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City of Westminster

Committee Agenda

Title:	**Pension Fund Committee**
Meeting Date:	**Monday 17th November, 2014**
Time:	**7.00 pm**
Venue:	**Rooms 3 & 4 - 17th Floor, City Hall**
Members:	**Councillors:** Suhail Rahuja (Chairman) Antonia Cox Patricia McAllister Ian Rowley

Members of the public are welcome to attend the meeting and listen to the discussion Part 1 of the Agenda

Admission to the public gallery is by ticket, issued from the ground floor reception at City Hall from 6.00pm. If you have a disability and require any special assistance please contact the Committee Officer (details listed below) in advance of the meeting.

An Induction loop operates to enhance sound for anyone wearing a hearing aid or using a transmitter. If you require any further information, please contact the Committee Officer, Andrew Palmer; Senior Committee and Governance Officer.

Tel: 020 7641 2802; email: apalmer@westminster.gov.uk
Corporate Website: www.westminster.gov.uk

Note for Members: Members are reminded that Officer contacts are shown at the end of each report and Members are welcome to raise questions in advance of the meeting. With regard to item 2, guidance on declarations of interests is included in the Code of Governance; if Members and Officers have any particular questions they should contact the Head of Legal & Democratic Services in advance of the meeting please.

AGENDA

PART 1 (IN PUBLIC)

1. MEMBERSHIP

To note any changes to the membership.

2. DECLARATIONS OF INTEREST

To receive declarations by Members and Officers of the existence and nature of any personal or prejudicial interests in matters on this agenda.

3. MINUTES **(Pages 1 - 8)**

To approve the Minutes (open) of the meeting of the Superannuation Committee held on 8 September 2014.

4. PERFORMANCE AND MANAGEMENT OF THE COUNCIL'S PENSION FUND **(Pages 9 - 38)**

Report by the Director of Corporate Finance & Investment and Deloitte, the Council's Investment Consulants.

5. PENSIONS ENGAGEMENT STRATEGY **(Pages 39 - 44)**

To receive an update by the Acting Director of Human Resources on the proposed strategy for pensions administration engagement up to 31 March 2016.

6. PENSION FUND GOVERNANCE MATTERS **(Pages 45 - 88)**

To consider the revised Terms of Reference for the Pension Fund Committee, an update on the Pension Board requirements, and the Stewardship Policy.

7. ANY OTHER BUSINESS WHICH THE CHAIRMAN CONSIDERS URGENT

8. EXEMPT REPORTS UNDER THE LOCAL GOVERNMENT ACT 1972

RECOMMENDED: That under Section 100 (A) (4) and Part 1 of

Schedule 12A to the Local Government Act 1972 (as amended), the public and press be excluded from the meeting for the following item(s) of business because they involve the likely disclosure of exempt information on the grounds shown below and it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information:

Item Nos.	Grounds	Para. of Part 1 of Schedule 12A of the Act
9-10	Information relating to financial or business affairs of any particular person (including the authority holding that information).	3

9. MINUTES (EXEMPT) **(Pages 89 - 96)**

To approve the confidential Minutes of the meeting of the Superannuation Committee held on 8 September 2014.

10. THE APPOINTMENT OF EQUITY MANAGERS **(Pages 97 - 112)**

Report of the Director of Corporate Finance & Investment.

Peter Large
Head of Legal & Democratic Services
7 November 2014

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City of Westminster

Minutes

Meeting:	**Superannuation Committee** **3/2014**
Date of meeting:	**Monday 8 September 2014 at 7.00pm**
Attendees:	**Councillors:** **Suhail Rahuja (Chairman)** **Antonia Cox** **Patricia McAllister** **Ian Rowley** **Officers:** **Jonathan Hunt (Director of Corporate Finance & Investment)** **Carolyn Beech (Interim Director of Human Resources)** **Nikki Parsons (Pension Fund Officer)** **Andrew Palmer (Senior Committee & Governance Officer)** **Also in attendance:** **Alistair Sutherland (Deloitte Investment UK)** **Euan Baird (Standard Life Investments)** **Richard Marshall (Standard Life Investments)**
Apologies:	**None.**
Contact:	**Andrew Palmer** **Senior Committee & Governance Officer**
Details:	**Tel: 020 7641 2802** **Fax: 020 7641 2917** **Email: apalmer@westminster.gov.uk**

1. MEMBERSHIP OF THE COMMITTEE

1.1 No apologies for absence were received.

2. DECLARATIONS OF INTEREST

2.1 The Chairman made the following declaration:
'I am employed by Fund Managers who have amongst their clients Hermes. I am not involved in any element of the work which relates to the Westminster Fund and accordingly do not regard this as a prejudicial interest'.

3. MINUTES

3.1 The Minutes of the Superannuation Committee meeting held on 14 July, which did not include exempt information, were agreed as a correct record and were signed by the Chairman.

4. PERFORMANCE AND MANAGEMENT OF THE COUNCIL'S PENSION FUND AND APPROVAL OF THE ANNUAL REPORT

4.1 Jonathan Hunt (Director of Corporate Finance & Investment) and Alistair Sutherland (Deloitte Investment UK) submitted a report which provided a summary of the Fund's investment performance over the three month period to 30 June 2014. Over the past 12 months, the Fund had outperformed its composite benchmark largely due to a strong performance from Majedie; while over the second quarter of 2014, it had underperformed its composite benchmark, largely as a result of weak performance from the active equity managers. The Fund had continued to comply with statutory requirements.

4.2 The Committee considered an additional Funding update report provided by the Fund Actuary, Barnett Waddingham, which indicated that the funding level had improved from 74% at the last triennial valuation at 31 March 2013, to 81% at 30 June 2014.

4.3 The Committee also received the draft Annual Report of the City of Westminster Superannuation Fund 2013-2014, which included details of risk management, investment policy and performance, scheme administration, and actuarial information. An amendment was tabled which set out comments that had been received from the City Council's auditors. During the year, the value of the Fund had risen by £91m following positive absolute investment returns; and the Fund's total investment return had outperformed the target return by 3%. The Committee had continued to monitor the Fund closely at every meeting, and had challenged the investment advisers as necessary to ensure the Fund's investments were being managed effectively. The Committee noted that the Annual Report needed to be finalised and made available by 1 December.

4.4 Members discussed the draft Annual Report, and asked to receive further information on scheduled and admitted bodies and their discount rates, and on cash flow. The Director of Corporate Finance & Investment agreed to submit a paper on the scheduled and admitted bodies to the next meeting of the Committee. Members also suggested that next year's Annual Report should include references to established good practice in the management of Westminster's Pension Fund, and to the Annual General Meeting.

4.5 The Director reported that officers had been monitoring the Pension Fund's bank account, and had forecast that there may soon be insufficient cash available in the Pension Fund bank account to meet the Fund's obligations. Members noted that officers would undertake a full cash flow review and forecasting exercise, and the Director confirmed that a paper setting out the results would also be submitted to the next meeting.

4.6 The Director commented that monitoring the Pension Fund's bank account had revealed that dividends from the Hermes Holding account had not been reinvested, which had led to a cash balance of £5M being accrued over a three year period that would now be reinvested.

4.7 Members noted that the Statement of Investment Principles (SIP) for Westminster's Fund had last been updated in 2012, and that a separate report on the SIP would also be submitted to the next meeting; together with the future programme of work planned by officers.

4.8 The Committee also discussed the implications and possible effect on the Pension Fund of Scotland voting for independence in the forthcoming referendum on 18 September.

4.9 **RESOLVED:**

1. That the report on the performance and management of Westminster's Pension Fund be noted;

2. That the actuary be asked to attend a meeting in the near future to discuss and explain discount rates;

3. That the draft Annual Report of the City of Westminster Superannuation Fund 2013-14 be endorsed, with final approval of the Annual Report to be delegated to the Director of Corporate Finance and Investment, in consultation with the Chairman of the Superannuation Committee; and

4. That it be noted that the future programme of work planned by officers would be reported at the next meeting of the Committee in November, and that in the interim, the decision to draw down funds to meet the Pension Fund's cash flow requirements would be delegated to the Director of Corporate Finance & Investment, in consultation with the Chairman of the Superannuation Committee.

5. STANDARD LIFE INVESTMENTS

5.1 The Committee received a presentation and funding update from Euan Baird (Investment Director) and Richard Marshall (Fund Manager), on the management of the Pension Fund's property investments by Standard Life. The presentation included details of valuations market trends, key performance drivers, acquisitions and sales.

5.2 Standard Life reported that they managed a well-diversified Property Fund, which was currently invested in a portfolio of 82 different property assets let to 41 different good quality tenants, with good underlying business which guaranteed income.

5.3 The Committee noted that capital values in the UK property market had increased during the second half of the past year, and that the valuation of Westminster's investment in the Standard Life Property Fund had increased in value from £43.8M in March 2014 to £45.6M at the end of August. Standard Life forecast a strong return on the UK commercial property market over the next three years, although growth was expected to slow in 2015.

5.4 The Committee discussed risk, and noted that while Travelodge Hotels Ltd had been listed as a high risk investment due to underlying trade, other parts of the market in food based inns such as Greene King were doing well and expanding.

5.5 The Committee also discussed the current uncertainty in Scottish markets which had arisen from the forthcoming referendum, and noted that £120M of Standard Life's property assets were currently in Scotland, which represented less than 10% of their property portfolio. Members noted that while there had so far been no impact on valuations of Scottish property, there was currently a moratorium on purchasing Scottish assets. Contingency planning for possible independence had also been taking place over the last two years.

5.6 The Committee noted that the value of the property portfolio was currently £1.5 Billion, and sought clarification on capacity and whether the Fund would be closed. Standard Life commented that the portfolio had provided good returns to investors over the past year, and was being kept under close review. While Standard Life were cautious not to dilute the quality of their portfolio, they remained aware of good value opportunities. Members noted that while Standard Life were not concerned over capacity at present, they would consider closing the Fund if the market changed.

5.7 **RESOLVED:** That the presentation and funding update from Standard Life Investments be noted.

6. PENSION COMMUNICATIONS AND ENGAGEMENT STRATEGY UPDATE

6.1 Carolyn Beech (Acting Director of Human Resources) presented a report which considered the communications and engagement strategy following the changes to the Local Government Pension Scheme (LGPS), which had come into effect in April 2014. The Committee noted that RB Kensington & Chelsea and LB Hammersmith & Fulham had deferred auto-enrolment until 2017, due to the additional administration and costs.

6.2 Since the introduction of auto enrolment in July 2013, membership of the LGPS had increased by 558 people, with 599 people having opted out of the scheme primarily due to financial constraints. Very few members of staff had joined the new 50/50 scheme, and the Committee agreed that more engagement activity was needed to highlight its benefits.

6.3 The Committee noted that the Pensions Administration contract with the LPFA had now ceased, and that the new contract with Surrey County Council had come into effect on 1 September. Members acknowledged that promotion of the new scheme had been reduced by the change of contract, and noted that Westminster was currently working with Surrey County Council to develop a programme for more engagement activity which would highlight its benefits and focus on new starters, who were more likely to opt out than existing employees.

6.4 The Acting Director of Human Resources agreed to present a further report at the next meeting of the Committee,

6.5 **RESOLVED**: That progress in the communications and engagement strategy following the changes to the Local Government Pension Scheme be noted.

7. UPDATE ON COLLECTIVE INVESTMENT VEHICLES, GOVERNANCE REGULATIONS AND PENSIONS BOARDS

7.1 The Committee received the final tri-borough responses to the Department for Communities & Local Government (DCLG) consultations on Collective Investment Vehicles and the balance of active and passive management; and on the draft Regulations for Scheme Governance which sought to implement the requirements of the Public Sector Pensions Act 2013.

7.2 One of the main provisions of the Pensions Act was for schemes which were subject to local administration, such as the Local Government Pension Scheme, to provide for the establishment of local Pension Boards, which were required to be set up by 1 April 2015. The Act required Pension Boards to be made up of an equal balance of employer and employee representatives, with a minimum of four members meeting four times a year. Before appointment, the administering authority needed to be satisfied that the representatives had "the relevant experience and capacity to perform their roles" and that they did not have a conflict of interest. The costs of local Pension Boards was to be regarded as administration costs charged to the Fund.

7.3 The Committee noted that Pension Boards would have no decision making powers or powers of direction, but would scrutinise regulatory activity and note things that could be improved or dealt with more effectively. Although only limited information had been available, the remit of Pension Boards was expected to be clarified by the final regulations and statutory guidance which were expected to be published in October 2014.

7.4 The consultation had focused on the practicalities of implementing the Pensions Act, and one of the key issues raised had been the possibility of joint Pension Boards. Members noted that the tri-borough response had argued that the final regulations should include an option for a tri-borough arrangement, which would allow for efficiencies.

7.5 A further update on progress in establishing Pension Boards would be given at the next meeting of the Committee in November, after publication of the final regulations and statutory guidance.

7.6 **RESOLVED:** That the responses to consultation made in respect of Collective Investment Vehicles, Governance Regulations and Pensions Boards be noted.

8. ANY URGENT BUSINESS

8.1 No additional business was reported.

9. EXEMPT REPORTS UNDER THE LOCAL GOVERNMENT ACT 1972

9.1 **RESOLVED:** That under Section 100 (A)(4) and Part 1 of Schedule 12A to the Local Government Act 1972 (as amended), the public and press be excluded from the meeting for the following items of business because they involve the likely disclosure of exempt information on the grounds shown below and it is considered that, in all circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information:

Item Nos.	Grounds	Para. of Part 1 of Schedule 12A of the Act
10 and 11	Information relating to financial or business affairs of any particular person (including the authority holding that information).	3

10. MINUTES

10.1 The minutes of the Superannuation Committee meeting held on 14 July 2014 which included exempt information were agreed as a correct record and were signed by the Chairman.

11. APPOINTMENT OF MANAGERS

11.1 The Committee noted a confidential update on the appointment of equity managers.

12. CLOSE OF MEETING

12.1 The meeting closed at 8.55 pm.

CHAIRMAN: ………………………………..   DATE: ……………………….

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**17 November 2014**
Classification:	**Public**
Title:	**Performance of the Council's Pension Fund**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.**
Report of:	**Jonathan Hunt** ***Director of Corporate Finance and Investments*** **jonathanhunt@westminster.gov.uk** **020 7641 1804**

1. Executive Summary

1.1 This report presents a summary of the Pension Fund's performance to 30 September 2014, together with an estimated valuation position.

2. Recommendation

2.1 The Committee note the contents of this paper and the performance report from Deloitte.

2.2 The Committee notes that the Director of Corporate Finance and Investment approved the 2013/14 draft Annual Report, following approval from the auditors, under authority delegated at the last committee meeting unchanged from the version then agreed.

3. Background

Performance of the Fund

3.1 This report presents a summary of the Superannuation Fund's performance and estimated funding level to 30 September 2014. The investment report (Appendix 1) has been prepared by Deloitte, the Fund's investment adviser, who will be attending the meeting to present the key points and answer question.

3.2 The Funding update (Appendix 2) has been provided by the Fund Actuary, Barnett Waddingham. This indicates that the funding level has improved from 74% at the last triennial valuation at 31 March 2013, to 79% at 30 September 2014. The slight decline from the June 2014 indicative funding level is driven by the reduction in the discount rate from 6.1% to 6.0%.

4. Future Programme of Work

4.1 At the last meeting, Officers indicated that a revised Statement of Investment Principles would be brought to this November Committee. However, given the changes that may be occurring to the fund manager structure, it would be appropriate to update when this is better known. Deloitte will be closely involved in its drafting.

4.2 The Committee will also be aware that the Fund has recently changed custodian from BNY Mellon to Northern Trust. The handover process has gone smoothly and Northern Trust are completing their reports for the first month (October) that the assets have been under their responsibility. Officers have also been working on periodic accounting closing of the accounts, as a matter of good practice and in preparation for the Council's accounts to be closed in mid-April. As a result of both these things, while work has started for the cashflow analysis, it is not yet in a form that is appropriate to discuss with the Committee, but will come to the February meeting.

If you have any questions about this report, or wish to inspect one of the background papers, please contact:

Jonathan Hunt jonathanthunt@westminster.gov.uk or 020 7641 1804

BACKGROUND PAPERS: None

City of Westminster Superannuation Fund

Investment Performance Report to 30 September 2014 – Executive Summary

Deloitte Total Reward and Benefits Limited
November 2014

Contents

1 Market Background 1

2 Total Fund 2

3 Summary of Manager Ratings 5

4 Baillie Gifford – Global Equity 7

5 LGIM – Global Equity (Passive) 8

6 Majedie – UK Equity 9

7 Insight – Bonds 10

8 Hermes – Property 12

9 Standard Life – Long Lease Property 13

Appendix 1 – Fund and Manager Benchmarks 14

Appendix 2 – Manager Ratings 15

Appendix 3 – Risk warnings & Disclosures 16

1 Market Background

Three and twelve months to 30 September 2014

UK equities delivered a negative return over the 3 months to 30 September 2014, with the FTSE All Share Index returning -1.0%. The first two months of the quarter saw positive UK equity performance, however the FTSE fell in September, with the uncertainty around the outcome of the Scottish Independence referendum playing its part. Wider concerns around the strength of the global economy also weighed on UK equity returns, a trend which has continued post the quarter end.

Smaller companies marginally outperformed larger companies, albeit both delivered negative absolute returns. There was a range of performance at the sector level. Financials delivered the highest return of 1.9%, whilst the Oil & Gas sector was the worst performing, returning -7.2%.

Global equity markets outperformed the UK in both sterling and local terms over the third quarter of 2014, returning 3.2% and 0.9% respectively. Currency hedging was therefore detrimental to investors over the quarter as sterling depreciated strongly versus the US dollar. At a regional level, the Japanese market delivered the highest local currency return of 5.9%, but only returned 3.1% in sterling terms. Europe (ex UK) was the poorest performing region, returning -2.6% and -0.4% in sterling and local currency terms respectively.

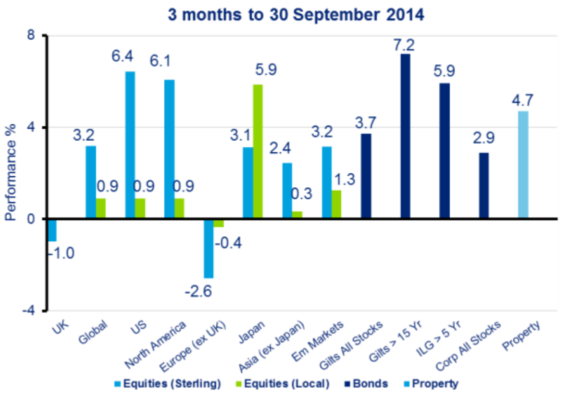
UK nominal gilts performed positively over the third quarter as yields fell at longer maturities. The All Stocks Gilt Index returned 3.7% over the period, whilst the Over 15 Year Gilt Index returned 7.2%. Real yields on UK index-linked gilts also fell over the three months to 30 September 2014, but not to the same extent as nominal yields, resulting in increased inflation expectations. The Over 5 year Index-linked Gilts Index returned 5.9% over the quarter. Corporate bond performance was positive over the quarter, despite credit spreads widening, with the iBoxx All Stocks Non Gilt Index returning 2.9%.

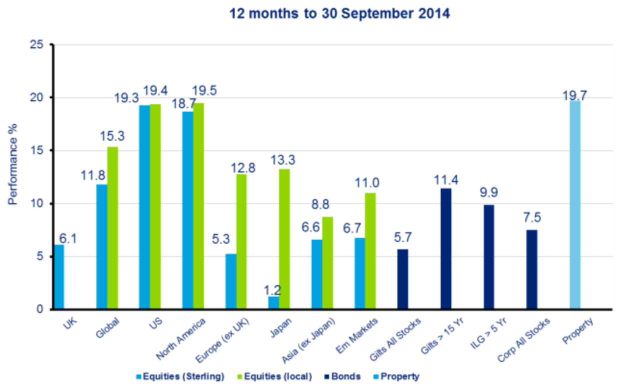
Over the year to 30 September 2014, the FTSE All Share Index returned 6.1%. At the sector level, Health Care delivered the highest return (20.8%), in stark contrast to the Consumer Services sector which delivered the lowest return over the period (-4.5%).

Global markets outperformed the UK in both sterling and local currency terms over the year. The FTSE All World Index returned 11.8% in sterling terms, and delivered a higher return of 15.3% in local currency terms. Currency hedging was therefore beneficial as sterling appreciated against all major currencies over the period, most notably against the Japanese yen and significantly against the euro.

Returns on nominal UK gilts were positive over the year to 30 September 2014, with yields increasing at shorter maturities but falling at the longer end of the curve. The All Stocks Gilt Index returned 5.7% and the Over 15 Year Gilt Index returned 11.4% over the period. Real yields on UK index-linked gilts followed a similar pattern to nominal yields, with the Over 5 Year Index-linked Gilts Index returning 9.9%. Corporate bond markets delivered a positive return over the 12 months to 30 September 2014, with the iBoxx All Stocks Non Gilt Index returning 7.5% as credit spreads narrowed over the year.

The UK property market continues to rise, returning 4.7% over the quarter and 19.7% over the year to 30 September 2014.





