retirements	Approve medical advisors used by employers (for ill health benefits)	To determine in advance of a referral whether an employer can use an alternative Occupational Health Provider to Lincolnshire County Council's own provider, and where approval is granted whether it is reasonable to use the practitioner proposed as the Independent Registered Medical Practitioner (IRMP) for pension purposes.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
TP12(6) Orphan members	Whether to use a certificate produced by an IRMP under the 2008 Scheme for the purposes of making an ill health determination under the 2014 Scheme	Use of a certificate produced by an IRMP under the 2008 scheme will be allowed for a period of nine months from 1 April 2014.	Executive Director - Resources/Assistant Director - Finance
R38(3) Orphan members	Decide whether deferred beneficiary meets criteria of being permanently incapable of former job because of ill health and is unlikely to be capable of undertaking gainful employment before normal pension age or for at least three years, whichever is the sooner.	This decision will be made on a case by case basis.	Executive Director - Resources/Assistant Director - Finance
R38(6) Orphan members	Decide whether a suspended ill health tier 3 member is unlikely to be capable of undertaking gainful employment before normal pension age because of ill health	This decision will be made on a case by case basis.	Executive Director - Resources/Assistant Director - Finance

Regulation No- R – 2013 Regs TP – 2014 Transitional Regs A – Administration Regs B – Benefit Regs L– 1997 Regs T – Transitional Regs	Description of discretion	Lincolnshire Pension Fund Policy	Decision Maker:
TP17(5) to (8) & **R**40(2), **R**43(2) & **R**46(2) Death grants	Decide to whom death grant is paid	Where it is clear, having taken account of all the circumstances: • payment would normally be in accordance with expression of wish, or • payment would be in accordance with the Will or Grant of Probate / Letters of Administration, via the estate. Where there is any doubt, legal advice will be taken.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
R49(1)(c) Double entitlement	Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership	This decision will be made on a case by case basis.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
R54(1) Separate admission agreement fund	Whether to set up a separate admission agreement fund	Separate admission agreement funds will not be set up as normal practice. Any such decision would need to be agreed by the Retained by Pensions Committee taking into consideration guidance from the Fund Actuary.	Retained by Pensions Committee

Regulation No- R – 2013 Regs TP – 2014 Transitional Regs A – Administration Regs B – Benefit Regs L– 1997 Regs T – Transitional Regs	Description of discretion	Lincolnshire Pension Fund Policy	Decision Maker:
R55 Governance and governance compliance	Governance policy must state whether the admin authority delegates their function or part of their function in relation to maintaining a pension fund to a committee, a sub-committee or an officer of the admin authority and, if they do so delegate, state • the frequency of any committee or sub-committee meetings • the terms of reference, structure and operational procedures appertaining to the delegation • whether representatives of employing authorities or members are included and, if so, whether they have voting rights The policy must also state • the extent to which a delegation, or the absence of a delegation, complies with Sec of State guidance and, to the extent it does not comply, state the reasons for not complying and the terms, structure and operation procedures appertaining to the local Pension Board	A Governance Policy Statement and Governance Compliance Statement is agreed by the Retained by Pensions Committee and published on the Pension Fund website.	Retained by Pensions Committee

Regulation No- **R – 2013 Regs** **TP – 2014 Transitional Regs** **A – Administration Regs** **B – Benefit Regs** **L– 1997 Regs** **T – Transitional Regs**	**Description of discretion**	**Lincolnshire Pension Fund Policy**	**Decision Maker:**
R58 Funding Strategy	Decide on Funding Strategy for inclusion in Funding Strategy Statement	A Funding Strategy Statement is agreed by the Retained by Pensions Committee and published on the Pension Fund website.	Retained by Pensions Committee
R59(1) & (2) Pensions Administration Strategy	Whether to have a written pensions administration strategy and, if so, the matters it should include	The Fund will have a Pension Administration Strategy which will be reviewed on a regular basis.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
R61 Communication policy	Communication policy must set out the policy on provision of information and publicity to, and communicating with members, representatives of members, prospective members and Scheme employers: the format, frequency and method of communication; and the promotion of the Scheme to prospective members and their employers.	A Communication Policy is agreed by the Retained by Pensions Committee and published on the Pension Fund website.	Retained by Pensions Committee
R64(4) Revised Rates and Adjustment Certificates	Whether to obtain revision of employer's contribution rate if there are circumstances which make it likely a Scheme employer will become an exiting employer	This decision will be made on a case by case basis, with the decision made in the best interests of the Pension Fund.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS) and agreed with Fund Actuary

Regulation No- **R – 2013 Regs** **TP – 2014 Transitional Regs** **A – Administration Regs** **B – Benefit Regs** **L– 1997 Regs** **T – Transitional Regs**	**Description of discretion**	**Lincolnshire Pension Fund Policy**	**Decision Maker:**
R65 Revised Rates and Adjustment Certificates	Decide whether to obtain a new rates and adjustments certificate if the Secretary of State amends the Benefit Regulations as part of the "cost sharing" under **R**63	This decision will be made on a case by case basis, with the decision made in the best interests of the Pension Fund.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS) and agreed with Fund Actuary
R69(1) Employer payments	Decide frequency of payments to be made over to Fund by employers and whether to make an admin charge	Payments must be made in accordance with Pensions Act (made monthly by 19th of the month following payroll). Any administration charge will be in accordance with the Fund's Administration Strategy.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
R69(4) Employer payments	Decide form and frequency of information to accompany payments to the Fund	Information must be provided on the same timescale as the payment.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
R70 & **TP**22(2) Employer payments	Whether to issue employer with notice to recover additional costs incurred as a result of the employer's level of performance	As set out in the Administration Strategy.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)

Regulation No- **R – 2013 Regs** **TP – 2014 Transitional Regs** **A – Administration Regs** **B – Benefit Regs** **L– 1997 Regs** **T – Transitional Regs**	**Description of discretion**	**Lincolnshire Pension Fund Policy**	**Decision Maker:**
R71(1) Employer payments	Whether to charge interest on payments by employers which are overdue	As set out in the Administration Strategy.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
R76(4) Stage 2 IDRP	Decide procedure to be followed by administering authority when exercising its stage 2 IDRP functions and decide the manner in which those functions are to be exercised	A stage 2 referee will be appointed by the Fund.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
R79(2) Appeals against employer decisions	Whether administering authority should appeal against employer decision (or lack of decision)	This decision will be made on a case by case basis, with the decision made in the best interests of the Pension Fund.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
R80(1)(b) & **TP**22(1) Provision of Information by Employers	Specify information to be supplied by employers to enable administering authority to discharge its functions	General information requirements will be contained within the Administration Strategy and additional requirements will be specified as needed.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)

Regulation No- **R – 2013 Regs** **TP – 2014 Transitional Regs** **A – Administration Regs** **B – Benefit Regs** **L– 1997 Regs** **T – Transitional Regs**	**Description of discretion**	**Lincolnshire Pension Fund Policy**	**Decision Maker:**
R82(2) Benefits due in respect of deceased persons	Whether to pay death grant due to personal representatives or anyone appearing to be beneficially entitled to the estate without need for grant of probate / letters of administration where payment is less than amount specified in s6 of the Administration of Estates (Small Payments) Act 1965	Where the total of the sums payable falls below £5,000, sight of grant of probate or letters of administration is not required for payment. Generally amounts over £5,000 will require sight of grant of probate or letters of administration. The decision as to the beneficiary is made on a case by case basis.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
R83 Member unable to deal with their own affairs	Whether, where a person (other than an eligible child) is incapable of managing their affairs, to pay the whole or part of the person's pension benefits to another person for their benefit	This decision will be made on a case by case basis, with the decision made in the best interests of the member.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
R89(5) Annual Benefit Statement	Date to which benefits shown on annual benefit statement are calculated	Date used is 31 March each year	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
R98(1)(b) Bulk Transfer	Agree to bulk transfer payment	This decision will be made on a case by case basis, with the decision made in the best interests of the Pension Fund.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS) and agreed with Fund Actuary

Regulation No- **R – 2013 Regs** **TP – 2014 Transitional Regs** **A – Administration Regs** **B – Benefit Regs** **L– 1997 Regs** **T – Transitional Regs**	**Description of discretion**	**Lincolnshire Pension Fund Policy**	**Decision Maker:**
R100(68) Transfer of Pension Rights	Extend normal time limit for acceptance of restitution transfer value beyond 12 months from joining the LGPS	This decision will be made on a case by case basis, with the decision made in the best interests of the Pension Fund.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
R100(7) Transfer of Pension Rights	Allow transfer of pension rights into the Fund	Transfers into the Fund will be permitted.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
TP3(6), **TP**4(6)(c), **TP**8(4), **TP**10(2)(a), **TP**17(2)(b) & **B**10(2) Final Pay	Where member to whom **B**10 applies (use of average of 3 years pay for final pay purposes) dies before making an election, whether to make that election on behalf of the deceased member	This decision will be made on a case by case basis, but the pay figure that will provide the greatest benefit would normally be used.'	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
TP3(6), **TP**4(6)(c), **TP**8(4), **TP**10(2)(a), **TP**17(2)(b) & TSch 1 & **L**23(9) Certificates of Protection	Make election on behalf of deceased member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts/restrictions occurring pre 1.4.08)	This decision will be made on a case by case basis, but the most advantageous final pay period for the member would normally be used.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
RSch 1 & **TP**17(9) Child in education	Decide to treat child as being in continuous education or vocational training despite a break	Pension will be suspended during any break in continuous education and consideration given to restarting once education is resumed.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)

Regulation No- **R – 2013 Regs** **TP – 2014 Transitional Regs** **A – Administration Regs** **B – Benefit Regs** **L– 1997 Regs** **T – Transitional Regs**	**Description of discretion**	**Lincolnshire Pension Fund Policy**	**Decision Maker:**
RSch 1 & **TP**17(9)(b) Meaning of 'Co-habiting Partner'	Decide evidence required to determine financial dependence of co-habiting partner on scheme member or financial interdependence of co-habiting partner and scheme member	What evidence the cohabiting partner will be asked to provide by the way of appropriate documents and paperwork to prove either dependency or interdependency will be decided on a case by case basis, taking account of the LGPS regulatory requirements.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
TP3(13) & **A**70(1) & **A**71(4(c) Abatement	Decide policy on abatement of pre 1 April 2014 elements of pensions in payment following re-employment	Abatement may only apply to cases where the original retirement attracted an added years' enhancement. Individual cases will be reviewed at the time of second retirement. The maximum abatement will be the value of the enhanced pension.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
TP15(1)(c) & **T**Sch1 & **L**83(5) Added years contributions	Extend time period for capitalisation of added years contract	This decision will be made on a case by case basis, with the decision made in the best interests of the Pension Fund.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)

Discretions under the Local Government Pension Scheme Regulations 2008 (as amended) in relation to post 1.4.08 and pre 1.4.2014 scheme leavers

Regulation No- **A – Administration Regs** **B – Benefit Regs** **L– 1997 Regs** **T – Transitional Regs**	**Description of discretion**	**Lincolnshire Pension Fund Policy**	**Decision Maker:**
A28(2) Charging for estimates	Whether to charge member for provision of estimate of additional pension that would be provided by the Scheme in return for transfer of in house AVC/SCAVC funds	No charge will normally be made for enquiries.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
TSch1 & **L**83(5) Added years contributions	Extend time period for capitalisation of added years contract	This decision will be made on a case by case basis, with the decision made in the best interests of the Pension Fund.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
A45(3) Member deductions	Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits	Each case will be considered on its own merits to seek to either recover from scheme benefits or invoice for the amount outstanding as appropriate	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
A52(2) Benefits due in respect of deceased persons	Can pay balance of pension or other benefits that were due to a deceased person to personal representatives or anyone appearing to be beneficially entitled to the estate without need for grant of probate / letters of administration	Where the total of the sums payable falls below £5,000, sight of grant of probate or letters of administration is not required for payment. Generally amounts over £5,000 will require sight of grant of probate or letters of administration. The decision as to the beneficiary is made on a case by case basis.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)

Regulation No- **A – Administration Regs** **B – Benefit Regs** **L– 1997 Regs** **T – Transitional Regs**	Description of discretion	Lincolnshire Pension Fund Policy	Decision Maker:
A56(2) Approved medical advisors for ill health retirements	Approve medical advisors used by employers (for early payment, on grounds of ill health, of a deferred benefit or a suspended Tier 3 ill health pension)	To determine in advance of a referral whether an employer can use an alternative Occupational Health Provider to Lincolnshire County Council's own provider, and where approval is granted whether it is reasonable to use the practitioner proposed as the Independent Registered Medical Practitioner (IRMP) for pension purposes.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
A60(8) Stage 2 IDRP	Decide procedure to be followed by administering authority when exercising its stage 2 IDRP functions and decide the manner in which those functions are to be exercised	A stage 2 referee will be appointed by the Fund.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
A63(2) Appeals against employer decisions	Whether administering authority should appeal against employer decision (or lack of decision)	This decision will be made on a case by case basis, with the decision made in the best interests of the Pension Fund.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
A64(1)(b) Provision of Information by Employers	Specify information to be supplied by employers to enable administering authority to discharge its functions	General information requirements will be contained within the Administration Strategy and additional requirements will be specified as needed.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)

Regulation No- **A – Administration Regs** **B – Benefit Regs** **L– 1997 Regs** **T – Transitional Regs**	**Description of discretion**	**Lincolnshire Pension Fund Policy**	**Decision Maker:**
TP3(13) & **A**70(1) & **A**71(4(c) & **T**12 Abatement	Decide policy on abatement of pensions following re-employment	Abatement may only apply to cases where the original retirement attracted an added years' enhancement. Individual cases will be reviewed at the time of second retirement. The maximum abatement will be the value of the enhanced pension.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
B10(2) Final Pay	Where member to whom **B**10 applies (use of average of 3 years pay for final pay purposes) dies before making an election, whether to make that election on behalf of the deceased member	This decision will be made on a case by case basis, but the pay figure that will provide the greatest benefit would normally be used.'	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
B27(5) Children's pensions	Whether to pay the whole or part of a child's pension to another person for the benefit of the child	This decision will be made on a case by case basis, with the decision made in the best interests of the member.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
A52A Member unable to deal with their own affairs	Whether, where a person (other than an eligible child) is incapable of managing their affairs, to pay the whole or part of the person's pension benefits to another person for their benefit	This decision will be made on a case by case basis, with the decision made in the best interests of the member.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
B30(2) Orphan members	Decide whether to grant early release of deferred benefits on or after age 55 and before age 60	This decision will be made on a case by case basis.	Executive Director - Resources/Assistant Director - Finance
B30(5) Orphan members	Whether to waive, on compassionate grounds, the actuarial reduction applied to deferred benefits paid early under **B**30	This decision will be made on a case by case basis.	Executive Director - Resources/Assistant Director - Finance

Regulation No- **A – Administration Regs** **B – Benefit Regs** **L– 1997 Regs** **T – Transitional Regs**	Description of discretion	Lincolnshire Pension Fund Policy	Decision Maker:
B30A(3) Orphan members	Whether to grant an application for early payment of a suspended tier 3 ill health pension on or after age 55 and before age 60	This decision will be made on a case by case basis.	Executive Director - Resources/Assistant Director - Finance
B30A(5) Orphan members	Whether to waive, on compassionate grounds, the actuarial reduction applied to benefits paid under **B**30A	This decision will be made on a case by case basis.	Executive Director - Resources/Assistant Director - Finance
B31(4) Orphan members	Decide whether deferred beneficiary meets permanent ill health and reduced likelihood of gainful employment criteria	This decision will be made on a case by case basis.	Executive Director - Resources/Assistant Director - Finance
B31(7) Orphan members	Decide whether a suspended ill health tier 3 member is permanently incapable of undertaking any gainful employment	This decision will be made on a case by case basis.	Executive Director - Resources/Assistant Director - Finance
B23(2) & **B**32(2) & **B**35(2) & **T**Sch1 & **L**155(4) Death Grants	Decide to whom death grant is paid	Where it is clear, having taken account of all the circumstances: • payment would normally be in accordance with expression of wish, or • payment would be in accordance with the Will or Grant of Probate / Letters of Administration, via the estate. Where there is any doubt, legal advice will be taken.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)

Regulation No- **A – Administration Regs** **B – Benefit Regs** **L– 1997 Regs** **T – Transitional Regs**	**Description of discretion**	**Lincolnshire Pension Fund Policy**	**Decision Maker:**
B25 Meaning of 'Nominated Co-habitee	Decide evidence required to determine financial dependence of nominated co-habitee of scheme member or financial interdependence of nominated co-habitee and scheme member	What evidence the cohabiting partner will be asked to provide by the way of appropriate documents and paperwork to prove either dependency or interdependency will be decided on a case by case basis, taking account of the LGPS regulatory requirements.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
RSch 1 & **TP**17(9) Child in education	Decide to treat child as being in continuous education or vocational training despite a break	Pension will be suspended during any break in continuous education and consideration given to restarting once education is resumed.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
B39 & **T**14(3) Pension commutation	Decide whether to commute small pension	Members and beneficiaries who meet the criteria for trivial commutation will be offered commutation as an option. This discretion will be reviewed if in future LGPS regulations are amended to allow the '£2k rule' (which is a wider provision permitted by HMRC legislation).	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
B42(1)(c) Double entitlement	Decide, in the absence of an election from the member, which benefit is to be paid where the member would be entitled to a benefit under 2 or more regulations in respect of the same period of Scheme membership	This decision will be made on a case by case basis.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)

Regulation No- **A – Administration Regs** **B – Benefit Regs** **L– 1997 Regs** **T – Transitional Regs**	**Description of discretion**	**Lincolnshire Pension Fund Policy**	**Decision Maker:**
TSch 1 & **L**23(9) Certificates of Protection	Make election on behalf of deceased member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts/restrictions occurring pre 1.4.08)	This decision will be made on a case by case basis, but the most advantageous final pay period for the member would normally be used.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)

Discretions under the Local Government Pension Scheme Regulations 1997 (as amended) in relation to pre 1.4.08 scheme leavers

Regulation No-	Description of discretion	Lincolnshire Pension Fund Policy	Decision Maker:
12(5) Councillor payments	Frequency of payment of councillors' contributions	Payments must be made in accordance with Pensions Act (made monthly by 19th of the month following payroll).	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
17(4),(7),(8), & 89(4) & Sch 1 Reserve forces	Extend normal 12 month period following end of relevant reserve forces leave for "Cancelling notice" to be submitted by a councillor member requesting that the service should not be treated as relevant reserve forces service	This decision will be made on a case by case basis, with the decision made in the best interests of the Pension Fund.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
22(7) Final pay	Select appropriate final pay period for deceased non-councillor member (leavers post 31.3.98. / pre 1.4.08.)	This decision will be made on a case by case basis, but the pay figure that will provide the greatest benefit would normally be used.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
23(9) Certificates of protection	Make election on behalf of deceased non-councillor member with a certificate of protection of pension benefits i.e. determine best pay figure to use in the benefit calculations (pay cuts / restrictions occurring pre 1.4.08.)	This decision will be made on a case by case basis, but the pay figure that will provide the greatest benefit would normally be used.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
38(1) & 155(4) Death grants	Decide to whom death grant is paid in respect of councillor members and post 31.3.98. / pre 1.4.08. leavers	Where it is clear, having taken account of all the circumstances: • payment would normally be in accordance with expression of wish, or	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)

Regulation No-	Description of discretion	Lincolnshire Pension Fund Policy	Decision Maker:
		• payment would be in accordance with the Will or Grant of Probate / Letters of Administration, via the estate. Where there is any doubt, legal advice will be taken.	
Reg 17(9) of the LGPS (Transitional Provisions and Savings) Regs 2014 and definition in Sch 1 of the LGPS Regulations 2013 Child in education	Decide to treat child as being in continuous education or vocational training despite a break (children of councillor members and children of post 31.3.98. / pre 1.4.08. leavers)	Pension will be suspended during any break in continuous education and consideration given to restarting once education is resumed.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
47(1) Children's pensions	Apportionment of children's pension amongst eligible children (children of councillor members and children of post 31.3.98. / pre 1.4.08. leavers)	This decision will be made on a case by case basis.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
47(2) Children's pensions	Pay child's pension to another person for the benefit of the child (children of councillor members and children of post 31.3.98. / pre 1.4.08. leavers)	This decision will be made on a case by case basis, with the decision made in the best interests of the child.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
49 & 156 Pension commutation	Agree to commutation of small pension (pre 1.4.08. leavers or pre 1.4.08. Pension Credit members)	Members and beneficiaries who meet the criteria for trivial commutation will be offered commutation as an option. This discretion will be reviewed if in future LGPS regulations are amended to allow the '£2k rule' (which is a wider provision permitted by HMRC legislation).	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)

Regulation No-	Description of discretion	Lincolnshire Pension Fund Policy	Decision Maker:
50 and 157	Commute benefits due to exceptional ill-health (councillor members, pre 1.4.08. leavers and pre 1.4.08. Pension Credit members)	This decision will be made on a case by case basis.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
60(5)	Whether acceptance of AVC election is subject to a minimum payment (councillors only)	We accept application from councillors but any minimum payment would be set by AVC provider	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
80(5) Employer payments	Whether to require any strain on Fund costs to be paid “up front” by employing authority following early voluntary retirement of a councillor (i.e. after age 50/55 and before age 60), or early payment of a deferred benefit on health grounds or from age 50 with employer consent (pre 1.4.08. leavers).	The administering authority will recharge all strain on the Fund costs in accordance with the Rates and Adjustment Certificate and guidance produced by the Fund Actuary. Invoices will be raised when benefits are released. In special circumstances, payments may be made over three or five years at the request of the employer and with the agreement of the Pension Fund.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
81(1) Employer payments	Frequency of employer’s payments to the fund (in respect of councillor members).	Payments must be made in accordance with Pensions Act (made monthly by 19th of the month following payroll).	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
81(5) Employer payments	Form and frequency of information to accompany payments to the Fund (in respect of councillor members)	Information must be provided on the same timescale as the payment.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)

Regulation No-	Description of discretion	Lincolnshire Pension Fund Policy	Decision Maker:
82(1) Employer payments	Interest on payments by employers overdue by more than 1 month (in respect of councillor members)	As set out in the Administration Strategy.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
89(3) Member deductions	Outstanding employee contributions can be recovered as a simple debt or by deduction from benefits (councillors and pre 1.4.08. leavers)	Each case will be considered on its own merits to seek to either recover from scheme benefits or invoice for the amount outstanding as appropriate.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
91(6) Pensions Increase	Timing of pension increase payments by employers to fund (pre 1.4.08. leavers)	Invoices will be raised on a basis agreed with the employer.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
95 Benefits due in respect of deceased persons	Pay death grant due to personal representatives without need for grant of probate / letters of administration (death of councillor or pre 1.4.08. leaver)	Where the total of the sums payable falls below £5,000, sight of grant of probate or letters of administration is not required for payment. The decision as to the beneficiary is made on a case by case basis.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
97(10) Approved medical advisors for ill health retirements	Approve medical advisors used by employers (re ill health benefits for councillors and re pre 1.4.08. preserved benefits payable on health grounds)	To determine in advance of a referral whether an employer can use an alternative Occupational Health Provider to Lincolnshire County Council's own provider, and where approval is granted whether it is reasonable to use the practitioner proposed as the Independent Registered Medical Practitioner (IRMP) for pension purposes.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
99 IDRP	Decide procedure to be followed by admin authority when exercising its IDRP functions and decide the	A stage 2 referee will be appointed by the Fund.	Executive Director - Resources/Assistant

Regulation No-	Description of discretion	Lincolnshire Pension Fund Policy	Decision Maker:
	manner in which those functions are to be exercised (councillors and pre 1.4.08. leavers)		Director - Finance/Head of Pensions (LGPS)
105(1) Appeals against employer decisions	Appeal against employer decision, or lack of a decision (councillors and pre 1.4.08. leavers)	This decision will be made on a case by case basis, with the decision made in the best interests of the Pension Fund.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
106A(5) Deferred benefit statements	Date to which benefits shown on annual deferred benefit statement are calculated	Date used is 31 March each year	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
109 & 110(4)(b) Abatement	Abatement of pensions following re-employment (councillors + pre 1.4.08. leavers)	Abatement will only apply to cases where the original retirement attracted an added years enhancement and the betterment rule is then breached when new earnings are combined with statutory and enhanced pension elements. The maximum abatement will be the value of the enhanced pension.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
118	Retention of CEP where member transfers out (councillors and pre 1.4.08. leavers)	Transfers will normally be fully paid and protected rights will not normally remain in the fund.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
147	Discharge Pension Credit liability (in respect of Pension Sharing Orders for councillors and pre 1.4.08. Pension Sharing Orders for non-councillor members)	This decision will be made on a case by case basis, taking consideration of the national LGPS guidance issued by LGE.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)

Discretions under the Local Government Pension Scheme Regulations 1995 (as amended) in relation to pre 1.4.98. scheme leavers

Regulation No-	Description of discretion	Lincolnshire Pension Fund Policy	Decision Maker:
E8	Decide to whom death grant is paid in respect of pre 1.4.98. leavers	Where it is clear, having taken account of all the circumstances: • payment would normally be in accordance with expression of wish, or • payment would be in accordance with the Will or Grant of Probate / Letters of Administration, via the estate. Where there is any doubt, legal advice will be taken.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
F7	Whether to pay spouse's pensions for life for pre 1.4.98 retirees / pre 1.4.98 deferreds who die on or after 1.4.98 (rather than ceasing during any period of remarriage or co-habitation)	Spouse's pensions will continue to be paid for life.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
Reg 17(9) of the LGPS (Transitional Provisions and Savings) Regs 2014 and definition in Sch 1 of the LGPS Regulations 2013	Decide to treat child as being in continuous education or vocational training despite a break (children of pre 1.4.98. retirees / pre 1.4.98 deferreds)	Pension will be suspended during any break in continuous education and consideration given to restarting once education is resumed.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)
G11(1)	Apportionment of children's pension amongst eligible children (children of pre 1.4.98. retirees / pre 1.4.98 deferreds)	This decision will be made on a case by case basis, with the decision made in the best interests of the children.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)

Regulation No-	Description of discretion	Lincolnshire Pension Fund Policy	Decision Maker:
G11(2)	Pay child's pension to another person for the benefit of the child (children of pre 1.4.98. retirees / pre 1.4.98 deferreds)	This decision will be made on a case by case basis, with the decision made in the best interests of the child.	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)

Discretions under the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (as amended)

Regulation No-	Description of discretion	Lincolnshire Pension Fund Policy	Decision Maker:
31(2)	Agree to pay annual compensation on behalf of employer and recharge payments to employer	Agreed. Recharges will normally be raised monthly,	Executive Director - Resources/Assistant Director - Finance/Head of Pensions (LGPS)

Appendix C

LINCOLNSHIRE PENSION FUND – ADMINISTERING AUTHORITY INVESTMENT DELEGATIONS

Delegations approved by the Pensions Committee on xxxxx on behalf of the administering authority

Description of decision	Lincolnshire Pension Fund Policy	Decision Maker:
Setting the strategic investment strategy and asset allocation for the Fund	Professional advice will be provided by the Investment Consultant and officers	Retained by Pensions Committee
Agreeing the implementation vehicles for the strategic asset allocation	Professional advice will be provided by the Investment Consultant and officers. It is the Fund’s expectation that the default implementation will be through Border to Coast.	Retained by Pensions Committee
Agreeing the timing of the implementation of the investment strategy.	Professional advice will be provided by the Investment Consultant and officers. Market movements and expectations will be considered in setting an expected timetable for major allocation changes, with progress reported to the Committee at regular intervals as appropriate.	Head of Pensions (LGPS)
Making new investments in the Fund	Professional advice will be provided by the Investment Consultant and officers. It is the Fund’s expectation that the default for new investment will be into Border to Coast vehicles, however where suitable options are not available other managers may be considered, following appropriate due diligence.	Decision in principle by Pensions Committee Sign off by Executive Director of Resources
Increasing allocations to existing investment managers/vehicles	Considered when opportunities arise, officers will work with the Investment Consultant to recommend following appropriate due diligence.	Executive Director of Resources

Description of decision	Lincolnshire Pension Fund Policy	Decision Maker:
Rebalancing decisions back to the strategic benchmark	Looked at monthly and decision made whether any assets classes/mandates need rebalancing to bring them within tolerance with the strategic benchmark position. Where tolerances are breached this is reported monthly and quarterly to the Committee.	Head of Pensions (LGPS)
Selecting appropriate class of investment unit in pooled vehicles	Based on cashflow requirements, decision on whether accumulation units or income units are appropriate for an investment in pooled vehicles, where options are offered.	Head of Pensions (LGPS)
Entering into class actions or shareholder actions	Professional advice provided by appointed advisor and decision made in the interests of the Fund as to whether to sign up to the action.	Head of Pensions (LGPS)

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

Report to:	**Pensions Committee**
Date:	**01 December 2022**
Subject:	**Border to Coast Responsible Investment Policy, Corporate Governance and Voting Guidelines and Climate Change Policy Annual Review**

Summary:

Border to Coast Pensions Partnership (Border to Coast) review their Responsible Investment (RI) Policy, Corporate Governance and Voting Guidelines and Climate Change 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, Corporate Governance and Voting Guidelines and Climate Change Policy;
2. Agrees to align the Lincolnshire RI Policy and Voting Guidelines to Border to Coast's; and
3. Agree to consider the need for a Fund Climate Change Policy as part of wider net zero commitment considerations.

Background

1.1 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, accompanying Corporate Governance and Voting Guidelines, and a specific Climate Change Policy to ensure clarity of approach.

1.2 Following the creation of the original policies in 2017, the Committee approved the recommendation to create a Lincolnshire Pension Fund RI Policy, and Corporate Governance & 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 are attached at appendix A and B.

1.3 The first standalone Climate Change Policy was developed last year and published with effect from 1 October 2021. The annual review of the Climate Change Policy is being aligned with that of the other Responsible Investment policies from this year. The proposed revised Border to Coast Climate Change Policy is attached at appendix C.

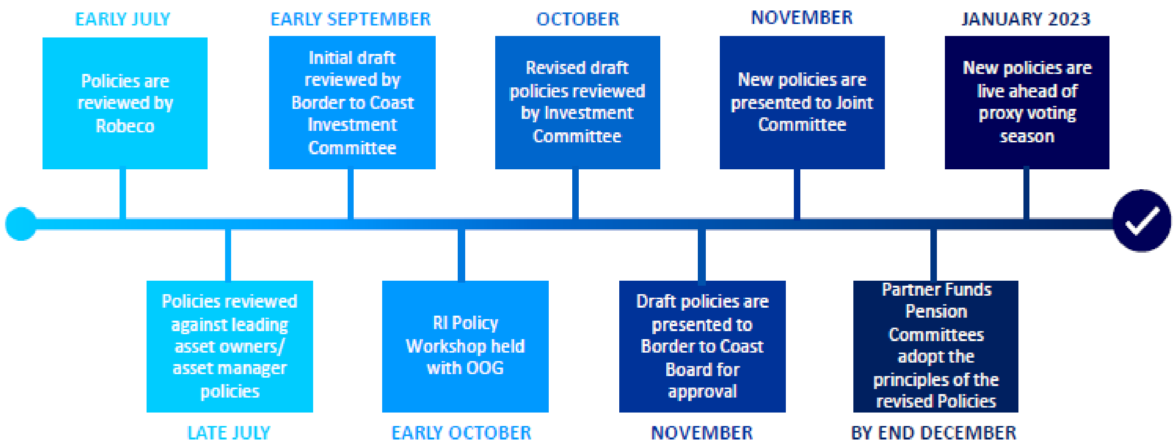
1.4 Following the review of the Committee's Investment Beliefs during 2022 it is recommended that the Committee consider the need for a Fund Climate Change Policy as part of wider net zero commitment considerations.

1.5 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.

2.0 Border to Coast's Review Process

2.1 Border to Coast review the RI Policy, Corporate Governance & Voting Guidelines and Climate Change Policy annually, or when material changes need to be made. The annual review process commenced in July to ensure any revisions are in place ahead of the 2023 proxy voting season.

2.2 The review timeline is set out below:



2.3 Current policies were evaluated by Robeco, Border to Coast's voting and engagement provider, considering the global context and shift in best practice. This included consideration of the recently revised International Corporate Governance Network (ICGN) Global Governance Principles, the UK Corporate Governance Code and the UK Stewardship Code.

2.4 The policies of best-in-class asset managers and asset owners, considered to be RI leaders, were also consulted to determine developments across the industry. Investment Association Shareholder Priorities for 2022 have also been taken into account.

2.5 As part of the review procedure, input is also taken from the Joint Committee and the Partner Funds, to ensure that Border to Coast can represent a strong, unified voice. A workshop was held with Partner Fund officers in October where the proposed policies were shared, and feedback was received. A briefing on the updated policies was held in November for Joint Committee members and the Joint Committee considered the draft documents at its formal meeting on 30 November 2022. All of the Partner Funds will be taking, or have taken, them to their respective Committees for their comment and approval.

3.0 Key changes to the RI Policy

3.1 This year's RI Policy review reflects work undertaken during the year, including the Net Zero commitment. The key changes include:

- Human rights – this is an area receiving increased focus from investors. To recognise the importance of this area the policy now highlights the expectation of companies and includes a reference to further detail in the Voting Guidelines. To support this social engagement theme, Border to Coast have joined an initiative led by the Principles for Responsible Investment (PRI).

- The climate change section of the RI Policy has been significantly reshaped following the publication of a standalone Climate Change Policy.

- A new section has been added to the policy on Exclusions. When considering any exclusions, analysis is conducted of the associated material financial risk of a company's business operations and whether there are any concerns about its long-term viability. This includes considering key financial risks and the likelihood of success through engagement in influencing company strategy and behaviour. This has been revisited as part of this year's review process.

  Revenue thresholds for thermal coal and oil sands have been reviewed. To demonstrate commitment to Net Zero and provide a clear signal of long-term intentions to reducing exposure to the most carbon intensive fossil fuels in investment portfolios, the proposal is to decrease the revenue threshold to >70% for investments in public markets, with a lower threshold of 25% for private markets to reflect the long-term nature of these investments. This still reflects the risk criteria used to determine the original exclusions in last year's policy. As Border to Coast support a just transition and recognise that not all countries are at the same stage in their decarbonisation journey, the implications of the thermal coal and oil sand exclusions will be assessed, and exceptions may be made if considered appropriate.

Controversial weapons were highlighted as an area to consider for exclusions last year but due to a lack of data and ability to screen portfolios effectively this was deferred. As additional screening tools are now available the analysis of cluster munition companies has been conducted across portfolios, associated benchmarks and the MSCI Universe. The proposal is to extend the exclusion policy to cover companies manufacturing cluster munition whole weapons systems and companies that manufacture components that were developed or are significantly modified for exclusive use in cluster munitions.

- Minor amendments have been made to some of the specific sections when integrating RI into investment decisions. This is due to continuing to develop and embed ESG into investment decision making, and the impact of the Net Zero commitment.

3.2. The amendments to the RI policy are detailed in the table below:

Section	**Page**	**Type of Change**	**Rationale**
1. Introduction	2	Amendment	Update on UK Stewardship Code signatory status.
1.1 Policy framework	3	Amendment	Revised diagram to include Climate Change Policy
2. What is responsible investment	3	Amendment	Insertion of 'opportunities'.
3. Governance and implementation	3	Amendment	Revision on use of term 'sustainability'.
5. Integrating RI into investment decisions	4	Amendment	Remove 'internally and externally managed'.
	4	Addition	Add 'Pay conditions' to table under social issues.
	4	Addition	New text on human rights.
5.2 Private markets	5	Addition	Reference to annual monitoring questionnaire.
5.4 Real estate	6	Amendment	Revised in line with TCFD report.
5.5 External manager selection	6	Addition	Update on climate change and net zero.

5.6 Climate change	7	Amendment	Text on exclusions cut and moved to new section.
	7	Addition	New text on just transition.
6 Stewardship	7	Amendment	Update on Stewardship Code signatory status
6.1.1 Use of proxy advisors	8	Amendment	Removal of Voting and Engagement provider name.
6.2.3 Exclusions	11 - 13	Addition	New section on exclusions.
6.3 Due diligence and monitoring procedure	13	Amendment	Removal of Voting and Engagement provider name.
8. Communication and reporting	13	Addition	Reporting on progress on implementation of Net Zero Plan.
10. Conflicts of interest	14	Addition	Includes reference to stewardship conflicts.
Appendix A	14	Addition	New section referencing third-party providers.

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

4.0 Key changes to the Corporate Governance and Voting Guidelines

4.1 The Corporate Governance and Voting Guidelines have been reviewed by Robeco considering best practice. Asset owner and asset manager voting policies and the Investment Association Shareholder Priorities for 2022 have also been used in the review process. There are several minor amendments including proposed additions and clarification of text. The key changes include:

- A new section on human rights has been included to support the addition to the RI Policy, and amendments have been made to the climate change section to continue to strengthen the Voting Guidelines in this area and to support the Net Zero commitment.

- The guidelines have been revised on when Border to Coast will vote against the Chair of a Board based on the Transition Pathway Initiative (TPI) assessment of companies, moving to level 2 for high emitting sectors, and level 3 for Oil and Gas companies. Border to Coast have also made revisions when reviewing companies failing Climate Action 100+ Net Zero Benchmark indicators and will vote against the Chair where a company fails one or more of the first four indicators.

- Banking Sector – as banks will play a pivotal role in the transition to a low carbon economy, the guidelines now set out climate-related voting intentions for the sector. Banks will be assessed using the framework developed by the Institutional Investors Group on Climate Change (IIGCC) and the TPI. Border to Coast will vote against the Chair of the Sustainability Committee, or appropriate agenda item, if a company fails the first four indicators of the framework.

4.2 The amendments to the Corporate Governance and Voting Guidelines are detailed in the table below.

Section	Page	Type of Change	Rationale
Composition and independence	3	Amendment	Remove 'large cap'.
	4	Addition	Detail on expectations of overall board tenure.
Leadership	4	Addition	Clarification on voting intention, considering market practice.
Diversity	5	Amendment	Expectations of FTSE 100 and FTSE 250 companies.
Succession planning	5	Amendment	Remove 'solely' to cover all jurisdictions.
Stakeholder engagement	6	Addition	Additional reference to key stakeholders and expectations of the board.
Long-term incentives	8	Addition	To cover standards for other markets.
Human Rights	14	Addition	New section to articulate voting approach and expectations of companies.
Climate Change	12	Amendment	Text amended to reflect changes to Climate Change Policy.
	13	Amendment	Revised thresholds for TPI and CA100+ indicators.
	13	Addition	New text regarding banks.
	13	Addition	New text on just transition.

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

5.0 Key changes to the Climate Change Policy

5.1 The Policy has been reviewed by Robeco and against asset managers and asset owners to determine developments across the industry. The original Policy highlighted areas for focus over the 12-months post publication in October 2021, the proposed policy now includes an implementation plan and milestones through to 2050. The main changes are detailed below:

- The Just Transition was not previously referenced in the Policy. This is an important area as the transition to a low carbon economy should consider all stakeholders and be inclusive whilst recognising global inequalities.

- The roadmap only covered the 12-months to September 2022, this has been replaced with the reporting and monitoring timeline included in the Net Zero Implementation Plan which provides milestone to 2050.

- The use of the Net Zero Investment Framework (NZIF) and membership of the Net Zero Asset Managers initiative (NZAM) have been added to the Policy. The scope of the assets covered and high-level wording on targets is now included. Extra detail is also included on the expectations of external managers regarding engagement, and how Border to Coast will work with them on implementing specific decarbonisation parameters for their mandates.

- Exclusions have been updated to include the recommendation to reduce the revenue threshold for thermal coal and oil sands to 70% and include a lower threshold (25%) for private markets.

- The engagement section has been updated with revised wording on how votes will be exercised in relation to companies in high emitting sectors. These are in line with the proposed revisions to the Voting Guidelines.

5.2 The amendments to the Climate Change Policy are detailed in the table below.

Section	**Page**	**Type of Change**	**Rationale**
2.1. Our views and beliefs on climate change	2	Addition	Impact of climate change on the investment universe.
2.2 Why climate change is important	3	Addition	Reference to physical and transition risk.
	4	Addition	Included text on a Just Transition.
2.4 Roadmap	6	Revision	Replace with timeline going out to 2050.
3.1 Our ambition –	7	Amendment	Reference use of NZIF and

Net zero			joining NZAM.
3.5 Regulatory change management	8	Revision	Reviewed by Head of Compliance.
4.1 How we identify climate-related risks	8	Revision	Revised in line with TCFD report.
4.2 How we assess climate-related risks and opportunities	9	Revision	Update on climate change scenario analysis.
5.1 Our approach to investing	9	Addition	Text on engagement as a key lever for reducing emissions – investee companies and fund managers (private markets).
	10	Amendment	Revise exclusion threshold to 70% from 'pure'; 25% for illiquid assets.
5.2 Acting within different asset classes	10	Addition	Extra data sources used.
	10	Amendment	Reference to Climate Opportunities offering.
	10	Addition	Reference to targets set at portfolio and asset class level.
5.3 Working with external managers	11	Addition	Engagement expectations.
	11	Addition	Encourage managers to set firm wide net zero commitment and join NZAM.
	11	Addition	Working with managers on decarbonisation parameters for mandates.
6. Engagement and advocacy	11	Addition	Reference to engagement with regulators, policy makers etc.
6.1 Our approach to engagement	11	Addition	Additional areas for engagement e.g. Just Transition.
	12	Amendment	Revisions to voting text in line with proposed revisions to Voting Guidelines.
	12	Addition	Reference to use of Net Zero Stewardship Toolkit.
7. Disclosures and	12/13	Amendment	Reporting on Policy

reporting			implementation and progress against Net Zero commitment.

Conclusion

6.1 The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the Partner Funds. The day-to-day stewardship administration and implementation is delegated to Border to Coast by the Partner Funds, for assets under their management. 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.

6.2 The Committee are recommended to consider the draft Border to Coast RI Policy, Corporate Governance and Voting Guidelines, and Climate Change Policy, and approve the realignment of the Lincolnshire Fund's current RI Policy and Corporate Governance and Voting Guidelines.

6.3 It is recommended that the Committee consider the need for a Fund Climate Change Policy as part of wider net zero commitment considerations.

Consultation

a) Risks and Impact Analysis

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

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
Appendix C	Border to Coast Climate Change Policy

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 Claire Machej, who can be contacted on 01522 553641 or claire.machej@lincolnshire.gov.uk.

Responsible Investment Policy

Border to Coast Pensions Partnership

January 2023

Responsible Investment Policy

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

1. Introduction

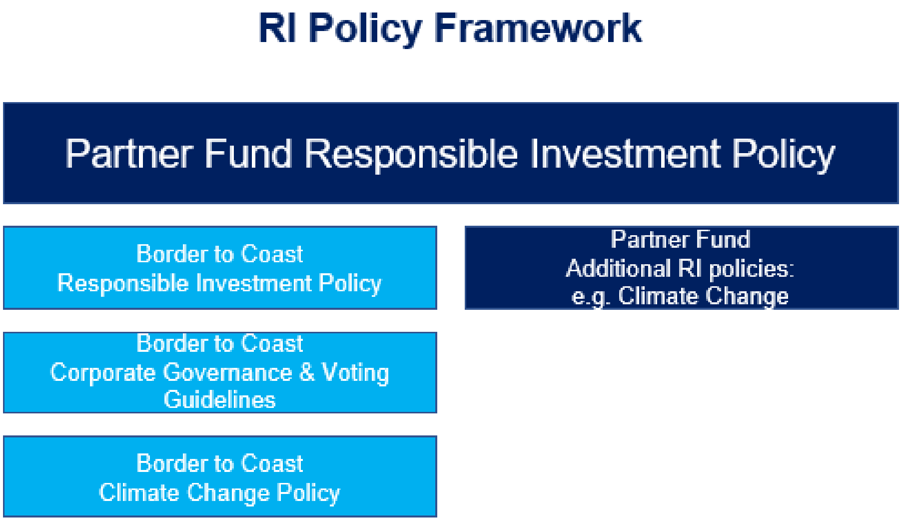
Border to Coast Pensions Partnership Ltd is an FCA-authorised investment fund manager (AIFM). It operates investment funds for its eleven shareholders which are Local Government Pension Scheme funds (Partner Funds). The purpose is to make a difference to the investment outcomes for our Partner Funds 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, have a diverse board and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Diversity of thought and experience on boards is significant for good governance, reduces the risk of 'group think' leading to better decision making. 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 across all asset classes. This commitment is demonstrated through achieving signatory status to the Financial Reporting Council UK Stewardship Code. As a long-term investor and representative of asset owners, we hold companies and asset managers to account regarding environmental, societal and governance factors that have the potential to impact corporate value. We 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 practices active ownership through voting, monitoring companies, engagement and litigation.

1.1. Policy framework

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. This collaborative approach results in an RI policy framework illustrated below with the colours demonstrating ownership of the various aspects of the framework:



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 and the opportunities 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 the integration of sustainability and responsible investment, which are 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 (available on the **website**). Border to Coast has dedicated staff resources for managing RI within the organisational structure.

The RI Policy is owned by Border to Coast and created after collaboration and engagement with our eleven 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, taking into account evolving best practice, and updated, as necessary.

4. Skills and competency

Border to Coast, where needed, take proper advice in order to formulate and develop policy. The Board and staff 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 considers 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 are considered and monitored in relation to all asset classes. The CIO is accountable for the integration and implementation of ESG considerations. Issues considered include, but are not limited to:

Environmental	**Social**	**Governance**	**Other**
Climate change Resource & energy management Water stress Single use plastics Biodiversity	Human rights Child labour Supply chain Human capital Employment standards Pay conditions (e.g. living wage in UK)	Board independence Diversity of thought Executive pay Tax transparency Auditor rotation Succession planning Shareholder rights	Business strategy Risk management Cyber security Data privacy Bribery & corruption Political lobbying

When considering human rights issues, we believe that all companies should abide by the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises. Companies should have processes in place to both identify and manage human rights risks across their business and supply chain. Further detail on our voting approach is included in the Corporate Governance & Voting Guidelines.

Whilst the specific aspects and form of ESG integration and stewardship vary across asset class, the overarching principles outlined in this policy are applied to all assets of Border to Coast. More information on specific approaches is outlined below.

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 necessary 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; it is an integral part of the research process and when considering portfolio construction, sector analysis and stock selection. The Head of RI works with colleagues to ensure they are knowledgeable and fully informed on ESG issues. Voting and engagement should not be detached from the investment process; therefore, information from engagement meetings is shared with the team to increase and maintain knowledge, and portfolio managers are 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 takes the following approach to integrating ESG into the private market investment process:

- The assessment of ESG issues is integrated into the investment process for all private market investments.
- A manager's ESG strategy is 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 are requested to complete an annual monitoring questionnaire which contains both binary and qualitative questions, enabling us to monitor several key performance indicators, including RI policies, people, and processes, promoting RI and RI-specific reporting.
- Managers are requested to report annually on the progress and outcomes of ESG related values and any potential risks.
- Ongoing monitoring includes identifying any possible ESG breaches and following up with the managers concerned.
- Work with managers to improve ESG policies and ensure the approach is in-line with developing industry best practice.

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 is therefore 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 is used along with information from sources including UN bodies, the World Bank and other similar organisations. This together with traditional credit analysis is used to determine a bond's credit quality. Information is shared between the equity and fixed income teams regarding issues which have the potential to impact corporates and sovereign bond performance.

5.4. Real estate

Border to Coast is preparing to launch funds to make Real Estate investments through both direct properties and indirect through investing in real estate funds. For real estate funds, a central component of the fund selection/screening process will be an assessment of the General Partner and Fund/Investment Manager's Responsible Investment and ESG approach and policies. Key performance indicators will include energy performance measurement, flood risk and rating systems such as GRESB (formerly known as the Global Real Estate Sustainability Benchmark), and BREEAM (Building Research Establishment Environmental Assessment Method). Our process will review the extent to which they are used in asset management strategies. We are in the process of developing our ESG and RI strategies for direct investment which includes procuring a third-party manager and working with them to develop our approach to managing ESG risks.

5.5. External manager selection

RI is incorporated into the external manager appointment process including the request for proposal (RFP) criteria and scoring and the investment management agreements. The RFP includes specific requirements relating to the integration of ESG by managers into the investment process which includes assessing and mitigating climate risk, and their approach to engagement.

We expect to see evidence of how material ESG issues are considered in research analysis and investment decisions. Engagement needs to be structured with clear aims, objectives and milestones.

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 also includes assessing stewardship and ESG integration in accordance with our policies. All external fund managers are expected to be signatories or comply with international standards applicable to their geographical location. We encourage managers to become signatories to the UN-supported Principles for Responsible Investment[1] ('PRI'). We also encourage managers to make a firm wide net zero commitment and to join the Net Zero Asset Manager initiative (NZAM) or an equivalent initiative. Managers are required to report to Border to Coast on their RI activities quarterly.

5.6. Climate change

The world is warming, the climate is changing, and the scientific consensus is that this is due to human activity, primarily the emissions of carbon dioxide (CO_2) from burning fossil fuels. We support this scientific consensus; recognising that the investments we make, in every asset class, will both impact climate change and be impacted by climate change. We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments. We believe that we have the responsibility to contribute and support the transition to a low carbon economy in order to positively impact the world in which pension scheme beneficiaries live in.

Climate change is a systemic risk with potential financial impacts associated with the transition to a low-carbon economy and physical impacts that may manifest 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.

In addition, the transition to a low-carbon economy will undoubtedly affect the various stakeholders of the companies taking part in the energy transition. These stakeholders include

[1] The UN-supported 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.

the workforce, consumers, supply chains and the communities in which the companies' facilities are located. A just transition involves maximising the social and economic opportunities and minimising and managing challenges of a net zero transition. We expect companies to consider the potential stakeholder risks associated with decarbonisation.

Detail on Border to Coast's approach to managing the risks and opportunities associated with climate change can be found in our Climate Change Policy on our website.

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 practises active ownership through the full use of rights available including voting, monitoring companies, engagement and litigation. As a responsible shareholder, we are committed to being a signatory to the 2020 UK Stewardship Code[2] and were accepted as a signatory in March 2022. IWe are also a signatory to the PRI..

6.1. Voting

Voting rights are an asset and Border to Coast exercises its rights carefully to promote and support good corporate governance principles. It aims 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 are also applied to assets managed externally. Policies are reviewed annually in collaboration with the Partner Funds. There may be occasions when an individual fund may wish Border to Coast to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this. A Partner Fund wishing to diverge from this policy will provide clear rationale in order to meet the governance and control frameworks of both Border to Coast and, where relevant, the Partner Fund.

6.1.1. Use of proxy advisors

Border to Coast use a Voting and Engagement provider to implement the set of detailed voting guidelines and ensure votes are executed in accordance with policies. Details of the third-party Voting and Engagement provider and proxy voting advisor are included in Appendix A.

A proxy voting platform is used with proxy voting recommendations produced for all meetings voted managed by the Voting & Engagement provider. The proxy voting advisor provides voting recommendations based upon Border to Coast's Corporate Governance & Voting Guidelines ('the Voting Guidelines'). A 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 is required when interpreting the Voting Guidelines to reflect specific company and meeting circumstances, allowing the override of voting recommendations from the proxy adviser.

[2] 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/directors/corporate-governance-and-stewardship

The Voting and Engagement provider 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 the control framework and is externally assured. Border to Coast also monitors the services provided monthly, with a six monthly and full annual review.

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 is recalled ahead of meetings, and lending can also be restricted, when any, or a combination of the following, occur:

- 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 to deposit their shares before the date of the meeting (usually one day after cut-off date) with a designated depositary until one day after meeting date.

During this blocking period, shares cannot be sold; 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 refrain from voting those shares.

