

PENSIONS COMMITTEE

Friday 18 March 2022

10.00 am Microsoft Teams Meeting



To: The members of the Pensions Committee

Cllr J Thorne (Chair), Cllr G Noel, Cllr S Coles, Cllr J Parham, Cllr Ross Henley, Gordon Bryant and Sarah Payne

All Somerset County Council Members are invited to attend.

Issued By Scott Wooldridge, Strategic Manager - Governance and Democratic Services - 10 March 2022

For further information about the meeting, please contact Neil Milne on 01823 359045 or ndmilne@somerset.gov.uk

Guidance about procedures at the meeting follows the printed agenda and is available at www.somerset.gov.uk

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

Are you considering how your conversation today and the actions you propose to take contribute towards making Somerset Carbon Neutral by 2030?



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AGENDA

Item Pensions Committee - 10.00 am Friday 18 March 2022

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

1 Apologies for absence

To receive apologies for absence.

2 Declarations of Interest

Details of all Members' interests in District, Town and Parish Councils can be viewed on the Council Website at [County Councillors membership of Town, City, Parish or District Councils](#) and this will be displayed in the meeting room (Where relevant).

The Statutory Register of Member's Interests can be inspected via request to the Democratic Service Team.

3 Notes from the previous meeting (Pages 9 - 12)

The Committee is note the summary of the last meeting.

4 Public Question Time

The Chair 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 Local Government Reorganisation in Somerset

To receive a verbal update on implications of the Unitary process and forming the new Somerset Council on the Pension Fund from the Funds & Investments Manager.

6 LGPS Pooling of Investments (Pages 13 - 16)

To consider this report from the Funds & Investments Manager.

7 Independent Investment Advisor's Report

To receive a verbal update on developments in financial markets.

8 Review of Investment Performance (Pages 17 - 40)

To consider this report from the Funds & Investments Manager.

- Item Pensions Committee - 10.00 am Friday 18 March 2022
- 9 **Review of Administration Performance** (Pages 41 - 46)
To consider this report from the Head of Peninsula Pensions.
- 10 **Business Plan Update** (Pages 47 - 54)
To consider this report from the Funds & Investments Manager.
- 11 **Finance and Membership Statistics Update** (Pages 55 - 58)
To consider this report from the Funds & Investments Manager.
- 12 **Review of Pension Fund Risk Register** (Pages 59 - 64)
To consider this report from the Funds & Investments Manager.
- 13 **Investment Strategy Statement** (Pages 65 - 100)
To consider a new Investment Strategy Statement.
- 14 **Resources Review, Financial Forecast Setting and Committee Objective Setting** (Pages 101 - 106)
To consider this report from the Funds & Investments Manager.
- 15 **Cash Management Strategy** (Pages 107 - 116)
To consider this report from the Funds & Investments Manager.
- 16 **Review of Pensions Committee Terms of Reference** (Pages 117 - 126)
To consider this report from the Funds & Investments Manager.
- 17 **Any other urgent items of business**
The Chair may raise any items of urgent business.

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General Guidance notes for Somerset County Council advisory virtual meetings

1. **Advisory Virtual Council Public Meetings**
Please be advised that this is an Advisory Board meeting and as a consultative meeting without any decisions to be made. It is not a meeting as defined under the Local Government Act 1972 or Local Government Act 2000 and therefore can take place virtually.
2. **Inspection of Papers**
Any person wishing to inspect minutes, reports, or the background papers for any item on the agenda should contact Democratic Services at democraticservices@somerset.gov.uk or telephone 01823 357628. They can also be accessed via the council's website on www.somerset.gov.uk/agendasandpapers.
3. **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 on the council website at [Code of Conduct](#).
4. **Minutes of the Meeting**
Details of the issues discussed, and recommendations made at the meeting will be set out in the minutes, which the Advisory Board will be asked to approve as a correct record at its next meeting.
5. **Public Question Time**
If you wish to speak, please contact Democratic Services by 5pm 3 clear working days before the meeting. Email democraticservices@somerset.gov.uk or telephone 01823 357628. A slot for Public Question Time is set aside near the beginning of the meeting, after the minutes of the previous meeting have been agreed. However, questions or statements about any matter on the agenda for this meeting may be taken at the time when each matter is considered.

