

# Pensions Committee

**Thursday 21 September 2017**  
**2.00 pm Luttrell Room - County Hall,**  
**Taunton**



To: The Members of the Pensions Committee

Cllr G Noel (Chairman), Cllr James Hunt, Cllr S Coles, Cllr G Frascini, Richard Parrish, Sarah Payne, Mark Simmonds and Gordon Bryant

Issued By Julian Gale, Strategic Manager - Governance and Risk - 13 September 2017

For further information about the meeting, please contact Mike Bryant 01823 359048 or [mbryant@somerset.gov.uk](mailto:mbryant@somerset.gov.uk)

Guidance about procedures at the meeting follows the printed agenda.

This meeting will be open to the public and press, subject to the passing of any resolution under Section 100A (4) of the Local Government Act 1972.

This agenda and the attached reports and background papers are available on request prior to the meeting in large print, Braille, audio tape & disc and can be translated into different languages. They can also be accessed via the council's website on [www.somerset.gov.uk/agendasandpapers](http://www.somerset.gov.uk/agendasandpapers)



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# AGENDA

Item Pensions Committee - 2.00 pm Thursday 21 September 2017

**\* Public Guidance notes contained in agenda annexe \***

1 **Apologies for absence**

2 **Declarations of Interest**

Details of all Members' interests in District, Town and Parish Councils will be displayed in the meeting room. The Statutory Register of Member's Interests can be inspected via the Community Governance team.

3 **Minutes from the previous meeting held on 9 June 2017** (Pages 7 - 12)

The Committee is asked to confirm the minutes are accurate.

4 **Public Question Time**

The Chairman will allow members of the public to present a petition on any matter within the Committee's remit. Questions or statements about any matter on the agenda for this meeting will be taken at the time when each matter is considered.

5 **LGPS Pooling of Investments** (Pages 13 - 16)

To consider this report from the Funds & Investments Manager

6 **Independent Advisor's Report**

To receive a verbal update on developments in financial markets from the Independent Advisor

7 **Analysis of Performance** (Pages 17 - 34)

To consider this report from the Funds & Investments Manager

8 **Business Plan Update** (Pages 35 - 42)

To consider this report from the Funds & Investments Manager

9 **Budget and Membership Statistics Update** (Pages 43 - 48)

To consider this report from the Funds & Investments Manager

10 **Employer Body Update** (Pages 49 - 50)

To consider this report from the Head of Peninsula Pensions

11 **Review of Pension Fund Risk Register** (Pages 51 - 56)

To consider this report from the Funds & Investments Manager

- Item Pensions Committee - 2.00 pm Thursday 21 September 2017
- 12 **Annual Accounts and Investment Performance** (Pages 57 - 62)  
To consider this report from the Funds and Investments Manager
- 13 **Review of Administration Performance** (Pages 63 - 68)  
To consider this report from the Head of Peninsula Pensions
- 14 **Report of the Actuary**  
To receive a presentation from Barnett Waddington, the Fund's appointed firm of actuaries
- 15 **Implications of MIFID II** (Pages 69 - 76)  
To consider this report from the Funds & Investments Manager
- 16 **Policies and Statements** (Pages 77 - 84)  
To consider this report from the Funds & Investments Manager
- 17 **Any other urgent items of business**  
The Chairman may raise any items of urgent business.

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## Guidance notes for the Pension Committee meeting

### 1. Inspection of Papers

Any person wishing to inspect Minutes, reports, or the background papers for any item on the Agenda should contact the Committee Administrator for the meeting – Mike Bryant on Tel (01823) 359048 or 357628; Fax (01823) 355529 or Email: [mbryant@somerset.gov.uk](mailto:mbryant@somerset.gov.uk)  
They can also be accessed via the council's website on [www.somerset.gov.uk/agendasandpapers](http://www.somerset.gov.uk/agendasandpapers)

### 2. Members' Code of Conduct requirements

When considering the declaration of interests and their actions as a councillor, Members are reminded of the requirements of the Members' Code of Conduct and the underpinning Principles of Public Life: Honesty; Integrity; Selflessness; Objectivity; Accountability; Openness; Leadership. The Code of Conduct can be viewed at: <http://www.somerset.gov.uk/organisation/key-documents/the-councils-constitution/>

### 3. Minutes of the Meeting

Details of the issues discussed and recommendations made at the meeting will be set out in the Minutes, which the Committee will be asked to approve as a correct record at its next meeting.

### 4. Public Question Time

If you wish to speak, please tell Mike Bryant, the Committee's Administrator, by 12 noon the (working) day before the meeting.

At the Chairman's invitation you may ask questions and/or make statements or comments about any matter on the Committee's agenda – providing you have given the required notice. You may also present a petition on any matter within the Committee's remit. The length of public question time will be no more than 30 minutes in total.

A slot for Public Question Time is set aside near the beginning of the meeting, after the minutes of the previous meeting have been signed. However, questions or statements about any matter on the Agenda for this meeting may be taken at the time when each matter is considered.

You must direct your questions and comments through the Chairman. You may not take direct part in the debate. The Chairman will decide when public participation is to finish.

If there are many people present at the meeting for one particular item, the Chairman may adjourn the meeting to allow views to be expressed more freely. If an item on the Agenda is contentious, with a large number of people attending the meeting, a representative should be nominated to present the views of a group.

An issue will not be deferred just because you cannot be present for the meeting. Remember that the amount of time you speak will be restricted, normally to two minutes only.

## **5. Exclusion of Press & Public**

If when considering an item on the Agenda, the Committee may consider it appropriate to pass a resolution under Section 100A (4) Schedule 12A of the Local Government Act 1972 that the press and public be excluded from the meeting on the basis that if they were present during the business to be transacted there would be a likelihood of disclosure of exempt information, as defined under the terms of the Act.

## **6. Committee Rooms & Council Chamber and hearing aid users**

To assist hearing aid users the following Committee meeting rooms have infra-red audio transmission systems (Luttrell room, Wyndham room, Hobhouse room). To use this facility we need to provide a small personal receiver that will work with a hearing aid set to the T position. Please request a personal receiver from the Committee's Administrator and return it at the end of the meeting.

## **7. Recording of meetings**

The Council supports the principles of openness and transparency. It allows filming, recording and taking photographs at its meetings that are open to the public - providing this is done in a non-disruptive manner. Members of the public may use Facebook and Twitter or other forms of social media to report on proceedings and a designated area will be provided for anyone wishing to film part or all of the proceedings. No filming or recording may take place when the press and public are excluded for that part of the meeting. As a matter of courtesy to the public, anyone wishing to film or record proceedings is asked to provide reasonable notice to the Committee Administrator so that the relevant Chairman can inform those present at the start of the meeting.

We would ask that, as far as possible, members of the public aren't filmed unless they are playing an active role such as speaking within a meeting and there may be occasions when speaking members of the public request not to be filmed.

The Council will be undertaking audio recording of some of its meetings in County Hall as part of its investigation into a business case for the recording and potential webcasting of meetings in the future.

A copy of the Council's Recording of Meetings Protocol should be on display at the meeting for inspection, alternatively contact the Committee Administrator for the meeting in advance.

## Pensions Committee

Minutes of a meeting of the Pensions Committee held in the Luttrell Room, County Hall, Taunton on Friday 4 March 2016 at 09.30.

### Present

Cllr G Noel (Chairman)

Cllr S Coles

Mr G Bryant

Cllr G Fraschini

Mrs S Payne

Cllr J Hunt

Mr R Parrish

**Apologies:** Mr M Simmonds

**Other Members present:**

**Officers present:** Stephen Morton – Finance Technical, and Anton Sweet – Funds & Investment Manager; Rachel Lamb and Shirley Cuthbert Peninsula Pensions.

### 2 **Declarations of interest** – agenda item 2

- 2.0 Mr Parrish declared a personal interest as his wife was an SCC employee and a member of the fund in respect of agenda item 6. Mrs Payne also declared a personal interest as investments she held were managed by Jupiter Asset Management in respect of agenda item 6.

Mrs Payne and Mr. Bryant declared personal interests as members of the Local Government Pensions Scheme in respect of agenda item 6.

### 3 **Minutes of the meeting** – agenda item 3

- 3.0 The minutes of the meeting held on 3 March 2017 were received and approved as an accurate record.

### 4 **Public question time** – agenda item 4

- 4.0 There was one member of the public in attendance but no questions were asked/petitions presented/statements made.

### 5 **LGPS Pooling of Investments** – agenda item 5

- 5.0 The Committee considered this report that explained under guidance published by the Government in November 2015 that the Council was required to work towards the pooling of the Fund's investment assets with other LGPS funds with pooling beginning in April 2018. It was noted that for the purposes of pooling the Council had aligned itself with 9 other funds in the South West of England and was working with those other funds to create an Financial Conduct Authority (FCA) regulated investment company, called

Brunel Pension Partnership Ltd, (BPP).

- 5.1 The Funds and Investments Manager updated the Committee with recent progress including the appointment of Denise Le Gal as non-executive Chair in mid-April and also advising that the processes for the appointment of 2 further non-executive directors and a shareholder non-executive director were well advanced and should be completed shortly.

There was a brief discussion of the Pooling processes with the Funds and Investments Manager providing answers to questions and explaining, for the benefit of newer Members background and progress made regarding governance of the Brunel Pension Partnership.

The Committee agreed:

- That the Council Section 151 officer execute the various legal documents on behalf of the Fund to formally establish BPP as a Company;
- That the Council Section 151 officer be asked to exercise the Shareholder rights owned by the fund in BPP, in consultation with the Pensions Committee;
- That Mr. Mark Simmonds be appointed as the Fund's representative on the Shareholder Oversight Board;
- That the Funds and Investments Manager be appointed as the Fund's representative on the Client Group;
- That the Funds and Investment Manager keep the Committee up-to-date with other issues relating to pooling or the establishment of BPP.

The report was accepted.

## **6 Independent Advisor's Report – agenda item 6**

- 6.0 The Committee's Independent Advisor Caroline Burton provided a verbal overview of the financial situation in the United Kingdom (UK) and Overseas
- 6.1 Members briefly discussed the points raised during the overview, including possible changes to interest rates, small movement in the value of sterling, the markets would respond more positively to a 'soft Brexit' including transitional arrangements regarding the City of London, pay increases and inflation, high levels of personal and household debt in the UK, the possible impact of inflation following quantitative easing and the possibility of interest rate rises positively affecting the banking industries.
- 6.2 The Independent Advisors update was accepted.

## **7 Analysis of Performance – agenda item 6**

- 7.0 The Committee considered this report on the performance of the pension



fund investments for the quarter ended 31 March 2017 and related matters.

7.1 Issues discussed:

- Performance of each of the managers was discussed with particular reference to progress towards their three-year targets, with the Funds & Investment Manager providing further information;
- Members noted that overall the fund as a whole underperformed its benchmark during the quarter. The level of absolute return was strongly positive;
- Jupiter, Maple-Brown Abbott, Nomura and Aviva all produced performance ahead of their targets;
- £2.9m had been withdrawn from the in-house global equity fund during the quarter, broadly that represented dividend income on the fund during the quarter;
- Overall it was noted that the current value of the whole Fund stood at approximately £1,965m;
- The current projection of the smoothed funding level for the Fund at 31 March 2017 stood at 83.0%.

7.2 The Committee agreed to accept the Analysis of Performance report.

**8 Business Plan Update – agenda item 8**

8.0 The Committee considered this report that provided Members with a business plan of topics, to ensure the Committee met its responsibilities and considered all necessary issues, and also a meeting work plan of proposed items of business.

8.1 The Committee discussed the plans and noted that work on the 2016/17 accounts and production of the annual report was underway. It was noted that Members could request agenda items/training to help with their roles on the Committee.

8.2 The Committee agreed to accept the reports.

**9 Budget and Membership Statistics Update – agenda item 9**

9.0 The Committee considered this report about the position of the pension fund budget at 31 March 2017; the projected outturn position for the full year; and full year budget were shown in Appendix A of the report.

9.1 There was brief discussion of the report, and the information it contained, including the number of active members which had decreased by 955 in the quarter. The number of undecided members had decreased by 691; deferred members increased by 758; the number of pensioners had increased by 148. This had resulted in a net change overall of +1,170.

9.2 There was a brief discussion about the Pension Fund budget and the Committee agreed to accept the report.

**10 Employer Body Update – agenda item 10**

10.0 Members considered this report that provided the Committee with information about the current status of employing bodies within the Fund.

10.1 It was noted that there were 179 employers with active members in the Fund – 59 scheduled bodies – comprising 33 scheduled body employers, 12 academy trusts and 14 stand-alone academies; 27 resolution bodies and 34 admitted bodies.

10.2 The Committee agreed to accept the report.

**11 Review of Pension Fund Risk Register – agenda 11**

11.0 The Committee considered and discussed the Pension Fund's risk register. Members accepted the principal and importance of considering the register at every meeting to review and monitor each risk and approve changes as necessary.

11.1 There was a discussion of the risk register and the Committee noted that there had not been any changes to the register. The Committee sought and received assurances from Officers that plans were in place to address all of the 9 identified risks and the report was accepted.

**12 Voting and Engagement – agenda item 12**

12.0 The Committee considered a report which provided information about the voting and engagement activity of the Fund's investment managers for the six month period to 31 March 2017.

12.1 There was a brief discussion about PIRC advice and executive remuneration and remuneration voting details provided in the report were noted. The report was accepted.

**13 Policies and Statements – agenda item 13**

13.0 The Committee considered a report that advised Members the Pension Fund is required to maintain a significant number of policies and statements in accordance with LGPS regulations.

13.1 The Funding Strategy was considered in draft form in June 2014 and following a 6 week consultation period earlier this year, no changes have been made.

Following a brief discussion the Committee approved the strategy.

**14 Any other business of urgency – agenda item 14**

The Chairman, after ascertaining there were no other matters arising, thanked all those present for attending this first meeting of the new quadrennium and he encouraged his fellow Committee Members to take up opportunities to visit conferences and/or participate in training and learn about this interesting and varied area of the Council's business.

