

**Pensions Committee**  
**Friday 8 December 2017**  
**10.00 am Wyndham Room - County Hall,**  
**Taunton**



To: The Members of the Pensions Committee

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

Issued By Julian Gale, Strategic Manager - Governance and Risk - 30 November 2017

For further information about the meeting, please contact Mike Bryant 01823 359048 or 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 - 10.00 am Friday 8 December 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** (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 - 14)

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 15 - 32)

To consider this report from the Funds & Investments Manager.

8 **Business Plan Update** (Pages 33 - 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 - 10.00 am Friday 8 December 2017

12 **Voting and Engagement Report** (Pages 57 - 60)

To consider this report from the Funds & Investments Manager.

13 **Policies and Statements** (Pages 61 - 68)

To consider this report from the Funds & Investments Manager.

14 **Exclusion of press and public**

**To consider passing a resolution under Section 12A of the Local Government Act, 1972 that the press and public be excluded from the remainder of the meeting on the basis that if they were present during the business to be transacted there would be a likelihood of disclosure to them of exempt information of the following description:**

The amount of any expenditure proposed to be incurred by the authority under any particular contract for the acquisition of property or the supply of goods or services.

15 **Confidential item - Paper I (Attached for Committee Members Only) Report Formal Review of Fund Managers**

To consider this report from the Funds & Investment Manager.

16 **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 Thursday 21 September 2017 at 2.00pm.

### Present

Cllr G Noel (Chairman)

Cllr S Coles

Cllr G Frascini

Cllr J Hunt

Mr G Bryant

Mrs S Payne

Mr M Simmonds

**Apologies:** Mr R Parrish

**Other Members present:** None

**Officers present:** Stephen Morton – Strategic Manager, Finance Technical, Anton Sweet – Funds & Investment Manager and Charlotte Thompson - Peninsula Pensions.

**Advisors present:** Caroline Burton (Independent Investment Advisor), Melanie Stephenson & Louise Lau (Barnett Waddingham)

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

2.0 Mrs Payne declared a personal interest as investments she held were managed by Jupiter Asset Management.

Mr Simmonds, Mrs Payne and Mr Bryant declared personal interests as members of the Local Government Pensions Scheme.

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

3.0 The minutes of the meeting held on 9 June 2017 were received and approved as an accurate record.

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

4.0 Mr Reimers asked a question regarding litigation and the effects of climate change. The Funds & Investment Manager responded verbally and assured Mr Reimers that he would also receive a written response.

### 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 a 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 executive and non-executive directors, and on-going work to complete the appointment of an investment administrator.

5.2 The report was accepted.

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

6.1 The Committee's Independent Advisor Caroline Burton provided a verbal overview of the financial situation in the United Kingdom (UK) and Overseas.

6.2 Members briefly discussed the points raised during the overview, including: possible changes to interest rates; investments in emerging markets; the impact of gold taxation in India; and the financial implications of Brexit.

6.3 The Independent Advisors update was accepted.

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

7.0 The Committee considered this report on the performance of the pension fund investments for the quarter ended 30 June 2017 and related matters.

7.1 The committee discussed: the performance of each of the fund managers with particular reference to progress towards their three-year targets; and noted that the current projection of the smoothed funding level for the Fund at 30 June 2017 stood at 85.7%.

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 Funds & Investments Manager informed the Committee of the need to reconsider the investment strategy to ensure best fit with the Brunel offer, and that this needed to be finalised by March.

8.2 The Committee discussed: the formation of the Brunel funds; potential benefits if incumbent fund managers were reappointed; and taxation implications of transfers between funds.



8.3 The Committee agreed to accept the report.

## **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 30 June 2017; and the outturn position for the first quarter of the year to 31<sup>st</sup> March 2018.

9.1 The Funds and Investments Manager highlighted: transaction costs were slightly higher than normal. He also highlighted there had been a drop-off of active members as a result of the long term trend of councils to reduce workforces, but this had been in part balanced by auto enrolment until now. Finally it was noted that the first quarter budget was in line with expectations.

9.2 There was brief discussion of the report, and the information it contained, including: implications of a continued fall in active membership; and the increased transaction costs as a result the centralisation of the Probation Service in March 2015.

9.3 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 181 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 36 admitted bodies.

10.2 There was a brief discussion regarding autoenrolment and the fact that elected Members cannot join the pension fund and are not provided with an auto enrolment alternative. The Committee were reminded that the elected Members were office holders as opposed to employees.

10.3 The Committee agreed to accept the report.

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

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

11.2 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 that the transfer to Brunel would be addressed as a separate risk.

11.3 The report was accepted.

## **12 Annual Accounts and Investment Performance – agenda item 12**

12.0 The Committee considered this report that provided an overview of the Fund's accounts, information within the accounts and the investment performance of the 2016-17 financial year and related matters.

12.1 The Committee considered the detailed report and discussed a range of topics including: the increased investment expenses and rise in the performance fees paid to fund managers; the increase in total membership, alongside the decrease in active and deferred members; and the difference between investment income and investment performance.

12.2 The Committee agreed to approve the Fund's Annual Report and Financial Statements.

## **13 Review of Administration Performance – agenda item 13**

13.0 The Committee considered this report from the Head of Peninsula Pensions detailing a review of the Administration's performance. The Committee were informed of: on-going work on priority cases; that the percentage of non-priority work had remained static; the work of the specialist amalgamation team; and restructuring of Peninsula staff.

13.1 The Committee noted improved performance, with particular reference to 76% of all work being completed within target; and that the backlog of work had reduced by 10% since April 2017.

13.1 The report was accepted.

## **14 Report of the Actuary – agenda item 14**

14.1 The Committee considered a report circulated and a presentation from Barnett Washington that provided Members with an Actuarial Funding Update.

14.2 The presentation covered:

- A reminder of the position at the last formal valuation;
- An update on events since the last formal valuation;
- An indication of the current position of the Fund;
- Risks going forward/update on the LGPS and other Pensions issues.

14.3 The Committee thanked the Actuary's representatives for their informative presentation.

**15 Implications of MIFID 11 – agenda item 15**

- 15.1 The Committee considered this report which outlined the impact of the implementation of the Markets in Financial Instrument Directive 2014/15 with particular reference to the administering authority becoming a retail client on 3<sup>rd</sup> January 2018, recommending that the Committee agree that election for professional client status should be made on behalf of the authority immediately.
- 15.2 The committee discussed the loss of protection as a Professional Client, and the potential implications for the authority.
- 15.3 The Committee approved the following:
- Committee notes the potential impact on investment strategy of becoming a retail client with effect from 3<sup>rd</sup> January 2018.
  - 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.
  - In electing for professional client status, the committee acknowledges and agrees to forgo the protections available to retail clients attached as Appendix A.
  - 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.

**16 Policies and Statements – agenda item 16**

- 16.1 The Committee considered this report which outlined changes to regulations and SCC standing orders which require a refresh of the Pension Fund's scheme of delegation.
- 16.2 The Committee considered the new Scheme of Delegation which was attached as Appendix A and unanimously agreed that it should be adopted without amendment.

**17 Any other business of urgency – agenda item 17**

- 17.1 There was no other business.