Where appropriate Border to Coast considers co-filing shareholder resolutions and notifies Partner Funds in advance. Consideration is 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 is 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 eleven 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 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 is 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, Border to Coast use an external Voting and Engagement service provider. We provide input into new engagement themes which are considered to be materially financial, selected by the external engagement provider on an annual basis, and also participate in some of the engagements undertaken on our behalf.
- Engagement takes place with companies in the internally managed portfolios with portfolio managers and the Responsible Investment team engaging directly across various engagement streams; these cover environmental, social, and governance issues as well as UN Global Compact[3] breaches or OECD Guidelines[4] for Multinational Enterprises breaches.
- We 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 policies.

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 or OECD Guidelines for Multinational Enterprises.

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 the validation of a potential breach, the severity of the breach and the degree of to which management can be held accountable for the issue. For all engagements, SMART[5] 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. Members of the investment team have

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[3] 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.

[4] OECD Guidelines for Multinational Enterprises are recommendations providing principles and standards for responsible business conduct for multinational corporations operating in or from countries adhering to the OECD Declaration on International and Multinational Enterprises.

[5] SMART objectives are: specific, measurable, achievable, relevant and time bound.

access to our engagement provider's thematic research and engagement records. This additional information feeds into the investment analysis and decision making process.

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

6.2.1. Engagement themes

Recognising that we are unable to engage on every issue, we focus our efforts on areas that are deemed to be the most material to our investments - our key engagement themes. These are used to highlight our priority areas for engagement which includes working with our Voting and Engagement provider and in considering collaborative initiatives to join. We do however engage more widely via the various channels including LAPFF and our external managers.

Key engagement themes are reviewed on a three yearly basis using our Engagement Theme Framework. There are three principles underpinning this framework:

- that progress in the themes is expected to have a material financial impact on our investment portfolios in the long-term;
- that the voice of our Partner Funds should be a part of the decision; and
- that ambitious, but achievable milestones can be set through which we can measure progress over the period.

When building a case and developing potential new themes we firstly assess the material ESG risks across our portfolios and the financial materiality. We also consider emerging ESG issues and consult with our portfolio managers and Partner Funds. The outcome is for the key themes to be relevant to the largest financially material risks; for engagement to have a positive impact on ESG and investment performance; to be able to demonstrate and measure progress; and for the themes to be aligned with our values and important to our Partner Funds.

The key engagement themes following the 2021 review are:

- Low Carbon Transition
- Diversity of thought
- Waste and water management
- Social inclusion through labour management

6.2.2. 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.

6.2.3 Exclusions

We believe that using our influence through ongoing engagement with companies, rather than divestment, drives positive outcomes. This is fundamental to our responsible investment approach. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon, and the likelihood for success in influencing company strategy and behaviour.

When considering whether a company is a candidate for exclusion, we do so based on the associated material financial risk of a company's business operations and whether we have concerns about its long-term viability. We initially assess the following key financial risks:

- regulatory risk
- litigation risk
- reputational risk
- social risk
- environmental risk

Thermal coal and oil sands:

Using these criteria and due to the potential for stranded assets, we will not invest in companies with more than 70% of revenues derived from thermal coal and oil sands. We will continue to monitor companies with such revenues for increased potential for stranded assets and the associated investment risk which may lead to the revenue threshold decreasing over time.

We support a just transition towards a low-carbon economy which should be inclusive and acknowledge existing global disparities. We recognise that not all countries are at the same stage in their decarbonisation journey and need to consider the different transition timelines for emerging market economies. Therefore, in the interests of a just transition we will assess the implications of the exclusion policy and where we consider it appropriate, may operate exceptions.

For private markets the threshold will be 25%, this is due to the illiquid nature of these investments and less ability for investors to change requirements over time.

Cluster munitions:

In addition, we will not invest in companies contravening the Convention on Cluster Munitions (2008). It is illegal to use these weapons in many jurisdictions and many signatories to the Convention regard investing in the production of cluster munitions as a form of assistance that is prohibited by the convention. Therefore, as a responsible investor we will not invest in the following:

- Companies where there is evidence of manufacturing cluster munition whole weapons systems.
- Companies manufacturing components that were developed or are significantly modified for exclusive use in cluster munitions.

Companies that manufacture "dual-use" components, such as those that were not developed or modified for exclusive use in cluster munitions, will be assessed and excluded on a case-by-case basis.

Restrictions relate to the corporate entity only and not any affiliated companies.

Any companies excluded will be monitored and assessed for progress and potential reinstatement at least annually.

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. 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.

The Voting and Engagement provider also undertakes verification of its stewardship activities and the external auditor audits stewardship 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, where appropriate, we participate in such litigation. There are various litigation routes available dependent upon where the company is registered. We 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 work with industry professionals to facilitate this.

8. Communication and reporting

Border to Coast is transparent with regard to its RI activities and keeps beneficiaries and stakeholders informed. This is 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 also report in line with the Task Force on Climate-related Financial Disclosures (TCFD) recommendations and provide an annual progress report on the implementation of our Net Zero Plan.

9. Training and assistance

Border to Coast offers the Partner Funds training on RI and ESG issues. Where requested, assistanceis 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.

The Investment Team receive training on RI and ESG issues with assistance and input from our Voting & Engagement Partner and other experts where required. Training is also provided to the Border to Coast Board and the Joint Committee as and when required.

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, this includes potential conflicts in relation to stewardship.

Appendix A: Third-party Providers

Voting and Engagement provider	Robeco Institutional Asset Management BV	June 2018 - Present
Proxy advisor	Glass Lewis	June 2018 - Present

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Corporate Governance & Voting Guidelines

Border to Coast Pensions Partnership

January 2023

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 Executive 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. 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 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.

If the board has an average tenure of greater than 10 years and the board has had fewer than one new board nominee in the last five years, we will vote against the chair of the nomination committee.

Leadership

The role of the Chair is distinct from that of other board members and should be seen as such. The Chair should be independent upon appointment and should not have previously been the CEO. The Chair should also take the lead in communicating with shareholders and the media. However, the Chair 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. Where the Chair and CEO roles are combined and no senior independent non-executive director has been appointed, we will vote against the nominee holding the combined Chair/CEO role, taking into consideration market practice.

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 Chair 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 and inclusion 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, it should reflect the demographic/ethnic makeup of the countries a company is active in and be disclosed in the Annual Report.

We support the government-backed Davies report, Hampton Alexander and Parker reviews, which set goals for UK companies regarding the representation of women and ethnic minorities on boards, executive teams and senior management. Therefore, in developed markets without relevant legal requirements, we expect boards to be composed of at least 33% female directors. Where relevant, this threshold will be rounded down to account for board size. Recognising varying market practices, we generally expect emerging market and Japanese companies to have at least one female on the board. We will vote against the chair of the nomination committee where this is not the case and there is no positive momentum or progress. On ethnic diversity, we expect FTSE 100 companies to have met the Parker Review target and FTSE 250 companies to disclose the ethnic diversity of their board and have a credible plan to achieve the Parker Review targets by 2024. We will vote against the chair of the nomination committee at FTSE 100 companies where the Board does not have at least one person from an ethnic minority background, unless there are mitigating circumstances or plans to address this have been disclosed.

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. The committee should comprise of a majority of independent directors or comply with local standards and be headed by the Chair or Senior Independent Non-executive Director except when it is appointing the Chair'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 issues such as 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. As representatives of shareholders, directors should preferably be elected using a majority voting standard. In cases where an uncontested election uses the plurality[1] voting standard without a resignation policy, we will hold the relevant Governance Committee accountable by voting against the Chair of this committee.

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. As part of the evaluation, boards should consider whether directors possess the necessary expertise to address and challenge management on key strategic topics. These strategic issues and important areas of expertise should be clearly outlined in reporting on the evaluation. 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 need to develop and maintain relationships with key stakeholders to be successful in the long-term. The board therefore should take into account the interests of and feedback from stakeholders which includes the workforce. Considering the differences in best practice across markets, companies should report how key stakeholder views and interests have been considered and impacted on board decisions. Companies should also have an appropriate system in place to engage with employees.

Engagement and dialogue with shareholders and wider stakeholders on a regular basis are key for companies; being a way to discuss governance, strategy, and other significant issues. Companies should engage with shareholders ahead of the AGM in order that high votes against resolutions can be avoided where possible.

Where a company with a single share class structure has received 20% votes against a proposal at a previous AGM, a comprehensive shareholder and stakeholder consultation should be initiated. A case-by-case approach will be taken for companies with a dual class structure where a significant vote against has been received. Engagement efforts and findings, as well as company responses, should be clearly reported on and lead to tangible improvement. Where companies fail to do so, the relevant board committees or members will be held to account.

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.

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[11] A plurality vote means that the winning candidate only needs to get more votes than a competing candidate. If a director runs unopposed, he or she only needs one vote to be elected.

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 high executive pay does not systematically lead to better company performance. 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 selection of these metrics should be based on a materiality assessment that also guides the company's overall sustainability strategy. If environmental or social topics are incorporated in variable pay plans, the targets should set stretch goals for improved ESG performance, address achievements under management's control, and avoid rewarding management for basic expected behaviour. Where relevant, minimum ESG standards should instead be incorporated as underpins or gateways for incentive pay. If the remuneration committee determines that the inclusion of environmental or social metrics would not be appropriate, a clear rationale for this decision should be provided in the remuneration report.

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. For large cap issuers, we expect the annual bonus to include deferral of a portion of short-term payments into long-term equity scheme or equivalent. We will also encourage other companies to take this approach.

• **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. 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. Executives' 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, taking into account local market standards. 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.

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.

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 be aligned with those of the majority of the workforce, 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 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. Any proposals concerning 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. This includes expectations of companies to be transparent regarding lobbying activities in relation to climate change and to assess whether a company's climate change policy is aligned with the industry association(s) it belongs to.

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 unless there is a clearly disclosed capital management and allocation strategy in public reporting.

- **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.

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

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.

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. If extraordinary circumstances rule out a physical meeting, we expect the company to clearly outline how shareholders' rights to participate by asking questions and voting during the meeting are protected. Any amendment to a company's Articles to allow virtual only meetings without these safeguards 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.

Shareholder proposals are an important tool to improve transparency. Therefore, we will, when considered appropriate, support resolutions requesting additional reporting or reasonable action that is in shareholders' best interests on material business risk, ESG topics, climate risk and lobbying.

Human rights

When considering human rights issues, we believe that all companies should abide by the UN Global Compact Principles and the OECD Guidelines for Multinational Enterprises. We expect companies exposed to human rights issues to have adequate due diligence processes in place to identify risks across their business and supply chain, in line with the UN Guiding Principles on Business and Human Rights. Where a company is involved in significant social controversies and at the same time is assessed as having poor human rights due diligence, we will vote against the most accountable board member or the report and accounts.

Climate change

Climate change is a systemic risk which poses significant investment risks, but also opportunities, with the potential to impact long-term shareholder value. We believe it is vital we fully understand how companies are dealing with this challenge, and feel it is our duty to hold the boards of our investee companies to account.

Our primary objective from climate related voting and engagement is to encourage companies to adapt their business strategy in order to align with a low carbon economy and reach net zero by 2050 or sooner. The areas we consider include climate governance; strategy and Paris alignment; command of the climate subject; board oversight and incentivisation; TCFD disclosures and scenario planning; scope 3 emissions and the supply chain; capital allocation alignment, climate accounting, a just transition and exposure to climate-stressed regions.

For companies in high emitting sectors that do not sufficiently address the impact of climate change on their businesses, we will oppose the agenda item most appropriate for that issue. To that end, the nomination of the accountable board member takes precedence. Companies that are not making sufficient progress in mitigating climate risk are identified using recognised industry benchmarks including the Transition Pathway Initiative (TPI) and the Climate Action 100+ (CA100+) Net Zero Benchmark. We will vote against the Chair (or relevant agenda item) where companies are scored 2 or lower by the TPI. In addition, we will vote against the Chair for Oil and Gas companies scoring 3 or lower. Where a company covered by CA100+ Net Zero Benchmark fails indicators of the Benchmark, which includes a net zero by 2050 (or sooner) ambition, and short, medium and long-term emission reduction targets, we will also vote against the Chair of the Board.

Additionally, an internally developed framework is used to identify companies with insufficient progress on climate change.

Banks will play a pivotal role in the transition to a low carbon economy, and we will therefore be including the sector when voting on climate-related issues. We will assess banks using the IIGCC/TPI framework and will vote against the Chair of the Sustainability Committee, or the agenda item most appropriate, where a company materially fails the first four indicators of the framework.

We support a just transition towards a low-carbon economy which should be inclusive and acknowledge existing global disparities. We recognise that not all countries are at the same stage in their decarbonisation journey and need to consider the different transition timelines for emerging market economies. Therefore, in the interests of a just transition we will assess the implications when considering our voting decisions on a case-by-case basis.

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.

Climate Change Policy

Border to Coast Pensions Partnership

Policy Owner: The Chief Investment Officer
Live from: January 2023

Climate Change Policy

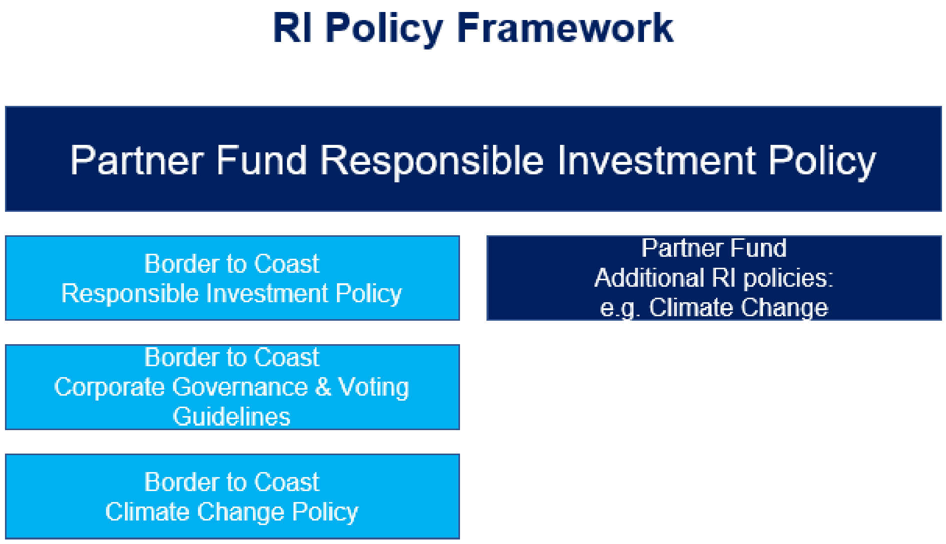
This Climate Change Policy details the approach that Border to Coast Pensions Partnership will follow in fulfilling its commitment to managing the risks and opportunities associated with climate change across the assets managed on behalf of our Partner Funds.

1 Introduction

Border to Coast Pensions Partnership Ltd is an FCA regulated and authorised investment fund manager (AIFM), operating investment funds for its eleven shareholders which are Local Government Pension Scheme funds (Partner Funds). As a customer-owned, customer-focused organisation, our purpose is to make a sustainable and positive difference to investment outcomes for our Partner Funds. Pooling gives us a stronger voice and, working in partnership with our Partner Funds and across the asset owner and asset management industry, we aim to deliver cost effective, innovative and responsible investment thereby enabling sustainable, risk-adjusted performance over the long-term.

1.1 Policy framework

Border to Coast has developed this Climate Change Policy in collaboration with our Partner Funds. It sits alongside the Responsible Investment Policy and other associated policies, developed to ensure clarity of approach and to meet our Partner Funds' fiduciary duty and fulfil their stewardship requirements. This collaborative approach resulted in the RI policy framework illustrated below with the colours demonstrating ownership of the various aspects of the framework:



2 Policy overview

2.1 Our views and beliefs on climate change

The world is warming, the climate is changing, and the scientific consensus is that this is due to human activity, primarily the emissions of carbon dioxide (CO_2) from burning fossil fuels. Our planet has warmed by over 1ºC relative to the pre-industrial average temperature, and we are starting to experience the significant effects of this warming. This changes the world in which we live, but also the world in which we invest.

Atmospheric CO_2 is at unprecedented levels in human history. Further warming will occur, and so adaptation will be required. The extent of this further warming is for humankind to collectively decide, and the next decade is critical in determining the course. If the present course is not changed and societal emissions of CO_2 and other greenhouse gases (GHG) are not reduced to mitigate global warming, scientists have suggested that global society will be catastrophically disrupted beyond its capability to adapt, with material capital market implications.

Recognising the existential threat to society that unmitigated climate change represents, in 2015, the nations of the world came together in Paris and agreed to limit global warming to 2ºC and to pursue efforts to limit the temperature increase to 1.5ºC. A key part of the Paris Agreement was an objective to make finance flows consistent with a pathway towards low GHG emissions and climate resilience. This recognises the critical role asset owners and managers play, reinforcing the need for us and our peers to drive and support the pace and scale of change required.

In 2018, the Intergovernmental Panel on Climate Change (IPCC) published a special report, "Global warming of 1.5ºC"[1], which starkly illustrated how critical successful adaptation to limit global warming to 1.5ºC is. The report found that limiting global warming to 1.5°C would require "rapid and far-reaching" transitions in land, energy, industry, buildings, transport, and cities. This includes a need for emissions of carbon dioxide to fall by approximately 45 percent from 2010 levels by 2030, and reach 'net zero' around 2050. We support this scientific consensus; recognising that the investments we make, in every asset class, will both impact climate change and be impacted by climate change. Urgent collaborative action is needed to reach net zero greenhouse gas emissions globally by 2050, and everyone has a part to play in ensuring the goal is met.

2.2 Why climate change is important to us

The purpose of embedding sustainability into our actions is twofold: we believe that considering sustainable measures in our investment decisions will increase returns for our Partner Funds, in addition to positively impacting the world beneficiaries live in.

Our exposure to climate change comes predominantly from the investments that we manage on behalf of our Partner Funds. We develop and operate a variety of internally and externally managed investments across a range of asset classes both in public and private markets for our Partner Funds to invest in.

We try to mitigate these exposures by taking a long-term approach to investing as we believe that businesses that are governed well and managed in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Climate change can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore needs to be considered across all asset classes in order to better manage risk and generate sustainable, long-term returns.

Climate change is a systemic risk which poses significant investment risks, but also opportunities, with the potential to impact long-term shareholder value. There are two types of risks that investors are exposed to, the physical risk of climate change impacts and the transitional risk of decarbonising economies, both can also impact society resulting in social risks.

Transition to a low carbon economy will affect some sectors more than others, and within sectors there are likely to be winners and losers, which is why divesting from and excluding entire sectors may not be appropriate. We actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect investments. We believe that we have the responsibility to contribute and support the transition to a low carbon economy in order to positively impact the world in which pension scheme beneficiaries live in.

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[1] https://www.ipcc.ch/sr15/

In addition, the transition to a low-carbon economy will undoubtedly affect the various stakeholders of the companies taking part in the energy transition. A just transition refers to the integration of the social dimension in the net zero transition and is part of the Paris Agreement, the guidelines adopted by United Nations' International Labour Organization (ILO) in 2015, and the European Green Deal. These stakeholders include the workforce and the communities in which the companies' facilities are located. We expect companies to consider the potential stakeholder risks associated with decarbonisation.

Our climate change strategy is split into four pillars**: Identification and Assessment, Investment Strategy, Engagement and Advocacy, and Disclosures and Reporting.** We will continue to monitor scientific research in this space; evolving and adapting our strategy in order to best respond to the impacts of climate change.

2.3 How we execute our climate change strategy

We integrate climate change risks within our wider risk management framework and have robust processes in place for the identification and ongoing assessment of climate risks.

We consider climate change risks and opportunities within our investment decision making process.

Border to Coast, as a large investor, aims to influence companies to adapt and articulate their climate change strategy, to enable them to be well prepared for the transition to a low carbon economy. This in turn will improve investment outcomes.

We are committed to transparency regarding our climate change issues and activities.

2.4 Roadmap

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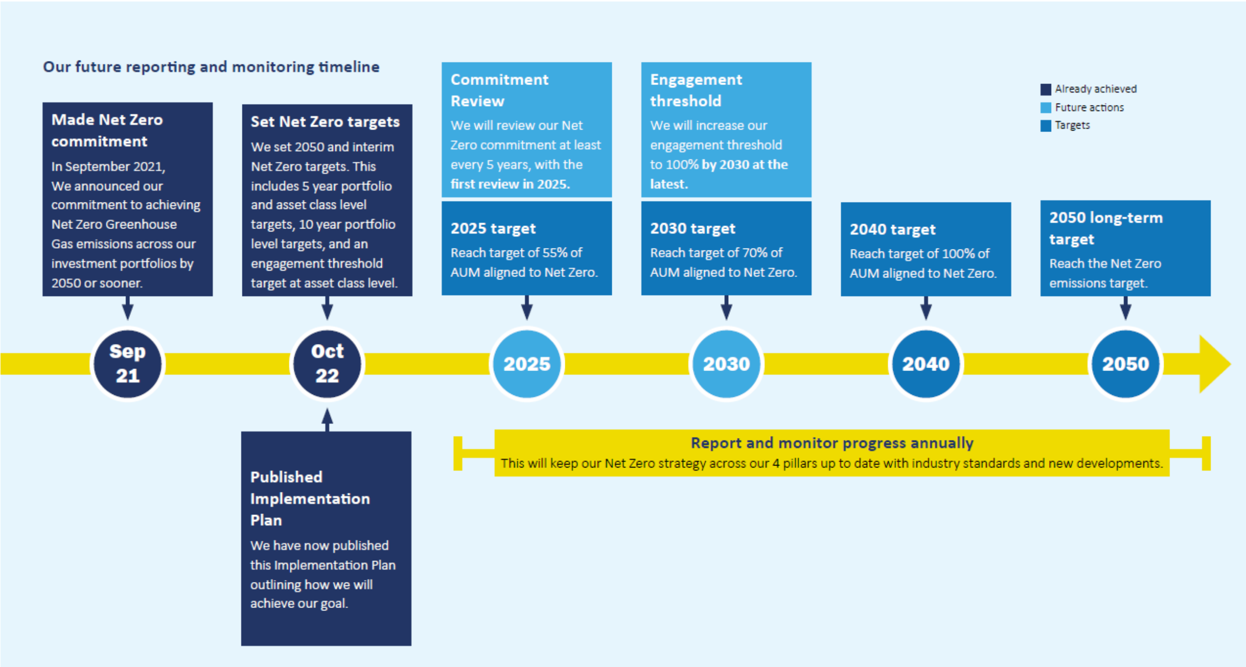
The roadmap demonstrates the future reporting and monitoring timeline for implementing our Net Zero plan.


Our future reporting and monitoring timeline
Already achieved
Future actions
Targets
Made Net Zero commitment
In September 2021, We announced our commitment to achieving Net Zero Greenhouse Gas emissions across our investment portfolios by 2050 or sooner.
Set Net Zero targets
We set 2050 and interim Net Zero targets. This includes 5 year portfolio and asset class level targets, 10 year portfolio level targets, and an engagement threshold target at asset class level.
Commitment Review
We will review our Net Zero commitment at least every 5 years, with the first review in 2025.
Engagement threshold
We will increase our engagement threshold to 100% by 2030 at the latest.
2025 target
Reach target of 55% of AUM aligned to Net Zero.
2030 target
Reach target of 70% of AUM aligned to Net Zero.
2040 target
Reach target of 100% of AUM aligned to Net Zero.
2050 long-term target
Reach the Net Zero emissions target.
Sep 21
Oct 22
2025
2030
2040
2050
Published Implementation Plan
We have now published this Implementation Plan outlining how we will achieve our goal.
Report and monitor progress annually
This will keep our Net Zero strategy across our 4 pillars up to date with industry standards and new developments.

3 Climate change strategy and governance

3.1 Our ambition – Net Zero

Our climate change strategy recognises that there are financially material investment risks and opportunities associated with climate change which we need to manage across our investment portfolios. We have therefore committed to a net zero carbon emissions target by 2050 at the latest for our assets under management, in order to align with efforts to limit temperature increases to under 1.5ºC.

We recognise that assessing and monitoring climate risk is under constant development, and that tools and underlying data are developing rapidly. There is a risk of just focusing on carbon emissions, a backwards looking metric, and it is important to ensure that metrics we use reflect the expected future state and transition plans that companies have in place or under development. We will continue to assess the metrics and targets used as data and industry standards develop.

As a supporter of the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD), we continue to embed climate change into our investment process and risk management systems, reporting annually on our progress in the TCFD report.

To demonstrate our Net Zero commitment, we joined the Net Zero Asset Manager initiative ('NZAM') pledging to decarbonise investment portfolios by 2050 or sooner.

We are using the Net Zero Investment Framework to support us in implementing our strategy to being Net Zero by 2050.We have developed an implementation plan which sets out the four pillars of our approach: governance and strategy, targets and objectives, asset class alignment, and stewardship and engagement. We believe success across these four elements will best enable us to implement the change needed. The Net Zero Implementation Plan can be found on our website.

3.2 Governance and implementation

We take a holistic approach to the integration of sustainability and responsible investment; it is at the core of our corporate and investment thinking. Sustainability, which includes RI is considered and overseen by the Board and Executive Committee. We have defined policies and procedures that demonstrate our commitment to managing climate change risk, including this Climate Change Policy, our Responsible Investment Policy and Corporate Governance & Voting Guidelines which can be found on our website.

3.3 Division of roles and responsibilities

The Board determines the Company's overall strategy for climate change and with support from the Board Risk Committee, more broadly oversees the identification and management of risk and opportunities. The Board is responsible for the overarching oversight of climate related considerations as part of its remit with respect to Border to Coast's management of investments. The Board approves the Responsible Investment strategy and policies, which includes the Climate Change Policy. Updates on Responsible Investment are presented to the Board at regular intervals, this includes activities related to climate change. The Board reviews and approves the TCFD report prior to publication.

The Climate Change Policy is owned by Border to Coast and created after collaboration and engagement with our Partner Funds. We will, where needed, take appropriate advice in order to further develop and implement the policy.

The Chief Investment Officer (CIO) is responsible for the implementation and management of the Climate Change Policy, with oversight from the Investment Committee, which is chaired by the Chief Executive Officer. Each year the CIO reviews the implementation of the policy and reports any findings to the Board. The policy is reviewed annually, taking into account evolving best practice, and updated as needed.

The Investment Team, which includes a dedicated Responsible Investment Team, works to identify and manage environmental, social and governance (ESG) issues including climate change. Climate change is one of our responsible investment priorities and sits at the core of our sustainability dialogue. We are on the front foot with UK, European and Global climate change regulation, horizon scanning for future regulation and actively participate in discussions around future climate policy and legislation through our membership of industry bodies.

3.4 Training

Border to Coast's Board and colleagues maintain appropriate skills in responsible investment, including climate change, maintaining and increasing knowledge and understanding of climate change risks, available risk measurement tools, and policy and regulation. Where necessary expert advice is taken from suitable climate change specialists to fulfil our responsibilities. We also offer our Partner Funds training on climate change related issues.

3.5 Regulatory change management

Regulatory change horizon scanning is a key task undertaken by the Compliance function, which regularly scans for applicable regulatory change. This includes FCA, associated UK financial services regulations, and wider regulation impacting financial services including Responsible Investment, and climate change. The relevant heads of functions and departments, as subject matter experts, also support the process and a tracker is maintained to ensure applicable changes are appropriately implemented.

4 Identification and assessment

4.1 How we identify climate-related risks

The Identification and Assessment pillar is a key element of our climate change strategy. Our investment processes and approach towards engagement and advocacy reflect our desire to culturally embed climate change risk within our organisation and drive change in the industry.

The risk relating to climate change is integrated into the wider Border to Coast risk management framework. The Company operates a risk management framework consistent with the principles of the 'three lines of defence' model. Primary responsibility for risk management lies with the Investment and Operations teams. Second line of defence is provided by the Risk and Compliance functions, which report to the Board Risk Committee, and the third line of defence is provided by Internal Audit, which reports to the Audit Committee and provides risk-based assurance over the Company's governance, risk and control framework.

We consider both the transition and physical risks of climate change. The former relates to the risks (and opportunities) from the realignment of our economic system towards low-carbon, climate-resilient and carbon-positive solutions (e.g. via regulations). The latter relates to the physical impacts of climate change (e.g. rising temperatures, changing precipitation patterns, increased risk arising from rising sea levels and increased frequency and severity of extreme weather events).

4.2 How we assess climate-related risks and opportunities

We currently use a number of different tools and metrics to measure and monitor climate risk across portfolios. We acknowledge that this is a rapidly evolving area, and we are developing our analytical capabilities to support our ambition. Carbon data is not available for all equities as not all companies disclose, therefore there is a reliance on estimates. Data is even more unreliable for fixed income and is only just being developed for Private Markets. We will work with our managers and the industry to improve data disclosure and transparency in this area.

We utilise third party carbon portfolio analytics to conduct carbon footprints across equity and fixed income portfolios, analysing carbon emissions, carbon intensity and weighted carbon intensity and fossil fuel exposure when assessing carbon-related risk, on a quarterly basis. The

Transition Pathway Initiative ('TPI')[2] tool and climate Action 100+ Net Zero Company Benchmark analysis is used to support portfolio managers in decision making with respect to net zero assessments. We use research from our partners and specific climate research, along with information and data from initiatives and industry associations we support.

We continue to develop climate risk assessments for our listed equity investments that combines several factors to assess overall whether a company is aligned with the Paris Agreement (to limit global warming to 2ºC), so that we can both engage appropriately with the company on their direction of travel and also track our progress. This is an iterative process, recognising that data, tools and methodologies are developing rapidly.

We understand that scenario analysis is useful for understanding the potential risks and opportunities attached to investment portfolios and strategies due to climate change. We note that scenario analysis is still developing, with services and products evolving as data quality and disclosure from companies continues to improve. During 2022 we will be evaluating our third-party scenario analysis tools and conducting analysis using a number of different scenarios.

5 Investment strategy

5.1 Our approach to investing

We believe that climate change should be systematically integrated into our investment decision-making process to identify related risks and opportunities. This is critical to our long-term objective of improving investment outcomes for our Partner Funds.

Border to Coast offers Partner Funds a variety of internally and externally managed investment funds covering a wide-ranging set of asset classes with different risk-return profiles. Partner Funds then choose the funds which support their strategic asset allocation.

Partner Funds retain responsibility for strategic asset allocation and setting their investment strategy, and ultimately their strategic exposure to climate risk. Our implementation supports Partner Funds to deliver on their fiduciary duty of acting in the best interests of beneficiaries.

We consider climate change risks and opportunities in the process of constructing and developing investment funds. Engaging with our investee companies will be a key lever we will use to reach our Net Zero goals, but we also recognise the role of screening, adjusting portfolio weights, and tilted benchmarks in decarbonising our investments.

Climate change is also considered during the external manager selection and appointment process. We monitor and challenge our internal and external managers on their portfolio holdings, analysis, and investment rationale in relation to climate-related risks.

We monitor a variety of carbon metrics, managing climate risk in portfolios through active voting and engagement, whilst also looking to take advantage of the long-term climate-related investment opportunities.

We believe in engagement rather than divestment and that by doing so can effect change at companies. Our investment approach is not to divest or exclude entire sectors, however there may be specific instances when we will look to sell or not invest in some industries based on investment criteria, the investment time horizon and if there is limited scope for successful engagement. Using these criteria and due to the potential for stranded assets, we interpret this to cover public market companies with 70% of revenue derived from thermal coal and oil sands and will therefore not invest in these companies. For private markets a revenue threshold of 25%

[2] The Transition Pathway Initiative ('TPI') is a global initiative led by asset owners and supported by asset managers. Aimed at investors, it is a free-to-use tool that assesses how prepared companies are for the low carbon transition.

is in place, this is due to the illiquid nature of these investments. Any companies excluded will be monitored with business strategies and transition plans assessed for potential reinstatement.

5.2 Acting within different asset classes

We integrate climate change risks and opportunities into our investment decisions within each asset class. The approach we take for each asset class is tailored to the nature of the risk and our investment process for that asset class. The timeframe for the impact of climate change can vary, leading to differing risk implications depending on the sector, asset class and region. These variations are considered at the portfolio level. This policy gives our overall approach and more detail on the processes and analysis can be found in our annual TCFD report.

Climate risks and opportunities are incorporated into the stock analysis and decision-making process for **listed equities** and **fixed income**. Third-party ESG and carbon data are used to assess individual holdings. We also use forward looking metrics including the TPI ratings, Climate Action 100+ (‘CA100+) Net Zero Company Benchmark and the Science Based Targets initiative (‘SBTi) to assess companies’ transition progress. Internal, sell-side and climate specific research, and engagement information are also utilised. Carbon footprints are conducted relative to the benchmark. Climate scenario analysis is also conducted for listed equity and fixed income portfolios using third-party data.

For our **alternative funds**, ESG risks, which includes climate change, are incorporated into the due diligence process including ongoing monitoring. Across both funds and co-investments, we consider the impact of carbon emissions and climate change when determining our asset allocation across geographies and industries. We assess and monitor if our GPs track portfolio metrics in line with TCFD recommendations. Climate change presents real financial risks to portfolios but also provides opportunities with significant amounts of private capital required to achieve a low-carbon transition. We have therefore launched a Climate Opportunities offering and will be facilitating increased investment in climate transition solutions taking into account Partner Fund asset allocation decisions.
To meet our commitment to reach net zero carbon emissions by 2050 or sooner, we have developed targets for our investments in line with the Net Zero Investment Framework (NZIF). We have set targets at two levels: portfolio level, which refers to our combined total investments in the asset classes covered by this plan, and asset class level, which refers to our investments split by investment type (i.e. listed equity, corporate fixed income etc). This covers 60% of our AUM (at 31/03/2022) and we will look to increase coverage across the rest of our investments when appropriate.

5.3 Working with External Managers

Assessing climate risk is an integral part of the External Manager selection and appointment process. It also forms part of the quarterly screening and monitoring of portfolios and the annual manager reviews. We monitor and review our fund managers on their climate change approach and policies. Where high emitting companies are held as part of a strategy managers are challenged and expected to provide strong investment rationale to substantiate the holding. We expect managers to engage with companies in line with our Responsible Investment Policy and to support collaborative initiatives on climate, and to report in line with the TCFD recommendations. In addition, we encourage managers to make a firm wide net zero commitment.. We will work with External Managers to implement specific decarbonisation parameters for their mandate. We will monitor our managers’ carbon profiles and progress against targets on a quarterly basis and as part of our annual reviews. We will also consider the suitability of those targets on an annual basis. Where carbon profiles are above target, this will act as a prompt for discussion with the manager to understand why this has occurred, any appropriate actions to be taken to bring them back to target, and the timescales for any corrective action.

6 Engagement and advocacy

As a shareholder, we have the responsibility for effective stewardship of all companies or entities in which we invest, whether directly or indirectly. We take the responsibilities of this role seriously, and we believe that effective stewardship is key to the success for our climate ambition. As well as engaging with our investee companies it is important that we engage on systemic risks, including climate change, with policymakers, regulators and standard setters to help create a stable environment to enhance long-term investment returns. .

6.1 Our approach to engagement

As a long-term investor and representative of asset owners, we will hold companies and asset managers to account regarding environmental, social and governance issues, including climate change factors, that have the potential to impact corporate value. We support engagement over divestment as we believe that constructive dialogue with companies in which we invest is more effective than excluding companies from the investment universe, particularly with regard to promoting decarbonisation in the real world. If engagement does not lead to the desired results, we have an escalation process which forms part of our RI Policy, this includes adverse voting instructions on related AGM voting items, amongst other steps. We practice active ownership through voting, monitoring companies, engagement and litigation. Through meetings with company directors, we seek to work with and influence investee companies to encourage positive change. Climate is one of our key engagement themes. We believe it is vital we fully understand how companies are dealing with this challenge, and feel it is our duty to hold the boards of our investee companies to account.

Our primary objective from climate related engagement is to encourage companies to adapt their business strategy in order to align with a low carbon economy and reach net zero by 2050 or sooner. The areas we consider in our engagement activities include climate governance; strategy and Paris alignment; command of the climate subject; board oversight and incentivisation; TCFD disclosures and scenario planning; scope 3 emissions and the supply chain; capital allocation alignment, a just transition and exposure to climate-stressed regions.

In order to increase our influence with corporates and policy makers we work collaboratively with other like-minded investors and organisations. This is achieved through actively supporting investor RI initiatives and collaborating with various other external groups on climate related issues, including the Institutional Investors Group on Climate Change, CA100+, the UN-supported Principles for Responsible Investment, the Local Authority Pension Fund Forum and the Transition Pathway Initiative.

In particular, we are currently focusing on the following actions:

- . When exercising our voting rights for companies in high emitting sectors that do not sufficiently address the impact of climate change on their businesses, we will oppose the agenda item most appropriate for that issue. To that end, the nomination of the accountable board member takes precedence. Companies that are not making sufficient progress in mitigating climate risk are identified using recognised industry benchmarks including the TPI and Climate Action 100+ Net Zero Benchmark. Additionally, an internally developed framework is used to identify companies with insufficient progress on climate change. Our voting principles are outlined in our Corporate Governance & Voting Guidelines. We are also transparent with all our voting activity and publish our quarterly voting records on our website.
- Support climate-related resolutions at company meetings which we consider reflect our Climate Change Policy. We will co-file shareholder resolutions at company AGMs on climate risk disclosure and lobbying, after conducting due diligence, that we consider to be of institutional quality and consistent with our Climate Change Policy.
- Engage with companies in relation to business sustainability and disclosure of climate risk in line with the TCFD recommendations.
- Encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions.

- Work collaboratively with other asset owners in order to strengthen our voice and make a more lasting impact for positive change. Engagement is conducted directly, through our engagement partner and through our support of collaborations. We also expect our external asset managers to engage with companies on climate-related issues.
- Use the IIGCC's Net Zero Stewardship Toolkit to develop our net zero stewardship strategy, Use carbon footprints the TPI toolkit, CA100+ Net Zero Benchmark and SBTi to assess companies and inform our engagement and voting activity. This will enable us to prioritise shareholder engagement, set timeframes and monitor progress against our goals.
- Engage collaboratively alongside other institutional investors with policy makers through membership of the Institutional Investor Group on Climate Change ('IIGCC'). We will engage with regulators and peer groups to advocate for improved climate related disclosures and management in the pensions industry and wider global economy.

7 Disclosures and reporting

Transparency is one of our key organisational values. We disclose our RI activity on our website, publishing quarterly stewardship and voting reports, annual RI & Stewardship reports and our TCFD report. We are committed to improving transparency and reporting in relation to our RI activities, which include climate change related activities.

We will keep our Partner Funds and our stakeholders informed on our progress of implementing the Climate Change Policy and Net Zero commitment, as well as our exposure to the risks and opportunities of climate change. This will include:

- Reviewing annually how we are implementing this policy with findings reported to our Board and Partner Funds;report in line with the TCFD recommendations on an annual basis, including reporting on the actions undertaken with regards to implementation of this policy and progress against our Net Zero commitment.
  We will disclose our voting activity and report on engagement and RI activities, including climate change, to the Partner Funds quarterly and in our annual RI & Stewardship report.
- Disclose climate metrics and targets that help to analyse the overall exposure of our portfolios to the risks and opportunities presented by climate mitigation and adaption.
-

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

Report to:	**Pensions Committee**
Date:	**1 December 2022**
Subject:	**Border to Coast Governance Review**

Summary:

This report presents the outcome of the governance review undertaken on the key company documents of Border to Coast to the Committee, for consideration. The amended Inter-Authority and Shareholder Agreements will be taken to Full Council for approval in the Council's role as the administering authority. The amendments to the Articles of Association will be approved through a resolution to shareholders.

Recommendation(s):

That the Committee consider and discuss the report, and

1) approve, subject to satisfactory clarification of queries raised, and provide feedback on the Inter-Authority and Shareholder Agreements to be reported to Full Council; and
2) provide feedback to the Executive Director of Resources, in his role as shareholder, on the amendments to the Articles of Association.

Background

1. As the Committee are aware, Border to Coast was created in 2017 to act as the asset pool for Lincolnshire Pension Fund and eleven other LGPS funds. It is five years since Border to Coast was established, and the initial governance framework approved by the shareholders. In Lincolnshire's case, this was by Full Council as the administering Authority is the shareholder, with the Pensions Committee's role being that of the investor.

2. Since then, the business has matured (as of the end of March 2022 it was responsible for managing c. £38bn of Partner Fund assets), Tyne and Wear and Northumberland pension funds have merged, there has been regulatory change, and best practice with respect to both corporate governance and the governance of arms' length public bodies has evolved.

3. The review undertaken of the shareholder governance arrangements was set out in the Joint Committee papers (restricted part), shared with this Committee in September. In undertaking the review, consideration was given to:

- The lessons learnt from the first few years of pooling from Border to Coast;
- Lessons learnt from other pools in the UK;
- Lessons from other Local Authority jointly owned companies; and
- Lessons learnt from other pools internationally.

4. The updated documents are attached as appendices and are:

- the Inter-Authority Agreement, which covers the role of Partner Funds as customers, including the operation of the Joint Committee;

- the Shareholder Agreement, which sets out the rights and obligations of shareholders, issuance of shares, the operation of the business, and the decision-making process; and

- the Articles of Association, which outlines the rules and regulations of the company.

5. Independent legal advice has been undertaken on behalf of all partner funds to review these documents, and overall the governance framework and legal documentation is considered to be fit for purpose and the exercise has been about evolution of approach.

6. In addition, the Council's Chief Legal Officer has reviewed the documents and has no major issues with the documents. He agrees that they can be entered into subject to two issues of clarification, which are drafting points in the Shareholders' agreement. These two issues have been raised with Border to Coast and the lawyers for a response, which once received will be shared with the Council's Chief Legal Officer to confirm he is satisfied.

7. Following feedback and comments from the Pensions Committee, the final Inter-Authority Agreement and Shareholder Agreement will be taken to Full Council in February 2023 to be approved, and the changes to the Articles of Association will be sent to all shareholders to approve.

Conclusion

8. A review has been undertaken by Border to Coast and external lawyers on the governance documents of Border to Coast; namely the Inter-Authority Agreement, the Shareholder Agreement and the Articles of Association. The amended documents have been reviewed independently by lawyers representing the Partner Funds, and by the Council's Chief Legal Officer. Subject to two minor points of clarification, these are found to be satisfactory.

9. Following feedback and comments from the Pensions Committee, the final Inter-Authority Agreement and Shareholder Agreement will be taken to Full Council in February 2023 to be approved, and the changes to the Articles of Association will be sent to all shareholders to approve.

Consultation

a) Risks and Impact Analysis

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

Appendices

These are listed below and attached at the back of the report	
Appendix A	Inter-Authority Agreement
Appendix B	Shareholder Agreement
Appendix C	Articles of Association

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 Jo Ray, who can be contacted on 01522 553656 or jo.ray@lincolnshire.gov.uk.

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Dated: 2022

(1) BEDFORD BOROUGH COUNCIL

(2) CUMBRIA COUNTY COUNCIL

(3) DURHAM COUNTY COUNCIL

(4) THE EAST RIDING OF YORKSHIRE COUNCIL

(5) LINCOLNSHIRE COUNTY COUNCIL

(6) MIDDLESBROUGH BOROUGH COUNCIL

(7) NORTH YORKSHIRE COUNTY COUNCIL

(8) THE COUNCIL OF THE BOROUGH OF SOUTH TYNESIDE

(9) SOUTH YORKSHIRE PENSIONS AUTHORITY

(10) SURREY COUNTY COUNCIL

(11) WARWICKSHIRE COUNTY COUNCIL

Amended and Restated Agreement to cooperate in the pooling of Local Government Pension Scheme investments

CONTENTS

THIS AGREEMENT is made on 2022

BETWEEN

(1) **Bedford Borough Council**, of Borough Hall, Cauldwell Street, Bedford, MK42 9AP;

(2) **Cumbria County Council**, of 117 Botchergate, Carlisle, CA1 1RD;

(3) **Durham County Council**, of County Hall, Durham, DH1 5UE;

(4) **The East Riding Of Yorkshire Council**, of County Hall, Beverley HU17 9BA;

(5) **Lincolnshire County Council**, of County Offices, Newland, Lincoln, LN1 1YL;

(6) **Middlesbrough Borough Council**, of PO Box 340, Middlesbrough, TS1 2XP;

(7) **North Yorkshire County Council**, of County Hall, Northallerton, North Yorkshire, DL7 8AL;

(8) **The Council of the Borough of South Tyneside**, of Town Hall and Civic Offices, Westoe Road, South Shields, Tyne and Wear, NE33 2RL;

(9) **South Yorkshire Pensions Authority**, of Oakwell House, 2 Beevor Court, Pontefract Road, Barnsley, South Yorkshire, S71 1HG;

(10) **Surrey County Council**, of Woodhatch Place, 11 Cockshot Hill, Woodhatch, Reigate, RH2 8EF; and

(11) **Warwickshire County Council**, of PO Box 3, Shire Hall, Warwick, CV34 4RL

together called "the **Authorities**"

BACKGROUND

WHEREAS

(A) The Authorities are each administering authorities within the Local Government Pension Scheme and within the meaning of the Local Government Pension Scheme Regulations 2013. They each administer, maintain and invest their own respective funds within the LGPS in accordance with those Regulations and the LGPS Investment Regulations.

(B) The Authorities are the sole shareholders in Border to Coast Pensions Partnership Limited (**"BCPP"**) a controlled company within the meaning of the Companies Order. They have separately entered into the Shareholders' Agreement to record the terms of their relationship with each other as shareholders in relation to BCPP and to regulate certain aspects of the affairs and their dealings with BCPP.

(C) The Authorities, along with Northumberland County Council, entered into an agreement dated 6 June 2017 relating to arrangements between those parties in the pooling of Local Government Pension Scheme assets through BCPP (the "Original Agreement").

(D) That part of the Local Government Pension Scheme previously administered by Northumberland County Council was merged into the Tyne and Wear Pension Fund with effect from 1 April 2020. Following the merger Northumberland County Council ceased to be an administering authority within the Local Government Pension Scheme and is no longer a shareholder in BCPP. All of its obligations under the Original Agreement were assumed by the Council of the Borough of South Tyneside with effect from 1 April 2020.

(E) As BCPP has now been operating for several years, the Authorities believe it is appropriate to review and update the governance arrangements. The Host Authority has proposed, under clause 10.1 of the Original Agreement, the amendments contained in this Agreement. The other Authorities have each approved the proposed amendments in accordance with clause 10.3 of the Original Agreement. The Authorities are therefore entering into this Agreement to amend and restate the Original Agreement.

(F) The Authorities are local authorities within the meaning of the Local Government Act 1972 and have established and participated in a Joint Committee known as the Border to Coast Pensions Partnership Joint Committee which is responsible for the delivery of the Specified Functions.

(G) The Authorities have entered into this Agreement in reliance inter alia on the rights given to local authorities to undertake administrative arrangements of this nature in sections 101, 102, 103, 112 and 113 of the Local Government Act 1972 and the Regulations made under these Acts; in order to discharge their functions to administer, maintain and invest their respective funds, together with, where applicable, the general power of competence within section 1 of the Localism Act 2011 and the supporting provisions within section 111 Local Government Act 1972.

(H) Neither the execution of this Agreement nor the carrying on of activities under it is intended by the Authorities to constitute the carrying on of any "regulated activity" under section 19 of the Financial Services and Markets Act 2000 ("FSMA"). In particular, the Joint Committee shall not constitute the establishment or operation of a “collective investment scheme” under s235 of FSMA.

OPERATIVE PROVISIONS

IT IS HEREBY AGREED AS FOLLOWS

1. **DEFINITIONS AND INTERPRETATION**

1.1 the following expressions have the following meanings unless inconsistent with the context:

“ACS”	an authorised contractual scheme within the meaning of section 235A of the Financial Services and Markets Act 2000
“Agreement”	this Agreement
“Agreement Personal Data”	the Personal Data which is processed by the Authorities pursuant to this Agreement
“Authorities”	(1) at the Commencement Date and until such time as an Authority withdraws from this Agreement the authorities who are parties to this Agreement and (2) after the withdrawal of an Authority from this Agreement those authorities who remain parties to this Agreement and (3) from such time as another authority becomes party to this Agreement that authority and the other authorities who are parties to this Agreement and each an “**Authority**”
“BCPP”	Border to Coast Pensions Partnership Limited a company incorporated in England and Wales (registered number 10795539) and wholly owned by the Authorities
“Business Days”	a day that is not a Saturday, Sunday or public or bank holiday in England or Wales

"Commencement Date"	the date of this Agreement
"Companies Order"	The Local Authorities (Companies) Order 1995
"Constitution"	the Constitution of the Joint Committee set out at **Schedule 2**
"Data Protection Authority"	means any organisation which is responsible for the supervision, promotion and enforcement of the Data Protection Legislation, including the Information Commissioners Office (or any joint, like, replacement or successor organisation from time to time)
"Data Controller"	has the same meaning as given to it under the Data Protection Legislation
"Data Processor"	has the same meaning as given to it under the Data Protection Legislation
"Data Protection Legislation"	means all privacy laws applicable to the personal data which is Processed under or in connection with this Agreement, including the DPA and the UK GDPR (as defined in the DPA), and all regulations made pursuant to and in relation to such legislation together with all codes of practice and other guidance on the foregoing issued by any relevant Data Protection Authority, all as amended, updated and/or replaced from time to time
"DPA"	Data Protection Act 2018, as amended, updated and/or replaced from time to time
"Exempt Information"	any information relating to this Agreement which may be: - exempt from disclosure under the Freedom of Information Act 2000 (as updated, amended, or replaced from time to time); or - excepted from disclosure under the Environmental Information Regulations 2004 (as updated amended, or replaced from time to time) - or otherwise does not fall to be disclosed because it is vexatious or compliance with the Information Request would exceed an applicable time and costs limit specified within the FOI Legislation - exempt from disclosure under section 100I and Schedule 12A of the Local Government Act 1972
"FOI Legislation"	the Freedom of Information Act 2000 and subordinate legislation made under this, or the Environmental Information Regulations 2004 together with all codes of practice and other guidance on the foregoing issued by the Information Commissioner's Office or relevant government departments, all as amended, updated and/or

	replaced from time to time
"Host Authority"	the Authority referred to in Clause 7 hereof
"Information Request"	a request for information under FOI Legislation
"Joint Committee"	the statutory Joint Committee of elected members from the Authorities established by this Agreement which will be called the Border to Coast Pension Partnership Joint Committee
"LGPS"	the Local Government Pension Scheme in England and Wales
"LGPS Investment Regulations"	The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016
"Officer Operations Group"	a group of officers employed by the Authorities who will undertake the tasks described in Schedule 3
"Original Agreement"	the Agreement dated 6 June 2017 between the Authorities and Northumberland County Council which related to the arrangements between those parties in the pooling of Local Government Pension Scheme investments
"Personal Data"	as defined in the Data Protection Legislation
"Process" and other derivations such as "Processed" and "Processing"	means any use of Personal Data. For the avoidance of doubt, this includes, without limitation, storing, accessing, reading, using, copying, printing, revising, deleting, disclosing, transferring or otherwise using Personal Data
"Secretary"	the officer appointed in accordance with **Clause 7** hereof
"Section 151 Officer"	the officer designated by a local authority as the person responsible for the proper administration of its financial affairs, as required by section 151 of the Local Government Act 1972
"Shared Objectives"	the objectives set out in **Schedule 4**
"Shareholders' Agreement"	the agreement between the Authorities which records the terms of their relationship with each other as shareholders in relation to BCPP and which regulates certain aspects of the affairs and their dealings with BCPP
"Terms of Reference"	the Terms of Reference of the Joint Committee set out at **Schedule 1**

"Withdrawing Authority"	an Authority which has given notice in accordance with clause 11 of this Agreement

1.2 references to the background section, clauses and Schedules are to the background section and clauses of and schedules to this Agreement and references to paragraphs are to paragraphs of the relevant Schedule;

1.3 the Schedules form part of this Agreement and will have the same force and effect as if set out in the body of this Agreement and any reference to this Agreement will include the Schedules;

1.4 the background section and all headings are for ease of reference only and will not affect the construction or interpretation of this Agreement;

1.5 unless the context otherwise requires:

1.5.1 references to the singular include the plural and vice versa and references to any gender include every gender; and

1.5.2 references to a "person" include any individual, body corporate, association, partnership, firm, trust, organisation, joint venture, government, local or municipal authority, governmental or supra-governmental agency or department, state or agency of state or any other entity (in each case whether or not having separate legal personality);

1.6 references to any statute or statutory provision will include any subordinate legislation made under it and will be construed as references to such statute, statutory provision and/or subordinate legislation as modified, amended extended, consolidated, re-enacted and/or replaced and in force from time to time;

1.7 any words following the words "include", "includes", "including", "in particular" or any similar words or expressions will be construed without limitation and accordingly will not limit the meaning of the words preceding them;

1.8 the rule known as the ejusdem generis rule will not apply and accordingly the meaning of general words introduced by the word "other" or a similar word or expression will not be restricted by reason of the fact that they are preceded by words indicating a particular class of acts, matters or things;

1.9 references to "in writing" or "written" are to communication effected by post and email or any other means of reproducing words in a legible and non-transitory form (but not fax);

1.10 an obligation on a party to procure or ensure the performance or standing of another person will be construed as a primary obligation of that party; and

1.11 unless expressly stated otherwise, all obligations, representations and warranties on the part of two or more persons are (unless stated otherwise) entered into, given or made by such persons severally.

