Pension Fund Committee

Date **Thursday 7 December 2017**
Time **10.00 am**
Venue **Committee Room 2, County Hall, Durham**

Business

Part A

Items during which the Press and Public are welcome to attend. Members of the Public can ask questions with the Chairman's agreement.

1. Apologies for Absence
2. Declarations of interest (if any)
3. The Minutes of the Meeting held on 7 September 2017 (Pages 5 - 8)
4. Overall Value of Pension Fund Investments to 30 September 2017 (Pages 9 - 14)
5. Performance Measurement of Pension Fund Investments to 30 September 2017 (Pages 15 - 26)
6. Short Term Investments for the Period Ended 30 September 2017 (Pages 27 - 28)
7. Border to Coast Pensions Partnership Responsible Investment Policy (Pages 29 - 42)
8. Feedback from Local Pension Board
9. Such other business as, in the opinion of the Chairman of the Meeting is of sufficient urgency to warrant consideration
10. Any resolution relating to the exclusion of the public during the discussion of items containing exempt information

Part B

Items during which it is considered the meeting will not be open to the public (consideration of exempt or confidential information)

11. The Minutes of the Meeting held on 7 September 2017 and the Special Meeting held on 5 October 2017 (Pages 43 - 54)
12. Report of the Pension Fund Adviser (Pages 55 - 92)
13. Investment Strategy Review Update (Pages 93 - 94)
14. Report of BlackRock (Pages 95 - 110)
15. Report of CBRE Global Investment Partners (Pages 111 - 124)
16. Report of Walter Scott (BNY Mellon) (Pages 125 - 132)
17. Report of Aberdeen Asset Management (Pages 133 - 156)
18. Report of Mondrian Investment Partners (Pages 157 - 162)
19. Report of AB (Pages 163 - 178)
20. Report of Royal London (Pages 179 - 182)
21. Internal Audit Progress Report to 30 September 2017 (Pages 183 - 186)
22. Such other business as, in the opinion of the Chairman of the meeting, is of sufficient urgency to warrant consideration

Helen Lynch
Head of Legal and Democratic Services

County Hall
Durham
29 November 2017

To: The Members of the Pension Fund Committee

County Council Members:
Councillors M Davinson, O Temple, J Atkinson, C Carr, J Carr, J Lethbridge, H Liddle, S Hugill, J Nicholson, J Shuttleworth and M Wilson

Darlington Borough Council Members
Councillor S Harker
Councillor I G Haszeldine

Scheduled Bodies Representative
(vacant)

Admitted Bodies Representative:
(vacant)

Pensioner Representative
(vacant)

Active Members Representative
(vacant)

Further Education Colleges Representative
(vacant)

Advisers: County Council Officers

Chief Executive	T Collins
Corporate Director of Resources	J Hewitt
Head of Legal and Democratic Services	H Lynch
Pensions Manager	N Orton

Independent Adviser
J Holden – Mercer

Investment Managers
Walter Scott (BNY Mellon)
Aberdeen Asset Management
Mondrian Investment Partners
AB
CBRE Global Investment Partners
Royal London
BlackRock

Staff Observers

UNISON	N Hancock
GMB	D Clegg

Contact: Jill Errington **Tel: 03000 269703**

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DURHAM COUNTY COUNCIL

PENSION FUND COMMITTEE

At a Meeting of **Pension Fund Committee** held in Committee Room 2, County Hall, Durham on **Thursday 7 September 2017 at 10.00 am**

Present:

Councillor M Davinson (Chairman)

Members of the Committee:
Councillors O Temple (Vice-Chairman), J Atkinson, C Carr, J Carr, H Liddle, S Hugill, J Nicholson, J Shuttleworth and M Wilson

Also Present:
Advisers: County Council Officers
John Hewitt – Corporate Director of Resources
Nick Orton – Pensions Manager
Beverley White – Finance Manager – Pensions and Technical

Independent Advisers:
Jo Holden – Mercer
Sandy Dickson – Mercer

Observer:
Councillor A Hopgood – Local Pension Board

1 Apologies for Absence

Apologies for absence were received from Councillor J Lethbridge and Darlington Borough Councillor S Harker.

2 Declarations of interest

There were no declarations of interest.

3 Minutes

The Minutes of the meeting held on 5 June 2017 were agreed as a correct record and were signed by the Chairman.

4 Overall Value of Pension Fund Investments to 30 June 2017

The Committee considered a report of the Corporate Director of Resources which informed Members of the overall value of the Pension Fund as at 30 June 2017, and that strict rebalancing of assets back to the target allocations would continue to be suspended whilst the revised asset allocation was under review (for copy see file of Minutes).

Resolved:

That the information given be noted.

5 Performance Measurement of Pension Fund Investments to 30 June 2017

The Committee considered a report of the Corporate Director of Resources which provided an overview of the performance of the Fund to 30 June 2017 (for copy see file of Minutes).

The report of JP Morgan, the Fund's custodian, informed Members of the performance of the Fund Managers for the quarter, the year to date and since inception.

Resolved:

That the information contained in the report be noted.

6 Short Term Investments for the Period Ended 30 June 2017

The Committee considered a report of the Corporate Director of Resources which provided Members with information on the performance of the Pension Fund's short term investments as at 30 June 2017 (for copy see file of Minutes).

In response to concerns expressed by Councillor Shuttleworth about the average return earned in the quarter, and the rates provided by the financial institutions in which the Fund invested, the Member was informed that investment of the short term cash balances was done in line with the Treasury Management Strategy using an approved list.

Resolved:

That the position at 30 June 2017 regarding the Pension Fund's short term investments where £14,818 net interest was earned in the three month period, be noted.

7 Internal Audit Progress Report to 30 June 2017

The Committee considered a report of the Chief Internal Auditor and Corporate Fraud Manager which outlined progress made in delivering the 2017/2018 internal audit plan relevant to the Pension Fund Committee (for copy see file of Minutes).

A summary of the audit plan, with the status of each audit was set out in the report, and Members were informed that of the six assurance reviews planned, one final report had been issued. A summary of the scope of the final report was included in the report.

Resolved:

That the work undertaken by Internal Audit during the period ending 30 June 2017, be noted.

8 Audit Completion Report for the Year Ended 31 March 2017

The Committee considered a report of the Corporate Director of Resources which informed Members of the completion of the audit of the Pension Fund Accounts, and presented the Audit Completion Report for the financial year ended 31 March 2017 (for copy see file of Minutes).

Ms S Liddle of Mazars LLP presented the Audit Completion Report and Letter to Members, and advised that an unqualified opinion on the Pension Fund's Financial Statements and the Annual Report would be issued at the end of September 2017.

Resolved:

That the content of the report be noted.

Councillor Liddle entered the meeting during consideration of the following report.

9 Implementation of the Markets in Financial Instruments Derivative (MiFID II)

The Committee considered a report of the Corporate Director of Resources which outlined the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 (MiFID II), and in particular the risk to the administering authority of becoming a retail client on 3 January 2018 (for copy see file of Minutes).

