

Pensions Committee

Friday 7 June 2019

10.00 am Taunton Library Meeting Room



To: The Members of the Pensions Committee

Cllr G Noel (Chair), Cllr S Coles, Cllr James Hunt, Cllr J Parham, Bryant, Richard Parrish, Sarah Payne and Mark Simmonds

Issued By Scott Wooldridge, Strategic Manager - Governance and Risk - 30 May 2019

For further information about the meeting, please contact Mike Bryant 01823 359048 or MBBryant@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



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AGENDA

Item Pensions Committee - 10.00 am Friday 7 June 2019

*** 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 and Investments Manager.

6 **Independent Investment Advisor's Report**

To receive a verbal update on developments in financial markets.

7 **Review of Investment Performance** (Pages 15 - 40)

To consider this report from the Funds & Investments Manager.

8 **Review of Administrative Performance** (Pages 41 - 46)

To consider this report from the Head of Peninsula Pensions.

9 **Business Plan Update** (Pages 47 - 54)

To consider this report from the Funds and Investments Manager.

10 **Budget and Membership Statistics Update** (Pages 55 - 60)

To consider this report from the Funds and Investments Manager.

11 **Review of Pension Fund Risk Register** (Pages 61 - 66)

To consider this report from the Funds and Investments Manager.

12 **Voting and Engagement Report** (Pages 67 - 72)

Item Pensions Committee - 10.00 am Friday 7 June 2019

To consider this report from the Funds and Investments Manager.

13 **Proposed Changes to LGPS Regulations** (Pages 73 - 78)

To consider this report from the Head of Peninsula Pensions and the Funds and Investments Manager.

14 **Resources Review, Budget Setting and Committee Objective Setting** (Pages 79 - 84)

To consider this report from the Funds and Investments Manager.

15 **Cash Management Strategy** (Pages 85 - 94)

To consider this report from the Funds and Investments Manager.

16 **2020 Meeting Dates** (Pages 95 - 96)

To consider this report from the Funds and Investments Manager.

17 **Policies and Statements**

To consider this report from the Funds and Investments Manager.

18 **Exclusion of Press and Public**

19 **Review of Independent Investment Advisor**

To consider this report from the Funds and Investments Manager.

20 **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 – Neil Milne on Tel (01823) 359045 or 357628; Fax (01823) 355529 or Email: ndmilne@somerset.gov.uk
They can also be accessed via the council's website on 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 Neil Milne, 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 Quantock Room, Shire Hall, Taunton on Friday 7 December 2018 at 10.00am.

Present

Cllr G Noel (Chairman)

Cllr M Chilcott

Cllr J Hunt

Mr G Bryant

Apologies: Cllr S Coles, Cllr R Parrish, Mrs S Payne and Mr M Simmonds

Officers present: Stephen Morton – Strategic Manager, Finance Technical, Anton Sweet – Funds & Investments Manager and Dan Harris - Peninsula Pensions, Mrs C Burton – Independent Adviser

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

2.1 Mr Bryant declared a personal interest as a member of the Local Government Pension Scheme.

3 **Minutes of the Previous Meeting** – agenda item 3

3.1 The minutes of the meeting held on 20 September 2018 were received and approved as an accurate record.

4 **Public Question Time** – agenda item 4

4.1 There were no public questions.

5 **LGPS Pooling of Investments**

5.1 The Committee considered the report of the Funds and Investments Manager on progress with the transition of the Pension Fund's investment assets to Brunel Pension Partnership Ltd under work involving the pooling of the Fund's investment assets with other Funds in the South West.

5.2 Progress had included: the transfer of over £500m of passive assets; establishment of the ACS fund and the appointment of fund managers for the UK equity and Low Volatility equity portfolios; transfer of UK equity assets previously managed by Aberdeen Standard Investments;

establishment of a private markets team.

5.3 The Committee then considered a Special Reserve Matter relating to Brunel Partnership's Business Plan, its revenue budget for 2019/20 and related matters introduced by the Funds and Investments Manager. The SRM to approve the budget was an annual requirement of the Shareholders' agreement that governed Brunel and the ten Shareholder funds.

5.4 **RESOLVED**

(a) to approve the revised budget for 2019/20 and the projected additional expenditure for the current financial year (2018/19);

(b) not to approve the proposed movement of the budget between years, as the 5% contingency already gave sufficient provision for such movement;

(c) to convey to Brunel the Committee's disappointment and concern regarding the Special Reserve Matter, the need for improved financial monitoring and control and for a new formula that limited the contingency to a reasonable previously agreed fixed sum; and to point out that given the authority's very difficult financial position future overspends or significant increases in budget were unlikely to be supported.

6 Independent Adviser's Report – agenda item 6

6.1 Caroline Burton, the Committee's Independent Adviser, gave an overview of the financial situation in the UK and overseas.

6.2 Members briefly discussed the points raised during the overview, including: the continuing, strong US economy (although there were concerns that it might have peaked or would do so soon); lack of liquidity and low levels of activity; hopes for an end of year rally; and the difficulty of forecasting due to ongoing uncertainty regarding Brexit and turbulent market conditions globally.

6.3 The Committee noted the Adviser's update.

7 Analysis of Performance – agenda item 7

7.1 The Committee considered the report of the Funds and Investments Manager on the performance of the Pension Fund investments for the quarter ended 30 September 2018 and related matters.

7.2 The Funds and Investments Manager commented, and responded to questions on, the performance of in-house funds and managed funds against benchmarked performance and targets. He referred to the confidential report on Review of Fund Managers under item 14 of the agenda. Investment strategy, the value of the Fund and market conditions

were amongst the matters discussed.

7.3 The Committee noted the report.

8 Business Plan Update – agenda item 8

8.1 The Committee considered the report of the Funds and Investments Manager on progress with implementing the business plan for 2018 – 20 prepared to ensure the Committee met its responsibilities and considered all necessary issues, and also setting out a workplan of items of business for its meetings during the next 12 months.

8.2 The Funds & Investments Manager undertook to circulate proposed arrangements (dates/times etc) for training events for Committee members, having asked for, and taken into account, the views they had expressed.

8.3 The Committee noted the report.

9 Budget and Membership Statistics Update – agenda item 9

9.1 The Committee considered the report of the Funds and Investments Manager on the position of the Pension Fund budget at 30 September 2018, covering transaction costs and membership changes; and the outturn against budget for the second quarter of the financial year 2018/19.

9.2 The Funds and Investments Manager: explained why transaction costs for Nomura and Amundi were not included; referred to the continuing reduction in active members and increases in the deferred, undecided and pensioners categories; and responded to a query about Fund management costs.

9.3 The Committee noted the report.

10 Employer Body Update – agenda item 10

10.1 The Committee considered the report of the Head of Peninsula Pensions on the current status of employing bodies within the Pension Fund.

10.2 It was noted that the Fund currently had the following number of employers with active members: 64 scheduled bodies – comprising 15 scheduled body employers, 12 academy trusts and 37 stand-alone academies; 20 resolution bodies; and 36 admitted bodies.

10.3 The Committee noted the report.

11 Review of the Pension Fund Risk Register – agenda item 11

- 11.1 The Committee considered the report of the Funds and Investments Manager reviewing the Pension Fund’s risk register.
- 11.2 The Funds and Investments Manager pointed out that a more comprehensive review of the risk register would be undertaken shortly in response to new CIPFA guidance. Discussion took place on Risk PF2 – ‘The Pension Fund has insufficient available assets to meet its long-term liabilities’ and ways in which it might be addressed.
- 11.3 The Committee noted the report.

12 Voting and Engagement – agenda item 12

- 12.1 The Committee considered the report of the Funds and Investments Manager on the voting and engagement activity of the Pension Fund’s Investment Managers for the six months to 30 September 2018.
- 12.2 The Funds and Investments Manager responded to a query on the costs involved in voting and engagement by Brunel and others.
- 12.3 The Committee noted the report.

13 Exclusion of the Press and Public – agenda item 13

- 13.1 The Committee agreed to pass a resolution under Section 100A (4) 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.

Also the Committee agreed that in all the circumstances of the case the public interest in maintaining the exemption outweighed the public interest in disclosing the information.

14 Report on Formal Review of Fund Managers – agenda item 14

- 14.1 The Committee considered the confidential report of the Funds and Investments Manager reviewing the performance of individual Fund Managers.

(Pensions Committee – 7/12/18)

- 14.2 After discussion, the Committee **RESOLVED** to retain each Fund Manager until the relevant portfolio moved across to Brunel.
- 15 Any Other Business of Urgency** – agenda item 15
- 15.1 There was no other business.

(The meeting ended at 11.55)

Graham Noel
Chairman – Pensions Committee

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LGPS Pooling of Investments

<i>Lead Officer:</i>	Sheila Collins: Interim Director of Finance
<i>Author:</i>	Anton Sweet: Funds and Investments Manager
<i>Contact Details:</i>	(01823) 359584 asweet@somerset.gov.uk
<i>Executive Portfolio Holder:</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 transition of assets to Brunel

- 3.1 £507.8m of passive assets were transferred from management by the internal team to Brunel (sub-managed by LGIM) on 11th July.
- 3.2 £436.5m of active UK equity assets were transferred from management by Aberdeen Standard Investments to Brunel (sub-managed by Aberdeen Standard Investments, Baillie Gifford and Investec) on 21st November.
- 3.3 The Private Markets team is now fully established and has taken some initial commitments from funds, but not Somerset at this stage. Preparations for the move of our Property assets from LaSalle to Brunel are underway.
- 3.4 The next portfolio due to be available is Emerging Market equity, which is at the invitation to tender stage of the tender process. The EM portfolio is due to transition in Q3 of 2019.

3.5 Following the Emerging Market equity portfolio will be the High Alpha Global Developed equity portfolio, which is at the expression of interest stage of the tender process. This portfolio is due to transition in Q4 of 2019.

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. This now includes consultation with Committee and Board whenever SCC utilises its shareholder voting powers in relation to Brunel.

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 30th 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.

Review of Investment Performance

<i>Lead Officer:</i>	Sheila Collins: Interim Director of Finance
<i>Author:</i>	Anton Sweet: Funds and Investments Manager
<i>Contact Details:</i>	(01823) 359584 asweet@somerset.gov.uk
<i>Executive Portfolio Holder:</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 31 March 2019 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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Review of Investment Performance **for the Quarter to 31st March 2019**

1. Somerset County Council (Global Equity)

1.1 The performance for the quarter to 31st March 2019 is summarised in the following table:

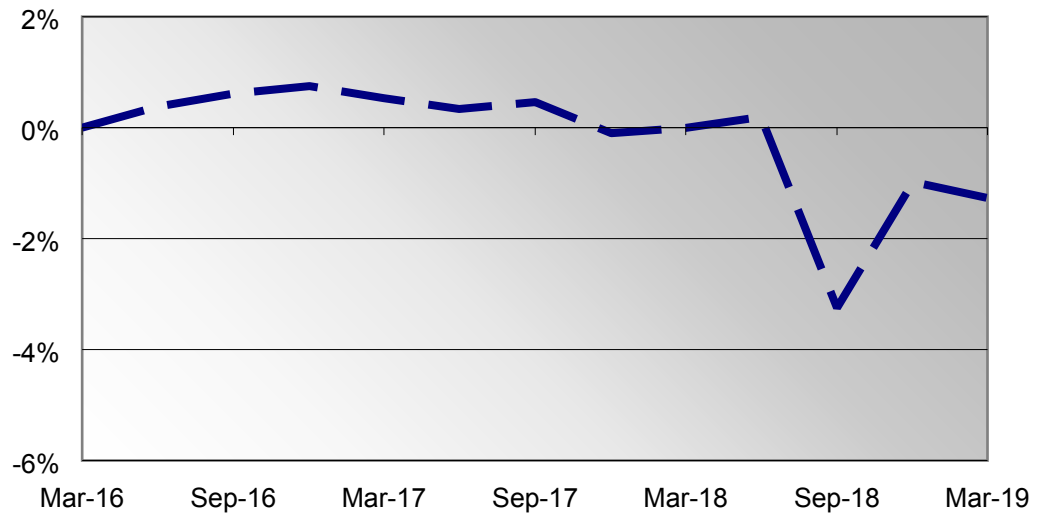
Quarter to 31 March 2019				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
32.8	Global equities	9.7	9.8	-0.1
0.1	Cash			
32.9	Total	9.7	9.8	-0.1

1.2 The majority of the stock was transferred to a LGIM managed passive pooled fund in July. The LGIM funds are the pooled solution chosen by Brunel. We have held on to a small residual position to use as a source of cash in the short term and to help manage the overall transition to Brunel managed funds.

