Public Document Pack

City of Westminster

Committee Agenda

Title:	**Pension Fund Committee (Formerly Superannuation Committee)**
Meeting Date:	**Tuesday 8th September, 2015**
Time:	**7.00 pm**
Venue:	**Rooms 3 and 4, 17th Floor, City Hall, 64 Victoria Street, London SW1E 6QP**
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, Joseph McBride, Committee and Governance Officer.

Tel: 020 7641 2341; Email: jmcbride@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 report any changes to the membership of the Committee.	
2.	**DECLARATIONS OF INTEREST** To receive declarations of interest by Members and Officers of any personal or prejudicial interest.	
3.	**MINUTES** To approve the Minutes of the meeting of the Pension Fund Committee held on 21 May 2015.	**(Pages 1 - 8)**
4.	**PENSION ADMINISTRATION** Presentation from Surrey County Council.	
5.	**ADMISSION AGREEMENT FOR SANCTUARY HOUSING** Report of the City Treasurer.	**(Pages 9 - 12)**
6.	**REVISED COMMUNICATIONS POLICY APPROVAL** Report of the Director of Human Resources.	**(Pages 13 - 22)**
7.	**PENSION BOARD UPDATE** Report of the City Treasurer.	**(Pages 23 - 26)**
8.	**GOVERNANCE ARRANGEMENTS** Report of the City Treasurer.	**(Pages 27 - 86)**
9.	**FUND FINANCIAL MANAGEMENT** Report of the City Treasurer.	**(Pages 87 - 116)**

10.	**PERFORMANCE OF THE COUNCIL'S PENSION FUND** Report of the City Treasurer.	**(Pages 117 - 152)**
11.	**INVESTMENT MANAGEMENT CONSIDERATIONS** Report of the City Treasurer.	**(Pages 153 - 156)**
	PART TWO (IN PRIVATE)	
12.	**MINUTES** To approve the confidential Minutes of the meeting of the Pension Fund Committee held on 21 May 2015.	
13.	**PENSION FUND ACTUARY APPOINTMENT** Report of the City Treasurer.	
14.	**UPDATE ON LONDON CIV** Report of the City Treasurer.	
15.	**ASSET ALLOCATION** Report of the City Treasurer.	

Charlie Parker
Chief Executive
28 August 2015

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City of Westminster

Minutes

Meeting:	**Pension Fund Committee (Public)**
Date of meeting:	**Tuesday 8th September at 7.00pm**
Attendees:	**Councillors:** **Suhail Rahuja (Chairman)** **Ian Rowley** **Patricia McAllister** **Officers:** **Steven Mair (City Treasurer)** **Carolyn Beech (Director of HR)** **David Hodgkinson (Assistant City Treasurer)** **Nikki Parsons (Pension Fund Officer)** **Neil Sellstrom (Tri-Borough Pensions Team)** **Sarah Hay (Human Resources)** **Joseph McBride (Committee & Governance Officer)** **Also Present:** **Alistair Sutherland (Deloitte)** **Kevin Humpherson (Deloitte)** **Jason Bailey (Surrey County Council)** **Chris Smith (Pension Board Representative)** **Dr Norman Perry (Pension Board Representative)** **Marie Holmes (Pension Board Representative)** **Susan Manning (Pension Board Representative)**
Apologies:	**Councillor Antonia Cox**
Contact:	**Joe McBride** **Committee & Governance Officer**
Details:	**Tel: 020 7641 2341** **Email: jmcbride@westminster.gov.uk**

1. MEMBERSHIP OF THE COMMITTEE

1.1 Councillor Antonia Cox passed her apologies to the Committee.

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 Pension Fund Committee meetings held on 21 May 2015 were agreed as a correct record and signed by the Chairman.

4. Pension Administration

4.1 Jason Bailey provided an overview of the administration service provided by Surrey County Council to Westminster City Council and invited Members to ask any questions. Mr Bailey emphasised that the arrangement was not for profit but that Surrey would seek to recharge only their overheads to Westminster to reflect the costs of providing the service. Surrey administer the service for approximately 200,000 people including, as of this month, Hammersmith and Fulham and Kensington and Chelsea.

4.2 Councillor Suhail Rahuja asked what the timeline was for approval of the Hammersmith and Fulham and Kensington and Chelsea contracts. Mr Bailey responded that the process took approximately 12 months due to complications arising from use of different software systems. Significant data quality issues were identified and were given the highest priority by all parties before moving forward with the new system.

4.3 Councillor Rahuja asked what the contract length is for all three boroughs. Mr Bailey replied that the contracts are for five years but clauses have been inserted after three years to provide an opportunity to realign those contracts. **ACTION:** Councillor Rahuja to discuss this further with Steven Mair (City Treasurer) at a later date.

4.4 Councillor Rahuja asked what the number of Tri-borough pensioners were in relation to the total number administered by Surrey. Mr Bailey replied that Tri-borough members are approximately 42,000 of a total of 200,000 members. **ACTION:** Jason Bailey to present at the AGM.

4.5 **RESOLVED:** The Committee noted the contents of the report.

5. ADMISSION AGREEMENT FOR SANCTUARY HOUSING

5.1 Mr Steven Mair explained that the Adult Social Care team started a procurement exercise in 2012 under the Specialist Housing Strategy for Older People (SHSOP) programme to find a supplier to provide care home management services at a number of care homes including the Westminster City Council homes of Westmead and Carlton Dean.

5.2 Mr Mair noted that while the award of contract to Sanctuary has already been approved following a decision by the Cabinet Member for Adults and Public Health and the Cabinet Member for Finance and Customer Services on 15th September 2014, approval is needed to enter into an admission agreement in order to allow 64 Westminster City Council members of staff to transfer into the employ of Sanctuary.

5.3 This in turn will allow for Sanctuary to make the necessary pension contributions for staff that will transfer into their employ into the Local Government Pension Scheme (LGPS).

5.4 Mr Neil Sellstrom (Tri-Borough Pensions Team) confirmed that no bond is in place because Sanctuary are deemed to be AAA rated. Councillor Ian Rowley noted that AAA rating can change and raised the example of Age Concern where the Council were left to underwrite the liability. Steven Mair agreed that AAA rating can change but stated that the decision was taken by the relevant Cabinet Members in lieu of the £500k savings offered annually as a result of the contract.

5.5 Councillor Rowley asked if the Council was budgeting for this as part of its reserves. Steven Mair replied that the Council had not made reserves against such specific risks previously but that the risk would now be factored into the Council’s overall reserve consideration

5.6 Councillor Rowley suggested that an annual review of the admitted bodies would be good practice going forward. This was supported by Councillor Patricia McAllister and Councillor Rahuja.

5.7 **RESOLVED:** The Committee noted the contents of the report and agreed that an annual review of admitted bodies would be welcome in future.

6. REVISED COMMUNICATIONS POLICY APPROVAL

6.1 Carolyn Beech (Director of Human Resources) noted that the previous strategy has been updated to take into account the arrangement with Surrey County Council and to reflect the communication and engagement activity being undertaken as a result.

6.2 Councillor Rahuja asked what meetings are planned with the admitted and scheduled bodies. Ms Beech replied that Ms Sarah Hay (Pensions Liaison Officer) meets regularly with partners to update them on relevant changes to legislation or the administration of the Pension Fund

6.3 Councillor Rahuja asked if the bodies understand their obligations. Ms Sarah Hay responded that they are aware because of the employer's rate that they are paying. Councillor McAllister asked if we are in regular communication with Surrey. Ms Sarah Hay confirmed that officers are in constant communication via email and telephone as well as regular meetings between officers and directors. Ms Sarah Hay noted that an employer's forum is scheduled for the end of October

6.4 Councillor McAllister asked if there was an agenda for the AGM meeting scheduled for 21st September. Ms Carolyn Beech replied that there was a draft agenda prepared which she would circulate to the Committee. **ACTION:** Councillor Rahuja felt that it would be worthwhile for Councillor McAllister to speak at the AGM.

6.5 **RESOLVED**: The Committee approved the updated 2015/16 version of the Westminster Pensions Communications Policy.

7. PENSION BOARD UPDATE

7.1 Mr Steven Mair confirmed that the Pension Board has been established, membership confirmed and the first meeting held on 27th July 2015 ahead of the statutory deadline of 31st July 2015.

7.2 Mr Steven Mair also confirmed that a training session for the Board has taken place which Committee members were invited to attend. This incorporated training on legal background and relative roles, as well as a discussion about future work plans and training.

7.3 Councillor McAllister expressed her disappointment that the Chair and other member of the Board were chosen from majority party Members without consultation with the minority party.

7.4 **ACTION**: Councillor Rahuja suggested that it may be worthwhile for a member of the Pension Board to address the AGM on September 21st to explain their role.

7.5 **RESOLVED:** The Committee noted the contents of the report.

8. GOVERNANCE ARRANGEMENTS

8.1 Mr Steven Mair noted that this report presents the draft Knowledge and Skills policy, the updated Governance Compliance Statement and summarises the equity fund manager responses to the Stewardship Policy. A self-assessment form is included in Appendix 1 of the report and Mr Mair suggested that it would be useful for Members to complete the form in order to identify knowledge gaps. **ACTION**: Completed forms to be returned to Pensions Team by October 2nd.

8.2 Ms Nikki Parsons noted that the Governance Compliance Statement has been update to take into account the Pensions Board and that this needs to go to consultation. **ACTION:** Nikki Parsons to consult with employers and to delegate authority to the Chair and the City Treasurer.

8.3 **RESOLVED:** The Committee approved the Knowledge and Skills Policy and the Governance Compliance Statement and noted the information contained in the report.

9. FUND FINANCIAL MANAGEMENT

9.1 Mr Steven Mair introduced the report which presents a variety of information that will assist the Pension Fund Committee in monitoring key areas to ensure effective control of the Fund's operation and help inform strategic decisions.

9.2 Councillor Rahuja asked how the Council pays its deficit. Mr Mair responded that traditionally it has been paid as part of the monthly contributions but this year it was paid early. Mr Mair noted that trends can emerge but that the Council are aware when the lump sum is scheduled within the next five years.

9.3 Mr Mair noted that the Council's budget savings may impact the pension fund in the next few years as a large proportion of the Council's costs are currently expended on staffing and thus reductions could follow in that area. **ACTION:** Councillor Rahuja asked for officers to prepare some sense of the volatility of the numbers at the November meeting.

9.4 Mr Mair explained that the risk register has been reviewed by officers and the rationale for the changes is set out on the first page of the appendix 2. He highlighted a new risk as a result of the Freedom of Choice legislation that permits individuals to access their pensions withdraw lump sums should they wish to do so. This can lead to sudden large payments and the risk is acknowledged in the updated risk register.

9.5 Councillor Rahuja supported Westminster's engagement in the London Collective Investment Vehicle (CIV) and felt that better coordination between authorities would result in an overall net benefit. This item will be discussed later in the meeting.

9.6 **RESOLVED:** The Committee noted the contents of the report.

10. PERFORMANCE OF THE COUNCIL'S PENSION FUND

10.1 Mr Kevin Humpherson explained that markets were volatile of the second quarter of the year to 30 June 2015 with pre-election concerns over the outcome of the UK General Election and increased uncertainty over Greece's position within the Eurozone highlighted as the main contributory factors.

10.2 Over this quarter the Fund outperformed its benchmark, mostly due to strong performance from the Standard Life Long Lease Property Fund and the active equity managers Baillie Gifford, Majedie and Longview.

10.3 Mr Humpherson noted that the fund outperformed its composite benchmark by 57bps over the second quarter of 2015, largely as a result of strong performance from the active equity managers, Majedie and Longview, and from the Stand Life Long Lease Property Fund.

10.4 Over the quarter the market value of assets fell by c. £17.7m as a result of the fall in both equity and markets over the quarter.

10.5 Councillor McAllister asked for an explanation on how the situation with Tescos could affect Westminster. Mr Alistair Sutherland (Deloitte) responded that it has been discussed regularly with Standard Life and that they are content with the current status quo. Standard Life are comfortable that the covenant underlying the investment is good.

10.6 **RESOLVED:** The Committee noted the contents of the report.

11. INVESTMENT MANGEMENT CONSIDERATIONS

11.1 The representatives from Deloitte left the room.

11.2 Mr Steven Mair noted that at the July 2014 meeting, the Committee agreed to extend the existing contract until 31 March 2016 to align with the RBKC investment advisory contract. This enabled WCC to retender at the same time as RBKC.

11.3 Officers intend to carry out a bi borough procurement with RBKC of the investment advisory contract using the National LGPS Framework, as used by LBHF in their retender for the same service in December 2013. It is not proposed that the funds would have to appoint the same advisor.

11.4 Mr Mair requested that the Committee delegates the decision to draw down £5 million from LGIM for the investment to Hermes, to the City Treasurer, in consultation with the Chair of the Pension Fund Committee.

11.5 **RESOLVED:** The Committee noted the contents of the report and delegated authority to the City Treasurer and the Chair to draw down £5 million from LGIM for investment to Hermes.

12. CLOSE OF MEETING

7.1 The meeting closed at 8.15 pm.

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

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Committee Report

City of Westminster

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**8 September 2015**
Classification:	**Public**
Title:	**Admission Agreement for Sanctuary Housing**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no immediate financial implications arising from this report.**
Report of:	**Steve Mair** ***City Treasurer*** **smair@westminster.gov.uk** **020 7641 2904**

1. Executive Summary

1.1 In order to ensure the Committee are fully aware of the status of employing bodies within the Fund this report sets out the rationale for a new Admission Agreement with Sanctuary Housing.

2. Proposed Decision of the City Treasurer in accordance with Standing Order 40 (5)

2.1 That an admission agreement be signed between City of Westminster Council and Sanctuary allowing the staff transferred to remain members of the LGPS.

3. Background

3.1 The Adult Social Care team started a procurement exercise in 2012 under the Specialist Housing Strategy for Older People (SHSOP) programme to find a supplier to provide care home management services at a number of care homes including the Westminster City Council homes of Westmead and Carlton Dean.

3.2 The above procurement resulted in the award to Sanctuary with a contract for the length of eight years with possible extensions for a further maximum of eight years.

3.3 The above award involves the transfer of Westminster City Council employees to Sanctuary

3.4 While the award of contract to Sanctuary has already been approved following a decision by the Cabinet Member for Adults and Public Health and the Cabinet Member for Finance and Customer Services on 15th September 2014, we now seek approval to enter into an admission agreement in order to allow 64 Westminster City Council members of staff to transfer into the employ of Sanctuary. This in turn will allow for Sanctuary to make the necessary pension contributions for staff that will transfer into their employ into the Local Government Pension Scheme (LGPS).

3.5 The contract goes live on 24th August 2015 it is therefore necessary for the Admission Agreement to be effective from the transfer date to ensure the rights of staff under the LGPS are properly protected.

3.6 The Admission Agreement has been prepared by Eversheds, the Fund's legal advisors with input from HR and the Tri-Borough Pensions Team.

4. Financial Implications

4.1 Once the Admission Agreement is in place, the service provider, Sanctuary, will make pension contributions in respect of the staff transferred to them.

4.2 The Employer Contribution rate will be calculated by the Fund Actuary based upon the assumption that the liabilities related to the transferring staff are transferred to Sanctuary on a fully funded basis.

4.5 As the letting Authority, City of Westminster Council accepts the pensions risk associated with Sanctuary becoming an Admitted Body to Westminster Pension Fund. This will include acting as guarantor to the liabilities of Sanctuary Housing should they be unable to meet these liabilities.

4.6 The Council has deemed the risk of Sanctuary becoming insolvent is very low and therefore no pension bond has been included in the cost of the contract price. The Council has reserved the contractual right to require the procurement of a pension bond, should Sanctuary's credit rating fall below its current very high level.

5. Recommendations

5.1 The Committee are asked to note the contents of this report.

If you have any questions about this report, or wish to inspect one of the background papers, please contact:
Neil Sellstrom Tel: 0207 641 1152

Background Papers: Written Urgency Procedure (Standing Order 40)

For completion by Chief Officer

I agree the proposed decision:

Signature: …………………………………………………………………

Designation: Chief Executive

Decision: ……………………………………………………………….

Date: ……………………………………………………………………

Time: ……………………………………………………………………

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City of Westminster

Pension Fund Committee Report

Date:	**8th September 2015**
Classification:	**Unclassified**
Title:	**Revised Communications Policy and Engagement strategy 2015/6**
Report of:	**Director or Human Resources**
Financial Summary:	**The report has no financial implications**
Report Author and Contact Details:	**Trevor Webster 0207 641 2803**

1. Executive Summary

1.1 This report provides the committee with a draft updated 2015/16 version of the Westminster Pensions Communications Policy for approval.

1.2 Also appended for approval is the Human Resources pensions' engagement strategy for the period 1st October 2015 to 31st March 2017 (18 months).

1.3 The overarching aim of both documents is to maximise membership of the scheme through incrementally improving information and support to all members of the scheme and prospective joiners.

1.4 The context of restricted salary increases since 2009, the unfavourable economic situation during that period and the changes in the pension regulations is recognised as a challenge to increasing membership to the scheme.

2. Recommendation

2.1 That the updated 2015/16 version of the Westminster Pensions Communications Policy is approved.

2.2 That the Human Resources pensions engagement strategy for the period 1st October 2015 to 31st March 2017 (18 months) is approved.

3. Background

3.1 The Local Government Pension Scheme (Administration) Regulations 2008, regulation 67 requires administering authorities to prepare, publish and maintain a policy statement setting out its communication strategy for communicating with:

- Scheme Members
- Members' Representatives
- Prospective members
- Employers participating in the Fund

3.2 This report sets out the mechanisms that used to meet the communication responsibilities, using the most appropriate communication methods for the audiences receiving the information.

3.3. Annually an engagement plan is implemented by Human Resources that is informed by changes in regulation, best practice and feedback from employees.

4. Financial Implications

4.1 Engagement Plan to be funded from with existing HR budgets.

5. Legal Implications

5.1 None

If you have any questions about this report, or wish to inspect one of the background papers, please contact: Trevor Webster Tel: 0207 641 2803

Local Government Pension scheme Communications Policy

City of Westminster Superannuation Fund

COMMUNICATIONS POLICY

Policy outline

The Local Government Pension Scheme (Administration) Regulations 2008, regulation 67 requires administering authorities to prepare, publish and maintain a policy statement setting out its communication strategy for communicating with:

- Scheme Members
- Members' Representatives
- Prospective members
- Employers participating in the Fund

This document sets out the mechanisms that we use to meet our communication responsibilities. We aim to use the most appropriate communication method for the audiences receiving the information. This may involve using more than one medium of communication.

General Communications

Correspondence:-
Wherever possible we prefer to use electronic systems to receive and send correspondence and data, however hard copy postal services are also available.

Telephone:-
Surrey County Council is our third party pension's administrator, their contact information is publicised in the scheme literature and on the website.

The telephone number for general enquiries and complaints: 0208 541 9293

Briefing Sessions and Pension Surgeries:-
The WCC HR Team will organise pension briefing sessions and pension surgeries on an annual basis to ensure staff have access to both personal and general scheme information.

During times of uncertainty including regulation amendments and reorganisation exercises additional briefing sessions and surgeries will be arranged to meet the demand.

Pension's Intranet site:-
We have a website which has been designed to communicate and promote the benefits of the Local Government Pension Scheme, this is regularly updated.

It contains a significant amount of information from understanding and joining the pension scheme, accessing your records online, forms that can be downloaded, purchasing additional membership, to other useful websites and recent scheme updates.

Our website is regarded as our key method of communication and can be found at

http://www.wccpensionfund.co.uk/

Prospective Scheme Members

Scheme Guides:-
Scheme guides are available on the website or can be requested from Surrey County Council.

We promote to all potential members the benefits of the LGPS via the website posters and new starter information.

We also publicise information regarding auto-enrolment to staff via the website and we will liaise with all other scheme employers to remind them of their responsibilities to members on Auto-enrolment periodically offering support as necessary.

Other Employers

Other employers that form part of our fund are invited to Employer Forums meetings that are held periodically. In the recent past these have been used to as a mechanism for communicating major strategic issues, significant legislation changes, triennial valuation matters and the Funding Strategy Statement.

Employers' are kept informed throughout the process of the tri-annual valuation which is carried out by the Councils actuaries. The employers' comments are always encouraged and welcomed and where appropriate taken into consideration.

Other Bodies

London Pensions Officer's Group:-
Pensions Officers from London Boroughs meet regularly in order to share information and ensure uniform interpretation of Local Government Pension Scheme, and other prevailing regulations.

National Association of Pension Funds (NAPF):-
All administering Authorities who are members of the NAPF are invited to attend, these meetings provide an opportunity to discuss issues of common interest and share best practice.

Seminars:-
Representatives of the Council regularly participate at seminars and conferences.

The table below shows the availability of Fund publications along with their publication frequency and review periods.

Communication Material	Paper Based	Electronic Form	Intranet for staff	When Published	When reviewed
Pension Scheme Guide	√	√	√	Constantly available	Quarterly
Purchase of Additional Membership	√	X	√	Constantly available	Quarterly
Annual Benefit Statement	√	X	√	Annually	Annually
Statutory Notifications	√	X	X	On Joining & ABS	Annually
Pensions Updates	√	√	√	As required	After each Publication
Annual Pension Fund report	√	X	√	Annually	Annually
Early Leaver Information	√	√	√	Sent with Deferred benefits statement	Annually
Retirement Information	√	√	√	Sent with retirement details	Annually
Pensions Increase Letters	√	X	X	Annually	Annually
Actuarial Valuation Report	√	X	X	Tri-annually	Tri-annually
Pension Fund Committee	√	√	√	Quarterly	Quarterly
Communication Policy	√	√	√	Upon request	Quarterly
Governance Policy	√	√	√	Upon Request	Quarterly

Further Information

If you need more information about the Scheme you should contact the London Pensions Fund Authority at the following address:

Surrey County Council

Pension Services (WCC Team)
Surrey County Council
Room G59, County Hall
Penrhyn Road
Kingston upon Thames
Surrey KT1 2DN

Email: wccpensions@surreycc.gov.uk
Phone:
General enquiries and complaints: 0208 541 9293

Westminster City Council

Trevor Webster
Senior HR Manager
Westminster City Council
Human Resources
City Hall
64 Victoria Street
London, SW1E 6QP

Tel: 0207 641 2803
Email: twebster@westminster.gov.uk

Pensions communication and engagement plan for the period 1st October 2015 to 31st March 2017

Task	Target dates	Required outcome	Owner	Support
Admitted Body Forum	30/4/2015 30/4/2016	Communication to Admitted Body Members regarding scheme changes and potential on line forms.	WCC	SCC
AGM	21/09/2015 & Sept 2016	Communications event with all members of the scheme regarding year end performance and looking forward to the following year.	WCC	SCC, Finance, AVC provider
AVC awareness	31/12/2015	Engagement and communicate with current members regarding the benefits and process relating to AVCs.	WCC	AVC Provider
Increase letter to pensioners	31/03/2016 31/03/2017	Letter to all pensioners communicating the 15/16 and 16/17 increases.	SCC	WCC
Life Time Allowance	31/03/2016 31/03/2017	Personal letters to be sent to all members who are close to the life time allowance limit.	SCC	
Self service improvements on pensions website	31/03/2016 31/03/2017	Communicate improvements including regulation changes and the introduction of on line forms.	SCC	WCC
Newsletter	31/03/2016 31/03/2017	Newsletter to all members regarding scheme changes, news and the overview of process.	SCC	WCC
Open House Sessions	31/03/2016 31/03/2017	Two sessions, one at City Hall, and one at Lisson Grove per year.	WCC	
Pensions Board Training	On going	Initial training, followed by a personal assessment and on-going support.	WCC	
Pensioners Member panel	31/03/2016 31/032017	Three meetings in the year.	WCC	
Surgery Sessions for employees	31/03/2016	Three events in the year. Two at City Hall, One at Lisson Grove per year.	WCC	

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**8 September 2015**
Classification:	**Public**
Title:	**Pension Board Update**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no immediate financial implications arising from this report, although the costs associated with operating the Board will be met by the Pension Fund.**
Report of:	**Steven Mair** ***City Treasurer*** **smair@westminster.gov.uk** **020 7641 2904**

1. Executive Summary

1.1 The Pension Board has been established, membership confirmed and the first meeting held on 27th July 2015 ahead of the statutory deadline of 31st July 2015.