2. **AMENDMENT AND RESTATEMENT OF THE ORIGINAL AGREEMENT**

2.1 The Original Agreement is hereby amended and restated on the terms of this Agreement with effect from the Commencement Date and is a continuation of the Original Agreement.

2.2 The Original Agreement shall remain in full force and effect for any issues arising which pre-date the Commencement Date and be interpreted on the terms of the Original Agreement. This Agreement does not release any party to it from any breaches of the Original Agreement existing at the date of this Agreement or affect any existing rights that have accrued under the Original Agreement prior to the date of this Agreement.

3. **SHARED OBJECTIVES**

3.1 The Authorities agree so far as reasonably possible to pursue the Shared Objectives.

4. **GOVERNING PRINCIPLES**

4.1 Each of the Authorities agrees that they will:

4.1.1 Ensure they are properly represented on the committees, working parties and other bodies provided for by this Agreement.

4.1.2 Commit to provide agreed resources within agreed timescales; and

4.1.3 Involve and inform the other Authorities of developments they are pursuing elsewhere which are relevant to BCPP and will share the learning and benefits thereof.

5. **CONTINUATION OF THE JOINT COMMITTEE**

5.1 In exercise of their powers under sections 101(4) and 102(4) of the Local Government Act 1972, the Authorities hereby agree that the Joint Committee established by the Original Agreement shall continue in accordance with the terms of this Agreement.

5.2 The purpose of the Joint Committee is to undertake the activities set out in the Terms of Reference in Schedule 1.

5.3 The Joint Committee shall operate and conduct its business in accordance with the terms of this Agreement including the Constitution in Schedule 2 and the Terms of Reference and may create sub-committees and working groups to support its role including an Officer Operations Group.

6. **GOVERNANCE**

6.1 Each of the Authorities shall each ensure that it makes any changes to its own constitution as are necessary to facilitate the operation of this Agreement.

7. **HOST AUTHORITY AND OFFICER GROUPS**

7.1 The Joint Committee will from time to time designate one of the Authorities to act as Host Authority on behalf of the Joint Committee for the purposes of entering into contracts and any other BCPP related activity where a legal person is required to act.

7.2 From the Commencement Date the Council of the Borough of South Tyneside shall be designated as Host Authority.

7.3 The Host Authority will propose a budget for the operation of the Joint Committee for approval by the Joint Committee.

7.4 The Authorities will together and equally indemnify the Host Authority in respect of any claims, liabilities and costs incurred by virtue of its role as Host Authority when acting on behalf of the Authorities together.

7.5 The Joint Committee will designate an officer employed by one of the Authorities to be the Secretary.

7.6 From the Commencement Date South Yorkshire Pensions Authority shall designate an officer as Secretary.

7.7 The Authorities will together and equally indemnify the Secretary and their Authority in respect of any claims, liabilities and costs incurred by virtue of its role as Secretary.

7.8 The Officer Operations Group will provide support to the Joint Committee in accordance with the Group's terms of reference as set out in Schedule 4 by making arrangements and engaging on behalf of the Joint Committee with BCPP.

8. **COST SHARING**

8.1 Subject to clause 8.2 costs incurred in the operation of the Joint Committee (including the costs of officers providing support to the Joint Committee through the Officer Operations Group in accordance with this Agreement) will be borne by the Authority incurring them.

8.2 Costs incurred by the Host Authority in providing secretariat services to the Joint Committee and any other costs incurred by the Host Authority on behalf of the Joint Committee in its capacity as lead authority will be shared equally between the Authorities.

9. **TERMS OF REFERENCE**

9.1 The Joint Committee will meet from time to time (with support from the officers) to discuss and form a common view on the matters within the Terms of Reference.

9.2 The Joint Committee shall not make binding decisions on these issues but may make recommendations to each Authority to individually determine.

10. **VARIATION OF AGREEMENT**

10.1 Any of the Authorities may request a variation to this Agreement by making such a request in writing to the Secretary.

10.2 The Secretary shall circulate the request to each of the Authorities within 10 Business Days of receipt of the request for consideration and approval by the Authorities.

10.3 If the Authorities approve the variation then the Secretary shall arrange for the preparation of an appropriate deed of variation to this Agreement to be prepared for execution by all Authorities and such change shall only take effect upon completion of that deed and the costs associated with the preparation of such deed of variation shall be shared equally between the Authorities.

10.4 If one of the Authorities does not approve the variation then the variation to this Agreement shall not occur.

10.5 The Authorities may from time to time agree to vary this Agreement to enable any other administering authority to become a party to this Agreement, to be effected by the Authorities so that the other administering authority shall enter into a deed or variation on such terms as may be agreed, including but without prejudice to any cost sharing provisions which may apply to the existing Authorities.

11. **WITHDRAWAL FROM THIS AGREEMENT**

11.1 An Authority may withdraw from this Agreement in accordance with the following procedure:

11.1.1 Any Authority which wishes to withdraw from this Agreement shall give not less than twelve months written notice to expire on 31st March next following to the Secretary of its intention to do so. The Secretary shall consult the other Authorities upon which such notice has been served giving due consideration to:

11.1.1.1 any loss of funding arising from such withdrawal and including any non-payment, clawback or repayment of such funding whether due under this Agreement or otherwise; and

11.1.1.2 any other loss, liability, damage, claim or expense;

which would be incurred by the other Authorities upon which notice has been served by reason of such withdrawal from this Agreement.

11.1.2 Following the expiry of the notice given in clause 11.1.1, the Authority shall cease to be a member of the Joint Committee but shall be subject to the rest of this clause 11.

11.2 Should an Authority cease to be a shareholder in or to be contractually bound to BCPP then it shall be treated as having given notice of withdrawal under the provisions of Clause 11.1 hereof save that such notice shall have immediate effect. For the avoidance of doubt, an Authority who ceases to be both a shareholder in BCPP and a member of the Joint Committee shall continue to have responsibility for complying with regulation 7(2)(d) of the LGPS Investment Regulations (pooling requirements) in accordance with its own constitution but without reference to the other parties to this Agreement or BCPP.

11.3 An Authority wishing to withdraw from this Agreement undertakes as a condition of such withdrawal to make, prior to withdrawal, such reasonable payment or payments which fairly reflect the actual losses caused by or anticipated as a result of the withdrawal as shall be determined by the other Authorities and no notice under this clause 11 shall take effect unless and until such payment has been agreed.

11.4 Each Authority reserves the right to recover from any Withdrawing Authority the costs of any claims, costs, expenses, losses or liabilities of any nature or which have been caused by any act or omission of the Withdrawing Authority in connection with this Agreement and which are discovered after the withdrawal from this Agreement.

11.5 This clause 11.5 applies if any of the Authorities is abolished or ceases to be an administering authority in circumstances where another local authority becomes the administering authority in place of the Authority.

11.5.1 Where this clause applies, the Authority affected and the remaining Authorities shall, subject to any contrary provision in any statutory order made in connection with the abolition or change in administering authority, make such arrangements as are necessary to enable the Authority affected to withdraw from this Agreement and, where relevant, to be replaced as a party to this Agreement by the replacement administering authority or authorities, provided that the replacement administering authority so consents.

11.5.2 Where this clause applies, and subject to any contrary provision in any statutory order made in connection with the abolition or change in administering authority, the remaining Authorities and the replacement administering authority or authorities shall enter into a deed of variation in accordance with the variation process set out in clause 10.5.

11.5.3 For the avoidance of doubt, where an affected Authority withdraws from this Agreement in the circumstances set out in this clause 11.5, such withdrawal shall be deemed not to be a withdrawal for the purposes of clauses 11.1.

12. TERMINATION OF THIS AGREEMENT

12.1 The Authorities agree that this Agreement may be terminated upon terms agreed by all Authorities.

12.2 Upon termination of this Agreement the Authorities agree that the Joint Committee shall cease to exist.

12.3 Notwithstanding the termination of this Agreement the Authorities each agree to do all such acts and things and execute all such documents as each of them reasonably requires.

12.4 Following the termination of this Agreement the following provisions will continue in force to the extent relevant:

12.4.1 Clause 4 (Governing Principles) and Schedule 4 (Shared Objectives);

12.4.2 Clause 8 (Cost Sharing);

12.4.3 Clause 11 (Withdrawal from this Agreement);

12.4.4 Clauses 12 (Termination of this Agreement)

12.4.5 Clause 13 (Dispute Resolution);

12.4.6 Clause 14 (Notices);

12.4.7 Clause 15 (Information and Confidentiality);

12.4.8 Clause 16 (Data Protection);

12.4.9 Clause 17 (Freedom of Information),

together with any other provisions which expressly or impliedly continue to have effect after expiry or termination of this Agreement and all other rights and obligations will immediately cease, without prejudice to any rights, obligations, claims (including without limitation claims for damages for breach) and liabilities which have accrued prior to termination.

13. **DISPUTE RESOLUTION**

13.1 The Authorities undertake and agree to pursue a positive approach towards dispute resolution which seeks (in the context of this joint working arrangement) to identify a solution at the lowest operational level that is appropriate to the subject of the dispute and which avoids legal proceedings and maintains a strong working relationship between the Authorities.

13.2 In the event of any dispute or disagreement arising out of or in connection with this Agreement or any breach thereof ("a Dispute") an Authority may serve notice upon the other setting out brief details of the Dispute that has arisen ("Notice of Dispute") and the Notice of Dispute shall in the first instance be considered by the Section 151 Officers of the relevant Authorities or such other person as the Section 151 Officer may direct, which shall, acting in good faith, attempt to resolve such dispute.

13.3 Where the Section 151 Officers are unable to resolve such dispute within a period of 28 days or where in the opinion of the Section 151 Officers such dispute would be more effectively resolved in another forum the Section 151 Officers may refer such dispute to a suitably qualified and independent person as may be recommended by the section 151 Officers and to be agreed by the Authorities which are in dispute or in the event of failure within a period of 28 days to agree on such appointment a person nominated by the President of the Law Society who shall act as an expert.

13.4 Where a dispute is referred to a person appointed under clause 13.3 hereof that person shall determine the procedure and timetable for resolution of the said dispute at his or her absolute discretion and the decision of that person shall be binding on the Authorities.

13.5 For the avoidance of doubt, this **clause 13** applies only to disputes between the Authorities and does not apply to any dispute between the Authorities and BCPP.

14. **NOTICES**

14.1 Any notice or other communication given under or in connection with this Agreement will be in writing, marked for the attention of the specified representative of the party to be given the notice or communication and:

14.1.1 sent to that party's address by pre-paid first class post or mail delivery service providing guaranteed next working day delivery; or

14.1.2 delivered to or left at that party's address (but not, in either case, by one of the methods set out in **clause 14.1.1**).

The address and representative for each Authority are set out below and may be changed by that party giving at least 10 Business Days' notice in accordance with this **clause 14**.

Bedford Borough Council

Borough Hall, Cauldwell Street, Bedford,MK42 9AP

For the attention of: s151 Officer

Cumbria County Council

117 Botchergate, Carlisle, CA1 1RD

For the attention of: s151 Officer

Durham County Council

County Hall, Durham, DH1 5UE

For the attention of: s151 Officer

The East Riding of Yorkshire Council

County Hall, Beverley HU17 9BA

For the attention of: Director of Corporate Resources

Lincolnshire County Council

County Offices, Newland, Lincoln, LN1 1YL

For the attention of: s151 Officer

Middlesbrough Borough Council

PO Box 340, Middlesbrough, TS1 2XP

For the attention of: s151 Officer

North Yorkshire County Council

County Hall, Northallerton, North Yorkshire, DL7 8AL

For the attention of: s151 Officer

The Council of the Borough of South Tyneside

Town Hall and Civic Offices, Westoe Road, South Shields, Tyne and Wear, NE33 2RL

For the attention of: s151 Officer

South Yorkshire Pensions Authority

Oakwell House, 2 Beevor Court, Pontefract Road, Barnsley, South Yorkshire, S71 1HG

For the attention of: s151 Officer

Surrey County Council

Woodhatch Place, 11 Cockshot Hill, Woodhatch, Reigate, RH2 8EF

For the attention of: s151 Officer

Warwickshire County Council

PO Box 3, Shire Hall, Warwick, CV34 4RL

For the attention of: s151 Officer

14.2 Any notice or communication given in accordance with **clause 14.1** will be deemed to have been served:

14.2.1 if given as set out in clause **14.1.1**, at 9.00am on the 2^{nd} Business Day after the date of posting; and

14.2.2 if given as set out in **clause 14.1.2**, at the time the notice or communication is delivered to or left at that party's address,

provided that if a notice or communication is deemed to be served before 9.00am on a Business Day it will be deemed to be served at 9.00am on that Business Day and if it is deemed to be served on a day which is not a Business Day or after 5.00pm on a Business Day it will be deemed to be served at 9.00am on the immediately following Business Day.

14.3 For the purposes only of this **clause 14**, references to time of day are to the time of day at the address of the recipient parties referred to in **clause 14.2**.

14.4 To prove service of a notice or communication it will be sufficient to prove that the provisions of **clause 14** were complied with.

15. INFORMATION AND CONFIDENTIALITY

15.1 Whilst acknowledging that meetings of the Joint Committee will ordinarily be open to the public, and that the Authorities intend to comply with their obligations under the FOI Legislation, the Authorities shall otherwise keep confidential all matters relating to this Agreement and shall use all reasonable endeavours to prevent their employees and agents from making any disclosure to any person of any matter relating to the Agreement.

15.2 **Clause 15.1** shall not apply to:

15.2.1 Any disclosure of information that is reasonably required by persons engaged in the performance of their obligations under this Agreement;

15.2.2 Any matter which an Authority can demonstrate is already generally available and in the public domain otherwise than as a result of a breach of this clause;

15.2.3 Any disclosure to enable a determination to be made under **Clause 13** (Dispute Resolution);

15.2.4 Any disclosure which is required by any law (including any order of a court of competent jurisdiction, in compliance with the Data Protection Legislation, and/or the FOI Legislation), any Parliamentary obligation or the rules of any stock exchange or governmental or regulatory authority having the force of law;

15.2.5 Any disclosure of information which is already lawfully in the possession of the receiving Authority in its own capacity and available for its unconditional use, prior to its disclosure by the disclosing Authority;

15.2.6 Any disclosure by an Authority to a department, office or agency of the Government; and

15.2.7 Any disclosure to appropriate firms or audit bodies for the purpose of the examination and certification of an Authority’s accounts.

15.3 Save for in relation to disclosures made under the FOI Legislation which cannot be made subject to imposed conditions, where disclosure is permitted under **clause 15.2**, the recipient of the information shall be placed under the same obligation of confidentiality as that contained in this Agreement by the disclosing Authority.

16. DATA PROTECTION

16.1 The Authorities shall be separate Data Controllers of the Agreement Personal Data. As such, the Authorities shall at all times comply with their obligations under the Data Protection Legislation. In doing so the Authorities shall:

16.1.1 to the extent required, maintain a valid and up to date registration or notification under the Data Protection Legislation covering any Processing of Agreement Personal Data;

16.1.2 only undertake Processing of Agreement Personal Data that is reasonably required in connection with the operation of this Agreement and only as may be lawful under the Data Protection Legislation;

16.1.3 not transfer any Agreement Personal Data to any country or territory outside the UK, notwithstanding their ability to do so under the Data Protection Legislation, save for any export of Agreement Personal Data which is compliant with the Data Protection Legislation which is necessary for the use of core IT services and systems operated by the Authorities in connection with this Agreement;

16.1.4 implement appropriate technical and organisational measures to prevent unauthorised or unlawful Processing of Agreement Personal Data and against the accidental loss, or destruction of, or damage to Agreement Personal Data;

16.1.5 promptly notify the other Authorities (and no later than within one working day) if they become aware of any actual or suspected, threatened or 'near miss' incident of accidental or unlawful destruction, loss, alteration, unauthorised or accidental disclosure of or access to the Agreement Personal Data Processed, or if it is corrupted or rendered unusable, which is reasonably likely to result in risks to the rights and freedoms of natural persons;

16.1.6 use their reasonable endeavours to restore or retrieve any personal data which is unlawfully or accidentally lost, destroyed, damaged, corrupted or made unusable;

16.1.7 keep full, up-to-date and accurate records of any processing of Personal Data carried out pursuant to this Agreement;

16.1.8 promptly respond to any request from one of the other Authorities to amend, transfer, delete or otherwise Process Personal Data; and

16.1.9 not do anything (whether by act or omission) which would cause the other Authorities to be in breach of their obligations as Data Controllers of the Agreement Personal Data under the Data Protection Legislation.

16.2 The Authorities shall not disclose Agreement Personal Data to any third parties other than in compliance with the Data Protection Legislation, for example other than:

16.2.1 as required in law in response to a data subject access request under the DPA;

16.2.2 to employees and contractors to whom such disclosure is necessary in order to comply with their obligations under this Agreement; or

16.2.3 to the extent required to comply with a legal obligation.

16.3 To the extent that any Authority acts as a Data Processor for and on behalf of one or more of the other Authorities in relation to the Agreement Personal Data Processed pursuant to this Agreement, the Data Processor and the Data Controller(s) shall enter into an agreement which complies with the terms of the Data Protection Legislation. In particular, the Data Processor shall:

16.3.1 only Process that Agreement Personal Data on the written instructions of the Data Controller(s) unless required by law to act without such instructions;

16.3.2 ensure that all persons authorised to process the Agreement Personal Data have committed themselves to confidentiality or are under an appropriate statutory duty of confidentiality;

16.3.3 take appropriate measures to ensure the security of Agreement Personal Data;

16.3.4 not engage a sub-processor except with the prior consent of the Data Controller(s) and subject to a written contract being put in place with the sub-processor;

16.3.5 assist the Data Controller(s) in providing subject access and allowing data subjects to exercise their rights under relevant Data Protection Legislation;

16.3.6 assist the Data Controller(s) in meeting its/their Data Protection Legislation obligations in relation to Agreement Personal Data as regards the security of processing, the notification of personal data breaches and data protection impact assessments;

16.3.7 in relation to the Agreement Personal Data, submit to audits and inspections, provide the Data Controller(s) with whatever information it/they need to ensure that they are complying with their obligations under the Data Protection Legislation in relation to the Processing and tell the Data Controller immediately if in its opinion an instruction infringes the Data Protection Legislation;

16.3.8 not transfer any Agreement Personal Data outside the UK to any jurisdiction that has not been determined as providing an adequate level of protection for Personal Data by the relevant Data Protection Authority or the UK Government, unless this is done with the express written agreement of the Data Controller(s) and it is necessary for the use of core IT services and systems operated by the Authorities, and is undertaken in compliance with Data Protection Legislation; and

16.3.9 on withdrawal from or termination of this Agreement, return all the Agreement Personal Data to the Data Controller(s) and securely delete and/or destroy any copies of the Agreement Personal Data which is Processed by the Data Processor pursuant to this Agreement, unless applicable laws permit retention of the Agreement Personal Data, in which case the relevant Authority(ies) agree(s) it (or they) shall retain the Agreement Personal Data securely and only for as long as strictly necessary in the capacity as a Data Controller.

16.4 Each Authority agrees to indemnify and keep indemnified and defend at its own expense the other Authorities against all costs, claims, damages and/or expenses (including legal and administrative) incurred by the other Authorities or for which the other Authorities may become liable due to any failure by that particular Authority, its employees or agents to comply with any of its obligations under this **clause 16**.

17. FREEDOM OF INFORMATION

17.1 The Authorities recognise that each Authority is a public authority as defined by FOI Legislation and therefore recognise that information relating to this Agreement may be the subject of an Information Request which shall be considered in accordance with this **Clause 17**.

17.2 The Authorities shall assist each other in complying with their obligations under FOI Legislation, as they relate to Information Requests made in relation to this Agreement, including but not limited to assistance without charge in gathering information to respond to an Information Request relating to this Agreement. For the avoidance of doubt, nothing in this **clause 17.2**, shall require an Authority to provide information, if the relevant information has not been held on behalf of the Authority that received the Information Request.

17.3 Where an Authority receives an Information Request in relation to this Agreement and another Authority holds information or records on behalf of that Authority, upon request, such other Authority agrees to provide the first Authority with a copy of all such information related to the Information Request, in the form that the first Authority reasonably requires within five business days (or such other period as the first Authority may reasonably specify) of the first Authority's request.

17.4 Each Authority, as a separate public authority, shall in its absolute and sole discretion, decide:

17.4.1 whether the Information Request is valid under the FOI Legislation, as well as all other considerations relevant in the assessment of an Information Request under the FOI Legislation, such as any considerations (as may be applicable) regarding the cost of complying with a request or any charges for responding to a request, whether the request is repeated, vexatious or manifestly unreasonable and any other relevant considerations;

17.4.2 whether the information requested in an Information Request is relevant to the Agreement;

17.4.3 whether, if the Information Request does relate to the Agreement, whether the information is Exempt Information;

17.4.4 where appropriate, whether or not in all circumstances of the case the public interest in maintaining any exemption outweighs the public interest in disclosing the requested information ; and

17.4.5 whether the information requested in the Information Request is to be disclosed or not, or proactively disclosed regardless of whether an Information Request has been received or not.

17.5 Where an Authority receives an Information Request for information about the Agreement which may be Exempt Information and which refers to one or more of the Authorities, then where reasonably practicable and, subject to **clause 17.6** take reasonable steps prior to disclosure of such information to:

17.5.1 circulate the Information Request to the other Authorities and invite the other Authorities to make representations to the Authority which received the Information Request as to whether or not the information is Exempt Information as soon as reasonably possible, ensuring that such submissions are made in good time so as to enable the Authority which received the Information Request to comply with their obligations under the FOI Legislation; and

17.5.2 in good faith, consider any representations raised by the other Authorities when deciding whether to disclose Exempt Information, but the Authority which receives the Information Request shall not be obliged to accept or agree to the representations which are made by the other Authorities.

17.6 The Authorities acknowledge that (notwithstanding the provisions of this **clause 17**) the Authority which received the Information Request may, under the FOI Legislation or acting in accordance with the Department of Constitutional Affairs' Code of Practice on the Discharge of Functions of Public Authorities under Part I of the Freedom of Information Act 2000 (the "Code"), be obliged under the FOI Legislation to disclose information concerning this Agreement or the other Authorities:

17.6.1 in certain circumstances without consulting with the other Authorities; or

17.6.2 following consultation with the other Authorities and having taken their views into account,

provided always that where **clause 17.5.1** above applies the Authority which receives the Information Request, take reasonable steps wherever practicable to draw this to the attention of the other Authorities prior to any disclosure.

17.7 The Authorities acknowledge and agree that an Authority will not be liable to the other Authority for any loss, damage, harm or detrimental effect arising from or in connection with the disclosure of information in response to an Information Request.

18. EQUAL OPPORTUNITIES

18.1 Each of the Authorities is subject to public law duties under the Equality Act 2010 and agrees to operate the Agreement in such a way as to promote equality of opportunity, good race relations and to prevent unlawful discrimination on the grounds of race, disability, gender, age, religion or belief, and sexual orientation.

19. RELATIONSHIP OF AUTHORITIES

19.1 Each of the Authorities is an independent local authority and nothing contained in this Agreement shall be construed to imply that there is any relationship between the Authorities of partnership or principal/agent or of employer/employee. No Authority shall have any right or authority to act on behalf of any other Authority nor to bind another

Authority by contract or otherwise except to the extent expressly permitted by the terms of this Agreement or the Shareholders' Agreement.

20. **COUNTERPARTS**

20.1 This Agreement may be executed in any number of counterparts, each of which will constitute an original but which will together constitute one agreement.

21. **SEVERANCE**

21.1 If any term of this Agreement is found by any court or body or authority of competent jurisdiction to be illegal, unlawful, void or unenforceable, such term will be deemed to be severed from this Agreement and this will not affect the remainder of this Agreement which will continue in full force and effect. In this event the parties will agree a valid and enforceable term to replace the severed term which, to the maximum extent possible, achieves the parties' original commercial intention and has the same economic effect as the severed term.

22. **RIGHTS OF THIRD PARTIES**

22.1 The Authorities do not intend that any term of this Agreement will be enforceable under the Contracts (Rights of Third Parties) Act 1999 by any third party.

23. **GOVERNING LAW**

23.1 This Agreement and any non-contractual obligations arising out of or in connection with it will be governed by the law of England and Wales.

24. **JURISDICTION**

24.1 Each party agrees that the courts of England and Wales have exclusive jurisdiction to determine any dispute arising out of or in connection with this Agreement (including in relation to any non-contractual obligations).

This document is executed as a **deed** and **delivered** on the date stated at the beginning of this Agreement.

EXECUTED AS A DEED
(but not delivered until the date hereof)
by affixing the Common Seal of:
BEDFORD BOROUGH COUNCIL
in the presence of:

Authorised Officer

EXECUTED AS A DEED
(but not delivered until the date hereof)

by affixing the Common Seal of:

CUMBRIA COUNTY COUNCIL

in the presence of:

Authorised Officer

EXECUTED AS A DEED
(but not delivered until the date hereof)
by affixing the Common Seal of:
THE COUNTY COUNCIL OF DURHAM
in the presence of:

Authorised Sealing Officer
(A permanent Officer of Durham)

EXECUTED AS A DEED
(but not delivered until the date hereof)
by affixing the Common Seal of:
THE EAST RIDING OF YORKSHIRE COUNCIL
in the presence of:

Authorised Officer

EXECUTED AS A DEED
(but not delivered until the date hereof)
by affixing the Common Seal of:
LINCOLNSHIRE COUNTY AUTHORITY
in the presence of:

Authorised Officer

EXECUTED AS A DEED
(but not delivered until the date hereof)
by affixing the Common Seal of:
MIDDLESBROUGH BOROUGH COUNCIL
in the presence of:

Authorised Officer

EXECUTED AS A DEED
(but not delivered until the date hereof)
by affixing the Common Seal of:
NORTH YORKSHIRE COUNTY COUNCIL
in the presence of:

Authorised Officer

EXECUTED AS A DEED
(but not delivered until the date hereof)
by affixing the Common Seal of:
THE COUNCIL OF THE BOROUGH
OF SOUTH TYNESIDE
in the presence of:

Mayor / Authorised Signatory

Corporate Lead Legal and Governance / Authorised Signatory

EXECUTED AS A DEED
(but not delivered until the date hereof)
by affixing the Common Seal of:
SOUTH YORKSHIRE PENSIONS AUTHORITY
in the presence of:

Authorised Officer

EXECUTED AS A DEED
(but not delivered until the date hereof)
by affixing the Common Seal of:
SURREY COUNTY COUNCIL
in the presence of:

Authorised Officer

EXECUTED AS A DEED
(but not delivered until the date hereof)
by affixing the Common Seal of:
WARWICKSHIRE COUNTY COUNCIL
in the presence of:

Authorised Officer

SCHEDULE 1

TERMS OF REFERENCE OF THE JOINT COMMITTEE

1 The primary purpose of the Joint Committee is to exercise oversight over the investment performance of the collective investment vehicles operated by BCPP.

2 The Joint Committee will provide effective engagement with the Authorities as the investment vehicles are established and ultimately operated by BCPP. It will encourage best practice, operate on the basis that all partners have an equal say and promote transparency and accountability to each Authority.

3 The remit of the Joint Committee is:

3.1.1 To provide support and guidance to the work being undertaken by the Officer Operations Group.

3.1.2 To consider issues and provide feedback on relevant proposals as they are developed, ensuring effective engagement with the Authorities to scrutinise and monitor project management arrangements and proposals for the appointment of advisers by the Authorities.

3.1.3 To formulate processes and policies for appointment and termination of membership to the Joint Committee.

3.1.4 To facilitate the adoption by the Authorities of relevant contracts and policies.

3.1.5 To review and comment on requests for the creation of investment propositions and to make recommendations to BCPP as to the creation of additional investment propositions.

3.1.6 To review and comment from time to time on the range of investment propositions offered and the winding up and transfer of investment propositions.

3.1.7 To formulate and propose any common voting policy for adoption by the Authorities and to review and comment on any central policy adopted by BCPP.

3.1.8 To formulate and propose any common ESG/RI policy for adoption by the Authorities and to review and comment on any central policy adopted by BCPP.

3.1.9 To formulate and propose any common conflicts policy for adoption by the Authorities.

3.1.10 To review and comment on each individual Authority's high level transition plans for the transfer of assets to the vehicles established and operated by BCPP in accordance with the Shared Objectives.

3.1.11 To oversee performance of the vehicles established and operated by BCPP as a whole and individual investment propositions by receiving reports from BCPP and taking advice from the Officer Operations Group on those reports along with any external investment advice that it deems necessary.

3.1.12 To procure and employ, through an Authority, any professional advisor that the Joint Committee deems necessary to secure the proper performance of their duties.

SCHEDULE 2

CONSTITUTION OF THE JOINT COMMITTEE

1 The Joint Committee shall consist of one elected member appointed by each Authority. The member so appointed must at all times during the appointment, be a member of the committee or sub-committee of that Authority which discharges the functions of that Authority with respect to pensions.

2 Each Authority may appoint a named substitute. Any named substitute must meet the eligibility requirements in paragraph 1. The substitute may attend any meeting of the Joint Committee or any of its sub-committees in place of that authority's principal member if prior written notice that the substitute will attend is given to the Secretary by the Authority concerned.

3 Where a substitution notice is in effect with respect to a particular member at a particular meeting, the substitute shall be a full member of the Joint Committee for the duration of the meeting in place of the principal member.

4 Each Authority may remove its appointed member and appoint a different member by giving written notice to the Secretary.

5 Each appointed member shall be entitled to remain on the Joint Committee for so long as the Authority appointing him or her so wishes, but shall cease to be a member if he or she ceases to be a member of the appointing Authority or if that Authority removes the appointed member.

6 Any casual vacancies will be filled as soon as reasonably practicable by the Authority from which such vacancy arises by giving written notice to the Secretary to the Joint Committee or his or her nominee.

7 Each member of the Joint Committee shall comply with any relevant code of conduct of his or her Authority when acting as a member of the Joint Committee.

8 The Joint Committee may co-opt such other persons as its sees fit to be members of the Joint Committee but without power to vote.

Proceedings

9 Time and Place of Meetings

The Joint Committee will meet at least once each year and further as may be required. All meetings of the Joint Committee will take place at a suitable venue and at a time to be agreed by the Joint Committee.

10 Notice of and Summons to Meetings

The Secretary will give notice to the public of the time and place of any meeting in accordance with Part VA of the Local Government Act 1972. At least five Business Days before a meeting, the Secretary will send a summons by post or email to every member or make arrangements for it to be left at his or her usual office. The summons will give the date, time and place of each meeting and specify the business to be transacted, and will be accompanied by such reports as are available.

11 Chair and Vice Chair of Joint Committee

11.1 The Chair of the Joint Committee will be appointed from time to time by the members of the Joint Committee. Subject to paragraph 5, the Chair shall hold that office until another member is appointed. The appointment of the Chair shall take place every two years, beginning with the Commencement Date with subsequent appointments falling not later than the first meeting of the Joint Committee following the start of the relevant municipal year. The Chair shall be permitted to serve for a maximum of two terms.

11.2 The Vice-Chair of the Joint Committee will be appointed from time to time by the members of the Joint Committee. Subject to paragraph 5, the Vice-Chair shall hold that office until another member is appointed. The appointment of the Vice-Chair shall take place every two years, beginning with the Commencement Date with subsequent appointments falling not later than the first meeting of the Joint Committee following the start of the relevant municipal year. The Vice-Chair shall be permitted to serve for a maximum of two terms.

11.3 If there is a quorum of members present but neither the Chair nor the Vice-Chair is present at a meeting of the Joint Committee, the other members of the Joint Committee shall choose one of the members of the Joint Committee to preside at the meeting.

12 Quorum

The quorum of a meeting will be at least 60% of members who are entitled to attend and vote.

13 Voting

13.1 Majority

Each member of the Joint Committee shall have one vote. Any matter will be decided by a simple majority of those members of the Joint committee present in the room at the time the question is put.

13.2 By Substitutes

Any person appointed as a substitute shall have the same voting rights as the member of the Joint Committee for whom he or she is substituting. Where notice of substitution has been given for a particular meeting the principal member may not vote unless the notice of substitution is withdrawn in writing before the start of the meeting.

13.3 Show of hands

The Chair will take the vote by show of hands, or if there is no dissent, by the affirmation of the meeting.

14 Minutes

The Secretary shall arrange for written minutes to be taken at each meeting of the Joint Committee and shall present them to the Joint Committee at its next meeting for approval as a correct record. At the next meeting of the Joint Committee, the Chair shall move that the minutes of the previous meeting be signed as a correct record. If this is agreed, the Chair shall sign the minutes. The only part of the minutes that can be discussed is their accuracy.

15 Public Access

Meetings of the Joint Committee shall be open for members of the public to attend unless the Joint Committee determines that it is necessary to exclude members of the public in accordance with Part VA of the Local Government Act 1972 or the Joint Committee determines that it is necessary to close the meeting to the public because of a disturbance. Copies of the agenda for meetings of the Joint Committee and any reports for its meetings shall be open to inspection by members of the public at the offices of the Authorities with the exception of any report which the Secretary determines relates to items which in his or her opinion are likely to be considered at a time when the meeting is not to be open to the public.

15.1 Disturbance by member of the public

If a member of the public interrupts proceedings, the Chair will warn the person concerned. If that person continues to interrupt, the Chair will arrange for their removal from the meeting room and will suspend the meeting until the member of the public has left or been removed.

15.2 Clearance of part of meeting room

If there is a general disturbance in any part of the meeting room open to the public, the Chair may call for that part to be cleared.

16 Overview and Scrutiny

The Joint Committee and the Host Authority will co-operate with reasonable requests for information from any of the Authorities' overview and scrutiny committees.

17 Regulation of Business

17.1 Any ruling given by the Chair as to the interpretation of this constitution with respect to the regulation of proceedings at meeting shall be final.

17.2 Subject to the law, the provisions of this Constitution and the terms of any contract, the Joint Committee may decide how it discharges its business.

18 Urgent Business

18.1 In cases of urgency, the Host Authority, in consultation with the Chair and Vice Chair, may take decisions on behalf of the Joint Committee.

18.2 As far as reasonably practicable, the Host Authority shall communicate the intention to exercise the decision-making power under paragraph 18.1 to the other Authorities before the decision is made.

18.3 Any decisions taken under paragraph 18.1 will be reported at the next meeting of the Joint Committee together with an explanation of the need for urgency in the decision-making process.

SCHEDULE 3

TERMS OF REFERENCE FOR THE OFFICER OPERATIONS GROUP

1 The Officer Operations Group is a working group of officers appointed by the Authorities whose role is to provide a central resource for advice, assistance, guidance and support for the Joint Committee (and also if requested for the Authorities as a collective group of investors through BCPP).

2 The Officer Operations Group shall work with the Joint Committee to support the functions of the Joint Committee as set out in the Joint Committee's Terms of Reference.

3 The Officer Operations Group shall provide technical support at meetings of the Joint Committee, for example by approving and delivering performance management reports for the Joint Committee on all aspects relating to the provision of services by BCPP.

4 The Officer Operations Group shall act as a conduit for the BCPP Joint Committee to communicate back to the respective Authorities and/or direct to BCPP as appropriate.

5 The Officer Operations Group shall operate in accordance with the shared objectives of the Authorities as set out at **Schedule 4** and within any budget set by the Authorities.

SCHEDULE 4

SHARED OBJECTIVES

1 To provide to the authorities a compliant and effective means of meeting the Government's requirement for the pooling of LGPS funds and thereby to achieve scale, improve governance, enhance capability and capacity to deliver infrastructure investment and fees savings and to comply with any current and future governance requirements placed on the investment function of LGPS administering authorities.

2 To operate with a common or like-minded responsible investor/shareholder voting policy which focuses on securing high levels of corporate governance by the companies invested in.

3 To share legal ownership, control and decisive influence over BCPP and to allocate the associated costs of operating BCPP between the Authorities in an equitable manner.

4 Following the transitioning of assets to BCPP, the Authorities shall primarily but not exclusively invest their LGPS pension fund assets either through the collective investment vehicle(s) operated by BCPP, as the primary and exclusive collective investment vehicle(s) for all eligible fund assets, or by appointing BCPP to manage any non-eligible pension assets outside of such vehicle(s).

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Dated: **2022**

(1) BEDFORD BOROUGH COUNCIL

(2) CUMBRIA COUNTY COUNCIL

(3) DURHAM COUNTY COUNCIL

(4) THE EAST RIDING OF YORKSHIRE COUNCIL

(5) LINCOLNSHIRE COUNTY COUNCIL

(6) MIDDLESBROUGH BOROUGH COUNCIL

(7) NORTH YORKSHIRE COUNTY COUNCIL

(8) THE COUNCIL OF THE BOROUGH OF SOUTH TYNESIDE

(9) SOUTH YORKSHIRE PENSIONS AUTHORITY

(10) SURREY COUNTY COUNCIL

(11) WARWICKSHIRE COUNTY COUNCIL

(12) BORDER TO COAST PENSIONS PARTNERSHIP LIMITED

Shareholders' Agreement in respect of Border to Coast Pensions Partnership Limited

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Contents

Schedules

THIS AGREEMENT is made on 2022

BETWEEN

(1) **Bedford Borough Council**, of Borough Hall, Cauldwell Street, Bedford, MK42 9AP;

(2) **Cumbria County Council**, of 117 Botchergate, Carlisle, CA1 1RD;

(3) **Durham County Council**, of County Hall, Durham, DH1 5UE;

(4) **The East Riding Of Yorkshire Council**, of County Hall, Beverley HU17 9BA;

(5) **Lincolnshire County Council**, of County Offices, Newland, Lincoln, LN1 1YL;

(6) **Middlesbrough Borough Council**, of PO Box 340, Middlesbrough, TS1 2XP;

(7) **North Yorkshire County Council**, of County Hall, Northallerton, North Yorkshire, DL7 8AL;

(8) **The Council of the Borough of South Tyneside**, of Town Hall and Civic Offices, Westoe Road, South Shields, Tyne and Wear, NE33 2RL;

(9) **South Yorkshire Pensions Authority**, of Oakwell House, 2 Beevor Court, Pontefract Road, Barnsley, South Yorkshire, S71 1HG;

(10) **Surrey County Council**, of Woodhatch Place, 11 Cockshot Hill, Woodhatch, Reigate, RH2 8EF;

(11) **Warwickshire County Council**, of PO Box 3, Shire Hall, Warwick, CV34 4RL; and

(12) **Border to Coast Pensions Partnership Limited**, a company incorporated in England and Wales (registered number 10795539) whose registered office is at 5th Floor Toronto Square, Leeds, England, LS1 2HJ ("**BCPP**" or "**the Company**").

BACKGROUND

(A) The Shareholders together are each administering authorities within the LGPS and within the meaning of the Local Government Pension Scheme Regulations 2013. They each administer, maintain and invest their own respective funds within the LGPS in accordance with those Regulations and the Investment Regulations.

(B) BCPP was formed as an entity to act as an alternative investment fund manager to run and operate one or more collective investment vehicles to allow the administering authorities to pool some or all of their respective LGPS investments and any other authorised investment activities of the pool.

(C) The Shareholders are the sole shareholders in BCPP and with Northumberland County Council entered into the Original Agreement to record the terms of their relationship with each other in relation to BCPP and to regulate certain aspects of their affairs and dealings with BCPP. Northumberland County Council ceased to be a shareholder in October 2020 and its shares were purchased by BCPP in accordance with the terms of the Original Agreement.

(D) Clause 24 of the Original Agreement permits the Parties to amend the terms of that agreement in writing. The Original Agreement was amended by the Shareholders and BCPP by a Supplemental Agreement dated 6 October 2020 (the **"Supplemental Agreement"**) in accordance with clause 24.

(E) Following a review of the governance arrangements for BCPP the Shareholders and BCPP agree that certain changes to the Original Agreement are needed. The Parties are therefore entering into this Agreement to amend and restate the Original Agreement.

(F) BCPP has agreed with the Shareholders that it will comply with the terms and conditions of this Agreement insofar as they relate to BCPP.

(G) BCPP and the Shareholders have agreed that they will comply with the Local Authorities (Companies) Order 1995 (and any supplemental or replacement legislation related thereto) in so far as it relates to BCPP.

1. DEFINITIONS AND INTERPRETATION

In this Agreement:

1.1 the following words and expressions have the following meanings unless the context otherwise requires:

"2006 Act"	the Companies Act 2006 (as amended from time to time)
"A List Reserved Matter"	the reserved matters set out in **Part A** of **Schedule 1** (being unanimous reserved matters)
"A Shares"	the A ordinary shares of £1.00 each in the capital of BCPP having the rights set out in the Articles
"Additional Capital Liability"	an unbudgeted expense or liability which the Company is required to pay as a result of activities carried out in its capacity as an authorised alternative investment fund manager under the rules of the FCA or an operator of an unregulated collective investment scheme
"Adequate Procedures"	in respect of the relevant party, adequate procedures designed to prevent persons associated with it from undertaking conduct causing it to be guilty of an offence under section 7 Bribery Act and which comply with the guidance published under section 9 Bribery Act
"Annual Budget"	a budget in a form to be prepared and adopted pursuant to **clause 6** in respect of BCPP for each year
"Annual Operating Charge"	the meaning given to it in **clause** 4.1
"Anti-Bribery Laws"	any and all statutes, statutory instruments, bye-laws, orders, directives, treaties, decrees and laws, any common law, judgment, demand, order or decision of any court, regulator or tribunal which relate to anti-bribery and/or anti-corruption including the Bribery Act
"Anti-Corruption Policy"	an anti-corruption policy of BCPP requiring BCPP and its officers, employees, agents and any other person who performs services for or on its behalf to comply with the Anti-Bribery Laws
"Articles"	the Articles of Association of BCPP amended from time to time in accordance with the terms of this Agreement
"B List Reserved Matter"	the reserved matters set out in **Part B** of **Schedule 1** (being Shareholder Majority reserved matters)

"B Shares"	the B ordinary shares of £1.00 each in the capital of BCPP having the rights set out in the Articles
"Board"	the board of directors of BCPP from time to time
"Bribery Act"	the Bribery Act 2010
"Business"	the meaning given to it in **clause** 3.1
"Business Day"	a day that is not a Saturday, Sunday or public or bank holiday in England and/or Wales
"Capital Contribution Letter"	a letter making a capital contribution in the form set out in **Schedule 5**
"Chief Executive"	the office of (or person appointed to the office of as the context requires) chief executive of BCPP
"Confidential Information"	the meaning given to it in **clause** 14.2.1
"Contributory Amount"	the meaning given to it in **clause** 4.14.1
"Control"	in relation to a person, the power (whether direct or indirect) to direct or cause the direction of its affairs, whether by means of holding shares, possessing voting power, exercising contractual powers or otherwise and **"Controls"** and **"Controlled"** will be construed accordingly
"Costs"	all costs (on a full indemnity basis) including legal and other professional costs and costs of enforcement
"CRR"	the European Union Credit Requirements Regulation 575/2013 and such law, regulation or other enactment which may replace it or give effect to it in the United Kingdom upon an exit of the United Kingdom from the European Union
"Deadlock Date"	the date of service of a Deadlock Notice by any Shareholder on BCPP and the other Shareholder(s)
"Deadlock Notice"	a written notice confirming that a Deadlock Situation has arisen
"Deadlock Situation"	the meaning given to it in **clause** 11.1
"Discloser"	the meaning given to it in **clause** 14.2.1.1
"Dispute Notice"	a written notice confirming that a Shareholder believes that a dispute has arisen in accordance with **clause** 12
"Due Date"	the meaning given to it in **clause 4.14.2**
"EIR"	the Environmental Information Regulations 2004 and any subordinate legislation made under it, any amendment or re-enactment of any of them, all as amended, supplemented and/or replaced from time to time
"Encumbrance"	any mortgage, charge, pledge, lien, assignment, option, restriction, claim, right of pre-emption, right

	of first refusal, third party right or interest, other encumbrance or security interest of any kind or other type of preferential arrangement (including a title transfer or retention arrangement) having similar effect
"Exiting Shareholder"	the meaning given to it in **clause 15.2.2**
"FCA"	Financial Conduct Authority or any replacement body
"Fair Market Value"	the fair market value of any Share agreed between the Board and any Shareholder or, in the event of any dispute, as determined by the auditors of BCPP (or if they are unwilling to act, by an independent accountant nominated by the Board and the relevant Shareholder(s) (or, in default of which, by the President of the Institute of Chartered Accountants in England and Wales))
"Financial Year"	the period of twelve months ending on 31 March and each successive accounting reference period of BCPP as determined by section 391 of the Companies Act 2006
"FOIA"	the Freedom of Information Act 2000, all regulations made under it and any subordinate legislation made under them, any amendment or re-enactment of any of them, all as amended, supplemented and/or replaced from time to time
"FOIA Legislation"	the FOIA and/or the EIR (as applicable)
"Group Companies"	in respect of a person, any persons that Control, are Controlled by or are under common Control with that person from time to time
"Inter Authority Agreement"	the agreement between the Shareholders to cooperate in the pooling of LGPS investments dated 6 June 2017 as updated or amended from time to time
"Investment Regulations"	The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016
"LGPS"	the Local Government Pension Scheme in England and Wales
"Major Unbudgeted Expense Adjustment"	an Additional Capital Liability which is more than the Company's Regulatory Capital Requirements but less than the lower of (i) the amount which is 4 times the Company's Regulatory Capital Requirements; or (ii) £60,000,000
"Original Agreement"	the legal agreement dated 12 July 2017 between the Shareholders and BCPP relating to the relationships between the Shareholders in respect of BCPP and also to regulate certain aspects of the Shareholders' dealings with BCPP
"Payment Date"	the meaning given to it in **clause** 4.3

"Permitted Transferee"	another LGPS administering authority admitted as a new Shareholder in accordance with **clause 19**
"Procurement Legislation"	Directive 2014/24/EU of the European Parliament and of the Council and any legislation implementing this Directive in the UK (as amended from time to time) which at the date of this Agreement shall be the Public Contracts Regulations 2015
"Purpose" or "Purposes"	the meaning given to them in **clause** 14.2.2.2
"Recipient"	the meaning given to it in **clause** 14.2.1.1
"**Regulatory Capital Requirements**"	the requirements under Article 9 of the Alternative Investment Fund Managers Directive 20011/61/EU as amplified or implemented EU Regulation 231/2013 and any relevant other European Union or United Kingdom instrument
"Regulatory Capital Statement"	the statement issued by BCPP to determine whether BCPP satisfies Regulatory Capital Requirements
"Related Agreements"	the following documents: (a) Articles (b) Inter Authority Agreement and any other agreements entered into between BCPP and all of the Shareholders before the date of this Agreement
"Representatives"	in respect of a party, that party's Group Companies and its and their officers, directors, employees, consultants and professional advisers; and "**Representative**" means any of them
"Request for Information"	a request for information to which the FOIA Legislation applies, where the information requested consists of or includes Confidential Information of a party to this Agreement
"Request Recipient"	a party that receives a Request for Information
"Section 151 Officer"	the officer designated by a local authority as the person responsible for the proper administration of its financial affairs, as required by section 151 of the Local Government Act 1972
"Serious Unbudgeted Expense Adjustment"	an Additional Capital Liability which is equal to or more than £60,000,000 or, if lower, the amount which is 4 times the Company's Regulatory Capital Requirements
"Shared Objectives"	the objectives set out in **Schedule 2**
"Shareholder Majority"	the holders of 66.6% or more of the A Shares from time to time

"Shareholder Reserved Matters"	the A List Reserved Matters and the B List Reserved Matters
"Shareholders"	any holder of Shares and **"Shareholder"** will mean any of them
"Shares"	shares in the capital of BCPP and **"Share"** will be construed accordingly
"Statutes"	the Companies Acts as defined in section 2 of the Companies Act 2006 and every other statute, order, regulation, instrument or other subordinate legislation for the time being in force relating to companies and affecting the Company
"Strategic Plan"	the annual business plan (including the Annual Budget) for BCPP prepared and approved in accordance with **clause** 6 as varied from time to time in accordance with the terms of this Agreement
"Subsidiary/ies"	has the meaning given to it by section 1159 of the Companies Act 2006 and for the purposes of section 1159(1) a company (the first company) shall be treated as a member of another company if: (a) any of its subsidiaries is a member of that other company; or (b) any shares in that other company are held by a person acting on behalf of the first company or any of its subsidiaries; or (c) any shares in that other company are registered in the name of a person (or its nominee) by way of security or in connection with the granting of security over those shares by the first company
"Termination Date"	the date of termination of this Agreement under **clause** 17
"Unbudgeted Expense Adjustment"	an Additional Capital Liability which is of an amount which is equal to or less than the Company's Regulatory Capital Requirements
"Unbudgeted Expense Adjustment Statement"	the meaning given to it in **clause** 4.14
"Withdrawal Date"	the meaning given to it in **clause** 15.2.1

1.2 references to the background section, clauses and Schedules are to the background section and clauses of and schedules to this Agreement and references to paragraphs are to paragraphs of the relevant Schedule;

1.3 the Schedules form part of this Agreement and will have the same force and effect as if set out in the body of this Agreement and any reference to this Agreement will include the Schedules;

1.4 the background section and all headings are for ease of reference only and will not affect the construction or interpretation of this Agreement;

1.5 unless the context otherwise requires:

1.5.1 references to the singular include the plural and vice versa and references to any gender include every gender; and

1.5.2 references to a "person" include any individual, body corporate, association, partnership, firm, trust, organisation, joint venture, government, local or municipal authority, governmental or supra-governmental agency or department, state or agency of state or any other entity (in each case whether or not having separate legal personality);

1.6 references to any statute or statutory provision will include any subordinate legislation made under it and will be construed as references to such statute, statutory provision and/or subordinate legislation as modified, amended extended, consolidated, re-enacted and/or replaced and in force from time to time;

1.7 any words following the words "include", "includes", "including", "in particular" or any similar words or expressions will be construed without limitation and accordingly will not limit the meaning of the words preceding them;

1.8 the rule known as the ejusdem generis rule will not apply and accordingly the meaning of general words introduced by the word "other" or a similar word or expression will not be restricted by reason of the fact that they are preceded by words indicating a particular class of acts, matters or things;

1.9 references to "in writing" or "written" are to communication effected by post and email or any other means of reproducing words in a legible and non-transitory form (but not fax);

1.10 any reference to a document being in the "agreed form" will mean that document in the form and content agreed by the parties and, for the purposes of identification, initialled by or on behalf of each party;

1.11 an obligation on a party to procure or ensure the performance or standing of another person will be construed as a primary obligation of that party; and

1.12 unless expressly stated otherwise, all obligations, representations and warranties on the part of two or more persons are (unless stated otherwise) entered into, given or made by such persons severally.

2. **AMENDMENT AND RESTATEMENTOF THE ORIGINAL AGREEMENT**

2.1 The Original Agreement is hereby amended and restated on the terms of this Agreement with effect from the Commencement Date and is a continuation of the Original Agreement.

