



Annual Meeting 2016





Agenda

-
- **Welcome** 11.00am -11.05am
Councillor Malcolm Pate, *Chair of the Pensions Committee*
 - **Pooling/Investments**
Justin Bridges, *Head of Treasury and Pensions* 11.05am -11.25am
 - **Aberdeen Asset Management** 11.25am -12.10pm
Tom Richardson, *Aberdeen Asset Management*
 - **Actuarial Valuation** 12.10pm -12.30pm
James Walton, *Head of Finance, Governance and Assurance*
 - **LGPS Administration update** 12.30am -12.45pm
Rebecca Purfit, *Communications and Governance Officer*
 - **Close/questions** 12.45am -13.00pm

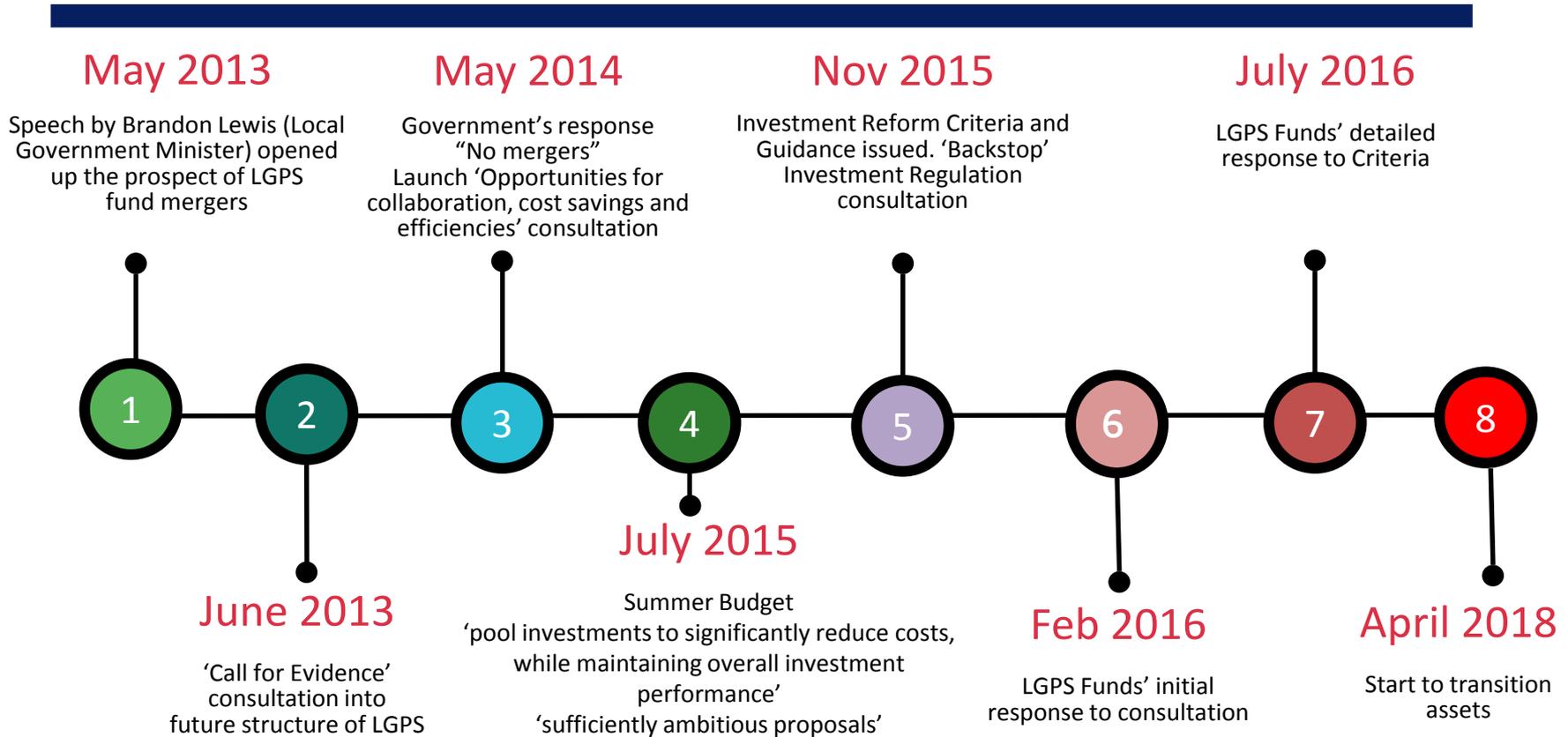


Investment Pooling and Investment Performance





Story so far





Government Criteria

1

Benefits of scale (at least £25bn in assets)

2

Strong governance and decision making

3

Reduced costs and excellent value for money

4

An improved capacity and capability to invest in infrastructure



LGPS Central



£35bn+

Cheshire

Staffordshire

Shropshire

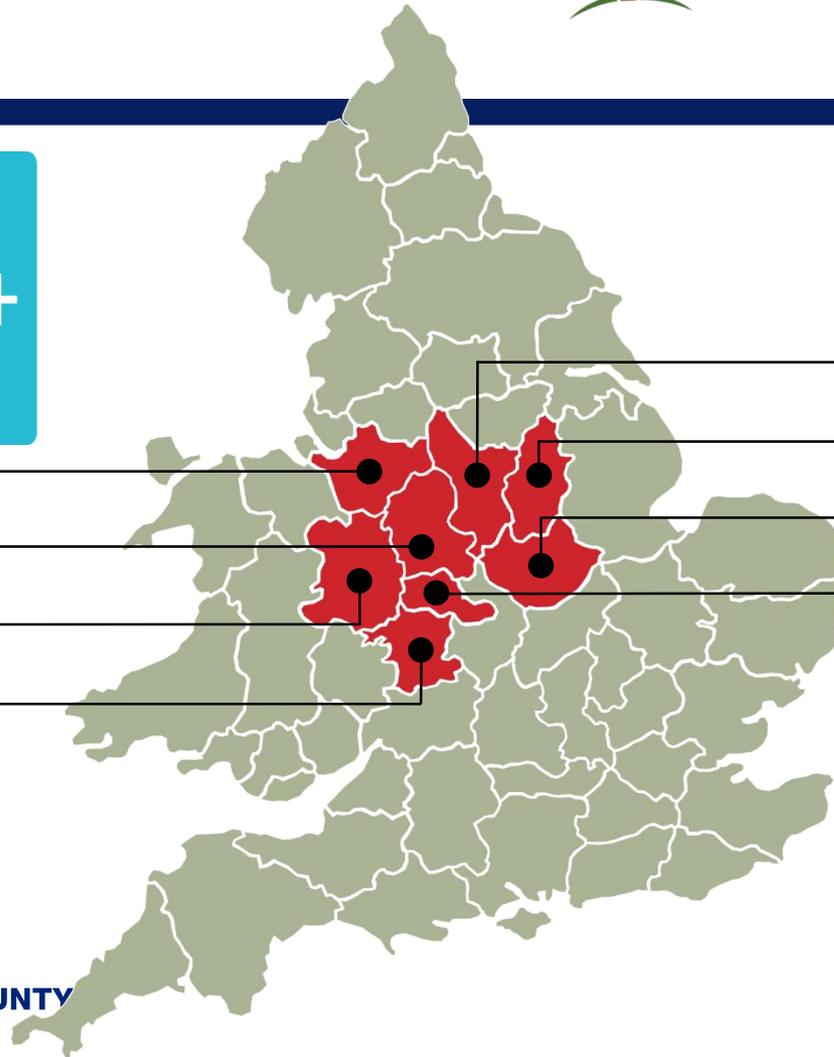
Worcestershire

Derbyshire

Nottinghamshire

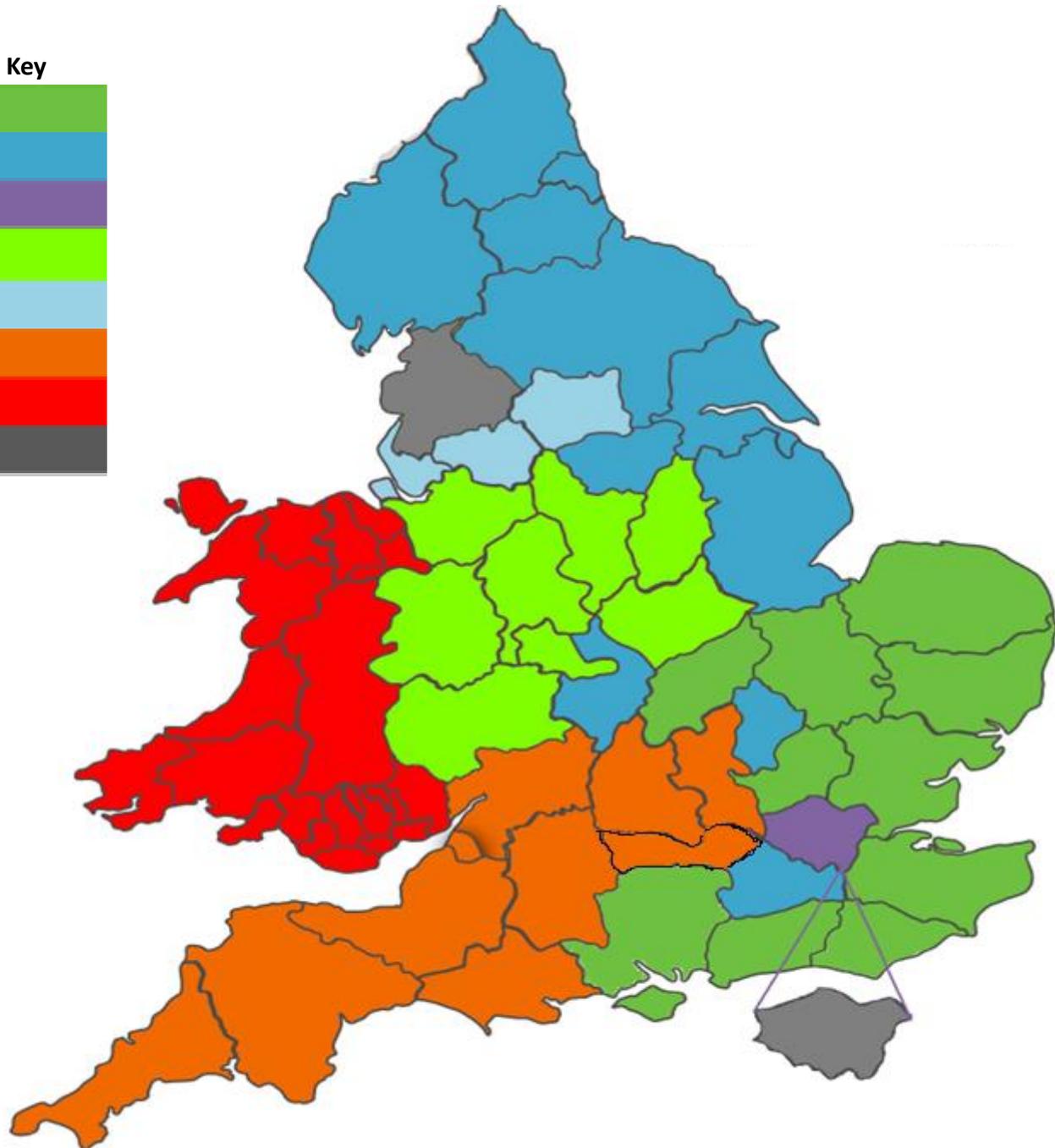
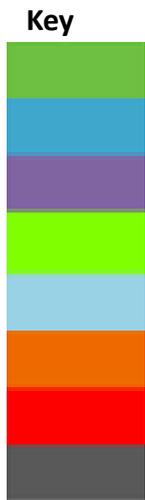
Leicestershire