(The meeting ended at 16.23)

**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. Progress in Brunel company set-up**

- 3.1 BPP moved into their offices at 101 Victoria Street Bristol on 9<sup>th</sup> October.
- 3.2 State Street Bank and Trust Company have been appointed as the administrator/custodian by BPP. One of the 10 partner funds has transitioned their custody assets to State Street and a second tranche of transfers are due in December.
- 3.3 BPP have agreed contracts for IT (TSG), HR support (Wiltshire Council) and external Audit (Grant Thornton). A number of other contracts, including contracts for building the IT system for the Internal Control Environment and internal audit are being worked on.
- 3.4 Recruitment continues with 9 members of staff recruited from the client funds and 4 external appointments. 13 appointments remain to be made to complete the staffing structure.
- 3.5 The process for obtaining FCA regulation is continuing.

3.6 Subject to successful FCA regulatory approval BPP remain on track to meet the Government's target of starting to manage client Fund's assets from spring 2018.

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

4.1 Both the Pensions Committee and the Pensions Board have been consulted regularly as part of the project process of reaching this point

4.2 An overview briefing on the project was provided to the Fund's Employers meeting in September 2016.

4.3 The Full Somerset County Council meeting received a paper on the pooling at its meeting on 30<sup>th</sup> November 2016.

#### **5. Financial Implications**

5.1 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.

5.2 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.

#### **6. Background Papers**

6.1 None

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

## 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 September 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 September 2017

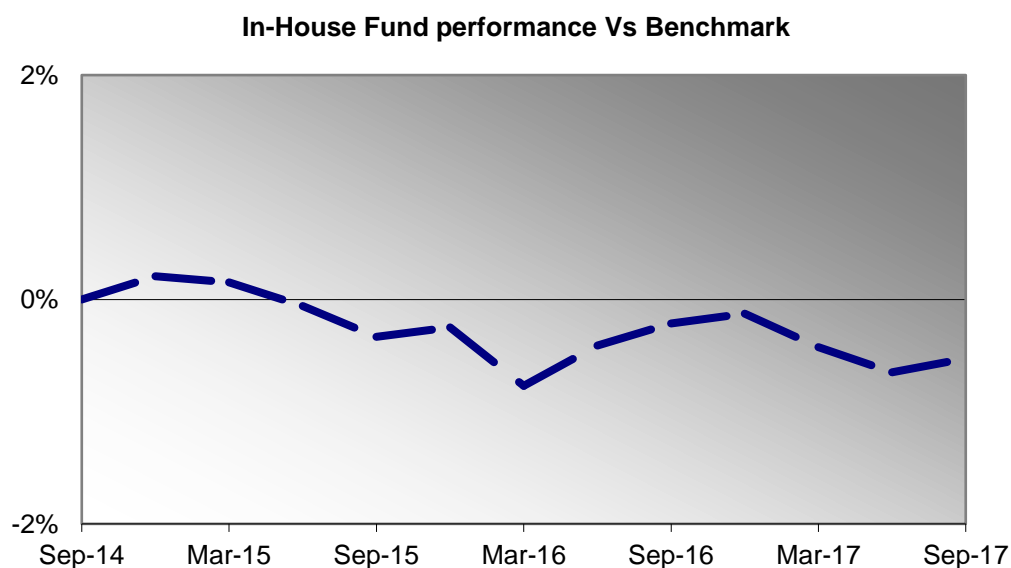
1. Somerset County Council (Global Equity)

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

Quarter to 30 Sept 2017			
Value as at 30 Sept £m		Fund for quarter %	Performance Benchmark for quarter %  Relative to Benchmark %
496.2	Global equities	1.7	1.7  <b>+0.0</b>
2.3	Cash		
<b>498.5</b>	<b>Total</b>	<b>1.7</b>	<b>1.7</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 positive.



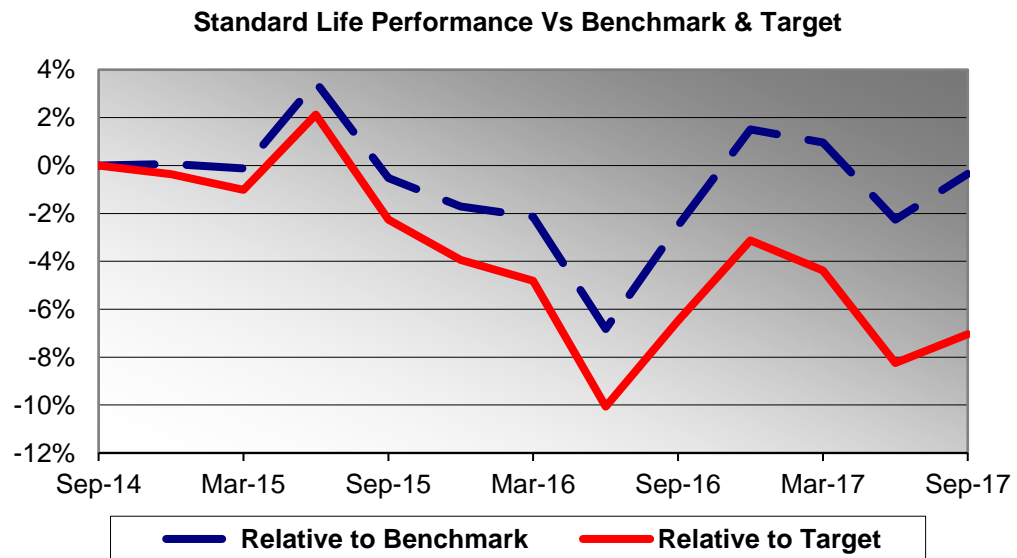
2. Standard Life (UK Equities)

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

Quarter to 30 Sept 2017				
Value as at 30 Sept £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
457.1	UK	3.8	2.1	+1.7
17.0	Cash			
474.1	Total	3.7	2.1	+1.6

2.2 Standard Life had a good quarter relative to their benchmark. Absolute returns were strongly positive. Overweight positions in mining and travel, were responsible for the outperformance.

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.



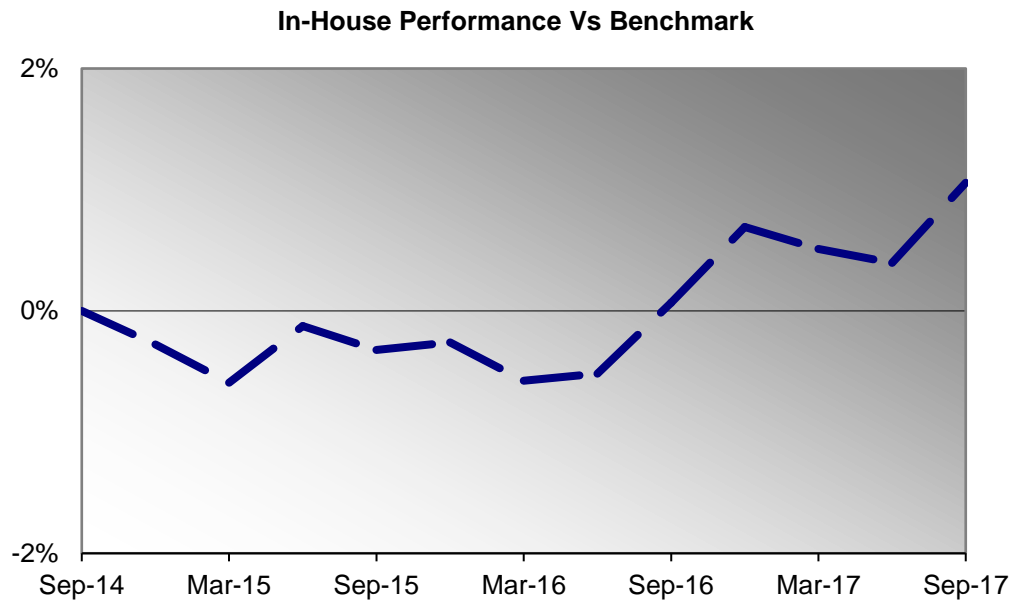
3. Somerset County Council (North American Equities)