2.2 The Original Agreement shall remain in full force and effect for any issues arising which pre-date the date of this Agreement and be interpreted on the terms of the Original Agreement. This Agreement does not release any party to it from any breaches of the Original Agreement existing at the date of this Agreement or affect any existing rights that have accrued under the Original Agreement prior to the date of this Agreement.

3. **BUSINESS OF BCPP**

3.1 The parties agree that the business of BCPP shall be (unless and until otherwise determined in accordance with this Agreement) acting as an alternative investment fund manager to run and operate one or more collective investment vehicles or supervise and provide advice in relation to such investments in order to provide a collaborative platform through which the Shareholders can aggregate their LGPS investments (the "**Business**").

3.2 BCPP will conduct the Business in accordance with:

3.2.1 the then current Strategic Plan;

3.2.2 the Shared Objectives; and

3.2.3 applicable law.

4. **FINANCE AND REGULATORY CAPITAL**

4.1 Each Shareholder shall pay an annual operating charge to BCPP in the amount specified in the Annual Budget in relation to services provided by BCPP as specified in the Annual Budget ("**Annual Operating Charge**").

4.2 Each Shareholder shall be required to make a contribution to BCPP's Regulatory Capital Requirements by way of a subscription for B Shares:

4.2.1 in accordance with the Regulatory Capital Statement which will be issued annually by BCPP and approved in writing by all of the Shareholders;

4.2.2 at such other times as the directors reasonably determine that additional regulatory capital is required by BCPP and notify each of the Shareholders in writing accordingly (including, without limitation, at such times as the Shareholders unanimously approve any the admission of a new shareholder in accordance with **clause 18** and pursuant to the notice of withdrawal of an Existing Shareholder as described in **clause 4.2.3** below) (such notice being an "**Additional Regulatory Capital Statement**").

4.2.3 If any Shareholder (an "**Exiting Shareholder**") ceases to hold any A Shares (at which time any B Shares held by that Shareholder may, at the discretion of the Board, be purchased by BCPP in accordance with and subject to the Articles and the Statutes) the following provisions shall apply. Upon a Shareholder giving notice to BCPP pursuant to the Articles and **clause 15.2.1** (at least twelve (12) months prior to any proposed withdrawal to expire on 31 March next following) that it wishes to withdraw as a Shareholder, the directors shall thereafter issue a notice in writing to each remaining Shareholder not less than six (6) months prior to the Withdrawal Date in respect of the Exiting Shareholder, notifying the remaining Shareholders that the Exiting Shareholder intends to withdraw as a Shareholder and confirming the amount of replacement regulatory capital (if any) and/or such other amount as may be required to be contributed by the remaining Shareholders in order to maintain the regulatory capital required by BCPP should it have determined that it shall purchase the B Shares held by the Exiting Shareholders, such other amount shall also be deemed to be regulatory capital for the purpose of this **clause 4** (such notice being a "**Replacement Regulatory Capital Statement**").

4.3 Each Shareholder shall be liable to make an equal contribution (such equal amount payable by each Shareholder being that Shareholder's "**Relevant Share**" of such capital requirement) in respect of any Regulatory Capital Requirement which is specified in a Regulatory Capital Statement, Additional Regulatory Capital Statement or Replacement Regulatory Capital Statement (as the case may be) (each such statement being a "**Statement**" for the purposes of this **clause 4**), which contribution shall be satisfied by way of a subscription by such Shareholder for such number of B Shares, at par value, as is equal to that Shareholder's Relevant Share. Each Statement shall specify the date (the "**Payment Date**") by which the subscription monies must be paid to BCPP by the Shareholders.

4.4 Following receipt of a Statement, each Shareholder shall advance to BCPP its Relevant Share of the Regulatory Capital Requirement specified therein, on or before the specified Payment Date. Upon receipt of payment, BCPP shall issue the requisite number of B Shares to each such Shareholder.

4.5 If any of the Shareholders (for this purpose, a "**Failing Shareholder**") fails to pay its Relevant Share of any Regulatory Capital Requirement on or before the relevant Payment Date (and without prejudice to any right to bring proceedings against the Failing Shareholder in relation to such failure) then, without prejudice to **clause** 16 **(consequences of breach)**:

4.5.1 BCPP shall notify the other Shareholders (each, a "**Non-Failing Shareholder**") in writing as soon as practicable and the Non-Failing Shareholders shall be bound to advance the Failing Shareholder's Relevant Share, in equal shares, by way of subscriptions for further B Shares in accordance with this **clause 4**, within seven days of receipt of such notice from BCPP.

4.5.2 If the Failing Shareholder within 20 days of a notice in writing from the directors of non-payment contributes its Relevant Share of the Regulatory Capital Requirement (its "**Repayment Amount**") BCPP may (if the other Shareholders (or any of them) have previously satisfied the Failing Shareholder's contribution pursuant to **clause 4.5.1**) purchase the Non-Failing Shareholders' B Shares subscribed for pursuant to this **clause 4.5.2** in accordance with **Article 27** of the Articles (and the Failing Shareholder shall execute such documents and do such things as may be reasonably requested by the Company to effect such purchase) and reimburse such Non-Failing Shareholder(s) for subscriptions paid under **clause 4.5.1** promptly (and for this purpose each Shareholder shall be deemed to have given its prior written consent to such redemption by virtue of entering into this Agreement).

4.5.3 Any Failing Shareholder's voting rights in relation to its A Shares shall be immediately suspended (except in relation to resolutions to either amend the Articles or any rights attaching to the class of Shares held by the Failing Shareholder or any of the A List Reserved Matters), and the vote of the Failing Shareholder shall not be required in relation to the approval of any A List Reserved Matter or B List Reserved Matter, until such time as the Failing Shareholder has subscribed for its B Shares in BCPP and paid its Relevant Share of the Regulatory Capital Requirement, at which time the restrictions set out in this **clause 4.5.3** shall cease to apply.

4.5.4 All dividends and distributions to which the Failing Shareholder would otherwise have been entitled under this Agreement or the Articles (up to a maximum aggregate amount equal to the Repayment Amount) shall be applied in purchasing the B Shares subscribed for by the Non-Failing Shareholders pursuant to **clause 4.5.1** (pro rata to their contribution to the Repayment Amount).

4.5.5 For the avoidance of doubt, if a Failing Shareholder contributes its Repayment Amount in accordance with **clause 4.5.2**, the provisions of **clauses 4.5.3** and **4.5.4** shall not apply.

4.6 If BCPP requires additional funds or financial support from the Shareholders other than as explicitly provided for in this **clause 4**, no Shareholder shall seek to agree terms with BCPP in relation to such matter which differ from those on which any other Shareholder is providing equivalent finance or support.

4.7 The Shareholders agree that, subject to **clauses 4.8** and **4.9**, the aggregate amount of any actual liability incurred by any or all of them pursuant to any guarantee or indemnity given by any or all of them to any third party in respect of any liabilities or obligations of BCPP, or pursuant to any sole or several guarantee or indemnity given in respect of such obligations or liabilities by any of them with the consent in writing of the others, shall be borne by them in equal proportions and each shall indemnify and keep indemnified the others accordingly. Subject to **clause 4.8**, no Shareholder shall be obliged to provide any guarantee in respect of any liabilities or obligations of BCPP unless the Shareholders have given their unanimous approval to the Shareholders providing such guarantees on the terms of this **clause 4.7**. For the avoidance of doubt, this **clause 4.7** shall not apply to any obligations related to BCPP's Regulatory Capital Requirements.

4.8 Where any Shareholders combine and sell any Shares back to BCPP pursuant to **clause** 15.1.3, any such newly combined entity shall assume any and all of the aggregate liabilities of its original component separate entities in relation to this Agreement.

4.9 Save as set out in **clauses 4.1 to 4.5** there shall be no obligation upon the Shareholders to subscribe for Shares in BCPP or to provide, or procure to be provided, to BCPP loans or loan facilities.

4.10 The Shareholders agree that BCPP, acting by the directors, shall have the power to seek funding by way of borrowings on behalf of BCPP from any third party commercial lender, provided that:

4.10.1 the directors seek to obtain any such funding on the most favourable terms reasonably available as to interest, repayment and security;

4.10.2 no prospective lender shall be allowed a right to participate in the equity share capital of BCPP as a condition of any such loan;

4.10.3 no prospective lender shall be allowed to take any Encumbrance over any of the Shares; and

4.10.4 any third party loan(s) in excess of £5,000,000 shall require prior approval from all of the Shareholders (in accordance with **Schedule 1, Part A**).

Capital Contribution Calls

4.11 BCPP shall be entitled, but not obliged, to require each Shareholder and each Shareholder shall be required to make a payment to BCPP at such times as the directors reasonably determine that BCPP is required to satisfy any Additional Capital Liability.

4.12 BCPP shall notify each of the Shareholders in writing (including, without limitation, any Shareholder admitted in accordance with **Clause 19**) as soon as reasonably practicable following BCPP becoming aware of a potential Additional Capital Liability. BCPP shall continue to provide material information to Shareholders as to liability and quantum of the potential Additional Capital Liability until it has confirmed the amount of the Additional Capital Liability, in conjunction with the FCA or auditors if applicable.

4.13 If there is a Major Unbudgeted Expense Adjustment, then the Company shall issue a draft Unbudgeted Expense Adjustment Statement which must be approved by a Shareholder Majority in a meeting of the Shareholders or by way of a written resolution prior to the Company issuing a final Unbudgeted Expense Adjustment Statement and Shareholders being obliged to fund the Major Unbudgeted Expense Adjustment in accordance with **clause** 4.15. The Shareholders undertake to procure that any such Shareholder meeting or written resolution is held or returned to the Company (as the case may be) within 21 days of the Company issuing the draft Unbudgeted Expense Adjustment Statement and any failure of a Shareholder to comply with such timeframe shall result in that Shareholder being deemed to have approved the draft Unbudgeted Expense Adjustment Statement.

4.14 Subject to **clauses** 4.11 and 4.13 above, BCPP shall issue a written notice to each Shareholder confirming the amount of the Additional Capital Liability promptly following confirmation and/or agreement with the FCA or confirmation from the auditors (where relevant) of the same (such notice being an **"Unbudgeted Expense Adjustment Statement"**). Each Unbudgeted Expense Adjustment Statement shall:

4.14.1 specify the proportionate amount each Shareholder is liable to pay which shall be calculated by taking the amount of the Additional Capital Liability and dividing that amount by the number of Shareholders (the **"Contributory Amount"**);

4.14.2 specify the date (the **"Due Date"**) by which the Contributory Amount must be paid to BCPP by each Shareholder and this date shall not be less than 10 Business Days from the date of the Unbudgeted Expense Adjustment Statement; and

4.14.3 include the total amount of the Additional Capital Liability.

4.15 Following receipt of an Unbudgeted Expense Adjustment Statement, each Shareholder shall advance to BCPP its Contributory Amount on or before the specified Due Date and deliver a signed Capital Contribution Letter for the amount of the Contributory Amount. For the avoidance of doubt, the Company shall not require prior consent to issuing an Unbudgeted Expense Adjustment Statement in respect of an Unbudgeted Expense Adjustment.

4.16 BCPP shall only use the monies received for settling an Additional Capital Liability.

4.17 If any of the Shareholders (for this purpose, a **"Breaching Shareholder"**) fails to pay its Contributory Amount of any Additional Capital Liability on or before the relevant Due Date (and without prejudice to any right to bring proceedings against the Breaching Shareholder in relation to such failure) then:

4.17.1 BCPP shall notify the other Shareholders (each, a **"Non-Breaching Shareholder"**) in writing as soon as practicable and the Non-Breaching Shareholders shall be bound to advance the Breaching Shareholder's Contributory Amount, in equal shares, by way of payments in cash within 10 Business Days of receipt of such notice from BCPP;

4.17.2 if the Breaching Shareholder within 15 Business Days of a notice in writing from BCPP of non-payment contributes its Contributory Amount of the Additional Capital Liability (its **"Settlement Amount"**) BCPP shall (if the other Shareholders (or any of them) have previously satisfied the Breaching Shareholder's contribution pursuant to **clause** 4.17.1) promptly repay the Non-Breaching Shareholders for any amount which they may have paid pursuant to **clause** 4.17.1;

4.17.3 (subject to clause 4.17.2) any Breaching Shareholder's voting rights in relation to its A Shares shall be immediately suspended (except in relation to resolutions either to amend the Articles or any rights attaching to the class of Shares held by the Breaching Shareholder or any of the A List Reserved Matters under the Shareholders' Agreement), and the vote of the Breaching Shareholder shall not be required in relation to the approval of any A List Reserved Matter or B List Reserved Matter under the Shareholders' Agreement, until such time as the Breaching Shareholder has paid its Contributory Amount of the Additional Capital Liability, at which time the restrictions set out in this **clause** 4.17.3 shall cease to apply; and

4.17.4 all dividends and distributions to which the Breaching Shareholder would otherwise have been entitled under the Shareholders' Agreement or the Articles (up to a maximum aggregate amount equal to the Settlement Amount) shall be applied in repaying those payments made by the Non-Breaching Shareholders pursuant to **clause** 4.17.1 (pro rata to their contribution to the Settlement Amount) in priority to the obligation in **clause 4.5.4**.

4.18 For the avoidance of doubt, if a Breaching Shareholder contributes its Settlement Amount in accordance with **clause** 4.17.2, the provisions of **clauses** 4.17.3 and 4.17.4 shall not apply.

4.19 If there is a Serious Unbudgeted Expense Adjustment, the procedure set out in this **clause** 4 shall apply save that reference to the 21 day time period in **clause** 4.13 shall not apply and there shall be no deemed acceptance of a draft Unbudgeted Expense Adjustment Statement. The parties agree that they will consider the future of the Company and the termination provisions set out in **clause 16**.

5. DIVIDEND POLICY

5.1 Reduction of Annual Operating Charge

5.1.1 Subject to **clauses** 5.1.3, 5.2.1 and 5.3, the Shareholders intend that BCPP will use any profits lawfully available for distribution for that Financial Year first towards the reduction (or elimination) of the Annual Operating Charge for the next Financial Year.

5.1.2 Subject to **clauses** 4.5**, 5.2**, 5.1.3, 5.2.1 and 5.3, the Shareholders intend that BCPP will either distribute to the Shareholders by way of cash dividend in respect of each Financial Year all of its profits lawfully available for distribution for that Financial Year or, in the sole discretion of the Board, make available these distributable profits to facilitate a buyback of Shares by BCPP under **clause** 15.2.3 or the Articles in the event of an Exiting Shareholder.

5.1.3 The Shareholders may unanimously agree in writing for any Financial Year not to make any distribution by way of cash dividend or to make a distribution of a different amount of available profits to that set out in **clause** 5.1.2.

5.1.4 Any distribution for a Financial Year will be made within six months of the end of that Financial Year.

5.2 **Prior repayment of third party indebtedness**

5.2.1 No distribution by way of dividend or otherwise will be made until BCPP has repaid all third party financing unless otherwise agreed by a Shareholder Majority in accordance with **clause** 10 and **Schedule 1**.

Retentions

5.3 The amount of any distribution that would otherwise be made by BCPP under **clause** 5.1.2 will be reduced by an amount equal to the aggregate of:

5.3.1 any amount necessary to ensure that BCPP would not otherwise be in breach or likely to be in breach of any covenant or undertaking given by BCPP to any lender in the relevant financial year following the distribution;

5.3.2 any amount necessary to ensure that BCPP would not otherwise be in breach or likely to be in breach of any applicable Regulatory Capital Requirements following the distribution; and

5.3.3 any amount resolved by the Board and resolved unanimously in accordance with **clause** 10 and **Schedule 1** by the Shareholders as prudent to retain having regard to:

5.3.3.1 the cashflow and working capital requirements of BCPP;

5.3.3.2 the need to make reasonable provisions and transfers to reserves;

5.3.3.3 the interests of BCPP in respect of the implementation of its Strategic Plan or its business prospects; and

5.3.3.4 the future outlook and performance of the business of BCPP, including the scope to reduce the Annual Budget for future years.

6. **THE STRATEGIC PLAN, ANNUAL BUDGET, ADMINISTRATIVE AND ACCOUNTING MATTERS**

6.1 BCPP will prepare an Annual Budget which will be included within the Strategic Plan for each Financial Year in accordance with **clause** 6.3.

6.2 Each Annual Budget will include the following:

6.2.1 an estimate of the working capital requirements of BCPP incorporated within a cashflow forecast;

6.2.2 a projected profit and loss account;

6.2.3 an operating budget (including estimated capital expenditure requirements) and balance sheet forecast;

6.2.4 a review of projected business;

6.2.5 a summary of business objectives; and

6.2.6 a financial report which includes an analysis of the results of BCPP and the established collective investment vehicles for the previous Financial Year compared with the Strategic Plan for that Financial Year, identifying variations in sales, revenues, costs and other material items.

6.3 Each Strategic Plan will be prepared by the Board in accordance with the Shared Objectives and thereafter presented to the Shareholders for comment and approval according to a timetable approved by the Board after due consultation with the Shareholders, provided that such Strategic Plan shall in any event be submitted for approval by (i) the Board not later than 60 days before the commencement of the Financial Year to which it relates and (ii) the Shareholders not later than 30 days before the commencement of the Financial Year to which it relates. The Strategic Plan will be updated when approved in accordance with **clause 10.7.1**.

6.4 If any Strategic Plan is not approved in accordance with **clause** 6.3 before the end of the preceding Financial Year then until it is approved the business of BCPP will continue to be run in accordance with the Strategic Plan for that preceding Financial Year and the Annual Budget in respect of the immediately preceding Financial Year shall apply, increased by the Retail Price Index as published by the United Kingdom Office for National Statistics in September of the previous Financial Year (the "**RPI**"). In the event that the RPI is negative there shall be no increase and the Annual Budget will remain the same as for the previous Financial Year.

6.5 All Strategic Plans once approved by the Board and the Shareholders may only be amended with the approval of all of the Shareholders as set out in **clause** 10 and **Schedule 1**.

6.6 **Basis of preparation of Accounts**

6.6.1 The annual accounts of BCPP will be prepared in accordance with the laws applicable in, and the accounting standards, principles and practices generally accepted in, the United Kingdom.

6.7 **Financial Year**

6.7.1 The accounting reference date of BCPP will be 31 March unless changed in accordance with **clause** 10 and **Schedule 1, Part B**.

7. **DIRECTORS AND MANAGEMENT**

7.1 **Composition of the Board and Board appointments**

7.1.1 The composition of the Board is not affected by the revocation of the Original Agreement nor this Agreement coming into force. The existing Board shall continue in full operation acting in accordance with this Agreement and the Articles.

7.1.2 Any subsequent or additional directors shall be appointed by the Board (or a committee of the Board) subject always to the prior approval of the shareholders in accordance with **Schedule 1, Part B**.

7.2 **Role and responsibilities**

7.2.1 The Board is responsible (within the parameters of the Strategic Plan) for the overall direction, supervision and management of BCPP, including the day to day management of BCPP and authority and responsibility for implementing the Strategic Plan.

7.2.2 The management of BCPP is vested in the Board provided that the day to day management of BCPP is the responsibility of the directors. Without prejudice to the generality of the foregoing and subject to the express provisions of this Agreement, the Board will determine the general policy of BCPP and the manner in which that is to be carried out in light of the Strategic Plan as adopted by the Shareholders and will reserve to itself all matters involving major or unusual decisions and will procure that BCPP and its Subsidiaries will:

7.2.2.1 transact the Business on arm's length terms; and

7.2.2.2 without prejudice to the terms of any Related Agreements, maintain, with a well-established and reputable insurer, adequate insurance against all risks usually insured against by companies carrying on the same or a similar business including, but not limited to, employers liability insurance, public liability insurance, professional indemnity insurance and director's and officer's insurance, in each case (without prejudice to the generality of the foregoing) for the appropriate value determined by the Board; and

7.2.2.3 comply with the provisions of **clause** 8.

7.2.3 The specific responsibilities of the Chief Executive will be determined by the Board from time to time.

7.2.4 The Board shall implement any decision reached pursuant to the Shareholder Reserved Matters, subject to obtaining the requisite approval under **clause** 10.

Appointment and removal of Chief Executive

7.3 No Chief Executive will be appointed to office (or removed from office) unless approved in accordance with **clause 10**.

Approval of Directors' term of office

7.4 The Shareholders shall be required to approve the continuing appointment of any director whose term of office has expired and which the Company wishes to extend at an annual general meeting of BCPP in accordance with the provisions in **Part B** of **Schedule 1**.

7.5 In the event that any director appointment at the end of their term is not approved by the Shareholders then the Shareholders agree to take any necessary action (including the passing of any resolution) required by the Shareholders and/or the Board to remove such director at such time.

8. **BOARD MEETINGS AND RESOLUTIONS**

8.1 **Frequency**

8.1.1 The Board will meet at least four times a year.

8.2 **Notice**

8.2.1 Any director may call a meeting of the Board by giving not less than 5 Business Days' notice of the meeting (or such lesser notice as all the directors may agree) to the other directors.

8.2.2 Notice of any Board meeting must indicate:

8.2.2.1 its proposed date and time;

8.2.2.2 where it is to take place;

8.2.2.3 the proposed agenda of items; and

8.2.2.4 if it is anticipated that directors participating in the meeting will not be in the same place, how it is proposed that they should simultaneously communicate with each other during the meeting.

8.2.3 Subject to Article 9.3, notice of any Board meeting must be given to each director but need not be in writing.

8.3 **Participation**

8.3.1 Directors will be treated as participating in a directors' meeting or part of a directors' meeting when:

8.3.1.1 the meeting has been called and takes place in accordance with this Agreement; and

8.3.1.2 they can each simultaneously communicate with and to the others participating in the meeting any information or opinions they have on any particular item of the business of the meeting.

8.3.2 In determining whether directors are participating in a directors' meeting, it is irrelevant where any director is or, provided **clause** 8.3.1.2 is complied with, how they communicate with each other.

8.3.3 If all the directors participating in a meeting are not in the same place, they may decide that the meeting is to be treated as taking place wherever any of them is.

8.4 **Quorum**

8.4.1 The quorum for the transaction of business at any Board meeting shall be four directors participating in the meeting, provided at least two of whom shall be non-executive directors.

8.4.2 If there is no quorum participating in any meeting of the Board within 30 minutes after the time fixed for the meeting or, if during the meeting a quorum ceases to be participating, the meeting will be adjourned to such time (not being earlier than 5 Business Days after the date of the original meeting unless otherwise agreed by all the directors) as the director or directors participating in the meeting determine. All directors will be notified of the adjournment.

8.5 **Voting**

8.5.1 Subject to **clauses** 8.7.1 and 10 any resolution proposed to the Board will be approved if more votes are cast for it than against it.

8.6 **Written Resolutions**

8.6.1 The Board may pass any resolution by way of a written resolution signed by a majority of the directors or to which a majority of eligible directors has otherwise indicated agreement in writing.

8.7 **Chair**

8.7.1 The position of Chair of the Board will be filled by one of the independent non-executive directors of the Board and will be appointed by a Shareholder Majority in accordance with **Schedule 1, Part B**. If the Chair is not present at any Board meeting, the directors present may appoint any one of their number to act as Chair for the purpose of the meeting. The Chair of the Board will have a casting vote on any tied decision.

8.8 **Alternates**

8.8.1 Each Director will only be entitled to appoint as an alternate (i) any other director; or (ii) any other person in respect of which prior approval has been obtained from the Shareholders.

8.8.2 The rights and responsibilities of an alternate and the procedure for terminating his/her appointment are set out in the Articles.

8.9 **Observers**

8.9.1 Each of the Shareholders may each invite one person to attend any meetings of the Board and if so invited they may attend and speak (but not vote).

8.10 **Board Committees**

8.10.1 The Board will determine from time to time if it is appropriate to establish any committees of the Board and shall determine the scope, authority and any terms of reference for any such committees at the time of such creation.

8.11 **Subsidiary Boards**

8.11.1 Subject always to receiving the approval of all of the Shareholders in accordance with **Schedule 1, Part A**, the Board will determine the composition, governance arrangements and limits of authority of any and all subsidiaries of BCPP and each of the Shareholders agrees to exercise all of their powers as a Shareholder to seek to ensure that all of the constitutional documents of any subsidiary reflect at all times the agreed position determined by the Board (including, but not limited to, any agreed scope and limits of authority and any restrictions imposed by the Financial Conduct Authority on BCPP or any subsidiary of BCPP).

8.11.2 Each Shareholder shall nominate a representative from time to time to be its representative at shareholder meetings and shall notify the Company accordingly. A Shareholder may notify the Board at any time in writing of a change in representative.

9. **SHAREHOLDER MEETINGS**

9.1 General meetings of the Shareholders will take place in accordance with the Companies Act 2006 and the Articles including that:

9.1.1 the meeting will be quorate once the holders of 66.6% or more of the A Shares from time to time are represented at the meeting (either in person or by proxy) and, for the avoidance of doubt, any matter that requires a Shareholder Majority or unanimous shareholder consent under this Agreement will not have the threshold for such consent reduced by virtue of not all of the Shareholders being present at a meeting;

9.1.2 the notice of meeting will set out an agenda identifying in reasonable detail the matters to be discussed (unless the Shareholders otherwise agree);

9.1.3 the Chair (who shall be the Chair of the Board subject to **clause 10.4**) of the meeting will not have a casting vote.

9.2 Each of the Shareholders may each invite one person to attend any general meetings of the Shareholders and if so invited they may attend and speak (but not vote).

10. **CONDUCT OF BCPP'S BUSINESS AND RESERVED MATTERS**

10.1 Each of the Shareholders covenants with each other that so long as this Agreement remains in full force and effect it will:

10.1.1 act in good faith towards the other Shareholders to discharge its statutory obligations under Regulation 7(2)(d) of the Investment Regulations (to include its approach to pooling investments within its investment strategy statement) primarily via the Business;

10.1.2 promptly notify the others of any matters of which it becomes aware which may affect BCPP or the Business;

10.1.3 generally do all things necessary to give effect to the terms of this Agreement (including, so far as it is legally able, assisting BCPP with maintaining regulatory authorisation, exercising all voting rights and powers (direct or indirect) available to it in relation to BCPP in a manner consistent with the terms of this Agreement);

10.1.4 use all reasonable endeavours to promote and develop the business of BCPP and any Subsidiaries to the best advantage in accordance with good business practice and the highest ethical standards and will not do or say anything which is intended to damage the goodwill or reputation of the Company or any of the investment vehicles operated by BCPP;

10.1.5 appoint a representative to act on behalf of that Shareholder at general meetings;

10.1.6 exercise all voting and other rights and powers of control as are from time to time respectively available to it under this Agreement and the Articles and otherwise in relation to BCPP and its beneficial holdings in it and will execute and deliver such waivers and shall take or refrain from taking all other appropriate action within its power so as to procure that the provisions of this Agreement binding on it are duly observed and complied with and given full force and effect and all actions required by it are carried out promptly;

10.1.7 exercise all voting and other rights and powers respectively available to it to procure the alteration of the Articles to the extent necessary to permit the affairs of BCPP to be so operated (if it shall not be possible to secure the operation of this Agreement as set out in **clauses** 10.1.1 to 10.1.6 by reason of any contrary provision of the Articles);

10.1.8 subject to the preceding provisions of this **clause** 10.1, observe the provisions of the Articles.

10.2 The undertakings of each Shareholder under this **clause** 10 shall in each case be several so that each Shareholder shall only be liable for its own actions or failures to act in accordance with them, and none of them shall be liable for a failure to procure anything required by this **clause 10** where such failure is attributable to any action or failure to act by another Shareholder, but without prejudice to the liability of such other Shareholder.

10.3 Notwithstanding any other provision of this Agreement, should any Shareholder or any other person connected with it be in dispute with or have a conflict of interest with BCPP or any of its Subsidiaries, such Shareholder shall not do or omit to do anything which would or would be likely to prevent BCPP or any of its Subsidiaries from exercising or from deciding whether or not to exercise such rights as it may have against the Shareholder in dispute with it, or in respect of the matter in relation to which the conflict of interest arises. This **clause 10** is without prejudice to the provisions of **clause 27**.

10.4 If the Chair of the Board is unable to attend any general meeting of BCPP, another person shall be selected by a Shareholder Majority in accordance with **Schedule 1, Part B** to chair such general meeting in accordance with the Articles. The Chair shall not have a casting vote at any general meeting of BCPP.

10.5 BCPP and the Shareholders agree to procure that an Annual general meeting is held once each year with a view to approving the Annual Budget and any other resolutions to be proposed.

10.6 **Structural Review**

10.6.1 Each of the Shareholders agree that on the anniversary of the previous review, they will procure that the Board will formally review and report on the corporate structure of BCPP and any of its Group Companies and the operation of their respective boards of directors and board committees so that each of the Shareholders can each consider whether more efficient governance, any reduction of costs and/or improvement of performance is possible (and in the event that the Board resolves that changes are necessary and/or appropriate in its opinion at such time it will provide full details of the Board's recommendations to each of the Shareholders for due Shareholder consideration and approval before effecting any such changes).

10.7 **Reserved Matters**

10.7.1 It is agreed by the parties that BCPP will not, and will procure that any subsidiary of BCPP will not and the Shareholders will exercise their powers in relation to BCPP to procure that (save as contemplated in this Agreement) BCPP will not, and will use best endeavours to procure that any subsidiary of BCPP will not:

10.7.1.1 carry out any of the A List Reserved Matters without the prior written approval of all of the Shareholders;

10.7.1.2 or carry out any of the B List Reserved Matters without the prior approval of a Shareholder Majority**.**

11. **DEADLOCK**

11.1 For the purpose of this **clause** 11 a **"Deadlock Situation"** means:

11.1.1 any of the Shareholder Reserved Matters set out in **clause 10.7.1** not being approved by the requisite unanimity or majority and no resolution being reached following referral by any of the Shareholders for dispute resolution in accordance with the procedure set out in **clause** 12;

11.1.2 any other matter notified to the Board in a Deadlock Notice to be a "Deadlock Situation" between any of the Shareholders; or

11.1.3 any dispute between any of the Shareholders as to either:

11.1.3.1 the amount of profit lawfully available for distribution in accordance with **clause** 5.1.2; or

11.1.3.2 the amount by which any distribution will be reduced in accordance with **clause** 5.3; or

11.1.4 any dispute between the Shareholders which cannot be resolved in accordance with **clause** 12 (Dispute Resolution Procedure).

11.1.5 any dispute between any of the Shareholders and BCPP in relation to a request for additional funds or financial support made under **clauses 4.11 to 4.19**.

11.2 **Deadlock Notice**

11.2.1 Any Shareholder may serve a Deadlock Notice on BCPP and the other Shareholder(s) if a Deadlock Situation has arisen. The Deadlock Notice will contain reasonable details of the Deadlock Situation.

11.3 **Business during a Deadlock Situation**

11.3.1 If any Deadlock Situation arises and for so long as it continues, each Shareholder will use its best endeavours (in so far as it is able by the exercise of its rights and powers in relation to BCPP) to procure that, notwithstanding the fact that there is a Deadlock Situation, BCPP can continue to carry on the Business in the ordinary course.

11.4 **Deadlock resolution**

11.4.1 If a Deadlock Notice has been served by any Shareholder confirming that a Deadlock Situation has arisen then each of the Shareholders concerned will use their best endeavours to resolve the Deadlock Situation within 10 Business Days after the Deadlock Date.

11.5 **Referral to Shareholders**

11.5.1 If a Deadlock Situation has arisen and it has not been resolved within 10 Business Days after the Deadlock Date then each Shareholder hereby agrees to refer the Deadlock Situation to the Section 151 Officer of each authority, as set out in **Schedule 4**.

11.5.2 The Section 151 Officer of each authority will have 30 days (or such other timeframe as is agreed between the Shareholders) to meet and resolve the Deadlock Situation as they determine appropriate.

11.5.3 If the Section 151 Officer of each of the relevant Shareholders do not resolve the Deadlock Situation within 30 days after the Deadlock Date:

11.5.3.1 the provisions of **clauses** 11.6.1 to 11.7.3 shall apply; and

11.5.3.2 no decision relating to the Deadlock Situation can be taken or imposed on BCPP or any Shareholder until such later time (if any) as the Deadlock Situation has been resolved.

11.6 **Referral to mediation process**

11.6.1 Where the relevant Section 151 Officer referred to in **clause 11.5.1** of each of the authorities in dispute are unable to resolve such dispute, or where in the opinion of the Board such dispute would be more effectively resolved in another forum, the Board may refer such dispute to a mediator appointed by the relevant Shareholders until such dispute is resolved.

11.6.2 The Shareholders shall each bear their own costs incurred in relation to the mediation.

11.7 **Referral to arbitration process**

11.7.1 If the dispute is not resolved within 40 days of referral of the dispute to mediation any Shareholder involved in such dispute may (by service of a written notice on the other Shareholders and BCPP) refer the dispute to an arbitrator who shall be of not less than 10 years standing or qualification.

11.7.2 If the Shareholders cannot agree on an arbitrator within 15 days of service of the written notice on the other Shareholders and BCPP, the Board shall appoint an arbitrator nominated by the President for the time being of the Chartered Institute of Arbitrators in England and Wales.

11.7.3 The arbitrator's decision shall be final and binding on the Shareholders and BCPP. The costs of the arbitration shall be paid as directed by the arbitrator.

12. **DISPUTE RESOLUTION PROCEDURE**

12.1 The parties agree that in the event of any dispute between any of the Shareholders regarding any of the provisions of this Agreement, other than the matters set out in **clause** 11 the Shareholders shall seek to resolve such dispute as follows:

12.1.1 any Shareholder may serve a Dispute Notice on BCPP and the other Shareholder(s) if that Shareholder believes that a dispute has arisen;

12.1.2 the Dispute Notice shall contain reasonable details of the dispute and the reasons why that Shareholder believes that a dispute has arisen; and

12.1.3 the Shareholders shall thereafter use best endeavours to resolve the dispute within 15 days of service of the Dispute Notice.

12.2 Where a dispute has not been resolved within 10 Business Days of service of the Dispute Notice in accordance with **clause** 12.1 then any Shareholder shall be entitled to serve a Deadlock Notice on the BCPP and the provisions of **clause** 11 (Deadlock) shall apply provided that **clause** 11.4.1 shall not apply and for the purposes of **clause** 11.5.1 it shall be assumed that the Deadlock Situation has not been resolved within 10 Business Days after the Deadlock Date.

13. **ANTI-BRIBERY AND CORRUPTION**

13.1 **Compliance by BCPP**

13.1.1 BCPP will, and the Shareholders will exercise all their powers in relation to BCPP to procure that BCPP will:

13.1.1.1 not do or omit to do any act or thing which constitutes or may constitute a breach of and/or an offence under Anti-Bribery Laws or would cause any Shareholder to be liable for an offence under any such laws; and

13.1.1.2 comply with the Adequate Procedures and the Anti-Corruption Policy as amended from time to time.

13.2 **Compliance by the Shareholders**

13.2.1 Each Shareholder will not do or omit to do any act or thing which constitutes or may constitute a breach of and/or an offence under Anti-Bribery Laws and would cause the other Shareholder or BCPP to be liable for any offence under any such laws.

14. **INFORMATION TO SHAREHOLDERS AND CONFIDENTIALITY**

14.1 **Provision of information to Shareholders**

14.1.1 BCPP will, and the Shareholders will procure that BCPP will, supply the Shareholders with such financial information as is necessary to keep each Shareholder informed about how the business of BCPP is performing (including any other information relating to operational or risk matters) as determined by each Shareholder.

14.1.2 In particular BCPP will supply each Shareholder with:

14.1.2.1 quarterly management accounts and reports of BCPP containing such information (including as to whether the structure and operation of BCPP and any of its Group Companies and their respective boards of directors and board committees are operating effectively) as the Shareholders reasonably require from time to time, within 90 days of the end of the quarter to which they relate unless otherwise agreed between the Company and the Shareholders;

14.1.2.2 a copy of the annual accounts after they have been audited and signed by the auditors within 6 months of the end of the Financial Year to which they relate;

14.1.2.3 the outcome of a structural review into the efficiency of the governance structure noted under **clause** 10.6.1; and

14.1.2.4 a report setting out the progress of the Company in relation to the objectives and/or milestones set out in the Strategic Plan and/or the Additional Strategic Plan.

14.1.3 BCPP will:

14.1.3.1 allow each Shareholder and their respective authorised Representatives access at all reasonable times to examine the books and records of BCPP and to discuss its affairs with the directors and senior management; and

14.1.3.2 provide, in accordance with the Local Authorities (Companies) Order 1995, each Shareholder and their respective authorised Representatives with such other information relating to the operations and management of BCPP as they may reasonably request to discharge such Representatives' duties. In determining the reasonableness of such requests, regard shall be had to the Shared Objectives set out in **Schedule 2** and the duties and responsibilities of the Shareholders.

14.2 **Confidentiality**

14.2.1 In this Agreement **"Confidential Information"** means, subject to **clause** 14.2.7:

14.2.1.1 any information (whether written, oral, in electronic form or in any other media) that is disclosed in connection with this Agreement and/or any Related Agreement by or on behalf of a party (the **"Discloser"**) to another party (the "**Recipient**") or any of the Recipient's Representatives whether before, on or after the date of this Agreement and which relates (in whole or in part) to a party or its business and such information is of a material and commercially sensitive nature;

14.2.1.2 the terms of or subject matter of this Agreement or any Related Agreement or any discussions or documents in relation to them and in respect of such information each party will be deemed to be a Recipient where such information is of a material and commercially sensitive nature;

14.2.1.3 any information (whether written, oral, in electronic form or in any other media) about BCPP (including its customers, businesses, assets or affairs) which a Shareholder may have or acquire by virtue of the Shareholder's shareholding in BCPP and/or its right to appoint directors to the Board (in each case the Shareholder will be treated as a "**Recipient**").

14.2.2 Subject to **clauses** 14.3.1 **to** 14.3.3, the Recipient agrees with the Discloser that it will, and will procure that each of its Representatives will, subject to **clauses** 14.2.3 and 14.2.7 and **clause** 19:

14.2.2.1 keep that Confidential Information secret and only disclose it in the manner and to the extent expressly permitted by this Agreement;

14.2.2.2 use that Confidential Information solely for the purpose of exercising or performing its rights and obligations under this Agreement or any Related Agreement and (where the Recipient is a Shareholder and the Confidential Information relates to BCPP) for the purpose of monitoring that Shareholder's investment in

BCPP and compiling its own accounts and tax returns and complying with relevant regulatory requirements (each a "**Purpose**" and together the **"Purposes"**);

14.2.2.3 only make such copies, summaries, extracts, transcripts, notes, reports, analyses and recordings (in any form of media) that use, contain or are based on or derived from Confidential Information as are reasonably necessary to fulfil each Purpose; and

14.2.2.4 keep that Confidential Information safe and secure and apply to it documentary and electronic security measures that match or exceed those the Recipient operates in relation to its own confidential information and will never exercise less than reasonable care.

14.2.3 The Recipient may disclose that Confidential Information to those of the Recipient's Representatives who need access to that Confidential Information to fulfil the Purposes provided that before any such disclosure:

14.2.3.1 the Recipient must make that Representative aware of the fact that the Confidential Information is confidential and the obligations of confidentiality contained in this Agreement; and

14.2.3.2 (unless the Representative is an employee, officer or elected Member of the Recipient) such Representative will enter into a confidentiality agreement with the Recipient on terms substantially equivalent to those contained in this Agreement.

14.2.4 If a Recipient makes any disclosure to one of its Representatives under **clause** 14.2.3 the Recipient will:

14.2.4.1 take reasonable steps to procure that its Representative will not do or omit to do anything which if done or omitted to be done by the Recipient would constitute a breach of **clause** 14 of this Agreement; and

14.2.4.2 be liable for the acts and omissions of its Representatives in respect of the relevant Confidential Information as if they were acts or omissions of the Recipient.

14.2.5 The Recipient of any Confidential Information may disclose that Confidential Information to the extent required by law or a court of competent jurisdiction or the rules of any applicable listing authority, securities exchange or governmental or regulatory body provided that the Recipient will where reasonably practicable and lawful:

14.2.5.1 notify the Discloser of that Confidential Information in writing in advance of such disclosure;

14.2.5.2 consult with the Discloser as to the content, purpose and means of disclosure; and

14.2.5.3 seek to make such disclosure subject to obligations of confidence consistent, so far as reasonably possible, with the terms of this Agreement.

14.2.6 No licence or right to use any patent, copyright, registered design, unregistered design, trademark, trade name or similar right or any right to use any Confidential Information or trade secrets is granted by any party to another party save as set out expressly in this Agreement.

14.2.7 **Clauses** 14.2.1 to 14.2.6 will not extend to Confidential Information which:

14.2.7.1 at the time of disclosure was in the public domain or subsequently enters into the public domain other than as the direct or indirect result of a breach of this Agreement by the Recipient of that Confidential Information or any Recipient's Representative; or

14.2.7.2 the Recipient can prove to the reasonable satisfaction of the Discloser of that Confidential Information from written records or other substantive evidence:

(a) has been received by the Recipient (or one of its Representatives) at any time from a third party who did not acquire it in confidence and who is free to make it available to the Recipient (or the relevant Representative); or

(b) was independently developed by the Recipient (or one of the Recipient's Representatives) without any breach of this Agreement;

14.2.7.3 may need to be disclosed or released into the public domain by Shareholders or their representatives, given that such persons are or work for public and local authorities pursuant to relevant local authority legislation, rules and regulations.

14.2.8 **Clause** 14.2.7.2 will not apply to the Confidential Information referred to in **clause** 14.2.1.2.

14.2.9 All obligations in **clauses** 14.2.1 to 14.2.8 will survive termination of this Agreement without limit in time.

14.3 **Freedom of Information**

14.3.1 The parties each acknowledge and agree that:

14.3.1.1 each party may be regarded as a public authority for purposes of the FOIA Legislation and is therefore subject to the requirements of the FOIA Legislation, and may receive Requests for Information;

14.3.1.2 each Request Recipient shall be responsible for determining at its absolute discretion whether:

(a) the information requested in the Request for Information is relevant to and in connection with the Agreement;

(b) a Request for Information in connection with this Agreement is valid under the FOIA Legislation, as well as all other considerations relevant in the assessment of an information request under the FOIA Legislation, such as any considerations (as may be applicable) regarding the cost of complying with a request or any charges for responding to a request, whether the request is repeated, vexatious or manifestly unreasonable and any other relevant considerations;

14.3.1.3 any information sought (including Confidential Information) is subject to any exemption and/or exception from disclosure and/or publication in accordance with the relevant provisions of the FOIA Legislation or is to be disclosed in response to a Request for Information, and nothing in this Agreement shall remove or in any way limit that discretion of the Request Recipient; and

14.3.1.4 in some circumstances, consistent with the spirit of the Department of Constitutional Affairs' Code of Practice on the Discharge of Functions of Public Authorities under Part I of the Freedom of Information Act 2000, it may not be possible or reasonable for the Request Recipient to provide notice of any Request for Information or consider the comments of the other parties in relation to it, prior to responding to such a request. Reasonable steps should, where appropriate, be taken to give other parties advance notice, or failing that, to draw it to such parties' attention afterwards.

14.3.2 The other parties agree to reasonably assist and cooperate with the Request Recipient (without charge), bearing in mind always the time limits imposed under the FOIA Legislation, as notified to them by the Request Recipient, to enable the Request Recipient to comply with its obligations under the FOIA Legislation.

14.3.3 Subject to **clauses** 14.3.1.2 and 14.3.1.4, where the Request Recipient receives a Request for Information:

14.3.3.1 the Request Recipient will notify the party whose Confidential Information is the subject of the Request for Information (the "**Affected Party**") as soon as reasonably possible, confirming what Confidential Information is being requested and disclosing the Request for Information to each Affected Party; and

14.3.3.2 the Request Recipient agrees to discuss in good faith with the Affected Party as to whether a relevant exemption/exception to the requirement to disclose the relevant Confidential Information under the FOIA Legislation might be applicable, provided that the Affected Party makes itself available for such discussions within a reasonable time (and in any event within five Business Days of being notified of the Request for Information) so that the Request Recipient has a reasonable opportunity to consider the Affected Party's comments prior to the deadline for the Request Recipient to respond to the Request for Information.

14.3.4 Where a party receives a Request for Information and another party holds information or records on behalf of that party, upon request, such other party agrees to provide the first party with a copy of all such information related to the request for information, in the form that the first party reasonably requires within five Business Days (or such other period as the first party may reasonably specify) of the first party's request.

15. TRANSFER OF SHARES

15.1 Restrictions on transfer

15.1.1 Save as set out in this **clause** 15, no Shareholder may transfer any Shares other than in accordance with the Articles, this Agreement and the Companies Act 2006, as appropriate.

15.1.2 Save as contemplated in this Agreement, each of the Shareholders undertakes that it will not create or permit to exist any Encumbrance over or in respect of all or any part of its Shares nor assign or otherwise purport to deal with its beneficial ownership in, or any right relating to, its Shares separate from the legal ownership of such Shares.

15.1.3 In the event that two or more Shareholders combine, such combined entity may only hold one (1) A Share following such combination and any other A Shares held by such combined entity or its separate, component predecessor Shareholders shall be purchased by BCPP at par value, subject to and in accordance with the Companies Act 2006, and such combined entity shall co-operate with BCPP to effect such purchase.

15.1.4 In the event that BCPP is incapable of implementing a purchase of its own Shares as anticipated by either **clause 15.1.3** or **clause 16.3**, any Shareholder that would otherwise be required to sell its Share(s) back to BCPP agrees that (if required to do so by all of the other Shareholders) it shall not exercise any rights to vote, accept any dividend that has not been declared nor exercise any other rights attached to such Share(s) until such time as BCPP is able to and does implement the proposed purchase of the relevant Share(s).

15.2 **Exiting Shareholders**

15.2.1 In the event that a Shareholder wishes to cease to be a Shareholder in the Company, a Shareholder shall be required to serve a written notice on the Board of BCPP at least 12 months prior to the proposed exit date, which must be 31 March in any year unless such other date is approved by the Board and all of the other Shareholders (the "**Withdrawal Date**").

15.2.2 In the event of a Shareholder ceasing to be a Shareholder (an "**Exiting Shareholder**"), the Exiting Shareholder shall pay to BCPP, in addition to any monies owing by the Exiting Shareholder to BCPP as at the Withdrawal Date, such sum as represents the contribution to the capitalised value of that proportion of the continuing and outstanding liabilities of BCPP which have been incurred before the Withdrawal Date and which is properly attributable to the Exiting Shareholder's share membership of BCPP.

15.2.3 Thereafter, save where any defaulting Shareholder is required to cease being a Shareholder pursuant to **clause** 16 (in which event the provisions of **clause** 16.3 shall apply), on the Withdrawal Date:

15.2.3.1 **A Shares**: the A Shares held by the Exiting Shareholder shall be either (as agreed by the Exiting Shareholder and BCPP):

(a) (in the Board's absolute discretion and subject to first having obtained the FCA's permission pursuant to Article 77 of the CRR) purchased by BCPP at Fair Market Value in accordance with and subject always to Part 18 of the 2006 Act; or

(b) (without prejudice to the provisions of **clause 10.7 (Reserved Matters)** and **Schedule** 1) transferred to a new Shareholder at Fair Market Value,

within 3 months of the Withdrawal Date, the proceeds of such sale or transfer shall be paid to the Existing Shareholder (subject to the Company having sufficient reserves to do so and if it does not, at such date when it next has sufficient distributable reserves).

For the avoidance of doubt, if BCPP is unable to purchase the A Shares (as a result of insufficient distributable reserves and/or any other legal restriction in Part 18 of the 2006 Act) then BCPP shall not be under any obligation to purchase any such A Shares until such later time as the Board determines that BCPP is in a position to complete the proposed share buyback.

15.2.3.2 **B Shares**: the rights attached to B Shares in the event of a shareholder withdrawing are set out in **clause** 4 above and **Article 27** of the Articles. Subject to those provisions, the proceeds of such sale or transfer shall be paid to the Exiting Shareholder within 3 months of the Withdrawal Date (subject to the Company having sufficient reserves to do so and if it does not, at such date when it next has sufficient distributable reserves).

15.3 There is annexed to this Agreement the contents of a previous letter agreed between the Shareholders in respect of a merger of two Shareholders. The terms of the annex are not incorporated into this Agreement but are included as guidance should a merger of two Shareholders occur.

15.4 **Deed of Adherence**

15.4.1 If a Shareholder transfers its Shares in accordance with this Agreement to any person other than any Exiting Shareholder (including to any Permitted Transferee) it will procure that the transferee (including any Permitted Transferee) enters into a deed of adherence substantially in the form set out in **Schedule 3**.

15.5 **Registration of Transfers**

15.5.1 The directors may refuse to register the transfer of any Share unless it is made in compliance with this **clause** 15 and may request such evidence as the directors may reasonably think fit regarding any matter which they consider relevant to establish whether such transfer is permitted. If the evidence is not provided to the reasonable satisfaction of the directors within a reasonable time after it has been requested, or if in the reasonable opinion of the directors the information or evidence is false in any material respect, the directors may refuse to register the relevant transfer.

16. **CONSEQUENCES OF BREACH**

16.1 (Without prejudice always to the right of any Shareholder to make a claim against any other Shareholder for breach of the terms of this Agreement), a Shareholder shall be deemed to have committed an act of default (in this **clause** 16 called a "**Default**") if:

16.1.1 it commits a material breach of its obligations under this Agreement which cannot effectively be remedied or which the Shareholder fails effectively to remedy within 15 Business Days of receipt of a notice in writing from a majority of the Shareholders or BCPP specifying the breach and requiring remedy; or

16.1.2 it fails to participate in two consecutive duly convened general meetings (without good reason); or

16.1.3 any of the events contained in Article 35 (*Deemed transfers to BCPP*) occur in respect of such Shareholder.

16.2 For the purposes of **clause** 16.1**.1** the expression "**material breach**" means a breach of any of the terms of this Agreement which is serious in the widest sense of having a serious effect on the benefit which any other Shareholder would otherwise derive from this Agreement. In deciding whether any breach is material no regard shall be had to whether it occurs by some accident, mishap, mistake or misunderstanding.

16.3 if a Shareholder (in this **clause** 16 called a "**Defaulting Shareholder**") is deemed to have committed a Default, a majority of each of the other Shareholders (having considered all relevant factors including, without limitation, any FCA requirements, regulatory capital requirements and all Procurement Legislation) may at any time within 30 Business Days of becoming aware of the Default serve notice in writing (a "**Default Notice**") on the Defaulting Shareholder in which event the Defaulting Shareholder shall be required to sell its A Share back to BCPP at par value. **Clause 15.2.3.2** shall then apply to the redemption of the Defaulting Shareholder's B Shares. In the event of any failure by the Defaulting Shareholder to co-operate with BCPP to effect such purchase, the Defaulting Shareholder hereby irrevocably and unconditionally appoints BCPP as its attorney for the purposes of executing such documents as are necessary to effect such purchase.

17. **TERMINATION**

17.1 This Agreement shall terminate (the "**Termination Date**") when either:

17.1.1 all the Shareholders agree in writing to its termination; or

17.1.2 BCPP passes a resolution for its winding up, is subject to an order or notice issued by a court or other authority of competent jurisdiction for its winding up or striking off or has an administrator appointed in respect of it; or

17.1.3 such number of Shareholders decide to withdraw from BCPP that a majority of the remaining Shareholders (after any such withdrawals) inform BCPP in writing (including in electronic form) that they are no longer able or willing to maintain BCPP's Regulatory Capital Requirements; or

17.1.4 the Board determines, acting reasonably, that the business of BCPP may not lawfully be continued.

17.2 If the Shareholders pass a resolution pursuant to this Agreement or otherwise to wind up the Company by way of a members' voluntary winding-up they shall procure that the liquidator is a member of the Institute of Chartered Accountants in England and Wales acceptable to all the Shareholders and in default of agreement nominated at the request of any Shareholder by the President from time to time of such Institute.