1.3 The fund underperformed the benchmark during the quarter. As part of significantly reducing the size of the portfolio we have reduced the number of assets held and this may give rise to greater volatility of relative returns.

1.4 Absolute returns for the quarter were strongly positive.

In-House Fund performance Vs Benchmark



1.5

The table below shows annualised performance over a range of time periods:

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	10.8	11.8	-1.0
3 years	14.6	15.0	-0.4
5 years	12.5	12.7	-0.2
10 years	13.7	14.0	-0.3

2. Brunel - LGIM (Global Equity)

2.1 The performance for the quarter to 31st March 2019 is summarised in the following table:

Quarter to 31 March 2019				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
517.1	Global equities	9.8	9.8	+0.0

2.2 The LGIM passive fund matched the performance of the benchmark for the quarter. Absolute performance was strongly positive.

3. Aberdeen Standard Investments (UK Equities)

3.1 The performance for the quarter to 31st March 2019 is summarised in the following table:

Quarter to 31 March 2019				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
9.5	UK	9.3	9.4	-0.1
0.0	Cash			
9.5	Total	9.3	9.4	-0.1

3.2 The transfer of the majority of this mandate to the equivalent Brunel offering took place in November. The residual holding is in a smaller companies fund and will be used as a source of cash as necessary.

3.3 Aberdeen Standard had a poor quarter relative to their benchmark. Absolute returns were strongly positive. Smaller companies significantly under performed during the quarter and the Aberdeen Standard fund outperformed the smaller companies benchmark.

4. Brunel (UK Equities)

4.1 The performance for the quarter to 31st March 2019 is summarised in the following table:

Quarter to 31 March 2019				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
441.5	UK	9.7	9.4	+0.3

4.2 The Brunel UK portfolio is managed by a combination of Invesco, Baillie Gifford and Aberdeen Standard.

4.3 The portfolio outperformed the benchmark during the quarter. Absolute performance was strongly positive

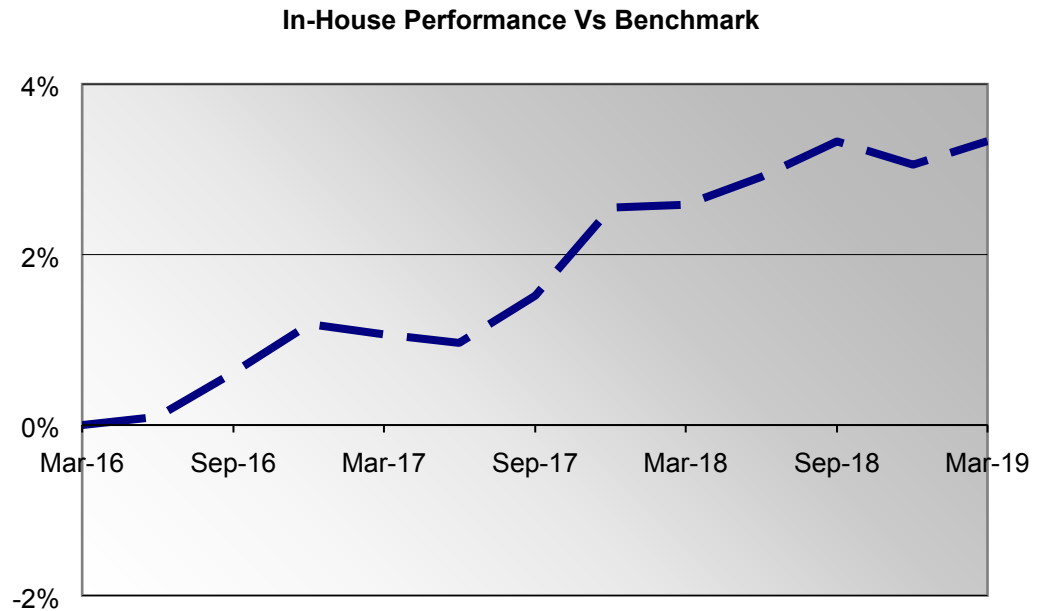
5. Somerset County Council (North American Equities)

5.1 The performance for the quarter to 31st March 2019 is summarised in the following table:

Quarter to 31 March 2019				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
114.7	North America	11.0	11.1	-0.1
0.1	Cash			
114.8	Total	11.0	11.1	-0.1

5.2 The in-house fund marginally underperformed the benchmark for the quarter.

5.3 Absolute levels of performance during the quarter were strongly positive.



5.4 The table below shows annualised performance over a range of time periods:

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	18.1	17.9	+0.2
3 years	18.1	17.3	+0.8
5 years	16.9	16.5	+0.4
10 years	Initial investment in December 2011		

6. Jupiter (Continental European Equities)

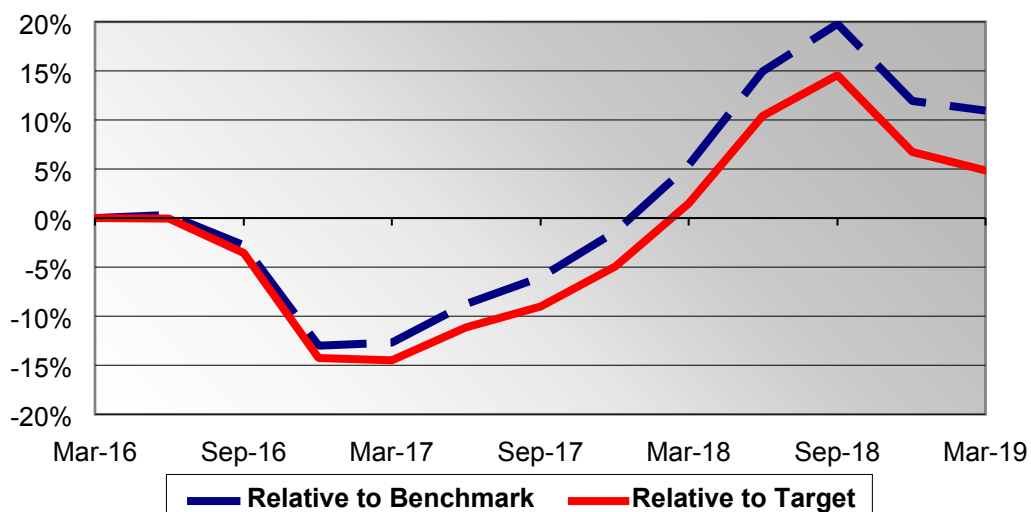
6.1 The performance for the quarter to 31st March 2019 is summarised in the following table:

Quarter to 31 March 2019				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
151.3	Europe	6.8	8.0	-1.2
2.2	Cash			
153.5	Total	6.6	8.0	-1.4

6.2 Jupiter had a poor quarter relative to the benchmark, with under performance of 1.2%. Absolute performance was strongly positive. Performance relative to benchmark continues to be very volatile from one month to the next.

6.3 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.

Jupeter Performance Vs Benchmark & Target



6.4 The table below shows annualised performance over a range of time periods:

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	6.5	2.6	+3.9
3 years	14.0	11.0	+3.0
5 years	13.0	7.1	+5.9
10 years	16.2	10.7	+5.5

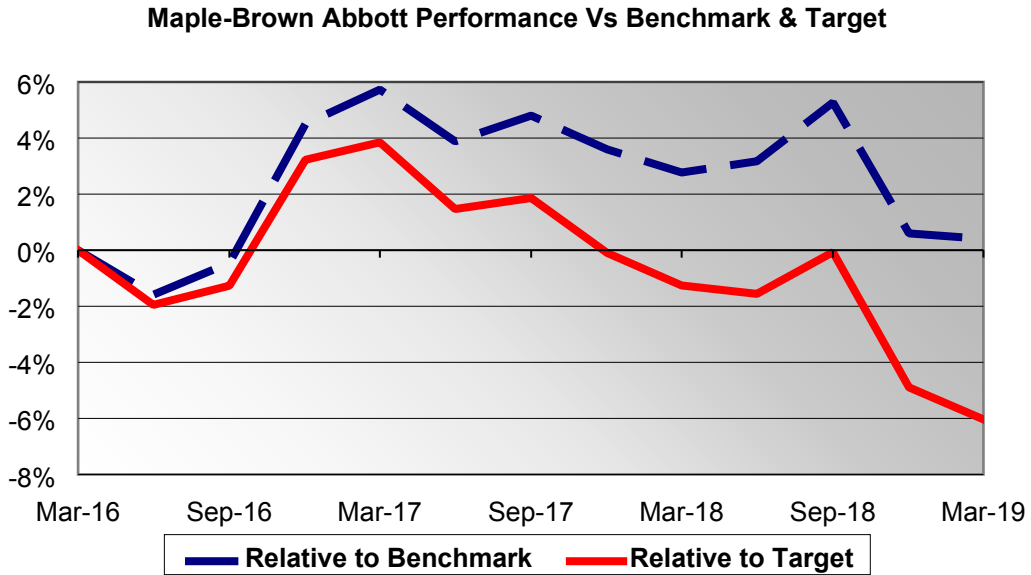
7. Maple-Brown Abbott (Far-East Equities ex-Japan)

7.1 The performance for the quarter to 31st March 2019 is summarised in the following table:

Quarter to 31 March 2019				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
62.0	Pacific (ex Japan)	7.7	7.8	-0.1
0.7	Cash			
62.7	Total	7.6	7.8	-0.2

7.2 Maple-Brown Abbott had a poor quarter relative to their benchmark. Absolute returns were strongly positive. The under-performance was due to poor stock selection in Hong Kong.

7.3 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.



7.4 The table below shows annualised performance over a range of time periods:

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	3.1	4.8	-1.7
3 years	13.8	13.6	+0.2
5 years	Initial investment in July 2014		
10 years			

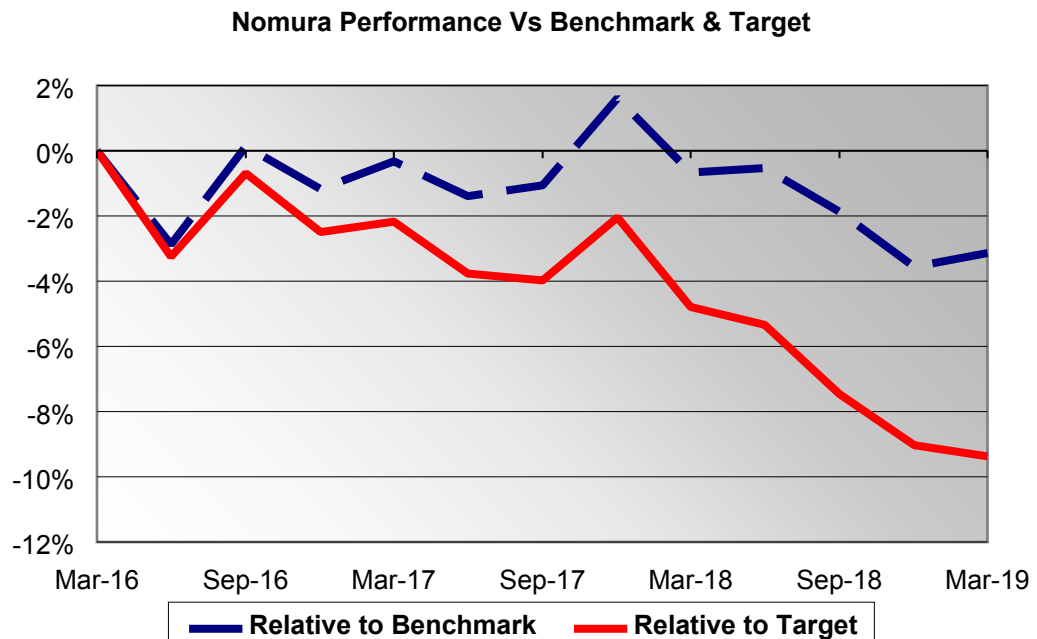
8. Nomura (Japanese Equity)

8.1 The performance for the quarter to 31st March 2019 is summarised in the following table:

Quarter to 31 March 2019			
Value as at 31 Mar £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
63.1 Japan	4.8	4.4	+0.4

8.2 Absolute performance was strongly positive. Relative performance was positive. Good stock selection in Construction and Chemicals were significant contributors to the outperformance.