2 Total Fund

2.1 Investment Performance to 30 September 2014

The following table summarises the performance of the Fund's managers.

Manager	Asset Class	Last Quarter (%)			Last Year (%)			Last 3 Years (% p.a.)[1]			Since inception (% p.a.)[1]		
		Fund		B'mark	Fund		B'mark	Fund		B'mark	Fund		B'mark
		Gross	Net[1]		Gross	Net[1]		Gross	Net[1]		Gross	Net[1]	
Baillie Gifford	Global Equity	2.1	2.0	3.2	n/a	n/a	n/a	n/a	n/a	n/a	2.9	2.5	6.3
Majedie	UK Equity	-1.7	-1.8	-1.0	7.9	7.6	6.1	18.5	18.1	13.9	10.9	10.5	6.0
LGIM	Global Equity	0.9	0.9	0.9	14.9	14.7	14.9	n/a	n/a	n/a	18.3	18.2	18.3
Insight	Non Gilts	2.0	2.0	2.0	7.2	6.9	6.0	8.6	8.4	7.3	5.9	5.7	5.4
	Gilts	1.8	1.8	1.9	2.7	2.6	2.7	2.0	1.9	2.0	5.3	5.2	5.4
Hermes	Property	5.3	5.2	4.1	19.6	19.3	17.3	10.1	9.6	7.9	8.1	7.7	7.8
Standard Life	Property	2.6	2.5	4.3	12.2	11.6	7.8	n/a	n/a	n/a	12.3	11.7	7.0
Total		0.9	0.8	1.4	10.5	10.2	10.7	14.7	14.4	13.9	6.0	5.7	5.8

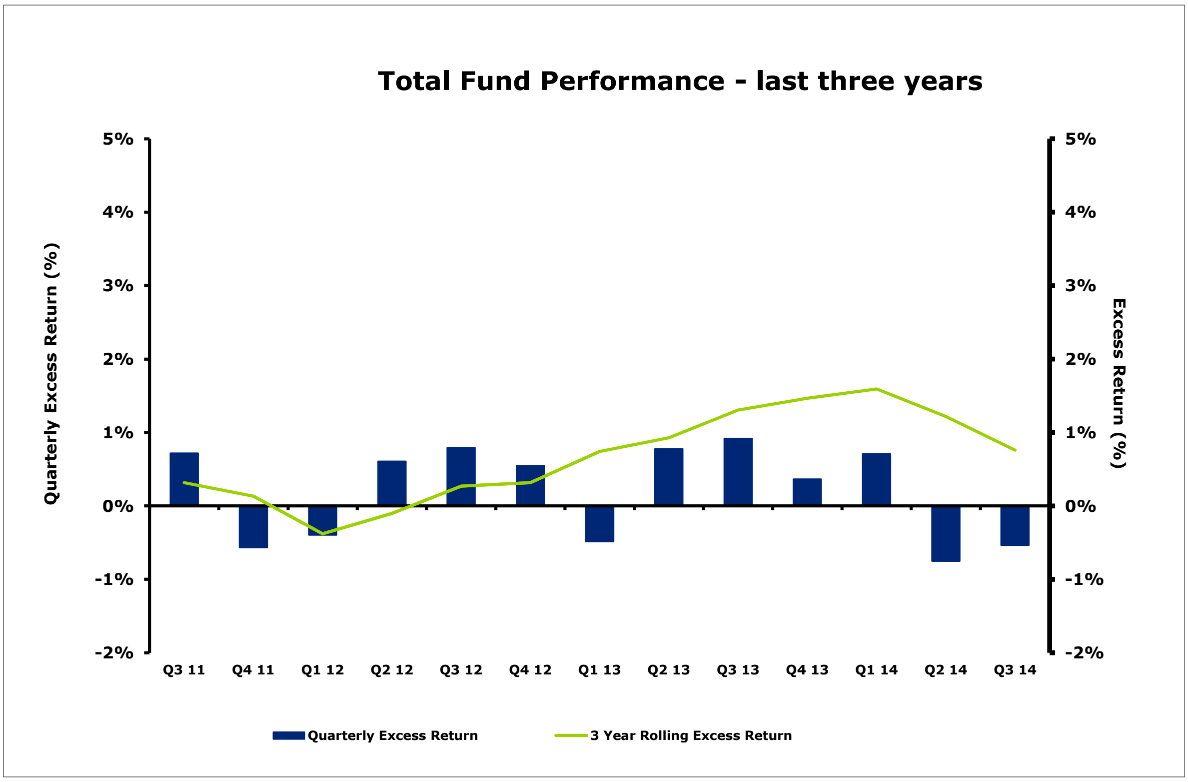
Source: Investment Managers

(1) Estimated by Deloitte when manager data is not available.

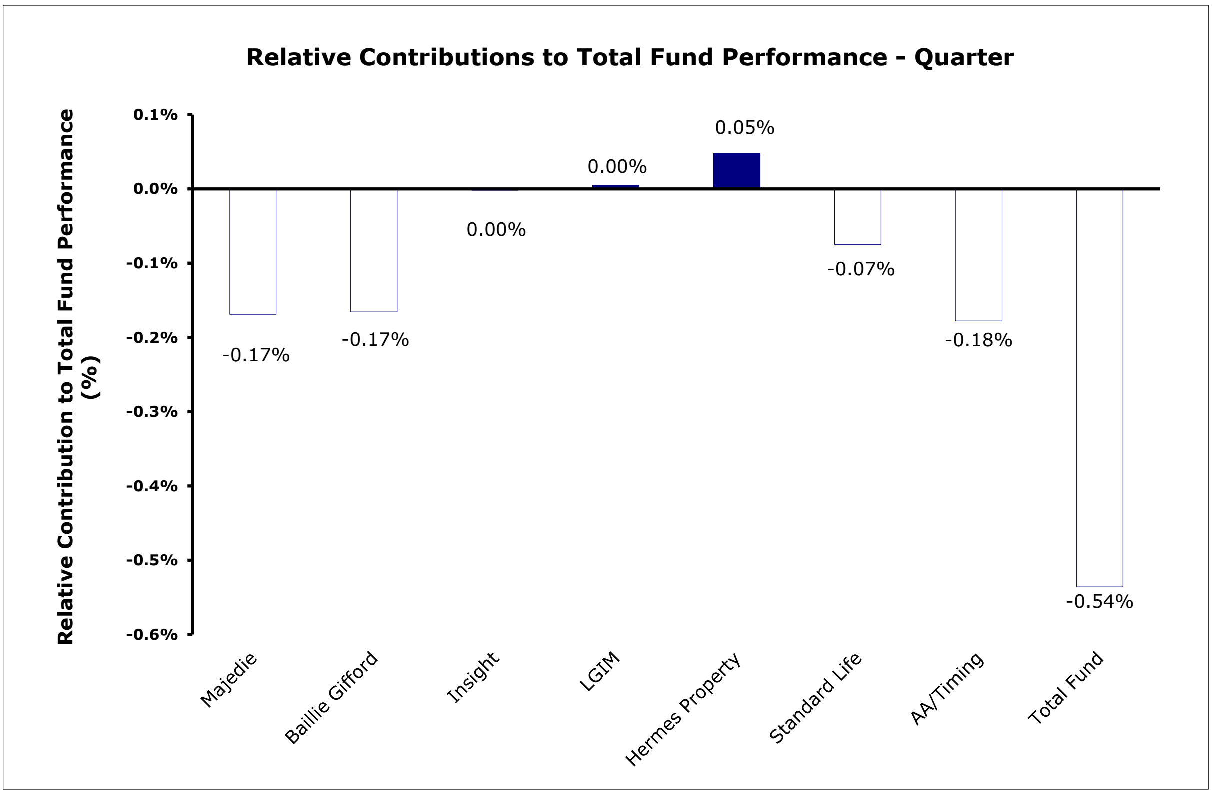
See appendix 1 for more detail on manager fees and since inception dates

Over the quarter the Fund underperformed, mostly due to the active equity manager Baillie Gifford and Property manager Standard Life.

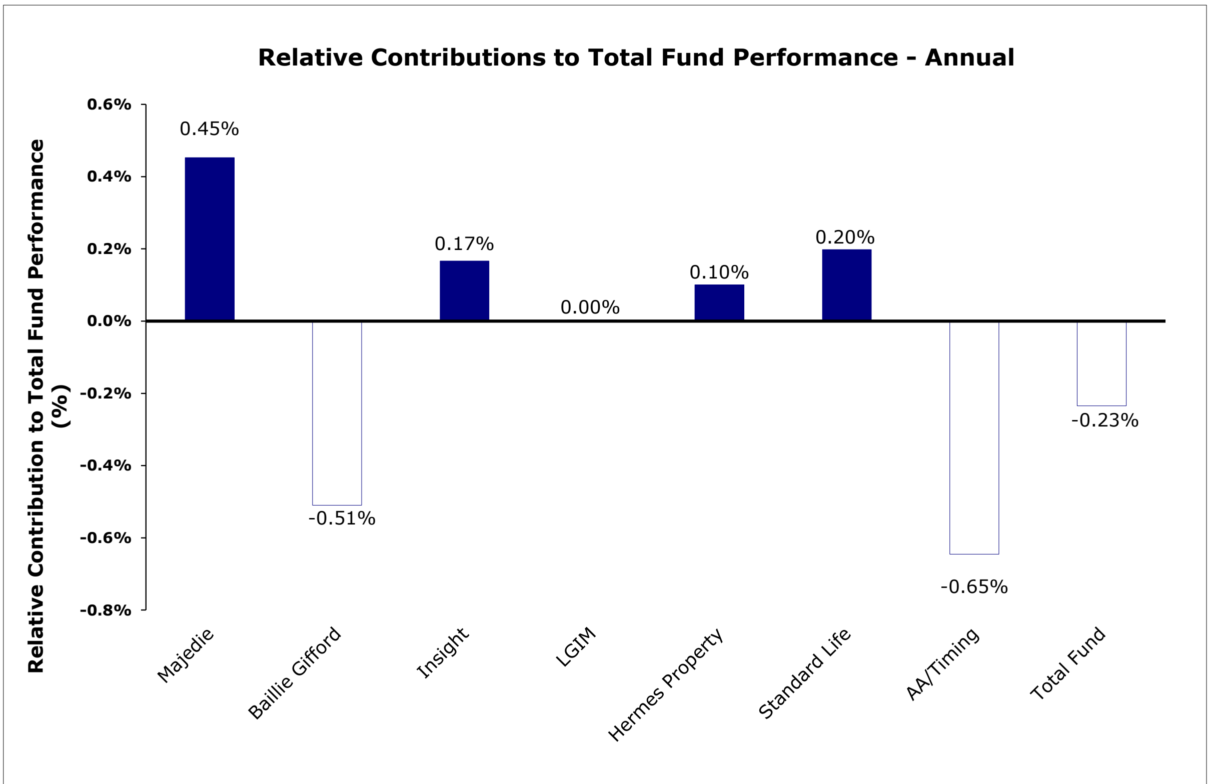
The chart below shows the performance of the Fund over the three year period, highlighting that the rolling three-year performance has been positive since mid-2012, with Majedie, Hermes and Insight contributing positively.



2.2 Attribution of Performance to 30 September 2014



The Fund underperformed its composite benchmark by 54bps over the third quarter of 2014, largely as a result of weak performance from the active equity managers, Majedie and Baillie Gifford.



The Fund underperformed over the year, largely due to underperformance from Baillie Gifford. The performance of the Baillie Gifford fund is taken from inception as the Fund has been invested for less than a year. The AA/Timing bar largely reflects the fact that the actual allocation has differed from the benchmark.

Asset Allocation as at 30 September 2014

Over the quarter, there were no changes to manager allocations.

The table below shows the assets held by manager and asset class as at 30 September 2014.

Manager	Asset Class	End Jun 2014 (£m)	End Sep 2014 (£m)	End Jun 2014 (%)	End Sep 2014 (%)	Benchmark Allocation (%)
Majedie	UK Equity	241.7	237.5	24.1	23.5	16.9
LGIM	Global Equity (Passive)	362.7	366.1	36.2	36.2	43.1
Baillie Gifford	Global Equity	150.7	153.9	15.0	15.2	15.0
	Total Equity	**755.1**	**757.5**	**75.4**	**75.0**	**75.0**
Insight	Fixed Interest Gilts (Passive)	16.8	17.1	1.7	1.7	0.0
Insight	Sterling Non-Gilts	144.8	147.7	14.5	14.6	15.0
	Total Bonds	**161.6**	**164.8**	**16.1**	**16.3**	**15.0**
Hermes	Property	40.2	41.9	4.0	4.1	5.0
Standard Life	Property	44.9	46.0	4.5	4.6	5.0
	Total Property	**85.1**	**87.9**	**8.5**	**8.7**	**10.0**
	Total	**1,001.8**	**1,010.2**	**100**	**100**	**100**
	Westminster In-House Account	0.2	0.3			
	Total	**1,002.0**	**1,010.5**			

Source: Investment Managers and Custodian (BNY Mellon)
Figures may not sum to total due to rounding

Over the quarter the market value of the assets increased by c. £8.5m.

Rebalancing Framework

As at 30 September 2014, the Fund remains overweight Majedie UK equities (+6.6%). However, at the total equity level the allocation is in line with the benchmark allocation as a result of the large underweight allocation to the passive global equity mandate of -6.9%. The Total Bonds allocation is marginally overweight (+1.3%) with the total Property allocation underweight by a similar percentage.

3 Summary of Manager Ratings

The table below summarises Deloitte's ratings of the managers employed by the Fund and triggers against which managers should be reviewed.

Manager	Mandate	Triggers for Review	Rating
Majedie	UK Equity	Further turnover within the core investment team Re-opening the UK equity products with no clear limits on the value of assets that they would take on	1
Baillie Gifford	Global Equity	Loss of key personnel Change in investment approach Lack of control of asset growth	1
LGIM	Global Equity (passive)	Major deviation from benchmark returns Significant loss of assets under management	1
Insight	Sterling Non-Gilts	Departure of any of the senior members of the investment team Steps to broaden their product offering beyond the current UK and European focus without first bringing in the additional expertise	1
Insight	Fixed Interest Gilts (Passive)		n/a
Hermes	Property	Significant growth in the value of assets invested in the fund Changes to the team managing the mandate	2
Standard Life	Property	Growth in the value of the Long Lease Property Fund above £1.5bn Departure of the fund manager	1

* The Provisional rating is applied where we have concerns over changes to an investment manager

Majedie UK Equity

Having launched the new global equity fund at the end of June which was seeded by money from Majedie Investment and Majedie Asset Management, the team has won its first external mandate from an existing Majedie client.

From the UK equity side of the business, Majedie has seen outflows of around £1.3bn over the 12 months to the end of September, largely as a consequence of defined benefit schemes de-risking. However, Majedie has been able to recycle much of the capacity that has been freed up, also adding assets to the Tortoise fund which has doubled in size over the last year.

The only change to the team was the addition of a new equity analyst, Tom Hosking (who is the son of Jeremy Hosking, one of the founders of Marathon Asset Management).

Deloitte view – We continue to rate Majedie positively for its UK equity capabilities.

Baillie Gifford

Total assets under management increased over the quarter from £108.2bn at 30 June 2014 to £109.6bn as at 30 September 2014, with Baillie Gifford gaining 26 new client mandates and losing 6 from a variety of strategies over the period.

There remains capacity in the Baillie Gifford Long Term Global Growth (LTGG) strategy which reopened during the fourth quarter of 2013 – this is a capacity constrained product and will remain open for the limited time that it takes for it to reach full capacity again.

There were no changes to the process applied in the management of the Global Alpha portfolio. While there were some personnel changes over the quarter, none of the departures were involved in the day to day management of the global alpha strategy.

Deloitte view – We continue to rate Baillie Gifford positively for its global equity capabilities.

LGIM

There were no significant changes to the passive team over the quarter, with the addition of a new assistant fund manager and the secondment of one of the team to the Chicago office.

Deloitte view – We continue to rate Legal & General's passive capabilities positively.

Insight

Insight continues to grow the assets under management for both the fixed interest and liability solutions parts of the business.

Following the quarter end it was announced that BNY Mellon – Insight's owner – would be acquiring Cutwater Asset Management, a US fixed income specialist manager. On completion of the transaction, Cutwater will operate as part of BNY Mellon, reporting into Insight's CEO, Abdallah Nauphal. The expectation is that at some point, the Cutwater team will move into the same offices as Insight's US operation, providing support to Insight on its coverage of US bonds. This will help Insight achieve their longer term aim of deepening the coverage in the US which is expected to add additional capacity to some of Insight's products.

Deloitte view – We continue to rate Insight positively for its bond and LDI capabilities.

Hermes

We have not been notified of any changes to the team managing HPUT or the processes applied.

Deloitte view – We continue to rate the team managing HPUT.

Standard Life

The acquisition of Ignis Asset Management by Standard Life received regulatory approval during the second quarter of 2014 and work is now underway on the integration of the two businesses. SLI advises that the integration is being managed to minimise the potential distraction to investment personnel.

As part of the Ignis acquisition, the real estate team will increase in size, with additional team members and around £3.5bn of real estate assets. Most of the property assets under management are retail orientated however, with no long lease element.

There have been no changes to the team which is responsible for the Long Lease Property Fund.

Over the second quarter, there were no significant inflows or outflows from the SLI Long Lease Property Fund. Total assets under management amounted to £1.45bn as at 30 September 2014.

Deloitte view – we continue to monitor SLI in light of the recent Ignis acquisition. We will also monitor the investment pipeline into the Long Lease Fund to ensure that potential investments continue to meet the criteria as outlined at the inception of the Fund.

4 Baillie Gifford – Global Equity

Baillie Gifford was appointed to manage an active Global Equity mandate from 18 March 2014. The manager is remunerated on an asset based fee, reflecting the total value of assets invested in the strategy across the Tri-borough. The target is to outperform the benchmark of 2% p.a.

4.1 Global equity – Investment performance to 30 September 2014

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Baillie Gifford - Gross of fees	2.1	n/a	n/a	2.9
Net of fees[1]	2.0	n/a	n/a	2.5
MSCI AC World Index	3.2	n/a	n/a	6.3
Relative	-1.1	n/a	n/a	-3.4

Source: Baillie Gifford

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

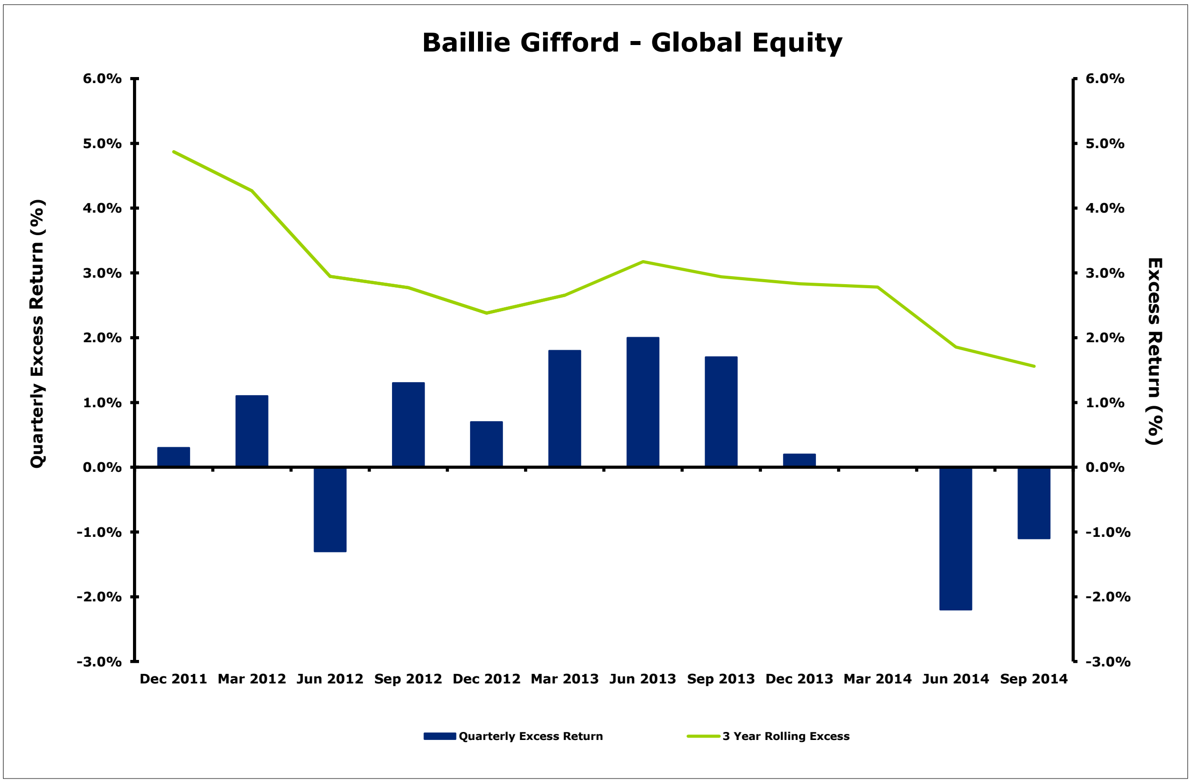
Inception date taken as 18 March 2014

The Baillie Gifford Global Equity fund has underperformed its benchmark over the quarter.

