Local Pension Board of the Warwickshire Pension Fund

5 March 2019

Agenda

The Warwickshire Local Pension Board will meet in **Committee Room 2, Shire Hall**, **Warwick** on **Tuesday 5 March 2019 @ 2pm**

1. **Introductions and General business**

   i) **Introduction to David Buckland (Stratford District Council) New Employer Representative (replacement for Chris Blundell)**

   ii) **Apologies**

   iii) **Board Members' Disclosures of Interests** (as stipulated by the Public Sector Pensions Act 2013 and set out in Annex A of the Agreed Board Terms of Reference)**.**

   iv) **Minutes of the meeting held on 27 November 2018**

2. **Review of the Minutes of the Pension Fund Investment Sub-Committee meeting held on 10 December 2018**

3. **Pension Fund Administration Update**

4. **Risk Register**

5. **MIFID2 Update**

6. **2019/20 Business Plan**

7. **Local Pension Board Forward Plan**

8. **Border to Coast Responsible Investment Policy**

9. **Any other business**

   Local Pension Board Membership

10. **Next Meeting -** To be scheduled.

Reports Containing Confidential or Exempt Information

To consider passing the following resolution:

That members of the public be excluded from the meeting for the items mentioned below on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 3 of Part 1 of Schedule 12A of the Local Government Act 1972.

EXEMPT ITEMS FOR DISCUSSION IN PRIVATE (PURPLE PAPERS)

10. Exempt Minutes of the meeting held on 27 November 2018

11. Border to Coast Pooling Update

David Carter
Joint Managing Director
Shire Hall
Warwick

Membership of the Local Pension Board

Keith Bray (Chair), David Buckland, Keith Francis, Alan Kidner, Councillor Parminder Singh Birdi and Councillor Dave Parsons

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**Minutes of the meeting of the
Local Pension Board of Warwickshire Pension Fund
held on 27 November 2018**

Present:

Members
Councillor Parminder Singh Birdi, Keith Bray (Chair), Keith Francis, Alan Kidner and Councillor Dave Parsons

Officers
Helen Barnsley, Democratic Services Officer
Neil Buxton, Pensions Manager
Michael Nicolaou, Treasury and Pension Fund Manager
Chris Norton, Strategic Finance Manager
Jane Pollard, Legal Services Manager

Others
Robert Bilton from Hymans Robertson LLP

1. Introductions and General business

(1) Apologies

None

(2) Board Members' Disclosures of Interests

The Chair stated that he was an Officer of the Local Authority Pension Fund Forum and also worked for American lawyers who had pension fund clients but these did not include Warwickshire. Alan Kidner stated that his sister-in-law worked for J.P. Morgan. It was recognised that these were unlikely to present any issues but still worthy of recording.

(3) Minutes of the meeting held on 10 July 2018

With regards the accuracy of the minutes, Alan Kidner noted that under matters arising on page 2, the following sentence should be moved from the paragraph relating to investment pooling to the end of the first paragraph relating to recruitment – "Council's nationally were facing the same issues as WCC)

A query was raised relating to section 2, Administration Update. The minutes stated that an online tool was now available for Members to access in relation to the Risk Register. The Board felt this was not an accurate reflection of the discussion that took place and that in fact, the online tool was not yet live. It was agreed that Neil Buxton would provide an update at the next meeting.

It was noted that, in relation to the point on Cessations in section 2, the word college should be added after Stratford on Avon (bottom of page three of the minutes)

2. Pension Fund Annual Report & Accounts

Michael Nicolaou, Treasury and Pension Fund Manager introduced the report to the Board which had been approved by WCC Full Council at their meeting on July 26, 2018.

The key developments during 2017/2018 were highlighted in point 2.1 of the report. The Chair proposed that if there were any comments regarding the report they could be fed back to the officers directly, however, any questions relating to the content would be answered during the meeting.

It was explained that MIFID II was a process that ensured the local authority is treated as a professional investor; this is done via the opting-up process. It was noted that the WCC Section 151 Officer is due to leave the organisation in January 2019. The Board agreed that there is a need to investigate what impact this will have on the opting-up process moving forward. It was noted that every authority has to have a Section 151 Officer and although no final decision has been made by WCC, it is likely that the role will fall to one of the newly appointed strategic directors.

3. Administration Update

Neil Buxton, Pensions Manager gave an update to the Board; highlights of the report include

- The Web Page – the new site is now live and positive feedback has already been received. It was noted that officers have all worked incredibly hard on this project.

- Performance Indicators – apologies were given to the Board that there was no report to present at the meeting on performance indicators. There have been staffing issues in the department but it was noted that the remaining officers have all been working together in difficult circumstances. The Board is aware that there are increasing pressures with static resources.

- SCAPE Discount Rate – for members interest a brief explanation of SCAPE was provided; the unfunded public service pension schemes are subject to an actuarial valuation every four years. The purpose is to assess the value of pension rights being built up so that total contributions (from employer and employees) can be set at a level to reflect this. It has been confirmed that the increase in contributions will be covered by the allocations of funds from Central Government for 2019/20. The position is less clear for subsequent years.

4. Forward Plan

Chris Norton, Strategic Finance Manager introduced the report to the Board highlighting that the purpose of the report is to provide a draft forward plan for the Board looking forward twelve months. This is with the intention of maintaining an up to date programme of forward plan and agenda items which can be reviewed and updated at future meetings.

The Board members were invited to suggest other items for the forward plan via officers. It was also agreed that there would be three meetings of the Board each year.

5. Communications Strategy

Chris Norton, Strategic Finance Manager presented the Communications Strategy to the Board as it currently stands. It was noted that there are adjustments currently being reviewed and that a final update will be presented to the Board at a later date. The Board was advised that security measures had been taken into account, especially with regards to the new GDPR regulations and ICT security.

Other developments include –

- The increasing complexity of the scheme and numbers of employers and members.
- The developments around the pooling of pension fund investments.
- The development of online Member self-service.
- Automation of some of the work around communicating and validating employer contributions.

6. Summary of PFISC Papers

Chris Norton, Strategic Finance Manager presented the report to the Board which highlighted the papers and minutes from the Pension Fund Investment Sub Committee meeting on 10 September 2018.

Clarification was given that MFS was a Global Fund Management company contracted by the Warwickshire Fund. It was agreed that in future Chris Norton would provide valuation and performance figures from the exempt part of the PFISC minutes.

The Board reviewed and noted the minutes.

7. Any other business

The Board agreed that consideration should be given to the level of access the Board has to all PFISC papers – currently there is no access to exempt papers.

The Board were informed that Chris Blundell has vacated his post on the Board (he will also be leaving Rugby Borough Council). With reference to vacancies, it was noted that the Board was struggling to recruit members. There was a request for members to submit any ideas on recruitment plans to Chris Norton. One suggestion was that the Board could approach retired employees.

A final update regarding the insurance cover for the Board will be provided by Jane Pollard, to include what level the board has and who the provider is.

The board rose at 3.59pm

……………………………………
Chair

Item 2

Local Pension Board

5 March 2019

Summary of PFISC Papers

1.0 Introduction

1.1 This report introduces the Pension Fund Investment sub-Committee public papers for discussion and note

1.2 These papers are in relation to the Committee meeting on 10 December 2018.

1.3 The report covers:

- Draft Minutes of the public meeting (Appendix 1)
- Investment Performance Report for Q2 2018/19 (Appendix 2)
- Draft Forward Plan (Appendix 3)

Background papers

None.

	Name	**Contact Information**
Report Author	Chris Norton	chrisnorton@warwickshire.gov.uk 07767003428
Interim Assistant Director – Finance & ICT	Liza Kitto	01926 412441 lisakitto@warwickshire.gov.uk
Strategic Director	David Carter	01926 412564 davidcarter@warwickshire.gov.uk

The report was circulated to the following members prior to publication:

Local Member(s): None
Other members: None

Appendix 1

Minutes of the Pension Fund Investment Sub-Committee meeting held on 10 December 2018

Present:

Members
Councillors Bill Gifford (Vice-Chair), John Horner, Wallace Redford, Bob Stevens (Chair), and Alan Webb

Officers
Aneeta Dhoot – Senior Finance Officer
Chris Norton – Strategic Finance Manager
Helen Barnsley - Democratic Services Officer
Jane Pollard – Legal Service Manager
Michael Nicolaou – Interim Treasury Manager
Sukhdev Singh – Senior Finance Manager

Invitees
Daniel Booth – Chief Investment Officer – Border to Coast Pensions Partnership
Karen Shackleton – Independent Investment Adviser
Mathew Dawson – Client Relationship Manager, Border to Coast Pensions Partnership
Paul Potter – Hymans Robertson
Peter Jones – Independent Investment Adviser
Richard Warden – Hymans Robertson

1. General

(1) Apologies for absence

None

(2) Members Disclosures of Pecuniary and Non-Pecuniary Interests

None

(3) Minutes of the previous meeting held on 10 September 2018

The minutes of the meeting held on 10 September 2018 were agreed as true and correct record and were signed by the Chair.

2. Forward Plan

Chris Norton, Strategic Finance Manager presented an updated version of the report to the Committee. It was noted that the Committee can add additional items as required. Following a review of the work programme in early 2019, a decision will be taken regarding holding an extra meeting.

Resolved

That the Sub-Committee notes the forward plan

3. Investment Performance

Chris Norton, Strategic Finance Manager presented the report regarding the fund value and investment performance for the second quarter of 2018/19. The Committee was asked to note that the report for Quarter Three will feature money moved across into the Global Equity Fund.

It was noted by the Committee that the fund manager report showed performance that was better than the benchmark, which itself is performing well. MFS Investment Management (MFS) also performed better in the second quarter (covered later in the agenda) and consideration was given to the Committee inviting them to a future meeting.

Resolved

That the Sub-Committee notes the fund value and investment performance for the second quarter of 2018-19 to 30 September 2018

4. Markets in Financial Instruments Directive 2 (MIFID) update

Chris Norton, Strategic Finance Manager presented the report to the Committee which gave an update on the MIFID framework.

Successful training sessions had been held for members of the Committee which received positive feedback from attendees. It was agreed that there was no action required following the report but that Chris Norton would arrange for a further two training sessions in 2019.

Resolved

That the Sub-Committee notes and comment on the report

5. Border to Coast RI Policy

Michael Nicolaou, Interim Treasury Manager presented the report highlighting Border to Coast responsible investment policies. The policies were approved by the Pensions Joint Committee on 21 November 2018.

The Committee was asked to note point 8.2 of Appendix A; the underlying principles of the policies need to be agreed rather than each individual investment. The Committee agreed to the principles of the policies and acknowledged that the policy could be reviewed at the request of the Committee at any future meeting.

Resolved

That the Sub-Committee:

1) Notes and comments on the Border to Coast Pension Partnership revised Responsible Investment policies; and

2) Resolves that the WCC Pension Fund adopts the principles of the Border to Coast Pension Partnership revised Responsible Investment policies.

6. Any other items

Councillor John Horner asked for officer's views on pension funds investing in social and affordable housing. It was acknowledged that geographical considerations could not be taken into account – i.e. the fund could not invest only in Warwickshire based schemes. Karen Shackleton, Independent Investment Adviser confirmed that there are advantages of pension fund investment pools in social and affordable housing. There are diversified returns that would include returns on local investments. Paul Potter, Hymans Robertson advised that the Committee should tread carefully and ensure that the risk and return is balanced.

Peter Jones, Independent Investment Adviser requested that it be noted in the minutes that he is a Director of Halliwell Housing in East Anglia. This would not be recorded as a Declaration of Interest.

Reports Containing Confidential or Exempt Information

Resolved:

'That members of the public be excluded from the meeting for the items mentioned below on the grounds that their presence would involve the disclosure of exempt information as defined in paragraph 3 of Schedule 12A of Part 1 of the Local Government Act 1972'.

7. Risk Register

Resolved:

That the Sub-Committee agree to the recommendations as set out within the exempt minutes.

8. Quarterly Funding and Performance Update

Resolved:

That the Sub-Committee agree to the recommendations as set out within the exempt minutes.

9. Actuarial Update

Resolved:

That the Sub-Committee agree to the recommendations as set out within the exempt minutes.

10. Border to Coast Chief Investment Officer Briefing

Resolved:

That the Sub-Committee agree to the recommendations as set out within the exempt minutes.

11. Border to Coast Update

Resolved:

That the Sub-Committee agreed to the recommendations as set out within the exempt minutes.

12. Global Equities Fund Update

Resolved:

That the Sub-Committee agreed to the recommendations as set out within the exempt minutes.

13. Scheme of Delegation

Resolved:

That the Sub-Committee agreed to the recommendations as set out within the exempt minutes.

14. Property Debt

Resolved:

That the Sub-Committee agreed to the recommendations as set out within the exempt minutes.

15. Exempt minutes of the meeting held on 10 September 2018

The exempt minutes of the meeting held on 10 September 2018 were agreed as true and correct record and were signed by the Chair.

