Public Document Pack

OXFORDSHIRE
COUNTY COUNCIL

To: Members of the Pension Fund Committee

Notice of a Meeting of the Pension Fund Committee

Friday, 10 March 2017 at 10.15 am

Meeting Rooms 1 & 2, County Hall, New Road, Oxford

P G Clark

Peter G. Clark
Chief Executive

March 2017

Committee Officer: ***Julie Dean***
Tel: 07393 001089; E-Mail: julie.dean@oxfordshire.gov.uk

Membership

Chairman – Councillor Stewart Lilly
Deputy Chairman - Councillor Patrick Greene

Councillors

Surinder Dhesi	Richard Langridge	Les Sibley
Jean Fooks	Sandy Lovatt	
Nick Hards	Neil Owen	

Co-optees

City Councillor James Fry
District Councillor Bill Service

Notes:

- ***A lunch will be provided***
- ***Date of next meeting: 9 June 2017***
- ***Baillie Gifford will give a training session at 9:30am, in the meeting rooms themselves, on taking Environmental, Social and Governance issues into account when making investment decisions.***

Declarations of Interest

The duty to declare…..

Under the Localism Act 2011 it is a criminal offence to

(a) fail to register a disclosable pecuniary interest within 28 days of election or co-option (or re-election or re-appointment), or

(b) provide false or misleading information on registration, or

(c) participate in discussion or voting in a meeting on a matter in which the member or co-opted member has a disclosable pecuniary interest.

Whose Interests must be included?

The Act provides that the interests which must be notified are those of a member or co-opted member of the authority, **or**

- those of a spouse or civil partner of the member or co-opted member;
- those of a person with whom the member or co-opted member is living as husband/wife
- those of a person with whom the member or co-opted member is living as if they were civil partners.

(in each case where the member or co-opted member is aware that the other person has the interest).

What if I remember that I have a Disclosable Pecuniary Interest during the Meeting?.

The Code requires that, at a meeting, where a member or co-opted member has a disclosable interest (of which they are aware) in any matter being considered, they disclose that interest to the meeting. The Council will continue to include an appropriate item on agendas for all meetings, to facilitate this.

Although not explicitly required by the legislation or by the code, it is recommended that in the interests of transparency and for the benefit of all in attendance at the meeting (including members of the public) the nature as well as the existence of the interest is disclosed.

A member or co-opted member who has disclosed a pecuniary interest at a meeting must not participate (or participate further) in any discussion of the matter; and must not participate in any vote or further vote taken; and must withdraw from the room.

Members are asked to continue to pay regard to the following provisions in the code that *"You must serve only the public interest and must never improperly confer an advantage or disadvantage on any person including yourself"* or *"You must not place yourself in situations where your honesty and integrity may be questioned….."*.

Please seek advice from the Monitoring Officer prior to the meeting should you have any doubt about your approach.

List of Disclosable Pecuniary Interests:

Employment (includes"*any employment, office, trade, profession or vocation carried on for profit or gain*".), **Sponsorship, Contracts, Land, Licences, Corporate Tenancies, Securities.**

For a full list of Disclosable Pecuniary Interests and further Guidance on this matter please see the Guide to the New Code of Conduct and Register of Interests at Members' conduct guidelines. http://intranet.oxfordshire.gov.uk/wps/wcm/connect/occ/Insite/Elected+members/ or contact Glenn Watson on **07776 997946** or glenn.watson@oxfordshire.gov.uk for a hard copy of the document.

If you have any special requirements (such as a large print version of these papers or special access facilities) please contact the officer named on the front page, but please give as much notice as possible before the meeting.

AGENDA

1. Apologies for Absence and Temporary Appointments

2. Declarations of Interest - see guidance note

3. Minutes

To approve the minutes of the meeting held on 2 December 2016 (**PF3**) and to receive information arising from them.

4. Minutes of last meeting of the Local Pension Board

The unconfirmed Minutes of the Local Pension Board which met on 13 January 2017 are attached for information only at **PF4.**

5. Petitions and Public Address

6. Collaboration Update

10:20

The report (**PF6)** presents the latest position in respect of the establishment of the Brunel Pension Partnership, in line with the full business case approved at the last meeting of the Committee. It highlights any key issues to be determined in advance of the next round of Committee meetings following the May election.

The Committee is RECOMMENDED to note the position in respect of key decisions to be taken over the next few months, and determine which decisions if any should be subject to a special meeting of this Committee if the timescales so allow.

7. Business Plan 2017/18

10:30

The report (**PF7)** covers the business plan for the Pension Fund Committee for the forthcoming financial year and includes the key objectives for the forthcoming year, the proposed Budget and the Cash Management Strategy.

The Committee is RECOMMENDED to:

(a) approve the Business Plan and Budget for 2017/18 as set out at Annex 1;

(b) approve the Pension Fund Cash Management Strategy for 2017/18;

(c) delegate authority to the Chief Finance Officer to make changes necessary to the Pension Fund Cash Management Strategy during the year, in line with changes to the County Council's Treasury Management Strategy;

(d) delegate authority to the Chief Finance Officer to open separate pension fund bank, deposit and investment accounts as appropriate; and

(e) delegate authority to the Chief Finance Officer to borrow money for the pension fund in accordance with the regulations.

8. Administration Report

10:45

This report (**PF8**) updates the Committee on the latest position on administration issues, including the quality and timeliness of returns from employers, the latest position on new admissions to the Fund and any debt write-offs.

The Committee is RECOMMENDED to:

(a) note current team performance;

(b) approve the write off of £10,770.67;

(c) note the proposed actions in respect of data retention issues;

(d) agree to the destruction of the paper records which have been scanned to the Altair system; and

(e) note the current positions with applications for admission to the fund and other employer changes.

9. Risk Register

11:00

The report **(PF9)** presents the latest position on the Fund's Risk Register, updating the risks reported to the last meeting and adding in new risks identified in the intervening period.

The Committee is RECOMMENDED to note the current risk register.

10. Fund Valuation 2016

11:10

The report (**PF10**) updates the Committee on any key issues arising from the draft results of the 2016 Fund Valuation.

The Committee is RECOMMENDED to note the report.

11. Fundamental Review of Asset Allocation

11:20

The report (**PF11**) from the Independent Financial Adviser informs the Committee of any potential changes required in the Strategic Asset Allocation of the Fund, following the 2016 Valuation results.

The report and Annex 11 do not contain exempt information and are available to the public. However, Annexes 1 – 10 do contain exempt information and are therefore not available to the public. Any oral information in relation to Annexes 1 – 10 will also be exempt information.

The public should be excluded during consideration of Annexes 1 – 10 and during any oral report relating to the Annexes because its discussion in public would be likely to lead to the disclosure to members of the public present of information in the following prescribed category:

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, in that such disclosure would prejudice the trading activities of the fund managers involved and would prejudice the position of the authority's investments in funding the Pension Fund.

The Committee is RECOMMENDED to:

(a) retain the existing asset classes, but de-risk by reducing the Equity allocation by 5% and increasing the Fixed Interest allocation by 5% [paras 22, 23];

(b) switch the holding in LGIM's FTSE 100 Index Fund into LGIM's FTSE All-Share Index Fund [para 31];

(c) maintain a specific allocation to UK Equities [para 34]; and

(d) maintain the existing external investment managers until the introduction of the Brunel Company, but then scrutinise the choice of mandates available within Brunel [paras 20, 26].

12. Investment Strategy Statement

11:40

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require all LGPS administering authorities to publish a new Investment Strategy Statement (ISS) by 1 April 2017. This ISS (**PF12**) replaces the Statement of Investment Principles (SIP) that the Fund previously produced.

In order to meet this timeframe the document needs to be approved at the current Committee meeting. The ISS must be drafted following receipt of appropriate advice. The fundamental review of the Fund's strategic asset allocation strategy which will also be presented at this Committee constitutes this formal advice from the Fund's Independent Financial Adviser. The fundamental review is taken to Committee in March to tie in with the timetable for receiving the results of the triennial valuation of the Fund from the Fund's Actuary. At the time of writing the ISS the contents of the fundamental review had not been approved, and as such, all references are to the strategic asset allocation currently in place. Following consideration of the fundamental review at this committee any changes agreed will be reflected in an updated ISS.

In future the intention is for the review of the ISS to align with the cycle of other related reports and so will ordinarily be included on the agenda for June Committee meetings, along with the Funding Strategy Statement, to allow any fundamental review changes to be reflected. The ISS must be reviewed at least every three years. As was the case with the SIP the intention is that the ISS will be approved on an annual basis by the Committee and may be reviewed in intervening periods if required.

The Committee is RECOMMENDED to approve the Investment Strategy Statement as included an Annex 1, subject to any changes agreed as part of the fundamental review of the Fund's strategic asset allocation

13. Overview of Past and Current Investment Position

12:00

Tables 1 to 4 are compiled from the custodian's records. The custodian is the Pension Fund's prime record keeper. He accrues for dividends and recoverable overseas tax within his valuation figures and may also use different exchange rates and pricing sources compared with the fund managers. The custodian also treats dividend scrip issues as purchases which the fund managers may not do. This may mean that there are minor differences between the tabled figures and those supplied by the managers.

The Independent Financial Adviser will review the investment activity during the past quarter and present an overview of the Fund's position as at 31 December 2016 using the following tables:

Table 1	provides a consolidated valuation of the Pension Fund at 31 December 2016
Table 2	shows net investments/disinvestments during the quarter
Table 3	provides investment performance for the consolidated Pension Fund for the quarter ended 31 December 2016
Table 4	provides details on the Pension Fund's top holdings

In addition to the above tables, the performance of the Pension Fund and the Fund Managers has been produced graphically as follows:

Graph 1 Market value of the Fund over the last three years
Graph 2 – 7 Performance of the Fund Managers attending Committee for the quarter ended 31 December 2016

The Committee is RECOMMENDED to receive the tables and graphs, and that the information contained in them be borne in mind, insofar as they relate to items 15, 16, 17, 18, 19 and 20 on the agenda.

14. EXEMPT ITEMS

The Committee is RECOMMENDED that the public be excluded for the duration of items 15, 16, 17, 18, 19 and 20 in the Agenda since it is likely that if they were present during those items there would be disclosure of exempt information as defined in Part I of Schedule 12A to the Local Government Act 1972 (as amended) and specified in relation to the respective items in the Agenda and since it is considered that, in all the circumstances of each case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

THE REPORTS RELATING TO THE EXEMPT ITEMS HAVE NOT BEEN MADE PUBLIC AND SHOULD BE REGARDED AS STRICTLY PRIVATE TO MEMBERS AND OFFICERS ENTITLED TO RECEIVE THEM.

NOTE: In the case of items 16 and 17, there are no reports circulated with the Agenda. Any exempt information will be reported orally.

15. Overview and Outlook for Investment Markets

12:10

The report of the Independent Financial Adviser (**PF15**) sets out an overview of the current and future investment scene and market developments across various regions and sectors. It also provides the context for consideration of the reports from the Fund Managers. The report itself does not contain exempt information and is available to the public. The Independent Financial Adviser will also report orally and any information reported orally will be exempt information.

The public should be excluded during this item because its discussion in public would be likely to lead to the disclosure to members of the public present of information in the following prescribed category:

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, in that such disclosure would prejudice the trading activities of the fund managers involved and would prejudice the position of the authority's investments in funding the Pension Fund.

The Committee is RECOMMENDED to receive the report, tables and graphs, to receive the oral report, to consider any further action arising on them and to bear the Independent Financial Adviser's conclusions in mind when considering the Fund Managers' reports.

16. UBS

12:25

(1) The Independent Financial Adviser will report orally on the performance and strategy of UBS drawing on the tables at Agenda Items 13 and 15.

(2) The representatives (Malcolm Gordon and Anthony Sander) of the Fund Manager will:

  (a) report and review the present investments of their part of the Fund and their strategy against the background of the current investment scene for the period which ended on 31 December 2016;

  (b) give their views on the future investment scene.

In support of the above is their report for the period to 31 December 2016.

At the end of the presentation, members are invited to question and comment and the Fund Managers to respond.

The public should be excluded during this item because its discussion in public would be likely to lead to the disclosure to members of the public present of information in the following prescribed category:

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the *exemption outweighs the public interest in disclosing the information, in that such disclosure would prejudice the trading activities of the fund managers involved and would prejudice the position of the authority's investments in funding the Pension Fund.*

The Committee is RECOMMENDED to note the main issues arising from the presentation and to take any necessary action, if required.

LUNCH

17. Wellington

14:00

(1) The Independent Financial Adviser will report orally on the performance and strategy of Wellington drawing on the tables at Agenda Items 13 and 15.

(2) The representatives (Nicola Staunton and Ian Link) of the Fund Manager will:

(a) report and review the present investments of their part of the Fund and their strategy against the background of the current investment scene for the period which ended on 31 December 2016;

(b) give their views on the future investment scene.

In support of the above is their report for the period to 31 December 2016.

At the end of the presentation, members are invited to question and comment and the Fund Managers to respond.

The public should be excluded during this item because its discussion in public would be likely to lead to the disclosure to members of the public present of information in the following prescribed category:

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, in that such disclosure would prejudice the trading activities of the fund managers involved and would prejudice the position of the authority's investments in funding the Pension Fund.

The Committee is RECOMMENDED to note the main issues arising from the presentation and to take any necessary action, if required.

18. Report of Main Issues arising from Reports of the Fund Managers not represented at this meeting

14:40

The Independent Financial Adviser reports (**PF18**) on the Officer meetings with Insight, Baillie Gifford and Legal & General, as well as update the Committee on any other issues relating to the Private Equity portfolio.

The public should be excluded during this item because its discussion in public would be likely to lead to the disclosure to members of the public present of information in the following prescribed category:

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, in that such disclosure would prejudice the trading activities of the fund managers involved and would prejudice the position of the authority's investments in funding the Pension Fund.

The Committee is RECOMMENDED to note the main issues arising from the reports and to take any necessary action, if required.

19. Summary by the Independent Financial Adviser

14:45

The Independent Financial Adviser will, if necessary, summarise any issues arising from the previous discussions.

The public should be excluded during this item because its discussion in public would be likely to lead to the disclosure to members of the public present of information in the following prescribed category:

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, in that such disclosure would prejudice the trading activities of the fund managers involved and would prejudice the position of the authority's investments in funding the Pension Fund.

20. Annual Review of the Independent Financial Adviser

14:50

The report (**PF20**) reviews the work undertaken by the Independent Financial Adviser over the course of the past year, and invites the Committee to provide any feedback on the levels of service received and/or changes going forward.

The public should be excluded during this item because its discussion in public would be likely to lead to the disclosure to members of the public present of information in the following prescribed category:

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

The Committee is RECOMMENDED to note the report and to consider if it wishes to offer any feedback to Mr Davis in relation to his performance as Independent Financial Adviser during the last year.

READMISSION OF PRESS AND PUBLIC

21. Corporate Governance - Voting

15:00

The report provides the Committee with information on the voting records of the Fund Managers which they have exercised on behalf of the Fund over the year to 31 July 2016. A full report is attached at **PF21.**

The Committee is RECOMMENDED to:

(a) note the Fund's voting activities, and determine any issues they wish to follow up with the specific fund managers, or in general; and

(b) commit to becoming signatories to the UK Stewardship Code and request that officers prepare a Stewardship Code statement to be considered at the next Pension Fund Committee meeting.

Pre-Meeting Briefing
There will be a pre-meeting briefing at County Hall on 8 March 2017 at 12 noon in the Members Board Room for the Chairman, Deputy Chairman and Opposition Group Spokesman.

This page is intentionally left blank

PENSION FUND COMMITTEE

MINUTES of the meeting held on Friday, 2 December 2016 commencing at 9.45 am and finishing at 1.25 pm

Present:	
Voting Members:	Councillor Stewart Lilly – in the Chair
	Councillor Patrick Greene (Deputy Chairman) Councillor Surinder Dhesi Councillor Jean Fooks Councillor Nick Hards Councillor Richard Langridge Councillor Sandy Lovatt Councillor Neil Owen Councillor Les Sibley District Councillor Bill Service
District Council Representatives:	District Councillor Bill Service
By Invitation:	Philip Wilde (Beneficiaries Observer) Peter Davies (Independent Financial Adviser)
Officers:	
Whole of meeting	J. Dean (Corporate Services); Chief Finance Officer, S. Collins and G. Ley (Corporate Finance)
Part of meeting	C. Smith (Corporate Services)

The Committee considered the matters, reports and recommendations contained or referred to in the agenda for the meeting and decided as set out below. Except as insofar as otherwise specified, the reasons for the decisions are contained in the agenda and reports, copies of which are attached to the signed Minutes.

76/16 APOLOGIES FOR ABSENCE AND TEMPORARY APPOINTMENTS

(Agenda No. 1)

An apology for absence was received from District Councillor Cllr James Fry.

77/16 DECLARATIONS OF INTEREST - SEE GUIDANCE NOTE

(Agenda No. 2)

Councillors Fooks, Lilly, Owen, Service and Sibley each declared personal interests as members of the Pension Fund Scheme under the provisions of Section 18 of the Local Government Act 1989.

78/16 MINUTES
(Agenda No. 3)

The Minutes of the last meeting held on 2 September 2016 were approved and signed as a correct record.

79/16 MINUTES OF THE MEETING OF THE LOCAL PENSION BOARD
(Agenda No. 4)

The public part of the unconfirmed Minutes of the meeting of the Local Pension Board on 21 October 2016 was before the Committee for noting.

Cllr Bob Johnston, a member of the Local Pension Board, reporting on behalf of Board, commented that there remained concerns with regard to Employer Management and also with aspects of the Risk Register.

With regard to the latter, the Chairman responded that the attention of the Committee was constantly on the resources that were available in order to ensure both the smooth running of the Committee and to the greatest benefit of the beneficiaries. To this end he had recently visited staff in the Pensions Team staff in Speedwell House which was their new temporary accommodation until their new premises were ready.

The Committee **RESOLVED** to note the unconfirmed Minutes of the Local Pension Board.

80/16 PETITIONS AND PUBLIC ADDRESS
(Agenda No. 5)

Peter Wallis, Member of Fossil Free Oxfordshire, addressed the Committee in his capacity as a 'concerned LGPS member. He expressed his disappointment that the Committee, after debating a paper at the June 2015 meeting on divestment from fossil fuels, and after hearing his address at the same meeting did not make any commitments or actions. He pointed out his interest that one of the organisations in the Brunel Group was the Environment Agency which had already begun the process of divestment from fossil fuels. He also made members aware that in September 2016, Waltham Forest had become the first UK LGPS to commit to full divestment from fossil fuels. This decision to divest aligned with the COP21 talks in Paris in December 2015 at which 197 countries committed to act swiftly to keep the level of global warming below 1.5 degrees. The Paris Agreement had been ratified by 115 of those countries, and achieved its target, all exploration into new sources of fossil fuel must stop, and the majority of known sources of oil, coal and gas to stay underground.

He emphasised that Fossil Free Oxfordshire was calling for divestment only from companies that were still exploring for new sources of fossil fuels, rather than those that might be distributing existing reserves. He added moreover that oil in particular had a myriad of uses from plastics and cosmetics to medicines, which, he believed, made a nonsense of simply burning it when alternative technologies already existed for providing our energy needs.

Having discussed the issues with many LGPS members since he last spoke at this meeting, some of whom were disturbed to learn where their money was being invested, he urged The Committee to canvas their views on investment decisions. He also urged the Committee to include the issue of divestment in its discussions and to revisit the Fossil Fuel Transition Blueprint and conduct a risk assessment into fossil fuel investment. He concluded by quoting David Cameron in his speech at Paris last year 'Instead of making excuses tomorrow to our children and grandchildren, we should be taking action against climate change today.'

During discussion following Mr Wallis's address, a member pointed out that LGPS members' pensions were not at risk of being reduced if the Fund was to divest because any shortfall would be picked up by the employers. The Chairman responded that Oxfordshire Pension Fund was the administering authority for employees of the County Council together with 250 other organisations and contractors. He added that he received a significant number of letters regarding the investments from a variety of other lobbyists asking the Committee not to invest in, for example, cigarettes and tobacco. On behalf of the Committee he maintained that the investments made had to be, first and foremost, in the best interests of the beneficiaries. He reminded the Committee that there would be an item on the next Committee Agenda in March 2017 entitled 'Investment Principles' when issues such as these could be considered.

81/16 BRUNEL PENSION PARTNERSHIP - APPROVAL OF FULL BUSINESS CASE

(Agenda No. 6)

The Committee considered a report **(PF6)** which recommended the Committee to recommend full Council to approve the full business case for the establishment of the Brunel Pension Partnership.

The report itself and Annexes 1 – 3 did not contain exempt information and were available to the public. Annexes 4 – 9 did contain commercially sensitive data relating to each of the Funds and the proposed company. The public were therefore excluded during consideration of Annexes 4 - 9 because their discussion in public would be likely to lead to the disclosure to members of the public present of information in the following category prescribed by Part I of Schedule 12A to the Local Government Act 1972 (as amended):

3 Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, in that disclosure at this time is likely to prejudice the future negotiations to set up the pooling arrangements.

The Committee RESOLVED (unanimously) to RECOMMEND the following resolution to Council:

> ***In its capacity as the Administering Authority for the Oxfordshire County Council Pension Fund, and having received and reviewed this report and the Business Case attached to it, the Council HEREBY RESOLVES to***

enter into investment pooling with respect to the Oxfordshire County Council Pension Fund.

Such Resolution is made on and subject to the following terms and conditions:

- ***THAT the Brunel Pension Partnership investment pool be developed, funded and implemented substantially in accordance with the terms and provisions described in the said Business Case, and more particularly that:***

    - ***a FCA regulated company to be named Brunel Pension Partnership Limited be established, and that the company be operated with all necessary and appropriate arrangements as to its ownership, structure, governance and services capability.***

    - ***a new supervisory body comprising representatives of the Council and all other participants in the Brunel Pension Partnership be established to ensure oversight of the Council's investment and participation in the Brunel Pension Partnership.***

- ***THAT the Pension Fund Committee be authorised and granted delegated powers to undertake such tasks as it thinks appropriate to progress implementation of investment pooling, and to take such decisions and do all other things deemed necessary in order to promote the interests of the Council with respect to pooling, which without limitation shall include agreeing and authorising any documentation, contracts, terms of reference, financial expenditure or investment that may be required consequential upon the Council's participation in the Brunel Pension Partnership.***

- ***THAT the Chief Finance Officer and Chief Legal Officer be similarly authorised and granted delegated powers to undertake such tasks as they think appropriate to progress implementation of investment pooling, and to take such decisions and do all things deemed necessary in order to support the Pensions Committee and to promote the interests of the Council with respect to pooling, which without limitation shall include informing and advising the Pensions Committee on the continued viability and suitability of investment pooling in light of any developments, financial or otherwise, in the period up to the establishment of the Brunel Pension Partnership.***

- ***THAT subject to the above, all such matters be carried out with the aim of achieving a target date for investment pooling of 1 April 2018, and otherwise subject to such intermediate steps and timescales as may be considered appropriate and necessary by the Pensions Committee.***

The Committee **RESOLVED** (unanimously) to approve the full business case without amendment.

82/16 RISK REGISTER
(Agenda No. 7)

The Committee considered a report (PF7) which set out the latest position on risks reported to the last meeting, and which added in new risks that had been identified in the intervening period.

On behalf of the Committee the Chairman thanked the Pension Team for working under difficult circumstances, as detailed in the report.

In relation to the possible loss of member skills and knowledge as a result of the forthcoming County Council election, the Committee noted a member suggestion that the Committee's Constitution be altered to include more co-optees who had had previous experience of the Committee's work.

RESOLVED: to note the report.

83/16 ADMINISTRATION REPORT
(Agenda No. 8)

The Committee had before them a report (PF8) updating members on current issues within the Pension Services team from both a management and an operational perspective. It also set out the latest position in respect of the employers within the Oxfordshire Fund. It included new requests for admission to the Fund, an update on previously approved applications and the write off of any amounts due to the Fund.

The Committee **RESOLVED** to:

(a) note current team performance;
(b) approve the increase in staffing levels, and the short term use of agency staff to address the backlog of work;
(c) approve the write off of £34.04:
(d) note the current positions with applications for admission to the Fund and other employer changes; and
(e) (on a motion that was moved, duly seconded and carried unanimously) encourage the Pensions Manager to impose fines on those employers making late or inaccurate returns as often as is necessary.

84/16 FUND VALUATION 2016 - UPDATE
(Agenda No. 9)

The Committee had before them a report (PF9) which gave an update on key issues arising from the provisional results of the 2016 Fund Valuation.

The Committee **RESOLVED** to note the report and to also note that more detail would be issued for the Annual Pension Forum on 18 January 2017.

85/16 OVERVIEW OF PAST AND CURRENT INVESTMENT POSITION
(Agenda No. 10)

The Independent Financial Adviser reviewed the investment activity during the past quarter and presented an overview of the Fund's position as at 30 September 2016 (PF10).

Mr Davies reported that the overall value of the Fund at 30 September 2016 had increased by £150m, of which bonds had risen by £17m, equities by £100m and private equities by £22m. Since that time there had been no appreciation or depreciation.

The Committee **RESOLVED** to receive the tables and graphs, and that the information contained in them be borne in mind, insofar as they related to agenda items 14, 15, 16, 17 and 18 on the agenda.

86/16 FUND MANAGER MONITORING REPORT
(Agenda No. 11)

Each year the arrangements for monitoring the performance of its Fund Managers are considered. The report (PF11) set out the proposed schedule for 2017/18 for approval.

The Committee **RESOLVED** to approve the Fund Manager Monitoring Arrangements as set out in the report.

87/16 EXEMPT ITEMS
(Agenda No. 12)

The Committee RESOLVED that the public be excluded for the duration of items 13, 14, 15, 16, 17, 18 and 19 in the Agenda since it was likely that if they were present during those items there would be disclosure of exempt information as defined in Part I of Schedule 12A to the Local Government Act 1972 (as amended) and specified in relation to the respective items in the Agenda and since it was considered that, in all the circumstances of each case, the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

88/16 EXEMPT MINUTES - LOCAL PENSION BOARD
(Agenda No. 13)

The exempt part of the unconfirmed Local Pension Board Minutes of the meeting held on 21 October 2016 was noted (PF13).

The Committee **AGREED** that the topic of AVC review be brought to the June 2017 meeting of Committee.

89/16 OVERVIEW AND OUTLOOK FOR INVESTMENT MARKETS

(Agenda No. 14)

The report (PF14) set out an overview of the current and future investment scene and market developments across various regions and sectors. The report itself did not contain exempt information and was available to the public. It also set out the context for consideration of the reports from the Fund Managers. The Independent Financial Adviser also reported orally and this information was exempt information.

The public should be excluded during this item because its discussion in public would be likely to lead to the disclosure to members of the public present of information in the following prescribed category:

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, in that such disclosure would prejudice the trading activities of the fund managers involved and would prejudice the position of the authority's investments in funding the Pension Fund.

RESOLVED: ***to receive the report, tables and graphs, to receive the oral report, to consider any further action arising on them and to bear the Independent Financial Adviser's conclusions in mind when considering the Fund Managers' reports.***

90/16 UBS

(Agenda No. 15)

The Independent Financial Adviser reported orally on the performance and strategy of UBS drawing on the tables at Agenda Items 10 and 14.

The representatives, Malcolm Gordon and Scott Wilkin presented their approach to investments in relation to their part of the Fund and their strategy against the background of the current investment scene. They also gave their views on the future investment scene.

At the end of the presentation they responded to questions from members.

The public were excluded during this item because its discussion in public would be likely to lead to the disclosure to members of the public present of information in the following prescribed category:

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, in that such disclosure would prejudice the trading activities of the fund managers involved and would prejudice the position of the authority's investments in funding the Pension Fund.

The Committee **RESOLVED** to note the main issues arising from the presentation.

91/16 PARTNERS GROUP
(Agenda No. 16)

The Independent Financial Adviser reported orally on the performance and strategy of Partners Group drawing on the tables at Agenda Items 10 and 14.

The representatives, Sian Roberts and Sergio Jovele presented their approach to investments in relation to their part of the Fund and their strategy against the background of the current investment scene. They also gave their views on the future investment scene.

At the end of the presentation they responded to questions from members.

The public were excluded during this item because its discussion in public would be likely to lead to the disclosure to members of the public present of information in the following prescribed category:

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, in that such disclosure would prejudice the trading activities of the fund managers involved and would prejudice the position of the authority's investments in funding the Pension Fund.

RESOLVED: to note the main issues arising from the presentation.

92/16 REPORT OF MAIN ISSUES ARISING FROM REPORTS OF THE FUND MANAGERS NOT REPRESENTED AT THIS MEETING
(Agenda No. 17)

The Independent Financial Adviser reported orally on the main issues arising from the officer meetings with Insight and Wellington in conjunction with information contained in the tables (PF17). This included issues in respect of the Private Equity portfolio.

The public were excluded during this item because its discussion in public would be likely to lead to the disclosure to members of the public present of information in the following prescribed category:

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, in that such disclosure would prejudice the trading activities of the fund managers involved and would prejudice the position of the authority's investments in funding the Pension Fund.

RESOLVED: to note the main issues arising from the report.

93/16 SUMMARY BY THE INDEPENDENT FINANCIAL ADVISER
(Agenda No. 18)

The Committee **RESOLVED** to note the summary by the Independent Financial Adviser.

The public were excluded during this item because its discussion in public would be likely to lead to the disclosure to members of the public present of information in the following prescribed category:

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, in that such disclosure would prejudice the trading activities of the fund managers involved and would prejudice the position of the authority's investments in funding the Pension Fund.

READMISSION OF PRESS AND PUBLIC

94/16 CORPORATE GOVERNANCE AND SOCIALLY RESPONSIBLE INVESTMENT
(Agenda No. 19)

The Committee noted that the Item 'Investment Strategy Statement' will be on the March Agenda and any issues will be included under its umbrella.

95/16 ANNUAL PENSION FORUM
(Agenda No. 20)

Members of the Committee were reminded that the Annual Pension Forum would take place at **County Hall on Wednesday 18 January 2017 at 10am.** The Chairman requested that all members of the Committee and of the Local Pension Board attend this event.

.... in the Chair

Date of signing ....

This page is intentionally left blank

LOCAL PENSION BOARD

MINUTES of the meeting held on Friday, 13 January 2017 commencing at 10.30 am and finishing at 12.30 pm

Present:

Voting Members:	Graham Burrow – in the Chair
	Stephen Davis Councillor Bob Johnston David Locke FCA
By Invitation:	Rob MacDougall, Assistant Chief Fire Officer, Chair of Firefighters Pension Board
Officers:	
Whole of meeting	Sean Collins and Julie Dean (Corporate Services)

The Committee considered the matters, reports and recommendations contained or referred to in the agenda for the meeting and decided as set out below. Except as insofar as otherwise specified, the reasons for the decisions are contained in the agenda and reports, copies of which are attached to the signed Minutes.

1/17 WELCOME BY CHAIRMAN
(Agenda No. 1)

The Chairman welcomed everyone to the meeting.

2/17 APOLOGIES FOR ABSENCE
(Agenda No. 2)

Apologies for absence were received from Alistair Bastin and Cllr Roger Cox.

3/17 DECLARATIONS OF INTEREST - SEE GUIDANCE NOTE OPPOSITE
(Agenda No. 3)

There were no declarations of interest.

4/17 PETITIONS AND PUBLIC ADDRESS
(Agenda No. 4)

There were no requests to submit a petition or to make an address.

5/17 MINUTES
(Agenda No. 5)

The public part of the Minutes of the meeting held on 21 October were approved and signed as a correct record.

6/17 EXEMPT ITEMS
(Agenda No. 6)

RESOLVED: that the public be excluded for the duration of item 7 in the Agenda since it is likely that if they were present during those items there would be disclosure of exempt information as defined in Part I of Schedule 12A to the Local Government Act 1972 (as amended) and specified in relation to the respective items in the Agenda and since it is considered that, in all the circumstances of each case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information.

PUBLIC SUMMARY OF PROCEEDINGS FOLLOWING THE WITHDRAWAL OF THE PRESS AND PUBLIC

7/17 EXEMPT MINUTES - 21 OCTOBER 2016
(Agenda No. 7)

The public was excluded during this item because its discussion in public was likely to lead to the disclosure to members of the public present of information in the following prescribed category:

3. Information relating to the financial or business affairs of any particular person (including the authority holding that information) and since it is considered that, in all the circumstances of the case, the public interest in maintaining the exemption outweighs the public interest in disclosing the information, in that disclosure could distort the proper process of each of the 10 Committees negotiating the final proposal. It is intended that once all Committees have agreed the final proposal for submission to Government, the final proposal will become a public document. Disclosure would also prejudice the commercial position of the individual pension funds, and future negotiations with Fund Managers.

The exempt part of the Local Pension Board Minutes of the meeting held on 21 October 2016 were approved and signed as a correct record.

In relation to exempt Minute 36/16, the Board **AGREED** to accept the decision of the Pension Fund Committee that the next review of the Council's AVC Scheme be carried out independently and that a comparison of AVC Schemes of Brunel Scheme partners be carried out.

ITEMS FOLLOWING THE RE-ADMISSION OF THE PRESS AND PUBLIC

8/17 EMPLOYER MANAGEMENT

(Agenda No. 8)

The Board considered a report (LPB8) which covered the specific issues raised by this Board during its discussion at the last meeting in respect of concerns regarding employer data, and the issuance of pension information to scheme members, including annual benefit statements.

At its last meeting, the Board raised concerns about the lack of information on how many scheme members were missing more than just their last annual benefit statement, and suggested options to improve communication with such members going forward. Other proposals were raised to improve the overall performance in this area. As requested, an update on the position was before the Board (LPB8), including details of the subsequent discussion and decisions of the Pension Fund Committee when it discussed this issue at its December meeting. The Officer report to the Committee was also included as an Annex to this report (LPB8).

Mr Collins reported that since the initial report to the Regulator, 1,298 more statements had been issued, the majority of which were to Oxford City Council staff. This left 8,197 outstanding, or 42% of the active membership. Within this outstanding figure were 3 significant groups of employee, the Academies (3,187), Oxford Brookes (2,310) and the balance on Oxfordshire County Council (989).

During discussion the Board noted that:

- most authorities had struggled after the scheme changes in 2014 to issue their statements but there was a need to ascertain the reasons why Oxfordshire's statistics appeared worse than other authorities;
- noted that this year's breach had been reported to the Regulator and a further response was awaited;
- Brookes had employed more staff to rectify the problems with their data, and, following recent discussions, a clear way forward had been determined;
- The issues with Academies had been compounded by a recent change in their payroll provider. Errors on final pay data had recently been reported impacting 2,700 staff, with a further 470 statements delayed due to queries on CARE data;
- just under 1,000 queries were waiting for a response from Oxfordshire County Council; and
- of the 9,459 people who had not yet received a statement on 14 November for the 2015/16 year, 2,572 had not received a statement for the previous year, representing 13.3% of active members. 655 members (3%) were missing more than 2 statements whilst 193 had not received one since annual benefit statements had been introduced in 2005. This group presented the biggest challenge in trying to resolve, given the passage of time since the initial query.

Mr Collins then explained what measures had been taken to address the above concerns:

(a) the Committee had agreed to increase staffing in OCC Pensions by 5.81fte staff. This would enable a team to be established specifically to work with employers, to ensure earlier intervention where accurate data was not received regularly on a timely basis;
(b) officers were reviewing the way data was asked for from employers, seeking a more standard, automated approach which would assist in a better flow;
(c) more training and support was to be given to employers in a bid to improve the process as a whole.
(d) The escalation process would be reviewed to ensure earlier escalation to senior staff in employers; and
(e) summary data would be brought to the Board so that it could hold the Committee to account if there were concerns.

Mr Collins asked the Board how it would like to see the data, including the number of records deemed to be accurate and key reasons/employers behind incomplete or inaccurate records. A Board member asked whether other annual data checks could be utilised to find out, for example why a record had been suspended for more than a year. Mr Collins responded that contracts were already in place with the electoral registration offices and other providers were used also, for example, to find missing people. Officers were also working more closely with the County's Registration Service.

Mr Collins confirmed that the Pensions Service was now looking to claim costs for the reworking of statistics in accordance with the Committee's Administration Strategy. The Chairman of the Pension Fund Committee had also undertaken to be involved in the escalation process. He added that these were part of a combination of factors to be considered with a view to ensuring that the employers take problems seriously.

Mr Collins confirmed that a realistic target, if the key employers were to be concentrated on, would be 70% - 80% of the 2016/17 statements sent by the statutory deadline of the end of August 2017.

The Board made the following suggestions for the Committee to consider:

- To establish a set of Performance Indicators (PIs) for employers, in order to strengthen the importance of correct submissions of data. If the PIs were not met, then the Board could invite particular employers to meetings;
- A report be submitted to the Board clarifying where Oxfordshire Pension Fund was in relation to other Pension Funds, perhaps to start with other authorities within the Brunel Partnership;
- The Board requested to see what was being reported to the Pension Regulator;
- To suggest to the Pension Fund Committee that it liaises with other Pension Fund Committees, asking what was the level of tolerance, the level of risk they were prepared to accept and how many checks were made.

Mr Collins stated that as the Brunel Pension Partnership was developed, the Pension Fund Committee's Agenda would be freed up so that more attention could be given to the above issues. He reminded the Board that if liability was not understood, then there was a danger that the asset allocation would be incorrect.

The Board was asked what it would like to see in the administration report in the future. The response was as follows:

- To include comparative data when available, as detailed above. This would be easily available from the Brunel Group to begin with. Mr Collins agreed that the Brunel Group could be used as it would give a good cross-section of practices, some authorities having already automated some of their data collection processes;
- What data was accepted, what wasn't and risks and tolerances in order to ensure that the escalation process was working properly.

The Board felt it important to notify members of the LGPS of the reasons why their statement was late. Mr Collins agreed to implement this stating that it would encourage correct returns.

9/17 RISK REGISTER

(Agenda No. 9)

The Board were asked to review the latest risk register report as presented to the Pension Fund Committee on 2 December 2016 and to offer any comments to the Committee.

Mr Collins, in his introduction, reported that the Committee had received assurance that Pensions staff would be relocated again in April. He added that the recent office move had not been ideal, but to date no staff had been lost as a consequence.

