Notice of Meeting

Surrey Pension Fund Committee

Date & time	Place	Contact	Chief Executive
Friday, 8 February 2019 at 10.00 am	Ashcombe Suite, County Hall, Kingston upon Thames, Surrey KT1 2DN	Vicky Hibbert Room 122, County Hall Tel 020 8541 9229	Joanna Killian

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@SCCdemocracy

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This meeting will be held in public. If you would like to attend and you have any special requirements, please contact Vicky Hibbert on 020 8541 9229.

Elected Members
Mr Tim Evans (Chairman), Mr Ben Carasco (Vice-Chairman), Ms Ayesha Azad, Mr John Beckett (Ewell), Mr David Mansfield and Mrs Hazel Watson

Co-opted Members:
Mr Tony Elias (Borough/District Representative), Margaret Janes (Employers) and Philip Walker (Employees)

AGENDA

1 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS

2 MINUTES OF THE PREVIOUS MEETING: 16 NOVEMBER 2018 (Pages 1 - 10)

To agree the minutes as a true record of the meeting.

3 DECLARATIONS OF INTEREST

All Members present are required to declare, at this point in the meeting or as soon as possible thereafter

(i) Any disclosable pecuniary interests and / or

(ii) Other interests arising under the Code of Conduct in respect of any item(s) of business being considered at this meeting

NOTES:

- Members are reminded that they must not participate in any item where they have a disclosable pecuniary interest
- As well as an interest of the Member, this includes any interest, of which the Member is aware, that relates to the Member's spouse or civil partner (or any person with whom the Member is living as a spouse or civil partner)
- Members with a significant personal interest may participate in the discussion and vote on that matter unless that interest could be reasonably regarded as prejudicial.

4 QUESTIONS AND PETITIONS

To receive any questions or petitions.

Notes:

1. The deadline for Member's questions is 12.00pm four working days before the meeting *(Monday 4 February 2018)*.
2. The deadline for public questions is seven days before the meeting *(Friday 1 February)*.
3. The deadline for petitions was 14 days before the meeting, and no petitions have been received.

5 PENSION FUND COMMITTEE FORWARD PLAN (Pages 11 - 12)

Purpose of the report: The Committee to review its forward work programme.

6 COMPANY ENGAGEMENT AND VOTING (Pages 13 - 54)

Purpose of the report: This report is a summary of various Environmental Social & Governance (ESG) issues that the LAPFF, Robeco and Surrey Pension Fund have been involved in, for the attention of the Pension Fund Committee.

7 **LOCAL BOARD REPORT** (Pages 55 - 62)

Purpose of the report: This report is a summary of administration and governance issues reviewed by the Local Pension Board at its meeting of 17 January 2019 that need to be brought to the attention of the Pension Fund Committee.

8 **TRAINING POLICY** (Pages 63 - 74)

Purpose of report: Surrey Pension Fund recognises the importance of providing appropriate training to both committee members and officers in relation to the operation of the Pension Fund. This report introduces the pension fund training policy as set out in Annex 1.

9 **CASHFLOW ANALYSIS** (Pages 75 - 78)

Purpose of the report: A cash-flow analysis allows the Fund to ascertain a projection as to when benefit payments may exceed income. This information can influence both the investment and funding strategy.

10 **INVESTMENT STRATEGY STATEMENT** (Pages 79 - 104)

Purpose of report: The Pension Fund is required to publish its investment Strategy Statement (ISS) as a result of the investment regulations. It is the fiduciary duty and a statutory requirement of the Pension Fund Committee that it should regularly review its ISS and approve any changes where appropriate.

11 **INVESTMENT MANAGER ISSUES AND PERFORMANCE ASSET/LIABILITIES UPDATE** (Pages 105 - 134)

Purpose of report: This report is a summary of all manager issues that need to be brought to the attention of the Pension Fund Committee, as well as an update on investment performance and the values of assets and liabilities.

12 **EXCLUSION OF THE PUBLIC**

Recommendation: That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information under the relevant paragraphs of Part 1 of Schedule 12A of the Act.

13 **INVESTMENT MANAGER ISSUES AND PERFORMANCE ASSET/LIABILITIES UPDATE** (Pages 135 - 146)

Part 2 annexes relating to item 11.

Confidential: Not for publication under Paragraph 3
Information relating to the financial or business affairs of any particular person (including the authority holding that information)

14 **NATIONAL POOLING UPDATE** (Pages 147 - 188)

This is a part 2 report.

Confidential: Not for publication under Paragraph 3
Information relating to the financial or business affairs of any particular person (including the authority holding that information)

15 PUBLICITY OF PART 2 ITEMS

To consider whether the item considered under Part 2 of the agenda should be made available to the press and public.

16 DATE OF NEXT MEETING

The next meeting of the Surrey Pension Fund Committee will be on Friday 7 June 2019.

Joanna Killian
Chief Executive
Published: 30 January 2019

MOBILE TECHNOLOGY AND FILMING – ACCEPTABLE USE

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It is requested that if you are not using your mobile device for any of the activities outlined above, it be switched off or placed in silent mode during the meeting to prevent interruptions and interference with PA and Induction Loop systems.

Thank you for your co-operation

MINUTES of the meeting of the **SURREY PENSION FUND COMMITTEE** held at 9.30 am on 16 November 2018 at Conference room 1, County Hall, Kingston upon Thames, Surrey KT1 2DN.

These minutes are subject to confirmation by the Committee at its next meeting.

Elected Members:
*present

- * Mr Tim Evans (Chairman)
- * Mr Ben Carasco (Vice-Chairman)
- Ms Ayesha Azad
- * Mr John Beckett
- * Mr David Mansfield
- * Mrs Hazel Watson
- * Borough Councillor Ruth Mitchell
- * District Councillor Tony Elias

Co-opted Members:

- * Margaret Janes, Employers
- * Philip Walker, Employees

In attendance

- * Nick Harrison, Local Pension Board Chairman

61/18 APOLOGIES FOR ABSENCE AND SUBSTITUTIONS [Item 1]

Apologies were received from Ayesha Azad.

62/18 MINUTES OF THE PREVIOUS MEETING [14 SEPTEMBER 2018] [Item 2]

It was noted that Philip Walker and Margaret Janes were present at the last meeting on 14 September 2018.

The Minutes were approved as an accurate record of the previous meeting.

63/18 DECLARATIONS OF INTEREST [Item 3]

There were none.

64/18 QUESTIONS AND PETITIONS [Item 4]

1. The Committee received three public questions from members of the public and responses were tabled at the meeting (attached as Annex 1).

2. Supplementary questions were submitted and it was noted that a response would be provided in writing after the meeting.

Meeting was adjourned at 09.50am due to disruptive behaviour

65/18 PENSION FUND COMMITTEE FORWARD PLAN [Item 5]

Meeting resumed at 10.20am

Resolved:

The Committee reviewed its Forward Plan.

66/18 LOCAL BOARD REPORT [Item 6]

Declarations of interest:

None

Witnesses:

Nick Harrison, Chairman, Local Pension Board
Michael Mann, Pensions Lead Manager

Key points raised during the discussion:

1. The Committee received a summary of key highlights from the Local Pension Board Chairman from its meeting of 23 October 2018.

2. It was noted that the Pensions AGM scheduled on 23 November 2018 would be a good opportunity to remind employers of the discretions exercise.

3. The Pensions Lead Manager acknowledged concerns regarding the poor performance against the key performance indicators and assured the Committee that the service would improve with the recently recruited nine new starters in place.

4. It was noted that the Pension Administration team were working towards tackling missing addresses for members of the Fund and were writing to National Insurance to recover them.

5. The Committee raised concerns with the 37% non-compliance in relation to annual benefit statement and requested the Pensions Lead Manager to provide further data on this issue.

6. There was a discussion around guaranteed minimum pension (GMP) and the Pensions Lead Manager agreed to consider gender equalisation going forward and clarifying whether the GMP exercise included transfers.

Actions/ further information to be provided:

The Pension Lead Manager to provide more information on non-compliance statistics with annual benefit statements.

The Pension Lead Manager to clarify whether GMP exercise includes transfer members.

Resolved:

The Pension Fund Committee;

a) Approved the recommendations from the Local Pension Board.

b) Concluded there was no reviews as to the compliance of particular cases, projects or processes that the Local Pension Fund Board should undertake.

c) Endorsed requesting a legal opinion on the ramifications of recovering overpaid guaranteed minimum pensions (GMPs).

Approved the addition of a risk for interim / replacement Section 151 Officer, with a moderate risk score of 8 (due to the number of experienced supporting officers in the Finance Management Team).

67/18 CORPORATE GOVERNANCE SHARE VOTING [Item 7]

Declarations of interest:

None

Witnesses:

Ayaz Malik, Pensions Accountant Advisor

Key points raised during the discussion:

1. There was a discussion around bonus caps and it was noted that there was a wide range of policies that accepted multiple of salary within the Fund.

2. The Board requested further information from Manifest on what the impact of the Fund's share voting was.

Actions/ further information to be provided:

The Board to receive further information on the impact of share voting from Manifest.

Resolved:

The Pension Fund Committee noted the report.

68/18 COST EFFECTIVE MEASUREMENT BENCHMARKING REVIEW [Item 8]

Declarations of interest:

None

Witnesses:

Mamon Zaman, Senior Accountant

Key points raised during the discussion:

1. It was highlighted that the Cost Effective Measurement (CEM) benchmarking review was a lengthy report and once finalised would be available to the Committee.

   David Mansfield left the meeting at 11am

Actions/ further information to be provided:

None

Resolved:

The Pension Fund Committee noted the main findings of the report; the Fund's Net Value added, as a result of its investment strategy and active management decisions, was higher than other LGPS Funds by +0.1%. The Fund's overall investment costs in 2017/18 were lower than the peer benchmark by approximately -£1m. The Fund also made cumulative savings in investment costs from 2013/14 to 2017/18, of approximately -£1.4m.

69/18 CASHFLOW ANALYSIS [Item 9]

Declarations of interest:

None

Witnesses:

Ayaz Malik, Pension Accountant Advisor
Neil Mason, Head of Pensions

Key points raised during the discussion:

1. It was noted that the half-yearly (quarters one and two) cash flow for the Surrey Pension Fund showed positive cash flow of £4,112,114.

2. It was highlighted that the figures demonstrating the membership trends for quarter one 2018/19 were not an accurate representation of membership movement.

3. The Head of Pensions indicated that the Committee would receive an update report on cash-flow analysis with the Actuary's input at its next meeting.

Actions/ further information to be provided:

The Committee to receive revised figures for the statistics provided by the Pensions Administration team on current membership trends.

Resolved:

The Pension Fund Committee noted the cash-flow position for quarters one and two.

70/18 INVESTMENT STRATEGY STATEMENT [Item 10]

Declarations of interest:

None

Witnesses:

Neil Mason, Head of Pensions

Key points raised during the discussion:

1. The Committee noted that the Investment Strategy Statement (ISS) was amended to take account of the following:
    - The changes in asset allocation and regional weighting approved by the Pension Fund Committee through the equity review;
    - The change in allocation from investment grade bonds to multi-asset credit,
    - The inclusion of a statement to allow the automatic use of cash-flows to rebalance the portfolio back to the target asset allocation.
    - Changes in the Private Equity Manager list on, due to reaching the end of their fund life, the following funds had been removed; HG Capital MUST 3, HG Capital MUST 4, ISIS II and ISIS III.
    - ISIS IV had been renamed Livingbridge 4 LP and ISIS Growth Fund had been renamed Livingbridge Enterprse 1LP.

2. It was noted that the latest ISS would be available online.

Actions/ further information to be provided:

None

Resolved:

The Pension Fund Committee approved the changes to the Investment Strategy Statement.

71/18 EXCLUSION OF THE PUBLIC [Item 11]

Resolved: That under Section 100(A) of the Local Government Act 1972, the public be excluded from the meeting for the following items of business on the grounds that they involve the likely disclosure of exempt information under the relevant paragraphs of Part 1 of Schedule 12A of the Act.

PART TWO – IN PRIVATE

72/18 INVESTMENT MANAGER ISSUES AND PERFORMANCE ASSET/LIABILITIES UPDATE [Item 12]

Declarations of interest:

None

Witnesses:

Neil Mason, Head of Pensions
Steve Turner, Partner, Mercer
Sam Wreyford, Mercer
Anthony Flectcher, Independent Advisor

Key points raised during the discussion:

1. The Committee noted the three stages of the equity transitions based on the 30 September valuations.

2. It was highlighted that the overall target allocation of LGIM remained the same, therefore there was no need for transfers between managers for Phase 1.

3. It was noted that phase 2 would be relatively simple. The Fund's Investment consultant Mercer, recommended that the entire holding in UBS be transferred to the new fund as it would be one of the underlying managers for the BCPP.

4. The Committee were informed that the final stage of the transfer would involve transitioning the remaining active equities to BCPP and this would bring the Fund into line with the target geographic spilt agreed by the Committee.

5. The Committee discussed the following managers in turn:
    - Marathon was the largest global equity manager and was now operating under a new strategy. The Committee agreed it would useful to view the results per the new strategy to monitor the effectiveness.
    - Majedie would no longer be a manager for the Surrey Pension Fund due to its transition to the BCPP.
    - Newton had previously struggled however showed improvement in the last 12 months. Despite improvement were under review until confidence was restored.

6. It was highlighted that Surrey Pension Fund gross returns compared to other funds were higher due to its equity allocation and protection was in place ahead of the valuation next year.

Actions/ further information to be provided:

None

Resolved:

The Pension Committee noted the main findings of the report; the funding level of the Fund remained at 97.5% while the Fund's investment performance for the quarter ending 30 September 2018 was +1%.

73/18 MULTIPLE EMPLOYER INVESTMENT STRATEGIES [Item 13]

Declarations of interest:

None

Witnesses:

Neil Mason, Head of Pensions

Key points raised during the discussion:

1. The Committee agreed for officers to carry out initial work, allowing the Fund to establish whether tailored strategies would be appropriate for the Fund and suggested that it would be good practice to review other LGPS strategies to get a wider spread of understanding.

Actions/ further information to be provided:

None

Resolved:

The Committee approved for officers and the Fund actuary to undertake the initial work (stage 1 and 2) at a cost of £11,500, to ascertain the appropriateness of tailored strategies for the Surrey Fund.

74/18 BORDER TO COAST PENSIONS PARTNERSHIP: POOLING UPDATE [Item 14]

Declarations of interest:

None

Witnesses:

Neil Mason, Head of Pensions

2

John Harrison, Interim Chief Investment Officer, Border to Coast Pension Partnership
Steve Turner, Partner, Mercer

Key points raised during the discussion:

1. The Interim Chief Investment Officer informed the Committee that the main element of the report was to show that the process of due diligence had been carried out to ensure the necessary conditions of governance have been satisfied.

2. There was a discussion around transition costs to the BCPP UK Equity Alpha Fund and the Head of Pensions explained these costs would be recouped after 3 to 4 years and a full analysis of savings and costs would be undertaken once the Post Transition Report has been received.

3. It was highlighted that the transition of the Surrey Pension Fund UK equity to BCPP would take place cautiously to ensure the market does not set its prices against the Fund.

4. The Committee agreed to carry forward the recommendation to "approve the delegation of authority to the Director of Finance, in consultation with the Chairman of the Pension Fund Committee, to transition the active global equity portion of the Surrey Pension Fund portfolio to the BCPP national pool when its design has been established to the satisfaction of the officers and Fund advisors and assuming that the "necessary conditions" have been satisfied" to its meeting in February.

   Tony Elias left the meeting @12.35pm

5. The Head of Pensions was asked by the Committee to replace 'alternatives' with 'sleeves' to ensure consistency in the report.

6. The Committee discussed the active global equity portion of the Surrey Pension Fund portfolio to the BCPP national pool and were advised by the Interim Chief Investment Officer that funds had the choice to transition their whole fund allocation into the pool to be managed fully by the BCPP or chose to remain in control.

Actions/ further information to be provided:

1. Officers to carry forward the recommendation to "approve the delegation of authority to the Director of Finance, in consultation with the Chairman of the Pension Fund Committee, to transition the active global equity portion of the Surrey Pension Fund portfolio to the BCPP national pool when its design has been established to the satisfaction of the officers and Fund advisors and assuming that the "necessary conditions" have been satisfied to the Committee's meeting in February 2019.

Resolved:

The Pension Fund Committee,

a) Noted that compliance with the "necessary conditions" of governance for the BCPP UK Alpha fund was met on 15 October 2018 and that the transition of the UK equity portion of the Surrey Pension Fund portfolio to the BCPP has commenced.

b) Approved in principle, the transition of the active global equity portion of the Surrey Pension Fund portfolio to the BCPP national pool when its design has been established to the satisfaction of officers and Fund advisors and assuming that the "necessary conditions" of governance have been satisfied.

c) Approved (subject to meeting "necessary conditions" prior to launch) a 2019 commitment consistent with the Surrey Pension Fund target asset allocation to Private Equity within the BCPP Alternatives investment proposition.

75/18 INFRASTRUCTURE MANAGER SELECTION [Item 15]

Declarations of interest:

None

Witnesses:

Neil Mason, Head of Pensions
Steve Turner, Partner, Mercer
Sam Wreyford, Mercer

Key points raised during the discussion:

1. It was noted that although the Surrey Pension Fund had fully committed to the Border to Coast Pension Partnership, the Fund had to ensure it remained consistent to its target allocation of 5% to private equity and provide further portfolio diversification into infrastructure.

2. The Fund's investment consultant, Mercer, considered a number of managers and short-listed two funds; Blackrock and Glenmont against the desirable characteristics the Fund approved at its meeting on 14 September 2018.

3. It was noted that the manager recommended by Mercer was Glenmont due to its high rating, that it invests exclusively in clean energy, its LGPS familiarity and that its strategy was currently raising capital and has begun drawing money down.

4. The Head of Pensions assured the Committee going forward the process for informing the public that the Surrey Pension Fund were investing in fossil fuel free companies would be improved i.e. releasing press statements and making sure responses were clear.

Actions/ further information to be provided:

None

2

Resolved:

The Committee agreed to commit £40m to the Glenmont – Clean Energy Fund Europe III.

76/18 PUBLICITY OF PART 2 ITEMS [Item 16]

The Committee agreed that the Part 2 items remain confidential and restricted from the public. It was further agreed that future reporting should avoid the use of sensitive information where possible.

77/18 DATE OF NEXT MEETING [Item 17]

The Committee noted its next public meeting to take place on 8 February 2018.

Meeting ended at: 1.00 pm

Chairman

Surrey Pension Fund Committee Forward Plan

Date	Standing items	New items
	• National pooling update • Investment Manager Issues • Local board update • Cash-flow analysis • Voting and class action update • Engagement update	
07/06/2019		• Business plan 2018/19 outturn report • Governance review • Revised Business plan 2019/20 • Cash-flow modelling • Confirmation of global equity transition • Alternatives specification • Valuation update • Investment strategy statement update
13/09/2019		• Annual report • Downside protection update
15/11/2019		• CEM performance analysis report • FSS

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SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **8 FEBRUARY 2019**

LEAD OFFICER: **LEIGH WHITEHOUSE, SECTION 151 OFFICER**

SUBJECT: **COMPANY ENGAGEMENT & VOTING**

SUMMARY OF ISSUE:

This report is a summary of various Environmental Social & Governance (ESG) issues that the LAPFF, Robeco and Surrey Pension Fund have been involved in, for the attention of the Pension Fund Committee.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Notes the main findings of the report; the outcomes achieved for quarter ending 30 September 2018 by Robeco and LAPFF, by engaging with multinational companies on various Environmental, Social and Governance Issues (ESG).

2. Notes the findings from Surrey Pension Fund's share voting process for the quarter ending 31 December 2018.

REASON FOR RECOMMENDATIONS:

In accordance with The Fund's Investment Strategy Statement, The Pension Fund Committee must review and approve all working documents produced for the Pension Fund.

DETAILS:

Background

1. LAPFF is a collaborative shareholder engagement group representing most of the Local Government Pension Scheme Funds and UK Pension Pools, including Border to Coast Pensions Partnership (BCPP). Its aim is to engage with companies to promote the highest standards of corporate governance and corporate responsibility amongst investee companies.

2. Robeco is an international asset manager, also carrying out independent research on various ESG issues, which can contribute to a company's investment strategy. By providing regular sustainability reports, it reinforces the fact that good corporate governance and social responsibility can enhance the long-term risk-return profiles of our investment portfolios. Robeco has been appointed to provide voting and engagement services on behalf of BCPP.

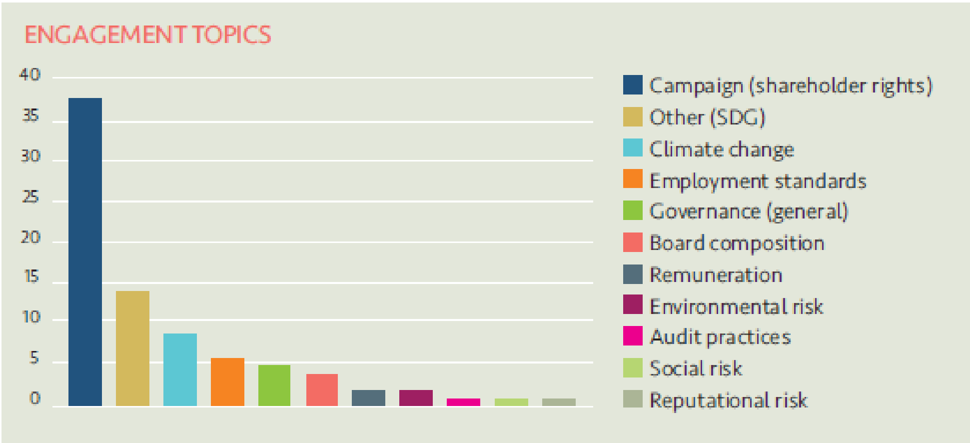
3. The informed use of shareholder votes, whilst not a legal duty, is a

responsibility of shareholders and an implicit fiduciary duty of pension fund trustees and officers to whom they may delegate this function. Such a process is strengthened by the advice of a consultant skilled in this particular field.

4. The Surrey Pension Fund has been with Minerva Analytics (formerly Manifest) since 2013 to provide consultancy advice on share voting and the whole spectrum of company corporate governance. Minerva Analytics has assisted in ensuring that the Fund's stewardship policy reflects the most up-to-date standards and officers learn of the latest developments and can reflect these developments in the Investment Strategy Statement (ISS).

Outcomes Achieved through Company Engagement

The LAPFF had engaged with 63 companies on issues ranging from employment standards to Sustainable Development Goals and shareholder rights during the Quarter Ending 30 September 2018.



LAPFF Engagement Outcomes

5. General Electric - Co-signed a letter to the CEO, to reconsider the acquisition of a stake in a coal plant in Kenya. The LAPFF is of the view that it will be at odds with the Company's positioning on climate change and the Paris Agreement

6. BP – Collaborative engagement continued with one of the regular meetings with investors and senior BP staff, as part of the Climate Action 100+ initiative.

   In 2018, BP set a goal of a methane leakage rate of 0.2% which sets an industry standard. LAPFF asked about the focus on methane emission control in the US and promoting methane management beyond the company's direct impact.

   The Forum also asked about the ambition and scale of the company's plans for Electric Vehicle charge points, where BP had recently purchased the UK's largest electric vehicle charging company, Chargemaster.

7. Ford Motor Company – In light of the US administration's proposal to roll back federal standards for car fuel efficiency, the Forum continued dialogue with the company on vehicle greenhouse gas emission standards, in the context of

the Climate Action 100+ requests on emission reduction and enhanced disclosure.