The meeting rose at 12:52pm

………………………………………
Chair

Appendix 2

Pension Fund Investment Sub Committee

10 December 2018

Investment Performance

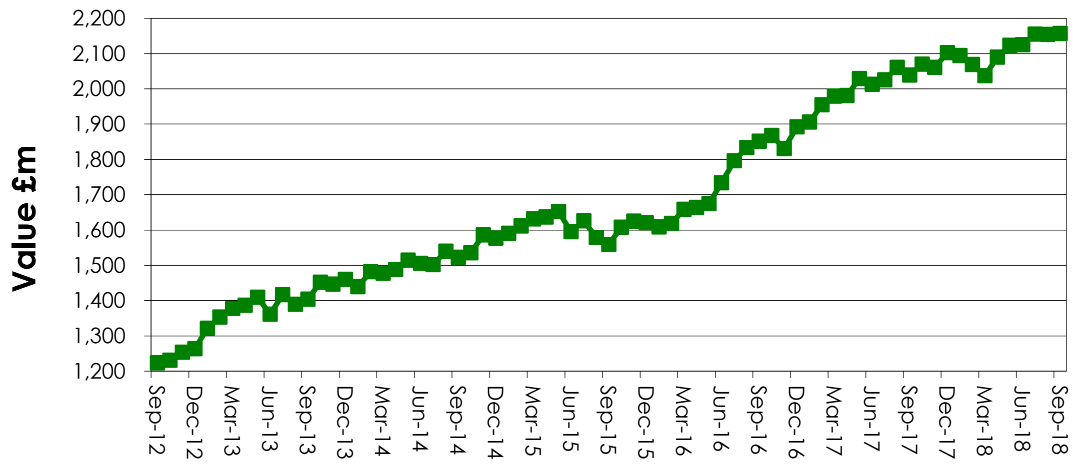
Recommendation

That the Sub Committee note the fund value and investment performance for the second quarter of 2018/19 to 30th September 2018.

1. Fund Value at 30th September 2018

1.1 The fund value was £2,157.1m at 30th September 2018 an increase of 1.51% against the previous quarter of £2,124.9m at 31st June 2018 as shown in Figure 1.

Figure 1 - Total Fund Value Since 30 September 2012



2. Fund Asset Allocation

2.1 The performance of the Fund against its asset class benchmarks for the quarter ending 30th September 2018 is shown in Table 1.

Table 1: Fund Asset Allocation

Table 1: Fund Asset Allocation Asset Class		Q/E Jun 2018 %	Q/E Sep 2018 %	Variance Sep Qtr to Jun Qtr	Fund policy %	Over/under weight %
Equity		**57.6**	**58.3**	**0.7**	**54.5**	**3.8**
	UK	23.1	22.8	-0.2	20.0	2.8
	Overseas	27.4	28.1	0.7	27.5	0.6
	Fundamental Global Equity	7.2	7.4	0.2	7.0	0.4
Fixed Income		**15.4**	**15.5**	**0.1**	**15.0**	**0.5**
	UK corporate bonds	10.3	10.4	0.1	10.0	0.4
	UK index linked bonds	5.1	5.1	0.0	5.0	0.0
Private Equity		**4.2**	**4.4**	**0.2**	**4.0**	**0.4**
Property		**10.1**	**10.3**	**0.2**	**10.0**	**0.3**
Absolute Return Bonds		**7.1**	**6.1**	**-1.0**	**7.5**	**-1.4**
Infrastructure		**1.7**	**2.0**	**0.3**	**4.0**	**-2.0**
Private Debt		**1.2**	**1.8**	**0.6**	**5.0**	**-3.2**
Cash		**2.7**	**1.6**	**-1.1**	**0.0**	**1.6**

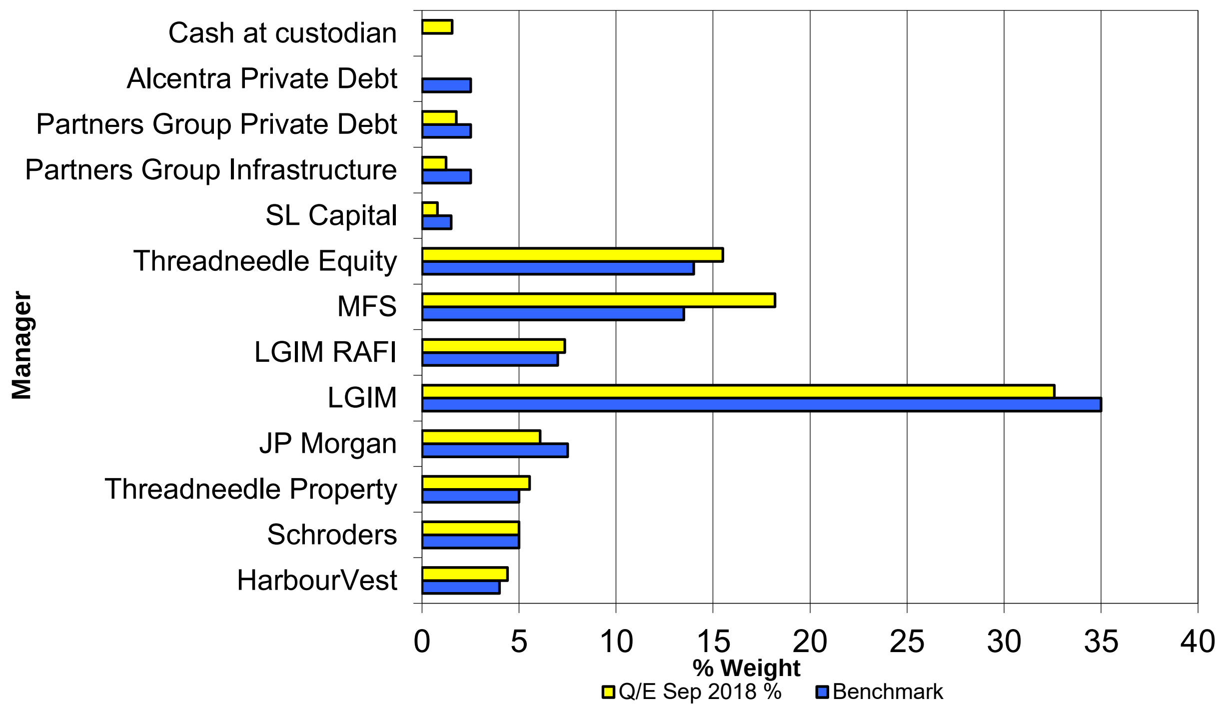
2.2 The fund managers' asset allocation against the benchmark for the quarter ending 30th September 2018 is shown in Table 2.

Table 2: Fund Asset Allocation by Manager

Manager	Q/E Jun 2018 %	Q/E Sep 2018 %	Variance Sep Qtr to Jun Qtr	Benchmark	Variance Sep to Benchmark
HarbourVest	4.2	4.4	0.3	4.0	0.4
Schroders	4.8	5.0	0.3	5.0	0.0
Threadneedle Property	5.5	5.5	0.1	5.0	0.5
JP Morgan	7.1	6.1	-1.0	7.5	-1.4
LGIM	33.0	32.6	-0.4	35.0	-2.4
LGIM RAFI	7.2	7.4	0.2	7.0	0.4
MFS	17.3	18.2	0.9	13.5	4.7
Threadneedle Equity	15.7	15.5	-0.2	14.0	1.5
SL Capital	0.7	0.8	0.1	1.5	-0.7
Partners Group Infrastructure	0.8	1.2	0.4	2.5	-1.3
Partners Group Private Debt	1.1	1.8	0.6	2.5	-0.7
Alcentra Private Debt	0.0	0.0	0.0	2.5	-2.5
Cash at custodian	2.7	1.6	-1.2	0.0	1.6
Total	100.0	100.0	0.0	100.0	0.0

2.3 Fund asset allocation against each manager is shown in Figure 2.

Figure 2. Manager Allocation - Quarter Ending 30 Sep 2018



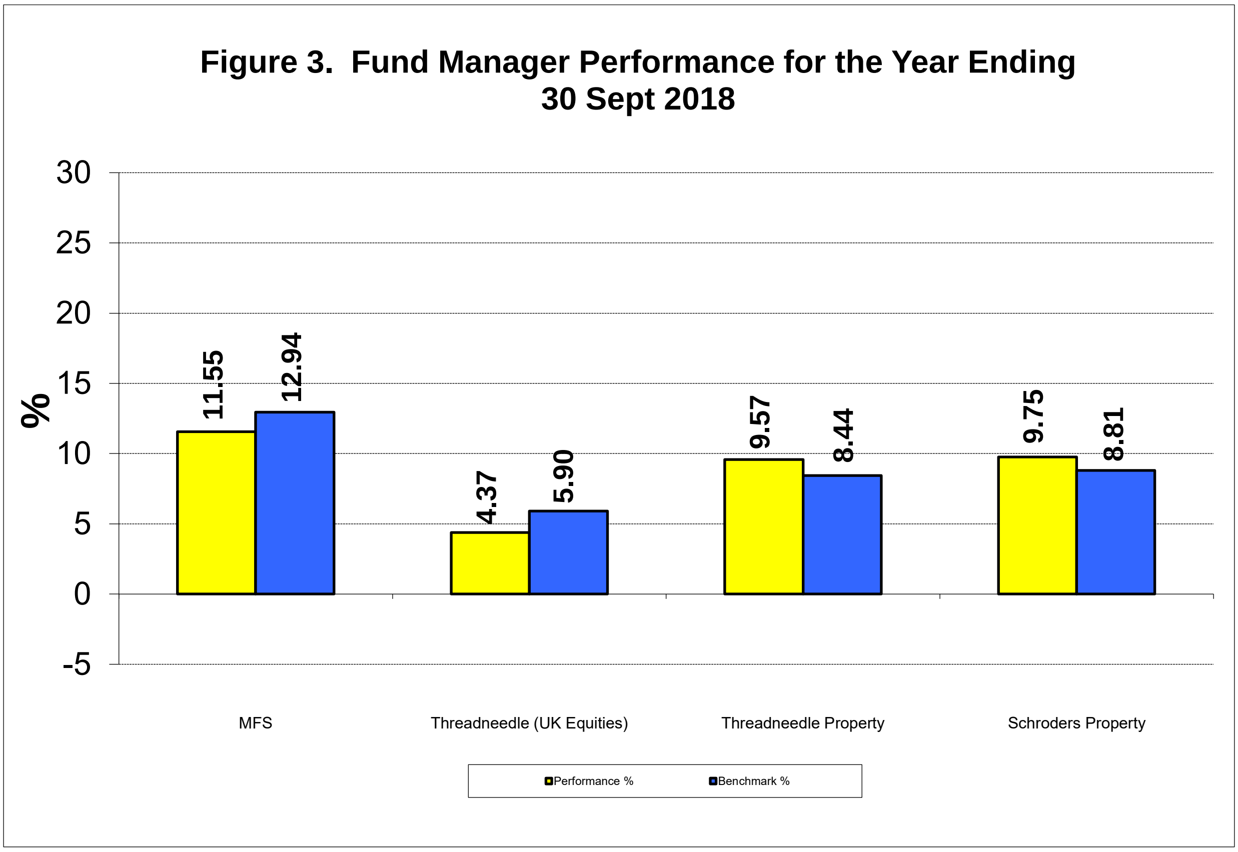
3. Fund Performance

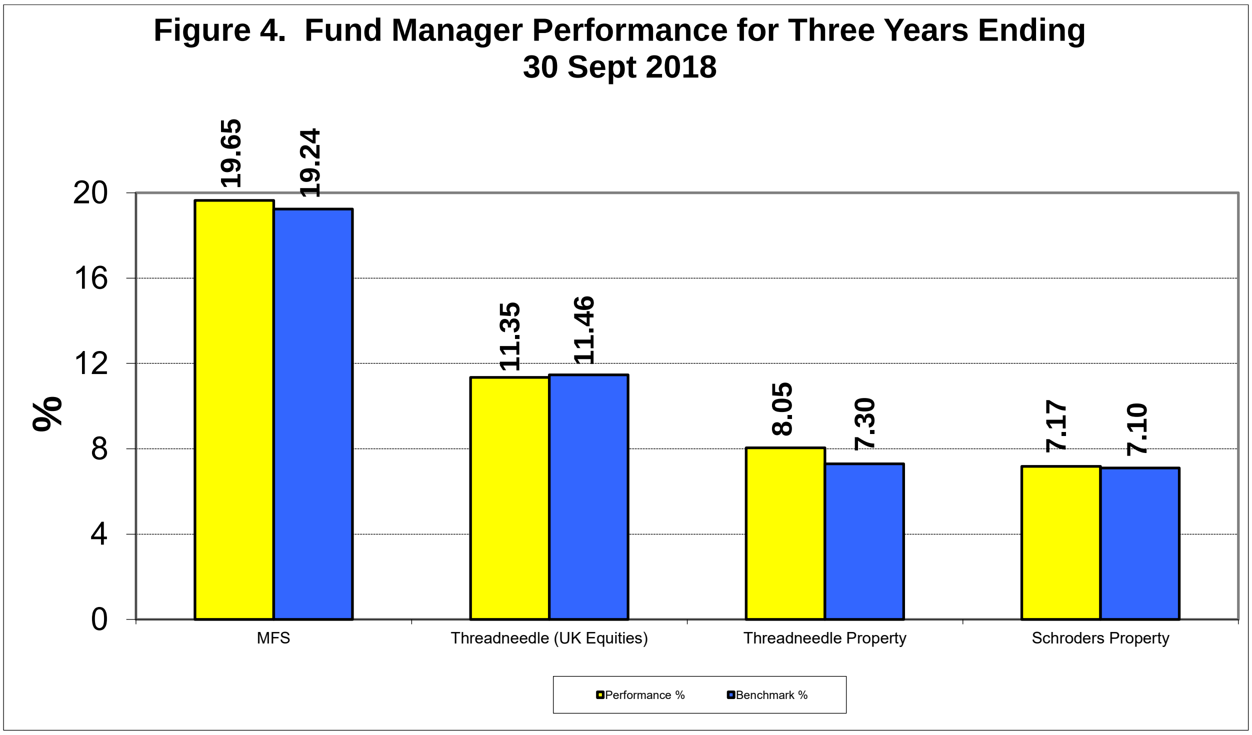
3.1 Overall the fund outperformed its overall benchmark by 0.50%. The performances of managers against their benchmarks for the quarter ending 30th September 2018 were:

