

Pensions Committee

Thursday 19 September 2019

2.00 pm 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 - 11 September 2019

For further information about the meeting, please contact Mike Bryant 01823 359048 or MBBryant@somerset.gov.uk/PStiles@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 - 2.00 pm Thursday 19 September 2019

1 **Apologies for Absence**

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

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 Democratic Services team.

3 **Minutes from the Previous Meeting**

The Committee is asked to confirm that the minutes of the meeting on 7 June 2019 are accurate - **To Follow**.

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 7 - 8)**

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 9 - 34)**

To consider this report from the Funds and Investments Manager.

8 **Review of Administration Performance (Pages 35 - 42)**

To consider this report from the Head of Peninsula Pensions.

9 **Business Plan Update (Pages 43 - 52)**

To consider this report from the Funds and Investments Manager.

10 **Budget and Membership Statistics Update (Pages 53 - 58)**

To consider this report from the Funds and Investments Manager.

11 **Review of Pension Fund Risk Register (Pages 59 - 64)**

To consider this report from the Funds and Investments Manager.

Item Pensions Committee - 2.00 pm Thursday 19 September 2019

12 **Annual Report and Investment Performance** (Pages 65 - 70)

To consider this report from the Funds and Investments Manager.

13 **Any Other Urgent Items of Business**

The Chair 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 Administrators for the meeting - Peter Stiles or Mike Bryant on Tel (01823) 357628 or Email: pstiles@somerset.gov.uk or mbryant@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 Peter Stiles or Mike Bryant, the Committee Administrators, by 5.00pm, 3 clear working days before the meeting (ie. by 5.00pm on Friday 13 September 2019).

At the Chair'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 Chair. You may not take direct part in the debate. The Chair will decide when public participation is to finish.

If there are many people present at the meeting for one particular item, the Chair 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 three 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. Hearing Aid Loop System

To assist hearing aid users, the Meeting Room has an infra-red audio transmission system. This works in conjunction with a hearing aid in the T position, but we need to provide you with a small personal receiver. Please request one from the Committee Administrators 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 Administrators so that the Chair 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.

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 2018.
- 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 2018.
- 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 final due diligence stage of the tender process. The EM portfolio is due to transition in Q3 or Q4 of 2019.

- 3.5 Following the Emerging Market equity portfolio will be the High Alpha Global Developed equity portfolio, which is at the invitation to tender stage of the tender process. This portfolio is due to transition in Q4 of 2019 or Q1 of 2020.
- 3.6 The final equity portfolio we are due to invest in is the Global Small Cap equity portfolio. Brunel opened the search for managers for this portfolio at the start of September. This portfolio is due to transition in Q2 or Q3 of 2020.

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 30 June 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 30th June 2019**

1. Somerset County Council (Global Equity)

1.1 The performance for the quarter to 30th June 2019 is summarised in the following table:

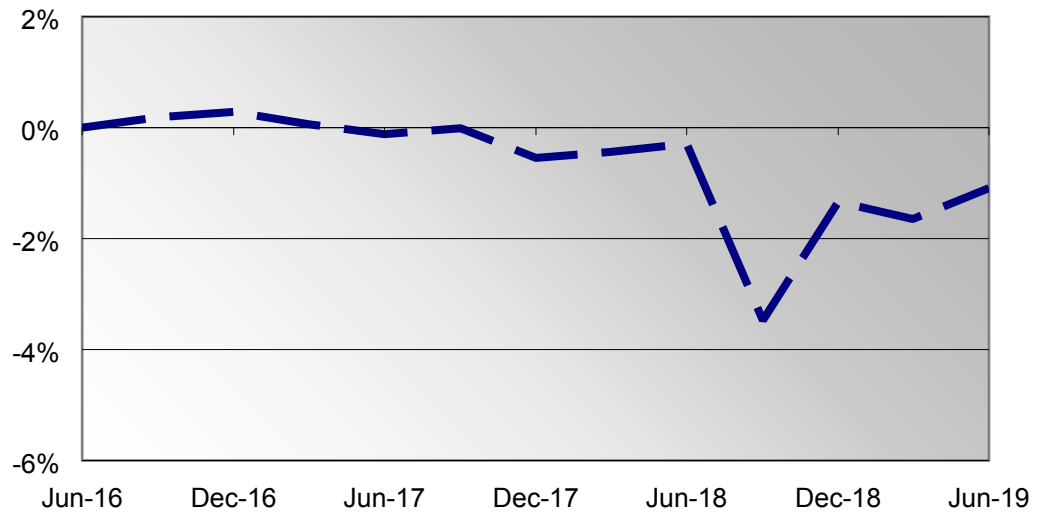
Quarter to 30 June 2019				
Value as at 30 June £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
32.2	Global equities	6.8	6.5	+0.3
0.4	Cash			
32.6	Total	7.0	6.5	+0.5

1.2 The majority of the stock was transferred to a LGIM managed passive pooled fund in July 2018. 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 outperformed 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	9.7	10.3	-0.6
3 years	13.9	14.2	-0.3
5 years	13.4	13.6	-0.2
10 years	14.0	14.1	-0.1

2. Brunel - LGIM (Global Equity)

2.1 The performance for the quarter to 30th June 2019 is summarised in the following table:

Quarter to 30 June 2019			
Value as at 30 June £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
550.8 Global equities	6.5	6.5	+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 30th June 2019 is summarised in the following table:

Quarter to 30 June 2019			
Value as at 30 June £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
10.0 UK	5.3	3.3	+2.0

3.2 The transfer of the majority of this mandate to the equivalent Brunel offering took place in November 2018. 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 good 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 30th June 2019 is summarised in the following table:

Quarter to 30 June 2019			
Value as at 30 June £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
455.4 UK	3.1	3.3	-0.2

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

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

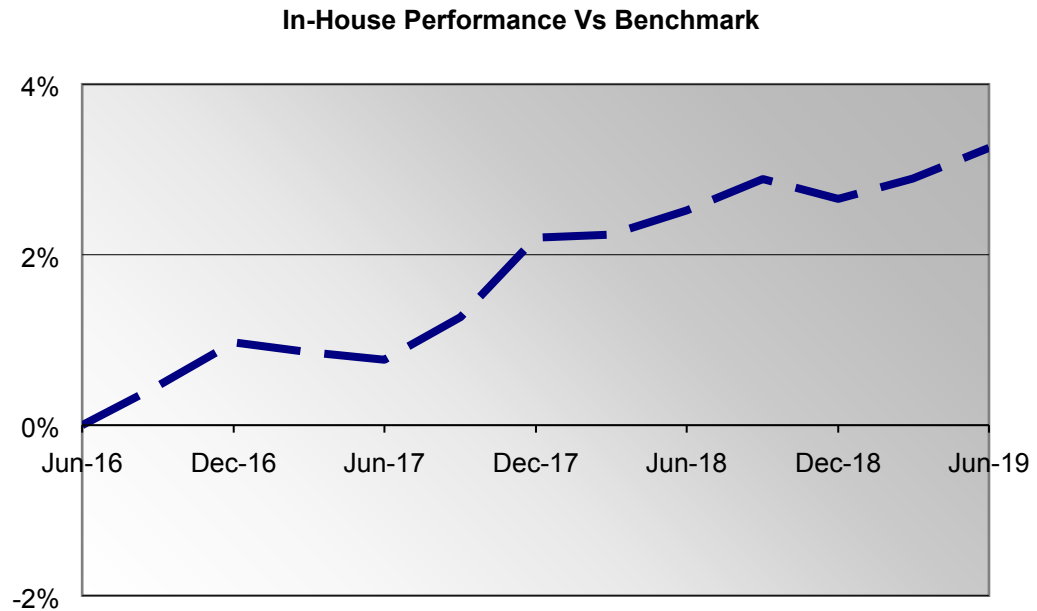
5. Somerset County Council (North American Equities)

