

Pension Board AGENDA

DATE: Tuesday 22 March 2016

TIME: 2.00 pm

VENUE: Committee Rooms 3,
Harrow Civic Centre

MEMBERSHIP (Quorum 3)

Chair: Mr R Harbord

Board Members:

Councillor Kiran Ramchandani	- Employer Representative - London Borough of Harrow
Gerald Balabanoff (VC)	- Scheme Members' Representative - Pensioners
Sudhi Pathak	- Employer Representative - Scheduled and Admitted Bodies
John Royle	- Scheme Members' Representative - Active Members
	-

Contact: Alison Atherton, Senior Professional Democratic Services
Tel: 020 8424 1266 Email: alison.atherton@harrow.gov.uk

AGENDA - PART I

1. ATTENDANCE BY RESERVE MEMBERS

To note the attendance at this meeting of any duly appointed Reserve Members.

Reserve Members may attend meetings:-

- (i) to take the place of an ordinary Member for whom they are a reserve;
- (ii) where the ordinary Member will be absent for the whole of the meeting; and
- (iii) the meeting notes at the start of the meeting at the item 'Reserves' that the Reserve Member is or will be attending as a reserve;
- (iv) if a Reserve Member whose intention to attend has been noted arrives after the commencement of the meeting, then that Reserve Member can only act as a Member from the start of the next item of business on the agenda after his/her arrival.

2. DECLARATIONS OF INTEREST

To receive declarations of disclosable pecuniary or non pecuniary interests, arising from business to be transacted at this meeting, from:

- (a) all Members of the Committee;
- (b) all other Members present.

3. MINUTES (Pages 5 - 12)

That the minutes of the meeting held on 2 November 2015 be taken as read and signed as a correct record.

4. PUBLIC QUESTIONS *

To receive any public questions received in accordance with Committee Procedure Rule 17.

Questions will be asked in the order notice of them was received and there be a time limit of 15 minutes.

[The deadline for receipt of public questions is 3.00 pm, Thursday 17 March 2016 . Questions should be sent to publicquestions@harrow.gov.uk

No person may submit more than one question].

5. PETITIONS

To receive petitions (if any) submitted by members of the public/Councillors under the provisions of Committee Procedure Rule 15 (Part 4B of the Constitution).

6. DEPUTATIONS

To receive deputations (if any) under the provisions of Committee Procedure Rule 16 (Part 4B) of the Constitution.

7. INFORMATION REPORT - ACTUARIAL VALUATION 2016 (Pages 13 - 54)

Report of the Director of Finance

8. INFORMATION REPORT - MANAGEMENT AND INVESTMENT EXPENSES BENCHMARKING (Pages 55 - 62)

Report of the Director of Finance

9. INFORMATION REPORT - PENSION FUND COMMITTEE ADVISERS (Pages 63 - 66)

Report of the Director of Finance

10. INFORMATION REPORT - GOVERNANCE COMPLIANCE STATEMENT (Pages 67 - 82)

Report of the Director of Finance

11. INFORMATION REPORT - PENSION FUND COMMITTEE MEETING 25 NOVEMBER 2015 (Pages 83 - 88)

Report of the Director of Finance

12. INFORMATION REPORT - ANNUAL REVIEW OF INTERNAL CONTROLS AT FUND MANAGERS (Pages 89 - 114)

Report of the Director of Finance

13. INFORMATION REPORT - ENVIRONMENTAL, SOCIAL AND GOVERNANCE ISSUES IN PENSION FUND INVESTMENT (Pages 115 - 154)

Report of the Director of Finance

14. ANY OTHER BUSINESS

Which the Chairman has decided is urgent and cannot otherwise be dealt with.

AGENDA - PART II

NIL

*** DATA PROTECTION ACT NOTICE**

The Council will audio record item 4 (Public Questions) and will place the audio recording on the Council's website, which will be accessible to all.

[**Note:** The questions and answers will not be reproduced in the minutes.]

This page is intentionally left blank

PENSION BOARD MINUTES

2 NOVEMBER 2015

Chair: * Mr R Harbord

Board Members:	* Councillor Kiran Ramchandani	Employer Representative - London Borough of Harrow Scheme Members'
	* Gerald Balabanoff (VC)	Representative - Pensioners
	* Sudhi Pathak	Employer Representative - Scheduled and Admitted Bodies
	John Royle	Scheme Members' Representative - Active Members

* Denotes Member present

15. Attendance by Reserve Members

RESOLVED: To note that there were no Reserve Members in attendance.

16. Declarations of Interest

RESOLVED: To note that there were no declarations of interests made by Members.

17. Minutes

RESOLVED: That the minutes of the meeting held on 25 June 2015 be taken as read and signed as a correct record.

18. Public Questions, Petitions & Deputations

RESOLVED: To note that no public questions, petitions or deputations were received at this meeting.

RESOLVED ITEMS

19. Code of Conduct

The Board received a received a report of the Director of Finance which set out additional advice from the Council's legal adviser regarding the requirement for Board Members to sign up to and abide by the Council's Code of Conduct.

An officer advised that Board Members would be subject to the protocol on co-optees and advisors as set out in the Council's Constitution, and would therefore be required to disclose any pecuniary, non-pecuniary and conflicts of interests at Board meetings. He added that this requirement had been communicated to Board members at the time of their appointments and was also laid out in the Board's Terms of Reference.

A member of the Board stated that, in his view, the statutory definition of a conflict of interest did not correspond with that in the Council's Constitution and that disclosable pecuniary and non-pecuniary interests were not the correct test to apply to Board members' interests and the Council's Code of Conduct could not override existing legislation relating to the conduct of Board members.

Following further discussion, Board members indicated that they were agreeable to signing the Council's Code of Conduct.

RESOLVED: That the report be noted.

RECOMMENDED ITEMS

20. Annual Report and Financial Statements for the year ended 31 March 2015

The Board received a report of the Director of Finance which set out the London Borough of Harrow Pension Fund Annual Report and Financial Statements for the year ended 31 March 2015 and the Report of the Auditor (Deloitte LLP) to the Governance, Audit, Risk Management and Standards Committee.

Following a brief overview of the report, officers responded to Board members' questions and comments as follows:

- the Council's actuaries were not anxious about the fact that the fund was in deficit and that there was a 50% chance that the Fund would return to full funding in 20 years, and that achieving a fully funded status may require the continued payment of deficit contributions. For

the Fund to be fully funded in a shorter period could require an employer contribution rate of 34%, which was not currently feasible;

- in terms of investment performance league tables for all LGPS funds, the Fund was in the top quartile; for funding it was in the bottom quintile. An officer undertook to ensure that future reports to the Board would set out clearly areas where the Fund was doing well as well as areas of concern to facilitate the scrutiny process as well as provide a more detailed report on funding and on cash flow projections to a future meeting of the Board;
- some Local Authority actuaries tended to be quite conservative and generally attached high values to liabilities. The Council's actuaries, Hymans Robertson LLP, had produced a report on Local Authorities, which, when using consistent assumptions, placed Harrow about 50th nationally.
- 85% of the Pension Fund's members were council employees;
- the next actuarial valuation would take effect from 2017 and officers would be meeting with the actuaries in 2016 to get the ball rolling;
- the Fund's governance arrangements, when measured in a self-assessment exercise against the principles set out in the statutory guidance were considered by officers to be largely fully compliant in most areas, however, he would provide a more detailed report regarding this to a future meeting of the Board;
- comments made by the external auditors (Deloitte's) regarding the council's internal control environment and risk management processes related to previous years and all recommendations made by the auditors had since been actioned. The comment relating to the risk register related to any possible major systems failure leading to a failure in pensions administration and the actuaries had requested that the register include more detail on this;
- the auditors routinely carried out sample checks on pensions' calculations for individuals and the pensions' payroll staff had been provided with training on calculations under the new arrangements. All council employees had been issued with benefits statements in August 2015;
- all of the Fund's investments were in pooled funds and none were in segregated funds. The pooled funds were held by custodians who were listed on the accounts and the Pension Fund Committee (PFC) received a report annually regarding the internal controls and audit of each of the fund managers. An officer undertook to provide the Board with a report regarding the internal controls and governance procedures of the custodians.

RESOLVED: That

- (1) the report be noted; and
- (2) the Board's comments be forwarded to the Pension Fund Committee.

21. Investment and Management Expenses 2014-15

The Board received a report of the Director of Finance which set out the details of investment and management expenses incurred by the Pension Fund during 2014/15.

An officer provided a brief introduction to the report, and responded to comments and questions as follows:

- the fees for work undertaken by Hymans Robertson in relation to the Pension Fund varied from year to year and their fees were not performance-linked. For example, in 2013/14, a great deal of work on the triennial valuation had been undertaken by Hymans, which were charged either on the basis of time spent or for projects undertaken. Many local authorities had officer support to appraise fund managers, and Harrow used AonHewitt for this, which had produced four quarterly reports on rating, at the cost of £20k per quarter;
- the Pension Fund Committee (PFC) and its predecessor, the Pension Fund Investment Panel had co-opted advisers and professional advisers from AonHewitt who had replaced Hymans Robertson. Last year the PFC had appointed two additional advisers. The advisers would be expected to attend four PFC meetings per year, to keep abreast of financial matters and attend other events such as meetings with fund managers. It was noted that the advisers had incorrectly been listed in the report as Financial advisers, which they were not and were not therefore required to be registered with the Financial Conduct Authority. Further information regarding the appointment of the advisers would be circulated to Board members after the meeting;
- the £807K figure relating to Payroll and Central Recharges, which was an annual calculation, was accurate and included items such as officer salaries, the cost of producing pay slips, overheads and costs related to agency staff;
- any benchmarking data that was available regarding other funds would be provided to the Board after the meeting.

RESOLVED: That

- (1) the report be noted; and
- (2) the Board's comments be forwarded to the Pension Fund Committee.

22. Statement of Investment Principles

The Board received a report of the Director of Finance which set out the Pension Fund's current Statement of Investment Principles. Following a brief overview of the report, an officer responded to questions and comments as follows:

- the Fund's investment managers invested in overseas companies but did not engage in currency dealing as currency hedging was not within their area of expertise. The Fund used a company which took actions at the level of 50% of the Fund's foreign investments. This manager was paid £21k for its services;
- re-structuring of the Fund was considered approximately every three years. The last re-structure had been agreed in 2013 and implemented in 2014;
- the robustness of the controls and limits placed on the investment managers had been considered by the PFC and their internal controls were reviewed annually. This information would be circulated to the Board after the meeting.

RESOLVED: That

- (1) the report be noted; and
- (2) the Board's comments be forwarded to the Pension Fund Committee.

23. Pension Fund Committee - 1 July 2015

The Board received a report summarising the matters considered at the Pension Fund Committee meeting on 1 July 2015.

The Board noted that there had been a significant improvement in the Fund's performance relative to other funds between 2007-09 and 2010-15.

RESOLVED: That the report be noted.

24. Pension Fund Committee - 8 September 2015

The Board received a report of the Director of Finance summarising the matters considered at the Pension Fund Committee (PFC) meeting on 8 September 2015.

Members expressed concern at the Board's lack of access to exempt reports submitted to the PFC. They were of the view that this would hinder their ability to scrutinise governance arrangements relating to the Fund and queried whether most of the reports submitted to PFC which had been listed as exempt should in fact have been designated as such.

RESOLVED: That

- (1) the report be noted; and
- (2) the Board's comments be forwarded to the Pension Fund Committee.

25. Benchmarking Exercise and Key Performance Indicators

The Board received a report of the Director of Finance advising of a request from the Local Government Pension Scheme (LGPS) Advisory Board that each administering authority complete a pro-forma providing information on key performance indicators (KPIs).

An officer advised that completion of the pro-forma had taken the form of a self-assessment exercise. He responded to questions as follows:

- the completed pro-formas would be made available to the Scheme Advisory Board, however, the Board did not intend to create a league table from the data received. The Advisory Board hoped that completing the pro-forma would enable authorities to improve their performance;
- 31 out of the 33 London Boroughs had signed up to a collective investment vehicle, which would mean lower management fees for contracts;
- information regarding whether the statutory governance standards were being reviewed would be confirmed to Board members after the meeting;
- Harrow may be signing up to the Stewardship Code and Board members were welcome to provide comments and feedback regarding this;
- Croydon Council was leading on negotiations on Framework Agreements for Actuaries and Investment Advisers and Harrow had used these facilities.

RESOLVED: That

- (1) the report be noted; and
- (2) the Board's comments be forwarded to the Pension Fund Committee.

26. Any Other Business

In accordance with the Local Government (Access to Information) Act 1985, the following items were included late on the agenda as they arose following a consideration of the minutes of the last meeting and discussion of the agenda items:

- the Board should appeal against the ruling by the Council's Legal Advisor that Board members should not be given access to exempt reports submitted to the Pension Fund Committee (PFC), for the following reasons: the Board's ability to fulfil its scrutiny function would be seriously compromised unless it was allowed access to exempt reports submitted to PFC, particularly since Board members were expected to sign up to and abide by the Council's Code of Conduct. Pension Board members at other local authorities had full access to exempt papers submitted to their Pension Fund Committees. The Chair stated that the Board should enter into further dialogue with the Council's legal adviser with a view to finding a solution to this issue;
- adviser appointments to the Board were made for a period of three years, however, the length of the appointments should be staggered to ensure continuity of expert advice;
- officers were requested to produce a Work Programme for the Board as this would help to ensure that the Board effectively discharged its responsibilities;
- Board Members were of the view that a further meeting should be scheduled for February/March 2016.

RESOLVED: That the comments be noted.

(Note: The meeting, having commenced at 6.30 pm, closed at 8.36 pm).

(Signed) RICHARD HARBORD
Chair

This page is intentionally left blank

REPORT FOR: PENSION BOARD

Date of Meeting: 22 March 2016

Subject: Information Report – Actuarial Valuation 2016

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards affected: All

Enclosures: Appendix1- Regulation 62 of Local Government Pension Scheme Regulations 2013
Appendix 2 – 2016 Valuation: Funding strategy considerations Hymans Robertson)

Section 1 – Summary

This report advises the Board of the need for the triennial valuation of the Pension Fund during 2016 and invites them to receive a presentation from the Actuary, Hymans Robertson LLP.

For Information

Section 2 – Report

1. As required by Regulation 62 of the Local Government Pension Scheme Regulations 2013, every three years an actuarial valuation of the Pension Fund is carried out. The last valuation was carried out in 2013 with the results implemented from 1 April 2014. Another valuation is now due and the Council has appointed the Actuary, Hymans Robertson LLP, as currently led by the partner, Ms Gemma Sefton, to complete the work.
2. A copy of the full text of the Regulation is attached as Appendix I. Some of the main features are as follows:

An administering authority must obtain—

- (a) an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2016 and on 31st March in every third year afterwards;*
- (b) a report by an actuary in respect of the valuation; and*
- (c) a rates and adjustments certificate prepared by an actuary.*

Each of those documents must be obtained before the first anniversary of the date (“the valuation date”) as at which the valuation is made or such later date as the Secretary of State may agree.

The actuary must have regard to—

- (a) the existing and prospective liabilities arising from circumstances common to [the employers];*
- (b) the desirability of maintaining as nearly constant a common rate as possible;*
- (c) the current version of the administering authority’s funding strategy statement; and*
- (d) the requirement to secure the solvency of the pension fund and the long term cost efficiency of the Scheme, so far as relating to the pension fund.*

3. Ms Sefton made a presentation both before and during the meeting of the Pension Fund Committee on 9 March 2016 covering some of the most significant aspects of the valuation. The Board are invited to receive this presentation.
4. On 29 January the Director of Finance and several other officers met the Actuary and agreed a timetable.
5. The Board are asked to note this report.

Financial Implications

6. Whilst, clearly, the results of the valuation have a major impact on the management of the Pension Fund and the contributions from the General Fund other than the actual costs of the valuation there are no financial implications arising directly from this report.

Risk Management Implications

7. The Pension Fund has its own risk register which includes risks arising in connection with the triennial valuation.

Equalities implications

8. There are no direct equalities implications arising from this report.

Council Priorities

9. Whilst the financial health of the Pension Fund and the employer's contribution affects the resources available for the Council's priorities there are no impacts arising directly from this report.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert



Director of Finance

Date: 25 February 2016

Ward Councillors notified:

NO

Section 4 - Contact Details

Contact: Ian Talbot, Treasury and Pension Fund Manager
0208 424 1450

Background Papers - None

This page is intentionally left blank

Local Government Pension Scheme Regulations 2013, Regulation 62

Actuarial valuations of pension funds

62.—(1) An administering authority must obtain—

- (a) an actuarial valuation of the assets and liabilities of each of its pension funds as at 31st March 2016 and on 31st March in every third year afterwards;
- (b) a report by an actuary in respect of the valuation; and
- (c) a rates and adjustments certificate prepared by an actuary.

(2) Each of those documents must be obtained before the first anniversary of the date (“the valuation date”) as at which the valuation is made or such later date as the Secretary of State may agree.

(3) A report under paragraph (1)(b) must contain a statement of the demographic assumptions used in making the valuation; and the statement must show how the assumptions relate to the events which have actually occurred in relation to members of the Scheme since the last valuation.

(4) A rates and adjustments certificate is a certificate specifying—

- (a) the primary rate of the employer’s contribution; and
- (b) the secondary rate of the employer’s contribution, for each year of the period of three years beginning with 1st April in the year following that in which the valuation date falls.

(5) The primary rate of an employer’s contribution is the amount in respect of the cost of future accruals which, in the actuary’s opinion, should be paid to a fund by all bodies whose employees contribute to it so as to secure its solvency, expressed as a percentage of the pay of their employees who are active members.

(6) The actuary must have regard to—

- (a) the existing and prospective liabilities arising from circumstances common to all those bodies;
- (b) the desirability of maintaining as nearly constant a common rate as possible;
- (c) the current version of the administering authority’s funding strategy mentioned in regulation 58 (funding strategy statements); and
- (d) the requirement to secure the solvency of the pension fund and the long term cost efficiency of the Scheme, so far as relating to the pension fund.

(7) The secondary rate of an employer’s contributions is any percentage or amount by which, in the actuary’s opinion, contributions at the primary rate should, in the case of a Scheme employer, be increased or reduced by reason of any circumstances peculiar to that employer.

(8) A rates and adjustments certificate must contain a statement of the assumptions on which the certificate is given as respects—

- (a) the number of members who will become entitled to payment of pensions under the provisions of the Scheme; and
- (b) the amount of the liabilities arising in respect of such members, during the period covered by the certificate.

(9) The administering authority must provide the actuary preparing a valuation or a rates and adjustments certificate with the consolidated revenue account of the fund and such other information as the actuary requests.

London Borough of Harrow Pension Fund

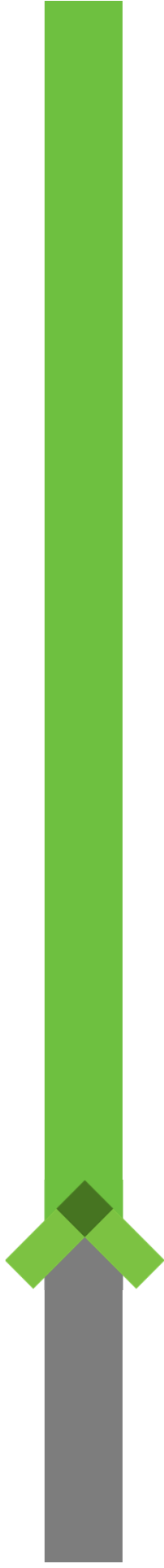
2016 Valuation: Funding strategy considerations

- Gemma Sefton
- 9 March 2016

What are we going to cover?

- Actuarial valuation basics
- Valuing the Fund
- Recap of 2013 valuation funding strategy
- Developments for 2016 valuation





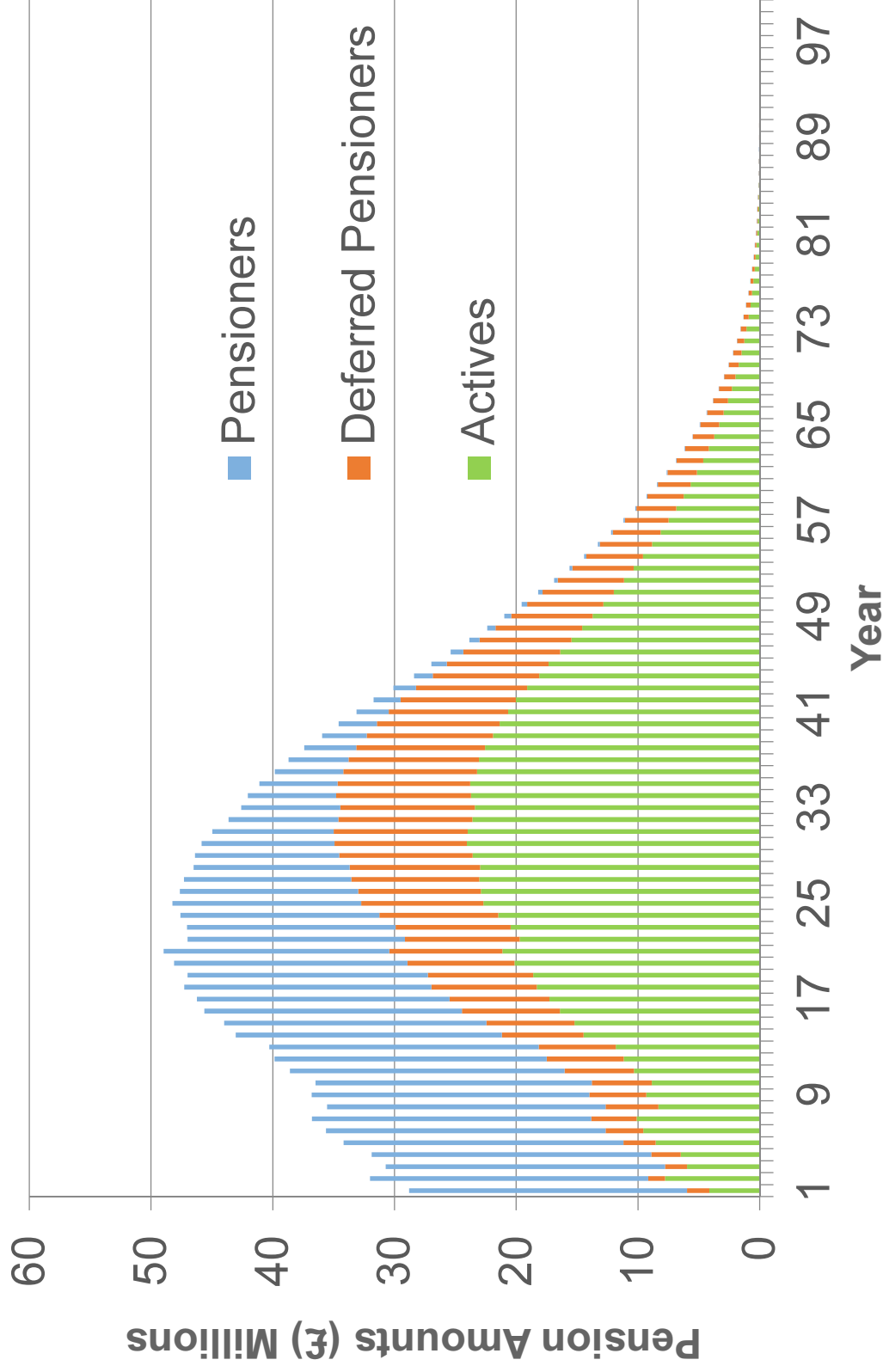
Intro to the valuation

Why do we do a valuation?

- Compliance with legislation
- Set employer contribution rates
- Determine money needed to meet accrued liabilities
- Calculate solvency (“funding level”)
- Monitor experience vs. assumptions
- Manage risks to Fund and employers

Review the Funding Strategy Statement (FSS)