17.3 Except to the extent each party has contractual obligations to the contrary, the Shareholders shall prove in the winding-up of the Company to the maximum extent permitted by law for all sums due or to fall due to them respectively from the Company and shall exercise all rights of set-off and generally do all such other acts and things as may be available to them in order to obtain the maximum receipts and recoveries.

17.4 To the extent that any or all of the Shareholders do not receive satisfaction in full in the winding-up of the Company of all sums due or to fall due to them the aggregate shortfall between all sums due or to fall due to the Shareholders and all amounts actually recovered by the Shareholders from the Company or its liquidator (whether by direct payment or the exercise of any right of set-off or otherwise) shall be calculated and apportioned between the Shareholders in the same proportions as the Shareholders hold Shares at the time of the determination. The Shareholders shall make such contributions to each other as are necessary to procure that the Shareholders bear the aggregate amount of such shortfall in such proportions.

18. CONSEQUENCES OF TERMINATION

18.1 Rights and Obligations

18.1.1 Following the Termination Date:

18.1.1.1 the following will continue in force: **clauses** 14.2.1 to 14.2.9, together with any other terms of this Agreement which expressly or impliedly continue to have effect after expiry or termination of this Agreement; and

18.1.1.2 all other rights and obligations will immediately cease but without prejudice to any rights, obligations, claims (including without claims for damages for breach) and liabilities which have accrued before the Termination Date.

18.1.2 As soon as practicable after the Termination Date and in any event within 20 Business Days of the Termination Date, each Shareholder will, subject to the exception set out in **clause** 18.2,

18.1.2.1 return to the other Shareholders all Confidential Information of the other Shareholders (including all copies and extracts) in its possession or control;

18.1.2.2 return to BCPP all Confidential Information of BCPP (including all copies and extracts) in its possession or control;

18.1.2.3 destroy or permanently erase (if technically feasible) all documents and all records (in any media) created by it or on its behalf that use, concern or are based on any Confidential Information of the other Shareholder or BCPP (**"Records"**); and

18.1.3 cease to use the Confidential Information of the other Shareholders or BCPP.

18.2 Each Shareholder may retain any Confidential Information of the other Shareholders and/or BCPP and/or Records which it has to keep to comply with any legal or regulatory requirement or which it is required to retain for insurance, accounting or taxation purposes. The provisions of **clause** 14 will continue to apply to retained Confidential Information and Records, which may only be used for the purposes for which they have been retained.

18.3 Each Shareholder will, upon request, confirm to the other Shareholders and BCPP in writing that it has complied with **clauses** 18.1.2 and 18.2.

19. NEW SHAREHOLDERS

In the event that the Board or any of the Shareholders proposes that an additional third party shareholder (which shall be another LGPS administering authority) should subscribe for new shares in BCPP, all of the parties hereby agree and undertake to each other that no such person shall be admitted as a new Shareholder of BCPP without the prior written consent of all of the Shareholders.

20. FURTHER ASSURANCE

Each Shareholder will at its own cost execute all such documents and do all such acts and things as any of the other Shareholders may reasonably request from time to time to give each of the Shareholders full effect to the terms of this Agreement (including the rights given under it) and the transactions contemplated by it.

21. INADEQUACY OF DAMAGES

Each Shareholder acknowledges and agrees that damages alone would not be an adequate remedy for breach of the provisions of this Agreement. Accordingly, it agrees that any of the other Shareholders and/or BCPP will be entitled, without having to prove special damages, to equitable relief (including injunction and specific performance) for any breach or threatened breach of such clauses by it.

22. NO PARTNERSHIP OR AGENCY

Nothing in this Agreement and no action taken by the parties in connection with it will create a partnership between the parties or give any party authority to act as the agent of or in the name of or on behalf of another party or to bind another party or to hold itself out as being entitled to do so.

23. INDEPENDENT CONTRACTORS

Each party agrees that it is an independent contractor and is entering into this Agreement as principal and not as agent for or for the benefit of any other person.

24. WAIVER

A delay in exercising or failure to exercise a right or remedy under or in connection with this Agreement will not constitute a waiver of, or prevent or restrict future exercise of, that or any other right or remedy, nor will the single or partial exercise of a right or remedy prevent or restrict the further exercise of that or any other right or remedy. A waiver of any right, remedy, breach or default will only be valid if it is in writing and signed by the party giving it and only in the circumstances and for the purpose for which it was given and will not constitute a waiver of any other right, remedy, breach or default.

25. **VARIATION/AMENDMENT**

No variation or amendment to this Agreement will be effective unless it is in writing and signed by a duly authorised representative on behalf of all of the parties provided that no variation or amendment will or may invalidate the continued application to BCPP of the "Teckal exemption" codified under Regulation 12 of the Public Contracts Regulations 2015.

26. **CONFLICT WITH ARTICLES**

Where the Articles conflict with this Agreement, the Shareholders agree that this Agreement will prevail, to the intent that they will if necessary procure the amendment of the Articles to the extent required to enable BCPP and its affairs to be administered in accordance with this Agreement.

27. **CLAIMS BY OR AGAINST SHAREHOLDERS**

27.1 Where any of the Shareholders asserts any claim against BCPP (the "**Claiming Shareholder**"), the other Shareholders shall be entitled to defend such claim in the name and at the expense of BCPP.

27.2 Where any other provision of this Agreement or of the Articles conflicts with the provisions of this clause, this clause shall prevail.

28. **NOTICE**

28.1 Any notice or other communication given under or in connection with this Agreement will be in writing, marked for the attention of the specified representative of the party to be given the notice or communication and:

28.1.1 sent to that party's address by pre-paid first class post or mail delivery service providing guaranteed next working day delivery; or

28.1.2 delivered to or left at that party's address (but not, in either case, by one of the methods set out in **clause** 28.1.1).

28.2 The address and representative for each party are set out below and may be changed by that party giving at least 10 Business Days' notice in accordance with this **clause** 28.

Bedford Borough Council
Borough Hall, Cauldwell Street, Bedford,MK42 9AP
For the attention of: s151 Officer

Cumbria County Council
117 Botchergate, Carlisle, CA1 1RD
For the attention of: s151 Officer

Durham County Council
County Hall, Durham, DH1 5UE
For the attention of: s151 Officer

The East Riding of Yorkshire Council
County Hall, Beverley HU17 9BA
For the attention of: Director of Corporate Resources

Lincolnshire County Council
County Offices, Newland, Lincoln, LN1 1YL
For the attention of: s151 Officer

Middlesbrough Borough Council
PO Box 340, Middlesbrough, TS1 2XP
For the attention of: s151 Officer

North Yorkshire County Council
County Hall, Northallerton, North Yorkshire, DL7 8AL
For the attention of: s151 Officer

The Council of the Borough of South Tyneside
Town Hall and Civic Offices, Westoe Road, South Shields, Tyne and Wear, NE33 2RL
For the attention of: s151 Officer

South Yorkshire Pensions Authority
Oakwell House, 2 Beevor Court, Pontefract Road, Barnsley, South Yorkshire, S71 1HG
For the attention of: Fund Director

Surrey County Council
Woodhatch Place, 11 Cockshot Hill, Woodhatch, Reigate, RH2 8EF
For the attention of: s151 Officer

Warwickshire County Council
PO Box 3, Shire Hall, Warwick, CV34 4RL
For the attention of: s151 Officer

Border to Coast Pensions Pool Limited
5th Floor Toronto Square, Leeds, England, LS1 2HJ South Shields NE33 2RL
For the attention of: Company Secretary

28.3 Any notice or communication given in accordance with **clause** 28.1 will be deemed to have been served:

28.3.1 if given as set out in **clause** 28.1.1, at 9.00am on the 2nd Business Day after the date of posting; and

28.3.2 if given as set out in **clause** 28.1.2, at the time the notice or communication is delivered to or left at that party's address,

provided that if a notice or communication is deemed to be served before 9.00am on a Business Day it will be deemed to be served at 9.00am on that Business Day and if it is deemed to be served on a day which is not a Business Day or after 5.00pm on a Business Day it will be deemed to be served at 9.00am on the immediately following Business Day.

28.4 For the purposes only of this **clause** 28, references to time of day are to the time of day at the address of the recipient parties referred to in **clause 28.2**.

28.5 To prove service of a notice or communication it will be sufficient to prove that the provisions of **clause** 28.1 were complied with.

28.6 This **clause 28** is subject to the provisions of the Companies Act 2006, the Articles and this Agreement regulating the giving of notices in relation to meetings of the directors or general meetings of the Shareholders.

29. UNLAWFUL FETTER ON THE SHAREHOLDERS' STATUTORY POWERS

Notwithstanding any other provision contained in this Agreement the Shareholders and BCPP shall not be bound by any provision of this Agreement to the extent that it would constitute an unlawful fetter on any statutory power of any of the Shareholders, but any such provision shall remain valid and binding as regards all other parties to which it is expressed to apply.

30. COUNTERPARTS

This Agreement may be executed in any number of counterparts, each of which will constitute an original but which will together constitute one agreement.

31. COSTS AND EXPENSES

Each party will bear its own costs and expenses incurred in connection with or arising out of the negotiation, preparation and execution of this Agreement.

32. SEVERANCE

If any term of this Agreement is found by any court or body or authority of competent jurisdiction to be illegal, unlawful, void or unenforceable, such term will be deemed to be severed from this Agreement and this will not affect the remainder of this Agreement which will continue in full force and effect. In this event the parties will agree a valid and enforceable term to replace the severed term which, to the maximum extent possible, achieves the parties' original commercial intention and has the same economic effect as the severed term.

33. ENTIRE AGREEMENT

33.1 This Agreement and the Related Agreements constitute the entire agreement between the parties and supersede any prior agreement (in particular the Original Agreement) or arrangement in respect of their subject matter and:

33.1.1 no party has entered into this Agreement in reliance upon, and it will have no remedy in respect of, any misrepresentation, representation or statement (whether made by the other party or any other person and whether made to the first party or any other person) which is not expressly set out in this Agreement;

33.1.2 no party has entered into the Related Agreements in reliance upon, and it will have no remedy in respect of, any misrepresentation, representation or statement (whether made by the other party or any other person and whether made to the first party or any other person) which is not expressly set out in those Related Agreements; and

33.1.3 nothing in this **clause** 33 will be interpreted or construed as limiting or excluding the liability of any person for fraud or fraudulent misrepresentation.

34. ASSIGNMENT

Save as provided for by this Agreement or by the Articles, no Shareholder nor BCPP will be entitled to assign, transfer, charge, hold on trust for any person or deal in any other manner with any of its rights under this Agreement.

35. RIGHTS OF THIRD PARTIES

The parties do not intend that any term of this Agreement will be enforceable under the Contracts (Rights of Third Parties) Act 1999 by any person.

36. **GOVERNING LAW**

This Agreement and any non-contractual obligations arising out of or in connection with it will be governed by the law of England and Wales.

37. **JURISDICTION**

Each party agrees that the courts of England and Wales have exclusive jurisdiction to determine any dispute arising out of or in connection with this Agreement (including in relation to any non-contractual obligations).

This document is executed as a **deed** and **delivered** on the date stated at the beginning of this Agreement.

SCHEDULE 1

Reserved Matters

PART A – Matters for approval by all of the Shareholders (unanimous consent required)

1. subject to FCA rules, extend the activities of the Company outside the scope of the Business or close down any operation of the Business;

2. subject to FCA rules, give any guarantee or indemnity outside the ordinary course of the Business to secure the liabilities of any person or assume the obligations of any person (other than a wholly owned subsidiary) (e.g. guaranteeing a lease that does not relate to the Business of the Company);

3. subject to FCA rules and save for any Permitted Contract, enter into or vary any contracts or arrangements with any of the Shareholders or any person with whom any shareholder is connected (whether as director, consultant, shareholder or otherwise) on terms which could give preferential rights to a specific Shareholder. For the purposes of this paragraph a "**Permitted Contract**" means any advisory or management agreement that puts into effect services to be provided to a Shareholder as a customer of the Company that are approved under the Strategic Plan and, where applicable, the agreement is on materially the same terms that have been agreed with any other Shareholder that is a recipient of the same services;

4. enter into any agreement not in the ordinary course of the Business and/or which is not on an arm's length basis;

5. enter into or vary any agreement for the provision of consultancy, management or other services by any person which will, or is likely to result in, the Company being managed otherwise than by its directors;

6. change the name of the Company;

7. pass a resolution or present a petition to wind up the Company or apply for an administration order or any order having similar effect in a different jurisdiction in relation to the Company unless in any case the Company is at the relevant time unable to pay its debts within the meaning of section 123 Insolvency Act 1986;

8. reduce or cancel any share capital of the Company, purchase its own shares, hold any shares in treasury, allot or agree to allot, whether actually or contingently, any of the share capital of the Company or any security of the Company convertible into share capital, grant any options or other rights to subscribe for or to convert any security into shares of the Company or alter the classification of any part of the share capital of the Company (in each case other than as expressly permitted by this Agreement and/or the Articles where no prior consent shall be required including, without limitation, pursuant to either **clause 4 *(Finance & Regulatory Capital)*** and/or **clause** 16 ***(Consequences of Breach)*** and/or **Article 26** of the Articles ***(Issue of Shares and Pre-Emption Rights)***);

9. other than as expressly permitted by this Agreement and/or the Articles, redeem or buy any existing Shares or otherwise reorganise the share capital of the Company;

10. admit any person as a member of the Company or an investor in the BCPP pool;

11. enter into any partnership, joint venture or profit sharing arrangement with any person (excluding entering into any investment or investment vehicle);

12. save in the event of a Required Amendment, alter any of the provisions of the Articles or any of the rights attaching to the Shares. For the purposes of this paragraph a "**Required Amendment**" means any amendment to the Articles that is either (i) required pursuant to a direct request from the FCA; or (ii) the Company has received written advice from its legal advisers that a change to the Articles is required to comply with FCA rules;

13. amalgamate or merge with any other company or business undertaking;

14. sell, lease (as lessor), license (as licensor), transfer or otherwise dispose of any of its material assets otherwise than in the ordinary course of the Business;

15. commence or settle any claim, proceedings or other litigation brought by or against BCPP, except (i) in relation to debt collection (not exceeding £500,000) in the ordinary course of the Business and (ii) in relation to any investment related claims or proceedings relevant to the investment sub-funds or other collective investment vehicles established by BCPP; or (iii) in respect of non-material claims, proceedings or other litigation which involve actions for losses of less than £1,000,000 or such lower amount as the Company and the Shareholders may determine from time to time;

16. take out any third party loan(s) in respect of BCPP which (in aggregate) exceed the sum of £5,000,000;

17. form any subsidiary of BCPP, or acquire any shares in any other company, whether through subscription or transfer, such that the company concerned becomes a subsidiary of BCPP; other than where such action is taken in accordance with the Strategic Plan;

18. determine the composition, governance arrangements and limits of authority of any and all subsidiaries of BCPP in such a way that will not invalidate the continued application to BCPP of the "Teckal exemption" codified under Regulation 12 of the Public Contracts Regulations 2015;

19. make any capitalisation, repayment or other distribution of any amount standing to the credit of any reserve of the Company or pay or declare any dividend or other distribution to the Shareholders.

PART B – Matters for approval by a Shareholder Majority only

1. enter into or materially vary any licence or other similar agreement relating to intellectual property to be licensed to or by the Company which is otherwise than in the ordinary course of the Business;

2. appoint or remove the auditors of the Company;

3. alter the Company's accounting reference date;

4. make any significant change to any of the Company's accounting or reporting practices other than conforming with any changes made to the accounting standards adopted by the Company;

5. any proposal to not table the annual accounts of the Company at the Company's annual general meeting;

6. approve the remuneration policy for any directors from time to time and to assist in the approval of the policy the Company will provide such information to support the Shareholders in exercising their authority with respect to the reserved matter as may be reasonably required and at all times in line with good remuneration disclosure practice in the United Kingdom, including but not limited to the UK Corporate Governance Code, and shall confirm indications of remuneration amounts implied under the policy;

7. establish any pension scheme (i.e. for employees of the Company);

8. incur in any financial year any item or series of items of capital expenditure including finance leases (but excluding operating leases) of more than £5,000,000 (unless provided for in the Strategic Plan);

9. enter into or vary any operating lease either as lessor or lessee, of any plant, property or equipment of a duration exceeding 5 years or involving aggregate premium and annual rental payments in excess of £500,000 (unless provided for in the Strategic Plan or such other amount as the Company and the Shareholders may determine from time to time);

10. approval of any conflict or potential conflict of interest any director may have which would preclude him or her from being included in the quorum of any meeting of the directors;

11. appointment of the Chair and any director, any alternate director (who is not at the time a director of the Company) and including, for the avoidance of doubt any subsequent Chair in accordance with the Companies Act 2006 or otherwise;

12. removal of any director and, for the avoidance of doubt, the Chair in accordance with the Companies Act 2006 or otherwise; and

13. approving and adopting a Strategic Plan (including the Annual Budget) and / or amending any such plan.

SCHEDULE 2

Shared Objectives

1. To provide the administering authorities a compliant and effective means of meeting the government's requirement for the pooling of LGPS funds and thereby to achieve scale, improved governance, enhanced capability and capacity to deliver infrastructure investment and fees savings and to comply with all governance requirements placed on the investment function of LGPS administering authorities.

2. To operate with a common or like-minded responsible investor/Shareholder voting policy which focuses on securing high levels of corporate governance by the companies invested in.

3. To share legal ownership, control and decisive influence over BCPP and to allocate the associated costs of operating BCPP between the administering authorities in an equitable manner.

4. Following the transitioning of assets to BCPP, the Authorities shall primarily but not exclusively invest their LGPS pension fund assets either through the collective investment vehicle(s) operated by BCPP, as the primary and exclusive collective investment vehicle(s) for all eligible fund assets, or by appointing BCPP to manage any non-eligible pension assets outside of such vehicle(s).

SCHEDULE 3

Deed of Adherence

This Agreement is made on 20[••]

BETWEEN

(1) **BCPP Limited**, a company incorporated in England and Wales (registered number [NUMBER] whose registered office is at [ADDRESS] ("**the Company**");

(2) The persons whose names and addresses are set out in the Schedule to this Agreement ("**the Existing Shareholders**"); and

(3) [NAME OF NEW SHAREHOLDER] whose registered office is at [ADDRESS] ("**the New Shareholder**").

BACKGROUND

This Agreement is supplemental to a shareholders' agreement dated [DATE] and entered into by [DETAILS] ("**the Shareholders' Agreement**").

The New Shareholder wishes to [

subscribe for] [acquire] [A Ordinary Shares] [and] [B Ordinary Shares].

OPERATIVE PROVISIONS

5. The definitions contained in the Shareholders' Agreement will have the same meanings in this Agreement save where the context otherwise requires.

6. The New Shareholder confirms (subject to paragraph 3 below) that it has been given and read a copy of the Shareholders' Agreement and covenants with each person named in the Schedule to this Agreement to perform and be bound with effect from the date of this Agreement by all the terms of the Shareholders' Agreement as if the New Shareholder was a party to the Shareholders' Agreement as a Shareholder. By executing this Agreement all parties confirm that it is the intention that the New Shareholder shall be bound by and entitled to the benefit of the provisions of the Shareholders' Agreement as if it was a party to the Shareholders' Agreement and named in the Shareholders' Agreement as a Shareholder.

7. This Agreement may be executed in any number of counterparts, each of which when executed will be an original but together will constitute one and the same agreement.

8. This Agreement will be governed by and construed in accordance with the laws of England and Wales.

9. This document is executed as a deed and delivered on the date stated at the beginning of this Deed.

SCHEDULE

The Existing Shareholders

(1)	**BEDFORD BOROUGH COUNCIL**
(2)	**CUMBRIA COUNTY COUNCIL**
(3)	**DURHAM COUNTY COUNCIL**
(4)	**THE EAST RIDING OF YORKSHIRE COUNCIL**
(5)	**LINCOLNSHIRE COUNTY COUNCIL**
(6)	**MIDDLESBROUGH BOROUGH COUNCIL**
(7)	**NORTH YORKSHIRE COUNTY COUNCIL**
(8)	**THE COUNCIL OF THE BOROUGH OF SOUTH TYNESIDE**
(9)	**SOUTH YORKSHIRE PENSIONS AUTHORITY**
(10)	**SURREY COUNTY COUNCIL**
(11)	**WARWICKSHIRE COUNTY COUNCIL**

SCHEDULE 4

Conflicts

Fund Name	Administering Authority	Nominated Contact
Bedfordshire Pension Fund	Bedford Borough Council	Section 151 Officer
Cumbria Pension Fund	Cumbria County Council	Section 151 Officer
Durham Pension Fund	Durham County Council	Section 151 Officer
East Riding Pension Fund	East Riding of Yorkshire Council	Section 151 Officer
Lincolnshire Pension Fund	Lincolnshire County Council	Section 151 Officer
North Yorkshire Pension Fund	North Yorkshire County Council	Section 151 Officer
South Yorkshire Pension Fund	South Yorkshire Pension Fund	Section 151 Officer
Surrey Pension Fund	Surrey County Council	Section 151 Officer
Teesside Pension Fund	Middlesbrough Borough Council	Section 151 Officer
Tyne and Wear Pension Fund	The Borough Council of South Tyneside	Section 151 Officer
Warwickshire Pension Fund	Warwickshire County Council	Section 151 Officer

SCHEDULE 5

Capital Contribution Letter

[SHAREHOLDER LETTERHEAD]

The Directors
Border to Coast Pensions Partnership Limited
5th Floor Toronto Square
Leeds
England
LS1 2HJ

[DATE]

Dear Sirs

Capital Contribution to Border to Coast Pensions Partnership Limited (the "Subsidiary")

We hereby confirm that [SHAREHOLDER NAME] (the "**Shareholder**") has decided to transfer [the sum of £[AMOUNT]] to the Subsidiary, such transfer being a voluntary capital contribution made by the Shareholder to the Subsidiary (the "**Contribution**"). The Subsidiary shall not issue any shares in return for the Contribution.

The Contribution shall be made subject to the condition that it shall not be credited to the Subsidiary's profit and loss account but shall be credited to a special reserve as part of shareholders' funds. Your acceptance of the Contribution shall be deemed to be an acceptance of this condition.

Yours faithfully

....
Director/Officer for and on behalf of [SHAREHOLDER NAME]

ANNEX

The Participating Authorities have previously dealt with a merger of two of their number, the administering authorities of the Northumberland Pension Fund ("**NPF**") and the Tyne and Wear Pension Fund ("**TWPF**") (respectively Northumberland County Council and the Council of the Borough of South Tyneside). The merger of NPF and TWPF established a precedent for participating authority mergers.

It is acknowledged that each process is likely to entail facts and circumstances to be analysed at the particular time.

On the foregoing basis, the Participating Authorities note that:

1. Until any merger is legally completed the shareholder which will be merged into another (the "**Departing Shareholder**") shall be entitled to remain and shall remain a shareholder in the Company and shall be entitled to retain and shall retain a seat on the Joint Committee established under the Inter-Authority Agreement.

2. The Departing Shareholder will be responsible for its share of costs committed at the date of merger and the Participating Authorities shall use reasonable endeavours to procure that Border to Coast Pensions Partnership Limited ("**BCPP**") will act reasonably in committing such expenditure, subject at all times to the need for BCPP to proceed in a manner consistent with the diligent development and implementation of its operating model in accordance with the pooling obligations and commitments of the Participating Authorities.

3. If prior to the merger being completed there is a call to subscribe Regulatory Capital for B Shares in BCPP, the other Participating Authorities will discuss with the Departing Shareholder progress of the merger or exit and will determine whether to call upon the Departing Shareholder to contribute at that stage. Any contribution made by the Departing Shareholder shall be on the basis set out in paragraph 6 below, on the understanding that such capital contribution would be refunded as soon as reasonably practicable after completion of the merger.

4. In the event that BCPP has set its Annual Budget and has called on the Participating Authorities for payment of the Annual Operating Charge (both as defined in the Shareholder Agreement) prior to the completion date of the merger it may require payment by the Departing Shareholder of such contribution. If it does so, at the expiry of the quarter immediately following completion of the merger, the Participating Authorities shall procure that the proportion of the charge attributable to the unexpired part of the budget period (from that quarter date) will be refunded to the Departing Shareholder by BCPP and the remaining Participating Authorities agree to make an additional payment to BCPP cover the cost of the said repayment.

5. Notwithstanding the provisions of the Shareholder Agreement and the Inter-Authority Agreement and any notice periods referred to therein, the Participating Authorities agree that they will, in the case of a merger as soon as reasonably practicable after the Departing Shareholder and the authority into which it is merging have advised in writing that it has become unconditional, release the Departing Shareholder from its obligations under the Shareholder Agreement and the Inter-Authority Agreement, provided always that such actions shall not have an adverse impact on the ability of BCPP to operate and in particular to maintain any FCA registration current at the time.

6. On completion of the merger the Departing Shareholder will surrender its "A" share and give up its seat on the Joint Committee. The obligations of the other Participating Authorities shall remain as set out in the Shareholder Agreement (including the provision of replacement regulatory capital). The Departing Shareholder will also be

entitled to the return of any capital subscribed for “B” shares as soon as reasonably practicable in return for the surrender or transfer of those shares in accordance with the Shareholder Agreement, provided that nothing in this letter shall entitle the Departing Shareholder to return of regulatory capital if this would prejudice BCPP's regulatory position in respect of FCA registration or otherwise. Furthermore, the participating authorities agree to consider waiving the provisions of the Shareholder Agreement requiring a 12 month notification period prior to a shareholder exiting the arrangements.

Any Departing Shareholder will keep the other Participating Authorities informed of the timetable for the proposed merger.

EXECUTED AS A DEED
(but not delivered until the date hereof)
by affixing the Common Seal of:
BEDFORD BOROUGH COUNCIL
in the presence of:

Authorised Officer

EXECUTED AS A DEED
(but not delivered until the date hereof)
by affixing the Common Seal of:
CUMBRIA COUNTY COUNCIL
in the presence of:

Authorised Officer

EXECUTED AS A DEED
(but not delivered until the date hereof)
by affixing the Common Seal of:
THE COUNTY COUNCIL OF DURHAM
in the presence of:

Authorised Sealing Officer
(A permanent Officer of the County Council)

EXECUTED AS A DEED
(but not delivered until the date hereof)
by affixing the Common Seal of:
THE EAST RIDING OF YORKSHIRE COUNCIL
in the presence of:

Authorised Officer

EXECUTED AS A DEED
(but not delivered until the date hereof)
by affixing the Common Seal of:
LINCOLNSHIRE COUNTY COUNCIL
in the presence of:

Authorised Officer

EXECUTED AS A DEED
(but not delivered until the date hereof)
by affixing the Common Seal of:
MIDDLESBROUGH BOROUGH COUNCIL
in the presence of:

Authorised Officer

EXECUTED AS A DEED
(but not delivered until the date hereof)
by affixing the Common Seal of:
NORTH YORKSHIRE COUNTY COUNCIL
in the presence of:

Authorised Officer

EXECUTED AS A DEED
(but not delivered until the date hereof)
by affixing the Common Seal of:
THE COUNCIL OF THE BOROUGH OF SOUTH TYNESIDE
in the presence of:

Mayor

Corporate Lead Legal and Governance/Authorised Signatory

EXECUTED AS A DEED
(but not delivered until the date hereof)
by affixing the Common Seal of:
SOUTH YORKSHIRE PENSIONS AUTHORITY
in the presence of:

Authorised Officer

EXECUTED AS A DEED
(but not delivered until the date hereof)
by affixing the Common Seal of:
SURREY COUNTY COUNCIL
in the presence of:

Authorised Officer

EXECUTED AS A DEED
(but not delivered until the date hereof)
by affixing the Common Seal of:
WARWICKSHIRE COUNTY COUNCIL
in the presence of:

Authorised Officer

EXECUTED as a deed (but not delivered until dated) by **BORDER TO COAST PENSIONS PARTNERSHIP LIMITED** acting by a director

Director signature: ....

Name: ....

in the presence of:

Witness signature: ....

Name: ....

Address: ....

....

Occupation: ....

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EVERSHEDS SUTHERLAND

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Company No. 10795539

Articles of Association of Border to Coast Pensions Partnership Limited

Incorporated 31 May 2017
Adopted by written resolution passed on ______________ 2022

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THE COMPANIES ACT 2006

PRIVATE COMPANY LIMITED BY SHARES

ARTICLES OF ASSOCIATION

OF

BORDER TO COAST PENSIONS PARTNERSHIP LIMITED

Adopted by written resolution passed on _____________ 2022

1. **INTERPRETATION**

1.1 In these Articles the following expressions have the following meanings unless inconsistent with the context:

"2006 Act"	the Companies Act 2006 (as amended from time to time)
"A Shares"	the ordinary shares of £1.00 each in the capital of the Company having the rights set out in these Articles in respect of Shares of that class
"these Articles"	these articles of association as amended from time to time
"B Shares"	the non-voting ordinary shares of £1.00 each in the capital of the Company having the rights set out in these Articles in respect of Shares of that class
"bankruptcy"	includes individual insolvency proceedings in a jurisdiction other than England and Wales or Northern Ireland which have an effect similar to that of bankruptcy
"Business Day"	any day (other than a Saturday or Sunday or a bank or public holiday in England)
"CRR"	the European Union Credit Requirements Regulation 575/2013 and such law, regulation or other enactment which may replace it or give effect to it in the United Kingdom upon an exit of the United Kingdom from the European Union
"chair of the meeting"	the Directors' Chair in their capacity as chair of general meetings of the Shareholders or any other person selected to chair general meetings of the Shareholders by a Shareholder Majority
"Companies Acts"	the Companies Acts (as defined in section 2 of the Companies Act 2006), in so far as they apply to the Company
"director"	a director of the Company, and includes any person occupying the position of director, by whatever name called
"Directors' Chair"	the default chair of meetings of directors as chosen by the shareholders pursuant to **Article 12**

"distribution recipient"	has the meaning given in **Article 38.2**
"document"	includes, unless otherwise specified, any document sent or supplied in electronic form
"electronic form"	has the meaning given in section 1168 of the Companies Act 2006 but does not, for the avoidance of doubt, include communication via a website
"eligible directors"	has the meaning given in **Article 8.3**
"Encumbrance"	includes any interest or equity of any person (including, without prejudice to the generality of the foregoing, any right to acquire, option, right of pre-emption or right of conversion) or any mortgage, charge, pledge, lien or assignment or any other encumbrance, priority or security interest or arrangement of whatsoever nature over or in the relevant property
"Fair Market Value"	the fair market value of any Share agreed between the Board and any Shareholder or, in the event of any dispute, as determined by the auditors of the Company (or if they are unwilling to act, by an independent accountant nominated by the Board and the relevant Shareholder(s) (or, in default of which, by the President of the Institute of Chartered Accountants in England and Wales))
"fully paid"	in relation to a Share, means that the nominal value and any premium to be paid to the Company in respect of that Share have been paid to the Company
"FCA"	the Financial Conduct Authority and any successor body
"FCA Rules"	the Handbook of Rules and Guidance of the FCA, as amended, supplemented and replaced from time to time
"hard copy form"	has the meaning given in section 1168 of the Companies Act 2006
"holder"	in relation to Shares means the person whose name is entered in the register of members as the holder of the Shares
"instrument"	means a document in hard copy form
"Local Authorities Order"	means the Local Authorities (Companies) Order 1995
"ordinary resolution"	has the meaning given in section 282 of the Companies Act 2006
"paid"	paid or credited as paid
"participate"	in relation to a directors' meeting, has the meaning given in **Article 10.1**
"proxy notice"	has the meaning given in **Article 51.1**

"Shareholder"	a person who is the holder of a Share
"Shareholder Majority"	has the meaning given in the Shareholders' Agreement
"Shareholders' Agreement"	means the shareholders' agreement entered into by the Shareholders and the Company in respect of the Company (as may be amended from time to time)
"Shares"	A Shares and B Shares and any other shares in the capital of the Company from time to time
"special resolution"	has the meaning given in section 283 of the Companies Act 2006
"the Statutes"	the Companies Acts as defined in section 2 of the Companies Act 2006 and every other statute, order, regulation, instrument or other subordinate legislation for the time being in force relating to companies and affecting the Company
"Strategic Plan"	the annual business plan for the Company prepared and approved by the Shareholder, as varied from time to time
"subsidiary"	has the meaning given in section 1159 of the Companies Act 2006
"Tier 1 Capital"	Capital which complies with Article 28 of the CRR
"United Kingdom"	Great Britain and Northern Ireland
"Withdrawal Date"	in respect of a Shareholder, has the meaning given in **Article 34.1**
"in writing"	hard copy form or, to the extent agreed (or deemed to be agreed by virtue of a provision of the Statutes) electronic form (but not to include by means of a website)

1.2 Unless the context otherwise requires, words or expressions contained in these Articles bear the same meaning as in the Companies Acts and every other statute, order, regulation or other subordinate legislation in force from time to time relating to companies and affecting the Company but excluding any statutory modification of the same not in force when these Articles become binding on the Company.

1.3 References to any statute or statutory provision include, unless the context otherwise requires, a reference to that statute or statutory provision as modified, replaced, re-enacted or consolidated and in force from time to time and any subordinate legislation made under the relevant statute or statutory provision.

2. **LIABILITY OF MEMBERS**

The liability of the members is limited to the amount, if any, unpaid on the Shares held by them.

DIRECTORS' POWERS AND RESPONSIBILITIES

3. **DIRECTORS' GENERAL AUTHORITY**

Subject to these Articles, the directors are responsible for the management of the Company's business and the implementing of the Strategic Plan, for which purpose they may exercise all the powers of the Company.

4. **SHAREHOLDERS' RESERVE POWER**

4.1 The Shareholders may, by Shareholder Majority or unanimous consent, direct the directors to take, or refrain from taking, specified action and the directors shall not undertake any action requiring Shareholder approval as required by the Shareholders' Agreement.

4.2 No such resolution invalidates anything which the directors have done before the passing of the resolution.

5. **DIRECTORS MAY DELEGATE**

5.1 Subject to these Articles, the directors may delegate any of the powers which are conferred on them under these Articles:

5.1.1 to such person or committee;

5.1.2 by such means (including by power of attorney);

5.1.3 to such an extent;

5.1.4 in relation to such matters or territories; and

5.1.5 on such terms and conditions, as they think fit.

5.2 If the directors so specify, any such delegation may authorise further delegation of the directors' powers by any person to whom they are delegated.

5.3 The directors may revoke any delegation in whole or part, or alter its terms and conditions.

5.4 Notwithstanding any provision in this **Article 5**, a director will remain responsible for any power which is delegated in accordance with this **Article 5**.

6. **COMMITTEES**

6.1 Committees to which the directors delegate any of their powers must follow procedures which are based as far as they are applicable on those provisions of these Articles which govern the taking of decisions by directors.

6.2 The directors may make rules of procedure for all or any committees, which prevail over rules derived from these Articles if they are not consistent with them.

7. **DIRECTORS TO TAKE DECISIONS COLLECTIVELY**

The general rule about decision-making by directors is that any decision of the directors must be either a majority decision at a meeting or a decision taken in accordance with **Article 8**.

8. **WRITTEN RESOLUTIONS OF DIRECTORS**

8.1 A decision of the directors is taken in accordance with this **Article 8** when a majority of the eligible directors indicate to each other by any means that they share a common view on a matter.

8.2 Such a decision may take the form of a resolution in writing, where a majority of eligible directors has signed one or more copies of it, or to which a majority of eligible directors has otherwise indicated agreement in writing.

8.3 References in this Article 8 to eligible directors are to directors who would have been entitled to vote on the matter had it been proposed as a resolution at a directors' meeting.

8.4 A decision may not be taken in accordance with this Article 8 if the eligible directors would not have formed a quorum at such a meeting.

9. CALLING A DIRECTORS' MEETING

9.1 Any director may call a directors' meeting by giving not less than five Business Days' notice of the meeting (or such lesser notice as all the directors may agree) to the directors or by authorising the company secretary to give such notice.

9.2 Notice of any directors' meeting must indicate:

9.2.1 its proposed date and time;

9.2.2 where it is to take place; and

9.2.3 if it is anticipated that directors participating in the meeting will not be in the same place, how it is proposed that they should simultaneously communicate with each other during the meeting.

9.3 Notice of a directors' meeting need not be given to directors who waive their entitlement to notice of that meeting, by giving notice to that effect to the Company not more than 7 days after the date on which the meeting is held. Where such notice is given after the meeting has been held, that does not affect the validity of the meeting, or of any business conducted at it.

10. PARTICIPATION IN DIRECTORS' MEETINGS

10.1 Subject to these Articles, directors participate in a directors' meeting, or part of a directors' meeting, when:

10.1.1 the meeting has been called and takes place in accordance with these Articles; and

10.1.2 they can each simultaneously communicate with and to the others participating in the meeting any information or opinions they have on any particular item of the business of the meeting.

10.2 In determining whether directors are participating in a directors' meeting, it is irrelevant where any director is or, subject to **Article 10.1.2**, how they communicate with each other.

10.3 If all the directors participating in a meeting are not in the same place, they may decide that the meeting is to be treated as taking place wherever any of them is.

11. QUORUM FOR DIRECTORS' MEETINGS

11.1 At a directors' meeting, unless a quorum is participating, no proposal is to be voted on, except a proposal to call another meeting.

11.2 Subject to this **Article 11**, the quorum for directors' meetings shall throughout each meeting be four directors, at least two of whom shall be non-executive directors.

11.3 If the total number of directors for the time being is less than the quorum required, the directors must not take any decision other than a decision:

11.3.1 to appoint further directors; or

11.3.2 to call a general meeting so as to enable the Shareholders to appoint further directors.

11.4 If there is no quorum participating in any meeting of the directors within 30 minutes after the time fixed for the meeting, the meeting shall be adjourned to such time (not being earlier than 5 Business Days after the date of the original meeting, unless otherwise agreed by all the directors) as the director or directors participating in the meeting shall determine, or, in the absence of any directors participating, to such time as the chair of the preceding directors' meeting shall determine. All directors will be notified of the adjournment. If there is no quorum participating within one hour after the time fixed for the adjourned meeting, the meeting shall be further adjourned as aforesaid. If there is no quorum participating within one hour after the time fixed for the further adjourned meeting any two directors participating shall constitute a quorum (one of whom shall be a non-executive director).

11.5 If, as a consequence of section 175(6) of the 2006 Act, a director cannot vote or be counted in the quorum at a directors' meeting then the following shall apply:

11.5.1 if the eligible directors participating in the meeting do not constitute a quorum then the quorum for the purposes of the meeting shall be reduced by one for each director who cannot vote or be counted in the quorum; and

11.5.2 if despite **Article 11.5.1** the eligible directors participating in the meeting still do not constitute a quorum or there are no eligible directors then the meeting must be adjourned to enable the Shareholders to authorise any situation in which a director has a direct or indirect interest that conflicts, or possibly may conflict, with the interests of the Company.

12. CHAIRING OF DIRECTORS' MEETINGS

12.1 The Shareholders shall appoint a Directors' Chair, who shall be a non-executive director, to chair their meetings. The directors may terminate the Directors' Chair's appointment at any time.

12.2 If the Directors' Chair is not participating in a directors' meeting within 30 minutes of the time at which it was to start, the participating directors must appoint one of the non-executive directors to chair it.

13. CASTING VOTE

If the numbers of votes for and against a proposal are equal at a meeting of the directors, the Directors' Chair or other director chairing the meeting shall have a casting vote.

14. DIRECTORS' INTERESTS

14.1 Subject to these Articles, the 2006 Act and any requirements of the FCA, and provided that he has disclosed to the other directors the nature and extent of any interest of his, a director:

14.1.1 may hold any other office or employment with the Company (other than the office of auditor); and

14.1.2 may, or any firm or company of which he is a member or director may, act in a professional capacity for the Company or any body corporate in which the Company is in any way interested (other than as auditor).

14.2 The Shareholders (by a Shareholder Majority) may authorise any conflict of interest which an interested director may have. Except for a vote under section 175(4) of the 2006 Act authorising any conflict of interest which a director or any other interested director may have, or where the terms of authorisation of such conflict provide that a director may not vote in situations prescribed by the directors when granting such authorisation, and subject in each case to any restrictions imposed by the FCA with respect thereto, a director will be entitled to participate in the decision making process for voting and quorum purposes on any of the matters referred to in **14.1.1** to **14.1.2** and in any of the circumstances set out in **Article 14.3**.

14.3 The circumstances referred to in **Article 14.2** are:

14.3.1 the Company by special resolution disapplies any provision of these Articles which would otherwise prevent a director from being counted as participating in the decision-making process; or

14.3.2 the director's interest cannot reasonably be regarded as likely to give rise to a conflict of interest.

14.4 For the purposes of these Articles references to decision making processes include any directors' meeting or part of a directors' meeting.

14.5 For the purposes of **Article 14.1**:

14.5.1 a general notice given in accordance with the 2006 Act is to be treated as a sufficient declaration of interest;

14.5.2 a director is not required to declare an interest either where he is not aware of such interest or is not aware of the transaction or arrangement in question; and

14.5.3 an interest of a director who appoints an alternate director shall be treated as an interest of the alternate director.

14.6 Subject to **Article 14.7**, if a question arises at a meeting of directors or of a committee of directors as to the right of a director to participate in the meeting (or part of the meeting) for voting or quorum purposes, the question may, before the conclusion of the meeting, be referred to the Directors' Chair or other director chairing the meeting whose ruling in relation to any director other than the Directors' Chair or other director chairing the meeting is to be final and conclusive.

14.7 If any question as to the right to participate in the meeting (or part of the meeting) should arise in respect of the Directors' Chair or other director chairing the meeting, the question is to be decided by a decision of the directors at that meeting, for which purpose the Directors' Chair or other director chairing the meeting is not to be counted as participating in the meeting (or that part of the meeting) for voting or quorum purposes.

15. RECORDS OF DECISIONS TO BE KEPT

The directors must ensure that the Company keeps a record, in writing, for at least 10 years from the date of the decision recorded, of every unanimous or majority decision taken by the directors.

16. DIRECTORS' DISCRETION TO MAKE FURTHER RULES

Subject to these Articles, the directors may make any rule which they think fit about how they take decisions, and about how such rules are to be recorded or communicated to directors.

17. MINIMUM AND MAXIMUM NUMBER OF DIRECTORS

The number of directors shall not be less than four (at least half of which must be non-executive directors) and shall not exceed 10.

18. APPOINTMENT AND REMOVAL OF DIRECTORS AND COMPANY SECRETARY

18.1 Any person who is willing to act as a director, and is permitted by law to do so and has obtained the necessary approval from the FCA to act as such, may be appointed a director by a decision of the Shareholders in accordance with the Shareholders' Agreement.

18.2 A person ceases to be a director as soon as:

18.2.1 that person ceases to be a director by virtue of any provision of the Companies Act 2006 or is prohibited from being a director by law;

18.2.2 a bankruptcy order is made against that person;

18.2.3 a composition is made with that person's creditors generally in satisfaction of that person's debts;

18.2.4 a registered medical practitioner who is treating that person gives a written opinion to the Company stating that that person has become physically or mentally incapable of acting as a director and may remain so for more than three months;

18.2.5 notification is received by the Company from the director that the director is resigning from office, and such resignation has taken effect in accordance with its terms; or

18.2.6 receipt by the Company of a written notice signed by 75% or more of the Shareholders of Class A voting rights removing a director from office save for an Interim Director (as defined in the Shareholders' Agreement) who may be removed on receipt by the Company of a written notice signed by 100% of the Shareholders of Class A voting rights.

18.3 The directors shall appoint a company secretary of the Company.

19. DIRECTORS' REMUNERATION

19.1 Subject to these Articles, a director's remuneration may:

19.1.1 take any form, and

19.1.2 include any arrangements in connection with the payment of a pension, allowance or gratuity, or any death, sickness or disability benefits, to or in respect of that director.

19.2 Unless Shareholders (acting with a Shareholder Majority) decide otherwise, directors' remuneration accrues from day to day.

19.3 Unless Shareholders (acting with a Shareholder Majority) decide otherwise, directors are not accountable to the Company for any remuneration which they receive as directors or other officers or employees of the Company's subsidiaries or of any other body corporate in which the Company is interested.

20. DIRECTORS' EXPENSES

The Company may pay any reasonable expenses which the directors properly incur in connection with the exercise of their powers and the discharge of their responsibilities in relation to the Company in accordance with any expenses policy of the Company as is approved by the directors from time to time.

21. DIRECTORS' POWERS

The directors may procure that the Company borrow and raise money by way of borrowings on behalf of the Company but shall only do so if:

21.1 such borrowing shall not allow any prospective lender a right to participate in the share capital of the Company as a condition of any such borrowing or to take any Encumbrance over any of the Shares; and

21.2 they have obtained prior written consent of the Shareholders if the aggregate amount of any such borrowings shall exceed £5,000,000.

22. ALTERNATE DIRECTORS

22.1 Appointment and removal of alternates

22.1.1 Any director may appoint as an alternate any other director of the Company or any director may, with prior approval of 75% or more of the Shareholder, appoint as an alternate any person willing to be so appointed (each director being an "appointor") to:

22.1.1.1 exercise that director's powers; and

22.1.1.2 carry out that director's responsibilities,

in relation to participation in directors' meetings and the taking of decisions by the directors in the absence of the alternate's appointor.

22.1.2 Any appointment or removal of an alternate must be effected by notice in writing to the Company signed by the appointor, or in any other manner approved by the directors.

22.1.3 The notice must:

22.1.3.1 identify the proposed alternate; and

22.1.3.2 in the case of a notice of appointment, contain a statement signed by the proposed alternate that the proposed alternate is willing to act as the alternate of the director giving the notice.

22.2 Rights and responsibilities of alternate directors

22.2.1 An alternate director has the same rights, in relation to participation in directors' meetings and the taking of decisions by the directors and in relation to directors' written resolutions, as the alternate's appointor.

22.2.2 An alternate director may act as an alternate director for more than one appointor.

22.2.3 Except as these Articles specify otherwise, alternate directors:

22.2.3.1 are liable for their own acts and omissions;

22.2.3.2 are subject to the same restrictions as their appointors; and

22.2.3.3 are not deemed to be agents of or for their appointors.

and, each alternate director shall be entitled to receive notice of all meetings of directors and of all meetings of committees of directors of which his appointor is a member.

22.2.4 A director who is also an alternate director is entitled, in the absence of his appointor, to a separate vote on behalf of his appointor, in addition to his own vote on any decision of the directors (provided that his appointor is an eligible director in relation to that decision), but shall not count as more than one director for the purposes of determining whether a quorum is present.

22.2.5 An alternate director is not entitled to receive any remuneration from the Company for serving as an alternate director except such part of the alternate's appointor's remuneration as the appointor may direct by notice in writing made to the Company.

22.3 **Termination of alternate directorship**

22.3.1 An alternate director's appointment as alternate terminates:

22.3.1.1 when the alternate's appointor revokes the appointment by notice to the Company in writing specifying when it is to terminate;

22.3.1.2 on the occurrence in relation to the alternate of any event which, if it occurred in relation to the alternate's appointor, would result in the termination of the appointor's appointment as a director;

22.3.1.3 on the death of the alternate's appointor; or

22.3.1.4 when the alternate's appointor's appointment as a director terminates.

23. **ALTERNATE DIRECTORS' EXPENSES**

Article 20 shall apply in relation to alternate directors.

SHARES AND DISTRIBUTIONS

24. **ALL SHARES TO BE FULLY PAID UP**

No Share is to be issued for less than the aggregate of its nominal value and any premium to be paid to the Company in consideration for its issue.

25. **POWER TO ISSUE DIFFERENT CLASSES OF SHARES**

25.1 Subject to these Articles, but without prejudice to the rights attached to any existing Share, the Company may issue Shares with such rights or restrictions as may be determined by the prior approval of all of the Shareholders.

25.2 Subject to these Articles, but without prejudice to the rights attached to any existing Share, the Company may issue Shares which are to be redeemed, or are liable to be redeemed at the option of the Company and the directors may determine the terms, conditions and manner of redemption of any such Shares.

26. **ISSUES OF SHARES AND PRE-EMPTION RIGHTS**

Subject to the prior unanimous approval of the Shareholders, for the purposes of section 551 of the 2006 Act, the directors are generally and unconditionally authorised to allot B Shares in the Company or to grant rights to subscribe for, or to convert any security into, B Shares up to a maximum nominal value of £10,000,000, provided that this authority shall expire five (5) years after the adoption of these Articles, unless previously renewed, revoked or varied except that the Company may, before such expiry, make an offer or agreement which will or may require the allotment of Shares or the grant of rights to subscribe for, or convert any security into, shares in the Company, after such expiry.

27. **RIGHTS ATTACHING TO THE SHARES**

27.1 Save as otherwise provided in these Articles, the A Shares and the B Shares shall be treated as if they constituted one class of Share.

27.2 The B Shares shall not entitle any holder thereof to the payment of any dividend or other distribution of income or, subject to **Article 43.1**, capital, or otherwise.

27.3 The B Shares shall not entitle any holder thereof to receive notice of, or to attend or vote at, general meetings of the Company.

27.4 Subject to the provisions of the Statutes, the B Shares held by any Shareholder may, at the discretion of the Board, be purchased by the Company on the Withdrawal Date with respect to that Shareholder at par value, provided that the FCA has granted permission pursuant to Article 77 of the CRR.

27.5 Subject to the provisions of the Statutes, the Company may, at the discretion of the Board and provided that the FCA has granted permission pursuant to Article 77 of the CRR, with the prior written consent of all of the holders of the A Shares purchase all or some of the B Shares in advance of the Withdrawal Date with respect to the relevant Shareholder.

27.6 Subject to **Article 27.4**, within 3 months of the relevant Withdrawal Date the Company shall, subject to the Statutes, pay to each Shareholder whose B Shares are to be purchased by the Company an amount equal to the par value of the B Shares to be purchased and upon receipt of that amount each such Shareholder shall surrender to the Company the certificate(s) for the B Shares so purchased. If any certificate surrendered is for more B Shares than are to be purchased at that time the Company shall issue to the holder free of charge a new certificate for the balance of the Shares not purchased by the Company.

27.7 Subject to **Article 27.4**, where the Company is precluded by the Statutes or otherwise by law from purchasing any B Shares on the relevant Withdrawal Date, then:

27.7.1 the Company shall purchase, on that date, as many of the B Shares which can then, consistently with the Statutes, be purchased by the Company; and

27.7.2 as soon as the Company is no longer precluded from doing so, the Company shall in respect of the B Shares not purchased, purchase the maximum number of B Shares which can, consistently with the Statutes, properly be purchased by the Company at that time.

27.8 The special rights conferred by the B Shares shall be deemed not to be modified or abrogated by the creation or issue of further Shares ranking pari passu or in priority to or subordinate to the B Shares.

28. PURCHASE OF OWN SHARES

28.1 Following any purchase by the Company of its own Shares in accordance with the provisions of the 2006 Act, and/or in accordance with the requirements of these Articles, all the purchased Shares shall be immediately cancelled.

28.2 Subject to the 2006 Act, but without prejudice to any other provision of these Articles, the Company may purchase or redeem its own Shares in accordance with Chapter 4 of Part 18 of the Act, including (without limitation) out of capital up to any amount in a financial year not exceeding the lower of:

28.2.1 £15,000; and

28.2.2 the nominal value of 5% of the Company's fully paid share capital at the beginning of each financial year of the Company.

29. COMPANY NOT BOUND BY LESS THAN ABSOLUTE INTERESTS

Except as required by law, no person is to be recognised by the Company as holding any Share upon any trust, and except as otherwise required by law or these Articles, the Company is not in any way to be bound by or recognise any interest in a Share other than the holder's absolute ownership of it and all the rights attaching to it.

30. SHARE CERTIFICATES

30.1 The Company must issue each Shareholder, free of charge, with one or more certificates in respect of the Shares which that Shareholder holds.

30.2 Every certificate must specify:

30.2.1 in respect of how many Shares, of what class, it is issued;

30.2.2 the nominal value of those Shares;

30.2.3 that the Shares are fully paid; and

30.2.4 any distinguishing numbers assigned to them.