West Midlands



SHROPSHIRE COUNTY
PENSION FUND

Pool	£bn
Access	33.1
Borders to Coast	35.0
London	25.0
LGPS Central	33.7
Northern Pool	33.1
Brunel	22.5
Wales	13.2
Local Pensions Partnership	10.4
Total	206.2



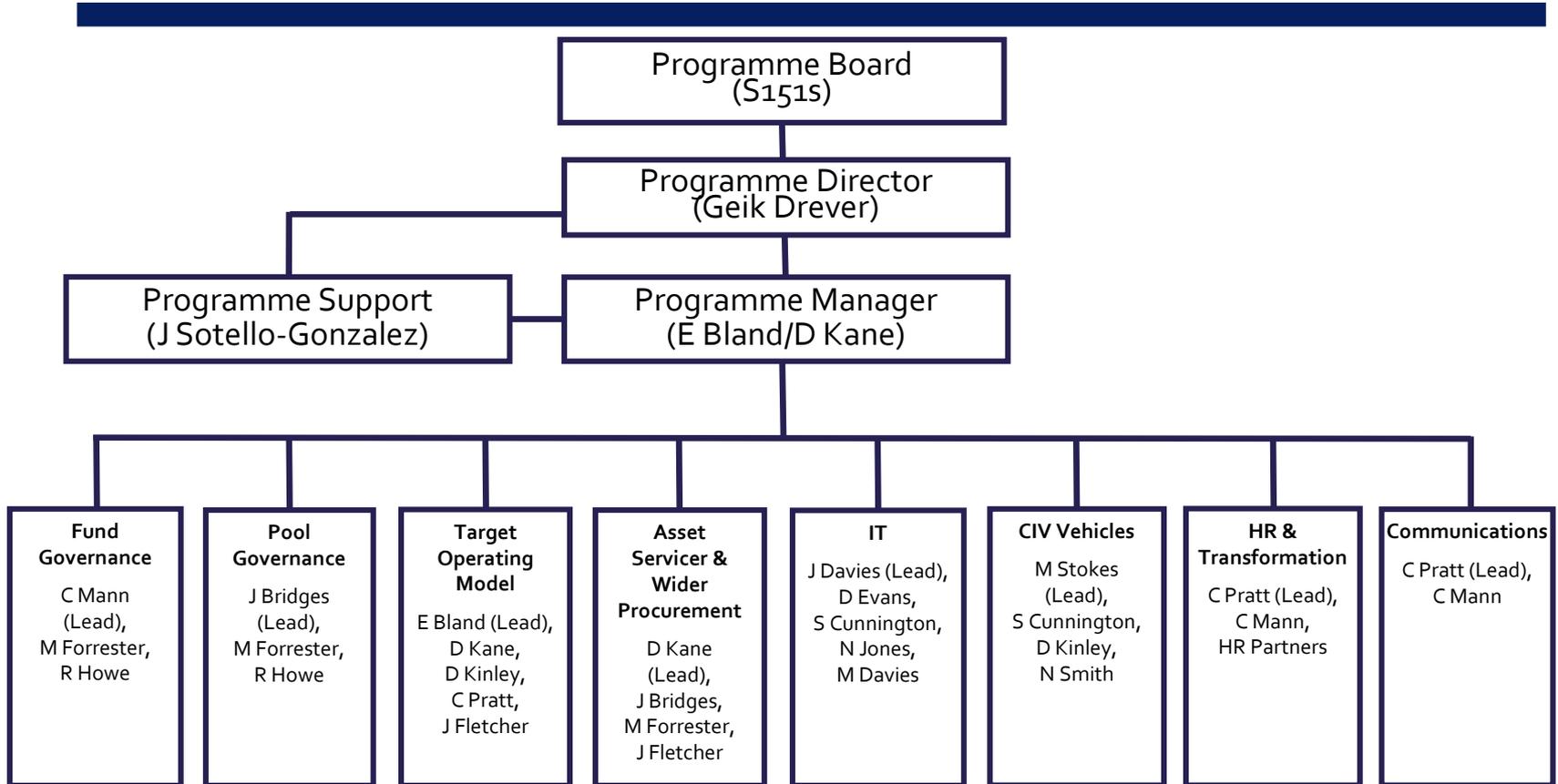


Summary Progress to Date

Stage	Timescale	Stage description	Complete
Preliminary	November 15 – 19 February 16	Submission of initial proposals	✓
Phase 1	19 February 16 – 15 July 16	Submission of business case	✓
Phase 2	1 June 16 – 1 April 18	Implementation	
Go live	1 April 18		