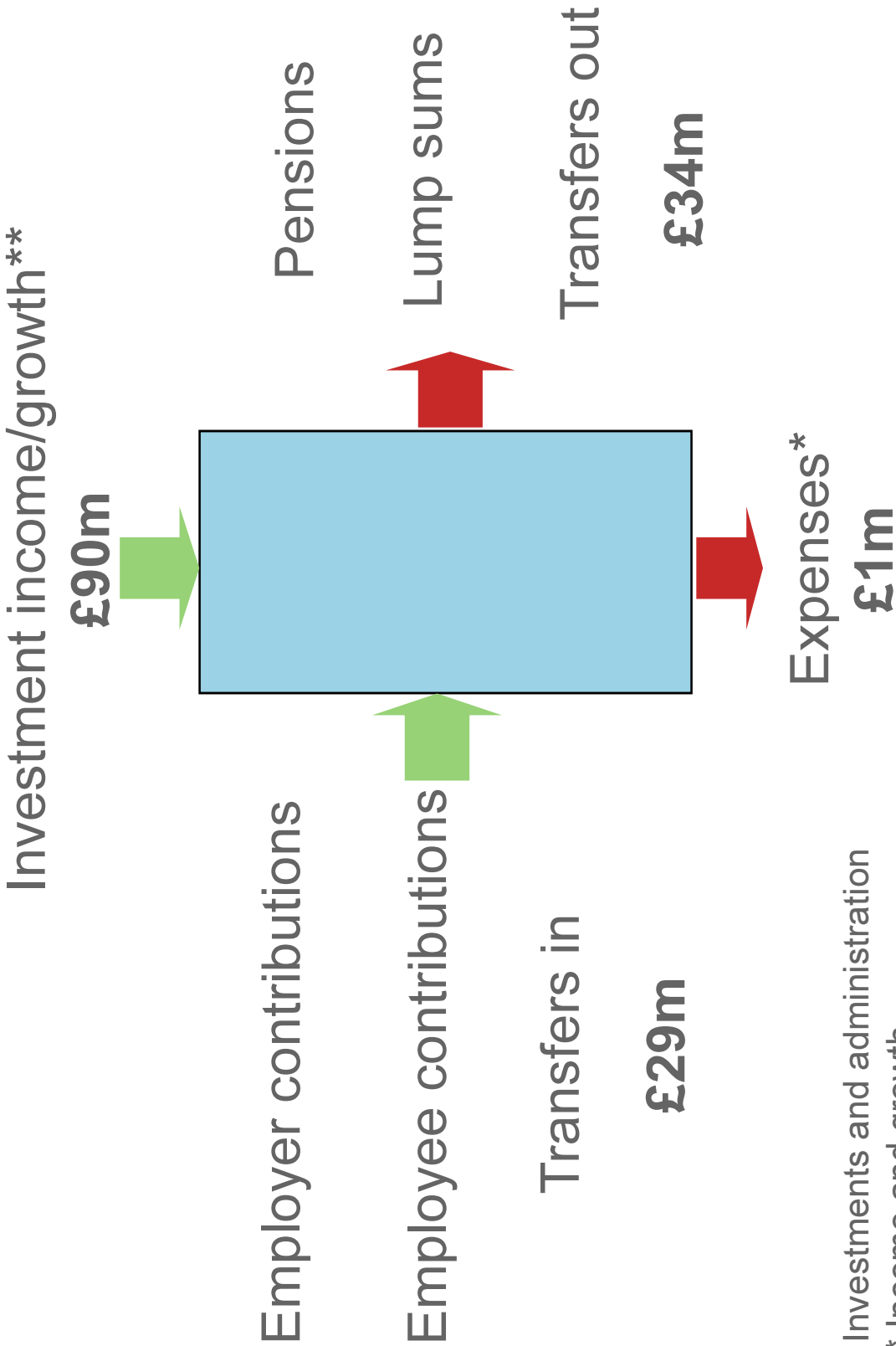
The Fund's ultimate objective



Pay members' benefits

Source: London Borough of Harrow Pension Fund 2013 formal valuation cashflows

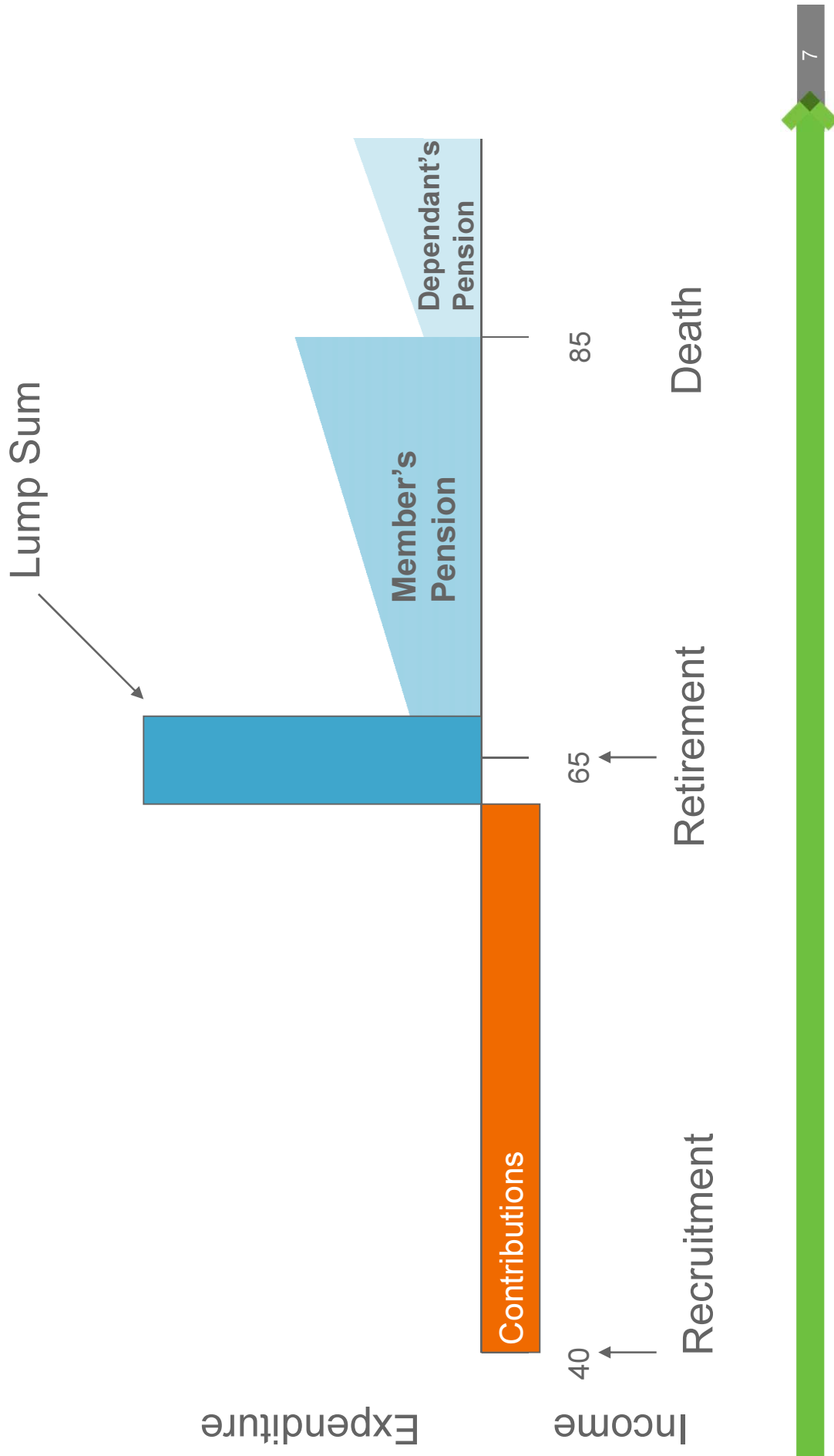
How the fund works



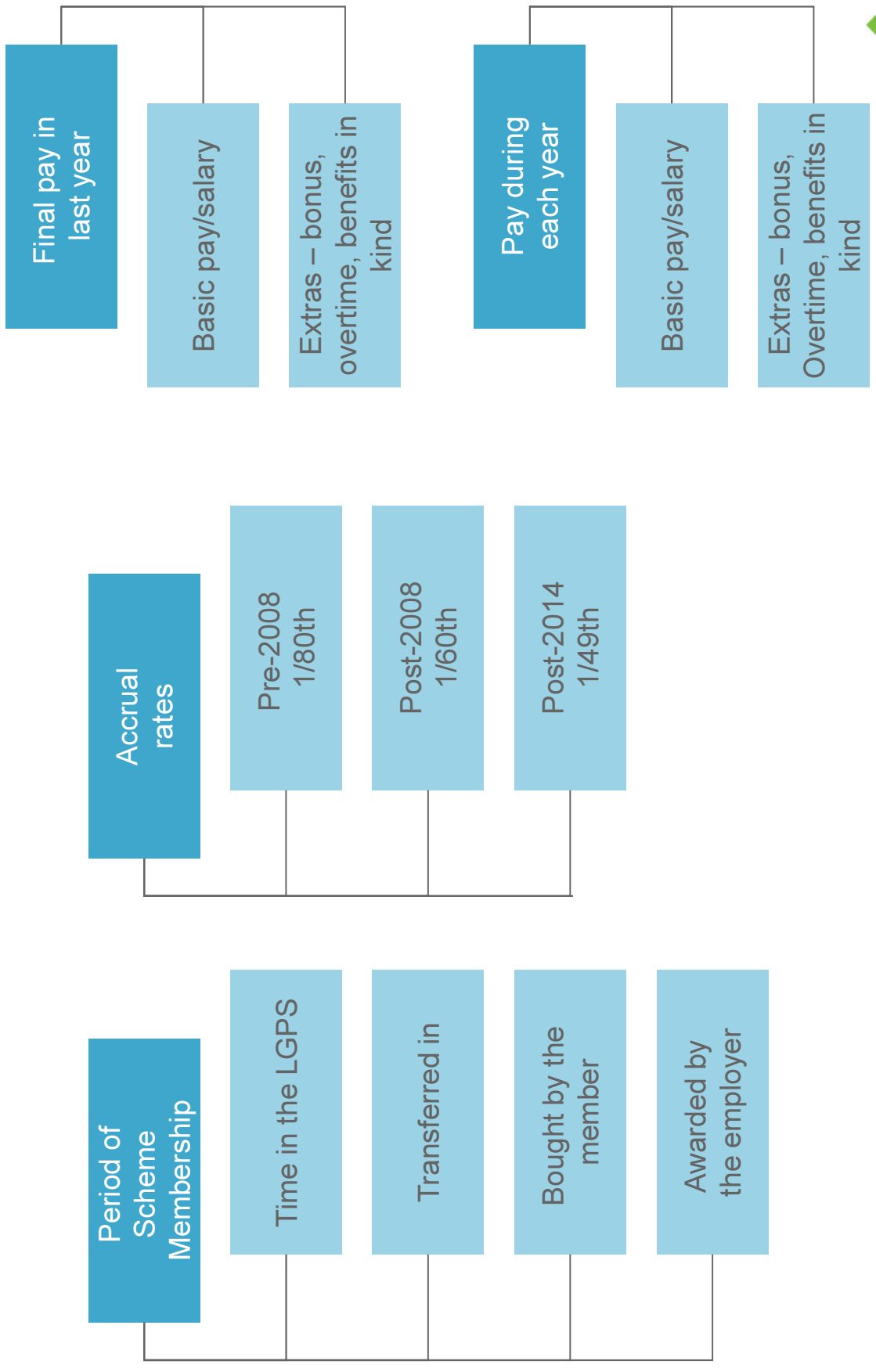
* Investments and administration

** Income and growth

Promise now, pay later: Long term pension promise in ever-changing environment



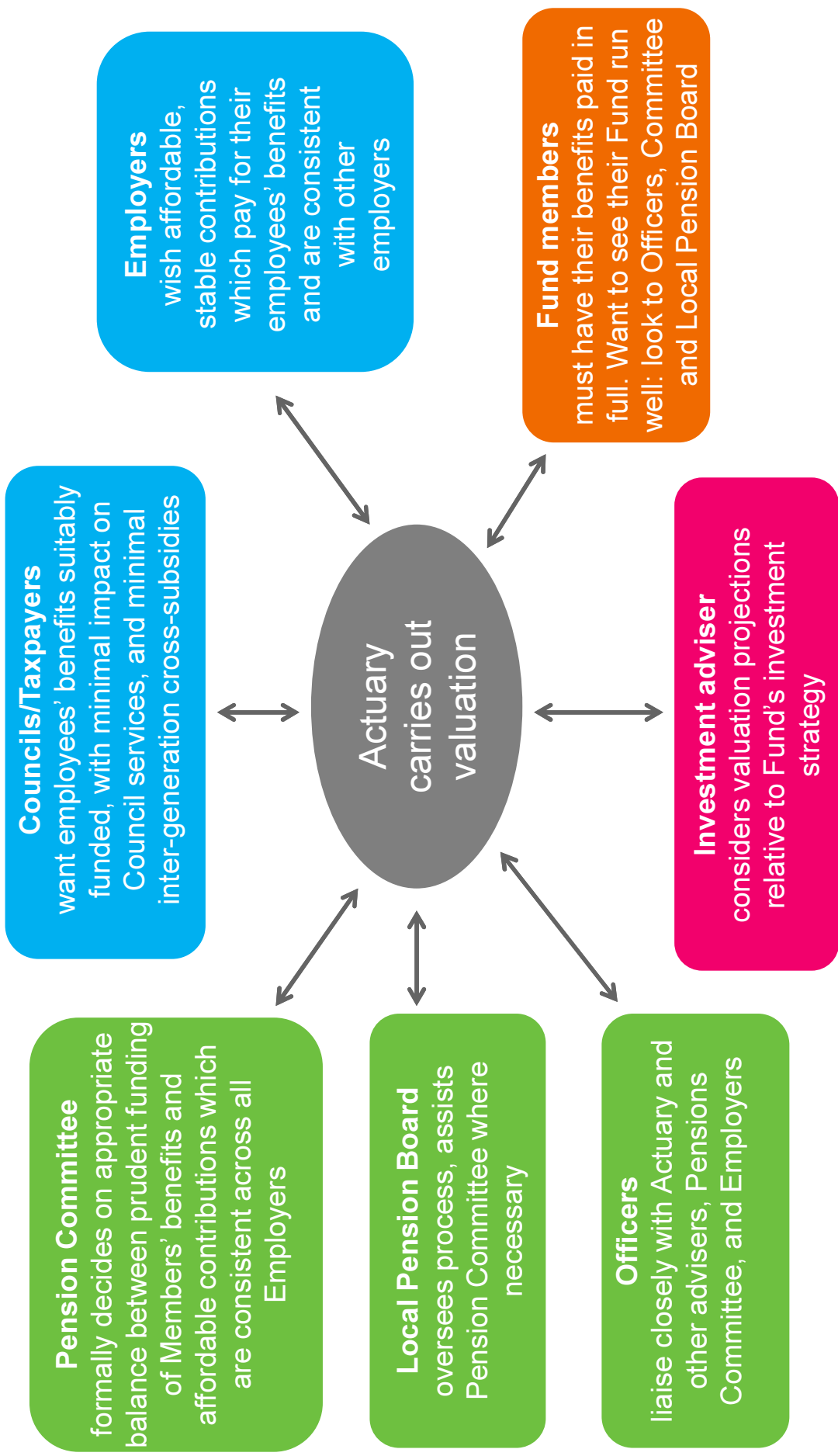
Scheme benefits – the building blocks



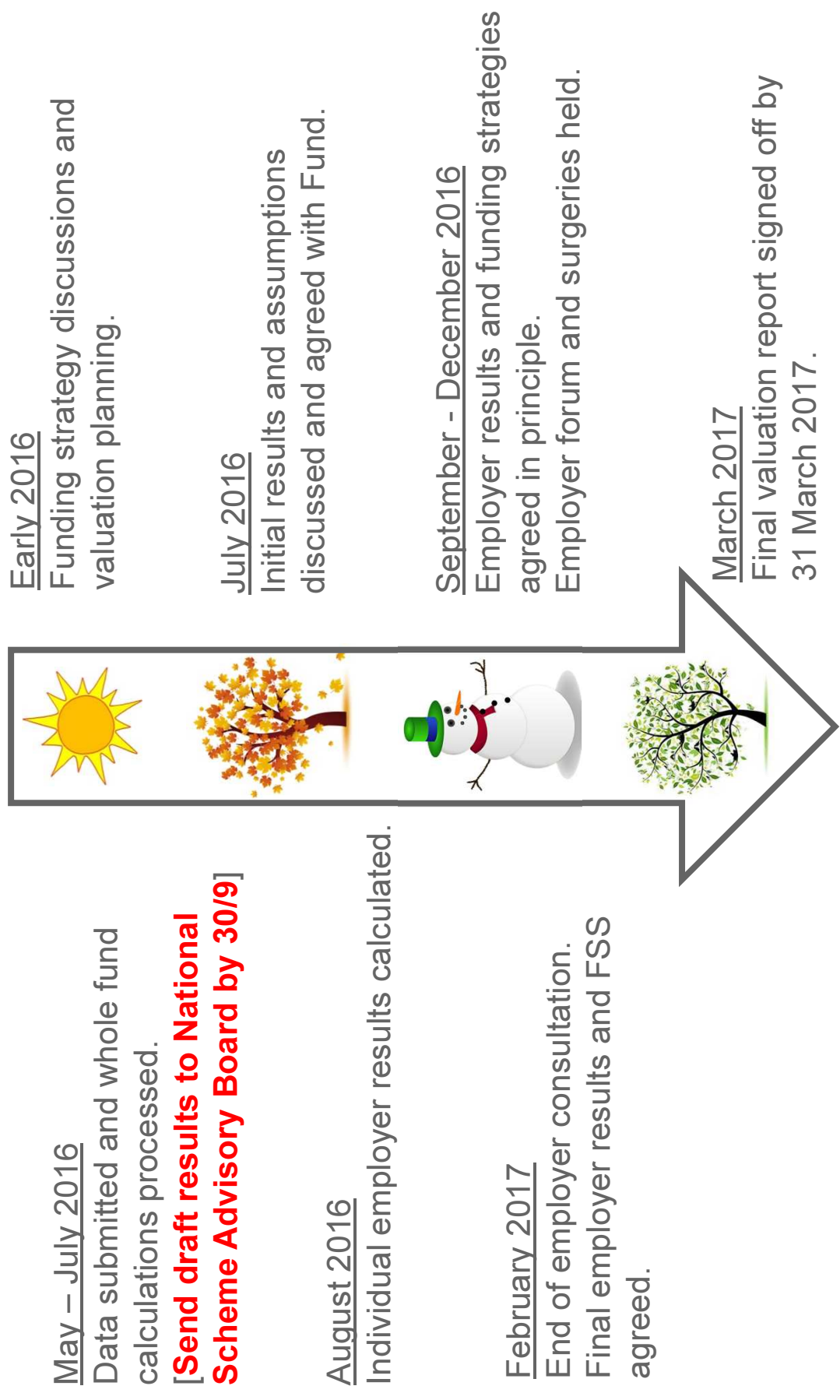
Overview of a valuation

- Actual cost of a Scheme will depend on the **pensions actually paid**
- A valuation is an **estimate** of how much money will be needed to pay the pensions
- Estimate is based on assumptions about
 - **amounts** of benefit payments
 - **probability** of benefits being paid

The actuarial valuation: interested parties



Valuation timeline





Valuing the Fund

Liability valuation - assumptions

Amounts paid and probability of payment

Financial assumptions:

- Investment return
 - Inflation
- Pay increases
- Pension increases

Consider:

Economic outlook

Actual scheme assets

Historical pay growth



Demographic assumptions:

- Life expectancy
- Retirement age and cause
 - Withdrawals
- Marriage statistics

Consider:

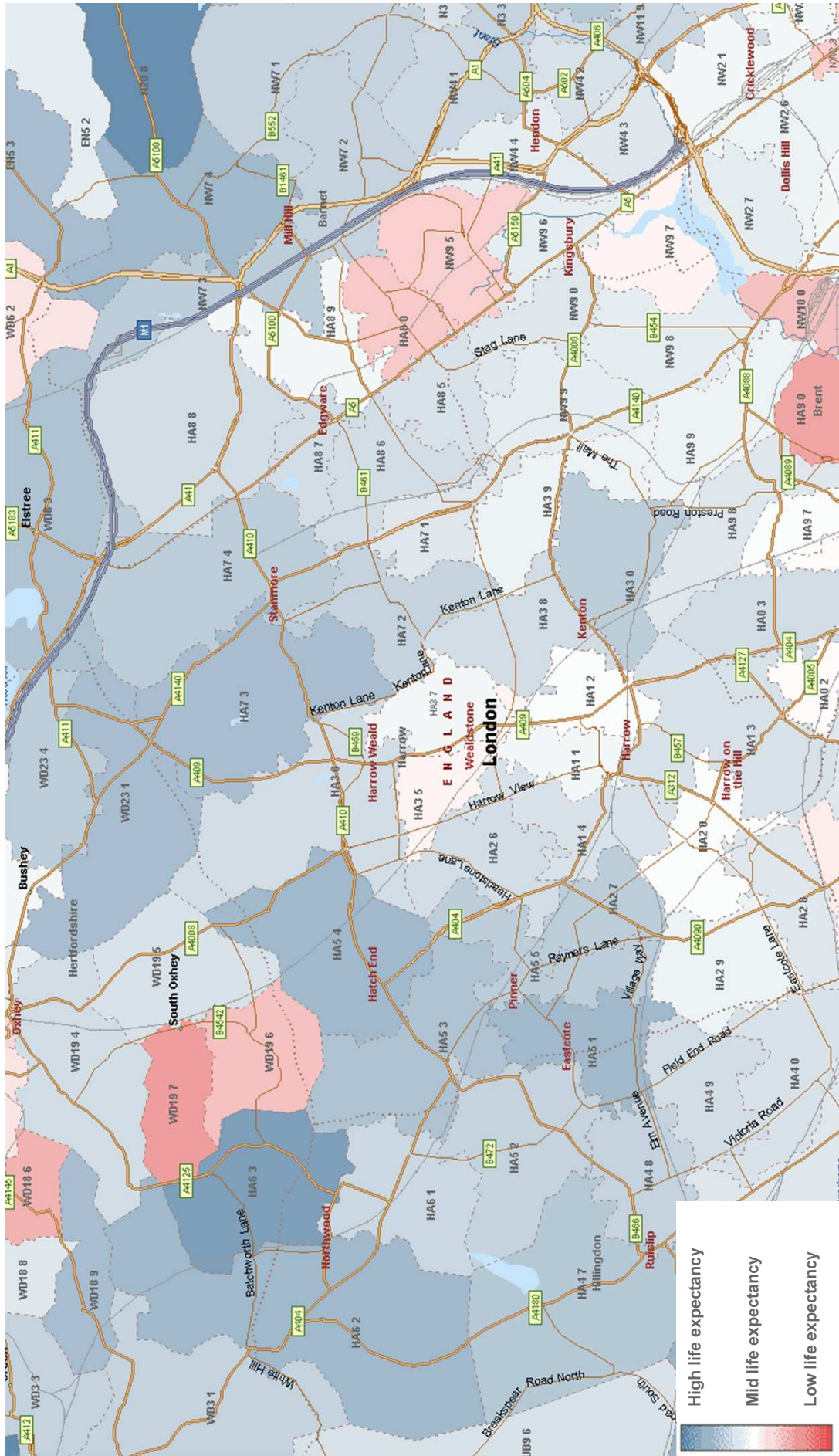
Population trends

Members' social status

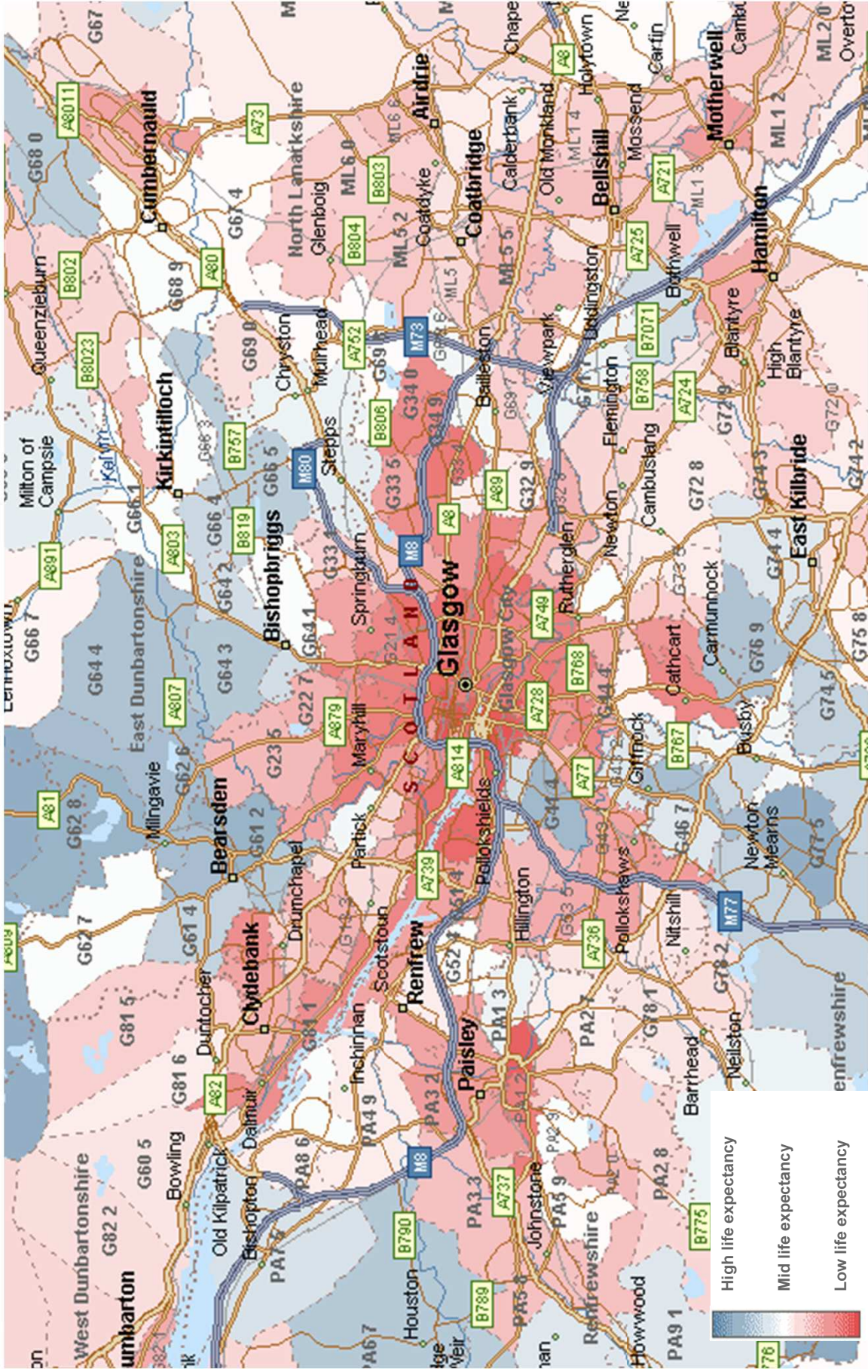
Past scheme experience



Granularity of Fund membership

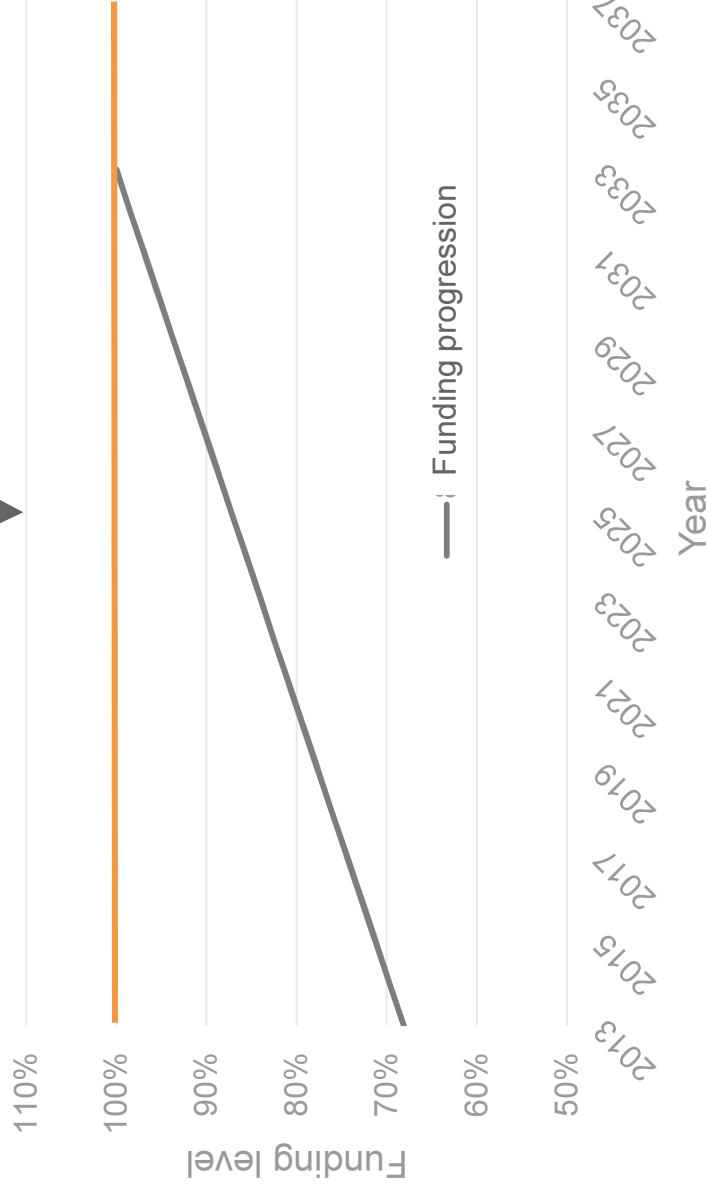
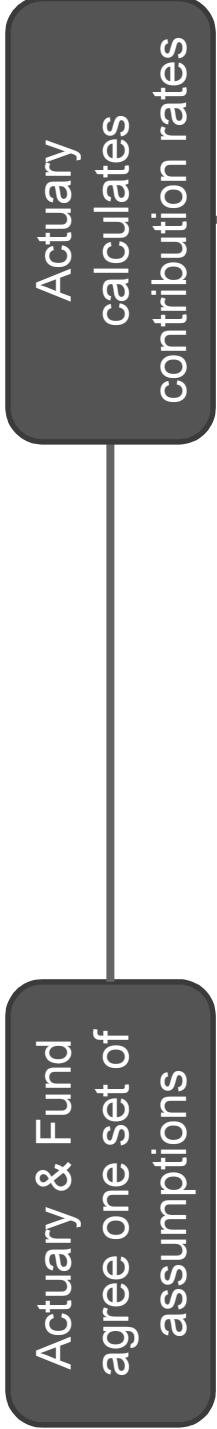


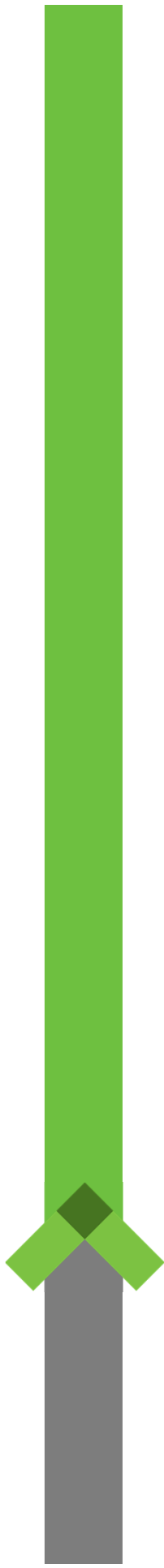
Each Fund is different



Source: Club Vita research based on VitaBank as at January 2012

Traditionally: funding plans based on single expectation of the future





Recap of 2013 approach

LB Harrow Pension Fund approach

Measurement and management of funding position

Measure:

- Assets and liabilities valued using market conditions
- Ensure transparency and consistency
- Understand deficit
- Appreciation of risk

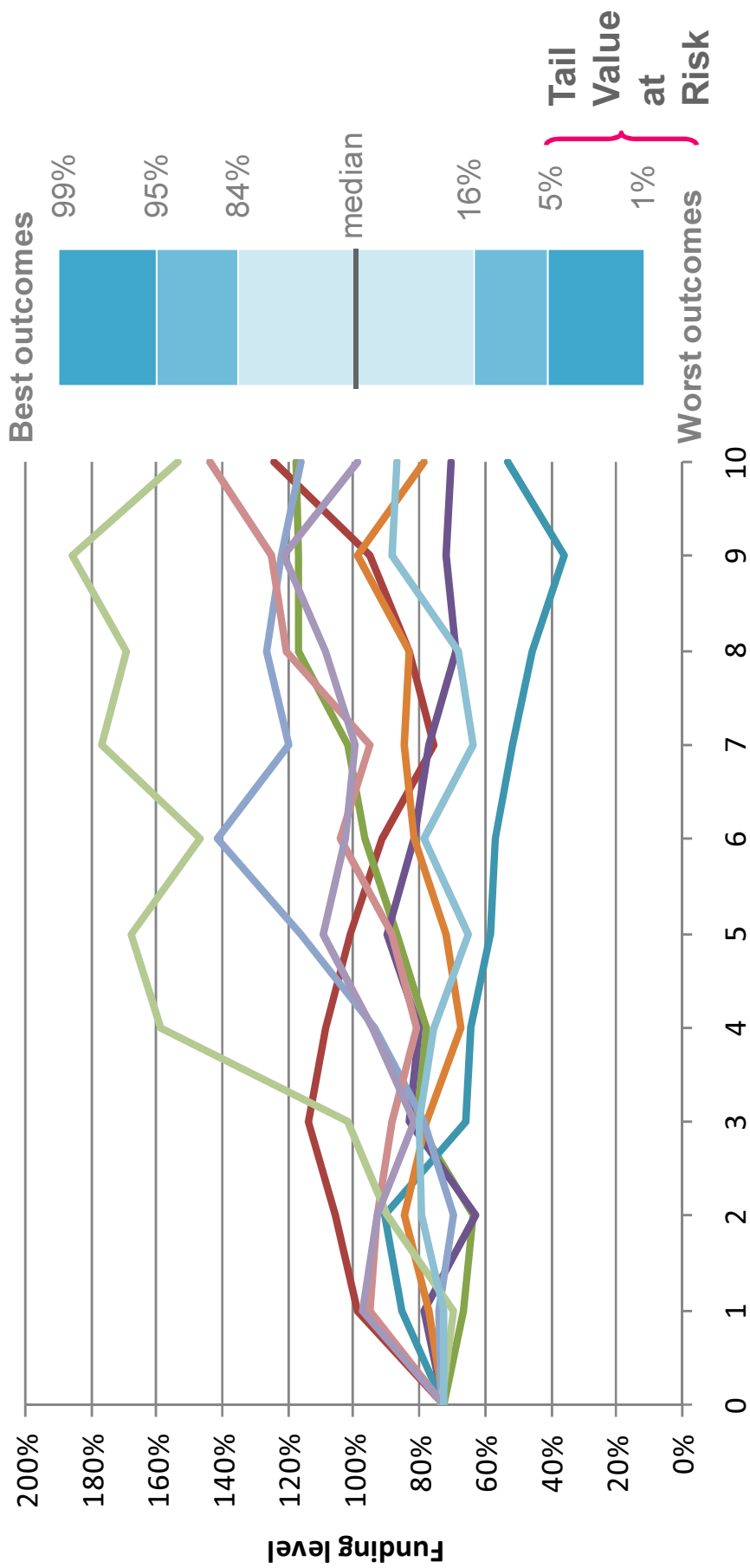


Manage:

- Balance affordability and risk
- Recognise risk posed by different employers
- Consider term of participation
- Consider different future outcomes for market conditions

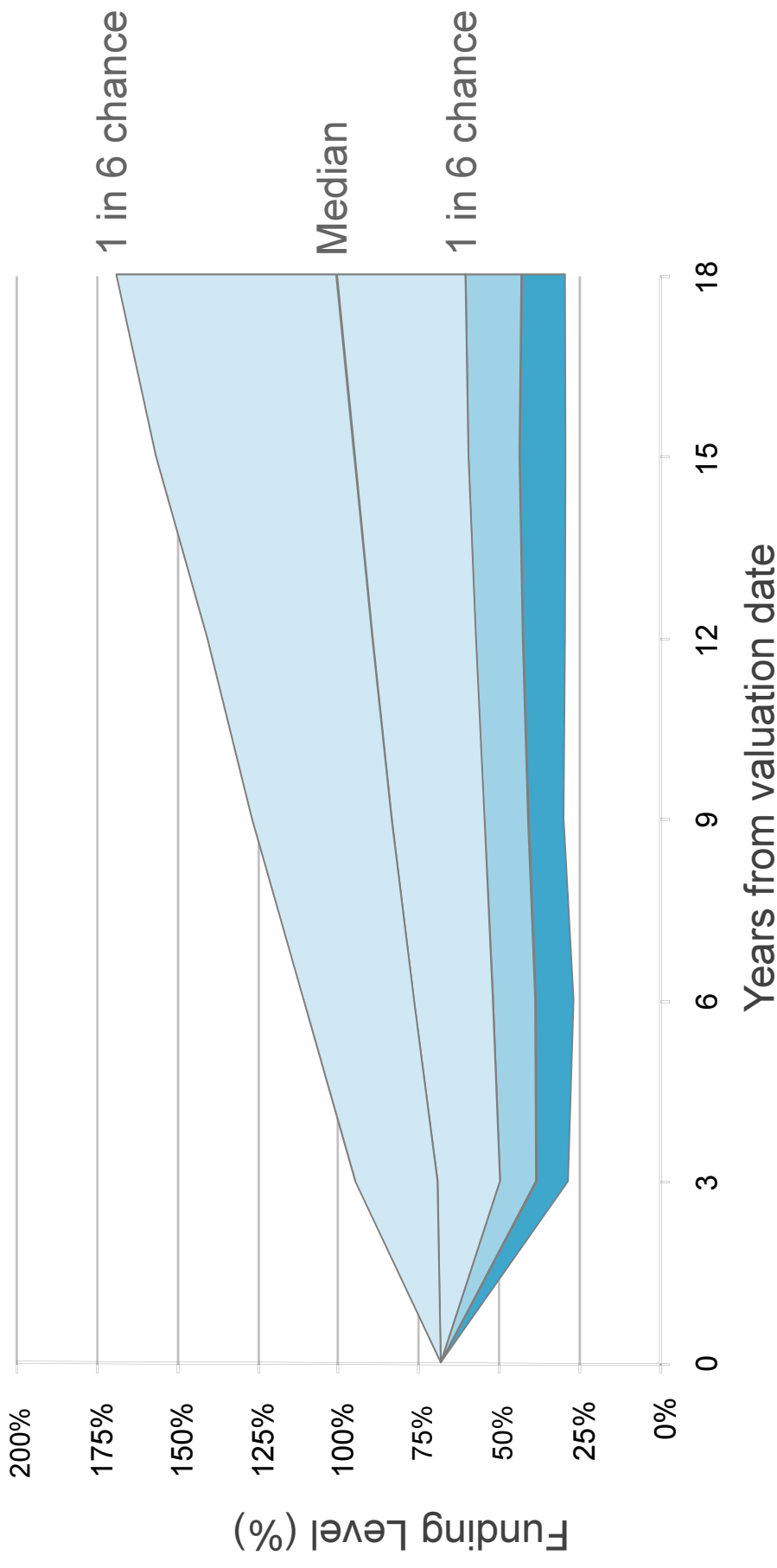


LB Harrow Pension Fund: risk based approach to setting council contribution strategy



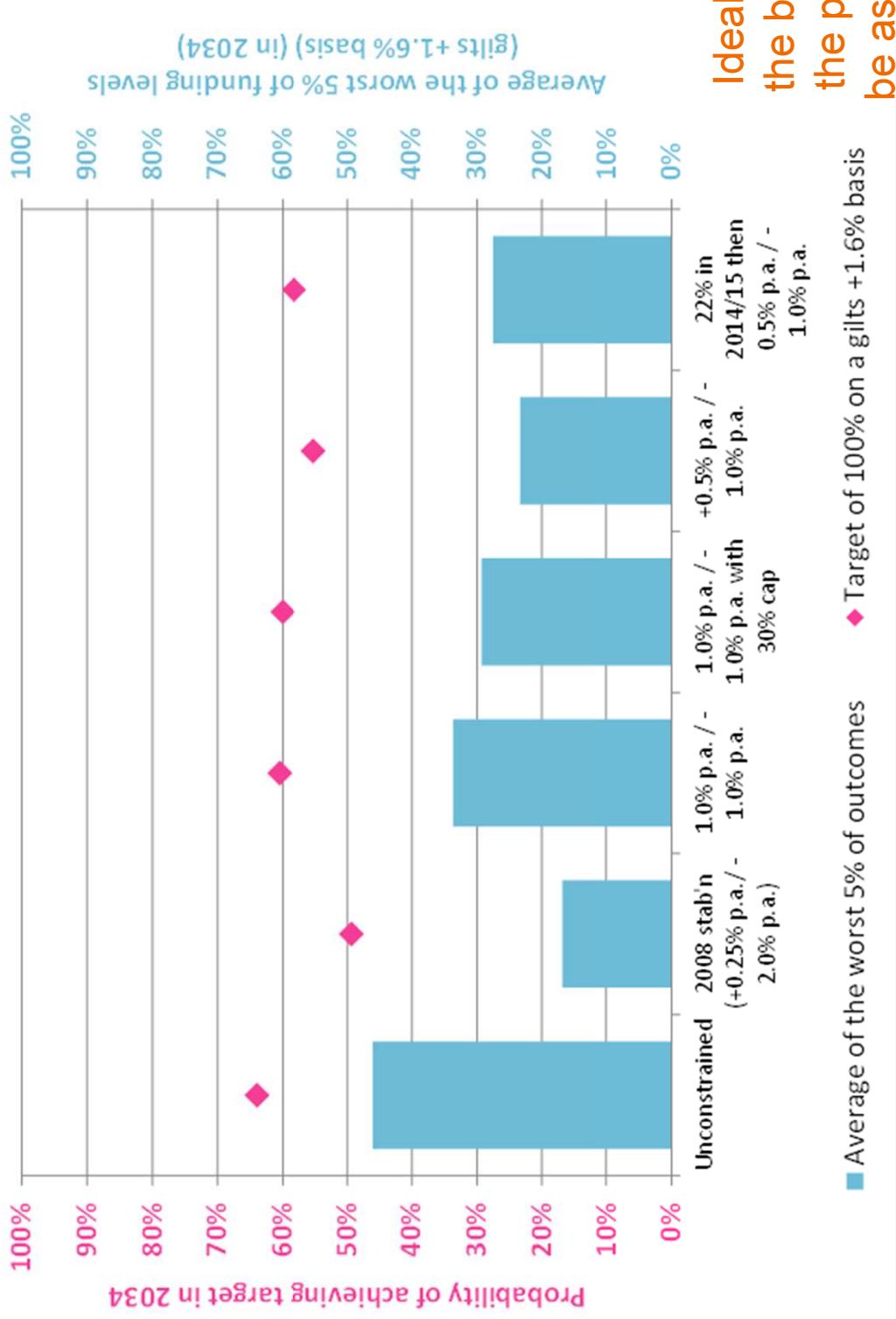
Assess the likelihood of different outcomes

5,000 scenarios gives a distribution of outcomes



More than 50% chance meet funding objective

LB Harrow Pension Fund: understanding future risks



Ideally want the bars and the points to be as high as possible

LB Harrow Pension Fund: understanding the trade offs

CONTRIBUTION STRATEGY	Prudence		Stewardship	Affordability
	LONG TERM LIKELIHOOD OF SUCCESS	AVERAGE OF THE WORST 5% OF FUNDING LEVELS IN 2035		
Strategy 1	78%	39%	170%	20.7%
Strategy 2	77%	55%	146%	27.0%
Strategy 3	63%	45%	120%	20.7%
Strategy 4	50%	47%	105%	21.7%
Strategy 5	70%	50%	163%	20.5%
Strategy 6	77%	52%	161%	22.7%



2013 contribution rate strategies

Type of employer	Scheduled Bodies		Community Admission Bodies and Designating Employers		Transferee Admission Bodies
Sub-type	Council Pool	Academies	Open to new entrants	Closed to new entrants	(all)
Basis used	Ongoing, assumes long-term Fund participation (see Appendix E)		Ongoing, but may move to "gilt basis" - see Note (a)	Ongoing, but may move to "gilt basis" - see Note (a)	Ongoing, assumes fixed contract term in the Fund (see Appendix E)
Future service rate	Projected Unit Credit approach (see Appendix D – D.2)		Projected Unit Credit approach if open (see Appendix D – D.2)	Attained Age approach (see Appendix D – D.2)	Projected Unit Credit approach if open, Attained Age otherwise (see Appendix D – D.2)
Stabilised rate?	Yes - see Note (b)	Yes - see Note (b)	No	No	No
Maximum deficit recovery period – Note (c)	20 years	20 years	15 years – subject to security / covenant check	15 years – subject to security / covenant check	Outstanding contract term
Deficit recovery payments – Note (d)	Monetary amount	Monetary amount	Monetary amount	Monetary amount	Monetary amount
Treatment of surplus	Covered by stabilisation arrangement	Covered by stabilisation arrangement	Preferred approach: contributions kept at future service rate. However, reductions may be permitted by the Administering Authority		Reduce contributions by spreading the surplus over the remaining contract term
Phasing of contribution changes	Covered by stabilisation arrangement	Covered by stabilisation arrangement	None	None	None
Review of rates – Note (f)	Administering Authority reserves the right to review contribution rates and amounts, and the level of security provided, at regular intervals between valuations				
New employer	n/a	Note (g)	Note (h)		Notes (h) & (i)
Cessation of participation: cessation debt payable	Cessation is assumed not to be generally possible, as Scheduled Bodies are legally obliged to participate in the LGPS. In the rare event of cessation occurring (machinery of Government changes for example), the cessation debt principles applied would be as per Note (j).		Can be ceased subject to terms of admission agreement. Cessation debt will be calculated on a basis appropriate to the circumstances of cessation – see Note (j).		Participation is assumed to expire at the end of the contract. Cessation debt (if any) calculated on ongoing basis. Awarding Authority will be liable for future deficits and contributions arising.



Development of 2016 strategy

3 step approach to setting funding plans



What is our funding target?



How long do we want to give ourselves to get to the target?



How sure do we want to be that we hit the target?

Employers are different

Term

No actives

Maturity

Size

Security

Guarantor




Planning to exit

Closed to new entrants

Funding level

Set a funding strategy which recognises this diversity to achieve better funding outcomes

What this looks like in practice

Employer	Funding target	Recovery period	Risk category	Likelihood of success
Employer A	Ongoing	17 years	Low	66%
Employer B	Ongoing	17 years	Medium	75%
Employer C	Ongoing	10 years	High	80%
Employer D	Gilts	5 years	High	70% ¹
Employer E	Ongoing	3 years	Low	66%

Notes:

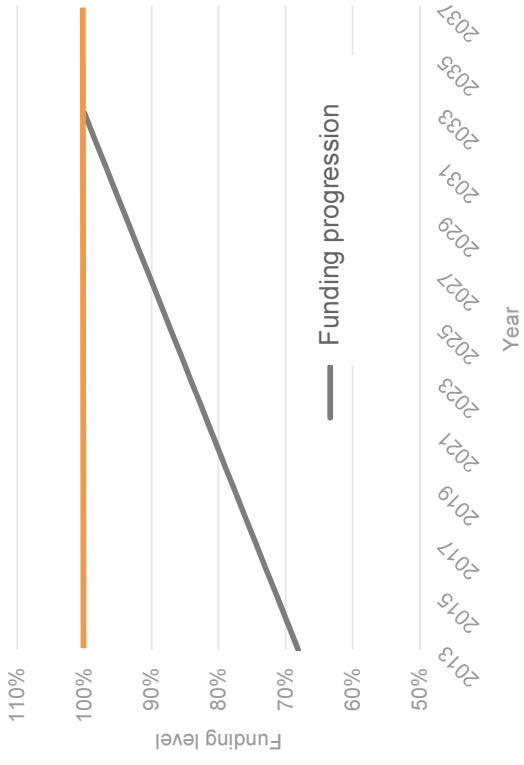
1. Charge on assets, reduction in likelihood of success from 80% to 70% to reflect additional security

- Help all parties understand approach to setting contribution rates (including SAB and DCLG)

Transparent approach to funding plans



Development for 2016: risk based contribution rates



The 'old' world

Bespoke risk based contribution rate strategies set for selected high risk employers

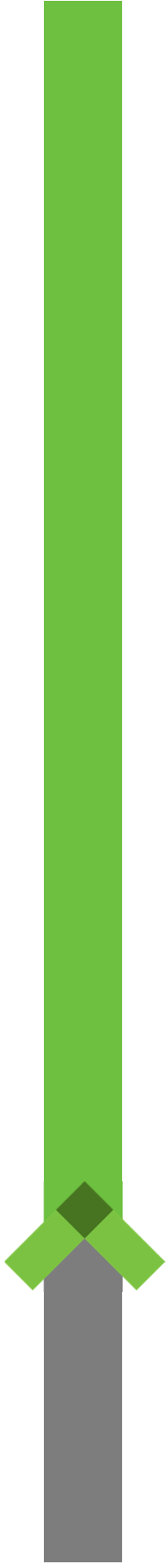
The 'new' world

CONTRIBUTION STRATEGY	LONG TERM LIKELIHOOD OF SUCCESS	AVERAGE OF THE WORST 5% OF FUNDING LEVELS IN 2035
Strategy 1	58%	39%
Strategy 2	77%	55%
Strategy 3	67%	45%



2016 valuation

- More scrutiny than ever before
- Audit control and clear decision making processes
- Employer communications will be key
- Timescales are challenging
- Risk based contribution rates for all employers

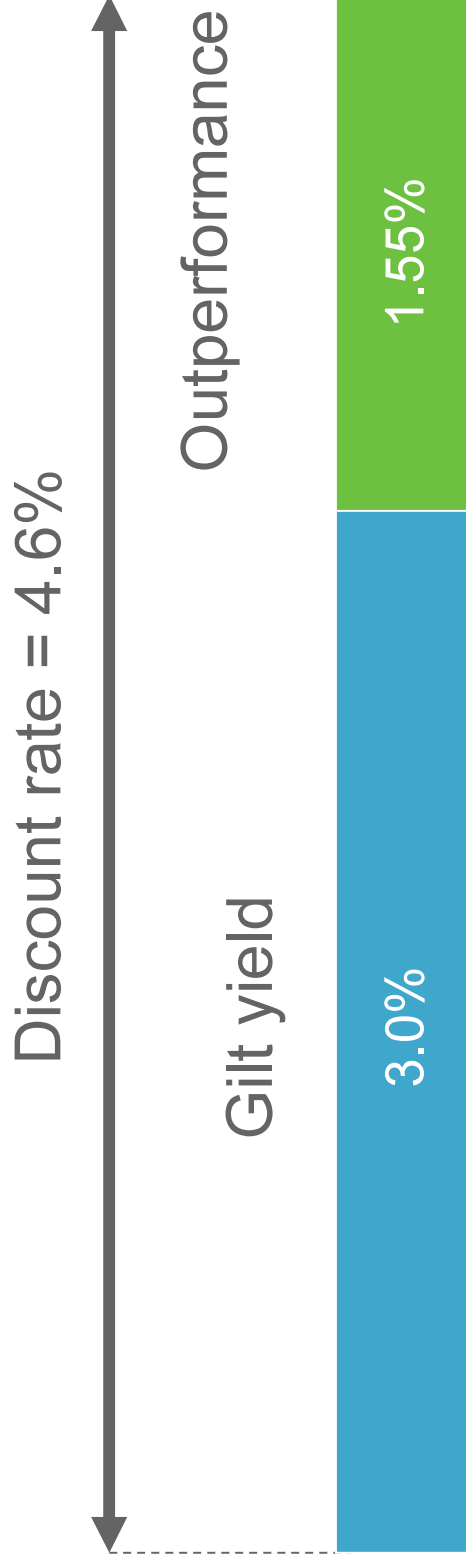


Thank you
Any questions?



Appendix

Discount rate: assumed future investment return



- Set the target assets wisely
- Also the interest rate for any deficit

Discount rate = bond yield plus allowance for expected outperformance

Value today of £100 in 10 years time

Future Inflation	In 10 years £100 grows to	Assumed future investment return	How much cash do I need today
Zero	£100	7%	£48
3%	£134	7%	£65
3%	£134	5%	£80

Higher inflation, lower future investment return, need more cash today

Value of Pension Fund Liabilities: How much money do I need today?



Capitalised cost ignoring interest = £30,000

Capitalised cost allowing for interest¹ = £14,100

Capitalised cost allowing for interest and inflation² = £20,100

^{1,2} Assume 6% investment return and 3% inflation

.. and allow for probability of survival

Reliances and Limitations

- This presentation is addressed to the London Borough of Harrow Council for its sole use as Administering Authority and not for the purposes of advice to any other party; Hymans Robertston LLP makes no representation or warranties to any third party as to the accuracy or completeness.
- This presentation discusses the current issues in the LGPS and was prepared purely for illustration to employers. Hymans Robertston LLP accepts no liability for any other purpose of this presentation.
- The following Technical Actuarial Standards* are applicable in relation to this presentation and have been complied with where material:
 - TAS R – Reporting;
 - TAS D – Data;
 - TAS M – Modelling; and
 - Pensions TAS.

* Technical Actuarial Standards (TASs) are issued by the Financial Reporting Council and set standards for certain items of actuarial work, including the information and advice contained here.

This page is intentionally left blank

REPORT FOR: Pension Board

Date of Meeting: 22 March 2016

Subject: Information Report - Management and Investment Expenses Benchmarking

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards Affected: All

Enclosures: Appendix: Analysis of reported pension fund costs by Centre for Policy Studies

Section 1 – Summary and Recommendation

Summary

The report updates the Board on developments in connection with benchmarking the management and investment expenses of the Fund.

Section 2 – Report

1. At their meeting on 2 November 2015 the Board considered the details of investment and management expenses incurred by the Pension Fund during 2014-15 and asked that any benchmarking data that was available regarding other funds be provided to the Board after the meeting.

2. The Council, along with all other administering authorities, prepares its Pension Fund accounts in accordance with the CIPFA Code of Practice and in its accounts identifies relevant costs as “Management Expenses” and “Investment Expenses.” These expenses are limited to those actually recorded in the authority’s accounts and, crucially, often exclude many of the investment management costs “hidden” within the performance and valuation data of fund managers. Details of these expenses were provided in the report to the Board. The figures included in the accounts are reported to the Department for Communities and Local Government (DCLG) in the statutory SF3 return in the months following the end of each accounting year. This is probably the only potentially “benchmarking” data which is supplied by all administering authorities every year.
3. However, DCLG report the results only on a “Scheme-wide” basis and not in any benchmarking format.
4. Notwithstanding this, there are several organisations active in the benchmarking market, two of the most frequently mentioned being CIPFA for fund administration and CEM Benchmarking for investment costs.
5. The CIPFA benchmarking club is quite well known but due partly to concerns over commercial confidentiality and the choice of peer groups it is not easy to find the number of authorities in the club and Harrow has never been a member. Its report “Pensions Administration Benchmarking Club 2015” is not in the public domain.
6. CEM Benchmarking have had a few LGPS clients for several years but have only recently sought to expand their activity significantly in this market.
7. However a substantial amount of work on benchmarking, using the SF3 returns has been carried out by the Centre for Policy Studies and they have recently published the results. Their statistical analysis of these returns is included as the appendix to this report. On the face of it, this appendix makes encouraging reading for Harrow but it is provided more to identify an obvious flaw in the methodology rather than to seek approbation or discussion of the data. The Harrow figures are skewed by the fact that fee rebates from various fund managers are included within the costs reported whilst the fees paid both to these managers and several others are not. No doubt similar shortcomings could be identified by many other authorities whose costs have been analysed.
8. The Board are aware of the development of the London Collective Investment Vehicle (CIV) and, over recent months, it has become clear that the Government will require all administering authorities to commit to such a vehicle. In their recent publication “Local Government Pension Scheme: Investment Reform Criteria and Guidance” DCLG have required all authorities to commit to pooling their investments and they expect detailed plans to be reported to them in July. Specifically they will require authorities to provide “a fully transparent assessment of investment costs and fees” for the last three years. This will, and is intended to, require authorities to understand and report on all their investment costs

irrespective of whether they are invoiced directly or taken from the investments at source.

9. In the report to the last meeting of the Board estimates were made of these costs for Harrow but, no doubt, their accuracy can be improved and no benchmarking was attempted.
10. Over recent weeks, officers have become increasingly aware of a company called "CEM Benchmarking" who say they are "an independent provider of objective and actionable benchmarking information for.....pension funds....." In return for investment data they have offered to provide to all London boroughs an advisory and data cleansing service and a 30 page report at no cost. Several boroughs have already provided data and it appears likely that many more will do so. Harrow is providing data and the results will be available for the Board at its next meeting.
11. As regards administration costs the benefits of joining the CIPFA club will be investigated and the results reported to the Board.

Financial Implications

12. There are no financial implications arising directly from this report.

Risk Management Implications

13. Relevant risks are included in the Pension Fund Risk Register.

Equalities implications

14. There are no direct equalities implications arising from this report.

Council Priorities

15. The financial health of the Pension Fund directly affects the level of employer contribution which in turn affects the resources available for the Council's priorities

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert Chief Financial Officer

Date: 25 February 2016

Ward Councillors notified:

Not applicable

Section 4 - Contact Details

Contact: Ian Talbot, Treasury and Pension Fund Manager
0208 424 1450

Background Papers - None

APPENDIX 1: LGPS funds, England and Wales

Total reported costs per member for 2014-15, in ascending order

Rank	Local Authority	Total costs per member 2014-15	% change on 2013-14	Fund market value 31 March 2015 £000's
1	West Yorkshire Superannuation	£28.3	1.8%	£11,319,225
2	South Yorkshire Pensions Fund	£41.3	-1.2%	£8,277,138
3	East Riding of Yorkshire UA	£47.6	-7.0%	£3,677,391
4	Nottinghamshire	£52.8	-3.3%	£4,078,600
5	Tameside	£53.5	-12.4%	£17,591,201
6	Middlesbrough UA	£57.7	58.2%	£3,243,794
7	Harrow	£70.4	-19.0%	£874,845
8	Derbyshire	£70.5	-11.3%	£3,694,389
9	Lincolnshire	£72.7	2.2%	£1,750,942
10	Dorset	£73.4	6.0%	£2,301,132
11	Merton	£81.1	-41.2%	£541,572
12	North Yorkshire	£83.8	-13.4%	£2,399,699
13	Leicestershire	£84.4	-18.5%	£3,128,170
14	Cumbria	£85.8	-10.6%	£2,027,316
15	Windsor & Maidenhead UA	£91.8	15.8%	£1,649,789
16	Hertfordshire	£96.8	-13.4%	£1,963,058
17	Oxfordshire	£99.4	1.2%	£1,845,479
18	Lewisham	£102.5	-2.0%	£1,048,149
19	Camarthenshire UA	£109.9	55.5%	£1,906,719
20	Greenwich	£116.5	1.4%	£1,056,702
21	Wiltshire	£119.3	47.0%	£1,852,603
22	Bedfordshire	£119.9	13.8%	£1,708,958
23	Merseyside Pension Fund	£121.8	-7.2%	£8,862,704
24	Northumberland	£123.4	0.3%	£1,067,121
25	Somerset	£124.6	36.4%	£1,585,212
26	Rhondda Cynon Taff UA	£128.9	7.1%	£2,410,321
27	Devon	£127.2	19.8%	£3,374,428
28	Islington	£129.0	15.6%	£1,067,055
29	Kent	£130.5	-18.6%	£4,539,037
30	Northamptonshire	£132.9	28.8%	£1,849,740
31	Gloucestershire	£141.2	0.9%	£1,709,074
32	Hampshire	£141.7	45.5%	£5,137,088
33	Enfield	£141.7	16.6%	£886,155
34	Durham	£142.0	5.2%	£2,334,975
35	Cambridgeshire	£142.7	29.7%	£2,264,167
36	Staffordshire	£143.0	15.4%	£3,768,709
37	Hounslow	£145.9	-11.4%	£803,014
38	Haringey	£149.0	27.6%	£1,045,355
39	East Sussex	£152.9	1.8%	£2,746,549
40	Richmond upon Thames	£154.8	1.5%	£807,280
41	Cornwall	£158.9	89.4%	£1,522,243
42	Cardiff UA	£158.9	9.7%	£1,653,151
43	Redbridge	£161.7	4.1%	£836,282
44	West Midlands PTA	£168.3	28.6%	£474,896
45	Warwickshire	£170.4	-3.4%	£1,838,059
46	Tower Hamlets	£171.1	-7.4%	£1,091,327
47	Worcestershire	£176.2	9.8%	£3,581,039
48	Torfaen UA	£176.6	19.2%	£2,276,999
49	West Sussex	£177.4	19.2%	£2,972,669
50	Barking & Dagenham	£178.0	-8.3%	£757,822
51	Ealing	£185.9	8.9%	£967,496
52	Lambeth	£186.5	16.2%	£1,136,522
53	Norfolk	£189.6	-7.2%	£2,848,670
54	Havering	£190.7	58.7%	£574,669
55	Barnet	£193.9	60.3%	£911,724
56	Surrey	£194.6	24.2%	£3,193,520
57	Croydon	£194.9	13.3%	£858,779
58	Bexley	£198.3	7.4%	£671,951
59	Bromley	£201.3	24.6%	£741,975
60	Powys UA	£201.8	2.3%	£502,698
61	Hackney	£204.2	9.6%	£1,146,793
62	Bath & North East Somerset	£211.6	4.5%	£3,839,316
63	Essex	£213.2	19.8%	£4,932,623
64	Wandsworth	£222.8	17.1%	£1,205,812
65	Isle of Wight UA	£224.0	17.9%	£482,689
66	Southwark	£227.5	-0.8%	£1,247,731
67	Swansea UA	£228.9	-34.3%	£1,537,708
68	Suffolk	£228.1	32.4%	£2,198,441
69	Lancashire	£231.2	120.9%	£5,830,674
70	Gwynedd	£247.8	-1.0%	£1,497,373
71	Buckinghamshire	£248.1	102.6%	£2,189,549
72	Sutton	£274.4	94.9%	£506,786
73	Kingston upon Thames	£287.4	27.5%	£846,311
74	West Midlands Pension Fund	£311.0	426.0%	£11,464,000
75	Shropshire	£318.9	4.3%	£1,512,735
76	Hillingdon	£335.4	51.9%	£802,300
77	Kensington & Chelsea	£359.5	-6.5%	£825,896
78	South Yorkshire PTA	£378.4	-0.7%	£212,424
79	Newham	£382.3	128.2%	£1,068,417
80	Brent	£387.1	134.3%	£657,050
81	City of London	£393.4	20.6%	£823,744
82	Camden	£422.3	12.2%	£1,265,449
83	Waltham Forest	£437.2	-9.5%	£742,177
84	Westminster	£439.3	60.3%	£1,096,916
85	Tyne and Wear Superannuation	£482.7	364.4%	£8,378,063
86	London Pensions Fund Auth	£487.2	3.7%	£4,817,208
87	Hammermith & Fulham	£504.5	29.5%	£868,475
88	Flinthshire UA	£511.4	140.9%	£1,394,549
89	Chester	£530.3	71.5%	£4,067,211
	Average	£197.7	28.0%	£2,404,812