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

Quarter to 30 Sept 2017				
Value as at 30 Sept £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
100.4	North America	1.6	1.2	+0.4
0.2	Cash			
100.6	Total	1.5	1.2	+0.3

3.2 The in-house fund's performance was slightly ahead of the benchmark for the quarter.

3.3 Absolute levels of performance during the quarter were positive.



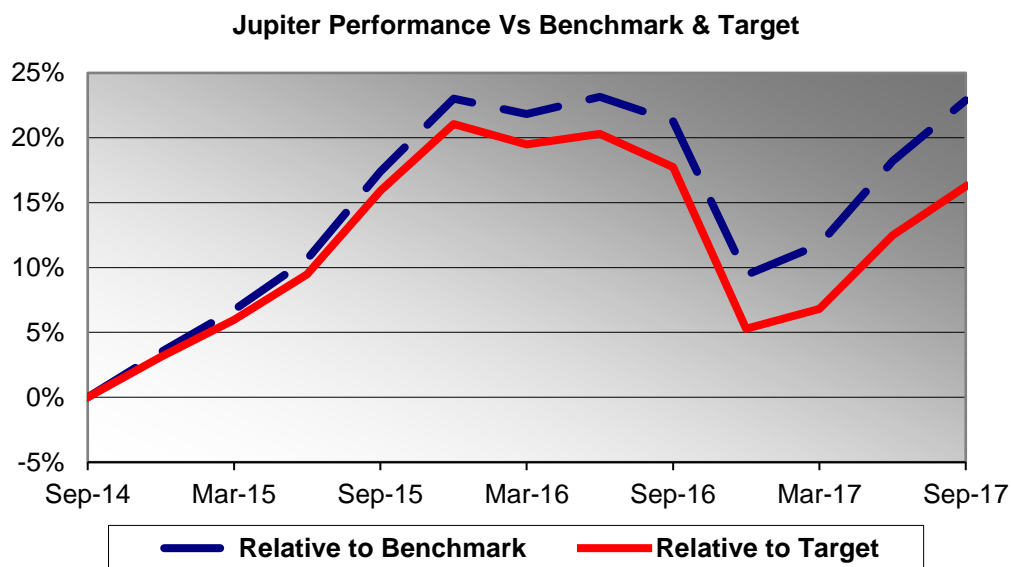
4. Jupiter (Continental European Equities)

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

Quarter to 30 Sept 2017				
Value as at 30 Sept £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
134.6	Europe	6.2	3.6	+2.6
2.5	Cash			
137.1	<b>Total</b>	<b>6.0</b>	<b>3.6</b>	<b>+2.4</b>

4.2 Jupiter had a good quarter relative to the benchmark, with outperformance of 2.4%. 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.



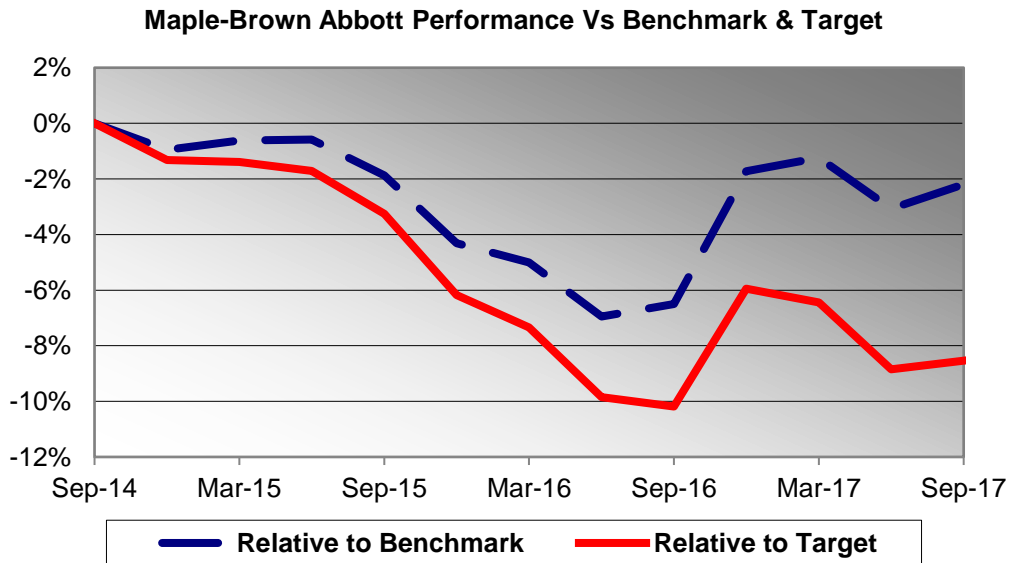
5. Maple-Brown Abbott (Far-East Equities ex-Japan)

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

Quarter to 30 Sept 2017				
Value as at 30 Sept £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
59.0	Pacific (ex Japan)	1.1	0.4	+0.7
2.2	Cash			
61.2	Total	1.1	0.4	+0.7

5.2 Maple-Brown Abbott had a poor quarter relative to their benchmark. Absolute returns were positive. A significant part of the outperformance was from the off benchmark holdings in India and China.

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.



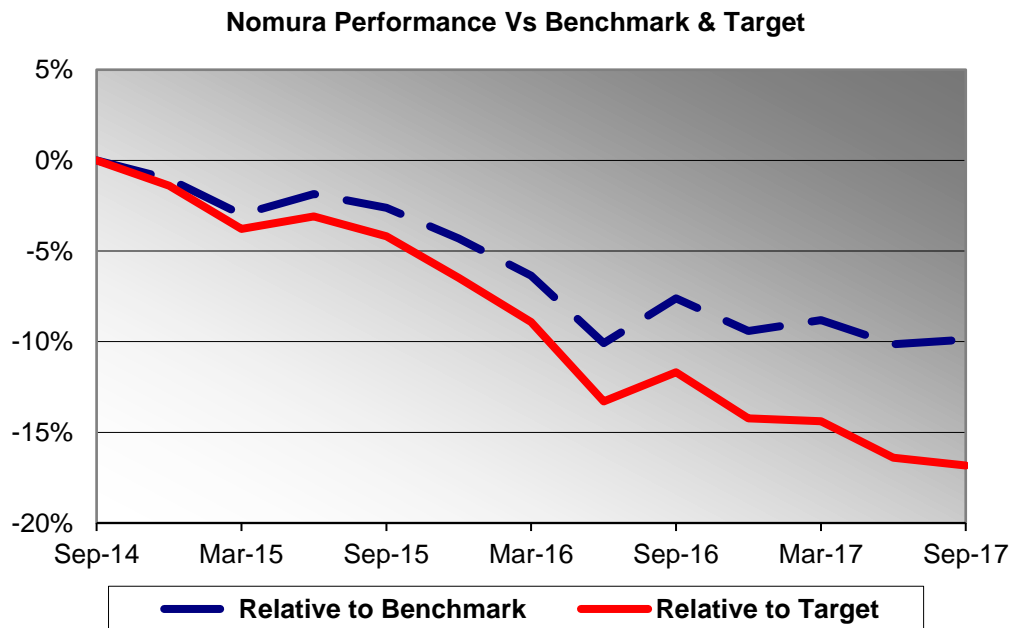
6. Nomura (Japanese Equity)

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

Quarter to 30 Sept 2017			
Value as at 30 Sept £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
62.2 Japan	1.5	1.2	+0.3

6.2 Absolute performance was positive. Relative performance was good. Outperformance was largely due to overweight allocation to the strongly performing non-ferrous metals sector and underweight to foods.