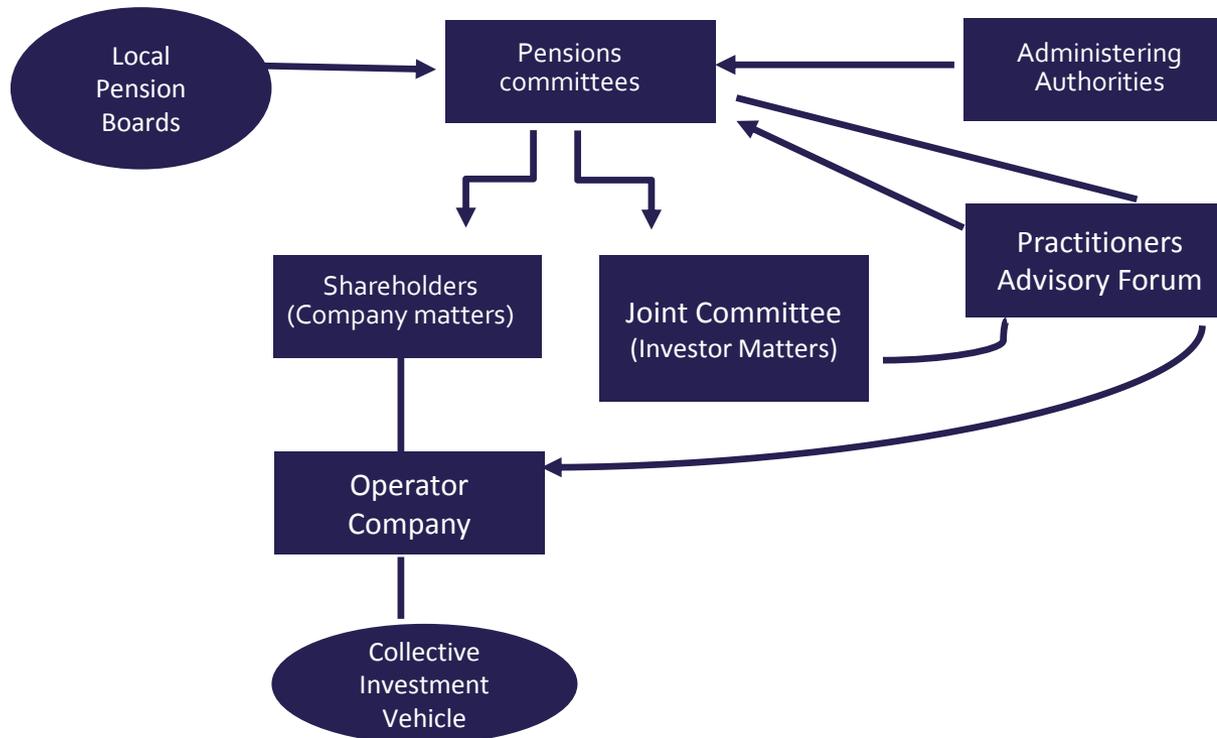


Implementation Workstreams



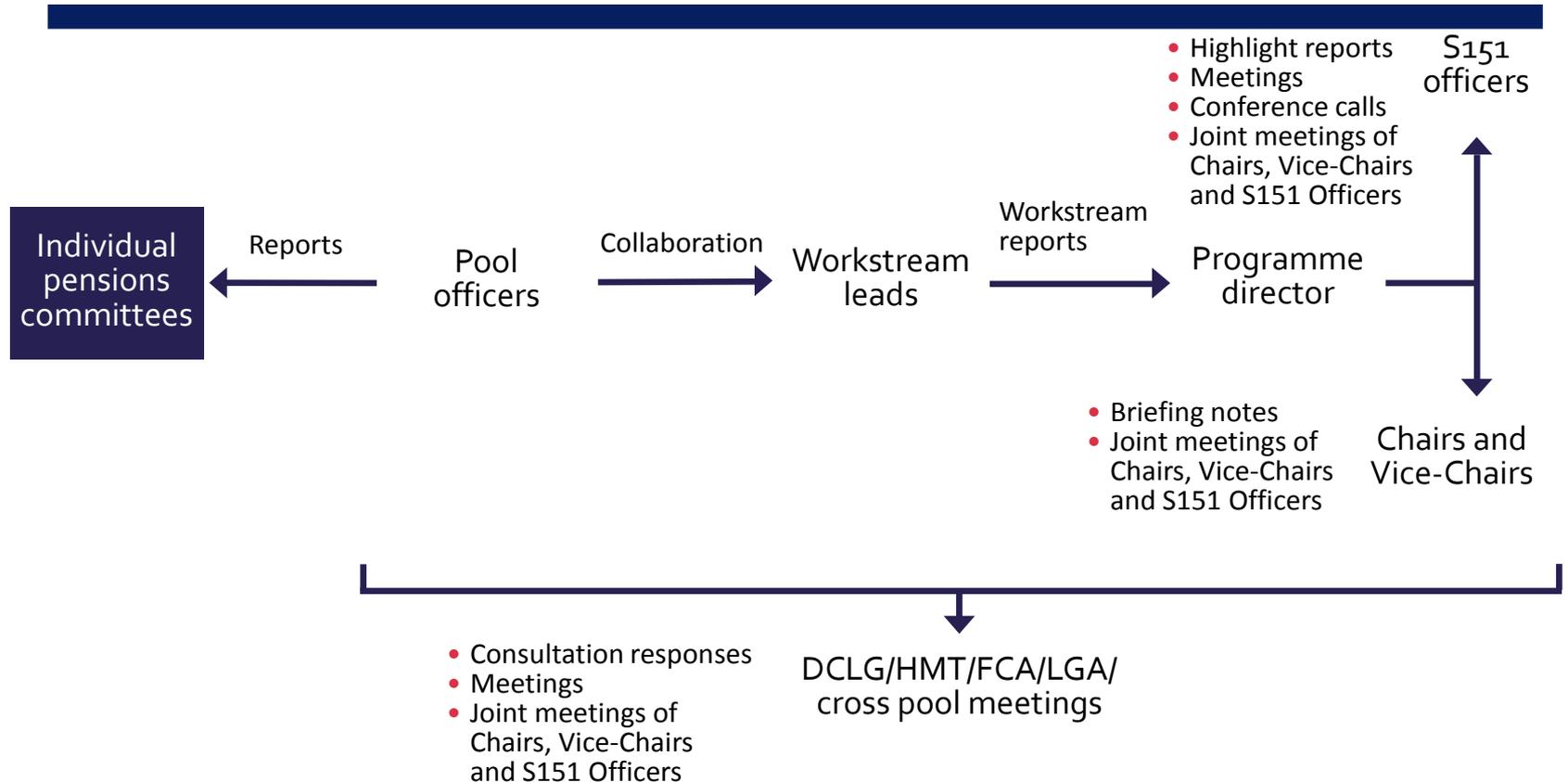


Proposed Governance Structure





COMMUNICATION





NEXT STEPS

Project Plan – Key Dates Post-September 2016

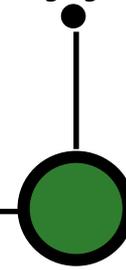
September 2016

Incorporate company



November/ December 2016

Pensions Committees' sign-off of governance structure, including agreements



January 2017

Stakeholders' Away Day



April 2017

Appoint Senior Officers/Board Members



April 2018

Begin transitioning some investments into the pool



November 2016

Workshop on legal documents (e.g. Shareholders' Agreement, Inter Authority Agreement & Articles of Association),

January 2017

Agree final draft of legal documents before Council Approval

March 2017

Full Council sign-off of governance structure, including agreements (as appropriate)

July 2017

Submit application for FCA registration of Operator and Pool

April 2018

Go Live



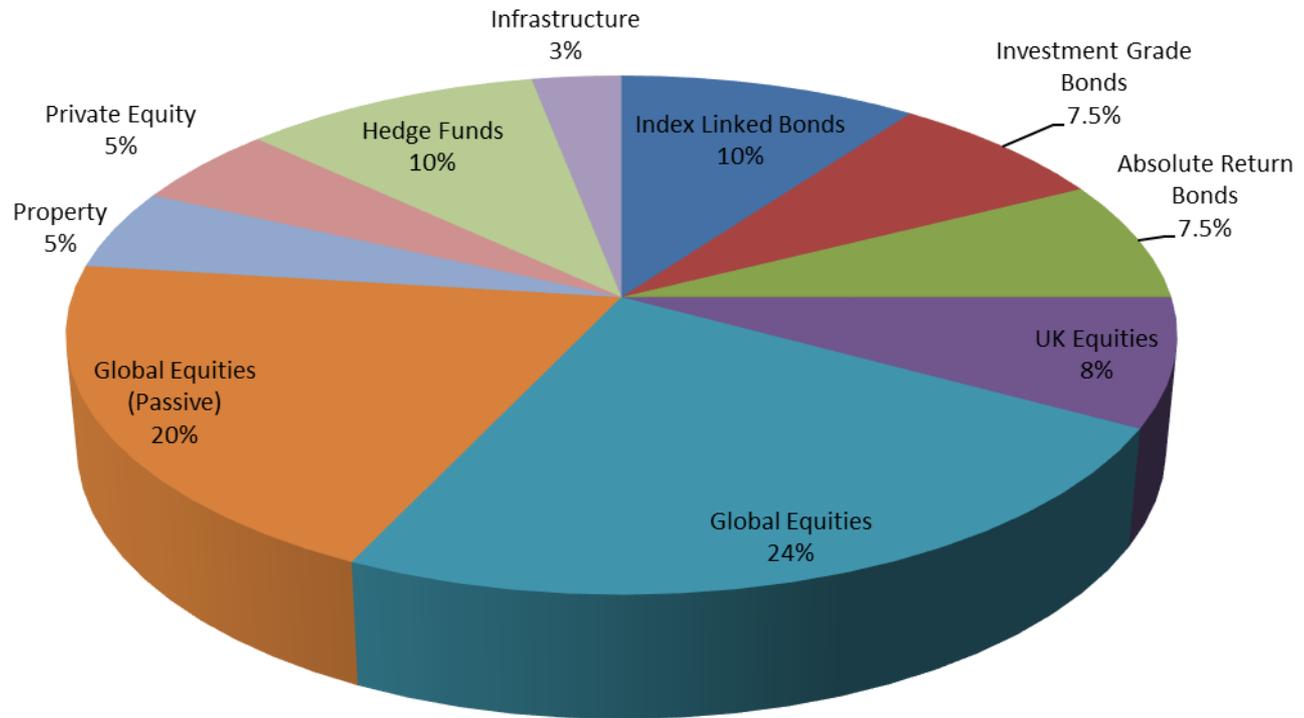


Fund Overview

- Value just below £1.5 billion as at 31 March 2016
- Value of the Fund as at Dec 2016 1.7 billion
- Membership – over 42,000
- 152 Employers

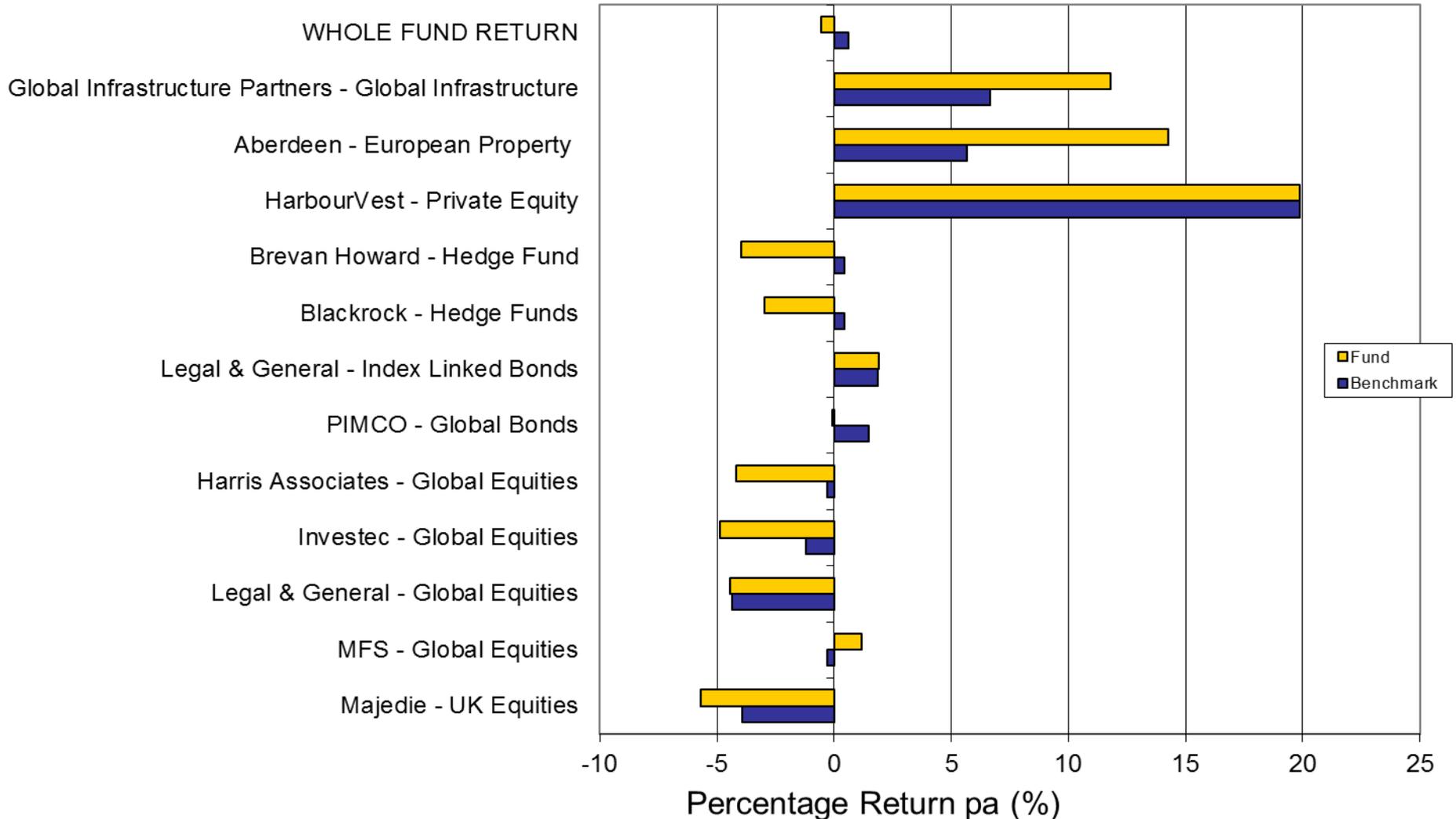


Asset Allocation 31st March 2016





How have our managers performed in 2015/16?