Key drivers of underperformance over the quarter included holdings in Harley Davidson Inc, and falling oil prices affecting the performance of oil and gas related companies, including one of last quarter's biggest contributors, Eog Res. In addition, not holding Apple detracted over the quarter.

In contrast, Baidu (a Chinese web services company) and Royal Caribbean Cruises Ltd were the top contributors to performance over the period.

The below graph shows the quarterly returns and the rolling 3 year excess returns relative to the benchmark. Please note that the Fund only invested in this fund from 18th March 2014 and previous periods are shown for information only.



5 LGIM – Global Equity (Passive)

LGIM was appointed to manage a passive global equity mandate from the 31 October 2012.The manager is remunerated on a fixed fee based on the value of assets. The target is to deliver performance in line with the stated benchmarks.

5.1 Passive Global Equity – Investment Performance to 30 September 2014

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
LGIM - Gross of fees	0.9	14.9	n/a	18.3
Net of fees[1]	0.9	14.7	n/a	18.2
FTSE World GBP Hedged	0.9	14.9	n/a	18.3
Relative	0.0	0.0	n/a	0.0

Source: LGIM

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 1 November 2012 (prior to that the mandate was an active equity mandate). The portfolio aims to track the benchmark.

The investment objective of the fund is to track the performance of the FTSE AW-World Index (less withholding tax if applicable) - GBP Hedged (with the exception of advanced emerging markets) to within +/-0.5% p.a. for two years out of three.

The LGIM fund has performed in line with the benchmark over the quarter, one year and since the inception of the mandate.

6 Majedie – UK Equity

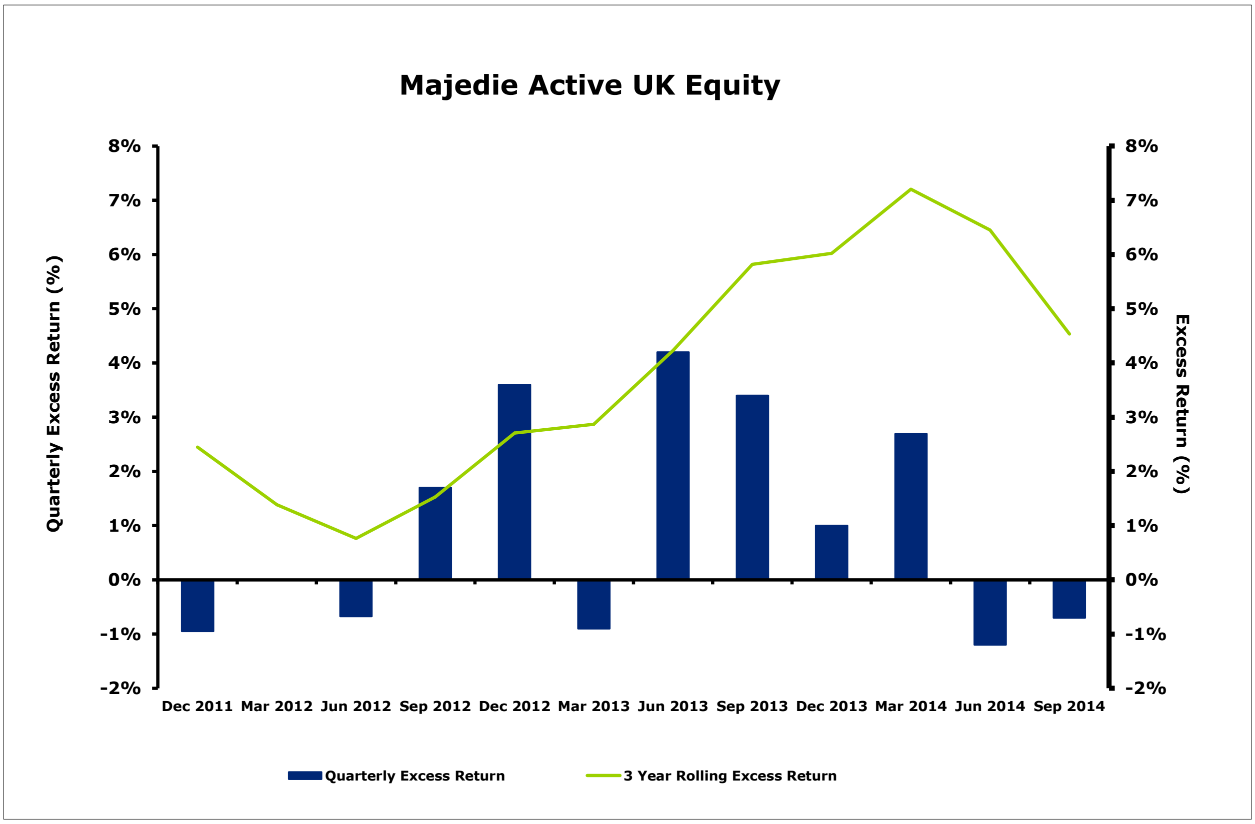
Majedie was appointed to manage an active UK equity mandate. The manager's remuneration is a combination of a fixed fee based on the value of assets and a performance related fee which is payable when the excess return of the portfolio over a rolling 3 year period is more than 1% p.a. The target is to outperform the benchmark by 2% p.a.

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Majedie - Gross of base fees	-1.7	7.9	18.5	10.9
Net of base fees[1]	-1.8	7.6	18.1	10.5
FTSE All-Share Index	-1.0	6.1	13.9	6.0
Relative	-0.7	1.8	4.5	4.9

Source: Majedie

See appendix 1 for more detail on manager fees

Target estimated by Deloitte. Inception date taken as 31 May 2006.



Majedie underperformed its benchmark over the quarter by 0.7%. However, over the longer timeframes of one year, three years and since inception the manager has outperformed its target by 1.8%, 4.5% p.a. and 4.9% p.a. respectively.

Over the quarter, positive performance was driven by BAE Systems, Carnival (global cruise company) and RBS. However, the holding in Tesco hurt performance as its stock fell ~34.5% over the quarter in reaction to the news that earnings had been overstated. In addition, the holding in BP detracted from performance as did not holding Shire and being underweight HSBC.

7 Insight – Bonds

Insight was appointed to manage two bond portfolios – an actively managed corporate bond (non –Gilt) portfolio and a passively managed gilt portfolio. The manager's fee is based on the value of assets. The target of the Non-Gilt portfolio is to outperform the benchmark by 0.9% p.a.

7.1 Insight – Active Non Gilts

7.1.1 Investment Performance to 30 September 2014

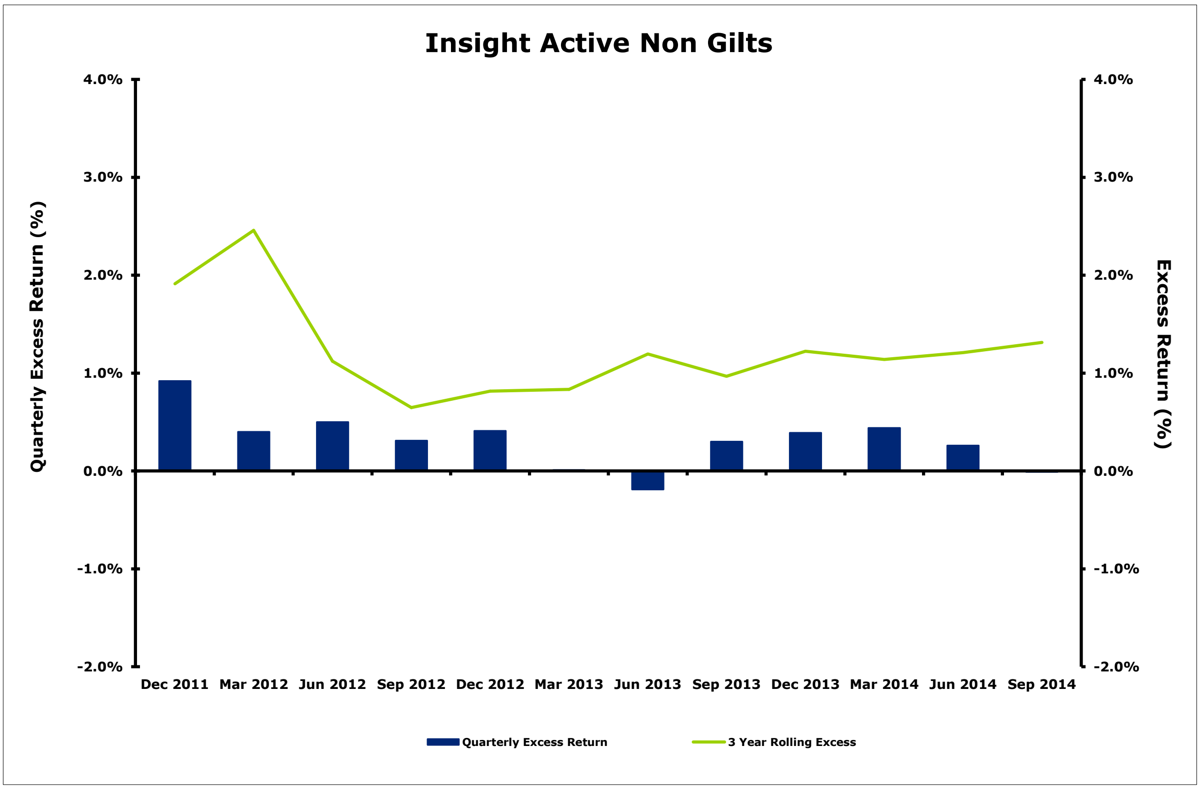
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Insight (Non-Gilts) - Gross of fees	2.0	7.2	8.6	5.9
Net of fees[1]	2.0	6.9	8.4	5.7
iBoxx £ Non-Gilt 1-15 Yrs Index	2.0	6.0	7.3	5.4
Relative	0.0	1.1	1.3	0.5

Source: Insight

(1) Estimated by Deloitte

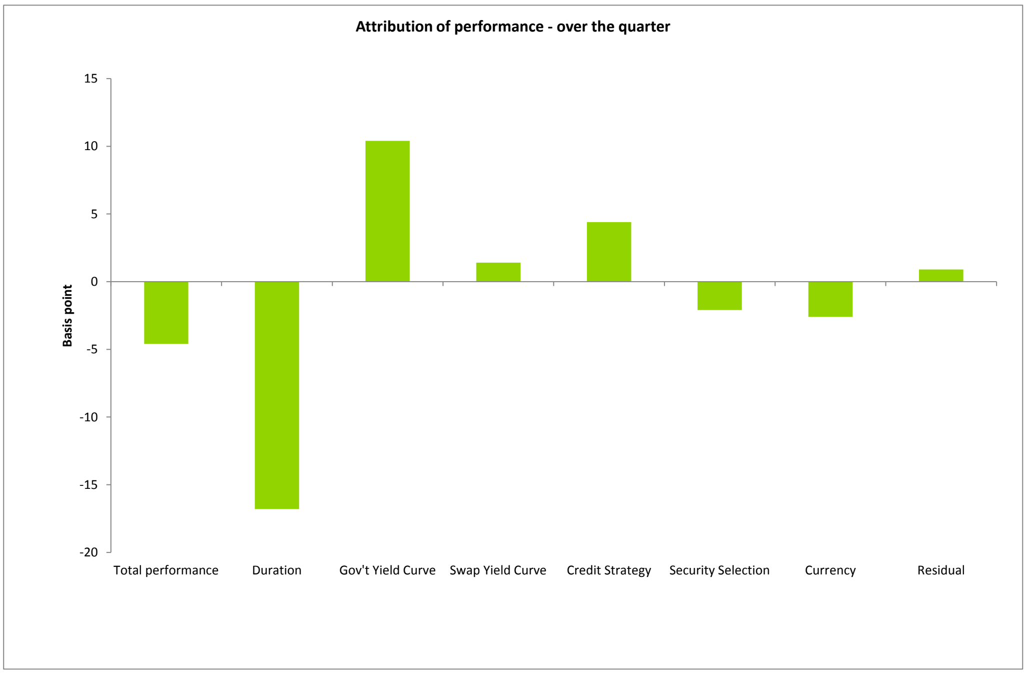
See appendix 1 for more detail on manager fees

Inception date taken as 31 May 2006.



Over the quarter the portfolio performed broadly in line with the benchmark, returning 2.0%. Over the one year and three years Insight has outperformed the benchmark by 1.1% and 1.3% p.a. respectively.

7.1.2 Attribution of Performance



Source: Insight

Insight's decision to be slightly short of duration detracted from performance, broadly offsetting the performance from the Yield Curve and the Credit strategies employed over the quarter.

7.2 Insight – Government Bonds

7.2.1 Investment Performance to 30 September 2014

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Insight (Passive Bonds) - Gross	1.8	2.7	2.0	5.3
Net of fees[1]	1.8	2.6	1.9	5.2
FTSE A Gilts up to 15 Yrs Index	1.9	2.7	2.0	5.4
Relative	0.0	0.0	0.0	-0.1

Source: Insight

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date taken as 30 June 2008.

The gilt portfolio has performed broadly in line with its benchmark over the quarter, one and three year period to 30 September 2014.

7.3 Duration of portfolios

	End Jun 2014		End Sep 2014	
	Fund (Years)	Benchmark (Years)	Fund (Years)	Benchmark (Years)
Non-Government Bonds (Active)	5.2	5.5	5.1	5.5
Government Bonds (Passive)	4.6	4.6	4.4	4.8

Source: Insight

8 Hermes – Property

Hermes was appointed to manage a core UK property portfolio. The manager is remunerated on a fixed fee based on the value of assets. The target is to outperform the benchmark by 0.5% p.a.

8.1 Portfolio Monitoring Summary

	Last Quarter (%)	Last Year (%)	Last 3 Years	Since Inception (% p.a.)
Hermes - Gross of fees	5.3	19.6	10.1	8.1
Net of fees[1]	5.2	19.3	9.6	7.7
Benchmark	4.1	17.3	7.9	7.8
Reative	1.2	2.3	2.2	0.3

Source: Hermes

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date is taken as 26 October 2010

Hermes outperformed its benchmark by 1.2% over the quarter.

Longer term the performance has also been ahead of benchmark.

8.2 Sales and Purchases

We are yet to receive the quarterly update from Hermes on the fund and therefore further information is unavailable at this time.

9 Standard Life – Long Lease Property

Standard Life Investments ("SLI") was appointed to manage a UK property portfolio investing in core assets where the focus is on properties with long leases let to high quality tenants. The manager is remunerated on a fixed fee based on the value of assets. The target is to outperform the benchmark by 0.5% p.a.

9.1 Portfolio Monitoring Summary

	Last Quarter (%)	Last Year (%)	Last 3 Years	Since Inception (% p.a.)
Standard Life - Gross of fees	2.6	12.2	n/a	12.3
Net of fees[1]	2.5	11.6	n/a	11.7
Benchmark	4.3	7.8	n/a	7.0
Relative	-1.6	4.4	n/a	5.2

Source: Standard Life

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Since inception: 14 June 2013

The SLI Long Lease Property Fund returned 2.6% over the third quarter, underperforming the benchmark of the FTSE Gilt All Stocks Index + 2 by 1.7%.

9.2 Sales and Purchases

Standard Life continues to actively seek new opportunities however there were no transactions over the third quarter of 2014 and there is currently no queue of commitments awaiting investment.

Several developments completed over the third quarter:

- The extension of a supermarket in Liverpool was completed and Sainsbury's extended their lease to 30 years with RPI-linked increases.
- A distribution warehouse construction was completed in Glasgow and let to Brakes Brothers on a 25 year lease with RPI-linked rental increases.
- A second distribution warehouse in Harlow was completed and let to Poundland on a 20 year lease.

Appendix 1 – Fund and Manager Benchmarks

The tables in this Appendix detail the benchmarks and outperformance targets, for the Total Fund and each individual manager.

Total Fund

Inception: 1 June 2006. Current benchmark allocation effective from 18 March 2014.

Manager	Asset Class	Allocation	Benchmark	Outperformance Target	Inception Date	Fees (p.a.)	Tracking Error p.a.
Majedie	UK Equity	16.9	FTSE All-Share Index	+2.0 p.a. (net of fess)	31/05/06	c.35bps base fees +20 performance fee on 1 outperformance over 3 year rolling	2.0-6.0
Baillie Gifford	Global Equity	15.0	MSCI AC World Index	+2.0 p.a. (net of fess)	18/03/214	40bps base fee	
LGIM	Global Equity	43.1	FTSE World GBP Hedged	Passive	01/11/12	13bps base fees	+/- 0.5
Insight	Fixed Interest Gilts	-	FTSE GILTS up to 15 Yrs Index	Passive	31/05/06	10bps base fees	
	Non-Gilts	15.0	iBoxx £ Non-Gilt 1-15 Yrs Index	+ 0.90 p.a. (gross fees)	31/05/06	c.24bps base fee	0 - 3.0
Hermes	Property	5.0	IPD UK PPFI Balanced PUT Index	+0.5 p.a. (net of fess)	26/10/10	40bps base fee	
Standard Life	Property	5.0	FTSE Gilts All Stocks Index +2% p.a.	+0.5 p.a. (net of fess)	14/06/13	50bps base fee	
	Total	**100.0**					

Appendix 2 – Manager Ratings

Based on our manager research process, we assign ratings to the investment managers for specific products or services. The ratings are based on a combination of quantitative and qualitative factors, where the inputs for the qualitative factors come from a series of focused meetings with the investment managers. The ratings reflect our expectations of the future performance of the particular product or service, based on an assessment of:

- The manager's business management;
- The sources of ideas that go to form the portfolio ("alpha generation");
- The process for including the ideas into the portfolio ("alpha harnessing"); and
- How the performance is delivered to the clients.

On the basis of the research and analysis, managers are rated from 1 (most positive) to 4 (most negative), where managers rated 1 are considered most likely to deliver outperformance, net of fees, on a reasonably consistent basis. Managers rated 1 will typically form the basis of any manager selection short-lists.

Where there are developments with an investment manager that cause an element of uncertainty we will make the rating provisional for a short period of time, while we carry out further assessment of the situation.

Appendix 3 – Risk warnings & Disclosures

- Past performance is not necessarily a guide to the future.
- The value of investments may fall as well as rise and you may not get back the amount invested.
- Income from investments may fluctuate in value.
- Where charges are deducted from capital, the capital may be eroded or future growth constrained.
- Investors should be aware that changing investment strategy will incur some costs.
- Any recommendation in this report should not be viewed as a guarantee regarding the future performance of the products or strategy.

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City of Westminster Pension Fund

Funding Update Report

as at 30 September 2014

Graeme D Muir FFA
Barnett Waddingham LLP

31 October 2014

Contents

1.	Introduction	3
2.	Assets	4
3.	Changes in Market Conditions – Market Yields and Discount Rates	5
4.	Summary of Results	6
Appendix 1	Financial position since previous valuation	7

1. Introduction

1.1. We have carried out a quarterly monitoring assessment of the City of Westminster Pension Fund as at 30 September 2014. The purpose of this assessment is to provide an update on the funding position.

1.2. We assess the funding position on a smoothed basis which is an estimate of the average position over a 6 month period spanning the reporting date. As the smoothing adjustment reflects average market conditions spanning a 6 month period straddling the reporting date, the smoothed figures are projected numbers and likely to change up until 3 months after the reporting date. The smoothed results are indicative of the underlying trend.

1.3. In addition, we assess the funding position on an "unsmoothed" basis where assets are taken at market value and discount rates are taken as the spot rates at the reporting date.