APPENDIX 2: LGPS funds, England and Wales

Total reported costs per member, ranked by % change on 2013-14

Local Authority	Total costs per member		% change on 2013-14
	2013-14	2014-15	
1 Merton	£137.8	£81.1	-41.2%
2 Swansea UA	£348.3	£228.9	-34.3%
3 Harrow	£98.9	£70.4	-18.0%
4 Kent	£180.4	£130.5	-18.6%
5 Leicestershire	£103.5	£84.4	-18.5%
6 Hertfordshire	£114.2	£99.8	-13.4%
7 North Yorkshire	£98.8	£83.8	-13.4%
8 Tameside	£81.1	£53.5	-12.4%
9 Hounslow	£164.6	£145.9	-11.4%
10 Derbyshire	£78.4	£70.5	-11.3%
11 Cumbria	£98.0	£85.8	-10.6%
12 Waltham Forest	£483.0	£437.2	-8.5%
13 Barking & Dagenham	£198.3	£178.0	-8.3%
14 Tower Hamlets	£184.8	£171.1	-7.4%
15 Norfolk	£205.4	£190.6	-7.2%
16 Merseyside Pension Fund	£131.3	£121.8	-7.2%
17 East Riding of Yorkshire UA	£51.2	£47.6	-7.0%
18 Kensington & Chelsea	£384.5	£358.5	-6.5%
19 Warwickshire	£178.4	£170.4	-3.4%
20 Nottinghamshire	£54.6	£52.8	-3.3%
21 Lewisham	£104.6	£102.5	-2.0%
22 South Yorkshire Pensions Fund	£41.8	£41.3	-1.2%
23 Gwynedd	£250.4	£247.8	-1.0%
24 Southwark	£228.3	£227.5	-0.8%
25 South Yorkshire PTA	£382.0	£378.4	-0.7%
26 Northumberland	£123.0	£123.4	0.3%
27 Gloucestershire	£138.8	£141.2	0.8%
28 Oxfordshire	£98.2	£99.4	1.2%
29 Greenwich	£114.9	£116.5	1.4%
30 Richmond upon Thames	£152.5	£154.8	1.5%
31 East Sussex	£150.5	£152.9	1.6%
32 West Yorkshire Super. Fund	£27.8	£28.3	1.8%
33 Lincolnshire	£71.1	£72.7	2.2%
34 Powys UA	£187.3	£201.8	2.3%
35 London Pensions Fund Auth	£488.8	£487.2	3.7%
36 Redbridge	£155.3	£161.7	4.1%
37 Shropshire	£308.7	£319.9	4.3%
38 Bath & North East Somerset	£202.6	£211.8	4.5%
39 Durham	£134.9	£142.0	5.2%
40 Dorset	£89.2	£73.4	8.0%
41 Ealing	£173.8	£185.8	8.8%
42 Rhondda Cynon Taff UA	£118.1	£128.6	7.1%
43 Bexley	£184.6	£198.3	7.4%
44 Hackney	£186.3	£204.2	9.8%
45 Cardiff UA	£144.9	£158.9	9.7%
46 Worcestershire	£180.4	£178.2	8.8%
47 Camden	£378.3	£422.3	12.2%
48 Croydon	£172.1	£184.9	13.3%
49 Bedfordshire	£105.4	£119.9	13.8%
50 Staffordshire	£123.9	£143.0	15.4%
51 Islington	£111.8	£128.0	15.6%
52 Windsor & Maidenhead UA	£79.3	£91.8	15.8%
53 Lambeth	£168.5	£188.5	18.2%
54 Enfield	£121.6	£141.7	18.6%
55 Wandsworth	£190.2	£222.8	17.1%
56 Isle of Wight UA	£188.8	£224.0	17.8%
57 West Sussex	£148.9	£177.4	19.2%
58 Torfaen UA	£149.2	£178.6	19.2%
59 Devon	£108.4	£127.2	18.6%
60 Essex	£178.0	£213.2	19.8%
61 City of London	£328.1	£393.4	20.8%
62 Sunley	£158.7	£184.6	24.2%
63 Bromley	£181.3	£201.3	24.8%
64 West Midlands PTA	£132.8	£168.3	26.8%
65 Kingston upon Thames	£225.5	£287.4	27.5%
66 Haringey	£118.8	£149.0	27.6%
67 Hammermith & Fulham	£388.7	£504.5	28.5%
68 Northamptonshire	£102.5	£132.8	29.6%
69 Cambridgeshire	£110.0	£142.7	29.7%
70 Suffolk	£173.1	£229.1	32.4%
71 Somerset	£91.4	£124.6	38.4%
72 Hampshire	£87.4	£141.7	45.5%
73 Wiltshire	£81.2	£118.3	47.0%
74 Hillingdon	£220.7	£335.4	51.8%
75 Carmarthenshire UA	£70.7	£109.9	55.5%
76 Middlesbrough UA	£42.8	£87.7	58.2%
77 Havering	£120.1	£190.7	58.7%
78 Barnet	£120.9	£183.8	60.3%
79 Cheshire	£309.2	£530.3	71.5%
80 Westminster	£243.8	£439.3	80.3%
81 Cornwall	£83.9	£158.9	89.4%
82 Sutton	£140.8	£274.4	94.9%
83 Buckinghamshire	£122.4	£248.1	102.8%
84 Lancashire	£104.7	£231.2	120.9%
85 Newham	£189.0	£382.3	126.2%
86 Brent	£165.2	£387.1	134.3%
87 Flintshire UA	£212.3	£511.4	140.8%
88 Tyne and Wear Super. Fund	£99.7	£482.7	364.4%
89 West Midlands Pension Fund	£59.1	£311.0	428.0%
Average	£181.6	£197.7	28.0%

APPENDIX 3: LGPS funds, England and Wales

Reported fund management costs per member for 2014-15, in ascending order

Rank	Local Authority	Fund mgt costs per member	Fund market value 31 March 2015 £000's	Fund mgt costs as bp
1	Harrow	£0.3	£874,845	-0.1
2	West Yorkshire Super	£11.5	£11,318,225	2.6
3	South Yorkshire P Fund	£14.7	£8,277,138	3.3
4	Merton	£31.2	£541,572	6.1
5	East Riding of Yorkshire	£32.2	£3,677,391	6.6
6	Nottinghamshire	£32.8	£4,078,800	9.4
7	Tameside	£39.0	£17,591,201	7.5
8	Dorset	£42.5	£2,301,132	12.0
9	Middlesbrough UA	£44.2	£3,243,794	9.3
10	Derbyshire	£52.4	£3,894,389	12.8
11	Lincolnshire	£53.2	£1,750,942	20.1
12	Lewisham	£62.1	£1,048,149	13.8
13	Cumbria	£63.0	£2,027,316	16.4
14	North Yorkshire	£65.8	£2,399,869	23.1
15	Islington	£66.3	£1,067,055	12.0
16	Leicestershire	£68.1	£3,128,170	18.2
17	Oxfordshire	£69.3	£1,845,479	20.5
18	Windsor & Maidenhead L	£75.9	£1,649,769	27.3
19	Hertfordshire	£79.4	£1,963,059	22.6
20	Greenwich	£81.2	£1,058,702	15.3
21	Northumberland	£83.1	£1,067,121	18.1
22	Cambridgeshire UA	£88.2	£1,908,719	20.1
23	Wiltshire	£93.0	£1,852,603	29.9
24	Northamptonshire	£93.3	£1,849,740	28.8
25	Somerset	£94.8	£1,595,212	31.7
26	Rhondda Cynon Taf UA	£99.1	£2,410,321	28.0
27	Bedfordshire	£101.8	£1,709,956	35.2
28	Cambridgeshire	£103.7	£2,264,167	31.8
29	Merseyside P Fund	£105.4	£8,862,704	19.7
30	Kent	£106.8	£4,539,037	29.7
31	Enfield	£108.8	£888,155	20.5
32	Haringey	£111.1	£1,045,355	23.1
33	Hounslow	£111.8	£903,014	27.5
34	Barnet	£112.7	£911,724	28.8
35	Devon	£113.3	£3,374,426	32.9
36	Staffordshire	£117.0	£3,788,709	32.1
37	Durham	£117.8	£2,334,975	24.4
38	Ealing	£118.0	£967,496	25.7
39	Gloucestershire	£118.5	£1,709,074	34.0
40	Richmond upon Thames	£119.0	£907,290	22.9
41	Redbridge	£122.5	£636,292	29.2
42	Croydon	£122.8	£858,779	32.8
43	Hampshire	£125.5	£5,137,088	35.3
44	East Sussex	£127.6	£2,748,549	30.5
45	Tower Hamlets	£128.9	£1,091,327	22.4
46	West Midlands PTA	£130.9	£474,886	14.3
47	Lambeth	£135.4	£1,136,522	23.7
48	Cardiff UA	£137.2	£1,653,161	30.1
49	Warwickshire	£141.5	£1,638,059	37.4
50	Cornwall	£144.8	£1,522,243	45.4
51	Bexley	£145.5	£671,951	28.6
52	Torfaen UA	£145.6	£2,278,999	34.0
53	Powys UA	£148.2	£502,898	47.6
54	Barking & Dagenham	£149.4	£757,622	32.8
55	Worcestershire	£152.5	£3,581,039	39.1
56	Havering	£157.8	£574,689	48.0
57	Bromley	£158.0	£741,975	33.6
58	West Sussex	£158.4	£2,972,699	35.5
59	Norfolk	£164.7	£2,948,670	43.6
60	Hackney	£174.6	£1,146,793	32.9
61	Surrey	£177.3	£3,193,520	49.7
62	Bath & NE Somerset	£182.7	£3,639,316	45.8
63	Southwark	£185.0	£1,247,731	29.3
64	Essex	£184.1	£4,932,623	53.1
65	Isle of Wight UA	£194.7	£482,669	51.7
66	Wandsworth	£197.6	£1,205,812	28.4
67	Swansea UA	£202.4	£1,537,706	49.2
68	Lancashire	£208.1	£5,830,674	54.7
69	Suffolk	£210.1	£2,198,441	50.3
70	Suton	£211.6	£508,786	49.2
71	Gwynedd	£216.9	£1,497,373	54.1
72	Kingston upon Thames	£217.5	£648,311	43.7
73	Buckinghamshire	£224.8	£2,188,549	64.6
74	South Yorkshire PTA	£292.0	£212,424	29.2
75	Hillingdon	£294.2	£902,300	74.7
76	West Midlands P Fund	£295.5	£11,464,000	71.6
77	Shropshire	£301.0	£1,512,735	62.3
78	Kensington & Chelsea	£315.6	£825,896	39.7
79	City of London	£337.8	£823,744	49.7
80	Newham	£348.3	£1,088,417	78.6
81	Brent	£350.8	£857,050	105.0
82	Camden	£385.9	£1,265,449	56.0
83	Waltham Forest	£386.7	£742,177	93.9
84	Westminster	£391.6	£1,096,916	57.3
85	London Pensions F Auth	£400.1	£4,617,208	67.4
86	Tyne and Wear Super	£444.3	£6,378,063	87.5
87	Hammersmith & Fulham	£457.8	£868,475	75.4
88	Flintshire UA	£483.4	£1,394,549	124.0
89	Cheshire	£506.2	£4,097,211	102.8
	Average	£183.9	£2,404,812	37.1

REPORT FOR: PENSION BOARD

Date of Meeting: 22 March 2016

Subject: Information Report – Pension Fund
Committee Advisers

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards affected: All

Enclosures: None

Section 1 – Summary

This report advises the Board of the advisers appointed by the Pension Fund Committee and of their various roles.

For Information

Section 2 – Report

1. At their meeting on 2 November 2015 the Board were advised as follows:

“ the Pension Fund Committee (PFC) and its predecessor, the Pension Fund Investment Panel had co-opted advisers and professional advisers from AonHewitt who had replaced Hymans Robertson. Last year the PFC had appointed two additional advisers. The advisers would be expected to attend four PFC meetings per year, to keep abreast of financial matters and attend other events such as meetings with fund managers. It was noted that the advisers had incorrectly been listed in the report as Financial advisers, which they were not and were not therefore required to be registered with the Financial Conduct Authority. Further information regarding the appointment of the advisers would be circulated to Board members after the meeting;”

2. Further details in respect of the Committee’s advisers / co-optee are as follows:

Investment Consultant – Aon Hewitt Limited

The Council’s contract with Aon Hewitt is described as an “access” or “framework” agreement facilitated by the London Borough of Croydon and dated 2 November 2011.

The Agreement specifies the services available as follows:

Core services

- Review of investment strategy and investment management structure
- Monitoring and reporting of investment managers – producing own quarterly report based on data provided by the measuring company
- Attendance at meetings
- Advising on Statement of Investment Principles
- Attendance at officer meetings
- Advising on the annual pension fund report
- Advising on controlling investment costs including fees and transaction related costs
- Advising on alternative investments
- Advising on Corporate Governance and Socially Responsible Investment policies

Non-core services

- Manager selection
- Custodian selection
- Advising on selection of the performance measurement company

The contract was originally for a period of four years with the option for the Council to extend for up to two years. Whilst, initially, the Panel had concerns over the framework process and subsequently over the change in lead consultant, overall the Panel / Committee and officers had been satisfied with the contract performance and on 1 July 2015 the Committee agreed to extend it for a further two years until 1 November 2017.

Whilst the Council's contract is clearly with the corporate entity of Aon Hewitt, over the years, in consultation with the Council, the lead consultant has changed. It is currently Mr Colin Cartwright.

The contract is subject to a basic monthly charge of £5,400 which provides mainly for the quarterly manager reports and attendance at the Committee meetings with additional agreed further charges for specific projects.

Independent Advisers

After process of advertising, applications and interviews, on 29 July 2014 the Committee resolved to appoint Mr Colin Robertson and Honorary Alderman Richard Romain as independent advisers to the Committee at a fee of £15,000 per annum. The main terms of the contracts are:

- The appointment will be for three years with the possibility, at the Fund's discretion, to extend for a further two years. The contract may be terminated by the Fund at any time with three months' notice.
- Subject to reasonable circumstances the advisers will be expected to attend all of the Committee meetings which will take place on approximately five occasions during the year and are normally held in the evenings. Additionally they will be expected to attend up to ten ad hoc meetings during the year which, occasionally, last for a whole day but, more usually, for a few hours. The total commitment to meetings during the year would therefore be of the order of 7/8 days though it is expected that much more time than this will be spent preparing for meetings and maintaining professional expertise.

Co-optee

On 5 June 2006 the, then, Legal and General Purposes Committee agreed to the appointment of Mr Howard Bluston as a non-voting co-opted member of the, then, Pension Fund Investment Panel. He has held this position ever since.

Financial Implications

3. There are no financial implications arising from this report.

Risk Management Implications

4. There are no risk management implications arising from this report. However, the Pension Fund has its own risk register which includes risks arising in connection with advice received.

Equalities implications

5. There are no direct equalities implications arising from this report.

Council Priorities

6. Whilst the financial health of the Pension Fund and the employer's contribution affects the resources available for the Council's priorities there are no impacts arising directly from this report.

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert



Director of Finance

Date: 25 February 2016

Ward Councillors notified:

NO

Section 4 - Contact Details

Contact: Ian Talbot, Treasury and Pension Fund Manager
0208 424 1450

Background Papers - None

REPORT FOR: Pension Board

Date of Meeting: 22 March 2016

Subject: Information Report - Governance
Compliance Statement

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards Affected: All

Enclosures: Appendix: Draft Governance Compliance
Statement

Section 1 – Summary and Recommendation

Summary

The report advises the Board of the existing Governance Compliance Statement and invites their comments.

Section 2 – Report

1. As part of the statutory requirements in connection with the Annual Report and Financial Statements, the Fund must publish its Governance Compliance Statement to describe how the Fund is governed and how far it complies with specified principles.
2. The current version is attached.

3. The Harrow policy on the Statement is to review it annually and officers are doing so.
4. The Board are asked to consider the current version and comment as they see fit.

Financial Implications

5. There are no financial implications arising directly from this report.

Risk Management Implications

6. Relevant risks are included in the Pension Fund Risk Register.

Equalities implications

7. There are no direct equalities implications arising from this report.

Council Priorities

8. The financial health of the Pension Fund directly affects the level of employer contribution which in turn affects the resources available for the Council's priorities

Section 3 - Statutory Officer Clearance

Name: Dawn Calvert Chief Financial Officer

Date: 25 February 2016

Ward Councillors notified: Not applicable

Section 4 - Contact Details

Contact: Ian Talbot, Treasury and Pension Fund Manager
0208 424 1450

Background Papers - None

Governance Compliance Statement

London Borough of Harrow Pension Fund

June 2015

Introduction	3
Regulatory Framework.....	4
Delegated Functions	5
Pension Fund Committee.....	5
Officer Sub – Group	6
Divisional Director HR and OD.....	7
Director of Finance and Assurance	7
Chief Officers	7
Local Pension Board	8
Statement of compliance to guidance.....	10

Introduction

This is the Governance Compliance Statement of The London Borough of Harrow Pension Fund, administered by Harrow Council, the Administering Authority. The Statement provides an overview of Harrow's approach towards the governance of the Pension Fund.

Any enquiries in relation to this Governance Compliance Statement should be sent to:

Linda D'Souza Head of HR Operations

Harrow Council

3rd Floor, South Wing

Civic Centre

Station Road

Harrow

HA1 2XF

TEL: 020 8424 1426

Fax: 0208 424 1196

Email: linda.d'souza@harrow.gov.uk



Regulatory Framework

This Compliance Statement is required by Regulation 55 of the Local Government Pension Scheme Regulations 2013.

The Regulation requires Harrow Council as the Administering Authority to prepare a written statement setting out: -

- (a) whether the authority delegates its function, or part of its functions under these Regulations to a committee, a sub-committee or an officer of the authority;*
- (b) if the authority does so—*
 - (i) the terms, structure and operational procedures of the delegation,*
 - (ii) the frequency of any committee or sub-committee meetings,*
 - (iii) whether such a committee or sub-committee includes representatives of Scheme employers or members, and, if so, whether those representatives have voting rights;*
- (c) the extent to which a delegation, or the absence of a delegation, complies with guidance given by the Secretary of State and, to the extent it does not so comply, the reasons for not complying, and*
- (d) details of the terms, structure and operational procedures relating to the local pension board established under regulation 53(4) (Scheme managers).*

This Statement will be revised and republished following any material change on any of the matters set out above. A current version of the Statement will always be available either through the pensions unit at the address on page three and on the Pension Fund website www.harrowpensionfund.org

Delegated Functions

Harrow Council has delegated its functions to the following:

- i) Pension Fund Committee
- ii) Officer Sub – Group
- iii) Divisional Director HR and OD
- vi) Director of Finance
- vii) Chief Officers

Pension Fund Committee

The Pension Fund Committee comprises four Members representing two different political parties with voting rights, and one co-optee, two Independent Advisors and an Investment Advisor all without voting rights. Council Senior Officers attend each meeting and Trade Union representatives of Scheme members (UNISON and GMB) are also invited as observers.

The Committee meets approximately four times a year and has the following responsibilities:

- ❑ to exercise on behalf of the Council, all the powers and duties of the Council in relation to its functions as Administering Authority of the LB Harrow Pension Fund (the fund), save for those matters delegated to other Committees of the Council or to an Officer;
- ❑ the determination of applications under the Local Government Superannuation Regulations and the Teachers' Superannuation Regulations;
- ❑ to administer all matters concerning the Council's pension investments in accordance with the law and Council policy;
- ❑ to establish a strategy for the disposition of the pension investment portfolio; and
- ❑ to appoint and determine the investment managers' delegation of powers of management of the fund;

- ❑ to determine cases that satisfy the Early Retirement provision under Regulation 26 of the Local Government Pension Scheme Regulations 1997(as amended), and to exercise discretion under Regulations 8 of the Local Government (Early Termination of Employment) (Discretionary Compensation) (England and Wales) Regulations 2000 (as amended, subject to the conditions now agreed in respect of all staff, excluding Chief Officers;
- ❑ to apply the arrangements set out in (6) above to Chief Officers where the application has been recommended by the Chief Executive, either on the grounds of redundancy, or in the interests of the efficiency of the service, and where the application was instigated by the Chief Executive in consultation with the leaders of the political groups.

Within its Terms of Reference, the Committee therefore carries out functions such as:

- ❑ provide a response to any draft LGPS amendment regulations or other discussion paper relating to the LGPS.
- ❑ In some instances, decide to whom a death grant is paid.
- ❑ consider policy matters in relation to the pension scheme and the Council's early retirement policy.
- ❑ at least once every three months, review the investments made by the Fund Managers and from time to time consider the desirability of continuing or terminating the appointment of the Fund Managers.
- ❑ receive actuarial valuations of the Fund.

Officer Sub – Group

The Officer Sub – Group is comprised of three Officers representing Finance, Legal and HR. Council Senior Officers attend each meeting.

The Sub-Group meets on an ad-hoc basis and have the following responsibilities:

- ❑ To determine all early retirement applications in line with Council Policy

Divisional Director HR and OD

The Senior HR Officer (currently Divisional Director HRD & Shared Services) has the following responsibility:

- To determine flexible retirement applications where there is no cost to the pension fund.

Director of Finance

Pension Fund Investment

In respect of the discretionary management arrangements the Director of Finance and Assurance has the following responsibilities:

- In the name of the Mayor and Burgesses of Harrow Council and on behalf of the Pension Fund and in consultation with the Fund's managers, to invest in stocks and shares as authorised by the Trustee Investments Act and Pension Fund Regulations, and to authorise the Council's seal to be affixed to stock transfer forms, rights issues and other investment forms.
- To enter into agreements on the terms and conditions on which these investments are made by the Fund's managers.
- To enter into under-writing agreements.
- To monitor the investment decisions of the Fund managers and under the terms of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009 to ensure the need for diversification and stability of investments

Chief Officers

Chief Officers may be specifically authorised to take decisions on behalf of the Council or a Committee in cases of urgency or in relation to minor matters. In doing so the procedure set out below must be followed.

Urgent Non-Executive Decisions and Minor Matters

In relation to matters which are the responsibility of a Council Committee, subject to consultation with the Chair of the relevant committee and the nominated members of the political groups or their nominees, Chief Officers shall have the power to act on behalf of the Council in cases of urgency and on minor matters, where the urgent matter is of such a nature that it may be against the Council's interest to delay and where it is not practicable to obtain the approval of the Council Committee. In the event of disagreement between the Members consulted, the matter shall be referred to the Head of Paid Service who may take the decision after consultation with the Leaders of all political groups or their nominees, and if appropriate, with the statutory officers. The safeguards set out below must be followed.

Safeguards

The procedure must only be used when considered essential to achieving the efficient administration of the service and for urgent matters consideration must be given to whether the matter can wait until the next scheduled meeting or whether the calling of a special meeting can be justified.

All decisions taken by officers under this delegated power must be reported for information to the next meeting of the appropriate committee.

Local Pension Board

A local Pension Board will be in place by April 2015.

The role of the Board, as defined by sections 5(1) and (2) of the Public Service Pensions Act 2013, is to assist the Administering Authority (London Borough of Harrow) as Scheme Manager in ensuring the effective and efficient governance and administration of the Local Government Pension Scheme (LGPS) including:

- securing compliance with the LGPS regulations and other legislation relating to the governance and administration of the LGPS;
- securing compliance with requirements imposed in relation to the LGPS by the Pensions Regulator; and
- such other matters the LGPS regulations may specify.



The Administering Authority retains ultimate responsibility for the administration and governance of the scheme. The role of the Board is to support the Administering Authority to fulfil that responsibility.

In its role, The Board will have oversight of the administration of the fund including:

- a) The effectiveness of the decision making process
- b) The direction of the Fund and its overall objectives
- c) The level of transparency in the conduct of the Fund's activities
- d) The administration of benefits and contributions

Statement of compliance to guidance

Regulation 55(1)(c) requires LGPS administering authorities to measure their governance arrangements against the principles set out in the statutory guidance. Where compliance does not meet the published standard, there is a requirement to give, in their governance compliance statement, the reasons for not complying.

Principle A – Structure

- a) The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.
- b) That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.
- c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.
- d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.

	Not Compliant			Fully Compliant	
a)					√
b)			√		
c)					NA
d)					NA

Reason for non-compliance.

There is no representation of non-Council employers or scheme members at the Pension Fund Committee. However, scheduled and admitted bodies are consulted on specific issues and representatives of two trade unions are entitled to attend all meetings as observers.

Principle B – Representation

- a) That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:-
 - i) employing authorities (including non-scheme employers, eg, admitted bodies);
 - ii) scheme members (including deferred and pensioner scheme members),
 - iii) where appropriate, independent professional observers, and
 - iv) expert advisors (on an ad-hoc basis).

b) That where lay members sit on a main or secondary committee, they are treated equally in terms of access to papers and meetings, training and are given full opportunity to contribute to the decision making process, with or without voting rights.

	Not Compliant*			Fully Compliant	
a)				√	
b)					√

Reason for non-compliance.

There is no representation of non-Council employers or scheme members at the Pension Fund Committee. However, scheduled and admitted bodies are consulted on specific issues and representatives of two trade unions are entitled to attend all meetings as observers.

Principle C – Selection and role of lay members

a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.

b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda.

	Not Compliant*			Fully Compliant	
a)					√
b)					√

Principle D – Voting

a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.

	Not Compliant*			Fully Compliant	
a)					√

Principle E – Training/Facility time/Expenses

a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.

b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.

c) That the administering authority considers the adoption of annual training plans for committee members and maintains a log of all such training undertaken



	Not Compliant*				Fully Compliant
a)					√
b)					√
c)					√

Principle F – Meetings (frequency/quorum)

- a) That an administering authority’s main committee or committees meet at least quarterly.
- b) That an administering authority’s secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.
- c) That an administering authority who does not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented

	Not Compliant*				Fully Compliant
a)					√
b)					NA
c)					√

Principle G – Access

- a) That subject to any rules in the council’s constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.

	Not Compliant*				Fully Compliant
a)					√

Principle H – Scope

- a) That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements

	Not Compliant*				Fully Compliant
a)					√

Principle I – Publicity

- a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.

	Not Compliant*				Fully Compliant
a)					√

:



13 **GOVERNANCE COMPLIANCE STATEMENT**

This page is intentionally left blank

REPORT FOR: Pension Board

Date of Meeting: 22 March 2016

Subject: Information Report - Pension Fund
Committee Meeting 25 November 2015

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards Affected: All

Enclosures: None

Section 1 – Summary and Recommendation

Summary

The report sets out the matters considered by the Pension Fund Committee at their meeting on 25 November 2015 and invites the Board to agree any comments they might wish to make to the Committee.

Section 2 – Report

1. Matters considered by the Pension Fund Committee at their meeting on 25 November 2015 were as follows.

2. London Pensions Collective Investment Vehicle

The Committee received a report which summarised the progress made in setting up the London Collective Investment Vehicle (CIV) and the Harrow Fund's involvement therein. The Chief Executive of the CIV attended the meeting and was invited to contribute to the discussion.

On the day of the meeting the Council received a document from the Department for Communities and Local Government (DCLG) entitled "Local Government Pension Scheme: Investment Reform Criteria and Guidance." This document indicated that joining a CIV would not be optional and that, by 19 February, all administering authorities would be required to state their commitment to pooling and to describe their progress in this regard. Harrow's response was sent to DCLG on 19 February and, for information, was received by the Pension Fund Committee on 9 March.

Later in the meeting a Member raised concerns over perceptions that the Government may be seeking to reduce the role of administering authorities in the management of their funds by leading them towards very large pooled fund and infrastructure investments.

3. Options for Liability Driven Investment Strategy

The Committee considered a report from Aon Hewitt which set out options for taking forward the consideration of a Liability Driven Investment Strategy.

This was further considered at the meeting on 9 March 2016 and Aon Hewitt were asked to provide a short update report at each subsequent meeting of the Committee.

4. Environmental, Social and Governance Issues in Pension Fund Investment

The Committee resolved that:

(1) investment managers and Aon Hewitt, the Council's Investment Adviser, be asked to advise whether they had signed up to UN Principles for Responsible Investment (PRI);

(2) investment managers and Aon Hewitt, the Council's Investment Adviser, be asked to confirm that they had signed up to "The UK Stewardship Code" and to provide reports on their engagement and voting actions;

(3) in the light of the responses received to resolutions (1) and (2) above, the Fund consider further whether to sign up to "The UK Stewardship Code" in its own right following the receipt of a further report setting out any conditions in relation to appendix 3 of the report and concerns about creating an infrastructure dependent on resolutions (1) and (2) above;

(4) the Fund take a more active involvement in the Local Authority Pension Fund Forum by attending meetings at a Member or officer level and by more specifically associating itself with various initiatives;

(5) within the Statement of Investment Principles the current paragraph on “social, environmental or ethical considerations” be amended in accordance with paragraph 27 of the report and those made at the meeting, as follows:

“The Council recognises that it has a paramount duty to seek to obtain the best possible return on the Fund’s investments taking into account a properly considered level of risk. As a general principle it considers that the long-term financial performance of a country/asset in which it invests is likely to be enhanced if good practice is followed in environmental, social and governance activities.

All the Fund’s investments are managed by external fund managers mostly within pooled funds. Currently, one is passively managed and one is specifically invested in emerging markets. The Council recognises the constraints inherent in this policy. Nevertheless it expects its external fund managers, acting in the best financial interests of the Fund, to consider, amongst other factors, the effects of environmental, social and other issues on the performance of countries and assets in which they invest.