Table 3: Performance by Fund Manager

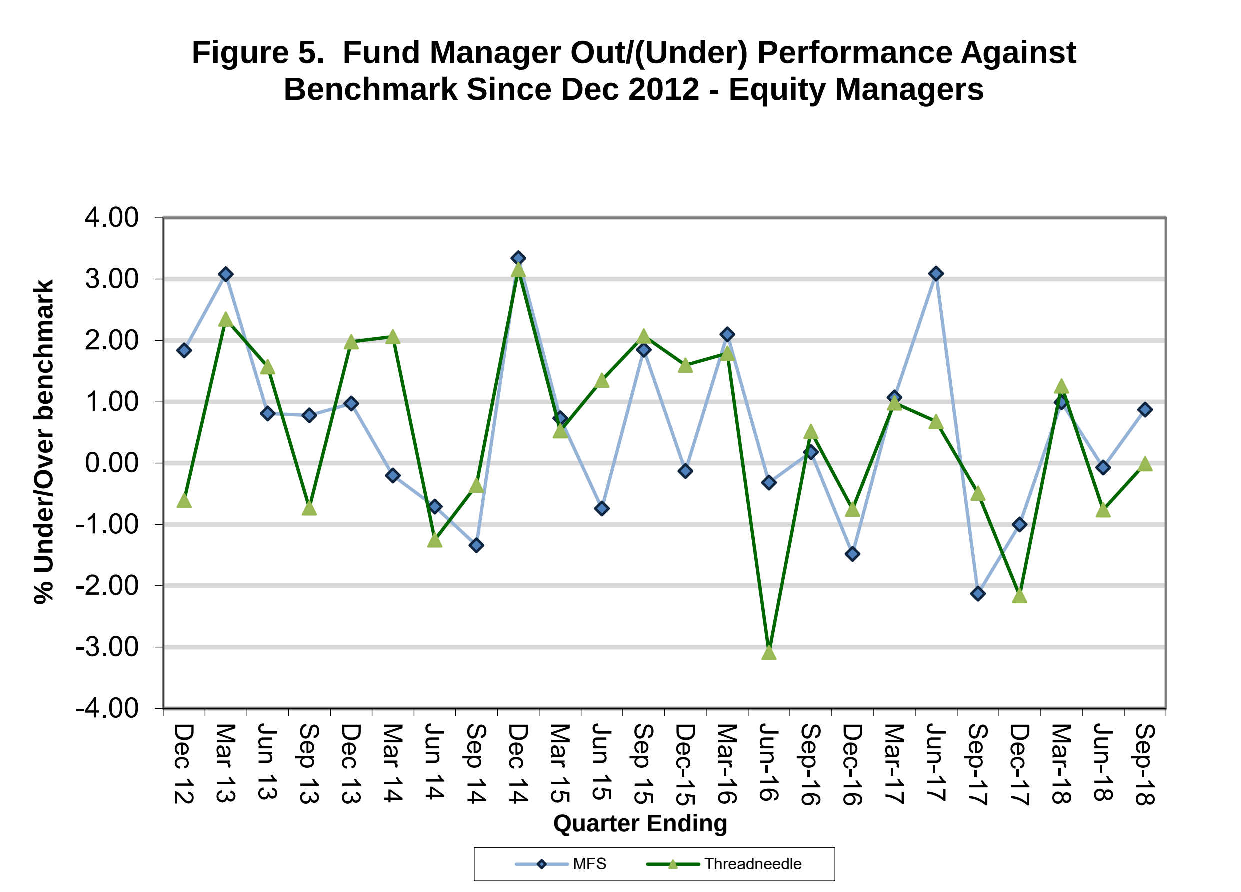
Manager	Benchmark Measure	Q/E Jun 2018	Benchmark	Variance
		%	%	%
MFS		6.44		**0.87**
	Global Equity Benchmark		5.57	
Threadneedle		8.46		**-0.76**
	FTSE All-Share		9.22	
Legal and General (Global Equities)		2.42		**1.13**
	LGIM Benchmark		1.29	
Legal and General (Fixed Interest)		-0.67		**-0.04**
	LGIM Benchmark		-0.63	
Threadneedle Property		1.44		**-0.10**
	Customised Benchmark		1.54	
Schroders Property		1.82		**0.25**
	Customised Benchmark		1.57	
JP Morgan Strategic Bond		1.32		**1.16**
	Customised Benchmark		0.16	
Total		2.19		**0.50**
	WCC Total Fund Benchmark		1.69	

3.2 Annualised return for the fund managers to 30th September 2018 is summarised in Figure 3. The three year annualised return is summarised in Figure 4.





3.3 Active equity managers performance against their benchmarks are summarised in Figures 5.



1. Background papers

1. None.

	Name	Contact Information
Report Author	Sukhdev Singh, Principal Accountant	01926 412861 sukhdevsingh@warwickshire.gov.uk
Head of Service	John Betts, Head of Finance	01926 412441 johnbetts@warwickshire.gov.uk
Strategic Director	David Carter, Strategic Director, Resources Group	01926 412564 davidcarter@warwickshire.gov.uk

The report was circulated to the following members prior to publication:

Local Member(s): None
Other members: None

Appendix 3

Pension Fund Investment Sub Committee
10th September 2018

Forward Plan

Recommendation

That the committee notes and comments on the forward plan

1.0 Introduction

1.4 The purpose of this report is to provide an updated forward plan for the Pension Fund Investment Sub Committee rolled forward to cover the year ahead.

1.5 A first forward plan was brought to the last sub-committee meeting which included the history for context in order to inform the creation of a forward plan. This report takes that starting point and rolls the plan on to maintain coverage one year ahead. Appendix 1 provides the updated forward plan.

1.6 The plan is intended to be used as a guide to assist with planning but which can also be amended as appropriate. The agenda for the 10th December meeting is as per the forward plan with the following adjustments.

1.6.1 The risk register review has been brought forward from March 2019 to December 2018.

1.6.2 An additional paper in respect of delegated authority for funding switches has been added.

Background papers

None.

	Name	**Contact Information**
Report Author	Chris Norton	chrisnorton@warwickshire.gov.uk 07767003428
Assistant Director Finance and ICT Strategy	John Betts	01926 412441 johnbetts@warwickshire.gov.uk
Joint Managing Director	David Carter	01926 412564 davidcarter@warwickshire.gov.uk
Portfolio Holder	Bob Stevens	bobstevens@warwickshire.gov.uk

The report was circulated to the following members prior to publication:
Local Member(s):
Other members:

2018/19 *(Italics = Forward Plan)*

15th May	11th June	10th September	10th December	*11th March*
	Investment Performance	Investment Performance	Investment Performance	*Investment Performance*
Election of Chair and Vice Chair	Revised Voting Policy (ensuring alignment with pool policies)	Hymans Quarterly Funding and Performance Report	Hymans Quarterly Funding and Performance Report	*Business Plan 2019/20*
	Actuarial Update (funding and performance update, equity protection briefing)	Border to Coast – Budget and Update(budget, decision making policies, general update, UK equity transfer update)	2019 Revaluation and Actuarial Update	*2019 Actuarial Valuation* *Employers Funding Strategy Modelling* *Investment Risk / Contributions Balance*
	Private Equity Update (reinvest or wait for BCPP)	Private Equity (reinvest or wait for BCPP)	BCPP Chief Officer Briefing BCPP General Update BCPP Global Equity Alpha Fund	*BCPP Planning Future Transfers* *BCPP Monitoring Previous Transfers*
	CEM Presentation (detailed 2016/17 performance and costs analysis)	Global Equity (preparations to invest in BCPP)	MIFID 2 (First Year Review)	*Investment Strategy Statement Review*
	BCPP Implementation Budget	Forward Plan	Forward Plan	*Voting, Governance, Responsible Investing Review*
			Scheme of Delegation for Fund Switches	*Forward Plan*

2019/20 *(Italics = draft forward plan)*

May	***June***	***September***	***December***	***March***
	Investment Performance	*Investment Performance*	*Investment Performance*	*Investment Performance*
Election of Chair and Vice Chair	*BCPP Planning Future Transfers* *BCPP Monitoring Previous Transfers*	*BCPP Planning Future Transfers* *BCPP Monitoring Previous Transfers*	*BCPP Planning Future Transfers* *BCPP Monitoring Previous Transfers*	*BCPP Planning Future Transfers* *BCPP Monitoring Previous Transfers*
	Forward Plan	*Forward Plan*	*Forward Plan*	*Forward Plan*
	Private Markets Annual Review *(annual update on private market programmes including decisions on commitments)*			*Investment Strategy Statement Review*
	2019 Actuarial Valuation Detailed Plan Assumptions	2019 Actuarial Valuation Present Whole Fund Results	2019 Actuarial Valuation *Agreed Employer Funding Strategies* *Draft Funding Strategy Statement*	2019 Actuarial Valuation *Valuation Sign Off* *Funding Strategy Statement*
				Business Plan
				Training Plan
				Risk Management Review

Item 3

Local Pension Board of the Warwickshire Pension Fund

5 March 2019

Administration update

Recommendation

That the Local Pension Board of the Warwickshire Pension Fund note and comment on the report.

1.0 Introduction

1.1 This report seeks to update the Board on a number of different areas relating to the administration of the Warwickshire Pension Fund. Board members are requested to note the report and comment on any areas of interest or concern.

2.0 Matters arising from the meeting of 27 November 2018

2.1 The Board asked for clarification concerning the provision of an online risk register. The Pension Manager thought one was available but is mistaken.

3.0 Web page update

3.1 Members were informed that the website is now up and running and the Fund has received little online feedback but what it has received has been very positive.

- One area of feedback is that members are keen to have online access to their records and a calculator.

3.2 The Fund is now more proactive in keeping all stakeholders informed of Scheme developments.

3.3 The Fund is developing an E-Learning system for (in the first instance) employers with “how to” learning modules on the completion of forms and the provision of information. It is hoped to further develop this system to assist the membership with their understanding of Scheme provisions.

4.0 New Employers

4.1 In accordance with the Fund's Admissions and Terminations policy (which was approved by the Staff and Pensions Committee in June 2017), all prospective employers must submit an application for membership to the Committee for approval.

4.2 As indicated at the July 2017 meeting, a template application is available for new employers together with (where relevant) a template admission agreement. Prospective employers are now able to access this information on our website.

4.3 Below is a list of employers approved by the Staff and Pensions Committee since November 2018:

- Curdworth Primary School (Arthur Terry Learning Trust; 1 November 2018).
- Rokeby Primary School (Stowe Valley Trust; 1 January 2019).
- Temple Herdewick Primary (Stowe Valley; 1 February 2019).
- Keresley Newlands Primary Academy transferring from the National Education Trust to the Futures Trust (1 December 2018).
- King Edward Sixth Form College is ceasing and converting to academy status with Better Futures Multiple Academy Trust (date to be confirmed).
- Chartwell Catering (Queen Elizabeth Academy)

5.0 Cessations

5.1 The Fund is also dealing with several cessations.

5.2 **Solihull School** the repayment agreement is being drafted.

5.3 The following bodies have exited the Fund:

- Warwick District CAB
- Bedworth, Rugby and Nuneaton CAB (BRANCAB)
- North Warwickshire CAB
- Warwickshire Welfare Rights Service
- Warwickshire Care Services
- Stratford District ARCH (Heart of England Mencap)
- The Rowan

The County Council negotiated an agreed exit with the above Scheme Employers on an ongoing exit agreement. This will involve any potential liabilities which may arise in the future being pooled with the County Council.

5.4 Warwickshire Care Services Day Care Centres has also exited the Fund following the retirement of their last active member.

6.0 GMP reconciliation

6.1 No further update.

7.0 Performance indicators

Indicator	Target	2017 / 2018	T0 31 / 12 / 2018
Retirements paid within 30 days of retirement	30 days	not previously measured	45%
Retirements paid within 10 days of receiving all relevant paperwork	10 days	76% (previously measured as five days)	95%
Death grants paid 10 days of receiving paperwork	10 days	Not previously measured	90%
Process refund	10 days	95%	92%
Transfers paid	10 days	93%	88%
Calculate and notify deferred benefits	10 days	92%	Not measured

7.1 A more realistic target of 10 days is reported for the payment of retirement grants. The request for a BACs payment can take 5 days which impacted on the target reported.

8.0 Scheme Advisory Board Cost Valuation

8.1 Background

8.1.1 Members will recall from the meeting of 10 December 2018 that the Local Government Pension Scheme Advisory Board (SAB) were in the process of reviewing the cost of the Local Government Pension Scheme (LGPS) following HM Treasury's review of the Public Sector Pension Schemes.

8.1.2 Members will also recall that the LGPS has an additional cost management mechanism because it is a funded public sector pension scheme.

8.1.3 In December the SAB issued its proposals for amendments to the LGPS to bring the benefit structure back within the 19.5% cost umbrella for future accrual.

8.1.4 It is expected that the report will be available for consultation in the new year before being submitted to the Secretary of State.

8.2 Recommendations of the SAB

8.2.1 Following legal and actuarial advice the SAB recommended the following amendments to the LGPS

- Removal of the third tier of ill health (a temporary entitlement limited to a maximum of three years' pension)
- The introduction of a minimum death in service payment of £75,000 per member. The current death in service entitlement is 3 x pay.
- Enhanced early retirement factors for all members who are active on 1 April 2019. The enhanced factors should apply to all service.
- The introduction of revised bands for member contributions (attached at Appendix A). The revision of the lowest band reflects the lack of tax relief for the lowest paid members. And the expansion of band two will benefit the lowest paid members and the revision band four to reflect increases in the higher tax bracket.