In discussing the proposals Councillors O Temple and C Carr acknowledged the need for the Council to opt up to 'elective professional client' status in order to continue to effectively implement the Pension Fund's investment strategy.

Nick Orton advised that before the next meeting of the Committee Members would be asked to complete a self-assessment. This would enable Officers to carry out a gap analysis to identify training needs.

Resolved:

That the Committee:-

a) Notes the potential impact on investment strategy of becoming a retail client with effect from 3 January 2018;

b) agrees to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy;

c) acknowledges that in electing for professional client status it agrees to forgo the protections available to retail clients attached as Appendix 1;

d) grants delegated responsibility to the Corporate Director of Resources and the Pensions Manager for the purposes of completing the applications and determining the basis of the application as either full or single service;

e) agrees that each Member complete a self-assessment to allow a gap analysis to be carried out for consideration at the December meeting of the Committee.

10 Feedback from Local Pension Board

Councillor Hopgood, Local Pension Board member advised that the Board had no recommendations to make to the Committee. The Local Pension Board had developed a Work Plan and at its meeting that afternoon members would be asked to review the Annual Report and Accounts for the year ended 31 March 2017.

Resolved:

That the information given be received.

Pension Fund Committee

7 December 2017

Overall Value of Pension Fund Investments to 30 September 2017

John Hewitt, Corporate Director of Resources

Purpose of the Report

1. To provide an update to Members on the:

   (a) overall value of the Pension Fund's investments at 30 September 2017;
   (b) movement in the cash balance during the last four quarters;
   (c) projected cash flow position up to 31 December 2018.

Value of the Pension Fund

2. Reports from the seven appointed Fund Managers, namely:
   - Aberdeen
   - AB
   - BlackRock
   - Bank of New York Mellon (Walter Scott)
   - CB Richard Ellis
   - Mondrian
   - Royal London

   are included in other papers within this agenda.

3. The value of the Fund at 30 September 2017 was £2.747 billion compared to £2.727 billion at 30 June 2017. This is an increase of £20.38 million (or 0.75%) in the second quarter of 2017/18.

Allocation of New Investment Money/ Withdrawal of Investment Money to Deal with Estimated Shortfall

4. New investment money is allocated to Fund Managers when the Pension Fund has cash which is not needed to be available as a working cash balance, for example for the payment of pensioners or fees.

5. When it is estimated that the Pension Fund will not have sufficient cash available as a working cash balance, cash is withdrawn from Fund Managers.

6. Appendix 1 details the working cash balance position of the Pension Fund and actual cash flow for the last four quarters. As at 30 September 2017 the cash balance held in the Durham County Council Pension Fund bank account

was £16.916 million. In addition to this, not included in this table, Fund Managers were holding cash of £56.265 million at 30 September 2017.

Cash Flow Forecast 2017/18

7. Appendix 2 shows the projected cash flow for the Pension Fund for the period October 2017 to December 2018. It should be noted that this is only in respect of cash held in the Pension Fund bank account and that income earned from investments is currently retained by Managers.

8. The forecast includes the recovery of £15 million from Fund Managers in each of the quarters ending 31 December 2017 and 31 March 2018. Without the recovery of the aforementioned amounts, the Pension Fund is estimated to be in a cash negative position in all quarters to 31 December 2018. Further withdrawals of cash from Managers will be necessary during the quarter ending 30 September 2018 to replenish the working cash balance.

9. The forecast indicates net cash outflows in future quarters of between £10 million and £11 million. The size of the outflows are exacerbated due to the early receipt of Durham County and Darlington Borough Councils' deficit contributions in April 2017, the impact of which is an apparent reduction in future contributions receivable of £6.375 million per quarter.

10. The following assumptions have been used to calculate the cash flow forecast:

    (a) Annual dividend income receivable is estimated to be £28 million and profiled to be received as follows:

        (i) Quarter ended 31 December 2017 24%
        (ii) Quarter ended 31 March 2018 26%
        (iii) Quarter ended 30 June 2018 17%
        (iv) Quarter ended 30 September 2018 33%

    (b) Increases in contributions are included in line with the actuarial valuation.

    (c) Transfer values due in, are estimated at £1.0 million per quarter. It is anticipated that transfers in will continue as the LGPS remains relatively attractive to employees.

    (d) Pensions increase will be 3% with effect from 1 April 2018.

    (e) Payroll paysheets (payments to pensioners) are forecast to increase by £0.2 million per quarter, with a further adjustment for the pensions increase from 1 April 2018. This figure will alter if there are large numbers of retirements from the employing authorities. It is anticipated however that the actual figure will not be materially different to the

forecast since the position of the County Council, being the largest employer in the Fund, has been taken into account.

(f) Payable paysheets are forecast on the basis of the previous year's profile and adjusted for known one-offs, although this can be the most volatile figure as it includes payments of lump sums and fees to Managers. This assumption errs on the side of prudence, in that this is an average figure taken from previous quarterly payments.

11. Appendix 2 provides an early indication of the likely impact on the Pension Fund's cash flow position over the next 15 months. It is continuously under review and is refined to take any new information into account as it becomes available.

Fund Rebalancing

12. Fund rebalancing is the mechanism by which the Pension Fund would ensure that the asset allocation to Investment Managers is maintained at the target levels previously agreed by the Pension Fund Committee and as set out in the Investment Strategy Statement (ISS). It is also the means by which cash is moved to or from Managers as a consequence of the cash flow forecasts.

13. Due to the current suspension of Fund rebalancing, there was no rebalancing exercise this quarter.

Proposed Suspension of Fund Rebalancing/ Investment Strategy Review

14. Officers, the Chair and Vice-Chair of the Pension Fund Committee and Mercer have been reviewing the investment strategy, in order to to ensure that the composition of the investments is appropriate to achieve the level of returns necessary and that future contributions remain affordable. There is an update report included in Part B of today's agenda.

15. Prior to a decision being made on the revised asset allocation, it is proposed that strict rebalancing of assets back to the target allocations, as set out in the ISS, continue to be suspended.