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.



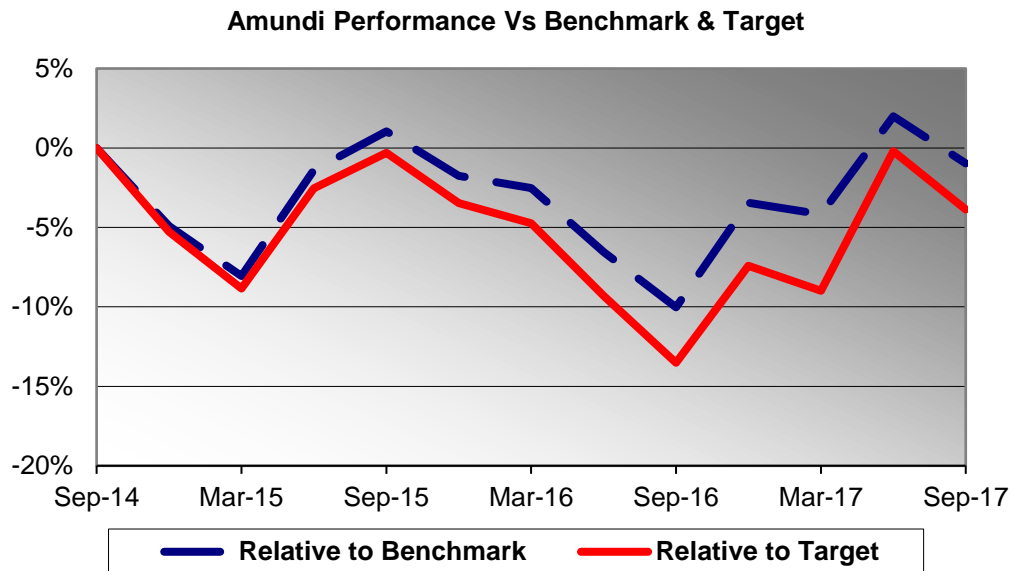
7. Amundi (Emerging Market Equity)

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

Quarter to 30 Sept 2017			
Value as at 30 Sept £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
95.3 Emerging Market	2.2	4.5	-2.3

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

7.3 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 September 2017 is summarised in the following table:

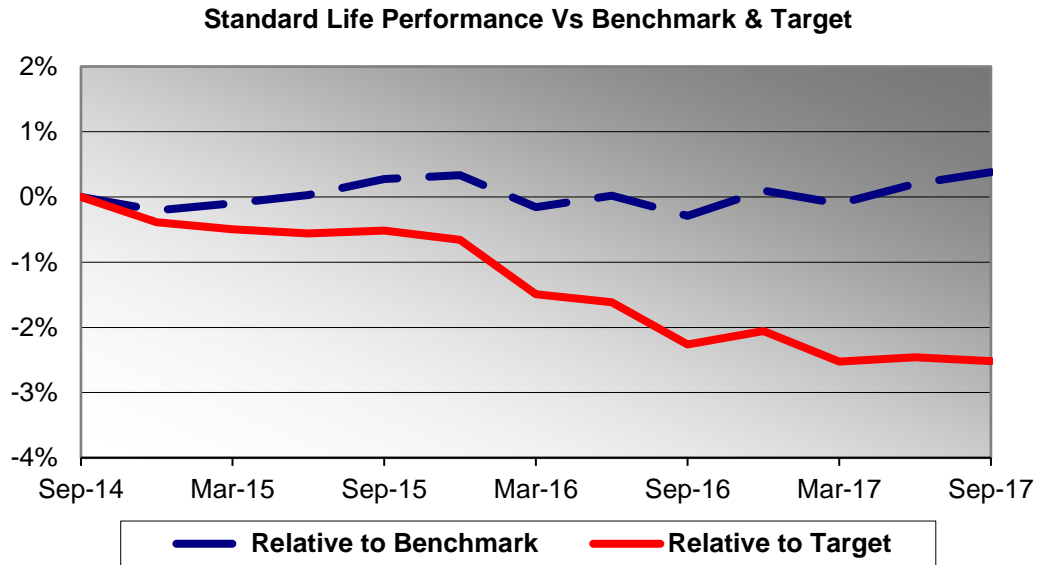
<b>Quarter to 30 Sept 2017</b>				
<b>Value as at 30 Sept £m</b>		<b>Fund for quarter %</b>	<b>Performance Benchmark for quarter %</b>	<b>Relative to Benchmark %</b>
38.1	<b>UK Gilts</b>	-0.5	-0.5	+0.0
68.6	<b>Index Linked</b>	-0.3	-0.7	+0.4
158.9	<b>Corporate Bonds</b>	0.6	0.0	+0.6
37.5	<b>High Yield Debt</b>	-1.2	1.9	-3.3
-1.3	<b>Foreign Gov't Bonds</b>			
1.1	<b>F Gov't Index Linked</b>			
	<b>Currency</b>			
1.3	<b>Instruments</b>			
21.4	<b>Cash</b>			
<b>325.6</b>	<b>Total</b>	<b>0.2</b>	<b>0.0</b>	<b>+0.2</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.



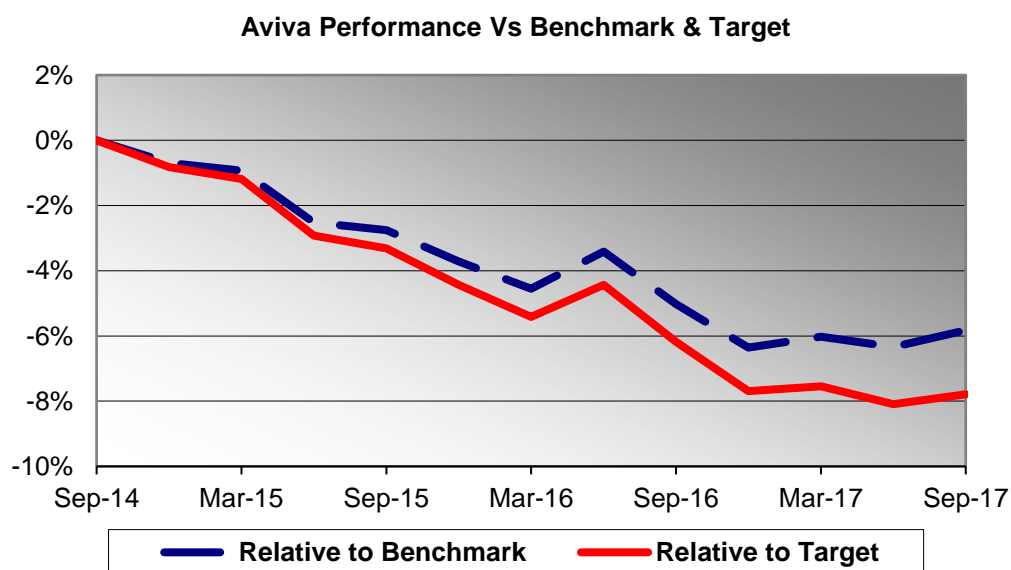
9. Aviva (Property Fund of Funds)

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

Quarter to 30 Sept 2017				
Value as at 30 Sept £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
187.0	UK Property	2.9	2.4	+0.5
1.9	European Property	15.8		
	Currency Instruments			
0.0				
6.7	Cash			
195.6	<b>Total</b>	<b>2.9</b>	<b>2.4</b>	<b>+0.5</b>

9.2 Property returns from the UK market were positive for the quarter. The fund outperformed relative to the benchmark due to the strong performance in the base UK portfolio.