8.3 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.



8.4 The table below shows annualised performance over a range of time periods:

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	-3.5	-1.8	-1.7
3 years	11.4	12.2	-0.8
5 years	10.7	11.9	-1.2
10 years	Initial investment in March 2010		

9. Amundi (Emerging Market Equity)

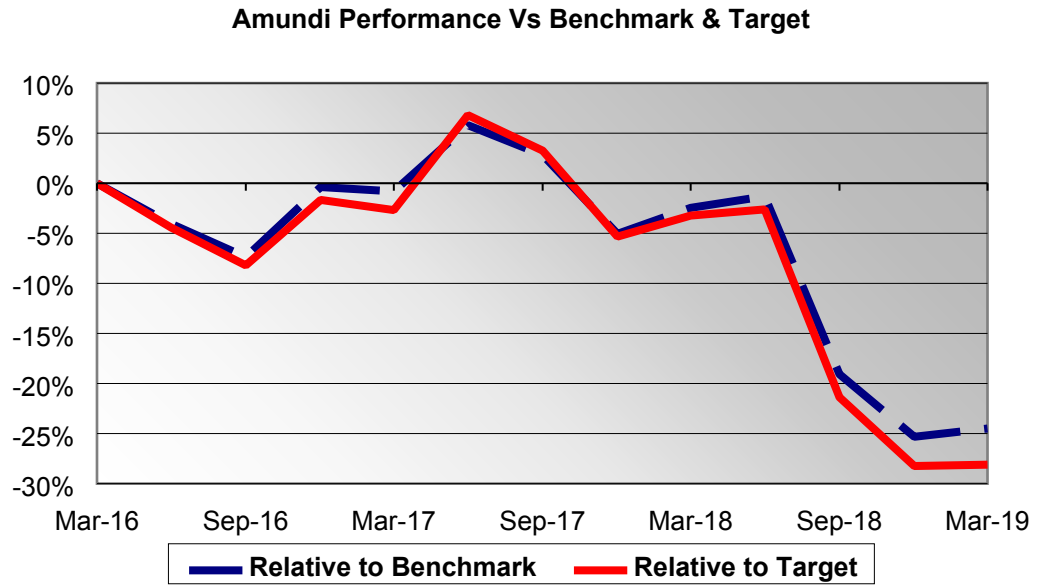
9.1 The performance for the quarter to 31st March 2019 is summarised in the following table:

Quarter to 31 March 2019			
Value as at 31 Mar £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
81.5 Emerging Market	9.8	7.4	+2.4

9.2 Relative performance for the quarter was very good, absolute returns were strongly positive. Strong stock selection in Financials, Industrials and IT contributed to the outperformance for the quarter.

9.3

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.



9.4

The table below shows annualised performance over a range of time periods:

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	-15.3	-0.3	-15.0
3 years	7.7	14.4	-6.6
5 years	4.5	8.9	-4.4
10 years	6.2	10.0	-3.8

10. Aberdeen Standard Investments (Fixed Interest)

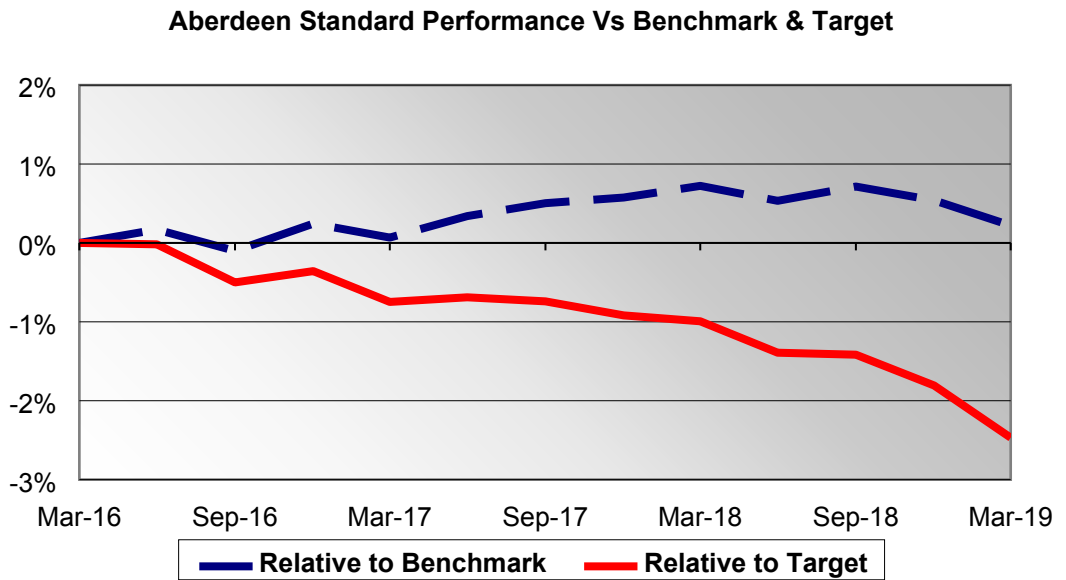
10.1 The performance for the quarter to 31st March 2019 is summarised in the following table:

Quarter to 31 March 2019				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
52.4	UK Gilts	3.8	3.4	+0.4
73.7	Index Linked	6.0	5.9	+0.1
160.8	Corporate Bonds	6.6	6.8	-0.2
37.7	High Yield Debt	0.4	1.4	-1.0
-5.4	Foreign Gov't Bonds			
1.9	F Gov't Index Linked			
-0.4	Currency Instruments			
22.8	Cash			
343.5	Total	5.3	5.6	-0.3

10.2 Aberdeen Standard underperformed their benchmark for the quarter. Absolute returns were strongly positive. Underperformance in the corporate bond and High yield areas and being overweight cash were the main contributors to the underperformance.

10.3

Aberdeen Standard'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.



10.4

The table below shows annualised performance over a range of time periods:

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	4.2	4.7	-0.5
3 years	6.4	6.3	+0.2
5 years	7.0	7.1	-0.1
10 years	8.8	8.8	+0.0

11. LaSalle (Property Fund of Funds)

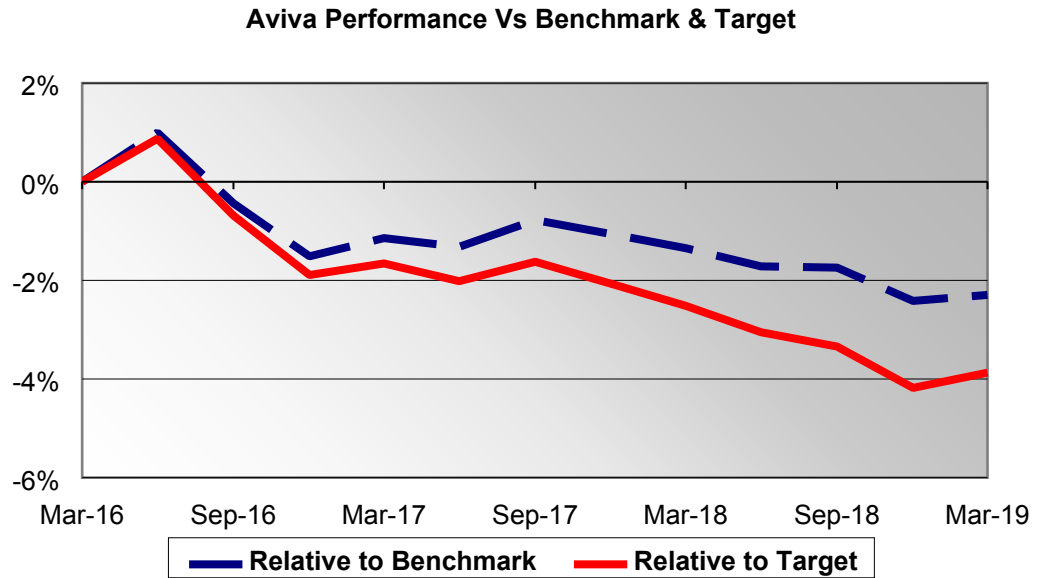
11.1 The performance for the quarter to 31st March 2019 is summarised in the following table:

Quarter to 31 March 2019				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
184.3	UK Property	0.5	0.3	+0.2
0.1	European Property	-3.2		
0.0	Currency Instruments			
29.0	Cash			
213.4	Total	0.4	0.3	+0.1

11.2 Property returns from the UK market were just positive for the quarter. The fund outperformed relative to the benchmark. Outperformance was achieved due to the purchase of new holdings at a discount to NAV and continued strong performance from specialist industrial holdings. Specialist retail funds continue to be a drag on performance.

11.3

LaSalle'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.



11.4

The table below shows annualised performance over a range of time periods:

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	3.9	4.8	-0.9
3 years	5.4	6.2	-0.8
5 years	7.7	9.1	-1.4
10 years	7.2	8.4	-1.2

12. Neuberger Berman (Global Private Equity)

12.1 The performance for the quarter to 31st March 2019 is summarised in the following table:

Quarter to 31 March 2019			
Value as at 31 Mar £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
47.5 Private Equity	6.2	0.2	+6.0

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

12.3 The 2010 fund continues to make good progress. The underlying return on this fund for the quarter, excluding currency movements, was 29.1%.

12.4 The Neuberger Berman Crossroads XX fund is also making good progress. However, the underlying return on this fund for the quarter, excluding currency movements, a small negative -1.1%.

12.5 The Crossroads XXI fund is also making good progress. The underlying return on this fund for the quarter, excluding currency movements, was 4.6%.