The Council expects its external fund managers to have signed up to “The UK Stewardship Code” and to report regularly on their compliance with the Code and other relevant environmental, social and governance principles.”

(6) the Pension Board be requested to consider the need for admitted bodies to be involved in consideration of the importance of ESG issues and to what extent the views of the beneficiaries and representatives of beneficiaries should be taken into account.

There is a report on Environmental, Social and Governance issues elsewhere on the agenda where the Board are asked to consider resolution (6) above.

5. Benchmarking and Key Performance Indicators

As received by the Board on 2 November, the Committee received a report on a request from the Local Government Pension Scheme - Scheme Advisory Board - that each administering authority completes a pro-forma providing information on key performance indicators. The report also advised the Committee of the return sent to the Scheme Advisory Board.

6. Meeting of Pension Board on 2 November 2015

The Committee received a report regarding the matters considered by the Pension Board at their meeting on 2 November 2015 and of the most significant issues raised by them.

The Chair of the Pension Board addressed the Committee and outlined the interests of the Board which were: performance of the Fund, including key performance indicators (KPIs) and management costs. He added that the Board would continue to make representations on the need to have access to

“confidential” reports considered by the Committee as the practice on access varied from one authority to another.

The Board was of the view that, in order for it to do its “business” effectively, it needed to meet more frequently and that representations in this regard would continue as the two meetings allocated were insufficient.

The Chair of the Pension Board added that training was provided and that a high level of knowledge was required from the Board’s members.

An Independent Adviser to the Committee recognised that the Board would need to meet frequently and asked Members to make representations about accessibility to “confidential” reports considered by the Committee. The Chair of the Pension Fund Committee cited the example of the agenda for this meeting and stated that a concerted effort had been made by officers to ensure that, where possible, the reports considered by the Committee were available for public access and that “confidential” reports were limited in number. In light of the practice in other local authorities and the statutory nature of the Pension Board, the Chair asked officers for further legal advice on the ability of the Board to access “confidential” reports.

7. Work Programme for 2015-16 and 2016-17

The Committee received its draft work programme for the remainder of financial year 2015-16 and 2016-17 for approval.

The need to include additional reports discussed at this meeting was noted and a discussion on whether a report on the Collective Investment Vehicle (CIV) ought to be more frequent ensued.

8. London Borough of Harrow Pension Fund: Annual Report and Financial Statements for the year ended 31 March 2015

Having considered the report of the External Auditor on matters arising from the audit of the Pension Fund Annual Report and Financial Statements for the year ended 31 March 2015, the Committee approved them.

9. Performance of Fund Managers for Quarter Ended 30 September 2015 and Valuation at 31 October 2015

The Committee received a report setting out the performance of the investment managers and of the overall Fund for the quarter, year and three years ending 30 September 2015 and the valuation at 31 October 2015. They noted that Aon Hewitt would be reviewing the performance of Oldfield Partners LLP and inform members of the outcome.

10. Investment Manager Monitoring

The Committee received a confidential report which set out Aon Hewitt's quarterly report on Harrow's investment managers and noted that all managers were rated either "Buy" or "Qualified".

Financial Implications

11. Whilst this report discusses numerous matters relevant to the financial standing of the Pension Fund there are no financial implications arising directly from it.

Risk Management Implications

12. Relevant risks are included in the Pension Fund Risk Register.

Equalities implications

13. There are no direct equalities implications arising from this report.

Council Priorities

14. The financial health of the Pension Fund directly affects the level of employer contribution which in turn affects the resources available for the Council's priorities

Section 3 - Statutory Officer Clearance

Name:	Dawn Calvert	<input checked="" type="checkbox"/>	Chief Financial Officer
Date:	25 February 2016		

Ward Councillors notified:	Not applicable
-----------------------------------	-----------------------

Section 4 - Contact Details

Contact: Ian Talbot, Treasury and Pension Fund Manager
0208 424 1450

Background Papers - None

This page is intentionally left blank

REPORT FOR: Pension Board

Date of Meeting: 22 March 2016

Subject: Information Report – Annual Review of Internal Controls at Fund Managers

Responsible Officer: Dawn Calvert, Director of Finance

Exempt: No

Wards affected: All

Enclosures: Appendix – Review of Internal Controls at Fund Managers

Section 1 – Summary

The report sets out in summary the contents of the latest internal controls reports of each of the Fund Managers.

FOR INFORMATION

Section 2 – Report

1. The Report of the Auditor on the Pension Fund's 2009-10 Accounts recommended that due diligence be carried out on the strength of the operational controls at investment managers both through a review of internal controls reports and visits to key investment managers. At the November 2010 meeting of the, then, Pension Fund Investment Panel a template was introduced as a basis for measuring the level of assurance provided by the operational structure supporting each mandate.
2. Operational controls of investment managers relate to the procedures in place to safeguard the Fund's assets against loss through error or fraud and to ensure that client reporting is accurate. Poor operational controls can also hamper the management of the assets leading to reduced returns or increased costs. Should there be a lack of evidence that controls operated by investment managers are robust the continued appointment of the manager would be questionable.
3. Operational control reviews focus on the key environmental, business and process issues. A summary of the findings from the most recent reviews is provided in the Appendix. The key points from the findings in respect of the Fund's current managers are as follows:

Aviva Investors

The audit, carried out by PricewaterhouseCoopers LLP, indicates that controls are operating effectively and where shortcomings have been identified that there has been a satisfactory management response.

BlackRock Inc

The audit, carried out by Deloitte and Touche LLP, indicates that controls are operating effectively and, where shortcomings have been identified, that there has been a satisfactory management response.

GMO

The audit, carried out by PricewaterhouseCoopers LLP, indicates that controls are operating effectively and, where shortcomings have been identified, that there has been a satisfactory management response.

Insight Investment

The audit carried out by KPMG LLP indicates that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory response.

Longview Partners LLP

The audit, carried out by Moore Stephens LLP, indicates that controls are operating effectively and that no control shortcomings were identified.

Oldfield Partners LLP

The audit, carried out by Deloitte LLP, indicates that controls are operating effectively and that no control shortcomings were identified.

Pantheon

The audit, carried out by KPMG LLP, indicates that controls are operating effectively and that no control shortcomings were identified.

Record Currency Management Ltd

The audit, carried out by Grant Thornton UK LLP, indicates that controls are operating effectively and that no control shortcomings were identified.

Standard Life Investments Inc

The audit carried out by KPMG LLP indicates that controls are operating effectively and, where exceptions have been identified, that there has been a satisfactory response.

State Street Global Advisors

The audit, carried out by Ernst and Young LLP, indicates that controls are operating effectively and, where shortcomings have been identified, that there has been a satisfactory management response.

Financial Implications

4. Whilst the performance and effective controls of the fund managers is of paramount importance in the performance of the Pension Fund , there are no financial implications arising from this report.

Risk Management Implications

5. The risks arising from investment performance are included in the Pension Fund risk register.

Equalities implications

6. There are no direct equalities implications arising from this report.

Council Priorities

7. Investment performance has a direct impact on the financial health of the Pension Fund which directly affects the level of employer contribution which then, in turn, affects the resources available for the Council's priorities

Section 3 - Statutory Officer Clearance

Name Dawn Calvert Director of Finance

Date: 25 February 2016

Ward Councillors notified: NO

Section 4 - Contact Details

Contact: Ian Talbot, Treasury and Pension Fund Manager
0208 424 1450

Background Papers - None

Review of Internal Controls at Fund Managers

Aviva Investors

“Report on Internal Controls” for the period 1 October 2014 to 30 September 2015.

Auditors: PricewaterhouseCoopers LLP

In the auditor’s opinion, in all material respects:

- a) the description in sections D to G fairly presents the investment management services that were designed and implemented throughout the period from 1 October 2014 to 30 September 2015;
- b) the controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls operated effectively throughout the period from 1 October 2014 to 30 September 2015 and customers applied the complementary customer controls referred to in the scope paragraph of this report;
- c) the controls tested, which together with the complementary customer controls referred to in the scope paragraph of this report, if operating effectively, were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period from 1 October 2014 to 30 September 2015.

Of the 171 controls tested by the auditor, 8 exceptions were identified.

These exceptions and the management responses are included at the end of this appendix.

BlackRock Inc

“Report on Controls at BlackRock Placed in Operation and Tests of Operating Effectiveness for Asset Management Services” for the period 1 October, 2014 to 30 September, 2015.

Auditors: Deloitte and Touche LLP

In the auditor’s opinion, in all material respects:

- a.) the description fairly presents the System that was designed and implemented throughout the period 1 October, 2014 to 30 September, 2015;
- b.) the controls related to the control objectives stated in the Description of the System were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period 1 October, 2014 to 30 September, 2015, and user entities applied the complementary user entity controls contemplated in the design of BlackRock’s controls throughout the period 1 October, 2014 to 30 September, 2015;
- c.) the controls tested, which together with the complementary user entity controls referred to in the scope paragraph of this report, if operating effectively, were those necessary to provide reasonable assurance that the control objectives stated in the Description of the System were achieved, operated effectively throughout the period 1 October, 2014 to 30 September, 2015.

Of the 137 controls tested by the auditor, 4 exceptions were identified:

- 1.) **Page 76 – Control D.1.8** – For 1 of 45 wire instructions selected for testing, performance of the dual authorisation was unable to be evidenced. Additionally, noted that the unique bank-approved stamps remain unlocked on a dedicated senior manager’s desk when not in use during office hours for the Tokyo, Japan location.

Management Response: Due to the use of unique bank-approved stamps, Japanese trust banks do not require dual authorisation to process wire payments, but management requires dual authorisation for all manual payments globally. While dual authorisation could not be evidenced for one margin payment in a sample, management was able to confirm that the payment was appropriate. In February 2015, BlackRock and the Japanese trust banks implemented a new payment process whereby settlement instructions for individual margin movements are no longer required.

- 2.) **Page 79 – F.1.4** – For 1 of 25 securities selected for testing from the Unreviewed Securities Held in Positions Report, DIG was unable to provide evidence of research and monitoring.

Management Response: Management confirmed that the modification made was authorised, however, evidence of continuous monitoring prior to resolution was not able to be provided for testing. The modified security was reviewed within eighteen business days. Management noted that the exception identified had no impact to BlackRock-managed client accounts.

- 3.) **Page 91 – L.1.1** – For 1 of 50 client reports selected for testing, performance of the quality assurance review was unable to be evidenced.

Management Response: Management confirmed that the relevant teams were notified that the Australian fund-specific report was available for quality assurance review, however, no evidence of review was available for testing. Client Reporting Management re-emphasised the importance of maintaining the evidence of completed reviews. Additionally, Aladdin Client Reporting, a centralised deliverable management tool that captures evidence of approval as a key element of the overall production process, has been implemented in Australia for client-specific deliverables.

- 4.) **Page 102 – Q.1.3** – For 2 of 102 individuals across new hires, transfers, and terminations selected for testing to identify timely notification by HR to corporate groups, noted that HR-act transfer notifications were not sent timely. New access was not granted until notifications were received.

Management Response: HR Management re-emphasised the importance of the quality and timeliness of HR notifications as well as the retention of applicable documentation to the teams responsible for processing personnel updates in the HR system of record. HR is reviewing the timeliness of transfer notifications and processing through key metrics and process review.

GMO

“Report On GMO’s Description of its Advisory Services System and on the Suitability of the Design and Operating Effectiveness of Controls” for the period October 6, 2014 to September 30, 2015

Auditors: PricewaterhouseCoopers LLP

In the auditor’s opinion, in all material respects:

- a.) the description fairly presents the Advisory Services System that was designed and implemented throughout the period October 6 2014 to September 30 2015;
- b.) the controls related to the control objectives of GMO stated in the description were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period October 6 2014 to September 30 2015 and user entities applied the complementary user entity controls contemplated in the design of GMO’s controls throughout the period October 6 2014 to September 30 2015;
- c.) the controls of GMO tested, which together with the complementary user entity controls referred to in the scope section of this report, if operating effectively, were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period October 6 2014 to September 30 2015.

Of the 159 controls tested by the auditor, 2 exceptions were identified:

- 1) **Page 55 – Control 1d** – For 1 of 5 samples selected for testing, the review of updated client account information from the unit registry was not performed for an Australian account in a timely manner.

Management Response: Management acknowledges the finding. GMO has implemented process changes which are designed to ensure that more timely reviews are carried out going forward.

- 2) **Page 59 – Control 2b** – For 1 of 30 samples selected for testing, a change request for a US and UK account was not sent to the transfer agent in a timely manner.

Management Response: Management acknowledges the finding. The communication of this specific type of change is done manually. Management is considering putting in place additional measures that could prevent reoccurrence of this issue.

Insight Investment

“Statement of Internal Controls Over Investment Management Services for the Year Ended 31 December 2014”

Auditors: KPMG LLP

In the Auditor’s opinion, in all material respects:

- d.) the description on pages 10 to 55 fairly presents the investment management activities that were designed and implemented throughout the period 1 January 2014 to 31 December 2014;
- e.) the controls related to the control objectives stated in the description on pages 10 to 55 were suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls operated effectively throughout the period from 1 January 2014 to 31 December 2014; and
- f.) the controls that we tested were operating with sufficient effectiveness to provide reasonable assurance that the related control objectives stated in the description were achieved throughout the period 1 January 2014 to 31 December 2014.

Of the 133 controls tested by the auditor, 5 exceptions (of which 3 appear to relate to the same issue) were identified:

1. KPMG also inspected the [currency risk management] set up schedule to determine whether the schedule had been signed off by Research and Currency Application Support Team to verify the accuracy and completeness of the restrictions coded.

Exception noted; For 1 out of the 2 clients selected, it was noted that the signed account set up schedule had not been retained.

Management response: The missing Account Set-up Schedule above refers to an existing account transition. All investment management activities were handled correctly. However, the CPM Team failed to follow the procedure of filing a paper based Account Set-up Schedule. The remedial action was to remind members of the CPM Team to follow the established procedure.

2. For a selection of new [Currency Risk Management] accounts inspected the account set-up schedule to determine whether the schedule had been signed off by Research and Currency Application Support Team to verify the accuracy and completeness of the restrictions coded.

Exception noted; For 1 out of the 2 clients selected, it was noted that the signed account set up schedule had not been retained.

Management response: The missing Account Set-up Schedule above refers to an existing account transition. All investment management activities were handled correctly. However, the CPM Team failed to follow the procedure of filing a paper based Account Set-up Schedule. The remedial action was to remind members of the CPM Team to follow the established procedure.

3. For a selection of weeks, inspected meeting minutes for the Investment Management Team meetings to determine whether the minutes included discussion of strategy and portfolio construction.

Exception noted: For 1 out of 5 weeks selected it was noted that the meeting minutes had not been retained.

Management response: The meeting referred to above is the Global Government meeting. The meeting was held as scheduled, however due to an administrative error, a copy of the minutes could not be located on file. The remedial action was to remind the meeting Secretary of the established procedure to retain meeting minutes.

4. For a selection of client payment instructions, inspected the signed client instructions and relevant authorised signatory list to determine whether the client instructions had been validated by the CS team.

KPMG also inspected the cash flow posting to determine whether the instruction had been input completely and accurately and it had been input and authorised by two members of the payments team.

Exception noted: For 10 out of 40 client instructed payments selected Insight were unable to produce the original signed client instruction.

Management response: The cash payments process was insourced from Northern Trust in August 2012. This resulted in a number of legacy regular payments moving from NT to Insight.

A subsequent review of the process highlighted the fact that the original client instructions when each payment was established had not been retained by NT. This is not in line with Insight's current procedures.

At this point Insight assessed the risk profile of each client (and payment) for which there was no original authorisation on file. This was performed using the criteria for simplified due diligence. Each client and payment was concluded to be low risk and therefore a decision was made to re-seek the client instructions for filing at the next client review date. Low risk clients are on a 3 year cycle and therefore these original client instructions will not be on file until late 2015.

5. For a selection of new [Currency Risk Management] accounts inspected the account set-up schedule to determine whether the schedule had been signed off by Research and Currency Application Support Team to verify the accuracy and completeness of the restrictions coded.

Exception noted; For 1 out of the 2 clients selected, it was noted that the signed account set up schedule had not been retained.

Management response: The missing Account Set-up Schedule above refers to an existing account transition. All investment management activities were handled correctly. However, the CPM Team failed to follow the procedure of filing a paper based Account Set-up Schedule. The remedial action was to remind members of the CPM Team to follow the established procedure.

Longview Partners LLP

“Assurance Report on Internal Controls” for the period 1 January 2014 to 31 December 2014.

Auditors: Moore Stephens LLP

In the Auditor’s opinion, in all material respects:

- a) the accompanying report by members describes fairly the control procedures that relate to the control objectives referred to above which were in place as at 31 December 2014;
- b) the control procedures described in section 6 were suitably designed such that there is reasonable, but not absolute, assurance that the specified control objectives would have been achieved if the described control procedures were complied with satisfactorily; and
- c) the control procedures that were tested, as set out in the attachment to this report were operating with sufficient effectiveness for us to obtain reasonable, but not absolute, assurance that the related control objectives were achieved in the period 1 January 2014 to 31 December 2014.

Of the 92 controls tested by the auditor, 0 exceptions were identified

Oldfield Partners LLP

“AAF 01/06 Assurance Report on Internal Controls” for the period 1 July 2014 to 30 June 2015

Auditors: Deloitte LLP

In the auditor’s opinion, in all material respects:

- a.) the description on pages 10 to 37 fairly presents the control procedures of Oldfield Partners LLP’s investment management services that were designed and implemented throughout the period 1 July 2014 to 30 June 2015;
- b.) the controls related to the control objectives stated in the description on pages 10 to 37 were suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls operated effectively throughout the period 1 July 2014 to 30 June 2015; and
- c.) the controls that we tested were operating with sufficient effectiveness to provide reasonable assurance, that the related control objectives stated in the description were achieved throughout the period 1 July 2014 to 30 June 2015.

Of the 153 controls tested by the auditor, 0 exceptions were identified.

Pantheon

“Type II Report on Controls Placed in Operation Relating to Investment Advisory and Management Activities” for the period from 1 October, 2014 to 30 September, 2015

Auditors: KPMG LLP

In the auditor’s opinion, in all material respects:

- a.) the Description fairly presents the Investment Advisory and Management Activities system as designed and implemented throughout the period from 1 October 2014 to 30 September 2015;
- b.) the controls related to the control objectives stated in the Description were suitably designed throughout the period from 1 October 2014 to 30 September 2015; and
- c.) the controls tested, which were those necessary to provide reasonable assurance that the control objectives stated in the Description were achieved, operated effectively throughout the period from 1 October 2014 to 30 September 2015.

Of the 107 control objectives tested by the auditor, 0 exceptions were identified:

Record Currency Management Ltd

“Report on Internal Controls (AAF 01/06)” for the period 1 April, 2014 to 31 March, 2015.

Auditors: Grant Thornton UK LLP

The auditors confirmed that:

- a.) the report describes fairly the control procedures that relate to the control objectives referred to above which were in place as at 31 March 2015;
- b.) the control procedures described are suitably designed such that there is reasonable assurance that the specified control objectives would be achieved if the described control procedures were complied with satisfactorily; and
- c.) the control procedures described were operating with sufficient effectiveness to provide reasonable assurance that the related control objective were achieved during the specified period.

Of the 137 controls tested by the auditor, 0 exceptions were identified.

Standard Life Investments

“Internal Controls Report” for 1 October 2014 to 30 September 2015

Auditors: PricewaterhouseCoopers LLP

In the Auditor’s opinion, in all material respects:

- (a) the description on pages 24 to 119 fairly presents the in-scope investment management services that were designed and implemented throughout the period from 1 October 2014 to 30 September 2015;
- (b) the controls related to the control objectives stated in the description were suitably designed to provide reasonable assurance that the specified control objectives would be achieved if the described controls operated effectively throughout the period from 1 October 2014 to 30 September 2015 and clients applied the complementary client controls referred to in the scope paragraph of this report;

- (c) the controls tested, which together with the complementary client controls referred to in the scope paragraph of this report, if operating effectively, were those necessary to provide reasonable assurance that the control objectives stated in the description were achieved, operated effectively throughout the period from 1 October 2014 to 30 September 2015.

Of the 334 controls tested by the auditor, 7 exceptions were identified:

These exceptions and the management responses are included at the end of this appendix.

State Street Global Advisors

“Service Organisation Control Report” July 1, 2014 – June 30, 2015

Auditors: Ernst & Young LLP

In the auditor’s opinion, in all material respects:

- a.) the Description fairly presents SSGA’s Investment Advisory System Applicable to the Processing of Client Transactions that was designed and implemented throughout the period July 1, 2014 to June 30, 2015;
- b.) the controls related to the control objectives stated in the Description were suitably designed to provide reasonable assurance that the control objectives would be achieved if the controls operated effectively throughout the period July 1, 2014 to June 30, 2015 and if user entities applied the complementary user entity controls contemplated in the design of SSGA’s controls and if State Street’s Information Technology and Global Security divisions applied the controls contemplated in the design of State Street’s controls throughout the period July 1, 2014 to June 30, 2015;
- c.) the controls of SSGA tested, which, together with the complementary user entity controls and States Street’s Information Technology and Global Security divisions’ controls referred to in the scope paragraph of this report if operating effectively, were those necessary to provide reasonable assurance that the control objectives stated in the Description were achieved, operated effectively throughout the period July 1, 2014 to June 30, 2015.

Of the 165 controls tested by the auditor, 4 exceptions were identified:

- 1.) **Control 2.1** – Out of a combined sample of 87 new or amended funds/accounts selected for testing, we identified the following deviations in the UK:
 - For 1 out of 25 new or amended fund/accounts selected for testing, a checklist was not completed

- For 2 out of 25 new or amended fund/accounts selected for testing, the checklist was not reviewed by a second person

Management Response: Management acknowledges that for 1 out of 25 new or amended fund/accounts selected for testing in the UK, a checklist was not completed. Management also acknowledges that for 2 out of 25 new or amended fund/accounts selected for testing in the UK, the checklist was not reviewed by a second person. Management confirmed that the new or amended funds/accounts procedures were performed accurately and timely based on the contract/agreement. Management has reinforced with the appropriate personnel the requirement to maintain proper documentation of review.

2.) **Control 12.1** – Accounts set up as Investment Programs or Mandates in CRS in the US:

- For all 3 accounts selected for testing during the period July 1 2014 to March 31 2015 the client reporting package did not include the new account. Management determined that all accounts set up in the US as Investment Programs or Mandates during the period July 1 2014 to March 31 2015 were not included on the respective client reporting package.
- No deviations were noted for accounts set up as Investment Programs or Mandates in CRS during the period April 1 2015 to June 30 2015.

Management Response: Management acknowledges that for the 3 accounts tested, the new account was not included in the client reporting package. Management determined that due to a transition of responsibility in setting up new accounts, certain manual steps were not completed for accounts set up as Investment Programs or Mandates and therefore were excluded from being captured in the client reporting package. Management performed a full analysis of the July 2014 through March 2015 time periods and found that 60 new accounts set up as Investment Programs or Mandates out of 601 total new accounts were omitted from the pdf version of their respective performance report and were therefore not included in the client reporting package. This affected 13 out of 189 clients that had changes and 53 reports out of 13,513 that were distributed during this time. Refer to Section V “Client Reporting” for additional information on the availability of client reports and information on ssga.com. Effective April 1 2015, Management has implemented an additional step within the change management process of identifying client package configuration levels of Client, Investment Program and Mandate in the New/Closed Account report. Management has reinforced with appropriate personnel the applicable change management process that needs to be followed for all client report changes.

- 3.) **Control 13.6** – For 2 out of 2 monthly RMS generated listings of approved invoices selected for testing, it was noted that the invoice listings and exceptions were not reviewed timely.

Management Response: Management acknowledges that for 2 out of 2 monthly RMS generated listings of approved invoices selected for testing, it was noted that the invoice listings and exceptions were not reviewed timely. Management confirms that all invoices on the 2 monthly RMS generated listings of approved invoices were prepared and reviewed by separate individuals. Management has reinforced the requirement to perform timely review of the RMS generated listing of approved invoices.

- 4.) **Control 13.7** – For 2 out of 2 monthly reconciliations of client prepared invoices to RMS fee calculations selected for testing it was noted that the review of the reconciliations was not performed timely.

Management Response: Management acknowledges that for 2 out of 2 monthly reconciliations of client prepared invoices to RMS fee calculations selected for testing were not reviewed timely. Management confirms that variances were researched as appropriate. Management has reinforced the requirement to perform timely review of the fee payment reconciliation.

Table showing number of controls tested by each manager and the number of exceptions as reported to Committee in 2014, 2015 and 2016

Fund Manager	Control Objectives Tested 2014 Report	Number of Exceptions 2014 Report	Control Objectives Tested 2015 Report	Number of Exceptions 2015 Report	Control Objectives Tested 2016 Report	Number of Exceptions 2016 Report
Aviva	158	5	177	7	171	8
BlackRock	182	5	138	2	137	4
GMO	N/A	N/A	200	1	159	2
Insight	N/A	N/A	133	5	133	5
Longview	101	0	92	0	92	0
Oldfield Partners LLP	N/A	N/A	149	3	153	0
Pantheon	97	1	103	1	107	0
Record	137	3	138	0	137	0
Standard Life	213	4	232	4	334	7
State Street	159	5	156	3	165	4

SECTION H: MANAGEMENT RESPONSES TO EXCEPTIONS NOTED

Control Reference	Control Description	Test of Control Procedures and exceptions noted
1.2.1.2	The Derivatives Officer approves the use of new derivative instruments in accordance with the Derivatives Policy, prior to entering into a derivatives transaction for the first time	<p>Reliance on Controls Assurance team For a sample of new instruments, inspected the email confirmations for evidence that the Derivatives Officer approved the new derivative usage prior to entering into the transaction for the first time.</p> <p>Exception noted For all three of the new derivative instruments traded since 1st October 2014, approval from the Derivatives Officer was not obtained.</p>
Management response		
The Derivatives approval process has been reviewed and communicated to the business. The updated procedure has been circulated within the Derivatives Operations team and has also been discussed on the desk and in team meetings and its importance has been reinforced. A log of new instruments showing key information and the progress of approvals has been implemented. Team members have been allocated primary and secondary responsibility for obtaining approval responses and collating these on the log.		
1.2.2.5	Review of compliance order allocation variation reports that highlight any deviations from the original Aladdin algorithm.	<p>For a sample of days, inspected the compliance order allocation variation report for evidence of the review by Head of Dealing</p> <p>Exception noted For 10 out of 40 samples selected, no evidence of review could be provided</p>
Management response		
The missing documentation occurred as a consequence of reports being accidentally overwritten. Reports are now saved with unique names which clearly distinguish between fixed income and equity trades. In addition to the control referred to, the Heads of Rates and Equities, who report into the Head of Dealing, carry out a check of compliance post-trade order allocation variation reports that highlight any deviations from the original Aladdin algorithm on a daily basis.		
1.2.2.13	Review of a weekly Aladdin report detailing FX trades both raised in Aladdin and executed by FX dealers, to ensure such trades were executed based on instructions received	<p>For a sample of weeks after 1 December 2014, inspected the sign-off sheets for evidence that the FX trades both raised in Aladdin and executed by FX dealers were reviewed by the Dealing Manager</p> <p>Exception noted For two out of 15 samples selected, the review was not performed in a timely manner</p>
Management response		
The control was not performed on a timely basis as a consequence of holiday absence. Designation of delegates in cases of absence is now in place.		
1.5.1.6	Where a rule or restriction cannot be monitored independently by Mandate Monitoring, the Mandate Monitoring team obtains confirmations from fund managers to self-certify that they are in compliance with the relevant investment guideline restriction, using a checklist to ensure all such self-certifications are obtained timely	<p>For a sample of self-certified guidelines and periods, inspected the self-certification checklists or emails for evidence that self-certifications were performed in a timely manner</p> <p>Exception noted For one out of 45 samples selected, self-certification was not performed in a timely manner</p>
Management response		
Although an isolated instance, which has been fully remediated, a review of the entire Centralised Rule Repository population will be carried out to ensure all self-certifications have been captured, and can be performed and evidenced in a timely manner.		
2.2.1.3	Capital expenditure proposals prepared by the Asset Manager are reviewed by the Fund Manager/Sector Head/ITC (in accordance with Delegated Authority Schedule) to ensure they are in accordance with investment guidelines and acceptable risk criteria as set out in the fund documentation/client IMA	<p>For capital expenditure proposals, reviewed the evidence that these were approved in line with the Delegated Authority Form</p> <p>Exception noted For eight out of 50 capital expenditures, approval in line with the Delegated Authority Schedule was not obtained prior to the expenditure being incurred</p>
Management response		
50 items were tested which represented 100% of the population. For the eight instances where insufficient authority had been obtained, these have been approved retrospectively in accordance with the Delegated Authority Schedule. The Transaction Authority forms (TAFs) will be standardised for all asset managers with the delegated authority limits embedded within the TAFs which will ensure that the expenditure levels and related signature requirements are much clearer to the user of the form than has been the case previously.		