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 September 2017 is summarised in the following table:

<b>Quarter to 30 Sept 2017</b>				
<b>Value as at 30 Sept £m</b>		<b>Fund for quarter %</b>	<b>Performance Benchmark for quarter %</b>	<b>Relative to Benchmark %</b>
<b>33.2</b>	<b>Private Equity</b>	<b>-1.2</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 9.3%.

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 2.1%.

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 2.2%.

10.6 The Crossroads XXII fund had its first drawdown in the last week of September.

11. South West Ventures Fund

11.1 The fund continues to make reasonable progress.

12. Combined Fund

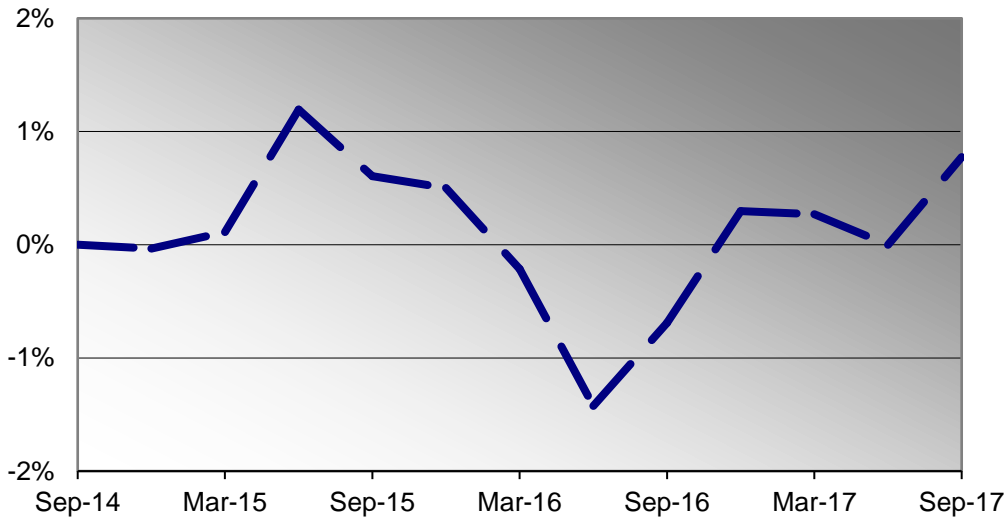
12.1 The performance for the quarter to 30th September 2017 is summarised in the following table:

<b>Quarter to 30 Sept 2017</b>				
<b>Value as at 30 Sept £m</b>		<b>Fund for quarter %</b>	<b>Performance Benchmark for quarter %</b>	<b>Relative to Benchmark %</b>
498.5	In-House (Global Eq)	1.7	1.7	+0.0
474.1	Standard Life (UK Eq)	3.7	2.1	+1.6
100.6	In-House (US Eq)	1.5	1.2	+0.3
137.1	Jupiter	6.0	3.6	+2.4
61.2	Maple-Brown Abbott	1.1	0.4	+0.7
62.2	Nomura	1.5	1.2	+0.3
95.3	Amundi	2.2	4.5	-2.3
325.6	Standard Life (FI)	0.2	0.0	+0.2
195.6	Aviva	2.9	2.4	+0.5
1.8	SWRVF	0.0	0.1	-0.1
33.2	Neuberger Berman	-1.2	0.1	-1.3
0.3	Brunel	0.0	0.0	+0.0
52.1	Cash	0.1	0.1	+0.0
<b>2,037.6</b>	<b>Whole Fund</b>	<b>2.2</b>	<b>1.6</b>	<b>+0.6</b>

12.2 The fund as a whole outperformed its benchmark during the quarter. The level of absolute return was positive. Jupiter, Maple-Brown Abbott, Aviva and Standard Life for the UK equity mandate produced performance ahead of their target for the quarter.

12.3 All of the outperformance was due to the stock selection of the managers within the fund, asset allocation between the various fund managers marginally positive.

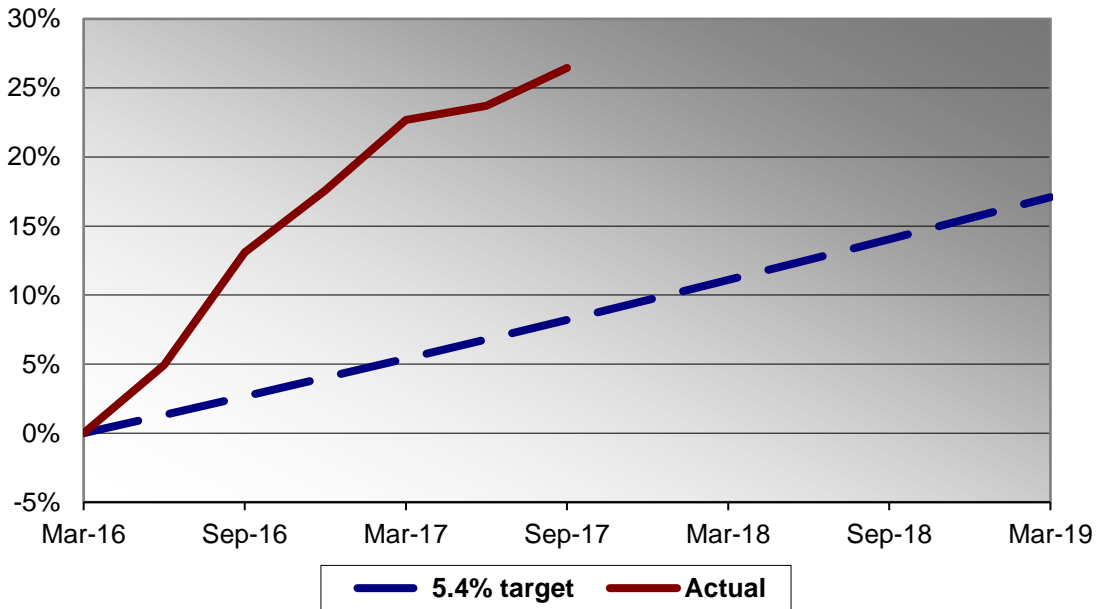
**Whole Fund Performance Vs Benchmark**



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.