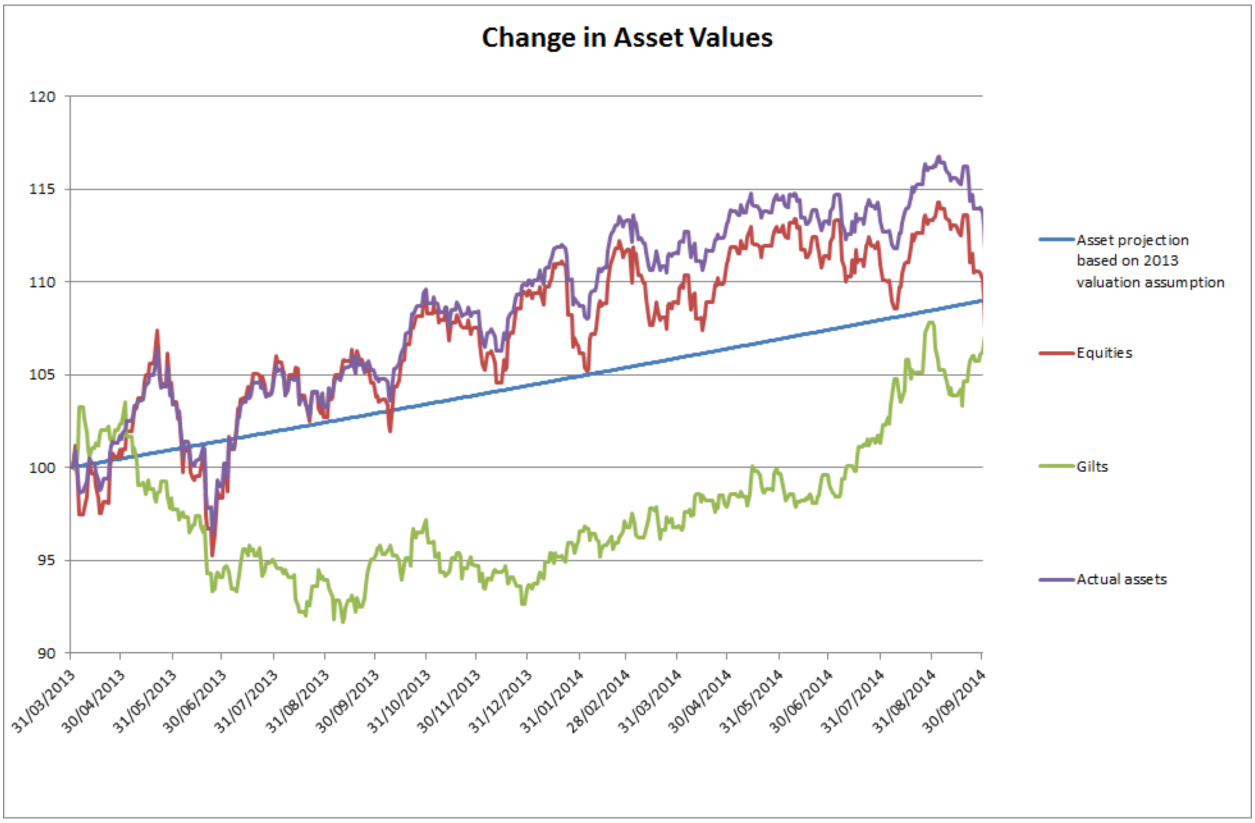
2. Assets

2.1. The estimated (unsmoothed) asset allocation of the City of Westminster Pension Fund as at 30 September 2014 is as follows:

Assets (Market Value)	30 September 2014		30 June 2014		31 March 2013	
	£000's	%	£000's	%	£000's	%
UK and Overseas Equities	771,806	76.4%	770,337	76.6%	643,179	73.6%
Bonds	122,357	12.1%	121,383	12.1%	111,092	12.7%
Property	87,409	8.7%	84,635	8.4%	35,787	4.1%
Gilts	15,917	1.6%	16,561	1.6%	49,821	5.7%
Cash and Accruals	12,186	1.2%	12,982	1.3%	34,303	3.9%
Total Assets	**1,009,675**	**100%**	**1,005,898**	**100%**	**874,182**	**100%**

2.2. The investment return achieved by the Fund's assets in market value terms for the quarter to 30 September 2014 is estimated to be 0.5%. The return achieved since the previous valuation is estimated to be 13.7% (which is equivalent to 8.9% per annum).

2.3. The following chart shows the changes in equity and bond markets since the previous actuarial valuation and compares with the estimated actual fund returns and the expected fund returns assumed at the previous valuation:



2.4. As we can see asset value as at 30 September 2014 in market value terms is slightly more than where it was projected to be at the previous valuation.

3. Changes in Market Conditions – Market Yields and Discount Rates

3.1. The actual investment returns earned by the Fund will affect the value of the Fund's assets. The value of the Fund's liabilities however is dependent on the assumptions used to value the future benefits payable. The following table show how these assumptions have changed since the last triennial valuation:

Assumptions (Smoothed)	30 September 2014		30 June 2014		31 March 2013	
	Nominal	Real	Nominal	Real	Nominal	Real
	%p.a.		%p.a.		%p.a.	
Pension Increases	2.67%	-	2.74%	-	2.74%	-
Salary Increases	4.47%	1.80%	4.54%	1.80%	4.54%	1.80%
Discount Rate						
Scheduled Bodies	6.02%	3.36%	6.09%	3.36%	5.90%	3.16%
Admission Bodies (in service)	4.96%	2.29%	5.07%	2.34%	4.90%	2.16%
Admission Bodies (left service)	3.46%	0.79%	3.64%	0.91%	3.50%	0.76%

Assumptions (Unsmoothed)	30 September 2014		30 June 2014		31 March 2013	
	Nominal	Real	Nominal	Real	Nominal	Real
	%p.a.		%p.a.		%p.a.	
Pension Increases	2.65%	-	2.78%	-	2.80%	-
Salary Increases	4.45%	1.80%	4.58%	1.80%	4.60%	1.80%
Discount Rate						
Scheduled Bodies	6.01%	3.36%	6.11%	3.34%	5.91%	3.11%
Admission Bodies (in service)	4.92%	2.26%	5.12%	2.34%	4.86%	2.06%
Admission Bodies (left service)	3.38%	0.73%	3.74%	0.96%	3.40%	0.59%

3.2. The key assumption which has the greatest impact on the valuation of liabilities is the real discount rate – the higher the real discount rate the lower the value of liabilities. As we see the real discount rates are higher than at the 2013 valuation, reducing the value of liabilities used for funding purposes.

4. Summary of Results

4.1. The results of our assessment indicate that:

- The current projection of the smoothed funding level as at 30 September 2014 is 79% and the average required employer contribution would be 29.4% of payroll assuming the deficit is to be paid by 2038.
- The current projection of the unsmoothed funding level as at 30 September 2014 is 79% and the average required employer contribution would be 29.6% of payroll assuming the deficit is to be paid by 2038.
- This compares with the reported (smoothed) funding level of 74% and average required employer contribution of 29.8% of payroll at the 2013 funding valuation.

4.2. Based on the Scheduled Body discount rate of 6.0% per annum, the investment return required to restore the funding level to 100% by 2038, without the employers paying deficit contributions, would be 7.0% per annum.

4.3. The funding position for each month since the formal valuation is shown in Appendix 1. It should be borne in mind that the nature of the calculations is approximate and so the results are only indicative of the underlying position.

4.4. We would be pleased to answer any questions arising from this report.

Graeme D Muir FFA
Partner

Appendix 1 Financial position since previous valuation

Below we show the financial position on both a smoothed and an unsmoothed basis for each month since the previous full valuation. As the smoothing adjustment reflects average market conditions spanning a 6 month period straddling the reporting date, the smoothed figures for the previous 3 months are projected numbers and likely to change up until 3 months after the reporting date.

Smoothed Valuation Date	Assets £000's	Liabilities £000's	Surplus/ Deficit £000's	Funding Level %	Final Salary Ongoing (% of Payroll)	CARE Ongoing Cost	Past Service Ctbn	Total Ctbn (% of payroll)	Main Discount Rate	Return required to restore funding level (pa)
March 2013	866,938	1,164,198	(297,260)	74%	14.3%	13.3%	16.5%	29.8%	5.9%	7.1%
April 2013	878,910	1,165,568	(286,658)	75%	14.3%	13.8%	13.1%	26.8%	5.9%	7.1%
May 2013	888,642	1,169,568	(280,926)	76%	14.2%	13.7%	12.9%	26.6%	5.9%	7.1%
June 2013	895,688	1,170,718	(275,030)	77%	14.1%	13.5%	12.7%	26.2%	6.0%	7.1%
July 2013	904,339	1,173,403	(269,063)	77%	14.0%	13.4%	12.5%	25.9%	6.0%	7.0%
August 2013	909,690	1,175,518	(265,828)	77%	13.9%	13.3%	12.4%	25.7%	6.0%	7.1%
September 2013	918,777	1,183,051	(264,274)	78%	13.9%	13.3%	12.3%	25.7%	6.0%	7.1%
October 2013	929,362	1,191,805	(262,443)	78%	13.9%	13.4%	12.3%	25.7%	6.0%	7.0%
November 2013	938,213	1,201,055	(262,842)	78%	13.9%	13.4%	12.3%	25.7%	6.0%	7.0%
December 2013	946,872	1,211,047	(264,176)	78%	14.0%	13.4%	12.4%	25.8%	6.0%	7.0%
January 2014	954,969	1,220,108	(265,139)	78%	13.9%	13.4%	14.1%	27.5%	6.0%	7.0%
February 2014	962,658	1,228,794	(266,137)	78%	13.9%	13.4%	14.3%	27.7%	6.0%	7.0%
March 2014	1,004,578	1,236,829	(232,251)	81%	13.9%	13.4%	14.4%	27.8%	6.0%	6.9%
April 2014	1,005,726	1,247,825	(242,099)	81%	-	13.4%	14.8%	28.3%	6.0%	6.9%
May 2014	1,007,188	1,260,975	(253,787)	80%	-	13.5%	15.3%	28.8%	5.9%	6.9%
June 2014	1,009,896	1,244,930	(235,034)	81%	-	12.9%	14.6%	27.5%	6.1%	7.0%
July 2014	1,009,337	1,256,980	(247,642)	80%	-	13.0%	15.2%	28.2%	6.1%	7.0%
August 2014	1,009,990	1,267,542	(257,552)	80%	-	13.0%	15.8%	28.8%	6.0%	7.0%
September 2014	1,009,471	1,277,558	(268,087)	79%	-	13.0%	16.4%	29.4%	6.0%	7.0%

Unsmoothed Valuation Date	Assets £000's	Liabilities £000's	Surplus/ Deficit £000's	Funding Level %	Final Salary Ongoing (% of Payroll)	CARE Ongoing Cost	Past Service Ctbn	Total Ctbn (% of payroll)	Main Discount Rate	Return required to restore funding level (pa)
March 2013	874,182	1,175,148	(300,966)	74%	14.7%	13.6%	13.4%	27.0%	5.9%	7.1%
April 2013	886,487	1,186,870	(300,384)	75%	14.9%	13.8%	13.5%	27.3%	5.8%	7.0%
May 2013	901,919	1,182,756	(280,837)	76%	14.6%	13.5%	12.8%	26.2%	5.9%	7.0%
June 2013	862,959	1,138,024	(275,065)	76%	13.2%	13.5%	12.9%	26.4%	6.1%	7.2%
July 2013	911,592	1,173,707	(262,116)	78%	14.1%	13.5%	12.1%	25.6%	5.9%	6.9%
August 2013	897,984	1,162,093	(264,109)	77%	13.5%	13.3%	12.4%	25.7%	6.1%	7.2%
September 2013	910,261	1,176,348	(266,087)	77%	13.7%	13.3%	12.5%	25.8%	6.0%	7.0%
October 2013	944,904	1,208,939	(264,035)	78%	14.4%	13.2%	12.3%	25.5%	5.9%	6.9%
November 2013	939,772	1,206,750	(266,978)	78%	14.0%	13.4%	12.5%	25.9%	6.1%	7.1%
December 2013	953,407	1,212,836	(259,429)	79%	14.1%	13.4%	12.2%	25.6%	6.0%	7.0%
January 2014	940,435	1,213,328	(272,893)	78%	13.8%	13.4%	12.9%	26.3%	6.0%	7.0%
February 2014	979,617	1,231,045	(251,428)	80%	14.1%	13.4%	11.9%	25.3%	5.9%	6.9%
March 2014	994,420	1,226,711	(232,291)	81%	13.6%	13.2%	11.2%	24.5%	6.1%	7.0%
April 2014	1,009,341	1,247,964	(238,623)	81%	-	13.4%	15.7%	29.1%	6.0%	6.9%
May 2014	1,018,430	1,265,089	(246,660)	81%	-	13.6%	16.0%	29.5%	6.0%	6.9%
June 2014	1,005,898	1,245,649	(239,751)	81%	-	12.9%	15.8%	28.7%	6.1%	7.0%
July 2014	1,006,083	1,253,133	(247,050)	80%	-	12.9%	15.2%	28.1%	6.0%	7.0%
August 2014	1,032,413	1,288,597	(256,185)	80%	-	13.4%	15.7%	29.0%	5.9%	6.8%
September 2014	1,009,675	1,281,513	(271,838)	79%	-	13.0%	16.6%	29.6%	6.0%	7.0%

City of Westminster

Pension Fund Committee

Date:	**17th November 2014**
Classification:	**General Release**
Title:	**Pensions Engagement Strategy up to 31st March 2016.**
Report of:	**Acting Director of Human Resources**
Wards Involved:	**Not Applicable**
Policy Context:	**Administration and communication of the LGPS to employees.**
Financial Summary:	**The implementation costs are estimated at 25K over 17 months which can be contained within existing budgets**
Report Author and Contact Details:	**Carolyn Beech Tel: 020 7641 3221 Email: cbeech@westminster.gov.uk**

1. Summary

1.1 This report sets out the proposed strategy for pensions administration engagement up to 31st March 2016 (17 months) in respect to the Local Government Pension Scheme (LGPS).

1.2 Actions contained within the strategy will be undertaken jointly by WCC Human Resources and the new pensions administration provider Surrey County Council.

1.3 The proposed strategy contained within this report is submitted jointly with Surrey County Council and has a particular focus on the engagement of the 50/50 option.

2. Recommendation

2.1 That the Committee note and agree the report.

3. Background

3.1 During periods of organisational change there is always a significant increase in the amount and frequency of pensions information requested by employees both on a general and also a personal level.

3.2 In the last 12 months we have engaged with staff on two key areas of change in the provision of the pension scheme. Firstly the LGPS was amended from a final salary to a care scheme in April 2014. Secondly we moved pension administrators in September 2014.

3.3 Staff were advised of the changes to the LGPS in a communication programme that started in November 2013 with a seminar for WCC fund employers highlighting the implications of the changes.

Internal loop messages were sent out to detail the changes which were also included on the pension website. Presentations were held in City Hall in February 2014 with the then Pension Administrators which staff attended and were given the opportunity to ask questions.

Later staff received a letter containing the details of the changes and posters were placed in the lifts in April 2014. Lastly a message was added to the payslips so staff would have every opportunity to engage with the pension changes and make informed decisions.

3.4 Engagement on the change of the pension provider started in July 2014 with scheme employers and third party HR and payroll providers.

They were subsequently advised of the change so that they could amend relevant documents and processes for their members. All current fund members were advised of the change via their employer. All fund members not actively employed were informed by letter to detail the change of pension administrator and provided with the details of the new pension website.

3.5 This new proposed plan looks to build on the above and to continue to promote the scheme to new employees, promote the 50/50 option and to maintain the current level of membership of the LGPS scheme.

4. Proposed communications and engagement strategy up to 31st March 2016.

4.1 *Life Time Allowance* engagements with high earning staff will continue.

Additional written information and advice will be given twice in the period to high earners regarding their options for future membership to the LGPS. Telephone advice will be available from Surrey County Council outside of these interventions

Target dates for written advice to be given: February 2015 and February 2016.

4.2 Five one day employee *pension surgery* sessions will take place during the period at various locations. The sessions will provide the opportunity for employees to meet with pensions experts to address their particular pension queries.

They will be available to members and non members of the scheme. It is intended that the publicity material surrounding these sessions will highlight the potential options available to employees facing potential redundancy or nearing retirement.

Target dates for pension surgery sessions to be run: January 2015 x2, March 2015, October 2015, February 2016.

4.3 Outside of the surgery and open house sessions a *telephone advice service* for members and non members will be available via Surrey County Council.

Personal visitors are also welcome to visit the Surrey County Council offices in Kingston Surrey to discuss their options by appointment.

Target: Telephone service and appointments to be available by Surrey County Council during all the normal contracted hours.

4.4 One all day *Admitted Body Forum* will be held to which all of the admitted bodies and other employer representatives will be invited.

Target date for the Admitted Body Forum June 2015

4.5 The revised Westminster *Pensions Website* developed in 2014 **www.wccpensionfund.co.uk** will be continuously updated throughout the period. On at least three occasions during the period year the website will be brought o the attention of all staff.

Target dates for the updates April 2015, September 2015 and March 2016.

4.6 During this period the *Pensioners Fund member Panel* will be meeting. The fund member panel is made up of current and retired scheme members and will meet up to 4 times during the period. The panel will be asked to propose new innovative ways of engagement with current and retired members.

Target February 2015 May 2015 October 2015 and February 2016.

4.7 In addition a separate major information campaign will be put in place to highlight the benefits of the 50/50 scheme in outline this will consist of:

- All staff not in the pension scheme to be contacted regarding the option and benefits of joining the 50/50 scheme during May 2015

- Posters advertising the 50/50 scheme to be displayed in buildings during July/August 2015

- The 50/50 scheme to be featured strongly on the website during 2015

- All new starters to be made aware of the 50/50 scheme if they opt out of the LGPS during recruitment.

- Surrey County Council has a 45 minute video regarding the revised 2014 regulations that includes the 50/50 scheme this can be used during this time.

5. Costs

5.1 The costs to implement the above are estimated at £25,000 over 17 months these to be contained within existing HR budgets.

6. Summary of activity by month

6.1 **2015**

January - pension surgery sessions x 2

February - Life time allowance letter sent
- Pensioners Fund member Panel

March - Pension surgery session

April - Pensions Website developed

May - Pensioners Fund member Panel
- 50/50 scheme write to staff not in the LGPS

June - Admitted Body Forum

July - Poster advertising the 50/50 scheme

August - Poster advertising the 50/50 scheme

September - Pensions Website developed

October - Pension surgery session
- Pensioners Fund member Panel

6.2 **2016**

February - Life time allowance letter sent
- Pension surgery session
- Pensioners Fund member Panel

March - Pensions Website developed

If you have any queries about this Report or wish to inspect any of the Background Papers please contact:
Carolyn Beech, Acting Director of Human Resources Tel: 020 7641 3221 Email: cbeech@westminster.gov.uk

BACKGROUND PAPERS:

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**17 November 2014**
Classification:	**Public**
Title:	**Pension Fund Governance Matters**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no immediate financial implications arising from this report, although investment performance has an impact on the Council's employer contribution to the Pension Fund and this is a charge to the General Fund.**
Report of:	**Jonathan Hunt** ***Director of Corporate Finance and Investments*** **jonathanhunt@westminster.gov.uk** **020 7641 1804**

1. Executive Summary

1.1 This report presents the revised terms of reference for the now called Pension Fund Committee, an update on the Pension Board requirements and the Stewardship Policy.

2. Recommendation

2.1 The Committee is asked to approve the Corporate Governance Policy, subject to any amendments discussed in this paper and at the meeting

2.2 The Committee is asked to note the revised Terms of Reference for the Committee and the current status of the Pension Board requirements.

3. Stewardship Policy

3.1 The Stewardship Policy was last presented to the Committee in March, and since then there have been changes to both the fund structure arrangements as well as to certain nomenclature. While these changes are not material, it would be appropriate to reflect such changes into the Policy. The current draft of the Policy is attached as Appendix 1.

3.2 These changes include the fact that all equity funds are now held in pooled accounts, that the Committee is now called the Pension Fund Committee and that it is the Committee that has many of the responsibilities referred to in the current draft rather than the Council.

3.3 Subject to any further comments the Committee may have, Officers intend to circulate a final version (taking into account the comments above) to the equity fund managers for their comment and then to make the report available on the Fund's internet website.

3.4 If the equity fund managers come back with any material comments, the Director of Corporate Finance and Investment will discuss with the Chairman whether such comments should be incorporated into the Policy before publication. Non-material comments made by the equity fund managers will be considered by Officers.

4. Committee Terms of Reference

4.1 Following discussions with the Chairman, Officers proposed a revised Terms of Reference for the Superannuation Committee to a recent meeting of the General Purposes Committee (5 November), which was then approved at a Full Council meeting on 12 November. The revised Terms of Reference are attached as Appendix 2 as a markup against the Terms of Reference to date.

4.2 The current Terms of Reference were last reviewed in 2008 and there have been significant changes in the way the pension fund business in the Council has developed since then.

4.3 The changes proposed reflect more accurately the matters the Committee now cover in the wider pensions area and enable any successor Committees or Officers to have a better understanding of their respective remits and to have a greater degree of alignment across Tri-borough. This last point should enable a greater degree of discussion between the Tri-borough Committee Chairmen where it is appropriate and relevant – given the degree of commonality in some areas between the three funds.

4.4 The name of the Committee has been Superannuation Committee for very many years. However, Superannuation is much less used now as a word than it was, and is not really a term in common parlance. So as to make the title of the Committee understood to all, and to keep the title current, it was agreed that the Committee be re-named the Pension Fund Committee.

5. Update on Pension Board

5.1 Since the Committee last discussed this matter in September, there has been a further release of a consultation document from the Department for Communities and Local Government. However, the consultation remains very light on the detail around the function and purpose of this Pension Board. A copy of the current consultation may be found at:

https://www.gov.uk/government/consultations/local-government-pension-scheme-regulations-2014-better-governance-and-improved-accountability

5.2 One clarification that has arisen, however, is that Councillors may now be members of the Pension Board as long as they do not have any direct involvement in the running of the pension fund. Such a restriction on conflict of interest also applies to Officers, thus Members and Officers with direct engagement in Pension Fund Committee discussions will be excluded.