What has been the impact on the Fund?



Fund Value has decreased by £19 million



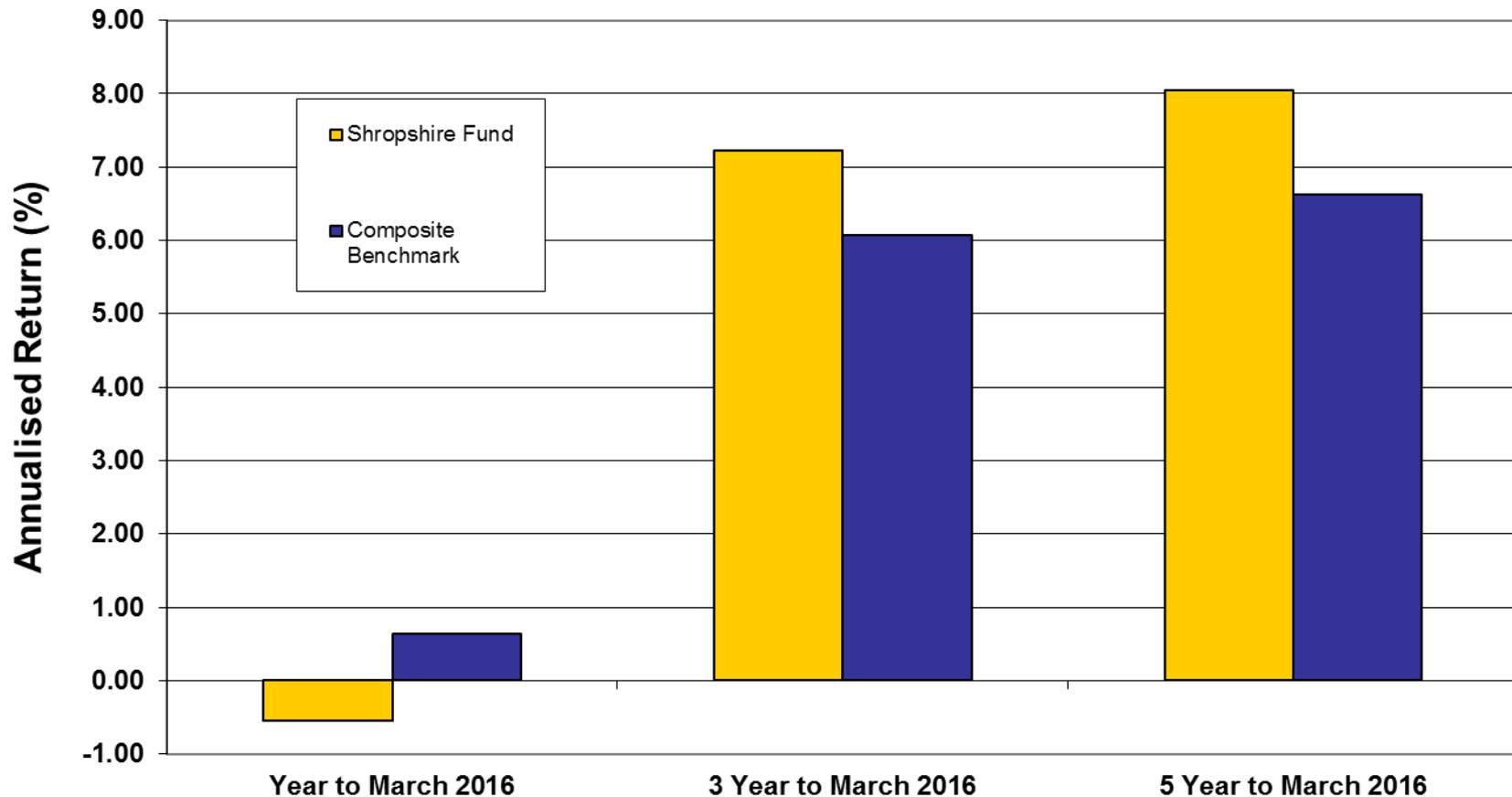
Value of investments decreased by 0.6%



Fund underperformed its benchmark by 1.2%



Long Term Fund Performance





Issues to be addressed in next 12 months?

- Approve Governance Structure for LGPS Central
- Complete FCA Application process
- Appoint key individuals to company
- Carry out Investment Strategy Review following Actuarial Valuation

To Sum Up

Investment pooling to be implemented by April 2018

The fund value decreased by £19 million & underperformed its benchmark by 1.2% but has bounced back strongly

3 & 5 year performance positive

Shropshire County Pension Fund Annual Meeting 2016

Property Multi-Manager Portfolio Review

Tom Richardson, Investment Manager
Aberdeen Asset Management

02 December 2016



Agenda

1. An introduction to Aberdeen Asset Management
2. Why invest in Property (and what is it!)
3. Property market update
4. How do we work for Shropshire County Pension Fund



An introduction to Aberdeen Asset Management



The hallmarks of Aberdeen

- Asset management is our primary business – sole focus on our clients' portfolios and their interests
- We favour teams not star fund managers
- Global reach and a local understanding
- Transparent investment processes:
 - Fundamental investors
 - We don't chase market fads
 - Investment decisions are only based on doing our own research ourselves
- Collegiate, entrepreneurial, open



A single focus: all we do is manage our clients' assets

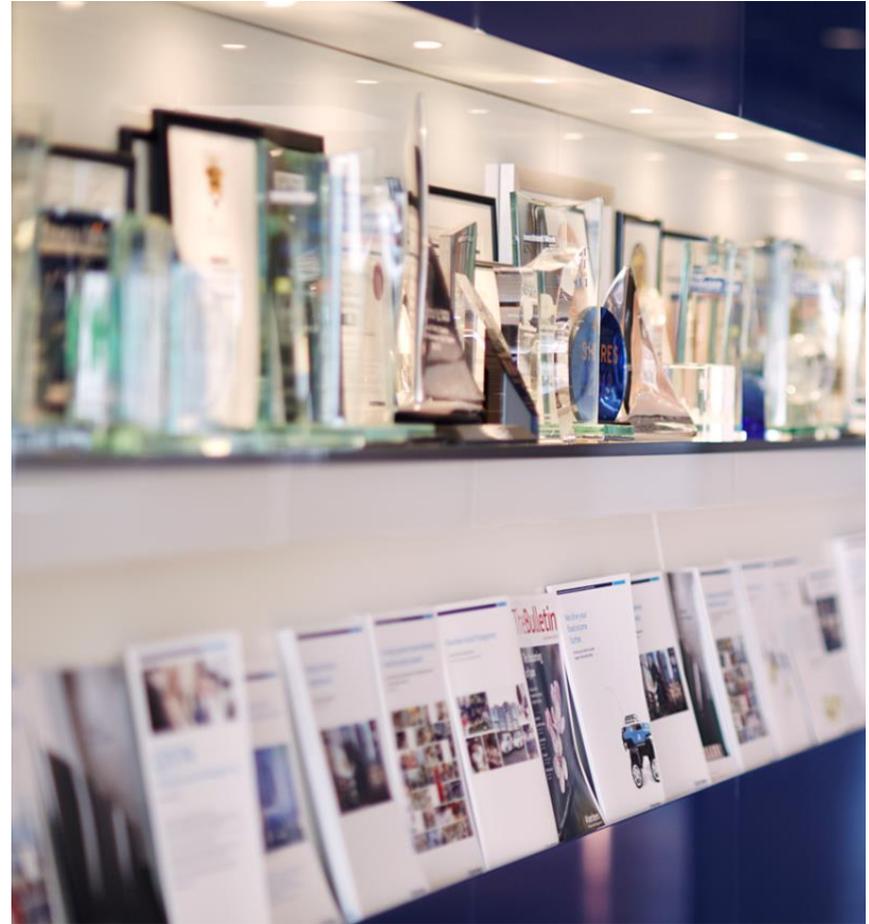
Aberdeen Asset Management

- Founded in 1983 with acquisition of GBP50 million investment trust in Aberdeen
- 1991: First listed on London Stock Exchange

Today:

- Truly global asset management company
- AuM of £301.4bn and market capitalisation of £4.3bn
- Geographically diverse – 38 offices across the world
- Over 2,800 staff including over 700 investment professionals worldwide
- Investment expertise drawn from equities, fixed income, property, alternatives, quantitative and multi-asset, as well as tailored investment solutions spanning multiple asset classes and strategies
- Property Multi-Manager is part of Alternatives and manages GBP1.8 billion of AuM

* Fully diluted
Source: Aberdeen Asset Management, 30 Jun 16



A diversified and global business

Our investment approach

Property Multi-Manager

We start at the bottom (and the top).