Recommendation

16. Members are asked to note the information contained in this report.

Contact:	**Beverley White**	**Tel:**	**03000 261900**

Appendix 1

Actual Cash Flow – For the period 1 October 2016 to 30 September 2017

Quarter Ended	31.12.16		31.03.17		30.06.17		30.09.17	
	Estimate	Actual	Estimate	Actual	Estimate	Actual	Estimate	Actual
(1)	(2)	(3)	(4)	(5)	(6)	(7)	(8)	(9)
	£	£	£	£	£	£	£	£
Cash Inflows								
Contributions - DCC	16,650,000	14,632,881	16,650,000	17,930,972	70,970,000	70,523,690	13,805,000	13,689,270
Contributions - Other	8,200,000	8,426,440	8,200,000	8,245,096	14,611,000	15,336,280	8,610,000	8,496,465
Unfunded pensions recharges	1,120,000	1,143,127	1,120,000	1,153,285	1,131,000	1,111,670	1,145,000	1,168,998
Transfer Values	500,000	2,316,672	500,000	1,836,603	500,000	1,947,317	750,000	1,119,502
Other income	2,000,000	2,704,997	2,000,000	2,801,351	2,000,000	2,394,996	2,000,000	1,021,246
Funds recovered from Managers	30,000,000	30,000,000	0	0	0	0	0	0
Interest on short term investments	15,000	9,262	3,500	5,255	9,000	14,818	9,000	34,166
Total Cash Inflow	58,485,000	59,233,380	28,473,500	31,972,562	89,221,000	91,328,771	26,319,000	25,529,648
Cash Outflows								
Payroll Paysheets	23,400,000	23,518,193	23,600,000	23,494,968	23,800,000	23,842,253	24,000,000	24,164,845
Payables Paysheets (incl. Managers' fees)	11,000,000	11,362,602	11,000,000	11,828,106	11,000,000	14,736,537	11,250,000	12,798,593
Funds transferred to Managers	30,000,000	30,000,000	0	0	32,000,000	32,000,000	0	0
Other Expenditure	0	851	0	15,268	1,000	3,855	1,000	1,485
Total Cash Outflows	64,400,000	64,881,646	34,600,000	35,338,342	66,801,000	70,582,644	35,251,000	36,964,923
Net Cash Inflow / (-) Outflow	-5,915,000	-5,648,267	-6,126,500	-3,365,780	22,420,000	20,746,127	-8,932,000	-11,435,275
Balance at Bank (opening)		18,648,105		12,526,070		8,638,064		28,879,256
Balance at Bank (closing)		12,526,070		8,638,064		28,879,256		16,915,978

Appendix 2

Projected Cash Flow (including forecast dividends receivable by Fund Managers) - for the period 1 October 2017 to 31 December 2018

Quarter Ended	**31.12.17**	**31.03.18**	**30.06.18**	**30.09.18**	**31.12.18**
	Estimate	**Estimate**	**Estimate**	**Estimate**	**Estimate**
	£	**£**	**£**	**£**	**£**
Cash Inflows					
Contributions - DCC	13,775,000	13,775,000	13,800,000	13,810,000	13,810,000
Contributions - Other	8,665,000	8,665,000	8,925,000	9,055,000	9,055,000
Unfunded pensions recharges	1,145,000	1,145,000	1,180,000	1,180,000	1,180,000
Transfer Values	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Other income	2,000,000	2,000,000	2,000,000	2,000,000	2,000,000
Funds recovered from Managers	15,000,000	15,000,000	0	0	0
Interest on short term investments	35,000	30,000	25,000	10,000	0
Total Cash Inflow	41,620,000	41,615,000	26,930,000	27,055,000	27,045,000
Cash Outflows					
Payroll Paysheets	24,400,000	24,600,000	25,500,000	25,750,000	26,000,000
Payables Paysheets (incl. Managers' fees)	12,000,000	12,000,000	12,000,000	12,000,000	12,000,000
Funds transferred to Managers	0	0	0	0	0
Other Expenditure	1,000	1,000	1,000	1,000	1,000
Total Cash Outflows	36,401,000	36,601,000	37,501,000	37,751,000	38,001,000
Net Cash Inflow / (-) Outflow	5,219,000	5,014,000	-10,571,000	-10,696,000	-10,956,000
Balance at Bank (opening)	16,915,978	22,134,978	27,148,978	16,577,978	5,881,978
Balance at Bank (closing)	22,134,978	27,148,978	16,577,978	5,881,978	-5,074,022
Dividends Received by Managers	6,720,000	7,280,000	4,760,000	9,240,000	6,720,000

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Pension Fund Committee
7 December 2017

Performance Measurement of Pension Fund Investments to 30 September 2017

John Hewitt, Corporate Director of Resources

Purpose of the Report

1 To provide an overview for Members of the performance of the Fund to 30 September 2017.

Background

2 The performance of the seven Managers is measured against personalised benchmarks chosen at the inception of the Fund. The attached report from JP Morgan, the Fund's custodian, shows:

(a) The Managers benchmarks;

(b) The total Fund performance, for the quarter to 30 September 2017, year to date and since inception;

(c) The Managers' performance in absolute and relative terms against the relevant benchmarks, for the quarter to 30 September 2017, year to date and since inception;

(d) A portfolio comparison for the quarter ended 30 September 2017 and for the period since inception.

Recommendation

3 Members note the information contained in the attached report produced by JP Morgan.

Contact: Beverley White Tel: 03000 261900

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J.P.Morgan

Durham Quarterly Report

Report Package

Published 03-Nov-2017 07:26:17

Table of Contents

J.P.Morgan

Index and Benchmark Report - Monthly
Durham CC (UK005)
As at September 2017

Name	Month Return
Business Unit Indices	
Equities	
FT-All Share +3%	(0.18)
FTSE-Ftse All-Share (Gross)	(0.43)
FTSE-Ftse Aw Developed (Gross)	(1.75)
MSCI AC World Index (Gross) + 2.5%	(1.87)
MSCI AC World Index (Gross) + 3%	(1.83)
MSCI EM (Emerging Markets) (Net)	(4.34)
MSCI EM (Emerging Markets) (Net) + 2.5%	(4.15)
MSCI-Acwi (Gross)	(2.07)
MSCI-Em (Emerging Markets) (Gross) + 2.5%	(4.11)
MSCI-World (Gross)	(1.76)
Fixed Income	
British Gov Index Linked over 5 Yr + 0.5%	(4.30)
Cash And Cash Equivalent	
3 MONTH GBP LIBOR	0.03
3Month GBP Libor +4%	0.35
3Month libor in GBP plus 3%	0.27
GBP Zero Return Index	0.00
RPI + 5%	0.55
Retail Price Index (UK)	0.15

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Executive Summary

Durham CC (UK005)

As of September 2017

Gross of Fee

Total Fund Composite (0UK00501)