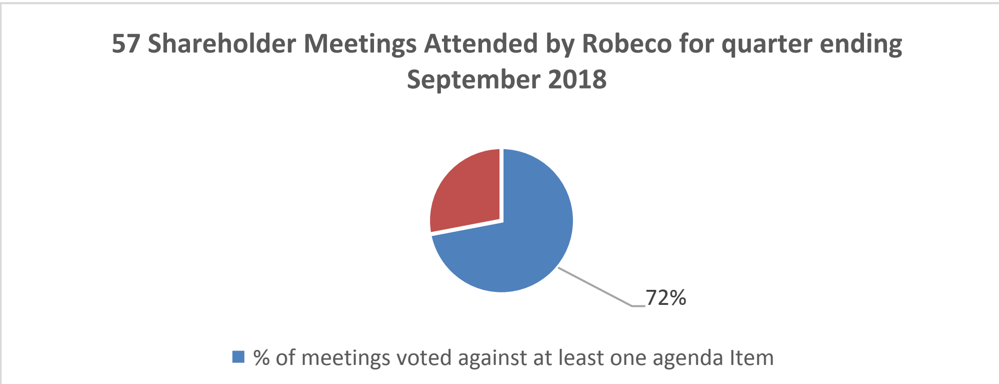
8. Rio Tinto - LAPFF joined other members of the Institutional Investors Group on Climate Change (IIGCC) to follow up the Company's progress in disclosing more information subsequent to the shareholder resolution at this year's AGM on membership of trade bodies and lobbying practices.

   It was noted that Rio has sold all its coal operations, but still relies on coal as an energy source in Mongolia and South Africa.

9. Unilever - The Forum was interested to know how the Economic, Social and Governance (ESG) components are balanced within the Roundtable on Sustainable Palm Oil (RSPO) and discussed how the Sustainability component can be more integrated within the work of RSPO.

Robeco Engagement Outcomes

Robeco had voted at 57 shareholder meetings, voting against at least one agenda item in 72% of cases during the quarter ending 30 September 2018.



Engagement on Environmental Social & Governance (ESG) Issues in the Auto Industry

<u>Reason for Engagement</u>

10. In recent years there have been a number of cases of vehicles being recalled by manufacturers and experts suggest this high volume will continue. In 2016, 20% of all cars in services were recalled in US, while between 2009 and 2013 Toyota had recalled 9m cars globally. Reasons for this trend include;

    - The growing level of complexity of vehicles and an increased number of electronics provided by multiple parties in the supply chain.

    - Global carmakers have cut between a third and a half of their employees in their quality management divisions since the financial crisis.

<u>Engagement Outcome</u>

11. Robeco engaged with Bayerische Motoren Werke (BMW) amongst other key stakeholders during 2018 on the issue of product quality in the automotive industry. Their findings through engagement in the automotive industry is summarised below

- Some car-makers have zero-defect ambition. Although may not be achieved in practice, quality targets are set at each stage of production highlighting attention to detail in product quality

- A more surprising finding was that companies manufacturing most reliable vehicles (lowest defect rates) did not have a lower incidence of recalls. Over the past few years, premium car makers were seen as more likely to voluntarily recall vehicles, due to non-compliance with air quality and carbon emissions regulations. This is to ensure customer expectations are continually met.

- In Robeco's engagement with companies over the next few years they are encouraging them to increase their disclosures on product quality and recalls data.

Engagement on Reducing Global Waste

Reason for Engagement

12. At current rates of population growth, global waste generation is estimated to rise to 2.2bn tons per year by 2025. All businesses are legally obliged to safely manage and dispose of their waste, and tightening environmental legislation will directly affect businesses.

    There is now a global trend of companies, moving from waste management to a more circular principle of resource recovery. Improving and tracking resource recovery will reduce costs of waste management, and also allow communication to be easily accessible to stakeholders.

Engagement Outcome

13. Robeco has begun to engage with 12 small/ mid-cap companies operating in solar energy, industrial waste management, and technology. The core objective of this engagement is to improve the companies' quantitative reporting on how they contribute to the United Nations' Sustainable Development Goals (SDGs), more specifically Number 12.

    SDG 12: No. 12 - 'Responsible Consumption and Production'.*'By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment'*

14. Robeco had created performance indicators which would quantify to what extent the companies are contributing to SDG 12. Robeco will then make recommendations to each company on how it can improve its performance based on those indicators, and measure their progress during the end of the engagement program in 2021.

Surrey Share Voting

15. The table below shows the total number of resolutions which Surrey was entitled to vote along with the number of contentious resolutions voted during the quarter. Surrey voted against management on 16.81% of the resolutions

for which votes were cast during quarter ending 31 December 2018, compared to 2.46% by the Average Shareholder.

16. All resolutions in the Sustainability category related to requests at UK companies for an authority to make political donations to political parties and organisations and to incur political expenditure. Surrey voted against the request at Associated British Foods plc as the Company had reported it had incurred political expenditure to the approximate value of £5,000 during the year.

Votes against Management by Resolution Category

Resolution Category	Total Resolutions	Voted Against Management	% votes Against Management	Average Shareholder Dissent %
Audit & Reporting	15	1	6.67%	1.36%
Board	67	4	5.97%	2.47%
Capital	16	2	12.5%	1.91%
Corporate Actions	3	0	0.00%	0.17%
Remuneration	13	10	76.92%	4.79%
Shareholder Rights	2	2	100%	2.86%
Sustainability	3	1	33.33%	2.60%
Total	119	20	16.81%	2.46%

CONSULTATION:

- The Chairman of the Pension Fund has been consulted and fully supports the conclusions of the report.

RISK MANAGEMENT AND IMPLICATIONS:

- There are no risk related issues contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

- There are no financial and value for money implications.

DIRECTOR OF FINANCE COMMENTARY

- The Section 151 Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

- There are no legal implications or legislative requirements

EQUALITIES AND DIVERSITY

- The Company Engagement Review does not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

- There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

- The Pension Fund continue to monitor the progress of the engagement work carried out by the LAPFF and Robeco over the medium and long term, and how this can impact investment decisions.

Contact Officer:
Mamon Zaman, Senior Accountant

Consulted:
Pension Fund Committee Chairman

Annexes:
Company Engagement Annex 1 - LAPFF
Company Engagement Annex 2 - Robeco

Sources/background papers:

6

Local Authority Pension Fund Forum

The Local Authority Pension Fund Forum (LAPFF) exists to promote the long-term investment interests of member funds and beneficiaries, and to maximise their influence as shareholders whilst promoting the highest standards of corporate governance and corporate responsibility at investee companies. Formed in 1990, LAPFF brings together a diverse range of 79 public sector pension funds and five pools in the UK with combined assets of over £230 billion.

QUARTERLY ENGAGEMENT REPORT

JULY TO SEPTEMBER 2018

Vote recommendations to oppose the election of Ryanair and Sports Direct Chairs amid employment concerns

Response to the Kingman Review sets out that the Financial Reporting Council is ‘beyond repair’

Meetings with the Chairs of Sainsbury’s and Pearson on governance risks prove useful

Executive Summary

During the last quarter, LAPFF has engaged with 63 companies on issues ranging from employment standards to Sustainable Development Goals and shareholder rights.

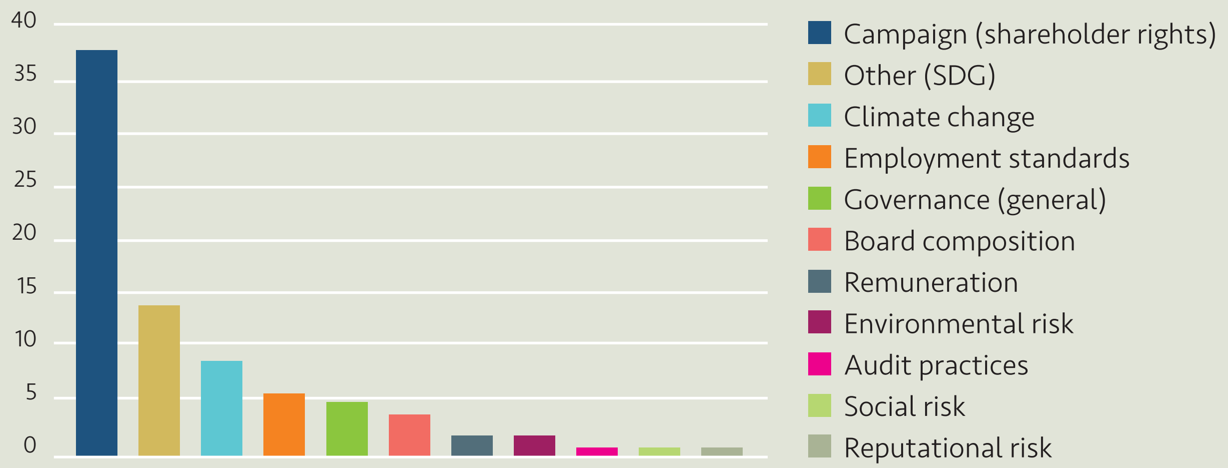
The Forum issued two voting alerts ahead of the Ryanair and Sports Direct AGMs in September. Poor human capital management, along with continued concerns related to poor board oversight over governance issues led to recommendations to oppose annual reports and the Chair at both companies. The Forum also attended both companies' AGMs.

With an aim to better understand how companies approach the UN Sustainable Development Agenda, LAPFF has liaised with 14 companies to discuss the topic of sustainable cities and climate risk management, as well as water stewardship and access to water and sanitation.

The Forum has submitted its response to the Kingman Review that aims to review the role and power of the Financial Reporting Council (FRC). Despite the responses not being public, the Forum considers that its position on disbanding the current FRC is widely shared.

Company Engagement

ENGAGEMENT TOPICS



GOVERNANCE RISK

Sidney Taurel, Chair of Pearson

At a meeting with **Sainsbury's**, LAPFF Executive member Cllr Doug McMurdo spoke with Chair David Tyler about cybersecurity management post-General Data Protection Regulation (GDPR) and how this is managed at the Board level. The meeting also covered the 2016 acquisition of Argos as well as the planned Asda merger and how these can impact investor value, customer experience and employment.

LAPFF also met with the Chair of **Pearson**, Sidney Taurel, to better understand the company's approach to the changing publishing environment and to discuss the new focus on digital content and book rentals. The Forum was also pleased to hear about positive changes to the Company's executive remuneration and plans to increase female representation throughout the Company. Other topics covered included climate-related financial disclosure and eliminating plastics in packaging for printed materials.

Along with 80 investors, the Forum was named on letters to more than 40 US companies that serve on the **National Association of Manufacturers**' (NAM) board. NAM has launched an aggressive critique of shareholder engagement especially on climate and is working against shareholders being able to file resolutions as well as any responses received. The letter expressed concerns regarding a recent report funded and distributed by NAM, which states that shareholder resolutions diminish company value. The letters call for the companies to distance themselves from NAM's position and to communicate their concerns to NAM leadership.

With an aim of gaining a better understanding of companies' approach to the Sustainable Development Goals, LAPFF wrote to **Stagecoach Group, Go-Ahead Group, Taylor Wimpey, Persimmon, Berkeley Group, Bovis Homes** and **Barratt Developments** on the topic of sustainable cities and climate risk management. The Forum also wrote to the most widely-held food and beverage companies on their approach to water stewardship and ensuring adequate water and sanitation practicalities across the supply chain, as well as to **United Utilities** and **Severn Trent** on sustainable and efficient water use.

Voting alerts

Ahead of the **Sports Direct International** Annual General Meeting, LAPFF issued a voting alert advising members to oppose the annual report, share repurchase and the re-election of Chair Keith Hellawell, Chief Executive Mike Ashley and Senior Independent Director Simon Bentley. Owing to the unresolved employment issues, the Forum continues to consider that the company does not have adequate governance structures and processes in place to foster the creation of long-term shareholder value. The Forum further recommended a vote in favour of the remuneration report and to abstain on the remuneration policy.

An alert was also issued recommending a vote against **Ryanair**'s annual report and the Chair, David Bonderman, amid continuing human capital management issues across the company and the company's failure to deliver adequate customer service during flight cancellations. There are further concerns over the overall level of independence on the board, including Mr Bonderman himself, who has been on the Board for over twenty years.

ENVIRONMENTAL AND CARBON RISK

The Forum Vice Chair Cllr Doug McMurdo spoke with **Unilever** representatives on the topic of sustainable palm oil and the recent critiques of the Roundtable on Sustainable Palm Oil (RSPO), of which Unilever is a founding member. The Forum was interested to know how the Economic, Social and Governance (ESG) components are balanced within RSPO and discussed how the S component can be more integrated within the work of RSPO. The Company also provided insight into the decision to move to a single share class structure.

Amu Power plant

LAPFF co-signed a letter to the chair and chief executive of **General Electric**, John Flannery, asking the company to re-consider the acquisition of a stake in Amu Power coal plant in Kenya. The Forum is of the view that the investment is at odds with the Company's public positioning on climate change and the Paris Agreement.

Collaborative engagement with **BP** continued with one of the regular '8 on 8' meetings with investors and senior BP staff, as part of the Climate Action 100+ initiative.

Discussions focused on the company's 'race to lower carbon' including an efficiency focus in upstream technology and the company's new technology and investments. As BP is the lead provider of methane in the US, LAPFF asked about the focus on methane emission control in the US and promoting methane management beyond the company's direct impact. The Forum also asked about the ambition and scale of the company's plans for Electric Vehicle charge points.

At a collaborative meeting with Simon Thompson, the Chair of **Rio Tinto**, LAPFF joined other members of the Institutional Investors Group on Climate Change (IIGCC) to follow up the Company's progress in disclosing more information subsequent to the shareholder resolution at this year's AGM on membership of trade bodies and lobbying practices. It was noted that Rio has sold all its coal operations, but still relies on coal as an energy source in Mongolia and South Africa.

In September, LAPFF continued its collaborative engagement with **Ford Motor Company** under the aegis of Climate Action 100+. The meeting sought to pursue existing dialogue on the company's position on public policy on vehicle greenhouse gas emission standards, in the context of the Climate Action 100+ requests on emission reduction and enhanced disclosure.

SOCIAL RISK

Employment Standards

Following strong investor concern over governance and employment practices at Sports Direct and Ryanair, the Forum attended both of the companies' AGMs in September. At the **Sports Direct** AGM, LAPFF spoke to the employee representative about the election process and inquired about some of the feedback from staff. The Forum also spoke to the newly elected Chair and the new female director. The Forum considers that the changes in leadership are likely to result in a more constructive discussion with the Company in the future.

LAPFF Vice Chair Cllr Paul Doughty attended the **Ryanair** AGM in Dublin. He inquired about alleged disciplinary actions against staff for not reaching sales targets and noted the issues around workers on Irish contracts. Cllr Doughty also asked about potential repayments for the delays and cancelations during industrial strikes.

Diversity

Through its membership of the 30% Club investor group, the Forum requested meetings with companies from the energy sector to discuss board governance processes around nominations and succession planning for both non-executives and executives and how diversity is considered in this process.

RELIABLE ACCOUNTS/CONSULTATION RESPONSES

LAPFF submitted its response to the Kingman Review, with the main recommendations being: disbanding the current FRC, creating a stand-alone UK Financial Accounting Standard Board, putting some audit oversight functions into a Companies Commission with the Insolvency Service, and creating a UK auditing oversight board. Disappointingly, the Kingman Review team have decided not to make the responses public. However, it is clear from those that have been published by the party making the submission, that the LAPFF position is widely shared.

These statements are from the response of fifth largest accounting firm BDO: 'It is our view that the FRC's reputation for regulation is poor...' '...the FRC's reputation for standard-setting has been, and will continue to be, undermined. For this reason alone, we believe that the two functions should be separated into different bodies.' and 'the FRC's failings are partly due to the conflict of interest engendered by its dual responsibilities for standard-setting and compliance, and partly through its "negative" impact on the audit market place.'

MEDIA COVERAGE

Ryanair

Ryanair cancels flights after strike by pilots and cabin crew – Financial Times, 28 September 2018

UK public pension group call for 'oppose' votes at Ryanair AGM – Business Insider, 14 September 2018

UK public pension group to oppose Ryanair at AGM – Reuters, 14 September 2018

Local authority pension group seeks to outst Ryanair chair - Local Government Chronicle, 14 September 2018

UK pension fund will oppose Ryanair at annual meeting – The Guardian, 14 September 2018

Ryanair chairman David Bonderman facing turbulence - The Times, 15 September 2018

Michael O'Leary's lockdown won't keep Ryanair's woes a secret – The Guardian, 15 September 2018

Ryanair says shareholder will back Bonderman at AGM – Independent, 19 September 2018

Ryanair CEO O'Leary admits he needs to improve his performance – Bloomberg, 19 September 2018

Ryanair investors Royal London to oppose re-election of airline's chair at AGM – City AM, 19 September 2018

Ryanair faces growing backlash at annual shareholder meeting – The Guardian, 19 September 2018

Ryanair shareholders re-elect O'Leary and Bonderman – RTE, 20 September 2018

Ryanair chief survive shareholder revolt – Travel Weekly, 20 September 2018

Ryanair faces turbulent AGM – The Times, 20 September 2018

Ryanair boss Michael O'Leary may leave within five years – BBC, 20 September 2018

Ryanair reports 30% votes against re-election of chairman Bonderman – Morningstar, 20 September 2018

Ryanair chair survives shareholder revolt but investors want change – The Guardian, 20 September 2018

Council pension fund rebel at Ryanair meeting – The MJ, 20 September 2018

Ryanair chairman re-elected at AGM by narrower margin amid concerns about strikes – Proactive Investors, 20 September 2018

Ryanair board survives AGM intact but dissatisfaction evident – The Irish Times, 20 September 2018

Sports Direct

Debenhams comment by Sports Direct forces watchdog to intervene – The Guardian, 12 September 2018

Ashley turn on shareholder after shambolic week for Sports Direct – Shropshire Star, 14 September 2018

Reliable Accounts

Britain needs a companies commission – Economia, 9 August 2018

UK accountancy watchdog 'too close' to big four, say critics – Financial Times, 20 August 2018

Independent Review considers calls for UK audit regulator to be shut down – IPE, 28 August 2018

UK accounting watchdog to publish hospitality register – Financial Times, 13 September 2018

Accountancy can be made to work for investors – Financial Times, 13 September

Climate

Investor group opposes General Electric plans for Kenyan power plant – Reuters, 19 July 2018

UK pension fund forum urges greater climate action from 16 firms – Environmental Finance, 10 August 2018

Fracking investments by council pension funds 'unlawful' – BBC, 3 September 2018

Other

How gender pay gap data is being used in investor engagement – Professional Pensions, 28 August 2018

Barnet pension scheme votes to join the LAPFF – Pensions Expert, 9 July 2018

COMPANY PROGRESS REPORT

63 companies engaged over the quarter

Q3 2018 ENGAGEMENT DATA

Company	Activity	Topic	Outcome
A3M Company	Letter	Campaign (Shareholder rights)	Dialogue
ABB Ltd	Letter	Campaign (Shareholder rights)	Dialogue
Abbott Laboratories	Letter	Campaign (Shareholder rights)	Dialogue
American Electric Power Company Inc	Letter	Campaign (Shareholder rights)	Dialogue
Barratt Development plc	Letter	Other (SDGs)	Dialogue
Berkeley Group Holdings plc	Letter	Other (SDGs)	Dialogue
Bovis Homes Group plc	Letter	Other (SDGs)	Dialogue
BP plc	Meeting	Climate Change	Substantial improvement
Bristol-Myers Squibb Company	Letter	Campaign (Shareholder rights)	Dialogue
Brown-Forman Corporation	Letter	Campaign (Shareholder rights)	Dialogue
Cairn Energy plc	Letter	Board composition	Dialogue
Caterpillar Inc	Letter	Campaign (Shareholder rights)	Dialogue
Conocophillips	Letter	Campaign (Shareholder rights)	Dialogue
Cummins Inc	Letter	Campaign (Shareholder rights)	Dialogue
Deere & Company	Letter	Campaign (Shareholder rights)	Dialogue
Devon Energy Corporation	Letter	Campaign (Shareholder rights)	Dialogue
Dow DuPont Company	Letter	Campaign (Shareholder rights)	Dialogue
Eli Lilly and Company	Letter	Campaign (Shareholder rights)	Dialogue
Emerson Electric Co	Letter	Campaign (Shareholder rights)	Dialogue
ExxonMobil Corporation	Letter	Campaign (Shareholder rights)	Dialogue
Fluor Corporation	Letter	Campaign (Shareholder rights)	Dialogue
Ford Motor Company	Meeting/Letter	Climate change/Campaign (Shareholder rights)	Small improvement
General Electric Company	Letter	Campaign (Shareholder rights)/ Climate change	Dialogue
Glencore plc	Letter	Audit practice	Dialogue
Go-Ahead Group plc	Letter	Other (SDG)	Dialogue
Intel Corporation	Letter	Campaign (Shareholder rights)	Dialogue
Johnson & Johnson	Letter	Campaign (Shareholder rights)	Dialogue
Johnson Controls Inc	Letter	Campaign (Shareholder rights)	Dialogue
Leggett & Platt Inc	Letter	Campaign (Shareholder rights)	Dialogue
Lockheed Martin Corporation	Letter	Campaign (Shareholder rights)	Dialogue
Marathon Petroleum Corporation	Letter	Campaign (Shareholder rights)	Dialogue
McCormick & Company Inc	Letter	Campaign (Shareholder rights)	Dialogue
Merck & Co Inc	Letter	Campaign (Shareholder rights)	Dialogue
Microsoft Corporation	Letter	Campaign (Shareholder rights)	Dialogue
National Grid plc	Letter	Climate change	Dialogue
Nestle SA	Letter	Other (SDG)	Dialogue
Nostrum Oil & Gas plc	Letter	Board composition	Dialogue
Novartis AG	Letter	Campaign (Shareholder rights)	Dialogue
Pearson plc	Meeting	Governance/Remuneration	Moderate improvement
Pennon Group plc	Letter	Other (SDG)	Dialogue
PepsiCo Inc	Letter	Other (SDG)	Dialogue
Persimmon plc	Letter	Other (SDG)	Dialogue
Pfizer Inc	Letter	Campaign (Shareholder rights)	Dialogue
PPG Industries Inc	Letter	Campaign (Shareholder rights)	Dialogue

Q3 2018 ENGAGEMENT DATA

Company	Activity	Topic	Outcome
Procter & Gamble Company	Letter	Campaign (Shareholder rights)	Dialogue
Rio Tinto Group (GBP)	Meeting	Climate change	Moderate improvement
Ryanair Holdings plc	Alert issued/AGM	Employment standards/Board composition	Change in process
Sainsbury (J) plc	Meeting	Governance (General)	Dialogue
Severn Trent	Letter	Other (SDG)	Dialogue
Southern Company	Letter	Climate Change/Campaign (Shareholder rights)	Dialogue
Sports Direct International plc	Alert issued/AGM/ Letter	Employment standards/Board composition	Dialogue
Stagecoach Group plc	Letter	Other (SDG)	Dialogue
Suez Environment	Letter	Other (SDG)	Dialogue
Taylor Wimpey plc	Letter	Other (SDG)	Dialogue
Textron Inc	Letter	Campaign (Shareholder rights)	Dialogue
The Boeing Company	Letter	Campaign (Shareholder rights)	Dialogue
The Coca-Cola Company	Letter	Other (SDG)	Dialogue
The Goodyear Tire & Rubber Company	Letter	Campaign (Shareholder rights)	Dialogue
Tullow Oil plc	Letter	Board composition	Dialogue
Unilever plc	Meeting	Environmental risk/Social risks/ Governance	Small improvement
United Technologies Corporation	Letter	Campaign (Shareholder rights)	Dialogue
United Utilities Group plc	Letter	Other (SDG)	Dialogue
Verizon Communications Inc	Letter	Campaign (Shareholder rights)	Dialogue

NETWORKS AND EVENTS

The following lists some of the events and meetings attended by or on behalf of LAPFF representatives during the quarter:

In July, the Forum organised an investor briefing to discuss governance and workforce issues at Ryanair, chaired by Cllr Ian Greenwood. The meeting heard from Ryanair cabin crew, representatives from the International Transport Workers Federation, an HSBC analyst and a partner at Charles Russell Speechlys.