1.2 A training session for the Board will have taken place since the writing of this report on 27th August 2015, which Committee members were invited to attend. This will be a combination of training on legal background and relative roles, and a discussion about future work plans and training.

2. Recommendation

2.1 The Committee is asked to the note the contents of the report

3. Introduction and Background

3.1 The Public Service Pensions Act 2013 required that the Secretary of State responsible for the Local Government Pension Scheme set out regulations requiring the establishment of a Pensions Board to assist the scheme manager (i.e. the Council or the committees to which such responsibility has been delegated), to monitor and ensure compliance with the regulations and other legislation relating to the management of the Pension Fund.

3.2 The General Purposes Committee approved the establishment of a Pension Board and the terms of reference at their meeting in February 2015 meeting. This was reported to the Pension Fund Committee at the 25th March 2015 meeting.

4. Proposals and Issues

4.1 Following the establishment of the Pensions Board in February 2015 work was undertaken to prepare the policies for the Board and to appoint Board members.

4.2 The agreed terms of reference for the Board refer to a number of policies:

- Code of conduct
- Conflicts of interest
- Selection of non-councillor members
- Training policy.

The training policy adopted is the Knowledge and Skills policy statement for the Pension Fund which is presented elsewhere on this agenda.

4.3 On 10th July 2015, two councillors were nominated members of the Board to represent the Council. Scheme members and admitted and scheduled bodies were contacted to seek representatives of these groups to be members of the Board to serve alongside the councillor members. Following a selection process of scheme member representatives, the Board membership was confirmed, as shown below:

Employer representatives

Cllr Peter Cuthbertson	Council representative
Cllr Adnan Mohammed	Council representative
Marie Holmes	Scheduled Body representative

Scheme member representatives

Chris Smith	Council Employee & Unison Representative
Susan Manning	Scheduled Body Representative
Dr Norman Perry	Pensioner Representative

4.4 The first meeting of the Board was held on 27th July 2015, ahead of the statutory deadline of 31st July 2015. At that meeting Cllr Cuthbertson was elected chair and Dr Perry vice chair. The meeting focused on introducing the Board to the terms of reference, the Board policies and the Pension Fund key documents.

4.5 A training session arranged for 27th August 2015 will have taken place since writing this report. There will be a combination of training on the legal background of the Local Government Pension Scheme and the relative roles of the Pension Fund Committee and the board, as well as discussion about the knowledge and skills self-assessment form, plans for future training and workload plans for the Board going forward. The aim will be to ensure that training is delivered jointly for members of both bodies and to avoid overlap of workloads as far as possible.

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

Nikki Parsons nparsons@westminster.gov.uk or 020 7641 6925

BACKGROUND PAPERS: None

APPENDICES:

None

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**8 September 2015**
Classification:	**Public**
Title:	**Governance Arrangements**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no immediate financial implications arising from this report.**
Report of:	**Steven Mair** ***City Treasurer*** **smair@westminster.gov.uk** **020 7641 2904**

1. Executive Summary

1.1. This report presents the draft Knowledge and Skills policy, the updated Governance Compliance Statement and summarises the equity fund manager responses to the Stewardship Policy.

2. Recommendations

2.1 The Committee is asked to the note the contents of the report and the responses of the equity managers.

2.2 The Committee adopts the statements set out in 3.3 from the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills.

2.3 The Committee approves the draft Knowledge and Skills policy statement attached at Appendix 1.

2.4 The Committee agree to complete the Knowledge and Skills self-assessment (annex 1A) and return to the Tri-borough Pension Team by 2nd October 2015

2.5 The Committee approves the Governance Compliance Statement set out in Appendix 2, subject to consultation with the employers of the Pension Fund, and agreement of the final version being delegated to the City Treasurer in consultation with the Chair of the Pension Fund Committee.

3. Knowledge and Skills Policy

3.1 The adoption of a Knowledge and Skills policy statement demonstrates good governance and ensures the Fund is compliant with best practice.

3.2 Pension Board members are required by law to demonstrate knowledge and skills and undertake training if required. Pension Fund Committee members do not have the same legal requirement, however CIPFA's Code of Practice on Public Sector Finance Knowledge and Skills recommends that a policy is adopted.

3.3 CIPFA have published a Code of Practice on Public Sector Knowledge and Skills and recommend that local authority pension funds demonstrate their commitment to knowledge and skills in their Pension Fund by adopting the following statements:

- This organisation adopts the key recommendations of the *Code of Practice on Public Sector Pensions Finance Knowledge and Skills*.
- This organisation recognises that effective financial administration, scheme governance and decision-making can only be achieved where those involved have the requisite knowledge and skills.
- Accordingly this organisation will ensure that it has adequate resources, formal and comprehensive objectives, policies and practices, strategies and reporting arrangements for the effective acquisition and retention of the relevant public sector pension scheme finance knowledge and skills for those in the organisation responsible for financial administration, scheme governance and decision-making.
- These policies and practices will be guided by reference to a comprehensive framework of knowledge and skills requirements.
- This organisation will report annually on how these policies have been put into practice throughout the financial year.
- This organisation has delegated the responsibility for the implementation of the requirements of the CIPFA Code of Practice to the Director of Finance, who will act in accordance with the organisation's policy statement, and, where he is a CIPFA member, with *CIPFA Standards of Professional Practice*.

3.4 Appendix 1 is a draft Knowledge and Skills policy statement which has been prepared on the basis of CIPFA's knowledge and skills framework and also incorporates The Pensions Regulator's requirements for

Pension Board members. It has been drafted to be appropriate for members of the Pension Fund Committee, Pension Board members and pension fund officers.

3.5 The focus of the policy statement is to recognise the wealth of knowledge and experience members already have and to use a self-assessment approach to determining what training is required. In line with the CIPFA Code of Practice it is recommended to repeat the self-assessment annually and report on the implementation of the policy in the Pension Fund annual report.

3.6 Members are asked to complete the self-assessment form included as Annex 1 to the policy statement and return it to the Tri-borough Pensions Team by 2nd October 2015. The assessments will be collated along with those of the Pensions Board members and a proposal for a training programme will be reported to the next meeting of the Pension Fund Committee in November 2015.

4. Governance Compliance Statement

4.1 The Local Government Pension Scheme regulations 2013 require all administering authorities to prepare and maintain a Governance Compliance statement. This statement should explain the governance arrangements for the Fund and the level of compliance with statutory guidance issued by the Secretary of State for Communities and Local Government. The regulations also state that it is a requirement to consult “such persons as it (the Pension Fund) considers appropriate” before finalising a revised statement.

4.2 The establishment of the Pension Board in February 2015 means it is now timely to review the statement. An update on the Pension Board is reported elsewhere on this agenda.

4.3 The draft Governance Compliance statement is attached at Appendix 2. This incorporates the establishment of the Pension Board. The annex to the statement shows the level of compliance with the statutory guidance. This guidance has not yet been updated for the introduction of Pension Boards. The only areas where the Fund is not compliant relate to representation from scheme members and employers on the committee. These groups are however represented on the Pensions Board.

4.4 Consultation with the employers of the Pension Fund will take place following the Committee’s consideration of the Governance Compliance Statement, before it is published.

5. Stewardship Policy

5.1 The Stewardship Policy was approved by the Committee in November 2014. It was agreed at that meeting that the policy would be circulated to equity fund managers for comment.

5.2 The responses from the managers are summarised in Appendix 3, none of which are considered significant enough to amend the policy.

5.3 Subject to any further comments the Committee may have, the Stewardship Policy will be published on the Fund's internet webpage.

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

Nikki Parsons nparsons@westminster.gov.uk or 020 7641 6925

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 – Draft Knowledge and Skills Policy
Appendix 2 – Draft Governance Compliance Statement
Appendix 3 – Responses to Stewardship Policy

City of Westminster

Stewardship Policy & Proxy Voting Guidelines for Fund Managers

September 2015

City of Westminster

Contents

City of Westminster

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.

Appendix 1

CITY OF WESTMINSTER PENSION FUND

DRAFT KNOWLEDGE AND SKILLS POLICY STATEMENT

1. Introduction

1a) Scope
This policy applies to all elected members, appointed Pensions Board members and officers involved in the running of the City of Westminster Pension Fund (the Fund).

1b) Objective of policy
In order to be effective it is important that all those involved with the running of the Pension Fund have a good understanding of pensions matters. It is recognised that it is good practice for the Fund to have a knowledge and skills policy statement in place.

This policy statement is designed to recognise the knowledge and skills individuals have already through their professional lives or through involvement with the Pension Fund over a period of time. The objective of the policy is to evidence this and augment it with training and information as required.

1c) Legal position
There is currently no legal requirement for Pension Fund Committee members to demonstrate their knowledge and skills in pensions, however the CIPFA Code of Practice on Public Sector Pensions Finance Knowledge and Skills recommends it as good practice. The Fund has adopted the Code of Practice.

There is however a legal requirement, defined in the Public Service Pensions Act 2013, for Pension Board members to have knowledge and understanding of the pension scheme they are involved in. This is expanded on further in The Pensions Regulator's Code of Practice for Governance and administration of public service pension schemes.

2. Knowledge and Skills Framework

2a) CIPFA framework
The Pension Fund has adopted the CIPFA Knowledge and Skills Framework to frame the assessment of knowledge and skills and the provision of training. The framework covers six areas of knowledge:

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

It provides detail about the knowledge required in each of these areas for officers at different levels and Pension Fund Committee and Pension Board members.

2b) The Pensions Regulator Code of Practice

For Pension Board members, the knowledge and skills requirements are set out in The Pensions Regulator Code of Practice for Governance and administration of public service pension schemes. These requirements have been added to the relevant sections of the CIPFA framework where required.

3. Information to be provided to new members and officers

On appointment to the Pension Fund Committee, the Pension Board or to a pension fund officer role, all individuals will be directed to the following policies of the Pension Fund:

Governance and Compliance Statement
Statement of Investment Principles
Funding Strategy Statement
Communication Policy Statement

found at the following link:
https://www.westminster.gov.uk/council-pension-fund

In addition they will be provided with the most up to date versions of the:

Annual report and accounts for the Fund
Quarterly Fund Performance Data
Risk Register.

4. Knowledge and Skills self-assessment

4a) Pension Fund Committee Members

On appointment to the Pension Fund Committee, members will be required to complete a knowledge and skills self-assessment in order to evidence the areas they already have knowledge of and to determine the areas in which training is required.

4b) Pension Board Members

Knowledge and skills in pensions matters is a legislative requirement for Pension Board members as set out in the Public Service Pensions Act 2013. Therefore on appointment to the Pension Board, all members will be required to complete a knowledge and skills self-assessment in order to evidence the areas they already have knowledge of and to determine the areas in which training is required.

4c) Officers

As part of their annual performance appraisal and development plan process, officers involved in the running of the Pension Fund should, in conjunction with their line manager, assess and evidence the knowledge and skills they have against the relevant section of the officer part of the CIPFA framework and identify targets for developing their knowledge and skills in the gaps identified.

The self-assessment form to use is attached at Annex 1. These assessments will be repeated on an annual basis to enable any gaps in knowledge to be identified and addressed.

5. Training

5a) Provision of training
Once the training needs of each group have been identified and collated from the self-assessment forms, the most appropriate form of training will be discussed and then arranged either on an individual basis or as part of a group. Details of all group training sessions will be made available to all members and officers. The options for training include:

- Provision of reading material provided by officers or directions to on-line sources of information such as resources provided by The Pensions Regulator
- Briefings or training sessions run by officers
- Briefings or training sessions run by one of the Fund's advisers
- External courses, seminars or conferences

5b) Emerging issues
Officers will arrange training or the provision of additional information on new or topical issues as they arise. Pension Committee or Board members can contact the Tri-borough Pensions team pensionfund@westminster.gov.uk if they have any additional specific requests for training or information.

5c) External training events
When relevant external training events are published, officers will forward invitations to Pension Fund Committee and Board members for them to decide to attend if they feel the events will be useful for developing their knowledge.

6. Evidence

6a) Records of training
The Tri-borough Pensions team will maintain a record of all training undertaken by members of the Pension Fund Committee, the Pension Board and officers. Members should email pensionfund@westminster.gov.uk details of all external pension related training and events they attend to facilitate this.

6b) Annual Report
The Pension Fund annual report will report on the compliance of members and officers with the knowledge and skills policy statement based on the records maintained.

Annex 1A

City of Westminster Pension Fund
Knowledge and Skills self-assessment

Name: ………………………………………………………….

Role: Pension Fund Committee member / Pension Board member
(delete as applicable)

1) Pensions Legislative and governance context

I have all the knowledge detailed below and do not require additional training	Y/N	Please provide details of your experience:
I would like further training on the areas highlighted below	Y/N	

Awareness of the law relating to pensions in the UK	
Overall understanding of the Local Government Pension Scheme regulations in relation to benefits, administration and investments.	
Knowledge of the discretion policies in place for the Fund and other policies regarding administration.	
Understanding of the role and powers of the Pensions Regulator, and the Scheme Advisory Board.	
Understanding of the role of the Pension Fund Committee, Pension Board, and City Treasurer.	

2) Pensions accounting and auditing standards

I have all the knowledge detailed below and do not require additional training	Y/N	Please provide details of your experience:
I would like further training on the areas highlighted below	Y/N	

Awareness of the Accounts and Audit regulations and legislative requirements relating to the role of the committee in considering signing off the accounts and annual report.	
Awareness of the role of both internal and external audit in the governance and assurance process.	

3) Financial services procurement and relationship management

I have all the knowledge detailed below and do not require additional training	Y/N	Please provide details of your experience:
I would like further training on the areas highlighted below	Y/N	

General understanding of the main public procurement requirements of UK and EU legislation and how they apply to procuring services for local authority Pension Funds.	
Awareness of supplier risk management and the nature and scope of risks to be considered when selecting third parties.	

4) Investment performance and risk management

I have all the knowledge detailed below and do not require additional training	Y/N	Please provide details of your experience:
I would like further training on the areas highlighted below	Y/N	

Understanding of the importance of monitoring asset returns relative to the liabilities and a broad understanding of ways of assessing long term risks.	
Awareness of the Myners principles of performance management and the approach adopted by the committee.	
Awareness of the range of support services, who supplies them and the nature of the performance monitoring regime.	

5) Financial markets and products knowledge

I have all the knowledge detailed below and do not require additional training	Y/N	Please provide details of your experience:
I would like further training on the areas highlighted below	Y/N	

Awareness of the risk and return characteristics of the main asset classes and understanding of the role of these asset classes in long term pension fund investing.	
Understanding of the primary importance of the investment strategy decision.	
A broad understanding of the workings of the financial markets and of investment vehicles available to the pension fund and the nature of the associated risks.	
An awareness of the limits placed by regulation on the investment activities of local government pension funds.	

6) Actuarial methods, standards and practices

I have all the knowledge detailed below and do not require additional training	Y/N	Please provide details of your experience:
I would like further training on the areas highlighted below	Y/N	

Knowledge of the valuation process, including developing the funding strategy in conjunction with the Fund Actuary and inter-valuation monitoring.	
Awareness of the importance of monitoring early and ill health retirement strain costs.	
A broad understanding of the implications of including new employers into the Fund and of the cessation of existing employers.	
A general awareness of the relevant considerations in relation to outsourcings and bulk transfers.	

Signed:……………………………………………… Date:………………………

Once complete, please return to:

pensionfund@westminster.gov.uk

Or

Treasury and Pensions Team
c/o 16th floor East, Westminster City Hall
64 Victoria Street
London, SW1E 6QP

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Appendix 2

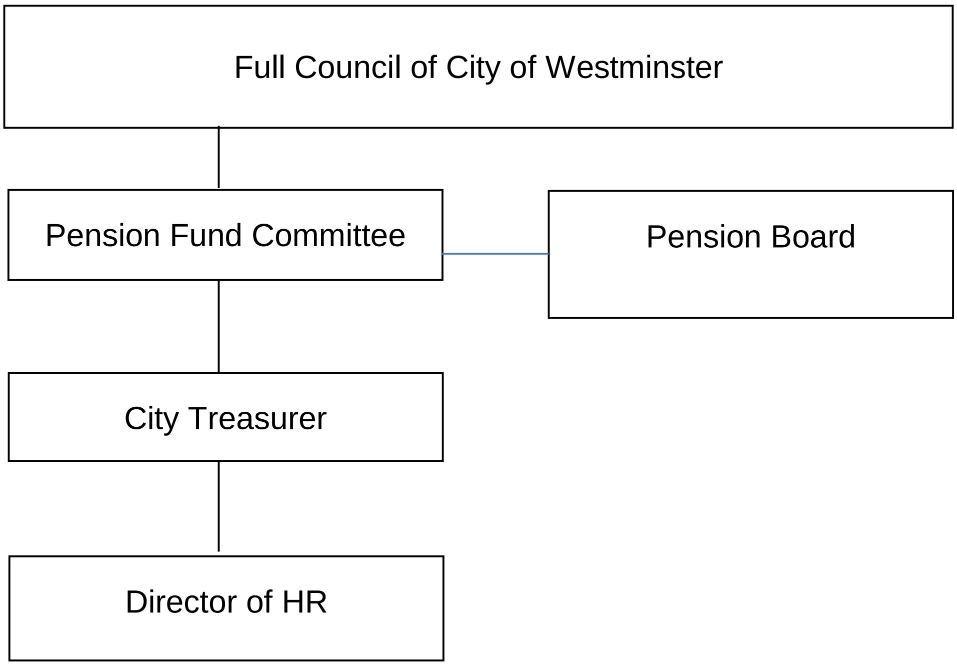
CITY OF WESTMINSTER PENSION FUND

DRAFT GOVERNANCE COMPLIANCE STATEMENT

The City of Westminster is the administering authority for the City of Westminster Pension Fund ("the Fund") and it administers the Local Government Pension Scheme on behalf of the participating employers.

Regulation 55 of the Local Government Pension Scheme regulations 2013 requires all administering authorities for local government pension schemes to publish a Governance Compliance Statement setting out the Fund's governance arrangements. Information on the extent of the Fund's compliance with guidance issued by the Secretary of State for Communities and Local Government is also a requirement of this regulation.

<u>Governance Structure</u>
The diagram below shows the governance structure in place for the Fund.



Full Council has delegated its functions in relation to the Pension Fund regulations, as shown in the diagram. The sections below explain the role of each party and provide the terms of reference.

<u>Pension Fund Committee</u>
Full Council has delegated all decisions in relation to the Public Service Pensions Act 2013 to the Pension Fund Committee.

The role of the Pension Fund Committee is to have responsibility for all aspects of the investment and other management activity of the Fund.

The Committee is made up of four elected members - three Majority Party councillors and one opposition councillor. The Committee may co-opt non-voting independent members, including Trade Unions and representatives from the admitted and scheduled bodies in the Pension Fund.

All Councillors on the Committee have voting rights. In the event of an equality of votes, the Chair of the Committee shall have a second casting vote. Where the Chair is not in attendance, a Vice-Chair will be elected.

The Committee meets four times a year and may convene additional meetings as required. Three members of the Committee are required to attend for a meeting to be quorate.

The terms of reference for the Pension Fund Committee are:

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 statement of accounts 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 administrative arrangements, material contracts and policies and procedures of the Council for the payment of pensions, 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 fund 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).

Pension Board

With effect from 1st April 2015, all administering authorities are required by the Public Services Pensions Act 2013 to establish a Pension Board to assist them. The City of Westminster Pension Board was established by the General Purposes Committee on 25th February 2015.

The role of the Pension Board is to assist the administering authority with securing compliance with Local Government Pension Scheme regulations and other legislation relating to the governance and administration of the scheme. The Board does not have a decision making role in relation to management of the Fund, but is able to make recommendations to the Pension Fund Committee.

The membership of the Board is as follows:

- Three employer representatives comprising one from an admitted or scheduled body and two nominated by the Council; (Councillors)
- Three scheme members representatives from the Council or an admitted or scheduled body.

All Board members are entitled to vote, but it is expected that as far as possible Board members will reach a consensus. Three Board members are required to attend for a meeting to be quorate. The Board will meet a minimum of twice a year but is likely to meet on a quarterly basis to reflect the same frequency as the Pension Fund Committee.

Compliance with statutory guidance

It is a regulatory requirement that the Fund publishes the extent to which it complies with statutory guidance issued by the Secretary of State for Communities and Local Government. The guidance and compliance levels are set out in Appendix 1.

Review of statement

This statement will be kept under review and updated as required. Consultation with the admitted and scheduled bodies of the Fund will take place before the statement is finalised at each change.

<u>Appendix 1 - Compliance with statutory guidance on Local Government Pension Scheme Governance.</u>

<u>Structure</u>

a)The management of the administration of benefits and strategic management of fund assets clearly rests with the main committee established by the appointing council.

COMPLIANT – as set out in terms of reference of the Pension Fund Committee

b)That representatives of participating LGPS employers, admitted bodies and scheme members (including pensioner and deferred members) are members of either the main or secondary committee established to underpin the work of the main committee.

NOT FULLY COMPLIANT – representatives of the employers and scheme members are Pension Board members, rather than members of the Pension Fund Committee.

c) That where a secondary committee or panel has been established, the structure ensures effective communication across both levels.

NOT APPLICABLE – all Pension Fund matters are considered by the Pension Fund Committee.

d) That where a secondary committee or panel has been established, at least one seat on the main committee is allocated for a member from the secondary committee or panel.

NOT APPLICABLE– all Pension Fund matters are considered by the Pension Fund Committee.