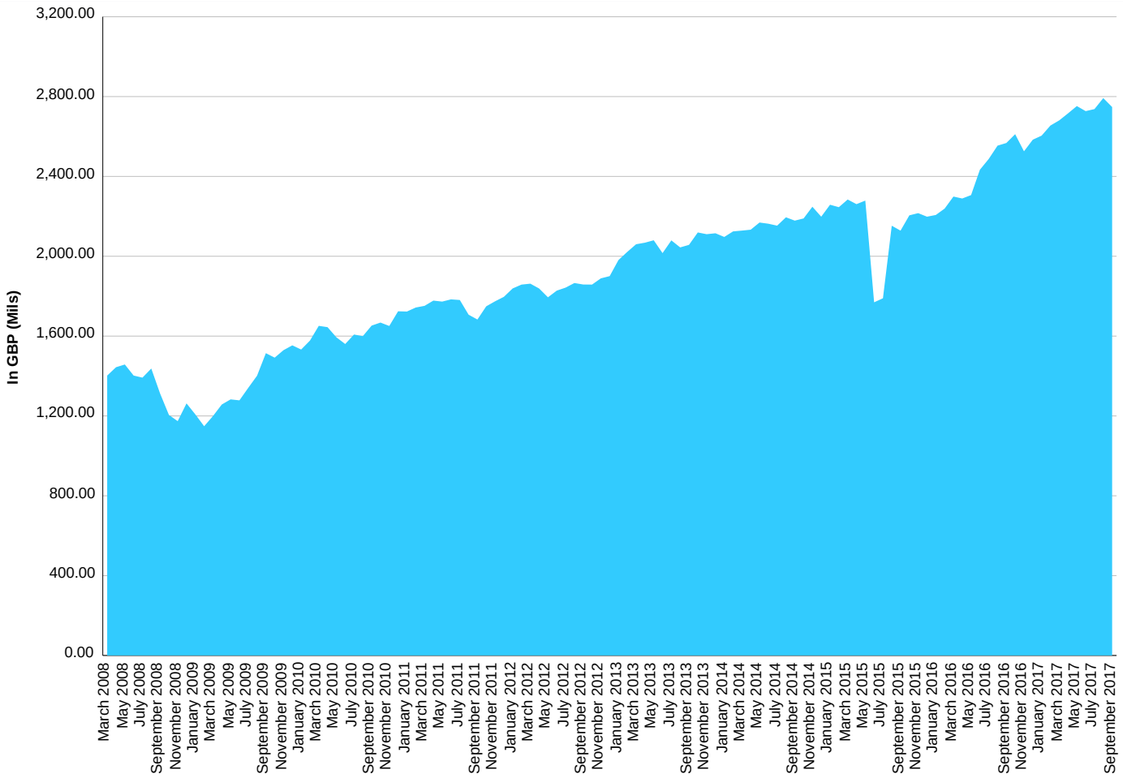
Market Value Overview

	In GBP (Mils)				
	September 2017	June 2017	March 2017	December 2016	September 2016
Market Value	2,747.63	2,727.25	2,680.74	2,584.02	2,567.52
Net Cash Flow	0.00	31.77	(0.10)	(0.23)	3.70
Net Income / Appreciation	20.38	14.74	96.82	16.73	130.33

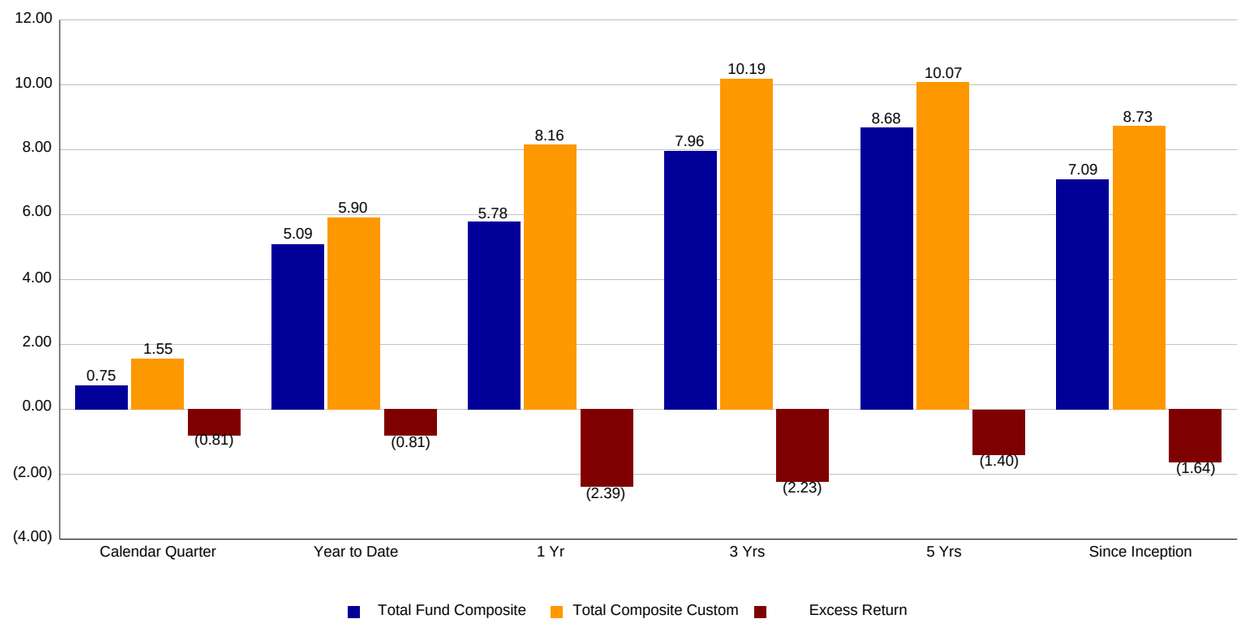
Performance Overview

	Performance (Annualised > 1 Year)					
	Calendar Quarter	Year to Date	1 Yr	3 Yrs	5 Yrs	Since Inception
Total Fund Composite	0.75	5.09	5.78	7.96	8.68	7.09
Total Composite Custom	1.55	5.90	8.16	10.19	10.07	8.73
Excess Return	(0.81)	(0.81)	(2.39)	(2.23)	(1.40)	(1.64)

Development of Market Value - Since Inception



Performance Returns



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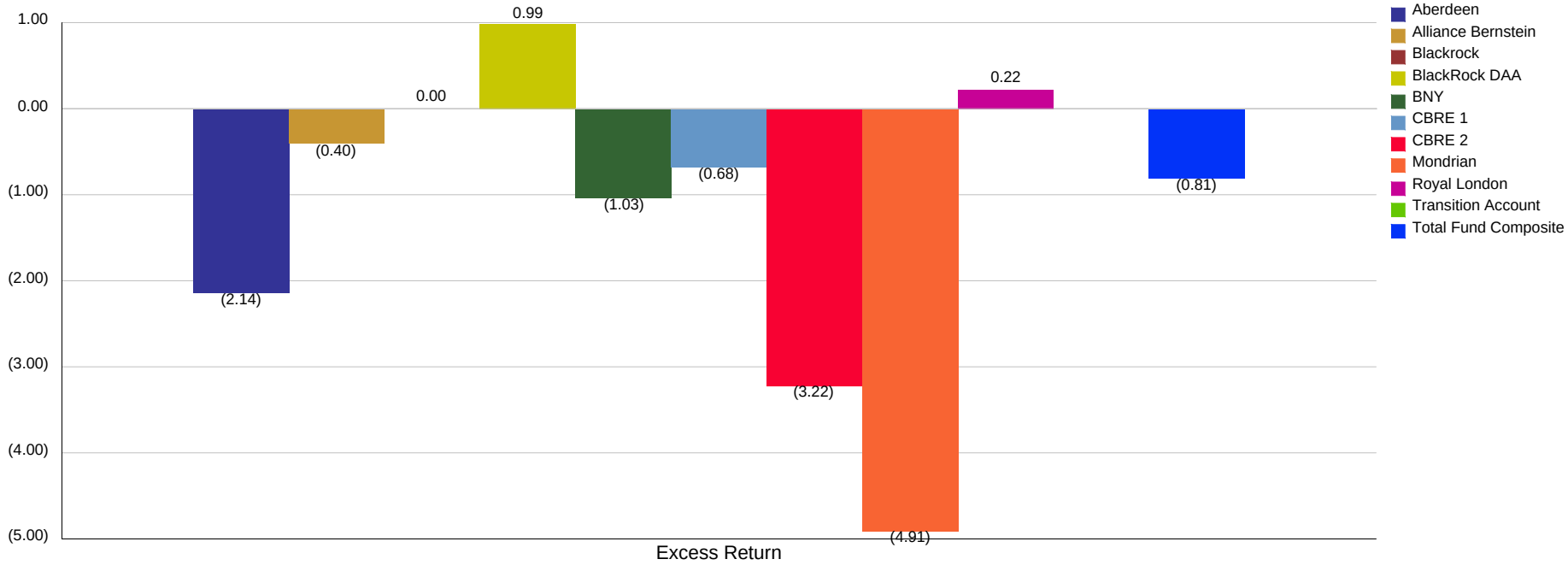
Portfolio Comparison