SECTION H: MANAGEMENT RESPONSES TO EXCEPTIONS NOTED (CONTINUED)

Control Reference	Control Description	Test of Control Procedures and exceptions noted
3.1.1.3	<p>Access to Aviva Investors offices - Access removal</p> <p>The Property and Facilities team receive notification of leavers via the Teamworks tool. On receipt of a leaver's request, the Property and Facilities team set the individual's physical access card to disable on the specified leave date</p>	<p>For a sample of leavers in the period, inspected evidence that each individual's physical access card had been disabled on the specified leave date</p> <p>Exception noted</p> <p>For two out of 244 leavers, access cards to the Aviva Investors offices were not disabled on the specified leave date</p>
<p>Management response</p> <p>After further investigation, it was confirmed that the two identified leavers had not used their access cards after their leave date. Upon identification, the identified leavers' cards were subsequently disabled. A weekly control has been introduced to review the leavers in the week, and ensure all passes have been disabled accordingly</p>		
3.1.2.3	<p>HR raises leaver requests for permanent, fixed term contract and temporary staff within Teamworks. IT Security Administration is notified of the leaver request via an automated email and set the Windows AD account to expire on the specified leave date. Depending on the authentication mechanism in place for each application, either IT Security Administration or the application support team then revoke application access. Note: For the Aladdin application third party BRS remove the application account on receipt of an approved request from IT Security Administration</p>	<p>Inspected evidence that access to the Windows AD network, in scope applications and underlying databases had been revoked in a timely manner for all leavers in the period</p> <p>Exception noted</p> <p>For three out of the full population of 244 leavers during the period under review, Blackrock was not sent an approved removal request by the IT Security Administration team and so the user accounts remained active on the Aladdin application after their leave dates</p>
<p>Management response</p> <p>The three leavers had limited access to the system and represented less than 2% of the total population. Subsequent review confirmed that the three accounts in question were not accessed after their leave date and have been subsequently disabled. After 60 days of inactivity BRS will also disable active Aladdin accounts. A monthly detective control has been introduced to review and remove any Windows accounts not active for over 90 days, plus associated downstream systems</p>		
3.4.3.2	<p>BCM</p> <p>The BCM team facilitates the testing of critical activities in business continuity plans annually. Any issues identified are logged on an actions register which is managed and maintained by the respective Business Unit Risk Manager</p> <p>ITDR</p> <p>The application support team, with assistance from the IT Service Continuity (ITSCM) team, test critical activities as defined in the Configuration Management Database (CMDB) and their respective IT service continuity and application recovery plans annually. Any issues identified are logged on an actions register which is managed and maintained by the respective application support manager.</p>	<p>BCM</p> <p>Inspected evidence that Business Continuity Plans had been tested by the BCM team in the period and that issues identified during the testing had been logged on an actions register maintained by the respective Business Unit Risk Manager</p> <p>ITDR</p> <p>Inspected evidence that critical activities defined in the CMDB and their respective IT Service Continuity/Application Recovery Plans had been tested in the period, and that any issues identified had been logged on an actions register for investigation by the respective application support team</p> <p>Exception noted</p> <p>For the Advantage application, no Disaster Recovery fail-over test was performed during period under review</p>
<p>Management response</p> <p>The Disaster Recovery tests were deferred to allow for completion of server upgrading system and hardware refresh. Whilst the majority of the Disaster Recovery tests were completed by 30 September 2015, the Disaster Recovery test for the Advantage application will be conducted on 28 November 2015. The most recent test for Advantage was completed on 7 June 2014</p>		

Other information provided by Standard Life Investments

The Service Auditor's tests have identified seven exceptions. Responses from management in respect of exceptions noted by the Service Auditor in performing testing of Standard Life Investments Limited's controls are presented below to provide additional information to users of this report.

Management Responses to Exceptions Noted

Information Technology - SLI

1. Standard Life Investments Descriptions of Controls	Service Auditor's Tests specific to the exceptions noted
<p>2.10 - Users' permission level access for CRIMS is reviewed for appropriateness on an annual basis by heads of desk or line managers. Any inappropriate access is removed on a timely basis.</p>	<p>Inspection For a sample of CRIMS users, inspected evidence that the user's permission level access was reviewed for appropriateness by their head of desk or line manager and that any inappropriate access has been removed on a timely basis.</p> <p>Exception Noted: For two of 29 items tested, no response was received from the users' line managers and the users' CRIMS permissions level access was therefore not recertified.</p>
Management response	
<p>Management can confirm that recertification has since been performed for the two users. Management can also confirm that these users were not part of Front Office and as such do not have dealing authority. Management are confident that all Front Office users with elevated permissions have been recertified.</p> <p>Management will ensure a review of the permission level recertification process for CRIMS is carried out ahead of the next recertification in Q1 2016, with a view to implementing improvements to streamline the process:</p> <ul style="list-style-type: none"> ➤ Change approval lines to Line Managers instead of Heads of Desk; ➤ Creation of a recertification tool, which will reduce the dependency of manual intervention, reducing the likelihood of errors; ➤ Produce an updated report for managers, providing them with a clearer understanding of the access levels for each user contained within CRIMS; and ➤ Introduce a four eye check on the completed recertification. 	

(Information Technology SLI continued)

2. Standard Life Investments Descriptions of Controls	Service Auditor's Tests specific to the exceptions noted
<p>9.2. Oversight of incident and problem resolution is performed by the Global Incident Response Team (GIRT). Key information including call answering SLAs, incident fix times against target, problem volumes, VIP Incidents, Knowledge Base and Customer Satisfaction Questionnaires is reviewed.</p> <p>Until May 2015, this was performed via weekly service manager meetings and monthly senior service manager meetings.</p> <p>From June 2015, this was performed via monthly service manager meetings and quarterly senior service manager meetings.</p>	<p>For the period to May 2015:</p> <p>Inspections For a sample of weeks, inspected evidence of the review of incidents and problem resolution as part of the weekly service managers meetings.</p> <p>For a sample of months, inspected evidence of the review of incidents and problem resolution as part of the weekly senior service managers meetings.</p> <p>For the period from June 2015:</p> <p>Inspections For a sample of months, inspected evidence of the review of incidents and problem resolution as part of the weekly service managers meetings.</p> <p>For a sample of quarters, inspected evidence of the review of incidents and problem resolution as part of the weekly senior service managers meetings.</p> <p>Exception Noted: Prior to the change of control frequency, for one of the 7 weekly meetings tested, the meeting did not occur, without an appropriate explanation for cancellation.</p>
Management response	
<p>Following changes to the control frequency, management can confirm that all monthly service manager meetings and all quarterly senior service manager meetings have taken place and have been well attended.</p> <p>Management will ensure any meetings that do not take place in future on the intended dates, will be rescheduled as opposed to being cancelled. Any poor attendance will be escalated via the Senior Management team at the Quarterly Governance Board meeting.</p>	

Information Technology - hignis

3. Standard Life Investments Descriptions of Controls	Service Auditor's Tests specific to the exceptions noted
<p>2.4. Users' account level access to the network and key applications is recertified on at least annual basis by their line manager. Any inappropriate access is removed on a timely basis.</p>	<p>Inspections Inspected evidence that the user access recertification at the account level had been undertaken during the period.</p> <p>For a sample of users, inspected evidence that the appropriateness of users' network and application level access had been reviewed by their line manager, with any inappropriate access being removed on a timely basis.</p> <p>Exception Noted: Our review of the Q4 account level access recertification noted that no response was obtained from the users' line managers for the 178 SLI users included within the recertification and the users' account level access was therefore not recertified.</p>
<p>Management response</p>	
<p>Management will ensure a full recertification of all Standard Life Investments staff with access to hignis platforms takes place post the completion of Thinkfolio's lift and shift into Standard Life Investments environment.</p>	

Real Estate Management - UK and European Funds

4. Standard Life Investments Descriptions of Controls	Service Auditor's Tests specific to the exceptions noted
<p>2.1. Prior to any purchase, sale or development being approved, a detailed budget is prepared by the portfolio, fund or development manager in a DD1 form. The DD1 is attached to the approval memo and approved in line with the levels of approval set out in the Authorities document.</p> <p>The System Administration team input the data from the DD1 into the Capital Expenditure (CapEx) System with entry by junior personnel undergoing secondary review for accuracy.</p>	<p>Inspections For a sample of purchases, sales and developments during the period, inspected evidence that a detailed budget was prepared by the Portfolio Manager in the DD1 and that the DD1 was approved in line with the Authorities document prior to processing.</p> <p>For the same sample, inspected evidence of secondary review for accuracy of the information input from the DD1 into the CapEx system.</p> <p>Exception Noted: For one of 13 items tested, the DD1 form was not approved in line with the levels of approval set out in the Authorities document.</p>
<p>Management response</p>	
<p>'Management will ensure that DD1 forms are checked by the Fund Manager and Investment Director before the form is passed to the Account Department.</p> <p>Management will ensure that they will perform a review over the governance and authorisation process of DD1 forms, with a view to removing the need for the Head of Real Estate to sign DD1 forms, as their approval on Approval Memo's should be sufficient oversight and governance over the process.</p>	

(Real Estate Management - UK and European Funds continued)

5. Standard Life Investments Descriptions of Controls	Service Auditor's Tests specific to the exceptions noted
<p>6.1. The System Administration team update the Property Management System data on a timely basis for properties purchased and sold. Updates are reviewed for accuracy by another System Administration team member.</p>	<p>Inspection For a sample of updates to the property management system, inspected evidence of timely entry and review of accuracy by a second member of the System Administration team.</p> <p>Exception Noted: For three of 12 items tested, the Property Management System was not updated on a timely basis, timely being one week after the instruction was received.</p>
<p>Management response</p>	
<p>Management can confirm that the DD1 approval process should be completed within a 7 working day timeline. Management will ensure a communication is issued to all members of the Real Estate front office and Systems Administration teams, to confirm that the Real Estate front office team should provide signed DD1 documents to the Systems Administration team within 24 hours of authorisation, to allow the Systems Administration team time to update the Property Management System (Horizon) within the 7 working day timeline.</p> <p>To help facilitate meeting the 7 working day timeline, management will ensure that the Systems Administration team create an electronic workflow to move this process from a paper based one to electronic sign off.</p>	

Real Estate Management - UK Funds only

6. Standard Life Investments Descriptions of Controls	Service Auditor's Tests specific to the exceptions noted
<p>14.3. On a monthly basis, the Real Estate Operations team produce the Fund Constraints reports for each fund and pass these to Fund Managers on a timely basis for review and feedback on any breaches.</p> <p>NB. Ignis Funds only</p>	<p>Inspection For a sample of funds and months, inspected evidence that the Funds Constraints report was produced and passed to Fund Managers on a timely basis and, where breaches were noted, feedback was provided on breaches.</p> <p>Exception Noted: For all of the 9 items tested, the fund constraints reports were prepared, however these were not sent for review in a timely manner, timely being within two weeks after month end.</p>
<p>Management response</p>	
<p>Management can confirm that none of the funds within the 9 Fund Constraints reports sampled, were in breach. Treasury and pricings items are monitored daily and any impending breaches are picked up on the day in question from this process and do not rely on the risk limit reports being produced.</p> <p>Management will ensure that all future fund constraints reports (for the 3 Ignis funds) are issued in a timely manner each month, being within 2 weeks of month end. Emails circulating the reports will be saved down and retained on our documents management system (eDocs).</p>	

Real Estate Management - European Funds only

7. Standard Life Investments Descriptions of Controls	Service Auditor's Tests specific to the exceptions noted
<p>6.2. Portfolio managers ensure that title deeds are lodged/retained with an appropriate third party at the point of purchase, such as property managers and lawyers, depending on the local market and country conventions. A checklist is completed and signed-off to evidence that properties purchased are of marketable title and that documents have been lodged with the appropriate third party for safe-keeping.</p>	<p>Inspection For a sample of purchases, inspected pre-exchange checklists to confirm that documents were lodged with an appropriate third party.</p> <p>Exception Noted: For three of the 7 items tested, there was no sign-off to evidence that the documents were lodged with the appropriate third party for safe-keeping.</p>
Management response	
<p>Management can confirm that the title deeds relating to the items tested have been retained for safekeeping by a relevant third party for the jurisdictions concerned.</p> <ol style="list-style-type: none"> 1. Management will ensure they arrange for written confirmation from the relevant third parties, that the title documents are being held securely and safeguarded from loss, misappropriation and unauthorised use. 2. Management will ensure a reminder is issued to all fund managers, portfolio managers and investment directors, of the importance of using the correct checklist and to ensure that the checklist records where the title documents are held for safekeeping. 	

REPORT FOR: Pension Board

Date of Meeting:	22 March 2016
Subject:	Information Report – Environmental, Social and Governance Issues in Pension Fund Investment
Responsible Officer:	Dawn Calvert, Director of Finance
Exempt:	No
Wards affected:	All
Enclosures:	Appendix 1 – UN PRI and UK Stewardship Code Appendix 2 – Submissions received from Fund Managers.

Section 1 – Summary

The report sets out the responses received to requests made to the Fund managers in relation to the Pension Fund Committee’s consideration at their last meeting of the Environmental, Social and Governance (ESG) Issues. As requested by the Pension Fund Committee, the Board is asked to consider the need for admitted bodies to be involved in consideration of the importance of ESG issues and to what extent the views of the beneficiaries and representatives of beneficiaries should be taken into account.

FOR INFORMATION

Section 2 – Report

1. At their meeting on 25 November 2015 the Pension Fund Committee received a report discussing Environmental, Social and Governance Issues and Pension Fund Investment and resolved that:

(1) investment managers and Aon Hewitt, Council’s Investment Adviser, be asked to advise whether they had signed up to UN Principles for Responsible Investment (PRI);

(2) investment managers and Aon Hewitt, Council’s Investment Adviser, be asked to confirm that they had signed up to “The UK Stewardship Code” and to provide reports on their engagement and voting actions;

(3) in the light of the responses received to resolutions (1) and (2) above, the Fund consider further whether to sign up to “The UK Stewardship Code” in its own right following the receipt of a further report setting out any conditions in relation to appendix 3 of the report and concerns about creating an infrastructure dependent on resolutions (1) and (2) above;

(4) the Fund take a more active involvement in the Local Authority Pension Fund Forum by attending meetings at a Member or officer level and by more specifically associating itself with various initiatives;

(5) within the Statement of Investment Principles the current paragraph on “social, environmental or ethical considerations” be amended in accordance with paragraph 27 of the report and those made at the meeting, as follows:

“The Council recognises that it has a paramount duty to seek to obtain the best possible return on the Fund’s investments taking into account a properly considered level of risk. As a general principle it considers that the long-term financial performance of a country/asset in which it invests is likely to be enhanced if good practice is followed in environmental, social and governance activities.

All the Fund’s investments are managed by external fund managers mostly within pooled funds. Currently, one is passively managed and one is specifically invested in emerging markets. The Council recognises the constraints inherent in this policy. Nevertheless it expects its external fund managers, acting in the best financial interests of the Fund, to consider, amongst other factors, the effects of environmental, social and other issues on the performance of countries and assets in which they invest.

The Council expects its external fund managers to have signed up to “The UK Stewardship Code” and to report regularly on their compliance with the Code and other relevant environmental, social and governance principles.”

- (6) the Pension Board be requested to consider the need for admitted bodies to be involved in consideration of the importance of ESG issues and to what extent the views of the beneficiaries and representatives of beneficiaries should be taken into account.
2. This report addresses resolutions (1) and (2) and Appendix 1 details the two sets of principles.
3. All the Fund managers except Record Currency were approached and all have responded with the following results:

Aviva

Aviva have provided a large amount of information regarding 'Responsible Investment' but this largely relates to their equity mandates and not specifically to the Fund's property mandate.

Further discussions with Aviva are to take place but they have stated the following in regard to their Global Real Estate Division

- *ESG is embedded in our direct portfolios and pooled funds (who subscribe to GRESB)*
- *ESG is a key element of our indirect real estate strategy and investment process*

BlackRock

BlackRock have confirmed that they have signed up to the UN PRI and their current position regarding each of the principles within the UK Stewardship code is attached in a 2 page document in appendix 2.

A summary of their position is 'As a fiduciary asset manager, BlackRock's pursuit of good corporate governance stems from our responsibility to protect and enhance the economic value of the companies in which we invest on behalf of our clients. Encouraging the highest standards of board leadership and executive management in these companies is central to achieving that goal. That is why we have created one of the largest Corporate Governance and Responsible Investment (CGRI) teams in the industry to engage with the management of companies in which we invest and help us deliver long-term value to our clients. BlackRock believes it complies with the majority of recommendations of the UK Stewardship Code. We have set out below our approach to the key recommendations and explained our reasons for taking a different approach to that proposed in the Code where relevant'.

GMO

GMO have provided two short documents entitled 'GMO Statement Regarding ESG' and GMO UK Ltd Statement of Policy on the Principles of the UK Stewardship Code which are included within Appendix 2

As regards UN PRI, whilst in their covering email they state they are actively pursuing signing up to these principles, they explain their current stance as follows:

'GMO has carefully reviewed the UNPRI and determined not to sign the Principles at this stage. The main rationale for this decision is that we believe that certain of the Principles would conflict with and/or distract GMO from its primary objective of delivering the best risk-adjusted returns to each of its clients. While ESG issues, as such, are not formally part of our investment objectives, certain elements of our security analysis and investment processes may be consistent with managing ESG issues'

Their views on the Stewardship code are *'As an investment manager employing mainly quantitative techniques in our investment strategies we tend not to participate with the collective engagement of companies'*

Insight

Insight have provided a 74 page document entitled 'Putting Principles Into Practice - Insight's Annual Report on Responsible Investment 2014'

The have stated that *'It confirms that Insight have indeed renewed our commitment to the UN PRI, to which we were a founding signatory, and also the Financial Reporting Council's UK Stewardship Code'*

The report goes into detail as follows:

- Responsible Investment At Insight
- How Insight Meets Its Commitments
- Responsible Investment Activities In 2014
- How Insight Implements Its Responsible Investment Policy
- The Responsibilities Of Investors
- Is Responsible Investment Ethical?
- Social Capital And Responsible Investment
- Managing Environmental Risks In Portfolios

Longview

Longview, in their covering email state *'I can however confirm that Longview Partners is a signatory to the United Nations Principles for Responsible Investment and also fully supports and is committed to the UK Stewardship Code'*

Longview have also confirmed their compliance with the UK Stewardship Code and have provided a detailed report as included in the Appendix 2.

They have also provided a report detailing their engagement meetings with various companies/institutions.

Oldfields

Oldfields have provided three short documents entitled 'Statement of compliance with the UK Stewardship Code,' 'Environmental, Social, Governance Q&A' and 'Proxy voting and engagement report – 2015', the first two of which are included in Appendix 2.

Within these documents and their covering email Oldfields state:

'In the ESG Q&A we explain why we are not currently a signatory to the UNPRI. We are essentially in favour but we don't believe the infrastructure is in place to handle collective engagement. We have spoken with the ABI, the FRC and the UK Investor Forum on this subject, hoping that the necessary protection and processes can be put in place so we can confidently collaborate with other investors and if so, we would become a signatory.'

'We are not currently a UN PRI signatory, as we are not yet comfortable that Principle 5 (working together to enhance effectiveness in implementing the Principles) has the necessary infrastructure and protections we think necessary. We have held numerous conversations with the Financial Reporting Council in the UK on this issue and have made clear our concerns about engaging or collaborating with other managers when it is not clear whether they have long or short positions. However, we have recently joined the Investor Forum, hoping this can provide the platform for the kind of collective efforts the PRI promotes.'

Pantheon

Pantheon have provided a customised response included within Appendix 2. Their answers to the specific questions are as follows:

Pantheon is a signatory of the Principles for Responsible Investment (PRI) and has used these principles as a framework to develop its ESG policy across all its investment activities. Pantheon was also a founding member of the PRI Private Equity Steering Committee and only withdrew in 2014 due to a maximum tenure being exceeded. Pantheon has remained involved in sub-committees and continues to assist the PRI with logistics and speakers at conferences.

Although Pantheon has not yet signed up to the UK Stewardship Code, the principles contained within the UK Stewardship Code are akin to Pantheon's ongoing active engagement with the managers in which we invest. Effective post-investment care and the maintenance of close relationships are important to maximize the value of Pantheon's fund investments, protect client interests and to evaluate the investment activity within each fund. Our active involvement on Advisory Boards of the funds in which we invest, as well as our policy on voting, is outlined below.

As a PRI signatory, Pantheon has committed to follow a policy of active ownership, requiring us to vote on all matters. In private equity, voting may take place on any number of governance, legal or investment matters and therefore each voting matter is considered on a case by case basis. For this reason, Pantheon does not have an internal reference guide to cover all voting matters.

Standard Life

In their covering email Standard life advised as follows:

'Standard Life Investments is a signatory to both the UK Stewardship Code and UN Principles for Responsible Investment (UNPRI). Voting activity on all the companies we invest in are all published and updated regularly on the Governance & Stewardship section of our website'

In their 24 page Governance & Stewardship Review 2014 there are detailed sections on engagement and global voting.

State Street

State Street have provided the following link to a large amount of information including their statement on the UK Stewardship Code.

<https://www.ssga.com/eu/gb/pension-investor/en/products-capabilities/capabilities/corporate-governance-and-voting-policy.html>

Their compliance with the Stewardship Code is included within Appendix 2 and the rest of their submission is being reviewed.

4. As requested by the Committee, the Board is asked to consider the need for admitted bodies to be involved in consideration of the importance of ESG issues and to what extent the views of the beneficiaries and representatives of beneficiaries should be taken into account.

Financial Implications

5. Whilst the attitude of Fund managers to ESG issues can have a significant impact on the performance of the Fund there are no financial implications arising from this report.

Risk Management Implications

6. The risks arising from the management and investment of funds are included in the Pension Fund risk register.

Equalities implications

7. There are no direct equalities implications arising from this report.

Council Priorities

8. Investment performance has a direct impact on the financial health of the Pension Fund which directly affects the level of employer contribution which then, in turn, affects the resources available for the Council's priorities.

Section 3 - Statutory Officer Clearance

Name	Dawn Calvert	<input checked="" type="checkbox"/>	Director of Finance
Date:	25 February 2016		

Ward Councillors notified:	NO
-----------------------------------	-----------

Section 4 - Contact Details

Contact: Ian Talbot, Treasury and Pension Fund Manager
0208 424 1450

Background Papers - None

THE UN PRINCIPLES FOR RESPONSIBLE INVESTMENT (PRI)

- We will incorporate ESG issues into investment analysis and decision-making processes
- We will be active owners and incorporate ESG issues into our ownership policies and practices
- We will seek appropriate disclosure on ESG issues by the entities in which we invest
- We will promote acceptance and implementation of the Principles with the investment industry
- We will work together to enhance our effectiveness in implementing the Principles
- We will report on our activities and progress towards implementing the Principles

THE INSTITUTIONAL SHAREHOLDERS COMMITTEE (ISC) CODE ON THE RESPONSIBILITIES OF INSTITUTIONAL INVESTORS (“THE UK STEWARDSHIP CODE”)

- Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities
- Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed
- Institutional investors should monitor their investee companies
- Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities as a method of protecting and enhancing shareholder value
- Institutional investors should be willing to act collectively with other investors where appropriate
- Institutional investors should have a clear policy on voting and disclosure of voting activity
- Institutional investors should report periodically on their stewardship and voting activities

This page is intentionally left blank

Statement on compliance with the UK Stewardship Code

March 2014

As a fiduciary asset manager, BlackRock's pursuit of good corporate governance stems from our responsibility to protect and enhance the economic value of the companies in which we invest on behalf of our clients. Encouraging the highest standards of board leadership and executive management in these companies is central to achieving that goal. That is why we have created one of the largest Corporate Governance and Responsible Investment (CGRI) teams in the industry to engage with the management of companies in which we invest and help us deliver long-term value to our clients.

BlackRock believes it complies with the majority of recommendations of the UK Stewardship Code. We have set out below our approach to the key recommendations and explained our reasons for taking a different approach to that proposed in the Code where relevant. Any questions on this statement or BlackRock's approach to stewardship more generally should be addressed to Amra Balic, EMEA Head of CGRI at europecgri@blackrock.com.

Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

BlackRock's Global Corporate Governance and Engagement Principles, as well as our market-specific voting guidelines, are published on our website. In these we explain our philosophy on stewardship (including how we monitor and engage with companies), our voting policy, our integrated approach to stewardship matters and how we deal with conflicts of interest. These apply across different asset classes and products as permitted by investment strategies. Although we use a different terminology to that in the Code we address most of its guidance either in the Principles, which are applied internationally, or in our market-specific voting guidelines. These documents are reviewed and updated annually. Our voting is conducted by the CGRI team of 20 specialists who are a central clearinghouse for our global investment teams to ensure we deliver a consistent message to companies. We publish an annual review which summarises our activities, which is also available on our website:

<http://www.blackrock.com/corporate/en-gb/about-us/responsible-investment>

Principle 2: Institutional investors should have a robust policy on managing conflicts of interests in relation to stewardship and this policy should be publicly disclosed.

BlackRock maintains policies and procedures that are designed to prevent undue influence on BlackRock's proxy voting activity that might stem from any relationship between the issuer of a proxy (or any dissident shareholder)

and BlackRock, BlackRock's affiliates, a Fund (or BlackRock's segregated client) or a Fund's (or BlackRock's segregated client's) affiliates. Steps BlackRock has taken to prevent conflicts include, but are not limited to:

- BlackRock has adopted a proxy voting oversight structure whereby the Corporate Governance Committees oversee the voting decisions and other activities of the CGRI team, and particularly its activities with respect to voting in the relevant region of each Corporate Governance Committee's jurisdiction.
- The Corporate Governance Committees have adopted Guidelines for each region, which set forth the firm's views with respect to certain corporate governance and other issues that typically arise in the proxy voting context.
- BlackRock's Global Corporate Governance Committee oversees the Global Head of CGRI, the CGRI team and the Corporate Governance Committees.
- BlackRock maintains a reporting structure that separates the Global Head of CGRI and the CGRI team from employees with sales responsibilities.
- In certain instances, BlackRock may determine to engage an independent fiduciary to vote proxies as a further safeguard to avoid potential conflicts of interest or as otherwise required by applicable law.

In all situations the overriding purpose of our responsible investment policy is to protect and enhance the economic interests of our clients.

Principle 3: Institutional investors should monitor their investee companies.

BlackRock's fundamental equity portfolio managers and the CGRI team monitor and, when appropriate, engage with investee companies. Our approach is explained in our Global Corporate Governance and Engagement Principles and our UK voting guidelines. We believe our practices are in accordance with the guidance in Principle 3 with one exception. Although we might occasionally attend general meetings of investee companies, we do not attend a significant number of AGMs as we believe we serve our clients' interests better by dedicating our time to one-to-one meetings.

In certain situations BlackRock, in particular the CGRI team, is willing to become an insider; however our policy is to ensure that inside information is not communicated to any member of the investment team without our prior agreement. Where BlackRock does become an insider, we will act in accordance with the policies and processes laid out in our Compliance Manual.

Statement on compliance with the UK Stewardship Code

March 2014

Principle 4: Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

In our Global Corporate Governance and Engagement Principles and our voting guidelines we explain when we would undertake more active engagement, namely when we believe this will enhance and/or protect the economic interests of long-term shareholders (notionally our clients). We believe that our approach to engagement is consistent with the intent of the Code although we would note the following areas where our approach differs from its guidelines. As we approach each engagement individually we do not have a prescribed escalation strategy, as suggested by the Code, as we do not see engagement as mechanistic. However, triggers for engagement can include our assessment that there is potential for material economic ramifications for shareholders resulting from a governance concern. Where we are concerned about the strategic direction the company is taking or the performance of management in delivering strategy, we will engage more heavily. Through regular and frank meetings with management, we try as much as possible to raise queries before they become concerns that require intervention. BlackRock is very unlikely to make public statements about our engagements or to call an extraordinary general meeting or propose shareholder resolutions. Our preference is to engage privately as we believe it better serves the long-term interests of our clients to establish relationships, and a reputation, with companies that enhances rather than hinders dialogue.

Principle 5: Institutional investors should be willing to act collectively with other investors where appropriate.

When we believe it is likely to enhance our ability to engage with a company or to achieve the desired outcome, and it is permitted by law and regulation, BlackRock will work with other investors. To that end, BlackRock is an active member of nearly 40 formal groups and initiatives internationally that facilitate communication between shareholders and companies on corporate governance and social, ethical and environmental matters. We will also engage collectively on matters of public policy, when appropriate.

Principle 6: Institutional investors should have a clear policy on voting and disclosure of voting activity.

BlackRock's voting guidelines are published on our website. In our Global Corporate Governance and Engagement Principles we explain our approach to reporting to clients. We disclose our voting publicly each year in a filing with the US Securities and Exchange Commission, which is also posted to our website. Our voting is conducted by the CGRI team. Voting decisions are taken after review of research from a number of global and local proxy advisory firms and the team's own research of company materials, broker research, and other publicly available information. We use an electronic voting platform to execute the vote instructions. In certain markets, we leverage vendors to apply our internal voting policies to filter out routine or non-contentious proposals. This allows us to focus our time on addressing the most pressing governance concerns which are referred to us for decision.

BlackRock does not borrow shares solely for the purpose of exercising voting rights. With respect to our stock lending program, BlackRock pays due regard to the interests of its clients and it is from this perspective that our policy is defined. There is, therefore, no presumption in favour of either continuing to lend securities or recalling on-loan securities to vote. Each situation is analysed based on client agreements and preferences and on the nature of the voting item. We recall our on-loan stock when we consider it to be in our clients' best interests to vote on all of our holdings.