(The meeting ended at 15:45)

**Graham Noel  
Chairman – Pensions Committee**

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## **LGPS Pooling of Investments**

<i>Lead Officer:</i>	Kevin Nacey: Director of Finance and Performance
<i>Author:</i>	Anton Sweet: Funds and Investments Manager
<i>Contact Details:</i>	(01823) 359584 <a href="mailto:asweet@somerset.gov.uk">asweet@somerset.gov.uk</a>
<i>Cabinet Member:</i>	Not applicable
<i>Division and Local Member:</i>	Not applicable

### **1. Summary**

- 1.1 Under guidance published by the Government on “LGPS: Investment Reform Criteria and Guidance” in November 2015 we are required to work towards the pooling of the Fund’s investment assets with other LGPS funds with pooling beginning in April 2018.
- 1.2 For the purposes of pooling SCC has aligned itself with 9 other funds in South West England and is working with those funds to create an FCA regulated investment Company, Brunel Pension Partnership Ltd. (BPP).

### **2. Issues for consideration**

- 2.1 The report is for information only unless the committee deems that action is necessary having reviewed the report.

### **3. Introduction**

- 3.1 All of the legal requirements for the formation of Brunel Pension Partnership Ltd. where completed and the company was formed in July with SCC Pension Fund owning a 10<sup>th</sup> equal share of the company. The formal governance arrangements embedded within the legal documents have also begun with first meetings of the oversight board and the client group having already taken place.

#### **4. Recruitment of BPP Ltd board**

4.1 All of the positions on the board have been filled as follows:

Non-executive directors

Denise Le Gal (Chair)  
Mike Clark  
Frederique Pierre-Pierre  
Steve Tyson (Shareholder NED)

Executive directors

Dawn Turner (Chief Executive officer)  
Laura Chappell (Chief Compliance and Risk Officer)  
Mark Mansley (Chief Investment Officer)  
Joe Webster (Chief Operations Officer)

With respect to the executive directors Dawn and Mark were recruited from positions within Brunel Funds and Laura and Joe recruited externally. Joe is still working his notice with his previous employer but the other three executives are now working full time for BPP.

4.2 The process for the filling of the remaining officer roles within BPP is underway.

#### **5. BPP Operational set up**

5.1 BPP are making rapid progress with their operational set up, such as IT arrangements and set up of offices in Bristol. It is expected that they will be able to start using their offices in early October.

#### **6. Appointment of investment administrator**

6.1 Each LGPS Fund employs a custodian bank to safeguard its investment assets and process transactions. The Somerset Fund currently uses JP Morgan as their custodian bank. 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 our 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.

6.2 The procurement process is complete subject to the signing of a contract and the work required to set up the contract operationally is underway

## **7. Consultations undertaken**

- 7.1 Both the Pensions Committee and the Pensions Board have been consulted regularly as part of the project process of reaching this point
- 7.2 An overview briefing on the project was provided to the Fund's Employers meeting in September 2016.
- 7.3 The Full Somerset County Council meeting received a paper on the pooling at its meeting on 30<sup>th</sup> November 2016.

## **8. Financial Implications**

- 8.1 It is anticipated that the Brunel Pensions Partnership will allow the fund to make significant saving over time with the Somerset County Council Pension Fund estimated to make savings of £27.8m in the period to 2036 after costs. A significant portion of the likely costs are front loaded and it is anticipated that the Somerset Fund will breakeven in 2024.
- 8.2 By definition these are forecasts and there are significant risk to their timing and delivery. They are based on a core set of assumptions and actual savings could be significantly greater or smaller over time.

## **9. Background Papers**

- 9.1 None

**Note** For sight of individual background papers please contact the report author.

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## Analysis of Performance

<i>Lead Officer:</i>	Kevin Nacey: Director of Finance and Performance
<i>Author:</i>	Anton Sweet: Funds and Investments Manager
<i>Contact Details:</i>	(01823) 359584 <a href="mailto:asweet@somerset.gov.uk">asweet@somerset.gov.uk</a>
<i>Cabinet Member:</i>	Not applicable
<i>Division and Local Member:</i>	Not applicable

### 1. Summary

- 1.1 The report attached as appendix A is to inform the committee about the performance of the Pension Fund's investments for the quarter ended 30 June 2017 and related matters.

### 2. Issues for consideration

- 2.1 The report is for information only unless the committee deems that action is necessary having reviewed the report.

### 3. Background

None

### 4. Consultations undertaken

None

### 5. Financial Implications

- 5.1 Over time the performance of the pension fund investments will impact the amount that the County Council and other sponsoring employers have to pay into the fund to meet their liabilities. The fund actuary calculates these amounts every three years and sets payments for the intervening periods.

### 6. Background Papers

None

**Note** For sight of individual background papers please contact the report author.

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## Analysis of Investment Performance for the Quarter to 30th June 2017

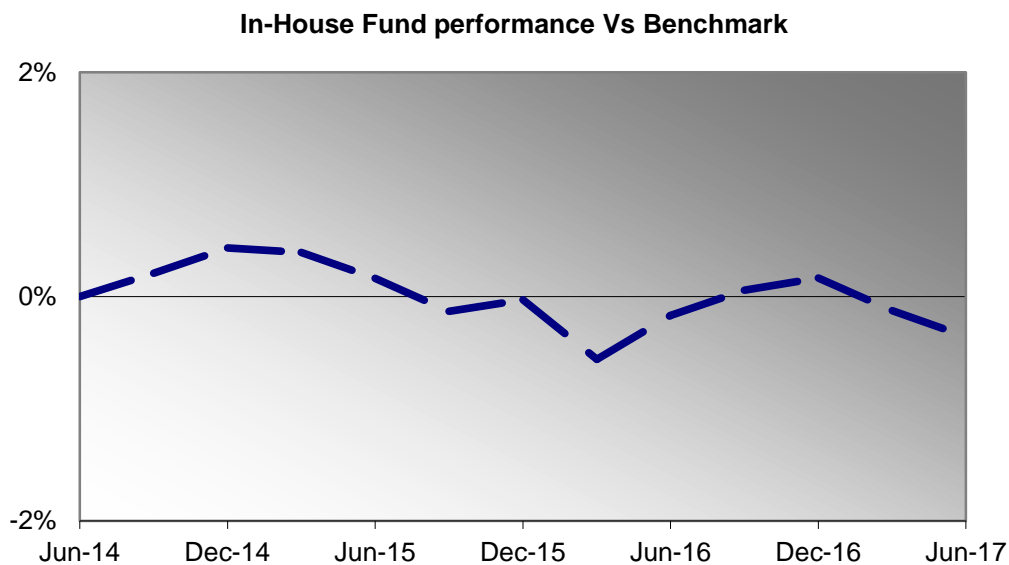
1. Somerset County Council (Global Equity)

1.1 The performance for the quarter to 30th June 2017 is summarised in the following table:

<b>Quarter to 30 June 2017</b>				
<b>Value as at 30 June £m</b>		<b>Fund for quarter %</b>	<b>Performance Benchmark for quarter %</b>	<b>Relative to Benchmark %</b>
<b>491.7</b>	<b>Global equities</b>	<b>-0.2</b>	<b>-0.2</b>	<b>+0.0</b>
<b>0.0</b>	<b>Cash</b>			
<b>491.7</b>	<b>Total</b>	<b>-0.2</b>	<b>-0.2</b>	<b>+0.0</b>

1.2 The in-house fund performed in line with the benchmark for the quarter.

1.3 Absolute returns for the quarter were slightly negative.



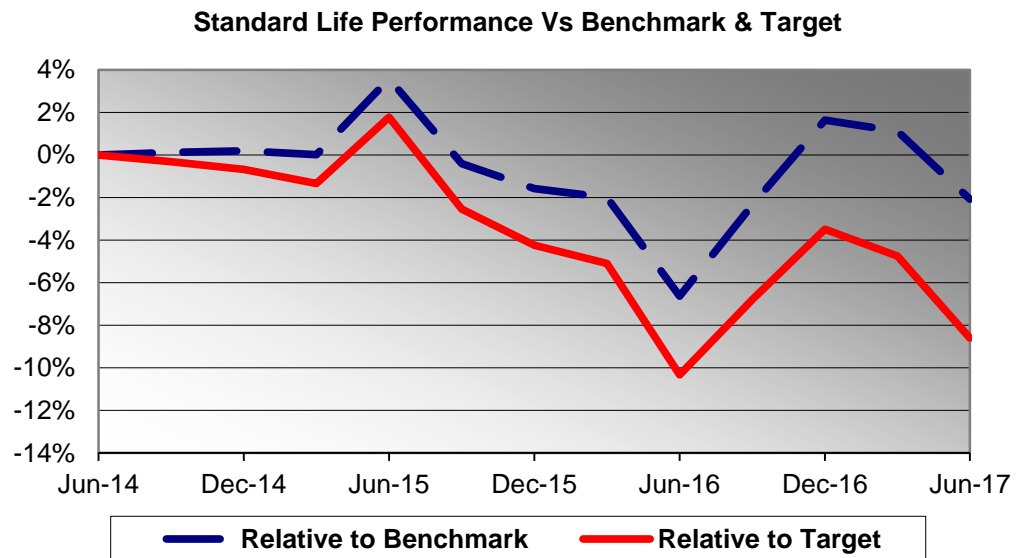
2. Standard Life (UK Equities)

2.1 The performance for the quarter to 30th June 2017 is summarised in the following table:

Quarter to 30 June 2017				
Value as at 30 June £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
453.1	UK	-1.1	1.4	-2.5
3.7	Cash			
456.8	Total	-1.2	1.4	-2.6

2.2 Standard Life had a poor quarter relative to their benchmark. Absolute returns were negative. Overweight positions in mining and banks, which underperformed, were responsible for the under-performance.

2.3 Standard Life's target is to outperform the benchmark by an annualised return of 1.75% over continuous three-year periods after their fees have been deducted.



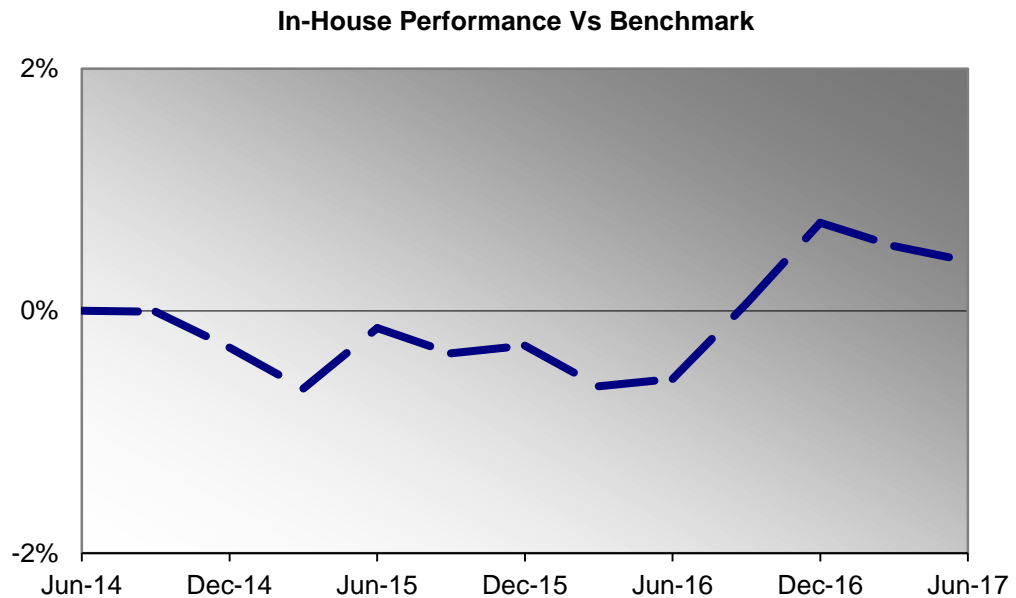
3. Somerset County Council (North American Equities)

3.1 The performance for the quarter to 30th June 2017 is summarised in the following table:

<b>Quarter to 30 June 2017</b>				
<b>Value as at 30 June £m</b>		<b>Fund for quarter %</b>	<b>Performance Benchmark for quarter %</b>	<b>Relative to Benchmark %</b>
<b>99.3</b>	<b>North America</b>	<b>-0.8</b>	<b>-0.8</b>	<b>+0.0</b>
<b>0.5</b>	<b>Cash</b>			
<b>99.8</b>	<b>Total</b>	<b>-0.8</b>	<b>-0.8</b>	<b>+0.0</b>

3.2 The in-house fund's performance was in line with the benchmark for the quarter.

3.3 Absolute levels of performance during the quarter were negative.



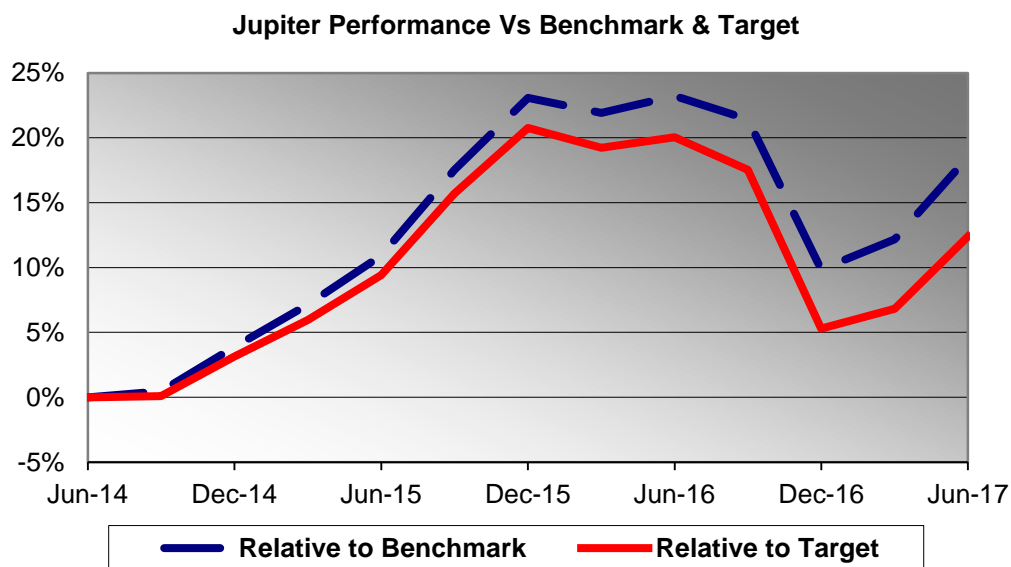
4. Jupiter (Continental European Equities)

4.1 The performance for the quarter to 30th June 2017 is summarised in the following table:

Quarter to 30 June 2017				
Value as at 30 June £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
125.6	Europe	9.9	5.2	+4.7
3.5	Cash			
129.1	Total	9.1	5.2	+3.9

4.2 Jupiter had a good quarter relative to the benchmark, with outperformance of 3.9%. Absolute performance was strongly positive. Performance relative to benchmark continues to be very volatile from one month to the next.