Durham CC (UK005)
As of September 2017
Gross of Fee
Excess Return - Additive
Primary - Pound Sterling

Manager	Benchmark	Market Value (mils)	Weight	Trailing 3 Months Return	Benchmark Trailing 3 Months Return	Excess Returns	Current Contribution to Return
Aberdeen	MSCI-Acwi (Gross) + 3%	452.97	16.49	0.58	2.72	(2.14)	0.10
Alliance Bernstein	3 Month Libor in GBP +3% pa	395.31	14.39	0.41	0.82	(0.40)	0.06
Blackrock	Zero Return - Historically FTSE All Share (Gross) +3% pa	0.01	0.00	0.00	0.00	0.00	0.00
BlackRock DAA	3 Month Libor in GBP +3% pa	506.50	18.43	1.81	0.82	0.99	0.33
BNY	MSCI AC World Index (Gross) + 2.5%	455.21	16.57	1.56	2.59	(1.03)	0.26
CBRE 1	Headline RPI +5% pa (CBRE1)	185.78	6.76	1.58	2.26	(0.68)	0.11
CBRE 2	Headline RPI +5% pa (CBRE2)	35.08	1.28	(0.96)	2.26	(3.22)	(0.01)
Mondrian	MSCI EM (Emerging Markets) (Gross) + 2.5%	199.18	7.25	0.33	5.24	(4.91)	0.02
Royal London	FTSE index Linked more than 5 years +0.5% pa	517.55	18.84	(0.59)	(0.81)	0.22	(0.11)
Transition Account	Not Applicable	0.02	0.00	0.00	-	-	0.00
Total Fund Composite	**Total Composite Custom**	**2,747.63**	**100.00**	**0.75**	**1.55**	**(0.81)**	**0.75**

Excess Returns - Trailing 3 Months



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Relative Performance

Durham CC (UK005)

For Period Ending September 2017

Gross of Fee
Excess Return - Additive
Primary - Pound Sterling

Total Fund Composite (0UK00501)

ID	Name	Market Value	Month Return	Trailing 3 Months	Year to Date	Trailing 1 Year	Trailing 3 Years	Trailing 5 Years	Since Inception
00047880	Blackrock	10,317.74	0.00	0.00	0.00	0.00	(0.58)	4.29	4.65
	Zero Return - Historically FTSE All Share (Gross) +3% pa		0.00	0.00	0.00	0.00	(0.97)	5.44	6.18
	Excess Return		0.00	0.00	0.00	0.00	0.40	(1.15)	(1.53)
00047881	Royal London	517,554,422.44	(4.19)	(0.59)	(0.37)	(3.35)	10.86	9.95	9.03
	FTSE index Linked more than 5 years +0.5% pa		(4.30)	(0.81)	(1.32)	(4.25)	11.12	10.18	9.06
	Excess Return		0.11	0.22	0.96	0.91	(0.26)	(0.23)	(0.03)
00047882	Alliance Bernstein	395,314,619.93	(0.14)	0.41	2.52	2.23	3.06	3.12	3.96
	3 Month Libor in GBP +3% pa		0.27	0.82	2.40	3.26	3.46	3.49	4.11
	Excess Return		(0.41)	(0.40)	0.12	(1.03)	(0.40)	(0.38)	(0.15)
00047885	CBRE 1	185,783,684.25	0.49	1.58	2.85	6.14	9.09	8.96	3.69
	Headline RPI +5% pa (CBRE1)		0.55	2.26	6.82	9.03	7.32	7.53	7.92
	Excess Return		(0.06)	(0.68)	(3.97)	(2.89)	1.76	1.43	(4.23)
00051183	CBRE 2	35,084,180.53	(4.08)	(0.96)	(2.14)	(4.54)	9.71	9.37	5.94
	Headline RPI +5% pa (CBRE2)		0.55	2.26	6.82	9.03	7.32	7.53	7.92
	Excess Return		(4.63)	(3.22)	(8.96)	(13.57)	2.38	1.84	(1.98)
00082265	Transition Account	21,496.15	0.00	0.00	0.00	0.00	0.00	1.37	2.74
	Not Applicable		-	-	-	-	-	-	-
	Excess Return		-	-	-	-	-	-	-

J.P.Morgan

Relative Performance

Durham CC (UK005)

For Period Ending September 2017

Gross of Fee
Excess Return - Additive
Primary - Pound Sterling

Total Fund Composite (0UK00501)

ID	Name	Market Value	Month Return	Trailing 3 Months	Year to Date	Trailing 1 Year	Trailing 3 Years	Trailing 5 Years	Since Inception
00301582	BlackRock DAA	506,504,108.91	0.80	1.81	6.50	5.69	-	-	2.53
	3 Month Libor in GBP +3% pa		0.27	0.82	2.40	3.26	-	-	3.86
	Excess Return		0.53	0.99	4.10	2.43	-	-	(1.33)
00301629	Mondrian	199,176,416.59	(4.83)	0.33	10.73	10.24	-	-	5.85
	MSCI EM (Emerging Markets) (Gross) + 2.5%		(4.11)	5.24	20.18	21.93	-	-	14.31
	Excess Return		(0.72)	(4.91)	(9.45)	(11.69)	-	-	(8.46)
00301630	Aberdeen	452,970,889.79	(1.58)	0.58	9.25	13.40	-	-	10.11
	MSCI-Acwi (Gross) + 3%		(1.83)	2.72	10.87	18.96	-	-	18.15
	Excess Return		0.25	(2.14)	(1.63)	(5.56)	-	-	(8.04)
00301691	BNY	455,211,162.32	(1.69)	1.56	7.46	12.60	-	-	14.89
	MSCI AC World Index (Gross) + 2.5%		(1.87)	2.59	10.47	18.38	-	-	17.73
	Excess Return		0.18	(1.03)	(3.01)	(5.78)	-	-	(2.84)
0UK00501	Total Fund Composite	2,747,631,298.65	(1.61)	0.75	5.09	5.78	7.96	8.68	7.09
	Total Composite Custom		(1.62)	1.55	5.90	8.16	10.19	10.07	8.73
	Excess Return		0.01	(0.81)	(0.81)	(2.39)	(2.23)	(1.40)	(1.64)

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Pension Fund Committee

7 December 2017

Short Term Investments for the period ended 30 September 2017

John Hewitt, Corporate Director of Resources

Purpose of Report

1. To provide the Committee with information on the performance of the Pension Fund's short term investments as at 30 September 2017.