If you have any questions about this report, or wish to inspect one of the background papers, please contact:

Jonathan Hunt jonathanthunt@westminster.gov.uk or 020 7641 1804

BACKGROUND PAPERS: None

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Appendix 1

PENSION FUND COMMITTEE

1. TERMS OF REFERENCE

To have responsibility for all aspects of the investment and other management activity of the Council's Superannuation Fund, including, but not limited to, the following matters:

1. To agree the investment strategy and strategic asset allocation having regard to the advice of the fund managers and the Investment Consultant.
2. To monitor performance of the Superannuation Fund, individual fund managers, custodians, actuary and other external advisors to ensure that they remain suitable;
3. To determine the Fund management arrangements, including the appointment and termination of the appointment of the Fund Managers, Actuary, Custodians and Fund Advisers.
4. To agree the Statement of Investment Principles, the Funding Strategy Statement, the Business Plan for the Fund, the Governance Policy Statement, the Communications Policy Statement and the Governance Compliance Statement and to ensure compliance with these.
5. To approve the final accounts and balance sheet of the Superannuation Fund and to approve the Annual Report..
6. To receive actuarial valuations of the Superannuation Fund regarding the level of employers' contributions necessary to balance the Superannuation Fund.
7. To oversee and approve any changes to the administration arrangements, material contracts and policies and procedures of the Council for the payment of pensions, compensation payments and allowances to beneficiaries.
8. To make and review an admission policy relating to admission agreements generally with any admission body.
9. To ensure compliance with all relevant statutes, regulations and best practice with both the public and private sectors.
10. To review the arrangements and managers for the provision of Additional Voluntary Contributions for fund members.
11. To receive and consider the Auditor's report on the governance of the Pension Fund.
12. To determine the compensation policy on termination of employment and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
13. To determine policy on the award of additional membership of the pension fund and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).

14. To determine policy on the award of additional pension and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub- Committee).
15. To determine policy on retirement before the age of 60 and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub- Committee).
16. To determine a policy on flexible retirement and to make any decisions in accordance with that policy other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).
17. To determine questions and disputes pursuant to the Internal Disputes Resolution Procedures.
18. To determine any other investment or pension policies that may be required from time to time so as to comply with Government regulations and to make any decisions in accordance with those policies other than decisions in respect of the Chief Executive, Chief Officers and Deputy Chief Officers of the Council (which fall within the remit of the Appointments Sub-Committee).

Appendix 2

City of Westminster

Stewardship Policy & Proxy Voting Guidelines for Fund Managers

DRAFT

March 2014

Contents

Introduction to Westminster City Council 2
Approach to Stewardship 2
Engagement Policy 2
Proxy Voting Guidelines 3
General Proxy Voting Issues 3
Boards and Directors 3
Auditors and audit-related issues 7
Remuneration 8
Capital-related and transaction-related proposals 11
Annual reporting and income allocation proposals 12
Other Major Decisions 13
Social, ethical and environmental (SEE) issues 13
Market-Specific Considerations 16
Asia-Pacific (ex-Japan) 16
Australia 16
China and Hong Kong 17
Singapore 18
Japan 19
Europe 20
France 20
Greece 22
Italy 22
Luxembourg 23
Spain 24
Switzerland 25
United Kingdom and Ireland 26
Nordic markets (Denmark, Finland, Norway and Sweden) 28
Germany 30
Netherlands 31
North America 33
United States 33
Canada 35
Other (Emerging markets) 36
Brazil 36
Russia 37
South Africa 37
Disclosure and Reporting 37

Introduction to Westminster City Council

Westminster City Council ('the Council') operates the Local Government Pension Scheme which provides death and retirement benefits for all eligible employees of the Council and the admitted bodies.

The Council has delegated the investment management of the scheme to the Pension Fund Committee who decide on the investment policy most suitable to meet the liabilities of the Scheme and the ultimate responsibility for the investment strategy lies with them. The Committee has specialist investment managers to manage the Fund's investments.

Approach to Stewardship

The Council believes that investor stewardship is a key component of good governance, and is committed to exercising this responsibility with the support of its investment managers. In line with this approach, all of the Council's equity investment managers are signatories to the UK Stewardship Code. At the same time, the Council believes that companies should be accountable to shareholders and should be structured with appropriate checks and balances so as to safeguard shareholders' interests, and deliver long-term returns.

We acknowledge the recent efforts of the Investor Stewardship Working Party in influencing and improving the debate on the quality of investor stewardship and its recommendations to help effective implementation of the UK Stewardship Code. We are monitoring further developments in this area.

The Council takes a multi-faceted approach to stewardship, which involves:

- voting shares at portfolio company meetings;
- engagement with the management of portfolio companies about issues material to shareholder value; and
- transparency regarding stewardship activities.

This is consistent with the express wish of the Council to support investment managers in the exercise of the voting rights, articulated in its Statement of Investment Principles.

Engagement Policy

The Council also views engagement as an essential activity in ensuring long-term value. When investment managers undertake engagements, the Council encourages investment managers to consider assessing a range of factors, such as the company's historical financial performance, governance structures, risk management approach, the degree to which strategic objectives have been met and environmental and social issues. Engagement may also be linked to voting choices at the company's most recent AGM.

The Council believes that the goal of an engagement is not to micro-manage companies but provide companies with a perspective and share with boards and management our approach to investment and/or corporate governance. The ultimate aim is to work with management, other shareholders and stakeholders to bring about changes that can lead to enhanced long-term performance by the company.

Our approach is consistent with the recommendations of the International Governance Network's (ICGN) Statement of Principles on Institutional Shareholder Responsibilities.

This Stewardship Policy provides further information on the different elements of the Council's commitment to stewardship. It is intended as a guide for investment managers and a resource for investee companies. The policy may also be of interest to beneficiaries of the Westminster City Council Pension Fund.

Proxy Voting Guidelines

General Proxy Voting Issues

The Council's general voting policy covers typical proposals that may appear on the agenda of shareholder meetings across the markets in which the Council invests. These proposals are categorised into the following areas:

- Board and directors
- Auditors and audit-related proposals
- Remuneration
- Capital-related and transaction-related proposals
- Social, ethical and environmental issues
- Other major decisions

Case-by-case approach

Our general and market-specific voting policies reflect the Council's general position on the main proxy voting issues. As a responsible investor the Council encourages investment managers ('managers') to consider all proposals put to shareholders' vote on a case-by-case basis. The Council invites managers to retain the flexibility to take voting decisions different to those suggested by our policy, taking into consideration specific characteristics and circumstances of the company, the rationale it has provided, the market context and the best interests of shareholders and other stakeholders.

Disclosure

The Council expects companies to communicate their achievements, challenges, and goals to shareholders and other stakeholders in a transparent and open way.

Companies should provide comprehensive and meaningful disclosure on their business activities and practices on a regular basis. This allows shareholders to make informed decisions. The Council recommends that managers consider voting against any proposal on the general meeting agenda where insufficient disclosure has been provided by the company or where the management has failed to explain proposals and/or justify the approach taken.

Boards and Directors

Boards of directors are agents of shareholders and accountable to shareholders for their leadership and oversight of management's performance.

The Council believes that shareholders, in turn, have a responsibility to exercise effective oversight of boards of directors. This includes the following elements:

(i) The election of directors is an essential responsibility for shareholders as those that they appoint are responsible for overseeing the strategic direction of the company.

(ii) It includes engagement with boards of directors and or management whenever appropriate.

(iii) The Council aims to be supportive of boards. The Council recommends that managers only vote against or abstain from resolutions submitted at shareholder meetings if there are concerns that management or the board have not responded to shareholder concerns or acted in shareholders' best interests.

The Council believes that there should be a clear definition of the role of:

- Senior management
- The board and
- its sub-committees

This will enable all parties to understand and accept their responsibilities.

Boards should be made up of members with a diverse range of knowledge and competencies. The diversity of skills should enable boards to carry out their responsibilities.

These responsibilities include:

(i) selecting, guiding and replacing management;
(ii) challenging and supporting management in setting the strategy;
(iii) establishing the corporate governance structure;
(iv) ensuring the integrity of financial statements;
(v) ensuring the quality of the information provided to shareholders and to the market;
(vi) establishing compensation structures for executive management;
(vii) addressing issues that can materially impact the company's performance and/or reputation. This includes social, ethical, environmental or risk management issues; and
(viii) acting independently and objectively in the long-term interests of the company and its stakeholders.

Board structure

- The Council considers that board structures should be assessed on a case-by-case basis taking into consideration local market regulation and best practice.
- If proposals to modify the current board structure are submitted to shareholders' approval, the overall corporate governance of the company and the rationale provided for such proposals should be carefully evaluated. The Council is supportive of changes that are deemed to be in the interest of all of the company's shareholders.

Election of directors

The Council believes that directors should stand for re-election on a regular basis. This would ensure the appropriate degree of accountability. We recommend that managers consider all proposals to elect or re-elect board members on a case-by-case basis. We recommend that managers take into consideration the composition of the board as a whole, the main board committees and the board's compliance with market best practice when voting on directors' election or re-election proposals. It may be in the company's best interest that new directors are brought onto the board so as to allow for refreshment and ensure succession planning.

The Council will support proposals to vote on directors' elections on an individual basis. In general, we will normally support individuals nominated by the board and/or shareholders unless there are concerns, such as:

- a lack of biographical information on the candidate, preventing us from assessing the calibre and experience of the nominee;
- the nominee is not considered to be qualified to serve on the board or has acted in a manner that compromises his/her ability to represent the interests of shareholders on the board;
- poor attendance at board and board committee meetings;
- excessive number of mandates held by the director;
- the nominee is not considered to be independent and there is an absence of a strong independent element on the board;
- clear evidence of abuses against the interests of minority shareholders and other stakeholders of the company; or
- the nominee is a member on the board of a different company where the board has failed to protect shareholders interests.

Remuneration Committee

The Council recommends that managers consider voting against the reappointment of members of the remuneration committee or an equivalent body of the board (in particular the chairman) where:

- There are serious concerns with respect to the remuneration arrangements for directors and senior management; or
- The committee has failed to respond to concerns expressed by shareholders and/or other stakeholders with respect to the existing/proposed remuneration arrangements.

Representation on the board of specific groups or interest/employee representatives and/or labour representatives

- We acknowledge that in some markets, the legislation provides for features involving he representatives of Works Council or employee shareholders on the board of listed companies. The Council is generally supportive of the appointment of employee and/or labour representatives to the board.
- The Council believes that shareholders who own a significant amount of shares should have the right to propose nominees for election to the board.
- In companies where there is a controlling shareholder or group of shareholders acting in concert, a strong governance culture and safeguards should be established, securing full transparency and ensuring that the interests of all shareholders are taken into account at all times. The leadership structure of the board should reflect these factors and ideally, the board should be led by an independent non-executive chair.

Board size and balance

- The Council believes that companies should provide information regarding their board appointment procedure.
- Directors are in the best position to assess the optimal size of the board. The Council will normally support directors' proposals with respect to the size of the board provided the board is deemed to be effective. However, The Council would be concerned if the size of a board appeared to be too small or too large to allow it to function effectively.
- Whereas we believe that the balance of the board composition that matters most, there should be a majority of independent directors on the board.
- We expect all directors to have the adequate skills and experience. All the directors should ensure the protection of the interests of all shareholders.
- The Council believes that there should be sufficient representation of independent directors on the board to provide impartial oversight over executive decision-making and represent the interests of minority shareholders. The Council recommends that managers take into consideration market-specific criteria and international best practice recommendations when assessing the independence of individual directors and the balance of independence on the board.
- Companies should ensure that non-executive directors have access to senior management or any employee, receive all information in a timely manner and have the appropriate support resources to enable them to fulfil their duties properly.
- Directors should receive a training that allows them to learn more about the company, its products, and position in relation to its competition. This can include site visits. Companies should facilitate regular training during directors' mandates.
- Companies should disclose in their annual report full information on each director and the competencies that she/he brings to the board.
- Board must ensure that the information that they provide to shareholders and the public is accurate and of high standard at all times.
- Directors should attend all board meetings. The Council encourages investment managers not to support the reappointment of a director who attends less than 75% of board meetings and board committee meetings unless there are reasonable justifications for the absences.
- Directors must be able to dedicate themselves fully to their responsibilities. We expect directors to fully inform the board before they accept any other mandate. The Council will normally support proposals to limit the number of mandates directors are allowed to hold.

- The Council encourages investment managers to oppose age limits.
- Unless they are the result of strategic alliances or part of a joint business undertaking, The Council is not supportive of co-directorships and cross-shareholdings.

Board diversity

- The Council considers that the composition of the board should be determined primarily by the non-executive directors through a separate nominations committee. The nomination committee should have regard for diversity, including in relation to skills, expertise, gender, and ethnicity.
- The Council encourages investment managers to monitor companies' efforts to diversify their boards of directors and to comply with new regulations calling for board diversity. In markets where there is no such regulation, we recommend that managers consider voting against the chairman of the nomination committee at companies that have demonstrated no progress towards diversity over a number of years.

Board leadership

- The Council believes that boards should be led by an independent non-executive director.
- In companies where a different approach is preferred, it is essential that shareholders are fully informed of the choice. The board should explain and justify the grounds for its decision.
- Where the chairman is not independent or the roles of chairman and CEO are combined, the company should have a lead independent director.
- The role of the lead independent director should be formalised and include a number of responsibilities including monitoring and managing conflicts of interest situations for senior management and other directors. The lead independent director should be available to shareholders and accountable for the work they have undertaken at the annual general meeting.
- The Council is not supportive of proposals to combine the positions of the Chairman and CEO unless it is deemed to be in the best interests of shareholders and the combination is intended for a limited period of time.
- The Council recommends voting against the former CEO being appointed chairman of the company or a former management board member being appointed to the board without an appropriate cooling off period.

Board evaluation

- The Council believes that the performance of the board is critical to the long-term performance of the company. In order for this performance to remain effective and continue protecting shareholders' interests, boards should undertake a regular and rigorous review of their functioning, each director contribution and performance.
- This assessment of the board performance will enable the board to potentially identify gaps in skills or the need for board refreshment. The Council expects companies to disclose the process and results of such evaluation.

Cumulative voting/Slate of directors

- Where a cumulative voting system is used with respect to directors' elections, The Council recommends that managers consider supporting candidates whose appointment is deemed to be in the best interests of shareholders.
- In companies where directors are elected by slates, The Council recommends that managers make voting decisions on a case-by-case basis.

Indemnification of directors and officers

- The Council recommends that managers vote on all proposals to indemnify the company's directors and officers on a case-by-case basis taking into consideration the scope and terms of indemnification sought by the company.

Liability insurance for directors and officers

- The Council is generally supportive of proposals to provide liability insurance to directors and officers unless it is deemed not to be in the best interests of shareholders and other stakeholders.

Discharge of board and management

The Council is generally supportive of proposals to discharge the board and management of liabilities. The Council supports proposals to vote on directors' discharge on an individual basis. However we recommend withholding support in a number of situations including:

- The performance of the board in the year for which the discharge is sought is considered to be inadequate;
- The board has failed to ensure the integrity of the financial statements and thus there are concerns over the reliability of accounts and auditors' report;
- There are substantial reporting and/or disclosure issues;
- The company is unresponsive to shareholders' requests for information that is normally publicly disclosed;
- Material legal proceedings were instituted against the company or the directors in the year for which the discharge is sought;
- Failure to address a number of issues that have the potential to materially impact the company's performance and reputation.

Auditors and audit-related issues

Appointment of external auditors and auditors' remuneration

Financial statements which provide a complete and accurate picture of a company's financial condition are of critical importance for investors. The integrity of financial statements depends on the ability of the external audit firm to be free of impediments, so that if can act as an effective check on management.

The Council believes that it is important that auditors are, and are seen to be, independent.

- The Council expects that where the audit firm provides services to the company in addition to the audit, the fees earned should be disclosed and explained. Audit committees should also have in place a procedure for assuring annually the independence of the auditor.
- The Council recommends that fund managers take into account the length of tenure of the audit firm when assessing auditor independence. Where the same firm remains as auditor for a period of time, the Council supports the development of a policy enabling regular rotation of the lead audit partner.
- The Council holds the members of the audit committee or equivalent responsible for overseeing the management of the audit function. We take particular note of cases involving significant financial restatements or ad hoc notifications of material financial weakness.

The Council recommends voting against proposals to (re)appoint external auditors/ fix auditors' remuneration where:

- There are concerns over the reliability of accounts or audit procedures;
- There are concerns over the independence of the external auditors or the integrity of the audit;
- There is evidence of the auditors' failure to identify and address issues that eventually lead to a significant financial restatement;
- The fees paid to the auditor for the provision of the audit and non-audit services during the year under review have not been disclosed in the annual report and financial statements; or

- The amount of non-audit fees paid to and/or the nature of non-audit services provided by the auditors raise concerns regarding the auditors' independence.

Auditor indemnification

- The Council is typically opposed to proposals to indemnify external auditors or limit their financial liability where specific rationale

Audit Committee

- Companies can be involved in material related-party transactions, which represent a risk for minority shareholders. This risk may be mitigated in companies with fully independent audit committees whose responsibility it is to ensure that such transactions are conducted on an arms-length basis. The Council strongly encourages companies to establish such committees and to secure prior shareholder approval for material related-party transactions.
- The Council believes that the independent members of the audit committee should meet on a regular basis with the company's auditors and without company management. This may enable a better flow of information between auditors and the board.
- Members of the audit committee or equivalent are responsible for overseeing the management of the audit function. The Council recommends that managers consider voting against the reappointment of members of the audit committee or an equivalent body of the board (in particular the chairman) if it fails to ensure:
- the quality of the audit carried out by the auditors
- their impartiality and independence, etc.

Appointment of internal auditors

- The Council is generally supportive of proposals to (re)appoint internal auditors unless:
- There are concerns over reliability of the internal audit report or the procedures used during the internal audit; concerns over the integrity of the internal audit; evidence of the internal auditors' failure to identify and address issues that could result in financial and/or reputational damage to the company.

Remuneration

Introduction

The Council believes that remuneration of directors and employees plays an important role, not only in meeting the three-fold objective of 'recruit, retain and motivate', but also in aligning the perspective of key personnel with corporate strategy and the interests of shareholders and other stakeholders. Accordingly, The Council encourages companies to take into account the following principles in designing and implementing their remuneration policies:

- Alignment with corporate strategy
- Proportionality of awards compared to peers, market norms and returns to shareholders
- For variable pay, a clear connection between criteria, targets and rewards
- A balanced approach to termination arrangements and avoidance of rewards for failure
- Clear and suitably detailed disclosure of governance, policy and practice

Disclosure

In line with the last of these principles, The Council encourages investee companies to include the following elements in their remuneration reporting. We envisage that doing so will assist shareholders to understand how the company's pay arrangements promote the other core principles.

- Governance arrangements, including the composition of the remuneration committee and work it has undertaken during the year under review
- Principles on which remuneration is determined
- How remuneration structures are aligned with company strategy
- Basis on which executive salaries are determined
- Appropriate disclosure regarding any bonus and/or equity incentive schemes (see below)
- Information on directors' contracts, including notice and termination provisions
- Highlighting of any changes in remuneration policy since the previous year
- Full disclosure of executive directors' emoluments, including salary, benefits, bonus, equity incentive awards, pension payments and any termination payments
- Fees paid to non-executive directors, broken down if applicable, into fees related to board and committee responsibilities

Voting Policy

Introduction of advisory/binding resolutions on remuneration committee reports

- The Council supports the introduction of advisory shareholder votes on the remuneration arrangements of directors and managers.
- Where not mandated by law, The Council recommends that managers vote on proposals to introduce binding shareholder votes on the remuneration arrangements of directors and managers on a case-by-case basis.

Remuneration of non-executive directors/supervisory board members

- The Council is generally supportive of proposals to award cash fees to non-executive directors/supervisory board members and increase their maximum aggregate level unless the amounts are considered to be excessive and/or unjustified.
- The Council is generally opposed to non-executive director/supervisory board member remuneration proposals which allow for performance-related incentives but is generally supportive of remuneration arrangements that allow for a part of non-executive directors' fees to be paid in company's shares, when non-performance related.
- The Council is generally opposed to remuneration policies which allow for the payment of retirement benefits to non-executive directors.

Remuneration of executive directors/management board members

Remuneration arrangements for executive management are often multi-faceted and complex. Accordingly, in the Council's view, a single factor is unlikely to be decisive in the assessment of a remuneration policy or report, unless it is a particularly conspicuous example. Rather, The Council will encourage weighing up a range of factors within the broad framework of the principles articulated above. The guidance below elucidates the Council's recommended approach to certain more or less commonly occurring features of executive pay practices.

- The Council is not supportive of remuneration proposals for executive directors where:
- The link between performance and reward is considered to be insufficient to justify potential payouts under incentive plans, or where
- Performance conditions may encourage excessive risk taking by executive directors.
- The Council is supportive of remuneration proposals that explicitly take into consideration stakeholder value (e.g. employee safety/satisfaction) as well as shareholder value.

- When assessing annual incentive schemes in the context of remuneration-related proposals, The Council recommends that managers take into account the following factors, and others as appropriate:
- Disclosure of:
    - Any award caps, and the proportionality of these caps
    - performance criteria
    - targets used during the year under review
    - performance against targets during the year under review

The Council is supportive of:

- Proposals to defer part of the annual bonus payment over a number of years (typically 3 to 5)
- The adoption of "clawback" policies that enable a company to reclaim compensation that was awarded based on earnings that were subsequently found to be erroneous, fraudulent or manipulated.