4.3 Jupiter's target is to outperform the benchmark by an annualised return of 1.5% over continuous three-year periods after their fees have been deducted.



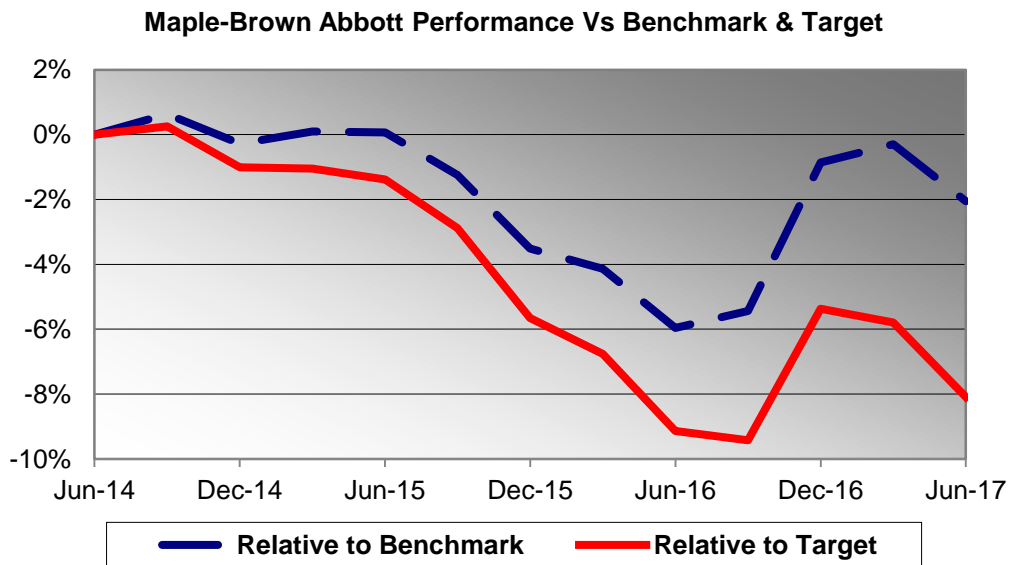
5. Maple-Brown Abbott (Far-East Equities ex-Japan)

5.1 The performance for the quarter to 30th June 2017 is summarised in the following table:

Quarter to 30 June 2017				
Value as at 30 June £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
59.2	Pacific (ex Japan)	-1.0	0.3	-1.3
1.2	Cash			
60.4	Total	-1.0	0.3	-1.3

5.2 Maple-Brown Abbott had a poor quarter relative to their benchmark. Absolute returns were negative. Under performance was largely due to poor stock selection in Australia.

5.3 Maple-Brown Abbott's target is to outperform the benchmark by an annualised return of 1.5% over continuous three-year periods after their fees have been deducted.



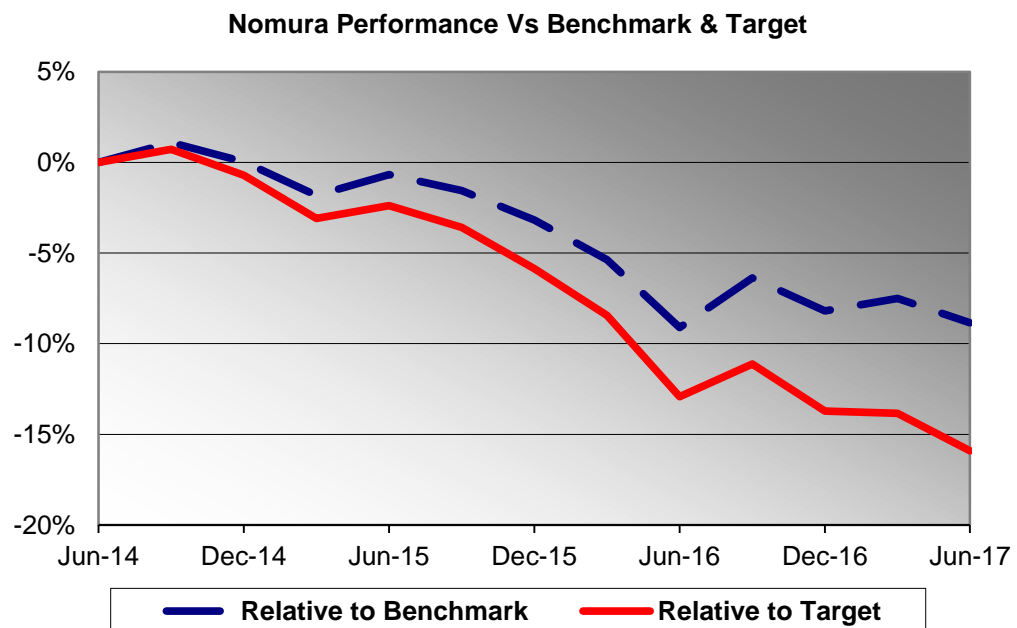
6. Nomura (Japanese Equity)

6.1 The performance for the quarter to 30th June 2017 is summarised in the following table:

Quarter to 30 June 2017				
Value as at 30 June £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
<b>61.3</b>	<b>Japan</b>	<b>1.1</b>	<b>1.9</b>	<b>-0.8</b>

6.2 Absolute performance was positive. Relative performance was poor. Underperformance was largely due to poor stock selection, particularly in the Transportation equipment and nonferrous metals sectors.

6.3 Nomura's target is to outperform the benchmark by an annualised return of 1.5% over continuous three-year periods after their fees have been deducted.





7. Amundi (Emerging Market Equity)

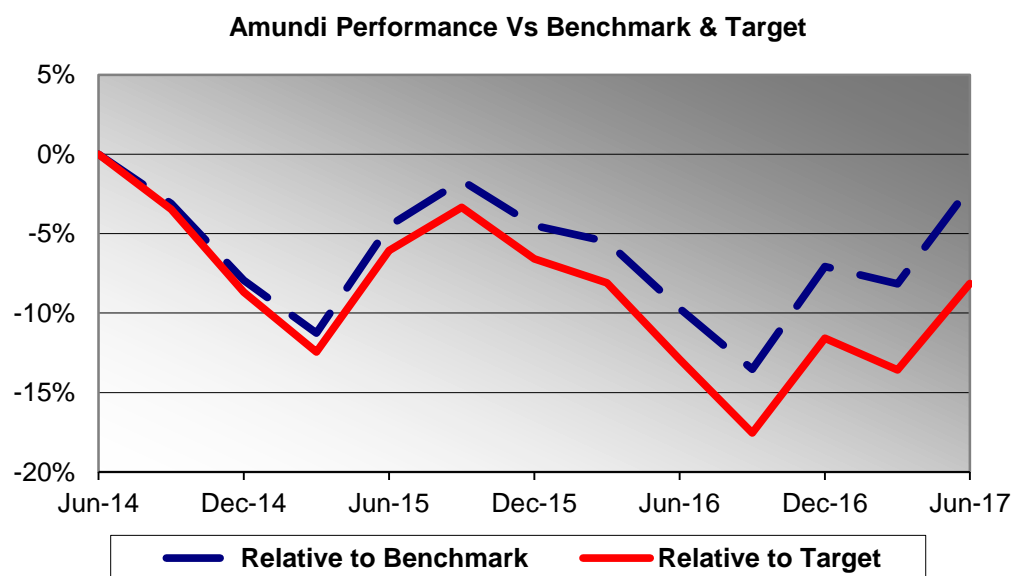
7.1 The performance for the quarter to 30th June 2017 is summarised in the following table:

Quarter to 30 June 2017				
Value as at 30 June £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
93.1	<b>Emerging Market</b>	7.3	2.3	<b>+5.0</b>

7.2 Relative performance for the quarter was very strong, absolute returns were strongly positive. Stock selection in the financial sector significantly contributed to the outperformance.

7.3 Pioneer was purchased by Amundi Asset Management after the quarter end with the purchase completing on 3<sup>rd</sup> July 2017. The people and process involved in our emerging market equity mandate have not changed as part of the transaction. This should be seen as a positive development as there has been significant uncertainty over the ownership of Pioneer for some time following a review by Unicredit, its previous owner. Following the purchase Amundi Asset Management is Europe's largest asset manager by assets under management, Amundi is listed on the Paris stock exchange.

7.4 Amundi's target is to outperform the benchmark by an annualised return of 1.5% over continuous three-year periods after their fees have been deducted.



8. Standard Life (Fixed Interest)

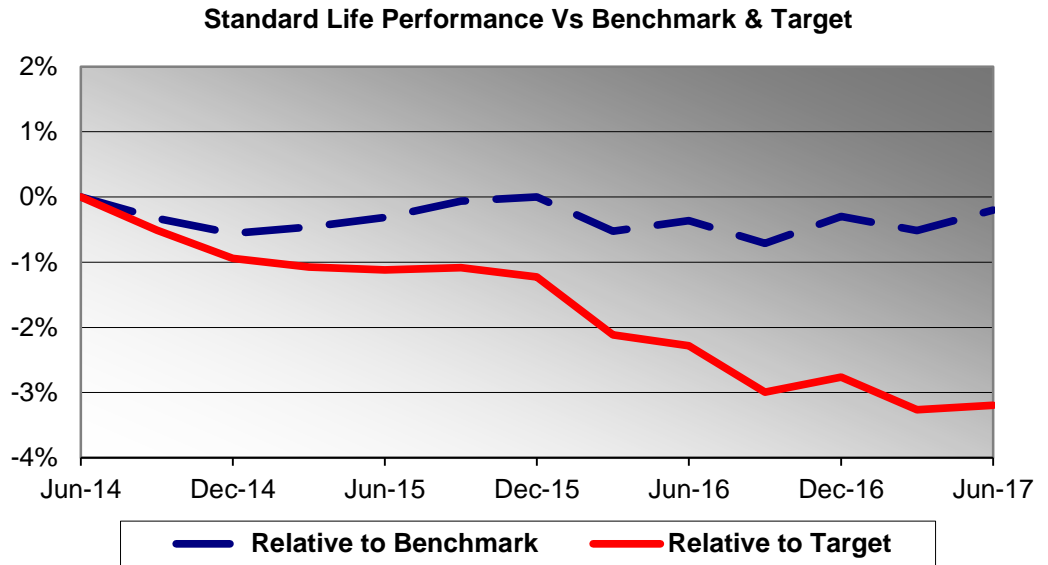
8.1 The performance for the quarter to 30th June 2017 is summarised in the following table:

<b>Quarter to 30 June 2017</b>				
<b>Value as at 30 June £m</b>		<b>Fund for quarter %</b>	<b>Performance Benchmark for quarter %</b>	<b>Relative to Benchmark %</b>
<b>44.6</b>	<b>UK Gilts</b>	<b>-1.0</b>	<b>-1.3</b>	<b>+0.3</b>
<b>68.9</b>	<b>Index Linked</b>	<b>-2.1</b>	<b>-2.3</b>	<b>+0.2</b>
<b>159.6</b>	<b>Corporate Bonds</b>	<b>-1.6</b>	<b>-1.9</b>	<b>+0.3</b>
<b>38.7</b>	<b>High Yield Debt</b>	<b>3.0</b>	<b>4.4</b>	<b>-1.4</b>
<b>-4.7</b>	<b>Foreign Gov't Bonds</b>			
<b>1.4</b>	<b>F Gov't Index Linked</b>			
	<b>Currency Instruments</b>			
<b>-0.9</b>				
<b>16.4</b>	<b>Cash</b>			
<b>324.0</b>	<b>Total</b>	<b>0.0</b>	<b>-0.3</b>	<b>+0.3</b>

8.2 Standard Life outperformed their benchmark for the quarter. Absolute returns were flat. Outperformance in the corporate bond portfolio was the main contributor to outperformance.

8.3

Standard Life's target is to outperform the benchmark by an annualised return of 0.75% over continuous three-year periods after their fees have been deducted.



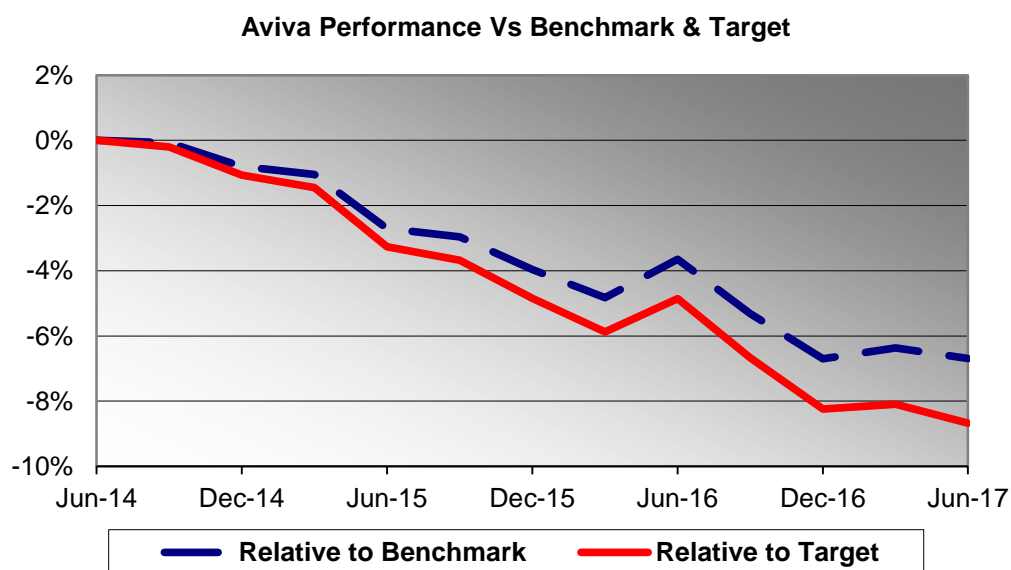
9. Aviva (Property Fund of Funds)

9.1 The performance for the quarter to 30th June 2017 is summarised in the following table:

Quarter to 30 June 2017				
Value as at 30 June £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
175.3	UK Property	2.5	2.3	+0.2
1.9	European Property	-7.9		
	Currency Instruments			
-0.1				
13.8	Cash			
<b>190.9</b>	<b>Total</b>	<b>2.2</b>	<b>2.3</b>	<b>-0.1</b>

9.2 Property returns from the UK market were positive for the quarter. The fund underperformed relative to the benchmark due to the European holdings and the high cash holdings.