At the Chair's invitation you may ask questions and/or make statements or comments about any matter on the Board's agenda – providing you have given the required notice. You may also present a petition on any matter within the Board's remit. The length of public question time will be no more than 20 minutes in total.

You must direct your questions and comments through the Chair. You may not take a 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 to three minutes only.

In line with the council's procedural rules, if any member of the public interrupts a meeting the Chair will warn them accordingly. If that person continues to interrupt or disrupt proceedings the Chair can ask the Democratic Services Officer to remove them as a participant from the meeting.

6. **Meeting Etiquette**

- Mute your microphone when you are not talking.
- Switch off video if you are not speaking.
- Only speak when invited to do so by the Chair.
- Speak clearly (if you are not using video then please state your name)
- If you're referring to a specific page, mention the page number.
- Switch off your video and microphone after you have spoken.
- There is a facility in Microsoft Teams under the ellipsis button called turn on live captions which provides subtitles on the screen.

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. 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 Meeting Administrator so that the relevant 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.

Advisory Board meetings are not recorded by the Council as they are not formal meetings.

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Pensions Committee

Minutes of the Pensions Committee held on Friday 7 January at 10.00am.

Committee Members Present:

Cllr J Thorne - Chair

Cllr G Noel, Mr. P Butler, and Mrs. S Payne

Also present: Mrs Burton – Independent Advisor.

1 Apologies for Absence - agenda item 1

Apologies were received from Cllr S Coles and Mr G. Bryant

2 Declarations of Interest - agenda item 2

No new declarations of interest were reported.

3 Minutes of the Previous Meeting - agenda item 3

The Committee were unable to agree and sign off the Minutes of the meeting held on 10 September 2021 as a correct record, due to the meeting attendance not being quorate.

4 Public Question Time - agenda item 4

The Chair welcomed 1 member of the public who was present and invited them to address the Committee.

The Committee heard from Sigurd Reimers who raised the question of whether the Pensions Committee would be engaging with companies that invest in fossil fuels, rather than to investment/disinvestment. The Funds and Investments Manager provided a response noting that resources and expertise prohibited the Committee from directly engaging with companies and with over 90% of assets now invested through Brunel engagement was led by them and their engagement partner on the Committee's behalf. Members supported the work of Brunel and the approach they take.

5 Local Government Reorganization - agenda item 5

The Funds and Investments Manager addressed the meeting explaining that he would provide Members with a regular update at future meetings on the local government reorganization. A workstream for Pensions has been formed, and a meeting had been held last December to discuss issues.

It was suggested and accepted that this presented a good opportunity to refresh the Terms of Reference for both the Pensions Board and Pensions Committee, with any

suggested amendments being submitted to the Council's Constitution and Standards Committee and Full Council later in the year. The update was accepted.

6 LGPS Pooling of Investments - agenda item 6

The Funds and Investments Manager provided the Committee with an overview of his report, noting that overall, the pooled investments had remained the same. He noted that due to the issue of sensitivity around budgets, it might be necessary for some aspects to be discussed in a confidential session.. The request to approve a £60m investment in Brunel's private equity cycle 3 will be held over to the March meeting as the meeting was not quorate.

7 Independent Investment Advisor's Report - agenda item 7

The Independent Investment Advisor addressed the meeting and she began by noting that the market remained difficult to judge at the moment due to the number of uncertainties both economical and geopolitical.