The Council is not supportive of:

- Transaction bonuses that reward directors and other executives for effecting transactions irrespective of their future financial consequences for shareholder returns.
- Remuneration structures that allow for the use of derivatives or other instruments to hedge a director's or executive's share ownership or unvested equity-linked remuneration.
- Any material payments that may be viewed as being ex-gratia in nature unless they are fully explained, justified and subject to shareholder approval prior to payment.
- A remuneration policy which allows for any element of executive remuneration, other than base salary, to be pensionable.

Equity-based remuneration plans

- The Council invites managers to take into account the following factors when evaluating equity-based remuneration plans, and others as appropriate:
    - Disclosure of any award caps and their proportionality
    - Disclosure of performance criteria and targets
    - Alignment of performance criteria with company strategy
    - Balance of performance criteria
    - Stringency of performance targets
    - Duration of the performance period
    - The Council is not supportive of any equity-based scheme for senior management unless there is an explicit link between the company's performance and the reward available under the scheme.

- The Council supports the use of social and environmental key performance indicators in the incentive plans for executive management.
- The Council is not supportive of incentive plans allowing for executive share options to be offered at a discount. The Council does not consider re-pricing, surrender and re-grant of awards or 'underwater'/discounted share options or re-testing of performance on either one-off or a rolling basis to be appropriate.
- The Council is not supportive of proposals for equity-based remuneration plans that may result in substantial dilution of existing shareholders.
- The Council is generally supportive of equity-based all-employee savings plans provided they are within acceptable dilution limits.

Termination provisions and severance packages

- The Council is not supportive of policies that allow for excessive severance packages for outgoing executives, including where they may contribute to 'reward for failure'.

- The Council recommends support for proposals to subject severance packages to executive directors and senior management to the shareholder vote.

Capital-related and transaction-related proposals

The Council believes that investee companies should ensure that they have an efficient capital structure that will minimise the cost of capital. When boards are proposing a transaction, they must explain the rationale behind it. This enables shareholders to determine the degree to which the transaction may enhance shareholder value.

In transactions involving related parties, The Council would expect the recommendation to support it to be made only by the board's independent directors. The Council would expect such recommendations to be accompanied by an assurance from the independent directors that the transaction is in the best interests of the company and the terms are fair.

Equally, The Council would expect only those shareholders who are not conflicted to vote on the proposal. The Council recommends voting against any significant related-party transaction if conflicted directors/shareholders are allowed to participate in the vote.

Capital issuance requests

- The Council is supportive of routine capital issuance requests with pre-emptive rights up to a maximum of 50% of the issued share capital provided that such authority is renewed every year.
- The Council is supportive of routine capital issuance requests without pre-emptive rights up to a maximum of 20% of the issued share capital provided that such authority is renewed every year.
- The Council recommends that managers decide on a case-by-case basis on any share issuance proposals other than specified above taking into consideration market -specific practices and circumstances of the company.

Private placement

- The Council supports private placement proposals if shares are to be issued as part of a routine not pre-emptive share issuance proposal (see the guideline above) unless the discount to the share price offered by the company is considered to be excessive.
- The Council recommends that managers consider supporting all other private placements on a case-by-case basis.

Increase in authorised share capital

- The Council supports proposals to increase authorised share capital if such increase is required to enable the company to use routine share issuance authorities that The Council supports.

Reduction of capital

- The Council supports proposals to reduce capital for routine accounting purposes unless the terms are deemed unfavourable to shareholders.

Share repurchase programmes and re-issuance of shares repurchased

- The Council is supportive of routine authorities to enable the management to repurchase shares unless there is a clear evidence of past abuse of such an authority.
- The Council is supportive of authorities to repurchase shares other than in the open market up, but recommends withholding support if there is clear evidence of past abuse of such an authority.

- The Council recommends that managers vote on all proposals to repurchase shares other than specified above on a case-by-case basis.
- The Council is supportive of authorities to re-issue any repurchased shares as a part of routine share issuance authorities with or without pre-emptive rights, and recommends managers to consider all other proposals on a case-by-case basis.

Debt/preferred stock issuance

- The Council recommends assessment of debt issuance proposals on a case-by-case basis, taking into consideration the stated rationale for the issuance, the company's governance profile and its history with respect to the use of debt, the company's current financial situation and the normal debt level of the company's market and industry. For convertible debt/preferred stock, the voting powers (if any) attached to such shares/convertible stock and how these might affect the interests of shareholders should be taken into consideration.

Anti-takeover provisions

- The Council recommends voting against all anti-takeover mechanisms unless they are structured in such a way that they give shareholders the ultimate decision on any proposal or offer;

Mandatory takeover bid waiver

- The Council does not generally support mandatory takeover bid waiver proposals unless the waiver is sought in conjunction with a share repurchase and there is a written assurance from the company and the conflicted shareholder that the latter will not increase their holding in the company above either 30% or the existing level of shareholding if it is higher than 30% of the issued share capital. In addition, The Council encourages managers to take into consideration the history of the relationship between the shareholder and the company and past treatment of minority shareholders.

Mergers/acquisitions and asset sales, corporate reorganisation/restructuring and reincorporation, expansion of business activities

- The Council recommends that managers vote on such proposals on the basis of an analysis of the overall benefits of the proposed transactions in terms of company's performance, governance and long-term shareholder value.

Annual reporting and income allocation proposals

Approval of the annual report and accounts

- The Council supports resolutions to approve the annual report and accounts unless there are concerns over the reliability of accounts; documents (or their draft versions) are not disclosed in time for review prior to the voting deadline; there are substantial reporting and/or disclosure issues; or the company is unresponsive to shareholders' requests for information that is typically publicly disclosed.

Auditors' report

- The Council recommends support for the resolution to approve the auditors' report unless:
  - There are concerns over reliability of accounts and/or audit procedures;
  - There are concerns over the integrity of the auditors; or
  - The document or its draft version is not disclosed in time for review prior to the voting deadline.

Dividend/income allocation proposals

- The Council supports dividend/income allocation proposals unless the payout is considered to be excessive given the company's financial position.
- The Council does not support resolutions that would remove the requirement for shareholders to approve the allocation of dividends and profits.

Scrip (stock) dividend

- The Council is supportive of scrip (stock) dividend proposals except where such proposals do not allow for a cash option.

Other Major Decisions

Differential voting power

- The Council will normally be opposed to all proposals seeking to introduce/retain differential voting powers of common shares or to issue shares with unequal voting rights.

Voting rights restrictions

- The Council is generally opposed to any proposals to restrict voting rights of shareholders and supports proposals that eliminate or alleviate existing restrictions of voting rights.

Amend memorandum/articles of association

- The Council is generally supportive of amendments required to bring the company's articles of association in line with the norms and regulations of the market.

Change of disclosure threshold of stock ownership

- The Council is supportive of proposals to disclose ownership level below statutory requirements.
- The Council is supportive of proposals to raise ownership disclosure threshold to the minimum statutory level, where the company is legally required to do so, and does not support such proposals, where the company is not legally required to do so.

Simple majority voting

- The Council is generally supportive of a simple majority voting requirement and is generally opposed to a supermajority voting requirement except in situations where a supermajority voting requirement may serve to protect the interests of minority shareholders, such as, for example, where the company has a substantial or dominant shareholder.

Political & charitable donations

- The Council recommends that managers withhold support from any proposal to make donations to political parties and consider all other types of political expenditure on a case-by-case basis.
- The Council is generally opposed to charitable donations.

Bundled proposals

- The Council recommends withholding support from resolutions that contain bundled provisions that are not clearly interrelated or where some of the proposed measures are deemed not to be in the interests of shareholders.

Any other business

- The Council recommends withholding support from resolutions seeking approval of "any other business" for which information has not been disclosed.

Social, ethical and environmental (SEE) issues

The Council expects companies to comply, as a minimum, with the laws and regulation of the jurisdictions in which they operate and explain how they manage situations where such laws and regulations are ambiguous.

Apart from occasional shareholder resolutions, most SEE issues are not subject to a shareholder vote. However The Council invites managers to reflect concerns through voting actions on related matters.

Such action may include voting against the report and accounts or the re-election of directors depending on the specific circumstances.

Shareholder resolutions

- The Council recommends that managers review all shareholder resolutions on a case-by-case basis taking into consideration a number of factors including:
    - The demand being reasonable and implementable;
    - The issue representing a material risk (this include reputational, financial or operational risk) to the company;
    - There being reasonable doubt about the current approach taken by the company;
    - Based the credentials of the proponent;
    - Based on the responsiveness of the company;
    - Based on the anticipated costs and benefits to the company and thus to shareholders of the resolution passing;

Appropriate SEE board training

- The Council expects directors, non-executive as well as executive, to receive appropriate training on existing and emerging SEE issues material to the company when appointed to the board. The training should continue on an ongoing basis for the duration of their time on the board. In order to sufficiently understand the issues at hand and be able to effectively evaluate the robustness of internal controls they should not only be supplied with sufficient information and knowledge but also have access to professional independent advice.
- The Council invites managers to consider voting against the report and accounts and/or against the re-election of board members, as appropriate, in case of material and/or repetitive neglect to perform these aspects of the board oversight responsibilities.

Gender and Diversity

- The Council believes that board members should be selected from the widest possible talent pool and that thorough consideration must be given to issues such as nationality, gender, ethnicity and corporate background in order to achieve a greater level of diversity on the board. However, The Council strongly believes that board members must be selected based on merits and their ability to strengthen the board rather than to fulfill quotas.
- If managers do not consider the diversity of the board, the process in place or the level of disclosure to be satisfactory, the Council invites them to consider withholding support from one or more board members. However, in countries where board diversity is regulated by law (e.g. Norway, France, Italy, Spain etc.) or best practice (e.g. Finland etc.) The Council would expect the boards to take action to comply with these rules.

Charitable donations

- The Council would expect all material charitable donations to be subjected to a shareholder vote. The Council would also expect that adequate narrative justifying the donations is made available to shareholders well in advance of the general meeting and that any resulting outcome and updates on the donations are reported to shareholders on an ongoing basis.

Response to material issues raised in the media

- The Council expects companies to make prompt public responses to material accusations in the media as well as lawsuits made against the company and ongoing court cases. We would expect that substantial information is made available to shareholders with regards to how the issue has emerged, which underlying procedures and processes have failed if appropriate, how the situation is being rectified or dealt with in the short term and how relevant procedures and processes will be changed or developed in order to deal with the issue in the long term. The Council would also expect the company to report on this process in relevant public reporting as well as provide shareholders with updates on an ongoing basis. The Council recommends that managers consider voting against the report and accounts and/or against the re-election of board members, as appropriate, in case of material and/or repetitive neglect.

Reporting

- The Council would expect all companies to report to shareholders in the annual report on the policies and management systems in place to identify and manage SEE risks. This would include the identification of material SEE risks, information on the level of their exposure and the management of these.
- The Council expects companies to report on whether the board has adequate information, knowledge and training to assess the level of risk and to evaluate the effectiveness of the internal controls and risk management systems in place.

Market-Specific Considerations

Asia-Pacific (ex-Japan)

Australia

The Council is generally supportive of the ASX Corporate Governance Council's Corporate Governance Principles and Recommendations, IFSA's Guidelines on Corporate Governance for Fund Managers and Corporations, IFSA's Guidance Notes on Executive Equity Plans, Employee Share Ownership Plan and Non-binding Shareholder Vote on Remuneration Reports, and other recognised best practice guidance.

Corporate boards

- Given the unitary structure of Australian company boards and market best practice with respect to the board composition, the Council expects the board to comprise a majority of independent non-executive directors. The Council recommends that managers consider voting against one or more directors if this is not the case.
- While the Council believes the board is normally best placed to determine the size of the board, we expect board size to reflect the size and complexity of the company. We do however believe that a minimum board size of five is necessary for an ASX 200 company to ensure a good mix of skills and diversity amongst the independent directors.
- The Council recommends that managers consider voting against the re-election of the members of the audit committee or the chairman of the board if there is no auditor (re)appointment proposal on the shareholder meeting agenda and managers have concerns regarding the auditor's independence or the quality of the audit.

Remuneration policy

- The Council recommends that managers normally vote against the remuneration policy and/or incentive plans in cases where material changes have been made to a remuneration policy without shareholder approval.
- The Australian companies law, provides for a 'two strikes' rule whereby if 25 per cent or more of shareholders vote against a company's compensation report at two successive AGMs, the board is obliged to submit a 'spill resolution,' requiring the whole board, apart from the Managing Director, to stand for election at an EGM within 90 days. The Council encourages managers to take into consideration a number of factors before reaching a voting decision on this issue including: the Council's voting decision on the remuneration report at this and the previous year's AGMs; any progress made by the company in remuneration matters since last year's AGM; and the company's broader performance.

Share-based incentive schemes for executives

- Companies are not required to seek shareholder approval for share-based incentive plans. However, shareholder approval is usually sought so that options and other equity instruments issued under the plan do not count towards the 15% annual limit on the issuance of shares without pre-emptive rights, as allowed under the listing rules. The Council is generally not supportive of this practice and expects all share issuance to directors to be included in the dis-application limit.
- Listing rules require that companies seek shareholder approval for any grant of options or shares to a director as long as newly issued shares are used for the grant. This rule, however, does not apply if the award is financed thought repurchased shares. The Council believes that all grants of equity-based awards should be approved by shareholders on an annual basis or, alternatively, under the terms of the scheme where shareholders' approval of the scheme was sought prior to its introduction. The Council recommends that managers vote against the approval of the remuneration report where equity-based awards to executive directors have not been approved by shareholders as stated above.
- The Council expects all equity-based incentive schemes to adhere to the dilution limit of 10% of the issued ordinary share capital (adjusted for share issuance and cancellation).

- A number of incentive plans allow for vesting of equity incentives when a takeover bid is announced (regardless of whether or not it succeeds) or when a party acquires a shareholding well below 50%. The Council is opposed to incentive plans containing such early vesting provisions.
- The Council does not consider re-testing of performance on either a one-off or a rolling basis to be appropriate. The Council recommends that any such proposal be voted on a case-by-case basis.
- The Council is generally not supportive of the use of loan-funded equity-based plans for executives. The Council recommends that any such proposal be voted on a case-by-case basis.

Termination provisions and severance packages

- Shareholder approval is required for termination payments that exceed one year's average salary measured over the previous 3 years. The Council recommends voting against proposals that allow for compensation on early termination of an executive's contract to exceed the equivalent of one year's salary and benefits (i.e. no bonus payment) unless there are exceptional circumstances which are clearly explained and are deemed acceptable. The Council is supportive of the guidance that such agreements should clearly articulate performance expectations.

Capital-related proposals

- ASX Listing rule 7 limits listed companies from issuing more than 15% of the issued share capital in a 12-month period for share issues without pre-emptive rights. However, companies may seek shareholder approval to exclude a particular proposed issue of shares from the 15% limit. The Council recommends that managers vote on all proposals to issue shares without pre-emption rights on a case-by-case basis.
- Australian companies routinely request the ratification of previous share placements in order for that placement not to count towards their 15%. The Council recommends that managers vote on all such proposals on a case-by-case basis taking into consideration the purpose of the placement and the dilution suffered by shareholders as a result.

Renewal of "Proportional Takeover" Clause in Constitution

- As per the Australian Corporations Act a number of companies include in their constitution a clause which requires shareholder approval for a proportional (partial) takeover offer to be made. This clause prevents a proportional takeover offer to be mailed out to shareholders until after the company has held a general meeting at which shareholders vote on whether to allow the offer to be made. As the clause has a three year time limit it is standard practice among ASX-listed companies to ask their shareholders to reinsert the clause into the constitution, at every third AGM. The Council recommends that managers consider such proposals on a case-by-case basis.

China and Hong Kong

In Hong Kong, The Council is generally supportive Corporate Governance Code and Corporate Governance Report, the governance-related provisions of the SEHK Listing Rules, and other best practice guidance.

Corporate boards

- In Hong Kong, companies have a unitary board structure. The SEHK listing rules require that there are at least three independent directors, or one third of the board represented by independent directors, whichever is greater, on the boards of listed companies. The Council expects the composition of the board to comply with the listing rules.

- Where there is an insufficient number of independent non-executive directors on the board, The Council recommends voting against (re)election of a non-executive director who has served on the board for three consecutive three-year terms unless he/she will be subject to annual re-election thereafter.

- The Council expects that audit and remuneration committees comprise a majority of independent non-executive directors.

Capital-related proposals

- Hong Kong companies routinely seek shareholder approval of share issuance and repurchase authorities up to the maximum limits allowed under the listing rules, i.e. to issue shares up to 20% of the issued share capital *without pre-emptive rights*; to repurchase shares of up to 10% percent of the issued share capital; and to reissue repurchased shares by extending the share issuance authority to include the number of shares repurchased (10% of the issued share capital), thus bringing the share issuance authority to 30% of the issued share capital.
- These authorities are routinely sought at least once a year at the AGM, but may be renewed at the EGM during the year; there is no limitation on the number of renewed authorities the company can seek in any one year. The shares may be (re)issued at the maximum of 20% discount to the market price (or more under special circumstances). Due to the evidence of past abuse of the authorities to (re)issue shares without pre-emption rights by Hong Kong companies, The Council recommends voting on share (re)issuance and repurchase authorities as follows:

    - In favour of the aggregate issuance and re-issuance authorities up to 20% or less of the issued share capital where shares are issued at the maximum discount to the market price of 10% provided there is no history of renewing the share issuance mandates several times within a period of one year.
    - Against authorities to issue shares without pre-emptive rights where there is a history of renewing the share issuance mandates several times within a period of one year, unless granting the authority is considered to be in the best interests of shareholders.
    - In favour of routine authorities to enable the management to repurchase shares in the open market up to 10% of the issued share capital in any one year, unless there is a clear evidence of past abuse of such an authority.
    - Case-by-case in all other instances.

- The Council recommends that managers consider withholding support for broad authorities for the board to undertake other types of transactions, such as acquisition or disposal of assets or provision of guarantees, if the company does not provide sufficient detail on their rationale or purpose or the parameters of the authority.

Singapore

The Council is generally supportive of the Singapore Code of Corporate Governance and other best practice guidance.

Corporate boards

- Singapore companies have a unitary board structure. The Council expects that the majority of board members are non-executive and that independent non-executive directors represent at least one-third of the board.

Remuneration

- The Council expects companies to set a specified limit on the number of shares to be used under any proposed equity-based incentive scheme, regardless of whether it is proposed to use newly issued or repurchased shares, and recommends voting on all new incentive scheme proposals accordingly.

Capital issuance proposals

- The Council understands that, in Singapore, it is normal practice for companies to seek, on an annual basis, authority to allot shares up to a maximum of 50% of the company's issued share capital, of which 20% may be issued without pre-emptive rights.

- In addition to general issuance authorities companies often seek specific issuance authorities in relation to equity-based incentive plans (usually for up to 15% of the issued share capital allowed under the listing rules) and to a bonus issue, rights issue, or the financing of an acquisition or merger if it requires share issuance in excess of the limits in the general mandate. The Council believes that all new shares used under equity-based incentive schemes should be covered by the general mandate and recommends that managers consider any such proposal on a case-by-case basis taking into account the size of the general mandate requested by the company.

Japan

The Council is supportive of the Tokyo Stock Exchange's Principles of Corporate Governance and also takes into consideration the spirit and underlying principles of recent regulatory developments.

Corporate Boards

- There are two possible board structures that Japanese companies may adopt. The most common is the two-tier structure with directors (who have voting rights) and statutory auditors (who have no voting rights). The Council is generally opposed to the re-election of directors in two-tier boards with fewer than two outside directors who can be considered highly independent. For election of statutory auditors, the Council looks favourably upon boards that exceed the minimum requirement of at least half outsiders.
- The alternative, relatively recent, option is a US- or UK-style three-committee unitary board structure. Each committee must have a majority of outside directors (although executives can be members of the nominating and remuneration committees).
- The Council supports management resolutions to adopt a three-committee board structure.
- The Council recommends voting against directors where the board has more than 20 members.
- The Council supports resolutions reducing the frequency of director re-elections from the normal two years to one year.
- The Council is opposed to resolutions seeking to require a supermajority to remove directors.

Remuneration

- Disclosure by Japanese companies on remuneration matters is relatively sparse. The Council encourages companies to provide more detail on the remuneration policy, structures and proceeds.
- The Council supports articles eliminating the provisions for the payment of retirement bonuses to directors and statutory auditors. If a one-off bonus is proposed as part of this resolution The Council only recommends support if the bonus amounts are disclosed and the recipients are not outsiders.
- The Council opposes traditional stock option plans that allow for the grant of options to outsiders.

Capital-related issues

- The Council opposes requests for capital increases if management proposes:
  - To raise the ceiling by more than 100% for unspecified purposes
  - To create a new class of shares, other than in the case of a company needing to issue non-voting shares as part of a financial rescue
- The Council supports proposals to authorise the repurchase of up to 10% of outstanding shares but only if the authority is for no longer than one year.
- The Council recommends that managers consider voting against the re-election of directors who approved new share issues with significant dilution impact but failed to be fully accountable for the necessity of the capital raisings

Anti-takeover Provisions/Shareholder Rights Plans

- The Council recommends that managers normally oppose the introduction or renewal of anti-takeover measures and that they consider expressing this opposition by voting against the re-election of directors.