Style

Focus on themes

Thematic approach targeting income as the driver of returns

Presence

First-hand

Local presence in all the main time zones/markets

Process

Diligence and freedom

Advanced top-down research guiding locally derived investment identification

Focus

Long-term results

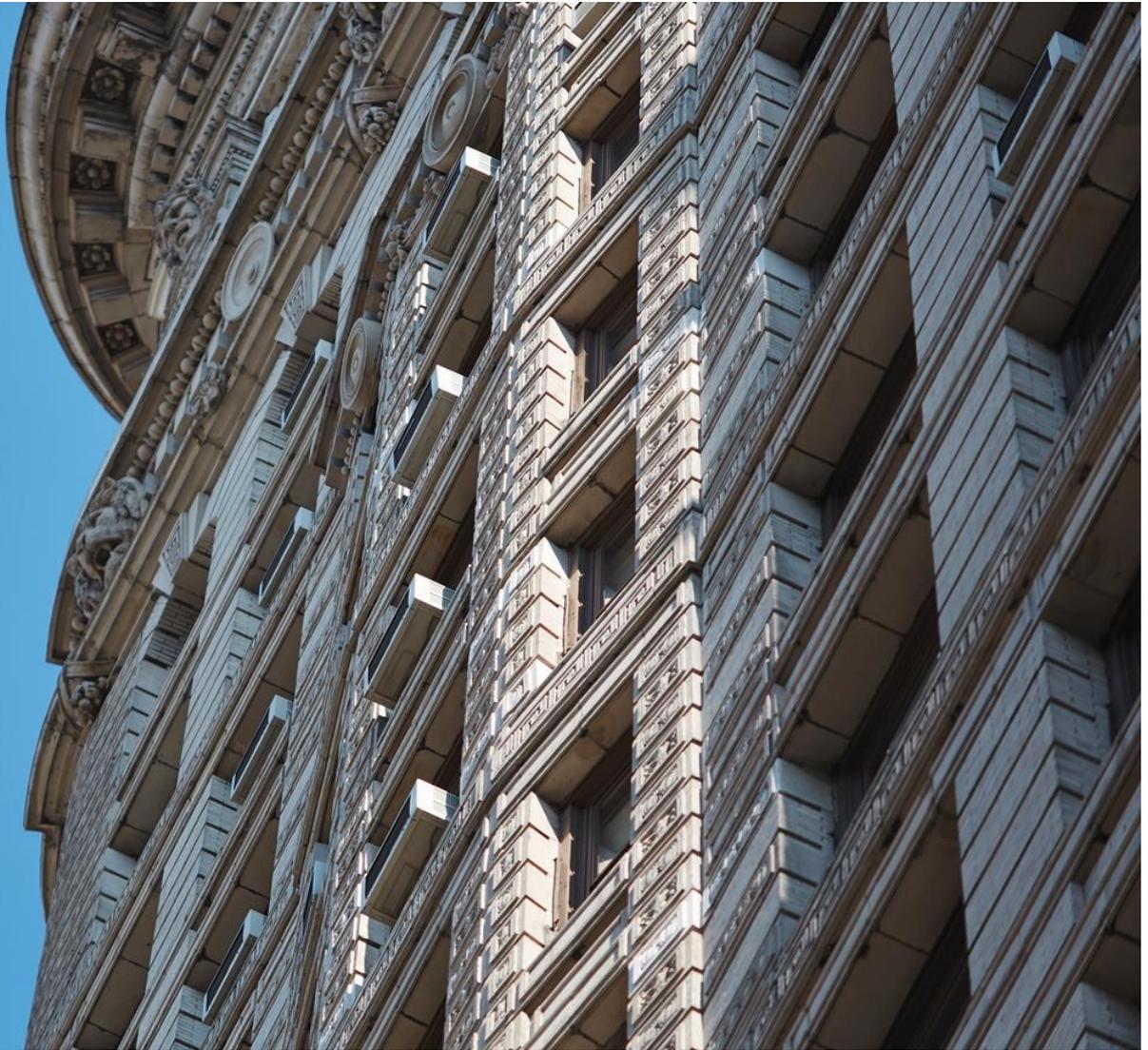
Aims for superior risk-adjusted returns, by focusing on quality and not general market exposure

Organisation

Team structure

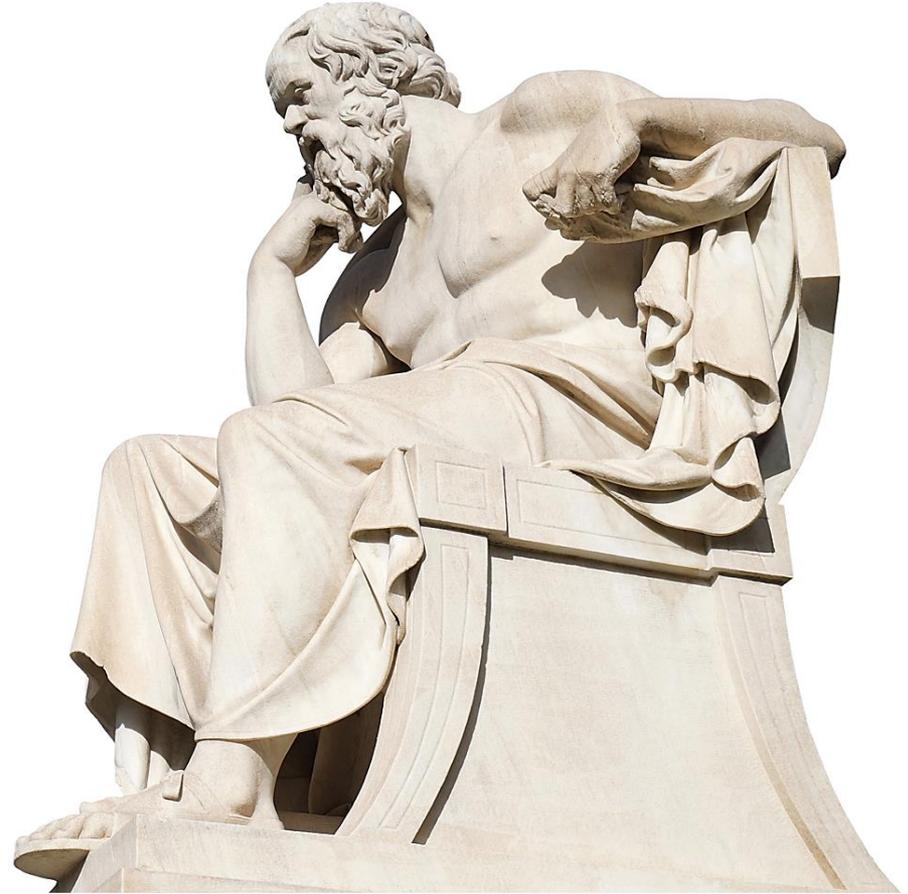
Local investment teams working to shared risk parameters

Why invest in Property?



Why does Shropshire invest in property?

- Relatively high and durable income return
- Some potential for capital return
- Diversification against the risk of other asset classes
- Some inflation hedging characteristics



What type of properties do we have exposure to?

Includes a wide range of asset types

- Retail – high street, supermarkets and out of town
- Offices – in town and business parks
- Industrial and distribution
- ‘Other’ – everything that doesn’t fall into the main sectors including student halls, hotels and other leisure uses
- Residential – increasing focus by investors

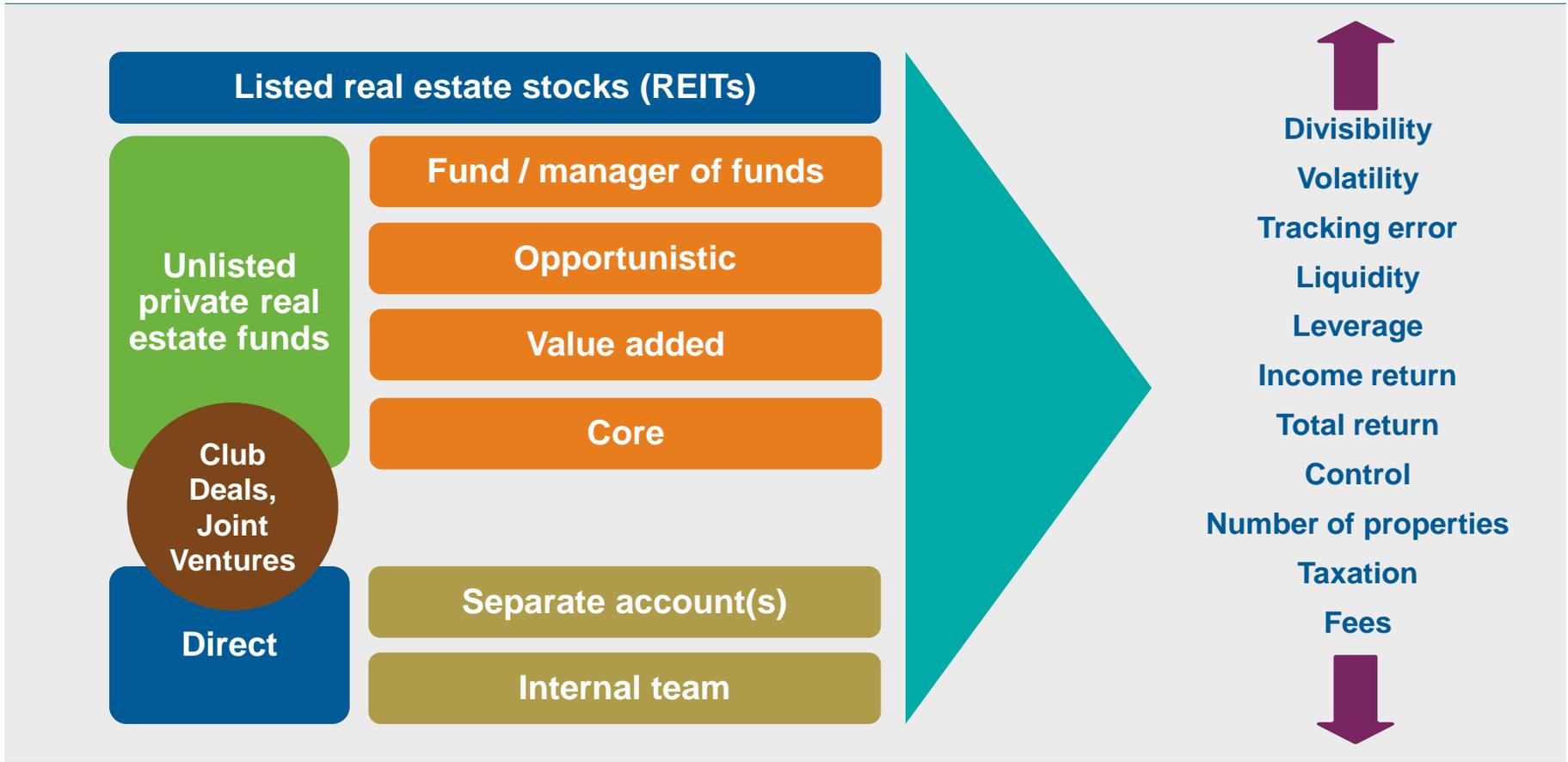
Let to commercial tenants

- Single tenant
- ‘Multi-let’ – let to a number of tenants
- Leases of typically 5 to 20 years depending on property type
- Generally open market rent reviews every 5 years
- RPI/CPI based increases becoming more prevalent