30.3 No certificate may be issued in respect of Shares of more than one class.

30.4 If more than one person holds a Share, only one certificate may be issued in respect of it.

30.5 Certificates must:

30.5.1 have affixed to them the Company's common seal, or

30.5.2 be otherwise executed in accordance with the Companies Acts.

31. **REPLACEMENT SHARE CERTIFICATES**

31.1 If a certificate issued in respect of a Shareholder's Shares is:

31.1.1 damaged or defaced, or

31.1.2 said to be lost, stolen or destroyed,

that Shareholder is entitled to be issued with a replacement certificate in respect of the same Shares.

31.2 A Shareholder exercising the right to be issued with such a replacement certificate:

31.2.1 may at the same time exercise the right to be issued with a single certificate or separate certificates;

31.2.2 must return the certificate which is to be replaced to the Company if it is damaged or defaced; and

31.2.3 must comply with such conditions as to evidence, indemnity and the payment of a reasonable fee as the directors decide.

32. **RESTRICTIONS ON TRANSFER**

In these Articles, references to a transfer of a Share include the transfer or assignment of a beneficial or other interest in that Share or the creation of a trust or encumbrance over that Share and reference to a Share includes a beneficial or other interest in a Share.

33. **TRANSFERS NULL AND VOID**

Except for a purchase by the Company of its own Shares or any transfer in accordance with the Shareholders' Agreement, in each case in accordance with the provisions of the 2006 Act and these Articles and provided that the FCA has granted any required permission pursuant to Article 77 of the CRR, any transfer or purported transfer of a Share shall be null and void and of no effect.

34. **EXITING SHAREHOLDER**

34.1 In the event that a Shareholder wishes to cease to be a Shareholder in the Company, a Shareholder shall be required to serve a written notice on the Board of the Company at least 12 months prior to the proposed exit date, which must be 31 March in any year unless such other date is approved by the Board and all of the other Shareholders (the "Withdrawal Date").

34.2 In the event of a Shareholder ceasing to be a Shareholder (an "Exiting Shareholder"), the Exiting Shareholder shall pay to the Company, in addition to any monies owing by the Exiting Shareholder to the Company as at the Withdrawal Date, such sum as represents the contribution to the capitalised value of that proportion of the continuing and outstanding liabilities of the Company have been incurred before the Withdrawal Date and which is properly attributable to the Exiting Shareholder's share membership of the Company in accordance with clause 15 of the Shareholders' Agreement.

34.3 Thereafter (save where any defaulting Shareholder is required to cease being a Shareholder pursuant to the terms of any shareholders agreement in which event those default provisions shall apply), on the Withdrawal Date:

34.3.1 **A Shares:** the A Shares held by the Exiting Shareholder shall be either (as agreed by the Exiting Shareholder and the Company):

34.3.1.1 (in the Board's absolute discretion and subject to first having obtained the FCA's permission pursuant to Article 77 of the CRR) purchased by the Company at Fair Market Value in accordance with and subject always to Part 18 of the 2006 Act; or

34.3.1.2 transferred to a new Shareholder at Fair Market Value.

For the avoidance of doubt, if the Company is unable to purchase the A Shares (as a result of insufficient distributable reserves and/or any other legal restriction in Part 18 of the 2006 Act) then the Company shall not be under any obligation to purchase any such A Shares until such later time as the Board determines that the Company is in a position to complete the proposed share buyback.

34.3.2 **B Shares:** the rights attached to B Shares in the event of an Exiting Shareholder are set out in **Article 27** above. The proceeds of such sale or transfer shall be paid to the Exiting Shareholder within 3 months of the Withdrawal Date (subject to the Company having sufficient reserves to do so and if it does not, at such date when it next has sufficient distributable reserves).

35. DEEMED TRANSFERS TO THE COMPANY

35.1 If a Shareholder, or other person entitled to transfer a Share (otherwise than in accordance with these Articles or the Shareholders' Agreement), at any time attempts to transfer, deal with or dispose of a Share or any legal or beneficial interest in such Share otherwise than in accordance with **Article 27** (*Rights attaching to Shares*) or **Article 34** (*Exiting Shareholder*), or if any of the events specified in **Article 35.3** or **Article 35.4** occurs in respect of a Shareholder, the provisions of **Article 35.2** shall apply.

35.2 Where **Article 35.1** applies to any Shareholder, such Shareholder shall be deemed to have given a transfer notice on the occurrence of such attempt or event in favour of the Company and to have specified in such transfer notice as the price per Share, the par value of each Share and the Company shall implement such transfer by way of purchase or redemption of such Shares in accordance with the 2006 Act.

35.3 **Article 35.2** shall apply on the occurrence of any of the following events:

35.3.1 any direction (by way of renunciation, nomination or otherwise) by a Shareholder entitled to an allotment or transfer of Shares to the effect that such Shares or any of them be allotted or issued or transferred to some person other than himself; or

35.3.2 any sale, dealing with or other disposition of any beneficial interest in a Share (whether or not for consideration or otherwise) by whomsoever made and whether or not effected by an instrument in writing except where the disposition is by service of a transfer notice in accordance with these Articles.

35.4 For the purpose of ensuring that no circumstances have arisen whereby a transfer notice is deemed to be given or is required to be served, the directors may from time to time require any Shareholder or past shareholder to furnish to them such information and evidence as the directors may reasonably think fit regarding any matter which they consider relevant to establish whether any circumstances have arisen whereby a transfer notice is required to be served. Failing such information being furnished to the reasonable satisfaction of the directors within a reasonable time after it has been requested, or if in the reasonable opinion of the directors any such information or evidence is false in any material respect, the directors may declare by notice in writing to the relevant Shareholder that a transfer notice shall be deemed to have been given in respect of any relevant Shares and Article 35.2 shall apply in respect of any Shares held by such Shareholder.

35.5 For the purpose of **Articles 35.1** to **35.4** inclusive, the word "Shareholder" includes any former shareholder.

36. **REGISTRATION OF TRANSFERS**

The Directors may refuse to register any transfer of a Share in accordance with clause 15.5 of the Shareholders' Agreement.

DIVIDENDS AND OTHER DISTRIBUTIONS

37. **PROCEDURE FOR DECLARING DIVIDENDS**

37.1 The Company may declare dividends and interim dividends in accordance with the Shareholders' Agreement.

37.2 A dividend must not be declared unless the directors have made a recommendation as to its amount. Such a dividend must not exceed the amount recommended by the directors.

37.3 No dividend may be declared or paid unless it is in accordance with Shareholders' respective rights.

37.4 Unless the Shareholders' resolution to declare or director's decision to pay a dividend, or the terms on which Shares are issued, specify otherwise, it must be paid by reference to each Shareholders' holding of Shares on the date of the resolution or decision to declare or pay it.

38. **PAYMENT OF DIVIDENDS AND OTHER DISTRIBUTIONS**

38.1 Where a dividend or other sum which is a distribution is payable in respect of a Share, it must be paid by one or more of the following means:

38.1.1 transfer to a bank or building society account specified by the distribution recipient either in writing or as the directors may otherwise decide;

38.1.2 sending a cheque made payable to the distribution recipient by post to the distribution recipient at the distribution recipient's registered address;

38.1.3 sending a cheque made payable to such person by post to such person at such address as the distribution recipient has specified either in writing or as the directors may otherwise decide; or

38.1.4 any other means of payment as the directors agree with the distribution recipient either in writing or by such other means as the directors decide.

38.2 In these Articles, "the distribution recipient" means, in respect of a Share in respect of which a dividend or other sum is payable:

38.2.1 the holder of the Share; or

38.2.2 if the Share has two or more joint holders, whichever of them is named first in the register of members.

39. **NO INTEREST ON DISTRIBUTIONS**

39.1 The Company may not pay interest on any dividend or other sum payable in respect of a Share unless otherwise provided by:

39.1.1 the terms on which the Share was issued, or

39.1.2 the provisions of another agreement between the holder of that Share and the Company.

40. **UNCLAIMED DISTRIBUTIONS**

40.1 All dividends or other sums which are:

40.1.1 payable in respect of Shares, and

40.1.2 unclaimed after having been declared or become payable,

may be invested or otherwise made use of by the directors for the benefit of the Company until claimed.

40.2 The payment of any such dividend or other sum into a separate account does not make the Company a trustee in respect of it.

40.3 If:

40.3.1 twelve years have passed from the date on which a dividend or other sum became due for payment, and

40.3.2 the distribution recipient has not claimed it,

the distribution recipient is no longer entitled to that dividend or other sum and it ceases to remain owing by the Company.

41. **DISTRIBUTIONS**

41.1 Subject to the terms of issue of the Share in question, the Company may, subject to the terms of the Shareholders' Agreement, on the recommendation of the directors, decide to pay all or part of a dividend or other distribution payable in respect of a Share by transferring non-cash assets of equivalent value (including, without limitation, Shares or other securities in any company).

41.2 For the purposes of paying a non-cash distribution, the directors may make whatever arrangements they think fit, including, where any difficulty arises regarding the distribution:

41.2.1 fixing the value of any assets;

41.2.2 paying cash to any distribution recipient on the basis of that value in order to adjust the rights of recipients; and

41.2.3 vesting any assets in trustees.

42. **WAIVER OF DISTRIBUTIONS**

42.1 Distribution recipients may waive their entitlement to a dividend or other distribution payable in respect of a Share by giving the Company notice in writing to that effect, but if:

42.1.1 the Share has more than one holder, or

42.1.2 more than one person is entitled to the Share,

the notice is not effective unless it is expressed to be given, and signed, by all the holders or persons otherwise entitled to the Share.

CAPITALISATION OF PROFITS

43. **AUTHORITY TO CAPITALISE AND APPROPRIATION OF CAPITALISED SUMS**

43.1 Subject to these Articles, the directors may, subject to the terms of the Shareholders' Agreement:

43.1.1 decide to capitalise any profits of the Company (whether or not they are available for distribution) or any sum standing to the credit of the Company's share premium account or capital redemption reserve; and

43.1.2 appropriate any sum which they so decide to capitalise (a "capitalised sum") to the persons who would have been entitled to it if it were distributed by way of dividend (the "persons entitled") and in the same proportions.

43.2 Capitalised sums must be applied:

43.2.1 on behalf of the persons entitled; and

43.2.2 in the same proportions as a dividend would have been distributed to them.

43.3 Any capitalised sum may be applied in paying up new Shares of a nominal amount equal to the capitalised sum which are then allotted credited as fully paid to the persons entitled or as they may direct.

43.4 A capitalised sum which was appropriated from profits available for distribution may be applied in paying up new debentures of the Company which are then allotted credited as fully paid to the persons entitled or as they may direct.

43.5 Subject to these Articles the directors may:

43.5.1 apply capitalised sums in accordance with **Articles 43.3** and **43.4** partly in one way and partly in another;

43.5.2 make such arrangements as they think fit to deal with Shares or debentures becoming distributable in fractions under this **Article 43** (including the issuing of fractional certificates or the making of cash payments); and

43.5.3 authorise any person to enter into an agreement with the Company on behalf of all the persons entitled which is binding on them in respect of the allotment of Shares and debentures to them under this **Article 43**.

44. **RETURN OF CAPITAL RIGHTS**

The rights as regards return of capital attaching to each class of Shares shall be as set out in this **Article 44**. On a return of capital on liquidation or otherwise (except on a redemption or purchase by the Company of any Shares), the surplus assets of the Company remaining after the payment of its liabilities (including for the avoidance of doubt any debts arising from non-payment of cumulative dividends) shall be applied in the following order of priority:

44.1 first, in paying to each holder of A Shares and B Shares in respect of each A Share and B Share of which it is the holder, a sum equal to the par value thereof; and

44.2 the balance of such assets (if any) shall be distributed amongst the holders of the A Shares and the B Shares pro rata to the amount paid up or credited as paid up on each such A Share and B Share.

ORGANISATION OF GENERAL MEETINGS

45. **NOTICE OF GENERAL MEETINGS**

Every notice convening a general meeting shall:

45.1 include an agenda of the meeting;

45.2 comply with section 325(1) of the 2006 Act as to giving information to Shareholders relating to their right to appoint proxies; and

45.3 be given in accordance with section 308 of the 2006 Act but shall not be given by means of a website.

46. **ATTENDANCE AND SPEAKING AT GENERAL MEETINGS**

46.1 A person is able to exercise the right to speak at a general meeting when that person is in a position to communicate to all those attending the meeting, during the meeting, any information or opinions which that person has on the business of the meeting.

46.2 A person is able to exercise the right to vote at a general meeting when:

46.2.1 that person (being an authorised representative of a Shareholders or a proxy of the Shareholders) is able to vote, during the meeting, on resolutions put to the vote at the meeting, and

46.2.2 that person's vote can be taken into account in determining whether or not such resolutions are passed at the same time as the votes of all the other persons attending the meeting.

46.3 The directors may make whatever arrangements they consider appropriate to enable those attending a general meeting to exercise their rights to speak or vote at it.

46.4 In determining attendance at a general meeting, it is immaterial whether any two or more members attending it are in the same place as each other.

46.5 Two or more persons who are not in the same place as each other attend a general meeting if their circumstances are such that if they have (or were to have) rights to speak and vote at that meeting, they are (or would be) able to exercise them.

47. **ATTENDANCE AND SPEAKING BY DIRECTORS AND NON-SHAREHOLDERS**

47.1 Directors may attend and speak at general meetings, whether or not they are Shareholders.

47.2 The chair of the meeting may permit other persons who are not:

47.2.1 Shareholders of the Company; or

47.2.2 otherwise entitled to exercise the rights of Shareholders in relation to general meetings,

to attend and speak at a general meeting.

48. **QUORUM AT GENERAL MEETINGS**

48.1 No resolution shall be voted on and no other business shall be transacted at any general meeting of the Company unless a quorum is present when such vote is taken or other business is transacted and no resolution or transaction shall be effective unless a quorum is so present.

48.2 A quorum shall consist of the holders of 66.6% or more of the A Shares from time to time of the Company for the time being present by proxy or by representative.

48.3 If a quorum is not present within half an hour from the time appointed for a general meeting or if, during any general meeting, a quorum ceases to be present, the general meeting shall stand adjourned until such other day and at such other place as the chair of the meeting may determine (or, if the chair does not so determine any outstanding business to be discussed at the meeting shall be adjourned to the next general meeting) and if at the adjourned general meeting a quorum is not present within half an hour from the time appointed for the same such adjourned general meeting, the general meeting shall be dissolved.

VOTES OF SHAREHOLDERS

49. **VOTING: GENERAL**

A resolution put to the vote of a general meeting must be decided on a show of hands (or equivalent open voting methodology). No resolution shall be decided on a poll.

50. **ERRORS AND DISPUTES**

50.1 No objection may be raised to the qualification of any person voting at a general meeting except at the meeting or adjourned meeting at which the vote objected to is tendered, and every vote not disallowed at the meeting is valid.

50.2 Any such objection must be referred to the chair of the meeting, whose decision is final.

51. **CONTENT OF PROXY NOTICES**

51.1 Proxies may only validly be appointed by a notice in writing (a "proxy notice") which:

51.1.1 states the name and address of the Shareholder appointing the proxy;

51.1.2 identifies the person appointed to be that Shareholder's proxy and the general meeting in relation to which that person is appointed;

51.1.3 is signed by or on behalf of the Shareholder appointing the proxy, or is authenticated in such manner as the directors may determine; and

51.1.4 is delivered to the Company in accordance with these Articles and any instructions contained in the notice of the general meeting to which they relate.

51.2 The Company may require proxy notices to be delivered in a particular form, and may specify different forms for different purposes.

51.3 Proxy notices may specify how the proxy appointed under them is to vote (or that the proxy is to abstain from voting) on one or more resolutions.

51.4 Unless a proxy notice indicates otherwise, it must be treated as:

51.4.1 allowing the person appointed under it as a proxy discretion as to how to vote on any ancillary or procedural resolutions put to the meeting, and

51.4.2 appointing that person as a proxy in relation to any adjournment of the general meeting to which it relates as well as the meeting itself.

52. **DELIVERY OF PROXY NOTICES**

52.1 A person who is entitled to attend, speak or vote at a general meeting remains so entitled in respect of that meeting or any adjournment of it, even though a valid proxy notice has been delivered to the Company by or on behalf of that person.

52.2 An appointment under a proxy notice may be revoked by delivering to the Company a notice in writing given by or on behalf of the person by whom or on whose behalf the proxy notice was given.

52.3 A notice revoking a proxy appointment only takes effect if it is delivered before the start of the meeting or adjourned meeting to which it relates.

52.4 If a proxy notice is not executed by the person appointing the proxy, it must be accompanied by written evidence of the authority of the person who executed it to execute it on the appointor's behalf.

53. **AMENDMENTS TO RESOLUTIONS**

53.1 An ordinary resolution to be proposed at a general meeting may be amended by ordinary resolution if:

53.1.1 notice of the proposed amendment is given to the Company in writing by a person entitled to vote at the general meeting at which it is to be proposed not less than 48 hours before the meeting is to take place (or such later time as the chair of the meeting may determine), and

53.1.2 the proposed amendment does not, in the reasonable opinion of the chair of the meeting, materially alter the scope of the resolution.

53.2 A special resolution to be proposed at a general meeting may be amended by ordinary resolution, if:

53.2.1 the chair of the meeting proposes the amendment at the general meeting at which the resolution is to be proposed, and

53.2.2 the amendment does not go beyond what is necessary to correct a grammatical or other non-substantive error in the resolution.

53.3 If the chair of the meeting, acting in good faith, wrongly decides that an amendment to a resolution is out of order, the chair's error does not invalidate the vote on that resolution.

54. **WRITTEN RESOLUTIONS**

54.1 A written resolution, proposed in accordance with section 288(3) of the Companies Act 2006, will lapse if it is not passed before the end of the period of 40 days beginning with the circulation date.

54.2 For the purposes of this **Article 54** "circulation date" is the date on which copies of the written resolution are sent or submitted to Shareholders or, if copies are sent or submitted on different dates, to the first of those dates.

55. **NUMBER OF VOTES**

Subject to any rights or restrictions for the time being attached to any class or classes of Shares, on a written resolution every holder of A Shares has one vote in respect of each A Share held by him and on a show of hands at a general meeting every holder of A Shares entitled to vote and who is present by a representative has one vote.

56. **COMPLIANCE WITH THE LOCAL AUTHORITIES ORDER**

56.1 The Company is a "controlled company" within the meaning of Article 4(1) of the Local Authorities Order because its Shareholders are the following local authorities (each an "Authority", together the "Authorities"):

56.1.1 Bedford Borough Council;

56.1.2 Cumbria County Council;

56.1.3 Durham County Council;

56.1.4 The East Riding of Yorkshire Council;

56.1.5 Lincolnshire County Council;

56.1.6 Middlesbrough Borough Council;

56.1.7 North Yorkshire County Council;

56.1.8 The Council of the Borough of South Tyneside;

56.1.9 South Yorkshire Pensions Authority;

56.1.10 Surrey County Council; and

56.1.11 Warwickshire County Council.

56.2 The Company shall comply with the requirements of the Local Authorities Order in so far as it relates to the Company.

ADMINISTRATIVE ARRANGEMENTS

57. **COMPANY COMMUNICATION PROVISIONS**

57.1 Where:

57.1.1 a document or information is sent by post (whether in hard copy or electronic form) to an address in the United Kingdom; and

57.1.2 the Company is able to show that it was properly addressed, prepaid and posted,

it is deemed to have been received by the intended recipient 48 hours after it was posted (unless the Company can demonstrate that such properly addressed (to an address in the United Kingdom) and posted document or information was prepaid by first class post in which case it shall be deemed to have been received by the intended recipient 24 hours after it was posted).

57.2 Where:

57.2.1 a document or information is sent or supplied in electronic form; and

57.2.2 the Company is able to show that it was properly addressed,

it is deemed to have been received by the intended recipient immediately after it was sent.

57.3 Pursuant to section 1147(6) of the 2006 Act, subsections (2), (3) and (4) of that section shall be deemed modified by Articles 56.1 and 56.2.

57.4 Subject to any requirements of the 2006 Act, documents and notices may be sent to the Company in electronic form to the address specified by the Company for that purpose and such documents or notices sent to the Company are sufficiently authenticated if the identity of the sender is confirmed in the way the Company has specified.

58. **COMPANY SEALS**

58.1 Any common seal may only be used by the authority of the directors.

58.2 The directors may decide by what means and in what form any common seal is to be used.

58.3 Unless otherwise decided by the directors, if the Company has a common seal and it is affixed to a document, the document must also be signed by at least one authorised person in the presence of a witness who attests the signature.

58.4 For the purposes of this Article 58, an authorised person is:

58.4.1 any director of the Company;

58.4.2 the company secretary (if any); or

58.4.3 any person authorised by the directors for the purpose of signing documents to which the common seal is applied.

59. PUBLIC ACCESS TO MINUTES OF MEETINGS AND RIGHTS TO INSPECT ACCOUNTS AND OTHER RECORDS

In accordance with the requirements of the Local Authorities Order, the minutes of any general meeting shall be made available for public inspection for a period of 4 years from the date of such a meeting.

60. DIRECTORS' INDEMNITY AND INSURANCE

60.1 Subject to, and so far as may be permitted by, the 2006 Act and the FCA Rules and without prejudice to any indemnity to which the person concerned may be otherwise entitled, the Company may indemnify every director, former director, alternate director, secretary or other officer of the Company or of any associated company (as defined in section 256 of the 2006 Act) against any liabilities incurred by him in the execution and discharge of his duties or the exercise of his powers or otherwise in relation to or in connection with his duties, powers or office, including any liability which may attach to him in respect of any negligence, default, breach of duty or breach of trust in relation to anything done or omitted to be done or alleged to have been done or omitted to be done by him as a director, former director, alternate director, secretary or other officer of the Company or of any such associated company and against any such liability incurred by him in connection with the Company's activities as trustee of an occupational pension scheme as defined in section 235(b) of the 2006 Act.

60.2 Subject to the 2006 Act the directors may purchase and maintain at the cost of the Company insurance cover for or for the benefit of every director, former director, alternate director, secretary or other officer of the Company or of any associated company (as defined in section 256 of the 2006 Act) against any liability which may attach to him in respect of any negligence, default, breach of duty or breach of trust by him in relation to the Company (or such associated company), including anything done or omitted to be done or alleged to have been done or omitted to be done by him as a director, former director, alternate director, secretary or other officer of the Company or associated company.

61. REGISTERED OFFICE

The Company's registered office is to be situated in England and Wales.

62. LIMITED LIABILITY

The liability of the members is limited.

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

Report to:	**Pensions Committee**
Date:	**01 December 2022**
Subject:	**Annual Report and Accounts 2021/22: The External Auditor's Audit Completion Report**

Summary:

This report brings to the Pensions Committee the Audit Completion Report from Mazars, the Fund's External Auditor, on the 2021/22 audit of the financial statements.

Recommendation(s):

That the Committee consider the report and discuss the feedback from the external auditor in the Audit Completion Report.

Background

1.1 The Pension Fund Annual Report and Accounts for the year ended 31 March 2022 have been completed and were approved by this Committee at its meeting on 14 July. They have now been independently audited by the Fund's external auditors, Mazars.

2.0 Audit Completion Report

2.1 A copy of the External Auditors Audit Completion Report is attached to this report at appendix A. The Audit Completion Report reconfirms the messages reported to this Committee in September in the Audit Update Report from Mazars. In summary:

- For the two significant risk areas identified in their Audit Strategy Memorandum: management override of controls and valuation of investments with level 3 of the fair value hierarchy, their work has provided the assurances sought;
- There are no significant internal control deficiencies to report; and
- There are no unadjusted misstatements. The summary of misstatements section includes reference to the valuation update for unquoted assets which

have been adjusted for in the accounts. Updated valuation information from investment managers increased the value of Fund investment assets by £21.691m.

2.2 The External Auditor has a small amount of work to complete including: final checks of the updated pension fund accounts and the final review from the Key Audit Partner.

2.3 An unqualified audit opinion for the Pension Fund accounts is expected to be issued alongside the audit opinion on the Lincolnshire County Council accounts.

3.0 Annual Report

3.1 The Pension Fund Annual Report has been published on the Fund's website for the statutory deadline of 1 December. If the opinion has not been received by this date, the document will include a statement explaining that it is published without the audit opinion. Once the opinion has been received the Annual Report will be republished including the audit opinion.

Conclusion

4.1 The audit of the Pension Fund Statement of Accounts for the year ended 31 March 2022 is complete and it is expected that the external auditor, Mazars, will issue an unqualified audit opinion.

Consultation

a) Risks and Impact Analysis

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

Appendices

These are listed below and attached at the back of the report	
Appendix A	Mazars External Audit Completion Report (October 2022)

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 Claire Machej, who can be contacted on 01522 553641 or claire.machej@lincolnshire.gov.uk.

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Audit Completion Report

Lincolnshire Pension Fund – Year ended 31 March 2022

October 2022

mazars

Contents

mazars

Members of the Audit Committee
Lincolnshire County Council
County Offices
Newland, Lincoln
LN11YL

Mazars LLP
The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

28 October 2022

Dear Committee Members

Audit Completion Report – Year ended 31 March 2022

We are pleased to present our Audit Completion Report for the year ended 31 March 2022. The purpose of this document is to summarise our audit conclusions.

The scope of our work, including identified significant audit risks and other areas of management judgement, was outlined in our Audit Strategy Memorandum which we presented on 28 March 2022. We have reviewed our Audit Strategy Memorandum and concluded that the original significant audit risks and other areas of management judgement remain appropriate.

We would like to express our thanks for the assistance of your team during our audit.

If you would like to discuss any matters in more detail, then please do not hesitate to contact me on 078 1375 2053.

Yours faithfully

Signed:

Cameron Waddell (Key Audit Partner)

Mazars LLP

01

Section 01:

Executive summary

1. Executive summary

Principal conclusions and significant findings

The detailed scope of our work as your appointed auditor for 2021/22 is set out in the National Audit Office's (NAO) Code of Audit Practice. Our responsibilities and powers are derived from the Local Audit and Accountability Act 2014 and, as outlined in our Audit Strategy Memorandum, our audit has been conducted in accordance with International Standards on Auditing (UK) and means we focus on audit risks that we have assessed as resulting in a higher risk of material misstatement.

In section 4 of this report we have set out our conclusions and significant findings from our audit. This section includes our conclusions on the audit risks and areas of management judgement in our Audit Strategy Memorandum, which include:

- Management override of controls; and
- Valuation of investments within level 3 of the fair value hierarchy.

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Based on the audit work completed to date there are no identified significant control deficiencies and no unadjusted misstatements that we are required to report to the Audit Committee.

Status and audit opinion

We have substantially completed our audit in respect of the financial statements for the year ended 31 March 2022. At this present time we envisage giving our opinion alongside the opinion on Lincolnshire County Council's financial statements.

At the time of preparing this report, there are some matters outstanding as outlined in section 2. We will provide an update to you in relation to the matters outstanding through issuance of a follow up letter. Subject to the satisfactory conclusion of the remaining audit work, we have the following conclusions:

Audit opinion
We anticipate issuing an unqualified opinion, without modification, on the financial statements. Our proposed audit opinion is included in the draft auditor's report in Appendix B.

Consistency report
We anticipate concluding that the Pension Fund financial statements within the Pension Fund's Annual Report are consistent with the Pension Fund financial statements within the Statement of Accounts of Lincolnshire County Council. Our draft consistency report is provided in Appendix C.

Wider powers
The 2014 Act requires us to give an elector, or any representative of the elector, the opportunity to question us about the accounting records of the Fund and to consider any objection made to the accounts. No objections or questions from local electors have been received.

1. Executive summary

COVID-19 impacts

The implications of the pandemic required remote working in relation to this audit. Whilst auditing on a remote basis presents some challenges, we have been able to work in liaison with the finance team to deliver the audit and wish to thank them for their support.

02

Section 02:

Status of the audit

2. Status of the audit

Our work is substantially complete and there are currently no matters of which we are aware that would require modification of our audit opinion, subject to the outstanding matters detailed below.

Audit area	Status	Description of the outstanding matters
Finalised financial statements	Green	The Pension Fund has revised its financial statements to reflect the updated valuations it has received from fund managers. We are completing our checks on the finalised financial statements before giving our opinion.
Audit Quality Control and Completion Procedures	Green	Our audit work, including the specific procedures carried out in relation to the significant audit risks identified, is yet to undergo the final stages of review by the Key Audit Partner. In addition, there are residual procedures to complete, including completing our internal technical consultations on the proposed audit opinion and the updated financial statements, updating post balance sheet event considerations to the point of issuing the opinion and obtaining final management representations.

- Red: Likely to result in material adjustment or significant change to disclosures within the financial statements.
- Amber: Potential to result in material adjustment or significant change to disclosures within the financial statements.
- Green: Not considered likely to result in material adjustment or change to disclosures within the financial statements.

03

Section 03:

Audit approach

3. Audit approach

Changes to our audit approach

We provided details of our intended audit approach in our Audit Strategy Memorandum in March 2022. We have not made any changes to our audit approach since we presented our Audit Strategy Memorandum.

Materiality

Our provisional materiality at the planning stage of the audit was set at £29.3 million using a benchmark of 1% of net assets available to pay benefits. We set a provisional specific materiality for the fund account of £11.4 million at the planning stage of the audit using a benchmark of the higher of 10% of contributions receivable and 10% of benefits payable.

Our final assessment of materiality, based on the final financial statements and qualitative factors was set using the same benchmarks:

- Statement materiality £30.7 million.
- Fund account specific materiality £12.1 million.

04

Section 04:

Significant findings

4. Significant findings

In this section we outline the significant findings from our audit. These findings include:

- our audit conclusions regarding other significant risks and key areas of management judgement outlined in the Audit Strategy Memorandum;
- our comments in respect of the accounting policies and disclosures that you have adopted in the financial statements. We currently envisage concluding that the financial statements have been prepared in accordance with the financial reporting framework; and
- any significant difficulties we experienced during the audit.

Significant risks

Management override of controls

Description of the risk

In all entities, management at various levels within an organisation are in a unique position to perpetrate fraud because of their ability to manipulate accounting records and prepare fraudulent financial statements by overriding controls that otherwise appear to be operating effectively. Due to the unpredictable way in which such override could occur, we consider there to be a risk of material misstatement due to fraud and thus a significant risk on all audits.

How we addressed this risk

We addressed this risk through performing audit work over:

- Accounting estimates impacting amounts included in the financial statements;
- Consideration of identified significant transactions outside the normal course of business; and
- Journals recorded in the general ledger and other adjustments made in preparation of the financial statements.

Audit conclusion

Our work has provided the assurance we sought in each of these areas and has not highlighted any material issues to bring to your attention.

4. Significant findings

Valuation of investments within level 3 of the fair value hierarchy

Description of the risk

At 31 March 2022 the Pension Fund held investments which were not quoted on an active market with a fair value of £448.5 million, accounting for 14.7 per cent of the Fund's net investment assets. This included: Alternatives (£368.4 million), Property (£11.4 million), Infrastructure (£61.1 million) and Private Equity (£7.6 million). Inherently these assets are harder to value, as they do not have publicly available quoted prices from a traded market, and as such they require professional judgement or assumptions to be made when valuing them at year end.

As the pricing of these investment assets is subject to judgements, they may be susceptible to pricing variances for 2021/22 due to the assumptions underlying the valuation. We therefore consider that there is an increased risk of material misstatement.

How we addressed this risk

We addressed this risk by completing the following additional procedures:

- agreeing the valuation included in the Pension Fund's underlying financial systems to supporting documentation including investment manager valuation statements and cash flows for any adjustments made to the investment manager valuation;
- agreeing holdings from fund manager reports to the custodian's report;
- agreeing the investment manager valuation to audited accounts or other independent supporting documentation, where available;
- reviewing the valuation methodologies through review of accounting policies within audited financial statements and challenge of the fund manager, where required;
- where audited accounts are available, checking that they are supported by a clear opinion; and

Valuation of investments within level 3 of the fair value hierarchy (cont'd)

How we addressed this risk (continued)

- where available, reviewing independent control assurance reports to identify any exceptions that could present a risk of material misstatement in the Pension Fund's financial statements.

Audit conclusion

Our work has provided the assurance we sought in the above areas. It has however highlighted a non-material difference of £21.7 million between the valuation of investments in the initial set of accounts prepared and the final version of the accounts on which we will be giving our opinion. This difference resulted from the timing of valuations received from fund managers, these are proactively tracked by fund officers to ensure the final set of accounts reflect the most up to date information available. The adjusted misstatement involved is detailed on page 18 of this report.

4. Significant findings

Qualitative aspects of the Trust's accounting practices

We have reviewed the Fund's accounting policies and disclosures and concluded they comply with the 2021/22 Code of Practice on Local Authority Accounting, appropriately tailored to the Fund's circumstances.

In line with our expectations, there have been no significant changes to accounting policies for the year ended 31 March 2022.

Draft accounts were received from the Fund on 30 June 2022 and were of a good quality.

Significant difficulties during the audit

During the course of the audit we did not encounter any significant difficulties and we have had the full co-operation of management. It is however worth noting that our audit work has been completed through remote working arrangements as a result of the constraints imposed by the COVID-19 pandemic. Whilst challenging at times, through the effective use of technology and close liaison with finance and other officers of the Trust these challenges were overcome.

Wider responsibilities

Our powers and responsibilities under the 2014 Act are broad and include the ability to:

- issue a report in the public interest;
- make statutory recommendations that must be considered and responded to publicly;
- apply to the court for a declaration that an item of account is contrary to law; and
- issue an advisory notice under schedule 8 of the 2014 Act.

We have not exercised any of these powers as part of our 2021/22 audit.

The 2014 Act also gives rights to local electors and other parties, such as the right to ask questions of the auditor and the right to make an objection to an item of account. No such questions or objections have been raised.

05

Section 05:

Internal control recommendations

5. Internal control recommendations

The purpose of our audit is to express an opinion on the financial statements. As part of our audit we have considered the internal controls in place relevant to the preparation of the financial statements. We do this in order to design audit procedures to allow us to express an opinion on the financial statement and not for the purpose of expressing an opinion on the effectiveness of internal control, nor to identify any significant deficiencies in their design or operation.

The matters reported in this section are limited to those deficiencies and other control recommendations that we identified during our normal audit procedures and that we consider to be of sufficient importance to merit being reported. If we had performed more extensive procedures on internal control we might have identified more deficiencies to be reported. Our comments should not be regarded as a comprehensive record of all deficiencies that may exist or improvements that could be made.

Our work has not identified any internal control issues to bring to your attention.

06

Section 06:

Summary of misstatements

Page 369

6. Summary of misstatements

This section outlines the misstatements identified during the course of the audit to date, above the trivial threshold for adjustment of £0.9 million. Where the draft accounts are formally signed and published in accordance with the Regulations any subsequent amendments are referred to as misstatements. This is the case even if such amendments are inevitable and result from the timing of the information available from investment fund managers as is the case this year. The non-material change to the accounts detailed below was identified and proposed by officers from proactively tracking the asset changes from the information received. There are no unadjusted misstatements in relation to the Pension Fund's 2021/22 financial statements. The table below outlines the misstatements that have been adjusted by management.

Adjusted misstatements

		Fund Account		Net Assets Statement	
		Dr (£m)	Cr (£m)	Dr (£m)	Cr (£m)
1	Dr: Investments – Managed Funds Cr: Change in Market Value Difference between valuation of unquoted investments per pension fund accounts and third party confirmations received after the year-end.		21.691	21.691	
	Total adjusted misstatements		21.691	21.691	

Disclosure amendments

A number of minor disclosure amendments regarding the wording used were made in response to the review of the Pension Fund's financial statements by our technical team. All such matters have been addressed in the final version of the Pension Fund's financial statements.

Appendices

A: Draft management representation letter

B: Draft audit report

C: Draft consistency report

D: Independence

E: Other communications

Appendix A: Draft management representation letter

Mazars LLP
The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF

XX November 2022

Dear Cameron

Lincolnshire Pension Fund - audit for year ended 31 March 2022

This representation letter is provided in connection with your audit of the financial statements of the Lincolnshire Pension Fund (‘the Pension Fund’) for the year ended 31 March 2022 for the purpose of expressing an opinion as to whether the financial statements give a true and fair view in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 (the Code).

I confirm that the following representations are made on the basis of enquiries of management and staff with relevant knowledge and experience (and, where appropriate, inspection of supporting documentation) sufficient to satisfy ourselves that I can properly make each of the following representations to you.

My responsibility for the financial statements and accounting information

I believe that I have fulfilled my responsibilities for the true and fair presentation and preparation of the financial statements in accordance with the Code.

My responsibility to provide and disclose relevant information

I have provided you with:

- access to all information of which we are aware that is relevant to the preparation of the financial statements such as records, documentation and other material;
- additional information that you have requested from us for the purpose of the audit; and
- unrestricted access to individuals within the Pension Fund you determined it was necessary to contact in order to obtain audit evidence.

I confirm as Executive Director of Resources that I have taken all the necessary steps to make me aware of any relevant audit information and to establish that you, as auditors, are aware of this information. As far as I am aware there is no relevant audit information of which you, as auditors, are unaware.

Accounting records

I confirm that all transactions that have a material affect on the financial statements have been recorded in the accounting records and are reflected in the financial statements. All other records and related information, including minutes of all Pension Fund and Committee meetings, have been made available to you.

Appendix A: Draft management representation letter

Accounting policies

I confirm that I have reviewed the accounting policies applied during the year in accordance with the Code and International Accounting Standard 8 and consider these policies to faithfully represent the effects of transactions, other events or conditions on the Pension Fund's financial position, financial performance and cash flows.

Accounting estimates, including those measured at fair value

I confirm that any significant assumptions used by the Pension Fund in making accounting estimates, including those measured at fair value, are reasonable.

Contingencies

There are no material contingent losses including pending or potential litigation that should be accrued where:

- information presently available indicates that it is probable that an asset has been impaired or a liability had been incurred at the balance sheet date; and
- the amount of the loss can be reasonably estimated.

There are no material contingent losses that should be disclosed where, although either or both the conditions specified above are not met, there is a reasonable possibility that a loss, or a loss greater than that accrued, may have been incurred at the balance sheet date.
There are no contingent gains which should be disclosed.

All material matters, including unasserted claims, that may result in litigation against the Pension Fund have been brought to your attention. All known actual or possible litigation and claims whose effects should be considered when preparing the financial statements have been disclosed to you and accounted for and disclosed in accordance with the Code.

Laws and regulations

I confirm that I have disclosed to you all those events of which I am aware which involve known or suspected non-compliance with laws and regulations, together with the actual or contingent consequences which may arise therefrom. The Pension Fund has complied with all aspects of contractual agreements that would have a material effect on the accounts in the event of non-compliance.

Fraud and error

I acknowledge my responsibility as Executive Director of Resources for the design, implementation and maintenance of internal control to prevent and detect fraud and error. I have disclosed to you:

- all the results of my assessment of the risk that the financial statements may be materially misstated as a result of fraud;
- all knowledge of fraud or suspected fraud affecting the Pension Fund involving:
  - management and those charged with governance;
  - employees who have significant roles in internal control; and
  - others where fraud could have a material effect on the financial statements.

I have disclosed to you all information in relation to any allegations of fraud, or suspected fraud, affecting the Pension Fund's statement of accounts communicated by employees, former employees, analysts, regulators or others.

Appendix A: Draft management representation letter

Assets

I confirm that all assets held are free from liens, charges or any other encumbrance.

Related party transactions

I confirm that all related party relationships, transactions and balances have been appropriately accounted for and disclosed in accordance with the requirements of the Code.

I have disclosed to you the identity of the Pension Fund's related parties and all related party relationships and transactions of which I am aware.

Future commitments

I am not aware of any plans, intentions or commitments that may materially affect the carrying value or classification of assets and liabilities or give rise to additional liabilities.

Specific representation on unquoted investments

Unquoted investments are included in the net assets statement at the value estimated by the general partner managing each fund in accordance with the guidelines used by the industry, and based on the latest information to hand at the time of the valuation. I am satisfied, based on the knowledge I have, with the valuations, and am not aware of any subsequent events that would have a material impact on the estimated value of the unquoted investments.

Unadjusted misstatements

I confirm that the effects of any uncorrected misstatements are immaterial, both individually and in aggregate, to the statement of accounts as a whole.

Subsequent events

I confirm all events subsequent to the date of the financial statements and for which the Code requires adjustment or disclosure have been adjusted or disclosed. Should further material events occur after the date of this letter which may necessitate revision of the figures included in the financial statements or inclusion of a note thereto, I will advise you accordingly

Appendix A: Draft management representation letter

Impact of Russian Forces entering Ukraine

We confirm that we have carried out an assessment of the potential impact of Russian Forces entering Ukraine on the business, including the impact of mitigation measures and uncertainties, and that the disclosure in the Statement of Accounts fairly reflects that assessment.

Covid-19

We confirm that we have carried out an assessment of the on-going impact of the Covid-19 Virus pandemic on the Pension Fund, including the impact of mitigation measures and uncertainties, and that the disclosure in the Statement of Accounts fairly reflects that assessment.

Brexit

We confirm that we have carried out an assessment of the potential impact of the United Kingdom leaving the European Union, including the impact of the Trade and Cooperation Agreement, and that the disclosure in the Statement of Accounts fairly reflects that assessment.

Going concern

To the best of my knowledge there is nothing to indicate that the Pension Fund will not continue as a going concern in the foreseeable future. The period to which I have paid particular attention in assessing the appropriateness of the going concern basis is not less than twelve months from the date of approval of the accounts. I have updated our going concern assessment in light of the Covid-19 pandemic. I continue to believe that the Pension Fund's financial statements should be prepared on a going concern basis and have not identified any material uncertainties related to going concern on the grounds that current and future sources of funding or support will be more than adequate for the Pension Fund's needs. We believe that no further disclosures relating to the Pension Fund's ability to continue as a going concern need to be made in the financial statements.

Yours sincerely

Executive Director of Resources

Date……………………………

Appendix B: Draft audit report

Draft Independent auditor's report to the members of Lincolnshire County Council
Report on the financial statements of the Lincolnshire Pension Fund

Opinion on the financial statements of the Lincolnshire Pension Fund
We have audited the financial statements of Lincolnshire Pension Fund ('the Pension Fund') for the year ended 31 March 2022, which comprise the Fund Account, the Net Assets Statement, and notes to the financial statements, including a summary of significant accounting policies. The financial reporting framework that has been applied in their preparation is applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

In our opinion the financial statements:

- give a true and fair view of the financial transactions of Lincolnshire Pension Fund during the year ended 31 March 2021, and the amount and disposition of the Pension Fund's assets and liabilities as at 31 March 2022; and
- have been properly prepared in accordance with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

Basis for opinion
We conducted our audit in accordance with International Standards on Auditing (UK) (ISAs (UK)) and applicable law. Our responsibilities under those standards are further described in the Auditor's responsibilities section of our report. We are independent of the Council, as administering authority for the Pension Fund, in accordance with the ethical requirements that are relevant to our audit of the financial statements in the UK, including the FRC's Ethical Standard, and we have fulfilled our other ethical responsibilities in accordance with these requirements. We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our opinion.

Conclusions relating to going concern
In auditing the financial statements, we have concluded that the Executive Director of Resources use of the going concern basis of accounting in the preparation of the financial statements is appropriate.

Based on the work we have performed, we have not identified any material uncertainties relating to events or conditions that, individually or collectively, may cast significant doubt on the Pension Fund's ability to continue as a going concern for a period of at least twelve months from when the financial statements are authorised for issue.

Our responsibilities and the responsibilities of the Executive Director of Resources with respect to going concern are described in the relevant sections of this report.

Appendix B: Draft audit report

Other information

The Executive Director of Resources is responsible for the other information. The other information comprises the information included in the Statement of Accounts, other than the financial statements and our auditor's report thereon. Our opinion on the financial statements does not cover the other information and, except to the extent otherwise explicitly stated in our report, we do not express any form of assurance conclusion thereon.

In connection with our audit of the financial statements, our responsibility is to read the other information and, in doing so, consider whether the other information is materially inconsistent with the financial statements or our knowledge obtained in the audit or otherwise appears to be materially misstated. If we identify such material inconsistencies or apparent material misstatements, we are required to determine whether there is a material misstatement in the financial statements or a material misstatement of the other information. If, based on the work we have performed, we conclude that there is a material misstatement of this other information, we are required to report that fact.

We have nothing to report in this regard.

Responsibilities of the Executive Director of Resources for the financial statements

As explained more fully in the Statement of Responsibilities for the Statement of Accounts, the Executive Director of Resources is responsible for the preparation of the Statement of Accounts, which includes the Pension Fund's financial statements, in accordance with proper practices as set out in the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22, and for being satisfied that they give a true and fair view. The Executive Director of Resources is also responsible for such internal control as the Executive Director of Resources determines is necessary to enable the preparation of financial statements that are free from material misstatement, whether due to fraud or error.

The Executive Director of Resources is required to comply with the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22 and prepare the financial statements on a going concern basis, unless the Council is informed of the intention for dissolution of the Pension Fund without transfer of services or function to another entity. The Executive Director of Resources is responsible for assessing each year whether or not it is appropriate for the Pension Fund to prepare the accounts on the going concern basis and disclosing, as applicable, matters related to going concern.

Appendix B: Draft audit report

Auditor's responsibilities for the audit of the financial statements

Our objectives are to obtain reasonable assurance about whether the Pension Fund's financial statements as a whole are free from material misstatement, whether due to fraud or error, and to issue an auditor's report that includes our opinion. Reasonable assurance is a high level of assurance, but is not a guarantee that an audit conducted in accordance with ISAs (UK) will always detect a material misstatement when it exists. Misstatements can arise from fraud or error and are considered material if, individually or in the aggregate, they could reasonably be expected to influence the economic decisions of users taken on the basis of these financial statements.

Irregularities, including fraud, are instances of non-compliance with laws and regulations. We design procedures in line with our responsibilities, outlined above, to detect material misstatements in respect of irregularities, including fraud. Based on our understanding of the Pension Fund, we identified that the principal risks of non-compliance with laws and regulations related to the Public Service Pensions Act 2013, the Local Government Pension Scheme Regulations 2013 (as amended) and the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, and we considered the extent to which non-compliance might have a material effect on the financial statements

We evaluated the Executive Director of Resources incentives and opportunities for fraudulent manipulation of the financial statements (including the risk of override of controls) and determined that the principal risks were related to posting manual journal entries to manipulate financial performance, management bias through judgements and assumptions in significant accounting estimates and significant one-off or unusual transactions.

Our audit procedures were designed to respond to those identified risks, including non-compliance with laws and regulations (irregularities) and fraud that are material to the financial statements. Our audit procedures included but were not limited to:

- the policies and procedures regarding compliance with laws and regulations;
- communicating identified laws and regulations throughout our engagement team and remaining alert to any indications of non-compliance throughout our audit; and
- considering the risk of acts by the Fund which were contrary to applicable laws and regulations, including fraud.

Appendix B: Draft audit report

Our audit procedures in relation to fraud included but were not limited to:

- making enquiries of management on whether they had knowledge of any actual, suspected or alleged fraud;
- gaining an understanding of the internal controls established to mitigate risks related to fraud;
- discussing amongst the engagement team the risks of fraud; and
- addressing the risks of fraud through management override of controls by performing journal entry testing.

There are inherent limitations in the audit procedures described above and the primary responsibility for the prevention and detection of irregularities including fraud rests with management. As with any audit, there remained a risk of non-detection of irregularities, as these may involve collusion, forgery, intentional omissions, misrepresentations or the override of internal controls.

We are also required to conclude on whether the Executive Director of Resources use of the going concern basis of accounting in the preparation of the financial statements is appropriate. We performed our work in accordance with Practice Note 10: Audit of financial statement and regularity of public sector bodies in the United Kingdom, and Supplementary Guidance Note 01, issued by the National Audit Office in September 2021.

A further description of our responsibilities for the audit of the financial statements is located on the Financial Reporting Council's website at www.frc.org.uk/auditorsresponsibilities. This description forms part of our auditor's report.

Appendix B: Draft audit report

Matters on which we are required to report by exception under the Code of Audit Practice

We are required by the Code of Audit Practice to report to you if:

- we issue a report in the public interest under section 24 of the Local Audit and Accountability Act 2014;
- we make a recommendation under section 24 of the Local Audit and Accountability Act 2014; or
- we exercise any other special powers of the auditor under sections 28, 29 or 31 of the Local Audit and Accountability Act 2014.

We have nothing to report in these respects.

Use of the audit report

This report is made solely to the members of Lincolnshire County Council, as a body and as administering authority for the Lincolnshire Pension Fund, in accordance with part 5 of the Local Audit and Accountability Act 2014 and as set out in paragraph 44 of the Statement of Responsibilities of Auditors and Audited Bodies published by Public Sector Audit Appointments Limited. Our audit work has been undertaken so that we might state to the members of the Council those matters we are required to state to them in an auditor's report and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than the members of the Council, as a body, for our audit work, for this report, or for the opinions we have formed.

Cameron Waddell
For and on behalf of Mazars LLP

The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE20 9NE

XX November 2022

Appendix C: Draft consistency report

Independent auditor's statement to the members of Lincolnshire County Council on the pension fund financial statements included within the Lincolnshire Pension Fund annual report

Report on the financial statements

Opinion
We have examined the Pension Fund financial statements for the year ended 31 March 2022 included within the Lincolnshire Pension Fund annual report, which comprise the Fund Account, the Net Assets Statement and the notes to the financial statements, including the summary of significant accounting policies.

In our opinion, the Pension Fund financial statements are consistent with the audited financial statements of Lincolnshire County Council for the year ended 31 March 2022 and comply with applicable law and the CIPFA/LASAAC Code of Practice on Local Authority Accounting in the United Kingdom 2021/22.

Respective responsibilities of the Executive Director of Resources and the auditor
As explained more fully in the Statement of the Executive Director of Resources' Responsibilities, the Executive Director of Resources is responsible for the preparation of the Pension Fund's financial statements in accordance with applicable United Kingdom law.

Our responsibility is to report to the Members of Lincolnshire County Council as a body, whether the Pension Fund financial statements within the Pension Fund annual report are consistent with the financial statements of Lincolnshire County Council. We conducted our work in accordance with Auditor Guidance Note 07 – Auditor Reporting, issued by the National Audit Office. Our report on the Pension Fund financial statements contained within the audited financial statements of Lincolnshire County Council describes the basis of our opinions on the financial statements.

Use of this auditor's statement
This report is made solely to the members of Lincolnshire County Council , as a body and as administering authority for the Lincolnshire Pension Fund, in accordance with Part 5 paragraph 20(5) of the Local Audit and Accountability Act 2014. Our work has been undertaken so that we might state to the members of Lincolnshire County Council those matters we are required to state to them and for no other purpose. To the fullest extent permitted by law, we do not accept or assume responsibility to anyone other than Lincolnshire County Council and Lincolnshire County Council 's members as a body, for our audit work, for this statement, or for the opinions we have formed.

Cameron Waddell
For and on behalf of Mazars LLP

The Corner
Bank Chambers
26 Mosley Street
Newcastle upon Tyne
NE1 1DF
XX November 2022

Appendix D: Independence

As part of our ongoing risk assessment we monitor our relationships with you to identify any new actual or perceived threats to our independence within the regulatory or professional requirements governing us as your auditors.

We can confirm that no new threats to independence have been identified since issuing the Audit Strategy Memorandum and therefore we remain independent.

Appendix E: Other communications

Other communication	Response
Compliance with Laws and Regulations	We have not identified any significant matters involving actual or suspected non-compliance with laws and regulations. We will obtain written representations from management that all known instances of non-compliance or suspected non-compliance with laws and regulations whose effects should be considered when preparing financial statements have been disclosed.
External confirmations	We did not experience any issues with respect to obtaining external confirmations.
Related parties	We did not identify any significant matters relating to the audit of related parties. We will obtain written representations from management confirming that: a. they have disclosed to us the identity of related parties and all the related party relationships and transactions of which they are aware; and b. they have appropriately accounted for and disclosed such relationships and transactions in accordance with the requirements of the applicable financial reporting framework.
Going Concern	We have not identified any evidence to cause us to disagree with the view of the Executive Director of Resources that the Lincolnshire Pension Fund will be a going concern, and therefore we consider that the use of the going concern assumption is appropriate in the preparation of the financial statements. We will obtain written representations from management, confirming that all relevant information covering a period of at least 12 months from the date of approval of the financial statements has been taken into account in assessing the appropriateness of the going concern basis of preparation of the financial statements.