Changes to the Articles of Association and By-laws

- The Council recommends that managers normally withhold support for resolutions seeking to indemnify the directors and statutory auditors against derivative shareholder lawsuits but retain the flexibility to support this measure for the benefit of outsiders.
- The Council is opposed to resolutions seeking to indemnify the public (external) auditors against derivative shareholder lawsuits.
- The Council is generally supportive of proposals seeking to bring the record date closer to the date of the annual general meeting.
- The Council recommends that managers normally support proposals adding new lines of business as long as they are in keeping with the company's stated strategy.
- The Council supports proposals allowing smaller tradable lots of shares.
- The Council does not support proposals to limit the number of representatives that a shareholder can appoint to vote at a general meeting.

Europe

France

The Council is supportive of the principles of corporate governance based on consolidation of the various AFEP and MEDEF reports. The Council would encourage managers to expect companies to explain why and to what extent they deviate from the principles for the corporate governance of listed companies based on the corporate governance recommendations of listed corporations of April 2010, revised in March 2011 and the AFEP-MEDEF revised corporate governance recommendations code of June 2013. The Council welcomes the MEDEF recommendations on executive remuneration and the FBF's (Fédération Bancaire Française) Code of ethics aimed at regulating the remuneration of traders and other investment bank professionals.

The Council acknowledges the 2013 law on safeguarding employment that provides for enhanced employee representation on the board of listed companies. The Council welcomes the 2014 ACPR's (French banking regulator) ruling that prohibits combining the roles and chairman and CEO in credit establishments and investment companies.

The Council expects companies to explain why and to what extent they depart from the corporate governance principles.

Corporate boards

French law provides companies (*sociétés anonymes*) with the option between a unitary board structure and a two-tier formula. While it is the board's responsibility to propose the option that would be appropriate for the company, shareholders should be given the opportunity to vote on any changes in the board structure.

- In companies that have adopted unitary board structure, The Council would expect the majority of directors to be non-executive and at least one-third of directors to be fully independent. In companies with dual board structure, The Council would expect all supervisory board members to be non-executive and at least one-third to be fully independent.
- The Council prefers that a representative of a *reference shareholder* (large shareholder) does not chair the audit committee and that the chairman of the board does not serve on the audit committee. Executives should not serve on either audit or remuneration committees.
- French legislation allows for the appointment of one or more employee shareholders on the board whenever employee shareholdings exceed 3%. The Council will support the appointment of employee representatives on the board that adequately reflects the share ownership structure.
- The Council is not in favour of cross-shareholdings and *administrateurs réciproques* (reciprocal board directors). The Council will vote against election of directors who have such connections with the company except in the case of a joint business venture.

Remuneration

- The Council recommends that managers consider voting against the remuneration policy and/or incentive plans if material changes have been made without shareholder approval.
- The Council is generally supportive of grants of shares that are not performance related to non-executive directors, provided the directors are required to retain these shares until the end of their tenure.
- Companies should provide detailed information on the pension rights and potential additional pension rights, as well as on the cost of providing pension benefits. The value of additional defined benefits pensions should be taken into account when determining the overall level of executive compensation.
- The annual dilution caused by the allocation of non-performance related shares to employees should be limited to 1% of the issued share capital. The total dilution caused by all allocations of shares to employees should not exceed 10% of the issued share capital in any one year.
- The Council will normally vote against any proposal for a severance payment which exceeds two years of an executive's total remuneration. Whenever the severance payment exceeds two years, the company should provide detailed justification and the payment is in the interests of shareholders.
- The Council recommends that managers consider voting against severance payments to an executive whose contract was terminated as a result of poor performance, if he/she decided to leave the company, change his/her position or is entitled to exercise his/her rights to pension in the near future.

Capital-related proposals

Shareholders are increasingly concerned by measures that can restrict or dilute their voting rights. French companies have historically and routinely asked for large issuance requests. However, it seems that companies are now moving towards better practices. The Council's view on share issuances with or without pre-emptive rights reflects AFG recommendations:

- The Council recommends that managers consider voting against:
  - Capital increases with pre-emptive rights and with priority subscription periods greater than 50% of the issued share capital and when the proceeds are not intended for a specific purpose.
  - Capital increases without preferential subscription rights which can represent more than 15% of a company's issued capital when no formal explanation and justification is provided.
  - Share re-purchase requests that would allow share re-purchases during a takeover period.

Fund managers should decide on any share issuance proposals in excess of the limits on a case-by-case basis.

Anti-takeover measures

The Council encourages managers to consider voting against anti-takeover defences such as:

(i) Authorising the board of a company which is subject to a hostile takeover bid to issue warrants - convertible into shares - for existing shareholders.

(ii) Authorising the board in advance to buy back shares during a takeover period.

Related-party transactions

- The Council acknowledges that French listed companies must follow special procedures for approval of regulated related-party transactions. The Council is generally supportive of related-party transactions unless they are poorly detailed in the auditor's special report and not included in their entirety in the annual report.

Greece

Corporate boards

- In view of the unitary structure of Greek company boards, the Council expects the majority of the board members to be non-executive and at least a third of the board members to be independent.
- The Council is not supportive of cross-shareholdings and reciprocal board directors and will vote against election of directors who have such connections with the company except in the case of a joint business venture.
- The Council is supportive of recommendations that each board appoints three committees: nomination, audit and remuneration.

Remuneration

- The Council is not supportive the remuneration policy and/or incentive plans if material changes have been made without shareholder approval.
- The Council is not supportive of options issued at a discount to market price.
- The Council is not supportive of proposals on equity-based incentive plans where the companies fail to provide sufficient information on matters such as vesting periods, performance criteria, grant limits or dilution.
- The Council recommends that managers consider voting against any proposal for a severance payment which exceeds two years of an executive's total remuneration. Whenever the severance payment exceeds two years, we would only consider supporting the proposal if the company provides detailed justification and the payment is in the interests of shareholders.
- The Council recommends that managers consider voting against severance payments to an executive whose contract was terminated as a result of poor performance, if he/she decided to leave the company, change his/her position or is entitled to exercise his/her rights to pension in the near future.
- The annual dilution caused by the allocation of non-performance related shares to employees should be limited to 1% of the issued share capital. The total dilution caused by all allocations of shares to employees should not exceed 10% of the issued share capital in any one year.

Capital-related proposals

- The Council recommends that managers consider voting against capital increases with pre-emptive rights and with priority subscription periods greater than 50% of the issued share capital and when the proceeds are not intended for a specific purpose.
- The Council recommends that managers consider voting against capital increases without preferential subscription rights which can represent more than 15% of a company's issued capital when no formal explanation and justification is provided.

Accounting and audit-related proposals

- The level of disclosure provided by the company in relation to audit fees should be taken into account in voting decisions. The Council recommends that managers consider voting against proposal if adequate information including breakdown is not provided.

Italy

The Council is supportive of the principles of corporate governance based on the 2006 Italian corporate governance code (Codice di Autodisciplina revised in December 2011), TUF (Testo Unico della Finanza) as well as the new regulation on banks, organisations and corporate governance issued by the Bank of Italy. We support the work of ASSONIME (Association of joint stock companies) and ASSOGESTIONI (the Italian fund management association).

Annual report

- The Council encourages managers to consider voting against the adoption of the annual report and accounts if the report has not been made available sufficiently in advance of the shareholder meeting so as to allow shareholders to make an informed decision.

Corporate boards

- The traditional structure of an Italian company comprises a board of directors and a board of statutory auditors. The "voto di lista" director election system is designed to ensure minority representation on the board. Given that under this system, shareholders cannot decide on each candidate but must vote for a single submitted list, The Council encourages managers to consider all proposed slates and take their voting decision on a case-by-case basis.
- In general, the Council is supportive of the slate that seems to have directors that are most suited to representing the long-term interests of the minority shareholders.
- The Council encourages managers to consider voting against the election of directors if their names or biographical details have not been disclosed in advance of the general meeting. The same comment applies to the appointment of statutory auditors (collegio sindacale).
- The Council encourages managers to consider voting against of cross-shareholdings and reciprocal board directors and will vote against election of directors who have such connections with the company except in the case of a joint business venture.

Board of statutory auditors (collegio sindacale)

- The Council recommends that managers consider voting against re-election of the statutory auditors, who have served on collegio sindacale for more than 12 years.
- *Remuneration*
- The Council recommends that managers consider voting against the remuneration policy and/or incentive plans if material changes have been made without shareholder approval.
- The Council may be supportive of grants of shares that are not performance related to non-executive directors, provided the directors are required to retain these shares until the end of their tenure.
- The Council recommends that managers consider supporting of the proposals to abolish "guaranteed bonuses".
- The Council would expect companies to provide detailed information on the pension rights and potential additional pension rights, as well as on the cost of providing such pension benefits.
- The Council would expect the annual dilution caused by the allocation of non-performance related shares to employees to be limited to 1% of the issued share capital. The total dilution caused by all allocations of shares to employees should not exceed 10% of the issued share capital in any one year.
- The Council recommends that managers consider voting against any remuneration policy that allows severance payments to executives to exceed two years of total remuneration. The Council recommends that managers consider voting against severance payments to an executive whose contract was terminated as a result of poor performance, if he/she decided to leave the company, change his/her position or is entitled to exercise his/her rights to pension in the near future.

Capital-related proposals

- The Council recommends that managers consider voting against capital issuance with pre-emptive rights in excess of 50% of the issued share capital unless a higher percentage is justified by specific circumstances which must be explained.
- The Council recommends that managers consider voting against capital issuance without pre-emptive rights in excess of 15% of the issued share capital.

Luxembourg

Companies have the option between a unitary board structure and a two-tier formula.

- In companies that have adopted unitary board structure, The Council would expect the majority of directors to be non-executive and at least one-third of directors to be fully independent. In companies with dual board structure, The Council would expect all supervisory board members to be non-executive and at least one-third to be fully independent.

- In companies that have a large shareholder represented on the board, at least a third of the board is expected to be fully independent.
- The Council prefers that a representative of a large shareholder does not chair the audit committee and that the chairman of the board does not serve on the audit committee. Executives should not serve on either audit or remuneration committees.
- The Council recommends that managers consider voting against the election of directors if their names or biographical details have not been disclosed in advance of the general meeting.

Capital-related proposals

- The Council recommends that managers consider voting against any share re-purchase requests that would allow share re-purchases during a takeover period.

Accounting and audit-related proposals

- The Council encourages managers to consider voting against the relevant resolution if a company has failed to publish its financial statements in advance of the general meeting.
- Managers are encouraged to take into account the level of disclosure provided by the company in relation to audit fees and will not support proposal if adequate information including breakdown is not provided.
- The Council encourages managers to consider voting against the approval of the auditor if a company has failed to publish the name of the auditor.

Remuneration

- The Council recommends that managers consider voting against proposals on equity-based incentive plans where the companies fail to provide sufficient information on matters such as vesting periods, performance criteria, grant limits or dilution.
- The Council recommends that managers consider voting against options issued at a discount to market price.

Spain

The Council is generally supportive of the June 2013 Unified Good Corporate Governance Code and other recognised best practice guidance.

Corporate boards

- Spanish companies have a unitary board structure. The Council would expect outside directors, proprietary and independent, to occupy the majority of board seats. We would support the (re)election of a director who is neither proprietary nor independent, provided the company has disclosed the links that person maintains with the company, its senior officers or its shareholders, which are deemed acceptable.
- The Council acknowledges that the proportion of proprietary and independent directors on the board should reflect the share ownership structure of the company, provided that at least a third of the board is comprised of independent directors.
- The Council recommends that managers consider voting against the election of nominees whose names and biographical details have not been disclosed in advance of the general meeting to allow shareholders to make an informed decision.
- The Council recommends that managers consider voting against the whole slate if a proposal bundles the election of all nominees.

Remuneration

- The Council recommends that managers consider voting against the remuneration policy and/or incentive plans if material changes have been made without shareholder approval.
- The Council is normally supportive grants of shares that are not performance related to non-executive directors, provided the directors are required to retain these shares until the end of their tenure.
- The Council would expect companies to provide detailed information on the pension rights and potential additional pension rights, as well as on the cost of providing such pension benefits.
- The Council would expect the annual dilution caused by the allocation of non-performance related shares to employees to be limited to 1% of the issued share capital. The total dilution caused by all allocations of shares to employees should not exceed 10% of the issued share capital in any one year.
- The Council recommends that managers consider voting against any remuneration policy that allows severance payments to executives to exceed two years of total remuneration. The Council will not support severance payments to an executive whose contract was terminated as a result of poor performance, if he/she decided to leave the company, change his/her position or is entitled to exercise his/her rights to pension in the near future.

Capital-related issues

- The Council recommends that managers consider voting against:
    - Capital issuance with pre-emptive rights in excess of 50% of the issued share capital unless a higher percentage is justified by specific circumstances which must be explained.
    - Capital issuance without pre-emptive rights in excess of 15% of the issued share capital.
    - Any share repurchase request that would allow share re-purchases during a takeover period.

Switzerland

The Council is generally supportive of the Swiss Code of Best Practice for Corporate Governance and other recognised best practice guidance. The Council welcomes the compensation-related developments in this market. As from 2015, Swiss law (Ordinance Against Excessive Compensation in Listed Companies of November 20, 2013 which came into effect on January 1, 2014) will require Swiss-listed companies to hold binding votes on the compensation of board members and executive committee members.

Corporate boards

- Swiss companies have a unitary board system. The Council expects the majority of board members to be independent.
- The Council welcomes the new requirement that provides that going forward shareholders will have to elect, for a one-year term, all board and compensation committee members and the chairman.

Remuneration

- Following the recent Minder referendum, The Council recommends that managers consider voting against:
    - The remuneration policy and/or incentive plans if material changes have been made without shareholder approval.
    - Grants of shares that are not performance related to non-executive directors, unless the directors are required to retain these shares until the end of their tenure.
    - Indemnification payments which are paid to a new hire which do not explicitly compensate for losses suffered with the former employer.
    - Transaction bonuses paid out for the management of the target which are not clearly detailed/explained.
    - Pension rights and potential additional pension rights which are not clearly explained. The value of additional DB pensions should be taken into account when determining the overall level of executive compensation.

- Any remuneration policy that allows severance payments to executives to exceed two years of total remuneration.

Capital-related issues

- The Council is normally supportive of capital pools with pre-emptive rights of up to 20% of the issued share capital.
- The Council encourages managers to consider voting against the request for a creation of an aggregated capital pool without pre-emptive rights in excess of 10% of the issued share capital.
- Voting preferred shares are the most common form of preference stock in Switzerland. The Council recommends that managers consider voting against the issue of shares with unequal voting rights and will withhold support for capital raising exercises by companies with such capital structures.
- The Council is supportive of proposals to disallow anti-takeover defences including:
  - Differential or restricted voting rights
  - Restriction of the transferability of registered shares

Opting Up / Opting Out clause

- The Council recommends that managers consider voting against any proposal to "opt out" of the mandatory offer obligation and will consider all proposals to "opt up" on a case-by-case basis.

United Kingdom and Ireland

In the UK & Ireland the Council is supportive of the principles and recommendations set out in the UK Corporate Governance Code, ABI Principles of Remuneration (UK) and Irish Association of Investment Managers ("IAIM") Corporate Governance, Share Option and other Incentive Scheme Guidelines, the Pre-emption Group Guidelines and other recognised best practice guidance.

Corporate boards

- In view of the unitary structure of UK company boards and the market best practice with respect to the board composition, the Council will expect the board, excluding the chairman, to comprise at least half of independent non-executive directors. In smaller companies (i.e. outside FTSE 350) the Council expects the board to have at least two independent non-executive directors.
- Where there is an insufficient number of independent non-executive directors on the board at companies which do not apply the recommendation of the UK Corporate Governance Code for annual director election, the Council will expect the non-independent non-executive directors to stand for re-election annually until the appropriate balance of independence on the board has been achieved.
- The Council recommends that managers consider voting against the (re)election of a non-executive director who has served on the board for three consecutive three-year terms unless he/she is subject to annual re-election thereafter.

Remuneration

The Council welcomes the provisions of the new directors' remuneration regulations, which enter into force on 1 October 2013. In particular, we note the requirements for an annual statement by the Chairman of the Remuneration Committee, a policy report which will be subject to a binding approval by shareholders at least every three years, and a report on how the policy has been implemented ('Annual Report on Remuneration') which will be subject to an annual advisory vote. The Council believes that the regulations will promote the provision of information that is useful to shareholders in making a fair and proper assessment of remuneration arrangements, and expects that enhanced disclosure will in turn help to maintain and improve remuneration practices.

In line with the global guidelines on remuneration outlined above, The Council will usually take into account a range of factors when voting on policy and implementation reports.

Policy report

When voting, the Council encourages managers to take into account the following elements which should become a standard part of company disclosure:

- How the different elements of remuneration support company strategy
- Annual and equity incentive structures (see global remuneration voting policy above)
- The policy on loss of office payments (see below)
- The statement of how employment conditions elsewhere in the company have been taken into account
- The statement on whether, and if so how, the views of shareholders have been taken into account

Also, The Council will expect all equity-based incentive schemes to observe the following dilution limits:

- UK: 10% of the issued ordinary share capital (adjusted for share issuance and cancellation) in any rolling 10 year period under all equity-based incentive schemes and 5% of the issued ordinary share capital of the company (adjusted for share issuance and cancellation) in any rolling 10 year period under executive (discretionary) schemes.
- Ireland: no more than 10% of issued ordinary share capital, adjusted for scrip, bonus and rights issues, over a period of 10 years for all equity-based incentive schemes (with additional 5% of the issued share capital over a period of 10 years to be used, following approval by the IAIM, for broadly based employee share schemes of all kinds). Within the above 10% limit 5% of the issued ordinary share capital can be used under a basic tier share option schemes with additional 5% of the issued share capital to be used under a second tier share option scheme, such options being exercisable only on the basis of exceptional performance.

Given the binding nature of policy report resolutions, the Council encourages managers to take into account the administrative implications of the resolution being defeated when casting a vote.

The Council encourages managers to consider voting against policy reports if this is warranted by the balance of factors, particularly where there are egregious examples of poor practices or the company has failed to respond concerns previously expressed by shareholders.

Annual Report on Remuneration

The Council encourages managers to take into account the following elements which should become a standard part of company disclosure:

- The global figure for each executive's remuneration, and its composite parts
- The link between pay and performance
- Payments for loss of office (please see below)
- The percentage change in the CEO's remuneration
- Information on how shareholders have voted on the previous year's remuneration report and action taken by the Remuneration Committee in response
- The Council may vote against the implementation of a policy that results in disproportionate or inadequately justified awards to directors, even if the policy as a whole has previously been approved by shareholders.

Capital-related issues

- The Council recommends that managers vote in favour of routine capital issuance requests with pre-emptive rights up to a maximum of 1/3 of the issued share capital and routine capital issuance requests without pre-emptive rights up to a maximum of 5% of the issued share capital provided that such authorities are renewed every year.
- In the current financial climate, a number of companies continue to propose extended capital issuance requests with pre-emptive rights of up to an additional 1/3rd of the issued share capital. The Council recommends that managers support these on a case-by-case basis taking into account the circumstances of the individual and the checks and balances offered to shareholders in return.

- The Council recommends that managers decide on any share issuance proposals in excess of the limits specified in our global policy on a case-by-case basis.

Nordic markets (Denmark, Finland, Norway and Sweden)

In Denmark, Finland, Norway and Sweden, The Council is supportive of the Codes of Corporate Governance and other recognised best practice guidance in each of these markets.

Bundling of resolutions

- The Council encourages companies not to bundle resolutions under a single item on the meeting agenda. This enables shareholders to express their approval or disapproval on important matters individually. The Council encourages managers to consider voting against bundling of resolutions.

Discharge of Directors

- The Council encourages managers to consider voting against the abolition of the annual discharge, unless shareholders can vote on the election or the re-election of all directors on an annual basis.

Board composition

- The Council expects that half the board of directors/supervisory board be independent (when not including any employee-elected representatives). Therefore, the Council invites managers to withhold support from the election of non-independent non-executive directors unless this minimum requirement is fulfilled. When determining whether a non-executive director is independent, internationally recognised definitions of independence should to be considered. This includes whether the individual is independent of the company and of its major shareholders.
- The Council favours majority vote standards for election of directors, and is supportive of proposals requesting bylaw changes.
- The Council encourages managers to consider opposing proposals aimed at adoptingplurality voting at companies that have adopted a majority vote standard for election of directors.
- In countries where board diversity is regulated by law (e.g. Norway) or best practice (e.g. Finland) the Council expects boards to take action to comply with these rules.
- The Council believes that the chairman of the board/supervisory board should not be a member of the audit committee, and would expect committee members to have recent and relevant experience to work on this committee.
- In Sweden, and increasingly in Finland, nomination committees are made up of representatives from the four largest shareholders. Provided that managers are confident that the largest shareholders act in the best interest of all shareholders, the Council encourages managers to vote in favour of the creation of this type of committee and the appointment of its members.