8.3 Financial Impact

8.3.1 The proposals may see a net increase in the average employer future service rate of 0.9% of payroll.

8.3.2 But, as the SAB point out, the impact on each scheme employer will depend on the outcome of the 2019 triennial valuation of the pension fund.

8.3.3 The SAB identify several other factors which will be taken into consideration:

- The Fund Actuary's view on the cost of each element
- The membership profile of the employer e.g. whether the employer has a large proportion of members earning less than £12,000 per annum.
- Other factors which may offset the costs such as future longevity increases
- Reduction in future service discount rates
- Upward or downward pressure of changes to employer deficits on the total employer rate.

8.4 McCloud and Mostyn and others v The Lord Chancellor and Secretary of State for Justice

8.4.1 In light of a recent ruling the Government's recent decision to appeal the proposals set out above have been suspended.

8.4.2 The case in question is where the Secretary of State for Justice (MoJ) was challenged following the closure of the existing pension arrangements for Justices of Peace (JP) and compulsory transfer to a new pension arrangement.

8.4.3 The transfer arrangements were based on how close the JP was to retirement age i.e. the MoJ protected those who had ten years or less to retirement.

8.4.4 The recent Court ruling in essence found that the transitional arrangements set up by Government whilst reforming public service pension schemes were discriminatory (directly on grounds of age, and indirectly on other grounds).

8.4.5 **Firefighters Pension Scheme 1992** had similar arrangements and the ruling has brought into question the legality of the transitional arrangements where a firefighter has been transferred from the 1992 scheme to the 2015 scheme.

8.4.6 **The Local Government Pension Scheme** had an underpin arrangement safeguarding benefits on a tapered basis which was again based on age.

8.5 Administration issues

8.5.1 The Pension Fund faces implications either way;

- If upheld, scheme administrators will have to adjust all cases impacted by the ruling and adjust benefit entitlements awarded since April 2014. The underpinning arrangements for the LGPS will continue potentially until 2060 and the savings and adjustments identified above will not be passed on to the members.

- If however, the judgement is overturned, the savings identified may be implemented retrospectively to April 2019 and cases affected recalculated.

- For the firefighter pension schemes, members who had transitioned to the 2015 scheme would have to be put back to 1992 scheme contributions paid by the member refunded and any benefits awarded reviewed and adjusted.

8.6 Next steps

8.6.1 Scheme employers have been kept up to date with the proposals set out above and subsequently of the withdrawal of those proposals.

8.6.2 The Fund will advise scheme employers of the latest position as soon as details are available.

9.0 LGPS protection of pension rights

9.1 Background

9.1.1 HM Government's Fair Deal policy was introduced in 1999 and sets out how pension issues should be dealt with when staff are compulsorily transferred from the public sector to independent providers. Under the original Fair Deal guidance, transferred staff had to be given access to a scheme certified as being "broadly comparable" to their previous public service pension scheme. In 2012, Fair Deal was reformed to allow staff continued access to their public service pension scheme.

9.1.2 Following publication of the Government's original fair deal guidance, pensions' protection for local government employees was provided by the Best Value Directions Order. Under the Directions Order employees employed by a best value authority transferred must be given access to the Local Government Pension Scheme or a broadly comparable pension scheme.

9.1.3 HM Government has intended to introduce Fair Deal to the LGPS and in 2016 issued a consultation document. Government acknowledges that responses to this consultation were mixed and a number of issues raised. The Government has therefore revisited Fair Deal in the LGPS and issued a further consultation document and draft regulations with the intention of having amending regulations in place in 2019.

9.2. Fair Deal in the Local Government Pension Scheme

9.2.1 A summary of the proposals in the consultation document are set out below:

- Introduces the concept of a Fair Deal employer (which is wider than the definition of a Best Value authority).
- Removes the option to transfer members to broadly comparable schemes
- Protects transferred employees for as long as they are wholly or mainly employed on the outsourced service – even through any subsequent transfers.
- Uses the current provision for 'deemed employers' (e.g. similar to local authority maintained schools) as an alternative option to the current requirement for a contractor to have an admission agreement. Under the 'deemed employer' route, the original outsourcing employer remains the employer for pension purposes.
- The introduction of guidance from the Scheme Advisory Board to help employers in understanding their responsibilities.

9.3 Transferring pension assets and liabilities

9.3.1 The Consultation document and draft regulations also introduce a new provision for the automatic transfer of assets and liabilities within and between local authority pension funds where there are reorganisations or mergers, without triggering an exit valuation.

9.3.2 It is the intention that the Secretary of State will issue further guidance on this area.

9.4 Next Steps

9.4.1 The Warwickshire Pension Fund has circulated the consultation document to all Scheme Employers.

9.4.2 The intention is for the Fund to review the Admissions and Terminations policy once the amending regulations have been issued.

10.0 Internal Dispute Resolution Procedures

10.1 The Board requested an appraisal of the Local Government Pension Scheme, Internal Dispute Resolution Procedures (IDRP).

10.2 Before we look at the process, it is important to consider which Body makes decisions under the provisions of the pension scheme regulations:

Employer; will make decisions on, for example:

- Deciding the contribution rate the member pays
- Deciding how and when to apply the discretions available to employers in the LGPS
- Deciding the final pay used to work out your benefits
- Deciding whether the member meets the ground for an ill-health retirement and what tier of benefits to be awarded.

Administering Authority; will make decisions on, for example

- Whether or not to accept transfer from another pension scheme
- Decide who receives a death grant that may be payable
- Calculating your benefits

10.3 **Background;** IDRP was introduced to the LGPS to bring the scheme in line with other pension schemes as part of the 1993 Pensions Act. Prior to this the LGPS had an appeals process where if the dispute could not be resolved locally within the administering authority, the member could appeal to the Secretary of State. Beyond this any redress would have been via the Courts.

10.4 **The current process;** is effectively three stages:

Informal; many queries / grievances can simply be as a result of misunderstandings and can be resolved with an explanation by the scheme administrator or the employer.

First stage; the body which made the decision must have available a person nominated who will consider the member's complaint. The adjudicator must not have been involved in the original decision and must consider the complaint within six months of the formal complaint being made.
If the adjudicator's decision is contrary to the original decision the employer or administering authority (AA) will now have to deal with the case in accordance with the adjudicator's decision.
If the decision the member complained about was about how the employer or AA exercised their discretion the adjudicator can instruct the employer or AA to reconsider how they exercised their discretion.

NB the employer is required to inform the AA of the name of their adjudicator.

Second stage; the member can ask the AA to take a fresh look at the member's complaint in any of the following circumstances:

- The member is not satisfied with the adjudicator's first stage decision
- The member has not received a decision or an interim letter from the adjudicator and it is three months since the complaint was made.
- It is one month after the date by which the adjudicator told the member (in an interim letter) that they would provide a decision.

The review at the second stage will be undertaken by a person not involved in the first stage decision.

10.5 **The role of The Pensions Ombudsman**

The role of the Pensions Ombudsman (TPO) has recently changed (September 2018) from that of the final arbitrator to one of pragmatic support for the member and seeking an early resolution yet still remaining the position of final arbitrator, before the Courts, where a case cannot be resolved. This shift in policy moved The Pensions Advisory Service (TPAS) to one of guidance for a member. Before September 2018, TPO would not get involved in a case until the member had first used the scheme's IDRP.

10.6 Examples of the type of IDRP received by either the employer or the AA in the Warwickshire Pension Fund:

- The member complains the banding they allocated for their contribution rate. Some employers will review the band annually depending on the remuneration received in the previous financial year. The member received additional pay in the previous twelve months, this can push them into a higher band. Usually, resolved at Stage One.

- The member has applied for an ill-health retirement and their application is either turned down or a lower tier benefit than the expected is awarded. Usually, resolved at Stage One by the employer referring the application to a second independent registered medical practitioner.

10.7 Employers are required to notify the Fund of IDRP referrals.

11.0 Benchmarking

11.1 The Fund will continue to be a member of the CIPFA pensions administration club. A summary of the 2018 results are attached at Appendix B. Work will be undertaken to understand the differences to benchmarks in more detail in order to help to inform areas for potential improvements in the service.

12.0 Background Papers

None

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Appendix A

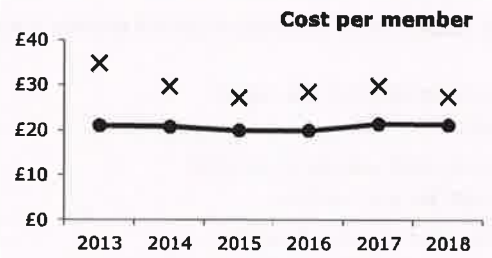
a) Introduction of the bands shown below for 2019-20 (new guidance required)

Band	Pensionable Pay from £	Pensionable Pay to £	Contribution rate
1	0	12,850	2.75%
2	12,851	22,500	4.4%
3	22,501	36,500	6.5%
4	36,501	53,500	6.8%
5	53,501	64,600	8.5%
6	64,601	91,500	9.9%
7	91,501	107,700	10.5%
8	107,701	161,500	11.4%
9	161,501		12.5%

SECTION 1 - SUMMARY

5 Year Trend for Net Cost per Member

Club average   X Warwickshire

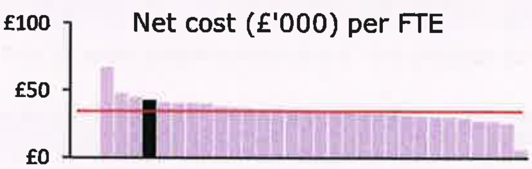


In 2017/18, Warwickshire had a net cost of £27.41 per member. The average cost per member for all authorities was £21.16. Left is the graph showing the 5 year trend for net cost per member for Warwickshire and the club average.

5 Year Trend for Staff Cost per Member

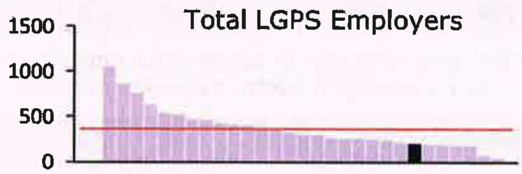
In 2017/18, Warwickshire had a net staff cost of £9.14 per member. The average staff cost per member for all authorities was £9.04. Left is the graph showing the 5 year trend for staff cost per member for Warwickshire and the club average.

Other Key Findings:



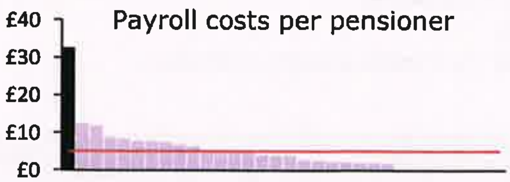
Warwickshire *Average*

£42.86 *£34.03*



Warwickshire *Average*

208 *357*

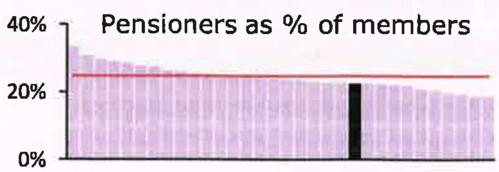


Warwickshire *Average*

£32.64 *£4.89*

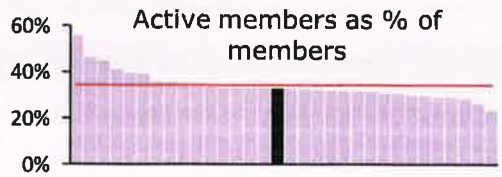
Warwickshire *Average*

4,687 *3,925*



Warwickshire *Average*

22.6% *24.8%*



Warwickshire *Average*

32.9% *34.4%*

Item 4

Local Pension Board
5 March 2019

Risk Register

Recommendation

That the Local Pension Board notes and comments on the fund risk register.

1.0 Key Issues

1.1 The pension fund maintains a risk register and this has been reviewed and updated as attached at Appendix A.

1.2 The format of the risk register has been updated. Risks are still assessed on the basis of likelihood and impact. Both of these factors are still scored from 1 (low) to 5 (high). Previously, the risk register then provided an overall classification of low, medium, or high risk for each risk within the register. In the updated register, the likelihood and impact scores are simply multiplied together to give an overall risk rating from 1 to 25.

1.3 Table 1 – Summary of Risk Scoring

		Impact				
		Very Low 1	**Low 2**	**Medium 3**	**High 4**	**Very High 5**
Likelihood	**Very Low 1**	1	2	3	4	5
	Low 2	2	4	6	8	10
	Medium 3	3	6	9	12	15
	High 4	4	8	12	16	20
	Very High 5	5	10	15	20	25

1.4 Risk ratings consider the position *after* taking into account identified management actions and controls.

1.5 Management actions to mitigate risks have been simplified into one column, and the risk ratings have been updated to reflect the current assessment of each risk. An additional column has been added to the Risk Register to make the changes transparent and to provide an indication of the direction of travel of each risk. The following table summarises the changes.