Short Term Investments

2. Durham County Council (the Council) invests the short term cash balances on behalf of the Pension Fund; this is done in line with the Council's Treasury Management Policy and Annual Investment Strategy. This investment strategy sets out the maximum amounts and time limits in respect of deposits which can be placed with each financial institution.

3. The Pension Fund's surplus cash holding as at 30 September 2017 was £16.916 million which was held in the institution listed in the table below, alongside their credit rating at 30 September 2017.

Financial Institution	**Short-term Rating**	**Amount Invested £m**
Fixed Term Deposits Santander UK Plc	F1	16.916
Total		**16.916**

4. The following table provides information on the net interest earned during the three month period to 30 September 2017, the average daily investment balance and the average return earned in comparison to the average bank base rate.

5. The quarterly interest paid to the Pension Fund is based upon a rate of 0.70% which was earned on cash balances up to £19 million, as agreed with the Council's Treasury Management team, and at the London Interbank Bid (LIBID) three month rate on balances in excess of £19 million. Total quarterly interest received, is net of the fees of £2,500, paid for the Council undertaking the Treasury Management function for the Pension Fund.

	Total
Net Interest Earned	£34,166
Average Return Earned	0.55%
Average Bank of England base rate	0.25%
Average Daily Balance of Investments	£26.581m

Recommendation

6. Members are asked to note the position at 30 September 2017 regarding the Pension Fund's short term investments where £34,166 net interest was earned in the three month period.

Contact: Beverley White Tel: 03000 261900

Pension Fund Committee

7 December 2017

Border to Coast Pensions Partnership Responsible Investment Policy

John Hewitt, Corporate Director Resources

Purpose of the Report

1. This report is to advise the Committee of the responsible investment policy and the associated shareholder voting policy that Border to Coast Pensions Partnership (BCPP) will adopt once it becomes the legal owner of pension fund assets.

Background

2. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 (as amended) require LGPS administering authorities to formulate and publish a statement of their investement strategy in accordance with guidance published by the Secretary of State. This must include details of how Environmental, Social and Governance (ESG) issues are incorporated into the investment decision-making process and a policy on investment stewardships - the exercise of rights (including voting rights) attaching to investments.

3. Pension Fund Committee approved the Council's Investment Strategy Statement, published on the Council's website from 1 April 2017, which sets out the Council's policy on ESG and stewardship (often referred to collectively as Responsible Investment or RI Policy), an extract of this is included below:

Environmental, Social and Corporate Governance policy and policy of the exercise of rights (including voting rights) attaching to investments

The Committee must act with the best financial interests of the beneficiaries, present and future, in mind. The Committee believes that companies should be aware of the potential risks associated with adopting practices that are socially, environmentally or ethically unacceptable. As part of the investment decision-making process, Investment Managers are required to consider such practices and assess the extent to which this will detract from company performance and returns to shareholders.

Investment Managers are required to exercise voting rights on behalf of the Pension Fund when it is in the best interests of the Pension Fund. The quarterly report from investment managers should include details of voting activity.

The Pension Fund has never sought to implement a policy that explicitly excludes certain types of investments, companies or sectors except where they are barred by UK law. The Pension Fund believes that its influence as a shareholder is better deployed by engaging with companies, in order to influence behaviour and enhance

shareholder value. The Pension Fund believes that this influence would be lost through a divestment or screening approach. The Pension Fund actively engages with companies through its investment managers.

Ultimately the Pension Fund will always retain the right to disinvest from certain companies or sectors in the event that all other approaches are unsuccessful and it is determined that the investment is no longer aligned with the interests of the Pension Fund or that the issue poses a material financial risk.

The Pension Fund is committed to the principles of active asset ownership set out in the UK Stewardship Code and is developing a statement of compliance for assessment by the Financial Reporting Council.

4. As investment pooling is implemented and the Pension Fund's assets move to being invested by the Border to Coast Pension Partnership (BCPP) on behalf of the Pension Fund, although the Pension Fund will still retain control over its own policy on responsible investment, responsiblilty for implementing this policy will move to BCPP. In the same way that the Pension Fund currently relies on its fund managers to take into account any relevant ESG issues when acquiring, retaining or realising investments, and in exercising any investment rights (including voting), it will rely on BCPP to implement its RI Policy once investment pooling takes place.

5. In order to ensire it is possible to implement an RI Policy in a efficient and cost-effective way, the 12 adminstering authorities in BCPP and their Pension Funds are all being asked to approve the RI Policy that BCPP will operate. BCPP's Responsible Investment Policy and its Corporate Governance and Voting Policy are included at appendices 1 and 2 – these documents were approved at BCPP's Joint Committee meeting on 20 October 2017.

6. The approach BCPP will take in its RI Policy is consistent with the approach the Pension Fund has set out in its Investement Strategy Statement and requires its current fund managers to adopt. It is more detailed and includes, for example, a specific section on how the potential impact of climate change on investment risk will be taken into account. The Corporate Governance and Voting Policy has been developed primarily by the internally-managed funds within BCPP who have substantial experience of direct asset ownership and investment, and as such represents good practice in this area.

Recommendations

7. That the Committee notes and approves the Responsible Investment Policy and Corporate Governance Policy included in Appendices 1 and 2 that BCPP will operate on behalf of the Pension Fund as assets are transferred to the pool.

Contact: Nick Orton Tel: 03000 269798

Appendix 1 – BCPP Responsible Investment Policy

Responsible Investment Policy

This Responsible Investment Policy details the approach that BCPP will follow in fulfilling its commitment to the partner funds in the delegation of RI and stewardship responsibilities.

1. Introduction

The primary objective of the Border to Coast Pensions Partnership (BCPP) is to ensure that all funds can meet their pension liabilities. This has to be achieved by producing superior financial returns whilst not undertaking undue levels of risk and protecting returns over the long term. Environmental, social and governance (ESG) issues can have a material impact on the value of financial assets and on the long term performance of investments, and therefore need to be considered across all asset classes in order to better manage risk and generate sustainable, long term returns. Well-managed companies with strong governance are more likely to be successful long-term investments. BCPP will be an active owner and steward of its investments, both internally and externally managed, across all asset classes. The commitment to responsible investment is communicated in the BCPP UK Stewardship Code compliance statement.

2. What is responsible investment?

Responsible investment (RI) is the practice of incorporating ESG issues into the investment decision making process, to better manage risk and generate sustainable, long-term returns. Investment stewardship, which involves being an active owner and using shareholder rights to improve long-term performance, is also an integral part of the process. The incorporation of ESG factors in the investment process is part of the fiduciary duty to beneficiaries of funds. The Law Commission's 2014 report 'The Fiduciary Duties of Investment Intermediaries' states that Trustees should take into account any factors which are financially material to the performance of an investment including ESG factors.