The Local Government Pensions Minister, Rishi Sunak MP, spoke at the July meeting of the All Party-Parliamentary Group (APPG) on Local Authority Pension Funds. Chaired by Clive Betts MP, the meeting covered the importance of investing in infrastructure, pooling and revisited the topic of including Councillors as members of LGPS. Richard Murphy, Professor of Practice in International Political Economy and Director of Tax Research LLP also addressed the group on the lack of transparency within the big four accountancy firms – Deloitte, KPMG, Ernst & Young and PwC – and emphasised the importance of having strong accountancy standards. The minutes from the meeting can be accessed here.

The Forum joined a new investor alliance to engage companies on plastic pollution, led by the As You Sow Initiative. The Plastic Solutions Investor Alliance are intending to primarily focus on plastic packaging and to initiate dialogue with four large international consumer goods companies: PepsiCo, Procter & Gamble, Nestle and Unilever.

Through its membership in the Principles for Responsible Investment (PRI) Investor Working Group on Sustainable Palm Oil, the Forum attended a webinar on the risks that banks associated with deforestation face and the importance of investor engagement. The Forum also attended a webinar on companies that allegedly buy illegal palm oil in Indonesia.

Attendance at the Global Climate Action Summit in San Francisco emphasised the central importance of investors in sending strong signals to government to step up action by 2020, when global emissions need to peak and then swiftly decline. Conference outcomes set out a 'call to action' for all parties to take advantage of the opportunities to transition to a low-carbon economy.

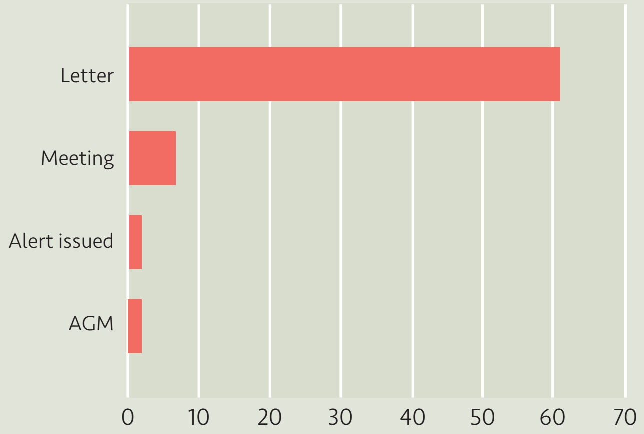
In September, LAPFF also attended the annual Climate Week in New York. The summit, which was launched by The Climate Group in 2009, gathers politicians, nongovernmental organisations, activist, policy makers and representatives from businesses to drive climate action forward.

At a CEO Investor Forum organised by 'CECP: The CEO Force for Good,' the Forum heard from a range of CEOs including from NRG Energy, IBM and GSK. The event reviewed the positive impact of communicating long-term value creation with investors.

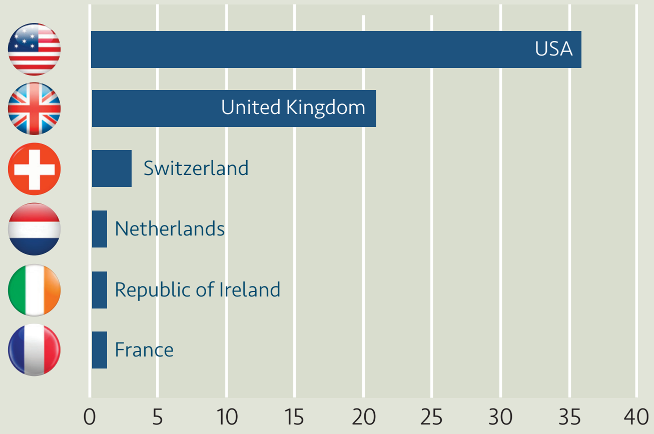
The Finanial Reporting Council (FRC) has launched independent research into FTSE350 companies' diversity and inclusion reporting. The Forum attended an event organised by the FRC on current trends in reporting and related initiatives.

COMPANY ENGAGEMENT ACTIVITIES

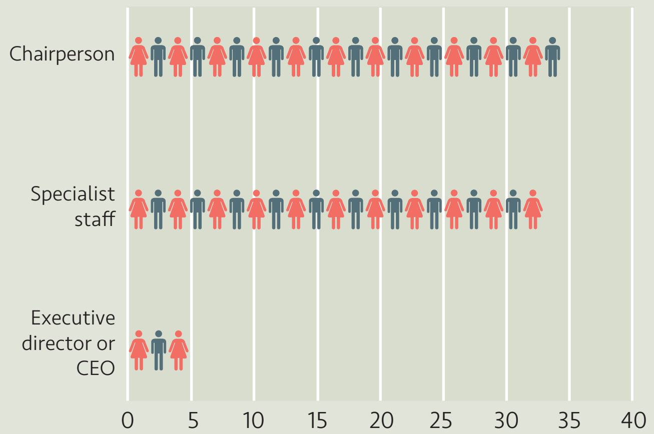
Company engagement activities



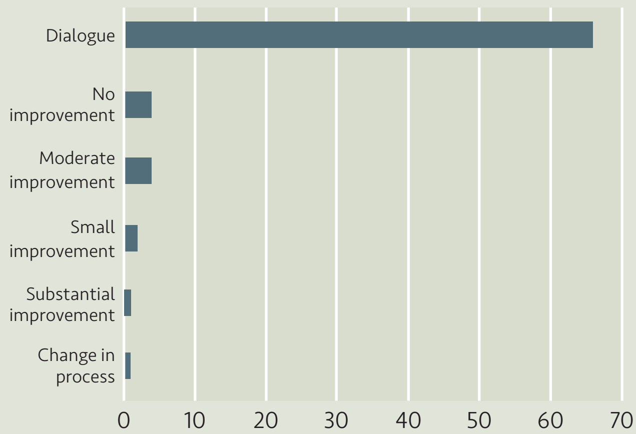
Company domiciles



Position engaged



Outcomes



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LOCAL AUTHORITY PENSION FUND FORUM MEMBERS

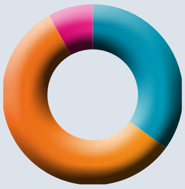
- Avon Pension Fund
- Barking and Dagenham LB
- Barnet LB
- Bedfordshire Pension Fund
- Border to Coast Pensions Partnership
- Cambridgeshire Pension Fund
- Camden LB
- Cardiff and Vale of Glamorgan Pension Fund
- Cheshire Pension Fund
- City and County of Swansea Pension Fund
- City of London Corporation
- Clwyd Pension Fund
- Cornwall Pension Fund
- Croydon LB
- Cumbria Pension Scheme
- Derbyshire CC
- Devon CC
- Dorset County Pension Fund
- Durham Pension Fund
- Dyfed Pension Fund
- Ealing LB
- East Riding Of Yorkshire Council
- East Sussex Pension Fund
- Enfield LB
- Environment Agency Pension Fund
- Falkirk Council
- Gloucestershire Pension Fund
- Greater Gwent Fund
- Greater Manchester Pension Fund
- Greenwich Pension Fund
- Gwynedd Pension Fund
- Hackney LB
- Hammersmith and Fulham LB
- Haringey LB
- Harrow LB
- Havering LB
- Hertfordshire County Council Pension Fund
- Hounslow LB
- Islington LB
- Lambeth LB
- Lancashire County Pension Fund
- Leicestershire Pension Fund
- Lewisham LB
- Lincolnshire CC
- London CIV
- London Pension Fund Authority
- Lothian Pension Fund
- Merseyside Pension Fund
- Merton LB
- Newham LB
- Norfolk Pension Fund
- North East Scotland Pension Fund
- North Yorkshire CC Pension Fund
- Northamptonshire CC
- Northern Pool
- Northumberland CC
- Nottinghamshire CC
- Oxfordshire Pension Fund
- Powys CC Pension Fund
- Redbridge LB
- Rhondda Cynon Taf
- Shropshire Council
- Somerset CC
- South Yorkshire Pension Authority
- Southwark LB
- Staffordshire Pension Fund
- Strathclyde Pension Fund
- Suffolk CC Pension Fund
- Surrey CC
- Sutton LB
- Teesside Pension Fund
- Tower Hamlets LB
- Tyne and Wear Pension Fund
- Wales Pension Partnership
- Waltham Forest LB
- Wandsworth LB
- Warwickshire Pension Fund
- West Midlands ITA Pension Fund
- West Midlands Pension Fund
- West Yorkshire Pension Fund
- Westminster LB
- Wiltshire CC
- Worcestershire CC

Active Ownership Report Q3-2018

BCPP | 01.07.2018 - 30.09.2018

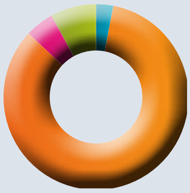
Engagement activities by region

North America	35%
Europe	57%
Pacific	8%
Emerging Markets	0%



Shareholder meetings voted by region

North America	3%
Europe	84%
Pacific	5%
Emerging Markets	8%



Voting overview

2018	1st Quarter	2nd Quarter	3rd Quarter	4th Quarter
Total number of meetings voted	N/A	N/A	57	
Total number of agenda items voted	N/A	N/A	917	
% Meetings voted against management	N/A	N/A	72%	

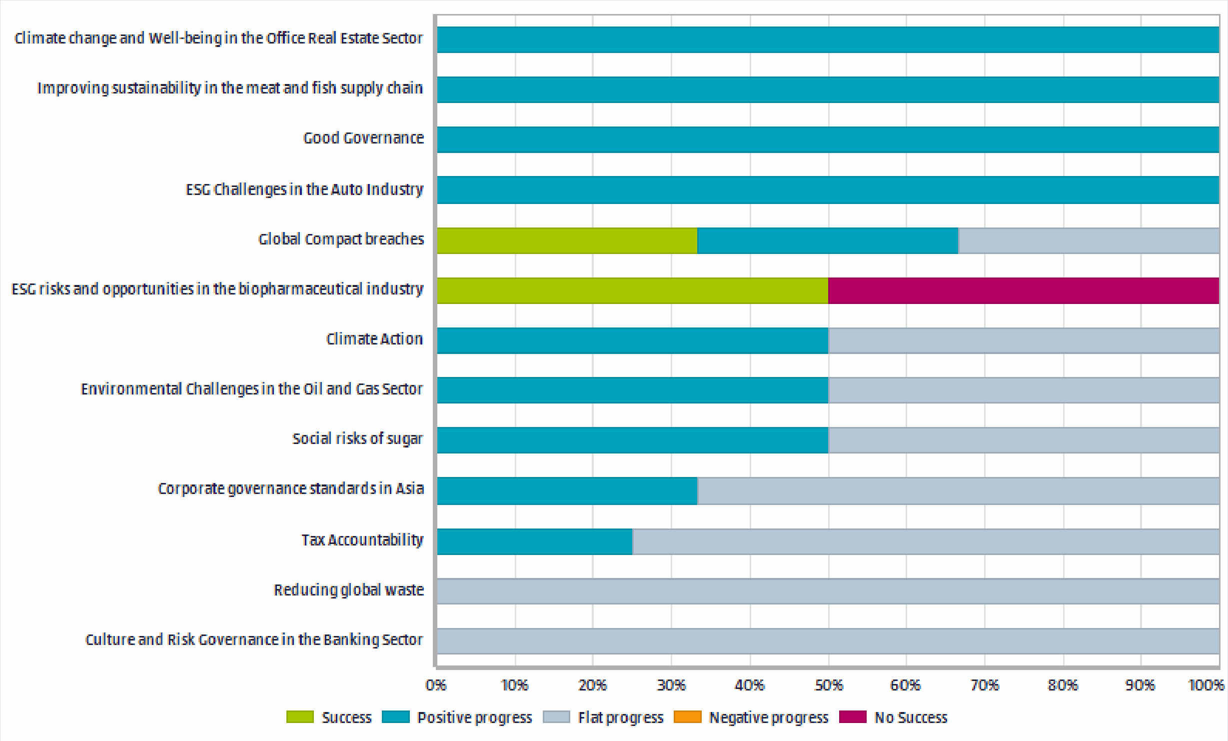
Engagement overview by topic

Environmental Management	9
Environmental Impact	1
Human Rights	
Healthy Living	3
Social Management	
Corporate Governance	8
UN Global Compact	2

Engagement by contact type

Analysis (no actual contact with company)	2
(Open) Letter	3
Meeting at company offices	3
E-mail	17
Active voting	2
Shareholder resolution	
Conference call	8
Speaking at a shareholder meeting	
Meeting at Robeco offices	4
Speaking at conferences	

Engagement results per theme



Contents

Voting Highlights P4
Ten years after the collapse of Lehman Brothers, Masja Zandbergen and Kenny Robertson explore the evolution in governance practices in the decade since, and how this shapes our voting approach today.

ESG Challenges in the Auto Sector P6
The automotive sector faces many megatrends that have the potential to fundamentally alter business models in the years to come. Yet, manufactures should not lose focus on ensuring impeccable product quality, as engagement specialist Cristina Cedillo explains.

Reducing Global Waste P8
The world's waste mountain is growing higher every day, with the focus now on not producing it rather than trying to recycle it. Engagement specialist Sylvia van Waveren explains how engagement can help companies contribute to SDG 12: Responsible Consumption and Production.

Social Risks of Sugar P10
Sugar taxes are increasingly used by governments around the world to tackle obesity and promote good health. But does this approach work? And what effect will such legislative steps have on the business models of beverage producers? Engagement Specialist Peter van der Werf investigates.

Corporate Governance in Asia P12
Political change in South Korea is increasing support for the reform of key corporate governance principles. But what impact does this have on investors? Ronnie Lim discusses the impact of our engagement approach in South Korea.

Introduction

Robeco places great value on external verification of the quality of our active ownership approach. That's why, each year, we dedicate a significant amount of time to answering the annual United Nations Principles for Responsible Investment questionnaire. This year, we are delighted to report that the UN PRI granted Robeco the highest score for all aspects of its sustainability investing approach, including strategy and governance, ESG integration and active ownership.
We view Robeco's consistently outstanding scores as a credible recognition of Robeco's approach to active ownership and the services we offer our clients, and are delighted that for another consecutive year our approach to being active owners of the securities held in our clients' portfolios has been awarded the highest possible score by the PRI.

Ten years since the financial crisis began, the importance of Active Ownership, I would argue, is greater than ever. Investors need to understand and address not only good corporate governance and risk management, but also take into account a broader set of material sustainability criteria, and ensure that the biggest such risks are mitigated within their portfolios. Active ownership is one key way in which this can be achieved.

We therefore continue to look forward, not back, to continually improve the quality of our voting and engagement approach. As with every quarter, in our active ownership report, we update you on the most recent status of a selection of the engagement themes that we run on our clients' behalf. From sugar taxes to managing one of the world's most pressing concerns, global waste, we always aim to ensure that the most material ESG issues in our clients' portfolios are addressed in our engagement program.

Carola van Lamoen
Head of Active Ownership

Voting Highlights

Proxy voting is an integral part of Active Ownership. The aim of our voting activities is to encourage good governance and sustainable corporate practices, which contribute to long-term shareholder value creation. During the quarter, we voted at 57 shareholder meetings, voting against at least one agenda item in 72% of cases. Below we provide some highlights from the quarter.

Codes of conduct
- ICGN Global Governance Principles

Corporate Governance: Proxy Voting
Our voting policy is based on the widely accepted principles of the International Corporate Governance Network (ICGN), which provide a broad framework for assessing company's corporate governance practices. We constantly monitor the consistency of our general voting policy with the ICGN principles, with laws and governance codes and systems as well as client specific voting policies. Our voting policy is formally reviewed at least once a year. We also take into account company specific circumstances and best practices when casting our votes.

A decade after the collapse of Lehman Brothers, Masja Zandbergen and Kenneth Robertson explain why governance is so crucial for the banking sector.

How time flies – last weekend the 10th anniversary of the start of the global financial crisis took place, when global markets plummeted after Lehman Brothers filed for Chapter 11 bankruptcy protection on 15 September 2008. Having gone through the Asian crisis and the dot.com bubble, this was not the first market crash I had experienced. However, the implications of this crash, which was the onset of one of the largest financial crises in living memory, were much wider-reaching. I would expect and hope that the financial community has learned from this experience... it has certainly affected the way we analyze the financial industry from an investment perspective. In this article, we discuss our view on corporate governance in the financial sector, and why we engage with banks on ESG issues.

Far-reaching governance impacts

Aside from its immediate and far-reaching consequences, the crisis provoked serious discussion as to the role that poor corporate governance practices played in the crash. Ten years on from Lehman, board composition and the appropriateness of incentive

structures remain a key focus of our voting approach.

The failure of boards to sufficiently understand and mitigate risks was seen as one contributing factor to the financial crisis, highlighting the strong financial materiality of poor corporate board oversight. Since then, the financial industry has undergone significant change. The assessment by policy makers across the globe that banks had been allowed the opportunity to take excessive risk led to significant changes in regulation, which have in turn affected corporate governance regimes at many major global financial institutions.

Having the right skills in place

Understanding the quality of a company's corporate governance, and therefore its ability to understand and mitigate the key risks facing their organization, forms a critical part of our voting approach. In one way or another, many of the failures of the global financial crisis of 2008 could be in some way related to the nomination process of the companies concerned. For example, prior to filing for bankruptcy, the board of Lehman consisted of ten people, of whom nine were retired, four were over 75 years of age, and only two had experience in the financial industry. The audit committee included a theater impresario with no background in the fields of banking, risk management or audit. Clearly, this was not to be considered a case of best practice. So what, when reviewing the boards of today's banks, is?

We believe the role of the nomination policy is crucial to ensuring that risks are reduced by having the right skills mix, competencies and independence at both the supervisory and executive board level. Specifically, the transparent and considered approach of recommending directors to specific roles needs to be in place to manage these very issues. Using an appropriate and well-structured nomination process is therefore key in ensuring effective long-term risk management in the sector.

In our voting approach, we pay particular attention to the skills of nominees to the board's audit, risk and credit committees, to ensure that the composition of the board includes those with a deep understanding of risks, and how to mitigate them. In particular, we look for nominees with strong backgrounds within the sector and geography within which the companies operate, as well as outside experts with the knowledge to challenge prevailing assumptions about a company's risk appetite.

Independence is key

While the right skills are important, board members must also be able to raise their concerns as and when they see them. Board independence is therefore another aspect of corporate governance that is of particular importance in mitigating risk. Yet, many financial institutions, particularly in the US, continue to grant a dual mandate to their CEOs, allowing them also to sit as chairman of the board. To achieve effective management supervision, it is very important that the board can exercise independent judgment, and is free of conflicts of interest. It is of the upmost importance that the board is in a position to act as sparring partners for the management team, and that the CEO is accountable to a board composed of members who have an in-depth understanding of the business and the topics at hand, whilst also possessing sufficient independence to oppose senior management when things go wrong.

You get what you pay for

Still, managing risk involves more than simply taking a best practice approach to board composition. A plethora of examples exist where excessive risk-taking that is encouraged and incentivized by poorly constructed compensation plans has led to negative impacts on a company's (and particularly a bank's) bottom line. If companies over-incentivize excessive risk taking in the way they pay their senior management, excessive risk taking will in all likelihood take place. Many have argued that corporate remuneration structures have incentivized CEOs and top executives to take excessive risks, and played an important role in the significant losses incurred in 2008.

It is therefore a critical component of our voting approach to heavily scrutinize the executive pay plans of the companies in which we and our clients are invested. We focus our analysis on symmetrical alignment with investor interests, and on comprehensive disclosures by the remuneration committee about executive performance evaluation. Risk-adjusted metrics also play an important role.

Lessons learned?

Overall, we see that, on the whole, board composition practices have improved in the 10 years following the 2008 crisis. In particular, regulation has led to boards nominating more members with financial expertise than in previous years. Yet, it is still difficult to understand what goes on behind closed doors, and therefore to assess the quality of the board. In this regard, disclosure of board self-assessment results represents the next step forward for investors in understanding how risk is mitigated at board level.

Executive compensation also remains a key concern, in both our voting and engagement approach. The topic therefore plays a key role in our engagement theme: Risk Governance and Culture in the Banking Sector. This program aims to grasp how banks are setting their risk tolerances, implementing compliance and risk management systems, and managing their culture. Engagement on this topic is necessary because the quality of a company's risk management framework and the nature of its culture cannot be captured by only studying annual reports, risk statements and other company documents.

A tick-box approach to corporate governance is one thing, and while conflict-free boards and having the right KPIs in remuneration policies are important, the real issue of course lies in the culture. That's why, in our engagement approach, we look at a wider range of factors, including culture, how people are incentivized via non-financial criteria, and the tone from the top. People in the financial industry should realize that finance is not a goal in itself, but merely a tool to create socio-economic prosperity for all stakeholders.

ESG Challenges in the Auto Sector

2016 was a record year for recalls in the US, both by the number of recall campaigns and the number of vehicles affected. As much as 20% of all cars in service in the US were subject to recalls, costing carmakers and suppliers USD 22.1 billion – a 26% increase over the previous year. These recalls can be very costly, affecting an automaker's bottom line, the company's stock price, or both. This is perhaps best illustrated by Toyota's recall crisis of 2009-2013, where vehicles affected with unintended acceleration (a fault that resulted in casualties and injuries), led the company to recall 9 million cars globally and suspend production of some of its most popular models in some markets. Toyota's shares dropped 20% in a month and worldwide sales declined by almost 20%.

Codes of conduct
- UN Global Compact Principles 7-9
- Rio Declaration on Environment and Development
- OECD Guidelines for Multinational Enterprises, Chapter VI
- SDG 9: Industry, Innovation and Infrastructure
- SDG 11: Sustainable Cities and Communities

Environmental Management: Environmental Policy & Performance
An environmental management policy is a set of restrictions or standards designed to protect and conserve environmental resources. An effective environmental policy clearly outlines rules and expectations for companies to follow regarding preventing negative impact on the environment. Furthermore it should be equipped to calculate the environmental performance of a company as well.

Experts suggest that the high volume of recalls is likely to continue. Firstly, a key driver behind this trend is the growing level of complexity of vehicles and the increasing number of electronic components supplied by multiple parties in the supply chain. Secondly, cost-cutting by car manufacturers can also be said to play a role in the increase of recalls. AlixPartners estimates that global carmakers have cut between a third and a half of their employees in their quality management divisions following the financial crisis. Furthermore, staff numbers have not reached pre-crisis levels despite observing growth in the sector, primariliy because of the industry's need to invest in new technologies, like electric vehicles and self-driving capabilities.

Opening up the black-box

We believe that understanding the quality management approach of carmakers can help investors identify those that are better equipped to prevent defects or non-compliance incidents and therefore decrease their recall liabilities. Yet, data on product quality management and performance is scarce and spotty. Besides reporting

on warranty and liability expenses, there are very few disclosures on product quality.