9.3 Aviva's target is to outperform the benchmark by an annualised return of 0.5% over continuous three-year periods after their fees have been deducted.



10. Neuberger Berman (Global Private Equity)

10.1 The performance for the quarter to 30th June 2017 is summarised in the following table:

<b>Quarter to 30 June 2017</b>			
<b>Value as at 30 June £m</b>	<b>Fund for quarter %</b>	<b>Performance Benchmark for quarter %</b>	<b>Relative to Benchmark %</b>
<b>31.4 Private Equity</b>	<b>1.4</b>	<b>0.1</b>	<b>+1.3</b>

10.2 The return indicated above is significantly affected by currency movements, specifically the change in the value of the US dollar against GBP.

10.3 The 2010 fund continues to make good progress. The underlying return on this fund for the quarter, excluding currency movements, was 12.0%.

10.4 The Neuberger Berman Crossroads XX fund is also making good progress. The underlying return on this fund for the quarter, excluding currency movements, was 1.9%.

10.5 The Crossroads XXI fund is still very young however it is no longer in the negative part of the “J-curve” and is running at a small profit. The return for the quarter, excluding currency movements, was 2.1%.

10.6 As agreed by Committee we have now completed the paperwork for a \$40m commitment to Crossroads XXII and are awaiting the first drawdown.

11. South West Ventures Fund

11.1 The fund continues to make reasonable progress.

12. Combined Fund

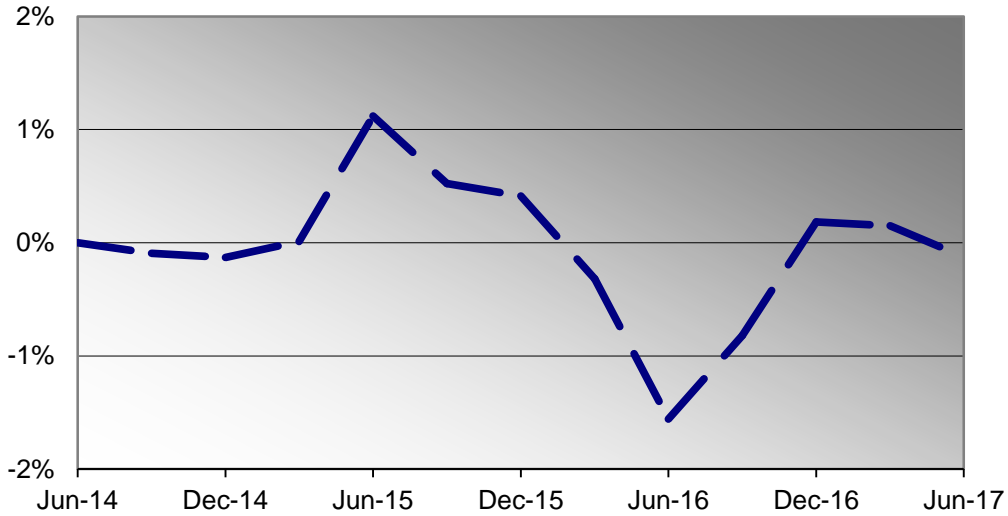
12.1 The performance for the quarter to 30th June 2017 is summarised in the following table:-

<b>Quarter to 30 June 2017</b>				
<b>Value as at 30 June £m</b>		<b>Fund for quarter %</b>	<b>Performance Benchmark for quarter %</b>	<b>Relative to Benchmark %</b>
491.7	In-House (Global Eq)	-0.2	-0.2	+0.0
456.8	Standard Life (UK Eq)	-1.2	1.4	-2.6
99.8	In-House (US Eq)	-0.8	-0.8	+0.0
129.1	Jupiter	9.1	5.2	+3.9
60.4	Maple-Brown Abbott	-1.0	0.3	-1.3
61.3	Nomura	1.1	1.9	-0.8
93.1	Amundi	7.3	2.3	+5.0
324.0	Standard Life (FI)	0.0	-0.3	+0.3
190.9	Aviva	2.2	2.3	-0.1
1.8	SWRVF	0.0	0.1	-0.1
31.4	Neuberger Berman	1.4	0.1	+1.3
55.1	Cash	0.1	0.1	+0.0
<b>1,995.4</b>	<b>Whole Fund</b>	<b>0.9</b>	<b>1.1</b>	<b>-0.2</b>

12.2 The fund as a whole underperformed its benchmark during the quarter. The level of absolute return was positive. Jupiter, Amundi and Standard Life for the fixed income mandate produced performance ahead of their target for the quarter.

12.3 All of the underperformance was due to the stock selection of the managers within the fund, asset allocation between the various fund managers was flat.

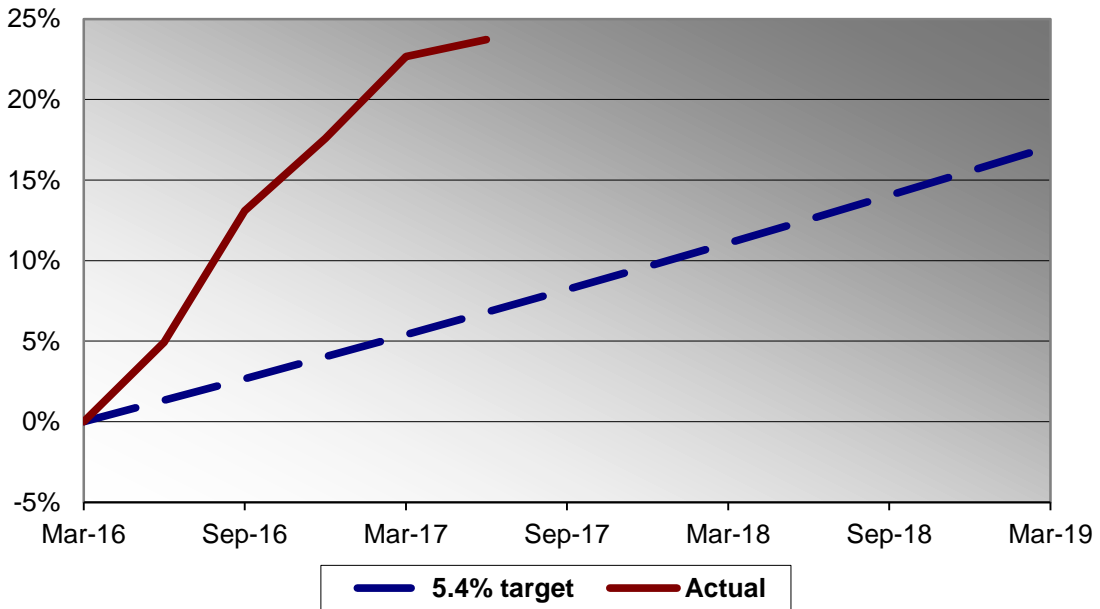
**Whole Fund Performance Vs Benchmark**



12.4

At the March 2017 committee meeting the committee adopted an absolute return target of 5.4% for the fund as this is consistent with the fund becoming fully funded within the timescales indicated by the actuary as part of the 2016 valuation. Progress against this target for the 2016 to 2019 actuarial cycle is shown in the graph below.

**Performance of Fund Vs. 5.4% absolute return target**



12.5

The movement in the value of the fund over the quarter is summarised in the table below.

	Value as at 31 Mar		Value as at 30 June		Strategic
	£m	£m	£m	%	Weighting
					%
<b>In-House (Global Eq)</b>	<b>493.8</b>	25	<b>491.7</b>	25	<b>23</b>
<b>Standard Life (UK Eq)</b>	<b>460.1</b>	23	<b>456.8</b>	23	<b>23</b>
<b>In-House (US Eq)</b>	<b>100.9</b>	5	<b>99.8</b>	5	<b>5</b>
<b>Jupiter</b>	<b>118.2</b>	6	<b>129.1</b>	6	<b>5</b>
<b>M-BA (Pac Eq)</b>	<b>61.0</b>	3	<b>60.4</b>	3	<b>3</b>
<b>Nomura</b>	<b>60.6</b>	3	<b>61.3</b>	3	<b>3</b>
<b>Amundi</b>	<b>81.9</b>	4	<b>93.1</b>	5	<b>5</b>
<b>Standard Life (FI)</b>	<b>324.0</b>	17	<b>324.0</b>	16	<b>19</b>
<b>Aviva</b>	<b>186.1</b>	10	<b>190.9</b>	10	<b>10</b>
<b>SWRVF</b>	<b>1.8</b>	0	<b>1.8</b>	0	<b>0</b>
<b>Neuberger Berman</b>	<b>28.7</b>	2	<b>31.4</b>	1	<b>3</b>
<b>Cash</b>	<b>48.2</b>	2	<b>55.1</b>	3	<b>1</b>
<b>Whole Fund</b>	<b>1,965.3</b>	100	<b>1,995.4</b>	100	<b>100</b>

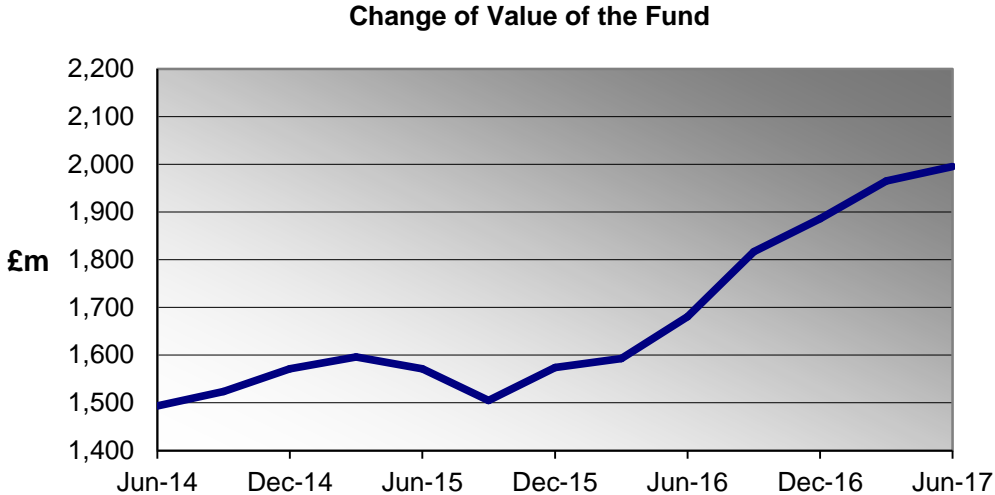
12.6

During the quarter the following movements of cash between funds took place:

- £4.1m was withdrawn from the in-house global equity fund during the quarter. Broadly this represents dividend income on this fund during the quarter.
- £0.3m was withdrawn from the in-house US equity fund during the quarter. Broadly this represents dividend income on this fund during the quarter.
- £5.0m was added to the Amundi portfolio to bring the emerging market back towards neutral.
- £2.3m was invested in the Neuberger Berman's Private equity mandate during the quarter.



12.7 The change in the value of the investment fund over the last three years can be seen in the graph below.



12.8 The Fund’s Actuary, Barnett Waddingham, have provided the following update.

“The results of our assessment indicate that:

- The current projection of the smoothed funding level as at 30 June 2017 is 85.7% and the average required employer contribution would be 23.1% of payroll assuming the deficit is to be paid by 2038.
- This compares with the reported (smoothed) funding level of 77.4% and average required employer contribution of 22.6% of payroll at the 2016 funding valuation.

The discount rate underlying the smoothed funding level as at 30 June 2017 is 5.3% per annum. The investment return required to restore the funding level to 100% by 2038, without the employers paying deficit contributions, would be 6.1% per annum.

It should be borne in mind that the nature of the calculations is approximate and so the results are only indicative of the underlying position.”

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## **Business Plan Update**

<i>Lead Officer:</i>	Kevin Nacey: Director of Finance and Performance
<i>Author:</i>	Anton Sweet: Funds and Investments Manager
<i>Contact Details:</i>	(01823) 359584 <a href="mailto:asweet@somerset.gov.uk">asweet@somerset.gov.uk</a>
<i>Cabinet Member:</i>	Not applicable
<i>Division and Local Member:</i>	Not applicable

### **1. Summary**

- 1.1 To update the Committee with progress on and amendments to the Committee's business plan as agreed.

### **2. Issues for consideration**

- 2.1 To note progress on the business plan and approve any amendments.

### **3. Background**

- 3.1 The Somerset County Council Pension Fund (the Fund) is a statutory scheme with Somerset County Council acting as the 'administering authority' in accordance with the relevant legislation. This means that the County Council is responsible for taking all the executive decisions in respect of the Fund.
- 3.2 To meet its responsibilities in this respect the County Council has delegated executive decision making powers for the fund to the Pensions Committee. A business plan has been produced to help ensure that the Pensions Committee meet their responsibilities and consider all necessary issues.
- 3.3 Attached as appendix A is the business plan. Progress is shown in the final column followed by a colour coded key.
- 3.4 Attached as appendix B is a committee workplan, which indicates which items will come before each Committee meeting over the next 12 months.

**4. Progress since last report**

- 4.1 Work on the LGPS pooling work within the Brunel Pension Partnership continues and is covered in a separate paper.
- 4.2 Work on the 2016/17 accounts and production of the annual report is complete.