5.1 The performance for the quarter to 30th June 2019 is summarised in the following table:

Quarter to 30 June 2019				
Value as at 30 June £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
122.1	North America	6.9	6.8	+0.1
0.0	Cash			
122.1	Total	6.9	6.8	+0.1

5.2 The in-house fund marginally outperformed 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	14.8	14.5	+0.3
3 years	16.9	16.1	+0.8
5 years	17.8	17.4	+0.4
10 years	Initial investment in December 2011		

6. Jupiter (Continental European Equities)

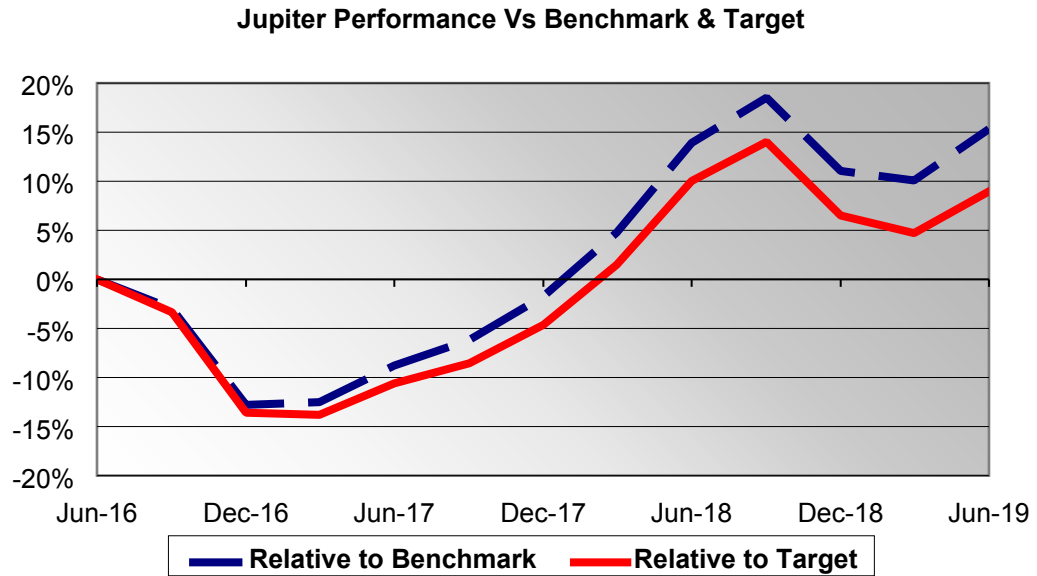
6.1 The performance for the quarter to 30th June 2019 is summarised in the following table:

Quarter to 30 June 2019				
Value as at 30 June £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
170.7	Europe	12.6	8.8	+3.8
1.5	Cash			
172.2	Total	11.9	8.8	+3.1

6.2 Jupiter had a good quarter relative to the benchmark, with outperformance of 3.1%. Absolute performance was strongly positive. Performance relative to benchmark continues to be very volatile from one month to the next.

6.3 Jupiter have announced that Alexander Darwell, the individual fund manager with responsibility for our account, will be leaving the firm to set up his own investment management company. A departure date has not been announced and Alexander is currently still managing our account.

6.4 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.



6.5 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	8.1	7.9	+0.2
3 years	16.5	12.6	+3.9
5 years	15.7	8.9	+6.8
10 years	16.5	10.6	+5.9

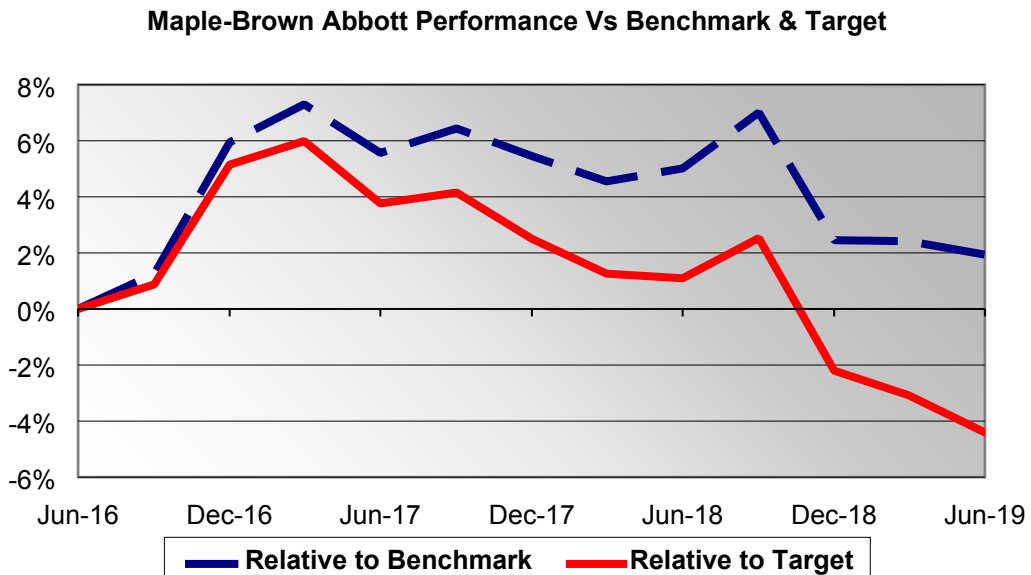
7. Maple-Brown Abbott (Far-East Equities ex-Japan)

7.1 The performance for the quarter to 30th June 2019 is summarised in the following table:

Quarter to 30 June 2019				
Value as at 30 June £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
65.7	Pacific (ex Japan)	5.6	5.9	-0.3
0.5	Cash			
66.2	Total	5.4	5.9	-0.5

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 Australia.