<u>Committee Membership and Representation</u>

a)That all key stakeholders are afforded the opportunity to be represented within the main or secondary committee structure. These include:-

i) employing authorities (including non-scheme employers, e.g. admitted bodies);
ii) scheme members (including deferred and pensioner scheme members),
iii) where appropriate, independent professional observers, and
iv) expert advisors (on an ad-hoc basis).

NOT FULLY COMPLIANT – representatives of the employers and scheme members are Pension Board members, rather than members of the Pension Fund Committee. Expert advisers attend the Committee as required.

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

NOT APPLICABLE– all Pension Fund matters are considered by the Pension Fund Committee.

<u>*Selection and role*</u>
a) That committee or panel members are made fully aware of the status, role and function they are required to perform on either a main or secondary committee.
COMPLIANT – as set out in terms of reference of the Pension Fund Committee
b) That at the start of any meeting, committee members are invited to declare any financial or pecuniary interest related to specific matters on the agenda
COMPLIANT – this is a standing item on the Pension Fund Committee agendas

<u>*Voting*</u>
a) The policy of individual administering authorities on voting rights is clear and transparent, including the justification for not extending voting rights to each body or group represented on main LGPS committees.
COMPLIANT – as set out in terms of reference of the Pension Fund Committee

<u>*Training, Facility Time and Expenses*</u>
a) That in relation to the way in which statutory and related decisions are taken by the administering authority, there is a clear policy on training, facility time and reimbursement of expenses in respect of members involved in the decision-making process.
COMPLIANT – as set out in the Council's allowances policy and the Pension Fund Knowledge and Skills policy

b) That where such a policy exists, it applies equally to all members of committees, sub-committees, advisory panels or any other form of secondary forum.
COMPLIANT – as set out in the Council's constitution

<u>*Meetings*</u>
a) That an administering authority's main committee or committees meet at least quarterly.
COMPLIANT – as set out in terms of reference of the Pension Fund Committee

b) That an administering authority's secondary committee or panel meet at least twice a year and is synchronised with the dates when the main committee sits.
NOT APPLICABLE– all Pension Fund matters are considered by the Pension Fund Committee.

c) That administering authorities who do not include lay members in their formal governance arrangements, provide a forum outside of those arrangements by which the interests of key stakeholders can be represented.
COMPLIANT – represented on the Pensions Board

<u>*Access*</u>
a) That subject to any rules in the council's constitution, all members of main and secondary committees or panels have equal access to committee papers, documents and advice that falls to be considered at meetings of the main committee.
COMPLIANT – as set out in the Council's constitution

Scope
a)That administering authorities have taken steps to bring wider scheme issues within the scope of their governance arrangements
COMPLIANT – as set out in terms of reference of the Pension Fund Committee

Publicity
a) That administering authorities have published details of their governance arrangements in such a way that stakeholders with an interest in the way in which the scheme is governed, can express an interest in wanting to be part of those arrangements.
COMPLIANT – all meeting minutes, reports and Pension Fund policies are published on the Council's website.

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Stewardship Policy and Proxy Voting Guidelines

The attached Stewardship Policy and Proxy Voting Guidelines was originally prepared in March 2014 and presented as a draft, it was subsequently approved by this Committee in November 2014 with a request for consultation with Fund Managers. Due to a number of workload issues and staffing changes the final version has been delayed but following consultation with the Funds Equity Managers this has now completed subject to approval.

The Policy is an expression of the Funds approach to this area and outlines the approach to Stewardship and the Engagement Policy plus an explanation of our voting guidelines across a range of key aspects of company governance. The policy will be a reference for the Funds Investment Managers but allows for the Managers to apply the policy flexibly where they can demonstrate an alternative approach would be in the best interests of shareholders.

In brief, the Voting Guidelines which would be applied to Board resolutions covering areas such as:
- Boards and Directors – Board size and structure, election of Directors, remuneration committees, representation and voting, leadership and diversity.
- Audit Issues – appointment of external auditors, auditor remuneration, audit committees and internal audit.
- Remuneration – Disclosure, clarity, proportionality, terminations and remuneration committee.
- Annual Reporting – Annual Report and Accounts, Auditors Report, Dividend Allocation
- Market specific Issues – there are a number of specific guidelines based upon practices unique to individual markets which require additional explanation.

Each of the Funds main equity managers have been consulted on the Policy and their responses are shown in the table below. There are no issues considered significant enough to amend the policy and each of the managers have agreed to report their proxy voting to the Committee and particularly any deviations from our policy as explained below.

Majedie	This looks fine
Longview Partners	We have referred the attached Stewardship Policy to our third-party proxy voting services provider, Glass Lewis. Glass Lewis votes all proxies on behalf of Longview Partners Investments Global Equity Unhedged Fund. Glass Lewis has confirmed that the WCC Policy is very similar to the existing policy applied to the Fund’s proxy voting actions. As such, we have no issues to raise with the WCC Committee and will continue to consider all company meeting proposals in the context of the existing policy.
Legal & General	The City of Westminster Stewardship Policy and Proxy Voting Guidelines is very detailed on voting and engagement. For the most part in the UK and other markets, everything is in line with what we advocate. However, there are areas where they deviate from our own approach and they have a policy in regions where we don't vote (e.g. Luxembourg, Greece) or don't have a policy where we do vote (e.g. South Korea). An example of where our voting policy differs is on the issuance of shares with non-pre-emptive rights. Our limit is typically 5% (page 14 LGIM UK Corporate

	Governance and Responsible Investment Policy) whereas the City of Westminster has a limit of 20% (page 11). All our policies can be found on our website below: http://www.lgim.com/uk/en/capabilities/corporate-governance/policies/
Baillie Gifford	We have had a look at this and there are no particular issues that we'd need to discuss with the Committee. The caveat below is important as there may be reasons why we don't vote in line with the policy from time to time but the rationale for any such votes should be fully explained in our quarterly reports. **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.

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**8 September 2015**
Classification:	**Public**
Title:	**Fund Financial Management**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no immediate financial implications arising from this report.**
Report of:	**Steven Mair** ***City Treasurer*** **smair@westminster.gov.uk** **020 7641 2904**

1. Executive Summary

1.1 This report presents a variety of information that will assist the Pension Fund Committee in monitoring key areas to ensure effective control of the Fund's operations and help inform strategic decisions.

2. Recommendation

2.1 The Committee is asked to the note the cashflow position of the Fund. A further report will be brought to the next meeting.

2.2 The Committee is asked approve the updated risk register for the Pension Fund.

2.3 The Committee is asked to note the Fund's position against the Investment Regulations.

2.4 The Committee is asked to note the Class Actions update.

2.5 The Committee is asked to note the information regarding the LGPS in Budget announcement and the future consultation.

3. Cashflow Monitoring

3.1 At the May 2015 meeting, Committee members were presented with the Fund's cashflow position for the previous 6 month period, to demonstrate the draw on the Fund's asset's required to pay liabilities as they become due.

3.2 The revised actual cashflow for the period April to July 2015 and the forecast up to March 2016 is shown in Appendix 1.

3.3 The forecast shows that it is expected the Fund will be overdrawn in December 2015 without additional monies. Officers are working to develop a longer term cashflow forecast for the Fund and will report back on this work at the November meeting.

3.4 The forecast includes the upfront payment of City of Westminster employer contributions for the reminder of the financial year 2015/16 of £7.2million in September 2015.

3.5 However, the forecast for the rest of the financial year shows that it is expected that the trend of payments exceeding receipts by approximately £2.5 to £3 million a month following the early payment of the Councils contributions. The longer term cashflow strategy is being considered by officers in conjunction with the fund's investment adviser.

4. Risk Register Monitoring

4.1 The risk register has been reviewed by officers and is attached as Appendix 2 for information. The rationale for the changes is set out on the first page of the appendix.

5. Investment Regulations Limits Review

5.1 As at 30 June 2015, the Fund complied with the LGPS Management & Investment Funds Regulations 2009 as documented in the Statement of Investment Principles which was approved at the last Committee Meeting on 21st May 2015.

5.2 In particular, the fund had no self-investments (regulatory maximum of 5%), it had no single segregated holding great than 10% and its largest investment in a single vehicle was 23.8% with Majedie against the limit of 35%. The LGIM holding is split between two vehicles.

6. Class Actions Update

6.1 The report from SRKW provided by IPS on recent class action matters is attached as Appendix 3. This report highlights all new and on-going investor class actions and specifically identifies those relevant to the City of Westminster Pension Fund. There are no new actions recommended for consideration.

7. Consultations / Legislation Changes

7.1 Although there have been no new consultations published in the quarter, Appendix 4 provides some information about an announcement in the Budget about the LGPS and a future consultation.

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

Nikki Parsons nparsons@westminster.gov.uk or 020 7641 6925

BACKGROUND PAPERS: None

APPENDICES:

Appendix 1 – Cashflow Monitoring
Appendix 2 – Pension Fund Risk Register
Appendix 3 – SRKW Report 1 April to 30 June 2015
Appendix 4 – Budget Announcement re Future Consultation

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Appendix 1: CASHFLOW MONITORING

Cashflow actuals and forecast for period April 2015 to March 2016

	Apr15 £000	**May15 £000**	**Jun15 £000**	**Jul15 £000**	**Aug15 £000**	**Sep15 £000**	**Oct15 £000**	**Nov15 £000**	**Dec15 £000**	**Jan16 £000**	**Feb16 £000**	**Mar16 £000**
	Actual	**Actual**	**Actual**	**Actual**	**F'cast**	**F'cast**	**F'cast**	**F'cast**	**F'cast**	**F'cast**	**F'cast**	**F'cast**
Balance b/f	**1,995**	**3,583**	**1,520**	**9,045**	**7,615**	**6,025**	**8,225**	**5,435**	**2,145**	**-645**	**-3,435**	**-6,725**
Contributions	1,066	2,178	10,927[4]	2,621	2,600	9,800[5]	1,400	1,400	1,400	1,400	1,400	1,400
Misc. Receipts[1]	73	41	112	611	100	100	100	100	100	100	100	100
Pensions	-2,852	-2,883	-2,877	-2,874	-2,900	-2,900	-2,900	-2,900	-2,900	-2,900	-2,900	-2,900
HMRC Tax	-506	-526	0	-537	-540	-540	-540	-540	-540	-540	-540	-540
Misc. Payments[2]	-1,193	-873	-621	-713	-800	-800	-800	-800	-800	-800	-800	-800
Expenses[3]	0	0	-16	-538	-50	-3,460	-50	-550	-50	-50	-550	-50
Net cash in/(out) in month	-3,412	-2062	7,525	-1,430	-1,590	2,200	-2,790	-3,290	-2,790	-2,790	-3,290	-2,790
Withdrawals from Fund Managers	5,000	0	0	0	0	0	0	0	0	0	0	0
Balance c/f	**3,583**	**1,520**	**9,045**	**7,615**	**6,025**	**8,225**	**5,435**	**2,145**	**-645**	**-3,435**	**-6,725**	**-9,515**

Notes

[1] Includes Transfers in, Overpayments, Bank Interest, VAT reclaim, Recharges
[2] Includes Transfers out, Lump Sums, Death Grants, Refunds
[3] Payment of invoices impacted by the transition to the Council's new financial system on 1st April 2015
[4] Includes £6.25 million deficit payment from Westminster City Council
[5] Includes WCC upfront employer contributions of £7.2 million (equivalent of £1.2m per month)

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Appendix 2: Pension Fund Risk Register, September 2015

<u>Changes to the risk register since previous quarter</u>

Type	Ref	Risk	Rationale
Decrease likelihood score	10	**OPERATIONAL: GOVERNANCE** Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	The likelihood score has been decreased to reflect the introduction of the Knowledge and Skills Policy, subject to its approval by the Committee at this meeting (reported elsewhere on the agenda).
Increase likelihood and impact score	11	**OPERATIONAL: GOVERNANCE** Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	The level of risk has increased on the finance side, due to the departure of the Tri-borough Director of Treasury and Pensions in June 2015.
New	15	**OPERATIONAL: FUNDING** Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	Changes to legislation allow those over 55 to withdraw all their pension funds in Defined Contribution (DC) as a cash lump sum. There is a risk that LGPS members transfer their service to a DC to access the cash, which could cause a cashflow issue.

Type	Ref	Risk	Rationale
Increase likelihood score and decrease impact score	16	**OPERATIONAL: ADMINISTRATION** Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	The likelihood score has been increased to reflect the current issues affecting the financial system. The impact score has been reduced due to the cash balance held and the approval limits in place.
New	18	**OPERATIONAL: ADMINISTRATION** Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible.	Failure of the pensions payroll has already been included as a risk, but lump sum payments to scheme members and payments to suppliers are processed through the financial system, not the pensions payroll, so this is included for completeness.
Decrease impact score	20	**OPERATIONAL: ADMINISTRATION** Failure to pay pension benefits accurately leading to under or over payments.	The impact score has been decreased to reflect that overpaying or underpaying benefits is less damaging than not paying benefits at all.

Pension Fund risk register, September 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
1	**STRATEGIC: INVESTMENT** That the combination of assets in the investment portfolio fails to fund the liabilities in the long term.	• Investment strategy in place and reviewed periodically. • Performance is measured against a liability based benchmark. • Fund performance is reviewed quarterly.	2	3	Low 6	City Treasurer	Sept 2015
2	**STRATEGIC: INVESTMENT** Fund managers fail to achieve the returns agreed in their management agreements.	• Independent monitoring of fund manager performance by custodian against targets. • Investment adviser retained to keep watching brief. • Fund manager performance is reviewed quarterly.	3	3	Low 9	City Treasurer	Sept 2015
3	**STRATEGIC: INVESTMENT** Failure of custodian or counterparty.	• At time of appointment, ensure assets are separately registered and segregated by owner. • Review of internal control reports on an annual basis. • Credit rating kept under review.	2	5	Low 10	City Treasurer	Sept 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
4	**STRATEGIC: FUNDING** The level of inflation and interest rates assumed in the valuation may be inaccurate leading to higher than expected liabilities.	• Review at each triennial valuation and challenge actuary as required. • Growth assets and inflation linked assets in the portfolio should rise as inflation rises.	4	3	Medium 12	City Treasurer	Sept 2015
5	**STRATEGIC: FUNDING** There is insufficient cash available in the Fund to meet pension payments leading to investment assets being sold at sub-optimal prices to meet pension payments.	• Cashflow forecast maintained and monitored. • Cashflow position reported to sub-committee quarterly. • Cashflow requirement is a factor in current investment strategy review.	2	1	Very Low 2	City Treasurer	Sept 2015
6	**STRATEGIC: FUNDING** Scheme members live longer than expected leading to higher than expected liabilities.	• Review at each triennial valuation and challenge actuary as required.	4	2	Low 8	City Treasurer	Sept 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
7	**STRATEGIC: FUNDING** Scheme matures more quickly than expected due to public sector spending cuts, resulting in contributions reducing and pension payments increasing.	• Review maturity of scheme at each triennial valuation. • Deficit contributions specified as lump sums, rather than percentage of payroll to maintain monetary value of contributions. • Cashflow position monitored monthly.	2	3	Low 6	City Treasurer	Sept 2015
8	**STRATEGIC: REGULATION** Pensions legislation or regulation changes resulting in an increase in the cost of the scheme or increased administration.	• Maintain links with central government and national bodies to keep abreast of national issues. • Respond to all consultations and lobby as appropriate to ensure consequences of changes to legislation are understood.	3	4	Medium 12	City Treasurer and Acting Director of HR	Sept 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
9	**OPERATIONAL: GOVERNANCE** Failure to comply with legislation leads to ultra vires actions resulting in financial loss and/or reputational damage.	• Officers maintain knowledge of legal framework for routine decisions. • Eversheds retained for consultation on non-routine matters.	2	2	Very Low 4	City Treasurer	Sept 2015
10	**OPERATIONAL: GOVERNANCE** Committee members do not have appropriate skills or knowledge to discharge their responsibility leading to inappropriate decisions.	• External professional advice is sought where required • Knowledge and skills policy in place (subject to Committee Approval)	3	3	Low 9	City Treasurer	Sept 2015
11	**OPERATIONAL: GOVERNANCE** Officers do not have appropriate skills and knowledge to perform their roles resulting in the service not being provided in line with best practice and legal requirements. Succession planning is not in place leading to reduction of knowledge when an officer leaves.	• Person specifications are used at recruitment to appoint officers with relevant skills and experience. • Training plans are in place for all officers as part of the performance appraisal arrangements. • Shared service nature of the pensions team provides resilience and sharing of knowledge.	3	3	Low 9	City Treasurer and Acting Director of HR	Sept 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
12	**OPERATIONAL: GOVERNANCE** Inadequate, inappropriate or incomplete investment or actuarial advice is actioned leading to a financial loss or breach of legislation.	• At time of appointment ensure advisers have appropriate professional qualifications and quality assurance procedures in place. • Committee and officers scrutinise and challenge advice provided.	2	2	Very Low 4	City Treasurer	Sept 2015
13	**OPERATIONAL: FUNDING** Failure of an admitted or scheduled body leads to unpaid liabilities being left in the Fund to be met by others.	• Transferee admission bodies required to have bonds in place at time of signing the admission agreement. • Regular monitoring of employers and follow up of expiring bonds.	3	2	Low 6	City Treasurer and Acting Director of HR	Sept 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
14	**OPERATIONAL: FUNDING** Ill health costs may exceed "budget" allocations made by the actuary resulting in higher than expected liabilities particularly for smaller employers.	• Review "budgets" at each triennial valuation and challenge actuary as required. • Charge capital cost of ill health retirements to admitted bodies at the time of occurring. • Occupational health services provided by the Council and other large employers to address potential ill health issues early.	3	2	Low 6	City Treasurer and Acting Director of HR	Sept 2015
15	**OPERATIONAL: FUNDING** Transfers out increase significantly as members transfer to DC funds to access cash through new pension freedoms.	• Monitor numbers and values of transfers out being processed. • If required, commission transfer value report from Fund Actuary for application to Treasury for reduction in transfer values.	2	3	Low 6 **NEW**	City Treasurer and Acting Director of HR	Sept 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
16	**OPERATIONAL: ADMINISTRATION** Loss of funds through fraud or misappropriation leading to negative impact on reputation of the Fund as well as financial loss.	• Third parties regulated by the FCA and separation of duties and independent reconciliation procedures in place. • Review of third party internal control reports. • Regular reconciliations of pension payments undertaken by Pensions Finance Team. • Periodic internal audits of Pensions Finance and HR teams.	4	2	Low 8	City Treasurer and Acting Director of HR	Sept 2015
17	**OPERATIONAL: ADMINISTRATION** Failure of fund manager or other service provider without notice resulting in a period of time without the service being provided or an alternative needing to be quickly identified and put in place.	• Contract monitoring in place with all providers. • Procurement team send alerts whenever credit scoring for any provider changes for follow up action.	3	1	Very Low 3	City Treasurer and Acting Director of HR	Sept 2015
18	**OPERATIONAL: ADMINISTRATION** Failure of financial system leading to lump sum payments to scheme members and supplier payments not being made and Fund accounting not being possible.	• Contract in place with BT to provide service enabling smooth processing of payments	4	3	Medium 12 **NEW**	City Treasurer	Sept 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
19	**OPERATIONAL: ADMINISTRATION** Failure of pension payroll system resulting in pensioners not being paid in a timely manner.	• In the event of a pension payroll failure we would consider submitting the previous months BACS file to pay pensioners a second time if a file could not be recovered by the pension administrators and our software suppliers.	1	5	Very Low 5	Acting Director of HR	Sept 2015
20	**OPERATIONAL: ADMINISTRATION** Failure to pay pension benefits accurately leading to under or over payments.	• There are occasional circumstances where under or over payments are identified. Where under payments occur arrears are paid as soon as possible usually in the next monthly pension payment. Where an overpayment occurs, the member is contacted and the pension corrected in the next month. Repayment is requested and sometimes we collect this over a number of months.	2	2	Low 6	Acting Director of HR	Sept 2015

Ref	Risk	Mitigating Actions	Residual risk score		Risk Rating	Officer responsible	Review Date
			Likelihood	Impact			
21	**OPERATIONAL: ADMINISTRATION** Failure of pension administration system resulting in loss of records and incorrect pension benefits being paid or delays to payment.	• Pension administration records are stored on the surrey servers they have a disaster recovery system in place and records should be restored within 24 hours of any issue, files are backed up daily.	1	5	Very Low 5	Acting Director of HR	Sept 2015
22	**OPERATIONAL: ADMINISTRATION** Administrators do not have sufficient staff or skills to manage the service leading to poor performance and complaints.	• Surrey CC administers pensions for Surrey, East Sussex and is taking on our Triborough partners. They have a number of very experienced administrators two of whom tuped to them from LPFA with our contract. Where issues arise the Pensions Liaison Officer reviews directly with the Pensions Manager at Surrey. More detailed performance reports are being developed.	2	3	Low 6	Acting Director of HR	Sept 2015

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MONITORING REPORT

Second Quarter 2015

Prepared For:

CITY OF WESTMINSTER

Contents

New Investor Actions

Second Quarter 2015

ELIGIBLE

Case Name[1]	Security Identifiers: Symbol	Security Identifiers: ID	Why You Are Eligible	We Recommend[2]	Filing Deadline
April 2015					
The City of Westminster was not eligible to play an active role in any actions during this period.					
May 2015					
The City of Westminster was not eligible to play an active role in any actions during this period.					
June 2015					
Kraft Food Groups, Inc.	KRFT	50076Q106	Held Shares During Relevant Period	Take No Action	Jul. 14, 2015