Table 2 – Summary of Changes

Change Type	Description
New Risks	1.14 New sub funds being set up by Border to Coast that do not match the Fund's requirements 1.15 Brexit - risk of impact on asset values 2.14 That the Fund becomes cash flow negative and has to realise illiquid assets under time pressure 3.2 Fund's reputational risk due to tPR data scoring 4.4 Cyber-crime and other generic or targeted information security threats 5.3 Lack of succession planning 5.4 Staffing levels failing to support required service delivery 5.7 Increasing administration expenses 5.8 Other workload pressures and priorities of the Scheme Administrator impacting adversely on pension fund governance or administration
Increasing Risks	1.2 Short term falls in equity markets 2.5 Changes to regulations, e.g., more favourable benefits package, potential new entrants to scheme. Changes to national pension requirements and/or HMRC rules 2.6 An employer ceasing to exist with insufficient funding or adequacy of a bond 2.13 The Pension Fund failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body or failing to complete the cessation within the 3 month timescales as required under the Regulations.
Reducing Risks	1.1 Long term fund asset returns fail to be in line with the actuarial valuation and funding strategy assumptions 1.9 Inadequate governance arrangements in respect of Border to Coast 2.8 Deterioration in funding because of a mismatch of assets and liabilities
Risks Deleted From Register	None
Restated risks (in this case ratings changes do not mean risks have changed, but that the previous risk assessment has been corrected)	2.1 Fall in risk free returns on gilts, leading to rise in value placed on liabilities and increased cost of benefits 2.2 Declining active payrolls leading to underpayment of deficit recovery amounts. 2.3 Cross subsidies between employers become significant and affect employer asset share calculations

1.2 Risk ratings consider the position *after* taking into account identified management actions and controls.

1.3 Risks are grouped into the following categories:

- Investment
- Funding
- Strategic
- Hazard
- Operational

1.4 The following developments have occurred during the last year that have changed the risk landscape:

- Increasing levels of investment in alternatives.
- The developments of the Border to Coast Pension Partnership.
- The implementation of new sub-funds by the Border to Coast Pension Partnership.
- The public sector financial backdrop of continuing financial pressure.
- GDPR requirements.
- Increasing risks in the area of cyber-crime and information security.
- The growth of the workload, complexity, and governance requirements associated with the administration of the scheme
- The positive cash flow position is very sensitive to investment returns.
- Increasing expectations of the Pensions Regulator and Scheme Advisory Board.

1.5 The Risk Register was presented to the Pension Fund Investment Sub Committee and one additional risk has been added as a result in relation to Brexit (Risk 1.15).

Background papers

None.

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The report was circulated to the following members prior to publication:

Local Member(s):
Other members:

1. Investment Risks

Ref	Risk Description	Mitigating Actions and Controls	How Likely	Impact	Net Risk	Changes
1.1	Long term fund asset returns fail to be in line with the actuarial valuation and funding strategy assumptions	Assumptions on long term investment returns are made on a relatively prudent basis (as recommended by the actuary) to reduce the risk of under-performance. Analysis of the funding position is carried out at regular three-yearly actuarial valuations. Interim valuations are provided on a quarterly basis as a standing Committee agenda item.	2	4	8	The funding methodology is very prudent. The likelihood lowered from 3 to 2, and impact lowered from 5 to 4.
1.2	Short term falls in equity markets	The composition of the Fund's growth asset portfolio will be reviewed on a regular basis. The funding strategy recognises that pension funding has a long term time horizon which can dampen these short term volatile movements and pressure on contribution rates. A long term stabilisation approach has been agreed in setting contribution rates for secure open employers. The 'growth' component of the Fund's strategy has been diversified across property, private equity, private debt, and infrastructure in order to reduce the exposure to short term stock market volatility. The fund has also undertaken training on the option of equity protection.	4	4	16	Likelihood is higher in the short term, increased from 3 to 4. Diversification assets portfolio updated and reference to training on equity protection added
1.3	Inappropriate long-term investment strategy	The strategy is reviewed formally every three years in conjunction with the actuarial valuation – and more frequently when there has been a material change in market conditions. The Actuary will also provide an independent view of the Fund's investment strategy as and when required. The long term investment strategy is based on modelling of the Fund's specific liabilities and funding position under a range of economic scenarios. Advice is received from professional advisors. There is additional advice provided by the Fund's independent advisors.	2	5	10	None

Ref	Risk Description	Mitigating Actions and Controls	How Likely	Impact	Net Risk	Changes
1.4	High levels of inflation in the future are not matched by asset returns	The risk attached to future inflation levels is assessed within liability modeling exercises and considered as part of the regular reviews of investment strategy. The Fund is invested heavily in real assets (equities, property, infrastructure) which are expected to offer some protection against higher levels of inflation over the medium to long term.	2	4	8	None
1.5	Fund faces short term liquidity problems and is unable to meet benefit outgoings	The majority of the Fund's investments are in asset classes which are relatively liquid. The Fund has the option of selling units in pooled funds at short notice. This will continue to be the case under pooling. In the short term, arrangements are in place with investment managers to be able to access additional income when required. Expected cash movements are forecast and monitored on a regular basis.	2	5	10	Mitigating actions and controls updated
1.6	Underperformance by active investment managers leads to poor Fund returns.	Continued under-performance – or material changes in other relevant business factors - will lead to formal review of the mandate by the Investment Sub-Committee, with a view to possible contract termination. Assets can be switched rapidly to the Fund's passive manager. Regular quarterly performance monitoring reports are received. Managers are also monitored by the manager research team of the investment advisors. The Fund makes extensive use of passive management across equities and bonds in order to reduce the impact on the Fund from underperforming active managers. Investment in funds managed by Border to Coast will benefit from the concentration of expertise in place in the pool.	3	4	12	Reference added in respect of pooling benefits. The shape of management actions will change as pooling becomes more prevalent. Risk level unchanged at this time.
1.7	A change to the Fund's investor status under MiFID 2	A review is being undertaken of MIFID 2 compliance during 2018 and requirements to maintain compliance in 2019. Officers will continue to liaise with fund managers regarding the likely implications.	2	5	10	Reference to a review being undertaken during 2018.

Ref	Risk Description	Mitigating Actions and Controls	How Likely	Impact	Net Risk	Changes
1.8	Poor value as a result of new asset pooling arrangements	Detailed performance reporting of all BCPP investments will be available to the Committee on a regular basis. Asset allocation decisions will continue to be made by the Committee. Management of the individual BCPP funds will be the responsibility of a professional investment management team appointed by or employed by BCPP.	3	4	12	Scope widened from “poor returns” to “poor value” to recognise returns, ongoing fees, and transition costs.
1.9	Inadequate governance arrangements within BCPP lead to poor investment decision-making	The Fund will have representation on both the BCPP Shareholder Board and joint governance committee. A professionally staffed FCA regulated company is being established for asset management purposes – with a joint oversight committee for participating funds.	2	4	8	Likelihood reduced from 3 to 2 in light of experience of working with Border to Coast
1.10	Inappropriate choice of new investment manager.	Members of the Investment Sub-Committee have been involved previously in all decisions relating to the appointment of new managers. Under pooling, the responsibility for appointing new managers within the pool has passed to Border to Coast but the design of each fund and the process for manger selection is co-designed with partner funds. Rigorous procurement exercises are carried out and advice taken from the professional advisors and independent advisor.	2	3	6	Reference added to the co-design approach to new funds being taken by Border to Coast
1.11	Fraud or counterparty default by investment managers / brokers / custodian leads to losses for the Fund.	Fund managers produce detailed internal controls documents which are independently audited. Due diligence on managers will be undertaken by the pool. Client agreements with new service providers are subject to legal review Securities are either held in ‘ring-fenced’ accounts or pooled funds. Due diligence undertaken on transfers to the Border to Coast Pool	1	4	4	Reference added in respect of Pooled fund transfers
1.12	Non-compliance with CIPFA/Myners Code of Practice	Adherence to Code of Practice is reviewed on a regular basis. Level of compliance is published annually in the Investment Strategy Statement and Pension Fund Annual Report.	1	1	1	None

Ref	Risk Description	Mitigating Actions and Controls	How Likely	Impact	Net Risk	Changes
1.13	High transition costs incurred through transfers of assets into BCPP pool.	Full cost analysis of all transition activity will be available. Professional transition advisors and transition managers will be employed to oversee and implement the transition activity required for pooling of assets.	3	2	6	None
1.14	New sub funds being set up by Border to Coast that do not match the Fund's requirements	Engaging with Border to Coast and Partner Funds in the design and specification of new sub funds through the Operational Officers Group, Joint Committee, Section 151 Officer Meetings, and other means as appropriate. Action includes both technical input and also influencing/negotiating the direction a fund is taking given that no fund can perfectly match every partner's requirements. Decision making will have regard to the case by case merits of each fund and also the bigger picture benefits of pooling overall, given that sometimes the latter reason may justify joining a fund when the former reason may not.	4	4	16	A new risk.
1.15	Brexit - risk of impact on asset values	Investments in overseas assets/currency will mitigate negative impacts on domestic investments. Larger long term employers will have valuations based upon future return expectations which would mitigate any short term Brexit impact. Shorter term employers, for example who may be on a path to exit the fund will be identified and options to mitigate risk considered.	4	4	16	A new risk.

2. Funding Risks

Ref	Risk Description	Mitigating Actions and Controls	How Likely	Impact	Net Risk	Changes
2.1	Fall in risk free returns on gilts, leading to rise in value placed on liabilities and increased cost of benefits	Allowance for future volatility on the returns available on gilts is built into the ALM and allowed for in the funding strategy. In particular, the Actuary's long term view is that gilt yields are on average likely to revert to a higher level than implied by markets at the 2016 actuarial valuation. This approach recognises that gilt markets have been distorted by recent unusual events (e.g. Brexit) and historically interest rates have reverted to a higher long term average. Inter-valuation monitoring and asset /liability modelling as above. Some investment in bonds helps to mitigate this risk.	3	4	15	Impact reduced from 5 to 4 due to funding methodology
2.2	Declining active payrolls leading to underpayment of deficit recovery amounts.	The Fund insists that most employers make deficit recovery payments as monetary amounts, rather than as a percentage of payroll. Active membership is regularly monitored. Recruitment advertising campaigns are regularly undertaken. Auto enrolment (initial staging or triennial re-enrolment) may encourage some non-members to take up membership.	2	4	8	Likelihood reduced to 2 due to use of monetary contributions, impact reduced to 4 due to the relative size of contributions compared to employer asset values and the volatility in the markets
2.3	Cross subsidies between employers become significant and affect employer asset share calculations	Fund uses the cash flow approach employed under the unitised asset tracking system to reduce cross subsidy risk The Pension Fund uses a unitised asset tracking system to determine employer asset shares	3	4	12	Likelihood reduced from 4 to 3 considering the role of the asset tracking system

Ref	Risk Description	Mitigating Actions and Controls	How Likely	Impact	Net Risk	Changes
2.4	Pensioners living longer	Mortality assumptions are reviewed every three years at each actuarial valuation. Annual updates on changes to mortality rates are provided by Club Vita and highlight the impact on liabilities. Pension reform means that retirement ages in the Fund on post 2014 benefits will be linked to State Pension Age (SPA). The Government is committed to adjusting the SPA if mortality rates change in future, which will help to manage this risk within the Fund. Changes to life expectancies are covered under the LGPS cost sharing mechanism e.g. if longevity increases, benefit levels may be reduced. Mortality assumptions set by the Actuary allow for future increases in life expectancy. 'Baseline' mortality assumptions (i.e. current death rates) are based on the combined experience from Club Vita data of around 160 large occupational schemes. This gives the Fund a set mortality rates that are tailored to the unique membership profile of the Fund.	3	3	9	None
2.5	Changes to regulations, e.g., more favourable benefits package, potential new entrants to scheme. Changes to national pension requirements and/or HMRC rules.	The Pension Fund considers all consultation papers and comments where appropriate and necessary. The Pension Fund is alert to the potential creation of additional liabilities. The Pension Fund will consult employers where appropriate.	5	4	20	Likelihood increased from 3 to 5 and impact from 3 to 4 due to recent developments such as the scheme paying full increases on GMP for Members with an SPA after April 2016

Ref	Risk Description	Mitigating Actions and Controls	How Likely	Impact	Net Risk	Changes
2.6	An employer ceasing to exist with insufficient funding or adequacy of a bond.	The Fund mitigates this risk by: • Seeking a funding guarantee from another scheme employer, or external body, wherever possible. • Alerting the prospective employer to its obligations and encouraging it to take independent actuarial advice. • Carrying out covenant analysis to inform the Fund of an employer's financial strength and ability to make good any funding deficit and reflecting this in the risk based approach used to set contribution rates. • Vetting prospective employers before admission. • Where permitted under the Regulations, requiring a bond to protect the scheme from the extra cost of early retirements. The Regulations require the Actuary to undertake a cessation valuation to assess the size of any debt at exit. The debt is levied on the departing employer. However, the Pension Fund believes that it is often too late to fully address the position at that point. There has been a recent exercise run in conjunction with WCC to reduce this risk by pro-actively reviewing higher risk admitted bodies	4	3	12	Likelihood increased from 3 to 4 in light of the continuing financial challenges facing the public sector generally
2.7	Pension Fund unaware of structural changes in an employer's membership (e.g., large number of retirements). Pension Fund is not advised of an employer closing the scheme to new entrants.	The Pension Fund actively monitors membership movements, especially with regard to falling active membership and increases in deferred and pensioner numbers. The Actuary may be instructed to revise the rates and adjustments certificate to increase an employer's contributions between triennial valuations. Employers are charged the extra capital cost of (non-ill-health) early retirements.	4	3	12	None