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	4.0	6.4	-2.4
3 years	13.5	12.9	+0.6
5 years	7.8	8.8	-1.0
10 years	Initial investment in July 2014		

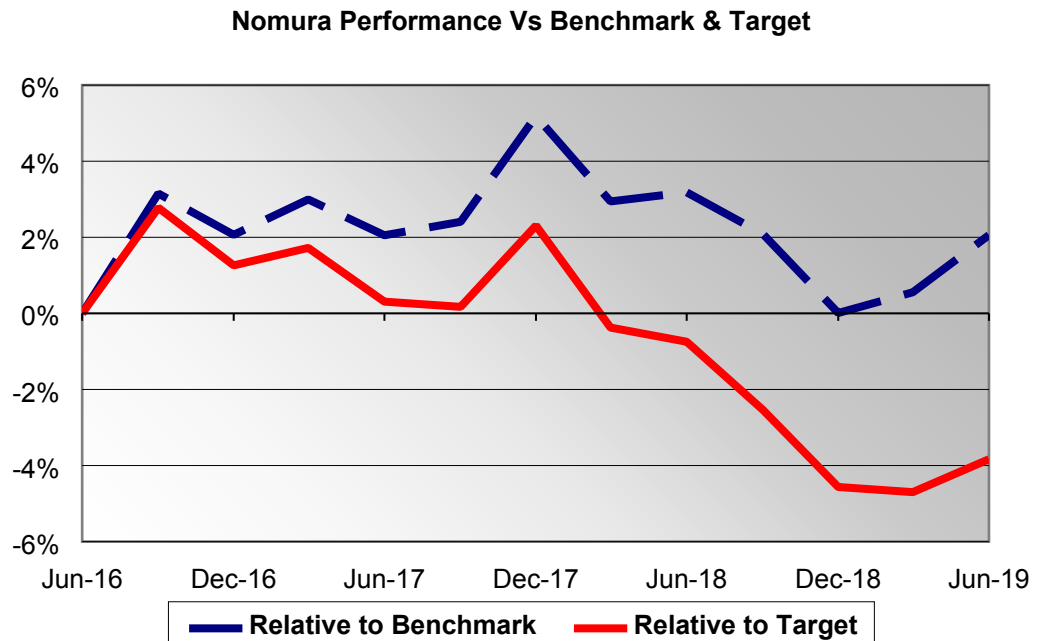
8. Nomura (Japanese Equity)

8.1 The performance for the quarter to 30th June 2019 is summarised in the following table:

Quarter to 30 June 2019			
Value as at 30 June £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
65.6 Japan	3.9	2.7	+1.2

8.2 Absolute performance was strongly positive. Relative performance was positive. Good stock selection in Electrical Appliances 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	-2.9	-2.1	-0.8
3 years	10.6	10.0	+0.6
5 years	10.3	11.5	-1.2
10 years	Initial investment in March 2010		

9. Amundi (Emerging Market Equity)

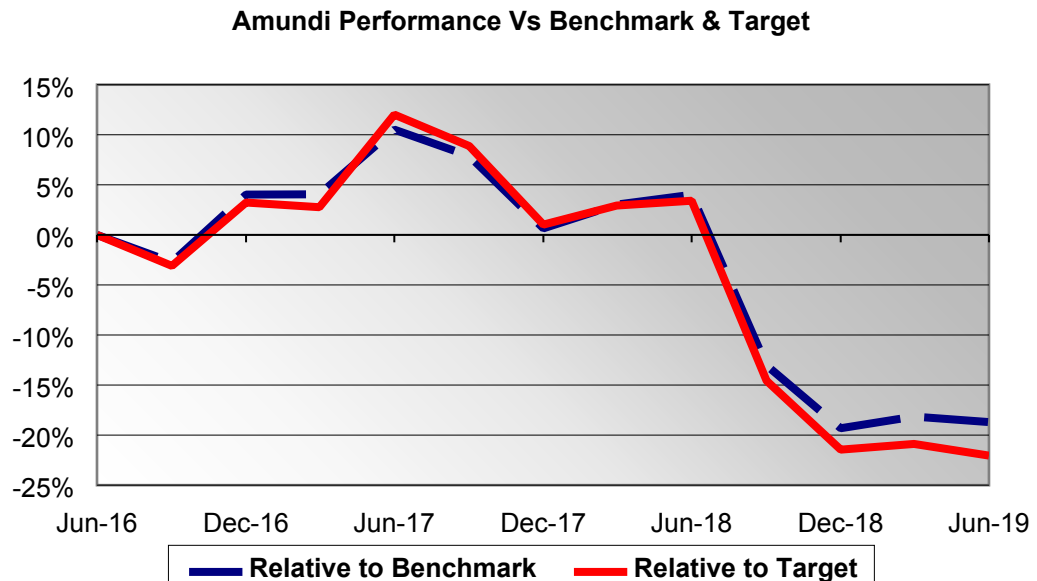
9.1 The performance for the quarter to 30th June 2019 is summarised in the following table:

Quarter to 30 June 2019			
Value as at 30 June £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
84.0	Emerging Market	3.0	3.0
			+0.0

9.2 Relative performance for the quarter was flat, absolute returns were strongly positive.

9.3 During the quarter our investment was moved by Amundi to a different emerging market strategy as part of a re-organisation of their EM offering. We will be invested in this new strategy for a relatively short period before our EM exposure is transferred to Brunel by the end of 2019.

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	-11.4	5.0	-16.4
3 years	7.3	12.5	-5.2
5 years	3.7	8.7	-5.0
10 years	4.9	8.6	-3.7

10. Aberdeen Standard Investments (Fixed Interest)

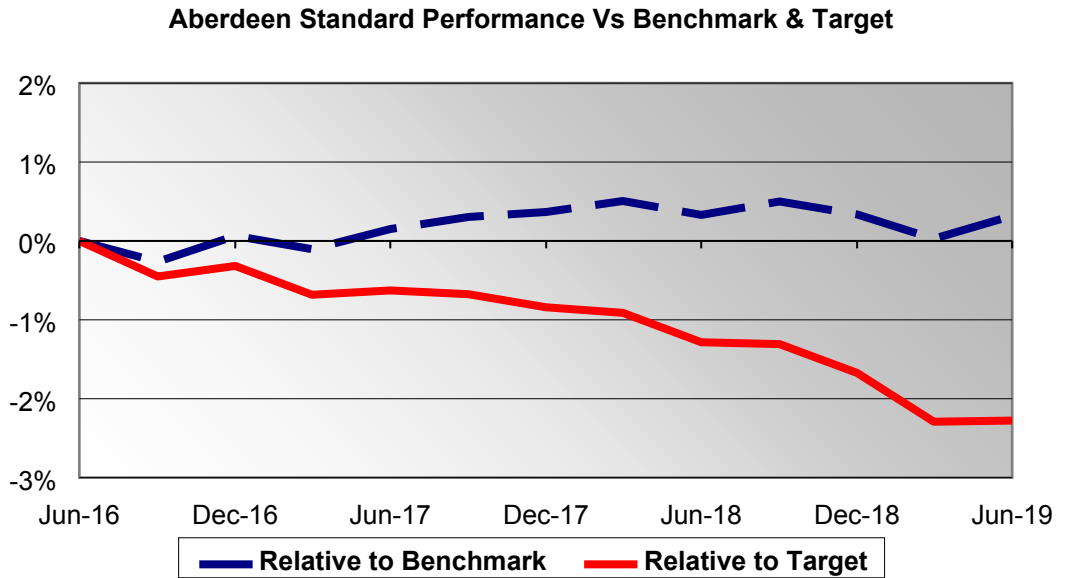
10.1 The performance for the quarter to 30th June 2019 is summarised in the following table:

Quarter to 30 June 2019				
Value as at 30 June £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
62.3	UK Gilts	1.5	1.3	+0.2
73.6	Index Linked	2.4	1.9	+0.5
165.6	Corporate Bonds	3.2	2.9	+0.3
38.9	High Yield Debt	5.1	5.6	-0.5
-10.0	Foreign Gov't Bonds			
4.8	F Gov't Index Linked			
-0.1	Currency Instruments			
17.6	Cash			
352.7	Total	2.6	2.3	+0.3

10.2 Aberdeen Standard outperformed their benchmark for the quarter. Absolute returns were positive. Outperformance in the corporate bond and government bond areas and being underweight UK gilts were the main contributors to the outperformance.