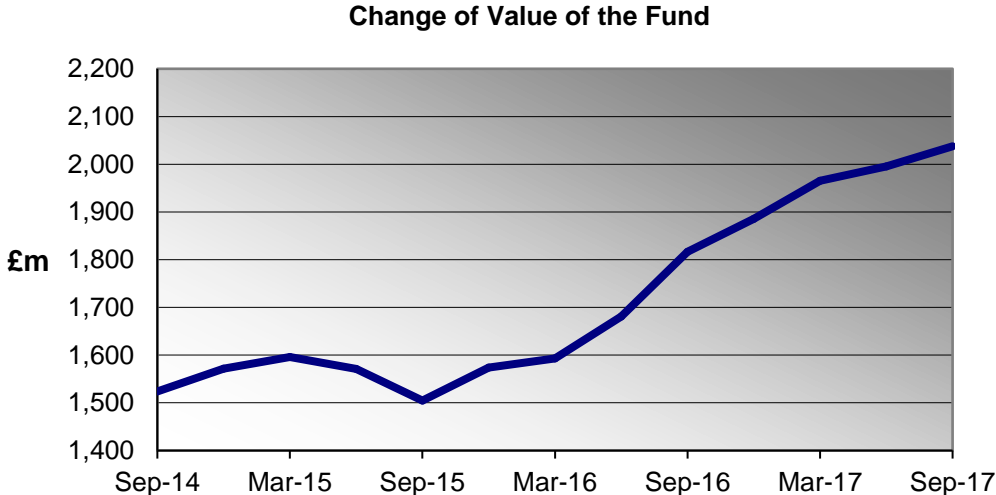
	Value as at 30 June		Value as at 30 Sept		Strategic
	£m	%	£m	%	Weighting
<b>In-House (Global Eq)</b>	<b>491.7</b>	25	<b>498.5</b>	24	<b>23</b>
<b>Standard Life (UK Eq)</b>	<b>456.8</b>	23	<b>474.1</b>	23	<b>23</b>
<b>In-House (US Eq)</b>	<b>99.8</b>	5	<b>100.6</b>	5	<b>5</b>
<b>Jupiter</b>	<b>129.1</b>	6	<b>137.1</b>	7	<b>5</b>
<b>M-BA (Pac Eq)</b>	<b>60.4</b>	3	<b>61.2</b>	3	<b>3</b>
<b>Nomura</b>	<b>61.3</b>	3	<b>62.2</b>	3	<b>3</b>
<b>Amundi</b>	<b>93.1</b>	5	<b>95.3</b>	5	<b>5</b>
<b>Standard Life (FI)</b>	<b>324.0</b>	16	<b>325.6</b>	16	<b>19</b>
<b>Aviva</b>	<b>190.9</b>	10	<b>195.6</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>31.4</b>	1	<b>33.2</b>	2	<b>3</b>
<b>Brunel</b>	<b>0.0</b>	0	<b>0.3</b>	0	<b>0</b>
<b>Cash</b>	<b>55.1</b>	3	<b>52.1</b>	2	<b>1</b>
<b>Whole Fund</b>	<b>1,995.4</b>	100	<b>2,037.6</b>	100	<b>100</b>

12.6

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

- £1.3m was withdrawn from the in-house global equity fund during the quarter. Broadly this represents dividend income on this fund during the quarter.
- £0.7m was withdrawn from the in-house US equity fund during the quarter. Broadly this represents dividend income on this fund during the quarter.
- £0.3m Of capital investment was provided to Brunel.
- £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 September 2017 is 87.1% and the average required employer contribution would be 22.1% 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 September 2017 is 5.4% 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**

*Lead Officer:* Kevin Nacey: Director of Finance and Performance

*Author:* Anton Sweet: Funds and Investments Manager

*Contact Details:* (01823) 359584  
[asweet@somerset.gov.uk](mailto:asweet@somerset.gov.uk)

*Cabinet Member:* Not applicable

*Division and Local Member:* 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 The report aimed at asset allocation and mapping our investment strategy to the portfolios that Brunel will offer has been postponed as Brunel has currently not provided us with sufficient information to allow Committee to come to informed decisions. It is anticipated that the paper will be held over to the March 2108 meeting.

#### **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 2017 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
1 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-approrve 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	Spring 2018		
	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	Summer 2019	Unknown	

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**SOMERSET COUNTY COUNCIL PENSION FUND****PENSIONS COMMITTEE****MEETING WORKPLAN 2018 - 2019**

<b>Date</b>	<b>Proposed Items of Business</b>	<b>Lead Officer</b>
<b>TBC</b>	<b>INFORMAL MEETING</b>  <b>1. Asset Allocation and Brunel Portfolio Offering</b>	

## SOMERSET COUNTY COUNCIL PENSION FUND

## PENSIONS COMMITTEE

## MEETING WORKPLAN 2018 - 2019

Date	Proposed Items of Business	Lead Officer
02-Mar-18	<p><b>FORMAL MEETING</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</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>10. Review of Investment Fund Structure</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>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> <p><b>AS</b></p>

## SOMERSET COUNTY COUNCIL PENSION FUND

## PENSIONS COMMITTEE

## MEETING WORKPLAN 2018 - 2019

Date	Proposed Items of Business	Lead Officer
08-Jun-18	<p><b>FORMAL MEETING</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</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 2018 - 2019

Date	Proposed Items of Business	Lead Officer
20-Sep-18	<p><b>FORMAL MEETING</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</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</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>ANNUAL MEETING</b></p> <p><b>Annual Employers' Meeting of the Pension Fund at Dillington</b></p>	



## SOMERSET COUNTY COUNCIL PENSION FUND

## PENSIONS COMMITTEE

## MEETING WORKPLAN 2018 - 2019

Date	Proposed Items of Business	Lead Officer
07-Dec-18	<p><b>FORMAL MEETING</b></p> <p><b>1. Independent Advisor's Report</b> To receive a verbal update on market issues and events from the independent</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</b> To consider the existing structure of the investment fund, whether it is still suitable and to prepare for the transition of assets into a pool</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>

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## **Budget And Membership Statistics Update**

*Lead Officer:* Kevin Nacey: Director of Finance and Performance

*Author:* Anton Sweet: Funds and Investments Manager

*Contact Details:* (01823) 359584  
[asweet@somerset.gov.uk](mailto:asweet@somerset.gov.uk)

*Cabinet Member:* Not applicable

*Division and Local Member:* Not applicable

### **1. Summary**

1.1 This report updates the committee on the position of the Pension Fund budget at 30th September 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 second quarter of the financial year to 31st March 2018 against budget is shown in appendix A.