3. Governance and Implementation

The Responsible Investment Policy is jointly owned and created after collaboration and engagement with the 12 Partner Funds. Implementation and oversight of the policy is by the Chief Investment Officer (CIO). The policy will be monitored with regular reports to the CIO, Board, Joint Committee and Partner Funds. It will be reviewed at least annually or whenever revisions are proposed, and updated as necessary.

4. Skills and competency

BCPP will, where needed, take proper advice in order to formulate and develop policy. The Board and investment staff will maintain appropriate skills in responsible investment

and stewardship through continuing professional development; where necessary expert advice will be taken from suitable RI specialists to fulfil these responsibilities.

5. Integrating RI into investment decisions

BCPP will consider material ESG factors when analysing potential investments. ESG factors tend to be longer term in nature and can create both risks and opportunities. It is therefore important that BCPP, as a long term investor, take them into account when analysing potential investments. The factors considered are those which can cause financial and reputational risk, ultimately resulting in a reduction in shareholder value. ESG issues will be considered and monitored in relation to internally managed assets and also within externally managed mandates.
Integration and implementation will be via the CIO.

Issues considered include, but are not limited to:

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

5.1 Climate change

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

- Assess its portfolios in relation to climate change risk where practicable
- Incorporate climate considerations into the investment decision making process
- Engage with companies in relation to business sustainability and disclosure of climate risk inline with Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD)[1] recommendations
- Encourage companies to adapt their business strategy in alignment with a low carbon economy
- Support climate related resolutions at company meetings where appropriate
- Co-file shareholder resolutions at company AGMs where appropriate on climate risk disclosure
- Monitor and review its fund managers in relation to climate change approach and policies
- Collaborate with other investors including other pools and groups such as LAPFF
- Engage with policy makers with regard to climate change

6. Stewardship

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

As a shareowner the BCPP has a responsibility for effective stewardship of the companies it invests in, whether directly or indirectly through mandates with fund managers. It will practice active ownership through voting, monitoring companies, engagement and litigation. As a responsible shareholder, BCPP is a signatory to the UK Stewardship Code[2] and its statement of compliance can be viewed here xxxxxx. All external fund managers will be expected to be signatories or comply with international standards applicable to their geographical location.

Responsible investment and ESG considerations will be specifically referenced when conducting fund manager due diligence. They will be factored into the selection and appointment process, and included in investment management agreements. Managers will be expected to include ESG issues within their investment decision making process and take into account both financial and "extra-financial" considerations. Managers will be required to report back to BCPP regarding their RI activities on a regular basis.

6.1 Voting

Voting rights are an asset and BCPP will exercise its rights carefully to promote and support good corporate governance principles. It will aim to vote in every market in which it invests where practicable. In order to leverage scale and for practical reasons, BCPP has developed a collaborative voting policy to be enacted by BCPP on behalf of the Partner Funds which can be viewed here xxxxxxx. A specialist proxy voting advisor will be employed to provide analysis of voting and governance issues. A set of detailed voting guidelines will be implemented on behalf of BCPP by the proxy voting advisor to ensure that votes are executed in accordance with policies. The voting guidelines are administered and assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances.
Where possible the voting policies will also be applied to assets managed externally. Policies will be reviewed annually. There may be occasions when an individual fund wishes BCPP to vote its pro rata holding contrary to an agreed policy; there is a process in place to facilitate this.
BCPP has an active stock lending programme. Where stock lending is permissible, lenders of stock do not generally retain any rights on lent stock. BCPP has created procedures along with its external providers to enable stock to be recalled prior to a shareholder vote in certain circumstances. This will only occur if the benefits of voting outweigh the benefits of stock lending. Stock will be recalled ahead of meetings when:

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

Lending can also be restricted in these circumstances.
Where appropriate BCPP will consider co-filing shareholder resolutions and will notify Partner Funds in advance.

6.2 Engagement

[2] The UK Stewardship Code aims to enhance the quality of engagement between investors and companies to help improve long-term risk-adjusted returns to shareholders. https://www.frc.org.uk/Our-Work/Codes-Standards/Corporate-governance/UK-Stewardship-Code.aspx

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

Meeting and engaging with companies is an integral part of the investment process. As part of our stewardship duties we regularly monitor investee companies and take appropriate action if investment returns are at risk. Engagement takes place with companies across all markets where possible, as well as with external fund managers.

BCPP will encourage companies to improve disclosure in relation to ESG and to report and disclose in line with the TCFD recommendations.

BCPP will seek to work collaboratively with other like-minded investors and bodies in order to maximise its influence, particularly when deemed likely to be more effective than acting alone. This will be achieved through actively collaborating with various other external groups e.g. The Local Authority Pension Fund Forum (LAPFF), other LGPS pools and other investor coalitions.

BCPP will engage with regulators, public policy makers, and other financial market participants as and when required.

6.3 Litigation

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

7. Communication and reporting

BCPP will be transparent with regard to its RI activities and will keep beneficiaries and stakeholders informed. This will be done by making publicly available RI and voting policies; publishing voting activity on BCPP's website quarterly; reporting on engagement and RI activities to the Partner Funds; and in the annual report.

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

8. Training and assistance

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

9. Conflicts of interest

BCPP's Conflicts of Interests policy will be disclosed and applied to identify and manage any conflicts of interest between the Partner Funds and BCPP.

1. Introduction

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

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

2. Voting procedure

These broad guidelines should be read in conjunction with the Responsible Investment Policy. They provide the framework within which the voting guidelines are administered and assessed on a case-by-case basis. A degree of flexibility will be required when interpreting the guidelines to reflect specific company and meeting circumstances. Voting decisions are reviewed with the portfolio managers. Where there are areas of contention the decision on voting will ultimately be made by the Chief Investment Officer. A specialist proxy voting advisor is employed to ensure that votes are executed in accordance with the policy. Where a decision has been made not to support a resolution at a company meeting, BCPP will, where able, engage with the company prior to the vote being cast. This will generally be where it holds a declarable stake or is already engaging with the company. In some instances attendance at AGMs may be required.

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

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

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

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

3. Voting Guidelines

Company Boards

The composition and effectiveness of the board is crucial to determining corporate performance, as it oversees the running of a company by its managers and is accountable to shareholders. Company behaviour has

implications for shareholders and other stakeholders.

Composition and independence

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

The board of large companies, excluding the Chair, should consist of a majority of independent non-executive directors. As they have a fiduciary duty to represent and act in the best interests of shareholders and to be objective and impartial when considering company matters, they must be able to demonstrate their independence. Non-executive directors who have been on the board for over nine years have been associated with the company for long enough to be presumed to have a close relationship with the business or fellow directors. The company should therefore, have a policy on tenure which is referenced in its annual report and accounts. There should be sufficient disclosure of biographical details so that shareholders can make informed decisions. There are a number of factors which could affect independence, which includes but is not restricted to:-

- Representing a significant shareholder.
- Served on the board for over nine years.
- Has had a material business relationship with the company in the last three years.
- Has been a former employee within the last five years.
- Family relationships with directors, senior employees or advisors.
- Cross directorships with other board members.