The Board discussed the risks associated with the loss of informed members of the Committee following the election. It was felt that there was a need to give careful thought to the Members' Induction Programme following the election. Plans were in place for a whole day's training for new members of the Committee. The Chairman of the Board stated that Gloucestershire was also working up similar training for after the election and that he provided training for the Gloucestershire Pension Fund once a year. He offered to open up some of the latter sessions to a wider audience. He also flagged up a new risk which was that of data security in light of recent hacking incidents nationally, and asking if there was a need for further review. Mr Collins agreed to take the issue to the next Pension Fund Committee. He also undertook to bring back the findings from a report from Oxfordshire's Internal Audit on computer security.

10/17 BRUNEL PENSION PARTNERSHIP

(Agenda No. 10)

Mr Collins gave an oral update on the latest position in respect of the Full Business Case for the Brunel Pension Partnership Ltd, as agreed at the 2 December 2016 meeting of the Pension Fund Committee, and the next stages of the project. He reported the following:

- The full business case was proceeding through all the 10 Pension Fund Committees and Councils. It had been signed off by all 10 Committees and by 6 of the 10 Councils;
- A meeting had taken place with Marcus Jones MP which had been attended by two members of the Brunel Oversight Board and officers. The Minister had given his approval to the direction the Brunel Group was travelling. Currently five pools had received letters of approval and three were outstanding;
- He circulated the advertisement from the Brunel Pension Partnership for an independent Chair and independent non-executive directors, with a view to the Chair being in post from March/April 2017. There was also the need for a Chief Executive to be appointed early. Specialist recruitment consultants had been appointed to support the process;
- Work was ongoing within a newly formed Legal Sub-Group to draw up the formal legal documentation required for the new company; and
- The Board continued to meet monthly, with fortnightly officer meetings and weekly telephone calls.

The Board congratulated Mr Collins and the other officers for all the work undertaken to date on this project and for their professionalism. The Board also thanked Mr Collins for the quality of his presentations to the Board and to Committee.

Mr Collins further reported that the joint engagement days (with Buckinghamshire and Gloucestershire) had been very well received and these would continue. The next big issue would be addressed in March/April when the new Chair/Chief Executive would hopefully be in place, and the legal documentation drafted.

Mr Collins was asked if he had any concerns with regard to Brunel. He responded that he did not. At the outset Brunel had set like-minded principles which continued to guide all work streams. All worked to the common cause and when issues arose they were discussed and answers were found. A further benefit was that there was a significant amount of collaboration amongst participants in the group. He emphasised that when Brunel had been fully established, a function of this Board would be to challenge Brunel to ensure that it was operating appropriately for Oxfordshire's funds. Collaboration work would continue to be strong and there would be more time to provide a focus on employer issues.

11/17 ISSUES/ITEMS TO BE REPORTED BACK TO SCHEME MEMBERS

(Agenda No. 11)

All issues had been discussed in previous items.

A member of the Board asked if there were any forums where Boards could discuss similar issues of concern.

Mr Collins reported that Gregory Ley would be sending out information on particular training sessions.

.... in the Chair

Date of signing ....

This page is intentionally left blank

Division(s): N/A

PENSION FUND COMMITTEE – 10 MARCH 2017

COLLABORATION UPDATE

Report by Chief Financial Officer

Introduction

1. At the Committee meeting on 2 December 2016 the Committee approved the full business case for the setting up of a Financial Conduct Authority (FCA) regulated company to be named Brunel Pension Partnership Limited (BPP Ltd.). This was then ratified by Council on 13 December 2016.

2. In addition to Oxfordshire's approval, the full business case has now been agreed by full council meetings at each of the other 8 Council members of the partnership, and by the Board of the Environment Agency.

3. This report outlines the further work that is now underway to form the company, and the decisions that will be required over the next four months.

Recruitment of the Company Board

4. The first step in forming the new company is to begin the process of appointing the board. Korn Ferry, an executive search agency, have been appointed to carry out recruitment processes, and have embarked on the initial task of organising the recruitment of the Chair and 2 external Non-Executive Directors. An advertisement was placed in the Sunday Times on 16 January, with a deadline for applications of 30 January.

5. The applications received are now being evaluated and it is envisaged that the Chair will be appointed during March, and two Non-Executive Directors will be appointed in April / May. A panel drawn from the Shadow Oversight Board and the Finance and Legal Assurance Group will undertake the final interview process, advised by Korn Ferry and Pricewaterhouse Coopers (PwC).

6. The next step will then be to recruit the Chief Executive Officer. This is a vital role and the newly appointed Chair will need to play a key part in the recruitment process. It is envisaged that this will take place during May. Recruitment of other operational directors and staff will then follow.

7. A key aspect of the recruitment of the Board and key staff will be the contractual arrangements for the appointments, and the company's remuneration policies. These will need to be signed off as the recruitment process progresses. The issues to be determined include the level of pay for the senior staff, and whether BPP Ltd should be an admitted body in the

LGPS. This will in part be influenced by whether TUPE considerations / principles apply to any staff that may be appointed from the current administering authorities. If BPP Ltd. does become an admitted body then a decision will be required as to which Fund admits them.

Legal Agreements

8. A key part of setting up the company will be the agreement of various legal agreements between the ten administering authorities, as shareholders, that govern the operations of BPP Ltd. These documents are being worked on by a Legal Services group comprising representatives of Osborne Clarke, who have been providing legal support to the project, and legal officers from four of the ten authorities, including Oxfordshire. The required documents include the following.

   a. The **Articles of Association** of the BPP Ltd. (the "Articles"). This document is required by company law, and will set out the constitution of the company and regulate the relationship between the Administering Authorities as shareholders and BPP Ltd. It sets out the powers and procedures of the BPP Ltd., and will be filed at Companies House and be publicly available.

   b. The **Shareholders' Agreement** between the Administering Authorities. This regulates the relationship between the Funds as shareholders of BPP Ltd. It will define contractually the manner in which the shareholders will run BPP Ltd., rather than limiting the power of the company itself. Some of its content can overlap with the Articles, and there are some provisions which can be moved from one to the other.

   c. The pooling and asset management services agreement (the "**Services Agreement**"). There will be one agreement between the Funds and BPP Ltd. setting out the pooling and other services BPP Ltd. will perform and the relevant terms.

9. These documents will need to be agreed by each of the ten administering authorities under the delegation arrangements in place, to enable BPP Ltd. to become operational. The Articles and the Shareholders' Agreement are likely to be agreed in interim form at the outset. They will include details of reserved matters that cannot be changed without the agreement of shareholders, and for each reserved matter what level of agreement (e.g. simple majority, 75% of shareholders, or unanimous agreement) is required for a change to be made. Reserved matters would include significant issues such as the admission of a new shareholder or a move to internal management of assets.

10. Other documents. There will be various other documents of importance to the structure and governance arrangements. These include terms of reference, the terms of appointment of key personnel, BPP Ltd.'s internal policies and agreements with third party providers of back office support. This will include the terms of reference of the Oversight Board.

11. Once the Shadow Oversight Board loses its shadow status and becomes a formal body, the Oxfordshire Fund will need to formally appoint a representative to serve on it. In addition, while the Pension Fund Committee will continue to have a key role in monitoring the performance and activities of BPP Ltd. for practical purposes an individual will need to take responsibility to make shareholder decisions for Oxfordshire County Council. It is proposed that these appointments are made by the first meeting of the Pension Fund Committee following the Annual Meeting of the new Council in May.

Appointment of Administrator

12. Each LGPS Fund employs a custodian bank to safeguard its investment assets and process transactions. The Oxfordshire Fund currently use BNP Parabas as their custodian. Going forward BPP Ltd. will need to appoint a custodian. However, the nature of the business they will be undertaking and the requirement for FCA regulation will mean that the role will be wider than the custodian's current role. As a result, the role is defined by the FCA as an "administrator" rather than a custodian, as it encompasses other tasks beyond the custodian role.

13. The administrator will need to be in place before the FCA will authorise BPP Ltd to operate. Therefore the administrator needs to be appointed before the application for authorisation is made to the FCA. Work is under way to draw up the specification for an invitation to tender, which will need to be signed off by 1 April. This should then enable the administrator to be appointed by the target date of the 1 August. Any delay is likely to delay the application for FCA authorisation.

Budgeted Costs 2017/18

14. Project costs on the development of the proposals have been split equally between the ten authorities on the basis of 10% each. For the 2017/18 financial year a budget for the project of £680,000 (£750,000 including an unallocated sum) has been agreed by the Shadow Oversight Board and the Finance and Legal Assurance Group. This equates to £68,000 (£75,000) per Fund. Any significant variance against individual budget items will need to be signed off by each Fund through their Section 151 Officer.

15. However, this only includes the project costs, not the running costs of BPP Ltd, once the company is established. This will be dependent on the remuneration policies agreed, the results of the administrator procurement and other contractual arrangements still to be determined. The full business case allowed for total costs of around £4m for 2017/18, plus the provision of £2m working capital. A pricing policy is being developed for charging the ongoing overhead running costs of BPP Ltd. These will not be charged purely on equal shares, but will be partly based on the total Assets Under Management (AUM), and on any additional services that the Fund may use over and above the core service.

Conclusion

16. Decisions on the issues listed above will be required over the next four months in order to achieve the timeframe required by Government, such that BPP Ltd. can be established, achieve FCA authorisation and begin to transition assets from 1 April 2018. Under the resolution agreed by this Committee and the full Council, delegated authority has been given to both this Committee and the Chief Legal and Finance Officers to take such decisions deemed necessary to support the implementation of the business case.

17. At this time it is not certain when the key decisions on appointments, remuneration policies, legal documents and third party tenders will be required. The Committee are invited to consider whether they are happy to leave all such decisions to be delegated to the Director Chief Legal Officer and the Chief Finance Officer (following consultation with relevant members as appropriate) or whether they would wish to call a special meeting of this Committee to consider all or any of these items.

18. Any decision to call a special meeting of this Committee will be subject to the timing of such a meeting. Consideration will need to be given to any proposed meeting during the period of purdah prior to the election. There will also be a period following the election when the old Committee has stood down and the new Committee not yet determined.

RECOMMENDATION

19. The Committee is RECOMMENDED to note the position in respect of key decisions to be taken over the next few months, and determine which decisions if any should be subject to a special meeting of this Committee if the timescales so allow.

Lorna Baxter
Chief Finance Officer

Contact Officer: Sean Collins, Service Manager, Pensions
Tel: 07554 103465

February 2017

Division(s) N/A

PENSION FUND COMMITTEE – 10 MARCH 2017

BUSINESS PLAN 2017/18

Report by Chief Financial Officer

Introduction

1. This report sets out the business plan for the Pension Fund for 2017/18. The Plan sets out the key objectives of the Fund, details the key service activities for the year, and includes the proposed budget and cash management strategy for the service.

Key Objectives and Activities

2. The key objectives for the Oxfordshire Pension Fund are set out on the first page of the Business Plan for 2017/18, and remain consistent with those agreed for previous years. These are summarised as:

    - To administer pension benefits in accordance with the LGPS regulations, and the guidance set out by the Pensons Regulator
    - To achieve a 100% funding level
    - To ensure there are sufficient liquid resources to meet the liabilities of the Fund as they fall due, and
    - To maintain as near stable and affordable employer contribution rates as possible.

3. Part A of the plan (contained in the annex) sets out the broad service activity undertaken by the Fund. The service priorities for the forthcoming financial year are then set out in more detail in Part B. These priorities do not include the business as usual activity which will continue alongside the activities included in Part B.

4. The service priorities are:
    - Contribute to the successful establishment of the Brunel Pension Partnership such that the first transfer of assets can take place in April 2018
    - Develop a more sophisticated cash flow model, and an appropriate future investment strategy to ensure all pension liabilities can be met as they fall due
    - Develop more sophisticated management arrangements to ensure all Pension Fund data is received and stored in accordance with the requirements of the Pension Fund Regulator
    - Develop a more robust approach to monitoring the performance of Fund Managers, in respect of their delivery against the Funds responsible investment and stewardship policies

- Improving scheme member communications through the full implementation of members self-service,

Budget 2017/18

5. Part C sets out the Fund's budget for 2017/18 and compares it with the budget for 2016/17. Overall there is an increase in the budget from £8,723,000 to £10,383,000. The largest element of this is in respect of management fees which are explained in more detail below. A report comparing the Pension Fund budget for 2016/17 against the actual expenditure will be produced for the September 2017 committee meeting.

6. The administrative team staffing budget have been amended to reflect the new structure agreed by the Committee at its meeting in December 2016. This reflected the requirement to develop a team to specifically focus on working with employers to ensure they understood their responsibilities and worked with employers to ensure the timely and accurate submission of scheme member data.

7. The increase in the budget for management fees compared to the previous year reflects the fact that the value of the Fund's investments have risen since the prior year. There have not been any changes to the rate of fees the Fund pays. The majority of the management fees are payable based on the asset value so any increase in asset values results in an increase in management fees. When looking at the fees as a percentage of assets the rate will have reduced as a number of the fee schedules operate on a tiered basis so as asset values increase there are more charged at the lower rates in high fee tiers.

8. Three new lines have been added into the budget to reflect the costs in 2017/18 of developing the Brunel Pension Partnership. The development costs cover the costs of the various advisers supporting officers on implementing the business case. The line for working capital and regulatory capital reflect the requirements for the new company to show a given level of capital on its balance sheet to ensure it is capable of undertaking its duties. Both the working capital and development cost lines are one off in nature.

9. The line for the Brunel contract costs reflects the share of the operating costs of the company in the period before assets begin to transition on April 2018. These include the costs of the Directors and senior staff, the Administrator and property costs all which need to be in place during 2017/18 to enable the company to prepare for the transition of assets from April 2018. Contract costs will continue in future years, but as indicated in the full business case, these will be recovered in future years by savings to be delivered by way of reductions in the fees paid to fund managers.

10. Administration support service charges have been increased to reflect additional work introduction of member self-service and further software improvements.

11. The budget for printing and postage (other) has increased to ensure that the fund meets the requirement of the disclosure regulations in advising members of the introduction of member self-service.

12. The budget for Actuarial Services has reduced following the one off increase in 2016/17 which reflected the costs of undertaking the 2016 Valuation.

Risk Register

13. Unlike in previous years, the Pension Fund Risk Register is no longer included within the Business Plan. At the request of the Committee, the Risk Register is now published as a separate document and is reviewed at each quarterly meeting of the Committee.

Training Plan

14. Given the impending County Council elections in May 2017, it has not felt appropriate to develop a training plan at this stage. An Induction Programme will be developed once a new Committee has been established, and a full training programme can then be developed following a needs analysis of the new Committee.

Cash Management

15. The final section of the business plan, Part D, provides the annual cash management strategy for the Fund. The Strategy is based on the Treasury Management Strategy for the Council, but has a significantly reduced number of counter-parties reflecting the lower sums of cash involved, and the wider set of alternative investment classes open to the Pension Fund.

RECOMMENDATION

16. **The Committee is RECOMMENDED to:**

(a) approve the Business Plan and Budget for 2017/18 as set out at Annex 1;
(b) approve the Pension Fund Cash Management Strategy for 2017/18;
(c) delegate authority to the Chief Finance Officer to make changes necessary to the Pension Fund Cash Management Strategy during the year, in line with changes to the County Council's Treasury Management Strategy;
(d) delegate authority to the Chief Finance Officer to open separate pension fund bank, deposit and investment accounts as appropriate; and
(e) delegate authority to the Chief Finance Officer to borrow money for the pension fund in accordance with the regulations.

Lorna Baxter
Chief Finance Officer

Contact Officer: Sean Collins, Service Manager, Pensions; Tel: 07554 103465

February 2017

Annex 1

Oxfordshire Pension Fund: Business Plan 2017/18

Service Manager - Pensions: Sean Collins

Service Definition:

- To administer the Local Government Pension Scheme on behalf of Oxfordshire County Council

Our Customers:

- Scheduled scheme employers e.g. County Council, District Councils, Oxford Brookes University, other Colleges and Academies
- Designating scheme employers e.g. Town & Parish Councils
- Community Admission Bodies e.g. charitable organisations with a community of interest
- Transferee Admission Bodies i.e. bodies where services have been transferred on contract from County or Districts
- Contributory Employees
- Pensioners and their Dependants
- Council Tax payers

Key Objectives:

- Administer pension benefits in accordance with the LGPS regulations
- Achieve a 100% funding level;
- Ensure there are sufficient liquid resources available to meet the Fund's liabilities and commitments; and
- Maintain as nearly a constant employer contribution rate as is possible.

Part A: Service Activities

Service Activity	Outputs	Outcomes
Investment Management		
Management of the Pension Fund Investments	The Fund is invested in assets in accordance with the Committee's wishes. The Fund's assets are kept securely. Quarterly reports to the Pension Fund Committee.	Pension Fund deficit is minimised by securing favourable returns on investments (compared to benchmarks).
Management of the Pension Fund Accounts	Completion of the Annual Report and Accounts.	No adverse comments from the Fund's auditors.
Management of the Pension Fund Cash	Cash management strategy and outturn reports. Cash Managed in accordance with the strategy.	The Pension Fund cash is managed securely and effectively.
Scheme Administration		
Management of the Pension Fund Administration	The administration procedures are robust and in accordance with regulations and service standards Changes to regulatory framework of the scheme	The workload is completed & checked in accordance with regulations and procedures. Work is completed within specified time scales No adverse comments from the Fund's auditors Implementation of actions arising from regulation changes

Part B – Service Priorities

Task	Actions	Measures of Success
Contribute to the establishment of the Brunel Pension Partnership and the plan to transition assets from 1 April 2018.	Be a party to:: • The development of all legal documents • FCA application • Recruitment of key directors/staff • Recruitment of key 3rd parties including Fund Administrator • The Development of all key company policies Review Committee's constitution and Scheme of Delegation to ensure fit for purpose under new operating model	Brunel Pension Partnership Limited established and ready to transition assets from 1 April 2018
Develop a more sophisticated Cash Flow Model to identify future investment requirements of the fund over the medium term.	Work with the large scheme employers to understand their key strategic direction in so far as it relates to their LGPS workforce. Work with the Fund Actuary to develop a technical model which allows liability, contribution and investment income forecasts to be modelled for the potential scenarios discussed with the scheme employers. Develop an understanding of the alternative investment classes that can deliver investment returns in line with the projected liability profile.	Cash flows managed to ensure all pension liabilities are met as they fall due, with minimal impact on employer contribution rates.
Develop more sophisticated management arrangements to ensure all Pension Fund data is kept in accordance with the requirements of the Pension Fund Regulator	Undertake full training to fully understand the requirements of the Pension Regulator. Review the current data collection arrangements, including benchmarking practices across other Funds, and looking at options to automate more of the process	No issues raised by the Pension Regulator. Annual Benefit Statements, Deferred Benefit Statements etc issued in accordance with Statutory Timescales Reduced levels of queries and complaints from Scheme

	through i-connect. Develop meaningful management reports on data quality, and sampling checks to test the data is in accordance with the Regulators Standards. Work with scheme employers to ensure all requirements are understood and data submitted accurately and timely, and all omissions are promptly escalated.	Members.
Develop a more robust approach to monitoring Fund Manager performance in respect of delivery against the Fund's governance policies.	Agree the Fund's approach to integrating social, environmental and corporate governance issues into all investment decisions as part of the new Investment Strategy Statement (ISS). Agree a Stewardship Policy as part of the ISS. Determine measures which help determine compliance with the above policies, and set benchmarks against which to judge Fund Manager performance. Review Fund Manager performance against benchmarks and follow up all exceptions as part of the Committee's regular monitoring of Fund Managers	Investment Strategy Statement published. Benchmark data published. Clear audit trail of fund management review process published.
Improve Scheme Member Communications	Launch Member Self Service to all scheme members who are happy to sign up. Monitor take up of MSS, as well as activity in terms of numbers accessing newsletters etc, and revise service as appropriate.	Reduction in the number of simple tasks being undertaken by the team, in response to paper requests.

Part C. Budget:

	2017/18 Budget £'000		2016/17 Budget £'000
Administrative Expenses			
Administrative Employee Costs	1,240		1,043
Support Services including ICT	447		392
Printing and Stationery	51		51
Advisory and Consultancy Fees	30		45
Other	29		44
	1,797		**1,575**
Investment Management Expenses			
Management Fees	7,436		6,540
Custody Fees	75		70
Brunel Development Costs	75		20
Brunel Working/Regulatory Capital	200		0
Brunel Contract Costs	330		0
	8,116		**6,630**
Oversight and Governance			
Investment Employee Costs	240		224
Support Services Including ICT	40		40
Actuarial Fees	40		75
External Audit Fees	24		24
Internal Audit Fees	14		14
Advisory and Consultancy Fees	64		93
Committee and Board Costs	48		48
	470		**518**
Total Pension Fund Budget	**10,383**		**8,723**

This page is intentionally left blank

Part D - Pension Fund Cash Management Strategy 2017/18

Introduction

1. The Oxfordshire Pension Fund maintains a balance of cash arising from the receipt of employer and employee contributions, and income from internally managed investments. This incoming cash currently exceeds the amount of payments made on behalf of the Fund. The situation is forecast to continue for the whole of 2017/18. Income from portfolios managed by fund managers currently remains within the fund manager's portfolio and is available for re-investment. Were the Pension Fund's cashflow to turn negative based on the current arrangements, income from fund manager portfolios could instead be paid back to the Fund as required to make up any cash shortfall. The cash managed in-house by the Administering Authority, provides a working balance for the fund to meet its short term commitments and forms 0-5% of the Fund's strategic asset allocation.

2. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 state that administering authorities must hold in a separate bank account all monies held on behalf of the Pension Fund. The regulations also state that the Administering Authority must formulate an investment strategy to govern how the authority invests any Pension Fund money that is not needed immediately to make payments from the fund. This document sets out the strategy for cash for the financial year 2017/18.

Management Arrangements

4. The pension fund cash balances are managed by the Council's Treasury Management team and Pension Fund Investments team. Cash balances are reviewed on a daily basis and withdrawals and deposits arranged in accordance with the current strategy. Pension Fund cash deposits are held separately from the County Council's cash.

Rebalancing

5. The Oxfordshire County Council Pension Fund has a strategic asset allocation range of 0 - 5% for cash. The cash balance is regularly monitored and reviewed as part of a quarterly fund rebalancing exercise undertaken by officers and the Independent Financial Adviser.

6. Arrangements will be made for cash balances which are not required for cashflow purposes, to be transferred to the pension fund Investment Managers in accordance with the decisions taken during the rebalancing exercise.

7. In general a minimum cash balance of £10million will be retained following a fund rebalancing exercise, to meet cashflow requirements and private equity investment transactions. The level of cash balances will fluctuate on a daily

basis and may be considerably higher than the minimum balance dependent upon the timing of transactions and strategic asset allocation decisions.

Investment Strategy

8. The Pension Fund cash investment policies and procedures will be in line with those of the administering authority. Priorities for the investment of cash will be:-

(a) The security of capital
(b) The liquidity of investments
(c) Optimum return on investments commensurate with proper levels of security and liquidity

Investment of Pension Fund Cash

9. Management of the Pension Fund's cash balances will be in accordance with the Administering Authority's approved Treasury Management Strategy and policies and procedures.

10. The pension fund cash balances will be held predominantly in short-term instruments such as notice accounts, money market funds and short-term fixed deposits. Approved instruments for pension fund cash deposits will be the County Council's list of specified investments for maturities up to 1 year, excluding the Debt Management Account deposit facility which is not available to pension funds and UK Government Gilts which are managed by an external fund manager. The County Council's current approved list of specified investments is attached at appendix 1.

11. Pension Fund deposits will be restricted to a subset the County Council's approved counterparties at the time of deposit and will include the Fund's custodian bank. Approved counterparties as at 31st January 2017 are shown in annex 2. There will be a limit of £25m for cash held with each counterparty.

Borrowing for Pension Fund

12. The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 give administering authorities a limited power to borrow on behalf of the pension fund for up to 90 days. The power cannot be used to invest, but only for cashflow management in specified circumstances which should in practice be exceptional, i.e. to ensure that benefits are paid on time, and in transition management situations when the allocation of a pension fund's assets is being amended. Money can only be borrowed for these purposes if, at the time of borrowing, the administering authority reasonably believes that the sum borrowed, and any interest charged as a result, can be repaid out of the pension fund within 90 days of the date when the money is borrowed.

13. Pension Fund management arrangements presume no borrowing normally, but the possibility remains of unexpected pressures occurring and in these

circumstances the power would enable the Pension Fund to avoid becoming forced sellers of fund assets due to cashflow requirements.

14. The Chief Finance Officer (S.151 Officer) has delegated authority to borrow money for the Pension Fund in accordance with the regulations but only in exceptional circumstances. It is proposed that the authority to borrow on behalf of the Pension Fund continues to be delegated to the Chief Finance Officer during 2017/18.

Lorna Baxter
Chief Financial Officer

Appendix 1

Oxfordshire County Council 2017/18 Approved Specified Investments for Maturities up to one year

Investment Instrument	Minimum Credit Criteria
~~Debt Management Agency Deposit Facility~~	~~N/A~~
Term Deposits – UK Government	N/A
Term Deposits – Banks and Building Societies	Short-term F1, Long-term BBB+, Minimum Sovereign Rating AA+
Certificates of Deposit issued by Banks and Building Societies	A1 or P1
Money Market Funds with a Constant Net Asset Value	AAA
Other Money Market Funds and Collective Investment Schemes[1]	Minimum equivalent credit rating of A+. These funds do not have short-term or support ratings
Reverse Repurchase Agreements – maturity under 1 year from arrangement and counterparty of high credit quality (not collateral)	Long-term Counterparty Rating A-
Covered Bonds – maturity under 1 year from arrangement	Minimum issue rating of A-
~~UK Government Gilts~~	~~AA~~
~~Treasury Bills~~	~~N/A~~

[1] I.e., credit rated funds which meet the definition of a collective investment scheme as defined in SI 2004 No 534 and SI 2007 No 573.

Appendix 2

Approved Counterparties

Standard Life Sterling Liquidity Fund

BNP Paribas
Lloyds Bank Plc
Oversea-Chinese Banking Corp
Svenska Handelsbanken

This page is intentionally left blank

Division(s):

ITEM

PENSION FUND COMMITTEE – 10 MARCH 2017

ADMINISTRATION REPORT

Report by the Chief Finance Officer

Introduction

1. This report is to update members of current issues within the Pension Services team from both management and operational perspectives. It also sets out the latest position in respect of the employers within the Oxfordshire Fund. The report includes information about data retention issues.

2. The report also includes new requests for admission to the Fund, an update on previously approved applications and the write off of any amounts due to the Fund.

Performance Data / Data Quality

3. Annex 1 details the latest position in processing the 2016 end of year returns and the issue of annual benefit statements on an employer by employer basis. This data is summarised in Annex 2, which also includes the numbers of members who have never received an annual benefit statement.

4. Just over 90% of the outstanding annual benefit statements relate to three main employer groups, being the Academy schools (4,090 outstanding statements, Brookes University (2,129) and the County Council (1,077). In respect of the County council is should be noted that 87.5% of statements have been issued, with the number outstanding reflecting the outstanding queries.

5. The main focus, since the last report, has been on the returns made for Academy Schools following identification of errors in the data received from the previous payroll provider. Revised returns have been received. At the time of writing the report, queries in respect of 3 academies had been fully resolved; further queries have been raised on data submitted for 13 academies and there are a further 20 returns awaiting review within the pension services team.

6. Oxford Brookes University have made considerable investment in resources to resolve the outstanding pension issues. Revised data has been returned to ourselves and is currently being reviewed with the expectation that the majority of statements can be issued during March.

7. Significant issues remain with Carillion who have now provided Pension Services with a correctly formatted data extract which means that they can now review and resubmit previously incorrect data. We are also working with Orders of St John to clear outstanding queries.

8. The monitoring of the monthly data return (MARS) and our end of year data returns is being strengthened so that incomplete or missing returns can be more quickly identified and a query raised with the scheme employer. We are also looking to improve the quality of our performance management data which will allow earlier escalation of issues and in turn improve the information available to this Committee and the Pension Board on the status of our pension records.

9. Annex 3 details the work coming in to the benefit administration team, which has increased over the past two months due to the backlog of leavers coming in from employers. Members are aware from the previous report that Pension Services are looking to engage temporary administration services to clear these outstanding leavers. Recruitment for the posts approved at the last meeting is also underway.

Write Offs

10. In June 2015, the Committee reviewed the scheme of financial delegation and agreed the following:

- Write off of outstanding debts to the Local Government Pension Scheme above £10,000 need the approval of the Pension Fund Committee.
- The authorisation of debt write offs up to and including £10,000 is delegated to the Service Manager (Pensions). For debts between £7,500 and £10,000 authorisation is in conjunction with the Director of Finance.
- For Debts below £500, authorisation of debt write off is delegated to the Pension Services Manager
- All debts below £10,000 need to be reported to Committee following write off. This report provides the details of those debts written off in the last quarter.

11. In the current period, the Pension Services Manager has approved the write off of £44.50 chargeable to the pension fund in respect of nine cases where the member has died.

12. There are two more significant cases to add to this report which have been approved by the Service Manager (Pensions), the second one in conjunction with the Director of Finance: -

- In the first case, a member died in February 2016 but notification of this death was not received until after payment had been made in April 2016. The resulting over payment amounted to £2,393.17. Repayment of this amount was requested from the member's son but no reply was received and so the matter was referred to Legal. We have now been advised that the cost of approximately £100 to pursue this matter would simply add to the outstanding debt given that the son is facing charges for fraud.

- In the second case involves a pensioner receiving a spouse's pension payment. This pensioner remarried in 2000 but Pension Services didn't receive any notification / certification until 2008. Unfortunately, under the Regulations applicable at the time the initial scheme member left the scheme, the spouse's pension should have ceased on re-marriage, which resulted in an over payment of £8,333.00. We have been in correspondence with the pensioner who says this was their only income and that they do not have any money to repay this pension. The matter has been referred to Legal who advise write off of this amount given that the pensioner lives in Spain meaning any costs of legal action are likely to be in the region of at least £5,000.

13. In the period June 2016 to March 2017 a total of £10,836.66 has been written off, in respect of 23 cases where the member has died plus one case of non-repayment.

Data Retention

14. An ICT review of data retention has highlighted inconsistencies between the data retention schedules (DRS) and practice. For example the schedule says pensioner records should be kept for six years after cessation of payment. However many pensioner records will have linked records because of continuing spouse or dependent benefits being paid, and therefore cannot be deleted. To comply with the DRS would require identifying the appropriate paperwork on the original record to print and scan to a separate record for the spouse or dependent, allowing the original record to be deleted 6 years after cessation of the initial pension.

15. However, before any changes are made to the current policies and practices, it is worth reviewing the requirements under new legislation to adopt the General Data Protection Regulation (GDPR). It is likely that there will be more stringent data protection requirements introduced shortly, and a training session has been arranged for the end of March. It is proposed to bring forward any changes to our data retention policies and practices to the next committee meeting.

16. Meanwhile, a second issue around data retention is in respect of the physical storage of pension records which were scanned back in 2003 when the team insourced back to Oxfordshire County Council. The scanning of the pension records was outsourced to a company and the records were loaded on to the Altair.

17. In addition to the original 452 boxes of pension records, a further 97 boxes were added under a separate contract along with cd's and microfiche. These physical records have all been stored by the scanning company since then at a current annual cost of £8,304.48 inclusive of VAT. Previous advice from legal and audit colleagues has been to retain the original physical records, as there had been no comprehensive check on the quality of the scanning undertaken, meaning we made need to go back to the original record to confirm information before paying a pension. However given the passage of time, and the lack of queries raised on the scanned records, that risk has been mitigated on the whole and it is proposed for these documents to be destroyed.

18. The company is quoting a cost of £2596.50 for the secure destruction of these files. It is recommended that these records are now destroyed.

Update on Previous Applications for Admission

19. Admission agreements need to be finalised in respect of:

- The outsourcing from William Fletcher School to Carillion on 01 April 2016. This has been referred to Legal.
- Optalis Ltd, second generation contract following on from Leonard Cheshire Disability, which was effective from 15 February.
- The admission agreement between Age UK and Oxfordshire County Council is outstanding.
- Civicare Oxford, a second generation contract following on from Allied Healthcare, effective 14 March 2016
- The long outstanding admission agreement between Carillion and Oxfordshire County Council for the second transfer of staff has not yet been resolved despite reminders and meetings with Carillion.
- Outsourcing from VWHDC / SODC to Capita, Vinci, Arcadis and Indigo.

New Outsourcings / Academy Conversions

20. Respite & short breaks for disabled children from OCC. Contract has been awarded to Barnardo's from April 2017. This second generation outsourcing is not on a pass through basis and so a bond will be required.

Closures

21. Barrnardo's original contract with OCC, which was on a pass through basis, and ends on 31 March 2017

RECOMMENDATIONS

21. The Committee is RECOMMENDED to:

(a) note current team performance;

(b) approve the write off of £10,770.67;

(c) note the proposed actions in respect of data retention issues;

(d) agree to the destruction of the paper records which have been scanned to the Altair system; and

(e) note the current positions with applications for admission to the fund and other employer changes.