NOT ELIGIBLE

Case Name[1]	Security Identifiers: Symbol	Security Identifiers: ID	Why You Are Not Eligible[3]	We Recomm.	Filing Deadline
April 2015					
Tesco, PLC (Stewarts) *(Non-US Action – United Kingdom)*	TSCO	G87621101 GB0008847096	No Relevant Purchases	N/A	Pending
Tesco, PLC (Fideres) *(Non-US Action – United Kingdom)*	TSCO	G87621101 GB0008847096	No Relevant Purchases	N/A	Pending
Tesco, PLC (DRRT) *(Non-US Action – Netherlands/ United Kingdom)*	TSCO	G87621101 GB0008847096	No Relevant Purchases	N/A	Pending
Tesco, PLC (Deminor) *(Non-US Action – United Kingdom)*	TSCO	G87621101 GB0008847096	No Relevant Purchases	N/A	Pending
Tesco PLC (McGuireWoods)[5] *(Non-US Action – United Kingdom)*	TSCO	G87621101 GB0008847096	No Relevant Purchases	N/A	Pending
Tesco, PLC (Investor Claims Foundation) *(Non-U.S. Action – Netherlands)*	TSCO	G87621101 GB000884709	No Relevant Purchases	N/A	Pending
Orexigen Therapeutics, Inc.	OREX	686164104	No Relevant Purchases	N/A	May 11, 2015
Coupons.com, Inc.	COUP	22265J102	No Relevant Purchases	N/A	May 11, 2015
Acadia Pharmaceuticals, Inc.	ACAD	004225108	No Relevant Purchases	N/A	May 12, 2015
Fuqi International, Inc.	FUQI	36102A207	No Relevant Purchases	N/A	May 12, 2015
Inogen, Inc.	INGN	45780L104	No Relevant Purchases	N/A	May 12, 2015
Lentuo International, Inc.	LAS	526353107	No Relevant Purchases	N/A	May 12, 2015
Pharmacyclics, Inc. *(Transaction Action)*	PCYC	716933106	*Limited Data*[4]	N/A	N/A
Colony Financial, Inc. *(Transaction Action)*	CLNY	19624R106	*Limited Data*[4]	N/A	N/A
King Digital Entertainment, plc	KING	G5258J109 IE00BKJ9QQ58	No Relevant Purchases	N/A	May 18, 2015
Pulse Electronics Corporation *(Transaction Action)*	PULS	74586W205	*Limited Data*[4]	N/A	N/A
Resonant, Inc.	RESN	76118L102	No Relevant Purchases	N/A	May 18, 2015
Accelerate Diagnostics, Inc.	AXDX	00430H102	No Relevant Purchases	N/A	May 18, 2015
Chemical and Mining Company of Chile, Inc.	SQM	833635105	No Relevant Purchases	N/A	May 18, 2015
Omnicell, Inc.	OMCL	68213N109	No Relevant Purchases	N/A	May 18, 2015
Square 1 Financial, Inc. *(Transaction Action)*	SQBK	85223W101	*Limited Data*[4]	N/A	N/A
Globe Specialty Metals, Inc. *(Transaction Action)*	GSM	37954N206	*Limited Data*[4]	N/A	N/A
Vitesse Semiconductor Corporation *(Transaction Action)*	VTSS	928497304	*Limited Data*[4]	N/A	N/A
Youku Tudou, Inc.	YOKU	98742U100	No Relevant Purchases	N/A	May 25, 2015
Manhattan Bancorp	MNHN	562754101	No Relevant Purchases	N/A	N/A
Altisource Residential Corporation	RESI	02153W100	No Relevant Purchases	N/A	May 26, 2015
Halcon Resources Corporation *(Transaction Action)*	HK	40537Q209	*Limited Data*[4]	N/A	N/A

New Investor Actions

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New Investor Actions

Case Name[1]	Security Identifiers		Why You Are Not Eligible[3]	We Recomm.	Filing Deadline
	Symbol	ID			
Life Time Fitness, Inc. *(Transaction Action)*	LTM	53217R207	*Limited Data*[4]	N/A	N/A
SanDisk Corporation	SNDK	80004C101	No Relevant Purchases	N/A	May 29, 2015
Aruba Networks, Inc.	ARUN	043176106	No Relevant Purchases	N/A	Jun. 1, 2015
Boulder Brands, Inc.	BDBD	101405108	No Relevant Purchases	N/A	Jun. 1, 2015
Cellular Dynamics International, Inc. *(Transaction Action)*	ICEL	15117V109	*Limited Data*[4]	N/A	N/A
Integrated Silicon Solutions, Inc. *(Transaction Action)*	ISSI	45812P107	*Limited Data*[4]	N/A	N/A
Castlight Health, Inc.	CSLT	14862Q100	No Relevant Purchases	N/A	Jun. 1, 2015
iDreamSky Technology, Ltd.	DSKY	45173K101	No Relevant Purchases	N/A	Jun. 1, 2015
Quiksilver, Inc.	ZQK	74838C106	No Relevant Purchases	N/A	Jun. 1, 2015
BP p.l.c.	BP	055622104 G12793108 110889409	No Relevant Purchases	N/A	Jun. 2, 2015
Catamaran Corporation *(Transaction Action)*	CTRX	148887102	*Limited Data*[4]	N/A	N/A
Sonus Networks, Inc.	SONS	835916503	No Relevant Purchases	N/A	Jun. 5, 2015
BioScrip, Inc. *(Transaction Action)*	BIOS	09069N108	*Limited Data*[4]	N/A	N/A
Life Time Fitness, Inc.	LTM	53217R207	No Relevant Purchases	N/A	Jun. 9, 2015
Walgreen Company (n.k.a. Walgreens Boot Alliance, Inc.)	WAG	931422109	No Relevant Purchases	N/A	Jun. 9, 2015
May 2015					
Bankia S.A. *(Non-U.S. Action – Spain)*	BKIA	E2R23Z123 ES0113307021	No Relevant Purchases	N/A	Pending
Globe Union Industrial Corp. *(Non-U.S. Action – Taiwan)*	9934	Y2725R103 TW0009934000	No Relevant Purchases	N/A	Pending
AudioEye, Inc.	AEYE	050734102	No Relevant Purchases	N/A	Jun. 15, 2015
Baltic Trading Limited *(Transaction Action)*	BALT	Y0553W103	*Limited Data*[4]	N/A	N/A
First Security Group, Inc. *(Transaction Action)*	FSGI	336312202	*Limited Data*[4]	N/A	N/A
Auspex Pharmaceuticals, Inc. *(Transaction Action)*	ASPX	05211J102	*Limited Data*[4]	N/A	N/A
Informatica Corporation *(Transaction Action)*	INFA	45666Q102	*Limited Data*[4]	N/A	N/A
CHC Group Ltd.	HELI	G07021101 KYG070211019	No Relevant Purchases	N/A	Jun. 16, 2015
ForceField Energy Inc.	FNRG	34520U103	No Relevant Purchases	N/A	Jun. 16, 2015
HSN, Inc. *(Transaction Action)*	HSNI	404303109	*Limited Data*[4]	N/A	N/A
The Eastern Company *(Transaction Action)*	EML	276317104	*Limited Data*[4]	N/A	N/A
Alliance Bancorp, Inc. of Pennsylvania *(Transaction Action)*	ALLB	01890A108	*Limited Data*[4]	N/A	N/A
Interval Leisure Group, Inc. *(Transaction Action)*	IILG	46113M108	*Limited Data*[4]	N/A	N/A
Cellular Biomedicine Group, Inc.	CBMG	15117P102	No Relevant Purchases	N/A	Jun. 22, 2015
MagnaChip Semiconductor Corporation	MX	55933J203	No Relevant Purchases	N/A	Jun. 22, 2015
Excel Trust, Inc. *(Transaction Action)*	EXL	30068C109	*Limited Data*[4]	N/A	N/A
Imperial Holdings, Inc.	IFT	452834104	No Relevant Purchases	N/A	N/A
Levy Acquisition Corp. *(Transaction Action)*	LEVY	52748T104	*Limited Data*[4]	N/A	N/A
Norcraft Companies, Inc. *(Transaction Action)*	NCFT	65557Y105	*Limited Data*[4]	N/A	N/A
Cadiz, Inc.	CDZI	127537207	No Relevant Purchases	N/A	Jun. 23, 2015
Emulex Corporation	ELX	292475209	No Relevant Purchases	N/A	Jun. 26, 2015
Procera Networks, Inc. *(Transaction Action)*	PKT	74269U203	*Limited Data*[4]	N/A	N/A
Aerie Pharmaceuticals, Inc.	AERI	00771V108	No Relevant Purchases	N/A	Jun. 29, 2015
Associated Estates Realty Corporation *(Transaction Action)*	AEC	045604105	*Limited Data*[4]	N/A	N/A
Rubicon Technology, Inc.	RBCN	78112T107	No Relevant Purchases	N/A	Jun. 29, 2015

N O T E L I G I B L E

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Case Name[1]	Security Identifiers		Why You Are Not Eligible[3]	We Recomm.	Filing Deadline
	Symbol	ID			
Trinity Industries, Inc.	TRN	896522109	No Relevant Purchases	N/A	Jun. 29, 2015
American Apparel, Inc. *(Transaction Action)*	APP	023850100	*Limited Data[4]*	N/A	N/A
Zep Inc. *(Transaction Action)*	ZEP	98944B108	*Limited Data[4]*	N/A	N/A
MobileIron, Inc.	MOBL	60739U204	No Relevant Purchases	N/A	Jun. 30, 2015
Endurance International Group Holdings, Inc.	EIGI	29272B105	No Relevant Purchases	N/A	Jul. 3, 2015
Freescale Semiconductor, Ltd.	FSL	G3727Q101	No Relevant Purchases	N/A	Jul. 3, 2015
Insulet Corporation	PODD	45784P101	No Relevant Purchases	N/A	Jul 6, 2015
Rayonier Advanced Materials Inc.	RYAM	75508B104	No Relevant Purchases	N/A	Jul. 6, 2015
MCG Capital Corporation *(Transaction Action)*	MCGC	58047P107	*Limited Data[4]*	N/A	N/A
OmniVision Technologies, Inc. *(Transaction Action)*	OVTI	682128103	*Limited Data[4]*	N/A	N/A
MasTec, Inc.	MTZ	576323109	No Relevant Purchases	N/A	Jul. 6, 2015
Square 1 Financial, Inc	SQBK	85223W101	No Relevant Purchases	N/A	Jul. 6, 2015
Ampio Pharmaceuticals, Inc.	AMPE	03209T109	No Relevant Purchases	N/A	Jul. 7, 2015
FXCM Inc.	FXCM	302693106	No Relevant Purchases	N/A	Jul. 7, 2015
Virtus AlphaSector Mutual Funds	VRTS	92828Q109	No Relevant Purchases	N/A	Jul. 7, 2015
Baltic Trading Limited *(Transaction Action)*	BALT	Y0553W103	*Limited Data[4]*	N/A	Jul. 13, 2015
June 2015					
Toshiba Corporation (Deminor) *(Non-U.S. Action – Japan)*	6052	J89752117 JP3592200004	No Relevant Purchases	N/A	Pending
Toshiba Corporation (DRRT) *(Non-U.S. Action – Japan)*	6052	J89752117 JP3592200004	No Relevant Purchases	N/A	Pending
Navlink, Inc. *(Transaction Action)*	None	None	*Limited Data[4]*	N/A	N/A
Etsy, Inc.	ETSY	29786A106	No Relevant Purchases	N/A	Jul. 13, 2015
Global Power Equipment Group Inc.	GLPW	37941P306	No Relevant Purchases	N/A	Jul. 13, 2015
Baltic Trading Limited	BALT	Y0553W103	No Relevant Purchases	N/A	Jul. 14, 2015
CHC Group Ltd.	HELI	G07021101 KYG070211019	No Relevant Purchases	N/A	Jul. 14, 2015
Cyan, Inc. *(Transaction Action)*	CYNI	23247W104	*Limited Data[4]*	N/A	N/A
Micrel, Incorporated *(Transaction Action)*	MCRL	594793101	*Limited Data[4]*	N/A	N/A
MoneyGram International, Inc.	MGI	60935Y208	No Relevant Purchases	N/A	Jul. 20, 2015
Vipshop Holdings Limited	VIPS	92763W103	No Relevant Purchases	N/A	Jul. 20, 2015
AOL Inc. *(Transaction Action)*	AOL	00184X105	*Limited Data[4]*	N/A	N/A
Crestwood Midstream Partners LP *(Transaction Action)*	CMLP	226378107	*Limited Data[4]*	N/A	N/A
Isoray, Inc.	ISR	46489V104	No Relevant Purchases	N/A	Jul. 21, 2015
New Residential Investment Corp. *(Transaction Action)*	NRZ	64828T201	*Limited Data[4]*	N/A	N/A
Pall Corporation *(Transaction Action)*	PLL	696429307	*Limited Data[4]*	N/A	N/A
Borderfree, Inc. *(Transaction Action)*	BRDR	09970L100	*Limited Data[4]*	N/A	N/A
Ithaca Energy Inc. *(Non-U.S. Action – Canada)*	IAE	465676104	No Relevant Purchases	N/A	N/A
Ann Inc. *(Transaction Action)*	ANN	035623107	*Limited Data[4]*	N/A	N/A
TrueCar, Inc.	TRUE	89785L107	No Relevant Purchases	N/A	Jul. 27, 2015
Yingli Green Energy Holding Company Limited	YGE	98584B103	No Relevant Purchases	N/A	Jul. 27, 2015
ClickSoftware Technologies Ltd. *(Transaction Action)*	CSKW	M25082104	*Limited Data[4]*	N/A	N/A
Sears Holdings Corporation *(Transaction Action)*	SHLD	812350106	*Limited Data[4]*	N/A	N/A
SFX Entertainment, Inc. *(Transaction Action)*	SFXE	784178303	*Limited Data[4]*	N/A	N/A

NOT ELIGIBLE

New Investor Actions

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Case Name[1]	Security Identifiers		Why You Are Not Eligible[3]	We Recomm.	Filing Deadline
	Symbol	ID			
Broadcom Corporation *(Transaction Action)*	BRCM	111320107	*Limited Data*[4]	N/A	N/A
Eagle Rock Energy Partners, LP *(Transaction Action)*	EROC	26985R104	*Limited Data*[4]	N/A	N/A
GrafTech International Ltd. *(Transaction Action)*	GTI	384313102	*Limited Data*[4]	N/A	N/A
Catamaran Corporation	CTRX	148887102	No Relevant Purchases	N/A	Aug. 3, 2015
Nationstar Mortgage Holdings Inc.	NSM	63861C109	No Relevant Purchases	N/A	Aug. 3, 2015
QEP Midstream Partners, LP	QEPM	74735R115	No Relevant Purchases	N/A	Aug. 3, 2015
LRR Energy, L.P. *(Transaction Action)*	LRE	50214A104	*Limited Data*[4]	N/A	N/A
Puma Biotechnology, Inc.	PBYI	74587V107	No Relevant Purchases	N/A	Aug. 3, 2015
Aerohive Networks, Inc.	HIVE	007786106	No Relevant Purchases	N/A	Aug. 3, 2015
Meru Networks, Inc. *(Transaction Action)*	MERU	59047Q103	*Limited Data*[4]	N/A	N/A
Omnicare, Inc. *(Transaction Action)*	OCR	681904108	*Limited Data*[4]	N/A	N/A
Toshiba Corporation	TOSBF TOSYY	J89752117 891493306	No Relevant Purchases	N/A	Aug. 3, 2015
Altera Corporation *(Transaction Action)*	ALTR	021441100	*Limited Data*[4]	N/A	N/A
China Finance Online Co. Limited	JRJC	169379104	No Relevant Purchases	N/A	Aug. 4, 2015
OM Group, Inc. *(Transaction Action)*	OMG	670872100	*Limited Data*[4]	N/A	N/A
Rally Software Development Corp. *(Transaction Action)*	RALY	751198102	*Limited Data*[4]	N/A	N/A
Xunlei Limited	XNET	98419E108	No Relevant Purchases	N/A	Aug. 7, 2015
SandRidge Energy, Inc. (SandRidge Trusts)	SDT SDR	80007T101 80007V106	No Relevant Purchases	N/A	Aug. 10, 2015
Geeknet, Inc. *(Transaction Action)*	GKNT	36846Q203	*Limited Data*[4]	N/A	N/A

NOT ELIGIBLE

New Investor Actions

Notes		
1	Case Name	All actions listed in the "Case Name" column are U.S. securities class actions, unless otherwise noted.
2	Recommended	We recommend your fund play an active role, either as a lead plaintiff in the class action, opting out of the class, or otherwise. This recommendation is based on our view that the action is meritorious, your fund's losses are sufficiently large to justify playing an active role (for class and opt out actions), the action meets our other relevant criteria, and yours. For actions in this category, we include a detailed Investor Alert, explaining the basis of our recommendation.
	Take No Action	Although your fund is eligible to play an active role, we recommend that it does not. In the "Eligible - But Not Recommended" section, we explain why your fund should not play an active role (*e.g.*, the case at present may not be sufficiently meritorious; your fund's losses are not likely large enough; or your stated criteria for activism are not met).
3	No Relevant Purchases	Your fund is ineligible to participate as it did not purchase the relevant securities during the stated class or time period (or its losses are below our $20,000 threshold). If, because the relevant time period is later expanded, your fund becomes eligible to participate at the settlement stage, we will alert you to help ensure it shares in these proceeds.
	Gain	If your fund experienced a gain in a particular security during the relevant period, it is ineligible to participate.
4	*Limited Data*	We have insufficient data from your custodian. Without complete data covering the relevant period we cannot perform a proper damage analysis to determine your fund's eligibility to participate.
5	*New Non-U.S. Action*	We've identified this non-U.S. action as part of our global portfolio monitoring service. The action is currently being organized and we are in the process of obtaining the relevant documents and information in order to recommend a course of action to you. When we have sufficient information to make such a recommendation, we will advise you.

Eligible – But Not Recommended

June 2015

Case Name	Security Identifiers Symbol	Security Identifiers ID	Why You Are Eligible	We Recommend	Filing Deadline
Kraft Food Groups, Inc.	KRFT	50076Q106	Held Shares During Relevant Period	Take No Action	Jul. 14, 2015

Company: Kraft Foods Group, Inc. ("Kraft") is a food company focused on consumer packaged food and beverages for North American Grocery stores. The company offers a wide range of branded beverages, cheese, grocery products and convenient meals.

Allegations: On March 25, 2015, Kraft and H.J. Heinz Company ("Heinz") announced they had entered into a definitive merger agreement whereby Heinz will acquire Kraft in unit-for-unit exchange in a transaction valued at approximately $53.1 billion (the "Proposed Transaction"). Under the terms of the deal, Kraft shareholders will receive one share of the combined company and a $16.50 special cash dividend for each Kraft share they own. The complaint alleges the merger consideration is inadequate because, among other things, the intrinsic value of the company's common stock is substantially higher than the amount offered, particularly considering the company's anticipated future growth. In addition, the Proposed Transaction is unfair because defendants agreed to certain onerous and preclusive deal protection devices that operate to ensure that no competing offers will emerge. Moreover, in an attempt to secure shareholder approval, defendants filed a materially false and misleading Definitive Proxy Statement (the "Proxy") with the SEC which inhibits shareholders' ability to make an informed decision whether to approve the Proposed Transaction.

Recommendation: We believe the claims asserted in this breach of fiduciary duty action are relatively weak. The merger consideration represents a 30% premium over the company's closing share price the last trading day before the deal was announced. After considering the numerous factors courts analyze, we think it will be difficult for plaintiffs to convince the court that the consideration offered is not fair. In addition, many of the challenged deal protection devices such as the "no solicitation" provision and the $1.2 billion termination fee are commonplace in a deal this size. Moreover, we believe the interests of shareholders are adequately protected as actions are currently pending in federal court in Virginia and Illinois. We further note that the Proxy claims are likely moot as the parties to the action pending in Virginia have reached a tentative settlement which addresses many of the disclosure claims. In light of the foregoing, we recommend that City of Westminster take no action at this time.

E L I G I B L E

Eligible But Not Recommended

Spector Roseman Kodroff & Willis PC

INSTITUTIONAL
PROTECTION
SERVICES

First Floor
9 Staple Inn
London
WC1V 7QH
T: 0203 388 0313

Periodic Report

From 01 Apr 2015 to 30 Jun 2015

City Of Westminster

New Activity

Case Name	Class Period	Settlement Fund	Filing Deadline	Account Number	Fund Name	Claim Status	Notes
Tesco Plc (Deminor)	17 Apr 2013 21 Sep 2014			WMRF00070002	MAJEDIE	Not Eligible	
				WMRG00010000	TOTAL	Not Eligible	
Bain Capital Partners LLC (Private Equity)	01 Jan 2003 31 Dec 2007	USD $ 590,500,000.00	29 Dec 2014	WMRF00050002	NEWTON	Not Eligible	
				WMRF99990002	NOMURA	Not Eligible	
AIG Inc. 2008 Securities Settlement	16 Mar 2006 05 Sep 2014	USD $ 970,500,000.00	5 May 2015	WMRF00010002	HENDERSON	No Claim	
				WMRF00030002	INSIGHT	No Claim	
				WMRF00040002	ALLIANCE	Claim Filed	
				WMRF00050002	NEWTON	Claim Filed	
				WMRF99990002	NOMURA	Claim Filed	
				WMRG00010000	TOTAL	No Claim	
St. Jude Medical Inc	22 Apr 2009 31 Dec 2009	USD $ 50,000,000.00	24 Jun 2015	WMRF00040002	ALLIANCE	Claim Filed	
Sprint Nextel Corporation	26 Oct 2006 27 May 2008	USD $ 131,000,000.00	20 Jul 2015	WMRF00030002	INSIGHT	Claim Identified	
				WMRF00040002	ALLIANCE	Claim Identified	
				WMRF00050002	NEWTON	Claim Identified	
Pfizer Inc.	19 Jan 2006 24 Apr 2009	USD $ 400,000,000.00	30 Jul 2015	WMRF00020002	ABERDEEN AM	No Claim	
				WMRF00040002	ALLIANCE	Claim Identified	
				WMRF00050002	NEWTON	Claim Identified	
				WMRF99990002	NOMURA	Claim Identified	

Page 112

Potential New Settlement Claims with Incomplete Data

Case Name	Class Period	Settlement Fund	Filing Deadline	Account Number	Fund Name
There are no new potential claims with incomplete data					

Claims Pending

Case Name	Class Period	Settlement Fund	Filing Deadline	Account Number	Fund Name	Claim Status	Notes
Lloyds Bank TSB (Harcus Sinclair)	16 Sep 2008 16 Jan 2009			WMRF00030002	INSIGHT	Claim Registered	
				WMRF00040002	ALLIANCE	Claim Registered	
				WMRF00070002	MAJEDIE	Claim Registered	
OZ Minerals Ltd (ACA)	28 Feb 2008 01 Jul 2008			WMRF00040002	ALLIANCE	Claim Registered	
Downer EDI Limited	23 Feb 2006 07 Aug 2006		31 Dec 2007	WMRF00040002	ALLIANCE	Claim filed by predecessor	
Oz Minerals Ltd	28 Feb 2008 01 Dec 2008	AUD $ 55,100,000.00	23 Aug 2009	WMRF00040002	ALLIANCE	Claim filed by predecessor	
Marvell Technology Group Ltd	27 Feb 2003 02 Oct 2006	USD $ 72,000,000.00	18 Dec 2009	WMRF00050002	NEWTON	Claim filed by predecessor	
Fortis SA/NV (Deminor)	29 May 2007 03 Oct 2008		1 Aug 2010	WMRF00040002	ALLIANCE	Claim Filed	
ABC Learning	27 Feb 2006 30 Jul 2008		17 Dec 2010	WMRF00050002	NEWTON	Claim filed by predecessor	
				WMRF99990002	NOMURA	Claim filed by predecessor	
BP Plc (State action) SRKW	30 Jun 2005 01 Jun 2010		14 Sep 2012	WMRF00040002	ALLIANCE	Claim Filed	
				WMRF00050002	NEWTON	Claim Filed	
				WMRF00060002	SSGA	Claim Filed	
				WMRF00070002	MAJEDIE	Claim Filed	
Medtronic Inc	20 Nov 2006 17 Nov 2008	USD $ 85,000,000.00	11 Dec 2012	WMRF00050002	NEWTON	Claim Filed	
Bank of America (Merrill Lynch) (SEC)	18 Sep 2008 21 Jan 2009	USD $ 2,430,000,000.00	25 Apr 2013	WMRF00040002	ALLIANCE	Claim Filed	
Johnson & Johnson	14 Oct 2008 21 Jul 2010	USD $ 22,900,000.00	24 Dec 2013	WMRF99990002	NOMURA	Claim Filed	
Lehman Bros -E&Y Settlement	12 Jun 2007 28 Oct 2008	USD $ 99,000,000.00	17 Apr 2014	WMRF00040002	ALLIANCE	Claim Filed	
Pandora A/S	18 Apr 2011 02 Aug 2011		20 Apr 2014	WMRF00050002	NEWTON	Claim Filed	Estimated Loss: DKK 382,587

Weatherford International Ltd	25 Apr 2007 27 May 2011	USD $ 52,500,000.00	6 Oct 2014	WMRF00050002	NEWTON	Claim Filed	
AIG Inc. 2008 Securities Settlement	16 Mar 2006 05 Sep 2014	USD $ 970,500,000.00	5 May 2015	WMRF00040002	ALLIANCE	Claim Filed	
				WMRF00050002	NEWTON	Claim Filed	
				WMRF99990002	NOMURA	Claim Filed	
St. Jude Medical Inc	22 Apr 2009 31 Dec 2009	USD $ 50,000,000.00	24 Jun 2015	WMRF00040002	ALLIANCE	Claim Filed	

Claims Rejected

Case Name	Class Period	Settlement Fund	Filing Deadline	Account Number	Fund Name	Claim Status	Notes
Bain Capital Partners LLC (Private Equity)	01 Jan 2003 31 Dec 2007	USD $ 590,500,000.00	29 Dec 2014	WMRF00050002	NEWTON	Not Eligible	
				WMRF99990002	NOMURA	Not Eligible	
Tesco Plc (Deminor)	17 Apr 2013 21 Sep 2014			WMRF00070002	MAJEDIE	Not Eligible	
				WMRG00010000	TOTAL	Not Eligible	

Claims Paid

Case Name	Class Period	Settlement Fund	Filing Deadline	Account Number	Fund Name	Amount Paid	Disbursement Date
There were no claims paid during this period							

Claims in Appeal/Validation

Case Name	Class Period	Settlement Fund	Filing Deadline	Account Number	Fund Name	Claim Status	Notes
There are no claims that are currently being appealed or validated							

Appendix 4: Budget announcement re future consultation

In the Summer Budget on 8th July 2015, the Chancellor made the following announcement regarding Local Government Pension Schemes:

***"Local Government Pension Scheme pooled investments** – The government will work with Local Government Pension Scheme administering authorities to ensure that they pool investments to significantly reduce costs, while maintaining overall investment performance. The government will invite local authorities to come forward with their own proposals to meet common criteria for delivering savings. A consultation to be published later this year will set out those detailed criteria as well as backstop legislation which will ensure that those administering authorities that do not come forward with sufficiently ambitious proposals are required to pool investments."*

This announcement follows the Department for Communities and Local Government consultation in 2014 titled "Local Government Pension Scheme: Opportunities for collaboration, cost savings and efficiencies.", details of which were reported to the Audit, Pensions & Standards Committee on 30th June 2014, along with the response submitted. This previous consultation sought views on the use of collective investment vehicles and passive management of investments to reduce the cost of running the LGPS.