Number of concurrent board memberships

- Non-executive directors must be very rigorous in the assessment of the time they are able to commit to a board and do not overcommit themselves. While the situation should be assessed on a case-by-case basis, directors are generally expected not to hold more than 3 board seats on boards of publicly listed companies at any one time. This is particularly the case if the individual is also charged with the responsibilities of Chief Executive Officer.
- Shareholder-based nomination committees
- In Sweden, and increasingly in Finland, nomination committees are made up of representatives from the four largest shareholders and can be chaired by the chairman of the board. If the Council is confident that the largest shareholders act in the best interest of all shareholders the Council is likely to endorse the concept and recommends that managers vote in favour of the creation of this type of committee and the appointment of its members.

Remuneration

- The Council endorses the concept of a vote on remuneration and would prefer that companies submit the remuneration of executives as well as non-executive directors for an annual vote at the general meeting. However, we acknowledge that laws and market practices vary considerably between the Nordic countries on this issue; therefore encourages investment managers to assess the situation on a country-by- country basis when making a voting decision.
- Share Matching Plans are an often used remuneration feature in the Nordic countries. These plans allow senior executives to invest their bonus – in full or part - in the company's shares at market price which will be matched over time depending on performance. The Council is supportive of a policy whereby up to one free share for every share held is granted but would otherwise expect that stringent performance criteria be attached to any further matching of shares.
- The Council encourages investment managers to support grants of shares that are not performance related to non-executive directors, provided the directors are required to retain these shares until the end of their tenure.
- A number of companies still grant market priced options which are not subject to any performance criteria. Some boards believe that a remuneration structure which relies on a bonus with demanding short-term metrics is the best way of incentivising management. Managers are encouraged to make a case-by-case assessment of the overall remuneration arrangements before making a voting decision.

Severance payments

- The Council recognises that it is market practice in most of the Nordic countries to provide executives with termination payments equal to two years' base salary and encourages managers to support this practice as long as it is capped at two years and the contract was not terminated as a result of poor performance.

Capital pools

- As a general rule we expect companies to grant pre-emption rights when proposing a capital increase. We consider that any such capital increase should be subject to shareholder approval on the basis of the company's specific investment needs. The Council invites investment managers to support any well-reasoned resolution that has the potential to increase the value of the company.
- Companies in some of the Nordic countries annually request the authority to create capital pools without a specific purpose. This could potentially undermine shareholder rights in important M&A transactions just as the share capital of existing shareholders could be significantly diluted.
- The Council invites investment managers to support capital pools with pre-emptive rights of up to 20% of the issued share capital.
- The Council is generally not supportive of the request for a creation of an aggregated capital pool without pre-emptive rights in excess of 10% of the issued share capital.
- The request for authority to transfer shares to finance an acquisition is – in line with the law in Finland - seen as equivalent to issuance of shares without pre-emptive rights.

One share one vote

- The Council recommends that managers consider voting in favour of proposals to abolish voting caps or multiple voting rights (A and B shares) and oppose measures to introduce these types of restrictions on shareholder rights.

Equal treatment in public offers

- The Council believes that as A and B shareholders take equal financial risk and receive the same dividend per share they should also receive the same price for their shares in case of a takeover.

Germany

In addition to applicable laws, regulations and governmental initiatives in the area of corporate governance and the protection/enhancement of shareholder rights, the Council is generally supportive of the principles and recommendations set out in the May 2013 German Corporate Governance Code.

Corporate boards

- A dual board system, comprising the management board and the supervisory board, is prescribed by law for German stock corporations. The members of the supervisory board are elected by shareholders. In enterprises with more than 500 or 2000 employees in Germany, employees are also represented on the supervisory board under a principle of co-determination. At such companies, supervisory boards include between one third and one half employee representatives.
- The Council would expect the supervisory board to include an adequate number of independent members. In view of the co-determination rule, it would be reasonable to expect at least one-third of the supervisory board members to be independent.
- The Council believes that no more than two former members of the management board should be members of the supervisory board; however, we would expect an appropriate cooling off period between the individual's resignation as a management board member and his/her appointment to the supervisory board.
- The Council believes that the current practice of five year terms for supervisory board members – the legal maximum – facilitates the entrenchment of the supervisory boards and will, therefore, strongly support and encourage shorter terms.
- The Council would expect that the audit and nomination committees comprise and are chaired by independent directors.

Remuneration

In Germany, companies seek an advisory vote on the remuneration policy in line with the Act on the Appropriateness of Management Board Remuneration that came into force in August 2009. There is currently no obligation for an annual vote and few companies have so far sought repeat shareholder approval of their remuneration systems since their initial efforts in 2010. German top executives still receive most of their remuneration in cash based on the company's performance over one year; where long-term incentives exist they are rarely linked to clearly defined performance targets.

The Council supports recent effort by the German Commission on Corporate Governance to introduce recommendations in the German Corporate Governance Code for standardised reporting on Management Board remuneration.

- The Council recommends that managers consider voting against executive remuneration arrangements where pay levels are considered to be excessive or unjustified compared to the market norms, the company's peers and the financial position of the company.
- German companies are not obliged to put the remuneration system to the management board for a vote on an annual basis. However, the supervisory board as a whole reviews and approves management board remuneration each year. Therefore, in the absence of a resolution on executive compensation on the agenda, The Council encourages managers, on a case-by-case basis, to consider voting against the Discharge of the Supervisory Board if continuing concerns with management board pay are not resolved or if there are emerging features of remuneration disclosure and practice which deviate from good practice.
- In making its decision, the managers are encouraged to give consideration to company disclosure of performance measures and targets attached to variable pay and the presence of caps for the individual elements on management board member compensation packages.
- The Council recommends that managers consider voting against any remuneration policy which allows for severance payments to executives to exceed the value of two years' annual compensation (salary and bonus) and compensate more than the remaining term of the contract (if less than two

years). The Council is supportive of proposals to limit any compensation payments in the event of early termination to one year's salary and benefits (excluding bonus).

- The Council is supportive of proposals to reduce the appointment period for management board members below traditional five years and would expect companies to gradually introduce one-year rolling contracts.
- The Council is not supportive of the short-term oriented variable pay elements (e.g. based on dividend or earnings targets) for supervisory board member and prefer supervisory board members to receive fixed pay only. Managers may consider voting supporting incentive elements in the pay package if they consist of a defined number of restricted shares to be held until the term on office finishes.
- The Council recommends that managers decide on voting on long-term oriented variable pay-elements on a case-by-case basis.

Capital pools

- In view of the general market practice in Germany to seek capital-related authorities for a period of five years, The Council would consider a request for an aggregate capital pool with pre-emptive rights of up to 50% and an aggregate capital pool without pre-emptive rights of up to 20% of the share capital as being acceptable provided there is no history of past abuse of such authorities and the current situation of the company allows for this.
- If the company seeks annual capital pool authorities, The Council generally recommends that managers consider supporting capital pools with pre-emptive rights of up to 20% of the issued share capital, and capital pools without pre-emptive rights of up to 10% of the issued share capital.

Articles of association

- The Council recommends that managers consider voting against a resolution that asks for the approval of majority requirements to enable the recall of supervisory board members above the 75% majority rule which represents the default legal value of the corporate law. The Council is supportive proposals to either maintain or introduce a 50% majority rule for the recall of a supervisory board member according to § 103 (1) AktG.
- The Council strongly recommends that managers consider voting against the KGaA legal form as an alternative to the AG because of the limited shareholder rights. Companies which chose S.E. statutes (Societas Europaea) are expected to propose individually the respective resolutions pertaining to statute changes (in particular separate resolutions for the new articles of association and the supervisory board members of the S.E.).

Netherlands

In the Netherlands, The Council is supportive of the recommendations of the Dutch Corporate Governance Code, the Governance Principles For Insurance Companies of December 2010 and the work carried out by Eumedion, and other governance related initiatives and recognised best practice guidance.

General Meetings

- The Council is supportive of the recommendation that each substantial change in the corporate governance structure of the company and in the compliance of the company with the Code should be submitted to the general meeting for discussion (and, where changes are material, for shareholder approval) under a separate agenda item.

Corporate boards

- Listed Dutch companies typically fall under the “large company regime”, which prescribes a two-tier board structure.

- Where companies adopt a unitary board, The Council would expect the majority of the board members to be fully independent non-executive directors and the roles of chairman and chief executive to be separated.
- In cases where there is a combination in the role of chairman and chief executive, the Council would expect the board to implement mechanisms that may offset a potential concentration of power.
- For two-tiered boards, the Council expects all supervisory board members to be non-executive and a majority of these to be fully independent.
- The Council would expect the audit and remuneration committees of the supervisory board should not be chaired by the board chairman or a former member of the management board of the company.
- Furthermore, the Council believes that a representative of a large shareholder should not chair the audit committee and would encourage managers to consider voting against shareholder nominated director on the audit committee.
- The Council believes that at least one member of the supervisory board and of the audit committee shall be a financial expert with relevant knowledge and experience of financial administration and accounting at listed companies or other large legal entities.
- The Council recommends that managers review the number of external board memberships held by directors and will encourage companies to disclose in full directors' attendance of board and committee meetings.

Remuneration

- The Council recommends that managers vote against the remuneration policy and incentive plans if material changes have been made without shareholder approval.
- The Council recommends that managers withhold support from remuneration policy that allows the company to grant its directors any personal loans, guarantees or the like unless in the normal course of business and on terms applicable to the personnel as a whole, and after approval of the supervisory board.
- The Council is supportive of the proposals to abolish "guaranteed bonuses".
- The Council would expect companies to provide detailed information on the pension rights and potential additional pension rights, as well as on the cost of providing such pension benefits.
- The Council would expect the total dilution caused by all allocations of shares to employees not to exceed 10% of the issued share capital in any one year.

Termination provisions and severance packages

Effective 1 January 2014, a law came into effect allowing all companies to adjust and claw-back variable remuneration of executive directors. As a result, all Dutch companies will be empowered with a claw-back clause even if such a clause is not included in the remuneration policy.

The Council recommends that managers normally vote against proposals for a severance package which exceeds one year of an executive's base salary unless severance pay (not exceeding twice the annual salary) of a maximum of one year's salary would be manifestly unreasonable for a management board member who is dismissed during her/his first term of office.

- The Council recommends that managers vote against severance payments to an executive whose contract was terminated as a result of poor performance, if he/she decided to leave the company, change his/her position or is entitled to exercise his/her rights to pension in the near future.

Capital-related issues

- The Council is generally supportive of the capital issuance proposals with or without pre-emptive rights for a maximum of 10% of the issued share capital, increased by further 10% in the case where the issue takes place in support of a merger or takeover, provided that such authority is requested for no longer than 18 months.

Anti-takeover measures

- The Council recommends that managers vote against the practice of poison pill defences such as:
    - Authorising the board of a company which is subject to a hostile takeover bid to issue preferred stock to friendly parties (e.g. Foundations). Such issuances are used to deter hostile takeover bids by diluting the bidder's voting power and increasing that of the management.
    - Foundations which can be allocated preference shares in the event of a hostile bid are a common provision at Dutch companies but have rarely been used.
- Although very few companies with depositary receipts remain listed on the stock exchange, depositary receipts can be used to prevent shareholders from controlling the decision making process and, therefore, expects trust offices to:
    - Formally undertake not to use depositary receipts as an anti-takeover measure;
    - Where there is no such undertaking, to provide clear explanation for this non-compliance; or
    - Provide an indication of the circumstances under which it may be possible to end the issue of depositary receipts for shares.

North America

United States

The Council is generally supportive of the principles and recommendations of the US Council of Institutional Investors (CII) and other best practice guidelines.

Corporate boards

- The Council expects that a substantial majority (at least two-thirds) of a corporate board should be directors who are from outside the company and independent of the company's management and business operations.
- The Council is supportive of the effort to seek separation of the roles of the Chairman and CEO, and encourages managers to consider supporting proposals to separate those roles.
- The Council recommends that managers consider voting against the re-election of directors at a board that has failed to take reasonable steps to respond to a shareholder proposal that was supported by a majority of shareholders in the previous year, provided that The Council supported that proposal.
- The Council may is not supportive of the re-election of members of the Nominating Committee at a board that has neither an independent chairman nor a lead director.
- The Council encourages managers to consider voting against the re-election of members of the Audit Committee at a board that has not proposed that shareholders vote to ratify the auditors.
- The Council is not supportive of proposals to adopt cumulative voting at those companies that have adopted a majority vote standard for election of directors.
- The Council encourages investment managers to consider opposing the re-election of a director who has failed to receive support from a majority of shareholders in the previous year, unless the board has put forward a compelling argument otherwise.

Addressing frequent shareholder concerns about corporate boards

- The Council favours improved access to the proxy for shareholders and encourages managers to consider supporting reasonable proposals for change.
- The Council favours majority vote standards for election of directors, and recommends that investment managers l support proposals requesting bylaw changes to that effect.

Remuneration

- The Council is not supportive of the remuneration policy and/or incentive plans if material changes have been made without shareholder approval.
- The Council will expect all equity-based incentive schemes to have a three-year average burn rate that is not excessive relative to peers.
- The Council supports the introduction of an annual advisory vote on remuneration.
- When reviewing advisory votes on remuneration, The Council will take into consideration a company's record of the following:
    - Stock Ownership and Holding Policies
    - Clawbacks
    - Performance Drivers
    - Perquisites
    - Internal Pay Equity
    - Stock Option Practices
    - Performance Goals
    - Post-employment Pay
    - Compensation Policy, Philosophy and Disclosure
    - When reviewing change-in-control provisions, The Council prefers that they require a "double trigger" and total no more than three times the executive's annual salary.
    - Independence of Compensation Advisor

Capital-related Issues

In line with best market practice, The Council encourages investment managers to generally vote for requests for capital issuance except in the following circumstances:

- The shares can be used for unspecified purposes;
- The resultant dilution would represent more than 10 percent of the current outstanding voting power;
- The shares would be issued at a discount to the fair market value; and/or
- The issues shares have superior voting rights.

Anti-takeover Provisions/Shareholder Rights Plans

Requests to adopt or modify anti-takeover provisions or shareholder rights plans should be reviewed on a case-by-case basis and their impact on shareholder rights must be carefully considered. The Council encourages investment managers to consider opposing any such request in the following circumstances:

- The company has a classified board of directors;
- The plan would inhibit hostile takeover attempts and/or entrench management by making the cost of an acquisition exorbitant; and/or
- The plan includes charter amendments that would have a detrimental impact on shareholder rights, such as supermajority voting requirements and/or the elimination of shareholders' ability to amend bylaws or requisition an extraordinary meeting of shareholders.

Shareholder resolutions related to SEE issues (please see section on Social, ethical and environmental (SEE) issues above for further detail)

- r All shareholder resolutions should be reviewed on a case-by-case basis taking into consideration a number of factors including:
    - The demand being reasonable and implementable;
    - The issue representing a material risk (this include reputational, financial or operational risk) to the company;
    - There being reasonable doubt about the current approach taken by the company;
    - Based the credentials of the proponent;
    - Based on the responsiveness of the company;

- Based on the anticipated costs and benefits to the company and thus to shareholders of the resolution passing;

Canada

The Council is generally supportive of the principles and recommendations of the National Policy 58-201 Corporate Governance Guidelines and the Multilateral Instrument 52-110 Audit Committees and other best practice guidance.

Corporate boards

Canadian companies have a unitary board structure. The National Policy 58-201 Corporate Governance Guidelines recommend that boards have a majority of independent, non-executive directors.

- In line with the market best practice, The Council expects that a substantial majority (at least two-thirds) of a corporate board should be directors who are from outside the company and independent of the company's management and business operations.
- The Council encourages managers to consider voting against the re-election of non-independent directors at a board that has neither an independent chairman nor a lead director.
- The Council recommends that managers consider voting against the re-election of members of the Audit Committee if there is no information on audit fees paid to the auditor prior to a shareholders' meeting.
- The Council favours majority vote standards for election of directors, and is supportive of proposals requesting by-law changes.
- The Council will encourages managers to consider voting against proposals to adopt cumulative voting at those companies that have adopted a majority vote standard for election of directors.
- The Council is supportive of the reimbursement of proxy solicitation expenses in contested elections, when The Council has supported the dissidents' election.

Remuneration

- The Council invites investment managers to vote against the remuneration policy and/or incentive plans if material changes have been made without shareholder approval.
- The Council encourages investment managers to vote against proposed Amendment Procedures that do not require shareholder approval for amendments of security-based compensation arrangements. Such proposals may be submitted as a result of new TSX requirements.
- The Council will expect all equity-based incentive schemes to have a three-year burn rate that is not excessive relative to peers.

Capital-related issues

- The Council is supportive of proposals to approve increased authorized capital if a company's shares are in danger of being de-listed and/or a company's ability to continue to operate as an ongoing concern is uncertain.

Anti-takeover Provisions/Shareholder Rights Plans

- The Council is only supportive of those "new generation' shareholder rights plans whose purpose is limited to:
  - Providing the board with more time to find an alternative value enhancing transaction; and
  - Ensuring the equal treatment of all shareholders.
- Requests to modify existing provisions or shareholder rights plans can only be supported if they are deemed to enhance shareholder rights.

Other (Emerging markets)

Brazil

Boards and directors

The structure of Brazilian boards is shaped by a number of is overlapping rules and regulations. Brazilian Corporations Law stipulates that boards should comprise a minimum of three directors, while the financial regulator recommends five to nine directors with a minimum of two directors having expertise in finance and accounting. The boards of companies listed on the Novo Mercado are required to have boards which are at least 20% independent. The Code developed by the Brazilian Institute of Good Corporate Governance recommends that boards have at least a majority of independent directors. The Brazilian Corporations law allows minority and preferred shareholders present at the meeting to appoint one member each to the board of directors.

Shareholders are often presented with the directors for election bundled on a slate. Candidate information is not necessarily available until the shareholder meeting. Minority shareholder representatives to the board are most often identified by minority shareholders at the shareholder meeting; as a result, shareholders voting via proxy may not be able to meaningfully identify their preferred candidates. In the event that the names of the board candidates are not available ahead of the meeting, we encourage managers to evaluate the current board composition and assess any specific problems or concerns at the board or the company.

- The Council encourage investment managers to vote against director slates where a specific concern with the slate of directors has been identified.
- In recognition of local market practices, the Council is generally supportive of director slates in Brazil, even in the absence of specific information regarding their identities.

Auditors and audit-related issues

Brazilian company boards do not typically set up audit or other board committees. A fiscal council below board level may be responsible for overseeing audit-related board functions

- Public companies in Brazil have an external auditor that is selected by the board of directors and not typically ratified by shareholders.
- Auditor compensation is typically not disclosed.

Capital structure, mergers, asset sales and other special transactions

In Brazil, shareholders are generally afforded pre-emptive rights on new share issuances, regardless of share class. According to the Corporations Law, companies must present financial statements to shareholders for approval at least one month in advance of the annual meeting.

- The Council expects companies to adhere to the Corporations Law with regards to dividend distribution and payout ratios.
- The Council encourages managers to review proposals to issue additional shares, establish new share classes, or engage in a debt financing arrangement on a case-by-case basis.
- The Council invites managers to consider voting on mergers, asset sales, and other special transactions based on the details of the proposed transactions and the specific circumstances of the company.

Remuneration and benefits

Best practice standards in Brazil call for the disclosure of the remuneration of CEOs, directors, and auditors. However, few companies disclose the pay levels prior to the shareholder meeting and on an individual basis. Shareholders are not asked to approve remuneration of executives.

Russia

Disclosure

- In instances where there is insufficient disclosure, The Council encourages managers to consider, on a case-by-case basis, voting against the approval of the auditors and their remuneration and against resolutions related to the remuneration of directors.

Boards and directors

- In Russia, companies adopt a unitary board structure, where directors seek annual election through a cumulative voting system. Companies may nominate a greater number of candidates for a set number of board seats. Under the cumulative voting system, The Councilis usually supportive of directors who are considered to be fully independent in order to increase their chances of being elected to the board.

General corporate governance matters

- The Council expects related-party transactions to be fully disclosed and transparent in order to support them.

South Africa

The Council is supportive of the recommendations of the King III report on Corporate Governance for South Africa.

Boards and directors

South African company boards follow the unitary model. The composition of the board is influenced by South Africa's Black Economic Empowerment (BEE), or more recently Broad-Based Black Economic Empowerment (BBBEE), policies which aim to redress historic inequalities. The Council expects the majority of the board members, including the chairman, to be fully independent.

- The Council is supportive of a separation in the roles of chairman and chief executive. In cases where there is a combination in the role of chairman and chief executive, The Council expects the board to implement mechanisms that may offset a potential concentration of power.
- The Council is supportive of audit committees which comprise independent non-executive directors only. The board chairman should not serve on the audit committee

Capital structure and special transactions

- The Council may encourages managers not to support proposals to place authorised but unissued shares under the control of directors where this amount exceeds one-third of the issued share capital and sound rationale for the request is not provided.

Disclosure and Reporting

The Council believes that transparency and accountability are important components of effective stewardships. Accordingly, we require that our fund managers report to us on a regular basis on the voting and engagement activities they have conducted on our behalf.

So that our beneficiaries may be fully informed of how we look after the fund's investments, we will also report on at least an annual basis on the voting and engagement activities of the Council and its fund managers. This report will be made available on the Council website.

Agenda Item 9

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