During 2018, our engagement with the automotive industry aimed at gaining a better understanding of the product quality management approach of large auto makers. Next to our dialogues with companies, we also conducted an assessment of carmakers' performance, ranking carmakers on the reliability of their vehicles. We used data on the number of defects detected in the first 200,000 kilometers of use of each vehicle model between carmakers collected during two years by Dekra, a European vehicle inspection company. These reliability scores can be used as a proxy indicator for effective product quality management. After a year of engaging with the sector, we are now able to report our initial findings.

Getting it right the first time

Minor defects and malfunctions are impossible to fully prevent. But a carmaker can become exposed to significant financial risk when a defect is known to endanger many people, is expensive to repair, or when the company has been aware of the defect for a long time before it was disclosed or otherwise discovered. Yet, some carmakers have product quality management based on a zero-defect ambition. Although their zero-defect ambition is not achieved in practice, these carmakers actually have an above-average performance relative to peers in terms of lower number of 'things gone wrong' during the first 200,000 kilometers driven. In our engagement, we learned that this zero-defect ambition in practice means integrating quality targets at each stage of vehicle development, from the design phase and assembly, to delivery and use by customers. While setting a zero-defect target does not translate into better performance, it may say something about the attention paid to product quality and being more successful in translating this high-level ambition into effective internal controls and processes.

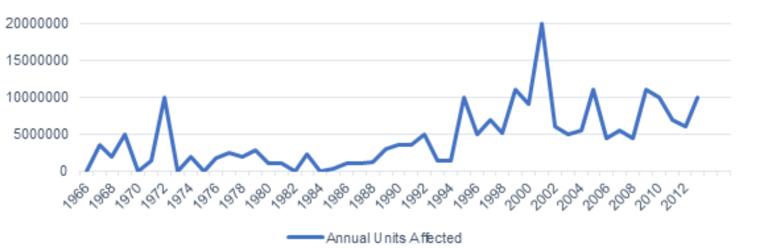
Knowing when to act

Identifying defects and non-conformities in cars as soon as possible once they are on the road can help prevent recall costs from ballooning. In our engagement, we have learned of the importance of having an organizational structure and clear allocation of responsibilities. In one example, a company suffered significant financial losses and reputational damage for not being prepared to adequately respond to customer complaints. At the company, only one person was authorized to initiate a recall, and this resulted in an extremely slow response. Moreover, the lack of communication among quality officers across markets meant that the defects reported were treated as minor, isolated issues, failing to recognize these defects as a larger trend that in turn brought safety concerns.

Not all recalls are the same

One of the main surprises in our engagement and assessment of carmakers' performance was finding that those manufacturing the most reliable vehicles (i.e. with the lowest defect rate) do not necessarily have a lower incidence of recalls. Instead, these high-quality carmakers opt for a proactive approach and are more likely to voluntarily recall vehicles, even for minor defects that pose no safety-related concerns. We note that premium carmakers are the ones predominantly taking this apporach, as it helps ensure customer expectations

Time Series Summary of Recall Trends in the US 1966 - 2012



Source: Society of Automotive Analysts/NHTSA data are being met. Moreover, next to safety-related recalls, over the past three years we have observed the emergence of recalls due to non-compliance with air quality and carbon emissions regulations. Although only a couple of carmakers have been mandated by regulators to recall high-emitting vehicles, we again notice premium carmakers voluntarily offering customers to retrofit their cars.

Emphasis on transparency

For investors it is very challenging to assess the level of carmakers' preparedness to respond to vehicle defects. Our engagement is allowing us to gain a better view of how product quality processes and controls work in practice. Nonetheless, more transparency on defect-rates of vehicles and recall campaigns initiated, both voluntarily and mandated by a transport safety agency, would be helpful in this assessment. Existing disclosures vary from one carmaker to the other, making it hard to make comparisons and draw reliable conclusions. In our engagement we are encouraging companies to increase their disclosures on product quality and recalls data. We will continue our dialogue and communicating our progress in the coming two years of our engagement.

SPOTLIGHT ON

Product Quality in the Automotive Sector

The automotive sector is currently undergoing major change, driven by the megatrends of electrification of the powertrain, autonomous driving and shared mobility, topics which gain signfricant attention from investors.

Yet whilst these trends are worthy of investor attention, it is important to not forget that product quality is key to the longer term success of any car manufacturer. If consumers lose faith in the quality of a brand its longer term prospects are poor. In the past, Japanese car manufacturers were able to enter the US car market as the US consumer had a positive view on the quality of their cars. US manufacturers went through difficult times in those years.

Product quality can also help to reduce the number of recalls. Although recalls are to some extent part of the business, manufactures should try to limit them as much as possible. As the recent example of airbag manufacturer Takata shows, recalls can drive companies into financial distress.

Product quality is key to the longer term success of car companies. In addition it can help to reduce the downside risks of high recall costs. As credit investors we are always looking at factors that can reduce the downside risk of our investment. Having a good view on the product quality of a car manufacturer can help us to make a better informed investment decision. The engagement process helps us to build this view.

6

Reducing Global Waste

The world's waste mountain is growing higher every day, with the focus today on not producing it rather than trying to recycle it. This is now the subject of our engagement efforts with companies to promote 'circular' resource recovery, and lower their environmental footprints.

Codes of conduct
- UN Global Compact
- SDG 12: Responsible Consumption and Production'

Environmental Management : Emissions, Effluents and Waste
Emissions and effluent should be included in the primary process of a company's environmental management. The efficient use of resources results in immediate cost savings. Even the efficient processing of waste(water) requires energy and some of the waste(water) always ends up in the environment. Therefore, the prevention of emissions and effluent is vital. This is followed by stimuli to encourage companies to use efficient processing methods, such as recycling. Companies have to develop strategies for managing the financial and operational consequences of their contribution to the generation of emissions and effluent. This will mean setting targets for reducing emissions and effluent, including measuring performance and reporting progress. A company that makes use of the technological possibilities to reduce emissions and effluent and that contributes actively to technological innovations in this area, reduces reputational risk and assumes a leadership position.

Waste is a pressing problem that gets worse every day. At current rates of urbanization and population growth, global waste generation is estimated to rise to 2.2 billion tons per year by 2025, which translates into 1.42 kg of waste per person per day.

All businesses are legally obliged to safely manage and dispose of their waste, though the reality is of course different, depending on the locale. Many countries have been scrutinized for their failure to establish sound waste management systems, and are now starting to take action. We expect tightening environmental legislation to have direct implications for businesses.

The best form of wage management: don't produce it

The most efficient way to manage waste is to not produce it in the first place, and while the majority of companies might not be there yet, the global trend is to move from 'waste management' to 'resource recovery' thinking.

Waste management is not only crucial to protect the environment; it is also in companies' own interest. Embedding 'circular principles' into operations will reduce resource consumption, improve resource efficiency and reduce the overall cost of waste management, which is good for the

bottom line. Moreover, by tracking and communicating efforts around waste minimization, companies build a database that can easily be shared with stakeholders, while being simultaneously able to improve their corporate image and attract more skilled workers in the long run.

Waste management is linked to at least 12 UN SDGs

Another initiative to improve global waste management is linked to the United Nations Sustainable Development Goals (SDGs). Investors can play a role in promoting efficient and sustainable waste management methods by targeting those companies that are contributing towards achieving the SDGs.

Out of the 17 SDGs, at least 12 are either explicitly or implicitly linked to waste. For example, sustainable waste and resource management has the potential to reduce greenhouse gas emissions by 15-20% across a number of sectors, which means it can contribute to SDG 13, 'Climate Action'.

The SDG most directly related to this area is No. 12, 'Responsible Consumption and Production'. This has high ambitions, calling on companies to: "By 2020, achieve the environmentally sound management of chemicals and all wastes throughout their life cycle, in accordance with agreed international frameworks, and significantly reduce their release to air, water and soil in order to minimize their adverse impacts on human health and the environment."

The objectives of our engagement

Robeco wanted to play its part in reducing waste by engaging with selected investee companies. In the second quarter of 2018, we began our engagement dialogue with 12 predominantly small/mid-cap companies that operate in solar energy, industrial waste management, and technology. The engagement's core objective is to improve the companies' quantitative reporting on their contribution to SDGs, especially SDG 12. In addition, we will challenge each companies' strategic approach to managing performance on material ESG issues, and seek out opportunities for sustainable management of resources, such as the recovery of materials. We believe that companies that adequately address these issues and adopt long-term strategies can achieve greater success in the future.

The five engagement objectives are:

1. **Environmental Impact Assessment**
   We want companies to conduct an Environmental Impact Assessment based on analysis of a product's life cycle and production processes. We want them to disclose the cost and volumes of the resources used, and its environmental impact,, the use of the product and its 'end of life' impact, including the availability of recycling or takeback initiatives.
2. **Environmental Strategy**
   With the outcome of the Environmental Impact Assessment, companies should set targets to reduce their footprint, increasing efficiency of resource use and reducing their operating costs as a result. We want companies to use circular economy principles to reduce resource use rather than deal with the waste it generates afterwards.
3. **Sustainability Reporting**
   We expect companies to continually improve their sustainability reporting and provide disclosure on key ESG issues in addition to annual financial disclosure. We would like to see better disclosure of energy use and CO2 emissions, and encourage companies to quantify their SDG contribution.
4. **Corporate Governance**
   We will assess the effectiveness of individual companies' corporate governance practices, in particular, their management and supervision of ESG issues – through an assessment of board composition (skills, tenure, diversity etc.), and incentive structures, focusing on the use of non-financial metrics in long-term executive compensation schemes where applicable.
5. **Social Impact**
   We will encourage companies to increase their human capital management performance, and reduce labor risks in their supply

chains. Where relevant, we will address the use of resources extracted from war zones (conflict minerals) and other supply chain management issues.

Baseline analysis

We have made a baseline analysis for each company, in which we assess it on a number of indicators that we have identified for the five engagement objectives. Examples of such indicators are the presence of a renewable energy program for objective 2 (Environmental Strategy) or board independence for objective 4 (Corporate Governance).

We make concrete recommendations to each company about how it can improve its performance on the indicators, such as 'Make a formal commitment towards circular economy principles or philosophy', 'Include environmental impact considerations in the design stage of new products', or 'Implement initiatives to reduce hazardous waste'. We will measure the companies' progress during the end phase of the engagement program in 2021.

Social Risks of Sugar

In July 2017 we began our engagement program aimed at encouraging companies to speed up product reformulation and innovation to ensure a successful business model in the long run. We also discussed how companies can provide more transparency around their lobbying activities, and ensure that their marketing is responsible. In this article, Engagement Specialist Peter van der Werf shares our mid-term findings.

Codes of conduct
- UN Global Compact
- SDG 2: End hunger, achieve good security and improved nutrition and promote sustainable agriculture
- SDG 3: Ensure healthy lives and promote well-being for all at all ages

Healthy Living: Healthy Nutrition
UN Global principles 1 and 2 are designed for companies to respect and support the protection of internationally proclaimed human rights and to make sure that they are not complicit in human rights abuses. Human rights issues arise because companies do not consider the potential implications of their activities within their operating context. We link the way people are able to live a healthy life to basic human rights.

Legislating sugar consumption

Sugar is added to almost all packaged food and beverages, making it hard to avoid. Our growing consumption of sugar is partly to blame for the current obesity epidemic, which in turn is the main cause of rising levels of diabetes, heart attacks and choked arteries. At the same time, consumers are becoming better educated about following a healthy diet.

Companies producing packaged foods operate in an environment where they face growing pressure to reformulate their products. The World Health Organization (WHO) has included safe levels of sugar intake in its dietary guidelines, and is contemplating a further tightening of its standards. We have also seen an increase in sugar taxes around the world, most notably the one introduced in April 2018 in the UK.

Product reformulation

Many companies have reported good progress on their efforts around product reformulation. Yet, the continuous growth of the global obesity pandemic raises the question if this current push to reformulate products is sufficient. All the companies in our engagement program recognize the need to reduce 'nutrients-of-concern' such as sugar, salt and fat. However, they quote resistance among consumers as the main reasons for their focus on stealth reformulations,

where the product has sugar or other ingredients removed without drawing attention to it on the packaging or marketing messaging.

In addition to hiding the reformulation, these companies have also cut sugar levels in very small steps so as not to alienate consumers from the taste they appreciate and value. This often results in products such as breakfast cereals that still contain high levels of sugar, thereby providing a majority of the maximum recommended daily intake of sugar in the first meal of the day, particularly for children.

Impact of UK sugar tax

One of the instruments that governments can apply to disincentivize consumers from consuming high sugar products is by levying a sugar tax. One example came in 2016, when the UK government announced one such measure. All ready-to-drink beverages that contain at least 5g of added sugars per 100ml are subject to the tax. The levy amounts to EUR 0.20 per litre for drinks with 5g of sugar or more per 100ml, rising to EUR 0.27 for drinks with more than 8g.

Since the tax was introduced on 6 April 2018, consumers have been shifting their soft drinks purchases to low-sugar alternatives and water, according to IRI, a market data company. An additional 7% of lower-sugar soft drinks were consumed in the UK every week, with total sales of soft drinks in the country rising in value by EUR 5.5 million to EUR 185 million per week, partly due to higher prices.

The effect on sales for many companies has been immediate and clear. Pepsi and Coca-Cola saw their volumes decline by 2% and 1% respectively, while all other major brands saw a positive impact on volume sales. This leads to a first conclusion that the introduction of the levy has had a clear impact on the soft drinks category, based on data up to the end of Q2 2018.

Impact of sugar tax in other countries

Yet this trend is not solely limited to the UK. In Mexico and Chile, two countries facing rapidly rising obesity rates, the government introduced sugar taxes in 2014 and 2015 respectively. For Mexico, the 1 peso per litre soda tax resulted in a 5.5% drop in sales the first year and a 9.7% sales decline in the second year. Chile levied a tax on sugary drinks while reducing the tax on non-sugary beverages. The impact on total sales volumes has not yet been reported for Chile.

While the effect has been notable in Mexico, many proponents of sugar taxes advocate for more significant price increases, the intended effect of which would be to reduce sales volumes. In the United Arab Emirates, a tax on carbonated soft drinks and energy drinks was brought in on 1 October 2017. Energy drinks are taxed at 100% and soft drinks at 50%. Companies reported a much more significant impact on their sales figures.

It is important to note, however, that the application of sugar taxes has not been uniform across markets, and in some instance, due to flaws in implementation, the results have been less clear. Belgium, for example, introduced a tax where all sugar containing drinks, even in very small amounts, are taxed at the same rate. The resulting lack of price differentiation therefore does not incentivize consumers into making healthier choices, therefore limiting the positive health impacts of the levying of such a tax. This is often also cited as the main drawback for most sugar taxes globally.

Staying in line with consumer preferences

Robeco regards effective sugar taxes as one of the main instruments that governments can use to alter consumer preferences. Nutritional education has only reached a small amount of consumers, while voluntary pledges have not as yet instilled sufficient urgency in the product reformulation efforts of companies. In most cases, it is still more profitable in the short term to continue selling legacy high-sugar content products, instead of reformulating or innovating into new product lines.

Next phase in our engagement

In the coming 18 months, we will continue to engage with the companies in our peer group to reduce the total volume of added sugar in their product portfolios. We believe that if they adopt a product portfolio that is well placed to thrive in a low-sugar economy, these companies will develop a superior business model compared to those that remain solely focused on their legacy products. This can in turn enable investors to reduce the risk in their investment portfolios that these companies will be held liable for health impacts on consumers based on (over) consumption of their products

INVESTOR SPOTLIGHT

Amir Maani Shirazi, Analyst, Global Credits, and
Stephen Verheul, Analyst, Global Credits

We believe that growing awareness by the consumer about nutritional content of food and beverages will lead to them choosing differently. Such awareness results in a lower demand for high-sugar content food and beverages, and ultimately the market for these food and beverage products will contract in the longer run.

Large food and beverage companies have so far only made small changes in terms of portion size reduction and improved product labelling. And the industry falls short in delivering tangible innovation to an improved nutrition profile overall for the product offering. Healthy snacking offers a great opportunity to innovate in this space, with most of it to date coming from smaller companies that have responded to this trend.

In the medium term, regulation and taxation will negatively impact demand, and food producers face the choice of either changing their product portfolio to offer healthier choices to consumers, or becoming less relevant. As a result, we expect bond spreads to reflect the higher risk profile of companies with unhealthy foods in the future, though we do not see this materializing yet today.

Next to the food and beverage companies using sugar in their products, the sugar producers themselves will also see an impact. The European Commission estimates sugar consumption to decline by 5% per year until 2030. However, sugar production within the EU area is actually showing an increase, due to the abolishment of production quotas. This means European sugar producers will have to rely more on the export market. Nevertheless, the financial impact for now is expected to be limited, as population growth in emerging market countries, combined with growth in their disposable income, is expected to make up for the declining demand in the EU and other developed markets.

Corporate Governance in Asia

Political change in South Korea is increasing support for the reform of key corporate governance principles, namely transparency and accountability. Yet, while public support for reform of the chaebol structure does exist, it is more nuanced than meets the eye. So, what does this mean for investors? Hong Kong-based engagement specialist Ronnie Lim explores the impact of change for investors.

Codes of conduct
- The ICGN Global Governance Principles (ICGN, revised 2014)
- Local corporate governance codes
- SDG 16: Peace, Justice and Strong Institutions

Corporate Governance: Accountability & Transparency
A company's corporate governance structure specifies the rights and responsibilities of the various stakeholders such as the management, supervisory directors, shareholders and other stakeholders. An effective corporate governance system focuses on a company's long term business continuity and protects shareholders' interests. A well-functioning corporate governance system can contribute to long term shareholder value. International and national principles and codes provide guidelines for good corporate governance. Corporate governance covers a number of important issues. Relevant subjects are: remuneration policy, shareholder rights, transparency, effective supervision of management, independent audit and risk management.

South Korea has been in the international headlines during an eventful year. Last year's dramatic elections in the country led to the impeachment and dismissal of the former president, and the subsequent election of President Moon Jae-in. This was then followed by this year's summit in Panmunjom, where the leaders of both North and South Korea committed to lasting peace on the Korean peninsula, with the North starting a process of denuclearization that is supported by US President Donald Trump.

South Korea's new President Moon is a liberal committed to openness, and there have been widespread public and investor expectations of significant reforms of the 'chaebol' – large industrial conglomerates that are controlled by a family. Almost all equity investors in Asia are shareholders in several South Korean companies which are either chaebol holding companies or subsidiaries of them. These include large, household names such as Samsung Electronics, LG and Hyundai Motor. Although investors are happy to own these companies because they produce globally competitive technologies and products, they also suffer from several issues including weak governance, poor shareholder communication and poor capital management.

The South Korean market – dominated by the chaebol – is often ranked close to bottom on corporate governance scores. These issues have been widely attributed as the main causes of the 'Korea discount', where otherwise excellent companies are penalized by investors.

Many chaebols have been criticized for low dividend payouts and other governance practices that favor controlling shareholders at the expense of minority investors. Prior to the 2017 elections, other issues included investor fury over chaebol-related party transactions, the reluctance by regulators to adopt an investor stewardship code, and acquiescent minority investors.

While there was significant hope from South Korean voters and investors ahead and after the elections for significant reform of the dominance of the chaebol (see Chart 1 below), the subsequent reality has been much more nuanced, as the euphoria has quickly waned.

The reality is that Koreans themselves have conflicted attitudes towards the chaebol, and this is reflected in policy making and enforcement. For decades, Koreans have witnessed a parade of chaebol chairmen go in and out of courthouses facing charges on a myriad of economic crimes, but a serious judicial outcome is still considered unusual. The imprisonment of the CEOs of the SK Group and CJ Group in 2013 and 2014 respectively for white-collar crimes, came as something of a shock because they marked a shift from this convention. Similar responses were observed more recently by the conviction and subsequent pardon of Samsung Electronics' Vice-Chair. While there is widespread resentment of the chaebols' monopolistic behavior, many Koreans still aspire to work for them, and critical press coverage is often also inconsistent.

Robeco's recent active ownership activity in South Korea has two primary objectives:) the disclosure of corporate strategy and) improving capital management. While we also engage with both policymakers and our portfolio companies in South Korea to improve board independence and quality, we do not underestimate the cultural/structural barriers and lack of incentives for meaningful reform. We are mindful that chaebol reforms could have limited impact, even after the 'transformation' of holding companies and apparently 'straightforward' objectives like increasing dividend payouts. This is due to the varying incentives for the founding/controlling families, and how management control is exercised.

Robeco's Active Ownership team also often works collaboratively with other investors to magnify the influence of our agenda. Our activities include becoming a signatory to the Korean Stewardship Code, contributing to the Korea Working Group of the ACGA, supporting the policy agenda of the Fair Trade and Financial Services Commissions in South Korea, and leading key engagement meetings with the management of major chaebols.

CG Watch market scores: 2010 to 2016 (%)

	2010	2012	2014	2016	Change 2014 vs 2016
Singapore	67	69	64	67	(+3)
Hong Kong	65	66	65	65	
Japan	57	55	60	63	(+3)
Taiwan	55	53	56	60	(+4)
Thailand	55	58	58	58	
Malaysia	52	55	58	56	(-2)
India	49	51	54	55	(+1)
Korea	45	49	49	52	(+3)
China	49	45	45	43	(-2)
Philippines	37	41	40	38	(-2)
Indonesia	40	37	39	36	(-3)

Source: Asian Corporate Governance Association (ACGA), 2016

A recent case involved a proposed related-party transaction at a large auto parts and logistics company. Despite our persistent questions and objections to the lack of strategic rationale and valuation, the companies were unable to adequately explain or justify their merger terms, and we were prepared to vote against management on the proposed merger spin-off. Prior to the voting deadline, they cancelled the shareholder meeting where this proposal was being sought.

Reducing global waste
SunPower Corporation

Climate Action
Chevron
Royal Dutch Shell

Environmental Challenges in the Oil and Gas Sector
ConocoPhillips
ExxonMobil
Royal Dutch Shell
Total

ESG Challenges in the Auto Industry
Bayerische Motoren Werke

Climate change and Well-being in the Office Real Estate Sector
Great Portland Estates Plc

Improving sustainability in the meat and fish supply chain
DSM

ESG risks and opportunities in the biopharmaceutical industry
Biogen IDEC, Inc.
Johnson & Johnson

Social risks of sugar
Nestlé
Unilever

Corporate governance standards in Asia
Hyundai Motor
Samsung Electronics
SK Holdings Co. Ltd.

Good Governance
DSM
Royal Dutch Shell
Samsung Electronics
Unilever

Tax Accountability
Biogen IDEC, Inc.
Johnson & Johnson
Nestlé
Pfizer

Culture and Risk Governance in the Banking Sector
Barclays Plc
JPMorgan Chase & Co., Inc.
Wells Fargo & Co.

Global Compact breaches
During the quarter, six companies were engaged on behalf of Border to Coast Pension Partnership for potential breaches of the UN Global Compact.

Robeco's Engagement Policy

Sustainability investing is integral to Robeco's overall strategy. We are convinced that integrating environmental, social and governance (ESG) factors results in better-informed investment decisions. Further we believe that our engagement with investee companies on financially material sustainability issues will have a positive impact on our investment results and on society.

Robeco actively uses its ownership rights to engage with companies on behalf of our clients in a constructive manner. We believe improvements in sustainable corporate behavior can result in an improved risk return profile of our investments. Robeco engages with companies worldwide, in both our equity and credit portfolios. Robeco carries out two different types of corporate engagement with the companies in which we invest; value engagement and enhanced engagement. In both types of engagement, Robeco aims to improve a company's behavior on environmental, social and/or corporate governance (ESG) related issues with the aim of improving the long-term performance of the company and ultimately the quality of investments for our clients.