It is anticipated that the consultation referred to in the Budget announcement will be published in October or November and will seek proposals from LGPS funds to significantly reduce costs, without impacting on investment returns. This appears to be more open to Funds bringing forward their own ideas rather than imposing solutions, such as passive management, which was the case with the 2014 consultation.

Westminster's engagement with the London Collective Investment Vehicle (CIV) – see agenda item regarding the CIV elsewhere on this agenda - as well as participation in national frameworks for procurement are positive steps in the direction the government is seeking. However until the consultation is published, it will not be clear what criteria the Fund will be judged against.

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City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**8 September 2015**
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:	**Steven Mair** ***City Treasurer*** **smair@westminster.gov.uk** **020 7641 2904**

1. Executive Summary

1.1 This report presents a summary of the Pension Fund's performance to 30 June 2015, together with an estimated valuation position.

2. Recommendation

2.1 The Committee note the contents of this paper, the performance report from Deloitte and the current actuarial assumptions and valuation.

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 June 2015. 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 questions.

3.2 The Investment Performance report (Appendix 1) has been provided by the Fund's investment Adviser, Deloitte. This shows that over the quarter to 30th June 2015, the market value of the assets fell by approximately £17.7 million as a result of the fall in both equity and bond markets over the quarter. However, the Fund outperformed its benchmark over this period by 0.5% (net of fees).

3.3 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 78% at 30 June 2015.

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

Nikki Parsons nparsons@westminster.gov.uk or 020 7641 6925

BACKGROUND PAPERS: None

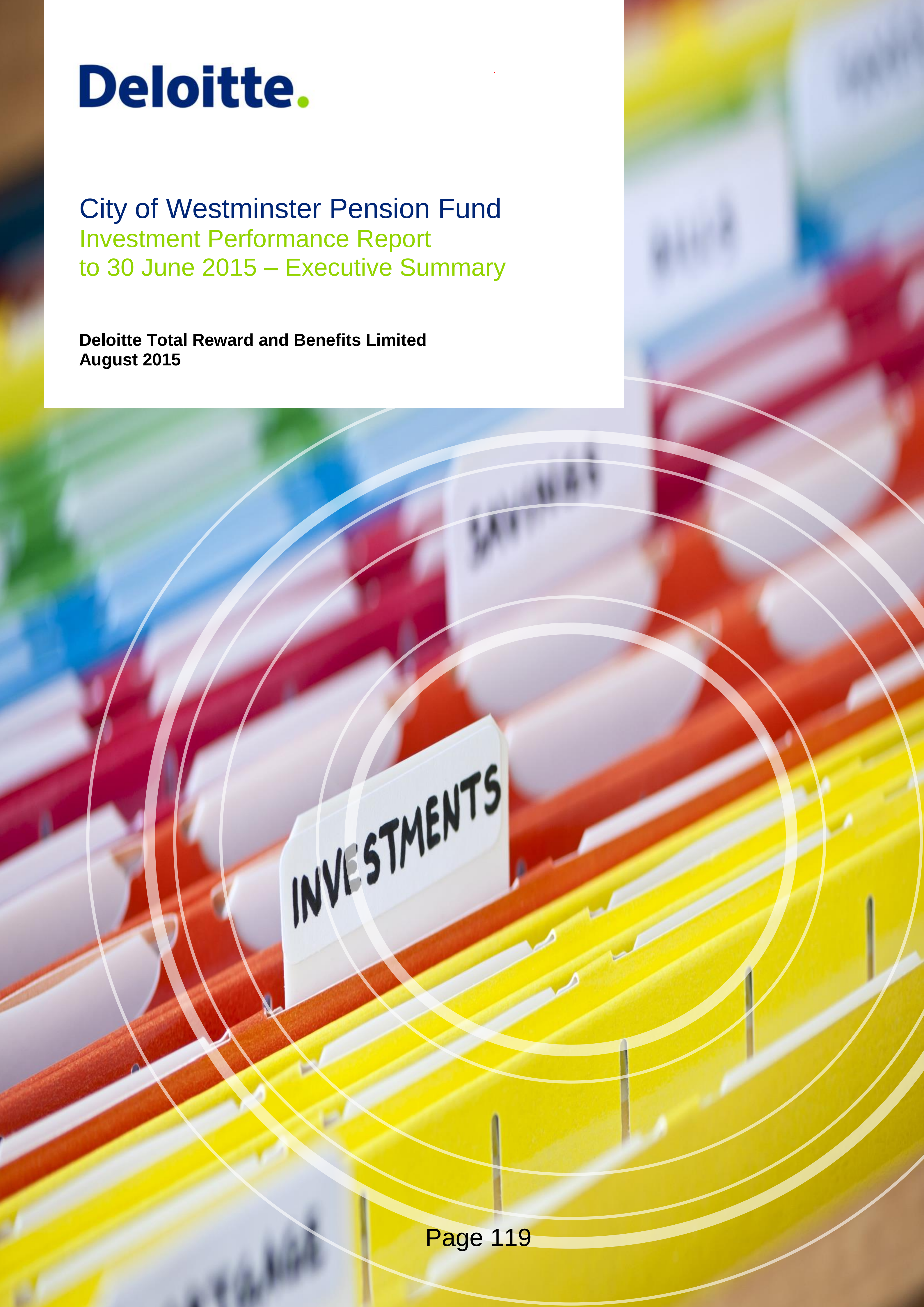
APPENDICES:

Appendix 1 - Deloitte Investment Report, Quarter End to 30 June 2015
Appendix 2 - Barnett Waddingham Funding Update Report as at 30 June 2015

City of Westminster Pension Fund

Investment Performance Report
to 30 June 2015 – Executive Summary

Deloitte Total Reward and Benefits Limited
August 2015



Contents

1 Market Background

Three and twelve months to 30 June 2015

Markets were volatile over the second quarter of the year with pre-election concerns over the outcome of the UK General Election and increased uncertainty over Greece's position within the Eurozone as the country struggled to negotiate a new bailout programme and meet its obligations to existing creditors. Throughout this UK equities delivered a negative return over the 3 months to 30 June 2015 (FTSE All Share Index: -1.6%).

Mid and small cap companies outperformed the largest UK firms over the second quarter with the FTSE 250 and FTSE Small Cap indices returning positive returns of 3.6% and 2.6% respectively. At the sector level, Telecommunications was the strongest performer, returning 3.9%. At the other end of the scale, the Health Care sector fell by 11.2%.

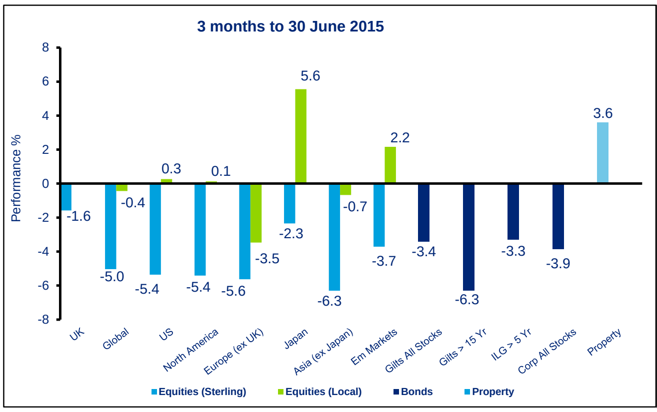
Global equity markets outperformed the UK in local currency terms (-0.4%) but underperformed in sterling terms (-5.0%), as the pound appreciated against most currencies including the dollar, euro and yen with currency hedging beneficial to sterling investors over the quarter. At the regional level, Japan offered investors the highest return of 5.6% in local currency terms and -2.3% in sterling terms. Unsurprisingly, Europe was the poorest performing region in local currency terms (-3.5%) however Asia Pacific (ex Japan) was the weakest performing region in sterling terms (-6.3%).

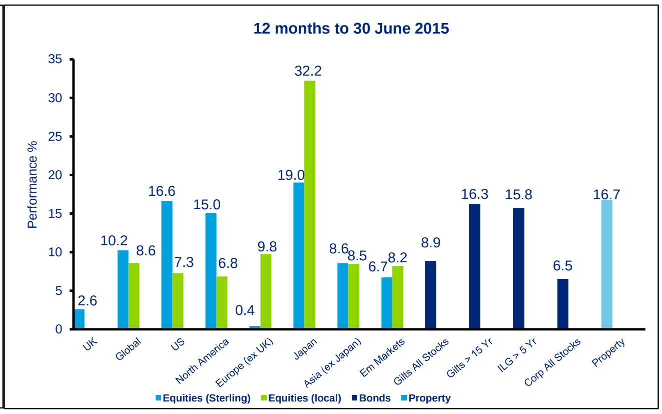
UK nominal gilts delivered negative returns over the quarter as yields increased across all maturities resulting in the All Stocks Gilt Index returning -3.4%. Real yields on UK index-linked gilts also increased over the period, with the Over 5 Year index-linked Gilt Index returning -3.3%. Corporate bonds also delivered negative returns over the quarter, with the iBoxx All Stocks Non Gilt Index returning -3.9%, as credit spreads widened.

Over the 12 months to 30 June 2015, the FTSE All Share Index returned 2.6%. At the sector level, Technology delivered the highest return (21.0%) whilst the Oil & Gas sector was the poorest performing sector (-24.4%). Global markets outperformed the UK in both sterling and local currency terms over the year, with the FTSE All World Index returning 10.2% and 8.6% in sterling and local currency terms respectively. Currency hedging was therefore slightly detrimental for sterling investors over the year.

UK nominal gilts performed strongly over the last 12 months as gilt yields fell across all maturities, particularly at the longer end of the curve. The All Stocks Gilt Index returned 8.9% and the Over 15 Year Gilt Index returned 16.3%. Real yields also fell over the year, with the Over 5 Year Index-linked Gilt Index returning 15.8%. Corporate bond returns were also positive albeit more muted, with the iBoxx All Stocks Non Gilt Index returning 6.5% over the 12 months to 30 June 2015.

The UK property market continues to perform strongly, having returned 3.6% over the quarter and 16.7% over the 12 months to 30 June 2015.





2 Total Fund

2.1 Investment Performance to 30 June 2015

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]	
Majedie	UK Equity	-0.4	-0.5	-1.6	5.7	5.3	2.6	17.5	17.1	11.0	10.8	10.4	5.9
LGIM	Global Equity	-0.6	-0.6	-0.7	8.3	8.2	8.2	n/a	n/a	n/a	16.0	15.8	15.9
Baillie Gifford	Global Equity	-4.8	-4.9	-5.1	13.2	12.8	10.1	n/a	n/a	n/a	10.8	10.4	10.3
Longview	Global Equity	-3.8	-4.0	-5.3	n/a	n/a	n/a	n/a	n/a	n/a	5.2	4.9	1.8
Insight	Gilts	-1.4	-1.4	-1.4	4.8	4.7	4.8	1.5	1.4	1.5	5.2	5.1	5.3
	Non Gilts	-2.6	-2.7	-2.4	5.3	5.1	5.5	6.8	6.6	6.2	5.8	5.5	5.3
Hermes	Property	3.4	3.3	3.4	18.8	18.4	15.9	13.4	13.0	10.6	9.6	9.2	9.0
Standard Life	Property	2.2	2.1	-2.9	9.5	9.0	11.0	n/a	n/a	n/a	11.1	10.6	7.7
Total		-1.6	-1.7	-2.2	8.3	8.0	7.0	13.6	13.3	12.0	6.7	6.3	6.3

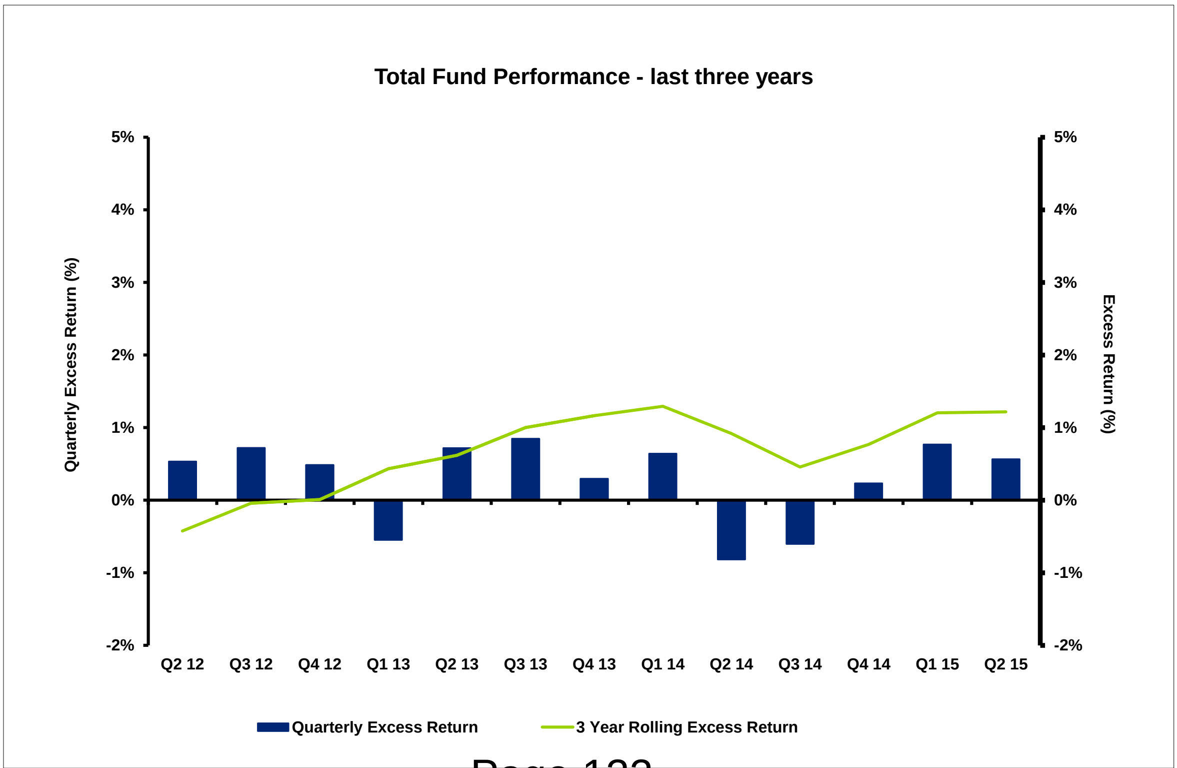
Source: Investment Managers

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

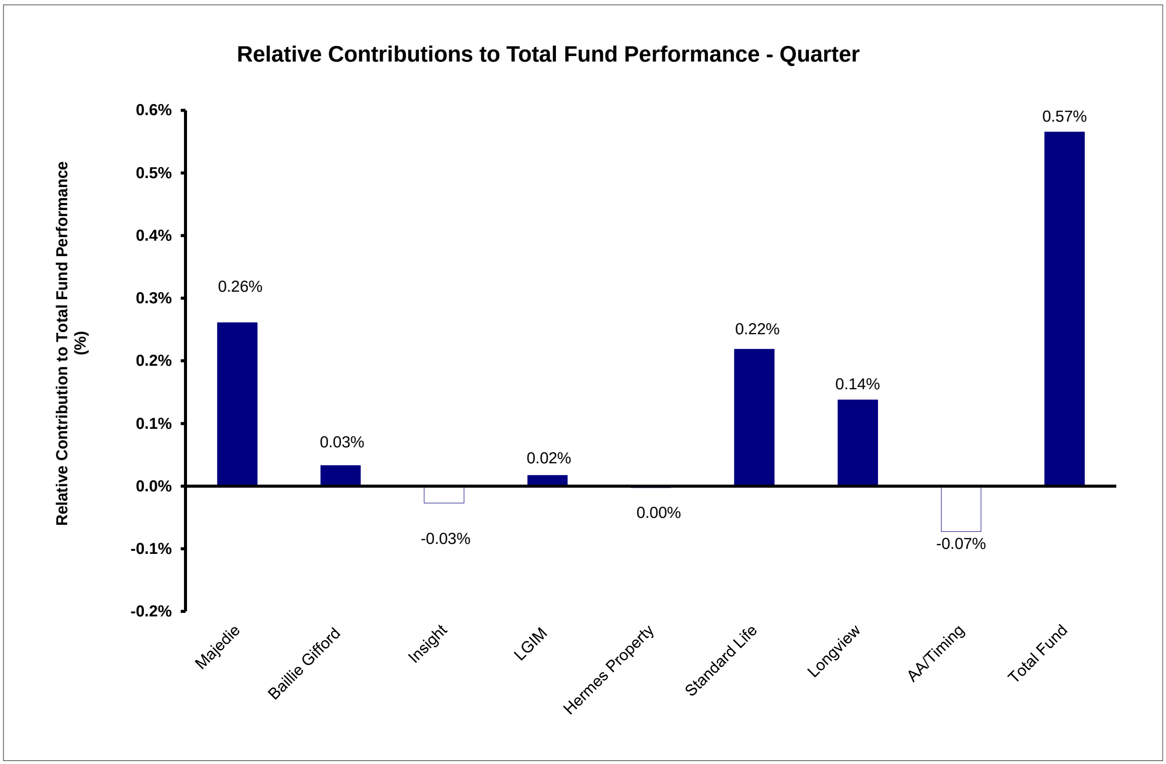
See appendix 1 for more detail on manager fees and since inception dates

Over the quarter the Fund outperformed its benchmark, mostly due to strong performance from the Standard Life Long Lease Property Fund and the active equity managers Baillie Gifford, Majedie and Longview.

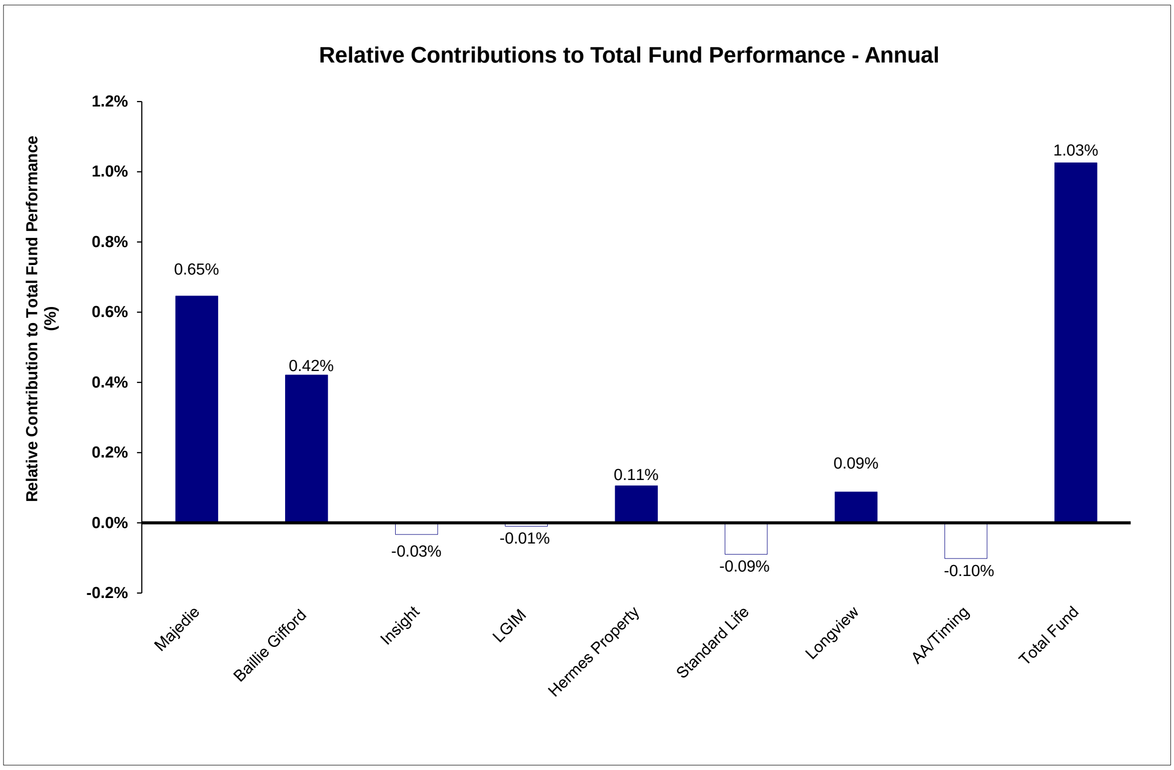
The chart below shows the performance of the Fund over the three year period, highlighting that the rolling three-year performance has been positive since 2013, with Majedie, Baillie Gifford and Hermes contributing positively. Please note that performance is shown net of fees versus the benchmark.