12.6 The Crossroads XXII fund is still very young. The return for the quarter, excluding currency movements, was 9.1%.

12.4

The table below shows annualised performance over a range of time periods, unlike in the table above a broad global equity index has been used as the benchmark as over long time periods this is more appropriate:

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	17.3	11.8	+5.5
3 years	15.0	15.0	+0.0
5 years	15.5	12.7	+2.8
10 years	Initial investment in March 2010		

13. South West Ventures Fund

13.1 The fund continues to make reasonable progress.

14. Combined Fund

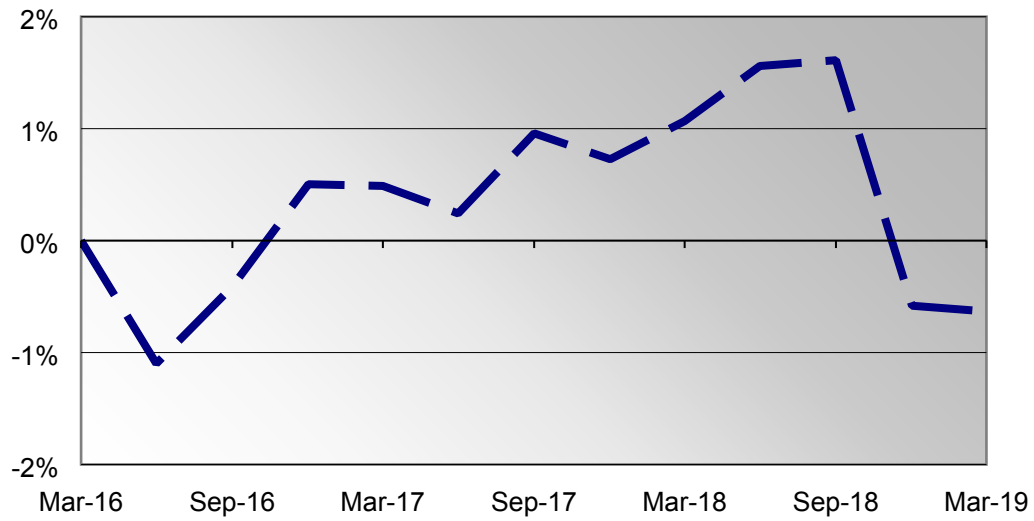
14.1 The performance for the quarter to 31st March 2019 is summarised in the following table:

Quarter to 31 March 2019				
Value as at 31 Mar £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
32.9	In-House (Global Eq)	9.7	9.8	-0.1
517.1	Brunel (Global Eq)	9.8	9.8	+0.0
9.5	ASI (UK Eq)	9.3	9.4	-0.1
441.5	Brunel (UK Eq)	9.7	9.4	+0.3
114.8	In-House (US Eq)	11.0	11.1	-0.1
153.5	Jupiter	6.6	8.0	-1.4
62.7	Maple-Brown Abbott	7.6	7.8	-0.2
63.1	Nomura	4.8	4.4	+0.4
81.5	Amundi	9.8	7.4	+2.4
343.5	ASI (FI)	5.3	5.6	-0.3
213.4	LaSalle	0.4	0.3	+0.1
1.6	SWRVF	0.0	0.2	-0.2
47.5	Neuberger Berman	6.2	0.2	+6.0
0.8	Brunel	0.0	0.0	+0.0
87.2	Cash	0.2	0.2	+0.0
2,170.6	Whole Fund	7.2	7.2	+0.0

14.2 The fund as a whole performed in line with its benchmark during the quarter. The level of absolute return was strongly positive. Amundi and Nomura produced performance ahead of their target for the quarter.

14.3 Underperformance due to asset allocation was negated by good stock selection by the managers within the fund. Within asset allocation the overweight to cash was the key contributor.

Whole Fund Performance Vs Benchmark



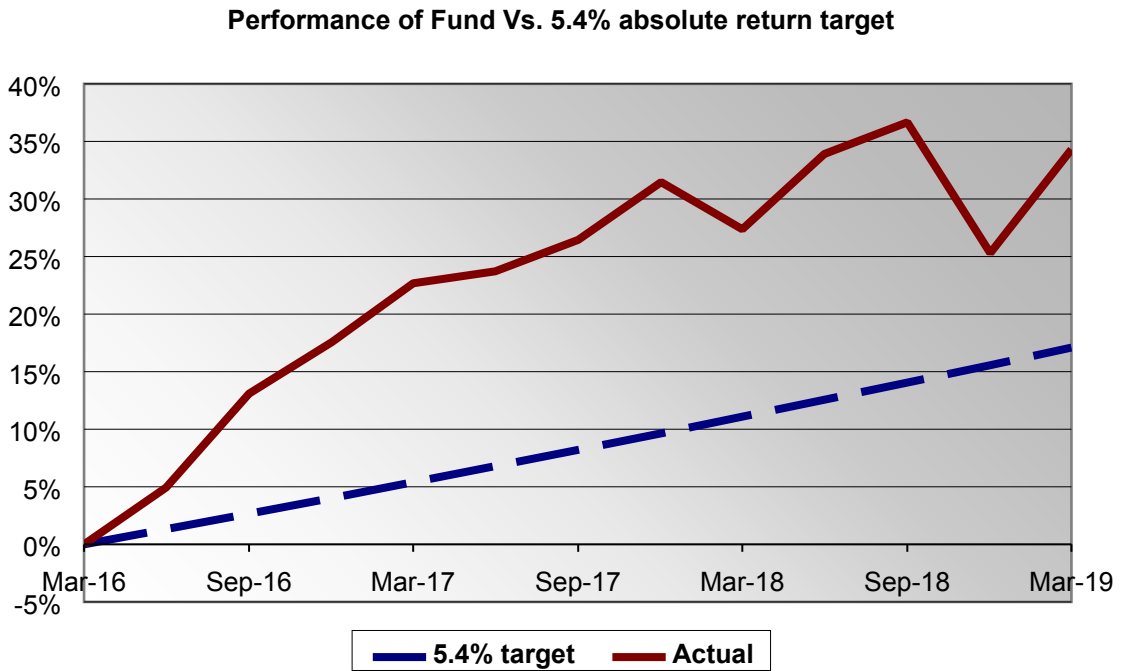
14.4

The table below shows annualised performance over a range of time periods:

	Fund % p.a.	Benchmark % p.a.	Relative to Benchmark % p.a.
1 year	5.4	6.8	-1.4
3 years	10.3	10.5	-0.2
5 years	8.7	9.0	-0.3
10 years	11.3	11.1	+0.2

14.5

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.



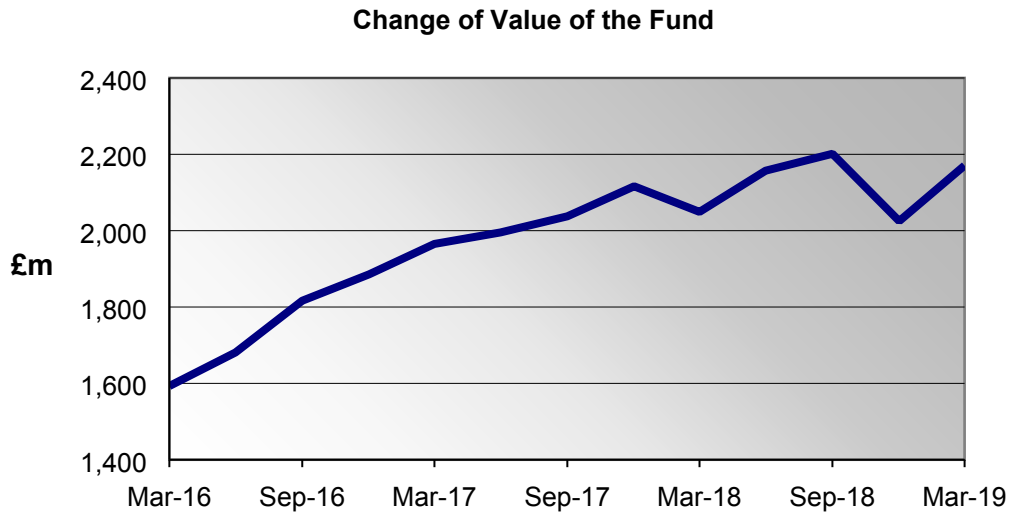
14.6 The movement in the value of the fund over the quarter is summarised in the table below.

	Value as at 31 Dec		Value as at 31 Mar		Strategic
	£m	%	£m	%	Weighting
In-House (Global Eq)	30.0	1	32.9	2	0
Brunel (Global Eq)	470.9	23	517.1	24	23
ASI (UK Eq)	8.7	0	9.5	0	0
Brunel (UK Eq)	402.6	20	441.5	20	23
In-House (US Eq)	105.0	5	114.8	5	5
Jupiter	144.0	7	153.5	7	5
M-BA (Pac Eq)	58.6	3	62.7	3	3
Nomura	60.2	3	63.1	3	3
Amundi	74.2	4	81.5	4	5
ASI (FI)	326.3	16	343.5	16	19
Aviva	212.5	11	213.4	10	10
SWRVF	1.6	0	1.6	0	0
Neuberger Berman	41.0	2	47.5	2	3
Brunel	0.8	0	0.8	0	0
Cash	88.7	5	87.2	4	1
Whole Fund	2,025.1	100	2,170.6	100	100

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

- £1.3m was transferred from the Aberdeen Standard Investment's UK equity portfolio as the last remaining dividends were received.
- £1.8m was withdrawn from the in-house US equity fund during the quarter. This broadly represents dividend income on this fund during the quarter.
- £5.1m was moved to Neuberger Berman's Private equity mandate to fund capital calls.

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



14.9 The Fund's Actuary, Barnett Waddingham, does not provide an update of funding during the period of calculating the results of a formal valuation.

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Review of Administration Performance

Lead Officer: Sheila Collins: Interim Director of Finance

Author: Dan Harris: Head of Peninsula Pensions

Contact Details: (01392) 383000
daniel.harris@devon.gov.uk

Executive Portfolio Holder: Not applicable

Division and Local Not applicable

Member:

1. Background

- 1.1 Peninsula Pensions' internal service standard target is to complete 90% of work within 10 working days from the date that all necessary information has been received.
- 1.2 In addition to the internal targets, Peninsula Pensions also monitors performance against the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013, which set out the minimum requirements regarding the disclosure of pension information. This additional reporting element was introduced in 1st January 2019.
- 1.3 Performance targets are monitored on a monthly basis via a task management system and reporting tool within the pension database.
- 1.3 This report also encompasses an update on employer bodies covered by the Fund.

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 During 2017/18, the team issued 76% of work within target against our internal timescales. At the last meeting of the Committee, we reported that performance had increased to 77% for the nine months ending 31st December 2018.
- 3.2 Performance for the most recent quarter, ending 31st March 2019, has improved again with a success rate of 86%, bringing the total performance for the financial year 2018/19 to 82%.

- 3.3 Following the change to reporting methods, we are now able to monitor our performance against the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013. Our performance against the Disclosure Regulations for 2018/19 is 99%.
- 3.4 It is pleasing to see an increase in performance, as we are continuing to undertake an extensive training plan across the member services section, which is impacting the normal day-to-day workloads of staff. We have recently recruited to several vacant positions within the team which should help to improve things further going forward.
- 3.5 Officers have also conducted a review of the classification and prioritisation of tasks carried out by the member services team. This will help to ensure that tasks are dealt with appropriately and in a more effective and timely manner.
- 3.6 Appendix 1 of the report shows a detailed breakdown of administration performance relating to the Somerset Pension Fund for the year ending 31st March 2019 against the internal targets and Disclosure Regulations.
- 3.7 Appendix 2 of the report highlights the longer-term performance of Peninsula Pensions (Somerset Fund only) from 1st January 2017 to 31st March 2019. Members will note that the total number of cases outstanding has dropped significantly over the period reported.