**5. Consultations undertaken**

None

**6. Financial Implications**

None

**7. Background Papers**

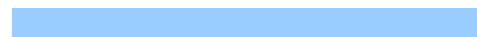
None

**Note** For sight of individual background papers please contact the report author.

## Pensions Committee Business Plan for 2015 to 2020

## Key:

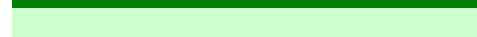
Change since last time



Completed



Not yet due



In progress and on time



In progress but late



Overdue



Topic Area		Training needs	Timing	Implementation Timing	Progress
Regulations	Consultation and implementation on new regulations as they arise	Medium	Unknown - Determined by Central Gov't		
Fund Governance	Adoption of an Administration Strategy	Low	Spring 2015	Unknown	Approved at March 2015 meeting
Investment Governance	Voting and CSR engagement review	Medium	Autumn 2015	+ 9 months if Undertaken	On hold pending the outcome of the LGPS pooling of investments process
3 year Review of Asset manager	Review of In-house funds	Medium	Autumn 2016	+ 9 months if Undertaken	Decision taken at the December 2016 committee meeting that this will be reviewed again at end of 2017 with a view to setting a new strategy to take the fund into pooling form April 2018
	Review of Aviva's mandate for Property	Medium		+ 9 months if Undertaken	
	Review of Standard Life's mandate for UK equity	Medium		+ 9 months if Undertaken	
	Review of Standard Life's mandate for Fixed Income	Medium		+ 9 months if Undertaken	
	Review of Jupiter's mandate for European Equity	Medium		+ 9 months if Undertaken	
	Review of Nomura's mandate for Japanese Equity	Medium		+ 9 months if Undertaken	
Investment Fund Structure & Alternative Asset Classes	Review of Asset Allocation and benchmark structure of the fund	Medium	Autumn 2016		
	Review of asset classes not currently invested in	High			
Investment Pooling	Review of Brunel Pension Partnership Business Case	Medium	Autumn 2016		The Brunel business case was approved at the December 2016 committee meeting.
Fund Governance	Agree and publish an Investment Strategy Statement	Medium	Q1 2017		Agreed at June 2017 meeting
Fund Governance	Re-approve all Strategies and policies post election	Medium	Spring 2017		Agreed at June 2017 meeting
Fund Governance	Review of CIPFA knowledge and skills framework for members	Medium	Spring 2017		
1 year Review of Asset manager	Review of In-house funds	Medium	Autumn 2017	+ 9 months if Undertaken	
	Review of Aviva's mandate for Property	Medium		+ 9 months if Undertaken	
	Review of Standard Life's mandate for UK equity	Medium		+ 9 months if Undertaken	
	Review of Standard Life's mandate for Fixed Income	Medium		+ 9 months if Undertaken	

	Review of Jupiter's mandate for European Equity	Medium		+ 9 months if Undertaken	
	Review of Nomura's mandate for Japanese Equity	Medium		+ 9 months if Undertaken	
Investment Fund Structure & Alternative Asset Classes	Review of Asset Allocation and benchmark structure of the fund	Medium	<b>Autumn 2017</b>		
	Review of asset classes not currently invested in	High			
Review of Independent Advisor	Following an internal Audit review of the Fund's governance it was agreed that the role and performance of the Independent Advisor should be reviewed by Committee at least once every 4 years	Low	<b>Summer 2019</b>	Unknown	

## SOMERSET COUNTY COUNCIL PENSION FUND

## PENSIONS COMMITTEE

## MEETING WORKPLAN 2017 - 2018

Date	Proposed Items of Business	Lead Officer
TBC	<p><b><u>INFORMAL MEETING</u></b></p> <p>1. Topic TBC</p>	
08-Dec-17	<p><b><u>FORMAL MEETING</u></b></p> <p><b>1. Independent Advisor's Report</b> To receive a verbal update on market issues and events from the independent advisor.</p> <p><b>2. Analysis of Performance</b> Report to provide an update of the Fund's performance for the quarter period to 30 September 2017.</p> <p><b>3. Business Plan Update</b> To consider progress against the Committees approved business plan.</p> <p><b>4. Budget and Membership Statistics Update</b> Report to provide an update of the Fund's position for the quarter period to 30 September 2017.</p> <p><b>5. Employer Body Status Update</b> Report to provide an update on issues concerning employer bodies.</p> <p><b>7. Review of Pension Fund Risk Register</b> To review the risks within the fund and form an appropriate risk register for the fund.</p> <p><b>8. Voting and Engagement Report</b> Report to provide an update of the Fund's voting and engagements activities for the half year to 30 September 2017.</p> <p><b>9. Review of Investment Fund Structure and Alternative Asset Classes</b> To consider the existing structure of the investment fund, whether it is still suitable and to consider alternative asset classes that the fund is not currently invested in in preparation for the start of the transition of assets into a pool from 1st April 2018</p> <p><b>10. Fund Manager Performance Review (EXEMPT ITEM)</b> To consider the performance of fund managers as per the review timetable agreed at earlier committee meetings.</p>	<p></p> <p><b>AS</b></p> <p><b>AS</b></p> <p><b>AS</b></p> <p><b>CT</b></p> <p><b>AS</b></p> <p><b>AS</b></p> <p><b>AS</b></p> <p><b>AS</b></p>

## SOMERSET COUNTY COUNCIL PENSION FUND

## PENSIONS COMMITTEE

## MEETING WORKPLAN 2017 - 2018

Date	Proposed Items of Business	Lead Officer
02-Mar-18	<p><b><u>FORMAL MEETING</u></b></p> <p><b>1. LGPS Pooling of Investments</b> Report to provide an update on progress on pooling of investments as per government guidance.</p> <p><b>2. Independent Advisor's Report</b> To receive a verbal update on market issues and events from the independent advisor.</p> <p><b>3. Analysis of Performance</b> Report to provide an update of the Fund's performance for the quarter period to 31 December 2017.</p> <p><b>4. Business Plan Update</b> To consider progress against the Committees approved business plan.</p> <p><b>5. Budget and Membership Statistics Update</b> Report to provide an update of the Fund's position for the quarter period to 31 December 2017.</p> <p><b>6. Employer Body Status Update</b> Report to provide an update on issues concerning employer bodies.</p> <p><b>7. Review of Pension Fund Risk Register</b> To review the risks within the fund and form an appropriate risk register for the fund.</p> <p><b>8. Resources review, budget setting and committee objectives setting</b> To conduct a review of the resources available to the fund and to adopt a budget, committee performance objectives for the 2018-2019 financial year and review the overall performance target for 2016 to 2019.</p> <p><b>9. Review of Administration Performance</b> To review the performance of Peninsula Pensions in delivering the administration service to employers and members.</p>	<p><b>AS</b></p> <p><b>AS</b></p> <p><b>AS</b></p> <p><b>AS</b></p> <p><b>AS</b></p> <p><b>CT</b></p> <p><b>AS</b></p> <p><b>AS/SM</b></p> <p><b>CT</b></p>



## SOMERSET COUNTY COUNCIL PENSION FUND

## PENSIONS COMMITTEE

## MEETING WORKPLAN 2017 - 2018

Date	Proposed Items of Business	Lead Officer
08-Jun-18	<p><b><u>FORMAL MEETING</u></b></p> <p><b>1. LGPS Pooling of Investments</b> Report to provide an update on progress on pooling of investments as per government guidance.</p> <p><b>2. Independent Advisor's Report</b> To receive a verbal update on market issues and events from the independent advisor.</p> <p><b>3. Analysis of Performance</b> Report to provide an update of the Fund's performance for the quarter period to 31 March 2018.</p> <p><b>4. Business Plan Update</b> To consider progress against the Committees approved business plan.</p> <p><b>5. Budget and Membership Statistics Update</b> Report to provide an update of the Fund's position for the quarter period to 31 March 2018.</p> <p><b>6. Employer Body Status Update</b> Report to provide an update on issues concerning employer bodies.</p> <p><b>7. Review of Pension Fund Risk Register</b> To review the risks within the fund and form an appropriate risk register for the fund.</p> <p><b>8. Voting and Engagement Report</b> Report to provide an update of the Fund's voting and engagements activities for the half year to 31 March 2018.</p> <p><b>9. Fund Policies</b> To review and where necessary update the fund's policies and documents.</p>	<p><b>AS</b></p> <p><b>AS</b></p> <p><b>AS</b></p> <p><b>AS</b></p> <p><b>AS</b></p> <p><b>CT</b></p> <p><b>AS</b></p> <p><b>AS</b></p> <p><b>AS</b></p>

## SOMERSET COUNTY COUNCIL PENSION FUND

## PENSIONS COMMITTEE

## MEETING WORKPLAN 2017 - 2018

Date	Proposed Items of Business	Lead Officer
20-Sep-18	<p><b><u>FORMAL MEETING</u></b></p> <p><b>1. LGPS Pooling of Investments</b> Report to provide an update on progress on pooling of investments as per government guidance.</p> <p><b>2. Independent Advisor's Report</b> To receive a verbal update on market issues and events from the independent advisor.</p> <p><b>3. Analysis of Performance</b> Report to provide an update of the Fund's performance for the quarter period to 30 June 2018.</p> <p><b>3. Business Plan Update</b> To consider progress against the Committees approved business plan.</p> <p><b>4. Budget and Membership Statistics Update</b> Report to provide an update of the Fund's position for the quarter period to 30 June 2018.</p> <p><b>5. Employer Body Status Update</b> Report to provide an update on issues concerning employer bodies.</p> <p><b>6. Review of Pension Fund Risk Register</b> To review the risks within the fund and form an appropriate risk register for the fund.</p> <p><b>7. Annual Accounts and Investment Performance 2016/2017</b> To consider the accounts and investment performance for the year to 31 March 2018.</p> <p><b>8. Actuarial Update</b> To consider the Report of the Fund's Actuary Barnett Waddingham.</p> <p><b>9. Review of Administration Performance</b> To review the performance of Peninsula Pensions in delivering the administration service to employers and members.</p>	<p><b>AS</b></p> <p><b>AS</b></p> <p><b>AS</b></p> <p><b>AS</b></p> <p><b>AS</b></p> <p><b>CT</b></p> <p><b>AS</b></p> <p><b>AS</b></p> <p><b>BW</b></p> <p><b>CT</b></p>
21-Sep-18	<p><b><u>ANNUAL MEETING</u></b></p> <p><b>Annual Employers' Meeting of the Pension Fund at Dillington</b></p>	

## **Budget And Membership Statistics Update**

<i>Lead Officer:</i>	Kevin Nacey: Director of Finance and Performance
<i>Author:</i>	Anton Sweet: Funds and Investments Manager
<i>Contact Details:</i>	(01823) 359584 <a href="mailto:asweet@somerset.gov.uk">asweet@somerset.gov.uk</a>
<i>Cabinet Member:</i>	Not applicable
<i>Division and Local Member:</i>	Not applicable

### **1. Summary**

- 1.1 This report updates the committee on the position of the Pension Fund budget at 30th June 2017 and related matters. This is a standard item of committee business.

### **2. Issues for consideration**

- 2.1 The report is for information only unless the committee deems that action is necessary having reviewed the report.

### **3. Budget**

- 3.1 The outturn position for the first quarter of the financial year to 31st March 2018 against budget is shown in appendix A.

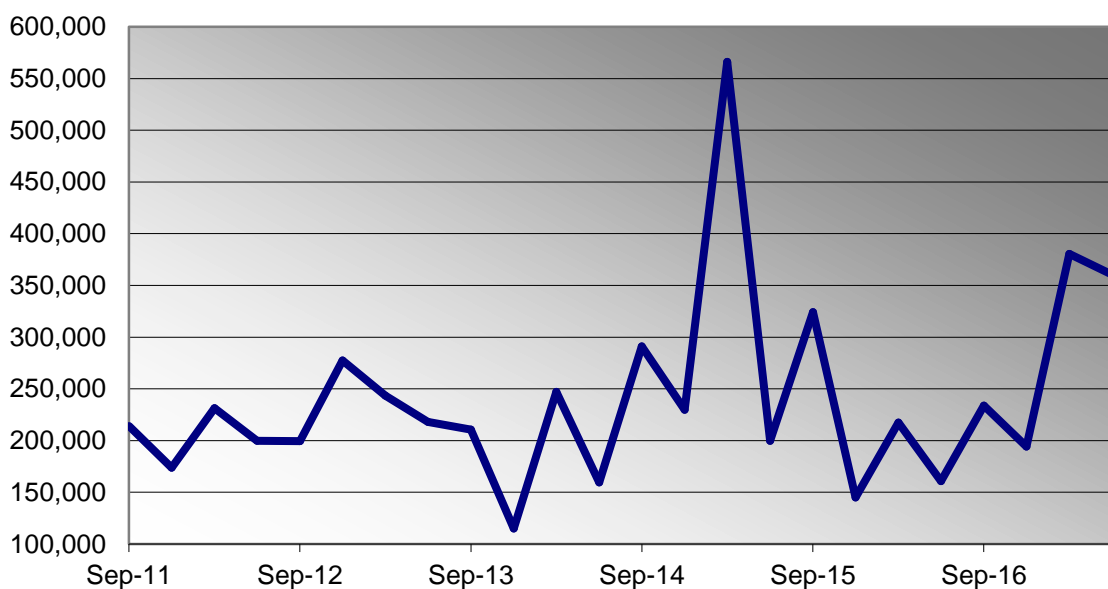
#### 4. Transaction costs

4.1 Transaction costs for the quarter were as follows:

Manager	Asset Class	Fund Size £m
In-House	Global equity	491.7
Standard Life	UK equity	456.8
In-House	US equity	99.8
Jupiter	European equity	129.1
M-BA	Pacific equity	60.4
Standard Life	Bonds	324.0

Manager	Asset Class	Purchases		Sales		Total £
		Commission £	Expenses £	Commission £	Expenses £	
In-House	Global equity	2,338	3,696	2,250	1,889	10,174
Standard Life	UK equity	37,196	184,380	36,026	63	257,666
In-House	US equity	595	0	661	66	1,322
Jupiter	European equity	6,197	69,948	4,419	0	80,563
M-BA	Pacific equity	4,709	391	3,111	2,396	10,607
Standard Life	Bonds	0	0	0	0	0
<b>Total</b>		<b>51,035</b>	<b>258,415</b>	<b>46,467</b>	<b>4,415</b>	<b>360,332</b>