2.2 Attribution of Performance to 30 June 2015



The Fund outperformed its composite benchmark by 57bps over the second quarter of 2015, largely as a result of strong performance from the active equity managers, Majedie and Longview, and from the Standard Life Long Lease Property Fund.



The Fund outperformed over the year, largely due to strong performance from Majedie and Baillie Gifford. The AA/Timing bar largely reflects the fact that the actual allocation has differed from the benchmark.

Asset Allocation as at 30 June 2015

The table below shows the assets held by manager and asset class as at 30 June 2015.

Manager	Asset Class	End Mar 2015 (£m)	End Jun 2015 (£m)	End Mar 2015 (%)	End Jun 2015 (%)	Benchmark Allocation (%)
Majedie	UK Equity	256.5	255.6	23.5	23.8	20
LGIM	Global Equity (Passive)	277.3	275.5	25.4	25.7	20
Baillie Gifford	Global Equity	179.2	170.6	16.4	15.9	25
Longview	Global Equity	109.6	105.2	10.0	9.8	
	Total Equity	**822.6**	**806.9**	**75.4**	**75.2**	**65**
Insight	Fixed Interest Gilts (Passive)	17.9	17.6	1.6	1.6	20
Insight	Sterling Non-Gilts	156.6	152.5	14.4	14.2	
	Total Bonds	**174.5**	**170.1**	**16.0**	**15.9**	**20**
Hermes	Property	45.7	47.1	4.2	4.4	5
Standard Life	Property	47.9	48.9	4.4	4.6	5
To be Determined	Property / Infrastructure	-	-	-	-	5
	Total Property	**93.6**	**96.0**	**8.6**	**8.9**	**15**
	Total	**1,090.7**	**1,073.0**	**100**	**100**	**100**

Source: Investment Managers

Figures may not sum to total due to rounding

Over the quarter the market value of the assets fell by c. £17.7m as a result of the fall in both equity and bond markets over the quarter.

Since the introduction of Longview in January 2015, the benchmark allocation has been amended.

As at 30 June 2015, the Fund is overweight by c. 10.2% when compared with the benchmark allocation, with overweight allocations to UK equities and both passive and active global equities. As a result of this overweight position, both the allocations to bonds and property are underweight to the order of c. 4.1% and c. 6.1% respectively. This is similar to the position at the end of last quarter.

The current benchmark has an allocation to property / infrastructure which is yet to be invested. For the purposes of calculating the benchmark return, we have assumed that this unallocated 5% is spread across the Fund's other mandates.

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
Longview	Global Equity	Loss of key personnel Change in investment approach Lack of control in growth of assets under management	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	Further significant growth in the value of the Long Lease Property Fund resulting in an erosion in the quality and yield of the underlying assets Departure of the fund manager	1

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

Majedie UK Equity

Business

The UK Equity fund remains near capacity with outflows due to clients de-risking being recycled to new investors.

Personnel

Majedie has added to its compliance team with a couple of new hires over the quarter.

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

Baillie Gifford

Business

Total assets under management decreased over the second quarter of 2015 from £125.1bn as at 31 March 2015 to £121.0bn as at 30 June 2015. The decrease was largely due to negative investment returns as net client flows were positive over the quarter.

Baillie Gifford closed the Global Alpha Fund to new investors at the start of the 2015 and will only accept inflows from existing clients subject to capacity remaining available.

Personnel

There were a number of changes within the US Equity team over the quarter. Ian Tabberer, joint head of US equities, left Baillie Gifford after 7 years of employment, leaving Gary Robinson as the sole head of the US team. Mark Hughes, an investment manager, also left and joined a business outside of the fund management industry. Andrei Kiselev, an investment manager with 6 years of experience at Baillie Gifford, moved across to the US Equity team from the now closed Global Opportunities team.

The remaining members of the Global Opportunities team moved into other areas of the business. Tom Walsh, an investment manager, moved to the European Equity team and the two analysts, Paulina Sliwinska and Tolibjon Tursunov, joined the Long Term Global Growth and Global Discovery teams respectively.

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

LGIM

Business

As at 31 March 2015, Legal & General Investment Management ("Legal & General") had total assets under management of c. £736.8bn including derivative overlays and advising assets.

Personnel

Michael Porte joined the London Index Equity team over the quarter. Michael joins from Deutsche Bank. The search is still underway for a replacement for Ali Toutounchi, Head of Index Equities, who is retiring at the end of the year.

Deloitte View: We continue to rate Legal & General positively for their passive capabilities.

Longview

Personnel

Natasha Fletcher has joined the Institutional clients team at a junior level, having joined from Chamomile Investment Consultants where she carried out a similar role.

Deloitte view – We rate Longview for their global equity capabilities.

Insight

Business

Assets under management reached £383bn as at the end of March 2015.

There were no significant changes to personnel over the quarter. Insight reported on the increasing settlement of the US team and feel the Insight / Cutwater staff have merged together well following the successful acquisition in late 2014.

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

Hermes

Business

The total value of the Trust increased over the quarter to c. £1.15bn at the end of June 2015 with interest from prospective unit holders continuing to be strong and the Trust Managers continuing to operate a waiting list for new investment.

Personnel

There were no changes to the team over the quarter.

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

Standard Life

In June it was announced that Keith Skeoch, the Chief Executive of Standard Life Investments (SLI), would be taking over from David Nish as the Chief Executive of Standard Life plc as well as continuing in his role as Chief Executive at SLI. While we see Skeoch as having been a key factor in SLI's growth over the last 10 years or so, there is a team of experienced individuals who have responsibility for the management and development of the main business streams. Stability within this team will be crucial for the continued success of the investment business going forward.

There were no changes to the team responsible for the Fund's investment, albeit Richard Marshall is getting more support from Ted Roy in managing the Long Lease Fund.

Deloitte View: We continue to rate SLI positively for its long lease property capabilities.

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 June 2015

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Baillie Gifford - Gross of fees	-4.8	13.2	n/a	10.8
Net of fees[1]	-4.9	12.8	n/a	10.4
MSCI AC World Index	-5.1	10.1	n/a	10.3
Relative (net of fees)	0.2	2.7	n/a	0.1

Source: Baillie Gifford

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

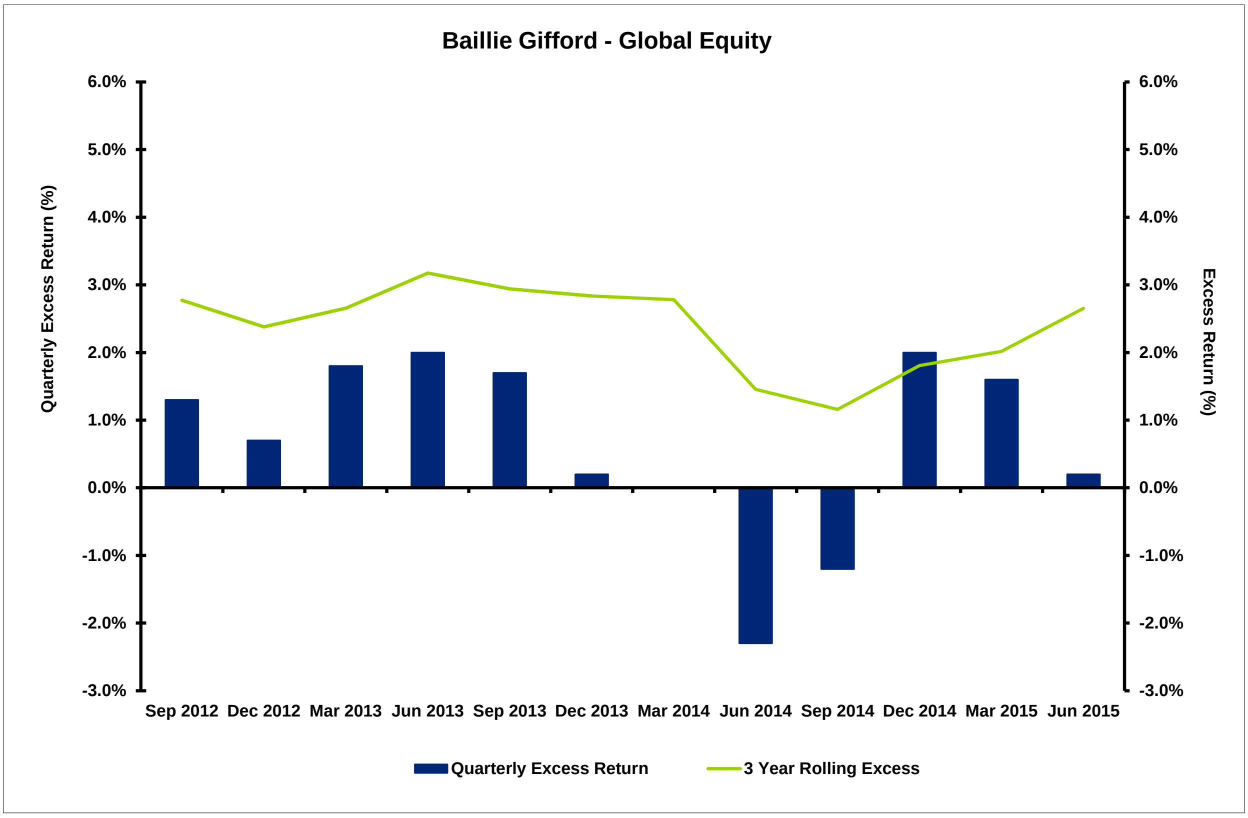
Inception date taken as 18 March 2014

The Baillie Gifford Global Equity fund has outperformed its benchmark over the quarter, the year and period since inception.

The main contributors over the quarter were the Fund's holdings in China Resources Enterprise, Amazon.com and Tesla Motors.

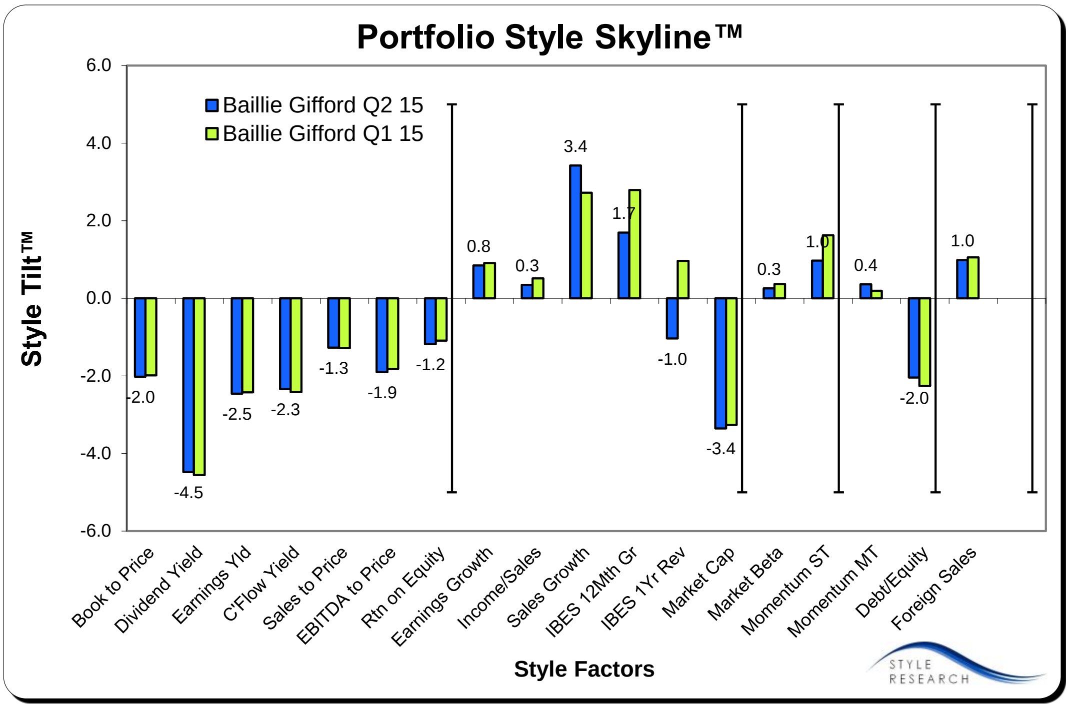
The main detractors over the quarter were the overweight positions in Royal Caribbean Cruises, Atlas Copco and Ultra Petroleum, who all delivered negative returns over the period.

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



4.2 Style analysis

We have analysed the Style of Baillie Gifford as at 30 June 2015 as can be seen in the below graph. When considering the analysis it should be borne in mind that any figures in excess of +/- 1 are considered to be meaningful.



As can be seen, Baillie Gifford has a marked negative bias to value related factors and a positive bias to growth factors which is consistent with the stated investment approach. This is a similar position to last quarter.

The top 10 holdings in the Baillie Gifford fund account for c. 25% of the fund and are detailed below.

Top 10 holdings as at 30 June 2015	Proportion of Baillie Gifford fund
Royal Caribbean	3.53%
Prudential	3.30%
Naspers	3.28%
Amazon.com	2.44%
Anthem	2.43%
Ryanair Holdings	2.28%
Taiwan Semi	2.21%
TD Ameritrade	2.02%
Markel	1.83%
First Republic Bank	1.80%
Total	**25.12%**

Baillie Gifford	31 March 2015	30 June 2015
Total Number of holdings	98	98
Active risk	3.9%	3.8%
Coverage	6.8%	6.9%
Top 10 holdings	25.56%	25.12%

As at 30 June 2015, Baillie Gifford held 98 stocks, with an overlap with the FTSE All World index of 6.9%. As an active manager, Baillie Gifford tactically invests in such a way as not to replicate the index. The active risk, as at 30 June 2015, was 3.8%.

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 June 2015

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
LGIM - Gross of fees	-0.6	8.3	n/a	16.0
Net of fees[1]	-0.6	8.2	n/a	15.8
FTSE World GBP Hedged	-0.7	8.2	n/a	15.9
Relative (net of fees)	0.1	0.0	n/a	-0.1

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 broadly in line with the benchmark over the quarter, one year and since the inception of the mandate.

6 Majedie – UK Equity

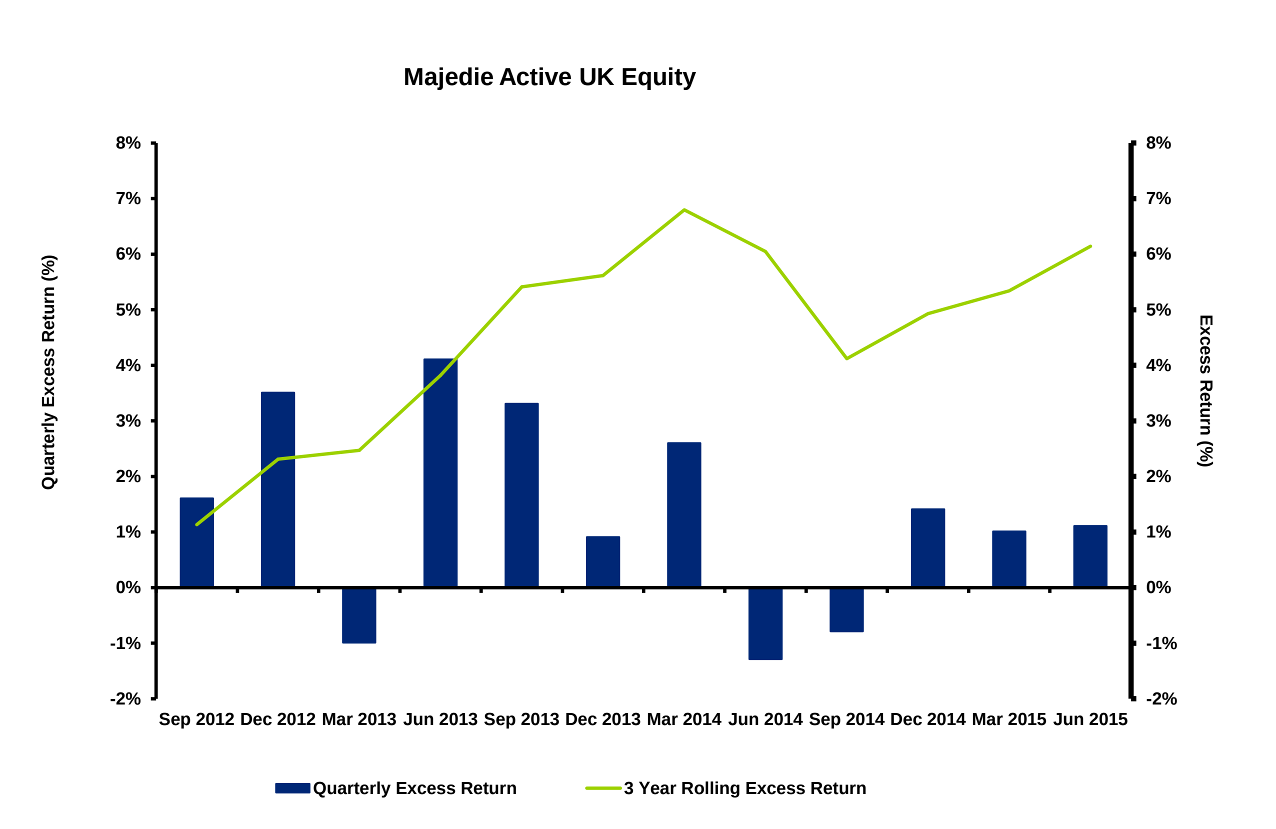
Majedie was appointed to manage an active UK equity mandate. The manager's remuneration is a combination of a fixed fee based on the value of assets and a performance related fee which is payable when the excess return of the portfolio over a rolling 3 year period is more than 1% p.a. The target is to 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	-0.4	5.7	17.5	10.8
Net of base fees[1]	-0.5	5.3	17.1	10.4
FTSE All-Share Index	-1.6	2.6	11.0	5.9
Relative (net of fees)	1.1	2.7	6.1	4.5

Source: Majedie

See appendix 1 for more detail on manager fees

Inception date taken as 31 May 2006.



Majedie outperformed its benchmark over the quarter by 1.1% on a net of fees basis. Over the longer timeframes of one year, three years and since inception the manager has outperformed its benchmark on a net basis by 2.7%, 6.1% p.a. and 4.5% p.a. respectively.

As a group, the Fund's strongest performers were those in the smaller companies sub-portfolio which, with a higher UK bias, benefitted from the increase in investment appetite following the result of the general election.

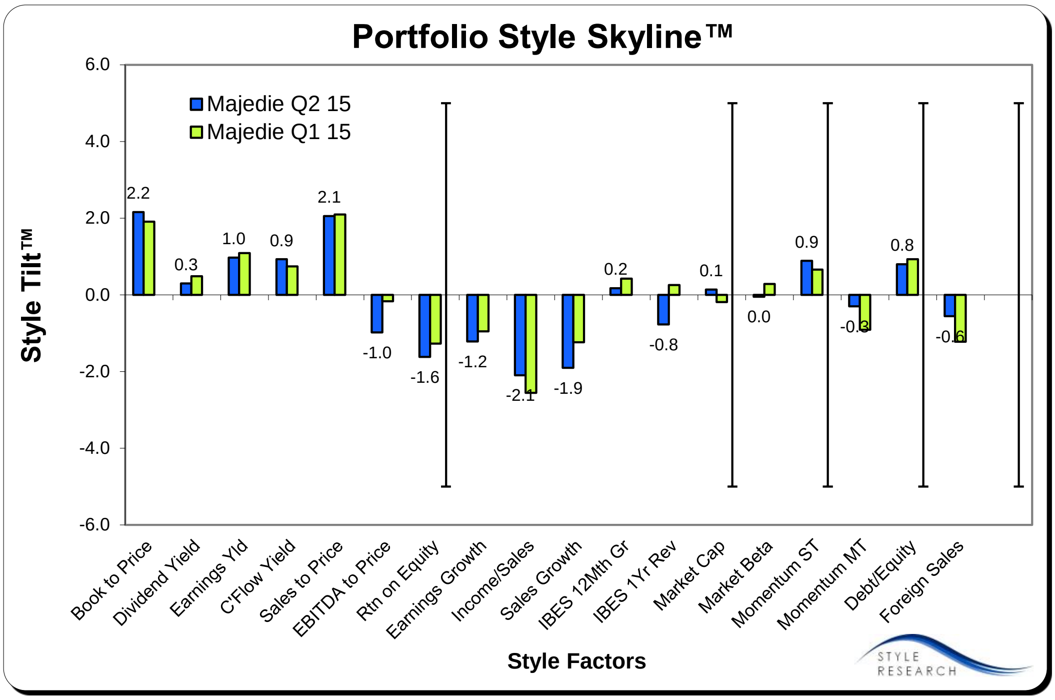
At an individual stock level, Vodafone performed well, with news of early stage talks over a potential asset swap with Liberty Global (US cable provide) being received well by the market.

In a swing from last quarter, the Fund's overweight position in Tesco hurt performance, returning -12.1% over the quarter which contributed -0.2% to total fund performance.

Being underweight to the oil and gas explorer BG, who received a $70bn takeover bid from Royal Dutch Shell also hurt their relative performance, with BG returning almost 29% over the quarter.

6.1 Style analysis

We have analysed the Style of Majedie as at 30 June 2015 as can be seen in the below graph. When considering the analysis it should be borne in mind that any figures in excess of +/- 1 are considered to be meaningful.



While the portfolio is currently showing a modest positive bias to value factors, it is not particularly strong and can be expected to change over time depending on where Majedie finds appropriate opportunities.

The top 10 holdings in the Majedie fund account for c. 40% of the fund and are detailed below.

Top 10 holdings as at 30 June 2015	Proportion of Majedie fund
HSBC	6.29%
Vodafone	5.84%
BP	4.81%
Royal Dutch Shell	4.33%
Barclays	3.77%
GlaxoSmithKline	3.09%
BT	2.97%
RBS	2.93%
Tesco	2.84%
Orange	2.84%
Total	**39.71%**

Majedie	31 March 2015	30 June 2015
Total Number of holdings	208*	208*
Active risk	3.1%	2.4%
Coverage	39.8%	41.5%
Top 10 holdings	40.20%	39.71%

*includes 130 stocks in the Majedie UK Smaller Companies Fund, which the fund invests in.