Lorna Baxter
Chief Finance Officer

Background papers: Nil

Contact Officer: Sally Fox, Pensions Manager,
Tel: 01865 323854

February 2017

This page is intentionally left blank

Employer Number	Employer Name	Fund Reference	ANNEX 1	ABS Issued	Outstanding	% Issued
00001	OXFORDSHIRE COUNTY COUNCIL	PA0101		7,568	1,077	87.5
00002	WEST OXFORDSHIRE DISTRICT COUNCIL	PA0102		169	24	87.6
00003	SOUTH OXFORDSHIRE DISTRICT COUNCIL	PA0103		189	7	96.4
00004	CHERWELL DISTRICT COUNCIL	PA0104		384	5	98.7
00005	VALE OF WHITE HORSE D C	PA0105		124	3	97.6
00006	OXFORD CITY COUNCIL	PA0106	There are now 54 records to be checked - meeting scheduled to resolve outstanding data issues	1,011	112	90.0
00007	ABINGDON TOWN COUNCIL	PA0201		19	0	100.0
00011	A2 DOMINION HOUSING	PA0306		15	1	93.8
00012	CHIPPING NORTON TOWN COUNCIL	PA0202		5	0	100.0
00014	DIDCOT TOWN COUNCIL	PA0203		14	0	100.0
00017	HENLEY ON THAMES TOWN COUNCIL	PA0204		21	0	100.0
00018	KIDLINGTON PARISH COUNCIL	PA0205		8	0	100.0
00022	OXFORD ARCHAEOLOGICAL UNIT LTD	PA0314		71	2	97.3
00027	SWALCLIFFE PARK SCHOOL TRUST	PA0308		22	3	88.0
00028	THAME TOWN COUNCIL	PA0206		11	0	100.0
00030	WALLINGFORD TOWN COUNCIL	PA0207		6	0	100.0
00031	WITNEY TOWN COUNCIL	PA0208		14	0	100.0
00032	CARTERTON TOWN COUNCIL	PA0209		6	0	100.0
00033	WOODSTOCK TOWN COUNCIL	PA0222		4		100.0
00034	OXFORD BROOKES UNIVERSITY	PA0109	Queriy responses received and being analysed	0	2,129	0.0
00036	BICESTER TOWN COUNCIL	PA0211		10	0	100.0
00037	SUTTON COURTENAY PARISH COUNCIL	PA0212		1	0	100.0
00040	THE HENLEY COLLEGE	PA0110		99	0	100.0
00048	CHINNOR PARISH COUNCIL	PA0213		4	0	100.0
00050	CfBT THAMES CAREERS GUIDANCE	PA0305		1	0	100.0
00061	WITNEY AND DISTRICT CITIZENS ADVICE BUREAU	PA0323		5	0	100.0
00063	OXFORD COMMUNITY WORK AGENCY	PA0310	26/07 ready for provisional post	0	3	0.0
00064	MARCHAM PARISH COUNCIL	PA0215		1	0	100.0
00065	EYNSHAM PARISH COUNCIL	PA0216	No return yet received	0	2	0.0
00068	ROTHERFIELD PEPPARD PARISH COUNCIL	PA0217	No return yet received	0	1	0.0
00070	CUMNOR PARISH COUNCIL	PA0219	Data uploaded - payment outstanding	1	0	100.0
00071	ABINGDON AND WITNEY COLLEGE	PA0116		249	20	92.6
00072	BANBURY TOWN COUNCIL	PA0220		12	0	100.0
00074	COTTSWAY HOUSING	PA0322		45	5	90.0
00075	Chalgrove Parish Council	PA0223		1	0	100.0
00076	ORDERS OF ST JOHN	PA0309	Queries over whether overtime was contractual / No WTE provided	0	68	0.0
00078	THAMES VALLEY PARTNERSHIP	PA0324		10	0	100.0
00082	OXFORD HOMELESS PATHWAYS	PA0329		6	0	100.0
00084	FARINGDON TOWN COUNCIL	PA0224		11	0	100.0
00085	ACTIVATE LEARNING	PA0118		451	77	85.4
00086	CHARTER COMMUNITY HOUSING	PA0330		7	0	100.0
00088	BERINSFIELD PARISH COUNCIL	PA0226		1	0	100.0
00090	WHEATLEY PARISH COUNCIL	PA0227		1	0	100.0
00091	BENSON PARISH COUNCIL	PA0228		4	1	80.0
00092	OYAP TRUST	PA0334		1	0	100.0
00096	VALE CAPITA	PA0338		17	0	100.0
00097	NORTH OXFORDSHIRE ACADEMY	PA0119	14/09 Revised end of year return received.	0	68	0.0
00098	BARNARDO'S	PA0336		5	0	100.0
00099	OXFORD ACADEMY	PA0120	05/10 approx 60 starter / leaver forms received - can now issue end of year queries	0	67	0.0
00100	USEA	PA0339		1	0	100.0
00102	OLD MARSTON PC	PA0229		1	0	100.0
00104	FUSION LIFESTYLE	PA0342	Data received incorrect - following protracted correspondence now visiting employer at end November to resolve these	0	28	0.0
00107	OXFORD HEALTH NHS FOUNDATION	PA0344		1	0	100.0
00110	OXFORD SPIRES	PA0121		35	9	79.5
00112	COMMUNITY VOICE	PA0350		3	0	100.0
00113	RADLEY PARISH COUNCIL	PA0230		2	0	100.0
00114	VALE ACADEMY TRUST	PA0122	07/10 ready for provisional posting	0	272	0.0
00115	WALLINGFORD ACADEMY	PA0123	07/10 ready for provisional posting	0	80	0.0
00118	RUSH COMMON SCHOOL	PA0128		28	7	80.0
00119	GILLOTTS SCHOOL	PA0127	13/10 new return received - now balanced	0	54	0.0
00120	BARTHOLOMEW ACADEMY	PA0126	?	0	164	0.0
00121	CHIPPING NORTON ACADEMY	PA0125	13/10 new return received - now balanced	0	64	0.0
00122	LANGTREE ACADEMY	PA0131	13/10 new return received - now balanced	0	38	0.0
00123	RIVER LEARNING TRUST (CHERWELL ACADEMY)	PA0130	13/10 new return received - now balanced	0	238	0.0
00124	FARINGDON ACADEMY	PA0129	13/10 new return received - now balanced	0	235	0.0
00125	HANWELL FIELDS ACADEMY	PA0124	14/09 new return received	0	54	0.0
00126	MILL ACADEMY (WAS HENRY BOX SCHOOL)	PA0133	13/10 new return received - now balanced	0	139	0.0
00127	BURFORD ACADEMY SCHOOL	PA0134	13/10 new return received - difference to query	0	82	0.0
00128	LONG HANBOROUGH PARISH COUNCIL	PA0231		3	0	100.0
00129	DIDCOT ACADEMY SCHOOL	PA0136	13/10 new return received - now balanced	0	78	0.0
00130	ASPIRATIONS ACADEMY TRUST	PA0135	Issue with multiple jobs - requested unique references plus pay and hour data to distinguish jobs	0	127	0.0
00131	CAPITA SYMONDS	PA0353		4	0	100.0
00132	CARILLION (AMBS) LTD	PA0354	Outstanding errors to resolve	0	227	0.0
00133	NORTHERN HOUSE SCHOOL	PA0139		28	2	93.3

Employer Number	Employer Name	Fund Reference	ANNEX 1	ABS Issued	Outstanding	% Issued
00134	LORD WILLIAMS ACADEMY	PA0138	Return balanced and posted - queries indicated wrong CARE pay provided so revised return received 29/09. Manual amendment to be made to data already posted	0	281	0.0
00135	ST BIRINUS ACADEMY	PA0137	13/10 new return received - now balanced	0	66	0.0
00136	OXFORD DIOCESAN TRUST	PA0140	?	0	316	0.0
00137	MARLBOROUGH ACADEMY SCHOOL	PA0141	13/10 new return received - now balanced	0	82	0.0
00138	HOME FARM TRUST SOUTH VALE 1	PA0361		0	9	0.0
00139	HOME FARM TRUST SOUTH VALE 2	PA0362		0	2	0.0
00140	CAMDEN SOCIETY CITY 1	PA0359		0	11	0.0
00141	CAMDEN SOCIETY CITY 2	PA0360		0	7	0.0
00142	CAMDEN SOCIETY NORTH 1	PA0358		0	9	0.0
00143	PROPELLER ACADEMY TRUST	PA0146	13/10 new return received - now balanced	0	79	0.0
00144	CAMDEN SOCIETY WEST	PA0357		0	4	0.0
00145	GOSFORD HILL ACADEMY	PA0143		37	11	77.1
00146	CHENEY ACADEMY	PA0144	13/10 new return received - now balanced	0	162	0.0
00147	EUROPA SCHOOL UK	PA0142		21	0	100.0
00148	CARE OUTLOOK	PA0355		5	0	100.0
00149	REABLEMENT	PA0363	?	0	54	0.0
00150	THE IFFLEY ACADEMY (ISIS ACADEMY SCHOOL)	PA0145		41	19	68.3
00151	BLACKBIRD ACADEMY	PA0152	?	0	132	0.0
00152	SONNING COMMON PARISH COUNCIL	PA0232		2	0	100.0
00153	DOMINIC BARBERI ACADEMY	PA0147	13/10 new return received - now balanced	0	276	0.0
00154	LADYGROVE PARK PRIMARY	PA0148	13/10 new return received - now balanced	0	53	0.0
00155	ST JOHNS PRIMARY	PA0149		24	5	82.8
00156	MANOR SCHOOL	PA0150	13/10 new return received - now balanced	0	48	0.0
00157	WILLOWCROFT PRIMARY SCHOOL	PA0151	13/10 new return received - now balanced	0	41	0.0
00158	BLOXHAM PARISH COUNCIL	PA0234		1	0	100.0
00159	ABBEY WOODS ACADEMY	PA0153		15	8	65.2
00160	TYNDALE COMMUNITY SCHOOL	PA0154		5	0	100.0
00162	CHOLSEY PRIMARY SCHOOL	PA0156		31	13	70.5
00163	SKANSKA CONSTRUCTION UK LTD	PA0364		32	0	100.0
00165	SCHOOL LUNCH COMPANY - TOWER HILL	PA0365	?	0	1	0.0
00166	INNOVATE SERVICES - COOPER	PA0379	?	0	2	0.0
00167	CIVICA ST BIRINUS	PA0369		1	0	100.0
00168	FRESH START - BLOXHAM	PA0367	?	0	1	0.0
00169	BANBURY MUSEUM TRUST	PA0370		10	0	100.0
00170	CATERLINK	PA0371	Waiting for confirmation of final pay	0	1	0.0
00171	JOHN MASON SCHOOL	PA0155	13/10 new return received - now balanced	0	129	0.0
00172	HEYFORDIAN SCHOOL TRUST	PA0157		13	8	61.9
00174	CARA SERVICES LTD	PA0372		0	1	0.0
00176	WHEATLEY AREA LEARNING TRUST	PA0159	13/10 new return received - now balanced	0	92	0.0
00177	PAM WELLBEING LTD	PA0374		1	0	100.0
00178	BICESTER LEARNING ACADEMY	PA0160	? Outstanding queries	0	153	0.0
00179	RAMSDEN PARISH COUNCIL	PA0233		1	0	100.0
00180	POPE FRANCIS MULTI ACADEMY	PA0161	? Outstanding queries	0	133	0.0
00184	ENDEAVOUR ACADEMY	PA0162		1	43	2.3
00185	RADCLIFFE ACADEMY TRUST	PA0163		39	7	84.8
00186	HAYWARD SERVICES ICKNIELD		Check if contract started	0	3	0.0
00187	OXFORD ACTIVE LIMITED	PA0384		2	0	100.0
00188	RAPID COMMERCIAL CLEANING LTD	PA0382		1	0	100.0
00189	UBICO LIMITED	PA0381		21	0	100.0
00190	GREENWICH LEISURE LTD	PA0378		0	10	0.0
00191	SCHOOL LUNCH CO - ST JOSEPH	PA0390		0	1	0.0
00192	SCHOOL LUNCH CO - ST J FISHER	PA0391		1	0	100.0
00193	SCHOOL LUNCH CO - THE BATT	PA0611		1	0	100.0
00194	SCHOOL LUNCH CO - ST CHRISTOPHER'S	PA0622		0	1	0.0
00196	SCHOOL LUNCH CO - STANDLAKE	PA0624		0	1	0.0
00197	SCHOOL LUNCH CO - WYCHWOOD	PA0612		0	1	0.0
00198	SCHOOL LUNCH CO - ST MARYS	PA0608		0	1	0.0
00199	SCHOOL LUNCH CO - WHITCHURCH	PA0613		0	1	0.0
00200	SCHOOL LUNCH CO - JOHN HENRY NEWMAN	PA0621		0	2	0.0
00201	SCHOOL LUNCH CO - COMBE	PA0614		0	1	0.0
00204	SCHOOL LUNCH CO - APPLETON	PA0389		0	1	0.0
00205	SCHOOL LUNCH CO - BISHOP LOVEDAY	PA0604		0	2	0.0
00207	SCHOOL LUNCH CO - HOOK NORTON	PA0615		0	1	0.0
00208	SCHOOL LUNCH CO - EVANGELIST (St John the)	PA0607		0	1	0.0
00209	SCHOOL LUNCH CO - CHESTERTON	PA0380		0	1	0.0
00210	DRAYTON PARISH COUNCIL	PA0235		1	0	100.0
00211	WEST OXFORD SCHOOL TRUST (MATTHEW ARNOLD)	PA0164		41	17	70.7
00212	WARRINER MAT	PA0165	CARE pay incorrect - waiting correction	0	148	0.0
00213	ACTIVATE BICESTER COLLEGE	PA0167		55	5	91.7
00214	ACTIVATE - UTC OXFORDSHIRE	PA0168		11	0	100.0
00216	SCHOOL LUNCH CO - ST KENELMS	PA0623		0	1	0.0
00217	SCHOOL LUNCH CO - NORTH HINKSEY	PA0619		0	1	0.0
00218	SCHOOL LUNCH CO - BADGEMORE	PA0620		0	1	0.0
00219	SCHOOL LUNCH CO - QUEENSWAY	PA0606		0	1	0.0
00220	E&W: Banbury Dashwood	PA0392	With employer liaison to resolve	0	1	0.0
00221	E&W: Benson CofE Primary	PA0393		0	1	0.0
00222	E&W: Caldecott Primary	PA0395		0	2	0.0
00223	E&W: Chilton Primary	PA0396		0	1	0.0
00224	E&W: Hailey Primary	PA0388		0	1	0.0
00225	E&W: New Marston Primary	PA0397		0	1	0.0
00226	E&W: Rush Common Primary	PA0387		0	1	0.0

Employer Number	Employer Name	Fund Reference		ANNEX 1	ABS Issued		Outstanding		% Issued
00227	E&W: St Andrews CofE Primary	PA0399			0		1		0.0
00228	E&W: St Marys CofE Primary	PA0600			0		1		0.0
00229	E&W: St Nicolas' CofE Primary Abingdon	PA0601			0		2		0.0
00230	E&W: St Nicolas' Primary Old Marston	PA0386			0		1		0.0
00231	E&W: Wolvercote Primary	PA0385			0		1		0.0
00232	E&W: Bladon CofE Primary	PA0394			0		1		0.0
00233	E&W: Orchard Fields Primary	PA0398			0		3		0.0
00236	E&W: Brightwell-cum-Sotwell	PA0625			0		2		0.0
00237	Chartwells (Wheatley Park)	PA0618			1		1		50.0
00238	Fresh Start - Langford Primary	PA0383			0		1		0.0
00239	GLF William Morris Primary	PA0169			20		1		95.2
00242	Civicare Oxford Ltd				0		4		0.0
00243	White Horse Federation (Southwold School)				32		6		84.2
00244	Capita Five District Councils				39		0		100.0
00245	Arcadis				2		0		100.0
00246	Indigo				9		0		100.0
00247	Vinci				14		0		100.0
00248	Wyclean Mill Academy				1		0		100.0
00250	School Lunch - Nettlebed				1		0		100.0
	KEY								
	Unlikely to be able to issue ABS on time due to data issues				11,243		8,067		58.2
	EOY received - Work in progress			Notes: - outstanding queries with Carillion data will affect the records for any new employer taking on staff e.g school lunch company or edwards and ward. Previous payroll provider to academies - Kier - has yet to give information to resolve all outstanding queries.					
	Data ok - majority/all of ABS able to be issued								

		Number of Actives	Number of ABS Issued	Percentage
Reported to Regulator		19,310	9,815	50.83
Update as at 14 November 2016			9,851	51.01
Update as at 15 February 2017			11,243	58.22
Statements still to be issued : -			8,067	41.78
Including members who have not yet received a statement since:				
	2005		184	
	2006		9	
	2007		11	
	2008		12	
	2009		9	
	2010		10	
	2011		35	
	2012		50	
	2013		36	
	2014		273	
	2015		1,660	
			2,289	11.85

Year	Month	Open Cases B/F	New Cases	Completed Cases	Cases C/F	Change to Previous
2016	November	7,683	3,892	3,201	8,374	691
	December	8,374	3,426	3,032	8,768	394
2017	January	8,768	3,702	3,434	9,036	268

This page is intentionally left blank

Division(s): N/A

PENSION FUND COMMITTEE – 10 MARCH 2017

RISK REGISTER

Report by Chief Financial Officer

Introduction

1. At its meeting on 11 March 2016, the Committee agreed that the risk register should form a standard item for each quarterly meeting. A copy of the report also goes to each meeting of the Pension Board for their review. This report sets out any progress on the mitigation actions agreed for those risks not yet at target, and identifies any new risks which have arisen since the register was last reviewed.

Progress since Last Committee

2. The risk register presented to the March 2016 committee meeting was the first produced in the new format, which introduced the concept of a target level of risk and the need to identify mitigation action plans to address those risks that were currently not at their target score. Many of the action plans were focused on long term improvements, and were dependent on the information to be produced following the 2016 Valuation Exercise.

3. As covered elsewhere on this agenda, the Actuary has now largely completed his work on the 2016 Valuation, and work is now underway to address those long term risks which were currently not at their target score. This work, which forms a major part of the 2017/18 Business Plan includes

   - the requirement to complete a new cash flow model with the Actuary;
   - discussions with the major employers to understand their future strategic direction and the impact on LGPS membership;
   - a review of employer covenants
   - a more robust process to ensure the timely and accurate receipt of scheme member data from employers.

4. In the short term, the provisional results of the 2016 Valuation alongside the on-going cash flow monitoring have indicated that the likelihood of any key risks has not increased over the past year. The investment returns over the last valuation period exceeded those assumed in the valuation, thereby leading to a reduction in the funding shortfall. Cash flow continues to be positive, with a monthly average of just under £1m more by way of contributions than is paid out in benefits, reducing the risk of emergency sales of assets.

5. As covered in the December report, the delays in sending out the Annual Benefit Statements by the statutory deadlines has highlighted the resourcing issues associated with the backlog of work. Work is progressing to appoint staff to the new structure agreed by the December Committee, as well as bring in external resources to address the current backlog of work. However, until the backlog has been cleared to a manageable level, there remains the risk of delays in meeting our statutory responsibilities and the intervention of the Pension Regulator.

6. No new risks have been added to the register this quarter.

RECOMMENDATION

7. **The Committee is RECOMMENDED to note the current risk register.**

Lorna Baxter
Chief Finance Officer

Contact Officer: Sean Collins, Service Manager, Pensions; Tel: 07554 103465

February 2017

Part D: Risk Register

Identification of Risks:

These are the risks that threaten the achievement of the Pension Fund's objectives. Risks have been analysed between:

- Funding, including delivering the funding strategy;
- Investment;
- Governance
- Operational; and
- Regulatory.

Key to Scoring

	Impact	Financial	Reputation	Performance
5	Most severe	Over £100m	Ministerial intervention, Public inquiry, remembered for years	Achievement of Council priority
4	Major	Between £10m and £100m	Adverse national media interest or sustained local media interest	Council priority impaired or service priority not achieved
3	Moderate	Between £1m and £10m	One off local media interest	Impact contained within directorate or service priority impaired.
2	Minor	Between £100k and £500k	A number of complaints but no media interest	Little impact on service priorities but operations disrupted
1	Insignificant	Under £100k	Minor complaints	Operational objectives not met, no impact on service priorities.

Likelihood

4	Very likely	This risk is very likely to occur (over 75% probability)
3	Likely	There is a distinct likelihood that this will happen (40%-75%)

2	Possible	There a possibility that this could happen (10% - 40%)
1	Unlikely	This is not likely to happen but it could (less than 10% probability)

Ref	Risk	Risk Category	Cause	Impact	Risk Owner	Controls in Place to Mitigate Risk	Current Risk Rating			Further Actions Required	Date for completion of Action	Target Risk Rating				
							Impact	Likelihood	Score			Impact	Likelihood	Score	Date of Review	Direction of Travel
1	Investment Strategy not aligned with Pension Liability Profile	Financial	Pension Liabilities and asset attributes not understood and matched.	Long Term - Pension deficit not closed.	Service Manager	Triennial Asset allocation Review after Valuation.	4	2	8	Develop cash flow Model with Actuary. Gain greater understanding of employer changes. Review asset allocation.	June 2017	4	1	4	June 2017	→
2	Investment Strategy not aligned with Pension Liability Profile	Financial	Pension Liabilities and asset attributes not understood and matched.	Short Term – Insufficient Funds to Pay Pensions.	Service Manager	Monthly cash flow monitoring and retention of cash reserves.	4	2	8	Develop cash flow Model with Actuary. Gain greater understanding of employer changes. Review asset allocation.	June 2017	4	1	4	June 2017	→
3	Investment Strategy not aligned with Pension Liability Profile	Financial	Poor understanding of Scheme Member choices.	Long Term - Pension deficit not closed. Short Term – Insufficient Funds to Pay Pensions.	Service Manager	Monthly cash flow monitoring and retention of cash reserves.	3	2	6	Develop Improved Management Reports to benchmark, and monitor opt outs, 50:50 requests etc.	June 2017	3	1	3	June 2017	→
4	Under performance of asset managers or asset classes	Financial	Loss of key staff and change of investment approach.	Long Term - Pension deficit not closed.	Financial Manager	Quarterly review Meeting, and Diversification of asset allocations.	3	2	6			3	2	6		→
5	Actual results varies to key financial assumptions in Valuation	Financial	Market Forces	Long Term - Pension deficit not closed.	Service Manager	Moderation of assumptions at point of valuation. Asset allocation to mirror risk. Sensitivity analysis included in Valuation report.	3	2	6			3	2	6		→
6	Loss of Funds	Financial	Poor Control	Long Term -	Finan	Review of	3	1	3			3	1	3		→

	through fraud or misappropriation.		Processes within Fund Managers and/or Custodian	Pension deficit not closed	cial Manage	Annual Internal Controls Report from each Fund Manager. Clear separation of duties.										
7	Employer Default - LGPS	Financial	Market Forces, increased contribution rates, budget reductions.	Deficit Falls to be Met By Other Employers	Pension Services Manager	All new employers set up with ceding employing under-writing deficit, or bond put in place.	3	2	6	Review all employers where there is no statutory covenant. Meeting held with actuaries	June 2017	2	2	4	June 2017	→
8	Inaccurate or out of date pension liability data – LGPS and FSPS	Financial & Administrative	Late or Incomplete Returns from Employers	Errors in Pension Liability Profile impacting on Risks 1 and 2 above.	Pension Services Manager	Monitoring of Monthly returns	4	3	12	Develop improved management reporting to highlight data issues at an earlier point in time. Develop escalation issues to ensure data issues are resolved at earliest point, including new charges, and improved training/guidance. Actions in progress	March 2017	3	1	3	Mar 2017	→
9	Inaccurate or out of date pension liability data – LGPS and FSPS	Administrative	Late or Incomplete Returns from Employers	Late Payment of Pension Benefits.	Pension Services Manager	Monitoring of Monthly returns. Direct contact with employers on individual basis.	3	2	6	Develop improved management reporting to highlight data issues at an earlier point in time. Develop	March 2017	3	1	3	Mar 2017	→

										escalation issues to ensure data issues are resolved at earliest point, including new charges, and improved training/guidance. In progress						
10	Insufficient resources to deliver responsibilities- – LGPS and FSPS	Administrative	Budget Reductions	Breach of Regulation	Service Manager	Annual Budget Review as part of Business Plan.	4	3	12	Need to address backlog of work which is impacting on ability of staff to meet statutory deadlines. External resources to be employed.		4	1	4		↓
11	Insufficient Skills and Knowledge on Committee – LGPS and FSPS	Governance	Poor Training Programme	Breach of Regulation	Service Manager	Training Review	4	2	8	Develop Needs Based Training Programme.	June 2017	4	1	4	June 2017	→
12	Insufficient Skills and Knowledge amongst – LGPS and FSPS Officers	Administrative	Poor Training Programme and/or high staff turnover	Breach of Regulation and Errors in Payments	Service Manager	Training Plan. Control checklists.	3	1	3			3	1	3		↑
13	Key System Failure – LGPS and FSPS	Administrative	Technical failure	Inability to process pension payments	Pension Services Manager	Disaster Recovery Programme	4	1	4			4	1	4		↑
14	Breach of Data Security – LGPS and FSPS	Administrative	Poor Controls	Breach of Regulation	Pension Services Manager	Security Controls, passwords etc.	3	1	3			3	1	3		→
15	Failure to Meet Government Requirements on Pooling	Governance	Inability to agree proposals with other	Direct Intervention by Secretary of State	Service Manager	Full engagement in Project Brunel	5	1	5			5	1	5		→

			administering authorities.													
16	Failure of Pooled Vehicle to meet local objectives	Financial	Sub-Funds agreed not consistent with our liability profile.	Long Term - Pension deficit not closed	Servi ce Mana ger	Full engagement in Project Brunel	4	1	4			4	1	4		→
17	Significant change in liability profile or cash flow as a consequence of Structural Changes	Financial	Significant Transfers Out from the Oxfordshire Fund, leading to loss of current contributions income.	In sufficient cash to pay pensions requiring a change to investment strategy and an increase in employer contributions	Servi ce Mana ger	Engagement with One Oxfordshire project to ensure impacts fully understood	4	2	8	Work with Fund Actuary to Understand Potential Implications to feed into project and investigate potential changes to investment strategy that can be implemented within required timescales		4	1	4	Mar 2017	→
18	Insufficient Skills and Knowledge on Committee – LGPS and FSPS	Governance	Change in Committee membership post May 2017 elections.	Breach of Regulation	Servi ce Mana ger	New Member Induction Programme	4	2	8	Assessment of need post election and induction programme reviewed to ensure meets requirements.		4	1	4	June 2017	New

Division(s): N/A

PENSION FUND COMMITTEE – 10 MARCH 2017

Fund Valuation 2016

Report by the Director of Finance

Introduction

1. This report is to update Committee on the key issues arising from the draft results of the 2016 Fund Valuation.

The Valuation Process

2. This process is carried out within the framework of regulations and required guidance at both whole fund and individual employer level.

3. The actuary takes fund data to assess the value of the "pension promise" by projecting the cost of all possible benefit payments for each member and determine when these benefits are likely to be paid.

4. The value of the fund's assets are compared with the value of the accrued benefits (past service costs / deficit) and the actuary then determines the contributions required to meet the cost of future benefits (future service rate).

5. These two elements combined give the overall employer contribution rate. In both the 2010 and 2013 the employer contribution rate was expressed as a percentage of payrolls (future service rate) plus a cash amount (deficit recovery). For the 2016 this has changed for those employers in where they have been pooled, to a combined percentage rate. This follows advice from the Actuary, that for this group of employers, the approach produces a more stable contribution rate, not dependent on the relative movement of the pensionable pay bill of the various employers within the pool.

Initial Results

6. Good investment returns has meant that the cost of the deficit (past service costs) has fallen. However, the cost of future service has risen, in part due to a revision of assumptions introduced under the 2013 Valuation to reflect potential changes under the 2014 Scheme e.g. take up of the new 50:50 scheme. Overall contribution rates have been maintained at the same rate as set in 2013, at an average combined rate of 19.3% of pensionable pay.

7. The Funding Strategy Statement sets the maximum deficit recovery period as 25 years. A maximum deficit recovery period of 22 years has been used in the valuation to retain meet the aim of deficits being recovered by 2038. For some employers, a shorter deficit recovery period has been set to maintain their overall employer contribution rate at the 2013 level. For these

employers, this provides some flexibility at future valuations in the event that investment returns fall short of the assumed levels.

Pension Fund Forum

8. Initial valuation results were presented to scheme employers who attended the Pension Fund Forum in January 2017.

9. Since this date Pension Services has been in correspondence with all scheme employers to confirm initial results and deal with any queries. The final valuation reports will be signed off on 31 March 2017.

RECOMMENDATION

10. The Committee is RECOMMENDED to note this report.

Lorna Baxter
Director of Finance

Background papers: Nil
Contact Officer: Sally Fox, Pensions Manager
Tel: 01865 323854

February 2017

REPORT PREPARED FOR

Oxfordshire Council Pension Fund

Fundamental Review of Asset Allocation

15th February 2017

Peter Davies

AllenbridgeEpic Investment Advisers Limited (Allenbridge)

Peter.Davies@allenbridge.com
www.allenbridge.com

PENSION FUND COMMITTEE – 10 MARCH 2017

FUNDAMENTAL REVIEW OF ASSET ALLOCATION

Report by the Independent Financial Adviser

Introduction

1. A Fundamental Review of the Investment Management of the Pension Fund is undertaken once every three years, to synchronise with the triennial Actuarial Valuation carried out by the Scheme Actuary. Its purpose is to take a hard look at the existing structure of the Fund's assets, to assess the need for changes and to make recommendations to the Pension Fund Committee accordingly.

2. In my previous report (presented to the March 2014 Committee) I divided the report into three main sections, representing the three levels at which decisions should be made for the effective management of such a fund. Given the proximity to the transition of assets to the Brunel Pension Partnership, this report focuses on the first two levels and does not cover the issue of Manager Selection. The report therefore covers:

   - **Overall Strategy** (paras 4 - 26*)* including asset allocation across suitable asset classes

   - **Investment Structure** (paras 27 - 35) covering the mandates under which the fund's investment managers should operate

   These are followed by:
   - **Summary of Recommendations** (para 36)

   - **Appendices -** containing one-page summaries of each of the external managers' mandates and performance

   - **Glossary** - providing definitions of investment terms used in the report.

3. First I will summarise the recommendations for change made in the **2014** report, and detail the consequent actions taken.

   a) Asset allocation strategy to take account of the Actuary's latest estimate of Funding Level

   b) Switch 4% from listed equity, 1% from Private Equity and 3% from Hedge Funds. Allocate 3% to Infrastructure and 5% to Diversified Growth. [**Action:** The Hedge Fund holding was sold and a Diversified Growth manager (Insight) was selected and funded with £80m in December 2014, and a further £15m in October 2016. No investment in Infrastructure has yet been made. The strategic allocation was altered to reflect the planned changes]

c) Switch UBS' Overseas Equity mandate to a Global Equity one
[**Action**: This was effected in June 2014]

d) Earmark up to £20m for Property opportunities
[**Action:** £10m was committed to **Bridges Property Alternatives Fund III**, but no suitable vehicle was identified for the remaining £10m]

e) Retain all the other managers in their existing mandates

Overall Strategy

4. The Oxfordshire Pension Fund has a number of characteristics which, in common with many other Local Government Pension Schemes, act as strong influences on the investment policy it can adopt. The first of these is the strength of the employer covenant. The second is the fact that each year it currently receives more money from employers – normal and deficit contributions – and employees than it is required to pay out as benefits. In addition, it receives investment income, in the form of dividends and interest payments, which is predominantly re-invested by the managers. In the past three years, the amount of Net Pension Payments into the fund has been £10-15m (excluding exceptionals) but this is on a declining trend. Estimates by the Actuary show net pension contributions of £7.6m in 16/17, but this is followed by annual amounts of just £1-5m in each year up to 22/23. It turns negative in 23/24 and the outflow exceeds £10m in 26/27.

5. In addition, however, the Fund receives Investment Income (amounting to £26.9m in 15/16) offset by Investment Management Expenses (£8.8m in 15/16). Assuming these two items grow at the same rate, the net income from these items will have reached £27m by 2024 when net pension contributions become negative. On the basis of these forecasts, there should not be any need for the Fund to realise assets in order to pay pensions within the next ten years. The Pension Fund can therefore take a long-term view on the likely return on its investments, and can, for example, afford to invest part of its assets in alternative or illiquid classes such as Private Equity, Infrastructure and Property.

6. The Fund had outstanding commitments of £23.9m to Private Equity and £14.3m to Property Limited Partnerships as at 31st December 2016 (using exchange rates current at that date). These will be drawn down over several years, but I asked the predominant managers – Partners Group and Adams Street – to estimate the net distributions (allowing for drawdowns) each year into the future from their Private Equity programmes. For the next four calendar years the expected flows back from the programs are (in £m):

	2017	**2018**	**2019**	**2020**
Partners Group	+8.0	+8.7	+7.3	+5.9
Adams Street	+6.5	+8.1	+8.9	+8.9

On the basis of these estimates it is clear that the remaining Property commitment can be comfortably financed from the Private Equity distributions.

7. Whereas private sector defined benefit pension schemes are required to value their asset and liabilities on a prescribed basis (known as FRS 17 or IAS 19), and the resulting surplus or – more commonly – deficit appears on the parent company balance sheet, Local Authorities are not similarly constrained. Whilst the proportion of Assets to Liabilities (or Funding Level) is still a highly significant figure, it is the Employer Contribution Level as determined by the Scheme Actuary which has the greatest impact on the Authority’s finances in the immediate future. Indeed, one of the three main purposes of the Funding Strategy Statement is:

   ‘To support the regulatory requirement in relation to the desirability of maintaining as nearly constant employer contribution rates as possible’

8. In seeking to narrow the gap between Assets and Liabilities, the key challenge is to identify asset classes that will, over the long term, provide a positive real return, in order to keep pace with the growth of liabilities. This in turn is largely determined by inflation – both in the inflation-linking of pensions in payment or deferral, and the rise in earnings of current employees. Such assets are known as ‘Return-Seeking Assets’, and include equities (listed and private) real estate, hedge funds and commodities. The Fund will also need to hold ‘Liability-Matching Assets’ (primarily fixed income investments) to limit the volatility of the Fund’s market value, and to mirror to some extent the fluctuation of the value of liabilities with changes in bond yields.

9. The Funding Level of the Scheme has improved from **82%** in March 2013 to an estimated **90%** at March 2016. This has been caused partly by the 6.2% annual return achieved on the assets during the 3-year period (against a discount rate of 5.8%) and partly by the deficit funding payments received from the sponsoring employers.

Asset Allocation

10. The current strategic asset allocation of the Oxfordshire Fund shows the following split between return-seeking and liability-matching assets. The long-term smoothed investment return assumed by the Actuary in 2016 and 2013 is shown alongside each asset class.

		Assumed return	
	Fund %	2016	(2013)
UK Equities	29	7.4%	(6.9%)
Overseas Equities	30	7.4%	(6.9%)
Private Equity	9	7.4%	(6.9%)
Real Estate	81	5.9%	(6.0%)
Absolute Return	5	4.8%	
Return-seeking	**81%**		

Fixed Income	16	2.4 – 3.3%	(3.3 – 3.9%)
Infrastructure	3	5.9%	
Liability-matching	**19%**		
Expenses deduction		-0.2%	
Neutral discount rate estimate		**6.2%**	
Prudence allowance		-0.8%	
Proposed Discount Rate assumed		**5.4%**	**(5.8%)**

11. The Fund's current strategic allocation, shown in para 10, is accompanied by allowable ranges or 'bandwidths' for each asset class as shown on the following table. The purpose of these is to signal when market movements have pushed the asset allocation so far from its central target that the risk profile of the Fund is moving away from that of the central strategy. An example would be a 20% rise in equity values, which pushes the listed equity weight from 63% to, say, 68%, while shifting the bond weight from 15% to 13%. The regular rebalancing of the asset class back to its target weight when any of the ranges has been breached provides a discipline of adhering to strategy, while avoiding elaborate rebalancing every quarter.

Asset Class	**Target Allocation (%)**	**Range (%)**
UK Equities	29	27 - 31
Overseas Equities	30	28 - 32
Total Equities	**59**	55 - 65
UK Gilts	3	
Corporate Bonds	6	
Index-Linked Bonds	5	
Overseas Bonds	2	
Total Bonds	**16**	**14 - 18**
Property	8	5 - 9
Private Equity	9	6 - 11
Multi-Asset	5	4 - 6
Infrastructure	3	2 - 4
Cash	0	0 - 5
Total Other Assets	**25**	

12. A comparison of the distribution of the Oxfordshire Fund with a total of 88 LGPS Funds at March 31st, 2016 (by State Street) is reproduced below. The allocation to 'Global Pooled incl. UK' has been pro-rated between UK and Overseas Equities for the purposes of this comparison.

Allocation at end-March 2016			
Asset Class	**WM Average (%)**	**Oxfordshire (%)**	**Relative**
UK Equities Overseas Equities	20.6 39.5	28.0 31.1	**+7.4** **-8.4**
Total Equities	**60.1**	**59.1**	**-1.0**
Total Bonds	**16.4**	**16.4**	**=**
Property Private Equity HF, other Alternatives **Total Alternatives** **Pooled Multi-Asset**	**9.1** **4.7** **4.0** **17.8** **2.8**	**7.8** **9.3** **0** **17.1** **4.3**	**-1.3** **+4.6** **-4.0** **-0.7** **+1.5**
Cash	**2.9**	**3.1**	**+0.2**

13. The allocation by Oxfordshire to the major asset classes is very similar to the average allocation across LGPS Funds with the main differences being:
    - A higher UK Equity weighting, with a correspondingly lower Overseas Equity weighting
    - Twice the average weight in Private Equity
    - Nil against 4% in 'Hedge Funds and other alternatives' (incl. Infrastructure)

Performance

14. The performance of the overall Oxfordshire Fund **relative to the LGPS peer group** is shown in the following table

(% p.a.)	**t**	**3 years**	**5 years**
LGPS average	**+0.2**	**+6.4**	**+7.1**
Oxfordshire	**-0.4**	**+6.2**	**+7.3**
Oxon %-ile rank	**63**	**66**	**49**

At the asset allocation level, the Fund's relative bias towards UK Equities and away from Overseas Equities was a negative contributor, as the Overseas index returned 9.4% p.a. while UK only returned 3.7%. However, the 4% allocated to Private Equity instead of Hedge Funds etc was beneficial as Private Equity gave a 7.4% p.a. higher return. At the manager level, the Global Equity performance was a negative (see para. 15) but Fixed Income out-performed the peer group average by 1.1% p.a.

15. The performance of the Oxfordshire Fund **relative to its own composite benchmark** is shown in the following table. As the performance objective is to out-perform the benchmark by 1% annually, the returns achieved are disappointing.

(% p.a.)	**1 year**	**3 years**	**5 years**
Benchmark	**+0.3**	**+6.6**	**+7.6**
Oxfordshire	**-0.4**	**+6.2**	**+7.3**
Deviation	**-0.7**	**-0.4**	**-0.3**

Looking at the 3-year returns, it is clear that the deficit is attributable to the under-performance of UBS' and Wellington's Global Equity portfolios, which lagged their benchmark by 2.0% and 1.1% respectively. The only significant offset came from the 2.2% out-performance of the Private Equity portfolio. As the Fund adheres closely to its strategic asset allocation, there is no contribution to the deviation from asset allocation.

16. It should be noted that the Performance Analysis service for LGPS Funds was discontinued in April 2016, when State Street announced it would withdraw the service from June 30th. Some members of the WM team moved to PIRC with the intention of continuing the service, but this has been delayed while a procurement exercise is undertaken on behalf of LGPS Funds.

Brunel

17. In previous Fundamental Reviews, the Financial Adviser has proposed an asset allocation strategy for the Oxfordshire Fund, showing spot targets and bandwidths for each of the asset classes deemed suitable for inclusion. The next stage consisted of a proposed method for accessing each asset class, taking as its starting point the Fund's incumbent managers and their mandates.

18. This latter stage is altered in the light of the forthcoming establishment of the Brunel Company. Brunel has provisionally identified 22 portfolios from which the 10 participating funds will choose how to allocate their Fund. These 22 categories, shown in the Table below, comprise 11 Equity, 2 Diversifying, 5 Private Markets and 4 Debt strategies.

Stakeholder engagement presentation

BRUNEL Pension Partnership

Portfolios

Portfolio	Performance Target	Portfolio	Performance Target
UK Core Equities	FTSE All Share +1%-2%	Diversified Growth Funds	3 Month LIBOR +4.5%
Global Core Equities	MSCI World +1-2%	Hedge Funds	3 Month LIBOR +4.5%
UK Equities – High	FTSE All Share +3%	Infrastructure – Capital	+7%-8% Absolute
Global Equities – High	MSCI World +3%	Infrastructure – Income	+5%-7% Absolute
Sustainable Equities	MSCI World +1%-3%	Private Equity	7 Day Libor +5%
Global Equity Income	MSCI World +1%-3%	Property	IPD UK PPF +1%
Low Volatility Global Equity	MSCI World	Private Debt	3 Month LIBOR +4.5%
Emerging and Frontier Markets	MSCI Emerging Markets +2%-4%	Global Bonds	Barclays Global Aggregate Bond Index +0.5%-1%
Passive Global Equity	MSCI World (ACWI)	Sterling Corporate Bonds	iBoxx Sterling Non-Gilt +1%
Passive UK Equity	FTSE All Share	UK Gilts	FTSE All Stock 15 year +1%
Passive - Other	As appropriate	Multi-Sector Credit	3 Month LIBOR +3% -4%
		Liability Driven Investments	As appropriate

Forging new futures by working together   October 2016   20

19. The managers for each of these categories will be selected at the Pool level, so that there is the possibility that money managed by Oxfordshire's existing managers will be transitioned into one or more of the Brunel categories, to be run in a different style by new managers. While the Oxfordshire Committee will determine how the Fund is allocated between the 22 categories, it will not be in a position to determine (as it does at present) which manager should be selected for any of the mandates. I have suggested that in this Review I should make recommendations on the allocation of the Fund between the 22 categories, but have been advised that this would be premature, as the Brunel portfolios are provisional at present.

20. Instead I shall make recommendations on the Fund's strategic allocation across broad asset classes, and refine these later in the year when the menu of Brunel portfolios has been finalised. Additionally, this report will not contain any recommendations to terminate any of the existing managers, or to appoint new ones, as it would be unnecessarily costly for the Fund to incur an additional set of transition costs shortly before the Brunel Company is set up.

21. The long-term nominal returns expected by Baillie Gifford's multi-asset team are shown below:

Equities	**7.5%**
Gov't Bonds (Developed)	**3.75%**
Investment-Grade Bonds	**5.0%**
Property	**5.75%**
Infrastructure	**7.0%**
Cash	**3.25%**
Inflation (UK CPI)	**2.0%**

Compared with the Actuary's assumptions (para 10), the Equity and Property forecasts are similar, but Baillie Gifford expect higher returns than the Actuary does on Bonds and Infrastructure.

22. The improvement in the Funding Level to 90% in 2016 (see para 9) gives the scope to reduce the equity weighting in the strategic asset allocation, continuing the shift made after the 2013 Actuarial Valuation. **A further reduction of 5% in the equity weight**, with a corresponding addition to matching assets, would produce a slightly lower expected return overall, but one with less volatility. I would suggest moving the passive proportions up slightly to 30% of total equity allocation for both UK and global equities, so reducing Manager risk as well as overall risk.