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	7.7	7.7	+0.0
3 years	5.0	4.9	+0.1
5 years	7.2	7.1	+0.1
10 years	8.2	8.2	+0.0

11. LaSalle (Property Fund of Funds)

11.1 The performance for the quarter to 30th June 2019 is summarised in the following table:

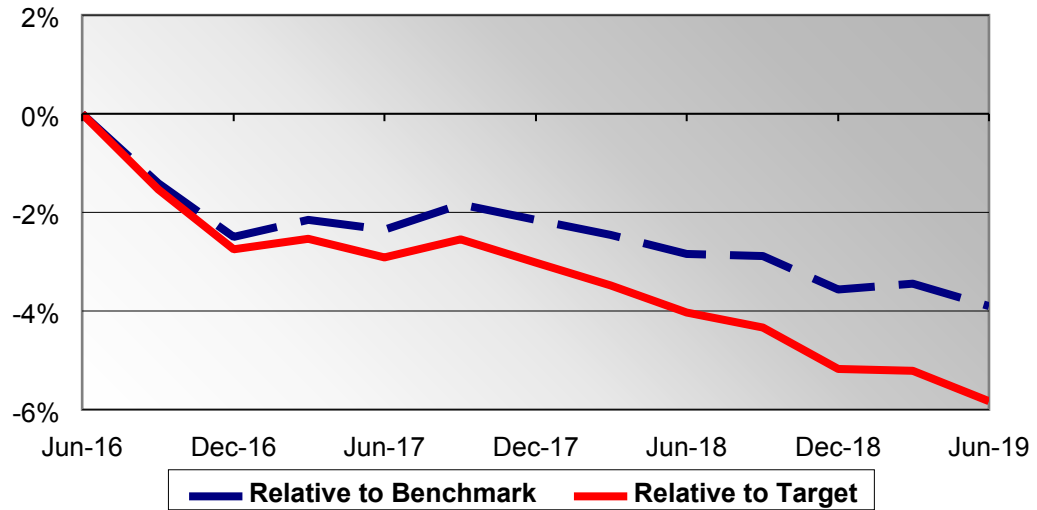
Quarter to 30 June 2019				
Value as at 30 June £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
189.7	UK Property	0.3	0.6	-0.3
0.1	European Property	0.5		
0.0	Currency Instruments			
23.9	Cash			
213.7	Total	0.2	0.6	-0.4

11.2 Property returns from the UK market were just positive for the quarter. The fund underperformed relative to the benchmark. Underperformance was due to the bid offer spread on the purchase of new holdings and continued poor performance from specialist retail holdings.

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.

Aviva Performance Vs Benchmark & Target



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	2.4	3.4	-1.0
3 years	5.1	6.3	-1.2
5 years	6.9	8.3	-1.4
10 years	7.8	8.8	-1.0

12. Neuberger Berman (Global Private Equity)

12.1 The performance for the quarter to 30th June 2019 is summarised in the following table:

Quarter to 30 June 2019			
Value as at 30 June £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
45.6 Private Equity	1.0	0.2	+0.8

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 22.6%.

12.4 The Neuberger Berman Crossroads XX fund is also making good progress. The underlying return on this fund for the quarter, excluding currency movements, was 4.3%.

12.5 The Crossroads XXI fund is also making good progress. The underlying return on this fund for the quarter, excluding currency movements, was 1.3%.

12.6 The Crossroads XXII fund is still very young. The return for the quarter, excluding currency movements, was a small negative at -1.1%. The fund is showing a profit overall.

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	16.5	10.3	+6.2
3 years	12.6	14.2	-1.6
5 years	15.8	13.6	+2.2
10 years	Initial investment in March 2010		

13. South West Ventures Fund

13.1 The fund continues to make reasonable progress.

14. Combined Fund

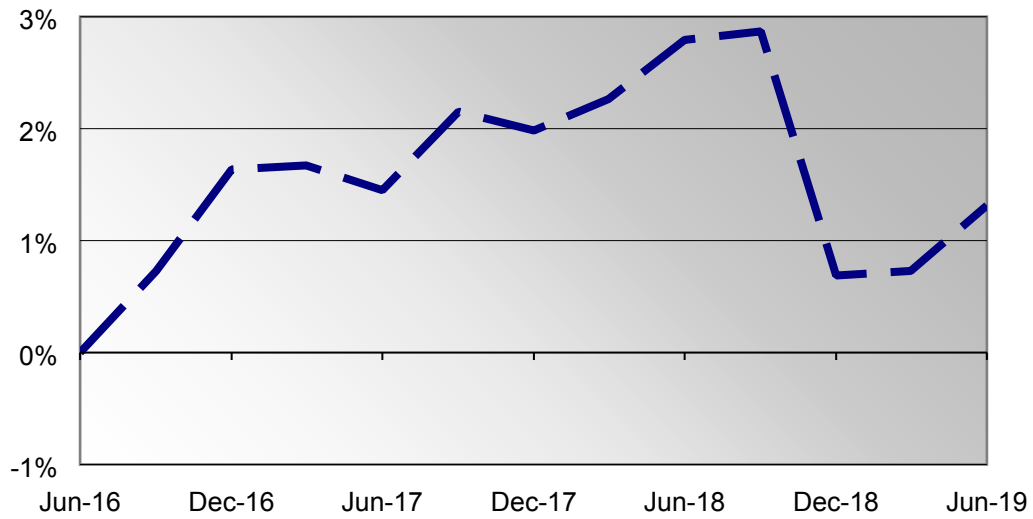
14.1 The performance for the quarter to 30th June 2019 is summarised in the following table:

Quarter to 30 June 2019				
Value as at 30 June £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
32.6	In-House (Global Eq)	7.0	6.5	+0.5
550.8	Brunel (Global Eq)	6.5	6.5	+0.0
10.0	ASI (UK Eq)	5.3	3.3	+2.0
455.4	Brunel (UK Eq)	3.1	3.3	-0.2
122.1	In-House (US Eq)	6.9	6.8	+0.1
172.2	Jupiter	11.9	8.8	+3.1
66.2	Maple-Brown Abbott	5.4	5.9	-0.5
65.6	Nomura	3.9	2.7	+1.2
84.0	Amundi	3.0	3.0	+0.0
352.7	ASI (FI)	2.6	2.3	+0.3
213.7	LaSalle	0.2	0.6	-0.4
1.6	SWRVF	0.0	0.2	-0.2
45.6	Neuberger Berman	1.0	0.2	+0.8
0.8	Brunel	0.0	0.0	+0.0
100.6	Cash	0.2	0.2	+0.0
2,273.9	Whole Fund	4.4	4.0	+0.4

14.2 The fund, as a whole, outperformed its benchmark during the quarter. The level of absolute return was strongly positive. Jupiter, Nomura and Aberdeen Standard produced performance ahead of their targets for the quarter.