As at 30 June 2015, Majedie held 208 stocks in total, with an overlap with the FTSE All Share index of 41.5%. This coverage is significantly higher than both Baillie Gifford and Longview, reflecting to an extent the multi manager approach. Majedie's active risk, as at 30 June 2015, was 2.4%.

7 Longview – Global Equity

Longview was appointed on 15 January 2015 to manage an active global equity mandate. The manager's remuneration is based on the value of assets invested across the Tri-borough. The expectation is that the fund will outperform the benchmark by 3% p.a.

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Longview - Gross of base fees	-3.8	n/a	n/a	5.2
Net of base fees[1]	-4.0	n/a	n/a	4.9
MSCI World Index	-5.3	n/a	n/a	1.8
Relative (net of fees)	1.3	n/a	n/a	3.1

Source: Longview

1 – estimated by Deloitte

See appendix 1 for more detail on manager fees

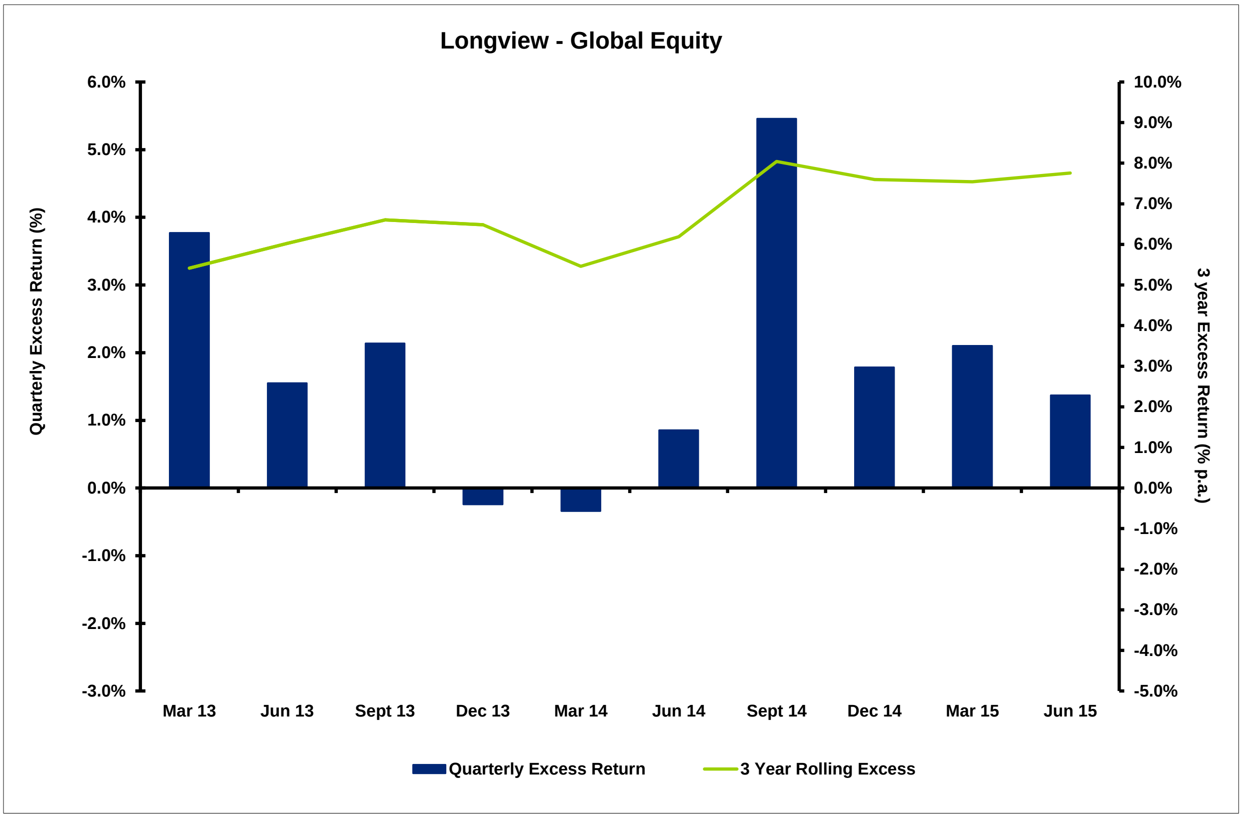
Inception date taken as 15 January 2015.

Longview outperformed the benchmark by 1.3% on a net basis, over the second quarter of 2015. This was largely driven by the Fund's stock selection in the Financials and Healthcare sectors.

HCA Holdings, the largest owner of private hospitals in the US, was the greatest positive contributor over the quarter. Concerns about the impact of the introduction of "Obama-care" had adversely impacted the share price – in the event, fears proved to be unfounded and the share price has bounced back.

A further contributor was Yum! Brands, who own various fast food chains like KFC that has seen sales stabilise after a sharp fall following on from various food scares.

Detractors over the quarter included Pearson, the publishing and education company, which was the largest detractor over the quarter with US higher education enrolments down over the quarter. More recently the situation has improved for Pearson since, with the sale of the FT to Nikkei at c. 35x earnings.

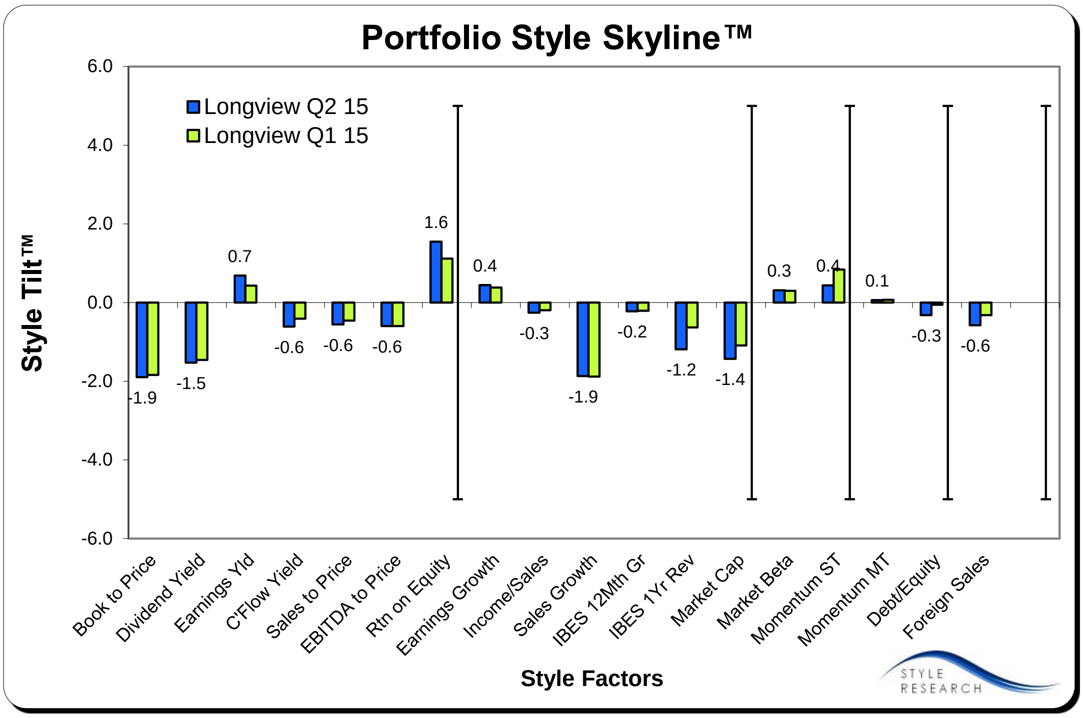


For information purposes we have included the longer run performance history for the strategy.

Page 133

7.1 Style analysis

We have analysed the Style of Longview as at 30 June 2015 as can be seen in the below graph. When considering the analysis it should be borne in mind that any figures in excess of +/- 1 are considered to be meaningful.



As can be seen from the above, Longview does not currently have a strong bias to either value or growth factors. Last quarter, the style analysis was similar.

The top 10 holdings in the Longview fund account for c. 39% of the fund and are detailed below.

Top 10 holdings as at 30 June 2015	Proportion of Longview fund
Delphi Automotive	4.69%
AON	4.26%
HCA Holdings	4.04%
Fidelity National Info Services	3.99%
Time Warner	3.68%
Yum! Brands	3.63%
Lloyds	3.61%
Wells Fargo	3.57%
Bank of New York Mellon	3.55%
Oracle	3.55%
Total	**38.57%**

Longview	31 March 2015	30 June 2015
Total Number of holdings	34	34
Active risk	4.2%	4.4%
Coverage	4.4%	4.4%
Top 10 holdings	42.28%	38.57%

As at 30 June 2015, Longview held 34 stocks in total, with an overlap with the FTSE All World index of only 4.4%. This coverage is low due to the high conviction investing that Longview undertakes; which also leads to a higher active risk of 4.4% as at 30 June 2015.

8 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.

8.1 Insight – Active Non Gilts

8.1.1 Investment Performance to 30 June 2015

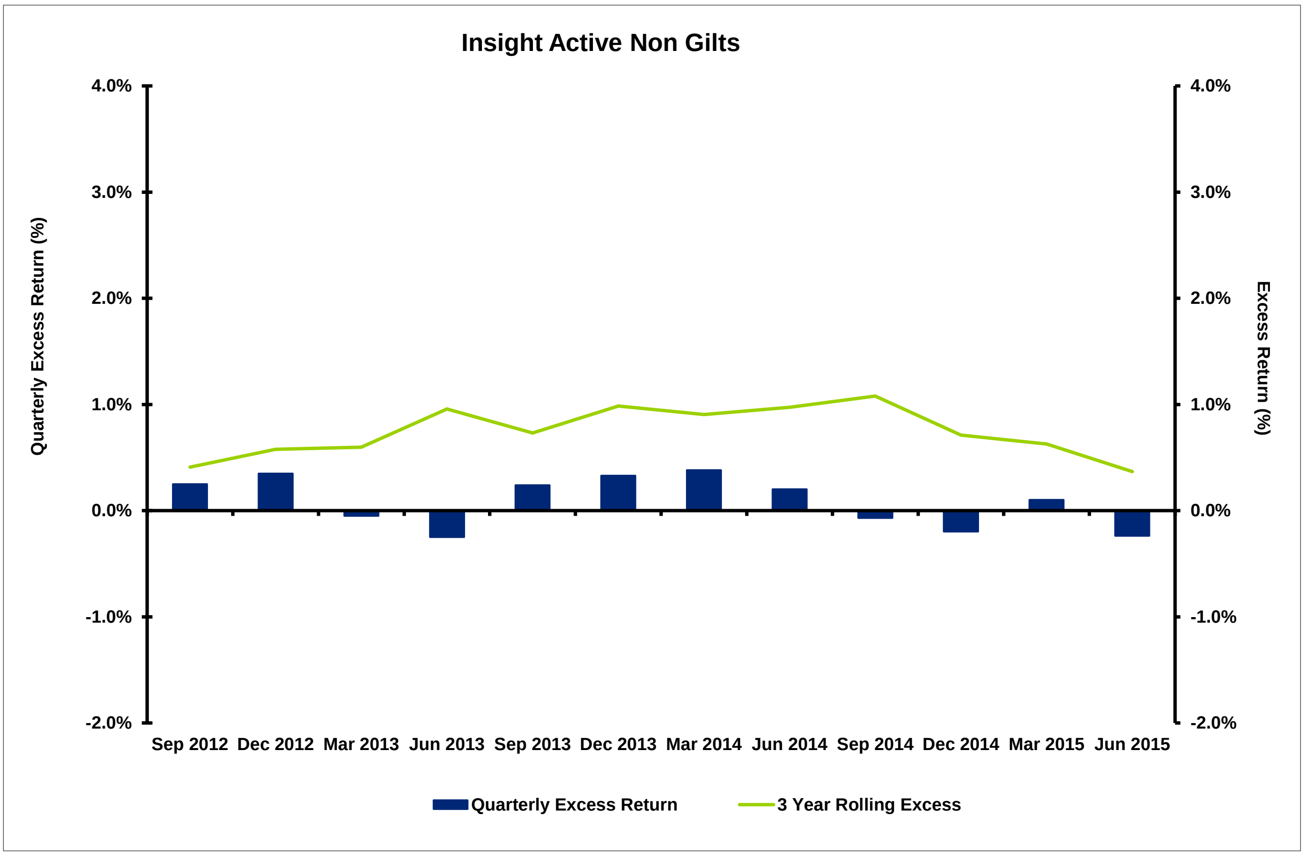
	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Insight (Non-Gilts) - Gross of fees	-2.6	5.3	6.8	5.8
Net of fees[1]	-2.7	5.1	6.6	5.5
iBoxx £ Non-Gilt 1-15 Yrs Index	-2.4	5.5	6.2	5.3
Relative (net of fees)	-0.3	-0.4	0.4	0.2

Source: Insight

(1) Estimated by Deloitte

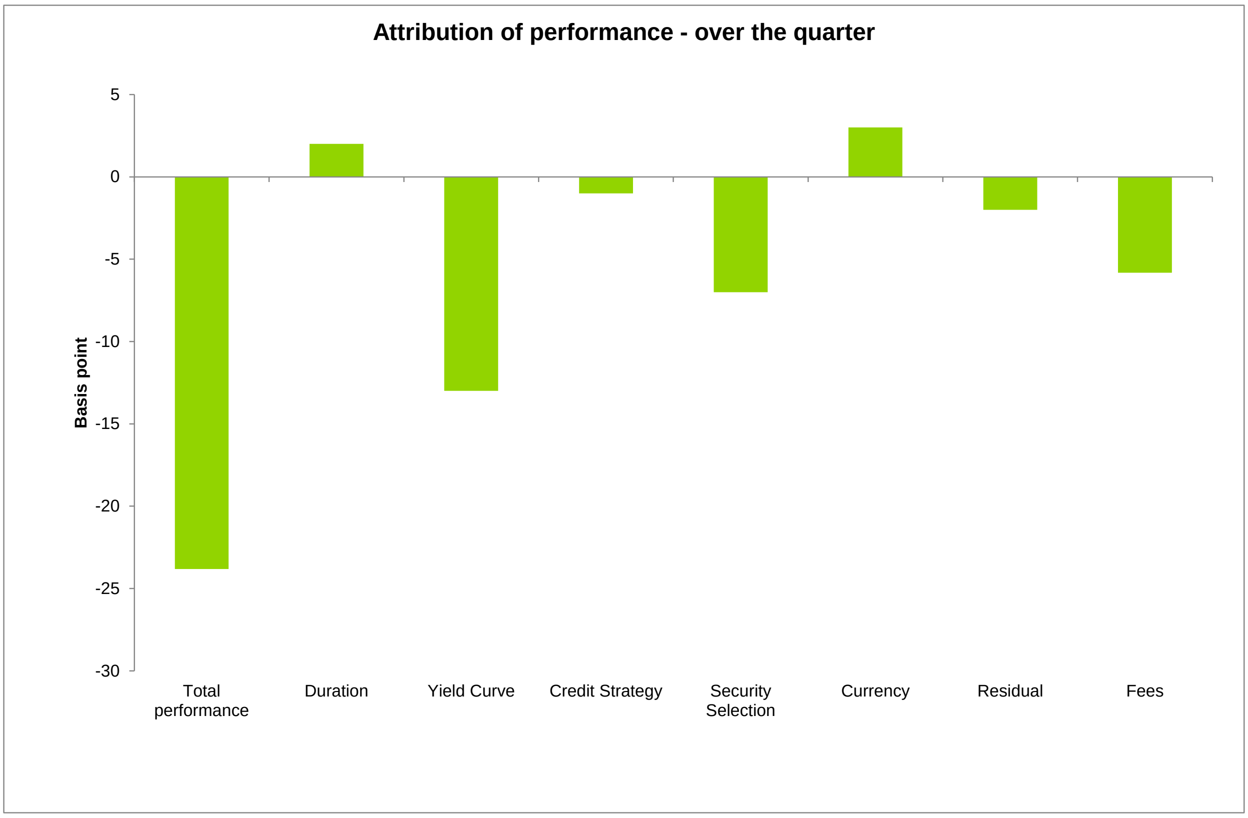
See appendix 1 for more detail on manager fees

Inception date taken as 31 May 2006.



Over the quarter the portfolio underperformed the benchmark by 0.3%, returning -2.7% on a net of fees basis. Over the year to 30 June 2015, the fund has also underperformed the benchmark by 0.4% net of fees. Over the longer time periods of 3 years and since inception, Insight has outperformed the benchmark, net of fees, by 0.4% p.a. and 0.2% p.a. respectively.

8.1.2 Attribution of Performance



Source: Estimated by Insight

Insight's underperformance this quarter has been driven by their security selection and the positioning on the yield curve.

8.2 Insight – Government Bonds

8.2.1 Investment Performance to 30 June 2015

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Insight (Passive Bonds) - Gross	-1.4	4.8	1.5	5.2
Net of fees[1]	-1.4	4.7	1.4	5.1
FTSE A Gilts up to 15 Yrs Index	-1.4	4.8	1.5	5.3
Relative (net of fees)	0.0	-0.1	-0.1	-0.2

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 June 2015.

8.3 Duration of portfolios

	End Mar 2015		End Jun 2015	
	Fund (Years)	Benchmark (Years)	Fund (Years)	Benchmark (Years)
Non-Government Bonds (Active)	5.9	5.7	5.5	5.5
Government Bonds (Passive)	4.5	4.8	4.5	4.5

Source: Insight

9 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.

9.1 Portfolio Monitoring Summary

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)[1]
Hermes - Gross of fees	3.4	18.8	13.4	9.6
Net of fees[1]	3.3	18.4	13.0	9.2
Benchmark	3.4	15.9	10.6	9.0
Relative (net of fees)	-0.1	2.5	2.4	0.2

Source: Hermes

(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Inception date is taken as 26 October 2010

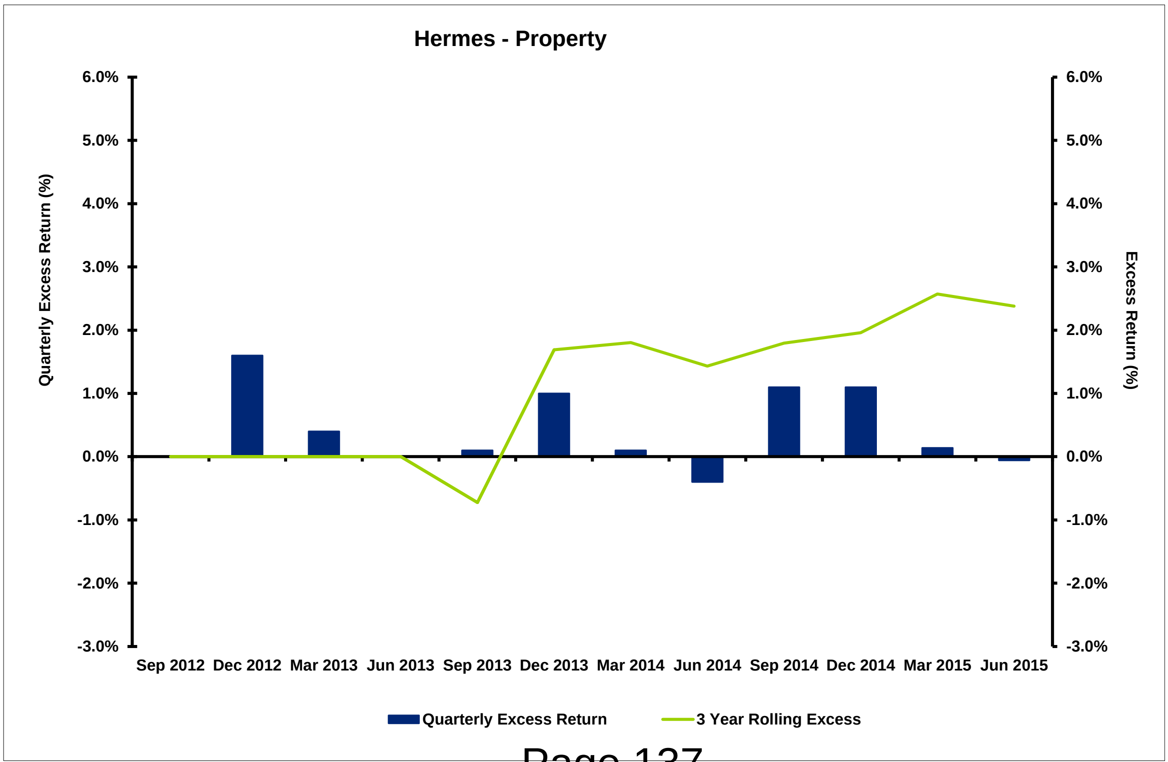
Hermes performed broadly in line with its benchmark over the quarter. Longer term performance continues to be ahead of benchmark.

This quarter, the return was primarily driven by the fund's Office investments in both the West End of London and the Rest of the UK.

9.2 Sales and Purchases

Over the quarter, there were no disposals and two acquisitions, namely:

- Jury's Inn Hotel in Liverpool was purchased in June 2015 for £28.96m. The property is let for a further 28 years with rent reviews linked to uncapped RPI. The income yield increases to 6.4% in April 2016 and Hermes anticipate this will increase to more than 7% in 2018.
- Yarnfield Park, Training and Conference Centre in Yarnfield was purchased for £9.54m in June 2015. The property is let on a 10 year lease which is guaranteed by Compass Group Holdings Plc with annual uplifts of 2.5% from 2018.



10 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.