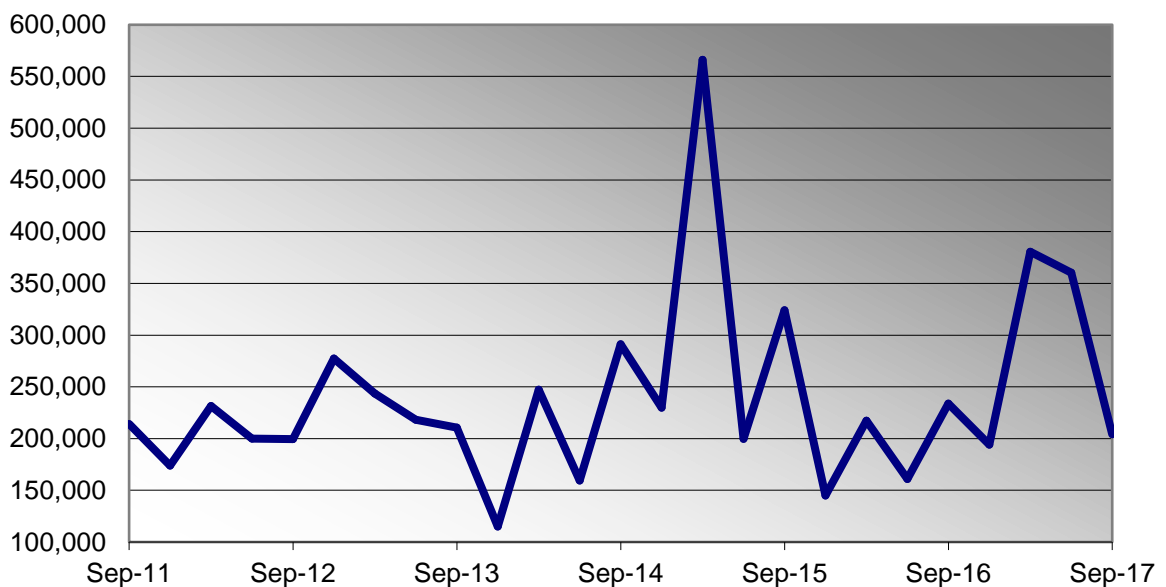
#### 4. Transaction costs

4.1 Transaction costs for the quarter were as follows:

Manager	Asset Class	Fund Size £m
In-House	Global equity	498.5
Standard Life	UK equity	474.1
In-House	US equity	100.6
Jupiter	European equity	137.1
M-BA	Pacific equity	61.2
Standard Life	Bonds	325.6

Manager	Asset Class	Purchases		Sales		Total £
		Commission £	Expenses £	Commission £	Expenses £	
In-House	Global equity	2,097	4,481	2,259	2,377	11,213
Standard Life	UK equity	26,478	103,344	40,069	61	169,952
In-House	US equity	395	0	758	70	1,223
Jupiter	European equity	1,249	4,973	1,827	0	8,049
M-BA	Pacific equity	5,581	0	5,639	2,439	13,659
Standard Life	Bonds	0	0	0	0	0
<b>Total</b>		<b>35,799</b>	<b>112,798</b>	<b>50,552</b>	<b>4,946</b>	<b>204,096</b>

### Total Transaction Costs

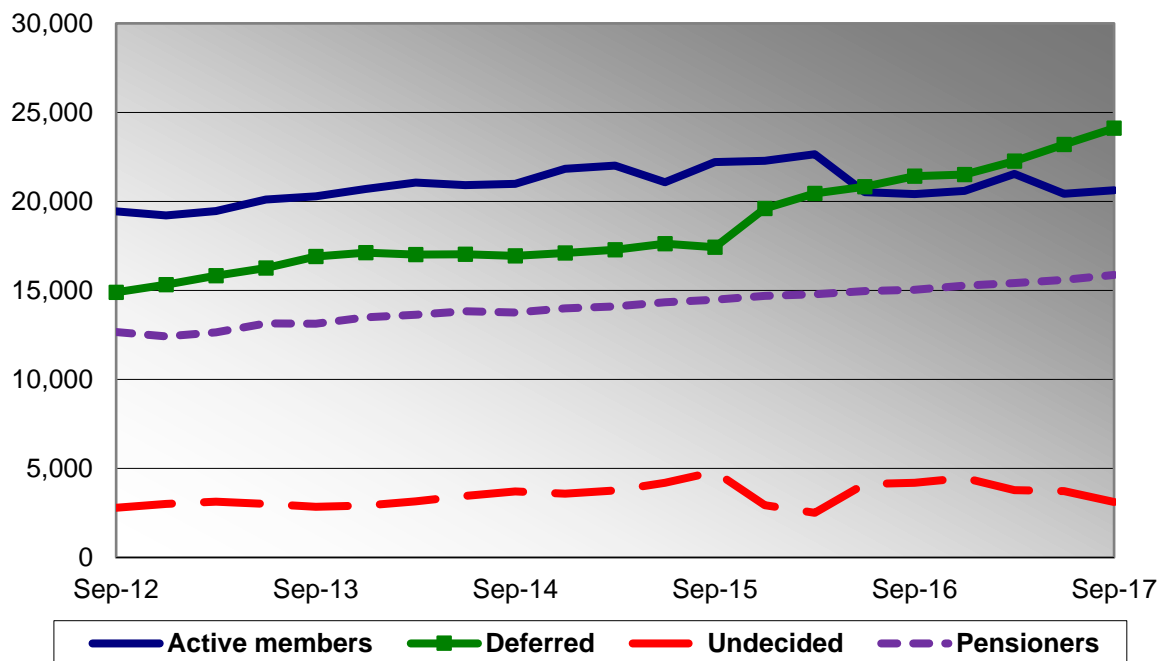


## 5. Membership Statistics

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

	30 June	30 Sept	Change
Active members	20,433	20,624	+191
Deferred	23,198	24,108	+910
Undecided	3,730	3,117	-613
Pensioners	15,601	15,870	+269
<b>Total</b>	<b>62,962</b>	<b>63,719</b>	<b>+757</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 - September 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	50.000	55.759	5.759	87.500	89.000	1.500
Recoveries from employers	2.851	0.750	0.740	-0.010	1.500	1.500	0.000
Transfer values received	2.450	1.200	1.885	0.685	2.500	2.500	0.000
	<b>95.316</b>	<b>51.950</b>	<b>58.384</b>	<b>6.434</b>	<b>91.500</b>	<b>93.000</b>	<b>1.500</b>
<b>Less benefits and other payments</b>							
Recurring pensions	-68.168	-34.300	-34.752	-0.452	-69.500	-69.500	0.000
Lump sum on retirement	-13.429	-7.500	-10.263	-2.763	-15.000	-17.500	-2.500
Lump sum on death	-1.568	-1.000	-1.002	-0.002	-2.000	-2.000	0.000
Transfer values paid	-3.423	-2.100	-2.029	0.071	-4.500	-4.500	0.000
Contribution refunds	-0.401	-0.200	-0.149	0.051	-0.400	-0.400	0.000
	<b>-86.989</b>	<b>-45.100</b>	<b>-48.195</b>	<b>-3.095</b>	<b>-91.400</b>	<b>-93.900</b>	<b>-2.500</b>
<b>Contributions after payments</b>	<b>8.327</b>	<b>6.850</b>	<b>10.189</b>	<b>3.339</b>	<b>0.100</b>	<b>-0.900</b>	<b>-1.000</b>
<b>Management Expenses</b>							
Administrative expenses	-1.157	-0.300	-0.540	-0.240	-1.200	-1.200	0.000
Investment management expenses	-4.964	-2.000	-2.217	-0.217	-5.500	-5.500	0.000
Oversight and governance expenses	-0.740	-0.400	-0.093	0.307	-1.200	-1.200	0.000
	<b>-6.861</b>	<b>-2.700</b>	<b>-2.850</b>	<b>-0.150</b>	<b>-7.900</b>	<b>-7.900</b>	<b>0.000</b>
<b>Investment Income</b>							
Investment income	52.166	25.000	29.956	4.956	45.000	47.500	2.500
<b>Net Increase / Decrease (-) in fund</b>	<b>53.632</b>	<b>29.150</b>	<b>37.295</b>	<b>8.145</b>	<b>37.200</b>	<b>38.700</b>	<b>1.500</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
<i>Contact Details:</i>	(01392) 383000 <a href="mailto:charlotte.thompson@devon.gov.uk">charlotte.thompson@devon.gov.uk</a>
<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 Robert Blake School have entered a contract with RM Education. One member of staff transferred on 1<sup>st</sup> November 2017.
- 3.2 Yeovil College has appointed Churchill Contract Services Ltd to run a catering contract. Two members of staff transferred in September 2017.
- 3.3 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
  - 38 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
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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 A new risk, PF 9, regarding risks associated with the ability of pooling to deliver the cost savings indicated in the business case and maintain investment performance has been added to the risk register following a request from Committee at the last meeting.