There was a question about now would be a good time (post Brexit) to invest in Startups and new ventures and in response it was suggested that such business needed to be looked at carefully. There was a question about why gold had not performed as well as expected and Members heard that one reason was related to Indian weddings which usually took place in February and were an indicator of how gold performs (as it was an important part of the dowry) but with ongoing effects of COVID this has affected the price of gold.

The Committee noted the report.

8 Review of Investment Performance - agenda item 8

The Funds and Investments Manager provided the meeting with an overview of his report, noting that returns in the quarter to September remained healthy. With inflation and interest rates at their highest for some time, this had increased the cost of Pensions.

The Committee noted the report.

9 Review of Administration Performance - agenda item 9

The Committee considered this report which explained that the administrative team had been able to keep up with its internal workload, with 90% being completed within 10

days of all information being received. There had been, unfortunately, a continuing rise in the number of deaths and this would be monitored closely.

There was a question about performance can be improved on critical work as this had been a concern a couple of quarters ago. In response it was explained that there has been a reduction in the work the administrative team was required to complete, meaning more resources were available to assist in other areas. There was a question about Pension transfers and what checks were carried out and in response assurance was provided as regulations, effective from 30 November 2021, required stringent checks to be completed before transfers.

The Committee noted the report.

10 **Business Plan Update** - agenda item 10

The Funds and Investments Manager noted that there had been no changes since the last meeting. Members were pleased to note that there had been a significant number of applications for the Pensions Board vacancy.

New members had been appointed to the Pensions Board in October, Mrs Rachel Ellins and Cllr Anne Hills and Cllr Hills was subsequently elected by the Pensions Board to be its Chair at the November meeting.

Mr Roderick Bryant and Mr Antony White had been appointed last December to the Pensions Board.

The Committee noted the Update.

11 **Finance and Membership Statistics Update** - agenda item 11

Members considered a quarterly report by the Funds and Investments Manager, and he highlighted the long-term trends which were well established. The level of contributions was behind and would be made up at the year end.

There was a question requesting reassurance regarding the lag in contributions and whether this was similar with other Pension Funds and the Funds and Investments Manager provided an explanation about why this happens and that it would be caught up. The Committee noted the report.

12 **Review of Pension Fund Risk Register** – agenda item 12

The Funds and Investments Manager introduced the report that reviewed the Pension Fund's risk register, noting there had been no changes since the last report. The report was accepted.

13 **Investment Strategy Statement** – agenda item 13

The Funds and Investments Manager provided an overview of this report and explained that he would bring a draft version for adoption at the March meeting. He noted that the Pensions Board had approved the report at their meeting in November, with a few amendments, which he highlighted.

As the meeting was not quorate it was not possible to formally adopt the proposed Investment Strategy Statement and this decision will be held over to the March meeting.

14 **Pension Fund Annual Report** – agenda item 14

It was agreed at the September meeting that the draft presented then would be approved subject to there being no significant changes. The Funds & Investments Manager updated Members that in consultation with the Chair the final annual report, with minor amendments, had now been published.

The Committee noted the report.

15 **Any Other Business** - agenda item 15

The Chair, after ascertaining there were no further items, thanked all those present for attending and closed the meeting.

(The meeting ended at 11:05am)

CHAIR
Cllr J Thorne

LGPS Pooling of Investments

<i>Lead Officer:</i>	Jason Vaughan: 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 Committee is asked to advise the s151 officer to approve a commitment of £60m to the Brunel Private Equity cycle beginning 1st April 2022.
- 2.2 The remainder of 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 equity 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 Baillie Gifford and Investec) on 21st November 2018.
- 3.3 £83.7m of emerging market equity were transferred from management by Amundi to Brunel (sub-managed by Genesis Investment Management, Wellington and Investec) on the 9th October 2019.
- 3.4 £268.7m of equity assets were transferred from a number of legacy mandates

to the Brunel Global High Alpha fund. (sub-managed by Alliance Bernstein, Baillie Gifford, Fiera Capital, Harris Associates and Royal London Asset Management) on the 18th November 2019.