10.1 Portfolio Monitoring Summary

	Last Quarter (%)	Last Year (%)	Last 3 Years (% p.a.)	Since Inception (% p.a.)
Standard Life - Gross of fees	2.2	9.5	n/a	11.1
Net of fees[1]	2.1	9.0	n/a	10.6
Benchmark	-2.9	11.0	n/a	7.7
Relative (net of fees)	5.0	-2.0	n/a	2.9

Source: Standard Life

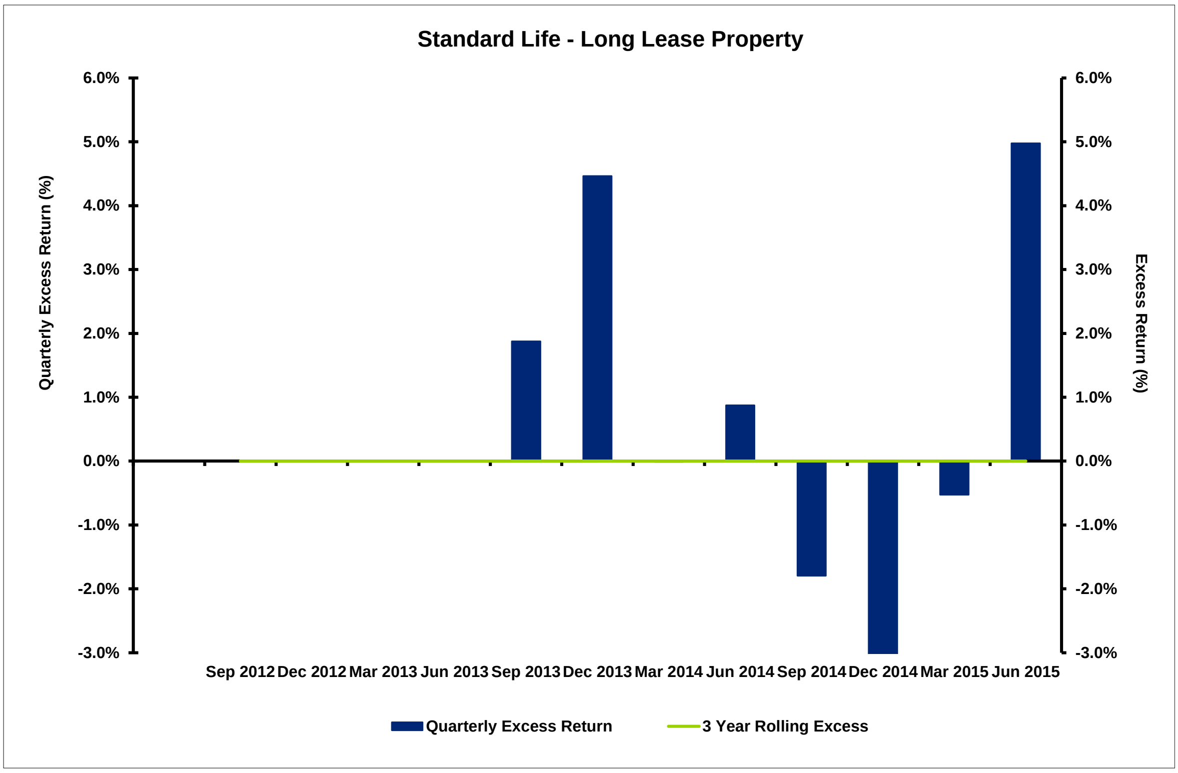
(1) Estimated by Deloitte

See appendix 1 for more detail on manager fees

Since inception: 14 June 2013

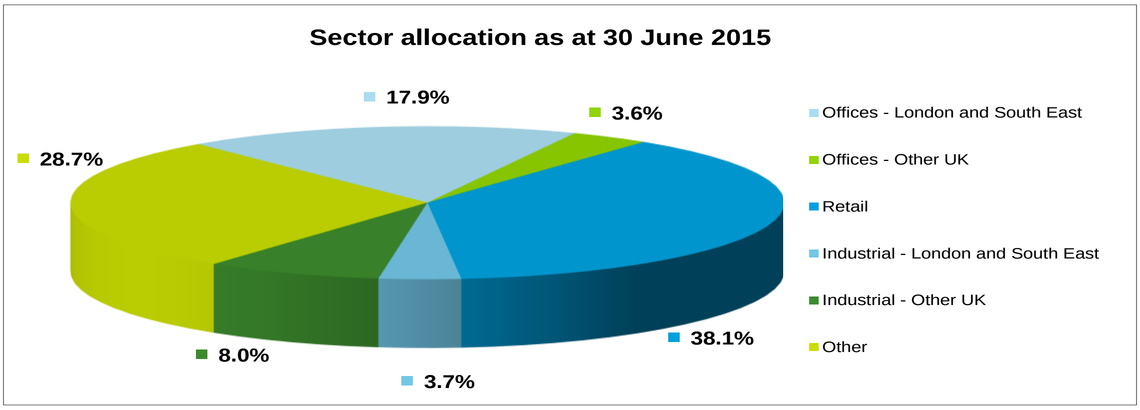
The SLI Long Lease Property Fund returned 2.2% over the second quarter of 2015, outperforming the benchmark of the FTSE Gilt All Stocks Index + 2% by 5.0% net of fees. Over the 12 months the Fund has underperformed the benchmark and has also lagged the broader property market by 2.0% and 7.2% respectively.

The level of underperformance is not surprising during periods of strong capital appreciation in the wider property market. The recent rally has been driven by strong investor flows and price appreciation in high quality secondary assets



The Fund remains underweight in the office sector (21.5% compared to 34.8%) and remains underweight the industrial sector (11.7%), compared to 19.2% at the end of the first quarter. The Fund is also slightly underweight the retail sector (38.1% compared to 39.7%).

The Fund continues to be significantly overweight in the “Other” sector (28.7% compared to 6.3%) as a result of its holdings in a range of car parks, student accommodation, hotels, medical centres and law courts, as well as its indirect holding in the Standard Life Investments Commercial Ground Rent Fund.



The table below shows details of the top ten tenants in the Fund measured by percentage of net rental income:

Tenant	Property/Location	Total Rent £m p.a.	% Net Income
Tesco Stores Limited	Various	7.8	11.6
Premier Inn Limited	Various	5.1	7.5
Sainsbury’s Supermarkets	Various	4.7	7.1
Asda Stores Limited	Various	4.4	6.6
Save the Children Fund	1 St Johns Lane, London	3.5	5.2
WM Morrisons Supermarkets	Various	3.5	5.2
Marstons PLC	Various	3.4	5.0
Glasgow City Council	Various	3.1	4.6
Travis Perkins (Properties)	Travis Perkins, Warrington	3.0	4.5
The Court of Napier University	Napier University, Fountainbridge	2.8	4.2
Total		**41.2**	**61.4**

The top 10 tenants contribute 61.4% of the total net income into the Fund. Supermarkets continue to dominate the Fund, with Tesco, Sainsbury’s, Asda and Morrison’s contributing 30.5% to the Fund’s total net rental income. Premier Inn is now the second largest tenant following the completion of the development in Aldgate.

The Fund’s average unexpired lease term has remained broadly unchanged over the quarter at 25.1 years.

The proportion of the Fund invested in assets with fixed, part-fixed, CPI or RPI-linked rental increases rose from 89.6% to 89.9% over the second quarter of 2015.

10.2 Sales and Purchases

There was one disposal over the second quarter of 2015:

- An industrial unit in Swansea was sold for £11.75m. Whilst SLI were not looking to dispose of this particular asset, the tenant was looking to downsize and paid a price (29% above the last valuation) which SLI did not believe would be achievable on the open market.
- There were no acquisitions over the quarter.

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 25 March 2015.

<table>
<tr><th>Manager</th><th>Asset Class</th><th>Allocation</th><th>Benchmark</th><th>Outperformance Target</th><th>Inception Date</th><th>Fees (p.a.)</th><th>Tracking Error p.a.</th></tr>
<tr><td>Majedie</td><td>UK Equity</td><td>20.0</td><td>FTSE All-Share Index</td><td>+2.0 p.a. (net of fess)</td><td>31/05/06</td><td>c.35bps base fees +20 performance fee on 1 outperformance over 3 year rolling</td><td>2.0-6.0</td></tr>
<tr><td>LGIM</td><td>Global Equity</td><td>20.0</td><td>FTSE World GBP Hedged</td><td>Passive</td><td>01/11/12</td><td>13bps base fees</td><td>+/- 0.5</td></tr>
<tr><td>Baillie Gifford</td><td>Global Equity</td><td rowspan="2">25.0</td><td>MSCI AC World Index</td><td>+2.0 p.a. (net of fess)</td><td>18/03/14</td><td>40bps base fee</td><td></td></tr>
<tr><td>Longview</td><td>Global Equity</td><td>MSCI World (GBP) Index</td><td>To outperform the benchmark over a market cycle</td><td>15/01/15</td><td>75bps base fees minus a rebate dependent on fund size</td><td></td></tr>
<tr><td rowspan="2">Insight</td><td>Fixed Interest Gilts</td><td>-</td><td>FTSE GILTS up to 15 Yrs Index</td><td>Passive</td><td>31/05/06</td><td>10bps base fees</td><td></td></tr>
<tr><td>Non-Gilts</td><td>20.0</td><td>iBoxx £ Non-Gilt 1-15 Yrs Index</td><td>+ 0.90 p.a. (gross fees)</td><td>31/05/06</td><td>c.24bps base fee</td><td>0 - 3.0</td></tr>
<tr><td>Hermes</td><td>Property</td><td>5.0</td><td>IPD UK PPFI Balanced PUT Index</td><td>+0.5 p.a. (net of fess)</td><td>26/10/10</td><td>40bps base fee</td><td></td></tr>
<tr><td>Standard Life</td><td>Property</td><td>5.0</td><td>FTSE Gilts All Stocks Index +2% p.a.</td><td>+0.5 p.a. (net of fess)</td><td>14/06/13</td><td>50bps base fee</td><td></td></tr>
<tr><td>To be determined</td><td>Property / Infrastructure</td><td>5.0</td><td></td><td></td><td></td><td></td><td></td></tr>
<tr><td></td><td>Total</td><td>100.0</td><td></td><td></td><td></td><td></td><td></td></tr>
</table>

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 – Style analysis

The Style Skylines are designed to answer the question "How significantly different is the portfolio from the benchmark?" in respect of Style factors which are important and relevant in equity markets.

In each Style Skyline, the first six bars from the left are Value factors (shown as blue bars in the output). The next six bars are the Growth factors (green bars) and include four current/historic measures as well as two forward-looking Growth factors (incorporating IBES consensus earnings estimates and earnings revisions). The remaining bars on the right cover Size, Beta, Momentum, Gearing/Leverage and Foreign Sales.

As a general rule of thumb, for any individual Style tilt (Standard or Adjusted):

- Style tilts less than -0.5 or more than +0.5 indicate a tilt is observable.
- Style tilts less than -1 or more than +1 are statistically significant.
- Style tilts less than -2 or more than +2 are statistically very significant.

There is a further interpretation when we compare across similar factors such as the Value factors (blue bars in the Style Skyline) or the Growth factors (green bars). If most of the Value factors are positive and, say, between 0.4 to 0.6 this suggests that there is a significant Value tilt even though no individual tilt is very significant i.e. multiple tilts in a similar direction within Value or within Growth can reinforce our interpretation of a Style orientation.

It is possible that more extreme tilts can be produced when portfolios and benchmarks are themselves narrowly defined against the market e.g. it is not unusual for Small Cap portfolios to show tilts of 3, 4 or even much larger in magnitude against a Small Cap benchmark. In these cases the significance of the tilts should not be overemphasized.

There is little purity of definition, but in general the various Value and Growth tilt possibilities can be initially interpreted as follows:

Value Factors	Growth Factors	Interpretation
Positive	Negative	Traditional Value
Positive	Positive	Growth at the Right Price
Negative	Positive	Traditional Growth
Negative	Negative	Popular Recovery Situations

Appendix 4 – 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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Barnett Waddingham
Public Sector Consulting

City of Westminster Pension Fund

Funding Update Report

as at 30 June 2015

Graeme D Muir FFA
Barnett Waddingham LLP

21 August 2015

Contents

1. Introduction

1.1. We have carried out a quarterly monitoring assessment of the City of Westminster Pension Fund (the Fund) as at 30 June 2015. 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 six month period spanning the reporting date. As the smoothing adjustment reflects average market conditions spanning a six month period straddling the reporting date, the smoothed figures are projected numbers and likely to change up until three 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.

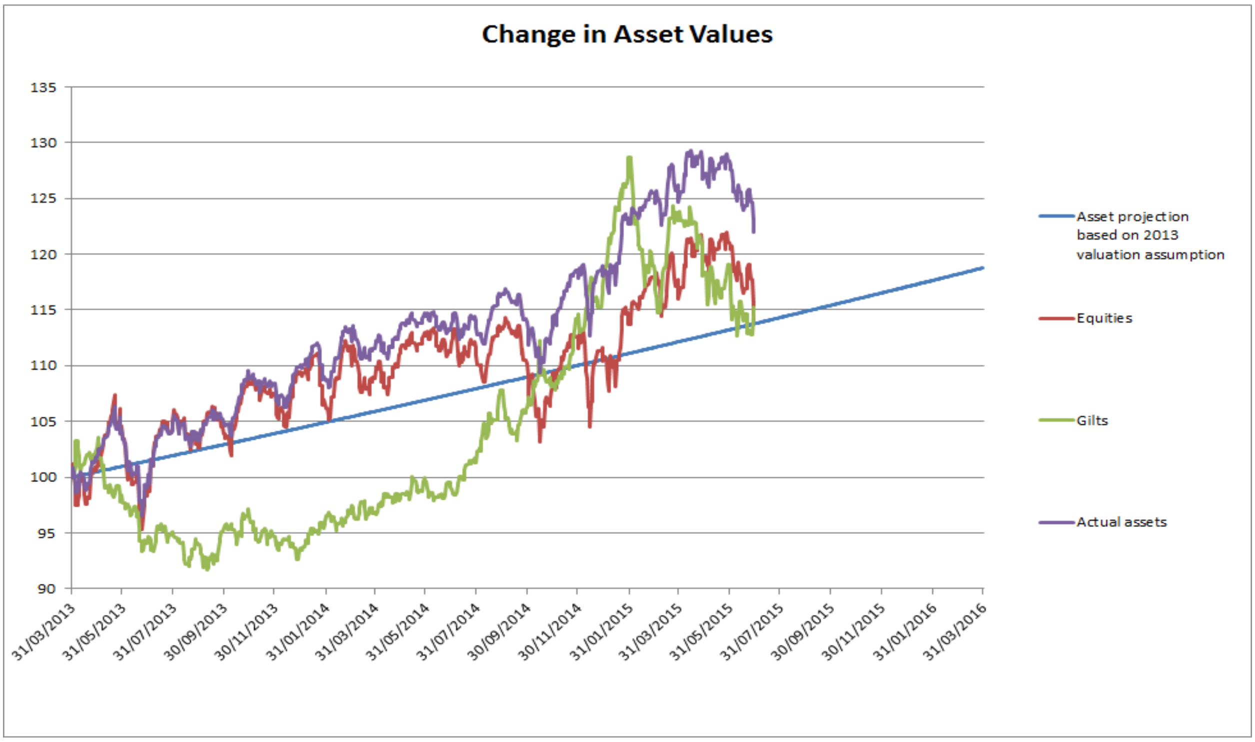
2. Assets

2.1. The estimated (unsmoothed) asset allocation of the City of Westminster Pension Fund as at 30 June 2015 is as follows:

Assets (Market Value)	30 June 2015		31 March 2015		31 March 2013	
	£000's	%	£000's	%	£000's	%
UK and Overseas Equities	805,509	75.2%	851,448	77.5%	643,179	73.6%
Bonds	134,879	12.6%	127,640	11.6%	111,092	12.7%
Property	95,451	8.9%	97,340	8.9%	35,787	4.1%
Gilts	27,198	2.5%	17,786	1.6%	49,821	5.7%
Cash and Accruals	8,614	0.8%	4,758	0.4%	34,303	3.9%
Total Assets	**1,071,652**	**100%**	**1,098,972**	**100%**	**874,182**	**100%**

2.2. The investment return achieved by the Fund's assets in market value terms for the quarter to 30 June 2015 is estimated to be -2.2%. The return achieved since the previous valuation is estimated to be 21.9% (which is equivalent to 9.2% p.a).

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



2.4. As we can see the asset value as at 30 June 2015 in market value terms is 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 June 2015		31 March 2015		31 March 2013	
	Nominal	Real	Nominal	Real	Nominal	Real
	%p.a.		%p.a.		%p.a.	
Pension Increases	2.68%	-	2.54%	-	2.74%	-
Salary Increases	4.48%	1.80%	4.34%	1.80%	4.54%	1.80%
Discount Rate						
Scheduled Bodies	5.92%	3.23%	5.74%	3.20%	5.90%	3.16%
Admission Bodies (in service)	4.69%	2.01%	4.48%	1.94%	4.90%	2.16%
Admission Bodies (left service)	2.98%	0.30%	2.72%	0.17%	3.50%	0.76%

Assumptions (Unsmoothed)	30 June 2015		31 March 2015		31 March 2013	
	Nominal	Real	Nominal	Real	Nominal	Real
	%p.a.		%p.a.		%p.a.	
Pension Increases	2.74%	-	2.48%	-	2.80%	-
Salary Increases	4.54%	1.80%	4.28%	1.80%	4.60%	1.80%
Discount Rate						
Scheduled Bodies	6.10%	3.36%	5.79%	3.31%	5.91%	3.11%
Admission Bodies (in service)	4.86%	2.12%	4.49%	2.02%	4.86%	2.06%
Admission Bodies (left service)	3.12%	0.38%	2.68%	0.21%	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 broadly similar as at the 2013 valuation, maintaining 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 June 2015 is 78% and the average required employer contribution would be 32.8% of payroll assuming the deficit is to be paid by 2038;
- the current projection of the unsmoothed funding level as at 30 June 2015 is 77% and the average required employer contribution would be 32.7% 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. The discount rate underlying the smoothed funding level as at 30 June 2015 is 5.9% p.a. The investment return required to restore the funding level to 100% by 2038, without the employers paying deficit contributions, would be 7.0% p.a.

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 six month period straddling the reporting date, the smoothed figures for the previous three months are projected numbers and likely to change up until three months after the reporting date.

Smoothed Valuation Date	Assets £000's	Liabilities £000's	Surplus/ Deficit £000's	Funding Level %	Final Salary Ongoing	CARE Ongoing Cost	Past Service Ctbn	Total Ctbn (% of payroll)	Main Discount Rate	Return required to restore funding level (pa)
					(% of Payroll)					
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	1,247,749	(242,023)	81%	-	13.4%	15.8%	29.2%	6.0%	6.9%
May 2014	1,007,188	1,258,014	(250,825)	80%	-	13.4%	16.3%	29.7%	5.9%	6.9%
June 2014	1,009,896	1,238,977	(229,081)	82%	-	12.8%	15.5%	28.3%	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%
October 2014	1,023,980	1,302,309	(278,329)	79%	-	13.2%	17.1%	30.4%	5.9%	7.0%
November 2014	1,034,712	1,316,533	(281,820)	79%	-	13.3%	17.7%	31.0%	5.9%	6.9%
December 2014	1,040,341	1,330,754	(290,413)	78%	-	13.4%	18.4%	31.8%	5.9%	6.9%
January 2015	1,078,282	1,357,915	(279,633)	79%	-	13.7%	17.5%	31.2%	5.8%	6.8%
February 2015	1,091,181	1,371,376	(280,195)	80%	-	13.8%	17.9%	31.7%	5.8%	6.7%
March 2015	1,104,985	1,374,723	(269,739)	80%	-	13.7%	17.6%	31.3%	5.8%	6.8%
April 2015	1,106,355	1,376,996	(270,640)	80%	-	13.6%	17.4%	31.0%	5.9%	6.9%
May 2015	1,105,768	1,385,201	(279,433)	80%	-	13.5%	17.8%	31.4%	6.0%	7.0%
June 2015	1,103,539	1,409,858	(306,319)	78%	-	13.9%	19.0%	32.8%	5.9%	7.0%

Unsmoothed Valuation Date	Assets £000's	Liabilities £000's	Surplus/ Deficit £000's	Funding Level %	Final Salary Ongoing	CARE Ongoing Cost	Past Service Ctbn	Total Ctbn (% of payroll)	Main Discount Rate	Return required to restore funding level (pa)
					(% of Payroll)					
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%
October 2014	1,013,601	1,293,450	(279,849)	78%	-	13.1%	17.2%	30.3%	6.0%	7.1%
November 2014	1,048,970	1,329,207	(280,237)	79%	-	13.6%	17.5%	31.1%	5.9%	6.9%
December 2014	1,047,254	1,339,010	(291,756)	78%	-	13.5%	18.5%	32.0%	5.8%	6.9%
January 2015	1,083,087	1,375,272	(292,185)	79%	-	14.0%	18.0%	32.0%	5.5%	6.5%
February 2015	1,107,211	1,377,004	(269,793)	80%	-	14.0%	17.1%	31.1%	5.7%	6.6%
March 2015	1,098,972	1,372,946	(273,974)	80%	-	13.6%	17.5%	31.1%	5.8%	6.8%
April 2015	1,118,105	1,391,869	(273,764)	80%	-	13.9%	17.5%	31.4%	5.9%	6.9%
May 2015	1,129,075	1,399,817	(270,742)	81%	-	13.8%	17.4%	31.2%	5.9%	6.9%
June 2015	1,071,652	1,383,734	(312,083)	77%	-	13.3%	19.4%	32.7%	6.1%	7.2%

AGENDA ITEM: 8

City of Westminster

Committee Report

Decision Maker:	**PENSION FUND COMMITTEE**
Date:	**8 September 2015**
Classification:	**Public**
Title:	**Investment Management Considerations**
Wards Affected:	**All**
Policy Context:	**Effective control over Council Activities**
Financial Summary:	**There are no immediate financial implications arising from this report, although at the next investment opportunity, there will be a £5 million transfer to the property fund from equities**
Report of:	**Steven Mair** ***City Treasurer*** **smair@westminster.gov.uk** **020 7641 2904**

1. Executive Summary

1.1 This report provides upcoming considerations affecting the investment management and arrangements of the Pension Fund.

2. Recommendation

2.1 The Committee note the contents of this paper.

2.2 The Committee delegates the decision to draw down £5 million from LGIM for the investment to Hermes, to the City Treasurer, in consultation with the Chair of the Pension Fund Committee.

2.3 The Committee note the proposals relating to the retender of the Investment Adviser contract.

3. Hermes Reinvestment of Income

3.1 At the September 2014 meeting, it was reported that dividends from the Hermes Holding account had not been reinvested due to no standing instruction in place, which had led to a cash balance of £5 million being accrued over a three year period that would now be reinvested.

3.2 At that time, officers subscribed a further £5 million to the investment queue with Hermes. The cash balance was then transferred to the Fund's Lloyds bank account and used to cover the cashflow requirements, removing the need to sell the Fund's assets.

3.3 In July 2015, officers were notified by Hermes that an investor ahead in the queue were unable to take their allocation and the units were to be offered to the Westminster Pension Fund. Due to the immediacy of a decision required (the same day) and the appropriate Committee approval not being in place to act on such a decision, officers declined to invest at that time. Hermes confirmed that this was not considered a formal request to drawdown so the Pension Fund is still allowed one rejection before having to reapply.

3.4 Hermes have since confirmed that there is approximately £90 million in the investment queue in front on the City of Westminster's £5 million application. It should be noted that applications are not binding and it is anticipated that not all applications in the queue would be drawn down, therefore Westminster could reach the top of the queue quicker than expected.

3.5 To enable officers to act promptly to a formal request to invest in future, it is proposed that the Committee delegate the decision to draw down £5 million from LGIM to the City Treasurer, in consultation with the Chair of the Pension Fund Committee.

4. Investment Adviser Contract

4.1 Deloitte provide investment advisory services relating to the WCC pension fund to the Committee.

4.2 At the July 2014 meeting, the Committee agreed to extend the existing contract until 31 March 2016 to align with the RBKC investment advisory contract. This enabled WCC to retender at the same time as RBKC.

4.3 Officers intend to carry out a bi borough procurement with RBKC of the investment advisory contract using the National LGPS Framework, as used by LBHF in their retender for the same service in December 2013. It is not proposed that the funds would have to appoint the same advisor.

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

Nikki Parsons nparsons@westminster.gov.uk or 020 7641 6925

BACKGROUND PAPERS: None

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