Robeco adopts a holistic approach to integrating sustainability. We view sustainability as a long-term driver of change in markets, countries and companies which impacts future performance. Based on this belief, sustainability is considered as one of the value drivers in our investment process, similar to the way we look at other drivers such as company financials or market momentum.

The UN Global Compact

The principal code of conduct in Robeco's engagement process is the United Nations Global Compact. The UN Global Compact supports companies and other social players worldwide in stimulating corporate social responsibility. The Global Compact became effective in 2000 and there are now approximately 9,000 participating companies. It is the most endorsed code of conduct in this field. The Global Compact requires companies to embrace, support and adopt a number of core values within their own sphere of influence in the field of human rights, labor standards, the environment and anti-corruption measures. Ten universal principles have been identified to deal with the challenges of globalization.

Human rights

1. Companies should support and respect the protection of human rights as established at an international level
2. They should ensure that they are not complicit in human-rights abuses.

Labor standards

3. Companies should uphold the freedom of association and recognize the right to collective bargaining
4. Companies should abolish all forms of compulsory labor
5. Companies should abolish child labor
6. Companies should eliminate discrimination in employment.

Environment

7. Companies should adopt a prudent approach to environmental challenges
8. Companies should undertake initiatives to promote greater environmental responsibility
9. Companies should encourage the development and diffusion of environmentally friendly technologies.

Anti-corruption

10. Companies should work against all forms of corruption, including extortion and bribery.

Other relevant codes of conduct

International codes of conduct

Robeco has chosen to use broadly accepted external codes of conduct in order to assess the ESG responsibilities of the entities in which we invest. Robeco adheres to several independent and broadly accepted codes of conduct, statements and best practices and is a signatory to several of these codes. The most important codes, principles, and best practices for engagement followed by Robeco are:

- International Corporate Governance Network (ICGN) statement on Global Governance Principles
- United Nations Global Compact
- United Nations Sustainable Development Goals
- United Nations Guiding Principles on Business and Human Rights
- OECD Guidelines for Multinational Enterprises

In addition to our own adherence to these codes, we also expect companies to follow these codes, principles, and best practices.

Robeco's Voting Policy

Robeco encourages good governance and sustainable corporate practices, which contribute to long-term shareholder value creation. Proxy voting is part of Robeco's Active Ownership approach. Robeco has adopted written procedures reasonably designed to ensure that we vote proxies in the best interest of our clients. The Robeco policy on corporate governance relies on the internationally accepted set of principles of the International

Corporate Governance Network (ICGN). The ICGN principles have been revised in June 2014. The exercise of voting rights is limited to those companies held in our portfolios. This concerns shares held in the mandates of our clients, where Robeco has been requested to vote on the client's behalf. By making active use of our voting rights, Robeco can, on behalf of our clients, encourage the companies concerned to increase the quality of the management of these companies and to improve their sustainability profile. We expect this to be beneficial in the long term for the development of shareholder value.

Collaboration

Where necessary, Robeco coordinates its engagement activities with other investors. Examples of this includes Eumedion; a platform for institutional investors in the field of corporate governance and the Carbon Disclosure Project, a partnership in the field of transparency on CO2 emissions from companies. Another important initiative to which Robeco is a signatory is the United Nations Principles for Responsible Investment. Within this context, institutional investors commit themselves to promoting responsible investment, both internally and externally.

Robeco's Active Ownership Team

Robeco's voting and engagement activities are carried out by a dedicated Active Ownership Team, working in close collaboration with Robeco's Investment Teams, and RobecoSAM's Sustainability Investing Research team. This team was established as a centralized competence center in 2005. The team consists of 12 qualified active ownership professionals based in Rotterdam, the Netherlands, and Hong Kong. As Robeco operates across markets on a global basis, the team is multi-national and multi-lingual. The team is headed by Carola van Lamoen.

About Robeco

Robeco Institutional Asset Management B.V. (Robeco) is a global asset manager, headquartered in Rotterdam, the Netherlands. Robeco offers a mix of investment solutions within a broad range of strategies to institutional and private investors worldwide. As at 31 December 2017, Robeco had EUR 161 billion in assets under management. Founded in the Netherlands in 1929 as 'Rotterdamsch Beleggings Consortium', Robeco is a subsidiary of ORIX Corporation Europe N.V. (ORIX Europe), a holding company which also comprises the following subsidiaries and joint ventures: Boston Partners, Harbor Capital Advisors, Transtrend, RobecoSAM and Canara Robeco. ORIX Europe is the center of asset management expertise for ORIX Corporation, based in Tokyo, Japan.

Robeco employs about 877 people in 15 countries (December 2017). The company has a strong European and US client base and a developing presence in key emerging markets, including Asia, India and Latin America.

Robeco strongly advocates responsible investing. Environmental, social and governance factors are integrated into the investment processes, and there is an exclusion policy is in place. Robeco also makes active use of its voting right and enters into dialogue with the companies in which it invests. To service institutional and business clients, Robeco has offices in Bahrain, Greater China (Mainland, Hong Kong, Taiwan), France, Germany, Japan, Luxembourg, Singapore, Spain, Switzerland, Sydney and the United States.

More information is available at www.robeco.com

1318-10'18

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **8 FEBRUARY 2019**

LEAD OFFICER: **LEIGH WHITEHOUSE, SECTION 151 OFFICER**

SUBJECT: **LOCAL BOARD REPORT**

SUMMARY OF ISSUE:

This report is a summary of administration and governance issues reviewed by the Local Pension Board at its meeting of 17 January 2019 that need to be brought to the attention of the Pension Fund Committee.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Notes the report and particularly issues with pensions administration.

2. Approves the following changes to the Fund risk register:

   Amendments to the following risks (shown as Annex 1) chiefly to reflect updates in regards to Border to Coast:

- 1-2, 4-8, 11, 13-15, 17, 19, 21, 24-27.

  Addition of the following risks:

- Transition of assets to BCPP be included as risk number 29, with a total risk of 40 (Red) and net risk of 10 (Green).
- The HM Treasury and Scheme Advisory Board cost management process has an implied increase in employer contributions be included as risk number 30, with a total risk of 28 (Amber) and net risk of 7 (Green).
- Impact of the Pension Services Manager leaving the council be included as risk of 31, with total inherent risk of 21 (Amber) and Residual risk of 7 (Green).
- Failure to deliver accurate and effective pension administration be included as risk of 32, with total inherent risk of 36 (Red) and Residual risk of 18 (Amber).

3. Concludes whether there are any reviews as to the compliance of particular cases, projects or processes that the Local Pension Board should undertake.

REASON FOR RECOMMENDATIONS:

In order to achieve best possible performance alongside optimal risk management.

LOCAL PENSION BOARD MEETINGS

1. The most recent Local Board meeting was on 17th January 2019.

2. The next Local Board meeting is scheduled for 25th April 2019.

Administration update report.

3. The Assistant Director of Commercial Operations addressed the Board, following the departure of the Lead Pensions Manager. It was reported that a detailed service review by the outgoing Lead Pensions Manager had identified profound weaknesses in the delivery of pension administration. These included:
   - Unmanaged backlogs
   - Systems constraints in the interface between payrolls and the administration
   - Poor data quality
   - Insufficient roll-out of self service
   - Process delivery bottlenecks
   - Lack of planning for ‘scheme events’
   - Insufficient delegation and accountability
   - Limits in technology
   - Insufficient management information
   - Lack of effective use of automated workflow

4. The Board were advised that senior management had compiled an analysis of a number of areas that require immediate attention and set out a series of strategic milestones to be achieved over each of the next four years in order to address them. This would be included in a comprehensive recovery plan which will be costed and shared with pension fund officers, the Board and the Pension Committee where appropriate.

5. The Board required that a working party, including members of the pension fund team, Local Pension Board and senior management of the pension administration team be convened to monitor progress against the recovery plan.

6. A workshop is to be convened for officers and representatives of the Local Pension Board to consider the proposed improvement plan prepared by the former Lead Pensions Manager. A report will be presented to the Board at its next meeting on 25th April 2019.

7. There was some analysis of the key performance indicators in the report but it was acknowledged that it was of limited value until we have more reliable metrics

8. The pension fund team proposes to work with the administration team to review the Service Specification between the Fund and administration functions, to include the continued appropriateness of KPI metrics in parallel with monitoring the recovery plan.

Action tracker

9. CIPFA has extended the deadline for remitting benchmarking data regarding Surrey County Council's pension administration service to 31st January 2019 and officers will give the Board an update at the next meeting**.**

10. The management action plan is to be revised following the Lead Pension Manager's resignation**.** The departing manager conducted a root and branch review of the pension administration service and set out a range proposals to improve performance.

11. A meeting to agree a new and more accurate method for reporting KPIs will be arranged.

Forward plan

12. Cyber security training has been added to forward plan and instruction is expected to be provided at April's meeting.

13. Officers were asked to provide an item on annual benefit statements at the Board's meeting in April.

14. Members asked for a report on the implications of the updated tPR guidance on producing annual benefit statements and officers agreed to report at the next meeting.

Risk Register

15. The Board recommended a number of amendments to the Fund risk register. These are detailed in a tracked version of the Fund risk register (shown as Annex 1).

The Discretions Exercise.

16. Officers have sent three mailshots to employing authorities and they suggested sending one more, to reinforce awareness of the exercise, before the Chairman writes to the employing authorities to ask them to publish a discretions policy.

17. It was noted that, although nineteen employing authorities had submitted policies, only one was a borough and officers were asked whether the County Council had published one. They advised the Board that it had but it needed updating and officers will communicate this requirement to Surrey County Council, in its capacity as an employing authority, for revision.

AVC Governance Review

18. Barnet Waddingham had been appointed to review AVC governance and provision and they expect to be able present copies of it to the Local Pension Board at their next meeting.

The Pensions Regulator

19. Surrey County Council has reported itself to the Pension Regulator in connection with a breach of law relating to the annual benefit statements exercise.

20. A total of 33,349 active members' annual benefit statements (ABS) were identified for 2017/18, of which approximately 5% (1,614) were not issued or made available by the deadline of 31 August 2018.

Review of IDRP

21. It was noted that some cases had been through both stages of the internal disputes resolution procedure during the quarter. Officers reported that the adjudicator was very efficient and most cases were being completed well within the prescribed timescales.

22. Members asked for a report on the implications of the updated tPR guidance on producing annual benefit statements and officers agreed to report at the next meeting.

CONSULTATION:

23. Chairman of the Pension Fund Committee and the chairman of the Local Pension Board have been consulted on this report.

RISK MANAGEMENT AND IMPLICATIONS:

24. Risk related issues have been discussed and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

25. The performance of the Pensions Administration function does present potential financial and value for money implications to the Pension Fund. The monitoring of these implications is discussed within the report.

SECTION 151 OFFICER COMMENTARY

26. The Section 151 officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

27. A Local Pension Board is a requirement under the Public Service Pensions Act 2013. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

28. The approval of the various options will not require an equality analysis, as there is no major policy, project or function being created or changed.

OTHER IMPLICATIONS

29. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

30. The following next steps are planned: receive further reports and continue collaboration between the Pension Fund Committee and Local Pension Board.

Contact Officer:
John Smith, Senior Advisor

Consulted:
Pension Fund Committee chairman and Local Pension Board chairman.

Annexes:
1. Fund risk register with proposed changes tracked

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Risk Group	Risk Ref.	Previous	Risk Description	Impact: Fund	Impact: Employers	Impact: Reputation	Impact: Total	Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score
Funding	1	1	Price inflation is significantly more or less than anticipated: an increase in CPI inflation by 0.1% will increase the liability valuation by 1.4%	4	4	4	12	4	48	TOLERATE- 1) The discount rate used for the 2016 actuarial valuation ~~will be~~ **is** derived from CPI inflation, so the value of Fund liabilities will be calculated with reference to CPI. **2) The assumptions of the Fund actuary are prudent and allow for variations in inflation. interest rate fluctuations** ~~2) The fund holds investment in index-linked bonds within a liability driven investment portfolio to mitigate risk. 3) Liability driven investment strategy implementation designed to hedge against future risk approved by Pension Fund Committee on 13 February 2015. Future trigger points for leverage will provide liability protection against inflation risk with the full protection framework in place.~~	4	48
Funding	2	2	Pensioners living longer: adding one year to life expectancy will increase the future service rate by 0.8%	4	4	1	9	5	45	TOLERATE- 1) ~~Hymans Robertson~~ **The Fund Actuary** uses long term longevity projections in the actuarial valuation process. 2) SCC has joined Club Vita, which looks at mortality rates that are employer and postcode specific.	5	45
Funding	3	3	Pay increases are significantly more than anticipated for employers within the Fund.	4	4	3	11	4	44	TREAT/TOLERATE- 1) Fund employers should monitor own experience. 2) Assumptions made on pay and price inflation (for the purposes of IAS19/FRS102 and actuarial valuations) should be long term assumptions, any employer specific assumptions above the actuaries long term assumption would lead to further review. 3) Employers to be made aware of generic impact that salary increases can have upon final salary linked elements of LGPS benefits.	4	44
Funding	4	4	Mismatching of assets and liabilities, inappropriate long-term asset allocation or investment strategy, mistiming of investment strategy	4	3	3	10	4	40	TREAT- 1) Active investment strategy and asset allocation monitoring from Committee officers and consultants. 2) ~~2017/18~~ **2018/19** Investment strategy review is current. 3) Separate source of advice from Fund's independent advisor. 4) Setting of Fund specific benchmark relevant to the current position of fund liabilities. 5) Fund manager targets set and based on market benchmarks or absolute return measures. Overall investment benchmark and out-performance target is fund specific.	3	30
Investment	5	5	Increased risk to global financial stability. Outlook deteriorates in advanced economies because of heightened uncertainty and setbacks to growth and confidence~~, with declines in oil~~	4	3	3	10	4	40	TREAT/TOLERATE- 1) Increased vigilance and continued dialogue with managers as to events on and over the horizon. 2) Continued investment strategy involving portfolio diversification and risk control. 3) Investment strategy review will ~~follow post~~ **accompany the 2019** actuarial valuation.	3	30
Investment	6	7	Investment Managers fail to achieve performance targets over the longer term: a shortfall of 0.1% on the investment target will result in an annual impact of £3.9m	4	4	4	12	3	36	TREAT- 1) The Investment Management Agreements clearly state SCC's expectations in terms of performance targets. 2) Investment manager performance is reviewed on a quarterly basis. 3) The Pension Fund Committee should be positioned to move quickly if it is felt that targets will not be met. 4) Having LGIM as a rebalancing/transition manager facilitates quick changes **in the passive element of the portfolio**. 5) The Fund's investment management structure is highly diversified, which lessens the impact of manager risk compared with less diversified structures.	2	24
Financial	7	8	Financial loss of cash investments from fraudulent activity	4	4	4	12	3	36	TREAT and TOLERATE - 1) Policies and procedures are in place which are regularly reviewed to ensure risk of investment loss is minimised. Governance arrangements are in place in respect of the Pension Fund. External advisors assist in the development of the Investment Strategy. Fund Managers/**BCPP** have to provide SAS70 or similar (statement of internal controls).	2	24
Operational	8	9	Financial failure of a fund manager leads to increase costs and service impairment	4	3	4	11	3	33	TREAT - 1) Fund is reliant upon current adequate contract management activity. 2) Fund is reliant upon alternative suppliers at similar price being found promptly. 3) Fund is reliant on ~~LGIM as transition manager~~ **the scale and risk management opportunity offered by BCPP**.	2	22
Investment	9	11	Investment markets fail to perform in line with expectations leading to deterioration in funding levels and increased contribution requirements from employers	4	3	3	10	3	30	TOLERATE- 1) Proportion of asset allocation made up of equities, bonds, property funds, diversified growth funds and private equity, limiting exposure to one asset category. 2) The investment strategy is continuously monitored and periodically reviewed to ensure optimal asset allocation. 3) Actuarial valuation and asset/liability study take place automatically every three years. 4) IAS19 data is received annually and provides an early warning of any potential problems. 5) The actuarial assumption regarding asset outperformance of a measure over CPI over gilts is regarded as achievable over the long term when compared with historical data.	2	20
Funding	10	13	Impact of increases to employer contributions following the actuarial valuation	3	3	3	9	3	27	TREAT- 1) Officers to consult and engage with employer organisations in conjunction with the actuary. 2) Actuary will assist where appropriate with stabilisation and phasing in processes.	2	18
Governance	11	15	Failure to take difficult decisions inhibits effective Fund management	3	2	4	9	3	27	TREAT-1) Ensure activity analysis encourages decision making on objective empirical evidence rather than emotion. Ensure that basis of decision making is grounded in ~~ALM Study/SIP~~**ISS**/FSS/Governance statement/**Responsible investment policy** and that appropriate advice is sought.	2	18
Investment	12	16	Volatility caused by uncertainty with regard to the withdrawal of the UK from the European Union and its after effects	3	3	2	8	3	24	TOLERATE- 1) Officers to consult and engage with advisors. 2) Future possibility of looking at move from UK to Global benchmarks on UK Equities and UK Property. 3) Possibility of further hedging of currency movements against Sterling.	2	16
Operational	13	18	Insufficient attention to environmental, social and governance (ESG) leads to reputational damage	1	1	3	5	4	20	TREAT-1) Review ISS in relation to published best practice (e.g. Stewardship Code) 2) Ensure fund managers are encouraged to engage and to follow the requirements of the ~~published~~ **BCPP Responsible Investment Policy**. 3) The Fund is a member of the Local Authority Pension Fund Forum (LAPFF) **and all assets held with BCPP are monitored by Robeco, this**~~, which~~ raises awareness of ESG issues and facilitates engagement with fund managers. 4) The Fund has approved a Stewardship Code and a share voting policy which provides specific guidance in the voting of company resolutions. **(5) The Fund complies with the BCPP Responsible Investment Policy**	3	15
Governance	14	19	Implementation of proposed changes to the LGPS (pooling) does not conform to plan or cannot be achieved within time scales	1	2	4	7	3	21	TREAT- 1) Officers consult and engage with ~~DCLG~~**MHCLG**, LGPS Advisory Board, **BCPP OOG,** consultants, peers, seminars, conferences. 2) Officers engage in early planning for implementation against agreed deadlines. 3) **Participation in Cross Pool Collaboration Groups** ~~Future secondment of Surrey officers onto pooling project teams~~.	2	14
Operational	15	20	Concentration of knowledge in small number of officers and risk of departure of key staff	2	3	2	7	3	21	TREAT-1) 'How to' notes in place. 2) Development of team members & succession planning needs to be improved. 3) Officers and members of the Pension Fund Committee will be mindful of the proposed CIPFA Knowledge and Skills Framework **and appropriate tPR Codes of Conduct** when setting objectives and establishing training needs.	2	14
Operational	16	22	Failure to hold personal data securely	1	1	4	6	3	18	TREAT- 1) Data encryption technology is in place, which allow secure the sending of data to external service providers. 2) Phasing out of holding records via paper files. 3) Pensions Admin records are locked daily in a secure safe. 4) SCC IT data security policy adhered to.	2	12
Funding	17	23	Impact of government policy on the employer workforce	3	2	1	6	3	18	TREAT/TOLERATE- 1) ~~Hymans Robertson~~ **The Fund actuary** uses prudent assumptions on future of workforce. Employers to flag up potential for major bulk transfers. The potential for a significant reduction in the workforce as a result of the pressures that the public sector is under may have an additional impact on the Fund. 2) Need to make worst case assumptions about diminishing workforce when carrying out the actuarial valuation.	2	12
Governance	18	24	Changes to LGPS regulations	3	2	1	6	3	18	TREAT/TOLERATE-1) ~~Fundamental change to LGPS regulations implemented from 1 April 2014. 2)~~ Impact on contributions and cashflows will considered during the 201~~6~~**9** valuation process. 3) Fund will respond to consultations **and statutory guidance**. 4) Impact of LGPS (Management of Funds) Regulations 2016 to be monitored.	2	12
Governance	19	25	Change in membership of Pension Fund Committee **or Local Pension Board** leads to dilution of member knowledge and understanding	4	1	1	6	4	24	TREAT- 1) Succession planning process to be implemented. 2) Ongoing training of Pension Fund Committee members. 3) Pension Fund Committee new member induction programme. ~~4) Training to be based on the requirements of CIPFA Knowledge and Skills Framework and the results of the test undertaken in 2012. New Committee members to take the test.~~	2	12
Operational	20	26	Inaccurate information in public domain leads to damage to reputation and loss of confidence	1	1	4	6	3	18	TOLERATE- 1) Ensure that all requests for information (Freedom of Information, Member & Public questions at Council, etc) are managed appropriately and that Part 2 items remain so. 2) Maintain constructive relationships with employing bodies to ensure that news is well managed. **3) Update website information as and when required and at least quarterly.**	2	12
Operational	21	27	Financial failure of third party supplier results in service impairment and financial loss	2	2	2	6	3	18	TOLERATE-1) Performance of third parties (other than fund managers) monitored. 2) Regular meetings and conversations with Northern Trust take place. 3) Actuarial and investment consultancies are provided by two different providers.	2	12

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ANNEX 1

Risk Group	Risk Ref.	Previous	Risk Description	Impact: Fund	Impact: Employers	Impact: Reputation	Impact: Total	Likelihood	Total risk score	Mitigation actions	Revised Likelihood	Net risk score
Governance	22	28	That the Border to Coast Pensions Partnership disbands or the partnership fails to produce a proposal deemed sufficiently ambitious.	3	2	4	9	1	**9**	TOLERATE-1) Partners for the pool were chosen based upon the perceived expertise and like-mindedness of the officers and members involved with the fund to ensure compliance with the pooling requirements. 2) Ensure that ongoing fund and pool proposals are comprehensive and meet government objectives.	1	**9**
Governance	23	29	Failure to comply with legislative requirements e.g. ISS, FSS, Governance Policy, Freedom of Information requests	4	1	4	9	2	**18**	TOLERATE -1) Publication of all documents on external website. 2) Managers expected to comply with SIP **ISS** and IMA. 3) Pension Board self-assessment to ensure awareness of all relevant documents. 4) Annual audit review.	1	**9**
Operational	24	30	Procurement processes may be challenged if seen to be non-compliant with OJEU rules. Poor specifications lead to dispute. Unsuccessful fund managers may seek compensation following non compliant process	1	1	4	6	3	**18**	**TREAT/TOLERATE** - 1) Ensure that assessment criteria remains robust and that full feedback is given at all stages of the procurement process. **2) Use the National LGPS of other established procurement frameoworks**	1	**6**
Governance	25	31	Failure to comply with recommendations from the local pension board, resulting in the matter being escalated to the scheme advisory board and/or the pensions regulator	1	1	4	6	1	**6**	TOLERATE -1) Ensure that an cooperative, effective and transparent dialogue exists between the pension committee and local pension board.	1	**6**
Financial	26	32	Counterparty risk within the SCC treasury management operation	2	2	2	6	2	**12**	TOLERATE - 1) Lending limits with approved banks and other counterparties are set at prudent levels 2) The pension fund treasury management strategy is based on that of SCC.	1	**6**

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **8 FEBRUARY 2019**

LEAD OFFICER: **LEIGH WHITEHOUSE, SECTION 151 OFFICER**

SUBJECT: **TRAINING POLICY**

SUMMARY OF ISSUE:

Surrey Pension Fund recognises the importance of providing appropriate training to both committee members and officers in relation to the operation of the Pension Fund. This report introduces the pension fund training policy as set out in Annex 1.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Approves the training policy in Annex 1 and agrees that all members should prioritise attendance at training events wherever practicable.