14.3 Outperformance was generated by both asset allocation and good stock selection by the managers within the fund. Within asset allocation the overweight to equity and underweight of fixed income were the key contributors.

Whole Fund Performance Vs Benchmark



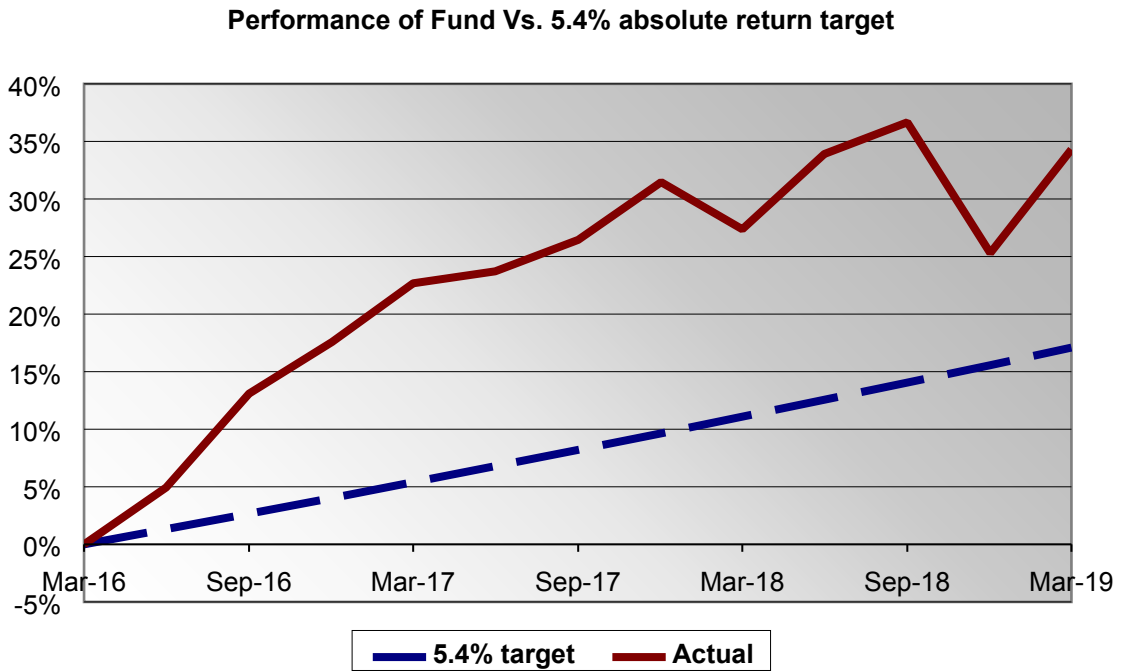
14.4

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	4.7	6.0	-1.3
3 years	10.1	9.8	+0.3
5 years	9.3	9.3	+0.0
10 years	10.7	10.6	+0.1

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.



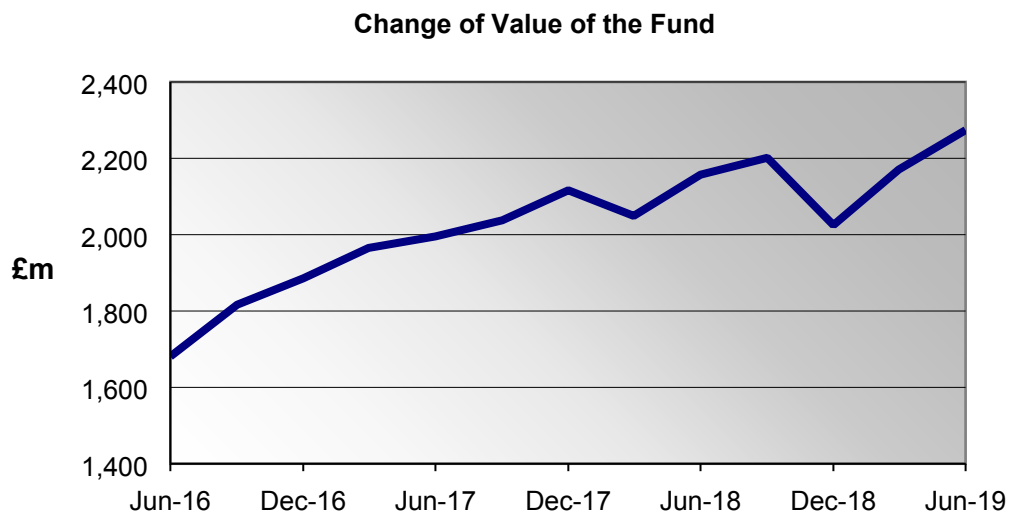
14.6 The movement in the value of the fund over the quarter is summarised in the table below.

	Value as at 31 Mar		Value as at 30 June		Strategic
	£m	%	£m	%	Weighting
In-House (Global Eq)	32.9	2	32.6	1	0
Brunel (Global Eq)	517.1	24	550.8	24	23
ASI (UK Eq)	9.5	0	10.0	0	0
Brunel (UK Eq)	441.5	20	455.4	20	23
In-House (US Eq)	114.8	5	122.1	5	5
Jupiter	153.5	7	172.2	8	5
M-BA (Pac Eq)	62.7	3	66.2	3	3
Nomura	63.1	3	65.6	3	3
Amundi	81.5	4	84.0	4	5
ASI (FI)	343.5	16	352.7	16	19
Aviva	213.4	10	213.7	10	10
SWRVF	1.6	0	1.6	0	0
Neuberger Berman	47.5	2	45.6	2	3
Brunel	0.8	0	0.8	0	0
Cash	87.2	4	100.6	4	1
Whole Fund	2,170.6	100	2,273.9	100	100

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

- £2.8m was withdrawn from the in-house equity fund during the quarter. This represents approximately £0.5m of income and £2.3m of divestment.
- £0.5m was withdrawn from the in-house US equity fund during the quarter. This broadly represents dividend income on this fund during the quarter.
- £2.5m was withdrawn from Neuberger Berman's Private equity mandate as funds returned capital.

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.
- 1.4 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 At the previous meeting of the Committee, we reported that the administration performance for the financial year 2018/19 against internal targets was 82% (compared with 76% for 2017/18).
- 3.2 Performance for the most recent quarter, ending 30th June 2019, has improved again with a success rate of 88% against our internal targets.
- 3.3 Following a 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 the most recent quarter is 95%.