Entry points into property

A series of trade-offs that influence the investor's experience



Source: Aberdeen Asset Management, Jan 14



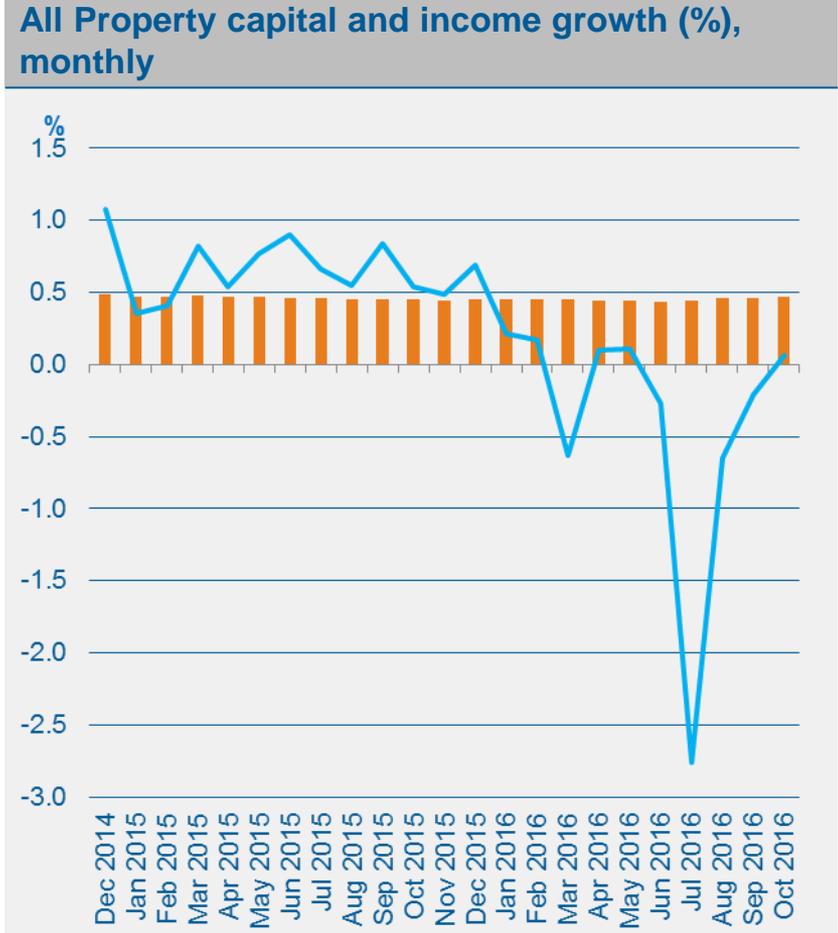
Property market update

Key themes and trends in the current market

The UK Property Market – Brexit just a blip?

The office sectors hit most, sentiment remains more positive towards the industrial sector

- 2015 was a positive year for property delivering capital growth regardless of sector allocation
- However, the pace of capital growth began to decline at the end of the year
- In 2016, the fear of Brexit has driven market sentiment
- However, these fears seem to have receded recently
- Income in the meantime has remained stable throughout the period



Source: MSCI, Oct 16. Past performance is not a guide to future results

Brexit: one of a number of political and economic risks

Our preference is to focus on structural themes rather the cyclicity of the market

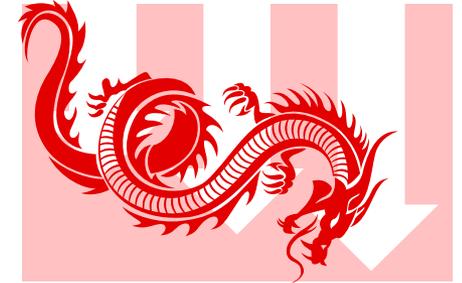


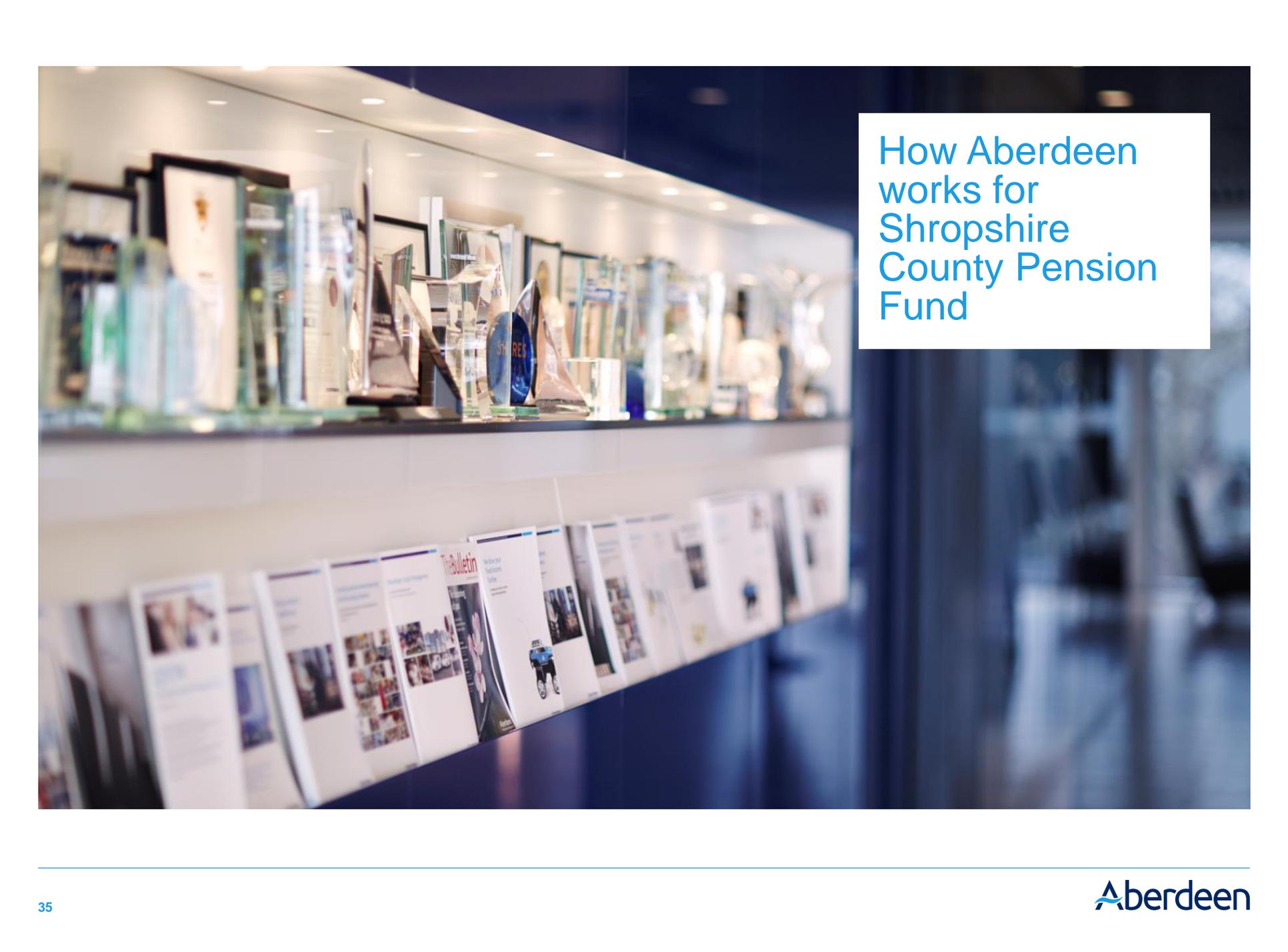
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Market theme: the changing role of retail property