2. Reviews this training on annual basis.

REASON FOR RECOMMENDATIONS:

The Training Policy has been developed to establish existing knowledge and skills and to identify any gaps that may need to be addressed through the development of the plan.

CONSULTATION:

1. The Chairman of the Pension Fund has been consulted and offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

2. There are no risk direct risk implications arising from the recommendation of this report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

3. Provision of appropriate training will result in modest level of additional expenditure that will be met by the Pension Fund.

SECTION 151 OFFICER COMMENTARY

4. The Section 151 officer is satisfied that all material, financial and business issues and possibility of risks have been considered.

LEGAL IMPLICATIONS – MONITORING OFFICER

5. There are no legal implications or legislative requirements

EQUALITIES AND DIVERSITY

6. The approval of Training policy statement does not require an equality analysis, as the initiative is not a major policy, project or function.

OTHER IMPLICATIONS

7. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

1. The following next steps are planned:

   - Pensions Accountant Advisor will develop an Annual Training Policy for members of Pension Fund and Local Board.

Contact Officer:
Ayaz Malik, Pensions Accountant/Advisor

Consulted:
Pension Fund Committee Chairman.

Annexes:
Annex 1: Training Policy 2018/19

Sources/background papers:
None

Surrey Pension Fund

2019/20 Training Policy

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Introduction

Surrey Pension Fund is committed to providing training to those involved in the governance of the Fund and to ensure members have the necessary skills and knowledge to act effectively in line with their responsibilities.

The purpose of the training policy is to:

- Equip members and officers with the necessary skills and knowledge to be competent in their role.
- Provide those with responsibility for governing the Fund to evaluate the information they receive and effectively challenge it where appropriate.
- Support effective and robust decision making.
- Meet the required needs in relation to the Fund's objectives.

It is important that members in both Fund Committee and the Local Board commit to participating in appropriate training events to ensure that they have the necessary skills required to support them in their decision-making role.

Pension Board Specific requirement

In accordance with Section 248A of the Pensions Act 2004 and redrafted by the Pensions Act 2013, every member of the Surrey Local Pension Board must be conversant with:

- The rules of the Local Government Pension Scheme (LGPS), such as the Transitional Regulations and the Investment regulations.
- Any document recording policy about the administration of the Surrey Pension Fund which is for the time being adopted in relation to the Surrey Pension Fund.

Local Pension Board members should also have knowledge and understanding of:

- The law relating to pensions
- Such other matters as may be prescribed.

Induction training

Local Pension Board members must complete induction training within the first three months of their appointment. This consists of an online training courses provided in a Public Sector Toolkit by the Pensions Regulator (TPR) as part of TPR Trustee Toolkit.

The Pensions Regulator Toolkit

The TPR Trustee toolkit provides a guide to understand the Governance and administration requirement in the public service schemes Code of Practise no.14.

The toolkit includes nine Essential learning for trustee compulsory modules and seven Public Sector Toolkit compulsory online learning modules that must be completed successfully to pass the induction training.

The nine essential learning for trustee compulsory modules test Board members knowledge in the following key areas:

- Introducing pension schemes;

- The trustee's role;
- Running a scheme;
- Pensions law;
- An introduction to investment;
- How a defined benefit scheme works;
- Funding your defined benefit scheme;
- Defined benefit recovery plans, contributions and funding principles;
- Investment in a defined benefit schemes.

The seven Public Sector Toolkit compulsory modules test Board members knowledge in the following key areas:

- Conflicts of interest;
- Managing risk and internal controls;
- Maintaining accurate member data;
- Maintaining member contributions;
- Providing information to members and others;
- Resolving internal disputes;
- Reporting breaches of the law.

Although the toolkit is designed with Board members in mind, however in the view of the Fund the material covered is of equal relevance to members of the committee.

The Pension Regulator website is available at:
https://trusteetoolkit.thepensionsregulator.gov.uk/

Markets in Financial Instruments Directive II (MIFID II)

Surrey Pension Fund need to demonstrate a high level of skills and knowledge across the Fund Committee and Local Board to enable the Fund to opt-up and be recognised as an professional investor rather than a retail investor to continue to receive advice and access to investment products at a level commensurate with the types of investment required for the Fund.

Failure to adequately demonstrate a high level of collective skills and knowledge across the Pension Fund Committee and Local Pension Board could result in the loss of professional investor status and therefore access to the appropriate investment opportunities.

Delivery of training

Training and development support for committee members and officers will be delivered through a variety of methods including:

Committee members	Officers
Pension Regulator on-line toolkit	Training for qualifications from recognised professional bodies (e.g. CIPFA)
Attending seminars, courses and external events	Attending seminars, courses and external events
Investment advisor/Actuary training	Circulated reading material
Circulated reading material	One to One
Fund manager training	
Regular updates from officers	

In-house	

Where appropriate training will be provided jointly for the Committee, Local Board and officers. In consultation with the chairman, expression of interest will be sought from members to attend relevant trainings throughout the year.

Training Plan

To be effective, training must be recognised as a continual process and will be centred on 3 key points

- The collective knowledge of the committee
- The general pensions environment
- Coping with changes (e.g. legislation)

On joining the fund committee or Local Board, induction will be provided. This will involve covering their roles and responsibilities to allow them to participate in decision making.

An induction file will also be provided to new members and it will contain key documents relevant to the Fund and other useful information.

As part of their commitment to good scheme governance, Board members shall endeavour to attend at least two Local Pension Board meetings per year.

Training plans will be developed at least on annual basis. There will be updates as required taking account of the identification of any knowledge gaps, changes in legislation, key legislation (e.g. triennial valuation) and receipt of updated guidance.

Knowledge and Skills Framework

There are six areas of knowledge and skills that have been identified as the core requirements of those working in LGPS. They are:

- Pensions legislative and governance context
- Pensions accounting and auditing standards
- Financial services procurement and relationship management
- Investment performance and risk management
- Financial markets and products knowledge
- Actuarial methods, standards and practices

Fund Committee and Local Board are expected to have collective understanding and officers are expected to have detailed understanding of these areas of knowledge and skills.

Acquiring, Monitoring and Reviewing knowledge and Skills

Committee and Local Board members must ensure they have appropriate degree of knowledge and understanding to carry out their stewardship role. Therefore, members should invest sufficient time in their learning and development alongside their responsibilities and duties.

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In order to ensure Pension Committee and Board members have sufficient breadth of knowledge and understanding, they are encouraged to undertake a personal training needs analysis and annual review of their skills, competencies and knowledge to identify any gaps or weaknesses.

The pension regulator has provided training needs analysis template to support this process. The document can be found at www.tpr.gov.uk/ps-knowledge.

Officer Training

It is important that Officers in the fund have the necessary skills and knowledge to carry out the tasks of managing the Fund's investments and administering the payment of benefits. The knowledge and skills required of staff are set out in their job descriptions, including any formal qualifications required for the role. Officers should be familiar with the requirements of the CIPFA Code of Practice on Knowledge and Skills and should have knowledge of the six areas of the framework.

Officers will attend relevant training events and seminars during the year to ensure they remain up to date with latest requirements. In additions, officers are also required to keep up to date with relevant issues effecting the pension fund.

For officers, there will be particular focus on the following areas:

1. **Public Sector Pension Governance** – Understanding the guidance and regulations in relation to local pension boards, and keeping up-to-date with how other Funds are working with their boards, in order that the Pension Board can be supported effectively and add value to the governance of the Fund.
2. **New Investment Arrangements** – Understanding the implications of how the Financial Conduct Authority (FCA) will implement the Markets in Financial Instruments Directive (MiFIDII) and how Surrey Pension Fund will comply.
3. **New Investment Products** – Keeping up-to-date with what the market is offering, in order to assess the validity of new products for investment by the Surrey Pension Fund.
4. **Accounting Issues** – Keeping up-to-date with the latest CIPFA guidance on the format of the Pension Fund Statement of Accounts and the content of the Annual Report.
5. **Pensions Admin Regulations** – Understanding the latest guidance and interpretation of changes to LGPS Regulations and their impact on procedures.
6. **Pensions Admin Systems** - Keeping up-to-date with updates/new releases to the software system Altair, passing training onto all staff.
7. **Actuarial methods, Standards and Practises** – Understanding the work of the actuary and the ways in which actuarial information is produced

Training Delivered over last year

The recent training activity received by the Fund Committee and Local Board include the following:

- Investment training (delivered by Goldman Sachs)
- Carbon Asset Exposure (Presentation from Trucost)
- Approach to Actuarial Valuation (delivered by Hymans)

Training Plan 2019/20

The proposed training plan for Pension Fund Committee and Local Pension Board members for 2019/20 is as follows (please note this may be subject to change).

Title of Session	Training Context	Timescale	Training Length	Audience	Complete
LGPS Governance Conference	Various	17 – 18 January 2019	2 days	Committee, Pensions Board and Officers	Y
Responsible Investment	Investments	08/02/2019	Before Committee	Committee and officers	
CIPFA Local Pension Board Seminar	Governance	27/02/2019	Half day	Pension Board	
LGC Investment Seminar	Various topical presentations.	28 February - 1 March 2019	2 days	Committee, Pensions Board and Officers	
PLSA Local Authority Conference, Gloucestershire	Various	13 – 15 May 2019	3 days	Committee, Pensions Board and Officers	
CIPFA Local Pension Boards' Annual Event	Various	26/06/2019	1 day	Pension Board	
Triennial Valuation	Training prior to 2019 Triennial Valuation Results	TBC	TBC	Committee, Pensions Board and Officers	
LAPFF, Bournemouth	Various presentations around the work of the LAPFF	2 – 4 July 2019	3 days	Committee, Pensions Board and Officers	
CIPFA's annual public finance conference	Various	9 – 10 July 2019 Birmingham	2 days	Committee, Pensions Board and Officers	
CIPFA Introduction to LGPS	Various	25/09/2019	1 day	Committee, Pensions Board and Officers	
LGA Fundamental Training	Day 1 Benefits, Investments and Costs	03/10/2019	1 day	Committee, Pensions Board and Officers	
PLSA Annual conference	Various	16 – 18 October 2019 Manchester	3 days	Committee, Pensions Board and Officers	

LGA Fundamental Training	Day 2 Actuarial valuation, FF, Committee responsibilities, Communication strategies and Alternative Investments	06/11/2019	1 day	Committee, Pensions Board and Officers	
CIPFA Governance Summit	Governance	12/11/2019	1 day	Committee, Pensions Board and Officers	
Border to Coast Conference	Various	10 – 11 December 2019	2 days	Committee, Pensions Board and Officers	
LGA Fundamental Training	Day 3 Responsible Investing, Data quality and Governance	18/12/2019	1 day	Committee, Pensions Board and Officers	

Cost

Where there is a cost involved in providing the training this will be paid by the Pension Fund. A budget will be allocated for members training in the Fund's business plan. Ultimately costs will depend on the levels of training and support required by individual members. Some training and support will be provided at nil cost through officers, existing material and online access, and as part of existing providers or advisors roles.

Training Monitoring and Reporting

In order to identify whether the objectives of the Policy are being met, fund officers will maintain a training log to record trainings attended by both members and officers.

Pension fund committee and Local Pensions Board members will be required to carry out Self-Assessment Questionnaire on an annual basis to assess their overall level of 'Knowledge and Understanding'. The self-assessment will be in the form of a short self-assessment questionnaire to identify any perceived development needs. Training on the identified areas will be provided as necessary, including induction and on an ongoing refresher basis.

A report will be also presented to the Fund Committee and Pension Board on an annual basis setting out:

- Training provided/attended by members in the previous year.
- any actions required, such as review of the Training Plan.

Pension fund committee and Local Pensions Board members will be provided with details of forthcoming conferences, seminars and relevant training events as well as annual summary of the events attended.

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SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **8 FEBRUARY 2019**

LEAD OFFICER: **LEIGH WHITEHOUSE, SECTION 151 OFFICER**

SUBJECT: **CASHFLOW ANALYSIS**

SUMMARY OF ISSUE:

A cash-flow analysis allows the Fund to ascertain a projection as to when benefit payments may exceed income. This information can influence both the investment and funding strategy.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Notes the cash-flow position for quarters two and three.

REASON FOR RECOMMENDATIONS:

The Pension Fund Committee must approve and review all working documents produced for the Pension Fund.

DETAILS:

Cash-flows for quarters Two - Three (2018/19) (1 July 2018 – 31 December 2018)

1. In simple terms, Pensions Funds have a positive cash-flow when their contribution inflows exceed pension benefits paid.
2. Contributions are derived from employers and employees. Pension benefits are derived from pensions and lump sum benefits paid to retired members and benefits paid to employees on leaving the Fund.
3. The half-yearly (quarters two-three) cash-flow for the Surrey Pension Fund shows positive cash flow of £3,509,457 as follows:

Quarter	Total contributions received	Total pension benefits paid	Net cash-flow
Two (1 Jul 2018 – 30 Sep 2018)	£41,890,370	£37,101,052	4,789,318
Three (1 Oct 2018 – 31 Dec 2018)	£40,462,984	£36,953,527	3,509,457

4. An indication of the current membership trends is shown by movements in membership over quarters four-one, compared to the position at the 2016 valuation (as taken from statistics provided by the pension administration team):

Period	Active members	Deferred members	Pension members	Total members
2016 valuation (31 Mar 2016)	33,404	33,200	23,243	89,847
Quarter two 2018/19 (1 Jul 2018 – 30 Sep 2018)	33,920	31,860	25,629	91,409
Quarter three 2018/19 (1 Oct 2018 – 31 Dec 2018)	36,062	31,934	25,855	93,851

5. The quarter three active members are significantly higher than those in quarter two. This is due to Admin Pension Service working through the backlog of new starter cases.

6. The reduction in deferred members since the last valuation is attributed to the amendment to the LGPS Regulations which now allows deferred members to withdraw their benefits from age 55 rather than age 60, therefore leading to an increase in the number of members deciding to retire.

CONSULTATION:

7. The Chairman of the Pension Fund has been consulted and offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

8. The Fund will keep the cash-flow position under review and ensure the investment strategy remains consistent and appropriate.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

9. There are no financial and value for money implications.

SECTION 151 OFFICER COMMENTARY

10. The Section 151 Officer is satisfied that all material, financial and business issues and possibility of risks have been considered.

LEGAL IMPLICATIONS – MONITORING OFFICER

11. There are no legal implications or legislative requirements

EQUALITIES AND DIVERSITY

12. Cash-flow analysis does not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

13. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

14. The following next steps are planned:

    - A cash-flow analysis update to be provided to the Committee twice annually. The next report being produced for the 7 June 2019 meeting.

Contact Officer:
Ayaz Malik, Pensions Accountant/Advisor

Consulted:
Pension Fund Committee Chairman.

Annexes:

Sources/background papers:
None

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SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **8 FEBRUARY 2019**

LEAD OFFICER: **LEIGH WHITEHOUSE, SECTION 151 OFFICER**

SUBJECT: **INVESTMENT STRATEGY STATEMENT**

SUMMARY OF ISSUE:

The Pension Fund is required to publish its investment Strategy Statement (ISS) as a result of the investment regulations. It is the fiduciary duty and a statutory requirement of the Pension Fund Committee that it should regularly review its ISS and approve any changes where appropriate.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee approve the following changes to the ISS since the Pension Fund Committee meeting of 16 November 2018:

1. The changes to job titles and frequency of Local Board meetings (page 1).
2. The change in the Environmental, Social and Governance (ESG) policy to support and, where relevant, comply with the Border to Coast Pension Partnership (BCPP) Responsible Investment Policy (page 9). The BCPP Responsible Investment Policy was revised in November 2018 and is reproduced as Appendix C in the amended ISS. The revised policy, including tracked changes, is included as Annex 1 of this report.
3. The change in the Policy of the exercise of rights (including voting rights) attaching to investments to support the BCPP Corporate Governance and Voting Guidelines (page 9). The BCPP Corporate Governance and Voting Guidelines were revised in November 2018 and are reproduced as Appendix D in the amended ISS. The revised guidelines, including tracked changes, are included as Annex 2 of this report.
4. Addition of Glennmont Clean Energy Fund Europe III to the list of Private Equity Managers (page 33).
5. Inclusion of UK Base Rate as benchmark for Ruffer, and inclusion of Fund's target return of +3% (gross of fees) over 3 year rolling periods against UK Base Rate.

REASON FOR RECOMMENDATIONS:

The changes to the ISS are proposed by the Section 151 officer and supported by Head of Pensions and the Chairman of the Surrey Pension Fund Committee. The Pension Fund Committee must review and, where appropriate, approve changes to the ISS.

DETAILS:

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1. In accordance with Regulation 7 of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016, as an LGPS administering authority, the Council must prepare and maintain a written investment strategy statement (ISS) of the principles governing its decisions on the investment of the pension fund. It also has to review the policy from time to time and revise it if considered necessary.

Monitoring and Review

2. The statement will be kept under constant review and will be submitted for approval to future Committee meetings when any revision is required.

CONSULTATION:

3. The Chairman of the Pension Fund has been consulted and offered full support for the proposals.

RISK MANAGEMENT AND IMPLICATIONS:

4. There are risk related provisions detailed within the ISS.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

5. There are no financial and value for money implications.

SECTION 151 COMMENTARY

6. The Section 151 officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed and that the new ISS offers a clear structure, reflecting the current investment strategies and beliefs approved by the Pension Fund Committee.

LEGAL IMPLICATIONS – MONITORING OFFICER

7. The approval of an ISS is a statutory requirement.

EQUALITIES AND DIVERSITY

8. The approval of the ISS will not require an equality analysis, as the initiative is not a major policy, project or function being created or changed.

OTHER IMPLICATIONS

9. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

10. The following next steps are planned:
    - On approval by the Committee, the revised ISS will be published on the Fund website.

Contact Officer:

Neil Mason, Head of Pensions

Consulted:
Pension Fund Committee Chairman

Annexes:
1. BCPP Responsible Investment Policy
2. BCPP Corporate Governance and Voting Guidelines

Sources/background papers:
Investment Strategy Statement

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Responsible Investment Policy

Border to Coast Pensions Partnership

November 2018

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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.	CEO	10th Oct 2018
V0.3	2nd draft reflecting OOG amendments	CEO	19th Oct 2018

2. Approval and Sign Off

Approved By	Position	Version	Date
Rachel Elwell	CEO	0.3	19th Oct 2018

3. Board Approval

Approved By	Version	Date
The Board	0.3	7th Nov 2018

4. Key Dates

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

5. Key Roles

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

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.

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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).

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[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/

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 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, and lending can also be restricted, when:

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

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

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[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.

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 our 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.

[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.

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 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.

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Corporate Governance & Voting Guidelines

Border to Coast Pensions Partnership

November 2018

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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.	CEO	10th Oct 2018
V0.3	2nd draft reflecting OOG amendments	CEO	19th Oct 2018

2. Approval and Sign Off

Approved By	Position	Version	Date
Rachel Elwell	CEO	0.3	19th Oct 2018

3. Board Approval

Approved By	Version	Date
The Board	0.3	7th Nov 2018

4. Key Dates

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

5. Key Roles

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

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.

10 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.

SURREY COUNTY COUNCIL

PENSION FUND COMMITTEE

DATE: **8 FEBRUARY 2018**

LEAD OFFICER: **LEIGH WHITEHOUSE, SECTION 151 OFFICER**

SUBJECT: **INVESTMENT MANAGER ISSUES AND PERFORMANCE AND ASSET/LIABILITIES UPDATE**

SUMMARY OF ISSUE:

This report is a summary of all manager issues that need to be brought to the attention of the Pension Fund Committee, as well as an update on investment performance and the values of assets and liabilities.

RECOMMENDATIONS:

It is recommended that the Pension Fund Committee:

1. Notes the main findings of the report; the funding level as at 31 December 2018 was 93.3%. The Fund's investment performance for the quarter ending 31 December 2018 was -3.4%

REASON FOR RECOMMENDATIONS:

In order to achieve best possible performance alongside optimal risk.

DETAILS:

1. Manager Issues during the Quarter

Manager	Issue	Status/Action Required
Various	Client meetings	Minutes from the independent advisor taken from external fund manager meetings held on 16 January 2019 are included as Annex 3.

Various	Benchmarking	There will be a full benchmark review carried out by the Fund, along with the Investment Adviser & Custodian. Once completed, the findings will be presented to the Pension Fund Committee Franklin Templeton – There has been issues in reconciling the Custodian performance data, with the fund manager performance data. This will be looked into as part of the Full Benchmark Review LGIM – The LGIM Benchmark had previously included the Bespoke Fund as part of the Downside Protection Strategy in the Custodian's performance reporting. This was agreed to be corrected once the transition to RAFI/ Low Carbon portfolios had been implemented on 12 January 2019.

2. Freedom of Information Requests

The table below summarises the Freedom of Information request responses provided by the Fund during the last quarter.

Date of Response	Organisation	Request	Response
06/11/2018	Bloomberg	Information concerning alternative assets of the pension fund	Summary of private equity portfolio as at 30/06/2018
19/11/2018	Guardian	Value of specific holdings and dividend income from those holdings.	Asset Summary as at 30 Sep 2018 & 30 Sep 2017
26/11/2018	Secondary Link	Information concerning alternative assets of the pension fund	Summary of alternative investments as at 30/06/2018
05/12/2018	Private Individual	Investment in Private Equity	Formal Refusal notice under Section 12 of the Freedom of Information Act, due to excessive staffing time required to provide information
12/12/2018	Pitchbook	Quarterly performance data for alternative asset holdings as at 30 Jun 2018	Summary of private equity portfolio as at 30/06/2018
21/12/2018	Private Individual	Request for a copy of Actuary's aggregate report as part of 2016 Valuation	Response from the Surrey Pension Fund Actuary

3. Equity Protection Monitoring

The equity protection strategy provides protection against losses incurred by a fall in the value of three tranches of the Fund's equity portfoilio between 10 and 30%, through the use of a "nil-premium" option structure. The first 10% drop in value is absorbed by the Fund, with a fall in value of greater than 10% but less than 30% being predominantly offset by an increase in the value of the option structure.

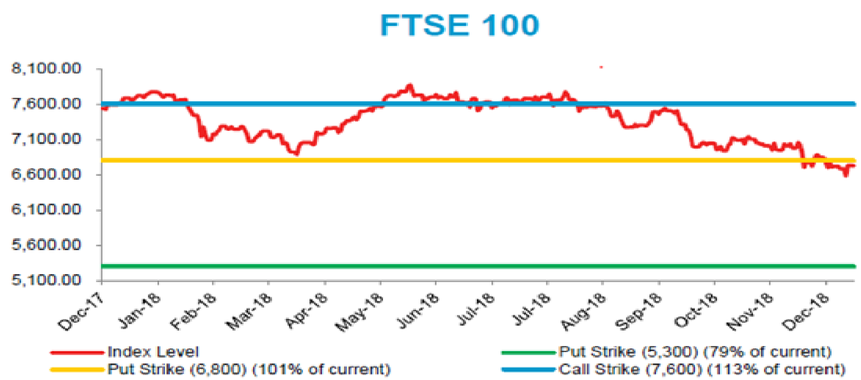
Phases 1 and 2 of the equity protection were completed in December 2017 and March/April 2018 respectively, with a combined initial exposure of c£1.13b of equities.