4. Employer updates

- 4.1 Blackbrook Community Primary School, Ruishton C of E Primary School, West Monkton C of E Primary School and Selworthy Special School formed the Oak Partnership Multi Academy Trust on 1st January 2019.
- 4.2 The fund currently has the following numbers of employer with active members:
- 65 scheduled body employers made up of 15 scheduled body employers, 13 academy trusts and 37 stand-alone academies
 - 20 resolution bodies
 - 36 admitted bodies

5. Background Papers

- 5.1 None

Appendix 1

Summary of work completed 1st April 2018 to 31st March 2019

	Cases Completed	Performance (Disclosure Regs)	Performance (Internal Targets)
High Priority Procedures	8,038	96%	80%
Medium Priority Procedures	11,705	100%	85%
Low Priority Procedures	3,029	100%	76%
Total	22,772	99%	82%

High Priority

	Cases Completed	Performance (Disclosure Regs)	Performance (Internal Targets)
Changes	2,583	100%	94%
Complaints (Member)	26	100%	74%
Complaints (Employer)	0	-	-
Deaths	402	90%	57%
Payroll	1,670	100%	95%
Refunds	566	100%	82%
Retirements (Active)	1,021	84%	42%
Retirements (Deferred)	1,770	94%	71%
TOTAL	8,038	96%	80%

Medium Priority

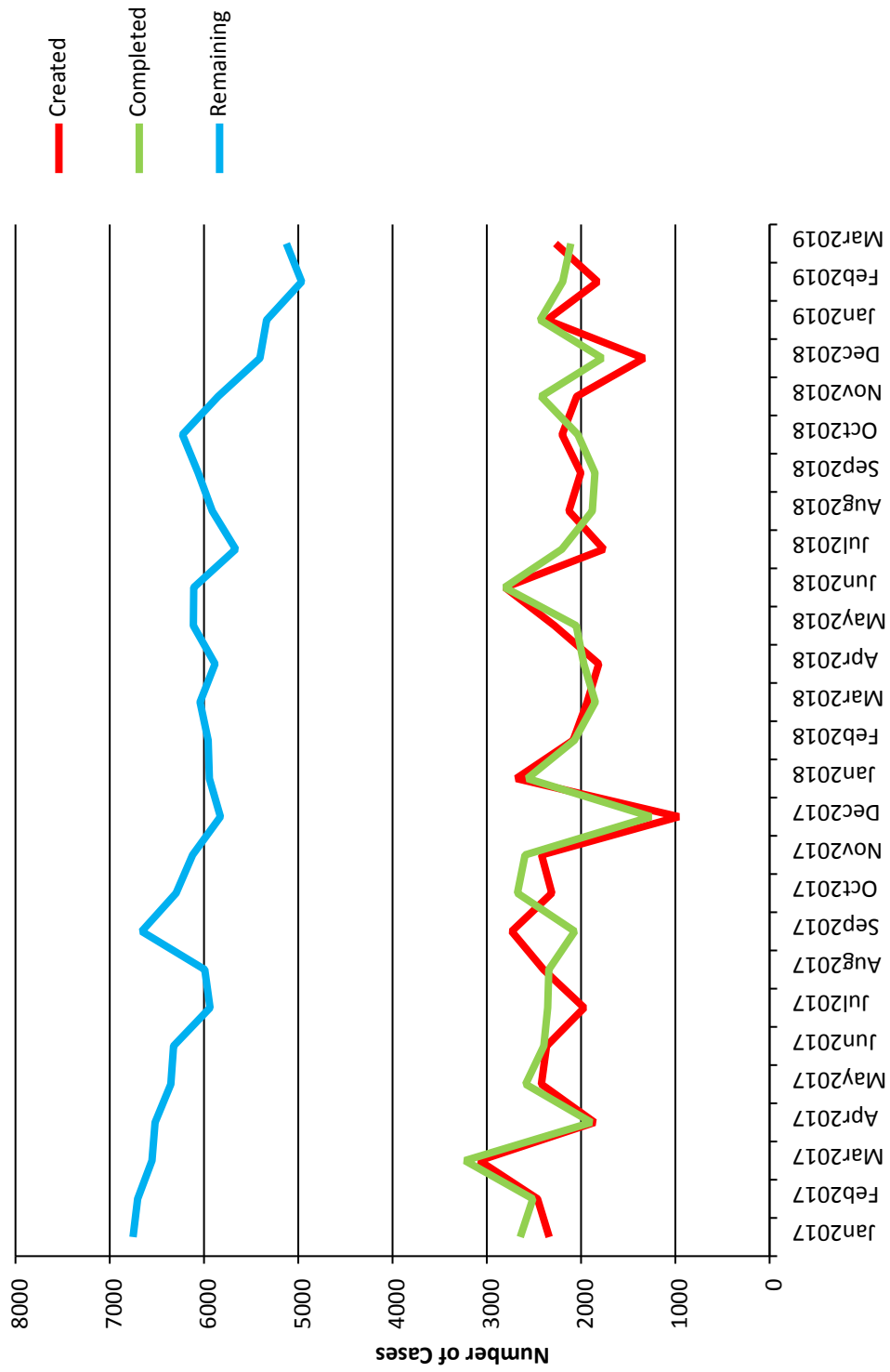
	Cases Completed	Performance (Disclosure Regs)	Performance (Internal Targets)
Amalgamation of Records	840	100%	56%
Deferred Benefit			
Calculations	2,946	100%	90%
Divorce Calculations	231	100%	94%
Employer Queries	867	100%	51%
Estimates (Employer)	447	100%	86%
Estimates (Member)	458	100%	59%
General	2,570	100%	87%
HMRC	71	75%	69%
Member Self-Service	3,275	100%	100%
TOTAL	11,705	100%	85%

Low Priority

	Cases Completed	Performance (Disclosure Regs)	Performance (Internal Targets)
Estimates (Other)	170	100%	15%
GMP Queries	29	100%	100%
Interfund Transfers Out	93	100%	14%
Interfund Transfers In	98	100%	19%
Pension Top Ups	841	100%	86%
Frozen Refunds	1,308	100%	96%
New Starters	148	100%	99%
Pension Transfers In	119	100%	24%
Pension Transfers Out	223	100%	31%
TOTAL	3,029	100%	76%

Appendix 2

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Somerset County Council
Pensions Committee

Business Plan Update

Lead Officer: Sheila Collins: Interim Director of Finance
Author: Anton Sweet: Funds and Investments Manager
Contact Details: (01823) 359584
asweet@somerset.gov.uk
Executive Portfolio Holder: 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 Following year end at 31 March officers have completed the production of the draft accounts by the required 31 May deadline and external Audit work has commenced.
- 4.3 Officers have added a full review of the Fund's risk register for later this year to the business plan, it is felt that a more thorough review is due which would go beyond the standard quarterly review paper.
- 4.4 Officers have added an item in the business plan to reflect the previously agreed position of reviewing Ethical, Social and Governance (ESG) investment issues following the completion of the transfer of listed assets to Brunel, currently this is expected to be during the second half of 2020.

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 2019 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	Re-approve all Strategies and policies post election	Medium	Spring 2017	Agreed at June 2017 meeting	
Investment Fund Structure & Alternative Asset Clases	Review of Asset Allocation and benchmark structure of the fund	Medium	Spring 2018	Decision taken at June 2018 meeting regarding the asset allocation and the allocation to the proposed Brunel portfolios as they became available.	
	Review of asset classes not currently invested in	High			
1 year Review of Asset manager	Review of In-house funds	Medium	Autumn 2018	Decision taken at the December 2018 committee meeting that a number of fund managers will be reviewed again at end of 2019	
	Review of Aviva's mandate for Property	Medium			
	Review of Standard Life's mandate for UK equity	Medium			
	Review of Standard Life's mandate for Fixed Income	Medium			
	Review of Jupiter's mandate for European Equity	Medium			
	Review of Amundi's mandate for Emerging Market Equity	Medium			
	Review of Nomura's mandate for Japanese Equity	Medium			
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	Item is on Committee agenda for this meeting
Fund Governance	Review Investment Strategy Statement	Medium	Summer 2019		Item is on Committee agenda for this meeting
Fund Governance	Review of CIPFA knowledge and skills framework for members	Medium	By end of 2019		
Fund Governance	Review of risk register	Medium	By end of 2019		
1 year Review of Asset manager	Review of In-house funds	Medium	Autumn 2019	N/A - Funds will move to Brunel in time	
	Review of LaSalle's mandate for Property	Medium			
	Review of Aberdeen Standard's mandate for Fixed Income	Medium			
	Review of Jupiter's mandate for European Equity	Medium			
	Review of Amundi's mandate for Emerging Market Equity	Medium			
	Review of Nomura's mandate for Japanese Equity	Medium			
Fund Governance	Review of ESG investment	High	Autumn 2020		

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SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2019-20

Date	Proposed Items of Business	Lead Officer
19-Sep-19	<p><u>FORMAL MEETING</u></p> <p>1. LGPS Pooling of Investments Report to provide an update on progress on pooling of investments as per government guidance.</p> <p>2. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.</p> <p>3. Review of Investment Performance Report to provide an update of the Fund's performance for the quarter period to 30 June 2019.</p> <p>4. Review of Administration Performance To review the performance of Peninsula Pensions in delivering the administration service to employers and members.</p> <p>5. Business Plan Update To consider progress against the Committees approved business plan.</p> <p>6. Budget and Membership Statistics Update Report to provide an update of the Fund's position for the quarter period to 30 June 2019.</p> <p>7. Employer Body Status Update Report to provide an update on issues concerning employer bodies.</p> <p>8. Review of Pension Fund Risk Register To review the risks within the fund and form an appropriate risk register for the fund.</p> <p>9. Annual Accounts and Investment Performance 2018/2019 To consider the accounts and investment performance for the year to 31 March 2019.</p> <p>10. Actuarial Update To consider the Report of the Fund's Actuary Barnett Waddingham.</p>	<p>AS</p> <p>AS</p> <p>DH</p> <p>AS</p> <p>AS</p> <p>DH</p> <p>AS</p> <p>AS</p> <p>BW</p>
20-Sep-19	<p><u>ANNUAL MEETING</u></p> <p>Annual Employers' Meeting of the Pension Fund Venue TBC</p>	

SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2019-20

Date	Proposed Items of Business	Lead Officer
06-Dec-19	<p><u>FORMAL MEETING</u></p> <p>1. LGPS Pooling of Investments Report to provide an update on progress on pooling of investments as per government guidance.</p> <p>2. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.</p> <p>3. Review of Investment Performance Report to provide an update of the Fund's performance for the quarter period to 30 September 2019.</p> <p>4. Review of Administration Performance To review the performance of Peninsula Pensions in delivering the administration service to employers and members.</p> <p>5. Business Plan Update To consider progress against the Committees approved business plan.</p> <p>6. Budget and Membership Statistics Update Report to provide an update of the Fund's position for the quarter period to 30 September 2019.</p> <p>7. Employer Body Status Update Report to provide an update on issues concerning employer bodies.</p> <p>8. In-depth Review of Pension Fund Risk Register To review the risks within the fund and form an appropriate risk register for the fund.</p> <p>9. Voting and Engagement Report Report to provide an update of the Fund's voting and engagements activities for the half year to 30 September 2019.</p> <p>10. Review of Committee Knowledge & Skills To agree a framework for assessing Committees Knowledge and Skills and a training programme</p> <p>11. Fund Manager Performance Review (EXEMPT ITEM) To consider the performance of fund managers as per the review timetable agreed at earlier committee meetings.</p>	<p>AS</p> <p>AS</p> <p>AS</p> <p>DH</p> <p>AS</p> <p>AS</p> <p>DH</p> <p>AS</p> <p>AS</p> <p>AS</p>

SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2019-20

Date	Proposed Items of Business	Lead Officer
06-Mar-20	<p><u>FORMAL MEETING</u></p> <p>1. LGPS Pooling of Investments Report to provide an update on progress on pooling of investments as per government guidance.</p> <p>2. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.</p> <p>3. Review of Investment Performance Report to provide an update of the Fund's performance for the quarter period to 31 December 2019.</p> <p>4. Review of Administration Performance To review the performance of Peninsula Pensions in delivering the administration service to employers and members.</p> <p>5. Business Plan Update To consider progress against the Committees approved business plan.</p> <p>6. Budget and Membership Statistics Update Report to provide an update of the Fund's position for the quarter period to 31 December 2019.</p> <p>7. Employer Body Status Update Report to provide an update on issues concerning employer bodies.</p> <p>8. Review of Pension Fund Risk Register To review the risks within the fund and form an appropriate risk register for the fund.</p> <p>9. Resources review, budget setting and committee objectives setting To conduct a review of the resources available to the fund and to adopt a budget, committee performance objectives for the 2020-2021 financial year and review the overall performance target for 2020 to 2023.</p> <p>10. Review of cash management arrangements To review the management arrangements for the cash resources held by the fund.</p> <p>11. Future Meetings To agree meeting dates for 2021</p>	<p>AS</p> <p>AS</p> <p>DH</p> <p>AS</p> <p>AS</p> <p>DH</p> <p>AS</p> <p>AS/SM</p> <p>AS</p> <p>AS</p>

SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2019-20

Date	Proposed Items of Business	Lead Officer
05-Jun-20	<p><u>FORMAL MEETING</u></p> <p>1. LGPS Pooling of Investments Report to provide an update on progress on pooling of investments as per government guidance.</p> <p>2. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.</p> <p>3. Review of Investment Performance Report to provide an update of the Fund's performance for the quarter period to 31 March 2019.</p> <p>4. Review of Administration Performance To review the performance of Peninsula Pensions in delivering the administration service to employers and members.</p> <p>5. Business Plan Update To consider progress against the Committees approved business plan.</p> <p>6. Budget and Membership Statistics Update Report to provide an update of the Fund's position for the quarter period to 31 March 2019.</p> <p>7. Employer Body Status Update Report to provide an update on issues concerning employer bodies.</p> <p>8. Review of Pension Fund Risk Register To review the risks within the fund and form an appropriate risk register for the fund.</p> <p>9. Voting and Engagement Report Report to provide an update of the Fund's voting and engagements activities for the half year to 31 March 2019.</p> <p>10. Fund Policies To review and where necessary update the fund's policies and documents.</p> <p>11. Review of Independent Advisor To review the role of the independent advisor to the pensions committee.</p>	<p>AS</p> <p>AS</p> <p>AS</p> <p>DH</p> <p>AS</p> <p>AS</p> <p>DH</p> <p>AS</p> <p>AS</p> <p>AS</p>

Somerset County Council
Pensions Committee

Budget And Membership Statistics Update

<i>Lead Officer:</i>	Sheila Collins: Interim Director of Finance
<i>Author:</i>	Anton Sweet: Funds and Investments Manager
<i>Contact Details:</i>	(01823) 359584 asweet@somerset.gov.uk
<i>Executive Portfolio Holder:</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 31st March 2019 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 full year of the financial year to 31st March 2019 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	32.9
ASI	UK equity	9.5
In-House	US equity	114.8
Jupiter	European equity	153.5
M-BA	Pacific equity	62.7
ASI	Bonds	343.5

Manager	Asset Class	Purchases		Sales		Total £
		Commission £	Expenses £	Commission £	Expenses £	
In-House	Global equity	1,196	1,595	1,106	642	4,540
ASI	UK equity	0	0	0	0	0
In-House	US equity	475	0	536	35	1,046
Jupiter	European equity	2,352	0	2,178	2	4,532
M-BA	Pacific equity	5,023	1,145	4,231	2,001	12,400
ASI	Bonds	0	0	0	0	0
Total		9,047	2,740	8,051	2,680	22,518

Total Transaction Costs

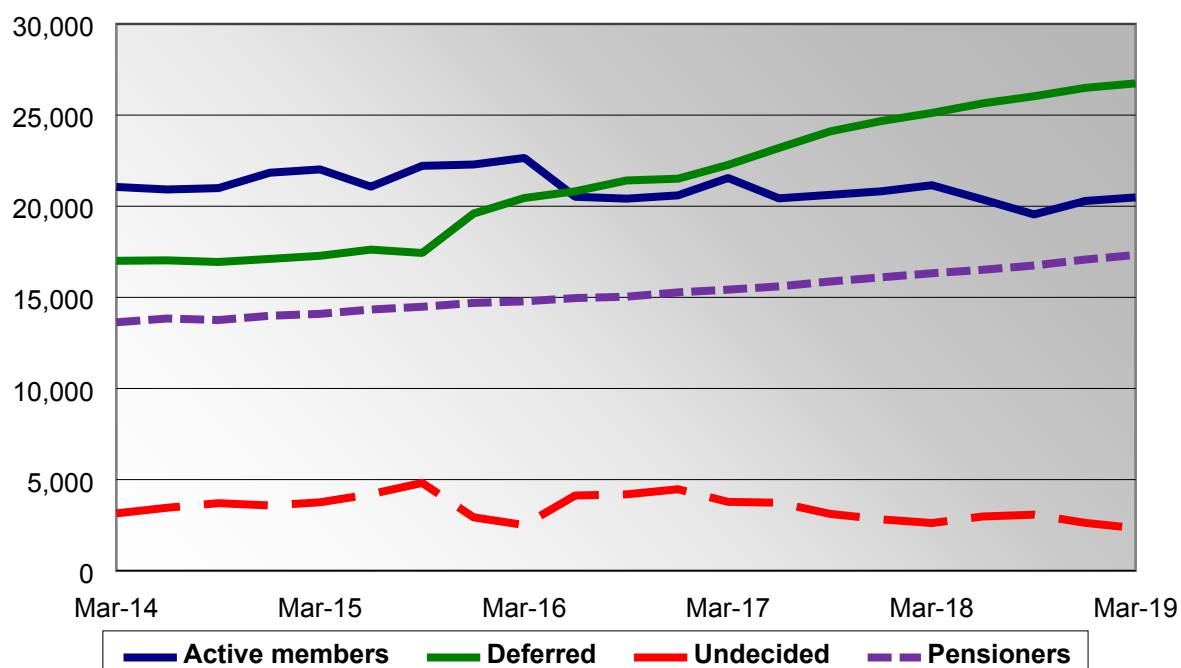


5. Membership Statistics

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

	31 Dec	31 Mar	Change
Active members	20,289	20,485	+196
Deferred	26,497	26,741	+244
Undecided	2,625	2,337	-288
Pensioners	17,074	17,326	+252
Total	66,485	66,889	+404

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 Financial Projection

2018-2019

	2017-2018 Full Year	2018-2019 Full Year			2018-2019 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
Contributions and other income							
Contributions	99.387	100.000	105.980	5.980	100.000	102.000	2.000
Recoveries from employers	2.713	2.100	2.699	0.599	2.100	2.100	0.000
Transfer values received	5.312	2.500	5.672	3.172	2.500	5.500	3.000
	107.412	104.600	114.351	9.751	104.600	109.600	5.000
Less benefits and other payments							
Recurring pensions	-71.213	-76.000	-76.008	-0.008	-76.000	-76.000	0.000
Lump sum on retirement	-16.535	-18.000	-17.761	0.239	-18.000	-18.000	0.000
Lump sum on death	-2.646	-2.500	-2.088	0.412	-2.500	-2.500	0.000
Transfer values paid	-4.205	-4.500	-5.951	-1.451	-4.500	-6.250	-1.750
Contribution refunds	-0.288	-0.400	-0.383	0.017	-0.400	-0.400	0.000
	-94.887	-101.400	-102.191	-0.791	-101.400	-103.150	-1.750
Contributions after payments	12.525	3.200	12.160	8.960	3.200	6.450	3.250
Management Expenses							
Administrative expenses	-1.113	-1.300	-1.170	0.130	-1.300	-1.300	0.000
Investment management expenses	-5.706	-6.500	-6.178	0.322	-6.500	-6.500	0.000
Oversight and governance expenses	-0.800	-0.775	-0.608	0.167	-0.775	-0.775	0.000
	-7.619	-8.575	-7.956	0.619	-8.575	-8.575	0.000
Investment Income							
Investment income	58.515	37.500	45.712	8.212	37.500	45.000	7.500
Net Increase / Decrease (-) in fund	63.421	32.125	49.916	17.791	32.125	42.875	10.750

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Review of Pension Fund Risk Register

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Executive Portfolio Holder: Not applicable
Division and Local Member: 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.
- 2.2 It is suggested that a more thorough review of the risk register should be undertaken by Committee with the help of the Pension Board with a full review of the risks currently on the register and consideration of risks which are not currently covered. This has been added to the workplan for the end of 2019.

3. Changes since last meeting

- 3.1 Some of the commentary in the "additional information and commentary column" has been refreshed. There has been no changes to the risks or the risk scoring.

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 - June 2019

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. 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 Page 63	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	on-going with quarterly review		Hot Spots' refers to employers whose benefits in payment exceed their contributions in a given period.
1. PF4 2. Peter Lewis	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 - June 2019

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. Peter Lewis	Reliance on bespoke IT, which is exacerbated by a lack of experience of these bespoke systems within SCC 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. Pooling will also remove the need for some systems.
1. PF6 2. Pensions Committee Page 64	Risk of Regulatory change: - Implementation of change risks - Consequences of change risks	Continuous engagement with MHCLG 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		The greater resilience gained from the Peninsula Pensions shared service has been balanced by greater complexity coming into the scheme benefits.
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	

Somerset County Council Pension Fund Risk Register - June 2019

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. PF9 2. Anton Sweet	Insolvency of the fund's Global Custodian	Fund's assets held in client accounts not as assets of the custodian Review of credit worthiness and inherent business risk of custodian at tender phase	2	4	8		2	4	8		on-going with quarterly review		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. 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		Added as per Committee request at September 2017 meeting.

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Voting and Engagement

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<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 31st March 2019.

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 company's 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	42
• Votes in line with Company Management on all resolutions	5

- 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 35 company AGMs in the period. Voting was as follows

- For the proposed remuneration 4 (11%)
- Against the proposed remuneration 30 (86%)
- Abstained from voting 1 (3%)

5. Aberdeen Standard Investment (UK Equity)

5.1 A summary of voting activity for the period from 1st October to the point at which shares were transferred to Brunel management is shown below:

- Shareholder meetings at which the Fund's Shares were voted 8
- Votes in Favour of all resolutions 7
- Vote against one or more resolutions 1
- 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 8
- For the proposed remuneration 7 (88%)
- Against the proposed remuneration 1 (12%)
- Abstained from voting 0 (0%)

5.3 Aberdeen Standard 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 6
- Votes In line with company management on all resolutions 5

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

- Meetings with a vote on remuneration 2
- For the proposed remuneration 2 (100%)
- Against the proposed remuneration 0 (0%)
- Abstained from voting 0 (0%)

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 37
- Total Resolutions 261
- Voted for 236
- Voted against 22
- Abstained 3

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

- Meetings with a vote on remuneration 29
- For the proposed remuneration 24 (83%)
- Against the proposed remuneration 5 (17%)
- 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. Brunel

9.1 Following the movement of our passive global equity portfolio in July 2018 and the UK active equity portfolio in November 2018 Brunel is now responsible for voting on a significant proportion of our equity assets.

9.2 Brunel stewardship policy and voting records can be found on their website using the following link:

<https://www.brunelpensionpartnership.org/stewardship/voting-records/>

10. Consultations undertaken

None

11. Financial Implications

11.1 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.

12. Background Papers

None

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

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Somerset County Council
Pensions Committee

Proposed Changes to LGPS Regulations

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

1. Background

1.1 There are a number of strands of new regulations at various stages of development or implementation within the LGPS, these are:

- the period review of the cost of public sector pensions;
- the review of the Fair Deal provisions that govern the protections afforded to staff when they TUPE between employers; and
- the review of the length of the actuarial cycle and related changes.

2. Review of the cost of the LGPS

2.1 Under the public service pension framework, the costs of the pension schemes are periodically assessed to ensure the reforms remain affordable and sustainable.

2.2 In the LGPS there are two mechanisms used to do this:

- The Employer Cost Cap (ECC), which currently stands at 14.6%
- The Future Service Cost (FSC), which currently stands at 19.5%. The FSC is operated by the LGPS Scheme Advisory Board (SAB) and includes employer and member contributions at a ratio of 2:1 (13% employers' contributions and 6.5% relating to members).