### Total Transaction Costs

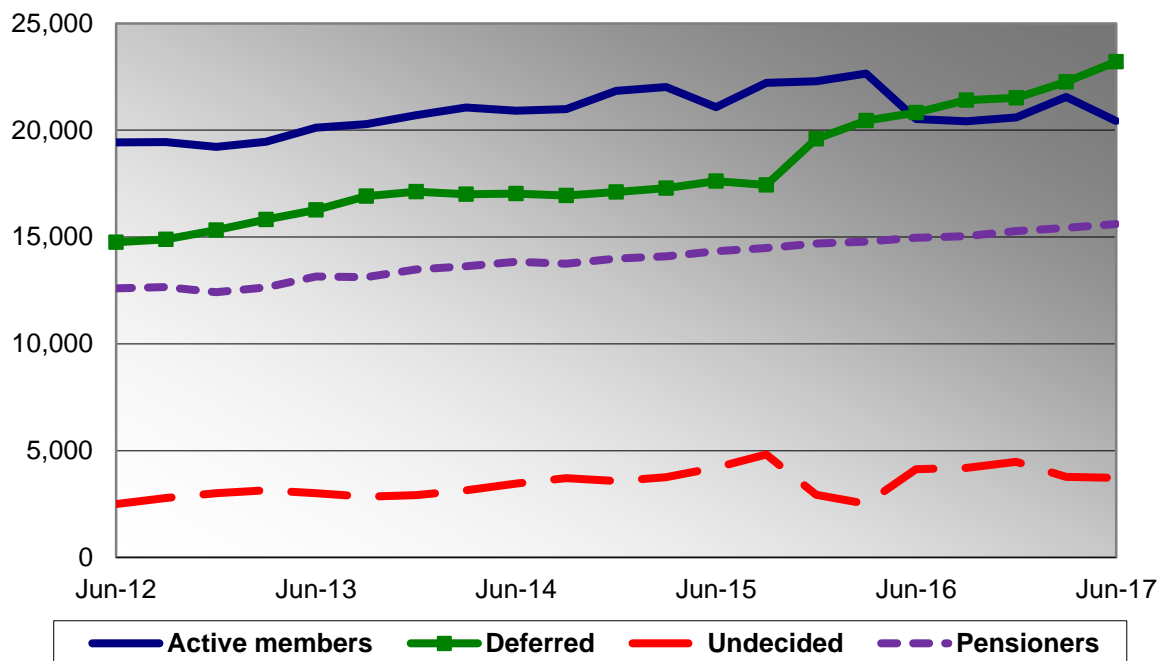


## 5. Membership Statistics

5.1 The change in membership statistics for the quarter is as follows:

	31 Mar	30 June	Change
Active members	21,550	20,433	-1,117
Deferred	22,268	23,198	+930
Undecided	3,778	3,730	-48
Pensioners	15,421	15,601	+180
<b>Total</b>	<b>63,017</b>	<b>62,962</b>	<b>-55</b>

5.2 The change in membership statistics for the last 5 years is shown in the graph below:



## 6. Background Papers

None

**Note** For sight of individual background papers please contact the report author.

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## Pension Fund Budget

2017-2018

	2016-2017 Full Year	April 2017 - June 2017			2017-2018 Full Year		
	Actual (a) £m	Budget (b) £m	Actual (c) £m	Variance (d) £m	Original Budget (e) £m	Projected Outturn (f) £m	Variance (g) £m
<b>Contributions and other income</b>							
Contributions	90.015	30.800	33.415	2.615	87.500	89.000	1.500
Recoveries from employers	2.851	0.375	0.414	0.039	1.500	1.500	0.000
Transfer values received	2.450	0.600	0.127	-0.473	2.500	2.500	0.000
	<b>95.316</b>	<b>31.775</b>	<b>33.956</b>	<b>2.181</b>	<b>91.500</b>	<b>93.000</b>	<b>1.500</b>
<b>Less benefits and other payments</b>							
Recurring pensions	-68.168	-17.100	-17.201	-0.101	-69.500	-69.500	0.000
Lump sum on retirement	-13.429	-3.750	-4.565	-0.815	-15.000	-17.500	-2.500
Lump sum on death	-1.568	-0.500	-0.397	0.103	-2.000	-2.000	0.000
Transfer values paid	-3.423	-1.125	-0.348	0.777	-4.500	-4.500	0.000
Contribution refunds	-0.401	-0.100	-0.056	0.044	-0.400	-0.400	0.000
	<b>-86.989</b>	<b>-22.575</b>	<b>-22.567</b>	<b>0.008</b>	<b>-91.400</b>	<b>-93.900</b>	<b>-2.500</b>
<b>Contributions after payments</b>	<b>8.327</b>	<b>9.200</b>	<b>11.389</b>	<b>2.189</b>	<b>0.100</b>	<b>-0.900</b>	<b>-1.000</b>
<b>Management Expenses</b>							
Administrative expenses	-1.157	-0.009	-0.084	-0.075	-1.200	-1.200	0.000
Investment management expenses	-4.964	-0.300	-0.552	-0.252	-5.500	-5.500	0.000
Oversight and governance expenses	-0.740	-0.200	-0.056	0.144	-1.200	-1.200	0.000
	<b>-6.861</b>	<b>-0.509</b>	<b>-0.692</b>	<b>-0.183</b>	<b>-7.900</b>	<b>-7.900</b>	<b>0.000</b>
<b>Investment Income</b>							
Investment income	52.166	13.500	14.855	1.355	45.000	45.000	0.000
<b>Net Increase / Decrease (-) in fund</b>	<b>53.632</b>	<b>22.191</b>	<b>25.552</b>	<b>3.361</b>	<b>37.200</b>	<b>36.200</b>	<b>-1.000</b>

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## Employer Body Update

<i>Lead Officer:</i>	Kevin Nacey: Director of Finance and Performance
<i>Author:</i>	Charlotte Thompson: Head of Peninsula Pensions
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<i>Cabinet Member:</i>	Not applicable
<i>Division and Local Member:</i>	Not applicable

### 1. Summary

- 1.1 This report provides an update for the Committee on the status of Employing Bodies within the Somerset Pension Fund.

### 2. Issues for consideration

- 2.1 Committee is asked to note the employer updates set out in section 3. It was decided at the June 2015 meeting that applications for admitted body status will not generally be brought to Committee for approval but that Committee will be informed of new employers joining the Fund.

### 3. Employer updates

- 3.1 Bucklersmead Academy have entered a contract with Leisure East Devon. A total of 4 staff transferred on 1st September 2017.
- 3.2 Lyngford Park School (SCC) are in the process of appointing Eco Clean to run a cleaning contract at the school. A total of 4 staff are due to transfer shortly.
- 3.3 Milborne Parish Council have passed a resolution for the Parish Clerk to be admitted into the LGPS.
- 3.4 The fund currently has the following numbers of employer with active members:
- 59 scheduled body employers made up of 33 scheduled body employers, 12 academy trusts and 14 stand alone academies
  - 28 resolution bodies
  - 36 admitted bodies (including those in this report)

**4. Consultations undertaken**

4.1 None.

**5. Financial Implications**

5.1 None. It is already a requirement that new admitted bodies should put in place a bond or guarantee.

**6. Background Papers**

6.1 None

**Note** For sight of individual background papers please contact the report author.

## Review of Pension Fund Risk Register

<i>Lead Officer:</i>	Kevin Nacey: Director of Finance and Performance
<i>Author:</i>	Anton Sweet: Funds and Investments Manager
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<i>Cabinet Member:</i>	Not applicable
<i>Division and Local Member:</i>	Not applicable

### 1. Summary

- 1.1 In response to CIPFA guidance recommending the adoption and monitoring of a risk register for LGPS funds the Pensions Committee have requested that a review of the risk register is a standing item on the agenda for each meeting.

### 2. Issues for consideration

- 2.1 To monitor the risks contained on the risk register and approve any amendments.

### 3. Changes since last meeting

- 3.1 There have been no changes to the risk register since the last meeting of the Committee.

### 4. Background

- 4.1 Risk management is central to the management of the Pension Fund as reflected by the coverage of risk in key documents such as the Funding Strategy Statement and the Statement of Investment Principals. The risk register allows for consideration of all of the fund's risks in a single document.
- 4.2 Guidance issued by CIPFA on the application of the Myner's Principles in the LGPS in 2010 indicated that the creation and adoption by Pensions Committees of a risk register was best practice.

- 4.3 Following on from CIPFA's guidance the Committee has indicated that it wishes to adopt a risk register. The Committee have agreed that rather than have a static register that is reviewed periodically that the register should be discussed at every meeting and changes agreed and implemented as necessary.
- 4.4 The current risk register is attached as appendix A and has been prepared using the Somerset County Council risk framework and scoring methodology

**5. Consultations undertaken**

None

**6. Financial Implications**

- 6.1 No direct implications

**7. Background Papers**

None

**Note** For sight of individual background papers please contact the report author.

Somerset County Council Pension Fund Risk Register - September 2017

1. Risk Ref No: 2. Senior Risk Owner:	Description of Risk	Control measures already in place	Current Risk Score (with known controls in place)		Combined score	Additional mitigating actions/control measures planned to achieve target score	Target Risk score		Additional Control measure owner	Target Date	commentary following review, inc. date	Additional Information and explanation
			L	I			L	I				
1. PF1 2. Anton Sweet	The pension fund has insufficient available cash to meet its immediate (next 6 months) liabilities.	Cash flow forecasting of TM function.  Monthly review of asset allocation and cash levels	2	4	8		2	4	8	on-going with quarterly review		
1. PF2 2. Pensions Committee	The pension fund has insufficient available assets to meet its long term liabilities.	Funding Strategy Statement  Investment Strategy Statement	3	5	15	The triennial valuation includes provision for restoring the fund to full funding over 25 years  The current risk score partly reflects that the fund was 77% funded at the last valuation. An improvement in the funding level will reduce the likelihood of the risk occurring at some point in the future	2	5	10	Review again at next Valuation - 2019		This risk encapsulates the purpose of the fund in trying to always have sufficient assets to meet uncertain future liabilities with a pool of assets with uncertain future investment performance.  There is also the need to balance the funding needs of the fund with the desire to keep contributions as low and constant as possible.
1. PF3 2. Stephen Morton	The insolvency of an employer places additional liabilities on the fund and ultimately the remaining employers.	Admission agreements  Guarantee bonds	3	3	9	Ensure the on-going suitability of the guarantees in place with a review after each formal valuation  Review of actuarial results to consider employer specific funding ratios and employer 'Hot Spots'	2	2	4	Stephen Morton  2017  Review again at next Valuation - 2016		Hot Spots' refers to employers whose benefits in payment exceed their contributions in a given period.  Review of employer positions and guarantee bonds planned for 2017
1. PF4 2. Kevin Nacey	Vulnerability to long-term staff sickness and staff turn-over, especially for higher graded posts.	None, other than experience of other staff within the sections	3	3	9		2	3	6	on-going with quarterly review	Updated to include positive impact of pooling September 2016	Shared service with Devon makes this less of an issue with respect to benefits administration staff. The move to pooling of investments should make the fund less reliant on a small number of internal officers

Somerset County Council Pension Fund Risk Register - September 2017

1. Risk Ref No: 2. Senior Risk Owner:	Description of Risk	Control measures already in place	Current Risk Score (with known controls in place)		Combined score	Additional mitigating actions/control measures planned to achieve target score	Target Risk score		combined score	Additional Control measure owner	Target Date	commentary following review, inc. date	Additional Information and explanation
			L	I			L	I					
1. PF5 2. Kevin Nacey	Reliance on bespoke IT, which is exacerbated by a lack of experience of these bespoke systems within SouthWest One IT support	As IT systems are refreshed or replaced build in support mechanisms	3	4	12		2	3	6		on-going with quarterly review		Shared service with Devon makes this less of an issue with respect to benefits administration IT
1. PF6 2. Pensions Committee	Risk of Regulatory change: - Implementation of change risks - Consequences of change risks	Continuous engagement with CLG and other interested stakeholders	4	4	16		2	3	6		on-going with quarterly review		The dictated change to pooling of investment arrangements and implementation of this presents a significant risk to the scheme.
1. PF7 2. Stephen Morton	Failure of Benefits Administration to perform their tasks, specifically leading to incorrect or untimely benefits payment.	Internal audit coverage  Annual report to committee with feedback from stakeholders  Internal procedures and checks	3	3	9		2	3	6		on-going with quarterly review		Long term the greater size of the shared service should see the likelihood of this risk reduce once the implementation phase is completed
1. PF8 2. Pensions Committee	Failure of Pensions Committee to manage the fund effectively	Policies and procedures adopted by pensions committee, specifically the committee training policy	3	4	12		2	4	8		on-going with quarterly review	Updated June 2017 to reflect turnover of Committee following County Council elections	
1. PF9 2. Anton Sweet	Insolvency of the fund's Global Custodian	Fund's assets held in client accounts not as assets of the custodian	2	4	8		2	4	8		on-going with quarterly		The designation of the fund's assets as client assets ensures that they cannot be appropriated by creditors of the Custodian bank in the case of that entity going into administration.

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Somerset County Council Pension Fund Risk Register - September 2017

1. Risk Ref No: 2. Senior Risk Owner:	Description of Risk	Control measures already in place	Current Risk Score (with known controls in place)		Combined score	Additional mitigating actions/control measures planned to achieve target score	Target Risk score		combined score	Additional Control measure owner	Target Date	commentary following review, inc. date	Additional Information and explanation
			L	I			L	I					
		Review of credit worthiness and inherent business risk of custodian at tender phase										quarterly review	As a result we should be able to recover substantially all of the assets of the fund held in custody but there would be considerable administrative and liquidity disruption

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## **Annual Accounts and Investment Performance**

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<i>Cabinet Member:</i>	Not applicable
<i>Division and Local Member:</i>	Not applicable

### **1. Summary**

- 1.1 This report is intended to give members an overview of the fund's accounts, the information within the accounts, the investment performance for the 2016-2017 financial year and related matters covered in the Fund's Annual Report.
- 1.2 The full annual report will appear on the SCC website following the formal adoption by the committee.