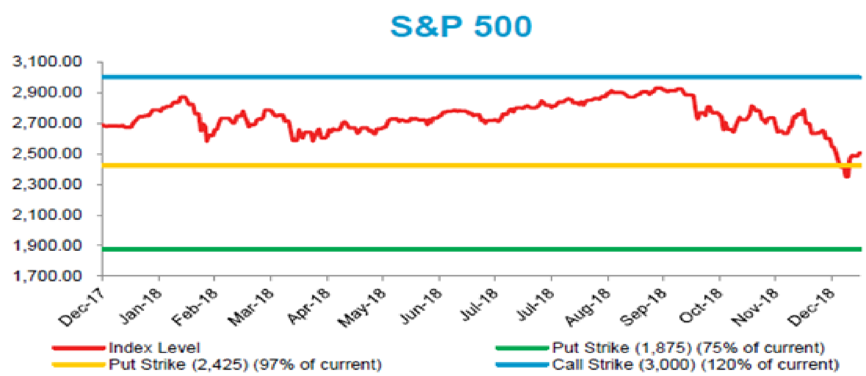
Phase 3 was initiated in July 2018 and added a further c£787m of equities.

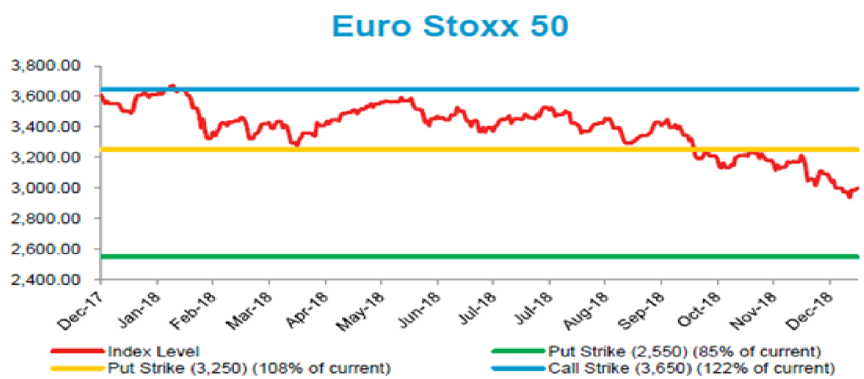
Position as at 31 December 2018

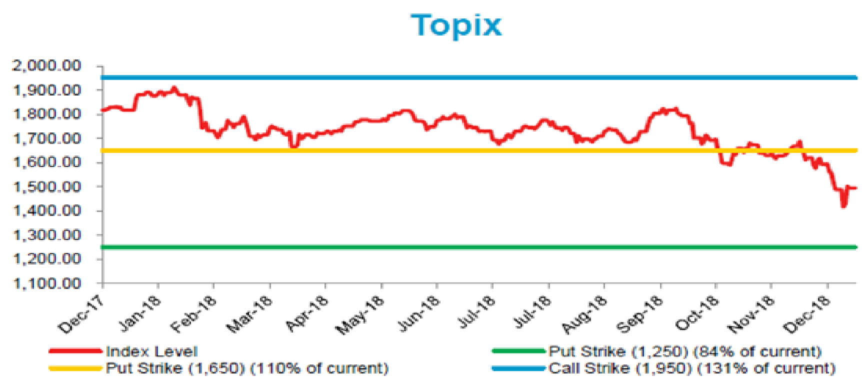
Tranche 1

30 December 2018: In the table below, it can been seen that, performance in UK, US, European and Japanese markets, has breached the put downside collar:



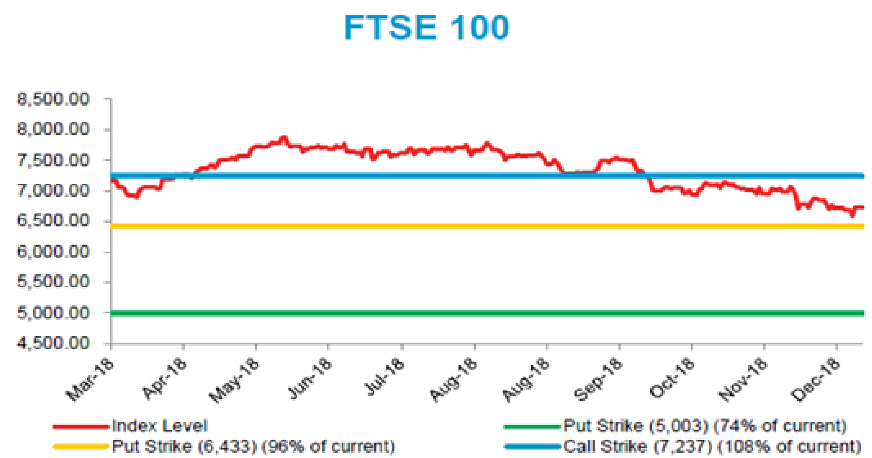


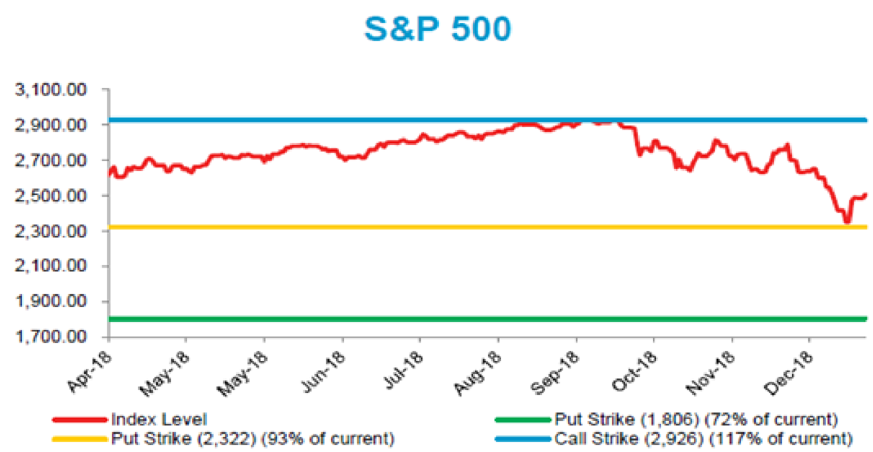


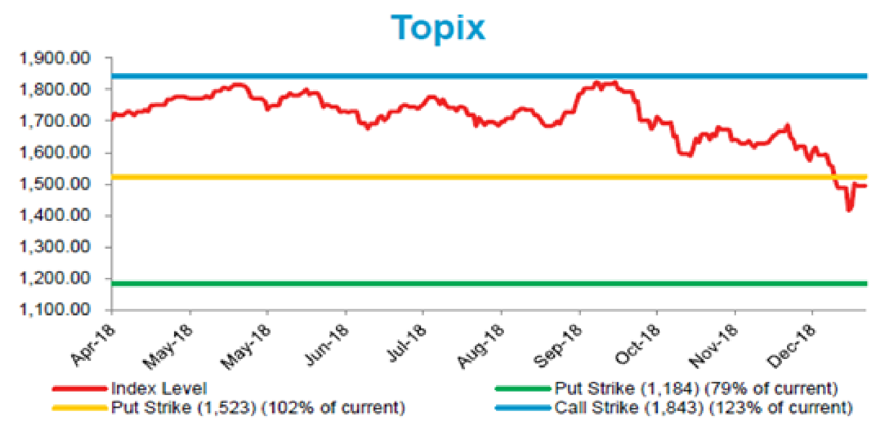


Tranche 2

30 December 2018: In the table below, it can been seen that, performance in Japanese markets, has breached the put downside collar:

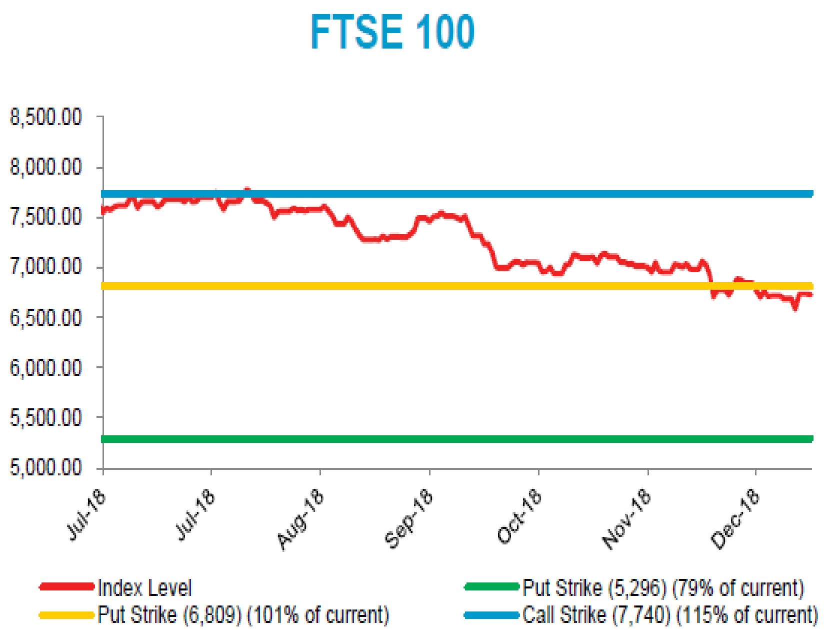


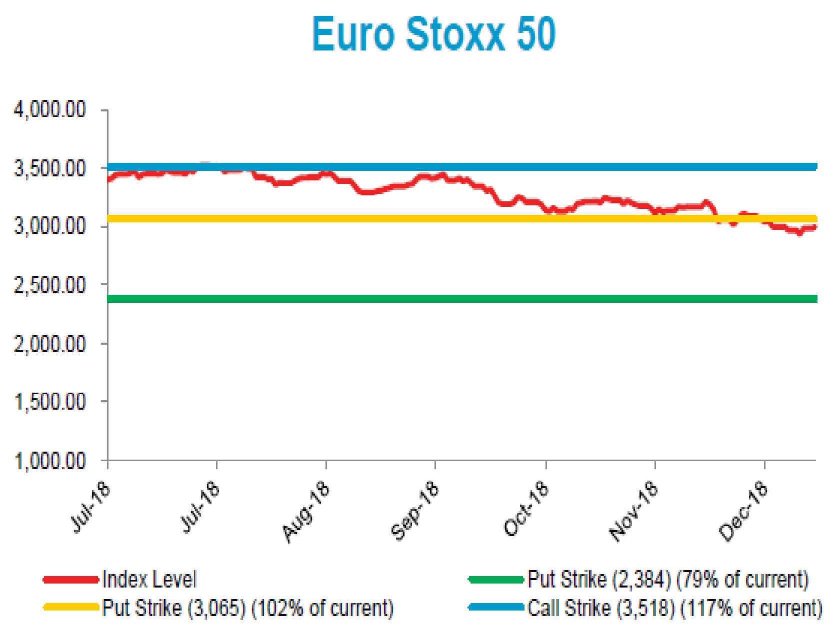




Tranche 3

30 December 2018: In the table below, it can been seen that, performance in UK and European markets, has breached the put downside collar:





As at 31 December 2019, the downside protection strategy had saved the pension fund c£22.1m. However, it should be noted that these updates are snapshots in time and the relative performance of the downside protection strategy will only be known at its conclusion.

The strategy will continue to be monitored by officers, LGIM and Mercer on a quarterly basis. This will include ensuring that the protection matches the asset allocation transition.

An update report will be brought to the Committee at its meeting of 13 September 2019, when the relative merits of extending the strategy past the current expiry date of December 2019 will be considered.

4. Future Pension Fund Committee Meetings/Pension Fund AGM

The schedule of meetings for 2019 is as follows:

- 7 June 2019: Pension Fund Committee
- 13 September 2019: Pension Fund Committee
- November/ December 2019 (TBC): Pension Fund Committee
- 21 November 2019: Pension Fund Annual General Meeting (AGM) hosted at County Hall

5. Stock Lending

In the quarter to 31 December 2018, stock lending earned a net income for the Fund of £39,646.

6. Internally Managed Cash

The internally managed cash balance of the Fund was £77.7m as at 31 December 2018. Drawdowns for property and private equity are expected over the coming months.

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Report of the Head of Pensions

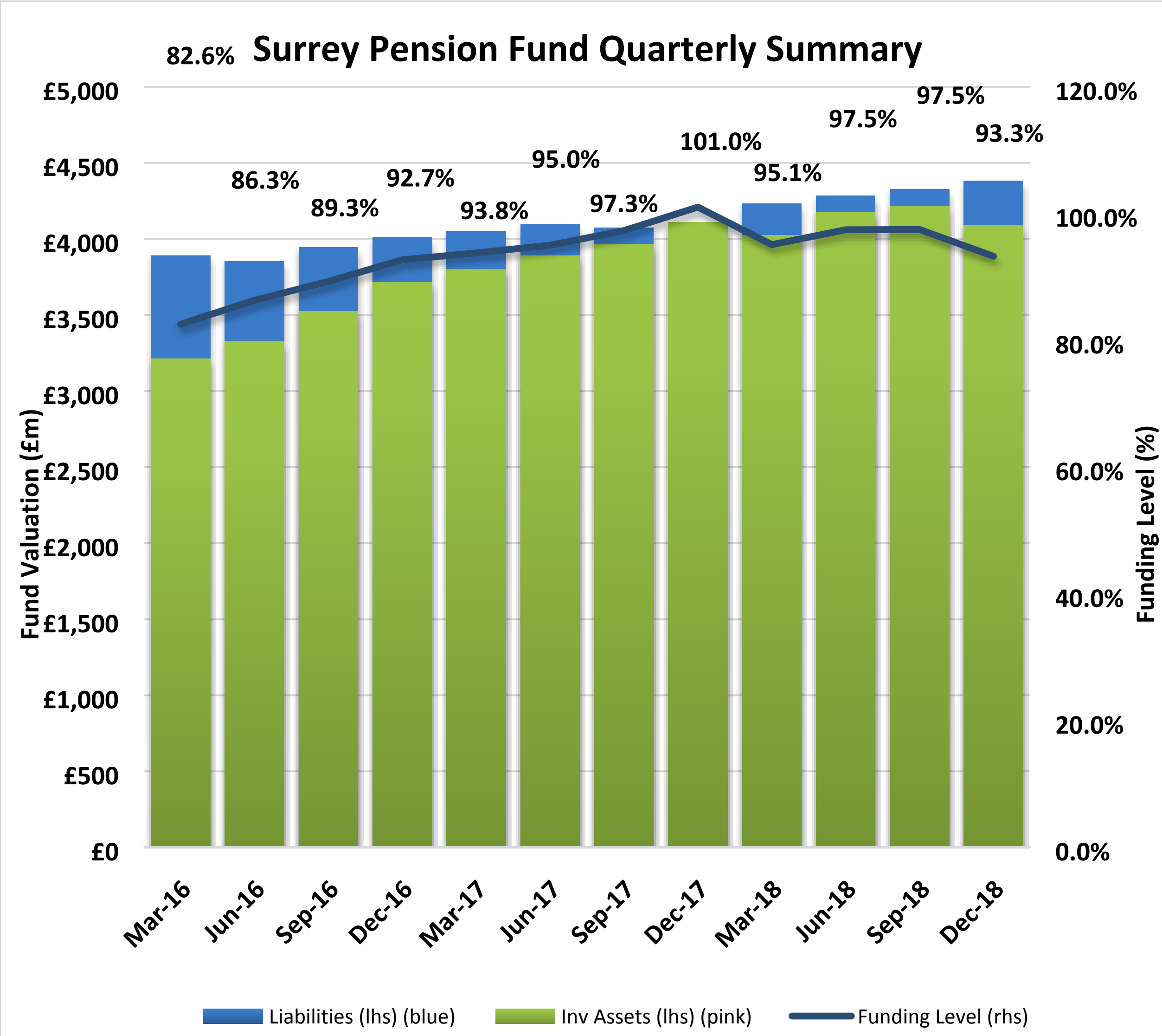
Financial and Performance Report

7. Funding Level

The funding level has increased to approximately 93.3% (83% as at 31 March 2016) and is based on the formal valuation results, updated for market conditions at 31 December 2018, estimated contributions paid and benefit outflow to that date and actual Fund assets as provided. Based on the data that has been provided, the market value of assets is approximately £4.088bn and the value placed on the liabilities is £4.383bn.

The assumptions used are as follows:

- A discount rate of 4.5%
- Pension increases of 2.4%
- Salary inflation of 2.7%



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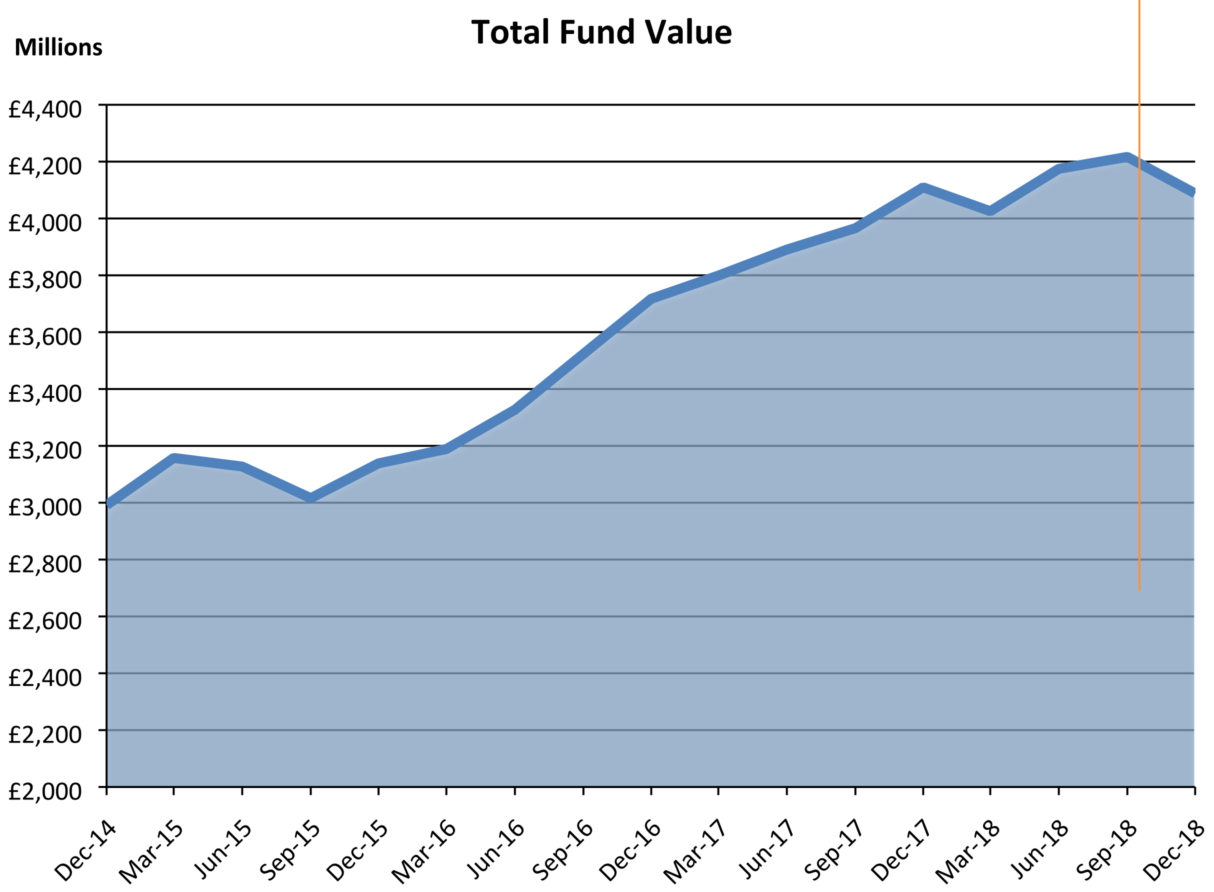
8. Market Value

The value of the Fund was £4,088.1m at 31 Dec 2018 compared with £4,216.6m at 30 Sep 2018. The investment performance for the quarter was -3.4%.

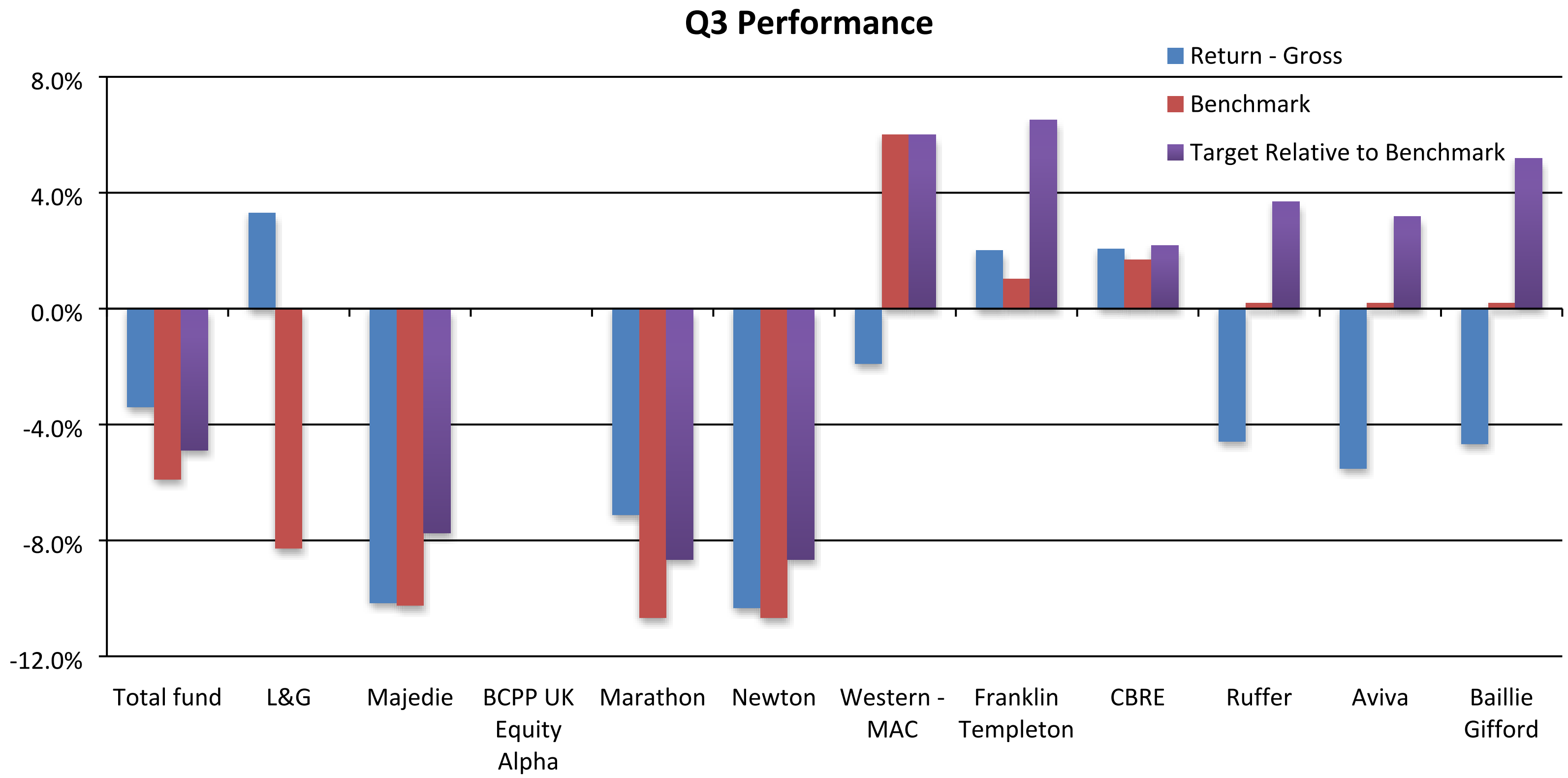


9. Fund Manager Benchmarks

Manager	Portfolio	Benchmark Index	Performance Target relative to Benchmark
BCPP	UK Equities	FTSE All Share	+2.0%
Majedie	UK Equities – Long Only UK Equities – Directional Long/Short	FTSE All Share FTSE All Share	+2.5%
Marathon	Global Equities	MSCI AC World	+2.0%
Newton	Global Equities	MSCI AC World	+2.0%
Various*	Private Equity	MSCI World Index	+5.0%
CBRE	Property	IPD UK All Balanced Funds	+0.5%
Baillie Gifford	Diversified Growth	UK Base Rate	+3.5%
Ruffer	Diversified Growth	UK Base Rate	+3.0%
Aviva	Diversified Growth	UK Base Rate	+5.0%
Western	Multi Asset Credit	Total return Fund (6% return has been used as a comparator/ benchmark against its performance)	+5% to +7% (+6% used for reporting purposes)
Franklin Templeton	Unconstrained Global Fixed Income	Barclays Multiverse Index	+4% to +7% (+5.5% used for reporting purposes)
LGIM	Multi-Asset Equities and Bonds RAFI Multi-Factor Low Carbon Index CN - AAA-AA-A Bonds – All Stocks Index Index-Linked Gilts	 MSCI World MSCI World Low Carbon Target Index Markit iBoxx GBP Non Gilts ex BBB All stock Portfolio of single stock funds structured by reference to Fund liabilities	To track the performance of the respective indices within a lower level of tracking deviation (gross of fees) over rolling 3-year periods
Internal	Cash	LIBID 7-day rate	LIBID 7 day rate

10. Fund Performance - Summary of Quarterly Results (gross of investment fees)

Overall, the Fund returned -3.4% in Q3 2018/19, in comparison with the Fund's customised benchmark of -5.9%



The table below shows manager performance for 2018/19 Q3 (gross of investment manager fees) against manager specific benchmarks using Northern Trust data.