Principle 7: Institutional investors should report periodically on their stewardship and voting activities.

BlackRock publishes an annual review which summarises our stewardship activities, including engagement trends and case studies as well as voting statistics. We disclose our voting publicly each year in a filing with the US Securities and Exchange Commission. The processes relating to our corporate governance activities are audited periodically by BlackRock Internal Audit

This material is for distribution to Professional Clients (as defined by the FCA Rules) and should not be relied upon by any other persons.

Issued by BlackRock Investment Management (UK) Limited, authorised and regulated by the Financial Conduct Authority. Registered office: 12 Throgmorton Avenue, London, EC2N 2DL. Tel: 020 7743 3000. Registered in England No. 2020394. For your protection telephone calls are usually recorded. BlackRock is a trading name of BlackRock Investment Management (UK) Limited.

This document is for information purposes only and does not constitute an offer or invitation to anyone to invest in any BlackRock funds and has not been prepared in connection with any such offer.

© 2014 BlackRock, Inc. All Rights reserved. BLACKROCK, BLACKROCK SOLUTIONS, iSHARES, SO WHAT DO I DO WITH MY MONEY, INVESTING FOR A NEW WORLD, and BUILT FOR THESE TIMES are registered and unregistered trademarks of BlackRock, Inc. or its subsidiaries in the United States and elsewhere. All other trademarks are those of their respective owners.

GMO Statement regarding ESG [Environmental, Social and Governance] Principles
As of September 2015

For more than 35 years, GMO has been a premier provider of investment management solutions to our global client base, consisting of some of the most prestigious institutional investors from the ranks of corporate and public defined benefit and defined contribution plans, foundations, endowments and sovereign wealth funds, among others. Our expertise covers a broad spectrum of capital markets, including developed and emerging equities, developed and emerging fixed income, asset allocation, forestry, agriculture and a full complement of absolute return-oriented strategies.

In terms of delivering on our objectives to clients, GMO's various investment teams utilize a number of approaches in seeking to identify attractively-valued assets. We were one of the early innovators in quantitative investing and continue to use systematic disciplines today. In addition, we have a deep pool of talented fundamental investment professionals in our ranks.

GMO's primary objective is to deliver the best risk-adjusted returns for each of the strategies that the firm offers. In executing on that objective we remain focused on delivering superior investment results, always mindful of the fiduciary duty we have to each of our clients.

GMO recognizes that views vary among investors as to the importance and relevance of ESG factors to their investment strategies and we presently manage several client accounts that incorporate ESG-related factors, such as social screens. In such cases, our clients have established separately managed portfolios (subject to our asset-level requirements which may vary for each strategy) and we adhere to the clearly proscribed guidelines and/or objective screening criteria provided by our clients. At this time, GMO is able to provide limited assistance in the design and ongoing maintenance of such screens. Clients should make their own assessment of the potential impact ESG screening could have on risk-adjusted returns.

In what follows, we describe in more detail the extent to which our investment processes are consistent with key ESG-related principles.

Do we consider ESG issues in our investment analysis and decision-making processes?

Delivering the best risk-adjusted returns is our primary objective. We do not incorporate ESG issues as a secondary objective and our current research shows that incorporating ESG factors into our investment processes could not be relied upon to consistently produce excess returns or reduce risk for our clients.

For example, the investment processes for the strategies managed by our equity teams (Emerging Markets Equity, Focused Equity, Global Equity and International Active) rely on our evaluation of companies' published financial information, securities' prices, equity and bond markets, and the overall economy. In order to provide as broad an opportunity set as possible, we try not to constrain the universes to which we apply our stock selection disciplines and thus generally do not incorporate ESG or other potentially restrictive screens. ESG continues to be an area of research, but currently is applied on a portfolio-by-portfolio basis and not embedded in the core of our investment philosophy or process.

In the rare instances where our equity teams formally incorporate ESG considerations into a strategy's investment process, the primary impetus for doing so is a belief that ESG considerations will not negatively impact return prospects. For example, the investment universe for GMO's Resources Strategy, managed by our Focused Equity team, has firms with particularly poor ESG histories. Our research in this narrow universe suggested that screening these companies out would not have a material impact on returns.

Within our core investment processes, there are certain measures of profitability we do evaluate that may correlate with good governance and a sustainable business. For example, many of our equity strategies incorporate an evaluation of a company's "quality," defined by GMO as high and stable levels of profitability and relatively low levels of debt. While not an explicit objective of our quality factor, we have observed over time that there is a correlation between companies that rank high on our quality measure and those that rank high on social and governance criteria. This relationship could, of course, change at any time.

In our fundamental equity strategies managed by the International Active team, we often consider issues that have ESG elements in the normal course of evaluating a company's valuation level and future prospects. ESG elements will be included where we believe they have a significant impact on the expected return or risk of an investment. It is generally the International Active team's belief that good corporate governance will affect a firm's valuation positively, and we prioritize company efficiency and waste minimization, which we believe leads to higher profitability over time. In addition, we believe that companies that collaborate with the communities in which they do business are more likely to be successful in the long run. Beyond this, the team considers social and environmental issues from a risk management perspective and screens companies regarding potentially significant reputational risk issues (including but not limited to social or environmental issues) and will tend to penalize those companies relative to their industry peers in its analysis.

Our fixed income strategy mix contains both traditional (Core Plus, and Global) and specialty (Emerging Debt and asset-backed securities) strategies. None of GMO's fixed income strategy universes has been narrowed based on ESG-related principles, and none of those investment processes has been designed with such principles in mind. Given that the universes from which we select securities and our value-added processes generally relate to sovereign, quasi-sovereign, and asset-backed debt markets, it is unlikely that we will explicitly factor environmental, social or governance factors into our fixed income strategies.

To what extent will we be active owners and incorporate ESG issues into our ownership policies and practices?

As long-term investors, we seek to defend the interests of our clients not only at the time of initial purchase of securities, but also over the full period these securities are held in the portfolios. Therefore, GMO votes on the equity investments it manages in pooled funds and separately managed accounts unless – in the case of separately managed accounts – clients direct otherwise.

In our pooled funds and where separate account clients have delegated proxy voting to us, GMO has engaged Institutional Shareholder Services (ISS) to act as its proxy voting agent. ISS undertakes research, makes voting recommendations and ensures votes are submitted in a timely manner. In the majority of cases, GMO acts in accordance with those recommendations. Full details of GMO’s voting policy, including default positions on matters of corporate governance, are set out in the document entitled “Proxy Voting Policies and Procedures” as of June 25, 2014. A copy of GMO’s Proxy Voting Policy is available upon request or may be found on the SEC’s website, www.sec.gov, as part of GMO Trust’s registration statement. Proxy voting reports are also available upon request. As with the fundamental analysis performed by our International Active investment team, we may incorporate a variety of factors (which may include ESG issues if we determine they are relevant) when deciding to vote proxies in a particular manner.

To what extent will GMO seek appropriate disclosure on ESG issues by the entities in which we invest?

As described in our proxy voting policy, we have been supportive of initiatives that lead firms to disclose all aspects that could materially impact the value of a firm, including – where we consider it relevant – ESG issues. For example, we generally vote in favor of independent board directors if the majority of the current board members are not independent. In terms of our fundamental research, where applicable, our portfolio managers will similarly push/probe firms to disclose all aspects that could materially impact the value of a firm, including – where we consider it relevant – ESG issues.

Why hasn’t GMO signed the UN Principles for Responsible Investing (UN PRI)?

GMO has carefully reviewed the UNPRI and determined not to sign the Principles at this stage. The main rationale for this decision is that we believe that certain of the Principles would conflict with and/or distract GMO from its primary objective of delivering the best risk-adjusted returns to each of its clients. While ESG issues, as such, are not formally part of our investment objectives, certain elements of our security analysis and investment processes may be consistent with managing ESG issues (as described above).

GMO Renewable Resources has separately signed up to UN PRI

GMO Renewable Resources, LLC (GMORR), a majority-owned joint venture of GMO LLC, has separately become a signatory of the UN PRI. GMORR is a separately registered investment adviser specializing in direct forestry, farmland and other land-related investments and from its beginning has believed that, in light of its focus on forestry, agriculture and other land-related investments, careful consideration of environmental, social and governance issues is critical to minimizing risk and maximizing returns to its investors. Consequently, ESG principles are integral to the team's investment process as GMORR strives to operate responsibly and sustainably in all aspects of its business.

GMORR typically invests in regions where land ownership rights are well developed. GMORR strives to make choices that improve the long-term sustainability of their activities including (1) enhancing and promoting environmental sustainability; (2) respecting land, resources and human rights; (3) social sustainability, including maintaining consistent safety standards; and (4) good governance, including close supervision of financial and operating activities. In addition to being a signatory of the UN PRI, GMORR typically seeks certification for its timberland assets under a national or international standard except in (1) situations where it does not have full control and in (2) Greenfield projects which do not yet have cash flow to support the costs of certification. GMORR is also exploring the development of metrics and monitoring processes to measure factors that contribute to sustainability on agricultural properties.

Summary

In conclusion, our primary mission as an investment management firm is to deliver the best risk-adjusted returns for our clients. As described more fully above, there are certainly instances where ESG-related factors are considered, but only to the extent that we believe they lead to better risk-adjusted returns for our clients.

**GMO UK Ltd Statement
of Policy on the Principles
of the UK Stewardship
Code**

Revised: October 2012

This statement sets forth the position of GMO UK Limited (“GMO”) with respect to the Principles of the UK Stewardship Code (the “Principles”), outlined in Appendix A of this policy. GMO does not claim compliance with the Principles; however, GMO’s clearly articulated proxy voting policies (and management of the conflicts that may arise therefrom) are integral to our investment processes and capture the broader themes included in the Principles. We believe this approach to stewardship is consistent with GMO’s overriding objective of delivering the best risk-adjusted returns for each of the strategies that the firm offers.

Principles 1, 2, 3, 6 and 7

For all GMO funds and client accounts where GMO has been delegated proxy voting authority, GMO has engaged Institutional Shareholder Services “ISS” for this purpose. ISS undertakes research, makes voting recommendations and ensures that proxy votes are submitted in a timely manner on behalf of GMO’s funds and clients who have granted GMO proxy voting authority. Details of GMO’s voting policy, including default positions on matters of corporate governance and approach to managing the conflicts that may arise in the course of voting proxies are a matter of public record, and are available from GMO upon request.

Reports on the proxy voting activities of GMO funds and separately managed accounts are available to shareholders and clients, respectively, upon request.

Principles 4 and 5

The majority of GMO’s investment strategies employ quantitative techniques, which are primarily focused on identifying groups of stocks that GMO believes will outperform over a market cycle based on GMO’s proprietary valuation models. For these strategies, GMO generally favours the objectivity that a data-based approach to investing provides. Other than with respect to a minority of strategies where fundamental investment and research is a component of an investment strategy, GMO does not have a practice of dialogue, engagement or intervention with portfolio companies. Accordingly, GMO does not generally participate with other investment managers or institutional investors in collective engagement of companies.

Appendix A

Principles of the UK Stewardship Code

Institutional investors should:

1. publicly disclose their policy on how they will discharge their stewardship responsibilities;
2. have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed;
3. monitor their investee companies;
4. establish clear guidelines on when, and how they will escalate their activities as a method of protecting and enhancing shareholder value;
5. be willing to act collectively with other investors where appropriate;
6. have a clear policy on voting and disclosure of voting activity; and
7. report periodically on their stewardship and voting activities.

The UK Stewardship Code

Statement of Compliance

Longview Partners is a specialist asset management company, focussed entirely on the management of Global portfolios. As fiduciaries of our clients' assets, Longview Partners strives to invest in companies that adopt and pursue responsible business practices and are fully accountable to their shareholders.

The UK Stewardship Code, ('the Code'), sets out a number of principles relating to good practice in engagement by investors with UK companies. At Longview Partners, corporate governance is important in our assessment of the 'Quality' ranking of any potential equity investment that we make on behalf of our clients. We set out below how Longview Partners applies the principles of the Code.

Principle 1: Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

The discharge of our stewardship responsibilities is inherent in our rigorous research process. We have in-depth discussions with each company prior to investment and maintain an ongoing dialogue once invested to evaluate the effectiveness of company's management on corporate governance issues. A large part of our research effort is focussed on understanding how the company's management has created value for shareholders in the past and how management will continue to do so in the future. In our company meetings we discuss strategy and corporate responsibility issues with board directors and executives, as we believe that these factors affect the potential for a company to deliver long-term sustainable value to shareholders. Such factors include; remuneration, finance, climate change, reputation and litigation risks, deployment of capital and energy efficiency. Further detail of how we engage and monitor companies in which we invest is outlined in our Responsible Investment Policy. Our policy on the exercise of voting rights on behalf of our clients is outlined in our Shareholder Activism Policy.

On behalf of our Institutional clients we employ the services of the voting agency Glass Lewis & Co, a leading independent provider of corporate governance solutions to the financial services industry. To inform their research, Glass Lewis uses publicly available sources of information such as stock exchanges, regulators, companies directly or other forms of direct procurement. Glass Lewis votes on our clients' behalf at all relevant company meetings.

Principle 2: Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

Longview Partners seeks to always act in the best interests of our clients and where possible avoid conflicts, including those which may arise through voting or engagement. Occasions may arise where a conflict or perceived conflict of interest exists. In such instances, all reasonable steps are taken to ensure that we put the interests of our clients first, as outlined in our Conflicts of Interest Policy.

If Longview manages assets for a company pension plan or related entity, Longview will respect client restrictions but beyond that will vote proxies in that company in the best interest of our clients and consistent with our voting policy and Glass Lewis' recommendations.

Principle 3: Institutional investors should monitor their investee companies.

Longview Partners believes that companies need to be managed in the interests of shareholders. Our investments are focused in companies with good corporate governance, as we believe they are more likely to deliver sustainable, long-term value to their shareholders. Integrated within our investment process is the consideration of risks and opportunities such as government legislation, industry dynamics, mergers and acquisitions and product development/innovation. When we meet company management, we engage with them on finance and remuneration schemes as well as strategy and performance expectations, such as their capital deployment strategy and any other issues and risks facing the business. We evaluate the effectiveness of a company's management and if its past, current or anticipated behaviour is judged to be adverse to its future earnings, these concerns are addressed in our fundamental research and investment process. Poor performance on corporate governance would be reflected in our longer term Quality rating that we assign companies. Any concerns we have with company practices would be proactively addressed in order to protect shareholder value.

On an ongoing basis, we encourage high standards of corporate governance when we meet with senior management of a company, as we recognise that both financial and governance issues can affect the sustainability and long-term performance of the company. We engage with companies on corporate governance issues as part of our overall investment strategy. "Engagement" to us means that we seek to meet with company board directors and executives to discuss strategy and corporate responsibility issues. We are comfortable discussing any contentious issues on company meeting agendas and have ongoing dialogue with management regarding the outlook of the business and the issues and risks affecting it. Consequently, we are able to evaluate any resulting management decisions and actions. We will also discuss the quality of the company's reporting as well as the finance and remuneration schemes and strongly support those that align management's interests with those of shareholders. We incorporate the results from our engagement into our investment criteria. Whilst we put our views forward strongly in these meetings, we do not consider ourselves activist. Ultimately, if after lengthy discussions we believed management was failing to act in shareholders' interests, we would tend to sell our holding in order to minimise the loss of shareholder value.

Longview does not send a representative to attend General Meetings of companies. We engage directly with the management of the companies in which we are invested and do not feel that attendance to these meetings would be the appropriate use of our investment resources.

Longview Partners does not encourage becoming an insider. In the unlikely event that we are made an insider or given material information that has not yet been published, we would follow our policy and procedure on Market Abuse.

Principle 4: Institutional investors should establish clear guidelines on when and how they will escalate their stewardship activities.

The primary focus of Longview's investment process is to understand the quality of a company and the value of the cash-flows that it can generate. Within our analysis of quality, a large focus is on understanding management's approach to the reinvestment of cash generated and balance sheet management. We do not seek to prescribe a specific approach, rather we ask management to be thoughtful of their actions and to show that due consideration has been given to all options, with an aim of maximising shareholder returns. If we believe management has a poor track record of doing this or inappropriate plans for the future, we will not invest in a company, even if it has other positive investment merits. Where we have concerns that the company's management is not acting in shareholders' interests, our investment team will make clear our concerns to the company. As a concentrated long-term investor we often find company management appreciative of our input.

In our continual assessment of our investments, we have on-going dialogue with the management of companies, in which we are invested or may be invested, to ensure that they are meeting a reasonable governance hurdle. Areas

where we believe they are deficient will be highlighted and our expected levels of performance on governance issues will be made clear. We will closely review a company's performance, governance, remuneration and approach to risk. Anything likely to cause a material change in the value of the business, or our quality rating for the business, will be reviewed by the investment team. If an issue is serious enough that it is likely to cause a material change in our valuation of the business, or a reduction in our quality rating, we will write to senior management or express our views through robust discussions with the appropriate member of the management team. We are willing to challenge management in an attempt to protect and enhance the interests of our clients and will exercise our right to vote against management. As mentioned above, if after lengthy discussions we believed management was failing to act in shareholders' interests, we would tend to sell our holding in order to minimise the loss of shareholder value.

Principle 5: Institutional investors should be willing to act collectively with other investors where appropriate.

Our policy on engagement focuses on meetings and dialogue with company directors and management on a one-on-one basis. Collective engagement with other shareholders would be considered if we believed this would result in a more positive outcome for our clients, is consistent with our policies and procedures and meets all legal requirements. For example, collective engagement would be considered prior to an important company vote, where we felt that our ability to lobby other investors may result in a more positive outcome for our clients. However, we would anticipate collaboration at this level to be infrequent.

Principle 6: Institutional investors should have a clear policy on voting and disclosure of voting activity.

We carry out proxy voting for all Institutional clients who request Longview Partners to be responsible for the implementation of their voting rights. In order to effectively meet these requirements, Longview engages Glass Lewis as described above. We believe Glass Lewis' expert and independent analysis on governance complements Longview's stock selection process. However, Longview Partners would advocate the exercising of votes, and where necessary, objective and informed intervention in line with our Shareholder Activism Policy.

Proxy voting reports are provided on a quarterly basis to all clients on whose behalf we vote. Given the concentrated nature of our portfolio, we believe it is in our client's best interest to preserve the confidentiality of our holdings and we therefore do not make voting activity data publicly available.

Longview Partners does not engage in stock lending as part of our investment management activity for clients. However, our clients are able to engage in stock lending for their specific portfolio, through arrangements made directly with their custodian.

Principle 7: Institutional investors should report periodically on their stewardship and voting activities.

On a quarterly basis, we report to our institutional clients our stewardship activities, including engagement activity. Through our voting service provider, we are able to access and provide reports to our clients showing how their shares have been voted.

An independent audit is carried out to ensure we are conducting our activities in line with the AAF 01/06 standards. Part of the independent audit includes a review of the voting process. The AAF 01/06 report is available to existing clients of Longview Partners as per our engagement letter with our auditors.

This page is intentionally left blank



Oldfield Partners

Statement of compliance with the UK Stewardship Code

Oldfield Partners LLP (OP) is an asset management firm which started business in 2005. The firm manages around £3 billion in long only equity portfolios for a variety of clients.

We believe that our long term approach to investing benefits from a broad understanding of a company's position in the world, part of which is captured in the UK Stewardship Code, rather than a narrow focus on today's market position and profitability alone. As long term investors we support the general intentions of the code and believe our approach is in line with its basic principles.

Principle 1

Institutional investors should publicly disclose their policy on how they will discharge their stewardship responsibilities.

OP policy is as set out in this document, which is published on our website. The investment team is responsible for discharging our stewardship responsibilities and our approach to investing is based on fundamental, bottom-up company analysis. As part of our research process we aim to understand how a company, and to some degree its management, create long term value for shareholders. This involves a review of company statements, reports and actions, and in many cases, an ongoing dialogue with company representatives. For further detail on the dialogue with companies, please refer to sections on monitoring and engagement policy.

For those clients that give permission to do so, OP takes responsibility for proxy voting and employs the services of governance expert Institutional Shareholder Services Inc. (ISS) to provide analysis and recommendations which assist decision-making. For further information on this subject, please refer to our proxy voting policy.

OP has an obligation to act in the best interest of its clients and does so in accordance with predefined guidelines and objectives.

For further detail on the approach to stewardship, or to contact us about engagement, please email info@oldfieldpartners.com and we will direct you to the correct member of the team.

Principle 2

Institutional investors should have a robust policy on managing conflicts of interest in relation to stewardship and this policy should be publicly disclosed.

OP maintains a comprehensive Conflicts of Interest Policy, which is fully in accordance with regulatory guidelines. OP seeks to act in the best interests of clients and avoid potential conflicts of interest. The policy ensures procedures are in place to identify, manage and document conflicts that arise in the course of business.

A copy of the full policy is available on request and is also published on the firm's website.

Principle 3

Institutional investors should monitor their investee companies.

Our approach to investing is based on fundamental, bottom-up company analysis. In assessing companies for investment purposes, we take into account ethical and governance considerations and the extent to which they may affect prospective returns. We avoid companies in which there are serious governance concerns, and companies in which there have been concerns about business being conducted in an unethical manner unless it is clear that such concerns have been dealt with by management and any shortcomings have been addressed. Such concerns may relate to social and environmental matters as well as other ethical and governance practices.

Investee companies are monitored through regular review of company statements, results, reports and, more importantly, actions. In many cases we are in direct contact with company representatives and have the ability to express views or concerns through this ongoing dialogue. In addition, we use a governance expert, Institutional Shareholder Services Inc. (ISS), to provide analysis of governance issues to assist with proxy voting and GES, a specialist provider of research in the area of responsible investment.

The frequency and intensity of this monitoring may vary from company to company. For example, a small family-controlled business operating in Thailand may require greater scrutiny than a large multinational corporation listed in the UK, but a greater allowance must be made for the stage of its development and its resources.

Principle 4

Institutional investors should establish clear guidelines on when and how they will escalate their activities as a method of protecting and enhancing shareholder value.

The decision to escalate engagement with investee companies is judged on a case-by-case basis and is influenced by factors such as the materiality of the issue and the likelihood of exerting a significant influence. Meeting with company management offers an opportunity for us to put across our views. Occasionally we engage with management to promote a particular course of action or to reflect concern about a particular activity or aspect of governance. We

manage concentrated portfolios of around 20 stocks and this concentration helps us to monitor all holdings effectively.

On an annual basis OP publishes a proxy voting and engagement report which highlights some of the engagement activities and escalation undertaken. This is available on the website.

Principle 5

Institutional investors should be willing to act collectively with other investors where appropriate.

OP may be prepared to communicate, and potentially collaborate, with other shareholders sharing the same views but only if it was likely to result in a positive outcome for clients and would not infringe any legal or regulatory requirements. We recently joined an investor forum organised by the Association of British Insurers for this specific purpose and have had discussions with the UK Investor Forum and the FRC about the hurdles currently preventing more widespread collaboration.

Principle 6

Institutional investors should have a clear policy on voting and disclosure of voting activity.

OP employs the services of governance expert Institutional Shareholder Services Inc. (ISS) to manage the voting of proxies and assist our decision-making. ISS provide analysis and voting recommendations for each proposal and we tend to vote in line with ISS recommendations unless we have a conflicting opinion about a particular issue, in which case we will intervene to instruct as we see fit, or if we feel it is not in our clients' best interests to vote (due to share blocking for example).

ISS voting policies reflect best practice within the industry and are extremely thorough. For example, the policy applied by ISS in the UK is that of the National Association of Pension Funds (NAPF), and the policy manual for the US runs to over 300 pages. The voting policies of ISS are effectively the voting policies of Oldfield Partners, applied in all but a relatively small number of incidences where because of company-specific factors we may take a different view and vote accordingly.

Where a client has specific proxy voting guidelines which differ from ISS, we work with ISS to ensure we vote in line with the guidance prescribed by the client.

Proxy voting records are retained and provided to clients when requested. OP also publishes an annual summary of proxy voting and engagement on its website.

Oldfield Partners does not engage in stock lending, although clients with segregated accounts may have separate programmes managed by custodians or other third parties. In these cases, the programmes operate independently of us and we have no influence or involvement.

Principle 7

Institutional investors should report periodically on their stewardship and voting activities.

At the client's request, OP provides regular reports of stewardship activities, including detailed proxy voting records pertaining to the individual client.

The frequency and exact requirements of the reporting are agreed between OP and the client at the inception of the mandate and are generally incorporated into the investment management agreement.

As noted under Principle 6, an annual summary of proxy voting and engagement activity is publicly disclosed via the website.

Our proxy voting control processes are detailed in our AAF 01/06 Assurance Report on Internal Controls which is independently verified by external auditors and available to clients on request.



Oldfield Partners

Environmental, Social, Governance Q&A

ESG statement

In assessing companies for investment purposes, OP takes into account ethical considerations and the extent to which ethical factors may affect prospective returns. We avoid companies about which we have serious governance concerns, and companies in which we have concerns about business being conducted in an unethical manner unless it is clear that such concerns have been or are being dealt with by management and any shortcomings have been addressed. Such concerns may relate to social and environmental matters as well as to other ethical practices. We do not have a prohibition on any particular sectors or countries. To view our statement of compliance with the UK Stewardship Code, please [click here](#).

1. Is your organisation a signatory of the UN Principles of Responsible Investment? Has your organisation issued a Statement of Commitment to the FRC Stewardship Code? Please list any other relevant codes / organisations that your firm is a signatory of or affiliated to.

We are not currently a UN PRI signatory, as we are not yet comfortable that Principle 5 (working together to enhance effectiveness in implementing the Principles) has the necessary infrastructure and protections we think necessary. We have held numerous conversations with the Financial Reporting Council in the UK on this issue and have made clear our concerns about engaging or collaborating with other managers when it is not clear whether they have long or short positions. However, we have recently joined the Investor Forum, hoping this can provide the platform for the kind of collective efforts the PRI promotes.

We publish a statement of commitment to the UK Stewardship Code on our website: <https://www.oldfieldpartners.com/investment-philosophy>

2. Do you recognize that ESG issues can impact long term shareholder returns for companies?

Yes, which is why as a long term investor we believe ESG should form part of our research process. OP takes into account ethical considerations and the extent to which ethical factors may affect prospective returns, but our focus remains on the prospective returns, which drive our decision-making.

3. Do you incorporate ESG issues into investment research and decision-making processes, including proxy-voting?

Yes. ESG issues are considered routinely in our research on companies, and where appropriate we engage with companies regarding such issues. We also employ the services of specialist consultants such as GES (Global Ethical Standards), to help highlight key ESG issues and give us the ability through them to influence the large number of institutional investors they support in this area. However, we do not seek necessarily to avoid companies with ESG issues: in such circumstances, provided that we think that prospective investment returns justify our involvement, we may seek to engage with management in order to influence policy.

OP also employs the services of governance expert Institutional Shareholder Services Inc. (ISS) to manage the voting of proxies and assist our decision-making. ISS provide analysis and voting recommendations for each proposal which we thoroughly review. We instruct them to vote the proxies for all clients where we have permission to and to vote in line with ISS unless we have a conflicting opinion about a particular issue, in which case we will intervene to instruct as we see fit, or if we feel it is not in our clients' best interests to vote (due to share blocking for example).

Where a client has specific proxy voting guidelines which differ from ISS, we work with ISS to ensure we vote in line with the guidance prescribed by the client.

4. Do you have a separate ESG Committee?

No, ESG is the responsibility of the investment team and is integrated into the research process.

5. Do you seek appropriate disclosure on ESG issues that can impact long term shareholder returns, from the companies in which you invest?

Yes. Through our own research and that provided by consultants, we are able to raise concerns relating to significant issues with companies and then engage with them over a period of time to encourage change and improvement.

6. Who are your ESG research providers?

We use research and data from Bloomberg, GES and ISS. We are also a member of the Investor Forum in the UK which allows shareholders a collective voice in engaging with companies on issues which may include ESG concerns, although to date this has focused on UK companies.

7. Briefly discuss how you incorporate ESG into the investment process, with an example, keeping in mind issues like:

a) Identification of ESG risk and opportunity; and

The investment team is responsible for identifying ESG issues but we use the services of Bloomberg, GES, ISS and other sources to assist us in this process. Significant issues are considered as part of the research process and discussed as necessary. This may lead to engagement with the company in question, particularly if it is an existing, rather than potential, holding.

When we purchased Chesapeake in Q3 2012, it had previously been at the centre of a corporate governance scandal. The scandal revolved around the actions and compensation of the CEO, Aubrey McLendon, who at the time of the scandal was also Chairman of the board of directors. The main problem was that he participated in a Founders Well Participation Programme which allowed him to decide at the start of each year whether he wished to take a 2.5% stake in all of the wells the company drilled that year. When the company was first formed in 1989 this was a generous but perhaps appropriate incentive but as the firm grew to become very large, this was no longer appropriate. Once these issues came to light, it was clear that the board did not have sufficient control and oversight of what McLendon was doing. However, this scandal resulted in a dramatic fall in Chesapeake's share price and left the valuation of the company at very low levels, hence offering an opportunity.