Ref	Risk Description	Mitigating Actions and Controls	How Likely	Impact	Net Risk	Changes
2.8	Deterioration in funding because of a mismatch of assets and liabilities.	Investment Sub-Committee Board receives regular reports on the Fund's performance and is aware of the potential impact of significant funding risks e.g. lower interest rates, increasing life expectancies. The Actuary, with input from the investment advisor, discusses and agrees the ALM output with officers and members and sets employer contribution rates at levels that are designed to keep the Fund solvent over the long term. Fund can consider implementing employer level investment strategies to reduce the mismatch risk where it would be beneficial to the employer's circumstances. Triennial actuarial valuations, supplemented with interim valuation funding updates that reflect changes to market conditions. Asset-liability modelling (ALM) is undertaken at least once every three years to assess the long-term financial health of the Fund.	2	4	8	Impact could be anywhere from low to high, reduced from 5 to 4
2.9	Incorrect membership data leading to inaccurate assessment of liabilities and/or contribution rate	The Pension Fund holds regular workshop and training days with employers to explain data submission and is on hand to discuss any queries Actuary carries out high level data checks on membership data received for calculation of liabilities and contribution rate The Pension Fund regularly checks and reviews membership data submitted by employers. The Fund is reviewing options to improve systems functionalty in respect of the transfer of data from employers to the Fund.	3	4	12	None
2.10	Incorrect financial data leading to inaccurate assessment of employer asset shares	Actuary carries out high level data checks on financial data received for calculation of employer asset shares The Pension Fund regularly checks and reviews financial data against membership data and general ledger.	3	4	12	None

Ref	Risk Description	Mitigating Actions and Controls	How Likely	Impact	Net Risk	Changes
2.11	Employer actions (e.g. excessive salary increases, outsourcings) lead to unanticipated liability increases and reduce affordability of contributions	The Fund reserves the right to review contribution rates and funding strategy in light of employer actions The Fund engages with employers to ensure early awareness of specific actions	2	4	8	None
2.12	Employer unable to afford contributions or contribution increases due to a change in their funding position and/or profile	Employers are consulted with through senior management contacts, the Pension Fund AGM, the Funding Strategy Statement consultation and regular bulletins. Feedback is sought on employer's ability to absorb contribution rises. Mitigation of the impact of revised rates through deficit spreading, phasing-in of contribution rises and, for open secure employers, the use of a contribution stability mechanism.	3	2	6	Risk description changed – it was about potential impact on employer service delivery, this is changed to being about the employer being unable to afford contributions
2.13	The Pension Fund failing to commission the Fund Actuary to carry out a termination valuation for a departing Admission Body or failing to complete the cessation within the 3 month timescales as required under the Regulations.	Fund officers monitor via the local and national press for developments in admitted bodies that might have a detrimental effect on the Fund. The Pension Fund requires employers to disclose forthcoming changes. The Pension Fund ensures the Actuary is aware of necessary timescales and deadlines.	2	3	6	Risk updated for timescale requirements. Impact increased from 2 to 3 as breaching 3 months could result in a claim against the fund
2.14	That the Fund becomes cash flow negative and has to realise illiquid assets under time pressure	Undertake a 3 year cash flow projection forecast during 2019 and develop an appropriate plan accordingly	3	4	12	New risk.

3. Strategic Risks

Ref	Risk Description	Mitigating Actions and Controls	How Likely	Impact	Net Risk	Changes
3.1	Reputation risk with employers and members	Complaints are acted on immediately and monitored and reported to senior management. Group and senior management work hard to foster good relations with employers and members and provide a quality service.	2	2	4	None
3.2	Fund's reputational risk due to tPR data scoring	tbc	tbc	3	tbc	tPR have launched data scoring for all LGPS funds. This will allow comparison between funds to understand the quality of member data. This could lead to comparisons between funds and the associated reputational risk
3.3						

4. Hazard Risks

Ref	Risk Description	Mitigating Actions and Controls	How Likely	Impact	Net Risk	Notes re Changes
4.1	Administration records corrupted or destroyed.	Office is subject to corporate and departmental disaster planning. Data back-ups are stored off site. The administration team has now digitally imaged all active and preserved member records.	1	5	5	None
4.2	Financial fraud	Scrutiny by internal and external audit processes. Comprehensive system of internal controls adopted by management. Fund manager reports of internal control are checked by Pension Fund staff.	1	4	4	Impact reduced from 5 to 4, impact at the level of individual fraud (the most likely form) would not be very high impact
4.3	Fire/flood/terrorism	Office is subject to corporate and departmental disaster planning. Data well backed up on a regular basis. Main investment data is held by the Fund's global custodian and available online.	1	5	5	None
4.4	Cyber-crime and other generic or targeted information security threats	The office is subject to the local authority's information security and information usage policies.	2	5	10	New risk

5. Operational Risks

Ref	Risk Description	Mitigating Actions and Controls	How Likely	Impact	Net Risk	Changes
5.1	Insufficient number of external contract service providers, therefore insufficient choice and consequent poor service	Usage of appropriate procurement processes to maximise choices. Regular monitoring of the service provider market.	2	4	8	Actions updated.
5.2	Poor communication	Feedback taken from scheduled and admitted bodies at the Fund's annual meeting. Variety of means employed for communication to members. Communication strategy is in place and adhered to.	2	2	4	None
5.3	Lack of succession planning	Staff levels are regularly monitored. Regular discussions take place as to the implications of future staff resignations and retirement.	5	4	20	Succession planning is pro-actively planned but staff turnover has been quicker than succession planning can work with. Likelihood increased from 2 to 5 and impact increased from 2 to 4.
5.4	Staffing levels failing to support required service delivery	Regular monitoring of the staffing position and the prioritization of recruitment and training.	5	4	20	Difficulty in recruitment and retention has been significant during the last year. Likelihood increased from 2 to 5 and impact increased from 2 to 4.
5.5	Failure to establish adequate ICT infrastructure.	Requirements are monitored continually. Data is "cleansed" before each actuarial valuation. The Pension Fund works closely with providers.	2	3	6	None
5.6	Inadequate user training	Training is monitored on a constant basis.	2	2	4	None

Ref	Risk Description	Mitigating Actions and Controls	How Likely	Impact	Net Risk	Changes
5.7	Increasing administration expenses (met from the normal contribution rate)	The Council continues to seek value for money with regard to fund administration by reviewing all vacancies, intelligent use of IT resources and benchmarking. The Pension Fund Administration budget is subject to the Council's approval and monitoring process. Regular reports are monitored by officers.	4	3	12	The fund has kept costs down whilst the complexity and the scale of the work required has increased. The need to meet governance and performance expectations requires greater resources. Likelihood increased from 2 to 4, impact increased from 2 to 3.
5.8	Other workload pressures and priorities of the Scheme Administrator impacting adversely on pension fund governance or administration	Ensuring that planning for pension fund governance and administration has regard to the financial capacity of the fund, and the expectations of the pensions regulator and Scheme Advisory Board and is planned based on the resources available to the Pension Fund.	4	4	12	New risk.

Item 5

Local Pension Board

5 March 2019

Markets in Financial Instruments Directive (MIFID) II

Recommendation

The Local Pension Board notes and comments on the report.

1. Background

1.1 The Markets in Financial Instruments Directive (MiFID) is the framework of European Union (EU) legislation for:

- Investment intermediaries that provide services to clients around shares, bonds, units in collective investment schemes and derivatives (collectively known as ‘financial instruments’).
- The organised trading of financial instruments.

1.2 MiFID was applied in the UK from November 2007, but has since been revised to improve the functioning of financial markets in light of the financial crisis and to strengthen investor protection.

1.3 The changes took effect from 3 January 2018, with the new legislation being known as MiFID II - this includes a revised MiFID and a new Market in Financial Instruments Regulation (MiFIR).

1.4 Under MIFID II investors will be automatically classified as retail investors by asset managers. Whilst retail investors are afforded an extra degree of protection there are certain types of more sophisticated investment that asset managers are unable to offer to the retail market. The fund has therefore had to “opt up” as a professional investor with each asset manager the fund currently has a relationship with.

2. Professional status

2.1 The fund was successfully opted up to professional status by all its asset managers. One exception was JP Morgan who decided that the pension fund is protected under the rules applied by the “Undertakings for the Collective Investment of Transferable Securities” (UCITS).

2.2 An analysis of a member training survey was presented at the December 2017 meeting. Following the survey key areas of training were identified. Training sessions were then planned to cover these areas.

3. Actions since initial opt-up

3.2 During the year WCCPF has successfully opted up with BCPP and one of our Private Debt Managers – Alcentra.

3.3 Members received bespoke training sessions in May and August of this year. These covered the following topics:

- Investment Strategy & Regulation
- Understanding Risks
- Equity Protection
- Understanding the Pension Fund Accounts
- Actuarial Valuation
- Pooling

The plan is to continue with these sessions so that fund is able to evidence compliance with the qualitative requirements under MIFID II.

3.4 The team are continually updating and maintaining evidence of member training.

3.5 Asset Managers are also notified of any changes in key officers and advisers.

Background papers

None.

	Name	**Contact Information**
Report Author	Chris Norton	chrisnorton@warwickshire.gov.uk
Assistant Director Finance and ICT Strategy	Lisa Kitto	lisakitto@warwickshire.gov.uk
Joint Managing Director	David Carter	davidcarter@warwickshire.gov.uk
Portfolio Holder	Bob Stevens	bobstevens@warwickshire.gov.uk

The report was circulated to the following members prior to publication:
Local Member(s):
Other members:

Local Pension Board

5 March 2019

Business Plan

Recommendation

That the Local Pension Board notes and comments on the proposed Business Plan attached at Appendix A.

1. Purpose of Report

1.1 It is best practice for local authority pension funds to operate a formal and documented Business Plan for their operations. This report sets out a recommended Business Plan for 2019/20.

2. Business Plan 2018/19

2.1 The Business Plan encompasses key activities that need to happen during the year.

2.2 The Business Plan will also be reported to the Pension Investments Sub Committee.

3. Recommendation

3.1 That the Local Pension Board notes and comments on the proposed Business Plan attached at Appendix A.

4. Background Papers

None

	Name	Contact Information
Report Author	Chris Norton Strategic Finance Manager	07767003428 chrisnorton@warwickshire.gov.uk
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The report was circulated to the following members prior to publication:
Local Member(s):
Other members:

Appendix A

Warwickshire Pension Fund
Business Plan 2019/20

1. Introduction

This document sets out the business plan for the Warwickshire Pension Fund for 2019/20.
As at the last accounting date in March 2018 the fund had 47,651 members and £2bn in assets.

Table 1 – Membership

Type	No. Members
Active	16,754
Deferred	17,805
Retired	13,092
Total	**47,651**

Table 2 – Strategic Asset Allocation

Fund Type	Strategic Asset Allocation
UK Equity	20.0%
Overseas Equity	27.5%
Fundamental Global Equity	7.0%
UK Corporate Bonds	10.0%
UK Index Linked Bonds	5.0%
Private Equity	4.0%
Property	10.0%
Absolute Return Bonds	7.5%
Infrastructure	4.0%
Private Debt	5.0%
Total	**100.0%**

2. Objectives

The overall objectives of the fund are twofold:

Ensure that funds are available to pay member pensions when they are due, delivered through effective forecasting of long term liabilities, determination and collection of appropriate contributions, and generation of an appropriate risk adjusted return on the fund's investments.

Ensure that pensions are paid accurately and on time when they are due, delivered through an effective benefits administration service.

3. Context

Demand on the administrative team has increased over time with an increasing number of employing organisations, an increasing number of employers with higher risk covenants, increasing expectations around governance requirements, and as a result of the scheme becoming more complex since the change to the career average method.

A challenge for the fund will be to ensure that capacity is appropriate to meet this demand in the short term and a review of capacity will be undertaken to this end.

Another line of action will be to seek to reduce costs, improve compliance, and improve the experience for employers and employees through automation.

iConnect is a system that facilitates the automation of many of the tasks around employer data transfer and validation. Member self-service is a way of automating some interfaces with members and improving accessibility of information. Both of these opportunities will be looked at in depth during 2019/20.

The pooling of pension funds has been in progress for some time and in 2018/19 the Warwickshire Pension Fund invested in its first pooled fund with the Border to Coast Pension Partnership. There will be further pooling opportunities in 2019/20. The Fund will need to make significant decisions around each opportunity and as more funds transfer the task of beginning to monitor the delivery of the expected benefits will arise.

4. Actions

Annex 1 sets out a summary of the actions planned for the coming year. Actions are grouped into the following categories:

- Administration
- Actuarial
- Investment
- Governance

5. Forward Planning

A forward plan of future agenda items will be maintained for the Pension Fund investment Sub Committee and the Local Pension Board. Copies of the current forward plans are set out at Annex 2 and 3.