23. **In the short term, an increased allocation to Fixed Interest would be a suitable way to achieve this change**. Whilst in the longer term it may make sense to increase the allocation to infrastructure, this should wait for the establishment of the Brunel Company to identify suitable opportunities.

24. Apart from this proposal to switch 5% of the Pension Fund from Equities to Fixed Interest, I am not recommending any change to the list of asset classes in which the Fund invests. The 2014 Review made the case for investing in Diversified Growth Funds in preference to Hedge Funds, and also set out the reasons for investing in Infrastructure. While the first of these has been implemented, and the second one has not yet been, I continue to recommend DGF's and Infrastructure as suitable investments for Oxfordshire. Equally, I have not altered my view of the unsuitability of Currency or Commodities as asset classes.

25. The Asset Allocation Strategy which I recommend is therefore as follows:

Asset Class	**Target Allocation (%)**	**Range (%)**
UK Equities Overseas Equities	26 28	24 - 28 26 - 30
Total Equities	**54**	**50 - 58**
UK Gilts Corporate Bonds Index-Linked Bonds Overseas Bonds	To be specified	
Total Bonds	**21**	**19 - 23**
Property Private Equity Multi-Asset Infrastructure Cash	8 9 5 3 0	6 – 10 6 – 11 4 - 6 2 – 4 0 - 5
Total Other Assets	**25**	**18 - 31**

26. The pace of implementation of the new strategy will be dependent on the timing of the establishment of the Brunel Company. There will need to be detailed consideration of the choices available through Brunel before allocations are made to the different categories offered by Brunel.

Investment Structure

Active or Passive management?

27. The basic distinction here is that an active manager will attempt to run a portfolio to produce a return which *exceeds* the return on a relevant index of that asset class (e.g. the FTSE All Share Index for a UK Equity portfolio) whereas a passive manager will aim to produce a return *equal to* the index return. The active manager may use a number of different techniques to select stocks for his portfolio (see 'Investment styles' below), while the passive manager will normally operate a system of index-replication which generates a portfolio as close as possible to the notional portfolio underlying the relevant index.

28. The passive manager will utilise very little discretion in managing his 'tracker' fund, as computer programs will be used to ensure the holdings continue to match the index constituents closely. There are significant economies of scale for a passive manager, as a larger fund can replicate more of the smaller constituents in an index, while the overheads remain relatively constant. As a result of all these factors, the fee charged to the investor under a passive mandate is far smaller than for an active one. As shown in the Appendix to this report, the fee payable on the passive mandates are around 5 times smaller than those paid to active managers.

28. One of the considerations for the Pension Fund is whether the active manager can generate sufficient performance (gross of fees) in excess of the index to compensate for the lower fee charged by the passive manager. There are also, however, other considerations. By its nature, a market index is always fully-invested, whereas an active manager has the freedom to hold a certain amount of cash if he expects a general fall in the market. If the active manager uses this freedom at the right time, he can cushion the impact of a general market decline. Similarly, the active manager can – and should – hold a lower weight than the index in sectors he expects to be relatively weak, whereas the passive manager is obliged to maintain the index weight in every sector at all times. At present some **29%** of the Fund's UK Equities, and **27%** of the Overseas Equities, are managed passively. This has reduced the management fees payable, and reduced the risk of manager under-performance. As proposed above, these figures would both increase to 30%.

29. For most developed markets there is a choice of indices which can be replicated – in the UK, for example, investors can choose the broadest index (the FTSE All Share) or select size bands (FTSE 100, FTSE 250 or FTSE Small-Caps). [The All-Share Index comprises approximately 80% FTSE 100; 16% FTSE 250; 4% FTSE Small-Cap]. It is in large, liquid, well-researched

equity markets (such as the US or UK) that indexation is more often employed, on the grounds that few active managers will be able to outperform in such efficient markets. Secondly, it must be remembered that a passive mandate is not the same as a low-risk portfolio. It may minimise *relative* risk, but not *absolute* risk.

30. The Oxfordshire Fund has been invested in Legal & General's FTSE 100 tracker, even though the UK Equity benchmark is the All-Share Index. This mismatch has been offset by the composition of Baillie Gifford's UK Equity portfolio which has a significant overweight in the FTSE 250. Over the 10 years to March 2016, the All-Share out-performed the FTSE 100 by some 0.6% annually, as shown in the table below. In the year to March 2016, however, and in the final three quarters of 2016, the FTSE 100 has led by 3.1%.

To March 2016..	10 years	5 years	3 years	1 year	Q2-Q4 2016
FTSE 100	+4.1	+4.7	+2.4	- 5.2	+19.0
FTSE All Share	+4.7	+5.7	+3.7	-3.9	+17.2
Deviation	-0.6	-1.0	-1.3	+1.3	+1.8

[Sources: State Street Global Services Performance Services 2016 and Financial Times]

31. Looking ahead to the formation of Brunel, it is the All-Share tracker which is expected to be on the Brunel platform. To simplify the transition into Brunel, and to capture the recent relative strength of the FTSE 100, **I recommend that the Oxfordshire Fund switches its L&G FTSE 100 holding into the L&G All-Share fund. This should incur minimal costs, and will put the Oxfordshire Fund in a better position for the transition into Brunel.**

Separate Allocation to UK equities?

32. Over the past 18 years, allocations to UK equities as a proportion of overall equities has reduced steadily, from 73% in 1998 to just 30% in 2016 [State Street Local Authority Annual League Tables, March 2016]. Even 30% vastly overstates the size of the UK equity market (some 7% of World Equities by market value) and it is worth asking whether a specific allocation to UK equities is still necessary, rather than a single Global Equity allocation.

33. There are a number of arguments advanced in favour of retaining a UK allocation:

- Historically, up to 2013, UK equities had performed well relative to other world markets*, although in the three years 2014-16 Global Equities' return was some 8% p.a. ahead of UK Equities – partly due to the weakness of sterling in 2016.
- Holding £-denominated assets matches the currency of the liabilities for a UK Pension Fund, thereby removing one source of mismatch risk

- UK equities give an investor exposure to global businesses, and are not solely linked to the fortunes of the UK economy
- Active managers of UK equity portfolios have a greater knowledge of, and access to, UK- based companies, and are therefore in a better position to out-perform than managers of global equity portfolios
- Global Equity managers tend to focus on the large-cap stocks, whereas a UK-only manager can delve into the mid- and small-cap stocks in search of value.
- UK-listed companies are better regulated than those listed on many foreign exchanges

* Data supplied by UBS shows that UK Equities out-performed Global Equities in each of the three decades up to end-2013:

	UK.	(% p.a.)	World
1984 – 93	**+18.8**		**+15.3**
1994-2003	**+ 6.1**		**+ 5.6**
2004-13	**+ 8.8**		**+ 8.4**

34. **While some of these points are open to challenge, I would still recommend maintaining a specific UK Equity allocation.** Since the last Fundamental Review, the UBS mandate with Oxfordshire has been changed to a Global Equity one, so that both they and Wellington are measured against a MSCI ACWI benchmark.

Responsible investment

35. The Fund's policy is set out in the section of the Statement of Investment Principles headed 'Social, Environmental & Ethically Responsible Investment' (shown on page 82 of the Pension Fund's 2015-16 Report and Accounts) and will be incorporated in the forthcoming Investment Strategy Statement. We have found that the Fund's equity investment managers provide good summaries in their quarterly reports of their most recent engagement with companies. This covers issues of corporate governance, corporate social responsibility and executive remuneration, as well as voting on AGM or EGM resolutions.

Recommendations

36. **The Committee is RECOMMENDED to:**

   a) **Retain the existing asset classes, but de-risk by reducing the Equity allocation by 5% and increasing the Fixed Interest allocation by 5% [paras 22, 23]**

   b) **Switch the holding in LGIM's FTSE 100 Index Fund into LGIM's FTSE All-Share Index Fund [para 31]**

   c) **Maintain a specific allocation to UK Equities [para 34]**

d) **Maintain the existing external investment managers until the introduction of the Brunel Company, but then scrutinise the choice of mandates available within Brunel [paras 20, 26]**

Peter Davies

Senior Adviser – AllenbridgeEpic Investment Advisers

February 15th 2017

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Document is Restricted

This page is intentionally left blank

Glossary of terms

A	**Absolute Return**	A positive return in absolute terms rather than relative to an index or benchmark.
	Active Management	A style of investment management that aims to outperform a relevant benchmark through, amongst other things, asset allocation, market timing, duration selection or security (company or bond) selection.
	Alpha	The risk adjusted excess return generated over benchmark.
	Alternatives	Alternative Investments such as hedge funds, real estate and private equity.
	Asset Allocation	The apportionment of a fund's assets between asset classes.
	Asset Class	A collective term for assets of a similar type. The main asset classes are equities (shares), bonds, cash and property.
B	**Balanced Fund**	A fund invested in a range of asset classes, particularly equities and bonds.
	Basis Point (Bps)	$1/100^{th}$ of 1% (0.01%)
	Benchmark	Typically an index or asset allocation against which an investment strategy is measured.
	Beta	A measure of the sensitivity of a security or portfolio relative to the market. A beta greater than 1 identifies an issue or fund that will move more than the market, while a beta less than 1 identifies an issue or fund that will move less than the market. Beta is a proxy for non diversifiable risk.
	Bond	A bond is a debt investment. The issuer pays a pre-determined rate of interest (the coupon) and pays back the capital (principal) on specified dates.

B	**Bottom-up**	An approach to active investment management that gives priority to the selection of companies (with less emphasis on sector and country selection) to build up an investment portfolio. This is the opposite of a top-down approach.
C	**Collective Investment Scheme**	Also known as a pooled fund. A vehicle in which a number of investors pool their assets so that they can be managed on a collective basis. Shares in pooled funds are denominated in units that are repriced regularly to reflect changes in the underlying assets.
	Commodities	Raw materials such as base and precious metals, oil or agricultural products.
	Corporate Bond	Often used as a generic term for all bonds except government bonds. Strictly it should apply to company (i.e.) corporate issues.
	Correlation	The statistical measurement of the relationship between two variables.
	Credit	A contractual agreement in which a borrower receives something of value now and agrees to repay the lender at some later date.
	Currency Hedging	The process of eliminating or reducing foreign exchange risk when buying or holding foreign assets by entering off-setting transactions.
	Curve Positioning	Positioning a portfolio to capitalize on expected changes in the shape of the Treasury yield curve.
D	**Defined Benefit Pension**	A **pension** plan in which retirement **benefits** rather than contributions into the plan are specified.

D	**Developed Market**	Developed markets are those countries that are thought to be the most developed and therefore less risky for investing within. The government and economy are more soundly established in such countries.
	Diversification	A method of portfolio allocation and management aimed at balancing risk and return by spreading investments among many different securities or sectors to reduce the risk of owning any single investment.
	Duration	This is a measure of a bond's price sensitivity to a change in yield. It can be measured in years. The higher the duration – the greater the price sensitivity.
E	**Efficient Markets**	An efficient market is one in which prices reflect all available information. This means that every security traded in the market is correctly valued given the available information.
	Emerging Markets	Emerging markets are nations with social or business activity in the process of rapid growth and industrialisation. The economy will be in the early stages of development whose markets have sufficient size and liquidity and are receptive to foreign investment.
	Equity	The shares in a company.
F	**Fixed-Interest / Fixed-Income Securities**	An interest-paying security, where the interest is calculated as a constant specified percentage of the principal amount and paid at the end of specified interest periods, usually annually or semi-annually until maturity.
	FTSE All Share	Representing 98-99% of UK market capitalisation, FTSE All-Share is the aggregation of the FTSE 100, FTSE 250 and FTSE Small Cap Indices.

F	**FTSE 100**	This index comprises the 100 most highly capitalised blue chip companies, representing approximately 81% of the UK market. It is used extensively as a basis for investment products, such as derivatives and exchange-traded funds.
	FTSE 250	The FTSE 250 comprises mid-capitalised companies not covered by the FTSE 100, and represents approximately 15% of UK market capitalisation.
	FTSE Small Cap	The FTSE Small Cap consists of companies outside of the FTSE 350 Index and represents approximately 2% of the UK market capitalisation.
	Funding Strategy Statement	A statement to that explains the funding objectives of a local authority pension fund and in particular; how the pension costs are met through the fund, the objectives in setting employer contribution rates and the strategy that is adopted to meet these objectives.
	Fund of Funds	An investment strategy of holding a portfolio of other investment funds rather than investing directly in shares, bonds or other securities.
G	**Gilt**	Name sometimes given to government bonds issued by the UK and Irish governments.
	Government Bond	See Gilt.
	Growth Stock	A stock that is expected to achieve above average earnings growth. Growth stocks normally have a high P/E ratio relative to the market as a whole, as investors are willing to pay a premium for future higher earnings.
	Growth Style/Investment	A portfolio focusing on growth stocks.

H	**Hedge Funds**	A fund that seeks to generate investment returns by using non-traditional investment strategies, utilising mechanisms such as short selling, leverage, programme trading, arbitrage, and tools such as options, futures, swaps, and forwards (derivatives in general).
I	**Illiquidity**	This is the opposite of liquidity. Illiquid markets are typified by low levels of trading, with little underlying stock readily available. Buying and selling can cause exaggerated price fluctuations.
	Index-Linked Gilt	A bond issued by the UK Government (gilt) whose interest (coupon) and capital (principal) payments are linked to the UK Retail Prices Index (RPI). Note: Many pension fund liabilities are wage inflation linked. Earnings have historically grown faster than prices, so this asset is not a perfect match for such liabilities.
	Indexation (Passive Management)	A passive management approach designed to mimic the investment performance of a specific market index. A portfolio may be indexed either by buying every security in the index in the same proportion as the index (known as replication), or by selecting a smaller number of securities that together reflect as accurately as possible the characteristics of the index (known as sampling).
	Inter-bank Rates	The rates at which banks bid for or offer funds to each other in a particular market.
	Investment Grade Bond	A bond whose issuer has a credit rating of BBB- or higher with S&P or Baa3 or higher with Moody's.

L	**LIBID or London Interbank Bid Rate**	The rate at which major London banks offer to take funds on deposit from other banks.
	LIBOR or London Interbank Offered Rate	The rate at which major London banks offer to lend funds to other banks.
	Liquidity	The ease with which buying and selling takes place in the market. Liquidity can be measured by the daily trading volume in a security.
	Liquidity Risk Premium (LRP)	In order to overcome investors' desire for liquidity, less liquid assets must offer a higher return ('premium') to compensate for reduced flexibility.
M	**Mandate**	The agreement between a client and investment manager laying down how the fund is to be managed. May include performance targets by reference to a benchmark.
	Market Inefficiency	A condition in which current security prices do not reflect all the publicly available information about a security, such as when some investors do not effectively analyse the available information.
	Median	The value in a distribution of values, where 50% of the other values are bigger and 50% of the other values are smaller. In a symmetric distribution, the mean and median are identical.
	Mid-Cap	Used to describe collectively those companies of medium-sized market capitalisation.
	Multi-Asset Management	A single manager is responsible for several asset classes and is measured against a peer group or customised benchmark which specifies a fixed asset allocation. (The manager may or may not have discretion to vary the allocation around this benchmark.)

O	**Outperformance**	The excess return of a fund when compared to the return of its benchmark.
	Overweight	Exposure to a specific asset (or asset class) which is higher than the proportion it represents in the market index or benchmark against which the portfolio is measure. Investment managers may take overweight positions in shares or sectors they expect to outperform in order to add value to the portfolio.
P	**Passive Management**	A style of investment management that seeks to attain performance equal to market or index returns.
	Peer Group Analysis	A ranking table of the competitive performance of investment managers / funds in, for example, a performance survey such as CAPS or WM.
	Portfolio Drift	The divergence of a mutual fund from its stated investment style or objective. Style drift occurs as a result of intentional portfolio investing decisions by management, a change of the fund's management or, in the case of stocks, a company's growth.
	Pooled Fund	A fund that pools investors money and invests in a portfolio of shares, bonds and cash.
	Private Equity	Funds put up by investors to finance new or unquoted, i.e. non-public, business. Also known as venture capital.
R	**Rebalancing**	The process of realigning the weightings of one's portfolio of assets. Rebalancing involves periodically buying or selling assets in your portfolio to maintain your original desired level of asset allocation.

S	**Small-Cap**	Used to describe collectively those companies of small market capitalisation.
	Specialist Management	Employing a fund manager who specialises in a certain asset class.
	Statement of Investment Principles	A SIP details the policy which controls how a pension fund invests. Local government pension schemes have been required by law to keep an up-to-date SIP since 1999. To be replaced from 1 April 2017 by the Investment Strategy Statement.
	Strategic Asset Allocation	Long-term allocation between the main asset classes with the aim of meeting the investor's risk and return objectives.
T	**Tactical Asset Allocation (TAA)**	Day-to-day decisions to deviate from the long-term strategic asset allocation of the portfolio to reflect the fund managers short-term market views.
	Target	The targeted return that a manager is aiming to achieve.
	Tracker Fund	Also known as an index fund, it aims to replicate the performance of a specific stock market or bond market index.
	Tracking Error	A measure of the variability of investment returns relative to benchmark or index. It is usually expressed as the annualised standard deviation of relative returns. Can be expressed as either ex-post, which is simply the historical tracking error, or ex-ante, which is a forward-looking estimate of the future tracking error.
	Transitional Fund	A fund managed by a transitional manager when a firm makes significant changes to their investment arrangements, assets held or fund managers they employ. These specialists will aim to reduce costs, control risks and provide efficient management during the transition.

U	**Underweight**	Exposure to a specific asset (or asset class) which is lower than the proportion it represents in the benchmark against which the portfolio is measured.
	Unit Trust	A UK based, open-ended, collective fund where new units are created for new investors and units are cashed in if the investor wants to leave the fund.
V	**Value Investment/Style**	An approach to investment that places emphasis on identifying shares that are believed to be underpriced (on the basis of indicators such as P/E ratio and dividend yield) by the market.

This page is intentionally left blank

Investment Strategy Statement

Introduction

The Pension Fund Committee has drawn up this Investment Strategy Statement (ISS) to comply with the requirements of The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and the accompanying Guidance on Preparing and Maintaining an Investment Strategy Statement. The Authority has consulted its Actuary and Independent Financial Adviser in preparing this statement.

The ISS is subject to periodic review at least every three years and more frequently if there are any developments that impact significantly on the suitability of the ISS currently in place. Investment performance is monitored by the Committee on a quarterly basis and may be used to check whether actual results are in-line with those expected under the ISS.

The Committee will invest any Fund money not immediately required to make payments from the Fund in accordance with the ISS. The ISS should be read in conjunction with the Fund's Funding Strategy Statement.

Governance Overview

Oxfordshire County Council is the designated statutory body responsible for administering the Oxfordshire Pension Fund. The Pension Fund Committee acts on the delegated authority of the Administering Authority and is responsible for setting investment policy, appointing suitable persons to implement that policy and carrying out regular reviews and monitoring of investments.

The Director of Finance has delegated powers for investing the Oxfordshire Pension Fund in accordance with the policies determined by the Pension Fund Committee. The Committee is comprised of nine County Councillors plus two District Council representatives. A beneficiaries' representative attends Committee meetings as a non-voting member.

The Committee meets quarterly and is advised by the Director of Finance and the Fund's Independent Financial Adviser. The Committee members are not trustees, although they have similar responsibilities.

Investment Objectives

The Fund's primary objective is to ensure that over the life of the Fund it has sufficient funds to meet all pension liabilities as they fall due. In seeking to achieve this aim, the investment objectives of the Fund are:

1. to achieve and maintain a 100% funding level;
2. to ensure there are sufficient liquid resources available to meet the Fund's current liabilities and investment commitments;

3. for the overall Fund to outperform the benchmark, set out in the next section, by 1.3% per annum over a rolling three-year period.

Asset Allocation

The decision on asset allocation determines the allocation of the Fund's assets between different asset classes. The Committee believes that this is the single most important factor in the determination of the Fund's investment outcomes. In setting the asset allocation the Fund has considered advice from its Independent Financial Adviser and has used long-term cashflow modelling provided by the Fund's Actuary.

Every three years, following the actuarial valuation, there is a fundamental review of how the assets are managed. This review considers the most appropriate asset allocation for the Fund in order to achieve its investment objectives and considers advice from the Fund's Independent Financial Adviser. A balance is sought between risk, return and liquidity. The most recent review was undertaken in March 2014.

Diversification is the Fund's primary tool for managing investment risk. Diversification can improve returns and reduce portfolio volatility by ensuring that investment risk is not concentrated in a particular asset class or investment style and by reducing exposure to losses through poor performance of an individual asset class. In considering asset class correlations it is acknowledged that these vary over time and as such, are not indicators of how assets will behave relative to each other in the future. Taking this into account, the Committee believes that spreading investments over a wide range of asset classes is the most appropriate way to benefit from diversification having considered the factors that may cause values for various asset classes to move in the future.

The Committee has developed the following guidelines to assist in ensuring appropriate diversification is maintained:

1. Exposure to a single security will be limited to 10% of the total portfolio.
2. No single investment shall exceed 35% of the Fund's total portfolio.
3. Not more than 10% of the Fund may be held as a deposit in any single bank, institution or person.

In considering the asset classes used to build the Fund's overall portfolio, consideration has been given to the suitability of those investments given the Fund's investment objectives and advice has been taken from the Fund's Independent Financial Adviser. The fund broadly defines assets as either return-seeking or liability-matching assets and seeks to develop an appropriate balance between these categories. Each asset class should be understood by the Committee, be consistent with the Fund's risk/return objectives, and provide the most effective solution for delivering a target outcome.

The Fund currently constructs its investment portfolio using eleven distinct asset classes. A target allocation and range is set for each asset class as shown in the table below.

Asset Class	Target Allocation (%)	Range (%)
UK Equities	29	27 - 31
Overseas Equities	30	28 - 32
Total Equities	**59**	**55 - 65**
UK Gilts	3	
Corporate Bonds	6	
Index-Linked Bonds	5	
Overseas Bonds	2	
Total Bonds	**16**	**14 - 18**
Property	8	5 - 9
Private Equity	9	6 - 11
Multi-Asset	5	4 - 6
Infrastructure	3	2 - 4
Cash	0	0 - 5
Total Other Assets	**25**	17 - 35

Investment Implementation

To implement its asset allocation the Fund has a range of options available to access the different asset classes. This ranges from undertaking investments in-house to using external Fund Managers or selecting externally managed pooled funds. Options to manage investments in-house need to be considered against the capacity and skills available to the Fund. At present the majority of assets are managed externally by Fund Managers.

In selecting Fund Managers the Pension Fund considers whether they are suitably qualified to make investment decisions on behalf of the Fund and takes advice as considered appropriate. The fund is primarily interested in the net return delivered by an investment. While the return side of the equation is less controllable the cost side is more certain. The Fund is conscious of the compounding effect that fees have on total investment performance and considers the most cost effective way to invest in an asset class while maintaining the same level of exposure to the desired outcome.

When selecting investments for some asset classes there is a choice available between active and passive management. The Fund believes that active management can provide benefits above passive management in some situations. Active management gives the potential for outperformance relative to the passive benchmark through the selection of holdings expected to outperform the general market and through the use of cash to protect against downside risk. In considering the most appropriate type of mandate the Fund will consider the potential for outperformance, fees and risk. For some investment classes there are not passive investment solutions currently available but the Fund will monitor the market to identify any new products that are developed in the passive arena.

The individual managers' performance, current activity and transactions are monitored quarterly by the Pension Fund Committee.

The assets are currently managed as set out in the following table.

Asset Class	**Investment Manager**	**Benchmark**	**Annual Target**
UK Equities	Baillie Gifford Legal & General Investment Management	FTSE All-Share FTSE 100	+1.25% Passive
Overseas Equities	Legal & General Investment Management	FTSE AW-World (ex-UK) Index	Passive
Global Equities	Wellington UBS	MSCI All Countries World Index MSCI All Countries World Index	+ 2.0% + 3.0%
Bonds & Index Linked - UK Gilts - Index Linked - Corporate bonds - Overseas bonds	Legal & General	 FTSE A All Gilts Stocks FTSE A Over 5 year IBoxx Sterling Non-Gilts JPMorgan Global Govt (ex UK) traded bond	+ 0.6%
Property	UBS Global Asset Management	IPD UK All Balanced Funds Index	+1.0%
Private Equity - Quoted Inv. Trusts - Limited Partnerships	 Director of Finance Adams Street Partners Group	FTSE Smaller Companies (Including Investment Trusts)	+ 1.0%
Diversified Growth Fund	Insight	3 month Libor	+ 3.0 – 5.0%
Cash	Internal	3 month Libor	-

Target performance is based on rolling 3-year periods

Rebalancing

The primary goal of the rebalancing strategy is to minimize risk relative to a target asset allocation, rather than to maximize returns. Asset allocation is the major determinant of the portfolio's risk-and-return characteristics. Over time, asset classes produce different returns, so the portfolio's asset allocation changes. Therefore, to recapture the portfolio's original risk-and-return characteristics, the portfolio needs to be rebalanced.

The Fund has set ranges for the different assets included in the asset allocation, these are not hard limits but there would need to be a clear rationale for maintaining an allocation outside the ranges for any significant length of time. The fund takes a pragmatic approach to rebalancing and is cognisant that rebalancing latitude is important and can significantly affect the performance of the portfolio. Blind adherence to narrow ranges increases transaction costs without a documented increase in performance. While a rebalancing range that is too wide may cause undesired changes in the asset allocation fundamentally altering its risk/return characteristics.

Rebalancing meetings take place on a quarterly basis where the most recent asset allocation is reviewed against the target allocations and the ranges in place. A number of factors are taken into account in the decision on whether to rebalance which includes, but is not limited to; current and forecast market dynamics, and known future investment activity at the Fund level.

Where a decision is made to undertake rebalancing the Fund aims to use cash to rebalance as far as possible, as this will minimise transaction costs and keep the cash holding closer to target avoiding the need for future transactions with associated costs. The rebalancing action will not necessarily take place immediately after a decision has been made as consideration is given to market opportunities and transaction costs.

Restrictions on Investments

The Regulations have removed the previous restrictions that applied under the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2009. These restrictions set limits for types of investment vehicles but not for asset classes. The Committee's approach to setting its investment strategy and assessing the suitability of different types of investment takes into account the various risks involved and rebalancing is undertaken as described above to ensure asset allocations are kept at appropriate levels. When making investment decisions the suitability of the proposed investment structure is considered to ensure that it is the most efficient in meeting the Fund's objectives. Therefore, it is not felt necessary to set any additional restrictions on investments.

In accordance with the regulations the Fund is not permitted to invest more than 5% of the total value of all investments of fund money in entities which are connected with the Administering Authority within the meaning of section 212 of the Local Government and Public Involvement in Health Act 2007(d).

Risk

The overall risk for the Fund is that its assets will be insufficient to meet its liabilities. The Funding Strategy Statement, which is drawn up following the triennial actuarial valuation of the Fund, sets out how any deficit in assets compared with liabilities is to be addressed.

Underlying the overall risk, the Fund is exposed to demographic risks, regulatory risks, governance risks and financial risks (including investment risk). The measures taken by the Fund to control these risks are included in the Funding Strategy Statement and are reviewed periodically by the Committee via the Fund's risk register. Further details on the risk management process and risks faced by the Pension Fund are also included in the Annual Report and Accounts document produced by the Fund. The primary investment risk is that the Fund fails to deliver the returns anticipated in the actuarial valuation over the long term. The Committee anticipates expected market returns on a prudent basis to reduce the risk of underperforming expectations.

It is important to note that the Fund is exposed to external, market driven, fluctuations in asset prices which affect the liabilities (liabilities are estimated with reference to government bond yields) as well as the valuation of the Fund's assets. Holding a proportion of the assets in government bonds helps to mitigate the effect of falling bond yields on the liabilities to a certain extent. Further measures taken to control/mitigate investment risks are set out in more detail below:

<u>Concentration</u>
The Committee manages the risk of exposure to a single asset class by holding different categories of investments (e.g. equities, bonds, property, alternatives and cash) and by holding a diversified portfolio spread by geography, currency, investment style and market sectors. Each asset class is managed within an agreed permitted range to ensure that the Fund does not deviate too far away from the Benchmark, which has been designed to meet the required level of return with an appropriate level of exposure to risk, taking into consideration the level of correlation between the asset classes.

<u>Volatility</u>
The Benchmark contains a high proportion of equities with a commensurate high degree of volatility. The strong covenant of the major employing bodies and the current forecast cashflow position enables the Committee to take a long term perspective and to access the forecast inflation plus returns from equities.

<u>Performance</u>
Investment managers are expected to outperform the individual asset class benchmarks detailed in the overall Strategic Asset Allocation Benchmark. The Committee takes a long term approach to the evaluation of investment performance but will take steps to address persistent underperformance. Investment managers are required to implement appropriate risk management measures and to operate in such a way that the possibility of undershooting the performance target is kept within acceptable limits. The Fund Managers report on portfolio risk each quarter and are required to provide internal control reports to the Fund for review on an annual basis.

A proportion of assets are invested passively to reduce the risks from manager underperformance.

Illiquidity
Close attention is paid to the Fund's projected cash flows; the Fund is currently cash flow positive, in that annually there is an excess of cash paid into the Fund from contributions and investment income after pension benefits are paid out. The Fund expects to be cash flow positive for the short to medium term. Despite the significant proportion of illiquid investments in the Fund, a large proportion of the assets are held in liquid assets and can be realised quickly, in normal circumstances, in order for the Fund to pay its immediate liabilities.

Currency
The Fund's liabilities are denominated in sterling which means that investing in overseas assets exposes the Fund to a degree of currency risk. The Committee regards the currency exposure associated with investing in overseas equities as part of the return on the overseas equities; the currency exposure on overseas bonds is hedged back to sterling.

Custody
The risk of losing economic rights to the Fund's assets is managed by the use of a global custodian for custody of the assets. Custodian services are provided by BNP Paribas Securities Services. In accordance with normal practice, the Scheme's share certificates are registered in the name of the custodian's own nominee company with designation for the Scheme. Officers receive and review internal control reports produced by the custodian. The custodian regularly reconciles their records with the investment manager records, providing a regular report to officers which they in turn review.

Stock Lending
The Council allows the Custodian to lend stock and share the proceeds with the Council. This is done to generate income for the Fund and to minimise the cost of custody. To minimise risk of loss the counterparty is required to provide suitable collateral to the Custodian. The levels of collateral and the list of eligible counterparties have been agreed by the Fund. The Committee will ensure that robust controls are in place to protect the security of the Fund's assets before entering into any stock lending arrangements.

Pooling

The Oxfordshire Pension Fund is working with nine other administering authorities to pool investment assets through the Brunel Pension Partnership Ltd. (BPP Ltd). This is currently work in progress with the intention of meeting the Government's requirement for the pool to become operational and for the first assets to transition to the pool from April 2018.

Once the Brunel Pension Partnership Ltd. is established the Oxfordshire Pension Fund, through the Pension Committee, will retain the responsibility for setting the detailed Strategic Asset Allocation for the Fund and allocating investment assets to the portfolios provided by BPP Ltd.

The Brunel Pension Partnership Ltd will be a new company which will be wholly owned by the Administering Authorities. The company will seek authorisation from the Financial Conduct Authority (FCA) to act as the operator of an unregulated Collective Investment Scheme. It will be responsible for implementing the detailed Strategic Asset Allocations of the participating funds by investing Funds' assets within defined outcome focused investment portfolios. In particular it will research and select the Manager Operated Funds needed to meet the requirements of the detailed Strategic Asset Allocations. These Manager Operated Funds will be operated by professional external investment managers. The Oxfordshire Pension Fund will be a client of BPP Ltd and as a client will have the right to expect certain standards and quality of service. A detailed service agreement is being drafted which will set out the duties and responsibilities of BPP Ltd, and the rights of the Oxfordshire Pension Fund as a client. It includes a duty of care of BPP to act in its clients' interests.

An Oversight Board will be established. This will be comprised of representatives from each of the Administering Authorities. It will be set up by them according to an agreed constitution and terms of reference. Acting for the Administering Authorities, it will have ultimate responsibility for ensuring that BPP Ltd delivers the services required to achieve investment pooling. It will therefore have a monitoring and oversight function. Subject to its terms of reference it will be able to consider relevant matters on behalf of the Administering Authorities, but will not have delegated powers to take decisions requiring shareholder approval. These will be remitted back to each Administering Authority individually.

The Oversight Board will be supported by the Client Group, comprised primarily of pension investment officers drawn from each of the Administering Authorities but will also draw on Administering Authorities finance and legal officers from time to time. It will have a primary role in reviewing the implementation of pooling by BPP Ltd, and provide a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It will be responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function.

The proposed arrangements for asset pooling for the Brunel pool have been formulated to meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and Government guidance. Regular reports have been made to Government on progress towards the pooling of investment assets, and the Minister for Local Government has confirmed that the pool should proceed as set out in the proposals made.

Oxfordshire County Council has approved the full business case for the Brunel Pension Partnership. It is anticipated that investment assets will be transitioned across from the Oxfordshire Pension Fund's existing investment managers to the portfolios managed by BPP Ltd between April 2018 and March 2020 in accordance with a timetable that will be agreed with BPP Ltd. Until such time as transitions take place, the Oxfordshire Pension Fund will continue to maintain the relationship with its current investment managers and oversee their investment performance, working in partnership with BPP Ltd. where appropriate.

Following the completion of the transition plan outlined above, it is envisaged that all of the Oxfordshire Pension Fund's assets will be invested through BPP Ltd. However, the Fund has certain commitments to long term illiquid investment funds which will take longer to transition across to the new portfolios to be set up by BPP Ltd. These assets will be managed in partnership with BPP Ltd. until such time as they are liquidated, and capital is returned.

ESG Policy

The Committee recognises that environmental, social and corporate governance (ESG) issues can have materially significant investment implications. The Fund therefore seeks to be a responsible investor and to consider ESG risks as part of the investment process across all investments. The objective of responsible investment is to decrease investor risk and improve risk-adjusted returns. Responsible investment principles are at the foundation of the Fund's approach to stewardship and underpin the Fund's fulfilment of its fiduciary duty to scheme beneficiaries.

The Committee's principal concern is to invest in the best financial interests of the Fund's employing bodies and beneficiaries. Its Investment Managers are given performance objectives accordingly. The Council requires its Investment Managers to monitor and assess the environmental, social and governance considerations, which may impact on financial performance when selecting and retaining investments, and to engage with companies on these issues where appropriate. The Council believes that the operation of such a policy will ensure the sustainability of a company's earnings and hence its merits as an investment.

The Investment Managers report at quarterly intervals on the selection, retention and realisation of investments on the Council's behalf and on any engagement activities undertaken. These Reports/Review Meetings provide an opportunity for the Council to influence the Investment Manager's choice of investments and to review/challenge their stewardship activities but the Council is careful to preserve the Investment Manager's autonomy in pursuit of their given performance.

Just because concerns have been registered about a company's performance on ESG issues, doesn't mean our fund managers will be instructed not to invest in that company. It is then through active ownership we aim to drive change. Where engagement is not seen to be resulting in sufficient progress, and so the risk associated with a holding is increasing or not reducing sufficiently, the Fund will consider divesting.

As a passive investor, the Fund accepts that it will hold companies of varying ESG quality due to the requirement to hold all securities in the target index. The committee believes that passive investing offers a number of benefits that need to be weighed against this and requires passive managers to demonstrate effective engagement, as is the case for active managers. It is important to note that ownership of a security in a company does not signify that the Oxfordshire Pension Fund approves of all of the company's practices or its products

The Committee is open to investing in Social Investments; investments where social impact is delivered alongside financial return. The Committee further believes that the goal of social impact is inherently compatible with generating sustainable financial returns by meeting societal needs. The Fund has made investments in this area and will continue to review whether further opportunities are available that offer an appropriate risk/return profile. Stakeholders' views are taken into account through the representation of different parties on the Pension Fund Committee, which includes a beneficiaries' representative, and the Local Pension Board, which consists of equal numbers of employer and member representatives.

The Fund will not use pension policies to pursue boycotts, divestment and sanctions against foreign nations and UK defence industries, other than where formal legal sanctions, embargoes and restrictions have been put in place by the Government.

One of the principal benefits, outlined in the Brunel Pension Partnership business case, achieved through the enhanced scale and resources as a result of pooling is the improved implementation of responsible investment and stewardship. Once established and fully operational the Brunel Company will deliver best practice standards in responsible investment and stewardship as outlined in the BPP Investment Principles.

Every portfolio under the Brunel Pension Partnership explicitly includes responsible investment and an assessment of how social, environment and corporate governance considerations may present financial risks to the delivery of the portfolio objectives. These considerations will therefore be taken into account in the selection, non-selection, retention and realisation of assets. The approach undertaken will vary in order to be the most effective in mitigating risks and enhancing investor value in relation to each portfolio and its objectives.

Policy on Exercise of Rights

As an investor with a very long-term investment horizon and expected life, the success of the Oxfordshire Pension Fund is linked to long term global economic growth and prosperity. Actions and activities that detract from the likelihood and potential of global growth are not in the long-term interests of the Fund. Since the Fund is a long-term investor, short-term gains at the expense of long-term gains are not in the best interest of the Fund. Sustainable returns over long periods are in the economic interest of the Fund.

The Fund recognises that encouraging the highest standards of corporate governance and promoting corporate responsibility by investee companies protects the financial interests of pension fund members over the long term. Stewardship activities include monitoring and engaging with companies on matters such as strategy, performance, risk, capital structure and corporate governance, including culture and remuneration.

The Fund's commitment to actively exercising the ownership rights attached to its investments reflects the Fund's conviction that responsible asset owners should maintain oversight of the way in which the enterprises they invest in are managed and how their activities impact upon customers, clients, employees, stakeholders, and wider society.

The routes for exercising ownership influence vary across asset types and a range of activities are undertaken on the Fund's behalf by Fund Managers including engagement with senior management of companies, voting of shares, direct representation on company boards, presence on investor & advisory committees and participation in partnerships and collaborations with other investors. Where the Pension Fund invests in pooled vehicles it will seek to gain representation on investor committees if considered appropriate.