'Experience'/'destination' retail and 'convenience' will still do well



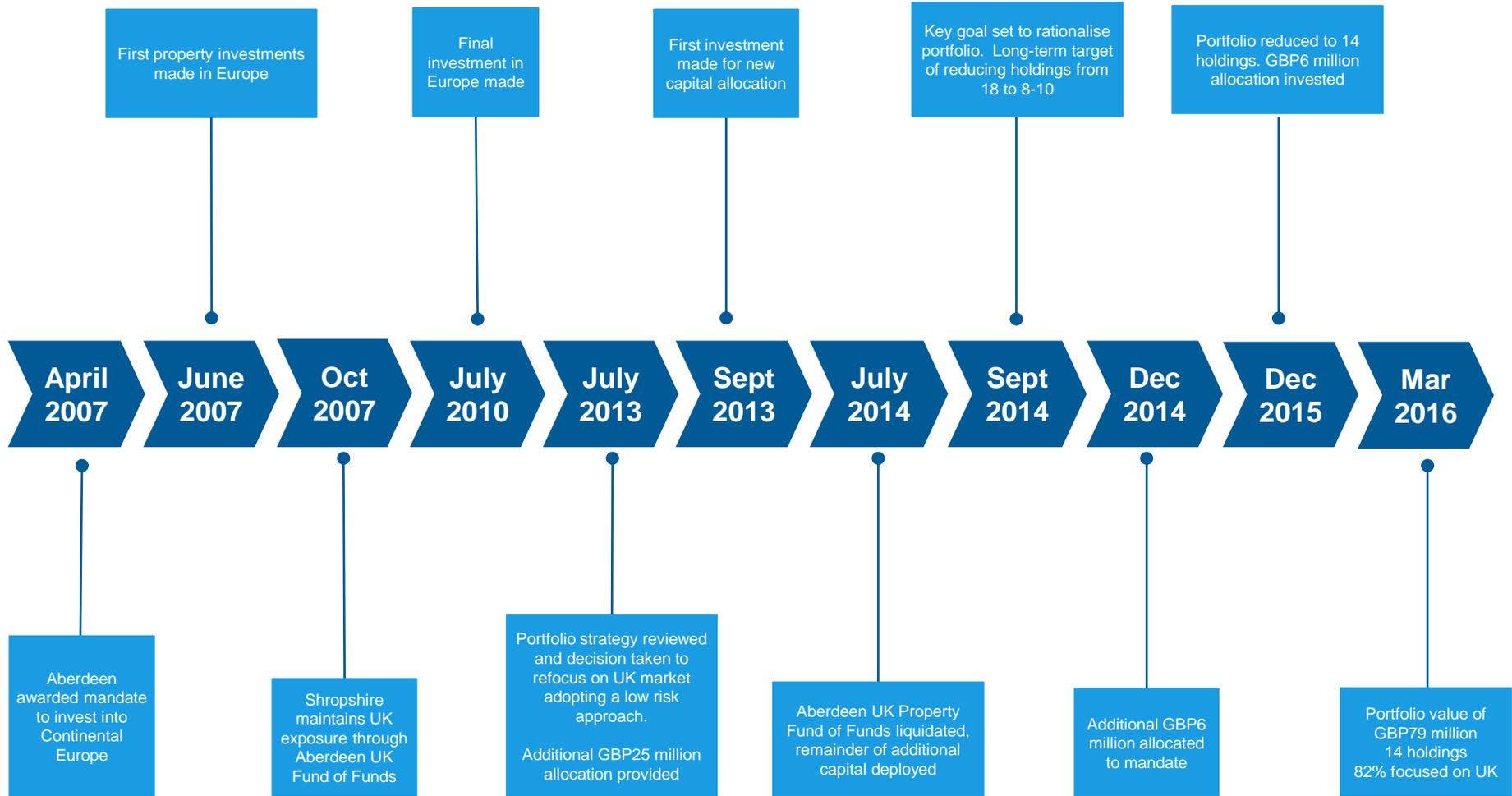
We avoid secondary high street locations and 'overshadowed' towns



How Aberdeen
works for
Shropshire
County Pension
Fund

History of relationship

Key dates and events



Performance

Periods to 31 March 2016	Net TR 3 mths %	Net TR 12 mths %	Net TR 3 yrs % pa
Shropshire County Pension Fund	2.0	14.3	9.0
IPD/INREV Composite index	1.3	9.2	9.6
Target return RPI +4%**	1.2	5.6	5.6

- Underperforming peer group and benchmark over longer time periods, but stronger performance recently
- Portfolio outperforming benchmark (RPI+4%) over 3 month, 12 month and 3 year measure despite significant transactional activity
- Recent drivers of performance include:
 - Significant capital value growth in the European holdings
 - More concentrated exposure to high conviction managers in the UK
 - Exposure to active managers who are able to create value

* Annualised since Apr 07

** This is an internal performance target which the Investment Manager aims to achieve as at the date of this document. This target is not based on past performance, may be subject to change and cannot be guaranteed. Investors should always refer to the investment objective and restrictions as stated in the latest offering documents.

Past performance is not a guide to future results

Market comparator is a weighted composite comprising 27.5% INREV VA Europe Index, vintage 2005 - 2008 and 72.5% IPD UK All Balanced Funds Index

Source: INREV, IPD, Northern Trust, Aberdeen Asset Management, 31 Mar 16

Priorities for Shropshire's mandate in 2016

1. Liquidation of European holdings

- Monitor market for early exit opportunities (pricing dependent)

2. Continue portfolio rationalisation

- Long-term target of 8-10 investments
- Defensively position portfolio in preparation for softening of capital values

3. Deployment of additional capital into the UK market

- Capital will be deployed in tandem with the rationalisation of the portfolio
- Will consider increasing allocations to existing holdings and new allocations

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Property is a relatively illiquid asset class, the valuation of which is a matter of opinion. There is no recognised market for property and there can be delays in realising the value of assets.

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Actuarial Valuation





Actuarial Valuation – why?

- Requirement stated in Regulation 62 of the Local Government Pension Scheme Regulations 2013
- Shropshire Council is administering authority for Shropshire County Pension Fund
- Regulations state that administering authorities must obtain:
 - an actuarial valuation of the assets and liabilities as at 31st March 2016 and on 31st March in every third year afterwards;
 - a report by an actuary in respect of the valuation; and
 - rates and adjustments certificate prepared by an actuary.