Appendix E: Other communications

Other communication	Response
Subsequent events	We are required to obtain evidence about whether events occurring between the date of the financial statements and the date of the auditor's report that require adjustment of, or disclosure in, the financial statements are appropriately reflected in those financial statements in accordance with the applicable financial reporting framework. We will obtain written representations from management that all events occurring subsequent to the date of the financial statements and for which the applicable financial reporting framework requires adjustment or disclosure have been adjusted or disclosed.
Matters related to fraud	We have designed our audit approach to obtain reasonable assurance whether the financial statements as a whole are free from material misstatement due to fraud. In addition to the work performed by us, we will obtain written representations from management, confirming that a. they acknowledge their responsibility for the design, implementation and maintenance of internal control to prevent and detect fraud; b. they have disclosed to the auditor the results of management's assessment of the risk that the financial statements may be materially misstated as a result of fraud; c. they have disclosed to the auditor their knowledge of fraud or suspected fraud affecting the entity involving: i. Management; ii. Employees who have significant roles in internal control; or iii. Others where the fraud could have a material effect on the financial statements; and d. they have disclosed to the auditor their knowledge of any allegations of fraud, or suspected fraud, affecting the entity's financial statements communicated by employees, former employees, analysts, regulators or others.

Cameron Waddell

Mazars

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Newcastle upon Tyne
NE1 1DF

mazars

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

Report to:	**Pensions Committee**
Date:	**01 December 2022**
Subject:	**Funding Strategy Statement and Climate Analysis Report**

Summary:

This paper brings to the Committee the draft Funding Strategy Statement and the Climate Analysis Report, produced by the Fund's Actuary, for consideration and comment.

Recommendation(s):

That the Committee consider and discuss the paper and feedback any comments to the Fund's Actuary on the content of the FSS and the Climate Analysis Report.

Background

1. The Funding Strategy Statement (FSS) (draft attached as appendix A) is a summary of the Pension Fund's approach to funding its liabilities. It is required to be reviewed at least every three years, alongside the triennial valuation. The initial Valuation outcome was presented to the Committee at its September meeting and the final draft report detailing the funding position and the employer contribution rates payable to for the three years to March 2026 will be brought to the March 2023 meeting for approval.

2. As employees' contributions are set by the Government, employers must pay the balance of any cost in delivering the benefits to members. The FSS focuses on the pace at which these liabilities are funded, and, insofar as is practical, the measures to ensure that employers or pools of employers pay for their own liabilities.

3. The purpose of this Funding Strategy Statement (FSS) is to:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(6) of the Regulations;

- Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and
- Take a prudent longer-term view of funding those liabilities.

4. The FSS sets out how the Fund will meet its funding objectives, which are set out below:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

5. The FSS covers the areas of:

- The Funding method;
- Valuation assumptions and funding model;
- Pooling of employers;
- New employers;
- Cessation valuations;
- Links with the Investment Strategy Statement; and
- Risks and counter measures.

6. Within the risk section, Climate risk is considered. As part of the recommendations from the S13 review undertaken by Government Actuaries Department (GAD), Funds are required to set out climate scenario analysis on the assets and liabilities of the Fund in-line with the Key Principles agreed with GAD, for the purpose of the 2022 LGPS valuations. This has been undertaken by Barnett Waddingham, and the outcome of the scenario analysis is attached at appendix B.

7. The outcome of the analysis is that, based on the scenario testing in the report, the Actuary is comfortable with the current level of prudence included in the proposed funding assumptions. The Committee should consider the actions set out within the Climate paper for managing climate risk, as set out in the next steps at the end of the report. Initial comments on the next steps have been added in italics where appropriate:

- Different employers are likely to be affected by climate change in different ways, and at different times. The administering authority should stay alert to this and continuously monitor employer covenant to ensure that any changes in covenant are revealed. Any changes should be dealt with as required and as soon as possible, in order to best protect the Fund and the other participating employers.
  Employer covenant is monitored by the Fund at each triennial review. and in between through regular contact with employers to understand any upcoming risks.
- The Fund should regularly monitor the funding position of the Fund. This is currently done using Barnett Waddingham's Monitor software.
  This is reported quarterly to Committee in the Fund Update report.
- The administering authority may also wish to consider the climate risk and opportunities of the Fund's assets and investment strategy. This should be discussed with the Fund's investment advisers.
  Climate risk and opportunities are discussed with Managers on a regular basis and will be considered when the Fund looks at its approach to net zero, expected to be done in 2023.
- The Fund should take advice from their Fund Actuary on appropriate changes to the Fund's mortality assumptions at future valuations.
- The Fund should ensure they are in receipt of regular updates on legislative matters from their advisers.

8. The Fund Actuary, Melanie Durrant, will highlight the key areas of the FSS and the Climate Analysis report and answer any questions the Committee may have.

Conclusion

9. The FSS has been updated following the 2022 Triennial Valuation to take account of the process used to finalise employer contribution rates.

10. The FSS has been circulated to all employers for consultation, and comments will be considered and discussed with the Fund Actuary, in addition to any comments from the Committee. The final draft version of the FSS, along with the Valuation report including the employers' agreed contribution rates, will be brought to the March 2023 meeting of this Committee for approval.

11. The climate scenario analysis reporting, as required by GAD, has been undertaken by the Actuary and they are comfortable with the current level of prudence included in the proposed funding assumptions.

Consultation

a) Risks and Impact Analysis

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

Appendices

These are listed below and attached at the back of the report	
Appendix A	Draft Funding Strategy Statement
Appendix B	Climate Analysis Report as at March 2022

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 Jo Ray, who can be contacted on 01522 553656 or jo.ray@lincolnshire.gov.uk.

Lincolnshire Pension Fund
Funding Strategy Statement

Contents

Introduction

This is the Funding Strategy Statement for the Lincolnshire Pension Fund (the Fund). It has been prepared in accordance with Regulation 58 of the Local Government Pension Scheme Regulations 2013 as amended (the Regulations) and describes Lincolnshire County Council's strategy, in its capacity as administering authority, for the funding of the Lincolnshire Pension Fund.

The Fund's employers and the Fund Actuary, Barnett Waddingham LLP, have been consulted on the contents of this statement.

This statement should be read in conjunction with the Fund's Investment Strategy Statement (ISS) and has been prepared with regard to the guidance (*Preparing and Maintaining a funding strategy statement in the LGPS 2016 edition)* issued by the Chartered Institute of Public Finance and Accountancy (CIPFA).

Purpose of the Funding Strategy Statement

The purpose of this Funding Strategy Statement (FSS) is to:

- Establish a clear and transparent fund-specific strategy that will identify how employers' pension liabilities are best met going forward;
- Support the desirability of maintaining as nearly constant a primary contribution rate as possible, as defined in Regulation 62(6) of the Regulations;
- Ensure that the regulatory requirements to set contributions to meet the future liability to provide Scheme member benefits in a way that ensures the solvency and long-term cost efficiency of the Fund are met; and
- Take a prudent longer-term view of funding those liabilities.

Aims and purpose of the Fund

The aims of the Fund are to:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled, resolution and admitted bodies), while achieving and maintaining Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike; and
- Seek returns on investment within reasonable risk parameters.

The purpose of the Fund is to:

- Pay pensions, lump sums and other benefits to Scheme members as provided for under the Regulations;
- Meet the costs associated in administering the Fund; and
- Receive and invest contributions, transfer values and investment income.

Funding objectives

Contributions are paid to the Fund by Scheme members and the employing bodies to provide for the benefits which will become payable to Scheme members when they fall due.

The funding objectives are to:

- Ensure that pension benefits can be met as and when they fall due over the lifetime of the Fund;
- Ensure the solvency of the Fund;
- Set levels of employer contribution rates to target a 100% funding level over an appropriate time period and using appropriate actuarial assumptions, while taking into account the different characteristics of participating employers;
- Build up the required assets in such a way that employer contribution rates are kept as stable as possible, with consideration of the long-term cost efficiency objective; and
- Adopt appropriate measures and approaches to reduce the risk, as far as possible, to the Fund, other employers and ultimately the taxpayer from an employer defaulting on its pension obligations.

In developing the funding strategy, the administering authority should also have regard to the likely outcomes of the review carried out under Section 13(4)(c) of the Public Service Pensions Act 2013. Section 13(4)(c) requires an independent review of the actuarial valuations of the LGPS funds; this involves reporting on whether the rate of employer contributions set as part of the actuarial valuations are set at an appropriate level to ensure the solvency of the Fund and the long-term cost efficiency of the Scheme so far as relating to the pension Fund. The review also looks at compliance and consistency of the actuarial valuations.

Key parties

The key parties involved in the funding process and their responsibilities are set out below.

The administering authority

The administering authority for the Fund is Lincolnshire County Council. The main responsibilities of the administering authority are to:

- Operate the Fund in accordance with the LGPS Regulations;
- Collect employee and employer contributions, investment income and other amounts due to the Fund as stipulated in the Regulations;
- Invest the Fund's assets in accordance with the Fund's Investment Strategy Statement;
- Pay the benefits due to Scheme members as stipulated in the Regulations;
- Ensure that cash is available to meet liabilities as and when they fall due;
- Take measures as set out in the Regulations to safeguard the Fund against the consequences of employer default;
- Manage the actuarial valuation process in conjunction with the Fund Actuary;
- Prepare and maintain this FSS and also the ISS after consultation with other interested parties;
- Monitor all aspects of the Fund's performance;
- Effectively manage any potential conflicts of interest arising from its dual role as both Fund administrator and Scheme employer; and
- Enable the Local Pension Board to review the valuation process as they see fit.

Scheme employers

In addition to the administering authority, a number of other Scheme employers participate in the Fund.

The responsibilities of each employer that participates in the Fund, including the administering authority, are to:

- Collect employee contributions and pay these together with their own employer contributions, as certified by the Fund Actuary, to the administering authority within the statutory timescales;
- Notify the administering authority of any new Scheme members and any other membership changes promptly;
- Develop a policy on certain discretions and exercise those discretions as permitted under the Regulations;
- Meet the costs of any augmentations or other additional costs in accordance with agreed policies and procedures; and
- Pay any exit payments due on ceasing participation in the Fund.

Scheme members

Active Scheme members are required to make contributions into the Fund as set by the Department for Levelling Up, Housing and Communities (DLUHC).

Fund Actuary

The Fund Actuary for the Fund is Barnett Waddingham LLP. The main responsibilities of the Fund Actuary are to:

- Prepare valuations including the setting of employers' contribution rates at a level to ensure Fund solvency and long-term cost efficiency after agreeing assumptions with the administering authority and having regard to the FSS and the Regulations;
- Prepare advice and calculations in connection with bulk transfers and the funding aspects of individual benefit-related matters such as pension strain costs, ill-health retirement costs, compensatory added years costs, etc;
- Provide advice and valuations on the exiting of employers from the Fund;
- Provide advice and valuations relating to new employers, including recommending the level of bonds or other forms of security required to protect the Fund against the financial effect of employer default;
- Assist the administering authority in assessing whether employer contributions need to be revised between valuations as permitted or required by the Regulations;
- Ensure that the administering authority is aware of any professional guidance or other professional requirements which may be of relevance to their role in advising the Fund; and
- Advise on other actuarial matters affecting the financial position of the Fund.

Funding strategy

The factors affecting the Fund's finances are constantly changing, so it is necessary for its financial position and the contributions payable to be reviewed from time to time by means of an actuarial valuation to check that the funding objectives are being met.

The most recent actuarial valuation of the Fund was carried out as at 31 March 2022. The results of the 2022 valuation are set out in the table below:

2022 valuation results	
Surplus (Deficit)	£18m
Funding level	101%

On a whole Fund level, the primary rate required to cover the employer cost of future benefit accrual was 24.1% of payroll p.a.

The individual employer contribution rates are set out in the Rates and Adjustments Certificate which forms part of the Fund's 2022 valuation report.

The actuarial valuation involves a projection of future cashflows to and from the Fund. The main purpose of the valuation is to determine the level of employers' contributions that should be paid to ensure that the existing assets and future contributions will be sufficient to meet all future benefit payments from the Fund. A summary of the methods and assumptions adopted is set out in the sections below.

Funding method

The key objective in determining employers' contribution rates is to establish a funding target and then set levels of employer contribution rates to meet that target over an agreed period.

The funding target is to have sufficient assets in the Fund to meet the accrued liabilities for each employer in the Fund.

For all employers, the method adopted is to consider separately the benefits accrued before the valuation date (past service) and benefits expected to be accrued after the valuation date (future service). These are evaluated as follows:

- The past service funding level of the Fund. This is the ratio of accumulated assets to liabilities in respect of past service. It makes allowance for future increases to members' pay and pensions. A funding level in excess of 100% indicates a surplus of assets over liabilities; while a funding level of less than 100% indicates a deficit; and
- The future service funding rate (also referred to as the primary rate as defined in Regulation 62(5) of the Regulations) is the level of contributions required from the individual employers which, in combination with employee contributions is expected to cover the cost of benefits accruing in future.

The adjustment required to the primary rate to calculate an employer's total contribution rate is referred to as the secondary rate, as defined in Regulation 62(7). Further details of how the secondary rate is calculated for employers is given below in the Deficit recovery/surplus amortisation periods section.

The approach to the primary rate will depend on specific employer circumstances and in particular may depend on whether an employer is an "open" employer – one which allows new recruits access to the Fund, or a "closed" employer – one which no longer permits new staff access to the Fund. The expected period of participation by an employer in the Fund may also affect the total contribution rate.

For open employers, the actuarial funding method that is adopted is known as the Projected Unit Method. The key feature of this method is that, in assessing the future service cost, the primary rate represents the cost of one year's benefit accrual only.

For closed employers, the actuarial funding method adopted is known as the Attained Age Method. The key difference between this method and the Projected Unit Method is that the Attained Age Method assesses the average cost of the benefits that will accrue over a specific period, such as the length of a contract or the remaining expected working lifetime of active members.

The approach by employer may vary to reflect an employer's specific circumstance, however, in general the closed employers in the Fund are admission bodies who have joined the Fund as part of an outsourcing contract and therefore the Attained Age Method is used in setting their contributions. All other employers (for example councils, higher education bodies and academies) are generally open employers and therefore the Projected Unit Method is used. The administering authority holds details of the open or closed status of each employer.

Valuation assumptions and funding model

In completing the actuarial valuation, it is necessary to formulate assumptions about the factors affecting the Fund's future finances such as price inflation, pay increases, investment returns, rates of mortality, early retirement and staff turnover etc.

The assumptions adopted at the valuation can therefore be considered as:

- The demographic (or statistical) assumptions which are essentially estimates of the likelihood or timing of benefits and contributions being paid, and
- The financial assumptions which will determine the estimates of the amount of benefits and contributions payable and their current (or present) value.

Future price inflation

The base assumption in any valuation is the future level of price inflation over a period commensurate with the duration of the liabilities, as measured by the Retail Price Index (RPI). This is derived using the 20 year point on the Bank of England implied Retail Price Index (RPI) inflation curve, with consideration of the market conditions over the six months straddling the valuation date. The 20 year point on the curve is taken as 20 years is consistent with the average duration of an LGPS Fund. A deduction of 0.3% p.a. is applied to the yield at the 20 year point to reflect the shape of the yield curve. A further deduction of 0.4% p.a. is applied to reflect the view that investors are willing to pay a premium for inflation-linked products in return for protection against unexpected inflation.

Future pension increases

Pension increases are linked to changes in the level of the Consumer Price Index (CPI). Inflation as measured by the CPI has historically been less than RPI due mainly to different calculation methods. However, RPI is due to be aligned with CPIH (CPI but with allowance for housing costs) from 2030.

Therefore, reflecting the anticipated amendment to RPI from 2030 and therefore the relative difference between RPI and CPI, a deduction of 0.35% p.a. is made to the RPI assumption to derive the CPI assumption.

Future pay increases

As some of the benefits are linked to pay levels at retirement, it is necessary to make an assumption as to future levels of pay increases. Historically, there has been a close link between price inflation and pay increases with pay increases exceeding price inflation in the longer term. The long-term pay increase assumption adopted as at 31 March 2022 was CPI plus 1.0% p.a. which includes allowance for promotional increases.

Future investment returns/discount rate

To determine the value of accrued liabilities and derive future contribution requirements it is necessary to discount future payments to and from the Fund to present day values.

The discount rate that is applied to all projected liabilities reflects a prudent estimate of the rate of investment return that is expected to be earned from the Fund's long-term investment strategy by considering average market yields in the six months straddling the valuation date. This discount rate is referred to as the "ongoing" discount rate.

A summary of the financial assumptions adopted for the 2022 valuation is set out in the table below:

Financial assumptions as at 31 March 2022	
CPI inflation	2.9% p.a.
Pension/deferred pension increases and CARE revaluation	In line with CPI inflation
Pay increases	CPI inflation + 1.0% p.a.
Discount rate	4.0% p.a.

Asset valuation

For the purpose of the valuation, the asset value used is the market value of the accumulated fund at the valuation date, adjusted to reflect average market conditions during the six months straddling the valuation date. This is referred to as the smoothed asset value and is calculated as a consistent approach to the valuation of the liabilities.

The Fund's assets are notionally allocated to employers at an individual level by allowing for actual Fund returns achieved on the assets and cashflows paid into and out of the Fund in respect of each employer (e.g. contributions received and benefits paid).

Demographic assumptions

The demographic assumptions incorporated into the valuation are based on Fund-specific experience and national statistics, adjusted as appropriate to reflect the individual circumstances of the Fund and/or individual employers.

Further details of the assumptions adopted are included in the Fund's 2022 valuation report.

McCloud/Sargeant judgments

When the Government reformed public service pension schemes in 2014 and 2015 they introduced protections for older members. In December 2018, the Court of Appeal ruled that younger members of the Judges' and Firefighters' Pension schemes have been discriminated against because the protections do not apply to them. The Government has confirmed that there will be changes to all main public sector schemes, including the LGPS, to remove this age discrimination. A consultation has been run in relation to the changes proposed for the LGPS and legislation is now being drafted to bring forward these changes. We understand the updated Regulations are to be consulted on during 2022/23 with revised Regulations effective from October 2023.

For the 2022 valuation, as required by the Department for Levelling Up, Housing & Communities, in calculating the value of members' liabilities it was assumed that:

- The current underpin (which only applies to those members within 10 years of their NPA at 31 March 2012) will be revised and will apply to all members who were active in the Scheme on or before 31 March 2012 and who join the post 1 April 2014 scheme without a disqualifying service gap;
- The period of protection will apply from 1 April 2014 to 31 March 2022 but will cease when a member leaves active service or reaches their final salary scheme normal retirement age (whichever is sooner);
- Where a member remains in active service beyond 31 March 2022 the comparison of their benefits will be based on their final salary when they leave the LGPS or when they reach their final salary scheme normal retirement age (again whichever is sooner);
- Underpin protection will apply to qualifying members who leave active membership of the LGPS with an immediate or deferred entitlement to a pension; and
- The underpin will consider when members take their benefit.

Further details of the McCloud/Sergeant judgment can be found below in the Regulatory risks section.

Guaranteed Minimum Pension (GMP) indexation and equalisation

On 23 March 2021, the Government published the outcome to its Guaranteed Minimum Pension Indexation consultation, concluding that all public service pension schemes, including the LGPS, will be directed to provide full indexation to members with a GMP reaching State Pension Age (SPA) beyond 5 April 2021. This is a permanent extension of the existing 'interim solution' that has applied to members with a GMP reaching SPA on or after 6 April 2016. Details of the consultation outcome can be found here.

The 2022 valuation approach for GMP is that the Fund will pay limited increases for members that have reached SPA by 6 April 2016, with the government providing the remainder of the inflationary increase. For members that reach SPA after this date, the Fund will be required to pay the entire inflationary increase.

Deficit recovery/surplus amortisation periods

Whilst one of the funding objectives is to build up sufficient assets to meet the cost of benefits as they accrue, it is recognised that at any particular point in time, the value of the accumulated assets will be different to the value of accrued liabilities, depending on how the actual experience of the Fund differs to the actuarial assumptions. This theory applies down to an individual employer level; each employer in the Fund has their own share of deficit or surplus attributable to their section of the Fund.

Where the valuation for an employer discloses a deficit then the level of required employer contributions includes an adjustment to fund the deficit over a maximum period of 17 years. The adjustment may be set either as a percentage of payroll or as a fixed monetary amount depending on group.

Where the valuation for an employer discloses a surplus, the preferred approach is for contribution rates to be set as the calculated primary rate as a minimum rate. However, the level of required employer contributions may include an adjustment to amortise the surplus but must be permitted by the administering authority. This will be considered, as appropriate, on a case-by-case basis.

The deficit recovery period or amortisation period that is adopted for any employer will depend on:

- The significance of the surplus or deficit relative to that employer's liabilities;
- The covenant of the individual employer (including any security in place) and any limited period of participation in the Fund;
- The remaining contract length of an employer in the Fund (if applicable); and
- The implications in terms of stability of future levels of employers' contribution.

As part of the 2022 valuation, the Fund commissioned an employer covenant review from Barnett Waddingham LLP based on an analysis of credit risk reports obtained from Dun & Bradstreet (D&B). Where the review highlighted any concerns with regard to the default risk of an employer, particular attention was given to the deficit recovery period adopted for the employer and whether any security for the Fund was in place.

A general summary of the approach used for employers in the Fund is set out in the table below, however, the approach adopted may differ to reflect the situation specific to the employer.

Type of employer	Examples	Maximum recovery period	Deficit paid as
Major scheduled bodies	County and district councils, police and fire bodies	17 years	Monetary amounts, other than maintained schools where percentage of payroll applies
Small scheduled bodies	Town and parish councils	17 years	Percentage of payroll
Further education bodies	Colleges, universities	12 years	Monetary amounts
Academies	Academies, free schools	17 years	Monetary amounts
Community admission bodies	Charities	Remaining contract length, subject to a maximum of 12 years	Monetary amounts
Drainage boards	Internal drainage boards	17 years	Monetary amounts
Transferee admission bodies	Contractors	Remaining contract length, subject to a maximum of 12 years	Monetary amounts
Resolution bodies	Other employers who are able to join the LGPS by making a resolution under Schedule 2 Part 2 of the regulations.	17 years	Monetary amounts

Pooling of individual employers

The policy of the Fund is that each individual employer should be responsible for the costs of providing pensions for its own employees who participate in the Fund. Accordingly, contribution rates are set for individual employers to reflect their own particular circumstances.

However, certain groups of individual employers are pooled for the purposes of determining contribution rates to recognise common characteristics or where the number of Scheme members is small.

The funding pools adopted for the Fund at the 2022 valuation are summarised in the table below:

Pool	Type of pooling	Notes
Lincolnshire County Council Pool	Past and future service pooling	All employers in the pool pay the same total contribution rate. Some employers participate in the pool on a pass-through basis
City of Lincoln Council	Past and future service pooling	All employers in the pool pay the same total contribution rate. Some employers participate in the pool on a pass-through basis
Police and Crime Commissioner for Lincolnshire & Mitie	Past and future service pooling	All employers in the pool pay the same total contribution rate
Small scheduled bodies	Past and future service pooling	All employers in the pool pay the same total contribution rate
Academies	Past and future service pooling by multi-academy Trust	Some multi-academy trusts are pooled. This means that all academies in the pool pay the same total contribution rate. This includes: o Voyager Education Partnership o CIT Academies o David Ross Education Trust o Horncastle Education Trust o Cambridge Meridian Trust o Priory Federation of Academies o Our Lady of Lourdes Catholic Multi-Academy Trust o Tall Oaks Academy Trust o Tollbar MAT o Wellspring Academy Trust o Abbey Academies Trust
Ill-health and death-in-service	Ill-health and death-in-service risk only	Applies to all employers in the Fund apart from the Lincolnshire County Council pool

The main purpose of pooling is to produce more stable employer contribution levels, although recognising that ultimately there will be some level of cross-subsidy of pension cost amongst pooled employers.

Forming/disbanding a funding pool

Where the Fund identifies a group of employers with similar characteristics and potential merits for pooling, it is possible to form a pool for these employers. Advice should be sought from the Fund Actuary to consider the appropriateness and practicalities of forming the funding pool.

Conversely, the Fund may consider it no longer appropriate to pool a group of employers. This could be due to divergence of previously similar characteristics or an employer becoming a dominant party in the pool (such that the results of the pool are largely driven by that dominant employer). Where this scenario arises, advice should be sought from the Fund Actuary.

Funding pools should be monitored on a regular basis, at least at each actuarial valuation, in order to ensure the pooling arrangement remains appropriate.

Risk-sharing

There are employers that participate in the Fund with a risk-sharing arrangement in place with another employer in the Fund.

For example, there are employers participating in the Fund with pass-through provisions: under this arrangement the pass-through employer does not take on the risk of underfunding as this risk remains with the letting authority or relevant guaranteeing employer. When the pass-through employer ceases participation in the Fund, it is not responsible for making any exit payment, nor receiving any exit credit, as any deficit or surplus ultimately falls to the letting authority or relevant guaranteeing employer.

At the 2022 valuation, risk-sharing arrangements were allowed for by allocating any deficit/liabilities covered by the risk-sharing arrangement to the relevant responsible employer.

Contribution payments

Employers pay contributions monthly. Primary contributions are certified as a percentage of payroll and therefore amounts paid by employers each month will fluctuate in line with payroll each month. Secondary contributions can be certified as a percentage of payroll or as a monetary amount. The frequency of monetary amounts payable are agreed with the Fund and must be received by 31 March of each relevant year.

Employers must pay contributions in line with the Rates and Adjustments Certificate, but they may be able to alter the timing of contributions payable and/or pay in additional contributions with agreement from the administering authority.

No discount will be offered in exchange for early payment of either primary or secondary contributions.

New employers joining the Fund

When a new employer joins the Fund, the Fund Actuary is required to set the contribution rates payable by the new employer and allocate a share of Fund assets to the new employer as appropriate. The most common types of new employers joining the Fund are admission bodies and new academies. These are considered in more detail below.

Admission bodies

New admission bodies in the Fund are commonly a result of a transfer of staff from an existing employer in the Fund to another body (for example as part of a transfer of services from a council or academy to an external provider under Schedule 2 Part 3 of the Regulations). Typically these transfers will be for a limited period (the contract length), over which the new admission body employer is required to pay contributions into the Fund in respect of the transferred members.

The default approach (which took effect from September 2020) is for admission bodies to join the Fund under a pass-through arrangement. Under a pass-through arrangement, the letting authority retains the pensions risk. The admission body is responsible for paying the agreed contribution rate and also additional costs as set out in each admission agreement e.g. redundancy and early retirement costs.

Before September 2020, the default approach was a full risk transfer. Under a full risk transfer the admission body becomes responsible for all the pensions risk associated with the benefits accrued by transferring members and the benefits to be accrued over the contract length. The administering authority may consider requests for a full risk transfer from new admission bodies.

Funding at start of contract

For pass-through and full transfer of risk arrangements, it may be appropriate for the new admission body to be allocated a share of Fund assets equal to the value of the benefits transferred, i.e. the new admission body starts off on a fully funded basis. This is calculated on the relevant funding basis and the opening position may be different when calculated on an alternative basis (e.g. on an accounting basis).

For pass-through employers the funding position will be re-set at 100% at each triennial valuation, with the balancing assets moved to/from the letting authority's section of the Fund as required. No such re-set is carried out under a full transfer of risk arrangement.

There may be special arrangements made as part of the contract such that a full risk transfer approach is not adopted. In these cases, the initial assets allocated to the new admission body will reflect the level of risk transferred and may therefore not be on a fully funded basis or may not reflect the full value of the benefits attributable to the transferring members.

Contribution rate

The default approach for a new admission body with a pass-through arrangement will be for a simple fixed rate to apply The minimum acceptable rate payable by a pass through employer is the primary rate certified at the previous valuation for the letting authority. Consideration will be given to a variable rate in line with the cost of benefit accrual where the contract is for a long period.

- The simple fixed rate will be fixed at the outset and not re-calculated during the remainder of the contract. This will usually be set out as part of the commercial contract between the letting authority

and the contractor. Where this rate differs from the cost of future benefits calculated by the actuary, the balance will be incorporated into the letting authority's certified rate.
- The variable rate would initially be set as the simple fixed rate, in line with the ceding employer's contribution rate, and then adjusted at each valuation in line with the change in the ceding employer's cost of future benefit accrual calculated by the actuary. The contribution rate may therefore change as a result of changes in the membership profile of the ceding employer and updated assumptions, such as future investment returns, inflation and life expectancy. The letting authority retains much of the market risk (e.g. asset performance) and experience (e.g. if inflation has been higher between the valuation periods than assumed).

For a full-risk transfer, the contribution rate may be set on an open or a closed basis. Where the funding at the start of the contract is on a fully funded basis then the contribution rate will represent the primary rate only; where there is a deficit allocated to the new admission body then the contribution rate will also incorporate a secondary rate with the aim of recovering the deficit over an appropriate recovery period.

Depending on the details of the arrangement, for example if any risk sharing arrangements are in place, then additional adjustments may be made to determine the contribution rate payable by the new admission body. The approach in these cases will be bespoke to the individual arrangement.

Accounting

Under the simple fixed rate pass-through arrangement, for accounting purposes, the contractor's obligation is simply to pay the agreed contribution rate. The contractor would not be expected to include any liability in respect of their LGPS pension participation on their balance sheet. Instead, the letting authority would include it in their disclosures. The contractor may report its participation in the LGPS as if it were a defined contribution scheme.

Under the variable rate pass-through arrangement, it is less clear whether the contractor needs to include a liability on their balance sheet, they are subject to some pensions risk but they never have the possibility of a past service funding deficit so it could be argued that they have no accounting balance sheet obligation. In these cases, the contractor and letting authority should check with their auditors what their requirements are.

Security

To mitigate the risk to the Fund that a new admission body will not be able to meet its obligations to the Fund in the future, the new admission body may be required to put in place a bond in accordance with Schedule 2 Part 3 of the Regulations, if required by the letting authority and administering authority.

If, for any reason, it is not desirable for a new admission body to enter into a bond, the new admission body may provide an alternative form of security which is satisfactory to the administering authority.

Risk-sharing

Although pass-though is the default approach, new admission bodies and the relevant letting authority may make a commercial agreement to deal with the pensions risk differently. For example, it may be agreed that the pensions risk is shared between the letting authority and the new admission body.

The administering authority may consider risk-sharing arrangements as long as the approach is clearly documented in the admission agreement, the transfer agreement or any other side agreement. The arrangement also should not lead to any undue risk to the other employers in the Fund.

Legal and actuarial advice in relation to risk-sharing arrangements should be sought where required.

New academies

When a school converts to academy status, the new academy (or the sponsoring multi-academy trust) becomes a Scheme employer in its own right.

Funding at start

On conversion to academy status, the new academy will be allocated assets based on the active cover of the relevant local authority at the conversion date. The active cover approach is based on the funding level of the local authority's active liabilities, after fully funding the local authority's deferred and pensioner liabilities.

Contribution rate

Where an academy joins an existing multi-academy trust in the Fund which is pooled, the contribution rate payable will be in line with the contribution rate certified for the existing academies in that pool at the 2022 valuation.

Where an academy joins an existing multi-academy trust in the Fund which is not in a pool, the new academy may be provided an individual contribution rate.

Contribution reviews between actuarial valuations

It is anticipated for most Scheme employers that the contribution rates certified at the formal actuarial valuation will remain payable for the period of the rates and adjustments certificate. However, there may be circumstances where a review of the contribution rates payable by an employer (or a group of employers) under Regulation 64A is deemed appropriate by the administering authority.

A contribution review may be requested by an employer or be required by the administering authority. The review may only take place if one of the following conditions are met:

(i) it appears likely to the administering authority that the amount of the liabilities arising or likely to arise has changed significantly since the last valuation;

(ii) it appears likely to the administering authority that there has been a significant change in the ability of the Scheme employer or employers to meet the obligations of employers in the Scheme; or

(iii) a Scheme employer or employers have requested a review of Scheme employer contributions and have undertaken to meet the costs of that review. A request under this condition can only be made if there has been a significant change in the liabilities arising or likely to arise and/or there has been a significant change in the ability of the Scheme employer to meet its obligations to the Fund.

Guidance on the administering authority's approach considering the appropriateness of a review and the process in which a review will be conducted is set out the Fund's separate Contribution review policy which can be accessed here. This includes details of the process that should be followed where an employer would like to request a review.

Once a review of contribution rates has been agreed, unless the impact of amending the contribution rates is deemed immaterial by the Fund Actuary, then the results of the review will be applied with effect from the agreed review date, regardless of the direction of change in the contribution rates.

Note that where a Scheme employer seems likely to exit the Fund before the next actuarial valuation then the administering authority can exercise its powers under Regulation 64(4) to carry out a review of contributions with a view to providing that assets attributable to the Scheme employer are equivalent to the exit payment that will be due from the Scheme employer. These cases do not fall under the separate contribution review policy.

With the exception of any cases falling under Regulation 64(4), the administering authority will not accept a request for a review of contributions where the effective date is within 12 months of the next Rates and Adjustments Certificate.

Cessation valuations

When a Scheme employer exits the Fund and becomes an exiting employer, as required under the Regulations the Fund Actuary will be asked to carry out an actuarial valuation in order to determine the liabilities in respect of the benefits held by the exiting employer's current and former employees. The Fund Actuary is also required to determine the exit payment due from the exiting employer to the Fund or the exit credit payable from the Fund to the exiting employer.

Any deficit in the Fund in respect of the exiting employer will be due to the Fund as a single lump sum payment, unless it is agreed by the administering authority and the other parties involved that an alternative approach is permissible. For example:

- It may be agreed with the administering authority that the exit payment can be spread over some agreed period;
- the assets and liabilities relating to the employer may transfer within the Fund to another participating employer; or
- the employer's exit may be deferred subject to agreement with the administering authority, for example if it intends to offer Scheme membership to a new employee within the following three years.

Similarly, any surplus in the Fund in respect of the exiting employer may be treated differently to a payment of an exit credit, subject to the agreement between the relevant parties and any legal documentation.

In assessing the value of the liabilities attributable to the exiting employer, the Fund Actuary may adopt differing approaches depending on the employer and the specific details surrounding the employer's cessation scenario.

For example, if the administering authority is satisfied that there is another employer willing to take on responsibility for the liabilities (or that there is some other form of guarantee in place) then the cessation position may be calculated on the ongoing funding basis.

If there is no guarantor in the Fund willing to accept responsibility for the residual liabilities of the exiting employer, then those liabilities may be assessed on a prudent "ongoing" basis. The assumptions adopted will be consistent with the current ongoing funding position, but with additional prudence included in order to take into account potential uncertainties and risk e.g. due to adverse market changes, additional liabilities arising from regulatory or legislative change and political/economic uncertainties. The additional level of prudence will be set by considering the distribution of funding levels under a large number of economic scenarios, with the aim being to gain a reasonable level of confidence that the Fund will be able to meet its benefits obligations to the relevant members in future.

Exit credit policy

The Local Government Pension Scheme (LGPS) (Amendment) Regulations 2018 were introduced in May 2018 which allow administering authorities to make an exit credit payment to exiting employers. This will be reviewed on a case by case basis before any payment is made. Considerations will be based on any previous agreements made and discussions between the administering authority, the exiting employer and the guaranteeing employer (if relevant). Please see Appendix 1 for more information.

Managing exit payments

Where a cessation valuation reveals a deficit and an exit payment is due, the expectation is that the employer settles this debt immediately through a single cash payment. However, should it not be possible for the employer to settle this amount, providing the employer puts forward sufficient supporting evidence to the administering authority, the administering authority may agree a deferred debt agreement (DDA) with the employer under Regulation 64(7A) or a debt spreading agreement (DSA) under Regulation 64B.

Under a DDA, the exiting employer becomes a deferred employer in the Fund (i.e. they remain as a Scheme employer but with no active members) and remains responsible for paying the secondary rate of contributions to fund their deficit. The secondary rate of contributions will be reviewed at each actuarial valuation until the termination of the agreement.

Under a DSA, the cessation debt is crystallised and spread over a period deemed reasonable by the administering authority having regard to the views of the Fund Actuary.

Whilst a DSA involves crystallising the cessation debt and the employer's only obligation is to settle this set amount, in a DDA the employer remains in the Fund as a Scheme employer and is exposed to the same risks (unless agreed otherwise with the administering authority) as active employers in the Fund (e.g. investment, interest rate, inflation, longevity and regulatory risks) meaning that the deficit will change over time.

Guidance on the administering authority's policy for entering into, monitoring and terminating a DDA or DSA is set out in the Fund's separate DSA and DDA policies document here. This includes details of when a DDA or a DSA may be permitted and the information required from the employer when putting forward a request for a DDA or DSA.

Regulatory factors

At the date of drafting this FSS, the government is currently consulting on potential changes to the Regulations, some which may affect the timing of future actuarial valuations. This is set out in the *Local government pension scheme: changes to the local valuation cycle and the management of employer risk* consultation document.

Further details of this can be found in the Regulatory risks section below.

Bulk transfers

Bulk transfers of staff into or out of the Fund can take place from other LGPS Funds or non-LGPS Funds. In either case, the Fund Actuary for both Funds will be required to negotiate the terms for the bulk transfer – specifically the terms by which the value of assets to be paid from one Fund to the other is calculated.

The agreement will be specific to the situation surrounding each bulk transfer but in general the Fund will look to receive the bulk transfer on no less than a fully funded transfer (i.e. the assets paid from the ceding Fund are sufficient to cover the value of the liabilities on the agreed basis).

A bulk transfer may be required by an issued Direction Order. This is generally in relation to an employer merger, where all the assets and liabilities attributable to the transferring employer in its original Fund are transferred to the receiving Fund.

Links with the Investment Strategy Statement (ISS)

The main link between the Funding Strategy Statement (FSS) and the ISS relates to the discount rate that underlies the funding strategy as set out in the FSS, and the expected rate of investment return which is expected to be achieved by the long-term investment strategy as set out in the ISS.

As explained above, the ongoing discount rate that is adopted in the actuarial valuation is derived by considering the expected return from the long-term investment strategy. This ensures consistency between the funding strategy and investment strategy.

Risks and counter measures

Whilst the funding strategy attempts to satisfy the funding objectives of ensuring sufficient assets to meet pension liabilities and stable levels of employer contributions, it is recognised that there are risks that may impact on the funding strategy and hence the ability of the strategy to meet the funding objectives.

The major risks to the funding strategy are financial, although there are other external factors including demographic risks, regulatory risks and governance risks.

Financial risks

The main financial risk is that the actual investment strategy fails to produce the expected rate of investment return (in real terms) that underlies the funding strategy. This could be due to a number of factors, including market returns being less than expected and/or the fund managers who are employed to implement the chosen investment strategy failing to achieve their performance targets.

The valuation results are most sensitive to the real discount rate (i.e. the difference between the discount rate assumption and the price inflation assumption). Broadly speaking an increase/decrease of 0.5% p.a. in the real discount rate will decrease/increase the valuation of the liabilities by 10%, and decrease/increase the required employer contribution by around 2.5% of payroll p.a.

However, the Investment and Pension Fund Committee regularly monitors the investment returns achieved by the fund managers and receives advice from the independent advisers and officers on investment strategy.

The Committee may also seek advice from the Fund Actuary on valuation related matters.

In addition, the Fund Actuary provides funding updates between valuations to check whether the funding strategy continues to meet the funding objectives.

Demographic risks

Allowance is made in the funding strategy via the actuarial assumptions for a continuing improvement in life expectancy. However, the main demographic risk to the funding strategy is that it might underestimate the continuing improvement in longevity. For example, an increase of one year to life expectancy of all members in the Fund will increase the liabilities by approximately 4%.

The actual mortality of pensioners in the Fund is monitored by the Fund Actuary at each actuarial valuation and assumptions are kept under review. The Fund has commissioned a bespoke longevity analysis by Barnett Waddingham's specialist longevity team in order to assess the mortality experience of the Fund and help set an appropriate mortality assumption for funding purposes.

The liabilities of the Fund can also increase by more than has been planned as a result of the additional financial costs of early retirements and ill-health retirements. However, the administering authority monitors the incidence of early retirements; and procedures are in place that require individual employers to pay additional amounts into the Fund to meet any additional costs arising from early retirements.

The administering authority is currently implementing an ill-health/death-in-service self-insurance pool within the Fund whereby a portion of all employers' contributions paid into the Fund are allocated to a segregated ill-health/death-in-service section of the Fund. This will cover ill-health retirement benefits and death-in-service benefits for all employers, excluding employers participating in the Lincolnshire County Council pool, and will be effective from 1 April 2023. When an ill-health retirement occurs, a funding strain (i.e. the difference between the value of the benefits payable to the ill-health member and the value that was assumed as part of the actuarial valuation) is generated in the employer's section of the Fund. As part of the self-insurance policy, assets equal to the funding strain are transferred from the segregated ill-health assets section of the Fund to the employer's section of the Fund to cover the funding strain.

Climate risk

There are a large number of interlinked systemic long-term financial risks related to climate change which could potentially have a material impact on the assets and/or the liabilities of the Fund. The most obvious of these climate change risks will be the financial risks to the value of the Fund's assets, the potential increased volatility of markets and potential changes in life expectancy. It is possible that some of these factors will impact the assets and liabilities of the Fund in the same direction, although not necessarily by the same amount.

The Fund therefore has a fiduciary duty to consider climate change risk when making investment decisions and to ensure any decisions support the effective management of climate change. The Fund therefore expects their appointed investment managers to be informed about climate change risks and take investment opportunities accordingly within their processes. More detail is included in the Fund's Investment Strategy Statement.

As part of the 2022 valuation, the Fund Actuary provided the Fund with a climate risk analysis which assessed the potential exposure of the Fund's funding position to climate risk under different climate scenarios. The principles behind the analysis were agreed with the Government Actuary's Department (GAD).

The results of this analysis demonstrated that the funding strategy agreed as part of the 2022 valuation was sufficiently robust in the context of climate scenario analysis and any potential contribution impacts.

The Fund will continue to assess this risk on a regular basis.

Maturity risk

The maturity of a Fund (or of an employer in the Fund) is an assessment of how close on average the members are to retirement (or already retired). The more mature the Fund or employer, the greater proportion of its membership that is near or in retirement. For a mature Fund or employer, the time available to generate investment returns is shorter and therefore the level of maturity needs to be considered as part of setting funding and investment strategies.

The cashflow profile of the Fund needs to be considered alongside the level of maturity: as a Fund matures, the ratio of active to pensioner members falls, meaning the ratio of contributions being paid into the Fund to the benefits being paid out of the Fund also falls. This therefore increases the risk of the Fund having to sell assets in order to meets its benefit payments.

The government has published a consultation (*Local government pension scheme: changes to the local valuation cycle and management of employer risk*) which may affect the Fund's exposure to maturity risk. More information on this can be found in the Regulatory risks section below.

Regulatory risks

The benefits provided by the Scheme and employee contribution levels are set out in Regulations determined by central government. The tax status of the invested assets is also determined by the government.

The funding strategy is therefore exposed to the risks of changes in the Regulations governing the Scheme and changes to the tax regime which may affect the cost to individual employers participating in the Scheme.

However, the administering authority participates in any consultation process of any proposed changes in Regulations and seeks advice from the Fund Actuary on the financial implications of any proposed changes.

There are a number of general risks to the Fund and the LGPS, including:

- If the LGPS was to be discontinued in its current form it is not known what would happen to members' benefits.
- More generally, as a statutory scheme the benefits provided by the LGPS or the structure of the scheme could be changed by the government.
- The State Pension Age is due to be reviewed by the government in the next few years.

At the time of preparing this FSS, specific regulatory risks of particular interest to the LGPS are in relation to the McCloud/Sargeant judgments and the timing of future funding valuations consultation. These are discussed in the sections below.

McCloud/Sargeant judgments

The Court of Appeal judgment on the McCloud and Sargeant cases, relate to age discrimination against the age-based transitional provisions put into place when the new judicial pension arrangements were introduced in 2015. The members argued that these transitional provisions were directly discriminatory on grounds of age and indirectly discriminatory on grounds of sex and race, based on the correlation between these two factors reflected in the judicial membership. The Tribunal ruled against the Government, deeming the transitional provisions as not a proportionate means of achieving a legitimate aim.

The Government subsequently applied to the Supreme Court to appeal the judgment but their application was denied on 27 June 2019. On 16 July 2020, the Government published a consultation on the proposed remedy to be applied to LGPS benefits in response to the McCloud and Sargeant cases. A ministerial statement in response to this was published on 13 May 2021 and revised Regulations are awaited to bring a remedy into play.

At the time of drafting this FSS, Regulations and therefore confirmation of the remedy are not yet finalised and are expected in 2023.

Cost control mechanism

As a result of the public service pension schemes reforms, the Government established a cost control mechanism for all those schemes to ensure a fair balance of risks between scheme members and the taxpayer. The process has been complex and has still not been fully resolved. Although the 2016 cost cap valuation report for the LGPS has been published, at the time of writing there is still a challenge outstanding regarding the inclusion of McCloud in the cost cap. Therefore, there is still a possibility that the 2016 valuation may have to be revisited with the small chance that benefit improvements will be required and potentially backdated to April 2019.

For the purposes of the 2022 valuation, we have made no allowance for any potential benefit changes. The Fund's prudence allowance already allows for an element of regulatory uncertainty and any potential impact is not deemed to be material.

Consultation: Local government pension scheme: changes to the local valuation cycle and management of employer risk

On 8 May 2019, the government published a consultation seeking views on policy proposals to amend the rules of the LGPS in England and Wales. The consultation covered:

- amendments to the local fund valuations from the current three year (triennial) to a four year (quadrennial) cycle;
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle;
- proposals for flexibility on exit payments;
- proposals for further policy changes to exit credits; and
- proposals for changes to the employers required to offer LGPS membership.

The proposals for flexibility on exit payments and for further policy changes to exit credits have been finalised, however, are still to be finalised for the remaining three proposals. This FSS will be revisited once the outcome is known and reviewed where appropriate.

Timing of future actuarial valuations

LGPS valuations currently take place on a triennial basis which results in employer contributions being reviewed every three years. In September 2018 it was announced by the Chief Secretary to HMT, Elizabeth Truss, that the national Scheme valuation would take place on a quadrennial basis (i.e. every four years) along with the other public sector pension schemes. The results of the national Scheme valuation are used to test the cost control mechanism and HMT believed that all public sector scheme should have the cost control test happen at the same time.

Changes to employers required to offer LGPS membership

At the time of drafting this FSS, under the current Regulations further education corporations, sixth form college corporations and higher education corporations in England and Wales are required to offer membership of the LGPS to their non-teaching staff.

With consideration of the nature of the LGPS and the changes in nature of the further education and higher education sectors, the government has proposed to remove the requirement for further education corporations, sixth form college corporations and higher education corporations in England to offer new employees access to the LGPS. Given the significance of these types of employers in the Fund, this could impact on the level of maturity of the Fund and the cashflow profile. For example, increased risk of contribution income being insufficient to meet benefit outgo, if not in the short term then in the long term as the payroll in respect of these types of employers decreases with fewer and fewer active members participating in the Fund.

This also brings an increased risk to the Fund in relation to these employers becoming exiting employers in the Fund. Should they decide not to admit new members to the Fund, the active membership attributable to the employers will gradually reduce to zero, triggering an exit under the Regulations and a potential significant exit payment. This has the associated risk of the employer not being able to meet the exit payment and thus the exit payment falling to the other employers in the Fund.

Employer risks

Many different employers participate in the Fund. Accordingly, it is recognised that a number of employer-specific events could impact on the funding strategy including:

- Structural changes in an individual employer's membership;
- An individual employer deciding to close the Scheme to new employees; and
- An employer ceasing to exist without having fully funded their pension liabilities.

However, the administering authority monitors the position of employers participating in the Fund, particularly those which may be susceptible to the events outlined, and takes advice from the Fund Actuary when required.

In particular, the Fund will commission an employer risk review from the Fund Actuary on a regular basis, every three years as a minimum, to help identify the employers in the Fund that might be considered as high risk. In the case of admitted bodies, the Fund has a policy of requiring some form of security from the employer, in the form of a guarantee or a bond, in case of employer default where the risk falls to the Fund. Where the risk of default falls on the liabilities of an original letting authority, the Fund provides advice to the letting authority to enable them to make a decision on whether a guarantee, some other form of security or a bond should be required.

In addition, the administering authority keeps in close touch with all individual employers participating in the Fund to ensure that, as administering authority, it has the most up to date information available on individual employer situations. It also keeps individual employers briefed on funding and related issues.

Governance risks

Accurate data is necessary to ensure that members ultimately receive their correct benefits. The administering authority is responsible for keeping data up to date and results of the actuarial valuation depend on accurate data. If incorrect data is valued then there is a risk that the contributions paid are not adequate to cover the cost of the benefits accrued.

Monitoring and review

This FSS is reviewed formally, in consultation with the key parties, at least every three years to tie in with the triennial actuarial valuation process.

The most recent valuation was carried out as at 31 March 2022, certifying the contribution rates payable by each employer in the Fund for the period from 1 April 2023 to 31 March 2026.

The timing of the next funding valuation is due to be confirmed as part of the government's *Local government pension scheme: changes to the local valuation cycle and management of employer risk* consultation which closed on 31 July 2019. At the time of drafting this FSS, it is anticipated that the next funding valuation will be due as at 31 March 2025.

The administering authority also monitors the financial position of the Fund between actuarial valuations and may review the FSS more frequently if necessary.

Appendix 1 – Exit Credit Policy

The below sets out the general guidelines that the Lincolnshire Pension Fund ("the Fund") will follow when determining the amount of an exit credit payable, if any, to a ceasing employer in line with Regulation 64 of the Local Government Pension Scheme Regulations 2013 ("the Regulations"). **Please note that these are guidelines only and the Fund will also consider any other factors that are relevant, or presented to them, on a case-by-case basis.**

Admitted bodies

a) No exit credit will be payable in respect of admissions who joined the Fund before 14 May 2018 unless it is subject to a risk sharing arrangement as per paragraph c) below. Prior to this date, the payment of an exit credit was not permitted under the Regulations and this will have been reflected in the commercial terms agreed between the admission body and the letting authority/awarding authority/ceding employer. This will also apply to any pre-14 May 2018 admission which has been extended or 'rolled over' beyond the initial expiry date and on the same terms that applied on joining the Fund, and those admissions who joined the Fund after September 2020 and chose to become admitted through the Funds former standard admission route.

a) No exit credit will be payable to any admission body who participates in the Fund via the default pass through approach (effective from September 2020) as set out in this Funding Strategy Statement. For the avoidance of doubt, whether an exit credit is payable to any admission body who participates in the Fund via the "Letting employer retains pre-contract risks" route is subject to its risk sharing arrangement, as per paragraph c) below.

b) The Fund will make an exit credit payment in line with any contractual or risk sharing agreements which specifically covers the ownership of exit credits/cessation surpluses or if the admission body and letting authority have agreed any alternative approach (which is consistent with the Regulations and any other legal obligations). This information, which will include which party is responsible for which funding risk, must be presented to the Fund in a clear and unambiguous document with the agreement of both the admission body and the letting authority/awarding authority/ceding employer and within one month (or such longer time as may be agreed with the Administering Authority) of the admission body ceasing participation in the Fund.

c) In the absence of this information or if there is any dispute from either party with regards to the interpretation of contractual or risk sharing agreements as outlined in c), the Fund will withhold payment of the exit credit until such disputes are resolved and the information is provided to the Administering Authority.

d) Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the admission body during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

e) If the admission agreement ends early, the Fund will consider the reason for the early termination, and whether that should have any relevance on the Fund's determination of the value of any exit credit payment. In these cases, the Fund will consider the differential between employers' contributions paid (including investment returns earned on these monies), the total assets of the employer and the size of any cessation surplus.

f) If an admitted body leaves on a gilts cessation basis (because no guarantor is in place), then any exit credit will normally be paid to the employer.

g) The decision of the Fund is final in interpreting how any arrangement described under c), e), f) and g) applies to the value of an exit credit payment.