In practice the Fund’s Investment Managers are delegated authority to exercise voting rights in respect of the Council’s holdings. Voting decisions are fully delegated to fund managers, while recognising that the Fund maintains ultimate responsibility for ensuring that voting is undertaken in the best interests of the Fund.

The Fund will exercise its voting rights in all markets and its investment managers are required to vote at all company meetings where practicable. Market conventions in some countries may mean voting shares is not in the best interests of the Fund, for example where share-blocking is in operation.

The Fund has appointed an external company to monitor the Fund’s proxy voting at the whole fund level. The Fund receives reports detailing where votes cast by Fund Managers differ to the template vote recommended by the provider. The monitoring service also includes the production of an annual report for the Fund summarising and analysing the voting activity for the Fund including at Fund Manager level. These reports are used to inform the Fund and to enable discussion with Fund Managers where appropriate.

Our approach to Stewardship, including the exercising of rights attached to investments is outlined above and is consistent with the requirements of the UK Stewardship Code. During 2017 we will develop this further by becoming signatories to the code and clearly demonstrating our position in relation to all seven principles. As part of the Brunel Pension Partnership (BPP) we are actively exploring opportunities to enhance our stewardship activities.

March 2017

This page is intentionally left blank

TABLE 1

OXFORDSHIRE COUNTY COUNCIL PENSION FUND
OVERALL VALUATION OF FUND AS AT 31st DECEMBER 2016

Investment	COMBINED PORTFOLIO 01.10.16	Baillie Gifford UK Equities		Wellington Global Equities		Legal & General Global Equity Passive		Legal & General Fixed Interest		UBS Global Equities and Property		Other Investments		COMBINED PORTFOLIO 31.12.16		
	Value £' 000	Value £' 000	% of Total Value	Value £' 000	% of Total Value	Value £' 000	% of Total Value	Value £' 000	% of Total Value	Value £' 000	% of Total Value	Value £' 000	% of Total Value	Value £' 000	% of Total Value	Target %
EQUITIES																
UK Equities	**570,731**	**374,553**	**95.6%**	**23,886**	**8.8%**	**174,438**	**47.1%**	**0**	**0.0%**	**24,784**	**5.8%**	**0**	**0.0%**	**597,661**	**27.7%**	**29.0%**
Overseas Equities																
North American Equities	149,558	0	0.0%	157,598	57.8%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	157,598	7.3%	
European & Middle Eastern Equities	50,363	0	0.0%	55,923	20.5%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	55,923	2.6%	
Japanese Equities	14,580	0	0.0%	13,236	4.9%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	13,236	0.6%	
Pacific Basin Equities	465	0	0.0%	2,681	1.0%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	2,681	0.1%	
Emerging Markets Equities	10,666	0	0.0%	12,428	4.6%	0	0.0%	0	0.0%	0	0.0%	0	0.0%	12,428	0.6%	
UBS Global Pooled Fund	261,066	0	0.0%	0	0.0%	0	0.0%	0	0.0%	286,187	67.0%	0	0.0%	286,187	13.3%	
L&G World (ex UK) Equity Fund	182,802	0	0.0%	0	0.0%	195,780	52.9%	0	0.0%	0	0.0%	0	0.0%	195,780	9.1%	
Total Overseas Equities	**669,500**	**0**	**0.0%**	**241,866**	**88.7%**	**195,780**	**52.9%**	**0**	**0.0%**	**286,187**	**67.0%**	**0**	**0.0%**	**723,833**	**33.6%**	**30.0%**
BONDS																
UK Gilts	89,335	0	0.0%	0	0.0%	0	**0.0%**	82,359	25.1%	0	0.0%	0	0.0%	82,359	3.8%	3.0%
Corporate Bonds	74,271	0	0.0%	0	0.0%	0	**0.0%**	72,127	21.9%	0	0.0%	0	0.0%	72,127	3.3%	6.0%
Overseas Bonds	67,458	0	0.0%	0	0.0%	0	**0.0%**	59,166	18.0%	0	0.0%	0	0.0%	59,166	2.7%	2.0%
Index-Linked	101,502	0	0.0%	0	0.0%	0	**0.0%**	104,583	31.8%	0	0.0%	0	0.0%	104,583	4.8%	5.0%
Total Bonds	**332,566**	**0**	**0%**	**0**	**0.0%**	**0**	**0.0%**	**318,235**	**96.8%**	**0**	**0.0%**	**0**	**0.0%**	**318,235**	**14.8%**	**16.0%**
ALTERNATIVE INVESTMENTS																
Property	137,462	0	0.0%	0	0.0%	0	**0.0%**	0	0.0%	113,490	26.6%	29,647	8.1%	143,137	6.6%	8.0%
Private Equity	189,512	0	0.0%	0	0.0%	0	**0.0%**	0	0.0%	0	0.0%	196,342	53.5%	196,342	9.1%	9.0%
Hedge Funds	-	0	0.0%	0	0.0%	0	**0.0%**	0	0.0%	0	0.0%	0	0.0%	0	0.0%	0.0%
Multi Asset - DGF	82,649	0	0.0%	0	0.0%	0	**0.0%**	0	0.0%	0	0.0%	97,589	26.6%	97,589	4.5%	5.0%
Infrastructure	-	0	0.0%	0	0.0%	0	**0.0%**	0	0.0%	0	0.0%	0	0.0%	0	0.0%	3.0%
Total Alternative Investments	**409,623**	**0**	**0.0%**	**0**	**0.0%**	**0**	**0.0%**	**0**	**0.0%**	**113,490**	**26.6%**	**323,578**	**88.2%**	**437,068**	**20.3%**	**25.0%**
CASH	**89,969**	**17,046**	**4.4%**	**6,846**	**2.5%**	**0**	**0.0%**	**10,575**	**3.2%**	**2,656**	**0.6%**	**43,485**	**11.8%**	**80,608**	**3.7%**	**0.0%**
TOTAL ASSETS	**2,072,389**	**391,599**	**100.0%**	**272,598**	**100.0%**	**370,218**	**100.0%**	**328,810**	**100.0%**	**427,117**	**100.0%**	**367,063**	**100.0%**	**2,157,405**	**100.0%**	**100.0%**
% of total Fund		18.15%		12.64%		17.16%		15.24%		19.80%		17.01%		100.00%		

TABLE 2

OXFORDSHIRE COUNTY COUNCIL PENSION FUND

Asset	Market Value 01.10.16	%	Net Purchases and Sales: UBS	Net Purchases and Sales: Baillie Gifford	Net Purchases and Sales: Legal & General	Net Purchases and Sales: Wellington	Net Purchases and Sales: Other	Changes in Market Value: UBS	Changes in Market Value: Baillie Gifford	Changes in Market Value: Legal & General	Changes in Market Value: Wellington	Changes in Market Value: Other	Market Value 31.12.16	%
	£000		£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	£000	
EQUITIES														
UK Equities	570,731	28	0	4,440		589	0	1,341	13,405	7,246	(90)	0	597,661	28
US Equities	149,558	7	0	0	0	(6,826)	0	0	0	0	14,866	0	157,598	8
European & Middle Eastern Equities	50,363	2	0	0	0	1,432	0	0	0	0	4,128	0	55,923	3
Japanese Equities	14,580	1	0	0	0	(1,404)	0	0	0	0	60	0	13,236	1
Pacific Basin Equities	465	0	0	0	0	2,206	0	0	0	0	10	0	2,681	0
Emerging Market Equities	10,666	1	0	0	0	2,588	0	0	0	0	(826)	0	12,428	1
Global Pooled Funds	443,868	21	0	0			0	25,120	0	12,978	0	0	481,967	22
Total Overseas Equities	669,500	32	0	0	0	(2,004)	0	25,120	0	12,978	18,238	0	723,833	34
BONDS														
UK Gilts	89,335	4	0	0	(1,454)		0	0	0	(5,522)	0	0	82,359	4
Corporate Bonds	74,271	4	0	0			0	0	0	(2,144)	0	0	72,127	3
Overseas Bonds	67,458	3	0	0	(7,589)		0	0	0	(703)	0	0	59,166	3
Index-Linked Bonds	101,502	5	0	0	6,329		0	0	0	(3,248)	0	0	104,583	5
ALTERNATIVE INVESTMENTS														
Property	137,462	7	5,833	0	0		(620)	474	0	0	0	(12)	143,137	7
Private Equity	189,512	9	0	0	0		(7,871)	0	0	0	0	14,701	196,342	9
Hedge Funds	0	0	0	0	0		0	0	0	0	0	0	0	0
Multi Asset - DGF	82,649	4	0	0	0		15,000	0	0	0	0	(60)	97,589	5
SUB TOTAL	1,982,420	96	5,833	4,440	(2,714)	(1,415)	6,509	26,935	13,405	8,607	18,148	14,629	2,076,797	98
CASH *	89,969	4	(5,029)	(3,115)	3,755	2,673	(7,645)	0	0	0	0	0	80,608	4
GRAND TOTAL	**2,072,389**	**100**	**804**	**1,325**	**1,041**	**1,258**	**(1,136)**	**26,935**	**13,405**	**8,607**	**18,148**	**14,629**	**2,157,405**	**102**

* Movement in cash is not confined to investment transactions but also includes dividend income and the payment of fees. Further details of cash movements can be found in the Managers' individual valuations.

TABLE 3

OXFORDSHIRE COUNTY COUNCIL PENSION FUND

PERFORMANCE TO 31st DECEMBER 2016

COMBINED PORTFOLIO (BY FUND MANAGER)

FUND MANAGER	% Weighting of Fund as at 31st December 2016	QUARTER ENDED 31st December 2016 RETURN %	12 MONTHS ENDED 31st December 2016 RETURN %	THREE YEARS ENDED 31st December 2016 RETURN %	FIVE YEARS ENDED 31st December 2016 RETURN %	TEN YEARS ENDED 31st December 2016 RETURN %
BAILLIE GIFFORD UK EQUITIES	18.2%	3.9	14.0	6.2	11.6	7.4
BENCHMARK		3.9	16.8	6.1	10.1	5.6
VARITAION		**0.0**	**-2.8**	**0.1**	**1.5**	**1.8**
WELLINGTON GLOBAL EQUITIES	12.6%	7.6	28.0	13.1		
BENCHMARK		6.4	28.8	13.7		
VARITAION		**1.2**	**-0.8**	**-0.6**		
L&G UK EQUITIES - PASSIVE	8.1%	4.4	19.3	5.9	9.1	
BENCHMARK		4.3	19.1	5.8	9.1	
VARITAION		**0.1**	**0.2**	**0.1**	**0.0**	
L&G GLOBAL EX UK EQUITIES - PASSIVE	9.1%	7.1	30.4	15.3	16.0	
BENCHMARK		7.1	30.3	15.3	16.1	
VARITAION		**0.0**	**0.1**	**0.0**	**-0.1**	
L&G FIXED INCOME	15.2%	-3.0	14.5	9.8	6.8	7.4
BENCHMARK		-2.9	14.7	9.7	6.9	7.1
VARITAION		**-0.1**	**-0.2**	**0.1**	**-0.1**	**0.3**
IN-HOUSE PROPERTY	1.4%	0.3	17.0	11.2	8.3	
BENCHMARK		2.3	2.8	10.7	8.4	
VARITAION		**-2.0**	**14.2**	**0.5**	**-0.1**	
PRIVATE EQUITY	9.1%	6.4	29.1	19.9	18.3	8.9
BENCHMARK		4.0	9.7	6.5	15.4	3.4
VARITAION		**2.4**	**19.4**	**13.4**	**2.9**	**5.5**
UBS GLOBAL EQUITIES	14.4%	7.7	25.3	11.5	13.7	7.8
BENCHMARK		6.5	29.2	13.8	14.8	8.5
VARITAION		**1.2**	**-3.9**	**-2.3**	**-1.1**	**-0.7**
UBS PROPERTY	5.4%	2.3	3.4	11.1	8.8	3.3
BENCHMARK		2.3	2.8	10.7	8.4	2.4
VARITAION		**0.0**	**0.6**	**0.4**	**0.4**	**0.9**
INSIGHT DIVERSIFIED GROWTH FUND	4.5%	0.0	4.9			
BENCHMARK		0.9	3.5			
VARITAION		**-0.9**	**1.4**			
IN-HOUSE CASH	2.0%	0.1	0.4	0.4	0.7	1.7
BENCHMARK		0.1	0.4	0.4	0.4	1.4
VARITAION		**0.0**	**0.0**	**0.0**	**0.3**	**0.3**
TOTAL FUND	**100.0%**	**4.2**	**19.3**	**10.4**	**11.5**	**6.2**

TABLE 4

OXFORDSHIRE COUNTY COUNCIL PENSION FUND

TOP 20 HOLDINGS AT 31/12/2016

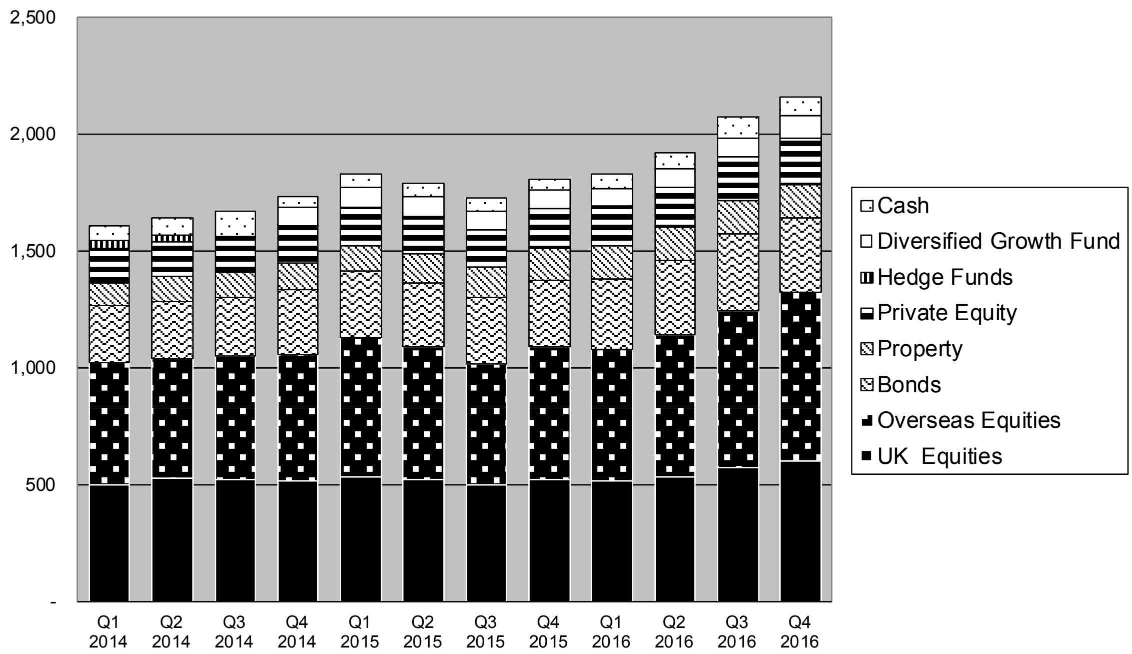
	ASSET DESCRIPTION	MARKET VALUE £	TOTAL FUND %
	DIRECT HOLDINGS		
1	ELECTRA PRIVATE EQUITY PLC	45,520,367	2.11
2	HG CAPITAL TRUST PLC	29,802,940	1.38
3	ROYAL DUTCH SHELL B SHS EUR0.07	26,466,163	1.23
4	BRITISH AMERICAN TOBACCO PLC	22,935,950	1.06
5	ASHTEAD GROUP PLC	16,060,179	0.74
6	PRUDENTIAL PLC	15,914,004	0.74
7	ST JAMESS PLACE PLC	14,378,033	0.67
8	STANDARD LIFE EUROPEAN PRIVATE EQ ORD	13,778,058	0.64
9	BUNZL PLC	13,677,688	0.63
10	F&C PRIVATE EQTY TST ORD GBP0.01	12,292,800	0.57
11	AUSTRALIAN (COMMONWEALTH OF) 5.75% 15/05/21	11,273,232	0.52
12	LEGAL & GENERAL GROUP PLC	10,879,544	0.50
13	HSBC HOLDINGS PLC	10,515,655	0.49
14	REED ELSEVIER PLC	9,641,892	0.45
15	RIO TINTO	9,001,504	0.42
16	UNILEVER PLC	8,785,839	0.41
17	CARNIVAL PLC	8,518,125	0.39
18	UBM PLC	7,920,953	0.37
19	3I GRP	7,917,980	0.37
20	COMPASS GRP PLC	7,534,104	0.35
	TOP 20 HOLDINGS MARKET VALUE *	**302,815,010**	14.04
	* Excludes investments held within Pooled Funds		
	POOLED FUNDS AT 31/12/2016		
1	UBS LIFE GLOBAL EQUITY ALL COUNTRY FUND A	310,971,213	14.41
2	L&G WORLD (EX UK) EQUITY INDEX	195,779,514	9.07
3	L&G HP UK FTSE 100 EQUITY INDEX	174,437,861	8.09
4	LEGAL AND GENERAL TD CORE PLUS	123,394,499	5.72
5	INSIGHT BROAD OPPORTUNITIES FUND	97,588,908	4.52
	TOTAL POOLED FUNDS MARKET VALUE	**902,171,995**	41.81
	TOTAL FUND MARKET VALUE	**2,157,404,908**	

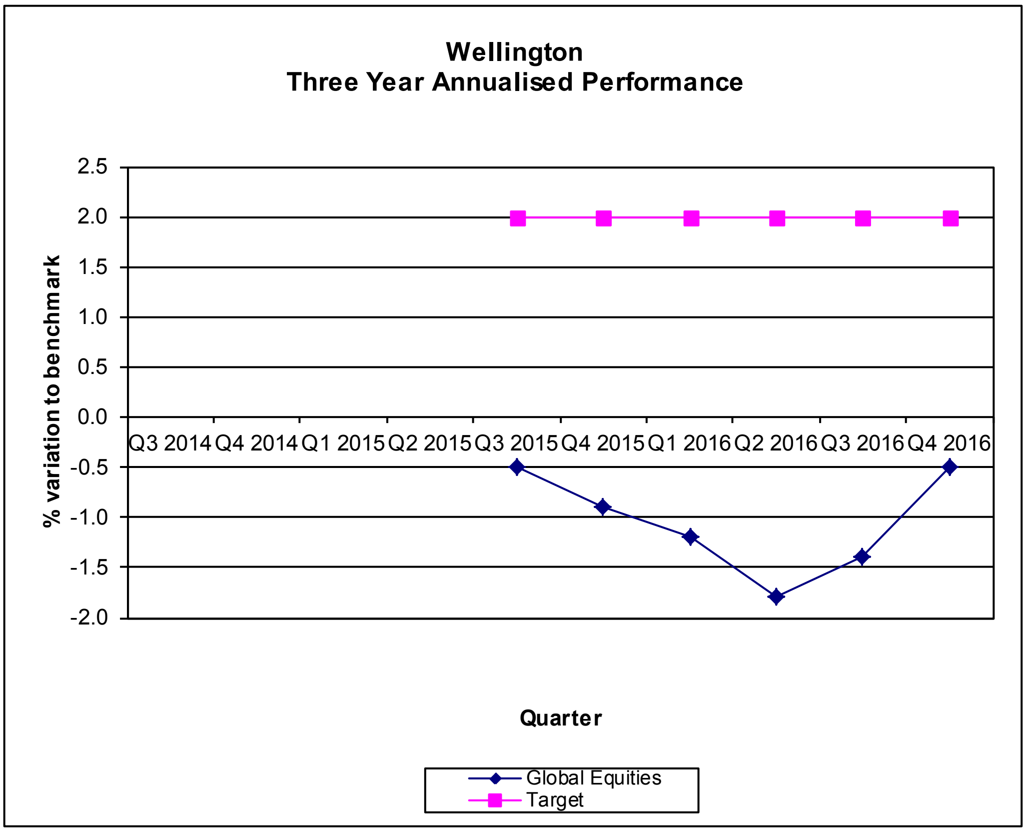
GRAPH 1

OXFORDSHIRE COUNTY COUNCIL PENSION FUND

MARKET VALUE OF TOTAL FUND

TOTAL FUND MARKET VALUE BY ASSET CLASS





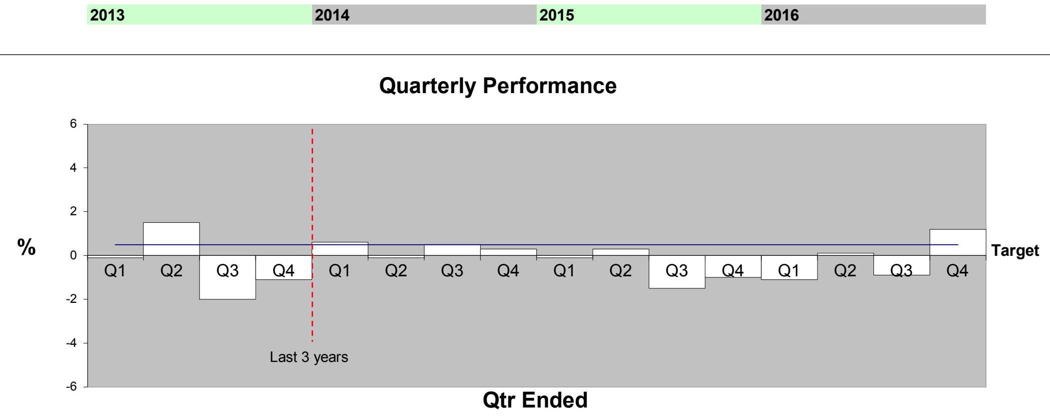
Wellington Three Year Annualised Performance

	Global Equities	Target
Q3 2014		
Q4 2014		
Q1 2015		
Q2 2015		
Q3 2015	-0.5	2.0
Q4 2015	-0.9	2.0
Q1 2016	-1.2	2.0
Q2 2016	-1.8	2.0
Q3 2016	-1.4	2.0
Q4 2016	-0.5	2.0

PERFORMANCE RELATIVE TO BENCHMARK

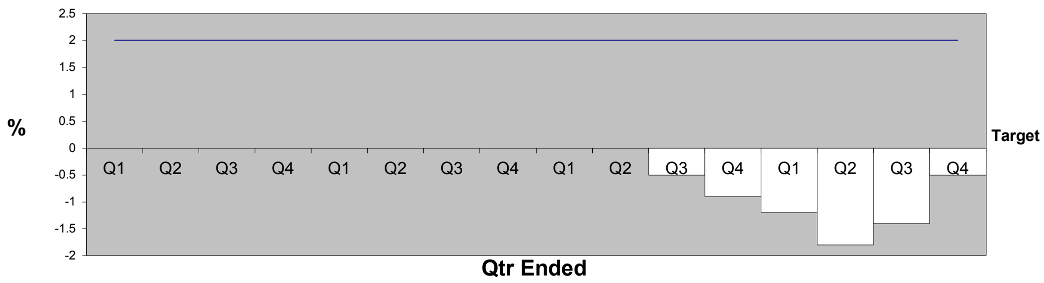
GRAPH 3

Quarterly Performance



	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Performance	14.0	1.4	-0.8	3.8	1.0	2.3	3.5	4.7	7.4	-5.0	-7.4	6.9	1.7	8.8	7.5	7.6
Benchmark	14.1	-0.1	1.2	4.9	0.4	2.4	3.0	4.4	7.5	-5.3	-6.0	7.9	2.8	8.6	8.4	6.4
Relative Return	**-0.1**	**1.5**	**-2.0**	**-1.1**	**0.6**	**-0.1**	**0.5**	**0.3**	**-0.1**	**0.3**	**-1.4**	**-1.0**	**-1.1**	**0.2**	**-0.9**	**1.2**

3 Year Performance



	Q1 2013	Q2 2013	Q3 2013	Q4 2013	Q1 2014	Q2 2014	Q3 2014	Q4 2014	Q1 2015	Q2 2015	Q3 2015	Q4 2015	Q1 2016	Q2 2016	Q3 2016	Q4 2016
Performance											8.7	10.4	6.3	8.8	11.7	13.1
Benchmark											9.2	11.3	7.5	10.6	13.2	13.7
Relative Return	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**0.0**	**-0.5**	**-0.9**	**-1.2**	**-1.8**	**-1.4**	**-0.5**

Target Returns

Rolling annual target of 2% above benchmark

Top 10 holdings at 31/12/2016

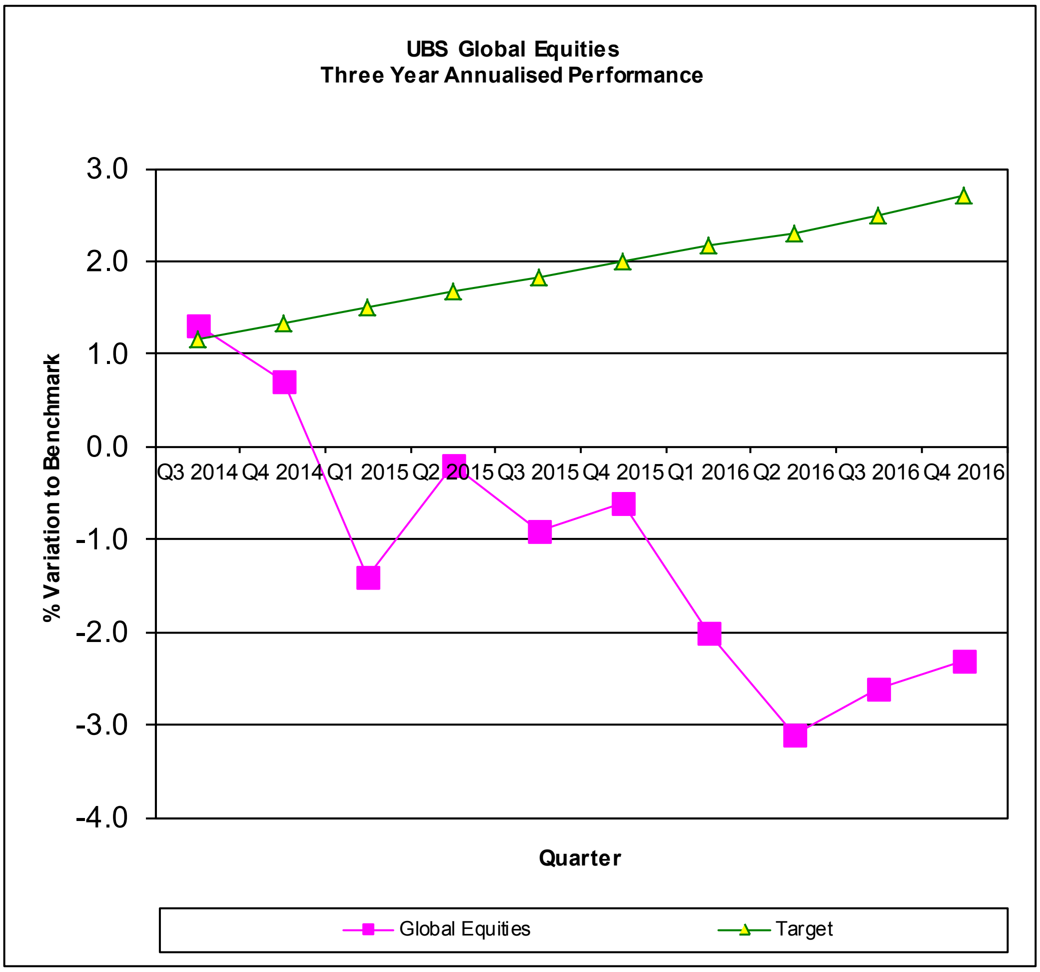
	Holding	Value £	% of portfolio
1	QUALCOMM	6,913,374	2.54
2	ROYAL DUTCH SHELL B SHS	5,917,344	2.17
3	HILTON WORLDWIDE HLDGS	5,683,792	2.08
4	BRITISH AMERICAN TOBACCO	5,235,605	1.92
5	CBS CORP B NON VOTING	5,222,430	1.92
6	INTL PAPER	5,197,617	1.91
7	CISCO SYSTEMS INC	5,184,692	1.90
8	BRISTOL-MYERS SQUIBB	5,032,182	1.85
9	INTEL CORP	5,020,863	1.84
10	ZURICH INSURANCE GRP	4,691,456	1.72
	Top 10 Holdings Market Value	54,099,355	19.85
	Total Wellington Market Value	272,598,000	

Wellington

Top 10 holdings excludes investments held within pooled funds.

<u>**OXFORDSHIRE COUNTY COUNCIL PENSION FUND**</u>

GRAPH 4



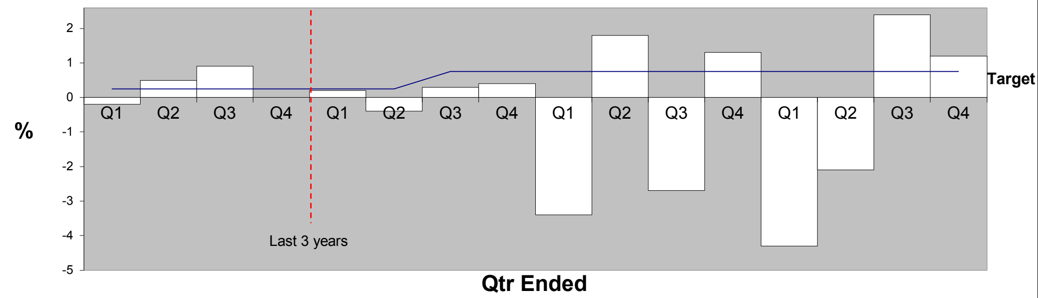
UBS Three Year Annualised Performance

	Global Equities	Target
Q3 2014	1.3	1.2
Q4 2014	0.7	1.3
Q1 2015	-1.4	1.5
Q2 2015	-0.2	1.7
Q3 2015	-0.9	1.8
Q4 2015	-0.6	2.0
Q1 2016	-2.0	2.2
Q2 2016	-3.1	2.3
Q3 2016	-2.6	2.5
Q4 2016	-2.3	2.7

PERFORMANCE RELATIVE TO BENCHMARK

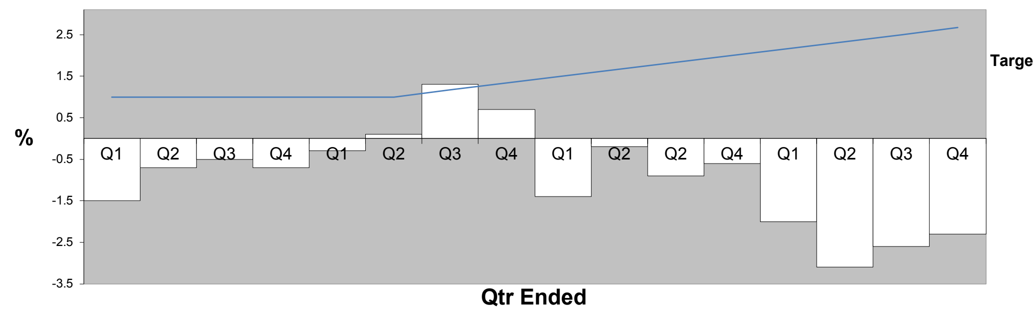
2013	2014	2015	2016

Quarterly Performance



Performance	13.1	0.0	3.2	3.8	0.5	1.9	2.2	3.1	6.2	-3.5	-8.5	9.3	-1.7	6.7	10.9	7.7
	13.3	-0.5	2.3	3.8	0.3	2.3	1.9	2.7	9.6	-5.3	-6.0	7.9	2.8	8.8	8.5	6.5
Relative Return	**-0.2**	**0.5**	**0.9**	**0.0**	**0.2**	**-0.4**	**0.3**	**0.4**	**-3.4**	**1.8**	**-2.5**	**1.2**	**-4.6**	**-1.9**	**2.4**	**1.2**

3 Year Performance



Performance	5.6	10.5	8.3	6.4	6.2	7.2	15.5	14.0	12.0	13.3	8.6	10.3	5.2	7.5	10.2	11.5
Benchmark	7.1	11.2	8.8	7.1	6.5	7.1	14.2	13.3	13.4	13.5	9.7	11.0	7.4	10.6	12.8	13.8
Relative Return	**-1.5**	**-0.7**	**-0.5**	**-0.7**	**-0.3**	**0.1**	**1.3**	**0.7**	**-1.4**	**-0.2**	**-1.1**	**-0.5**	**-2.1**	**-2.9**	**-2.6**	**-2.3**

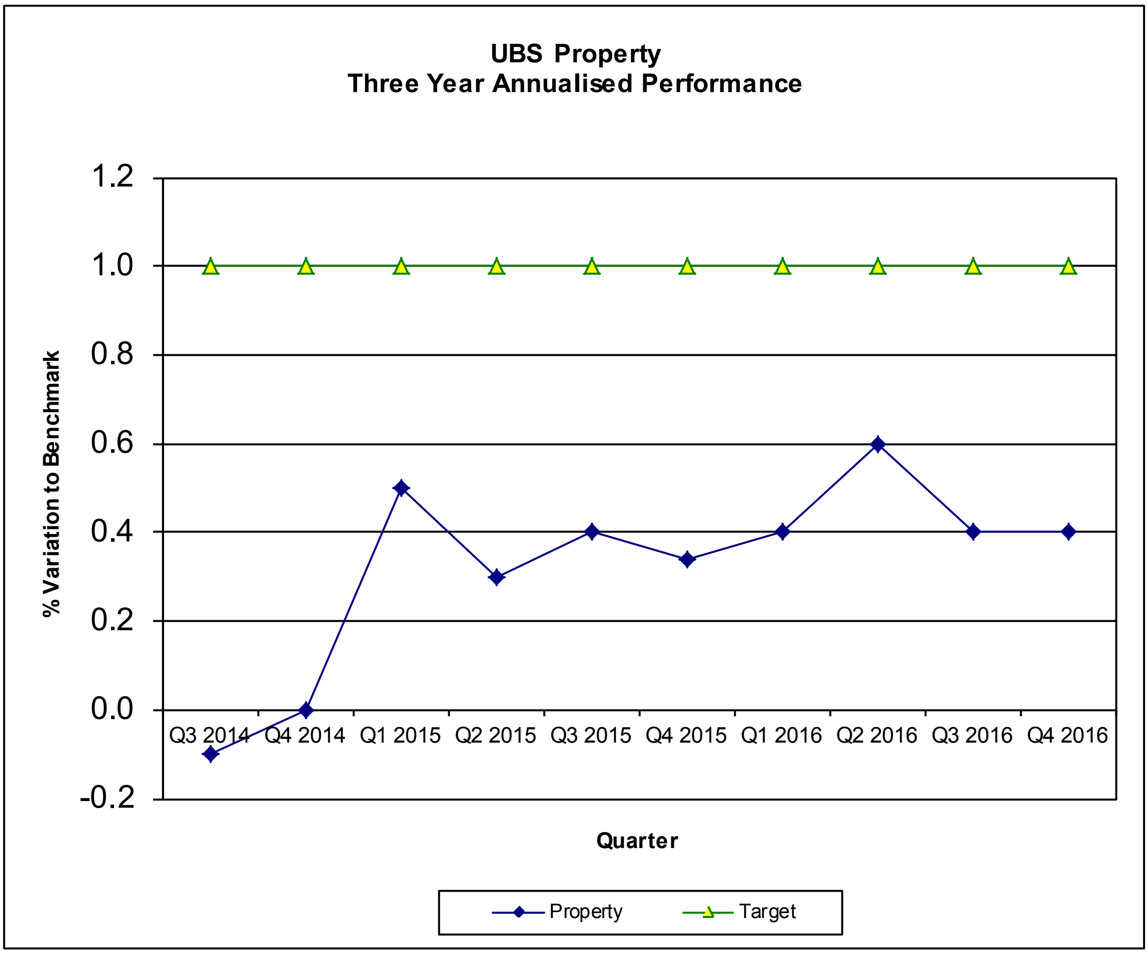
Target Returns

Rolling annual target of 3.00% above benchmark

UBS - Overseas Equities

OXFORDSHIRE COUNTY COUNCIL PENSION FUND

GRAPH 6

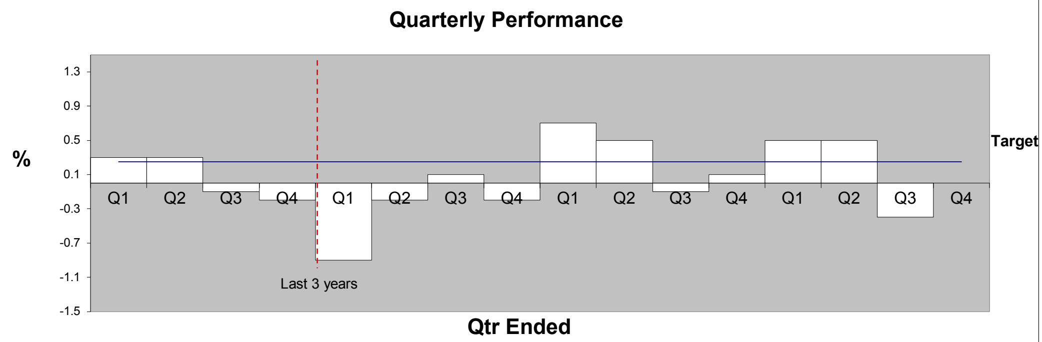


UBS Three Year Annualised Performance

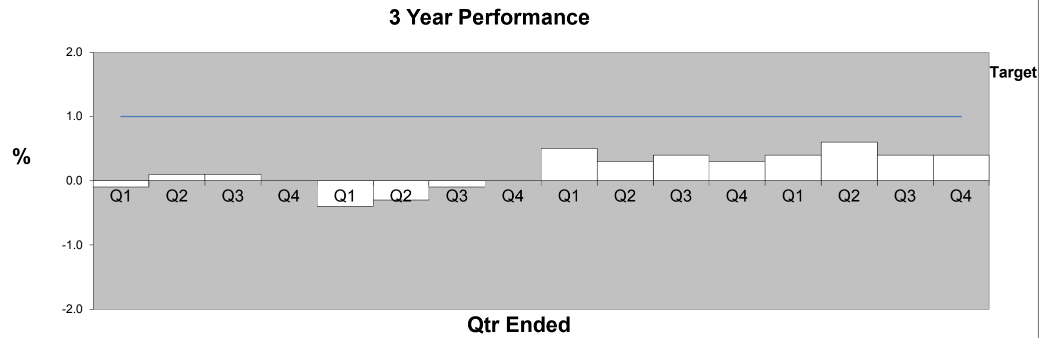
	Property	Target
Q3 2014	-0.1	1.0
Q4 2014	0.0	1.0
Q1 2015	0.5	1.0
Q2 2015	0.3	1.0
Q3 2015	0.4	1.0
Q4 2015	0.3	1.0
Q1 2016	0.4	1.0
Q2 2016	0.6	1.0
Q3 2016	0.4	1.0
Q4 2016	0.4	1.0

PERFORMANCE RELATIVE TO BENCHMARK GRAPH 7

2013	2014	2015	2016



Performance	1.1	1.7	2.3	4.1	2.4	4.1	4.1	4.4	3.5	3.8	2.9	2.9	1.6	0.6	-1.1	2.3
	0.8	1.4	2.4	4.3	3.3	4.3	4.0	4.6	2.8	3.3	3.0	2.8	1.1	0.1	-0.7	2.3
Relative Return	**0.3**	**0.3**	**-0.1**	**-0.2**	**-0.9**	**-0.2**	**0.1**	**-0.2**	**0.7**	**0.5**	**-0.1**	**0.1**	**0.5**	**0.5**	**-0.4**	**0.0**



Performance	5.1	4.7	4.9	5.6	5.7	6.7	7.7	8.9	10.1	11.0	12.1	13.3	13.4	13.1	11.8	11.1
Benchmark	5.2	4.6	4.8	5.6	6.1	7.0	7.8	8.9	9.6	10.7	11.7	12.9	13.0	12.5	11.4	10.7
Relative Return	**-0.1**	**0.1**	**0.1**	**0.0**	**-0.4**	**-0.3**	**-0.1**	**0.0**	**0.5**	**0.3**	**0.4**	**0.4**	**0.3**	**0.6**	**0.4**	**0.4**

Target Returns

Rolling annual target of 1.0% above benchmark

Top 10 holdings at 31/12/2016

	Holding	Value £	% of portfolio
1	BLACKROCK UK PROPERTY FUND	15,305,439	13.18
2	ROCKSPRING HANOVER PROPERTY UNIT TRUST	9,299,374	8.01
3	STANDARD LIFE POOLED PPTY FD	8,282,025	7.13
4	SCHRODER UK PROPERTY-INC	8,275,904	7.12
5	HENDERSON OUTLET MALL FUND	8,070,472	6.95
	Top 10 Holdings Market Value	49,233,214	4.24
	Total UBS Property Market Value	116,146,000	

UBS - Property

This page is intentionally left blank

QUARTERLY REVIEW PREPARED FOR

Oxfordshire Council Pension Fund

Q4 2016

10th February 2017

Peter Davies

AllenbridgeEpic Investment Advisers Limited (Allenbridge)

Peter.Davies@allenbridge.com
www.allenbridge.com

OXFORDSHIRE PENSION FUND COMMITTEE – 10 MARCH 2017

OVERVIEW AND OUTLOOK FOR INVESTMENT MARKETS

Report by the Independent Financial Adviser

Economy

1. The UK economy has held up better than expected, with GDP growth of +0.6% in the third and the fourth quarters. In February the Bank of England raised its forecast of GDP growth in 2017 from 1.4% to 2.0%. UK inflation is beginning to rise from abnormally low levels as the effect of a weaker pound becomes apparent.