### **2. Issues for consideration**

- 2.1 The committee is asked to formally approve the Fund's annual report.

### 3. Copy of fund account

2015/2016		2016/2017		Notes
£ millions	£ millions	£ millions	£ millions	
		<b>Contributions and other income</b>		
20.651		Contributions from employees	20.892	1
62.302		Contributions from employers	69.123	1
1.387		Recoveries from member organisations	2.851	1
3.238		Transfer values received	2.450	2
<b>87.578</b>			<b>95.316</b>	
		<b>Less benefits and other payments</b>		
-64.395		Recurring pensions	-68.168	1
-12.323		Lump sum on retirement	-13.429	1
-2.070		Lump sum on death	-1.568	1
-4.755		Transfer values paid	-3.423	2
-0.418		Refund of contributions to leavers	-0.401	3
<b>-83.961</b>			<b>-86.989</b>	
	<b>3.617</b>	<b>Net additions from dealings with members</b>		<b>8.327</b>
		<b>Management Expenses</b>		
-1.305		Administrative expenses	-1.157	4
-4.302		Investment management expenses	-4.964	5
-0.650		Oversight and governance expenses	-0.740	6
<b>-6.257</b>	<b>-6.257</b>		<b>-6.861</b>	<b>-6.861</b>
		<b>Investment income</b>		
40.947		Investment income received	48.677	7
4.603		Investment income accrued	4.364	7
-0.756		Less irrecoverable tax	-0.884	
0.000		Other income (such as commission)	0.009	
<b>44.794</b>			<b>52.166</b>	
		<b>Change in market value of investments</b>		
26.168		Realised profit or loss	55.640	10
-65.516		Unrealised profit or loss	262.909	10
<b>-39.348</b>			<b>318.549</b>	
	<b>5.446</b>	<b>Net return on investments</b>		<b>370.715</b>
	<b>2.806</b>	<b>Net increase in the net assets available for benefits during the year</b>		<b>372.181</b>
		<b>Change in actuarial present value of promised retirement benefits</b>		
75.629		Vested benefits	-773.469	11
21.444		Non-vested benefits	-29.076	11
	<b>97.073</b>	<b>Net change in present value of promised benefits</b>		<b>-802.545</b>
	<b>99.879</b>	<b>Net increase/(decrease) in the fund during the year</b>		<b>-430.364</b>
-1,433.985		Add net liabilities at beginning of year	-1,334.106	
<b>-1,334.106</b>		<b>Net liabilities at end of year</b>		<b>-1,764.470</b>

## **4. Accounts analysis**

### **4.1 Contributions**

Overall contributions from employers and employees increased by 7.8% to £90.0m. Contributions from employees rose by a relatively modest 1.2%, which is consistent with the level of increase for the previous year. Employer contributions increased by 10.9%. The employer normal contributions increased by less than the employee contributions at 0.4% over the previous year. Deficit funding increased by 32.4% as further steps in the fixed deficit recovery amounts certified by the actuary came into force.

### **4.2 Recurring Pensions**

Payments of pension to members increased by 5.9% to £68.2m. Pensioner numbers were higher during the year but broadly in line with the increase in payments so the average pension value only increased marginally by 0.4% to £4,514. Pensions in payment increased by 0.0% for inflation effective from 1<sup>st</sup> April 2016 as a result of a negative CPI figure for September 2015.

### **4.3 Net Additions from dealings with members**

The cash flow from contributions over payments has improved from an inflow of £3.6m to an inflow of £8.3m. The ramping up of the deficit recovery lump sums paid by employers has led to the fund being cash flow positive again.

### **4.4 Administrative expenses**

Administrative expense fell by 11% to £1.2m. The fall is due to the development costs of moving the pension payroll across to Peninsula Pensions not recurring and the removal of costs for this service from SCC. It is anticipated that there will be further savings in 2017-18 as the SCC charge reduces to a negligible level. The administration cost per member fell by 16% to £18.75.

### **4.5 Investment Expenses**

Investment expense increased by 15.4% compared to the 2015-2016 figure to £5.0m. The 26.4% increase in fund managers' fees compares to an 11.8% increase in average funds. The most significant factor in the increase in fund managers' fees was a rise in the amount of performance fees paid to fund managers. The ratio of investment expenses per £ of the average net investment assets during the year has risen by 3.3% to 0.28p.

#### 4.6 Oversight and governance expenses

Oversight and Governance costs increased by 13.8% during the year to £0.7m. The most notable increase in costs were the 53% increase in net actuarial fees, although this is to be expected in a valuation year, and the nearly 5 times increase in pooling costs.

#### 4.5 Total Expenses

Total expenses for the fund increased by 9.7% to £6.9m. This represents a 4.2% increase in the total cost per member to £111.20 and an 1.9% fall in the total expenses per pound of assets to 0.39p

#### 4.6 Investment Income

Investment income (dividends and bond interest received) for the year decreased by 16.4% to £53.0m. The yield on average net investment assets increased from 2.9% to 3.0%.

#### 4.7 Actuarial present value of promised retirement benefits

The pension liability shown in the balance sheet increased by 27.4% to £3.7bn. The liability net of assets increased by 32.3%.

#### 4.8 Membership statistics

Total membership increased by 4.4%. Active members decreased by 4.9% during the year and the number of deferred members increased 8.9%. The number of pensioners increased by 4.3% during the year. The ratio of active members for each pensioner has fallen to 1.40.

### **5. Investment Performance**

5.1 Investment performance for the financial year was 22.7%. Performance for the year was ahead of the fund's scheme specific benchmark of 22.2%. The majority of the outperformance was due to good performance by our fund managers, particularly Standard Life, Maple-Brown Abbott and Neuberger Berman, this effect was reduced by the underperformance of Jupiter. Asset allocation was slightly negative for the year mostly due to being underweight emerging markets and overweight cash through most of the year..

5.2 Looking at longer periods the three year return at 11.6% p.a. is strong but 0.1%p.a..

5.3 The fund's 5 year return is 11.3% p.a., and the 10 year return is 5.9%p.a..

### **6. Consultations undertaken**

None

## **7. Financial Implications**

- 7.1 Over time the performance of the pension fund investments will impact the amount that the County Council and other sponsoring employers have to pay into the fund to meet their liabilities. The fund actuary calculates these amounts every three years and sets payments for the intervening periods. The next assessment is due in late 2016 using data from March 2016.

## **8. Background Papers**

Somerset County Council Pension Fund Annual Report and Financial Statements 2016/17

**Note** For sight of individual background papers please contact the report author.

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## **Review of Administration Performance**

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<i>Cabinet Member:</i>	Not applicable
<i>Division and Local Member:</i>	Not applicable

### **1. Background**

- 1.1 In February 2014 the shared service began in earnest when staff moved into one main office, using one database with staff learning new skills and many took on new roles.
- 1.2 The LGPS changed on 1 April 2014 and brought with it its own challenges, not helped with the late regulation changes which impacted on the development of the pension database.
- 1.3 Our main service standard is to complete 90% of work within 10 working days once all necessary information has been received. This is monitored every month through our task management system which is an in-house performance tool within our pension database.
- 1.4 We also participate in the CIPFA Benchmarking Club which provides a yearly comparison of performance with other LGPS administration services. Approximately 50 LGPS Funds take part each year.

### **2. Issues for consideration**

- 2.1 The Committee note the report and actions being undertaken by officers to ensure compliance and best practice.

### **3. Administration team performance**

- 3.1 As a whole the Team for 2016/17 issued 76% of work within target. For this financial year to date the team has issued 65% in target. The backlog of outstanding work has decreased by 10% since April 2017.
- 3.2 Performance for the Somerset fund has followed a similar trend with percentage in target reducing from 73% (April 16 – January 17) to 66% since February. The outstanding backlog has reduced over the same period by approximately 29%.

#### 4. CIPFA Benchmarking

- 4.1 Data is collected annually in various areas including membership analysis, Employer analysis, quotations and charges, costs and administration performance.
- 4.2 This enables informed comparisons to be made of the net cost per member, payroll cost per pensioner, number of members per admin FTE and also highlights differences of approach.
- 4.3 In December 2016 we received the draft report for 2015/16 year. The key performance indicator that we obtain from this report is the cost per member. This year it has come out at £16.37 compared to the average of £18.55. We are currently waiting for the 2016/17 report.
- 4.4 Our CIPFA performance results for 2016/17 have much improved compared to 2015/16 as the table below shows.

Process	Target	Our achievement 2015/16	Our achievement 2016/17
Transfer in	10 days	76.0%	93.4%
Transfer out	10 days	83.3%	93.4%
Letter notifying <b>actual</b> retirement benefits	5 days	86.4%	98.4%
Letter notifying <b>estimated</b> retirement benefits	10 days	93.0%	93.8%
Letter acknowledging death	5 days	100%	100%
Refunds	5 days	93.2%	97.0%
Letter notifying dependants benefits	5 days	82.0%	95.3%
Deferred	10 days	39.1%	82.4%

#### 5. Financial Implications

- 5.1 Additional team resource approved in Autumn 2015 has been extended until 31st March 2018. Three vacancies have arisen in the team since end of May which we have now had approval to fill.
- 5.2 A new Benefits Manager was appointed following the early retirement of the previous post holder. Natalie Taylor joins the team with over 20 years experience with Friends Life where she was a senior manager. New workflow tools have been introduced along with focusing the teams efforts initially on getting all priority work up to date. All outstanding priority work is now within 10 days old.



5.3 The Performance review is underway which is looking at a number of key areas, resource levels and efficiency of processes. This is a very comprehensive review which is being undertaken with the assistance of Business Analysts.

## **6. Background Papers**

6.1 None

**Note** For sight of individual background papers please contact the report author.

## Annexe A

### Summary of completed work April 2016 to January 2017

	Within Target	Over Target	Total	Success Rate
<b>Priority Procedures</b>	1865	1091	2956	63%
<b>Non-Priority Procedures</b>	7507	3801	11308	66%
<b>Priority</b>				
	Within Target	Over Target	Total	Success Rate
Death	190	100	290	66%
Employer Estimates	255	67	322	79%
Priority General	896	577	1473	61%
LGPS Retirements	291	250	541	54%
Deferred Benefit retirements	233	97	330	71%
	<b>1865</b>	<b>1091</b>	<b>2956</b>	<b>63%</b>
<b>Non-Priority</b>				
	Within Target	Over Target	Total	Success Rate
Amalgamation of records	218	176	394	55%
Additional Voluntary Contribution calculations	442	62	504	88%
Deferred Benefit calculations (including recalculations)	882	1772	2654	33%
Divorce calculations	117	30	147	80%
Frozen Refunds	272	229	501	54%
Non Priority General work	4124	876	5000	82%
Payroll	804	27	831	97%
Actual Refunds	84	17	101	97%
Retirement estimates (includes member and other estimates)	460	356	816	56%
Starters	31	4	35	89%
Transfer Values In	22	129	151	15%
Transfer Values Out	51	123	174	29%
	<b>7507</b>	<b>3801</b>	<b>11308</b>	<b>66%</b>

## Outstanding Work

### Priority

	Total	Reply due	Outstanding
Death	1	0	1
Employer Estimates	0	0	0
Priority General post	4	3	1
Deferred Benefit retirements	3	1	2
LGPS Retirements	16	4	12
	24	8	16

### Non Priority

	Total	Reply due	Outstanding
Additional Voluntary Contribution calculations	145	15	130
Amalgamation of records	1505	177	1328
Deferred Benefit calculations(including recalculations)	576	20	556
Divorce calculations	0	0	0
Non Priority General post	312	133	179
Payroll adjustments	4	2	2
Actual Refunds	0	0	0
Frozen Refunds	345	41	304
Retirement estimates (includes member and other estimates)	148	23	125
New Starters	0	0	0
Transfer Values In	206	48	158
Transfer Values Out	183	38	145
	3424	497	2927

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

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<i>Cabinet Member:</i>	Not applicable
<i>Division and Local Member:</i>	Not applicable

### 1. Summary

- 1.1 This report outlines the impact of the implementation of the Markets in Financial Instrument Directive 2014/65 (“MiFID II”) and in particular the risk to the administering authority of becoming a retail client on 3<sup>rd</sup> January 2018 and recommends that the committee agree that elections for professional client status should be made on behalf of the authority immediately.
- 1.2 By opting up to professional client status the authority will waive the right to certain protections. However, in choosing to opt up we are in effect choosing not to gain these protections as we are currently classified as a professional client under the outgoing rules.

### 2. Issues for consideration

- 2.1 Committee notes the potential impact on investment strategy of becoming a retail client with effect from 3rd January 2018.
- 2.2 Committee agrees to the immediate commencement of applications for elected professional client status with all relevant institutions in order to ensure it can continue to implement an effective investment strategy.
- 2.3 In electing for professional client status, the committee acknowledges and agrees to forgo the protections available to retail clients attached as Appendix A.
- 2.4 Committee agrees to approve delegated responsibility to the Funds and Investments Manager for the purposes of completing the applications and determining the basis of the application as either full or single service.