- 3.4 We continue to make improvements to our internal processes and are undertaking 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 will help to improve things further going forward.
- 3.5 Appendix 1 of the report shows a detailed breakdown of administration performance relating to the Somerset Pension Fund only for the quarter ending 30th June 2019 against Peninsula Pensions' internal targets and against the Disclosure Regulations.
- 3.6 Appendix 2 of the report highlights the longer-term performance of Peninsula Pensions (Somerset Fund only) from 1st January 2017 to 30th August 2019. Members will note that the total number of cases outstanding continues to reduce.

4. Employer updates

- 4.1 KGB Southwest Ltd have been awarded the cleaning contract for Yeovil College and joined the fund in a closed arrangement on 1st May 2019.

North Town Primary School joined The Richard Huish Trust on 1st April 2019.

North Cadbury C of E Primary School joined Preston Primary Academy Trust on 1st April 2019.

Brent Knoll school joined The Wessex Learning Trust on 1st April 2019.

King Arthur's School and Charlton Horethorne C of E Primary School joined the Sherborne Area Schools' Trust on 1st April 2019 and 1st May 2019 respectively. Critchill School joined the Midsomer Norton Schools' Partnership on 1st June 2019

St Peter's Nursery joined the West Somerset Academy Trust on 1st June 2019.

- 4.2 The fund currently has the following numbers of employers with active members:
- 79 scheduled body employers made up of 14 scheduled body employers, 15 academy trusts and 50 stand-alone academies
 - 24 resolution bodies
 - 32 admitted bodies

5. Background Papers

5.1 None

Administration Performance - 1st April 2019 to 30th June 2019

	Total	Performance (Internal Targets)	Performance (Disclosure Regs)
High Priority Procedures	2544	88%	91%
Medium Priority Procedures	2876	91%	99%
Low Priority Procedures	660	80%	96%
TOTAL	6080	88%	95%

High Priority

	Total	Performance (Internal Targets)	Performance (Disclosure Regs)
Changes	880	100%	100%
Complaints (Member)	8	100%	100%
Complaints (Employer)	0	-	-
Deaths	179	52%	70%
Payroll	497	99%	99%
Refunds	168	100%	100%
Retirements (Active)	374	61%	73%
Retirements (Deferred)	438	84%	86%
TOTAL	2544	88%	91%

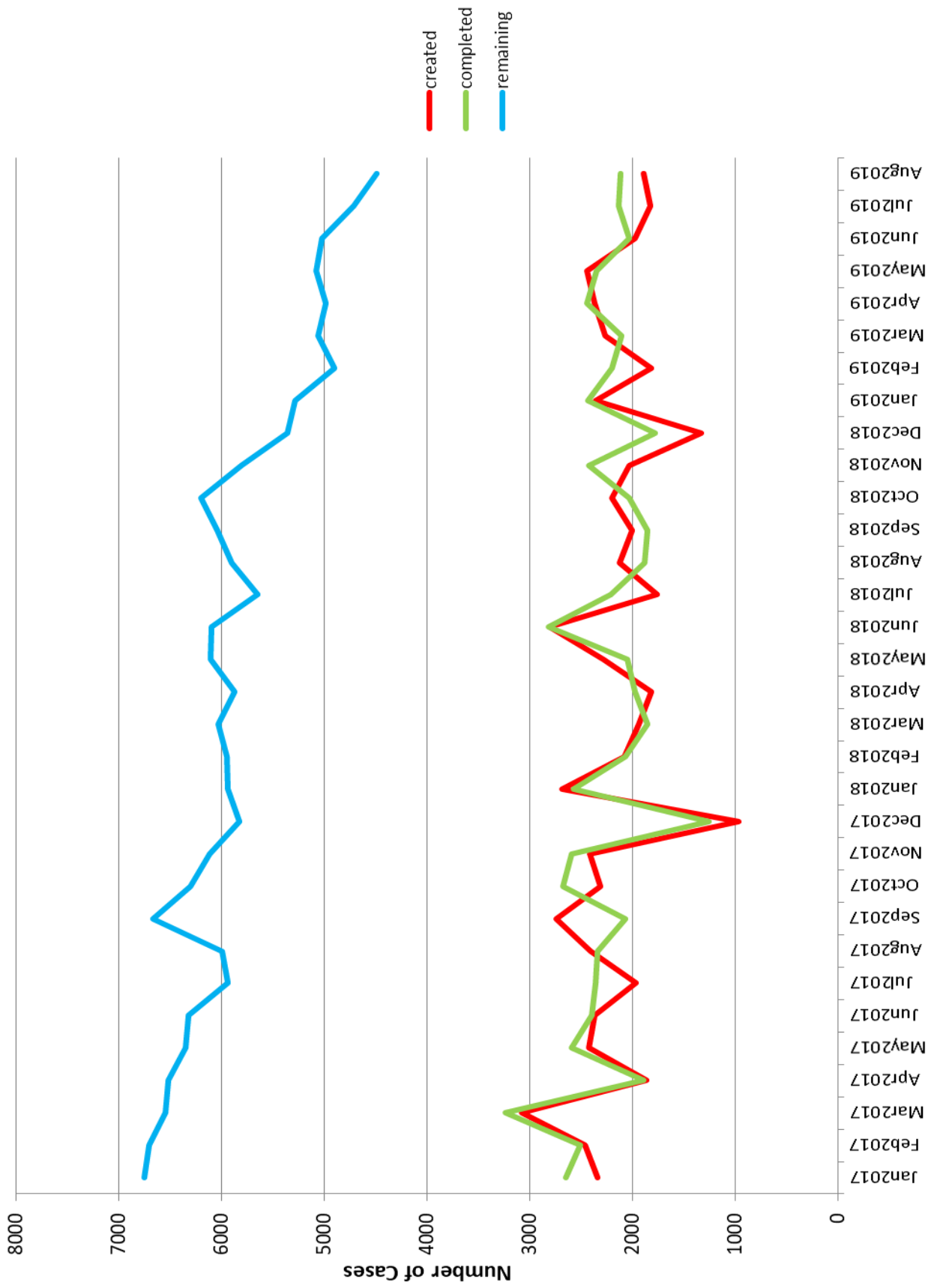
Medium Priority

	Total	Performance (Internal Targets)	Performance (Disclosure Regs)
Amalgamation of Records	305	72%	97%
Deferred Benefit Calculations	484	89%	96%
Divorce Calculations	42	100%	100%
Employer Queries	459	74%	99%
Estimates (Bulk)	0	0%	-
Estimates (Employer)	74	100%	100%
Estimates (Member)	154	95%	97%
General	382	100%	100%
HMRC	13	69%	85%
Member Self-Service	963	100%	100%
TOTAL	2876	91%	99%

Low Priority

	Total	Performance (Internal Targets)	Performance (Disclosure Regs)
Estimates (Other)	35	74%	83%
GMP Queries	2	100%	100%
Interfund Transfers In	28	25%	100%
Interfund Transfers Out	41	24%	98%
Pension Top Ups	114	95%	98%
Frozen Refunds	243	94%	94%
New Starters	13	100%	100%
Pension Transfers In	99	64%	99%
Pension Transfers Out	85	82%	99%
TOTAL	660	80%	96%

Administration Performance (Jan 2017 – August 2019)



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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 the production of the accounts the external audit work was completed in July. The accounts received an unqualified opinion. The production of the Fund's annual report has also been undertaken and is covered in a separate paper.
- 4.3 Work on the triannual valuation is progressing well. Officers have a meeting scheduled with the Actuary at the beginning of October to discuss progress.
- 4.4 Officers continue to monitor legal and regulatory developments such as the conclusion of the courts' consideration of the McCloud case and its implications for the LGPS and the SAB governance review project.