2.3 If the total employer contribution rate changes by 2% or more in either direction, changes are required in order to bring the Scheme cost back into line with the target rate.

3.0 The Proposed Changes

3.1 A recent review by the Government Actuary Department (GAD) determined that the costs of the LGPS are now below the target rate. To address this, the SAB has proposed the following improvements to the Scheme, which are due to be implemented on 1st April 2019:

- Removal of Tier 3 Ill Health;
- Minimum Death-in-Service lump sum of £75,000 per member (not employment);
- Enhanced Early Retirement factors for all active members from 1st April 2019 to be applied to all service;
- Revised member contribution rates and bandings, which take account of varying tax relief:
 - a) a 2.75% contribution rate for salaries between £0 and £12,850
 - b) an expansion of Band 2, which will now include salaries between £12,501 and £22,500, and a contribution rate reduction from 5.8% to 4.4%
 - c) an expansion of the 6.8% contribution band from £45,200 to £53,500

3.2 The proposals take into consideration the change in the annual revaluation of CARE (Career Average Revalued Earnings) benefits to CPIH (Consumer Price Index including owner occupiers' housing costs), as opposed to CPI (Consumer Price Index) announced in the October 2018 budget.

3.3 It is expected that the proposals will result in an increase to the average employer future service rate across the scheme of approximately 0.9% of payroll costs. However, the impact on individual employers will vary and will be dependent on the 2019 valuation process.

4. The McCloud Case

4.1 A short consultation on the above regulation changes was expected during February; however, the decision to implement the proposed changes has been delayed, pending the outcome of the McCloud case.

4.2 The McCloud case concerns the transitional protections given to scheme members, who in 2012 were within 10 years of their normal retirement age, in the judges and firefighters schemes as part of public service pensions reform. Tapered protections were provided for those 3-4 years younger. On 20th December 2018 the Court of Appeal found that these protections were unlawful on the grounds of age discrimination and could not be justified.

- 4.3 If the protections are deemed to be unlawful, then those members who are found to have been discriminated against will need to be offered appropriate remedies to ensure they are placed in an equivalent position to the protected members. Such remedies will need to be 'upwards' - that is the benefits of unprotected members will need to be raised rather than the benefits of protected members being reduced.
- 4.4 Protections were applied to all members within 10 years of retirement in all public service schemes, with the form that protection took varying from scheme to scheme. Although the case only relates directly to two schemes it is anticipated that the principles of the outcome could be accepted as applying to all public service schemes.
- 4.5. The Government has applied to the Supreme Court for permission to appeal the decision. Normally a decision on whether to grant permission is received within 3 months of the application, and we expect to receive an update by mid-April 2019.

5. Review of Fair Deal

- 5.1 The Ministry of Housing, Communities and Local Government (MHCLG) released a consultation in May 2016 regarding the introduction of greater pension protection for employees of LGPS employers who are compulsorily transferred to service providers.
- 5.2 The 2016 consultation proposed that, in line with the Government's Fair Deal guidance of October 2013, most LGPS members in this position should have continued access to the LGPS with the new service provider.
- 5.3 A further consultation regarding Fair Deal will be running from 10th January to 4th April 2019, which takes into consideration some of the concerns raised in the initial consultation.

6. Consultation on proposed changes to Fair Deal

- 6.1 The latest consultation is requesting views on the following proposals:
- Amendments that would require service providers to offer LGPS membership to individuals who have been compulsorily transferred from an LGPS employer, removing the option of offering a broadly comparable scheme.
 - Automatic transfer of LGPS assets and liabilities when employers in the scheme are involved in a merger or takeover.
- 6.2 It is also proposed that all LGPS scheme employers will be considered as Fair Deal employers with the exception of:
- further education corporations, sixth form college corporations and higher education corporations (i.e. post-1992 universities)

- admission bodies
- 6.3 Contractors who provide services to the organisations listed above will continue to provide access to the LGPS for transferred staff via an admission agreement with the pension fund (subject to meeting requirements and with the agreement of the contracting employer); however, there would be no obligation for them to do so under the scheme regulations.
- 6.4 A Fair Deal employer must ensure that protected transferees are given access to the LGPS for as long they remain a protected transferee and have an entitlement to membership of the scheme.
- 6.5 Transitional arrangements will cover those staff who have already been outsourced, in order for them to become protected transferees if and when services are re-tendered.
- 6.6 The consultation also proposes that service providers do not necessarily need to become admission bodies to participate in the LGPS. Instead, employers could be given 'deemed employer' status, a classification of employer which already exists within LGPS regulations.
- 6.7 For an employee of a deemed employer, the scheme employer in the LGPS would not be their employer under employment law. For example, the deemed employer of a voluntary school is the associated local authority.
- 6.8 The LGPS Scheme Advisory Board (SAB) will issue guidance to assist employers under Fair Deal with service contracts and to help protect them from potential risks.
- 6.9 The admission body route will remain an option so that Fair Deal employers can decide if they wish for a service provider to become a full scheme employer in the LGPS. This approach may be more appropriate for larger, longer term contracts where it is more fitting for a service provider to have full employer responsibilities under the LGPS regulations.

6.10 The draft regulations include an additional paragraph within part 3 of schedule 2 of the LGPS Regulations 2013, confirming that admission agreements may contain details of the risk sharing arrangements agreed between the Fair Deal employer and the service provider. We anticipate that advice issued by the SAB will contain further details regarding the risk sharing provisions that may be included within admission agreements.

7. Conclusion on Fair Deal changes

7.1 The Fair Deal proposals are intended to strengthen the pension protections that apply following an outsourcing and it is expected that all transferred staff of relevant LGPS employers will benefit equally from the new provisions.

8. Consultation on actuarial cycles and related matters

8.1 The MHCLG released a consultation in early May which is mostly regarding the length of actuarial cycles within the LGPS but contains some other provisions, covering wider areas. The full consultation is available on the following link:

<https://www.gov.uk/government/consultations/local-government-pension-scheme-changes-to-the-local-valuation-cycle-and-management-of-employer-risk>

8.2 The specific areas covered by the consultation are:

- amendments to the local fund valuations from the current 3 year (triennial) to a 4-year (quadrennial) cycle
- a number of measures aimed at mitigating the risks of moving from a triennial to a quadrennial cycle
- proposals for flexibility on exit payments
- proposals for further policy changes to exit credits
- proposals for changes to the employers required to offer local government pension scheme membership

8.3 The consultation closes on 31st July 2019

9. Actuarial Cycles

9.1 MHCLG is proposing to move the LGPS to 4 yearly actuarial valuation cycles as opposed to the current tri-annual reviews to align the LGPS cost management valuation and local LGPS valuations are aligned from 31 March 2024 onwards.

9.2 To align the 2 valuations in 2024 it would be necessary to either have a 5 year first cycle or a 3 year and 2 year cycle until 2024 and then 4 yearly thereafter.

- 9.3 To help administering authorities and employers to cope with the longer actuarial cycles it is proposed to change the regulations to allow interim valuations to be undertaken at the discretion of the administering authority. It is proposed that the trigger points for interim valuations would be subject to statutory guidance and would probably be reflected in each Fund's Funding Strategy Statement.

10. Exit payments

- 10.1 When the last active member of an employee ceases to be active the regulations require a cessation valuation to be undertaken by the Fund's actuary which results in the employer either paying up any deficit or receiving any funding surplus.
- 10.2 MHCLG is proposing to change the regulations to allow employers more flexibility in how and when any deficit is paid for rather than the current situation where the employer is required to meet the full sum immediately.
- 10.3 There are also some proposed changes to how surpluses are paid to employers on cessation. The payment of surpluses on exit is a relatively new provision and so MHCLG is looking to clear up some un-intended consequences that have come to light.

11. Further education establishments

- 11.1 The final area of the MHCLG consultation is a proposal to remove the requirement for further education, higher education and sixth form college corporations in England to offer new employees access to the LGPS.

12. Conclusion

- 12.1 The Committee is asked to note the report.

13. Background Papers

- 13.1 None

Resources Review, Financial Projection Setting and Committee Objective Setting

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<i>Executive Portfolio Holder:</i>	Not applicable
<i>Division and Local Member:</i>	Not applicable

1. Summary

- 1.1 Best practice within LGPS funds is to annually set objectives for the fund, the agreeing of the resources necessary to attain those objectives and a definition or measurement mechanism for success.

2. Issues for consideration

- 2.1 Committee are required to set objectives for the 2019-20 financial year for the fund, agree the resources required to meet the objectives and agree criteria by which attainment of the objectives can be measured. To this end committee are asked to:
- Agree a fund financial projection for the 2019-20 financial year.
 - Review the absolute return target for the investment return of the fund.
 - Consider defining criteria for measuring the success in meeting the committee's objectives for the year.
 - Consider the resources committee requires to meet their objectives for the year.

3. Background

- 3.1 As part of it paper "Investment Decision Making and Disclosure in the Local Government Pension Scheme – A Guide to the Application of the Myners Principles" CIPFA indicated 92 key themes that LGPS funds should consider spread across 6 principles.
- 3.2 A number of these themes are around the setting of objectives, both for the fund as a whole and for the activity of the Pensions Committee. In setting objectives the Committee need to consider the necessary resources needed to reasonably meet those objectives and define how success is to be measured.

4. Fund Objectives

4.1 The funds overall objectives are stated in the Funding Strategy Statement and are:

- Set levels of employer contribution that will build up a fund of assets that will be sufficient to meet all future benefit payments from the Fund.
- Build up the required assets in such a way that employer contribution rates are kept as low and stable as possible.

How each of these aims is to be achieved in broad terms is explained in the Funding Strategy Statement.

4.2 The delivery of constant employer rates and management of liabilities is undertaken in collaboration with the Fund's actuary and centres around the tri-annual valuation process.

4.3 In order to ensure that sufficient resources are available to meet all liabilities as they fall due over the next 12 months, and the costs associated with this aim and the running of the fund in general are managed, a draft financial projection has been produced for the 2019-20 financial year and is attached as appendix A. Committee is asked to review the draft financial projection and approve its adoption subject to any amendments they agree on.

4.4 The maximisation of investment return within reasonable risk is achieved through the management of the investment fund, principally through the creation of the Investment Strategy Statement. To measure the performance of the fund we have a fund specific benchmark that we aim to outperform. Performance of the fund relative to this benchmark is monitored and disclosed quarterly to the committee in the standard performance report, it is proposed that this continues. CIPFA's key themes also state that it is good practice for the fund to set an absolute return target for the fund. Since the discount rate utilised by the actuary is in effect the investment return needed by the fund to achieve the objective of full funding within the deficit recovery period it would be sensible to set an absolute return target consistent with the discount rate. The discount rate used in the 2016 valuation results is 5.4% pa. The current adopted target is 5.4%.

5. Committee Objectives

5.1 The committee's objectives for the forthcoming year are highlighted within the Committee business plan and forward work plan. As part of the business plan update (item 9) committee will reaffirm the objectives set within the business plan.

5.2 Committee are asked to consider how it will assess its performance in meeting

the objectives of the business plan. This may involve setting criteria against which success can be measured.