Annex 1

Administration Activities

	Action	Timescale
1	Deliver a Pension Fund Annual General Meeting. Updating fund stakeholders on investment and governance developments.	November 2019
2	Deliver a Pension Fund Employers Meeting. Updating employers on developments relating to the administration of the scheme.	November 2019
3	Regular review of complaints. Ensuring specific and systematic issues are identified and actioned.	Ongoing
4	Develop a business case for use of iConnect. Developing the case for a facility to further automate the transfer and validation of employer data.	June 2019
5	Develop a business case for the introduction of online member self service Developing the case for the facility to automate interactions with Members.	June 2019
6	Review compliance with GDPR requirements.	October 2019
7	Annual pensions newsletter issued	????
8	Benefit statements issued	May-August 2019
9	Report administration performance KPIs to the Local Pension Board	Ongoing
10	Keep the new pension fund web site up to date with developments	Ongoing
11	Review the capacity available to deliver fund objectives.	June 2019
12	Review of fund policies to ensure they are up to date for current requirements	June 2019

Actuarial Activities

	Action	Timescale
13	Delivery of 2019 revaluation activities Collection of data, sharing results with employers, liability calculations, and development of a funding strategy	Ongoing through 2019/20
14	Monitor employer contribution performance through the year	Ongoing
15	Review employer covenants and risk management for non-statutory employers	July 2019

Investment Activities

	Action	Timescale
16	Make decisions regarding new Border to Coast fund launches	Ongoing
17	Implement Border to Coast fund transfers where approved	Ongoing
18	Ensure the fund remains MIFID2 compliant	Ongoing
19	Continued growth of alternative asset classes towards their target strategic asset allocation	Ongoing
20	Meet with directly commissioned active fund mangers	Annually
21	Quarterly investment monitoring reports provided to the investment sub-committee.	Quarterly
22	Review investment strategy statement	By March 2020
23	Plan cashflow in order to avoid the need to sell assets under time pressure	Ongoing

Governance Activities

	Action	Timescale
24	Production of draft statement of accounts	May 2019
25	Publication of Annual Pension Fund Report	November 2019
26	Ensure a risk register is maintained	Annually
27	To ensure employers join and leave the fund in accordance with LGPS and Warwickshire Pension Fund policies	Ongoing
28	Review of contracts for services provided to the Pension Fund	September 2019
29	Support governing committees and boards in the delivery of their responsibilities through the provision of appropriate information, advice, and training: • Pension and Investments Sub-Committee • Local Pension Board • Staff and Pensions Committee	Ongoing

Annex 2

Pension Fund Investment Sub Committee Forward Plan

May	***June***	***September***	***December***	***March***
	Investment Performance	*Investment Performance*	*Investment Performance*	*Investment Performance*
Election of Chair and Vice Chair	*BCPP Planning Future Transfers* *BCPP Monitoring Previous Transfers*	*BCPP Planning Future Transfers* *BCPP Monitoring Previous Transfers*	*BCPP Planning Future Transfers* *BCPP Monitoring Previous Transfers*	*BCPP Planning Future Transfers* *BCPP Monitoring Previous Transfers*
	Forward Plan	*Forward Plan*	*Forward Plan*	*Forward Plan*
	Private Markets Annual Review *(annual update on private market programmes including decisions on commitments)*			*Investment Strategy Statement Review*
	2019 Actuarial Valuation Detailed Plan Assumptions	2019 Actuarial Valuation Present Whole Fund Results	2019 Actuarial Valuation *Agreed Employer Funding Strategies* *Draft Funding Strategy Statement*	2019 Actuarial Valuation *Valuation Sign Off* *Funding Strategy Statement*
				Business Plan
				Training Plan
				Risk Management Review

Annex 3

Local Pension Board Forward Plan

July 2019	November 2019	March 2020
Review of the reports and minutes of the Pension Fund Investment Sub Committee	Review of the reports and minutes of the Pension Fund Investment Sub Committee	Review of the reports and minutes of the Pension Fund Investment Sub Committee
Administration Update	Administration Update	Administration Update
Chairs Annual Report		Risk Register
		Business Plan
Forward Plan	Forward Plan	Forward Plan

Item 7

Local Pension Board

5 March 2019

Forward Plan

Recommendations

1. That the Board notes and comments on the forward plan.

2. That the Board identifies any areas of interest or activity to add to the forward plan.

1.0 Introduction

1.1 This report provides an updated forward plan for the Local Pension Board looking forward one year.

1.2 This is not intended to be rigid or definitive, the intention is that it can be updated and amended on a rolling basis at each meeting after being informed by the latest developments.

Background papers

1. None.

	Name	Contact Information
Report Author	Chris Norton	chrisnorton@warwickshire.gov.uk 07767003428
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Strategic Director	David Carter	01926 412564 davidcarter@warwickshire.gov.uk
Portfolio Holder	Peter Butlin	cllrbutlin@warwickshire.gov.uk 01788 816488

The report was circulated to the following members prior to publication:

Local Member(s):
Other members:

Current / Forward Plan Items

27th November 2018	5th March 2019	July 2019	November 2019	March 2020
2017/18 Pension Fund Annual Report and Accounts	Review of the reports and minutes of the Pension Fund Investment Sub Committee	Review of the reports and minutes of the Pension Fund Investment Sub Committee	Review of the reports and minutes of the Pension Fund Investment Sub Committee	Review of the reports and minutes of the Pension Fund Investment Sub Committee
Actuarial and 2019 Revaluation Update	Administration Update	Administration Update	Administration Update	Administration Update
Border to Coast Pension Partnership – Pooling Update	Risk Register	Chairs Annual Report		Risk Register
Review of the reports and minutes of the Pension Fund Investment Sub Committee	Pooling Update			
Administration Update	2019/20 Business Plan			Business Plan
Communications Strategy				
Forward Plan	Forward Plan	Forward Plan	Forward Plan	Forward Plan

Item 8

Pension Fund Investment Sub Committee

5 March 2019

Responsible Investment Policies

1.0 Introduction

1.1 This report introduces the updated Border to Coast Pension Partnership (BCPP) Responsible Investment Policies (see the Appendix) for discussion and note.

1.2 The Pension Fund has adopted the principles of the BCPP Responsible Investment Policies (as suggested in section 2.2 of the Appendix).

2. Background papers

None.

	Name	Contact Information
Report Author	Michael Nicolaou	michaelnicolaou@warwickshire.gov.uk 01926412227
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The report was circulated to the following members prior to publication:

Local Member(s): None
Other members: None

Appendix

BCPP Joint Committee

Date of Meeting: 21st November 2018
Report Title: Responsible Investment Policies Review
Report Sponsor: CEO – Rachel Elwell

1 Executive Summary

1.1 As part of the initial pooling submission in July 2016, the Government required each Pool to have an approach to responsible investment (RI) with a commitment that a written RI policy would be in place at Pool level by 1st April 2018. Border to Coast's Responsible Investment Policy and Corporate Governance & Voting Guidelines were developed in 2017 in conjunction with the twelve Partner Funds to satisfy this.

1.2 Both policies are due to be reviewed annually or whenever revisions are proposed; policies will then be updated as necessary through the appropriate governance channels. The process for review included the participation of all the Partner Funds; this is to ensure that we continue to have a strong, unified voice.

1.3 The proposed revised policies do not contain any changes to underlying principles. They have been updated following feedback from our voting and engagement partner, Robeco, to enable clearer implementation of the policies. They also reflect the changes required to facilitate Border to Coast becoming a signatory to the UNPRI.

1.4 The annual review and governance processes need to be completed, with policies approved and ready to be implemented ahead of the 2019 proxy voting season.

2 Recommendation

2.1 That the Joint Committee reviews and comments on the proposed revisions to the RI Policy (Appendix 1) and Corporate Governance & Voting Guidelines (Appendix 2).

2.2 That the Joint Committee supports taking the revised policies to the Partner Funds for comment and for them to consider adoption of the principles in their own RI policies in-line with industry best practice.

3 Background

3.1 Border to Coast takes a holistic approach to sustainability; it is therefore at the core of our corporate and investment thinking. We are a strong supporter of Responsible Investment and will hold companies to account on environmental, social and governance (ESG) issues and be active stewards of the assets in which we invest.

3.2 We will do this through voting, monitoring companies, engagement and litigation. The Border to Coast Responsible Investment policy sets out our approach to RI and stewardship, and the Corporate Governance & Voting Guidelines sets out the approach and principles to voting. The aim is to manage risk and generate sustainable, long-term returns for our Partner Funds.

3.3 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 administration and implementation however, will be done by Border to Coast on assets managed by us, with appropriate monitoring and challenge to ensure this continues to be in line with Partner Fund requirements

3.4 To leverage scale and for operational purposes, a collaborative RI policy and Corporate Governance & Voting Guidelines have been developed in conjunction with Partner Funds. These policies are to be enacted on behalf of our Partner Funds in relation to assets managed by Border to Coast. This will ensure clarity of approach, give a consistent message and a stronger voice, with the ability to exert greater influence and change by working together.

4 Review process

4.1 The RI policy and Corporate Governance & Voting Guidelines were originally reviewed and agreed by the Joint Committee in October 2017; therefore, policies are now due for their first annual review.

4.2 The existing policies were evaluated by Robeco, the voting and engagement provider, considering the global context (the previous policies being relatively UK-centric) and best practice. Border to Coast is committed to becoming a signatory to the UN Principles for Responsible Investment (PRI); this will have an impact on both policies resulting in a number of changes (particularly regarding decision making, governance and reporting).

4.3 The revised UK Corporate Governance Code was taken into account when reviewing and amending both policies. The policies of best in class asset managers, and asset owners considered to be RI leaders were also consulted to determine how best practice has developed. The revised policies are considered to be in-line with industry best practice.

4.4 The review process with Partner Funds began with a RI workshop to walk through the RI strategy and process for review. Following the workshop draft policies were presented to the Officers Operation Group (OOG) for comment.

4.5 After considering any comments from the OOG, the policies were put to Border to Coast's Investment Committee, presented to the Board and approved for sharing with the Partner Funds. The policies are being presented to the Joint Committee for review and comment. The expectation is then for Partner Funds' Committees to begin their own review process with the ultimate objective to align policies where appropriate.

5 Partner Fund comments

5.1 Comments were received from Cumbria Pension Fund, South Yorkshire Pensions Authority and Tyne & Wear Pension Fund.

5.2 The main points from Cumbria were in relation to the Corporate Governance & Voting Guidelines; it was suggested that lobbying be split out from political donations, and a slight rewording was proposed in relation to director availability.

5.3 South Yorkshire raised points for potential inclusion in the Corporate Governance & Voting Guidelines. On auditor rotation, the view was that the independence of the auditor is key; therefore, rotation of the audit partner is not sufficient. Lobbying was also raised with suggestions regarding increased disclosure of lobbying and industry bodies. Comments made on the RI policy were in relation to climate change; expectations for all companies to have a business strategy for a low carbon transition; and commitments by Border to Coast to reduce carbon across portfolios.

5.4 Tyne & Wear raised the issue of share blocking and how Border to Coast would consider this in the markets where it is general practice.

5.5 The points raised by Cumbria and South Yorkshire were discussed at the OOG meeting. There was agreement on strengthening the wording in relation to auditor independence and inserting a sub-section specific to lobbying. Officers were otherwise supportive of the policies put to the meeting.

6 Key changes

6.1 The Corporate Governance & Voting Guidelines are UK centric and therefore need to be expanded to reflect global corporate governance trends, not just UK best practice. The revised UK Corporate Governance Code was also considered when making revisions. The key changes to this policy are the inclusion of sections referring to board evaluation, stakeholder engagement, virtual shareholder meetings, shareholder proposals and share blocking. Other amendments to the policy have been made to reflect global variations in best practice and cover board composition, diversity and remuneration.

6.2 The RI policy has undergone a substantial rewrite; this however has not changed the underlying principles. The policy has now been written from the perspective of Border to Coast and reflects changes required to be able to satisfy PRI reporting requirements in the future. The governance and implementation section has been expanded; additional detail has been included regarding integrating RI into the investment process per asset class; and the section on engagement includes greater detail on the different approaches taken.

7 Financial implications

7.1 Any financial implications are in respect of implementation and fulfilment of the policies. The cost of the external voting and engagement provider and RI initiatives have previously been approved. Additional spend will be in relation to ESG data providers, and ongoing training and development of staff through attendance at conferences and specific training events.

8 Risks

8.1 Responsible Investment and sustainability are central to Border to Coast's corporate and investment ethos and a key part of delivering our partner funds' objectives. There may be reputational risk if we are perceived to be failing in our commitment of this objective.

8.2 Commitment to RI is becoming increasingly important to the Partner Funds. In order to maintain collective policies and the strong voice this gives us, we need to ensure that all Partner Funds are in agreement.

9 Conclusion

9.1 The Joint Committee is asked to consider the recommendations made at section 2.

10 Author

10.1 Jane Firth, Head of Responsible Investment
7th November 2018

11 Supporting Documentation

Appendix 1: Draft Border to Coast Responsible Investment Policy (tracked changes included)

Responsible Investment Policy

Border to Coast Pensions Partnership

October 2018

Document Control

1. Version and Review History

Version no.	Version Description	Approver	Date
V0.1	Initial policy	Joint Committee	October 2017
V0.2	1st draft presented to OOG reflecting review by Robeco, UK Corporate Governance Code, best in class asset managers and asset owners.		10th Oct 2018
V0.3	2nd draft reflecting OOG amendments		19th Oct 2018

2. Approval and Sign Off

Approved By	Position	Version	Date
Rachel Elwell	CEO	X.X	XX

3. Board Approval

Approved By	Version	Date
The Board	X.X	XX

4. Key Dates

Event	Date
Effective Date	22/11/2018
Next Review Date	01/08/2019

5. Key Roles

Stakeholder	Role	Status
Head of RI	Document owner responsible for the management and amendment process, along with ensuring distribution of the framework	Drafter
CEO	Review ongoing drafts to ensure completeness	Reviewer
OOG	Review ongoing drafts to ensure completeness	Reviewer
Border to Coast Investment Committee	Review and recommend for approval to Board	Reviewer

Border to Coast Board	Approve policy and any material alterations made thereafter.	Approver
Border to Coast Joint Committee	Approve policy and any material alterations made thereafter.	Approver
Border to Coast Staff	Informed of policy and manage delivery in practice	Informed

Responsible Investment Policy

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

1. Introduction

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

Border to Coast believes that businesses that are governed well and run in a sustainable way are more resilient, able to survive shocks and have the potential to provide better financial returns for investors. Environmental, social and governance (ESG) issues can have a material impact on the value of financial assets and on the long-term performance of investments, and therefore need to be considered across all asset classes in order to better manage risk and generate sustainable, long term returns. Well-managed companies with strong governance are more likely to be successful long-term investments. Border to Coast is an active owner and steward of its investments, both internally and externally managed, across all asset classes. The commitment to responsible investment is communicated in the Border to Coast UK Stewardship Code compliance statement.