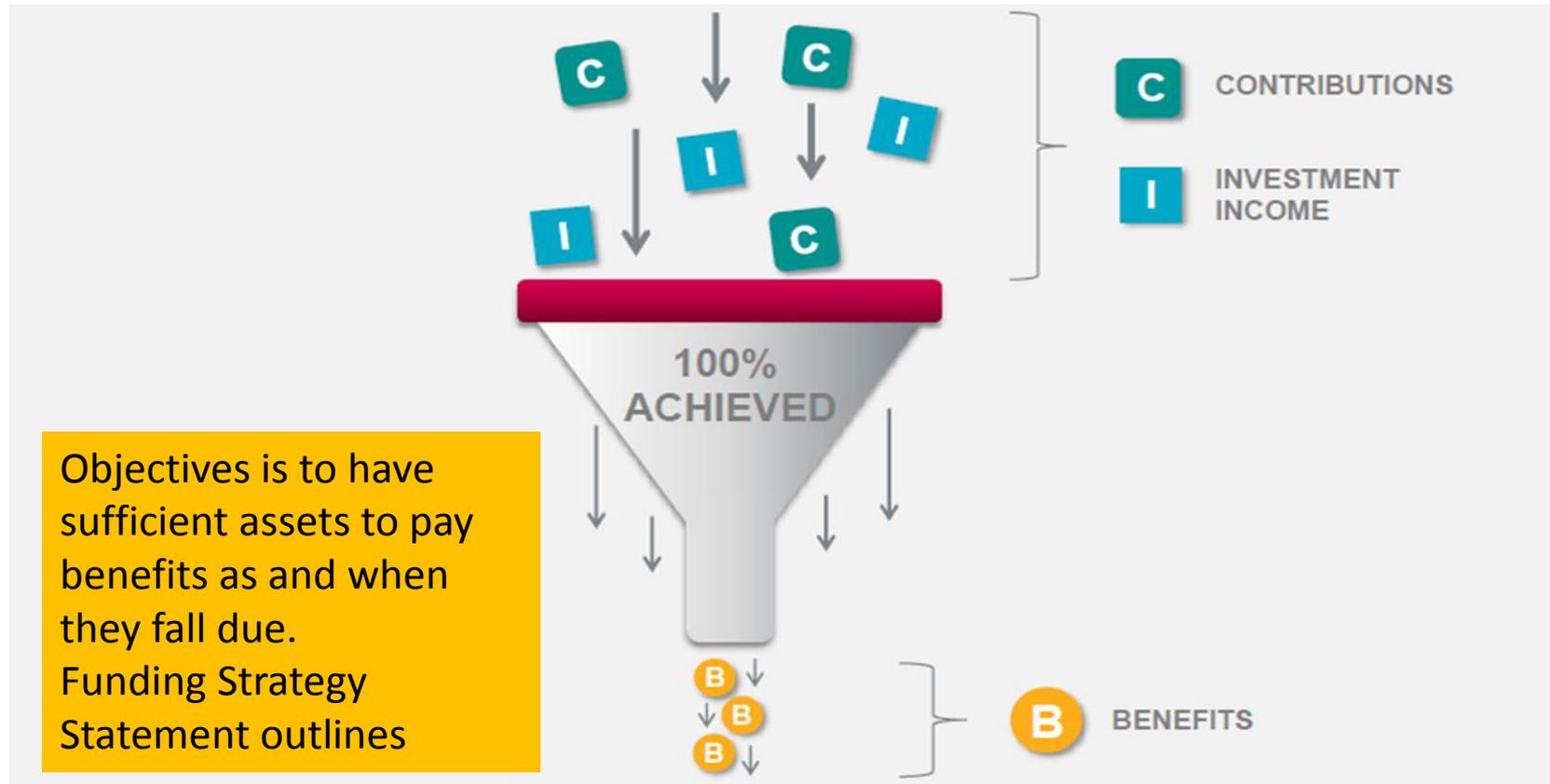
Actuarial Valuation key questions

Has the Fund got enough assets to cover expected benefits built up to date



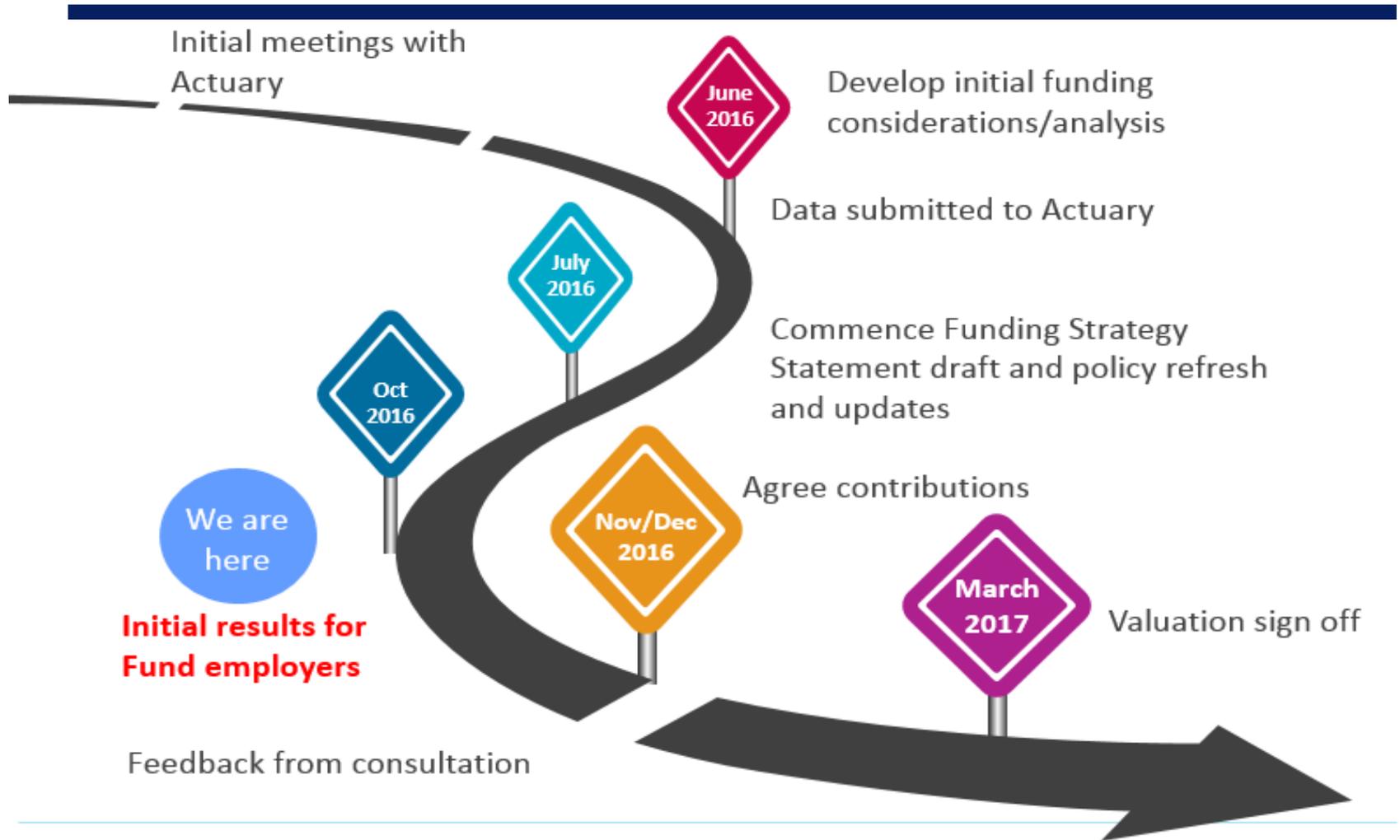
How much will the Employers have to pay for benefits earned in the future?

➤ Actuarial Valuation – the basics





Actuarial Valuation timeline





2016 Valuation experience

Actual vs Expected	Impact	Comment
Investment Returns		Investment returns have been significantly better than expected
Membership Profile		Increase in FSR due to change in membership profile
CPI Pension Increases		Overall liabilities are around 3% lower compared to those expected
Pensioner Deaths		Small reduction in liabilities
Pay Increases		Impact on total liabilities is an increase of around 1%-2% varying by employer
Early leavers		Impact on total liabilities is a decrease of around 1%
Other factors e.g. ill health, bulk transfers, transfer-in strains etc.		Will vary by employer.



Actuarial Assumptions

Analysis	Effect on Deficit (Whole Fund)	Effect on Future Service Rate (Whole Fund)	Comment in relation to Fund
Real discount rate above CPI			No change for past service. Increases future service cost
Short-term pay growth			Positive impact on deficit
Life Expectancy			Analysis indicates lower improvements than expected from last time
Ill-Health Retirement			Marginal decrease for future service rate but no impact for deficit
Withdrawal			Small positive impact on deficit
50/50			No change from 2013 assumption (increase in Future Service Rate for Councils)
Commutation			No change from 2013 assumption
Proportions Married / Dependants			Marginal impact only

Preliminary Results

Discount Rate	31 March 2013	31 March 2016
	Final Results	Maintain Real Return vs CPI at 2013 (CPI plus 2.35% p.a.) plus changes to demographics
Assets	£1,235m	£1,494m
Liabilities	£1,618m	£1,772m ¹
Deficit	£383m	£278m
Funding Level	76%	84%
Employer Future Service Rate (% of pay per annum)	14.0% ²	14.7% ²
Illustrative deficit contributions payable over 16 years (2017/18) indexed with assumed long term pay growth	£19.2m p.a. ³	£18.6m p.a.
Average Future Service Contributions (2017/18) based on estimated payroll of c£230m for 2017/18	£32.1m p.a.	£33.7m p.a.
Total contributions payable	£51.3m p.a.	£52.3m p.a.

¹2016 figures include allowance for short term pay of 1% p.a. for 4 years up to 2019/20 for all employers

²Allows for different discount rate assumption to past service (CPI plus 3% p.a. on 2013 basis and CPI plus 2.75% p.a. on 2016 basis)

³Theoretical deficit contributions emerging from 2013 valuation based on updated funding positions as at 31 August 2013



Key messages



Increase in future service contribution rate, perhaps 1% of pay on average – but very variable by employer. Extra 0.6% change if allowed for 50/50 scheme in 2013



Reduction in deficit contributions, largely as a result of favourable investment performance



Large variations from employer to employer. reduction in deficit contributions will outweigh increase in future service for some, but less mature and less well-funded employers will fare less well.



Phasing of increases may be permitted. Unlikely to allow reductions in contributions – more likely will adjust other elements of funding plan



LGPS Administration Update





Unfortunately Debbie can't be with us today....





2006 – 2016



	2006	2016
Employers	85	152
Members	28,505	42,187
Full time Staff	17	21



Discussion points

- **Key achievements this year**
- **LGPS – a complex Scheme**
- **Fund Membership**
- **Working with our employers**
- **LGPS current issues**
- **The Pension Regulators**
- **Communications**



This year we have:

- ✓ Issued Annual Benefit Statements on time
 - ✓ Deferred Members
 - ✓ Active Members
- ✓ Provided Pensions Savings Statements for Annual Allowance on time
- ✓ Submitted Valuation data to Actuary on time
- ✓ Responded to all statutory data requests on time





LGPS - a complex Scheme



	Pre 1 April 2008	Post 1 April 2008 – 31 March 2014	Post 1 April 2014
Basis of Pension	Final Salary		Career Average Revalued Earnings (CARE)
Build up Rate	1/80th	1/60th	1/49th
Revaluation Rate	Based on Final Salary (last 365 days)		Consumer Prices Index (CPI)
Pensionable Pay	Pay excluding non-contractual overtime and non-pensionable additional hours		Pay including contractual overtime and additional hours

- Data under earlier regulations still required
- Work undertaken with employers to ensure accurate and on time data





As membership continues to grow..

Shropshire County Pension Fund	2013	2016
Total membership	38,440	42,187
Employers	126	152
Funding level	76%	85%

LGPS England and Wales	2015	2016
Total membership	4.8 million	TBC
Employers	9,340	TBC
Funding level	79%	TBC





...so does the number of employers

- Growth area in the Fund is Academies
- So far 37 schools have converted in Shropshire/Telford
- 6 schools converted so far this year
- In Shropshire alone potentially 125 more
- Not forgetting other new employers from services outsourced





Working with our employers

- Different types of employers – e.g. Parish councils, Academy schools, Local authorities, external contractors....
- One Pensions Administration Strategy for all
- Data is key!
- Online transfer of data
- August 2015 to October 2016 - 534,248 items of data received
- Data includes: New members, leavers, address changes, contributions, CARE pay...





LGPS current issues

Exit payments

- Government reviewing redundancy terms public sector
- **Currently:** immediate payment of benefits without reduction if over 55 at redundancy date
- **Already agreed:** £95k cap on total benefits, recovery from high paid rejoiners – in statue
- **Further consultation:** a max salary of £80k in redundancy calculation? 15 months max as redundancy payout? increase to minimum pension age? removal of power to pay pension strain? – deadline 26th December for DCLG response



LGPS current issues

Freedom and choice

- Introduced April 2015
- Currently doesn't directly affect LGPS benefits or AVCs - can take AVCs as lump sum or purchase additional pension or annuity, or transfer to another arrangement
- Draft regulations suggests can have a full and partial Uncrystallised Funds Pension Lump Sum (UFPLS) harmonisation of AVC terms



The Pensions Regulator's role

- Oversight of the LGPS since 1 April 2015
- The Regulator's statutory objectives:
 - *Protect the benefits of pension scheme members*
 - *Reduce the risks of calls on the Pension Protection Fund (PPF)*
 - *Promote, and improve the understanding of, the good administration of work-based pension schemes*
 - *Maximise compliance with the duties and safeguards of the Pensions Act 2008*
- Released Code of Practice 14 - providing practical guidance under legislation in Public Sector
- The Regulator is focussing attention on: **internal controls, record keeping and provision of accurate and high quality communications to members**

The Pensions
Regulator 



"Engagement is a two-way process"

Jack Jones, Editor



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Getting young people excited about pensions

14 May 2015 | By Luisa Porritt

Print Email Share Comments (1)

A financial journalist, two researchers, a chartered financial planner and a member of the Young Fabians discuss how to get Generation Y saving and interested in pensions on day two of Workplace Pensions Live



Are pensions just too boring? The panel agreed on one thing: we need to persuade young people pensions are important and help them find a way to save more for retirement.

Iona Bain, journalist and author of the Young Money blog, thinks communicating about pensions to young people is the first hurdle. New pensions minister, Ros Altmann, may prove to be a good choice when it comes to engaging young people because she has shown sympathy about the difficulties they face when thinking about saving, said Bain.

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MOST POPULAR

MOST EMAILED

"There's going to be some dodgy dealers out there" - the new SPC president on pensions post-Budget



Importance of Fund Communication

- Not just a Statutory requirement
- Engaging with new members
- Potential members/optants outs
- Participation in National Working Group
- Communications Policy
- Email alerts, presentations, newsletters
- Employer training
- Meetings filmed
- Fund Website and online Annual Benefit Statements – with the option to request paper



Communications - going digital

Why?

- Generates cost savings and industry wide trend
- More environmentally friendly
- Added value for members – benefit projections available

How are we getting on?

- May 2016 - 13%
- October 2016 - 26%
- Active members Annual Benefit statements now online
- Pensioners already have access to payslips and P60s online

What are our plans for the future?

- Deferred members annual benefit statement online
- Increase MSS membership/functionality





Thank you for listening
Any questions?



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