### 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 - December 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		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		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	Stephen Morton	on-going with quarterly review		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		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 - December 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.

Somerset County Council Pension Fund Risk Register - December 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			8						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
1. PF10 2. Pensions Committee	Failure of Brunel to deliver either Fee savings or investment performance	Representation on the Brunel Client Group and Oversight Board.	2	4	8		2	4	8		on-going with quarterly review		New risk as per Committee request at September 2017 meeting.

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## Voting and Engagement

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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 to inform the committee about the voting and engagement activity of the fund's investment managers for the six-month period to 30th September 2017.

### 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

- 3.1 The voting activity described in this report relates to all company meetings, the majority of which are Annual General Meetings (AGM's) but will also include Extraordinary General Meetings (EGM's), Ordinary General Meetings, Special Meetings and miscellaneous others.
- 3.2 The business that is required to be covered at AGM's varies according to local law and custom. In most countries both executive and non-executive directors have to be periodically re-elected to the board and there is a vote on the reappointment of auditors. In a growing number of jurisdictions, including UK and US, there is also a non-binding vote on the board of directors' remuneration report. Depending on local law there are often a number of technical resolutions regarding the creation of new shares, pre-emptive rights and share option schemes.
- 3.3 At AGM's typically all resolutions are proposed by the board of directors and they recommend that shareholders approve the proposed resolutions, however increasingly shareholders are proposing their own resolutions on a wide variety of areas including changes to the companies rules, initiating a vote on director remuneration, animal welfare, environmental issues and employment rules.
- 3.4 Although not exclusively, EGM's tend to fall into two categories, the first is to allow a shareholder vote on a proposed merger, takeover or other fundamental change to the company. The second category is where

shareholders are very unhappy with the board's behaviour and wish to hold them to account on a particular issue or set of issues.

- 3.5 PIRC (for the in-house funds) and each of the external fund managers have written guidelines on how they will utilise their votes in an effort to maximise shareholder value and promote good governance and ethical behaviour within companies. Typically these policies will, to varying degrees, adhere to the principles and best practice guidelines of the various legislation, city codes of conduct and policies of trade bodies such as the Association of British Insurers.
- 3.6 PIRC publishes the advice it gives clients (including SCC) on how to vote at company meetings on its website. Some of our external fund managers also place their voting record on their public websites.

#### **4. Somerset County Council (Global Equity + US Equity)**

- 4.1 The in-house fund continues to vote in line with recommendations received from PIRC. The following table indicates voting activity for the six months:

• Shareholder meetings at which the Fund's Shares were voted	446
• Votes in line with Company Management on all resolutions	39

- 4.2 The above results are for both the in-house global equity fund and the in-house US equity fund. Only a few holdings in the US equity fund don't appear in both funds.
- 4.3 PIRC within their recommendations tend to take a very strict line on many of the standard items that occur at AGM's. This includes issues around the tenure and genuine independence of non-executive directors, director remuneration proposals and non-audit fees for auditors. The vast majority of against votes and abstentions for the in-house fund occur in these areas. PIRC also will assess any shareholder proposals on their merits and advise accordingly, which often gives rise to votes against management.
- 4.4 Committee specifically requested data on voting activity on executive remuneration. The in-house funds were offered a vote on executive remuneration at 331 company AGMs in the period. Voting was as follows

• For the proposed remuneration	11 (3%)
• Against the proposed remuneration	219 (66%)
• Abstained from voting	101 (31%)

## 5. Standard Life (UK Equity)

5.1 A summary of voting activity for the six months is shown below:

- Shareholder meetings at which the Fund's Shares were voted 81
- Votes in Favour of all resolutions 67
- Vote against one or more resolutions 14
- Abstained on one or more resolutions 0

5.2 The data for votes on executive remuneration are as follows:

- Meetings with a vote on remuneration 69
- For the proposed remuneration 58 (84%)
- Against the proposed remuneration 11 (16%)
- Abstained from voting 0 (0%)

5.3 Standard Life continues to engage with a large number (approx. 100 per quarter) of UK companies on corporate governance or CSR issues.

## 6. Jupiter (Europe ex-UK Equity)

6.1 A summary of voting activity for the six months is shown below:

- Shareholder meetings at which the Fund's Shares were voted 23
- Votes In line with company management on all resolutions 4

6.2 The data for votes on executive remuneration are as follows:

- Meetings with a vote on remuneration 15
- For the proposed remuneration 14 (93%)
- Against the proposed remuneration 0 (0%)
- Abstained from voting 1 (7%)

## 7. Maple-Brown Abbott

7.1 A summary of voting activity for the six months is shown below:

• Shareholder meetings at which the Fund's Shares were voted	74
• Total Resolutions	582
• Voted for	549
• Voted against	30
• Abstained	3

7.2 The data for votes on executive remuneration are as follows:

• Meetings with a vote on remuneration	43
• For the proposed remuneration	40 (93%)
• Against the proposed remuneration	3 (7%)
• Abstained from voting	0 (0%)

## 8. LAPFF

8.1 LAPFF continue to have a wide ranging program of research and company engagement on a number of issues such as remuneration, audit standards, climate change and company governance. They also will engage with specific companies one on one if an issue of widespread interest arises outside of their current workstreams. Further details on their work can be found on their website <http://www.lapfforum.org/>

## 9. Consultations undertaken

None

## 10. Financial Implications

10.1 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 currently underway.

## 11. Background Papers

None

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

## **Policies and Statements**

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<i>Cabinet Member:</i>	Not applicable
<i>Division and Local Member:</i>	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 Following changes to Somerset County Council's Contract Standing Orders (CSOs) the Pension Fund Scheme of Delegation has been amended to make use of a provision for exemption from some sections of CSOs.

### **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.

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## Contract Standing Orders

The Contract Standing Orders of Somerset County Council apply to the operation of the Somerset County Council Pension Fund, however the Contract Standing Orders contain the ability for the Pensions Committee to exempt the fund from clauses where it is deemed this is necessary by Pensions Committee. The following sections of Contract Standing Orders will not apply to Contracts relating to the Fund and will be replaced by the provisions given below.

### **General clarification:**

Where Contract Standing Orders require authorisation or approval in accordance with the Council's Scheme of Delegation approval must be sought from the Chief Financial Officer, how will consult the Pensions Committee at their discretion.

### **Section 24.7**

Exempt in full. The pension fund does not use purchase orders.

### **Section 43.1**

Table to be amended such that contract values over £500,000 to be approved by the Chief Financial Officer and such decisions are Non-Key Decisions.

### **Section 44.2**

Section to be amended to remove any reference to, or need for, a purchase order.

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

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