As a long-term investor and representative of asset owners, we will therefore, hold companies and asset managers to account regarding environmental, societal and governance factors that have the potential to impact corporate value. We will incorporate such factors into our investment analysis and decision making, enabling long-term sustainable investment performance for our Partner Funds. As a shareowner, Border to Coast has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It will practice active ownership through voting, monitoring companies, engagement and litigation.

The LGPS (Management and Investment of Funds) 2016 regulations state that the responsibility for stewardship, which includes shareholder voting, remains with the

Partner Funds. Stewardship day-to-day administration and implementation have been delegated to Border to Coast by the Partner Funds, on assets managed by Border to Coast, with appropriate monitoring and challenge to ensure this continues to be in line with Partner Fund requirements. To leverage scale and for operational purposes, Border to Coast has, in conjunction with Partner Funds, developed this RI Policy and accompanying Corporate Governance & Voting Guidelines to ensure clarity of approach on behalf of Partner Funds.

2. What is responsible investment?

Responsible investment (RI) is the practice of incorporating ESG issues into the investment decision making process and practicing investment stewardship, to better manage risk and generate sustainable, long-term returns. Financial and ESG analysis together identify broader risks leading to better informed investment decisions and can improve performance as well as risk-adjusted returns. Investment stewardship includes active ownership, using voting rights, engaging with investee companies, influencing regulators and policy makers, and collaborating with other investors to improve long-term performance.

3. Governance and Implementation

Border to Coast takes a holistic approach to sustainability and as such it is at the core of our corporate and investment thinking. Sustainability, which includes RI, is considered and overseen by the Board and Executive Committees. Specific policies and procedures are in place to demonstrate the commitment to RI, which include the Responsible Investment Policy and Corporate Governance & Voting Guidelines. Border to Coast has a dedicated staff resource for managing RI within the organisational structure. The RI Policy is jointly owned and created after collaboration and engagement with our twelve Partner Funds. The Chief Investment Officer (CIO) is accountable for implementation of the policy. The policy is monitored with regular reports to the CIO, Investment Committee, Board, Joint Committee and Partner Funds. It is reviewed at least annually or whenever revisions are proposed and updated as necessary.

4. Skills and competency

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

5. Integrating RI into investment decisions

Border to Coast will consider material ESG factors when analysing potential investments. ESG factors tend to be longer term in nature and can create both risks and opportunities. It is therefore important that, as a long-term investor, we take them into account when analysing potential investments. The factors considered are those which could cause financial and reputational risk, ultimately resulting in a reduction in shareholder value. ESG issues will be considered and monitored in relation to both internally and externally managed assets. The CIO will be accountable for the integration and implementation of ESG considerations. Issues considered include, but are not limited to:

Environmental	Social	Governance	Other
Climate change Resource & energy management	Human rights Child labour Supply chain Human capital Employment standards	Board independence/ diversity Executive pay Tax transparency Auditor rotation Succession planning Shareholder rights	Business strategy Risk management Cyber security Bribery & corruption

5.1. Listed Equities (Internally managed)

Border to Coast looks to understand and evaluate the ESG-related business risks and opportunities companies face. We consider the integration of ESG factors into the investment process as a complement to the traditional financial evaluation of assets; this results in a more informed investment decision-making process. Rather than being used to preclude certain investments, it is used to provide an additional context for stock selection. ESG data and research from specialist providers is used alongside general stock and sector research when considering portfolio construction, sector analysis and stock selection. The Head of RI will work with colleagues to raise awareness of ESG issues. Voting and engagement should not be detached from the investment process; therefore, information from engagement meetings will be shared with the team to increase knowledge, and portfolio managers will be involved in the voting process.

5.2. Private Markets

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

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

5.3. Fixed Income

ESG factors can have a material impact on the investment performance of bonds, both negatively and positively, at the issuer, sector and geographic levels. ESG analysis will therefore be incorporated into the investment process for corporate and sovereign issuers to manage risk. The challenges of integrating ESG in practice are greater than for equities with the availability of data for some markets lacking. The approach to engagement also differs as engagement with sovereigns is much more difficult than with companies. Third-party ESG data will be used along with information from sources including UN bodies, the World Bank and other similar organisations. This together with traditional credit analysis will be used to determine a bond's credit quality. Information will be shared between the equity and fixed income teams regarding issues which have the potential to impact corporates and sovereign bond performance.

5.4. External Manager Selection

RI will be incorporated into the external manager appointment process including the request for proposal (RFP) criteria and scoring and the investment management agreements. The RFP will include specific reference to the integration of ESG by managers into the investment process and to their approach to engagement. Voting is carried out by Border to Coast for both internally and externally managed equities where possible and we expect external managers to engage with companies in alignment with the Border to Coast RI policy. The monitoring of appointed managers will also include assessing stewardship and ESG integration in accordance with our policies. All external fund managers will be expected to be signatories or comply with international standards applicable to their geographical location. Managers will be required to report to Border to Coast on their RI activities quarterly.

5.5. Climate change

Border to Coast will actively consider how climate change, the shifting regulatory environment and potential macroeconomic impact will affect its investments. These pose significant investment risks and opportunities with the potential to impact the long-term shareholder value of investments across all asset classes. Risks and opportunities can be presented through a number of ways and include: physical impacts, technological changes, regulatory and policy impact, transitional risk, and litigation risk. Border to Coast will therefore look to:

- Assess its 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)[1] recommendations.

- Encourage companies to adapt their business strategy in alignment with a low carbon economy.
- Support climate related resolutions at company meetings which we consider reflect our RI policy.
- Encourage companies to publish targets and report on steps taken to reduce greenhouse gas emissions.
- 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 its 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).

6. Stewardship

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

6.1. Voting

Voting rights are an asset and Border to Coast will exercise its rights carefully to promote and support good corporate governance principles. It will aim to vote in every market in which it invests where this is practicable. To leverage scale and for practical reasons, Border to Coast has developed a collaborative voting policy to be enacted on behalf of the Partner Funds which can be viewed here xxxxxxx. A specialist proxy voting advisor will be employed to provide analysis of voting and governance issues. A set of detailed voting guidelines will be implemented on behalf of Border to Coast by the proxy voting advisor to ensure that votes are executed in accordance with policies. The voting guidelines are

[1] The Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) - The TCFD developed recommendations on climate-related financial disclosures that are applicable to organisations (including asset owners) across sectors and jurisdictions.
https://www.fsb-tcfd.org/publications/finalrecommendations-report/

[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/Our-Work/CodesStandards/Corporate-governance/UK-Stewardship-Code.aspx

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

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.

Where possible the voting policies will also be applied to assets managed externally. Policies will be reviewed annually in collaboration with the Partner Funds. There may be occasions when an individual fund wishes Border to Coast to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this.

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

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

Lending can also be restricted in these circumstances.

Proxy voting in some countries requires share blocking. This requires shareholders who want to vote their proxies depositing their shares shortly before the date of the meeting (usually one week) with a designated depositary. During this blocking period, shares cannot be sold until after the meeting has taken place; the shares are then returned to the shareholders' custodian bank. We may decide that being able to trade the stock outweighs the value of exercising the vote during this period. Where we want to retain the ability to trade shares, we may abstain from voting those shares.

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

6.2. Engagement

The best way to influence companies is through engagement; therefore, Border to Coast will not divest from companies principally on social, ethical or environmental reasons. As responsible investors, the approach taken will be to influence companies' governance standards, environmental, human rights and other policies by constructive shareholder engagement and the use of voting rights. The services of specialist providers may be used when necessary to identify issues of concern.

Border to Coast has several approaches to engaging with investee holdings. Meeting and engaging with companies is an integral part of the investment process. As part of our stewardship duties we regularly monitor investee companies 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 and all twelve Partner Funds are members of the Local Authority Pension Fund Forum (LAPFF). Engagement takes place with companies on behalf of members of the Forum.

We will seek to work collaboratively with other like-minded investors and bodies in order to maximise Border to Coast's influence on behalf of Partner Funds, particularly when deemed likely to be more effective than acting alone. This will be achieved through actively supporting investor RI initiatives and collaborating with various other external groups e.g. LAPFF, the Institutional Investors Group on Climate Change, other LGPS pools and other investor coalitions.

Due to the proportion of assets held in overseas markets it is imperative that Border to Coast is able to engage meaningfully with global companies. To enable this and compliment other engagement approaches, an external voting and engagement service provider will be appointed. Engagement will take place with companies in the internally managed portfolios across various engagement streams; these will cover environmental, social, and governance issues as well as UN Global Compact[4] breaches.

We will expect external managers to engage with investee companies and bond issuers as part of their mandate on our behalf and in alignment with the Border to Coast RI policy.

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

6.3. Litigation

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

7. Communication and reporting

Border to Coast will be transparent with regard to its RI activities and will keep beneficiaries and stakeholders informed. This will be done by making publicly

[4]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.

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.

Consideration will also be given to voluntarily reporting in line with the TCFD recommendations.

8. Training and assistance

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

9. 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.

October 2018

Appendix 2: Draft Border to Coast Corporate Governance & Voting Guidelines (tracked changes included)

Corporate Governance & Voting Guidelines

Border to Coast Pensions Partnership

October 2018

Document Control

1. Version and Review History

Version no.	Version Description	Approver	Date
V0.1	Initial policy	Joint Committee	October 2017
V0.2	1st draft presented to OOG reflecting review by Robeco, UK Corporate Governance Code, best in class asset managers and asset owners.		10th Oct 2018
V0.3	2nd draft reflecting OOG amendments		19th Oct 2018

2. Approval and Sign Off

Approved By	Position	Version	Date
Rachel Elwell	CEO	X.X	XX

3. Board Approval

Approved By	Version	Date
The Board	X.X	XX

4. Key Dates

Event	Date
Effective Date	22/11/2018
Next Review Date	01/08/2019

5. Key Roles

Stakeholder	Role	Status
Head of RI	Document owner responsible for the management and amendment process, along with ensuring distribution of the framework	Drafter
CEO	Review ongoing drafts to ensure completeness	Reviewer
OOG	Review ongoing drafts to ensure completeness	Reviewer
Border to Coast Investment Committee	Review and recommend for approval to Board	Reviewer
Border to Coast Board	Approve policy and any material alterations made thereafter.	Approver
Border to Coast	Approve policy and any material alterations made thereafter.	Approver

Joint Committee		
Border to Coast Staff	Informed of policy and manage delivery in practice	Informed

1. Introduction

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

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

2. Voting procedure

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

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

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

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

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

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

3. Voting Guidelines

Company Boards

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

Composition and independence

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

The board of large 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, they must be able to demonstrate their independence. Non-executive directors who have been on the board for over nine years have been associated with the company for long enough to be presumed to have a close relationship with the business or fellow directors. 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 ten years will be assessed on a case-by-case basis.

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

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

Leadership

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

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

Non-executive Directors

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

Diversity

Board members should be recruited from as broad a range of backgrounds and experiences as possible. A diversity of directors will improve the representation and accountability of boards, bringing new dimensions to board discussions and decision making. Companies should broaden the search to recruit non-executives to include open advertising and the process for board appointments should be transparent and formalised in a board nomination policy. Companies should have a diversity policy which references gender, ethnicity, age, skills and experience and how this is considered in the formulation of the board. The policy should give insight into how diversity is being addressed not only at board level but throughout the company and be disclosed in the Annual Report.

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

Succession planning

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

Directors' availability and attendance

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

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

Re-election

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

Board evaluation

A requisite of good governance is that boards have effective processes in place to evaluate their performance and appraise directors at least once a year. The annual evaluation should consider its composition, diversity and how effectively members work together to achieve objectives. Individual director evaluation should demonstrate the effective contribution of each director. An internal evaluation should take place annually with an external evaluation required at least every three years.

Stakeholder engagement

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

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

Directors' remuneration

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

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

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

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

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

To ensure accountability there should be a full and transparent disclosure of directors' remuneration with the policy published in the annual report and accounts. The valuation of benefits received during the year, including share options, other conditional awards and pension benefits, should be provided.

• **Annual bonus**

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

• **Long-term incentives**

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

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

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

The performance basis of all such incentive schemes under which benefits are potentially payable should be clearly set out each year, together with the actual performance achieved against the same targets. We expect clawback or malus provisions to be in place for all components of variable compensation.

Directors' contracts

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

Corporate reporting

Companies are expected to report regularly to shareholders in an integrated manner that allows them to understand the company's strategic objectives. Companies should be as transparent as possible in disclosures within the Report and Accounts. As well as reporting financial performance, business strategy and the key risks facing the business,

companies should provide additional information on ESG issues that also reflect the directors' stewardship of the company. These could include, for example, information on a company's human capital management policies, its charitable and community initiatives and on its impact on the environment in which it operates.
Every annual report (other than those for investment trusts) should include an environmental section, which identifies key quantitative data relating to energy and water consumption, emissions and waste etc., explains any contentious issues and outlines reporting and evaluation criteria. It is important that the risk areas reported upon should not be limited to financial risks. We will encourage companies to report and disclose in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations, and the Workforce Disclosure Initiative in relation to human capital reporting.

Audit

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

Shareholder rights

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

- **Dividends**

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

- **Voting rights**

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

- **Authority to issue shares**

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

- **Disapplication of Pre-emption Rights**

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

Share Repurchases

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

Memorandum and Articles of Association

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

Mergers and acquisitions

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

Articles of Association and adopting the report and accounts

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

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

Virtual Shareholder General Meetings

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

Shareholder Proposals

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

Investment trusts

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

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

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

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