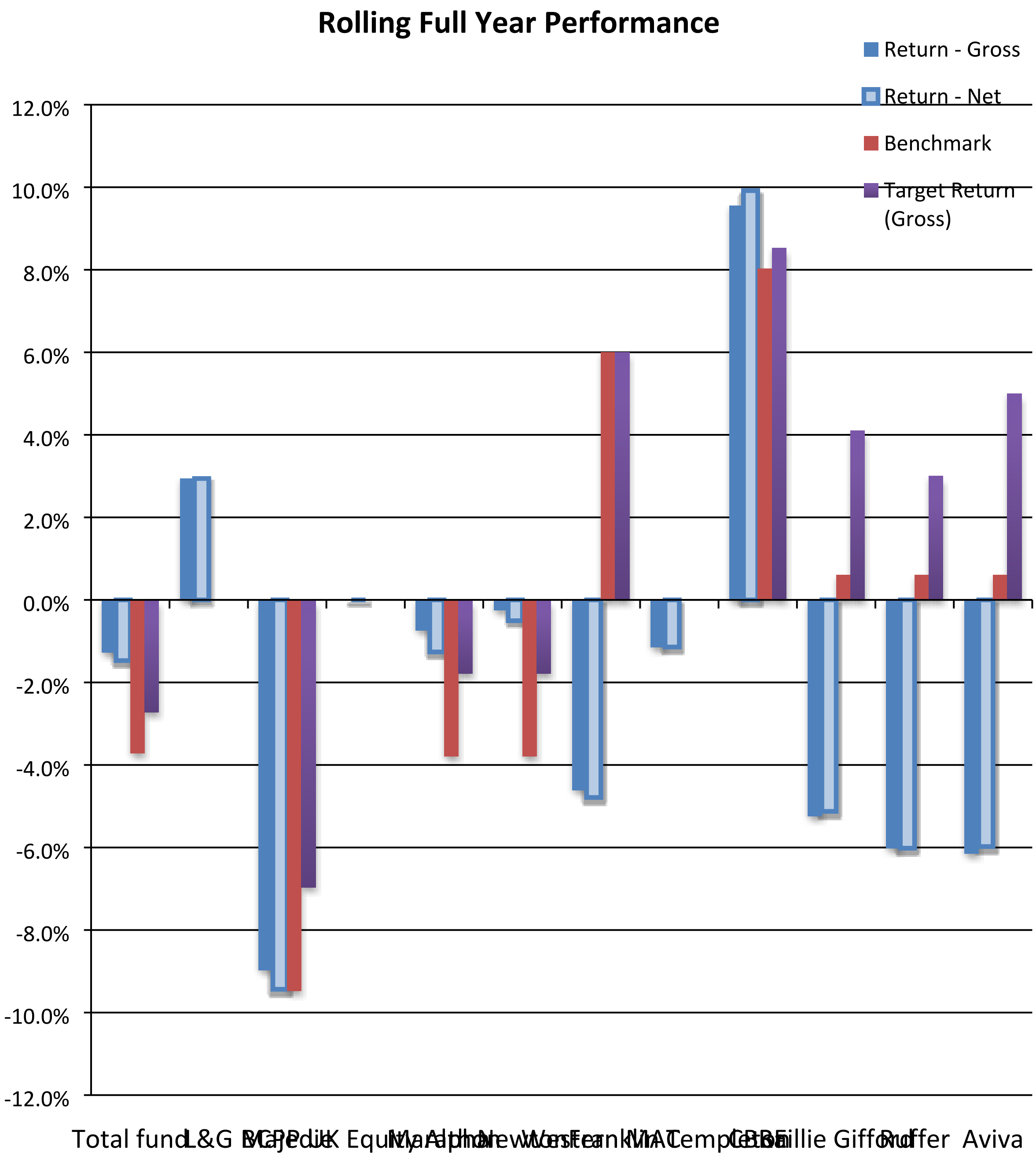
**The benchmark for this manager is currently under review with the custodian and manager*

***The performance of this manager is not yet known due to its new inception*

Manager	Gross of Fees Performance %	Benchmark Index	Benchmark Performance %	Target Above Benchmark	Gross Performance Relative to Target %
Total fund	-3.4%	Customised	-5.9%	1.0%	1.49%
L&G*	3.3%	MSCI World/ MSCI World Low Carbon	-	-	-
Majedie	-10.2%	FTSE All Share	-10.2%	+2.5%	-2.41%
BCPP UK Equity**	-	FTSE All Share	-	+2.0%	-
Marathon	-7.1%	MSCI AC World	-10.7%	+2.0%	1.55%
Newton	-10.3%	MSCI AC World	-10.7%	+2.0%	-1.66%
Western – MAC	-1.9%	Total Return Fund (Using +6% target return as comparator)	6.0%	6.0%	-7.90%
Franklin Templeton*	2.0%	Barclays Multiverse Index	-	+5.5%	-4.51%
CBRE	2.1%	IPD UK All Balanced Funds	1.7%	+0.5%	-0.12%
Ruffer	-4.6%	UK Base Rate	0.2%	+3.5%	-8.27%
Aviva	-5.5%	UK Base Rate	0.2%	+5.0%	-8.70%
Baillie Gifford	-4.7%	UK Base Rate	0.2%	+3.5%	-9.85%

11. Summary of Full Year Investment Results (Gross and net of fees)

During the course of the previous 12 months to 31 December 2018, the Fund returned -1.5% net of investment fees against the customised fund benchmark of -3.7%



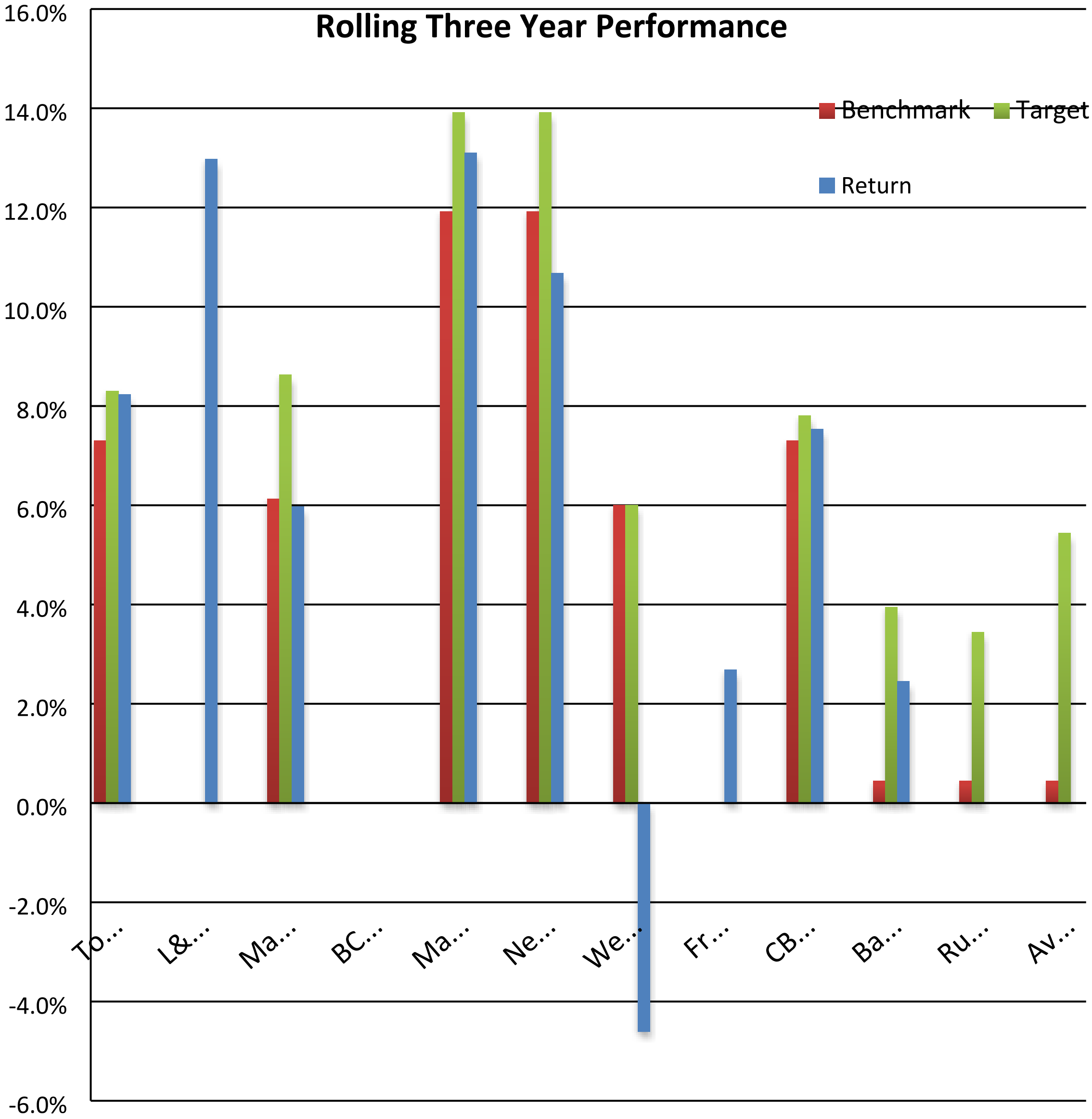
The table below shows manager performance for the full year as at 2018/19 Q3 (net/ gross of investment manager fees) against manager specific benchmarks using Northern Trust data.

Manager	Net of Fees Performance %	Benchmark %	Gross of Fees Performance %	Target Return (Gross) %	Performance Relative to Target (Gross) %
Total fund	-1.5%	-3.7%	-1.3%	-2.7%	1.4%
L&G*	2.9%	-	2.9%	-	2.9%
Majedie	-9.4%	-9.5%	-9.0%	-7.0%	-2.0%
BCPP UK Equity Alpha**	-	-	-	-	-
Marathon	-1.3%	-3.8%	-0.7%	-1.8%	1.0%
Newton	-0.5%	-3.8%	-0.2%	-1.8%	1.5%
Western MAC	-4.8%	6.0%	-4.6%	6.0%	-10.6%
Franklin Templeton*	-1.1%	-	-1.1%	-	-1.1%
CBRE	9.9%	8.0%	9.5%	8.5%	1.0%
Baillie Gifford	-5.1%	0.6%	-5.2%	4.1%	-9.4%
Ruffer	-6.0%	0.6%	-6.0%	3.0%	-9.0%
Aviva	-6.0%	0.6%	-6.1%	5.0%	-11.1%

**The benchmark for this manager is under review with the custodian and manager.*

***The performance of this manager is not yet known due to its new inception*

12. Summary of Rolling Three Year Performance as at 31 December 2018



**The benchmarks for the following managers are under review with the custodian and manager; LGIM, Franklin & Templeton,*

Due to their new inception, the 3 year performance returns for Ruffer, Aviva and BCPP UK Equity Alpha are not yet known

The below table shows the annualised performance by manager for the previous three years.

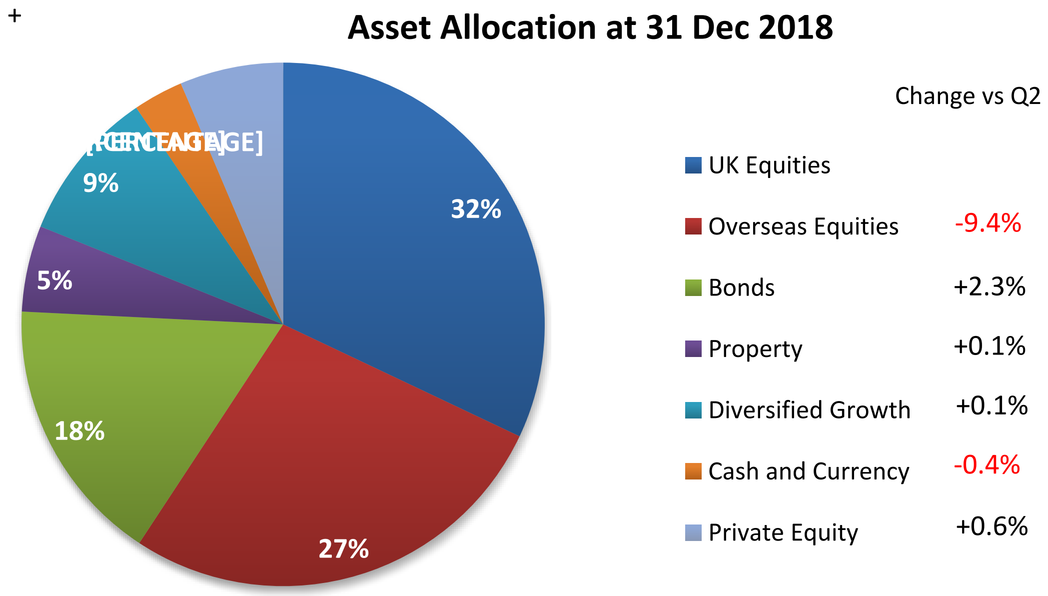
**The benchmark for this manager is under review with the custodian and manager.*

**This fund manager has yet to remain with the Fund for 3 years, so therefore 3 year performance data and benchmarks are not yet available.

Manager	Performance %	Benchmark %	Target Above Benchmark %	Relative to Target %
Total Fund	8.2%	7.3%	1.0%	-0.1%
L&G	13.0%	-	-	-
Majedie	6.0%	6.1%	2.5%	-2.6%
BCPP UK Equity Alpha**	-	-	-	-
Marathon	13.1%	11.9%	2.0%	-0.8%
Newton	10.7%	11.9%	2.0%	-3.2%
Western MAC	3.7%	6.0%	0.0%	-2.3%
Franklin Templeton*	2.7%	-	-	-
CBRE	7.5%	7.3%	0.5%	-0.3%
Baillie Gifford	2.5%	0.4%	3.5%	-1.5%
Ruffer**	-	0.4%	3.0%	-
Aviva **	-	0.4%	5.0%	-

13. Asset Allocation

The graph and table below summarise the asset allocation of the fund as at 31 December 2018.The table below compares the actual asset allocation as at 31 December 2018 against target asset weightings.

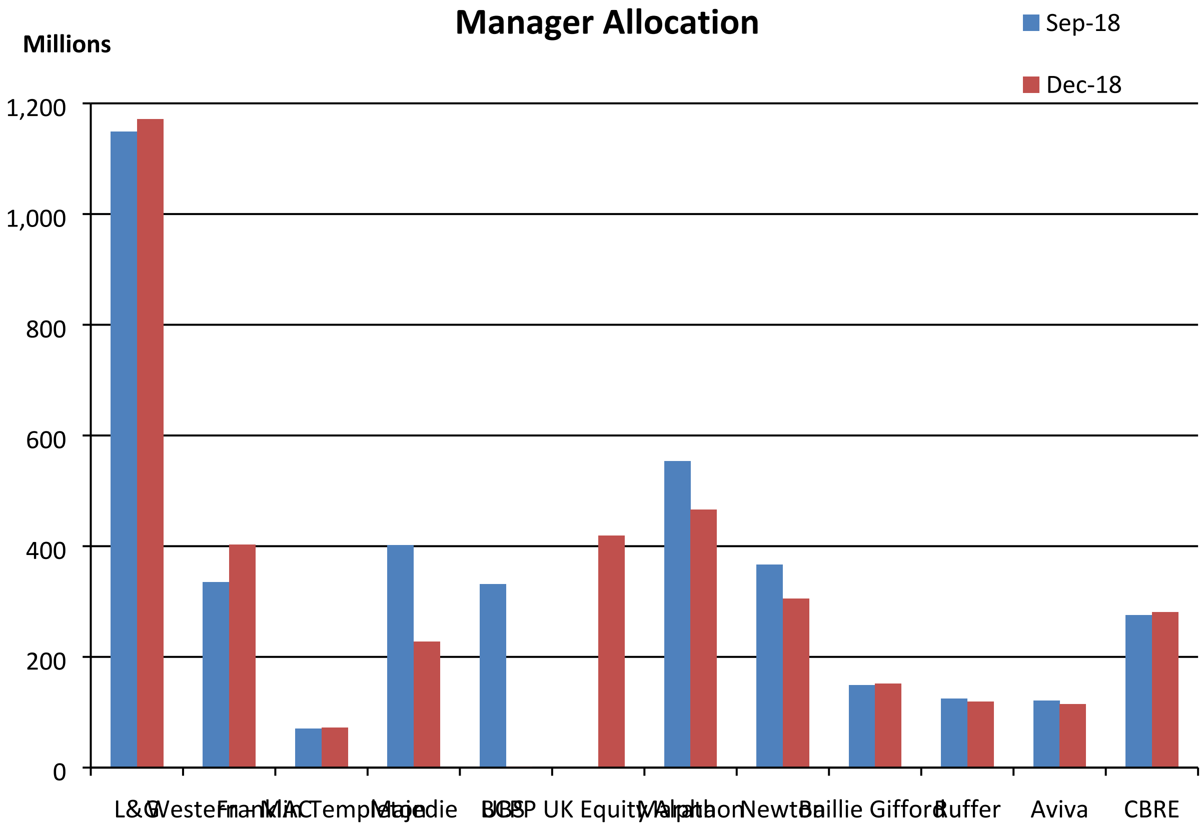


	TOTAL FUND	Actual	Target
	£m	%	%
Bonds			
Multi Asset Credit	403.2	9.9%	9.7%
Investment Grade Credit	0.0	0.0%	0.0%
Index Linked Gilts	200.0	4.9%	5.5%
Unconstrained	72.0	1.8%	2.4%
Equities			
UK	1,309.6	32.0%	17.4%
Overseas/ Multi Factor/Low Carbon*	1,113.2	27.2%	42.4%
Property Unit Trusts	217.4	5.3%	6.2%
Diversified growth	384.9	9.4%	11.4%
Cash	130.6	3.2%	0.0%
Currency hedge	-4.3	-0.1%	0.0%
Private Equity	261.4	6.4%	5.0%
TOTAL	**4,216.5**	**100.0%**	**100.0%**

**Overseas Equities include cash and equity options as part of the downside protection strategy.*

14. Manager Allocation

The graph below shows the manager allocation as at 31 December 2018 and 30 September 2018.



CONSULTATION:

15. The Chairman of the Pension Fund Committee has been consulted on this report

RISK MANAGEMENT AND IMPLICATIONS:

16. Risk related issues have been discussed and are contained within the report.

FINANCIAL AND VALUE FOR MONEY IMPLICATIONS

17. Financial and value for money implications are discussed within the report.

SECTION 151 OFFICER (DIRECTOR OF FINANCE) COMMENTARY

18. The Section 151 Officer is satisfied that all material, financial and business issues and possibility of risks have been considered and addressed.

LEGAL IMPLICATIONS – MONITORING OFFICER

19. There are no legal implications or legislative requirements.

EQUALITIES AND DIVERSITY

20. The approval of the various options will not require an equality analysis, as there is no major policy, project or function being created or changed.

OTHER IMPLICATIONS

21. There are no potential implications for council priorities and policy areas.

WHAT HAPPENS NEXT

22. The following next steps are planned:

    - Implementation of the various recommendation approvals.

Contact Officer:
Mamon Zaman, Senior Accountant

Consulted:
Pension Fund Committee Chairman

Annexes:
Annex 1: Asset Allocation Policy and Actual as at 31 December 2018
Annex 2: Manager fee Rates
Annex 3: Minutes from external fund manager meetings held on 16 January 2019

Sources/background papers:

Annex 1

11

Asset Allocation Update

The table shows the actual managed asset allocation as at 31 December 2018.

	Category	Advisory Ranges (%)	Allocation Policy (%)	Allocation at 31/12/2018 (%)	Variance to Allocation Policy (%)
Equities		**56.8 – 62.8**	**59.8**	**59.5**	***-0.3***
UK					
*Legal and General**	*Passive*		*0.0*	*16.9**	*16.9*
Majedie	*Concentrated Active*		*5.4*	*5.7*	*0.3*
BCPP UK Equity Alpha	*Core Active*		*12.0*	*10.4*	*-1.6*
Overseas		*Emerging Market Equities*	*3.8*	*0*	*-3.8*
*Legal and General**	*Passive*	*Rafi*	*9.8*	*0*	*-9.8*
		Low Carbon	*9.8*	*0*	*-9.8*
		Overseas	*0*	*7.3**	*7.3*
Marathon	*Concentrated Active*		*11.4*	*11.6*	*0.2*
Newton	*Core Active*		*7.6*	*7.6*	*0.0*
Property					
CBRE	*Core Active*	**3.2 - 9.2**	***6.2***	***7.0***	***0.8***
Alternatives		**8.4 – 14.4**	**11.4**	**9.7**	**-1.7**
Baillie Gifford	*Diversified growth*		*3.8*	*3.8*	*0.0*
Ruffer	*Diversified growth*		*3.8*	*3.0*	*-0.8*
Aviva	*Diversified growth*		*3.8*	*2.9*	*-0.9*
Growth Fixed Income Assets		**9.1 – 15.1**	**12.1**	**11.9**	**-0.2**
Total Return					
Franklin Templeton	*Unconstrained*		*2.4*	*1.8*	*-0.6*
Multi Asset Credit					
Western	*Unconstrained*		*9.7*	*10.1*	*0.4*
Index-linked gilts					
Legal and General	*Core Active*	***2.5 - 8.5***	***5.5***	***5.0***	***-0.5***
Private Equity	*Various*	***2.0 - 8.0***	**5.0**	***6.9***	***1.9***
Total			**100.0**	**100.0**	**0.0**

*The imbalance in the LGIM Equity holdings is as a result of the Fund awaiting the Internal Transition into RAFI and Low Carbon portfolios, with the Trade Date of the transition actioned on 17 January 2019

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