6. Resources

- 6.1 Committee are asked to consider the resources that they as a committee require to meet the needs of the business plan and work plan. This assessment should include consideration of training needs, facilitation time and whether sufficient formal meeting time is available within the work plan to deliver the objectives.
- 6.2 The Committee is committed to 4 formal meetings a year. There is a presumption of at least one informal meeting or training session per year and officers believe they have the resources to support further meetings should Committee request them.
- 6.3 Benefits administration is provided by Peninsula Pensions, a shared service with Devon CC.
- 6.4 The Investments team of Somerset CC provide investment administration and accounting for the fund along with the bulk of the support of Committee and Pension Board. Currently 2.6 full time equivalent (FTE) employees are charged to the fund and this is currently deemed appropriate by the managers involved. This level of resource was reduced by 1 FTE in July 2018 following the movement of investment funds to Brunel and will continue to be reviewed as more funds move to Brunel.
- 6.5 1 FTE in the Somerset CC corporate accounting team is charged to the fund to cover accounting for benefits and contributions.
- 6.6 Additional support of the Committee and Pension Board is provided by the Community Governance team, specifically the arrangement and support of formal Committee and Board meetings.

7. Consultations undertaken

None

8. Financial Implications

- 8.1 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.

9. Background Papers

None

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

Pension Fund Financial Projection

2019-2020

	2017-2018 Full Year	2018-2019 Full Year			2019-2020 Full Year
	Actual (a) £m	Original Projection (b) £m	Projected Outturn (c) £m	Variance (d) £m	Proposed Projection (e) £m
Contributions and other income					
Contributions	99.387	100.000	102.000	2.000	100.000
Recoveries from employers	2.713	2.100	2.100	0.000	2.100
Transfer values received	5.312	2.500	5.500	3.000	4.500
	107.412	104.600	109.600	5.000	106.600
Less benefits and other payments					
Recurring pensions	-71.213	-76.000	-76.000	0.000	-81.000
Lump sum on retirement	-16.535	-18.000	-18.000	0.000	-18.000
Lump sum on death	-2.646	-2.500	-2.500	0.000	-2.500
Transfer values paid	-4.205	-4.500	-6.250	-1.750	-6.000
Contribution refunds	-0.288	-0.400	-0.400	0.000	-0.400
	-94.887	-101.400	-103.150	-1.750	-107.900
Contributions after payments	12.525	3.200	6.450	3.250	-1.300
Management Expenses					
Administrative expenses	-1.113	-1.300	-1.300	0.000	-1.300
Investment management expenses	-5.706	-6.500	-6.500	0.000	-5.500
Oversight and governance expenses	-0.800	-0.775	-0.775	0.000	-0.775
	-7.619	-8.575	-8.575	0.000	-7.575
Investment Income					
Investment income	58.515	37.500	45.000	7.500	25.000
Net Increase / Decrease (-) in fund	63.421	32.125	42.875	10.750	16.125

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Somerset County Council
Pensions Committee

Investment of Pension Fund Cash

Lead Officer: Sheila Collins: Interim Director of Finance
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Executive Portfolio Holder: Not applicable
Division and Local Member: Not applicable

1. Summary

- 1.1 The legal position regarding how the fund can invest cash was revised by the Government with the introduction of the LGPS (Management and Investment of Funds) Regulations 2009, which came into force from 1st January 2010. Since 1st April 2010 the pension fund cash has been managed by the SCC investments team on a completely segregated basis.
- 1.2 As a matter of good governance the Committee is asked annually to review the arrangements for the management of the Fund's cash and approve the strategy and counterparty criteria.

2. Issues for consideration

- 2.1 Review the arrangements for the management of the Pension Fund sterling cash balances from the following options:
 1. Re-appoint the in-house team to manage these balances on a segregated basis.
 2. Appoint an external cash manager.

If the committee wish to appoint an external manager the current in-house management arrangements would remain in place whilst a competitive tender process is undertaken.

- 2.2 Review and adopt a cash management strategy, the current strategy is attached as appendix A.
- 2.3 Adopt a revised counterparty criteria for the investment of sterling cash balances, a suggested criteria is attached as appendix B.

3. Background

- 3.1 The sterling balances of the Fund are managed with a daily sweep undertaken with the Fund's custodian to clear sterling balances back to the fund's bank account. The balances are a mix of sterling money which has been allocated to fund managers but they are choosing not to invest (frictional cash) and the cash balances of the fund that are being received monthly from employers and paid out to pensioners. These balances do vary. A graph showing the daily value of cash balances since December 2013 is below.



- 3.2 The current practice of the Fund is to leave non-sterling balances in the bank accounts supplied to us by the Global Custodian (JP Morgan), these balances do earn interest but at very low rates. Typically these funds are mostly made up of US Dollars and Euros within Standard Life's fixed interest mandate along with small amounts in a range of other currencies. Typically these balances are less than £4m in total.
- 3.4 Officers are proposing a similar counterparty policy to the one adopted for 2018-19 (attached as appendix B).

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. The next assessment is currently underway.

6. Background Papers

None

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

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Pension Fund Cash Management Strategy

Introduction

The following is the cash management strategy adopted by the Somerset County Council Pension Fund as adopted by the Pensions Committee and sets a broad framework for the management of all cash positions of the fund.

Short-Term Borrowing

The Pension Fund will maintain overdraft facilities on all cash accounts in all currencies at the Global Custodian (JP Morgan) and on its main sterling bank account (NatWest). These facilities are to be used to ensure the clearing of un-anticipated payments from time to time and all overdraft positions, however incurred, should be cleared at the earliest possible opportunity.

It is not envisaged that any borrowing will be required above the overdraft facilities highlighted above however it is prudent to allow the borrowing of funds via a broker from banks, building societies and other local authorities to provide flexibility if unexpected cash flows are incurred. Any borrowing will be limited to a maximum of 1 calendar month in duration and should be limited to a level no higher than cash deposits not instantly realisable (the fund should not incur a net negative cash position).

Investments

Certain balances under the control of fund managers are left in various non-sterling currencies and these are deposited in the cash accounts of the Global Custodian (JP Morgan). The cash does attract interest in these accounts but at a low level.

All sterling funds in the cash accounts at the custodian are the subject of a daily sweep back to the Pension Fund's account with its main bank (NatWest). These funds will then be placed on deposit with counterparties in accordance with the counterparty criteria. The cash fund manager will maintain a list of acceptable counterparties, which meet the counterparty criteria and they intend to utilise, on an on-going basis.

In common with other local authority cash management best practice the emphasis when making deposits will be on security of the principal deposited and liquidity. Only once these criteria are met will the highest yield consistent with these priorities be sought.

Given that the vast majority of the cash funds of the Pension Fund could be required either by fund managers or to meet pension payments and transfers at relatively short notice it is anticipated that a significant level of cash at any time will be invested via time deposits with a short term (a month or less) or deposited in instant access call accounts or money market funds. Should cash flow be such that an amount of funds are identified that are not immediately required these can be deposited for periods up to a maximum of 1 year (370 days). Where time deposits are made these can be made via direct contact with the respective counterparty or via a broker.

The only allowable instruments for the investment of cash are time deposits with suitable counterparties, deposits in interest bearing bank and building society accounts, investments in appropriate Money Market Funds and investments in appropriate UK government bond funds and Sterling short dated investment grade corporate bond funds.

Benchmark

The cash investment portfolio will be benchmarked against Bank of England base rate.

Pension Fund Cash Lending Counterparty Criteria

The following criteria will be used to manage counterparty risks to Somerset County Council Pension Fund for cash deposits from 8th March 2019 (subject to adoption by the SCC Pensions Committee): -

Financial Institutions

Any Financial Institution that is authorised by the FCA to accept deposits, or is a passported EEA institution, which is entitled to accept deposits in the UK, or is a UK Building Society can be lent to, subject to the following rating criteria at the time of the deposit: -

Rating of Counterparty

The following long term ratings are the minimum acceptable level:

Fitch A-
S&P A-
Moody's A3

The maximum deposit amount for any authorised counterparty that has as a minimum all three ratings above will be £10m.

Operational Bank Accounts

Amounts contained in operational bank accounts with the Pension Fund's main Bank (currently Nat West) will not count in the calculation of Nat West's limit as defined above. In the event of unexpected receipts after 2pm on any given working day, money may be placed in an instant access Nat West call account overnight, in breach of the above limits. Whenever this occurs the total lending to Nat West must be reduced to back within their limit on the following working day.

If the Pension Fund's main bank (currently Nat West) have their ratings downgraded below minimum criteria, the instant access Call Account facility may still be used for short-term liquidity requirements and business continuity arrangements.

Public Sector Bodies

Any UK Local Authority or Public Body will have a limit of £10m. Any employer member of the fund may not be used

The UK Government Debt Management Office (DMADF) will be unlimited.

The table below gives a definition and rough comparison of various ratings by the three main agencies: -

Definitions of Rating Agency Ratings

	Fitch		Moody's		S&P	
Short-Term	F1+	Exceptionally strong	P-1	Superior	A-1+	Extremely strong
	F1	Highest quality			A-1	Strong
	F2	Good quality	P-2	Strong	A-2	Satisfactory
	F3	Fair quality	P-3	Acceptable	A-3	Adequate
	B	Speculative	NP	Questionable	B and below	Significant speculative characteristics
	C	High default risk				
	(+) or (-)		(1,2, or 3)		(+) or (-)	
Long-Term	AAA	Highest quality	Aaa	Exceptional	AAA	Extremely strong
	AA	V High quality	Aa	Excellent	AA	Very strong
	A	High quality	A	Good	A	Strong
	BBB	Good quality	Baa	Adequate	BBB	Adequate capacity
	BB	Speculative	Ba	Questionable	BB and below	Significant speculative characteristics
	B	Highly Speculative	B	Poor		
	CCC	High default risk	Caa	Extremely poor		

Financial Groups

For Financial Groups (where two or more separate counterparties are owned by the same eventual parent company) a consolidated limit equal to the limit of a single counterparty (£10m) will apply to the group.

Money Market Funds

With regulatory changes now effected, previously titled Constant Net Asset Value (CNAV) Money Market Funds have been converted into Low Volatility Net Asset Value (LVNAV) funds. Any LVNAV Fund used must be rated by at least two of the main three ratings agency, and must have the following, (or equivalent LVNAV) ratings.

Fitch AAmmf

Moody's Aaa-mf

Standard & Poor's AAAm

UK Government bond funds and Sterling short dated investment grade corporate bond funds may also be used.

Subject to the above, deposits can be made with the following limits: -

The lower of £10m or 0.5% of the total value for individual Funds.

Diversification

At least three counterparties/financial groups must be used if total funds invested are greater than £10m, with each having an investment of at least £1m. No more than 50% of total funds invested can be placed with any single counterparty/financial group.

Other Indicators

The Fund will use a range of indicators, not just credit ratings. Among other indicators to be taken into account will be: -

- Credit Default Swaps and Government Bond Spreads.
- GDP, and Net Debt as a Percentage of GDP for sovereign countries.
- Likelihood and strength of Parental Support.
- Government Guarantees and Support, including ability to support.
- Share Price.
- Market information on corporate developments and market sentiment towards the counterparties and sovereigns.
- Other macroeconomic factors.

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Proposed Dates for 2020 Committee Meetings

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<i>Executive Portfolio Holder:</i>	Not applicable
<i>Division and Local Member:</i>	Not applicable

1. Summary

- 1.1 It is customary to agree meeting dates for the following calendar year at the March meeting annually. Officers believe that this course aids all stakeholders to ensure the dates are kept clear and therefore propose to continue with these arrangements.

2. Issues for consideration

- 2.1 The Committee is asked to approve the following proposed dates for 2019:-
- Friday 6th March 2020 at 10.00 am at County Hall, Taunton
 - Friday 5th June 2020 at 10.00 am at County Hall, Taunton
 - Thursday 17th September 2020 at 2 pm at County Hall, Taunton
 - Annual Meeting, Morning of Friday 18th September 2020, arrangements TBC
 - Friday 4th December 2020 at 10.00 am at County Hall, Taunton

3. Background

- 3.1 The Committee is expected to meet at least quarterly.

4. Consultations undertaken

None

5. Financial Implications

- 5.1 None

6. Background Papers

None

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