### **3. Background**

- 3.1 Under the current UK regime, local authorities are automatically categorised as 'per se professional' clients in respect of non-MiFID scope business and are categorised as 'per se professional' clients for MiFID scope business if they satisfy the MiFID Large Undertakings test. Local authorities that do not satisfy the Large Undertakings test may opt up to elective professional client status if they fulfil certain 'opt-up criteria'.
- 3.2 Following the introduction of the Markets in Financial Instrument Directive 2014/65 ("MiFID II") from 3 January 2018, firms will no longer be able to categorise a local public authority or a municipality that (in either case) does not manage public debt ("local authority") as a 'per se professional client' or elective eligible counterparty (ECP) for both MiFID and non-MiFID scope business. Instead, all local authorities must be classified as "retail clients" unless they are opted up by firms to an 'elective professional client' status.
- 3.3 Furthermore, the FCA has exercised its discretion to adopt gold-plated opt-up criteria for the purposes of the quantitative opt-up criteria, which local authority clients must satisfy in order for firms to reclassify them as an elective professional client.
- 3.4 A move to retail client status would mean that all financial services firms like banks, brokers, advisers and fund managers will have to treat local authorities the same way they do non-professional individuals and small businesses. That includes a raft of protections ensuring that investment products are suitable for the customer's needs, and that all the risks and features have been fully explained. This provides a higher standard of protection for the client but it also involves lots more work and potential cost for both the firm and the client, for the purpose of proving to the regulator that all such requirements have been met.
- 3.5 Such protections would come at the price of local authorities not being able to access the wide range of assets needed to implement an effective, diversified investment strategy. Retail status would significantly restrict the range of financial institutions and instruments available to authorities. Many institutions currently servicing the LGPS are not authorised to deal with retail clients and may not wish to undergo the required changes to resources and permissions in order to do so.
- 3.6 Even if the institution secures the ability to deal with retail clients, the range of instruments it can make available to the client will be limited to those defined under Financial Conduct Authority (FCA) rules as 'non-complex' which would exclude many of the asset classes currently included in LGPS fund portfolios. In many cases managers will no longer be able to even discuss ('promote') certain asset classes and vehicles with the authority as a retail client.

- 3.7 MiFID II allows for retail clients which meet certain conditions to elect to be treated as professional clients (to 'opt up'). There are two tests which must be met by the client when being assessed by the financial institution: the quantitative and the qualitative test.
- 3.8 The Local Government Pension Scheme Advisory Board (SAB) and the Local Government Association (LGA) along with the Department of Communities and Local Government (DCLG) and the Investment Association (IA) have successfully lobbied the FCA to make the test better fitted to the unique situation of local authorities. The new tests recognise the status of LGPS administering authorities as providing a 'pass' for the quantitative test while the qualitative test can now be performed on the authority as a collective rather than an individual.
- 3.9 The election to professional status must be completed with all financial institutions prior to the change of status on 3rd January 2018. Failure to do so by local authorities would result in the financial institution having to take 'appropriate action' which could include a termination of the relationship at a significant financial risk to the authority. The SAB and the LGA have worked with industry representative bodies including the IA, the British Venture Capital Association (BVCA) and others to develop a standard opt-up process with letter and information templates. This process should enable a consistent approach to assessment and prevent authorities from having to submit a variety of information in different formats.
- 4.0 Applications can be made in respect of either all of the services offered by the institution (even if not already being accessed) or a particular service only. A local authority may wish to do the latter where the institution offers a wide range of complex instruments which the authority does not currently use and there is no intention to use the institution again once the current relationship has come to an end, for example, if the next procurement is achieved via the LGPS pool. It is recommended that officers determine the most appropriate basis of the application, either via full or single service.
- 4.1 Authorities are not required to renew elections on a regular basis but will be required to review the information provided in the opt-up process and notify all institutions of any changes in circumstances which could affect their status, for example, if the membership of the committee changed significantly resulting in a loss of experience, changes in the named officers in the opt up documentation or if the relationship with the authority's investment advisor was terminated.

#### **4. Consultations undertaken**

None

**5. Financial Implications**

- 5.1 Should the Fund not be able to access a full range of financial services it could significantly impair the operation of the investments of the Fund and financial returns on investments.

**6. Background Papers**

None

**Note** For sight of individual background papers please contact the report author.



## **Warnings - loss of protections as a Professional Client**

Professional Clients are entitled to fewer protections under the UK and EU regulatory regimes than is otherwise the case for Retail Clients. This document contains, for information purposes only, a summary of the protections that you will lose if you request and agree to be treated as a Professional Client.

### **1. Communicating with clients, including financial promotions**

As a Professional Client the simplicity and frequency in which the firm communicates with you may be different to the way in which they would communicate with a Retail Client. They will ensure however that our communication remains fair, clear and not misleading.

### **2. Information about the firm, its services and remuneration**

The type of information that the firm provides to Retail Clients about itself, its services and its products and how it is remunerated differs to what the firm provides to Professional Clients. In particular,

- A. The firm is obliged to provide information on these areas to all clients but the granularity, medium and timing of such provision may be less specific for clients that are not Retail Clients; and
- B. there are particular restrictions on the remuneration structure for staff providing services to Retail Clients which may not be applicable in respect of staff providing services to Professional Clients;
- C. the information which the firm provides in relation to costs and charges for its services and/or products may not be as comprehensive for Professional Clients as it would be for Retail Clients, for example, they are required when offering packaged products and services to provide additional information to Retail Clients on the risks and components making up that package; and
- D. when handling orders on behalf of Retail Clients, the firm has an obligation to inform them about any material difficulties in carrying out the orders; this obligation may not apply in respect of Professional Clients.

### **3. Suitability**

In the course of providing advice or in the course of providing discretionary management services, when assessing suitability for Professional Clients, the firm is entitled to assume that in relation to the products, transactions and services for which you have been so classified, that you have the necessary level of experience and knowledge to understand the risks involved in the management of your investments. The firm will assess this information separately for Retail Clients and would be required to provide Retail Clients with a suitability report.

#### **4. Appropriateness**

For transactions where the firm does not provide you with investment advice or discretionary management services (such as an execution-only trade), it may be required to assess whether the transaction is appropriate. In respect of a Retail Client, there is a specified test for ascertaining whether the client has the requisite investment knowledge and experience to understand the risks associated with the relevant transaction. However, in respect of a Professional Client, the firm is entitled to assume that they have the necessary level of experience, knowledge and expertise to understand the risks involved in a transaction in products and services for which they are classified as a Professional Client.

#### **5. Dealing**

A range of factors may be considered for Professional Clients in order to achieve best execution (price is an important factor but the relative importance of other different factors, such as speed, costs and fees may vary). In contrast, when undertaking transactions for Retail Clients, the total consideration, representing the price of the financial instrument and the costs relating to execution, must be the overriding factor in any execution.

#### **6. Reporting information to clients**

For transactions where the firm does not provide discretionary management services (such as an execution-only transactions), the timeframe for our providing confirmation that an order has been carried out is more rigorous for Retail Clients' orders than Professional Clients' orders.

#### **7. Client reporting**

Investment firms that hold a retail client account that includes positions in leveraged financial instruments or contingent liability transactions shall inform the Retail Client, where the initial value of each instrument depreciates by 10% and thereafter at multiples of 10%. These reports do not have to be produced for Professional Clients.

#### **8. Financial Ombudsman Service**

The services of the Financial Ombudsman Service may not be available to you as a Professional Client.

#### **9. Investor compensation**

Eligibility for compensation from the Financial Services Compensation Scheme is not contingent on your categorisation but on how your organisation is constituted. Hence, depending on how you are constituted you may not have access to the Financial Services Compensation Scheme.

## **10. Exclusion of liability**

The FCA rules restrict the firm's ability to exclude or restrict any duty of liability which the firm owes to Retail Clients more strictly than in respect of Professional Clients.

## **11. Trading obligation**

In respect of shares admitted to trading on a regulated market or traded on a trading venue, the firm may, in relation to the investments of Retail Clients, only arrange for such trades to be carried out on a regulated market, a multilateral trading facility, a systematic internaliser or a third-country trading venue. This is a restriction which may not apply in respect of trading carried out for Professional Clients.

## **12. Transfer of financial collateral arrangements**

As a Professional Client, the firm may conclude title transfer financial collateral arrangements with you for the purpose of securing or covering your present or future, actual or contingent or prospective obligations, which would not be possible for Retail Clients.

## **13. Client money**

The requirements under the client money rules in the FCA Handbook (CASS) are more prescriptive and provide more protection in respect of Retail Clients than in respect of Professional Clients.

It should be noted that at all times you will have the right to request a different client categorisation and that you will be responsible for keeping the firm informed of any change that could affect your categorisation as a Professional Client.

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## **Policies and Statements**

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*Cabinet Member:* Not applicable

*Division and Local Member:* Not applicable

### **1. Summary**

- 1.1 The pension fund is required to maintain a significant number of policies and statements in accordance with the LGPS regulations. Due to changes in regulations and SCC standing orders it is necessary to refresh the Pension Fund's scheme of delegation.

### **2. Issues for consideration**

- 2.1 The committee is asked to formally adopt the new Scheme of Delegation which is attached as Appendix A, with or without amendment and the committee's discretion.

### **3. Background**

- 3.1 The Pensions Committee Scheme of Delegation was bought in to put in place formal standard delegations from the Committee to officers to allow for the sensible day to day running of the Fund.
- 3.2 With the impending implementation of MIFID II officers believe that it is sensible to add further clarity to the scheme of delegation to aid any applications for professional client status.

### **4. Consultations undertaken**

- 4.1 None

### **5. Financial Implications**

- 5.1 Over time the performance of the pension fund investments will impact the amount that the County Council and other sponsoring employers have to pay into the fund to meet their liabilities. The fund actuary calculates these amounts every three years and sets payments for the intervening periods.

## **6. Background Papers**

None

**Note** For sight of individual background papers please contact the report author.

## **Pensions Committee Scheme of Delegation**

### **Introduction**

In order to meet its obligations from time to time the Pensions Committee will find it necessary to delegate certain functions to officers. This document provides a clear framework around standard operating functions as to what decisions and operations have been delegated to officers and what has been retained by the Committee.

All references in this document to the Chief Financial Officer means the most senior finance officer and appointed Section 151 Officer of Somerset County Council, it does not refer to a job title for that individual. Where committee delegates tasks to the Chief Financial Officer they are then free to assign tasks to other officers at their discretion.

In practice the majority of tasks relating to benefits administration are delegated to Peninsula Pensions, a shared administration team with Devon County Council, and the majority of investment decisions are delegated to the internal Investments team.

When delegating the Chief Financial Officer must ensure that the officers undertaking the delegated tasks have sufficient knowledge and experience to undertake those tasks.

This scheme of delegation will refer in turn to each of the main responsibilities of the Committee as laid out in the Committee's terms of reference.

Ensure the fund is run in line with all relevant law, statutory guidance and industry codes of best practice.

The Chief Financial Officer is responsible for ensuring the legal operation of the fund and will bring matters of significance to the attention of the Committee.

The Chief Financial Officer will make arrangements for the completion of all necessary regulatory documents, statistical returns, tax documents and other documents as appropriate.

Ensure all contributions due are collected from employers.

The Chief Financial Officer will maintain procedures to ensure relevant employers pay contributions and that these contributions meet the requirements set by the fund's actuary.

Where relevant the Chief Financial Officer will decide if interest should be levied for late payment as permitted by the regulations.

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Ensure that all benefits due are paid correctly and in a timely manner.

The Chief Financial Officer will maintain procedures to ensure the correct calculation and payment of benefits by the fund.

Decide the aims of the investment policy.

Committee agree the aims of the investment policy and publish this in the form of the funding strategy statement and investment strategy statement having regard to advice provided by officers and advisors as appropriate.

As part of agreeing the strategy the Committee will agree the Fund's strategic asset allocation and the investment mandates necessary to deliver the strategy. The Chief Financial Officer will make all necessary arrangements for the implementation of the agreed strategy.

The Committee will decide the fund's voting, engagement and socially responsible investment policies. The Chief Financial Officer will make arrangements for the implementation, monitoring and any necessary reporting against the agreed policies.

Make arrangements for managing the fund's investments.

The strategic asset allocation of the fund is set by the Committee. Once agreed by Committee the Chief Financial Officer is responsible for the implementation of the strategy and monitoring of the investment assets against the strategic asset allocation and periodically rebalancing of the fund to optimise the balancing of risk and return. All investment decisions regarding the precise timing and amounts of rebalancing are delegated to the Chief Financial Officer and there are no restrictions placed on this discretion. The Chief Financial Officer will report on all actions in this regard to the Committee at each formal meeting.

The Committee will advise the Chief Financial Officer of their preferences when appointing external fund managers, under County Council contract standing orders all contracts must be awarded and managed by officers. The Committee will advise the Chief Financial Officer if they wish a fund manager's contract to be terminated.

The Chief Financial Officer is responsible for the appointment of a global custodian for the fund, the management of this contract and any related investment decisions.

Where the Committee decide that assets will be managed in-house the Chief Financial Officer will make suitable arrangements for these assets in accordance with any guidelines provided by Committee. All investment decisions with respect to in-house managed funds are taken by officers.

The Chief Financial Officer is responsible for the day to day monitoring and recording of the investment assets.

Regularly monitor investment performance.

The Chief Financial Officer will put in place procedures for the calculation and monitoring of investment performance.

The Chief Financial Officer will review the performance of all fund managers and the fund as a whole monthly and officers will meet with external fund managers regularly, typically quarterly, to discuss performance.

The Committee will review the performance of all fund managers and the fund as a whole quarterly. The Committee will meet with external fund managers periodically at their discretion to discuss performance.

Make arrangements to publish the fund's annual report and accounts.

The Chief Financial Officer will make arrangements for the production and audit of the fund's annual report and accounts. The Committee will adopt the completed annual report.

Consult stakeholders, and publish the funding strategy statement, investment strategy statement and other policies and documents as necessary.

The Chief Financial Officer will make arrangements for the drafting of all policies and statements and undertake consultations as applicable. The Committee will be responsible for approving all policies and statements after receiving feedback from any consultations undertaken and advice from officers and advisors as appropriate.

Order actuarial valuations to be carried out in line with the Local Government Pension Scheme Regulations.

The Chief Financial Officer will appoint a suitable actuary for the fund and undertake all necessary tasks and discussions with the actuary in order to allow the actuary to complete the valuation.

The Committee will meet with the actuary at least annually to receive an update.

Consider requests from organisations who want to join the fund as admitted bodies and consider any requests to change the terms of an existing admission agreement.

The Chief Financial Officer will make all necessary arrangements for the consideration of requests for admitted body status and changes to any existing admission agreements including the negotiation and signing of the necessary admission agreements.

The Committee will receive an update at each formal meeting of all activity in this regard.

Make representations to the Government about any planned changes to the Local Government Pension Scheme and all aspects of managing benefits.

The Committee will instruct the Chief Financial Officer on what it wishes to be included in any representations, which they will then draft and send accordingly.

**Approved by the Pensions Committee  
Somerset County Council Pension Fund  
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