Leadership

The role of the Chairman (he or she) is distinct from that of other board members and should be seen as such. The Chairman should be independent upon appointment and should not have previously been the CEO. The Chairman should also take the lead in communicating with shareholders and the media. However, the Chairman should not be responsible for the day to day management of the business: that responsibility rests with the Chief Executive. The role of Chair and CEO should not be combined as different skills and experience are required. There should be a distinct separation of duties to ensure that no one director has unfettered decision making power. Any company intending to combine these roles must justify its position and satisfy shareholders in advance as to how the dangers inherent in such a combination are to be avoided; best practice advocates a separation of the roles.

Non-executive Directors

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

executives, the Chairman and other directors where necessary.

Diversity
Board members should be recruited from as broad a range of backgrounds and experiences as possible. A diversity of directors will improve the representation and accountability of boards, bringing new dimensions to board discussions and decision making. Companies should broaden the search to recruit non-executives to include open advertising and the process for board appointments should be transparent. Companies should consider candidates from all racial and religious backgrounds and look to increase the level of female representation on boards in line with best practice; a diversity policy should also be disclosed in the Annual Report.

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

Directors' availability and attendance
It is important that directors have sufficient time to devote to the company's affairs; therefore full time executives should not hold more than one non-executive position in a FTSE 100 company nor the chairmanship of such a company. With regard to non-executive directors, there can be no hard and fast rule on the number of positions that are acceptable: much depends upon the nature of the post and the capabilities of the individual. Shareholders need to be assured that no individual director has taken on too many positions. Full disclosure should be made in the annual report of directors' other commitments and attendance records at formal board and committee meetings.

Re-election
In order for a board to be successful it needs to ensure that it is suitably diverse with a range of skills, experience and knowledge. There is a requirement for non-executive directors to be independent in order to appropriately challenge management. In order to achieve this, boards need to be regularly refreshed; therefore all directors should be subject to re-election annually.

Directors' remuneration
Shareholders at UK companies have two votes in relation to pay; the annual advisory vote on remuneration implementation which is non-binding, and the triennial vote on forward-looking pay policy which is binding. If a company does not receive a majority of shareholder support for the pay policy, it is required to table a resolution with a revised policy at the next annual meeting.
Research shows that the link between executive pay and company performance is negligible. Excessive rewards for poor performance are not in the best interests of a company or its shareholders. Remuneration levels should be sufficient to attract, motivate and retain quality management but should not be excessive compared to salary levels within the organisation and with peer group companies. There is a clear conflict of interest when directors set their own remuneration in terms of their duty to the company, accountability to shareholders and their own self-interest. It is therefore

essential that there is a wholly independent remuneration committee.
Remuneration has serious implications for corporate performance in terms of providing the right incentives to senior management, in setting performance targets, and its effect on the morale and motivation of employees. Corporate reputation is also at risk. Remuneration policy should be sensitive to pay and employee conditions elsewhere in the company, especially when determining annual salary increases.
In order to ensure accountability there should be a full and transparent disclosure of directors' remuneration with the policy published in the annual report and accounts. The valuation of benefits received during the year, including share options, other conditional awards and pension benefits, should be provided.

• **Annual bonus**
Bonuses should reflect individual and corporate performance targets which are sufficiently challenging, ambitious and linked to performance over the longer-term.

Long-term incentives
Remuneration policies have over time become more and more complex making them difficult for shareholders to adequately assess. BCPP therefore encourages companies to simplify remuneration policies.
Performance-related remuneration schemes should be created in such a way to reward performance that has made a significant contribution to shareholder value. The introduction of incentive schemes to all employees within a firm is encouraged and supported as this helps all employees understand the concept of shareholder value. However, poorly structured schemes can result in senior management receiving unmerited rewards for substandard performance. This is unacceptable and could adversely affect the motivation of other employees.
Incentives are linked to performance over the longer-term in order to create shareholder value. Performance should therefore be measured over a period in line with the company's strategy; this should be at least three years but preferably longer. Employee incentive plans should include both financial and non-financial metrics and targets that are sufficiently ambitious and challenging. Remuneration should be specifically linked to stated business objectives and performance indicators should be fully disclosed in the annual report.
The performance basis of all such incentive schemes under which benefits are potentially payable should be clearly set out each year, together with the actual performance achieved against the same targets.

Directors' contracts
Directors' service contracts are also a fundamental part of corporate governance considerations. Therefore all executive directors are expected to have contracts that are based upon no more than twelve months salary. Retirement benefit policies of directors will also be scrutinised. The main terms of the directors' contracts including notice periods on both sides, and any loans or third party contractual arrangements such as the provision of housing or removal expenses, should be declared within the annual report.

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

companies should provide additional information on ESG issues that also reflect the directors' stewardship of the company. These could include, for example, information on a company's human capital management policies, its charitable and community initiatives and on its impact on the environment in which it operates.

Every annual report (other than those for investment trusts) should include an environmental section, which identifies key quantitative data relating to energy and water consumption, emissions and waste etc., explains any contentious issues and outlines reporting and evaluation criteria. It is important that the risk areas reported upon should not be limited to financial risks. BCPP will encourage companies to report and disclose in line with the Financial Stability Board's Task Force on Climate-related Financial Disclosures (TCFD) recommendations.

Audit

The audit process must be objective, rigorous and independent if it is to provide assurance to users of accounts, and maintain the confidence of the capital markets. The audit committee should consist of at least three members who are all independent non-executive directors. Any material links between the audit firm and the client need to be highlighted, with the audit committee report being the most appropriate place for such disclosures.

FTSE 350 companies should tender the external audit contract at least every ten years. If an auditor has been in place for more than ten fiscal years, their appointment will not be supported. Where an auditor has resigned, an explanation should be given. If the accounts have been qualified or there has been non-compliance with legal or regulatory requirements, this should be drawn to shareholders' attention in the main body of the annual report. If the appropriate disclosures are not made, the re-appointment of the audit firm will not be supported.

Non-Audit Fees

There is concern over the potential conflict of interest between audit and non-audit work when conducted by the same firm for a client. Companies must therefore make a full disclosure where such a conflict arises. There can be legitimate reasons for employing the same firm to do both types of work, but these need to be identified. As a rule, the re-appointment of auditors will not be supported where non-audit fees are considerably in excess of audit fees in the year under review, and on a three year aggregate basis, unless sufficient explanation is given in the accounts.

Political donations

There are concerns over the reputational risks and democratic implications of companies becoming involved in funding political processes, both at home and abroad. It is therefore prudent to oppose all political donations.

Shareholder rights

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

- **Dividends**

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

- **Voting rights**

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

- **Authority to issue shares**

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

- **Disapplication of Pre-emption Rights**

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

Share Repurchases

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

Memorandum and Articles of Association

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

Mergers and acquisitions

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

Articles of Association and adopting the report and accounts

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

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

Investment trusts

BCPP acknowledges that issues faced by the boards of investment companies are often different to those of other listed companies. The same corporate governance guidelines do not necessarily apply to them; for example, investment companies can operate with smaller boards and should not necessarily be required to report on such matters as environmental issues. However, the conventions applying to audit, board composition and director independence do apply.

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

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

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Agenda Item 20

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