However, before we could invest, we had first to be comfortable with the new corporate governance arrangements as a hurdle to considering investment. The replacement of nearly the whole board, with a powerful chairman and directors including Lou Simpson, and the end of the chief executive's programme of participation in Chesapeake's production, satisfied us that the inappropriate governance belonged to the past, and therefore provided an opportunity.

b) Management and monitoring of ESG risks and opportunities

In addition to the processes already noted, ongoing ESG issues and engagement are logged centrally and reviewed by senior investors regularly, with progress reports and action points recorded and discussed as necessary.

8. Please describe your research and engagement policy on each of the topics below, using examples where helpful:

a) Climate change and stranded carbon assets;

In managing our equity portfolios and engaging with company managements, there are both negative and positive aspects to our assessment of the risks and opportunities created by climate change. In analysing resource companies, we have not hitherto adopted a "stranded assets" approach to our assessment of reserves in which a large proportion of reserves might be discounted as unlikely ever to reach production. However, we are strongly conscious of the need to discriminate between different types of resource. In particular, we are sceptical about the valuation multiples which should be attributed to coal resources because of the environmental impact of coal and the possibility that thermal coal becomes obsolete in developed markets. We view positively, in our projections and valuation, businesses which are likely to mitigate climate change and more broadly pollution, and we therefore favour businesses which lead to lower energy usage. In the auto sector, for example, in which we have recently had substantial holdings, we focus, when engaging with management and when studying the company's business, on fuel efficiency, and on the long term displacement of gasoline dependent vehicles by vehicles dependent on other sources of energy. Within the energy sector, we favour natural gas as a resource which is at least relatively climate-friendly, and we have also, from time to time including currently, invested in utilities with a nuclear activity.

The result of these emphases takes both a quantitative and a qualitative form: quantitative, in our valuation process; and qualitative, in our textual commentary within our research notes.

We have not actively engaged with a company specifically on the issues of climate change and stranded assets.

b) Executive pay

ISS research with regards to proxy voting is a good starting point for considering executive pay. We vote on all remuneration items and where we feel remuneration is egregious or significantly mis-aligned with shareholders we may engage with management. This is considered on a case-by-case basis. In the past we have engaged with Staples and Barrick Gold.

With Staples, we noted a number of areas of weakness in the executive compensation plans including the metrics – both the actual metrics and the hurdle rates - being used to assess performance. We also discussed vesting periods and claw-back provisions. We welcomed the move away from time-based restricted stock and options.

Our comments were passed on to the board and compensation committee.

c) Boardroom roles and diversity

Again, ISS research is helpful and we vote on all agenda items. However, we have not set specific policy goals for diversity, instead we consider issues on a case-by-case basis.

We had a discussion with Staples with respect to the combined CEO/Chairman role and the recent executive compensation awards. We expressed our view that it would be better to have an independent Chairman but, given the reinvention plan that had been recently announced, it made sense to keep the focus on executing the turnaround plan rather than focusing on whether there should be an independent Chairman. Furthermore, there was good oversight from the rest of the board. Nevertheless, in time, we would rather the CEO and Chairman roles were split.

A key incident of engagement in early 2015 was a meeting with the management of Nintendo, when the company's request to vote in favour of the re-election of directors signalled their anxiety about this. The meeting was helpful in postponing any further sale by us of shares in the company; and was then followed by Nintendo's important announcement of a change in strategy, which we had written to them about previously.

Dear Ian,

Please find below an outline of some of Pantheon's ESG policies as per your email. Pantheon is driven by the conviction that addressing ESG issues is a crucial part of investment risk management; and effective mitigation of these issues can have a notable impact on value creation in private equity and infrastructure investments. ESG initiatives therefore form a key element of Pantheon's investment philosophy and approach.

Pantheon and PRI

Pantheon is a signatory of the Principles for Responsible Investment (PRI) and has used these principles as a framework to develop its ESG policy across all its investment activities. Pantheon was also a founding member of the PRI Private Equity Steering Committee and only withdrew in 2014 due to a maximum tenure being exceeded. Pantheon has remained involved in sub-committees and continues to assist the PRI with logistics and speakers at conferences.

Pantheon is also an endorser of the ILPA Private Equity Principles; and is a member of the EVCA, BVCA and LAVCA Responsible Investment Working Groups.

More generally Pantheon is driven by the conviction that addressing ESG issues is a crucial part of investment risk management; and effective mitigation of these issues can have a notable impact on value creation in private equity and infrastructure investments. Our reputation and market profile as a leading global private equity and infrastructure fund investor; and our strong relationships with both our GPs and LPs, means that we are ideally positioned to promote the importance of ESG within the industries. ESG initiatives therefore form a key element of Pantheon's investment philosophy and approach.

We believe that Pantheon is a market leader in this area, and our approach incorporates:

- Formally taking account of ESG issues in the investment process;
- Engaging with GPs to promote the importance of ESG issues;
- Providing on-going ESG training to Pantheon investment professionals;
- Maintaining ESG risk monitoring post-investment for each underlying asset;
- Endeavouring to keep our LPs aware of the level of ESG risks through pioneering ESG reporting; and
- Encouraging all industry participants to recognize and act on ESG issues.

Pantheon Ventures (UK) LLP
10 Finsbury Square, 4th Floor
T: +44-20-3356-1800 | www.pantheon.com

Pantheon Ventures (UK) LLP is a limited liability partnership and authorised and regulated by the Financial Conduct Authority in the United Kingdom (FCA Reference No. 520 240).
Registered in England No.OC352463

UK Stewardship Code

Although Pantheon has not yet signed up to the UK Stewardship Code, the principles contained within the UK Stewardship Code are akin to Pantheon's ongoing active engagement with the managers in which we invest. Effective post-investment care and the maintenance of close relationships are important to maximize the value of Pantheon's fund investments, protect client interests and to evaluate the investment activity within each fund. Our active involvement on Advisory Boards of the funds in which we invest, as well as our policy on voting, is outlined below.

Voting Matters

As a PRI signatory, Pantheon has committed to follow a policy of active ownership, requiring us to vote on all matters. In private equity, voting may take place on any number of governance, legal or investment matters and therefore each voting matter is considered on a case by case basis. For this reason, Pantheon does not have an internal reference guide to cover all voting matters.

Private equity ownership can improve businesses by a long term approach, active ownership, close alignment of interest and good corporate governance. In this way, private equity managers are able to add value by taking a highly active role throughout the course of an investment in an underlying company. By nature of its business, Pantheon delegates the responsibility for the selection, monitoring and realization of individual private equity investments to its private equity managers. Our due diligence process is structured to identify managers with the greatest potential to deliver superior performance, and active engagement with underlying companies forms a fundamental element of this. We seek to identify the most experienced and stable management teams who have a strong track record of value creation through operational improvements.

Pantheon Ventures (UK) LLP
10 Finsbury Square, 4th Floor
T: +44-20-3356-1800 | www.pantheon.com

Pantheon Ventures (UK) LLP is a limited liability partnership and authorised and regulated by the Financial Conduct Authority in the United Kingdom (FCA Reference No. 520 240).
Registered in England No.OC352463

Statement on the UK Stewardship Code

October 2015

SSGA endeavours to implement the spirit of the UK Stewardship Code across all jurisdictions in which we invest.

State Street Global Advisors (SSGA) is the asset management business of State Street Corporation, one of the world's leading providers of financial services to institutional investors, with \$2.20trn¹ assets under management (as of 30th September 2015).

SSGA is a strong supporter of the principles of good stewardship that are embodied in the UK Stewardship Code. We firmly believe that the building of strong relationships with the boards and management teams of investee companies and the monitoring of their performance is an essential component of enhancing the long-term value of our clients' investments. SSGA endeavours to implement the spirit of the UK Stewardship Code across all jurisdictions in which we invest.

Statement on the UK Stewardship Code

The UK Stewardship Code ("the Code") embraces the idea that all stakeholders in the engagement process play a role in advocating sound corporate governance practices. The Code describes seven basic principles designed to promote the long-term success of companies. SSGA supports the principles of the Code and we are committed to being transparent on how SSGA exercises its ownership responsibilities. SSGA's approach to voting and engagement is described in our Summary of Global Proxy Voting and Engagement Principles, found on the website of SSGA Ltd (www.ssga.com).

SSGA reviews our internal policies, practices and compliance with the Stewardship Code on an annual basis (last reviewed in September 2015).

Statement on the UK Stewardship Code

SSGA's Compliance with the UK Stewardship Code at a Glance

Principles: Institutional investors should...

Principles: Institutional investors should...	SSGA Compliance	Highlights
publicly disclose their policy on how they will discharge their stewardship responsibilities	✓	SSGA's approach to proxy voting and engagement activities is explained in our global proxy voting and engagement guidelines and annual stewardship report.
have a robust policy on managing conflicts of interest in relation to stewardship which should be publicly disclosed	✓	Comprehensive standalone Conflicts of Interest Policy to help manage conflicts arising from SSGA's proxy voting and engagement activities.
monitor their investee companies	✓	<p>Annual active monitoring list of companies across all geographies.</p> <p>Proprietary screens that help prioritise specific company engagements on broad range of financial and ESG metrics.</p> <p>Annual review and prioritisation of sector and thematic focus for active engagements.</p> <p>Integrated approach across investment teams.</p>
establish clear guidelines on when and how they will escalate their stewardship activities	✓	<p>Engagement protocol establishes process for escalating stewardship activities.</p> <p>Systematic review of portfolios to identify high-risk companies requiring heightened shareholder attention.</p> <p>Multi-channel communications with company management and boards.</p> <p>Multi-year voting and engagement database captures corporate interactions, identifies issues for follow-up and measures successes.</p>
be willing to act collectively with other investors where appropriate	✓	<p>Developed framework for collaborating and engaging with like-minded investors.</p> <p>Active membership of global and regional investor bodies and networks.</p>
have a clear policy on voting and disclosure of voting activity	✓	<p>Global proxy voting principles and six market specific guidelines reviewed and updated annually.</p> <p>Quarterly and annual proxy voting statistics and engagement highlights complements bespoke client/ fund- specific reporting of voting activities</p>
report periodically on their stewardship and voting activities	✓	Comprehensive annual stewardship report is supplemented by quarterly updates on stewardship activities.

Details of Compliance with Each Code Principle

Principle 1

Institutional Investors should Publicly Disclose their Policy on How they will Discharge their Stewardship Responsibilities

SSGA manages numerous investment strategies on behalf of our clients with various investment viewpoints and objectives. Nevertheless, the value of good governance practices of investee companies is of equal concern and importance under all investment approaches. Consequently, SSGA maintains a centralised governance and active ownership process covering all discretionary holdings. This allows us to ensure we speak and act with a single voice and maximize our influence with companies by leveraging the weight of our entire assets under management on behalf of all clients.

In conducting our voting and engagement activities, SSGA evaluates the various factors that play into the corporate governance framework of a country, including macroeconomic conditions, the political environment, quality of regulatory oversight, enforcement of shareholder rights and the effectiveness of the judiciary. SSGA complements its company specific dialogue with targeted engagement with regulators and government agencies to address systemic market-wide concerns.

SSGA uses a blend of quantitative and qualitative research and data to help identify issuers where active engagement may be necessary to protect and promote shareholder value. Issuer engagement may also be event driven, focusing on specific corporate governance and sustainability concerns or wider industry related trends. SSGA also gives consideration to the size of our total position of the issuer in question and/or the potential negative governance, performance profile, and circumstance at hand. As a result, SSGA believes issuer engagement can take many forms and be triggered under numerous circumstances.

SSGA has a dedicated team of governance experts, based in Boston and London, who are charged with implementing its proxy voting guidelines and engagement activities on a global basis. The activities of the Corporate Governance Team (“CGT”) are overseen by SSGA’s Investment Committee (“IC”). The IC is responsible for approving the annual stewardship strategy, engagement priorities and proxy voting policies, and monitoring the delivery of objectives. Furthermore, the Global Proxy Review Committee (“GPRC”), a dedicated sub-committee of the IC, provides day-to-day oversight of the CGT, including approving departures from policy and management of conflicts of interest.

The CGT is supported by several specialists within SSGA in executing their stewardship responsibilities. These include members of SSGA’s proxy operations team who are responsible for managing fund set up, vote execution, vote reconciliation, share recalls and class action lawsuits, and members of SSGA’s client reporting and compliance teams.

SSGA utilises a variety of third-party service providers to support its stewardship activities. Data and analysis from service providers are used as inputs to help inform SSGA’s position and assist with prioritisation. However, all voting decisions and engagement activities are undertaken in accordance with SSGA’s in-house policies and views, ensuring the interests of our clients remain the sole consideration when discharging our stewardship responsibilities.

Principle 2

Institutional Investors should Have a Robust Policy on Managing Conflicts of Interest in Relation to Stewardship which should be Publicly Disclosed

State Street Corporation has a comprehensive standalone Conflicts of Interest Policy that address a range of conflicts identified by our parent company. In addition, SSGA maintains a conflicts register that identifies key conflicts and describes systems in place to mitigate the risks. SSGA has also published a specific conflicts policy that provides guidance on managing conflicts that may arise through SSGA’s proxy voting activities.

SSGA policies and procedures are designed to prevent undue influence on SSGA’s voting activities that may arise from relationships between proxy issuers or companies and State Street Corporation, SSGA, SSGA affiliates, SSGA Funds or SSGA Fund affiliates; and ensure that the interests of our clients remain our primary consideration.

In general, we do not believe matters that fall within the scope of our guidelines and are voted consistently present any potential concerns, since the vote has effectively been determined without the influence of the soliciting entity. However, in circumstances where a potential conflict has been identified, the matter will be referred to the GPRC who reviews the matter and determines whether a conflict of interest exists, and if so, how to best resolve such a conflict. For example, the GPRC may (i) determine that the proxy vote does not give rise to a conflict due to the issues presented, (ii) refer the matter to the Investment Committee for further consideration or (iii) retain an independent fiduciary to execute the vote on behalf of SSGA.

SSGA’s policy for managing conflicts arising from our stewardship activities is publically available on the SSGA website (<https://www.ssga.com/eu/gb/institutional-investor/en/products-capabilities/capabilities/custom-solutions/corporate-governance-and-voting-policy.html>).

Principle 3

Institutional Investors Should Monitor their Investee Companies

SSGA is a leading global provider of passive fund strategies and holds over 9,000 listed equities across its global portfolios. Therefore, the effectiveness of our engagement strategy is built upon our ability to prioritise, and allocate resources to focus on companies and issues that will have the greatest impact on shareholder returns. To support this process SSGA has developed proprietary in-house screening tools to help identify companies for active targeted engagement based upon various financial and ESG risk indicators. Factors considered in developing the target list include: size of absolute and relative holdings; companies with poor long-term financial performance within their sector; companies identified through the ESG screening tool as lagging market and industry standards; and outstanding concerns from prior engagements.

In addition to issuer specific screening, SSGA develops annual stewardship priority programs to enhance the quality and define the scope of our stewardship activities for the year. This enables SSGA to focus engagement and reporting on sectors and ESG themes that are of increasing importance to our clients. We develop our priorities based on several factors including client feedback, emerging ESG trends, and developing macroeconomic conditions and regulation.

SSGA monitors the performance of investee companies amongst its target list through a combination of in-depth research and analysis and the maintaining of regular channels of communication with boards and senior management. The process has been designed to allow SSGA to better understand the long-term corporate strategy and performance, governance practices, financial controls and risk management systems of companies held in our client portfolios. SSGA will carefully consider ethical, environmental and social factors when deemed to be material to the long-term prospects of a company.

Beyond SSGA's active engagement program, the CGT undertakes base level monitoring of the entire portfolio and participates in reactive engagement in response to company or market specific events.

Based on the outcome of our company analysis and dialogue, SSGA may identify potential concerns or areas for improvement. SSGA will utilise its voting rights and engagement influence to seek positive change at companies with the ultimate objective of enhancing the value of our clients' investments.

The monitoring and engagement process is integrated within SSGA's investment functions to ensure a consistent position across the firm. Investment integration within our passive mandates is primarily realised through SSGA's global and

regional CIOs who participate directly in meetings with companies and regulators. In addition, the CGT collaborates with other members of the passive investment teams on matters related to market policies and company specific events. Integration between the teams is of particular importance when considering corporate restructurings and mergers and acquisitions which may have a significant impact on benchmark index composition and rebalancing.

Under our active strategies, SSGA's CGT works closely with our active fundamental investment teams, collaborating on issuer engagements and sharing inputs on company specific fundamentals. This facilitates an integrated approach towards investment research and engagement with company management and boards. The active equity teams also provide recommendations on all resolutions tabled for shareholder approval at companies within their investment universe.

Under no circumstance is SSGA willing to be made insiders to assist investee company boards and their advisers as part of our engagement process. Companies should take care to ensure that all material information disclosed during engagements with SSGA be publicly available in the market.

In general, SSGA does not attend shareholder meetings. Rather, SSGA votes at all shareholder meetings by proxy where eligible, and believes that proxy voting and engaging with issuers is the most effective means to address governance concerns. To the extent practicable, the CGT will arrange meetings with investee companies prior to the vote, to discuss any areas of concern.

Externally, SSGA is a member or participant in a range of investor based organisations that complement SSGA's internal mechanisms of regularly tracking noteworthy company, industry and regulatory issues and events.

Our monitoring process is reviewed at least annually to ensure that engagement efforts are appropriately targeted and that the process is effective and efficient.

Principle 4

Institutional Investors should Establish Clear Guidelines on When and How they will Escalate their Stewardship Activities

SSGA has published an engagement protocol that provides transparency to companies on our approach to stewardship and the manner in which we prioritise and select engagements. The protocol gives guidance on how and when companies should approach SSGA and sets out expectations for the development and maintenance of long-term and constructive relationships with shareholders (<https://www.ssga.com/eu/gb/institutional-investor/en/products-capabilities/capabilities/custom-solutions/corporate-governance-and-voting-policy.html>).

Statement on the UK Stewardship Code

SSGA has developed a proprietary portfolio screening tool based on various data points including long-term financial performance, governance and sustainability structures and performance and SSGA's absolute and relative exposure. The screening tool enables the CGT to build an 'active' engagement target list of companies for each geographical region. This is complemented by the adoption of annual thematic and sector priorities designed to balance our risk-based approach with wider industry coverage. *The annual engagement prioritisation process is described in greater detail under Principle 3.*

Depending on the issue and whether the engagement activity is reactive, recurring, or active, engagement with issuers can take the form of written communication, conference calls, or face-to-face meetings. While the Stewardship Code is specific to UK stakeholders, SSGA conducts the same engagement practices globally.

The engagement process will depend on the nature of the issue that is being addressed. Matters related to execution of strategy, finance, operations and risk management will ordinarily be directed towards representatives of the senior executive team. While communications focused on wider strategic considerations and the structure, effectiveness and responsibilities of the board and oversight of the broader governance regime will normally be channelled through relevant members of the board.

SSGA will consider escalating concerns if engagement has failed to result in a satisfactory outcome. The specific steps of the escalation process will depend upon the subject and seriousness of the concern, and the openness and responsiveness of the company. SSGA will consider escalating concerns to the company chairman, senior independent director, and where appropriate, the relevant regulatory authority. SSGA will also consider collaborating with other like-minded investors provided there is alignment with the engagement objectives and desired outcomes.

Our experiences and conclusions reached during the engagement process will help shape SSGA's voting decisions on relevant ballot items and when considering the continued suitability of directors that are standing for re-election.

To enable engagement continuity, the CGT maintains a database that allows us to record both our engagements and the details of our voting analysis in contentious situations. The multi-year engagement database ensures that issues identified for follow-up are carried through in subsequent engagements and that positive changes implemented by companies are captured.

Principle 5

Institutional Investors should be Willing to Act Collectively with Other Investors where Appropriate

The size of SSGA's global assets and reputation in the market provides the CGT with access to the management and boards of investee companies. Therefore, the majority of corporate engagements are carried out on a one-to-one basis behind closed doors, as we feel this is critical to building trust and establishing constructive long-term relationships with companies. Nevertheless, SSGA collaborates with like-minded investors under certain circumstances. Factors that are considered when determining the merits of collaborative action include:

- Agreement amongst investors on core areas of concern and potential solutions;
- Systemic market-wide concerns and regulatory environment;
- Responsiveness of management and boards to prior individual engagements;
- Concentrated ownership within the share register; and,
- Market culture and acceptance of shareholder engagement.

To facilitate this process, SSGA are members of national and global investor bodies including the UK Investment Association, The Investor Forum, International Corporate Governance Network, Asian Corporate Governance Association, the Council of Institutional Investors and the United Nations Principles for Responsible Investment. In addition, through our membership in various industry networks, as well as our contact with corporate pension plans, public funds and unions, we are able to communicate extensively with other stakeholders regarding events and issues relevant to individual corporations, general industry trends and current shareholder concerns.

Principle 6

Institutional Investors should have a Clear Policy on Voting and Disclosure of Voting Activity

SSGA has developed voting guidelines which are approved and overseen by the IC. The general principles and six market specific guidelines are available for public review on the SSGA website (<https://www.ssga.com/eu/gb/institutional-investor/en/products-capabilities/capabilities/custom-solutions/corporate-governance-and-voting-policy.html>).

These policies have been designed to encourage better governance practices at investee companies based upon SSGA's understanding of global principles of good governance, while taking account of local market nuances and standards where appropriate.

Statement on the UK Stewardship Code

SSGA votes at over 14,000 meetings on an annual basis and tiers companies based on factors including the size of our holdings, past engagement, corporate performance, and voting items identified as areas of potential concern. Based on this assessment, SSGA will allocate appropriate time and resources to shareholder meetings and specific ballot items of interest, to maximise value for our clients. All voting decisions are exercised exclusively in accordance with SSGA's in-house policies or specific client instructions. SSGA has established robust controls and auditing procedures to ensure that votes cast are executed in accordance with SSGA instructions. SSGA has contracted Institutional Shareholder Services ("ISS") to assist with the management of the voting process and provide inputs into the research of shareholder meetings. SSGA utilises ISS's services in three ways: (1) as SSGA's proxy voting agent (providing SSGA with vote execution and administration services); (2) for applying SSGA's Proxy Voting Guidelines; and (3) as providers of research and analysis relating to general corporate governance issues and specific proxy items. We provide SSGA's current policy on proxy voting and engagement to our institutional clients and a summary of this policy (Summary of Global Proxy Voting and Engagement Principles); along with quarterly reports detailing voting activity for the SSGA MPF funds which is published on the SSGA Ltd website. The voting activity reports include company details, proposal type, resolution description, and SSGA's vote cast. We publicly disclose SSGA's voting policy and voting activity for our US registered mutual funds as part of our annual N-PX reporting requirements to the SEC.

SSGA votes in all markets where it is feasible; however, SSGA may refrain from voting when meeting specific power of attorney documentation is required; where voting will have a material impact on our ability to trade the security; where issuer-specific special documentation is required; or various market or issuer certifications are required. SSGA is unable to vote proxies when certain custodians, used by our clients, do not offer proxy voting in a jurisdiction or when they charge a meeting specific fee in excess of the typical custody service

agreement. From time to time, SSGA may recall securities on loan for proxy voting purposes if the result of a particular proxy voting ballot item is deemed to be significant enough to justify the loss of fees from lending for our clients.

Principle 7

Institutional Investors should Report Periodically on their Stewardship and Voting Activities

We recognize the importance of being accountable to our clients on the manner in which we fulfil our duties as responsible owners on their behalf. We aim to provide transparency of our stewardship activities through our regular client reports and other information reported publicly online.

SSGA publishes an annual stewardship report which provides details of our stewardship approach, engagement and voting activities during the year, perspectives on governance and sustainability trends and themes, and forward looking priorities. The annual report is supplemented by a quarterly stewardship activity report and the quarterly publication of our voting record (<https://www.ssga.com/eu/gb/institutional-investor/en/products-capabilities/capabilities/custom-solutions/corporate-governance-and-voting-policy.html>).

¹ AUM reflects approx. \$24.5 billion as of September 30, 2015) with respect to which State Street Global Markets, LLC (SSGM) serves as marketing agent; SSGM and State Street Global Advisors are affiliated.

SSGA's stewardship policies and procedures related to proxy voting, corporate engagement and the management of conflicts are subject to regular review by internal audit.

Key Contacts for SSGA Corporate Governance Team

Rakhi Kumar

Head of Corporate Governance
Rakhi_Kumar@ssga.com

Mirza Baig

Vice President, Corporate Governance
Mirza_Baig@ssga.com

Statement on the UK Stewardship Code

ssga.com

For institutional use only. Not for use with the public.

State Street Global Advisors Worldwide Entities

Australia: State Street Global Advisors, Australia, Limited (ABN 42 003 914 225) is the holder of an Australian Financial Services Licence (AFSL Number 238276). Registered Office: Level 17, 420 George Street, Sydney, NSW 2000, Australia. T: +612 9240 7600. F: +612 9240 7611. **Belgium:** State Street Global Advisors Belgium, Chaussée de La Hulpe 120, 1000 Brussels, Belgium. T: +32 2 663 2036, F: +32 2 672 2077. SSGA Belgium is a branch office of State Street Global Advisors Limited. State Street Global Advisors Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom. **Canada:** State Street Global Advisors, Ltd., 770 Sherbrooke Street West, Suite 1200 Montreal, Quebec, H3A 1G1, T: +514 282 2400 and 30 Adelaide Street East Suite 500, Toronto, Ontario M5C 3G6. T: +647 775 5900. **Dubai:** State Street Bank and Trust Company (Representative Office), Boulevard Plaza 1, 17th Floor, Office 1703 Near Dubai Mall & Burj Khalifa, P.O. Box 26838, Dubai, United Arab Emirates. T: +971 (0)4 4372800. F: +971 (0)4 4372818. **France:** State Street Global Advisors France. Authorised and regulated by the Autorité des Marchés Financiers. Registered with the Register of Commerce and Companies of Nanterre under the number: 412 052 680. Registered Office: Immeuble Défense Plaza, 23-25 rue Delarivière-Lefouillon, 92064 Paris La Défense Cedex, France. T: +33 1 44 45 40 00. F: +33 1 44 45 41 92. **Germany:** State Street Global Advisors GmbH, Brienner Strasse 59, D-80333 Munich. T: +49 (0)89 55878 100. F: +49 (0)89 55878 440. **Hong Kong:** State Street Global Advisors Asia Limited, 68/F, Two International Finance Centre, 8 Finance Street, Central, Hong Kong. T: +852 2103 0288. F: +852 2103 0200. **Ireland:** State Street Global Advisors Ireland Limited is regulated by the Central Bank of Ireland. Incorporated and registered in Ireland at Two Park Place, Upper Hatch Street, Dublin 2. Registered Number: 145221. Member of the Irish Association of Investment Managers. T: +353 (0)1 776 3000. F: +353 (0)1 776 3300. **Italy:** State Street Global Advisors Limited, Milan Branch (Sede Secondaria di Milano) is a branch of State Street Global Advisors Limited, a company registered in the UK, authorised and regulated by the Financial Conduct Authority

(FCA), with a capital of GBP 71'650'000.00, and whose registered office is at 20 Churchill Place, London E14 5HJ. State Street Global Advisors Limited, Milan Branch (Sede Secondaria di Milano), is registered in Italy with company number 06353340968 - R.E.A. 1887090 and VAT number 06353340968 and whose office is at Via dei Bossi, 4 - 20121 Milano, Italy. T: +39 02 32066 100. F: +39 02 32066 155. **Japan:** State Street Global Advisors (Japan) Co., Ltd., Japan, Toranomon Hills Mori Tower 25F, 1-23-1 Toranomon, Minato-ku, Tokyo, 105-6325. T: +81 (0)3 4530 7380 Financial Instruments Business Operator, Kanto Local Financial Bureau (Kinsho #345) Membership: Japan Investment Advisers Association, The Investment Trust Association, Japan, Japan Securities Dealers' Association. **Netherlands:** State Street Global Advisors Netherlands, Adam Smith Building, Thomas Malthusstraat 1-3, 1066 JR Amsterdam, Netherlands. T: +31 (0)20 7181701. State Street Global Advisors Netherlands is a branch office of State Street Global Advisors Limited. State Street Global Advisors Limited is authorised and regulated by the Financial Conduct Authority in the United Kingdom. **Singapore:** State Street Global Advisors Singapore Limited, 168 Robinson Road, #33-01 Capital Tower, Singapore 068912 (Company Registered Number: 200002719D). T: +65 6826 7500. F: +65 6826 7501. **Switzerland:** State Street Global Advisors AG, Beethovenstrasse, 19, Postfach, CH-8027 Zurich. T: +41 (0)44 245 70 00. F: +41 (0)44 245 70 16. **United Kingdom:** State Street Global Advisors Limited. Authorised and regulated by the Financial Conduct Authority. Registered in England. Registered Number: 2509928. VAT Number: 5776591 81. Registered Office: 20 Churchill Place, Canary Wharf, London, E14 5HJ. T: +020 3395 6000. F: +020 3395 6350. **United States:** State Street Global Advisors, One Lincoln Street, Boston, MA 02111-2900. T: +1 617 664 7727.

The whole or any part of this work may not be reproduced, copied or transmitted or any of its contents disclosed to third parties without SSGA's express written consent. Investing involves risk including the risk of loss of principal.

The views expressed in this material are the views of the Corporate Governance Group through the period ended September 30, 2015 and are subject to change based on market and other conditions.

This page is intentionally left blank