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	Ongoing	Agreed at June 2017 meeting
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 Incumbent will continue at least until transfer of assets to Brunel is substantially complete
Fund Governance	Review Investment Strategy Statement	Medium	Summer 2019	Delayed to allow for further progress on pooling and possible regulatory change
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
Autumn 2019 TBC	<u>Informal Session - Risk</u>	
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. 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>DH</p> <p>AS</p> <p>AS</p> <p>AS</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
December 2019 TBC	<u>ANNUAL MEETING</u> Annual Employers' Meeting of the Pension Fund Venue TBC	

SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2019-20

Date	Proposed Items of Business	Lead Officer
06-Mar-20	<p data-bbox="231 369 464 398"><u>FORMAL MEETING</u></p> <p data-bbox="231 443 619 472">1. LGPS Pooling of Investments Report to provide an update on progress on pooling of investments as per government guidance.</p> <p data-bbox="231 544 632 573">2. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.</p> <p data-bbox="231 645 692 674">3. Review of Investment Performance Report to provide an update of the Fund's performance for the quarter period to 31 December</p> <p data-bbox="231 745 740 775">4. Review of Administration Performance To review the performance of Peninsula Pensions in delivering the administration service to employers and members.</p> <p data-bbox="231 891 523 920">5. Business Plan Update To consider progress against the Committees approved business plan.</p> <p data-bbox="231 992 780 1021">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 data-bbox="231 1093 721 1122">7. Review of Pension Fund Risk Register To review the risks within the fund and form an appropriate risk register for the fund.</p> <p data-bbox="231 1193 1083 1223">8. 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 data-bbox="231 1373 791 1402">9. Review of cash management arrangements To review the management arrangements for the cash resources held by the fund.</p> <p data-bbox="231 1473 480 1503">10. Future Meetings To agree meeting dates for 2021</p>	<p data-bbox="1453 477 1490 506">AS</p> <p data-bbox="1453 678 1490 707">AS</p> <p data-bbox="1453 790 1490 819">DH</p> <p data-bbox="1453 925 1490 954">AS</p> <p data-bbox="1453 1025 1490 1055">AS</p> <p data-bbox="1453 1126 1490 1155">AS</p> <p data-bbox="1430 1238 1514 1267">AS/SM</p> <p data-bbox="1453 1417 1490 1447">AS</p> <p data-bbox="1453 1518 1490 1547">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 2020.</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 2020.</p> <p>7. Review of Pension Fund Risk Register To review the risks within the fund and form an appropriate risk register for the fund.</p> <p>8. Voting and Engagement Report Report to provide an update of the Fund's voting and engagements activities for the half year to 31 March 2020.</p> <p>9. Fund Policies To review and where necessary update the fund's policies and documents.</p>	<p>AS</p> <p>AS</p> <p>DH</p> <p>AS</p> <p>AS</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
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 2020.</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 2020.</p> <p>7. Review of Pension Fund Risk Register To review the risks within the fund and form an appropriate risk register for the fund.</p> <p>8. Annual Accounts and Investment Performance 2019/2020 To consider the accounts and investment performance for the year to 31 March 2020.</p> <p>9. 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>AS</p> <p>AS</p> <p>BW</p>

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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 30th June 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 1st quarter of the financial year to 31st March 2020 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	32.6
ASI	UK equity	10.0
In-House	US equity	122.1
Jupiter	European equity	172.2
M-BA	Pacific equity	66.2
ASI	Bonds	352.7

Manager	Asset Class	Purchases		Sales		Total £
		Commission £	Expenses £	Commission £	Expenses £	
In-House	Global equity	352	239	1,001	415	2,008
ASI	UK equity	0	0	0	0	0
In-House	US equity	329	0	492	34	855
Jupiter	European equity	1,917	3,080	755	0	5,753
M-BA	Pacific equity	5,507	936	3,784	1,820	12,047
ASI	Bonds	0	0	0	0	0
Total		8,106	4,256	6,032	2,269	20,662

Total Transaction Costs

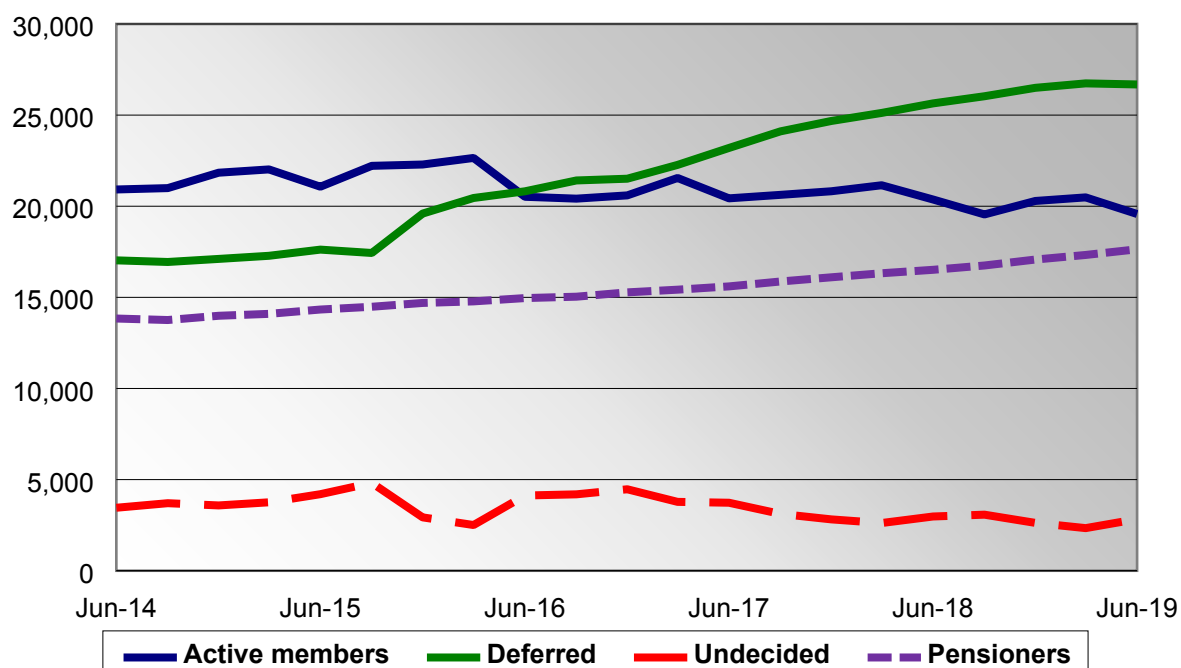


5. Membership Statistics

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

	31 Mar	30 June	Change
Active members	20,485	19,574	-911
Deferred	26,741	26,682	-59
Undecided	2,337	2,829	+492
Pensioners	17,326	17,637	+311
Total	66,889	66,722	-167