(In the table below, bracketed figures show the forecasts made in October)

Consensus real growth (%)						**Consumer prices latest (%)**
	2013	**2014**	**2015**	**2016E**	**2017E**	
UK	+1.7	+2.8	+2.3	+2.0 (+1.8)	+ 1.4	**+1.6**(CPI)
USA	+1.9	+2.4	+2.4	+1.6 (+1.5)	+ 2.2	+2.1
Eurozone	-0.4	+0.8	+1.5	+1.7 (+1.5)	+ 1.5	+1.8
[**Japan**	+1.7	+0.3	+0.6	+0.9 (+0.6)	+1.2	+0.3
China	+7.7	+7.4	+6.9	+6.7 (+6.6)	+6.5	+2.1

Source of estimates: The Economist, February 11th 2017

2. The surprise victory by Donald Trump in the US Presidential Election was initially greeted with sharp falls in equity markets, but these were soon reversed in developed markets as investors concentrated on Trump's plans to cut taxes, deregulate energy, healthcare and financial services, and to offer tax incentives for infrastructure. The dollar strengthened to its highest level in 14 years on a trade weighted basis.

3. In his Autumn Statement on November 23, Philip Hammond confirmed that UK **government borrowing** would be much higher in each of the next 5 years than previously forecast. In total the additional borrowing required over the 5 years amounts to £122bn. This is largely due to slower GDP growth of 2.1% in 2016, 1.4% in 2017, 1.7% in 2018 and 2.1% in next two years, giving a cumulative reduction of 2.4% over the 5-year period. He has replaced George Osborne's target of achieving budget surplus in 20/21 with an upper limit on the deficit of 2% of GDP (and a forecast level of 0.7%) in 20/21. He hopes to balance the budget as soon as possible after 2020. Debt/GDP will peak at 90% in 2017/8. Among other measures, Hammond announced the

government is to spend £23bn on a **National Productivity Investment Fund**, to cover R&D, innovation in housing, rail &road, digital network etc

4. On December 14th, the US Federal Reserve raised the Fed Funds interest rate from 0.5% to 0.75% - the first increase since December 2015. They said they expect to make three more rises during 2017. The European Central Bank announced it would continue its programme of quantitative easing from April to December 2017, but at a reduced rate of €60bn per month, instead of the current €80bn.

5. The Italian Prime Minister, Matteo Renzi, resigned after a heavy defeat in the constitutional referendum on December 4th. His successor is the former Foreign Minister Paolo Gentiloni. In the French Presidential primaries, Francois Fillon gained the nomination of the centre-right party, eliminating ex-President Sarkozy from the race, but has since run into problems relating to his wife's past financial arrangements. With an independent candidate, M Macron, drawing increasing support, the outcome of the April/May election is highly unpredictable.

Markets

Equities

6. After the result of the US Election, most **equity markets** gained ground – with the exception of Pacific Basin and Emerging Markets which would be disadvantaged by the stronger dollar. Japan was helped by the weakening of the yen.

	Capital return (in £, %) to 31.12.16		
Weight %	Region	**3 months**	**12 months**
100.0	FTSE All-World Index	**+6.1**	**+26.2**
56.1	FTSE All-World North America	+8.4	+31.2
8.4	FTSE All-World Japan	+5.0	+20.0
11.3	FTSE All-World Asia Pacific ex Japan	+0.3	+24.6
15.3	FTSE All-World Europe (ex-UK)	+5.1	+15.3
6.2	FTSE All-World UK	+3.4	+14.3
8.8	FTSE All-World Emerging Markets	+1.8	+31.4

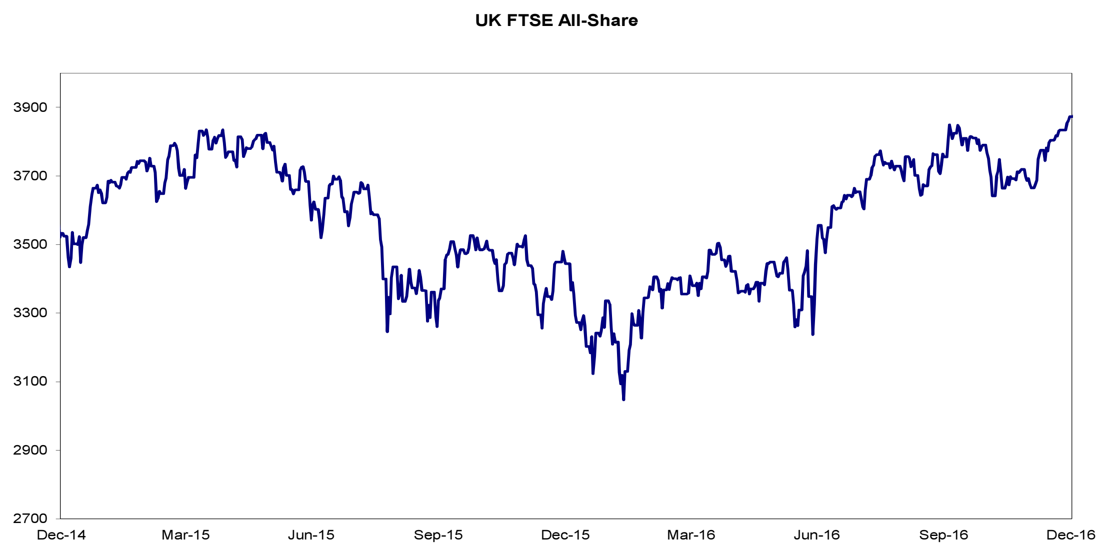
[Source: FTSE All-World Review, December 2016]

7. Within the UK market the mid-cap section was the weakest in the quarter and – by a wide margin – for the full year. These companies were seen as being more reliant on the domestic economy and not enjoying the boost to foreign earnings from £ weakness which many large-cap companies received.

(Capital only%, to 31.12.16)	3 months	12 months
FTSE 100	+3.5	+14.4
FTSE 250	+1.2	+3.7
FTSE Small Cap	+3.4	+11.0
FTSE All-Share	+3.1	+12.4

[Source: Financial Times]

8. The All-Share Index has surpassed its previous high from March 2015



9. The turnaround in energy and resource prices from the early days of 2016 propelled the Oil & Gas and Basic Materials sectors from the two bottom places in 2015 to the top two rungs in 2016. Relative to the All-World Index, Oil & Gas went from -20% to +20%, between 2015 and 2016, while Basic Materials went from -16% to + 17%. Conversely, the non-cyclical sectors were the weakest in 2016, having been very buoyant in 2015.

Capital return (in £, %) to 31.12.16		
Industry Group	**3 months**	**12 months**
Oil & Gas	+12.2	+46.8
Basic Materials	+ 9.3	+43.3
Technology	+ 4.7	+32.9
Industrials	+ 6.5	+32.1
Financials	+13.8	+26.8

FTSE All-World	**+6.1**	**+26.2**
Utilities	+ 1.0	+23.9
Telecommunications	+ 2.3	+22.0
Consumer Services	+ 4.4	+20.7
Consumer Goods	+ 0.7	+19.7
Health Care	-1.1	+10.1

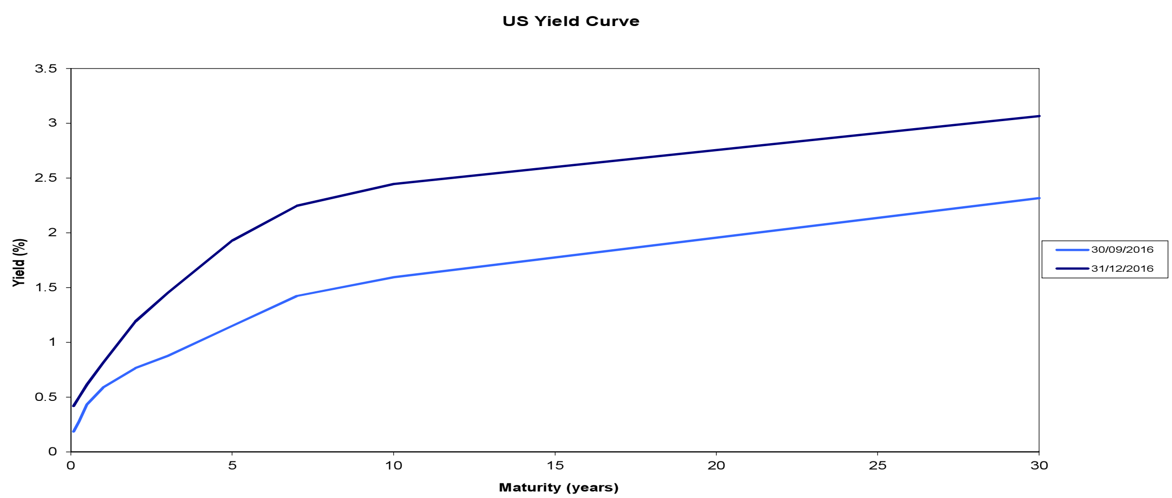
[Source: FTSE All-World Review, December 2016]

Bonds

10. **Government bond** yields rose sharply during the quarter, as markets began to price in the reflationary impact of Donald Trump's election, and the likely surge in new bond issuance. Apart from US bonds, however, the other three main bond markets all recorded sizeable falls in yield (i.e. gains in price) during the year 2016.

10-year government bond yields (%)					
	Dec 13	**Dec 2014**	**Dec 2015**	**Sept 2016**	**Dec 2016**
US	3.03	2.17	2.27	1.59	2.46
UK	3.04	1.76	1.96	0.75	1.24
Germany	1.94	0.54	0.63	-0.19	0.11
Japan	0.74	0.33	0.27	-0.08	0.04

11. US government medium – and long – dated bond yields have risen by almost 1% during the past quarter.



Currencies

12. The pound managed some brief rallies – at one stage reaching $1.27 – but the US Election and the interest rate rise pushed the dollar stronger against all the major currencies.

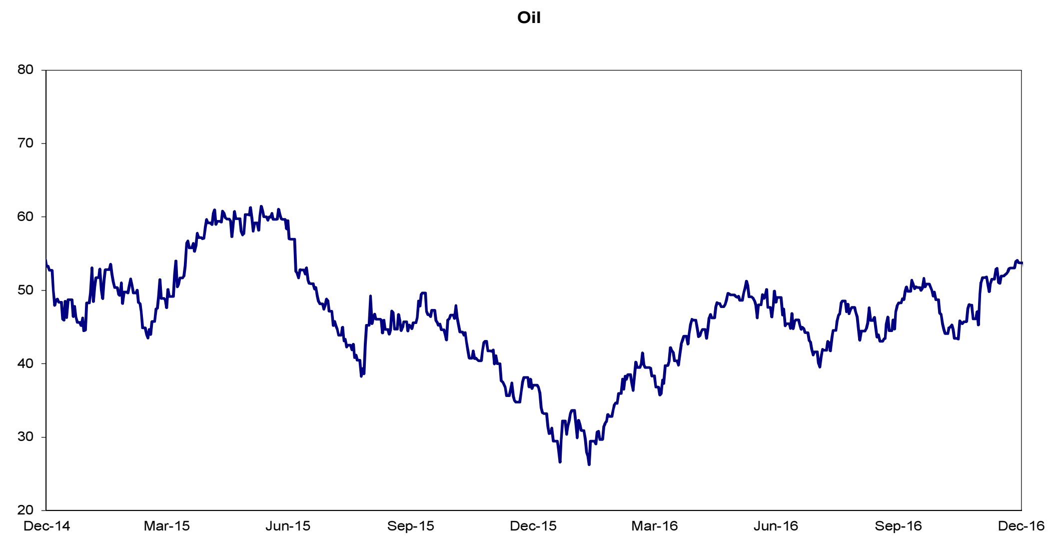
				£ move (%)	
	31.12.15	30.9.16	31.12.16	3m	12m
$ per £	1.483	1.299	1.236	- 4.8	-16.7
€ per £	1.359	1.156	1.172	+ 1.4	-13.8
Y per £	178.8	131.5	144.1	+9.6	-19.6

13. The pound has continued to weaken against the dollar

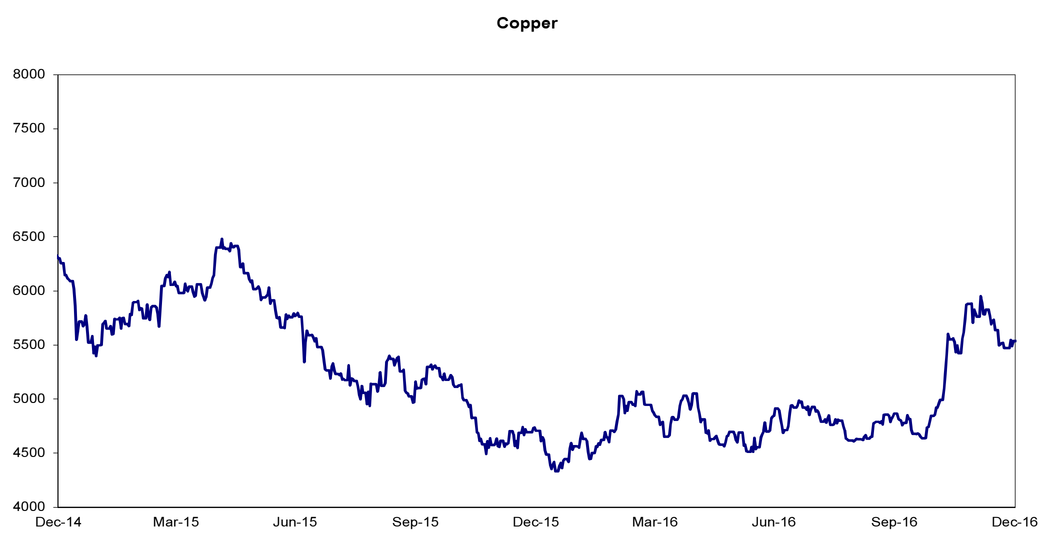
Commodities

14. The price of **Oil** (Brent Crude) rose above $50 in early December when the OPEC producers confirmed an agreement to cut output by 1.2m barrels/day, to be followed by the news that some non-OPEC countries would cut production by 0.5m b/d. Oil ended the year just below $57, for a gain of 50% (in dollar terms) during 2016. **Copper** spiked sharply – gaining 20% in the weeks after the US Election, on hopes for increased infrastructure spending in the US and revived demand from China. By contrast **Gold** weakened in response to higher US interest rates and the stronger dollar.

15. Oil has rallied strongly since early 2016 …..



……. and copper too since the US Presidential Election



<u>Property</u>

16. There was a slight rebound in the fourth quarter, after the post-Brexit setback, with Industrial property registering solid gains. The annual returns, however, show that there were declines in capital values in all sectors, with particular weakness in the Office and Retail sectors.

	3-month	12-month
All Property	+ 2.6%	+ 2.6%
Retail	+ 1.9%	+ 1.1%
Office	+ 2.2%	+ 1.0%
Industrial	+ 4.2%	+ 7.0%

[IPD Monthly Index of total returns, December 2016]

Outlook

17. The early weeks of Donald Trump's presidency have seen a flurry of Executive Orders, including the controversial ban on travellers from seven states entering the US, which has been stayed by the courts at the time of writing. The renunciation of the Trans-Pacific Partnership, and the new President's attitude to trade with China, are causing concern to the corporate sector, which is also awaiting details of the tax cuts and infrastructure spending promised before the inauguration. Equity markets have remained strong, apparently disregarding the possible downside of President Trump's trade policies.

18. The sharp rise in US – and other – government bond yields is more logical, and may well have further to run as inflation begins to return and funding requirements expand to meet the larger US budget deficit.

19. Uncertain times are ahead in Europe: the UK will trigger Article 50 by the end of March, and its negotiating position on withdrawal from the EU will gradually become clearer. It seems clear that the UK will leave the single market but the new relationship with the EU remains totally uncertain. With elections coming up in Holland, France and Germany, there is likely to be more upheaval within the European Union if anti-EU parties gain power.

20. With so many potential pitfalls looming, continuing caution on equity and bond markets seems the wisest course to adopt at present.

Peter Davies
Senior Adviser – AllenbridgeEpic Investment Advisers

February 10th 2017
[All graphs supplied by Legal & General Investment Management]

Document is Restricted

This page is intentionally left blank

By virtue of paragraph(s) 3 of Part 1 of Schedule 12A
of the Local Government Act 1972.

Agenda Item 20

Document is Restricted

This page is intentionally left blank

Division(s):N/A

PENSION FUND COMMITTEE – 10 MARCH 2017

CORPORATE GOVERNANCE - VOTING

Report by Chief Financial Officer

Introduction

1. The UK Stewardship Code was introduced by the Financial Reporting Council in 2010, and revised in September 2012. The Code, directed at institutional investors in UK companies, aims to protect and enhance the value that accrues to ultimate beneficiaries through the adoption of its seven principles. The code applies to fund managers and also encourages asset owners such as pension funds, to disclose their level of compliance with the code.

2. Principle 6 of the Code states that Institutional investors should have a clear policy on voting and disclosure of voting activity. They should seek to vote all shares held and should not automatically support the board. If they have been unable to reach a satisfactory outcome through active dialogue then they should register an abstention or vote against the resolution, informing the company in advance of their intention to do so and why.

3. In 2016 the Financial Reporting Council (FRC) introduced tiering for Stewardship Code signatories. The FRC assesses signatories to the Stewardship Code based on the quality of their Code statements and uses this to put asset managers into one of three tiers. All of the Pension Fund's investment managers undertaking voting on the Fund's behalf have been assessed as tier 1, which is the highest rating.

4. The Oxfordshire County Council Pension Fund's voting policy is set out in it's Investment Strategy Statement (ISS), which states that voting decisions are delegated to the Fund Managers to excerise voting rights in respect of the Pension Fund's holdings. The responsibility for monitoring company performance does not rest with fund managers alone. The committee and officers monitor the voting activity of the Fund Managers and raise any concerns as considered necessary.

5. In the Local Government Pension Scheme Guidance on Preparing and Maintaining an Investment Strategy Statement (2016) document it states that administering authorities should become signatories to the Stewardship Code. As such, and to demonstrate the Fund's commitment to effective stewardship as outlined in the ISS, it is recommended that the committee commit to the Fund becoming a signatory to the Code.

Voting Details

6. Manifest were appointed in August 2014 to monitor the voting activity of the Fund. As part of this service they provide an annual report summarising the Fund's voting activity, a copy of which is included in annex 1. The report covers the 12 month period ending 31 July 2016. The report enables Oxfordshire to fulfil the objectives of the Stewardship Code in using the results to constructively challenge the external fund managers in their stewardship activities.

7. We expect to see overall trends improving gradually, but this is mitigated by the fact that some companies may 'lapse' and new companies may enter the market carrying with them the legacy of private ownership governance practices which also may fall short of the standards expected of publicly listed companies. This is the second report prepared by Manifest so it is too early to comment on any trends but attention will be paid to this in future years.

8. The key points from the 2016 report can be summarised as follows:

- Overall the Fund's managers voted against management marginally more than general shareholders, opposing management on 3.63% of resolutions.

- Looking at the results at the individual fund manager level, UBS and Baillie Gifford voted with management slightly less than shareholders in general. L&G Investment Management and Wellington voted with management more than shareholders in general. Table 1 below contains a breakdown of votes by manager.

Table 1: Overall Voting Patterns

FUND	RESOLUTIONS VOTED	OXFORDSHIRE MANAGERS SUPPORTED MANAGEMENT	GENERAL SHAREHOLDERS SUPPORTED MANAGEMENT	TEMPLATE FOR MANAGEMENT
Baillie Gifford	989	93.12%	96.99%	82.61%
L&G Investment Management	2,051	98.59%	97.02%	82.30%
UBS	678	92.18%	95.17%	76.11%
Wellington	1,082	97.78%	95.28%	71.63%
Total	**4,800**	**96.38%**	**96.40%**	**79.08%**

9. Oxfordshire's voting policy gives discretion to managers to vote in line with their own voting policy and therefore does not require managers to follow a specific policy. It is important to note therefore, that the Manifest best practice template should not be viewed as a measure of 'success' or 'compliance' but

more of an aspirational benchmark for best practice company behaviour. It is to be used as a flagging mechanism to identify potential risk that can then be raised with fund managers.

10. Of the 4,800 resolutions analysed in 2016, 917 were resolutions where the Manifest Voting Template highlighted potential governance concerns and on these resolutions fund managers supported management on 871 occasions. This may seem like a relatively high proportion but it should be noted that not all concerns merit a vote against management, especially where managers use engagement to express concerns and bring about change. Conversely, the report has also identified instances of votes against management where no concerns have been identified by the Manifest template, demonstrating the willingness of managers to apply their own judgement on these issues.

11. The extent to which voting disagrees with management (a measure of how 'active' a voting policy is) varies depending on the managers approach and the governance characteristics of the companies in the portfolio. For example, where ESG factors are embedded into a fund manager's selection criteria the portfolio would be expected to exhibit a relatively high governance standard amongst constituent companies and therefore it should be expected that there is less reason to vote against management.

12. As shown in table 2 below, remuneration related resolutions remain the most contentious resolutions proposed by management in 2016 and continue to have the lowest level of alignment with governance best practice analysis. Remuneration related resolutions constituted the second highest proportion of votes against management for Oxfordshire.

13. The greatest proportion of votes against from Oxfordshire's managers related to corporate actions. These tend to be items such as mergers, takeovers, disposals and acquisitions which are often company specific. What is best practice in these cases is highly subjective so variation between different shareholders and with the template is to be expected.

14. Table 2: Overall Voting Patterns

RESOLUTION CATEGORY	NUMBER OF RESOLUTIONS	RESULTS AVAILABLE	OXFORDSHIRE MANAGERS' DISSENT	GENERAL SHAREHOLDERS AVERAGE DISSENT
Board	2,633	2,500	1.67%	2.41%
Capital	750	743	8.40%	3.81%
Audit & Reporting	598	586	0.00%	1.63%
Remuneration	433	422	9.47%	9.04%
Shareholder Rights	212	206	6.13%	8.97%
Sustainability	127	127	4.72%	8.07%
Corporate Actions	45	40	15.56%	3.14%
Other	2	1	0.00%	4.63%
Total	4,800	4,625	**3.63%**	3.60%

15. Oxfordshire fund managers supported seven successful shareholder sponsored proposals during the 12 months under review. UBS, Baillie Gifford and L&G all supported the ‘Aiming for A’ resolution at Rio Tinto in relation to sustainability reporting. L&G also supported the same resolution at Glencore. Both company boards recommended shareholders vote in favour of the proposals and the resolutions passed with each receiving over 97% shareholder support. Of the other five successful shareholder proposals where Oxfordshire fund managers voted in favour four were in the US market and one was in the Canadian market. For each of the US proposals management recommended a vote against but in regard to the proposal requesting further reporting on environmental practices at Suncor Energy in Canada management recommended shareholders vote in favour.

16. There were seven defeated management proposed resolutions in the collective Oxfordshire’s fund manager portfolio, all of which the fund managers were non supportive of. L&G opposed the defeated remuneration reports at BP and Smith & Nephew. Baillie Gifford filed votes against the unsuccessful resolutions at The Weir Group plc to approve the LTIP and remuneration policy. In addition, UBS were against remuneration at BP plc. Of the defeated management resolutions all were in the UK bar two say-on-pay frequency votes at Kraft Heinz in the US. At each of the UK examples management recommended a vote ‘For’ the resolution but at Kraft Heinz ‘Against’ was the recommendation, Wellington in this case abstained from voting.

17. It is important to note that voting forms one part of the wider stewardship activities undertaken by fund managers and asset owners and should be considered alongside other activities including company engagement and contributing to the development of corporate governance standards in general. Investors may therefore be supportive of company management through a period where engagement has occurred and management are working towards making improvements from that engagement activity, even though the company currently falls short of the desired standard.

Internally Managed Holdings

18. Voting decisions on internally managed holdings are determined by the Service Manager – Pensions after taking advice from the Fund’s Independent Financial Adviser. These votes are outside the scope of the Manifest report. Over the 12 month period ending 31 July 2016 a total of 138 resolutions were voted on at 14 separate meetings consisting of 12 Annual General Meetings and two Ordinary General Meetings. The Fund voted with management on 136 occasions. Two of these votes, at the same meeting, were to vote against shareholder proposals that were not considered to be in the Fund’s best interest. The two votes not voted in-line with management’s recommendation were at the same meeting and were abstentions on proposals to re-elect directors.

RECOMMENDATION

19. **The Committee is RECOMMENDED to:**

(a) note the Fund's voting activities, and determine any issues they wish to follow up with the specific fund managers, or in general; and

(b) commit to becoming signatories to the UK Stewardship Code and request that officers prepare a Stewardship Code statement to be considered at the next Pension Fund Committee meeting.

Lorna Baxter
Director of Finance

Contact Officer:
Gregory Ley, Financial Management – Pension Fund Investments; Tel: 07393 001071

February 2017

This page is intentionally left blank

Monitoring Review of Shareholder Voting 2015/16
Oxfordshire Pension Fund

Prepared by:

manifest

December 2016

This page is intentionally blank

Table of Contents

List of Tables and Figures

1 Introduction

1.1 Aim of Shareholder Vote Monitoring

This is the second year for which Manifest has undertaken a thematic review of the shareholder voting of the Oxfordshire Pension Fund, putting Oxfordshire's fund manager voting behaviour into a comparative and wider context. The aim of the report is to provide further understanding of:

- voting activity taken on behalf of the Fund;
- wider voting issues;
- governance standards at companies; and
- how the Fund's investment managers use voting rights.

As an on-going annual report, the report assesses progress in terms of the governance standards at investee companies versus best practice, as well as the use of share voting by Oxfordshire's appointed fund managers as a part of their engagement with companies.

Importantly, this report looks at the full picture of how Oxfordshire's fund managers are making use of the Fund's voting rights and will therefore enable Oxfordshire to better understand and challenge fund managers about the role their voting activity plays in ownership strategy. The report enables Oxfordshire to fulfil the objectives of the Stewardship Code in constructively challenging external fund managers in their stewardship activities.

1.2 Voting in Context

Oxfordshire's voting policy gives discretion to managers to vote in line with their own voting policy and therefore does not require managers to follow a specific policy. It is important to note therefore, that the Manifest best practice template should not be viewed as a measure of 'success' or 'compliance' but more of an aspirational benchmark for best practice company behaviour. It is to be used as a flagging mechanism to identify potential risk.

The use of shareholder voting rights is not the only means by which shareholder concerns can be communicated to management; however, use of these rights is something that investors are being asked to consider in a more strategic, holistic manner. Managers implement their voting policy in conjunction with other shareholder tools, such as engagement, as a part of their investment management. It should therefore be noted that investment managers may be supportive of company management through a period where engagement has occurred and management are working towards making improvements from that engagement activity, even though the company currently falls short of the desired standard.

Vote monitoring is therefore about understanding investment risk management and oversight of stewardship activities, not enforcing compliance with a policy. It allows for a comparison of fund managers, general shareholder voting behaviour and fund expectations. But share voting is a useful guide for governance risk and how fund managers manage it, because of the provisions of specific research designed to assess corporate governance characteristics and the availability of information about fund manager voting, simultaneously and consistently.

1.3 Scope of Analysis

The period covered by this report encompasses the period of the 1st August 2015 to the 31st July 2016. It represents a full years' voting.

Manifest analyses the issues at hand to provide 'Voting Guidance' for each voting resolution. This guidance is the result of assessing the company and the resolutions proposed for the meeting in light of a Voting Template framed upon corporate governance best practice policy developed by Manifest for Oxfordshire. This frame of reference can be amended or modified on a customised basis at any time.

Members should consider the Voting Template as a best practice policy in terms of corporate governance standards for investee companies, rather than in terms of being voting instructions for fund managers to follow. The report should not be used as a benchmark target for Oxfordshire's managers, but as a frame of reference for better understanding how the fund managers use voting rights in the context of their investment priorities.

Therefore, for the purposes of this report, Members should bear in mind that it is more significant that the Voting Template identifies an issue of concern (i.e. suggests there may be a reason to not support management or requiring further fund manager review) in relation to a resolution, than the voting action suggested by the template (i.e. an 'Abstain', 'Against' or 'Case by Case' consideration). It is in this light that we have analysed and compared fund manager voting against issues of potential concern, with the emphasis on 'potential'. The report also analysis some of the specific governance issues which have been identified by Manifest's implementation of the voting policy during the monitoring period, to ascertain some notable patterns of the fund policy and external fund managers voting practice.

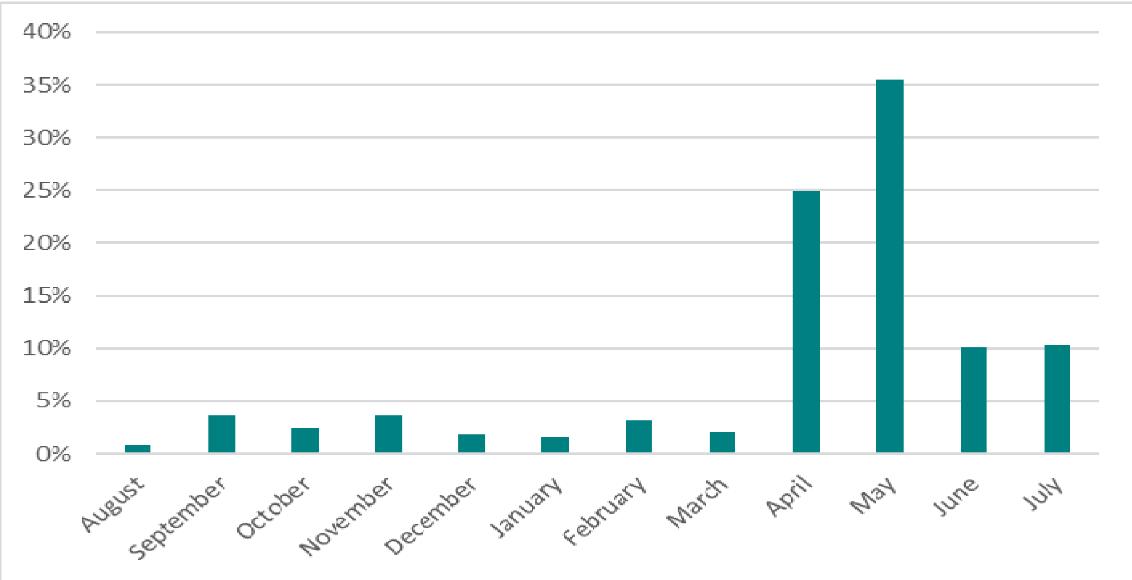
1.4 Peak workloads

Institutional investors are faced with a highly seasonal cycle of activity when it comes to voting shares. With the vast majority of companies reporting a financial year end of the 31st December, and many others using the traditional April to March financial year, there are clear 'peaks' of meeting activity approximately three to four months after the end of the financial years, there are clear 'peaks' of meeting activity approximately three to four months after the end of the financial years. This means the majority of company meetings are concentrated in the period between April-June (Quarter 2). Because of this concentration Quarter 2 is commonly referred to as 'peak season' and those outside this seasonal concentration "off-peak season".

Figure 1: Percentage of Total Annual Resolutions Voted Per Month below shows the percentage of total annual resolutions voted by Oxfordshire's fund managers per month, covered by the full monitoring survey. It shows graphically the severe concentration of voting decisions that occurs in April and May of the calendar year, with 60.5% of the voting occurring during those two months, and a further 20.3% during June and July.

Asset owners like the Oxfordshire Pension Fund should be aware that such a high concentration of work in an area which has become more of a compliance burden in recent years inevitably leads to the commoditisation of voting decisions and especially the likelihood of outsourcing voting decision-making responsibility to outside consultants. This dynamic remains the focus of regulatory scrutiny in the UK, France, Europe, the US, Canada and Australia, especially towards proxy research consultants, and the role that investors play in retaining control of voting decisions. A key question for asset owners should therefore be to consider whether their fund managers adequately resource their voting decision-making processes internally.

Figure 1: Percentage of Total Annual Resolutions Voted Per Month (August 2015 – July 2016)



1.5 Governance Hot Topics

There follows at the end of the report a selection of short pieces on issues of topical relevance to institutional investors in 2015/16.

2 Executive Summary

Section 3 ("Explanation of Voting Activity & Monitoring Approach") explains what shareholder voting is and what types of issues shareholders are frequently asked to vote upon. It also sets out the number of meetings voted by Oxfordshire's fund managers in the review period, and explains how Manifest approaches monitoring the fund manager voting at those events.

Manifest undertook full monitoring of meetings in companies in mainstream markets (primarily the UK, Europe and North America) for the period of 1st August 2015 to the 31st July 2016. The research brought a total of 249 meetings, comprising a total of 4,133 resolutions. Taking into account occurrences of more than one fund manager voting at the same meeting and on the same resolution, a total of 4,800 resolution analyses were undertaken over 288 shareholder meetings. Of these:

- 2,051 were voted by L&G Investment Management, representing the largest proportion of the report data;
- 1,082 were voted by Wellington;
- 989 were voted by Baillie Gifford;
- 678 were voted by UBS;
- 917 were resolutions where the Voting Template highlighted potential governance concerns and on these resolutions fund managers supported management on 871; and
- In total 174 resolutions were voted against management recommendation.

Whilst the number of resolutions where funds managers supported management despite potential concerns being identified seems relatively high, this is ultimately evidence to support the significance of the word 'potential'. Not all concerns merit a vote against management, especially where investors may prefer to use other communications to articulate their concerns before using their share voting rights, or where a concern is not deemed material enough by the fund manager to warrant opposing management's proposal on the issue. Conversely, the report also identifies instances where investors have opposed management even where no governance concerns were highlighted, which suggests an organic, active use of voting rights to enhance the wider ownership process.

Section 4 ("Common Policy Issues at Investee Companies") examines the range of governance issues and considerations which lie behind the resolutions on which Oxfordshire's fund managers were asked to vote, and detailing those which Manifest identified most frequently among the companies at whose meetings the fund managers voted.

Many of these instances will have seen portfolio companies provide explanations for non-compliance, following the "comply-or-explain" regime. These explanations may in some cases be accepted by shareholders, although some shareholders may have 'red lines' on certain governance matters. These concerns are the substantive issues and the prevalence of these issues is not synonymous with fund managers voting records due to different tactical approaches, for example issues may be raised during engagements which are not reflected in voting.

Board balance issues are the most frequently identified concerns, partly because they are the substantial issues of the most frequently voted resolutions. The most common specific best practice governance criteria against which Manifest found Oxfordshire's portfolio companies to fall short were:

- Board and Committee independence;
- No Nomination Committee;
- Roles of Chairman and Chief Executive are combined;
- Authority to make political donations;
- Authority to issue share without pre-emption rights exceeded best practice threshold;
- Lack of gender diversity targets;
- No independent verification of the Company's ESG reporting; and

- No meetings held by the non-executive directors without the executives present.

These are the substantial issues on which investor attention should focus, rather than whether specific resolutions were opposed or otherwise. In general terms this research has in the past suggested that we would expect to see overall trends improve over time, but that in the short term, the relative frequency of various governance themes may come and go in line with contemporary concerns and developments.