Scheduled bodies and resolution bodies

a) Where a guarantor arrangement is in place, but no formal risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects which party is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

b) Where no formal guarantor or risk-sharing arrangement exists, the Fund will consider how the approach to setting contribution rates payable by the employer during its participation in the Fund reflects the extent to which it is responsible for funding risks. This decision will inform the determination of the value of any exit credit payment.

c) The decision of the Fund is final in interpreting how any arrangement described under a) and b) applies to the value of an exit credit payment.

d) If a scheduled body or resolution body becomes an exiting employer due to a reorganisation, merger or take-over, then no exit credit will be paid.

e) If a scheduled body or resolution body leaves on a gilts cessation basis (because no guarantor is in place), then any exit credit will normally be paid to the employer.

General

a) The Fund will advise the exiting employer as well as the letting authority and/or other relevant scheme employers of its decision to make an exit credit determination under Regulation 64.

b) Subject to any risk sharing or other arrangements and factors discussed above, when determining the cessation funding position the Fund will generally make an assessment based on the value of contributions paid by the employer during their participation, the assets allocated when they joined the Fund and the respective investment returns earned on both.

c) The Fund will also factor in if any contributions due or monies owed to the Fund remain unpaid by the employer at the cessation date. If this is the case, the Fund's default position will be to deduct these from any exit credit payment.

d) The final decision will be made by the Head of Pensions, in conjunction with advice from the Fund's Actuary and/or legal advisors where necessary, in consideration of the points held within this policy.

e) The Fund accepts that there may be some situations that are bespoke in nature and do not fall into any of the categories above. In these situations the Fund will discuss its approach to determining an exit credit with all affected parties. The decision of the Fund in these instances is final.

f) Where there is an exit credit payable, the Fund will advise the exiting employer of the amount due to be repaid and seek to make the payment within six months of the exit date or such longer time as the administering authority and the exiting employer may agree. In order to meet the six-month timeframe, the Fund requires prompt notification of an employer's exit and all data and relevant information as requested. The Fund is unable to make any exit credit payment until it has received all data and information requested.

g) The guidelines above at point e) in the 'Admitted Bodies' section, and at points a) and b) in the

‘Scheduled bodies and resolution bodies’ section, make reference to the Fund ‘considering the approach to setting contribution rates during the employer’s participation’. The different funding approaches, including the parameters used and how these can vary based on employer type, are covered in detail in the Funding strategy section of this document. Considering the approach taken when setting contribution rates of the exiting employer may help the Fund to understand the extent to which the employer is responsible for funding the underlying liabilities on exit. For example, if contribution rates have been based on ongoing assumptions then this may suggest that these are also appropriate assumptions for exit credit purposes (subject to the other considerations outlined in the Funding strategy section of this report). Equally, a shorter than usual funding time horizon or lower than usual likelihood of success parameter may reflect underlying commercial terms about how responsibility for pension risks is split between the employer and its guarantor. For the avoidance of doubt, each exiting employer will be considered in the round alongside the other factors mentioned above.

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Lincolnshire Pension Fund

Climate analysis report as at 31 March 2022

Barnett Waddingham LLP
17 October 2022

Contents

Executive summary

There is clear scientific evidence that human activities are causing climate change. The Lincolnshire Pension Fund (the Fund) faces potential risks from both the physical effects of climate change and the transition to a low-carbon economy.

Climate risk may manifest itself through many of the risks which the Fund already faces such as inflation risk and investment risk, which can potentially cause a deterioration in the Fund's funding position.

The purpose of this paper is to consider climate risk in the context of the Fund's 2022 actuarial valuation. This paper sets out climate scenario analysis on the assets and liabilities of the Fund based on the data and information received for the 2022 actuarial valuation.

The key features of this report are:

Climate risks

- For our analysis we have grouped climate risks into:
  - Physical climate risks
  - Transition climate risks

Other risks

- Climate risk can manifest itself in several other risks that the Fund is already exposed to such as:
  - Employer covenant risk
  - Investment risk
  - Inflation risk
  - Mortality risk
  - Legislative risk
  - Operational risk

Key Principles

- Agreed between the four actuarial firms, the Government Actuary's Department (GAD) and the Department of Levelling Up Housing and Communities (DLUHC)
- Climate risk will feature as part of the Section 13 review of the 2022 valuations

Climate scenarios and key metrics

- The BW framework tests four scenarios (early action, late action, no additional action, far too little too late)
- **Based on the scenario testing, we are comfortable with the current level of prudence included in our proposed funding assumptions**

Introduction and background

This paper sets out climate scenario analysis on the assets and liabilities of the Lincolnshire Pension Fund (the Fund) in-line with the Key Principles agreed with the Government Actuary's Department (GAD) for the purpose of the 2022 LGPS valuations. In producing this analysis we have also considered the requirements under the Occupational Pension Schemes (Climate Change Governance and Reporting) Regulations 2021 however, these regulations do not apply to the LGPS. We anticipate that the equivalent regulations that will ultimately apply to the LGPS will contain similar requirements.

The purpose of this report is to present information to help Lincolnshire County Council, as the administering authority to the Fund, consider climate risk in the context of the Fund's 2022 actuarial valuation. This report also sets out measures the administering authority could take to manage climate risk.

The analysis focuses solely on climate related attributes and combines a mixture of qualitative and quantitative assessments, considering the Fund's investment strategy and other unique characteristics.

The results of the analysis can be used by the administering authority to consider the Fund's exposure to climate risks and opportunities. It may feed into the Fund's Task Force on Climate-related Financial Disclosures (TCFD) report, when required.

The analysis considers the projected funding level under various climate-related scenarios, alongside the (proposed) 2022 valuation basis for the Fund. The results thereby allow the administering authority to consider whether the 2022 valuation funding strategy is sufficiently robust in the context of this climate scenario analysis and any potential contribution impacts.

The climate scenarios used are set out in the body of this report and relate to specific targets and global temperature changes, although we recommend these are taken as illustrative only. Qualitative commentary is included throughout to help provide context to the analysis, covering the impact on the Fund's assets, liabilities, and employer covenant.

This advice complies with Technical Actuarial Standard 100: Principles for Technical Actuarial Work (TAS 100) and Technical Actuarial Standard 300: Pensions (TAS 300) as issued by the Financial Reporting Council (FRC).

Climate risks

For our analysis, we have grouped climate risks into the following two categories:

Physical climate risks

This is the direct risk associated with an increased global temperature. This may include acute physical risks (such as heatwaves, landslides, floods, wildfires and hurricanes) and chronic physical risks (such as rising sea levels, changes in precipitation and more volatile weather events). These risks may put an invested asset (or an asset of an underlying company) directly at risk of damage; may cause disruption throughout supply chains and the global economy and/or may lead to higher costs on invested assets or underlying companies (such as insurance and litigation costs).

Transition climate risks

This is the risk associated with the transition to a low carbon economy. The main risk is assumed to be the potential impact of the enforcement of carbon taxes and policies (it is assumed that this risk is higher for regions and sectors with a higher level of, and hard to abate, emissions). However, other risks may include wider policy and regulation risk, technological risk, market risk, litigation risk, and reputational risk.

Physical risks	Transition risks
• Droughts • Floods • Wildfires • Sea level rises • Loss of biodiversity • Heatwaves	• Carbon tax • Constrains on consumption of natural resources • Policy changes in land use and farming practices • Impact on labour skills development • Reputational risk

Other risks

Climate risk can manifest itself in several other risks that the Fund is already exposed to such as:

Other risks		Current mitigation and potential actions
	Employer covenant risk: The impact on employer covenant is possibly the most immediate risk for most pension schemes, including the LGPS. The key risk being that if an employer is unable to meet their financial obligation the cost will fall to the other employers in the Fund. Different employers within the Fund are likely to be affected at different times and for different reasons due to their own individual characteristics. It may be appropriate for the Fund to factor in any concerns over particular employers as a result of climate change into the funding valuation. Inevitably, certain LGPS funds and employers are likely to be more at risk from these changes than others. For example, bus operators and logistics companies may have to evolve considerably to satisfy new net zero requirements. Other companies or employers, such as schools and leisure centres may be affected by supply chains if those are disrupted. Some areas are at greater risk of flooding and extreme weather events than others, affecting funds as a whole. Or local authority budgets may be affected by non-pensions issues surrounding climate change. This will all have an impact on covenant: how able and willing employers are to pay contributions to the Fund. The Fund should monitor the strength of the covenant of the participating employers over time, so that any sudden changes in any employer's position can be mitigated. The Fund should consider how they could factor climate risk into any employer covenant review. At this stage, without the relevant data it is difficult to factor climate risk into employer covenant reviews, but if you are aware of individual employers who may pose an increased risk due to climate change, then we would recommend that this is also considered as part of any covenant review and, consequently, in the funding strategy.	The Fund regularly monitors the strength of the covenant of the participating employers as part of each actuarial valuation. Currently, any employer covenant assessment, in terms of the impact of climate change, is likely to be qualitative due to lack of robust and relevant data. The Fund could focus on physical climate risks which could lead to high costs for employers as a result of insurance and litigation costs. It may be easier for the Fund to consider these risks by sector rather than by individual employer.

	Investment risk: For funding purposes, the discount rate used to value the Fund's liabilities reflects the expected return on the investments that the Fund holds (reduced by a margin for prudence). Funds generally invest in equities, bonds and property, along with other alternative assets. The price of these depends on the market outlook of how each company underlying the investments will perform in the future. To the extent that the market has anticipated the effect of climate risk on each company, it is already reflected within the discount rate. However, climate risk is complex and whilst it is easy to imagine the various ways that climate change could impact an energy company, for example, it becomes less clear with other companies such as those in the service or healthcare sectors. If the market cannot anticipate or agree on the impact, then it is *unlikely* this will be priced into today's market value or return expectation – in particular where investors' timeframes vary. Allowance is made in the funding assumptions for the expected long-term performance of risk-seeking asset classes such as equities, but an explicit allowance for climate risk has not yet been included. There is a risk that these returns will not be achieved in practice due to climate risk. Some funds already have a net zero pledge in place and therefore both funding strategy and investment strategy need to be aligned in order to achieve this. The Fund should therefore regularly review the investment strategy specifically with regards to climate risk, to ensure the risks are understood and managed appropriately.	The Fund receives regular updates from their investment advisers and asset managers about how climate risks are allowed for in the Fund's investment strategy. The Fund's policy on environmental, social and governance (ESG) considerations, including climate change, is included in the Fund's Investment Strategy Statement. The Fund may wish to consider any opportunities as well as risks emerging from climate change in incorporate those into the investment strategy. The Fund regularly monitors the funding position of the Fund using our online intervaluation funding monitoring system, Monitor.
	Inflation risk: Inflation is another of our key assumptions, with the majority of LGPS benefits increasing in line with the Consumer Prices Index (CPI) each year. No one knows how inflation will move over the long term. However, we look to the bond market to gauge the market's expectations of this to set our assumption for the valuation. As is the case for the discount rate, however, if the inflationary impact of climate risk is not being priced into the bonds in the market, then this will have a knock-on effect on our inflation assumption – the impact of which is, again, unknown. We have not made any additional adjustments to our inflation assumption for the 2022 valuation with regards to climate risk. There is a risk that long-term inflation	The Fund periodically reviews the level of inflation risk inherent in the Fund's investment strategy with their investment advisers.

	will be different to assumed for the valuation due to climate risk. If inflation is higher, this will increase the cost of providing the benefits. The Fund should therefore consider the inflation risk present within the Fund when reviewing the investment strategy.	
	Mortality risk: It is easy to see that climate change will have an effect on how long we will all live, but it's more difficult to gauge exactly how. The list of implications of how it will affect the world is long (and growing) and includes risks like zoonotic pandemics such as Covid-19. But how much of that will impact on the life expectancy for members of UK pension schemes? How quickly will an effect be seen? And will it vary by location? For example, it is possible that in the UK, longevity might actually improve due to climate change. If winters are milder in future, then that could mean fewer deaths. On the other hand, if our summers get too hot then that might not count for much. It is not possible to predict with certainty how long members of the Fund will live and, if members live longer than expected, additional contributions will be required to prevent a deterioration in the Fund's financial position. The Fund should therefore keep the mortality assumptions under review.	The Fund takes advice from their Fund Actuary on appropriate changes to the Fund's mortality assumptions.
	Legislative risk: Changes in legislation could change the approach that the Fund has taken to managing climate change. Task Force on Climate-related Financial Disclosures (TCFD) is a framework that aims to help companies and investors measure, manage, and report their climate-related risk exposures and opportunities in a consistent manner. At the time of this report, we are still awaiting the consultation regarding the proposals for new requirements for assessing and reporting on climate risks in line with the recommendations of the TCFD and how they apply to the LGPS. Therefore, we have no new regulations or guidance to inform this analysis. However, we have agreed an approach with DLUHC and GAD for the 2022 actuarial valuations.	The Fund receives regular updates on legislative matters from their advisers.

Further to this, funds face additional risks through the secondary effects of policies introduced by governments. For example, The European Union's (EU's) expansion in 2021 of the Emission Trading Scheme (ETS) made companies pay for the cost of carbon, including the car industry and domestic heating and the carbon border adjustment mechanism requiring goods imported into the EU to be covered by equivalent carbon pricing applicable to production of the same goods within the EU, under the ETS.

These types of policies increase the cost of production, affecting businesses and consumers and may affect the investment returns received.

The Fund should therefore take professional advice to ensure that they are aware of any changes in legislation and the impact of these changes on the Fund's funding position.

Reputational risk:

LGPS funds are expected to take action to mitigate climate risk. They are under increasing pressure from the general public to invest sustainably and to communicate their net zero targets. It is easy for funds to be compared against each other in their progress and therefore those funds making the least progress will be highlighted.

As mentioned, funds are being asked to make an allowance for climate risk in the 2022 valuations. Any challenges to this requirement are likely to be highlighted and/or flagged in the next Section 13 report.

By engaging with this scenario analysis, the Fund has met the requirements of the Section 13 review and therefore should not be highlighted (for this reason) in the final report.

Operational risk:

Although many physical implications of climate change are expected to play out over decades-long timescales, in the UK we are already seeing increased short-term localised disruption due to flash floods and power cuts. Depending on the location of critical services, these have the potential to disrupt the day-to-day operations of the Fund, including the payment of pensions to members. It is likely that in future such events will increase both in frequency and duration.

Transition effects may also impact the running costs of the Fund (in the same way that the current spike in gas and petrol costs, although driven by non-climate-related factors, will be increasing expenses).

The Fund may already have procedures in place covering Business Continuity Planning for short-term disruption, but these may need to be reviewed to ensure that they are sufficiently robust in light of the expected increase in frequency and duration of such disruptions, particularly in the context of increased working-from-home.

Key Principles

Barnett Waddingham has worked with GAD and the other actuarial firms to agree a set of Key Principles for how LGPS funds would undertake climate change scenario analysis as part of the 2022 valuations.

The Key Principles behind the climate scenario analysis have been agreed in order to assist GAD in their 2022 Section 13 review of the LGPS funds. In their 2019 Section 13 report dated November 2021, GAD noted:

> *"DLUHC will be consulting on proposals for new requirements for assessing and reporting on climate risks in 2021 in line with the recommendations of the Taskforce on Climate-related Financial Risks (TCFD), and new regulations and guidance are expected to follow. Climate risk will be a focus in future section 13 reports. GAD will facilitate dialogue and engagement with DLUHC, actuarial advisors and the SAB prior to publication of the 2022 valuations to ensure a consistent approach is adopted."*

DLUHC's consultation on governance and reporting of climate change risks was launched 1 September 2022 and closes on 24 November 2022. Barnett Waddingham are currently considering the consultation and will be submitting a response.

The Key Principles agreed with GAD for 2022 valuation reporting are split into four areas:

Key Principles		Fund/BW action
1.	**Scope of the analysis** The scope was deliberately kept wide to reflect the various levels of that progress that different funds will have made on their journey in managing climate risk. It was agreed that any analysis should be able to identify the impact of transition risk (shorter term) and physical risks (longer term) on the potential funding outcomes. The purpose of the analysis is to test whether the Fund's funding strategy is sufficiently prudent in the context of the scenario analysis considered and therefore any potential contribution impacts. The analysis should be supported by qualitative commentary on what potential actions are being taken to improve resilience to climate change and the potential implications.	The scenario analysis within this report separates the impact into transition risks and physical risks. This report comments on the suitability of the funding strategy. Qualitative commentary is included in the "Other risks" section.

2.	**Scenarios to be considered and "expected" funding level** As a minimum, each fund should select two scenarios to consider: "Paris-aligned" and higher temperature outcome, and compare these to the funding basis. "Paris-aligned" is an optimistic basis which assumes that good progress is made towards the ambitions made in the 2015 Paris Agreement. A higher temperature outcome assumes that no new climate policies are introduced beyond those already agreed, resulting in a growing concentration of greenhouse gas emissions and a larger increase in global temperatures. Funds should also consider the extent to which the scenarios will consider additional elements such as the potential impact on life expectancy changes and employer covenant.	The scenario analysis in this report looks at four scenarios. Our "early action" scenario aims to represent a "Paris-aligned" scenario, and our "no additional action" scenario represents a higher temperature outcome. We also consider a "late action" and a "far too little too late" scenario. The impact on the funding position of each scenario is then considered in the "Projected funding level" section of this report. Additional elements are described in the "Other risks" section.
3.	**Time horizon and output** The output from the scenario analysis will include consideration of the results (which will include the funding level on each scenario modelled) over a period of at least 20 years to ensure there is sufficient recognition of the transition and physical risks of climate change.	The scenario analysis looks at the impact on funding over a period of more than 20 years.
4.	**Reporting** A summary of the analysis should be included in the final valuation report. GAD will be looking to confirm that the two scenarios have been considered in a way that funds and other readers can understand. It may also need to be referenced in the Section 13 dashboard included in the final valuation report. The Fund's approach to managing climate risk in the valuation, should also be set out in the Funding Strategy Statement (FSS).	BW will continue to engage with GAD on the 2022 reporting requirements in order to ensure consistency with the other LGPS funds. BW would also be happy to provide wording for inclusion in the FSS.

Climate scenarios and key metrics

The climate scenarios within Barnett Waddingham's in-house climate scenario framework consist of four scenarios, which are broadly based on those used in the Bank of England's Biennial Exploratory Scenario (further details of which can be found in Appendix 1). A brief description of these scenarios is set out below.

Scenario	Brief description	Assumed temperature rise* by 2100	Approx. carbon price** 2030/2050	Physical risk	Transition risk
Early action (Paris-aligned)	Transition to net zero begins in year one, alongside assuming carbon pricing and policy intensifies over time. The long-term average return under this scenario is equivalent to the best estimate return calculated for the 2022 valuation of the Fund, effectively assuming the market is pricing in early action on climate risks.	1.6°C	\$300/\$900	Limited	Medium
Late action	Policy implementation is more sudden and disorderly due to delay, resulting in disruption over the medium term.	1.6°C	\$30/\$1,000	Limited	High
No additional action	No new climate policies are introduced beyond those already agreed, resulting in a growing concentration of greenhouse gas emissions and a larger increase in global temperatures. This results in changes in precipitation and increases the frequency and severity of extreme weather events. A temperature rise of 2.3°C is assumed to happen over the short term.	4.1°C	\$30/\$20	High	Limited
Far too little too late	This scenario has been created by Barnett Waddingham and accumulates the impacts of a "late action" scenario and a "no additional action" scenario. The scenario considers what may happen if the implementation of polices is more sudden and disorderly due to delay and, despite action, a larger increase in global temperatures still occurs. (It should be noted however that even this scenario does not represent a "worst case".)	4.1°C	\$30/\$1,000	High	High

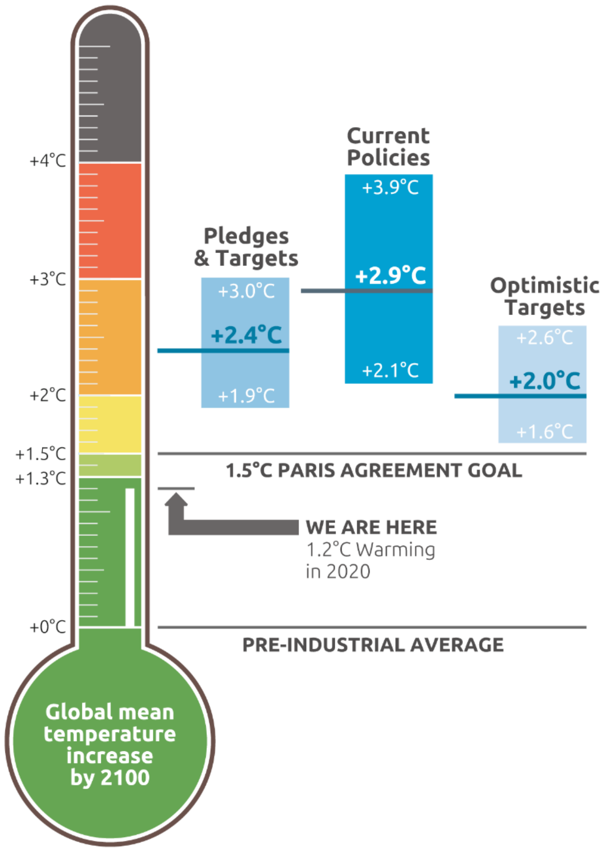
* Relative to pre-industrial levels

** Approximate assumed price in 2010 real terms to offset one ton of carbon dioxide in 2030 and 2050, respectively. Like other commodities, price increases with demand.

We do not expect any one of these scenarios to play out exactly in full and actual experience will differ from that projected within the scenarios. However, these illustrations can be used as a guide to consider climate risk within the Fund's funding and investment strategy, thereby helping the Fund to monitor, manage and potentially mitigate specific risks.

The picture to the right shows how global temperature rises could change, based on national policies and pledges, giving context to the temperature rise considered under each scenario in this report.

The picture has been taken from the Climate Action Tracker (based on national polices and pledges end of December 2019) ourworldindata.org



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Analysis of the Fund’s assets

Using the Fund’s long-term investment strategy, as provided to us for the 2022 valuation, we have assessed the climate risk impact under each of the scenarios set out above. The scenarios cover a range of outcomes, from global warming being limited to global warming increasing significantly. However, in reality, the risks may be significantly more material than implied within these scenarios.

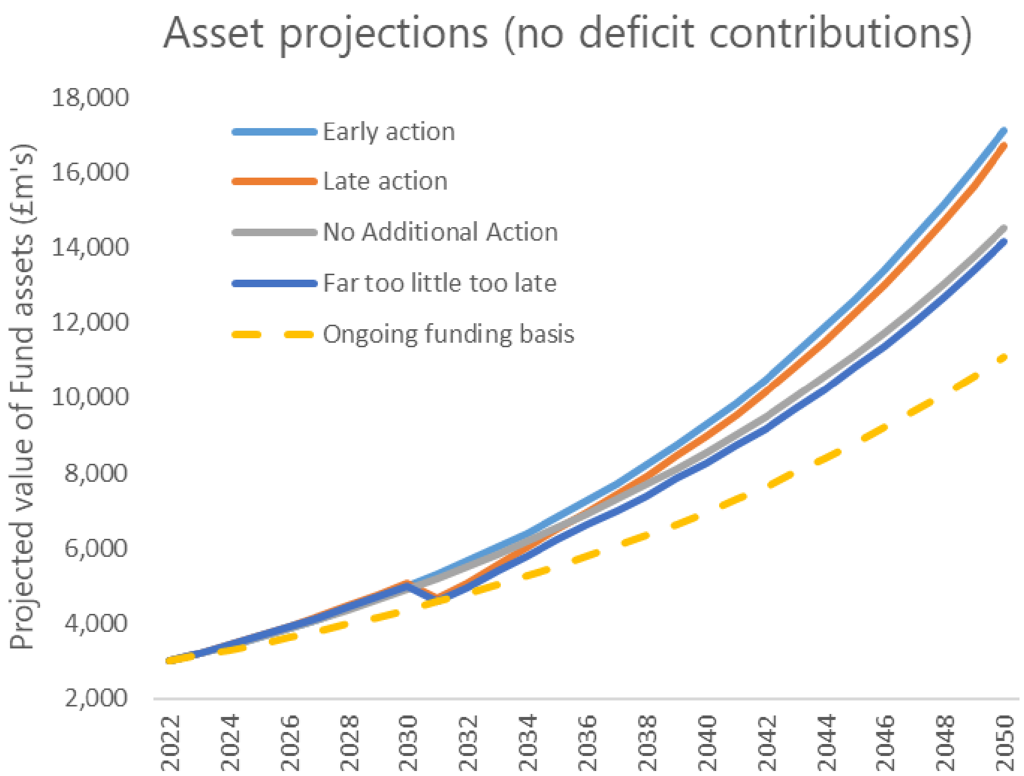
All scenarios effectively consider the current market mispricing of assets and future returns. This may be the case for a vast number of reasons, for example, due to lack of climate risk data for investors, stranded assets, impact on yields through issuance of greater bond supply, or currency risk if not all countries adapt equally.

The Bank of England Biennial Exploratory Scenario data used for our projections utilises a “top-down” approach (that is, at a macroeconomic level), rather than a “bottom-up” approach (at a company level). A bottom-up approach may provide for more granular results, however, given the quality and availability of data, the expectation that climate impacts will be systemic and the nature of UK pension scheme investments (that is, they are primarily invested in pooled funds with various underlying asset classes and numerous securities), a top-down approach was viewed as being more appropriate.

Barnett Waddingham’s analysis looks at the impact of climate risk on each asset class at a given point in time. We have grouped the Fund’s investment strategy into the same groupings used for the purpose of deriving the discount rate assumption used in the 2022 actuarial valuation and applied the Bank of England Biennial Exploratory Scenario data to each asset class. A breakdown of the asset projections by asset type under each scenario has been included in Appendix 2.

For the avoidance of doubt, our asset projection does not make any allowance for any steps that the Fund may have already taken to reduce emissions and manage climate risk. Further “bottom-up” analysis would be required to incorporate this. Nor does it allow for adjustments at future valuation dates.

The graph below illustrates the estimated pathway of the Fund's assets under each scenario. A projection on the ongoing funding basis is also included for comparison.



The "early action" scenario is used as the base case, and each of the other scenarios are considered relative to this scenario over the period to 2050. The difference between the projected assets under the "early action" scenario and the ongoing funding basis reflects the prudence allowance included for ongoing funding only.

The Fund's projected assets under each scenario differs and the assets under the ongoing funding basis sit below those on any other scenario in the long-term. This shows that in the long-term, the asset return assumed for the ongoing funding basis is sufficently prudent to withstand the risk of these climate scenarios (albeit the prudence allowance is intended to act as a buffer against other non climate-related risks too).

However, in the medium-term, assets projected on the "late action" and "far too little too late" scenarios fall below those projected in line with the ongoing funding basis. These scenarios assume climate policy implementation is more sudden and disorderly, resulting in disruption and a sharp fall in returns while policies bed in (during the early 2030s).

In practice, we will continue to monitor the return on the Fund's assets and any changes in our best-estimate outlook will be incorporated into the assumptions used for future valuations. If, for example, our best-estimate outlook shifts downwards towards the late action scenario then our funding projection would shift downwards too (maintaining the same level of prudence as we do currently).

Projected funding level

The Fund's liabilities are also subject to climate risks and opportunities. For example, inflation may increase due to resource constraints or decrease due to lower economic growth, life expectancies might be impacted by physical climate risks (e.g, drought, flooding), or operational costs might increase due to changes in the supply and demand of certain resources.

In this section we consider the impact of the different scenarios on the Fund's overall funding position.

Conditions of analysis

Due to the current lack of robust data, no assumption has been made for potential climate change impacts on mortality in our scenario analysis. We will keep this under review and consider any new information for future reviews of this analysis.

In our calculations we have used member data and asset data provided by the administering authority as part of the 2022 actuarial valuation. We checked the data for reasonableness as part of the valuation process and are happy that the data is sufficiently accurate for the purposes of this analysis.

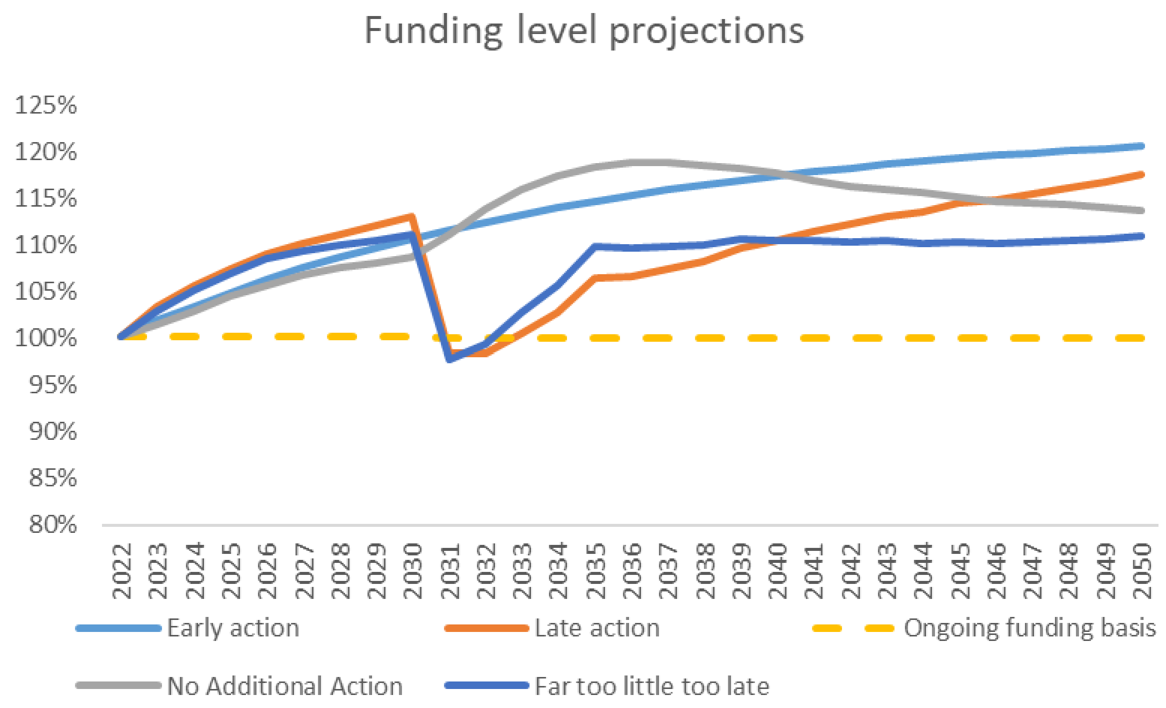
Results

The Fund's liabilities have been projected based on the data and assumptions used for the 2022 valuation. The ongoing funding basis projection assumes the (proposed) 2022 valuation assumptions play out in practice, with no adjustments made at future valuation dates. Whereas the early action scenario assumes that our 'best estimate' assumed return is achieved on the Fund's assets, that is the 2022 discount rate with the margin for prudence removed. The other climate scenario projections are then calculated with reference to the early action scenario using The Bank of England Biennial Exploratory Scenario data.

In our funding model, both the discount rate and benefit increases are linked to the assumed level of inflation. Because of this, the impact of changes in projected inflation on the liability value are minimal. Therefore, the projected values of liabilities are broadly similar across all climate scenarios.

In reality, it is unlikely that there would be this level of disparity between the scenarios over the long-term, as contributions and assumptions would be revisited every three years as part of the Fund's actuarial valuation. However, for the purposes of this analysis, we have calculated the projections in line with the (proposed) 2022 valuation assumptions.

Combining the liability projections with the asset projections, the graph below shows how the Fund's funding level is expected to vary across the scenarios and time periods. This projection assumes that secondary (deficit) contributions are paid to restore the funding level to 100% over a rolling 16 year period on each scenario.



Over the short-term (up to 10 years), the funding level is influenced most by the impact on asset returns under a "late action" and a "far too little too late" scenario, driven by the assumption that physical risk is present from day 1.

Over the medium-term (10 – 20 years), the funding level is influenced most by the impact on asset returns under a "late action" and "far too little too late" scenario, driven by the introduction of sudden and disorderly policies. However, these impacts are somewhat recovered over time.

Over the long-term (20 years or more), the funding levels under all scenarios become less volatile but the outlook is most positive under the "early action" and "late action" scenarios under which the funding position continues to improve.

The Fund may be able to reduce the impact experienced on its funding level across each of the scenarios and time periods by considering the Fund's investment strategy and using this report in discussions with their investment advisers. As part of any such review, the Fund should consider the other risks and opportunities to which the Fund is exposed (as detailed earlier in the report).

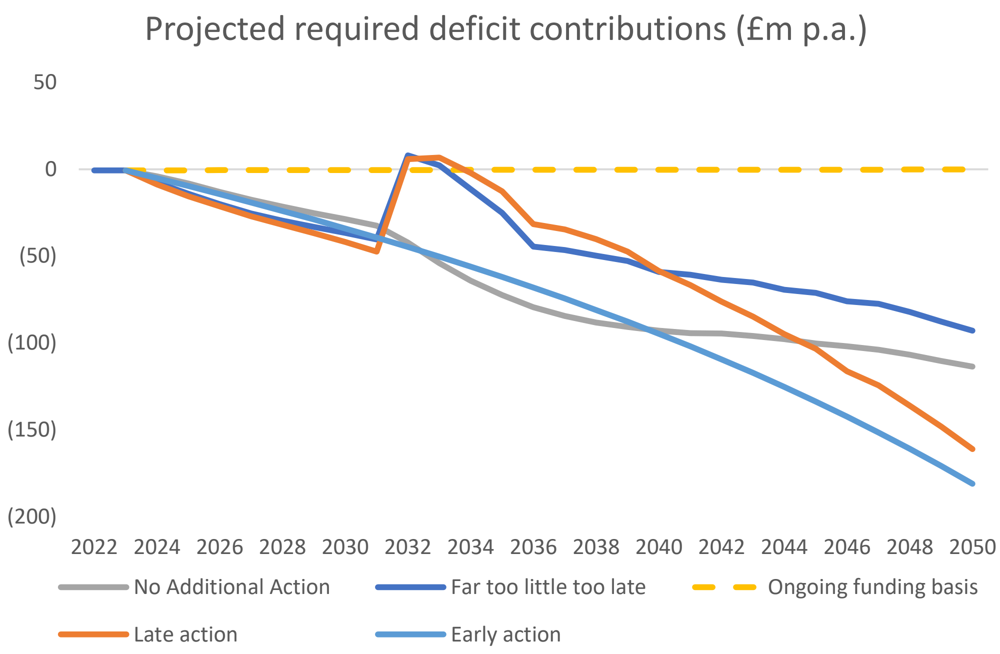
Employer contributions

Our projection assumes that secondary (deficit) contributions are paid to restore the funding level to 100% over a rolling 16 year period on each scenario. This means that for the purpose of our projections, the recovery period never gets any shorter. This also means that different secondary contributions are assumed to be paid under each scenario.

The graph to the right shows the projected secondary (deficit) contributions required under each scenario, calculated assuming a rolling 16 year recovery period (please note that the recovery period is yet to be finalized by the Fund). As we are assuming a rolling recovery period, the secondary contributions on the ongoing funding basis never fully disappear in these projections. In practice, the contributions payable and associated recovery period would be reviewed at each funding valuation and adjusted as appropriate, i.e., the recovery period is unlikely to remain fixed.

The graph illustrates that, the ongoing secondary contributions are projected to be insufficient in the medium-term should the "late action" or "far too little too late" scenarios play out in practice and large injections of cash would be required.

We suggest the Fund monitors the situation over the next valuation period, carrying out further climate scenario analysis as and when new information become available. Monitoring of the funding position is currently done on a regular basis using our Monitor software which is our online intervaluation funding monitoring system.



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Final comments

The Fund has varying levels of climate risk across its assets and liabilities.

Our analysis considers the Fund's funding level under different climate scenarios and there are varying impacts. The largest impacts are experienced over the medium term, under a "late action" and "far too little too late" scenario (primarily driven by transition risks) and over the long-term under a "far too little too late" scenario (primarily driven by physical risks).

The ability to mitigate the climate risk impact on the Fund's liabilities is limited, although consideration should be given to the 2022 valuation basis used to calculate the contributions paid by employers to the Fund, to ensure the administering authority is comfortable with the level of risk being taken.

Climate risk is only one risk that the Fund faces. The prudence allowance included in the valuation assumptions is intended to act as a buffer against all downside risks, not just those relating to climate change.

Based on the scenario testing in this report, we are comfortable with the current level of prudence included in our proposed funding assumptions. Over the short-term, our analysis shows there is some leeway to allow the Fund time to react to worsening conditions and put appropriate measures in place. We will of course keep this under review and, if at subsequent valuations it looks as though we are going down a "late action" type path, we will update our assumptions accordingly.

Next steps

Climate change and managing climate risk is becoming increasingly important. With draft regulations on the way, it is anticipated that it will become necessary for administering authorities to consider climate risk in relation to the Fund.

There are a number of actions set out in this paper, which the Fund could consider in managing climate risk including:

- Different employers are likely to be affected by climate change in different ways, and at different times. The administering authority should stay alert to this and continuously monitor employer covenant to ensure that any changes in covenant are revealed. Any changes should be dealt with as required and as soon as possible, in order to best protect the Fund and the other participating employers. Given the lack of robust data, the Fund may choose to consider climate risk by sector, rather than by individual employer.
- The Fund should regularly monitor the funding position of the Fund. This is currently done using our Monitor software.

- The administering authority may also wish to consider the climate risk and opportunities of the Fund's assets and investment strategy. This should be discussed with the Fund's investment advisers. Barnett Waddingham's Investment Consulting team would also be happy to carry out a more in-depth analysis of your investment strategy for you, if desired.
- The Fund should take advice from their Fund Actuary on appropriate changes to the Fund's mortality assumptions at future valuations.
- The Fund should ensure they are in receipt of regular updates on legislative matters from their advisers.

We look forward to discussing this paper with you in more detail.

M M Durrant

Melanie Durrant FIA
Partner
Barnett Waddingham LLP

Appendix 1 Approach to climate scenario analysis

Overview

Barnett Waddingham's in-house climate scenario framework utilises the Bank of England's Biennial Exploratory Scenario to undertake climate scenario analysis. These scenarios build upon a subset of the Network for Greening the Financial System (NGFS) climate scenarios, which have been produced in partnership with leading climate scientists and make use of climate economic models.

The Bank of England Biennial Exploratory Scenario is not exhaustive concerning asset classes, regions, sectors, funds, macro-economic indicators and scenarios. Therefore, Barnett Waddingham's in-house climate scenario framework combines a mixture of qualitative and quantitative methods to assess climate impacts across all required areas.

The Bank of England Biennial Exploratory Scenario also utilises a "top-down" approach (that is, at a macroeconomic level), rather than a "bottom-up" approach (at a company level). A bottom-up approach may provide for more granular results, however, given the quality and availability of data, the expectation that climate impacts will be systemic and the nature of UK pension scheme investments (that is, they are primarily invested in pooled funds with various underlying asset classes and numerous securities), a top-down approach was viewed as being more appropriate.

Nevertheless, Barnett Waddingham's framework does allow for a bottom-up approach to be incorporated at Fund level, by breaking down the Fund's long-term investment strategy, although we have not done so for this analysis. If the Fund would like to receive more in-depth analysis of their investment strategy, we would be happy to liaise with our Investment Consulting team to prepare this for you. Detailed information on the breakdown of your asset strategy would be required.

Our analysis does not consider the impact of climate change on mortality due to the current lack of data in this area.

Climate scenario modelling is in its infancy and is expected to undergo significant development over time. Furthermore, climate scenario data quality is generally considered spurious and non-comprehensive. As a result, we intend to develop and build upon this analysis over time as data quality and availability improves.

In creating this framework, Barnett Waddingham has recognised these limitations and aims to address them by creating a solution that combines quantitative and qualitative analysis.

Key assumptions

Current market pricing

The Bank of England data includes projected returns and yields on several asset classes up to 2050, under three scenarios – "early action", "late action", and "no additional action". Barnett Waddingham's model examines the differences between these projections under each scenario and applies them to our own funding model, to allow for comparison with the Fund's ongoing funding basis, rather than using the Bank of England data in isolation. To do this we need to make an assumption regarding what, in respect of climate change, is already priced into the markets.

We generally believe that the market is pricing in somewhere between the "early action" scenario and "late action" scenario.

We have spoken to several modelling providers who have provided a range of answers. Very few providers model a "base case" representative of the market's assumed view. However, from what we have seen, modelling providers that do take into account a market "base case" scenario tend to show a positive relative impact under an "early action" scenario, implying that they agree that an "early action" scenario is more optimistic than what the market expects.

We also believe that, as time goes on without a global consensus on climate policy, it is likely that the market will increasingly price in a "late action" scenario.

Exactly how much the market is pricing in at any one time is difficult to predict. Therefore, for our analysis, we have taken a pragmatic approach and, instead of trying to second guess the market, we have used our "early action" scenario as our base case (i.e., equal to our best estimate of market assumptions for the 2022 valuation and excludes any prudence allowance). This means that our base scenario may be seen as somewhat 'optimistic', but results in our risk measures being conservative (as we consider downside risk relative to this scenario).

Projected employer contributions

Employer contributions comprise of primary contributions (covering the annual cost of accrual of benefits) and secondary contributions (as an adjustment to the primary rate as required i.e. payments towards any deficit that may exist). For our projections we have calculated the cost of accrual under each scenario and assumed that primary contributions will be paid in line with this in each case. Similarly to benefit increases, our discount rate is linked to CPI inflation, and therefore the primary contributions required under all scenarios is assumed to be broadly constant.

The secondary contributions allowed for under each scenario have been calculated to recover the deficit under each scenario over a rolling 16 year period (although this has not yet been agreed by the Fund). We have done this to better reflect the action the Fund may be required to take in adjusting contributions under each scenario if that scenario played out.

The funding projections shown are therefore not entirely indicative of what would happen in practice – in reality, three-yearly funding valuations would be carried out and the contributions payable would be recalibrated in line with the funding position and the Funding Strategy Statement, adjusting the recovery period appropriately. However, the projections do still highlight a wide range of outcomes that may be possible, depending on how climate matters progress.

Asset allocation

The Fund's assets are assumed to be invested in line with the strategic asset allocation used for the 2022 valuation, at all future dates. In practice, the strategic asset allocation should be reviewed on a regular basis, and it is unlikely this would remain constant over the next 30 years. Any changes to the asset allocation may affect the Fund's exposure to climate risk and therefore would alter our projections. Our analysis, therefore, only captures the risks projected under the current long-term investment strategy as used for the 2022 valuation and the derivation of the discount rate.

Timeframes

The Fund's investment strategy has been assessed under each scenario across a 30-year time horizon, which has been split into three segments of ten years (short-term, medium-term, and long-term). Ranges, rather than precise years, have been used due to the uncertainty of exact timings regarding climate events. The rationale for selecting these periods is set out below.

Short-term (0-10 years)

Over this period, we would expect significant improvements in modelling and data quality with regards to climate scenario analysis. Furthermore, under an "early action" scenario, we would expect significant progress by global governments and corporations, given the importance of significant changes being made by 2030 to limit global warming.

Medium-term (10-20 years)

Over this period, we may expect the impacts of a "late action" scenario to be at their highest. This is expressed as a ten-year range, as there is great uncertainty regarding the precise timing of any "late action".

Long-term (20-30 years)

Over this period, under an "early action" and "late action" scenario, we would expect global governments' and corporations' carbon emissions to be tending towards zero, in order to meet any net zero targets by 2050. Furthermore, under a "no additional action" and a "far too little too late" scenario, we would expect impacts to be at their greatest at the end of the scenario period (that is, by 2050).

Future reviews

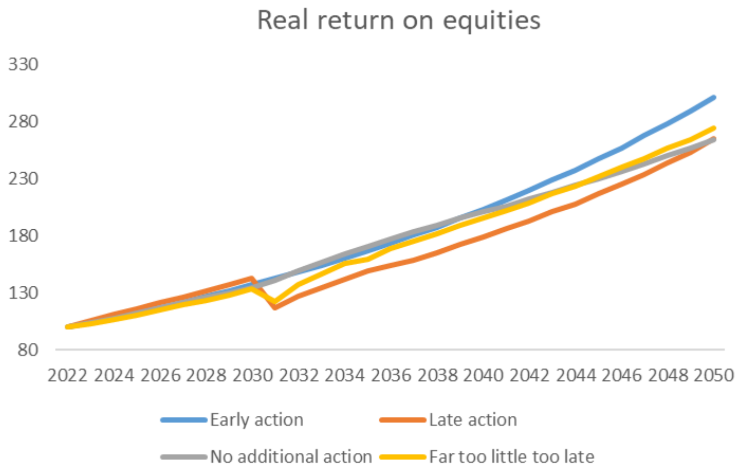
Barnett Waddingham will review and adapt our framework on an ongoing basis but expect to undertake a full-scale review during the next LGPS funding valuation, by which time we would expect a material increase in the quality and coverage of climate scenario analysis forecasts and climate data. If earlier support is required following the draft regulations from DLUHC, we would be happy to help and we will be in touch with more information.

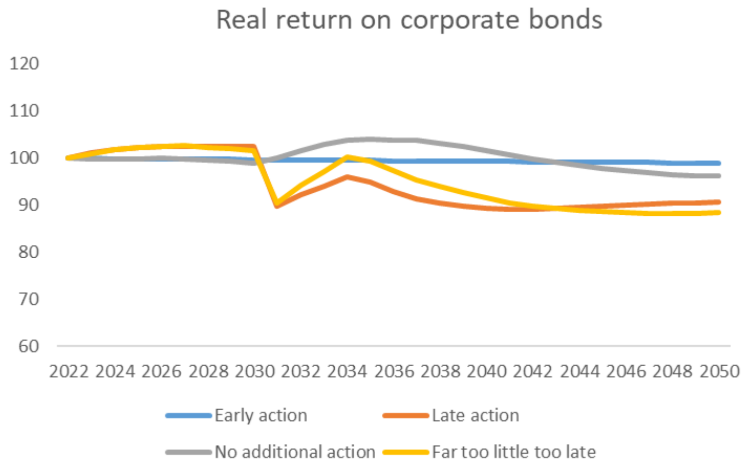
In the meantime, Barnett Waddingham will continue to engage with modelling and data providers, as well as fund managers, regarding best practice and improvements to methodologies, data quality and coverage.

Appendix 2 Asset projections by asset class under each scenario

The graphs in this appendix, consider each asset class's performance under each climate scenario *net* of inflation, over a 30-year time horizon. The early action projections are in line with our best estimate return on each asset class, as assumed for the 2022 valuation. The other scenarios are projected with reference to this using the Bank of England Biennial Exploratory Scenario data and assumed inflation relevant to that scenario. The scale used differs between each graph.

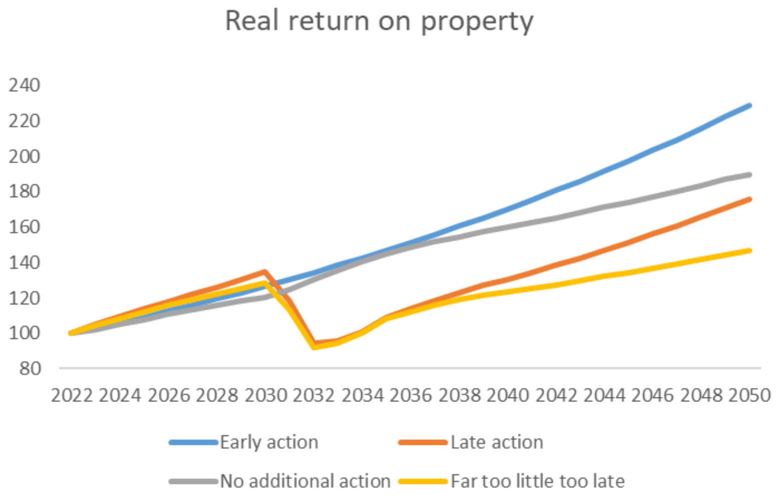
The kinks in the projected return under the "late action" and "far too little too late" scenarios for all asset classes are a result of the expected disruption that would be caused by last minute policy implementation.

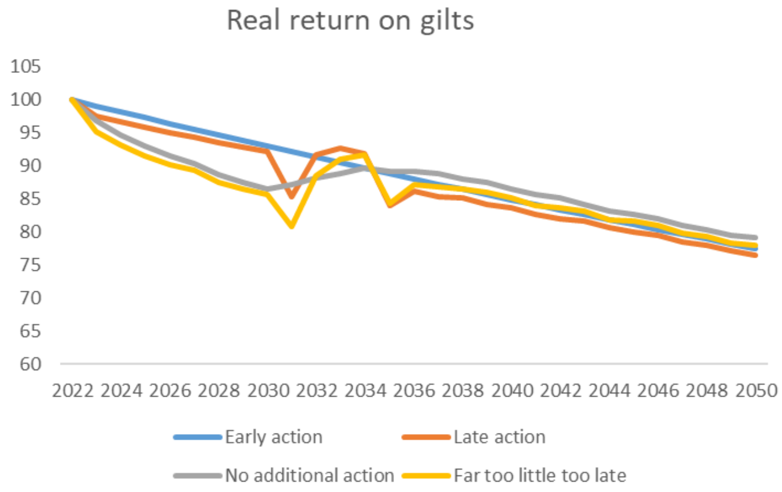




As the world enters uncharted territory with economies looking for ways to combat climate change, company shareholders face substantial risks that established business models may no longer be viable, and innovation may be necessary in order to survive, and thrive. The physical consequences of climate change have the potential to cause widespread damage and disruption to countries across the globe. This is likely to heighten market volatility and may trigger flights to safety from investors, which could result in a significant impact on returns.

Relative to equities, global corporate bond indices have a relatively high weighting to financials, which are expected to be less impacted by transition risk, but also to industrials, which are expected to experience higher impacts. Physical risks will vary, depending on where a company's operations are based and how dependent their revenue is on their at risk assets or supply chains. Not only may these risks harm a company's revenue, and increase the likelihood of them defaulting on the bonds, it may also result in companies having to issue more debt. Recovery rates on bonds may also be impacted, due to the risk of stranded assets.





Property will be a key contributor to the UK's journey to a low carbon economy. It is anticipated that over the coming years, regulation will be created that requires commercial buildings to have at least an EPC rating of 'B' by 2030 as well as increased disclosures. This may result in large upgrade costs to property owners and may result in stranded assets (whereby the cost of upgrading the building is not feasible). As a physical asset, property has high exposure to physical climate risks. For example, a property near the coast may be at more risk of flooding due to rising sea levels, whereas a property in the financial hub of London may be better protected by government spending on sea defences.

The UK was the first major economy to make a net-zero commitment and currently their efforts are deemed to be 'almost sufficient' in meeting these objectives. We therefore believe that the UK will be in a relatively better position with regards to managing climate risk than many other developed and emerging nations. However, the UK is not immune to these risks. On the physical side in particular, large areas of the UK, including major cities, are expected to be below sea level in a scenario where temperatures increase significantly. These risks may impact businesses and result in lower tax revenues for the UK government.

As illustrated by the graphs, there is significant volatility of returns under the "late action" and "far too little too late" scenarios in the medium-term. This is primarily driven by the knee jerk action assumed to be taken in these scenarios. The real return on property is assumed to be affected by climate change to a greater extent than equities, bonds, and gilts for the reasons described above.

If the Fund wished to consider any alterations to their investment strategy, then advice should be taken from their investment advisers. The Fund's objectives as a whole, along with the other risks and opportunities to which the Fund is exposed, should also be taken into account.

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