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

2019-2020

	2018-2019 Full Year	April 2019 - June 2019			2019-2020 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	105.980	25.000	17.596	-7.404	100.000	100.000	0.000
Recoveries from employers	2.699	0.525	0.294	-0.231	2.100	2.100	0.000
Transfer values received	5.672	1.125	9.384	8.259	4.500	12.000	7.500
	114.351	26.650	27.274	0.624	106.600	114.100	7.500
Less benefits and other payments							
Recurring pensions	-76.008	-19.750	-20.051	-0.301	-81.000		81.000
Lump sum on retirement	-17.761	-4.500	-5.196	-0.696	-18.000		18.000
Lump sum on death	-2.088	-0.625	-0.481	0.144	-2.500		2.500
Transfer values paid	-5.951	-1.500	-2.279	-0.779	-6.000		6.000
Contribution refunds	-0.383	-0.100	-0.101	-0.001	-0.400		0.400
	-102.191	-26.475	-28.108	-1.633	-107.900	0.000	107.900
Contributions after payments	12.160	0.175	-0.834	-1.009	-1.300	114.100	115.400
Management Expenses							
Administrative expenses	-1.170	-0.010	-0.187	-0.177	-1.300		1.300
Investment management expenses	-6.178	-0.600		0.600	-5.500		5.500
Oversight and governance expenses	-0.608	-0.100	-0.070	0.030	-0.775		0.775
	-7.956	-0.710	-0.257	0.453	-7.575	0.000	7.575
Investment Income							
Investment income	45.712	7.250	8.758	1.508	25.000	25.000	0.000
Net Increase / Decrease (-) in fund	49.916	6.715	7.667	0.952	16.125	139.100	122.975

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Review of Pension Fund Risk Register

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 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 - September 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 61	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 - September 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 62	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 - September 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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Annual Report and Investment Performance

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

1. Summary

- 1.1 This report is intended to give members an overview of the fund's accounts, the information within the accounts, the investment performance for the 2018-2019 financial year and related matters covered in the Fund's Annual Report.
- 1.2 The full annual report will appear on the SCC website following the formal adoption by the committee and the issue of the consistency opinion by the external auditor.
- 1.3 Under the LGPS regulations the Fund is required to produce an Annual Report and publish it by 1st December each year. Much of the content of the annual report is either required under the regulations or under statutory guidance issued by CIPFA.

2. Issues for consideration

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

4. Accounts analysis

4.1 Contributions

Overall contributions from employers and employees increased by 6.6% to £106.0m. Contributions from employees grew by 0.9%, this is significantly above the 3% decrease in active members. Employer contributions increased by 8.1%. The employer normal contributions increased by 1% over the previous year, this is consistent with the increase in the level of employee contributions. Deficit funding increased by 6.9% as further increases in the fixed deficit recovery amounts certified by the actuary came into force.

4.2 Recurring Pensions

Payments of pension to members increased by 6.7% to £76.0m. Pensioner numbers were higher during the year by slightly less than the increase in payments so the average pension value increased marginally by 0.7% to £4,518. Pensions in payment increased by 3.0% for inflation effective from 1st April 2018.

4.3 Net Additions from dealings with members

The cash flow from contributions over payments has deteriorated slightly from an inflow of £12.5m to an inflow of £12.2m. Increases in recurring pensions and lump sum payments slightly outstripping the increase in contributions.

4.4 Administrative expenses

Administrative expense (Peninsula Pensions cost) increased by 5.0% to £1.2m. This is modest considering the 2.6% increase in membership and 2.4% increase in the number of active employers. The administration cost per member increased by 2.0% to £17.71.

4.5 Investment Expenses

Investment expense increased by 8.3% compared to the 2017-2018 figure to £6.2m. The 8.7% increase in fund managers' fees (outside of Brunel) was more than accounted for by an increase in performance related fees compared to the prior year. Fund manager fees charged via Brunel were in line with reductions seen on fees from the external fund managers that had previously managed those funds. This means there were insufficient savings to compensate for the £0.6m of fees charged by the Brunel company. The ratio of investment expenses per £ of the average net investment assets during the year has risen by 3.6% to 0.29p.

4.6 Oversight and governance expenses

Oversight and Governance costs fell by 24% during the year to £0.6m. This reduction largely reflects the removal of consultancy and legal costs associated with the initial set-up of Brunel.

4.7 Total Expenses

Total expenses for the fund increased by 4.4% to £8.0m. This represents a 1.4% increase in the total cost per member to £120.46 and total expenses per pound of assets is static compared to the prior year at 0.38p.

4.8 Investment Income

Investment income (dividends and bond interest received) for the year decreased by 21.4% to £46.9m. This reduction was to be expected as we transferred direct holdings in dividend paying shares for non-distributing units in Brunel pooled funds during the year. We expect the amount of investment income collected to continue to noticeably reduce as the transfer of assets to Brunel continues. The yield on average net investment assets fell from 3.0% to 2.2%.

4.9 Actuarial present value of promised retirement benefits

The pension liability shown in the balance sheet increased by 3.6% to £3.9bn. £30.3m of the increase in the liability was due to the adjustment made to account for the McCloud judgement. The liability net of assets increased by 0.8%.

4.10 Membership statistics

Total membership increased by 2.6%. Active members decreased by 3.2% during the year and the number of deferred members increased 6.5%. The number of pensioners increased by 6.2% during the year. The ratio of active members for each pensioner has fallen to 1.18.

5. Investment Performance

- 5.1 Investment performance for the financial year was 5.4%. Performance for the year was below the fund's scheme specific benchmark of 6.8%. Asset allocation cost 0.3% during the year, 2/3rds of this was due to the overweight cash position and the remainder due to overweight exposure to European equity, although Jupiter's outperformance slightly compensates for this. The remaining 1.1% of difference was due to the underperformance of the fund managers collectively. Over half of this element was due to Amundi significantly underperforming on the emerging market equity mandate. There were also significant impacts from Aberdeen Standard on the UK equity portfolio and the in-house global passive portfolio although these were heavily impacted by the transition of assets out to Brunel. Some of these negative impacts by fund managers were matched by outperformance by Jupiter and Neuberger Berman.
- 5.2 Looking at longer periods the three-year return at 10.3% p.a. is very healthy in an absolute sense but 0.2%p.a. below the benchmark return.
- 5.3 The fund's 5-year return was 8.7% p.a., and the 10 year return was 11.3%p.a..

6. Consultations undertaken

None

7. Financial Implications

- 7.1 Over time the performance of the pension fund investments will impact the amount that the County Council and other sponsoring employers have to pay into the fund to meet their liabilities. The fund actuary calculates these amounts every three years and sets payments for the intervening periods. The next assessment is due in late 2019 using data from March 2019.

8. Background Papers

Somerset County Council Pension Fund Annual Report and Financial Statements 2018/19.

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