In the case of board considerations, this is explained by the fact that so many of the resolutions pertain to board structures (not least director elections, which are by far and away the most numerous resolution type). It should be noted that there may be multiple concerns highlighted in terms of board structure on director elections and that generally there are therefore much fewer actual resolutions to vote on than identified concerns.

The next step of the analysis is to study patterns of voting behaviour, both those of Oxfordshire's fund managers as well as shareholders in general (Section 5 "Aggregate Voting Behaviour"). We also examine which types of resolution have been the most contentious (Section 6 "Voting Behaviour by Resolution Category").

Overall, Oxfordshire's managers during the review period were comparatively assertive in expressing concerns through their votes at corporate meetings than the average shareholder. Whereas general dissent[1] stood at 3.60% on average, Oxfordshire's fund managers opposed management on 3.63% of resolutions. At individual fund manager voting behaviour level, UBS and Baillie Gifford voted with management slightly less than shareholders in general. L&G Investment Management and Wellington voted with management more than shareholders in general.

A summary of the major developments and debates in global (and especially domestic) corporate governance and voting follows in Hot Governance Topics, featuring amendments to the UK Corporate Governance Code, changes to the UK Pre-Emption Group Guidelines, the UK's Investment Association's executive pay recommendations, a fund manager monitoring initiative, and UK Modern Slavery Bill.

[1] **What is General Shareholder Dissent?** Where Manifest uses the term 'Dissent', this is the result of having added up all votes not supporting the management recommendation, represented as a percentage of all votes cast ('Against' plus 'Abstain' votes where Management recommended a 'For' vote and 'For' plus 'Abstain' votes where management recommended 'Against'). Where there was no clear recommendation from company management, we have not counted any votes cast on those resolutions as dissent. We calculate the average dissent figure by aggregating all the voting results (expressed in terms of % of votes cast 'For') on all resolutions, then dividing the aggregate figure by the number of resolutions. In most cases, this gives an accurate statistical indication of the dissent that a typical resolution type attracts, relative to others.

3 Explanation of Voting Activity & Monitoring Approach

This section explains what shareholder voting is and what types of issues are frequently voted upon. It will also identify the number of meetings voted by Oxfordshire's fund managers in the monitoring period, and explains how Manifest approaches monitoring the fund manager voting at those events.

3.1 Voting Opportunities

Voting Resolutions

The majority of meetings at which shareholders are asked to vote during the year are Annual General Meetings, at which there is legally defined, mandatory business which must be put to the shareholders. Few resolutions are actually non-binding in nature. The main non-binding resolutions at an AGM are the receipt of the report and accounts and the approval of the remuneration report.

Share voting is a significant ownership right at the disposal of shareholders. Should an investor use its governance preferences as a means of purely selecting companies in which to invest, the choice would be between compromising the investible universe of companies (not a choice which sits comfortably alongside the fiduciary obligation to maximise returns on investment – some risk has to be taken on in order to obtain RoI), or compromising the values of the investor

Like investment decisions, the consideration of shareholder voting decisions often takes into account multiple questions, including company disclosures, company practices, shareholder preferences and wider engagement strategy undertaken by fund managers.

This is especially true on the report and accounts resolution. A vote against a particular resolution such as the report and accounts may be explained by any number of various potential factors.

Use of voting rights is therefore a means of mitigating those elements of risk which are not deemed too great to justify disinvestment but which, if addressed, could represent either a lower rate of risk on the investment (by encouraging better standards of corporate governance) or an increase in the capital value of the company (an indirect result of a company attaining a better reputation for corporate governance, thereby making it a more desirable investment).

It is therefore reasonable to withhold support from management without appearing inconsistent with the investment decision to hold the company's stock. This may mean that, despite the presence of some potentially significant issues, investors may agree to support management in the short term with their votes as part of an engagement process for addressing longer term concerns.

This report will analyse voting resolutions and look at the Fund's investment managers' approach to voting in more detail in a subsequent section of the report.

Meeting Types

Manifest's experience is that companies have approximately 1.1 to 1.2 meetings per year on average. The majority of meetings at which investors vote during the year are Annual General Meetings (AGMs), at which there is legally defined, mandatory business (Meeting Business) which must be put to the shareholders. These items will vary from market to market and are a function of local company law.

Mandatory business typically includes:

- Receiving of the annual report and accounts;
- Director (re)elections;
- Director remuneration;
- Approval of annual dividend; and
- Reappointment and remuneration of auditors.

Readers should note that what counts as mandatory business varies between jurisdictions. For example, the discharge of Board members from liabilities for their acts or omissions in the past financial year is a regular item on the agenda of AGMs of German companies but is not a feature of UK AGMs. Likewise, the UK is fairly unusual in having a routine resolution to seek shareholder permission for the right to hold non-AGMs at 14 days' notice, instead of the requisite 21 days which normally otherwise applies for shareholder meetings across the EU.

AGM business will often also contain resolutions to approve the issue of new share capital up to a certain maximum (for example in the UK this is usually one third of current Issued Share Capital, along with an accompanying request for the dis-application of pre-emption rights. Across different markets the capital authorities required vary somewhat in their application and number. American and Canadian incorporated companies are not normally required to seek shareholder approval for authorisations to issue shares or to dis-apply pre-emption rights on the issue of shares. Provided a company's authorised capital includes sufficient headroom, management may issue shares subject only to certain limitations set out in the stock exchange listing rules.

Although varying by market, resolutions of this authority contribute towards AGMs having a significantly larger number of resolutions on average than other types of meetings.

3.1.1 Meetings in the full monitoring sample by Fund Manager

During the period under review, the overwhelming majority of portfolio company meetings were AGMs, with only three other meeting types being an Extraordinary Meeting, a Court Meeting and General Meetings. Recently, UK and European companies in particular have begun to change the legal terminology for non-annual General Meetings. As a consequence, some meetings could be reported as an EGM or Extraordinary General Meeting, whilst other meetings identical in nature could be reported as simply General Meetings (GM). In future, GM will replace the term 'EGM'. A Special General Meeting ('SGM') is what some companies might use to refer to an EGM, where a Special Resolution is the substance of a meeting (i.e. a resolution which requires a special level of support or turnout).

Other types of meetings include Court Meetings which are technically called by a Court of Law (most commonly in the UK when there is a need to approve a Scheme of Arrangement), rather than by management, and Class Meetings where only shareholders of a specified class of share may vote.

During the period under review, of the 288 meetings in the monitoring sample Oxfordshire Fund Managers, the majority of votes were cast at AGMs. The remaining votes were cast at GMs 7.29%, EGMs 2.43%, and Court Meeting 1.74%.

The table below represents the number of meeting in which fund managers have voted during the monitoring period. The total number of meetings voted by managers (288) exceeds the unique total number voted at for the fund (249) because of instances where more than one fund manager voted at the same meeting, additionally a number of companies held more than one meeting during the review period:

Table 1: Meeting types by fund manager

FUND MANAGER	COMPANIES	AGM	GM	EGM	SGM	COURT	CLASS	TOTAL
Baillie Gifford	53	51	6	1	0	2	0	**60**
L&G Investment Management (Pooled Instrument)	99	96	12	0	0	2	0	**110**
UBS (Pooled Instrument)	41	39	0	3	0	0	0	**42**
Wellington	70	69	3	3	0	1	0	**76**
Total	**263***	**255**	**21**	**7**	**0**	**5**	**0**	**288**

* Represents the total number of unique companies, not the sum total of companies or capital types voted by each manager.

Although we would expect there to be a 1:1 ratio between the number of companies voted and the number of AGMs voted (on the basis that all companies should have an AGM during the year), the small differences are likely to be explained by portfolio turnover. For example, if a fund manager sells a position in a company in June whose AGM is normally in September, replacing it with stock in a company whose AGM was in March, the fund manager will have had positions in two companies but in neither case did they hold it at the point in the year when the AGM fell. Non-AGMs are still counted and therefore explain why the number of companies voted exceeds the number of AGMs voted. This is not as unlikely as it may seem – often when a company de-lists, a shareholder meeting is required, making it quite plausible that a company may have an EGM but no AGM during the year.

3.2 Monitoring Approach

Manifest deploys purpose-built Voting Template systems (Voting Template) to analyse and consider best practice governance expectations in the context of company meeting business (i.e. what can be voted at a shareholder meeting). Where there are local variations to best practice questions (for example, the length of time after which an independent director may no longer be deemed independent), Manifest applies the local market variation to the assessment, so that we only flag an issue as of concern if the company in question fails to meet their local standards. Where no issues of concern are identified in connection with a resolution, the Voting Template will naturally suggest supporting the proposal.

Manifest monitors companies using this Voting Template in order to:

- Consistently identify company-specific governance policy issues, and
- Monitor and benchmark the actual voting behaviour of investment managers compared to
  - the average shareholder (based on meeting outcomes) and
  - the best practice governance standards (based on regulatory and public policy standard).

The Voting Template is not a prescriptive list of mandatory voting requirements. It is understood that investment managers actual voting behaviour will differ from the Voting Template. This is due to variances in views on governance and voting issues, investment strategy and the role of voting within on-going engagement and stewardship strategy. As such it offers the Fund a "sense check" of the stewardship approach managers are taking.

4 Common Policy Issues at Investee Companies

This section develops the themes identified in the previous chapter by examining the range of governance policy issues and considerations which lie behind the resolutions on which shareholders are asked to vote. The analysis then details those concerns from Oxfordshire’s policy which Manifest identified most frequently among the companies Oxfordshire’s fund managers have voted meetings for. This can be considered as a measure for companies' compliance with Oxfordshire’s governance policy.

4.1 Introduction

Corporate governance is important to investors because it defines the system of checks and balances between the executive management of the company and its owners. Without appropriate levels of independence, accountability, remuneration, experience and oversight, corporate governance would offer shareholders little protection from the risk that their investee company is badly managed.

When analysing the dataset, there is a distinct high proportion of Board-related resolutions (54.85%). This stems from the fact that director elections are frequently, indeed preferably, conducted on an individual basis (i.e. one resolution per director), and more often than not form a part of the common or mandatory business for an AGM every year. Outside of the United States, few resolutions are actually non-binding in nature. The main non-binding resolutions at an AGM are the receipt of the report and accounts and the approval of the remuneration report.

Analysis of the Voting Template settings allows for an in-depth study of the specific governance issues which have been identified by Manifest’s research and analysis process on behalf of Oxfordshire. We have selected the most common issues which have been triggered by the Voting Template, to illustrate the most common ‘issues’ with resolutions voted by the Oxfordshire fund managers according to Oxfordshire’s Voting Template used by Manifest for monitoring fund manager voting.

The scope of Oxfordshire's voting policy is focussed upon a small number of important governance themes, to enable scrutiny of a manageable number of issues. These themes include Audit & Reporting; Board; Remuneration: and Sustainability. Each theme has a number of specific questions associated with it (e.g. on a Director Election resolution (Board), "Where the nominee is non-executive and not independent and the percentage of independent directors is insufficient"). It is these specific questions whose frequency this section of the report examines.

There were 917 resolution analyses where one or more concerns were identified by Manifest from Oxfordshire’s Voting Template. Concern is defined as a deviation from governance best-practice which Oxfordshire has previously chosen to be part of its voting monitoring.

Table 2: Most Common Policy Issues

TABLE POSITION	DESCRIPTION	RESOLUTION CATEGORY	RESOLUTION SUB-CATEGORY APPLIED TO
1	Nominee is a non-independent member of the Remuneration Committee and the percentage of the Remuneration Committee considered to be independent is less than 50-100% (depending on the local market provisions)	Board	The election of directors
2	Nominee is a non-independent member of the Audit Committee and the percentage of the Audit Committee considered to be independent is less than 50-100% (depending on the local market provisions)	Board	The election of directors
3	The authority sought exceeds 5-15% of the issued share capital (depending on the local market provisions)	Capital	Authorise Share Issue without Pre-Emption Rights
4	A Nomination Committee does not exist (or its membership is not disclosed).	Board	The election of directors
5	Nominee is a non-independent member of the Nomination Committee and the percentage of the Nomination Committee considered to be independent is less than 50-100% (depending on the local market provisions)	Board	The election of directors
6	An authority for political donations and expenditures is being sought	Sustainability	Authorise Political Donations & Expenditure
7	The roles of Chairman and CEO are combined	Board	The election of directors
8	There is no independent verification of the Company's ESG reporting.	Audit & Reporting	Report & Accounts
9	The Company has not disclosed a gender diversity target	Board	The election of directors
10	There are no meetings held by the non-executives without the executives present	Board	The election of directors
11	Nominee is non-executive and not independent and the percentage of independent directors on the Board comprises less than 33-66% (depending on the local market provisions)	Board	The election of directors
12	The individual's number of other current directorships at listed companies (Chairman role counts as 2) exceeds one in the case of an executive nominee and five in the case of a non-executive nominee	Board	The election of directors
13	The number of Board and committee meetings in the year the nominee attended is less than 75%	Board	The election of directors

Overall, Manifest flagged 1,306 policy issues across the 4,800 resolution analyses undertaken for this report. This includes instances where the same resolution was analysed multiple times due to fund managers voting on the same resolution. Some resolutions were subject to multiple issues. Due to this, the following section includes an indication of the resolution category that each concern may be associated with.

4.1.1 Notes on the operation of best practice governance analysis

Readers should note that the Manifest voting guidance system allows for an individual governance issue to be applied to multiple resolutions. This is because, for the most part, there is not a one to one match between a policy issue and a specific resolution. This means that the list below is heavily weighted towards those considerations which are associated with the most frequent resolution type – board resolutions, and specifically, director elections.

For example, concerns relating to board or committee independence may be taken into consideration for the approval of the report and accounts (Audit & Reporting), director elections and possibly remuneration related resolutions (where the remuneration committee is insufficiently independent, concern with their proposals may be highlighted). Manifest reflects board accountability in its research by placing the analysis of the relevant board committee in the context of analysis of the governance matters for which they are responsible.

4.2 Conclusions on common policy issues

Taken as a whole, this analysis shows just how many different considerations there are that go into assessing the governance of a typical company.

Although the volume (in absolute terms) of the most common governance concerns Manifest identifies is heavily affected by the high number of director election resolutions compared to other types of resolution, readers should not dismiss the significance of board-related considerations (director election).

The election of directors, and the governance structures which they constitute on the board, is the lifeblood of accountability between boards and owners. It is the (non-executive) individuals on the board whose job it is to protect and look out for the interests of shareholders, so it follows that they are held accountable regularly and that a wide number of considerations are taken into account. 10 of the top 13 concerns relate to director elections, of which the majority relate to independence issues and the effect that has on the functioning of the board and its committees. Of the top 13, the only exceptions to this are the questions of independent verification of Environmental, Social and Governance (ESG) reporting and authorities sought for political expenditure and share issues without pre-emption rights.

4.3 Audit & Reporting

Annual report resolutions are frequently those on which concerns about general board structures and practices may be concentrated, in addition to issues relating to the verification and reporting of information.

4.3.1 Audit committee independence

We assess the independence of the audit committee, in terms of whether there is a sufficient number and/or proportion of directors deemed independent (by reference to the local best practice standards).

It is a consideration for the approval of financial and non-financial reporting, because it relates to judging the independence of the audit process which underpins company reporting and therefore has been flagged on Report & Accounts resolutions.

4.3.2 No independent verification of ESG reporting

The growth in importance of ESG considerations in investment heightens the profile of ESG information provided by companies and hence increases the need for its veracity. As more investors use ESG information in their investment decisions, it follows that such information should be subject to levels of verification equivalent to those of more traditional disclosures such as financial updates and governance reports.

4.3.3 The number of meetings held by the non-executives without the executives present.

We identify where there has been no meeting of Non-executives without Executives present disclosed by the company.

It is important for the Non-executives to meet without the Executives present in order to be able to have a free and open discussion about matters which may be more difficult to discuss with the presence of those who are running the business day to day.

4.3.4 The roles of Chairman and Chief Executive Officer are combined

We identify where the roles of Chair and Chief Executive Officer (CEO) and are performed by the same person.

The over-concentration of power in one single office or person is a key potential risk factor in any organisation. Despite the fact that some markets (notably France and the US) have much more relaxed standards on this question than most others, investors increasingly expect companies to separate the roles of CEO and Chair. It is associated with the Audit & Reporting category because it is applied to consideration of the report and accounts,

4.4 Board

Many of the most common governance criteria that were triggered all pertain to board structures and independence, which are considerations in director elections. Readers will note that the most common type of resolution in the voting portfolio was director elections (they accounted for 54.85% of all resolutions), which largely explains the fact the below criteria are flagged most frequently.

4.4.1 Nomination Committee Independence

We identify where the Nomination Committee does not have a sufficient number of or proportion of independent directors by reference to the local standards within which the company operates.

Globally it is acknowledged that the Nomination Committee should consist of at least a majority of independent directors. Independence and objectivity of input are the best conditions for the nomination of suitably independent and diverse candidates for future board positions.

4.4.2 Individual is non-independent member of a committee which is not suitably independent

Where an individual is partly or solely the reason why a committee is not deemed sufficiently independent, the re-election of that individual to the board may be called into question.

The committee independence criterion may vary across markets and company size.

4.4.3 A nomination committee does not exist (or its membership is not disclosed).

Without a clear nomination committee and process, the provenance of director election proposals is unclear. This is therefore a consideration which has flagged on director elections.

4.4.4 Percentage of female directors on the board

Manifest tracks the issue of female representation on the board as a part of the wider debate on board diversity.

Whilst the issue of female directors on the board may not be a critical risk consideration on its own, the fact that director independence in general is so frequently flagged might point to a wider problem with adequate application of diversity considerations when making board appointments, of which female presence on the board is perhaps the most obvious measure. It is recognized that Boards perform best with the best people appointed to them, and for that reason; diversity of all kinds (including gender) should be encouraged.

Board diversity, in particular gender diversity, has been an issue of focus in the UK since the publication of the 2011 Davies report. The report recommended FTSE 100 companies to aim for a minimum of 25% female Board representation by 2015 and for all FTSE 350 companies to set their own, challenging targets to increase Board diversity.

The report also stated that companies should fully disclose the number of women sitting on their Boards and working in their organisations to drive up the numbers of women with top jobs in business. UK narrative reporting regulation introduced in 2013 introduced a requirement for companies to disclose the number of women employed at different levels in the workforce.

The five-year summary report of the Davies review published in October 2015 set out next step recommendations including an increased gender diversity target of a minimum of 33% female representation on boards of FTSE 350 companies by 2020 with a focus on the executive layer.

4.4.5 Nominee is non-executive, non-independent and the board is not sufficiently independent

We monitor whether boards' composition meets the independence criteria of the market where they operate. Where it doesn't, and the individuals who are contributing to this concern are up for (re)election, we highlight board composition as a concern in the context of their (re)election proposal.

4.5 Capital

4.5.1 The authority sought exceeds 5% of issued share capital

The most common capital-related concern highlighted is where a company board seeks permission for authority to issue new shares, or allocate share capital, sometimes for a specified purpose (for example, for the purpose of executive or employee incentive pay). Where the amount of share capital concerned exceeds a certain threshold, it may be of concern to shareholders (who may wish to have the right to choose to maintain ownership of a certain proportion of the company, so would want the ability to obtain their proportion of the new share issue in order to do so). The stipulated proportion may frequently be defined in local corporate governance codes under provisions designed to protect the rights of shareholders.

4.6 Sustainability

4.6.1 Political donations

Under European jurisdictions, companies are required to seek approval for so-called political donations. These resolutions are not specifically for party political donations as the EU include expenditure towards the realisation of political aims such as political lobbying, trade association memberships etc.

4.6.2 An authority for political donations and expenditures is being sought

Whilst it may seem arbitrary to set an absolute figure on such a resolution, this is actually in line with investor preferences in the sense that it would not seem appropriate for shareholders to approve a figure expressed relative to company size or turnover as that would imply that political donations are an acceptable routine aspect of corporate life. Secondly, given that laws relating to disclosures require absolute amounts to be disclosed, an absolute limit is also a more transparent means of applying a preference.

4.7 Corporate Actions

The Corporate Actions category covers a narrow and specific set of considerations. As a result, none of the governance concerns typically associated with this category featured in our analysis of the most common concerns identified by the policy, simply because the issues to which they relate don’t come up on a typical corporate agenda very regularly.

4.8 Shareholder Rights

The shareholder rights category covers resolutions which relate specifically to proposals which affect the ability of shareholders to exercise some element of their rights (usually in a negative way by reducing ownership rights). It is therefore still a relatively rare resolution type to occur. They encompass not only rules about shareholder voting, but also things such as the ability of a shareholder (or shareholders) to requisition a meeting or a resolution at a meeting, the way in which a shareholder meeting is conducted and (perhaps most significantly) shareholder rights in the event of a (hostile) takeover situation.

5 Aggregate Voting Behaviour

Having discussed above the general themes of the most frequent contentious issues in each resolution category, the next step is to consider how Oxfordshire's fund managers voted. This section sets out and compares how Oxfordshire's fund managers voted, as compared to general shareholder voting patterns (as shown by the meeting results data collected by Manifest as a part of the monitoring service), in the context of different categories of resolution.

5.1 Fund Manager Voting Comparison

Table 3 below shows the total number of resolutions voted by each fund manager during the period under review. It shows the proportion of all resolutions which each fund manager voted with management, compared with the proportion of resolutions where the best practice Voting Template suggested supporting management. Lastly, it shows how shareholders were reported to have voted where meeting results were available from the companies in question. Manifest seeks to collect the meeting results data for all meetings analysed. In certain jurisdictions, provision of such information by companies is not guaranteed. However, of the 4,800 resolutions analysed in this report, Manifest obtained poll data for 4,625 resolutions, allowing for a meaningful analysis of the resolution data set.

Table 3: Overall Voting Patterns

FUND	RESOLUTIONS VOTED	OXFORDSHIRE MANAGERS SUPPORTED MANAGEMENT	GENERAL SHAREHOLDERS SUPPORTED MANAGEMENT	TEMPLATE FOR MANAGEMENT
Baillie Gifford	989	93.12%	96.99%	82.61%
L&G Investment Management	2,051	98.59%	97.02%	82.30%
UBS	678	92.18%	95.17%	76.11%
Wellington	1,082	97.78%	95.28%	71.63%
Total	**4,800**	**96.38%**	**96.40%**	**79.08%**

Table 3 shows that fund managers vote with management a high proportion of the time, and that the best practice Voting Template identifies potential governance issues on a far higher proportion of resolutions than the fund managers choose to oppose.

Using the "Template For Management" data as a proxy for compliance with corporate governance best practice expectations, the companies in the L&G and Baillie Gifford portfolios display a comparatively higher level of compliance with governance best practice than those of UBS and Wellington. This is also reflected in the general shareholder support levels – with L&G portfolios and Wellington with a higher average support than the UBS and Baillie Gifford portfolios.

This in part reflects the mandates, and therefore the composition of the portfolios, of the fund managers. L&G's mandate is for FTSE 100 companies and Baillie Gifford for UK equities whereas the UBS and Wellington mandates are for global equities and are therefore exposed to a much higher potential variance of general governance standards creating lower levels of convergence with the voting policy template.

We can compare each fund manager's overall voting pattern with how other shareholders voted on the same resolutions (using our own analysis of the voting results data (where made available by companies)). Table 3 shows that Oxfordshire's fund managers supported management slightly less, by 0.02%, than shareholders in general. However, there are some variances between the respective fund managers.

L&G have supported management more than most fund managers and supporting management 98.59% of the time. Conversely, Baillie Gifford supported management significantly less than shareholders in general – this is notable given that both L&G and Baillie Gifford's portfolios are limited to the UK. The difference in voting patterns could be explained by the differences in mandates - L&G's portfolio is composed of FTSE 100 companies while Baillie Gifford's portfolio is composed of UK equities meaning the governance standards may be more varied in the Baillie Gifford portfolio.

UBS have supported management to a lesser degree than Baillie Gifford, L&G and Wellington. When compared against L&G and Wellington the differences are again partly explained by the fund manager mandates. L&G and Baillie Gifford's mandates have the effect of ensuring that the companies in which they are invested tend to have higher standards of governance to begin with when situated in a global context. Additionally, the degree to which it is possible to positively engage with portfolio companies in the UK market lends the funds to being in a position to continue to support management even where technical concerns may appear to persist.

The Wellington and UBS portfolios track global equities and therefore are subject to a much higher potential variance of general governance standards especially coming from a UK context and considering it is harder to engage global companies from a practical level, voting rights often become more important. This is demonstrated by taking the "Template For Management" measure as a proxy, the degree which portfolio companies display potential issues of concern is broadly comparable between the two and greater than the L&G and Baillie Gifford's portfolios.

Therefore, it could be considered surprising that despite the lower level of compliance with the corporate governance standards of the Voting Template and the lowest level of general shareholder support, Wellington, while voting against management to a higher degree than L&G, have supported management to a higher degree than Baillie Gifford and to shareholders in general.

At an aggregate level it is difficult to make thematic observations about why Wellington are more likely to support management, other than to say that their use of negative voting appears to play a smaller part of the investment process with companies than for the other fund managers. There could be a number of reasons for this including, for example, engagement strategy or even resourcing, as it could be taken as a measure of shareholder advocacy per se.

Whilst simultaneously, at an aggregate level it is difficult to make thematic observations about why Baillie Gifford and UBS have supported management less than shareholders in general, other than to say that it could be an indicator that the use of voting rights is likely to play a more significant part of the engagement process with companies than for the other fund managers and the opportunities for engaging directly with companies are fewer. This could have to do as much with engagement strategy as it could be taken as a measure of shareholder advocacy per se.

6 Voting Behaviour by Resolution Category

Table 4 and Table 5 below show headline figures as to how shareholders voted on each resolution category in general. The sections which follow them then show more detail into the sub-themes of each resolution category, showing in turn how the considerations relevant to each category and sub-category fit together to translate governance policy into possible voting action.

Using the vote outcome data collected in respect of the significant majority of meetings at which Oxfordshire fund managers have voted, we have combined the meeting results with our classification of meeting business, so as to identify which were the most contentious resolutions and the reasons for them being contentious.

6.1.1 What is "Dissent"?

Where Manifest uses the term 'Dissent', this is the result of having added up all votes not supporting the management recommendation, represented as a percentage of all votes cast ('Against' plus 'Abstain' votes where Management recommended a 'For' vote and 'For' plus 'Abstain' votes where Management recommended 'Against').

Where there was no clear recommendation from company management, we have not counted any votes cast on those resolutions as dissent.

In respect of shareholder proposed resolutions, dissent is measured by taking into account votes cast differently to the management recommendation (which may most commonly have been "Against").

Table 4: Dissent By Resolution Category

RESOLUTION CATEGORY	NUMBER OF RESOLUTIONS	RESULTS AVAILABLE	OXFORDSHIRE MANAGERS' DISSENT	GENERAL SHAREHOLDERS AVERAGE DISSENT
Board	2,633	2,500	1.67%	2.41%
Capital	750	743	8.40%	3.81%
Audit & Reporting	598	586	0.00%	1.63%
Remuneration	433	422	9.47%	9.04%
Shareholder Rights	212	206	6.13%	8.97%
Sustainability	127	127	4.72%	8.07%
Corporate Actions	45	40	15.56%	3.14%
Other	2	1	0.00%	4.63%
Total	4,800	4,625	**3.63%**	3.60%

* "General Shareholders Average Dissent" calculated from general shareholder voting results where available.

Table 4 above shows the most common categories of resolutions at meetings voted at by Oxfordshire's fund managers. When looking at the general average dissent levels (i.e. the meeting results data), it is clear that shareholders in general support management to a considerable extent, even on the most contentious issues.

Oxfordshire's fund managers in 2015-16 were, on average, slightly more assertive in expressing concerns through votes at shareholder meetings, voting against management on 174 occasions out of 4,800 resolutions, constituting an overall average opposition level of 3.63% which is consonant with general shareholder's voting pattern. This represents an approval rating of greater than 96% overall. The inner trends, in terms of shareholder proposals and the different resolution categories, are demonstrated and explored more fully below.

It was the corporate actions and remuneration related resolutions proved to be the most consistently contentious resolution categories (15.56% dissent and 9.47% respectively), of those routinely and predominantly proposed by management. The following section analyses the dissent by categories in more detail, by exploring patterns of opposition at sub-categories level.

6.1.2 Dissent on shareholder proposed resolutions

Table 5: Shareholder Proposed Resolutions

RESOLUTION CATEGORY	NUMBER OF RESOLUTIONS	PROPORTION OF ALL SUCH RESOLUTIONS	OXFORDSHIRE MANAGERS' DISSENT	GENERAL SHAREHOLDERS AVERAGE DISSENT
Sustainability	41	32.28%	14.63%	18.49%
Board	19	0.72%	36.84%	36.72%
Shareholder Rights	16	7.55%	31.25%	32.77%
Remuneration	11	2.54%	18.18%	16.31%
Corporate Actions	2	4.44%	-	7.50%
Other	1	50.00%	-	4.63%
Grand Total	**90**	**1.88%**	**22.22%**	**24.43%**

* "Average Dissent" calculated from resolutions in respect of which shareholder voting results were available.

In terms of Sustainability-related resolutions, the majority were related to the improvement of sustainability reporting, or miscellaneous specific sustainability proposals, largely in the extractive industries sector. Much of the rest (10 instances) were requesting disclosure of political donations, all but one in the US (the exception being Suncor Energy in Canada), where corporate political donations are a significant feature of the US system.

The tied largest single proportion of the resolutions relating to aspects of Shareholder Rights pertained to requests to amend company Bylaws so that shareholders may act by written consent (whereby shareholders could do so in lieu of a meeting, the necessary threshold typically being equivalent to the percentage of voting power that would be necessary to approve the action at a meeting). Many company articles actively preclude this. These proposals proved relatively popular but management were not defeated in these cases.

Requests to amend company Bylaws so that shareholders may submit board nominations (proxy access) were also prominent – all of which were in the US. Three of which were passed and in only one of these cases did management recommend a vote in favour - evidence of shareholder action producing a positive outcome and the improvement of shareholder rights at portfolio companies.

Regarding Board-related resolutions, Board Composition (10 of the instances of shareholder proposed resolutions) and Election Rules (9) both feature prominently. The most common themes among the Board Composition resolutions – as is the case with the proxy access proposals, all in the US - were requests to adopt a policy of the Chairman being an independent director, which continues to be a significant area of debate in US corporate governance.

The largest proportion of the remuneration related shareholder proposals again came in the US. A range of topics were covered with notable focus on clawback provisions and the vesting of share awards in the event of a change in control.

Oxfordshire's managers voted with Management on 77.78% of all shareholder proposed resolutions, with most support shown for shareholder proposals on sustainability reporting and remuneration issues.

Oxfordshire fund managers supported seven successful shareholder sponsored proposals. UBS, Baillie Gifford and L&G all supported the 'Aiming for A' filed resolution at Rio Tinto in relation to sustainability reporting. L&G also supported the same resolution at Glencore. Both company boards recommended shareholders vote in favour of the proposals and the resolutions passed with each receiving over 97% shareholder support. Of the other five successful shareholder proposals where Oxfordshire fund managers voted in favour four were in the US market and one was in the Canadian market. For each of the US proposals management recommended a vote against but in regard to the proposal requesting further reporting on environmental practices at Suncor Energy in Canada management recommended shareholders vote in favour.

6.2 Board

Board related resolutions constitute nearly half of all the resolutions voted during the year. This is almost completely down to the high number of director election resolutions on a typical AGM agenda, as can be seen from Table 6 below.

Table 6: Board Resolution Sub-Categories

RESOLUTION SUB-CATEGORY	TOTAL RESOLUTIONS	TEMPLATE WITH MGT	OXFORDSHIRE VOTED WITH MGT	OVERALL S/HOLDER VOTES WITH MGT
(Re-)Elect Directors	2,530	80.83%	98.58%	97.85%
Directors Discharge	46	100.00%	100.00%	98.70%
Board Committee	19	100.00%	100.00%	97.80%
Election Rules	14	28.57%	57.14%	70.48%
Board Composition	10	0.00%	90.00%	68.20%
Other Board/Director related	9	55.56%	88.89%	87.71%
Board Size & Structure	5	100.00%	100.00%	97.60%
Grand Total	**2,633**	**80.67%**	**98.33%**	**96.19%**

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

The largest differences between the proportion of resolutions where the template identified concerns and the proportion of votes against management involve Director Elections, Election Rules and "Other" (where in each case the fund managers supported management to a greater extent than the template found no issues of concern). In fact, in no cases did fund managers oppose management to a higher degree than the template itself.

In the case of the "Other" resolutions one of the 9 resolutions were voted in opposition to management by Oxfordshire's fund managers. This was a resolution to release the prohibition on directors from participation in competitive businesses voted on at Taiwanese company Catcher Technology's AGM by UBS – UBS voted against while management recommended a vote in favour.

Table 7: Fund Manager Voting on Director Elections

FUND MANAGER	RESOLUTIONS	VOTED WITH MGT
L&G Investment Management	982	98.88%
Wellington	689	99.13%
Baillie Gifford	463	99.57%
UBS	396	95.71%
Grand Total	**2,530**	**98.58%**

Due to their number, Director Elections merit some comparative commentary of their own. Of these, only UBS opposed management on director elections more than shareholders in general (95.71% support, compared to 97.85% support across shareholders generally). This was also the case in the prior reporting year where UBS support was recorded at 95.65%, compared to 97.83% support across shareholders generally. Whilst L&G Investment Management boasted the highest support rate in the prior year they were only third highest this year with their level of support on director elections dropping from 99.60% to 98.88. Baillie Gifford (99.57%) and Wellington (99.13%) recorded the uppermost levels of support of management on director elections.

Of those resolutions where the fund managers opposed management on Director Elections (36 resolutions – accounting for all but 8 Board related resolutions where management was opposed) the most frequent governance issues Manifest identified were:

Table 8: Board-related governance top- issues

ISSUE	INSTANCES
1 No disclosure of Nomination Committee	8
2 Attendance at Board and Committee meetings	6

On many occasions, there were multiple concerns with each resolution, and it is likely that the quantum of governance concerns, rather than the substance of each individual concern per se, is what makes the fund managers more likely to register opposition to their re-election. For example, where an individual is not independent and they are the reason why the audit committee is not compliant with the corporate governance code.

The number of resolutions where management was opposed without the identification of governance concerns from Oxfordshire's policy (30 out of 44 instances where management was opposed) would suggest that fund managers can and occasionally do apply their own (investment) judgement on these issues.

6.3 Capital

Resolutions relating to the capital structure of a company frequently pertain to investment specific considerations. For that reason, governance best practice considerations are less frequently relevant, other than the extent to which proposals directly affect shareholders rights, where often the rules are well defined and relatively infrequently breached (such as the UK Pre-Emption Guidelines).

Perhaps unsurprisingly, dividend approvals are supported a very large percentage of the time by both fund managers and shareholders in general. One investment consideration on this issue is the balance between short and long-term investment return. Capital returned to shareholders in the short term through dividends cannot then be used by the company for potential revenue-enhancing investment in the future business.

Furthermore, especially in the case of "income" stocks, the reliability of the dividend is a factor in the stock valuation which could therefore fluctuate if the situation changed. Other means of returning capital to shareholders is through share buy-backs.

Table 9: Capital Resolutions Sub-Categories

RESOLUTION SUB-CATEGORY	TOTAL RESOLUTIONS	TEMPLATE WITH MGT	OXFORDSHIRE VOTED WITH MGT	OVERALL VOTES WITH MGT
Issue of Shares & Pre-emption Rights	391	71.61%	84.91%	93.62%
Share Buybacks & Return of Capital	183	81.97%	98.36%	98.58%
Dividends	157	94.90%	99.36%	99.65%
Bonds & Debt	7	0.00%	100.00%	96.08%
Treasury Shares	6	66.67%	100.00%	98.62%
Capital Structure	5	0.00%	100.00%	99.15%
Authorised Share Capital	1	100.00%	100.00%	97.66%
Grand Total	**750**	**77.87%**	**91.60%**	**96.19%**

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

Over half of the resolutions in this category related to the issue of shares and pre-emption rights, which often form part of routine business at company AGMs, giving them the on-going permission to issue new shares up to a certain agreed level for the forthcoming year.

The most frequent issues on capital related resolutions where there was a voting concern highlighted were as follows:

Table 10: Capital-related governance top- issues

ISSUE	INSTANCES
1 New share issue authority exceeds 5-50% of existing share capital	115
2 Proposal to return capital to shareholders	12
3 Maximum purchase price expressed as a percentage of the market price is more than 0-110% (depending on the local market provisions)	11
4 EPS is utilised as a performance measure in the incentive elements of the executive pay packages and there is no assurance that EPS targets would be adjusted to reflect the impact of the share buybacks	10

6.4 Audit & Reporting

The results data we collected shows that resolutions related to audit and reporting were the least contentious resolution category of all. However, because it includes resolutions which pertain to questions which are routine AGM meeting business in many countries (including the UK), it nevertheless merits some analysis. The resolution relating to Report and Accounts includes the consideration of the sustainability reporting a company makes to its shareholders.

Table 11: Audit & Reporting Resolution Sub-Categories

RESOLUTION SUB-CATEGORY	TOTAL RESOLUTIONS	TEMPLATE WITH MGT	OXFORDSHIRE VOTED WITH MGT	OVERALL VOTES WITH MGT
Auditor - Election	243	91.36%	100.00%	97.80%
Report & Accounts	189	48.15%	100.00%	98.75%
Auditor - Remuneration	149	100.00%	100.00%	98.87%
Appropriate Profits	14	100.00%	100.00%	97.16%
Other A&R related	3	100.00%	100.00%	99.12%
Grand Total	**598**	**80.10%**	**100.00%**	**98.37%**

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

119 resolutions had at least one concern highlighted. Some of the most common concerns that Manifest identified are indicated in the table below. Oxfordshire's fund managers have voted with management 100% of the time on resolutions of this type; this is a strong indicator that these are not governance concerns over which the fund managers wish to oppose management with their votes. It also led to insufficient variance between fund managers' voting records to merit further comment.

Table 12: Common Concerns Identified on Audit & Reporting Resolutions

ISSUE	INSTANCES
1 No independent verification of the Company's ESG reporting	64
2 No meetings held by the non-executives without the executives present	33
3 Auditor tenure exceeds seven years and no recent tender	17
4 No ESG management systems in place	15
5 No resolution to approve the dividend	14

6.5 Remuneration

As noted above, Remuneration related resolutions are amongst the most contentious, attracting the highest average level of dissent of all of the resolution types routinely proposed by management.

Table 13: Remuneration Resolution Sub-Categories

RESOLUTION SUB-CATEGORY	TOTAL RESOLUTIONS	TEMPLATE WITH MGT	OXFORDSHIRE VOTED WITH MGT	OVERALL VOTES WITH MGT*
Remuneration Report	227	99.56%	89.87%	89.74%
Long Term Incentives	75	32.00%	92.00%	91.06%
Remuneration Policy	39	97.44%	79.49%	89.92%
Non-executive Remuneration	36	100.00%	100.00%	99.01%
All Employee Share Plans	22	81.82%	100.00%	96.76%
Total Individual Remuneration	11	100.00%	90.91%	79.09%
Remuneration – Other	10	40.00%	70.00%	91.14%
Total Aggregate Remuneration	5	100.00%	100.00%	92.24%
Item Individual Remuneration	4	100.00%	100.00%	97.29%
Short Term Incentives	4	100.00%	100.00%	96.81%

Grand Total	433	85.45%	90.53%	90.96%

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

The most contentious remuneration votes in terms of Oxfordshire's managers, not including "Remuneration – Other", were resolutions to approve the remuneration report and the remuneration policy. The same can also be said for the wider shareholder population, along with resolutions dealing with individual remuneration.

Broken down by fund manager, the voting on remuneration resolutions does show some patterns.

Table 14: Fund Manager Voting On Remuneration Resolutions

FUND MANAGER	RESOLUTIONS	VOTED WITH MGT
L&G Investment Management	145	91.19%
Wellington	109	95.61%
Baillie Gifford	91	83.52%
UBS	69	89.86%
Grand Total	**433**	**90.53%**

Two of the fund managers opposed management to a higher degree than shareholders in general (90.96%) on remuneration issues – Ballie Gifford and UBS. Wellington were the fund manager most likely to vote in line with management and did so considerably often than shareholders in general (voted with management 95.61% of the time). Baillie Gifford were the fund manager to vote in line with management to the least extent (voted with management 83.52% of the time).

Table 15: Common Concerns On Remuneration Resolutions

CONCERN	INSTANCES
1 Aggregate variable pay opportunity	19
2 No reference to performance when options vest in the event of a change in control	14
3 Long-term incentive pay opportunity	10
4 The minimum ranking required for vesting is less than median	10
5 Non-executive directors can participate in the long-term incentive scheme	8

Table 15 shows the most common concerns from Oxfordshire's policy template associated with remuneration-related resolutions over the year. Many of these issues have been prevalent on a consistent basis over time.

Manifest's Executive Remuneration Assessment Grade is a high level rating system which generates a numeric score (between 1 and 250) and an alphabetical grade from A-F. It is a wide-ranging analysis which encompasses all of the other remuneration concerns in Oxfordshire's policy template, examining issues such as linkage of incentives to company strategy, quantum, structure, performance measures and comparator groups, contracts, dilution and pensions and benefits. It is a reliable forecast for general shareholder dissent, and a helpful indicator of the contentiousness (or otherwise) of the remuneration arrangements overall.

The quantum of bonus and long term incentive payments is possibly the most widely debated contentious issue in the corporate governance of public listed companies. A large proportion of companies were found to have a high proportion of incentive pay relative to salary - a possible indication of over-encouraging risk-taking.

The absence of performance conditions for the exercise of awards or options is also noteworthy, especially where the maximum potential pay is high. This may suggest an element of payment of high remunerative incentive pay without setting down sufficient substantive performance targets in order to obtain it. This means that not only is the remuneration structure suggesting the over-encouragement of risk-taking, investors are left in the dark as to what risks may be being over-encouraged.

The UK Enterprise and Regulatory Reform Bill amendment in October 2013 requires companies to put their remuneration policy to a forward-looking binding vote at least every three years, in addition to the backward-looking annual advisory vote on the report on the implementation of the policy during the year. Once approved companies can only provide remuneration that is consistent with the policy unless they obtain shareholder approval at a general meeting to a revised policy or to a specific payment. Due to the three-year cycle of policy approvals the majority of companies will be required to put new policies to shareholder votes in 2017.

6.6 Shareholder Rights

The shareholder rights category covers resolutions which relate specifically to the ability of shareholders to exercise some element of their rights. They therefore encompass not only rules about shareholder voting, but also things such as the rules according to which a shareholder (or shareholders) may requisition a meeting, a resolution at a meeting, the way in which a shareholder meeting is conducted and shareholder rights in the event of a (hostile) takeover situation.

They are important because they essentially relate to the extent to which investors are able to mitigate themselves against the risk of third parties making decisions which affect their investment in the company.

Table 16: Shareholder Rights Resolution Sub-Categories

RESOLUTION SUB-CATEGORY	TOTAL RESOLUTIONS	TEMPLATE WITH MGT	OXFORDSHIRE VOTED WITH MGT	OVERALL VOTES WITH MGT
General Meeting Procedures	133	95.49%	93.23%	90.09%
Other Articles of Association	55	94.55%	100.00%	96.71%
Meeting Formalities	11	90.91%	81.82%	99.42%
Shareholder Rights	11	9.09%	81.82%	70.61%
Anti-takeover Provision	2	100.00%	100.00%	82.85%
Total	**212**	**90.57%**	**93.87%**	**91.03%**

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

Frequently, many of the issues in this category are relatively straight forward and many of the resolutions where there is complexity it is down to the proposal being made by shareholders, therefore inevitably likely to introduce some question that is comparatively out of the ordinary.

For example, a large number of the 'General Meeting Procedures' resolutions relate to the requirement in the UK for companies to request a routine permission to retain the right to call a non-AGM General Meeting at less than 21 days' notice. In the UK context, it is a simple consideration – to allow companies to retain the ability to do something they have had the right to do for many years, provided they do not take advantage of it. Oxfordshire's fund managers have voted "For" management to a greater extent than shareholders in general simply because foreign shareholders are more frequently opposing 14 day notice period permissions, simply because their voting mechanisms are not efficient enough to be able to vote a meeting called a less than 21 days' notice.

6.7 Corporate Actions

Whilst far less numerous, some statistical significance can be attributed to some of the Resolution Sub-Categories pertaining to Corporate Actions, which can be put to effect to explore why they number among the most contentious resolution sub-categories for Oxfordshire's fund managers.

Table 17: Corporate Actions Resolution Sub-Categories

RESOLUTION SUB-CATEGORY	TOTAL RESOLUTIONS	TEMPLATE WITH MGT	OXFORDSHIRE VOTED WITH MGT	OVERALL VOTES WITH MGT
Significant Transactions	23	82.61%	78.26%	96.93%
Related Party Transactions	12	91.67%	83.33%	94.84%
Change of Name	6	100.00%	100.00%	99.82%
Company Purpose & Strategy	2	0.00%	100.00%	92.50%
Other Corporate Action	2	100.00%	100.00%	99.69%
Total	**45**	**84.44%**	**84.44%**	**96.86%**

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

The majority of Corporate Actions considerations are often investment or company-specific, such as related party transactions, schemes of arrangement, disposals and acquisitions. Definitions of what might be 'good' or 'bad' decisions or perspectives in this context becomes decidedly subjective, as do comparisons of fund manager voting with management recommendations.

What can be observed is that Oxfordshire's fund managers are consistently much more likely to oppose approvals of significant transactions (including acquisitions, disposals, mergers and takeovers). This is because related party and especially significant transactions may well entail significant potential conflicts of interest.

6.8 Sustainability

With the exception of political activity and one sustainability report vote, all resolutions in this category were proposed by shareholders, generally asking companies to either improve their reporting of, or performance on, specified sustainability issues. Because of this, meaningful routine categorisation of these issues is very challenging, because the specific content of a proposal is defined by the proponent and could be about anything, from asking the company to close specific operations to requesting a one-off or regular report on employee conditions.

It is also not uncommon for most investors to vote with management on such issues unless the issue at hand is either one for which the investor (i.e.; fund manager) has a particular affinity or was involved with the tabling of the resolution itself. Although, this year, relatively high levels of shareholder dissent have been recorded.

Table 18: Sustainability Resolution Sub-Categories

RESOLUTION SUB-CATEGORY	TOTAL RESOLUTIONS	TEMPLATE WITH MGT	OXFORDSHIRE VOTED WITH MGT	OVERALL VOTES WITH MGT
Political Activity	95	1.05%	98.95%	94.22%
Other ESG	11	0.00%	72.73%	74.79%
Human Rights & Workforce	7	0.00%	85.71%	87.32%
Sustainability Reporting	7	85.71%	100.00%	96.60%
Environmental Practices	5	20.00%	80.00%	88.67%
Ethical Business Practices	2	0.00%	100.00%	85.30%
Total	**127**	**6.30%**	**95.28%**	**91.93%**

* "Overall Votes with Management" calculated from resolutions in respect of which shareholder voting results were available.

Under European jurisdictions, companies are required to seek approval for "political donations", which encompass more than donations to specific political parties, and include expenditure towards the realisation of political aims such as political lobbying. Oxfordshire's fund managers opposed none of the resolutions seeking authorisation to make political donations. The fund managers opposed management when the management recommendation was to vote against a shareholder proposal to request the Board to prepare a report to shareholders on lobbying at Citigroup. The gap between Oxfordshire's template and fund manager voting behaviour is wider on this issue than any other.

7 Aggregate Analysis

Manifest has also assessed the aggregate voting patterns undertaken by the fund managers, the additional meetings to those considered in the detailed analysis pertain meetings in emerging or developing markets (including Far Eastern and African markets). Aggregate analysis does not drill down to identifying governance concerns on individual resolutions, but does look at the aggregate patterns of voting decisions taken by the fund managers. This is largely due to the fact the disclosure practices in these markets is traditionally not as high as we are used to in Europe and the US in particular, thereby hindering the statistical reliability of detailed analysis.

7.1 Baillie Gifford

Table 19: Baillie Gifford Aggregate Resolutions Voting By Market

COUNTRY	TOTAL RESOLUTIONS	VOTED WITH MANAGEMENT
Denmark	6	100.00%
Hong Kong	1	100.00%
United Kingdom	1,130 (1,111)	92.62%
United States	19	94.74%
Grand Total	**1,156 (1,137)**	**92.70%**

Table 19 above shows the number of votable resolutions in each market voted by Baillie Gifford, as well as their average support of management on each. It shows a very similar level of support for management detailed in Section 5, 92.70% compared to 93.12%, which might not be a surprise given the large exposure to UK based companies Baillie Gifford were voting at. Due to the low count of resolutions outside of the United Kingdom meaningful analysis is not available for Baillie Gifford's voting outside of the UK.

Readers should note that Baillie Gifford did not vote at Petrofac's, a UK listed Jersey based company, AGM held on 19 May 2016, which consisted of 19 resolutions.

Table 20: Baillie Gifford Voting By Category

CATEGORY	TOTAL RESOLUTIONS	VOTED WITH MANAGEMENT
Audit & Reporting	173 (170)	100.00%
Board	550 (540)	99.63%
Capital	232 (228)	74.12%
Corporate Actions	12	83.33%
Remuneration	102 (101)	80.20%
Shareholder Rights	62 (61)	100.00%
Sustainability	25	100.00%
Grand Total	**1,156 (1,137)**	**92.70%**

What is interesting is the breakdown of the average support of management by resolution category compared to that in Section 6. Baillie Gifford have supported management to a lesser degree on Capital and Corporate Actions, in the case of Capital resolutions by 17.48% and Corporate Actions by 1.11% - although readers should note that due to the low number of resolutions within the latter Corporate Actions category a smaller number of contrary votes will have a higher contribution to the dissent figure. Within the Capital category Baillie Gifford voted against resolutions pertaining to share issue authorities where the authority sought was deemed to not be in-line with Baillie's view on best practice.

Baillie also voted against more remuneration related resolutions than fund managers did, by a factor of 10.33%, as detailed in Section 6. This is also demonstrated in Table 14 showing that Baillie take an active stance on voting on remuneration issues – this is within the context of the UK generally having better remuneration practices when situated in a global context.

Baillie Gifford supported all resolutions pertaining to the categories of Audit & Reporting, Shareholder Rights and Sustainability – within a UK context such resolutions are often considered routine – and supported Board resolutions to a slightly higher degree than that seen in Section 6.

7.2 UBS

Table 21: UBS Aggregate Resolutions Voting By Market

COUNTRY	TOTAL RESOLUTIONS	VOTED WITH MANAGEMENT
Australia	18	100.00%
Austria	7 (6)	100.00%
Canada	16	100.00%
China	12	91.67%
France	81	88.89%
Germany	63 (61)	98.36%
Greece	6 (5)	80.00%
Hong Kong	28	82.14%
Indonesia	9	55.56%
Ireland	57	92.98%
Israel	10	55.56%
Italy	19 (18)	92.86%
Japan	162	97.53%
Jersey	7	100.00%
Netherlands	28 (25)	100.00%
Russia	60	100.00%
South Africa	39	82.05%
South Korea	24	91.67%
Spain	42 (41)	80.49%
Switzerland	31	96.77%
Taiwan	6	80.00%
United Kingdom	198	95.43%
United States	437 (436)	93.81%
Grand Total	**1,360 (1,350)**	**93.21%**

Readers should note that there were 10 non-voting resolutions in the UBS portfolio, the number of voted resolutions (meaning the total resolutions minus non-voting resolutions) are indicated in brackets.

Additionally, there were 40 resolutions where management provided no recommendation, 32 were in the Russian market, 5 in the Italian market and one each in the Israeli, Taiwanese and UK markets. For the purposes of calculating the proportion of resolutions in which UBS supported management both the non-voting resolutions and resolutions with no management recommendation have been excluded from the calculation, meaning in total 1,310 resolutions were included in the calculation.

UBS's overall support level stands at 93.21%. Not dissimilar to Baillie Gifford, caution should be used regarding the statistical significance of this data when making inferences at the market level due to the varied count of resolutions between markets.

As discussed earlier in the report the global nature of UBS's holding may impact on voting patterns between markets due to a variety of governance standards– this is demonstrated by considering UBS's level of support in the UK market standing at 95.43%. UBS have opposed resolutions within the French market on a frequent basis – the French market is the fourth most populated market in terms of the number of resolutions voted by UBS. Therefore, although one should be wary from making inferences the data does indicate that UBS has taken a progressively more active approach in markets where there is relatively lower levels of disclosure and governance standards.

Table 22: UBS Voting By Category

CATEGORY	TOTAL RESOLUTIONS	VOTED WITH MANAGEMENT
Audit & Reporting	135 (131)	99.24%
Board	818 (816)	97.19%
Capital	138 (137)	82.35%
Corporate Actions	17	82.35%
Other	5 (3)	100.00%
Remuneration	139 (138)	85.40%
Shareholder Rights	71	81.43%
Sustainability	37	83.78%
Grand Total	**1,360 (1,350)**	**93.21%**

Table 22 above shows the number of votable resolutions in each category type voted by UBS, as well as their average support of management on each. Consistent with the analysis in Section 6, of the resolutions routinely proposed by management UBS opposes management more frequently on Remuneration, Capital and Shareholder Rights issues.

When considering the Capital and Shareholder Rights resolution categories UBS's level of support is explained largely because many of the resolutions in those two issues touch on the question of control (either dilution of ownership in the case of Capital and in the case of Shareholder Rights the voting rights associated with capital types or resolutions of a certain type and amendments to Articles). It is also worth mentioning that 31% of resolutions within the Shareholder Rights category which UBS voted contrary to management recommendation were shareholder sponsored resolutions.

7.3 Wellington

Table 23: Wellington Aggregate Resolutions Voting By Market

COUNTRY	TOTAL RESOLUTIONS	VOTED WITH MANAGEMENT
Australia	5	60.00%
Bermuda	18	100.00%
Canada	29	96.55%
China	19	100.00%
France	47	100.00%
Germany	21 (0)	n/a
Ireland	41	100.00%
Italy	12 (11)	100.00%
Japan	110	98.18%
Luxembourg	15 (0)	n/a
Malaysia	12	100.00%
Netherlands	11	100.00%
Norway	23 (0)	n/a

Spain	31	96.77%
Sweden	15	100.00%
Switzerland	94 (46)	95.65%
United Kingdom	147	96.60%
United States	529	99.62%
Grant Total	**1,179 (1,071)**	**98.60%**

The largest counts of resolutions in the Wellington portfolio were in the United States, United Kingdom and Japan markets, all other markets had less than 100 resolutions. Of these three markets both the UK and Japan recorded lower average level of voting with management in comparison to Wellington's average of 98.60% support for management, the other markets to record below average support were Spain, Canada, Switzerland and Australia - the number of resolutions voted in these markets constituted a small number of resolutions, particularly Australia, so should be discounted as a statistical pattern. By comparison with the data in the UBS section of the report, Wellington's dissent levels towards Japan and UK companies are higher while UBS's dissent at France and US companies was higher.

It could be considered unusual to see United Kingdom's comparatively high dissent, particularly compared to the United States market, however this may be an indication of voting playing an important part of shareholder engagement within this market for Wellington – it is also worth noting that all of Wellington's oppositional votes in the UK market were situated within the Shareholder Rights category and concerned a Board's request for an authority to set general meeting notice periods at 14 days.

Wellington did not vote at meetings within the Germany, Luxembourg and Norway markets, Wellington also did not vote at two AGMs in the Switzerland market. Management provided no recommendation on two resolutions in the Italian market - the proposals related to a slate put forward by shareholders of which Wellington supported one and did not vote on the other. In total Wellington did not vote 108 resolutions.

Table 24: Wellington Aggregate Voting Patterns By Resolution Category

CATEGORY	TOTAL RESOLUTIONS	VOTED WITH MANAGEMENT
Audit & Reporting	106 (91)	100.00%
Board	761 (710)	99.29%
Capital	95 (77)	100.00%
Corporate Actions	13 (12)	100.00%
Other	2	0.00%
Remuneration	128 (113)	99.12%
Shareholder Rights	56 (48)	85.42%
Sustainability	18	100.00%
Grand Total	**1,179 (1,071)**	**98.60%**

Table 24 shows the overall patterns of support for management shown by Wellington broken down by resolution category across all of the resolutions in the aggregate analysis.

Noteworthy in the data set is the change in the level of support for management on Shareholder Rights resolutions to that in Section 6. Conversely, there is a relatively high level of support (greater than 99%) for management on all other resolution categories bar the 'Other' category - there were two resolutions within the 'Other' category both of which Wellington opposed, the resolutions were in relation to any other business put forward at the meeting. Resolutions to conduct any other business are often opposed by shareholders due to the lack of details being available in advance of the meeting.

Noteworthy in the data set is the change in the level of support for management on Shareholder Rights resolutions to that in Section 6. Conversely, there is a relatively high level of support (greater than 90%) for management on all other resolution categories.

7.4 Legal & General Investment Management

As Legal & General's mandate is limited to the FTSE 100 there was not any additional corporate meetings to analyse to those already considered in the detailed analysis.

8 Conclusions

This is the second annual report Manifest has produced for the Oxfordshire Pension Fund. Consistent with the 2015 report on voting, there are patterns in common with the previous year's report. This is because, by and large, corporate governance risk-related issues change over the long term, rather than due to short term pressures. This means that the issues raised in this report are likely to remain similar in dynamic in the short term; though over the longer term positive development should be observable. As is evidenced with the example of shareholder proposed resolutions in the US, specific themes can be and are raised with companies on a campaign/ strategic basis which, over time, contribute to positive progress (for example, proxy access and double voting rights).

We expect to see overall trends of gradual improvement in corporate governance standards continuing, but this is mitigated by the fact that some companies may 'lapse' and new companies may enter the market carrying with them the legacy of private ownership governance practices which also may fall short of the standards expected of publicly listed companies.

Additionally, developments in the governance risk profile across equity asset allocation caused by changes to investment mandates from year to year may also have an effect upon the overall picture. Consequently, although we expect trends to improve over the long term, positively identifying them year on year is much harder to do.

For this reason, readers should not expect to see a marked change in companies' governance standards from year to year. What is more important is to understand how the fund's managers respond and react to identified concerns, and fund manager vote monitoring plays a central role in understanding this question. However, recent trends both in identification of concerns and support for management proposals by fund managers suggests that gradual improvement is underway.

In terms of issues specific to this report, our analysis:

- Highlights the most common Board related policy issue was a shortfall in independent directors on boards and board committees;
- Shows a number of companies whose governance of sustainability as a corporate discipline could be potential cause for concern due to lack of independent verification. Companies that manage sustainability well tend to be better run;
- Illustrates that political donations is seldom a matter of concern for Oxfordshire's fund managers, and that opposition to management on sustainability issues is rare;
- Identifies that Corporate Actions and Remuneration related resolutions are the resolution types Oxfordshire's fund managers oppose management on most often, followed by Capital and Shareholder Rights related resolution; and
- Despite the identification of potential issues concerning auditors in terms of independence, provision of non-audit services and fees, Oxfordshire's fund managers rarely oppose management on these issues.

Taken as a whole, there is evidence to suggest that voting is not the only medium through which Oxfordshire's fund managers may express concern about important governance issues. The results of the analysis show that fund managers are voting with management marginally less than shareholders in general, however there are some variances between the respective fund managers.

Whereas L&G and Baillie Gifford have supported management more than most shareholders, Wellington and UBS on the other hand supported management to a lesser extent than most shareholders. To the extent that voting is not the only medium Oxfordshire's fund managers use to raise concerns with portfolio companies, this report enables Oxfordshire to further enquire of fund managers as to how these other issues are being identified, raised and resolved with portfolio companies, and whether resources are sufficient to adequately carry out this important work.

However, one should avoid falling into the trap of using voting records as a substitute for understanding whether a fund manager is an 'active' owner or not. Voting is but one (albeit important) tool in the ownership toolbox, which sits alongside regular monitoring of governance issues through research and engagement by the fund manager.

Oxfordshire fund managers supported seven successful shareholder sponsored proposals during the 12 months under review. UBS, Baillie Gifford and L&G all supported the 'Aiming for A' filed resolution at Rio Tinto in relation to sustainability reporting. L&G also supported the same resolution at Glencore. Both company boards recommended shareholders vote in favour of the proposals and the resolutions passed with each receiving over 97% shareholder support. Of the other five successful shareholder proposals where Oxfordshire fund managers voted in favour four were in the US market and one was in the Canadian market. For each of the US proposals management recommended a vote against but in regard to the proposal requesting further reporting on environmental practices at Suncor Energy in Canada management recommended shareholders vote in favour.

There were seven defeated management proposed resolutions in the collective Oxfordshire's fund manager portfolio, all of which the fund managers were non supportive of. L&G opposed the defeated remuneration reports at BP and Smith & Nephew. Baillie Gifford filed votes against the unsuccessful resolutions at The Weir Group plc to approve the LTIP and remuneration policy. In addition, UBS were against remuneration at BP plc. Of the defeated management resolutions all were in the UK bar two say-on-pay frequency votes at Kraft Heinz in the US. At each of the UK examples management recommended a vote 'For' the resolution but at Kraft Heinz 'Against' was the recommendation, Wellington in this case abstained from voting.

There are some key regulatory developments which come into play during 2015/16 that may have a bearing on next year's report. Further details on these developments may be found in the appendix, which covers:

- Public tiering of UK Stewardship Code signatories;
- Revisions in the UK to the Corporate Governance Code, Guidance on Audit Committees, the Ethical Standard 2016 and International Standards of Auditing;
- Revisions to the OECD Principles of Corporate Governance;
- Red Lines Voting Initiative: Association of Member Nominated Trustees (AMNT);
- EU Transparency Directive;
- Pre-Emption Group revised guidance;
- UK Modern Slavery Bill and Workforce Reporting;
- Updates to the UK's GC100 and Investor Group remuneration report guidance; and
- The UK's Investment Association's recommendations on executive pay.

Whilst there may be other governance themes where immediate positive progress is harder to determine, we are confident that continued monitoring should enable identification of further progress over the medium to long term. Additionally, with ever increasing pressure upon institutional investors and their asset managers for transparency about ownership processes, on-going monitoring of governance risk and voting activity remains a vital part of the activity of any responsible investment-minded investor.

Prepared By:
Manifest Information Services Ltd | 9 Freebournes Court |
Newland Street | Witham | Essex | CM8 2BL | Tel: 01376 5035

9 Hot Governance Topics

The following is largely a UK-focussed summary of governance developments. For a more detailed précis of governance developments globally, please refer to Manifest's report "Global Corporate Governance and Regulatory Developments 2015" which is available upon request. The new edition ""Global Corporate Governance and Regulatory Developments 2016" will be available in February 2017.

9.1 UK Stewardship Code

Since its introduction in 2010 the UK Stewardship Code has been replicated in many countries around the world. In late 2015 the FRC announced plans to introduce public tiering of signatories to the Code in July 2016.

The tiering is intended to improve reporting against the principles of the Code as attention shifts from the quantity to the quality of signatories.

The FRC state this will help asset owners judge how well their fund manager is delivering on their commitments under the Code; help those who value engagement to choose the right manager; and in consequence provide a market incentive in support of engagement.

Signatories will be as assessed as being:

- Tier 1 – meeting reporting expectations in relation to stewardship activities. Asset managers will be asked to provide evidence of the implementation of their approach to stewardship. The FRC will look particularly at conflicts of interest disclosures, evidence of engagement and approach to resourcing and integration of stewardship; or
- Tier 2 - not meeting those reporting expectations.

9.2 UK revises Governance Code, Guidance on Audit Committees, the Ethical Standard 2016 and revised International Standards on Auditing

In April 2016 the Financial Reporting Council (FRC) published final draft updates to the UK Corporate Governance Code its Guidance on Audit Committees and Auditing and Ethical Standards. The FRC has introduced all of the changes in a single revision to ease the process of implementation as well as to reduce costs. The FRC has committed to avoiding further updates to the Code until at least 2019.

The revised Code, Guidance on Audit Committees and Auditing and Ethical Standards are expected to be effective for the audit of financial statements for periods beginning on or after 17 June 2016.

9.2.1 Audit and Ethical Standards

The FRC's Ethical Standard covers the independence requirements for auditors as well as reporting accountants (previously in the Ethical Standard for Reporting Accountants) and for engagements to report to the FCA on client assets. The revisions incorporate recent EU reforms and requirements set by the International Ethics Standards Board for Accountants (IESBA). The changes aim to strengthen auditor independence by applying prohibitions to a range of engagements that could result in an auditor facing a conflict of interest.

The key revisions to the Ethical Standard incorporate the EU reforms for public interest entities (PIEs) for non-audit services. There are additional changes over and above the EU reforms affecting existing rules on providing tax services to listed entities on a contingent fee basis – a term covering a listing on any exchange worldwide – as well as a general clarification of the principles relating to advocacy in respect of tax.

In addition, EU rules on capping fees for non-audit services to 70% of the average fees paid for audit services over the previous three consecutive financial years have been inserted. In regard to non-audit services, there are also changes for auditors relating to personal independence – a broadening in scope of "covered persons" and persons connected to engagement team members who cannot have certain prohibited financial, business or employment relationships, and a clarified rule on gifts and hospitality offered to or accepted by the auditor.

9.2.2 UK Corporate Governance Code

The proposed changes to the Code are restricted to the Preface and to section C.3, which covers the audit committee and auditors. One notable change is the deletion of the requirement for audit retendering to take place every ten years on account of the provision being superseded by the Audit Regulation and Directive and Competition & Market Authority's Remedies to avoid duplication between the Code and the regulations.

The recommendation for audit committees to have at least one member with 'recent and relevant financial experience' has been amended to bring the Code in line with the EU Audit Regulation and Directive, additionally the Code calls for the audit committee as a whole to have competence relevant to the sector in which the company operates. In addition, the audit committee report should now describe any advance notice of any plans to retender the external audit. Hence, changes to the Guidance on Audit Committees focus on both the activities of the audit committee and the disclosure in the audit committee report.

Lastly the Code now recommends that the annual report should include advance notice of external auditor retendering plans. We summarise the main changes in the table below.

9.2.3 UK Governance Code – 2014-2016 Changes at a Glance

Issue	2016 Code Proposed Additions (marked in bold, italic and underlined text) & Deletions (marked with strikethrough text)
Audit Committee Expertise **C.3.1**	The board should establish an audit committee of at least three, or in the case of smaller companies two, independent non-executive directors. In smaller companies the company chairman may be a member of, but not chair, the committee in addition to the independent non-executive directors, provided he or she was considered independent on appointment as chairman. The board should satisfy itself that at least one member of the audit committee has competence in accounting and/or auditing recent and relevant financial experience. <u>***The audit committee as a whole shall have competence relevant to the sector in which the company operates.***</u>
Audit Tender Requirements **C.3.7**	The audit committee should have primary responsibility for making a recommendation on the appointment, reappointment and removal of the external auditors If the board does not accept the audit committee's recommendation on the appointment, reappointment and removal of the external auditors, it should include in the annual report, and in any papers recommending appointment or re-appointment, a statement from the audit committee explaining the recommendation and should set out reasons why the board has taken a different position.
Advance Retendering Disclosure **C.3.8**	A separate section of the annual report should describe the work of the committee in discharging its responsibilities. The report should include: - the significant issues that the committee considered in relation to the financial statements, and how these issues were addressed; - an explanation of how it has assessed the effectiveness of the external audit process and the approach taken to the appointment or reappointment of the external auditor, and information on the length of tenure of the current audit firm, when a tender was last conducted and <u>***advance notice of retendering plans***</u>; and - if the external auditor provides non-audit services, an explanation of how auditor objectivity and independence is safeguarded.

9.3 OECD Principles of Corporate Governance

On 5 September 2015 the G20/OECD Principles of Corporate Governance were released. The OECD principles are one of the 12 key standards for sound financial systems of the Financial Stability Board and form the basis for the corporate governance of the Report on the Observance of Standards and Codes of the World Bank Group and have long been a reference point for regulators and policymakers as well as companies and investors. The revised Principles call for enhanced cross-border cooperation among regulators, including through bilateral and multilateral agreements for exchange of information. 3.1.1

The revised Principles call for enhanced cross-border cooperation among regulators, including through bilateral and multilateral arrangements for exchange of information. It also states that impediments to cross-border voting by shareholders should be eliminated and shareholders should be allowed to consult each other. This is of importance as one area that has continued to be a significant area of concern for investors is the failure to appropriately address the voting chain in terms of cost, time consumption, cross-border voting inefficiency and for issuers in many markets to know who their real owners are – the issue of shareholder identification links with the EU Transparency and the issue of cross-border electronic voting.

At the same time as the Principles the OECD simultaneously also published its latest Corporate Governance Factbook (OECD, 2015c). The Factbook compiles information gathered from OECD and certain non-OECD country delegates as part of a series of thematic reviews. The thematic reviews cover major corporate governance challenges that came into focus following the 2008 crisis including; board practices (including remuneration); institutional investors; related party transactions; board member nomination and election; supervision and enforcement; and risk management.

9.4 Red Lines Voting Initiative: Association of Member Nominated Trustees (AMNT)

A separate but relevant development related to the provisions about fund manager performance evaluation in the Shareholder's Rights Directive has been the launch of the "Red Lines Voting Initiative" by the Association of Member Nominated Trustees. The aim of this initiative is to better equip AMNT members in holding their fund managers to account for their voting on issues where companies fall short of the governance "Red Lines" of their policy. The initiative is virtually identical in concept to the vote monitoring Avon undertakes with this report.

9.5 EU Transparency Directive

The amended Transparency Directive entered into force on 26 November 2015 across the EU creating a common basis for disclosure and dissemination of regulated information to EU markets on a regular and on-going basis. A briefing paper has been issued by the European Securities and Markets Authority (ESMA) to ensure proper implementation across all member states.

In the UK the Transparency Directive has been adopted through amendments to the Financial Services and Markets Act which introduced new Transparency Regulations and through changes to the Financial Conduct Authority's (FCA) Disclosure and Transparency Rules. One of the key changes is that the FCA can apply to court for a voting rights suspension order against a "vote holder" of shares in a company which are admitted to trading on a regulated market where that vote holder has breached the significant shareholder notification regime. Respondents to the FCA's consultation suggested this new power should only apply in respect of the most serious breaches of the rules.

9.6 Pre-Emption Group Guidelines

In May 2016 the FRC's Pre-Emption Group (PEG) released a monitoring report showing the progress of implementation of the Statement of Principles, which were updated in 2015.

Using data from Manifest as one of its primary sources, the PEG found that the revised principles were largely adhered to while the FRC said the report's findings showed the importance of open dialogue and engagement between investors and the companies to which they have allocated their capital.

The principles provide that a company may seek authority by special resolution to issue non-pre-emptively for cash equity securities representing: – no more than five per cent of issued ordinary share capital in any one year; and – no more than an additional five per cent of issued ordinary share capital provided that, in the circular for the Annual General Meeting at which such additional authority is to be sought, the company confirms that it intends to use it only in connection with an acquisition or specified capital investment which is announced contemporaneously with the issue, or which has taken place in the preceding six-month period and is disclosed in the announcement of the issue.

The key changes to the principles were making it clear that they apply to both UK and non-UK incorporated companies whose shares are admitted to the premium segment of the Official List of the UK Listing Authority and that they apply to all issues of equity securities that are undertaken to raise cash for the issuer or its subsidiaries, irrespective of the legal form of the transaction, including, for example, "cashbox" transactions. The changes also gave flexibility to undertake non-pre-emptive issuance of equity securities in connection with acquisitions and specified capital investments, consistent with existing market practice and provided greater transparency on the discount at which equity securities are issued non-pre-emptively.

The group has also produced template resolutions for the dis-application of pre-emption rights complying with the PEG's principles to assist companies. This template recommends companies propose two separate resolutions to cover the dis-applications envisaged by the principles. In 2016, the PEG said it will be looking for continued improvement in disclosure of the intended and actual dis-application of pre-emption rights and for all companies to engage with their shareholders and adhere to the letter and spirit of the statement of principles.

9.7 Human Capital

9.7.1 UK Modern Slavery Bill

On 10 June 2014 the UK Modern Slavery Bill was introduced to Parliament and received royal assent on 26 March 2015 and under S.54 of the Act all commercial organisations with a year end of 31 March 2016 or later in any sector, which supplies goods or services, and carries on a business or part of a business in the UK – therefore having a global impact - and is above a specified total turnover, to produce a slavery and human trafficking statement for each financial year of the organisation.

The Act has been criticised for not requiring companies to report on the supply chains of overseas subsidiaries meaning that the Act will not prevent parent companies in the UK from profiting from any slave labour used in their supply chains abroad by non-UK subsidiaries. It is however possible for a business to comply with the provision by simply stating that no steps have been taken during the financial year, although this would have a potential impact on business reputation. However, overall the new rules present a step forward in promoting transparency in relation to company actions related to modern slavery and ensure directors consider the issue of modern slavery risk by requiring the statement to be considered by the company's board and signed by a director.

Regulations have set the total turnover threshold at £36m – according to the Home Office's consultation paper the £36m threshold will apply to 12,259 companies active in the UK. Companies are expected to publish their statements as soon as reasonably practicable after the end of the financial year in which they are producing the statement, in practice this will be within six months of the year end. The Act requires each organisation to publish the statement on their website and include a link in a prominent place on its homepage, if an organisation does not have a website a copy of the statement is to be provided to anyone who requests one in writing.

9.7.2 Workforce Reporting

In July 2016 the Pensions Lifetime Savings Association published a stewardship toolkit, "Understanding the Worth of the Workforce," as a follow up to its 2015 discussion paper "Where is the workforce in corporate reporting?" The toolkit provides advice on the type of information its members should request from the companies they invest in about their workforces and corporate cultures.

The toolkit recommends pension schemes ask investee companies to report on the follow metrics as standard based on current reporting requirements:

- Gender diversity;
- Employment type (e.g. full time, part time, agency);
- Staff turnover;
- Accidents, injuries, and workplace illnesses;
- Investment in training and development;
- Pay ratios (across highest, median, and lowest quartiles); and
- Employee engagement.

The PLSA, believes that this will give investor information to help its valuation of companies and to understand its long term sustainability.

9.8 Remuneration Guidelines

9.8.1 GC100 and Investor Group

The UK's GC100 and Investor Group – made up of top general counsel, company secretaries and corporate governance heads at fund manager groups – has published its latest remuneration reporting guidance replacing the original version which was produced following the updating of pay disclosure regulations in 2013 which included the introduction of binding remuneration policies approved at least every three years by shareholders.

The key changes include:

- Clarification of the remuneration committee's use of discretion in determining remuneration outcomes;
- Expanding the guidance on companies' use of commercial sensitivity as a reason not to disclose performance measures or targets in the remuneration report; and
- Reinforcing that in the future policy table the maximum amount that may be paid for each component of remuneration, including salary, must be specified.

The changes outline investor expectations in these areas for example outlining situations when investors generally expect the remuneration committee to consider exercising discretion when following existing formulas might result in excessive pay and in respect to the prospective and retrospective disclosure of performance targets and measures related to short-term and long-term incentives. The revised guidance also indicates that investors and other stakeholders expect a meaningful comparator group and not a narrow group consisting of senior managers when companies use a comparator group when reporting changes in a chief executive's remuneration.

9.8.2 Investment Association

The Executive Remuneration Working Group, supported by the UK's Investment Association, has produced 10 recommendations aimed at regaining the public's trust on executive pay, simplifying the pay structures of top company bosses and improving the alignment of their interests with those of their shareholders in its recently published final report.

The Report includes:

- A call for Boards to explain why they have chosen their company's maximum pay level, with consideration of relativities such as the pay ratios between CEOs and different employees;
- A call for transparency around the target-setting employed in bonuses, including retrospective disclosure of performance ranges and provision of explanations where discretion has been used; and

- A proposal that whole boards be required to engage in the remuneration-setting process, and for non-executive directors to have at least a year's experience on a remuneration committee before being appointed as its Chair, plus clear disclosure of the rationale to be provided when discretion is used in awarding pay.

To move away from the current model dominated by long-term incentive plans, the report aims to rebuild trust by strengthening remuneration committees and their accountability, boosting shareholder engagement, making target-setting more transparent and giving companies discretion to explore how differing pay structures may gain market trust.

The Investment Association, which served as the secretariat to the group, said it would review its Principles of Remuneration to consider the recommendations.

Topical updates are available throughout the year via the Manifest Quarterly Bulletin and the weekly blog, Manifest-I.