- 3.5 £151.0m of equity assets were transferred from a number of legacy mandates to the Brunel Global Smaller Companies fund (sub-managed by Montanaro Asset Management, American Century and Kempen Capital Management) on the 17th September 2020.
- 3.6 As agreed by Committee at the December 2019 meeting the Fund has committed £50m to the private equity cycle starting 1st April 2020. A significant portion of that £50m has now been committed by Brunel to underlying PE funds and just over £7m has been drawn.
- 3.7 Officially the transition of the £206.9m property portfolio from LaSalle to Brunel took place on 2nd November, however unlike the equity portfolios the transfer process of property unit trusts is a slow process, this is now completed.
- 3.8 £437m of fixed income assets were transferred from Aberdeen Standard Investments to four Brunel portfolios during May, June and July 2021.
- 3.9 The next cycle of commitments to private markets portfolios is being sought by Brunel for investment from 1st April 2022. As part of the allocations decided on at the June 2018 committee meeting there is an intention to allocate 5% of the total fund to Private Equity in the long-term. Based on the current overall size of the fund and the frequency of commitment windows from Brunel a commitment of £60m is suggested by officers as being consistent with this long-term strategic allocation. Due to the illiquid nature of private markets allocations Committee are requested to formally approve this allocation.

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. An annual review of savings is included in the Fund's annual report.

7. Background Papers

- 7.1 None

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

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Review of Investment Performance

<i>Lead Officer:</i>	Jason Vaughan: 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 December 2021 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 December 2021

1. Brunel - LGIM (Passive Global Equity)

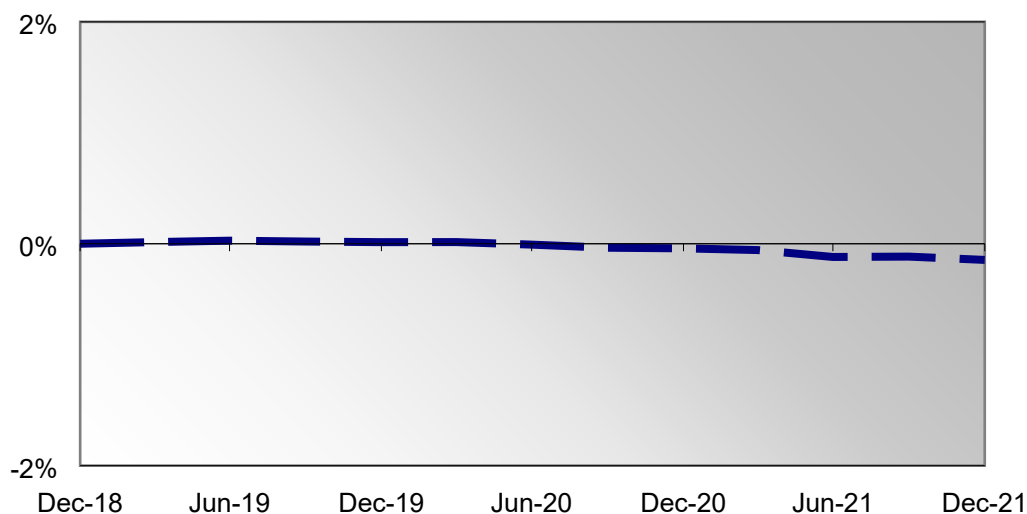
1.1 The performance for the quarter to 31st December 2021 is summarised in the following table:

Quarter to 31 December 2021				
Value as at 31 Dec £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
802.0	Global equities	7.1	7.1	+0.0

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

1.3

Brunel (LGIM) performance Vs Benchmark



1.4 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	22.4	22.5	-0.1
3 year	19.4	19.5	-0.1
5 years	Initial investment in July 2018		

2. Brunel - (Global High Alpha Equity)

2.1 The performance for the quarter to 31st December 2021 is summarised in the following table:

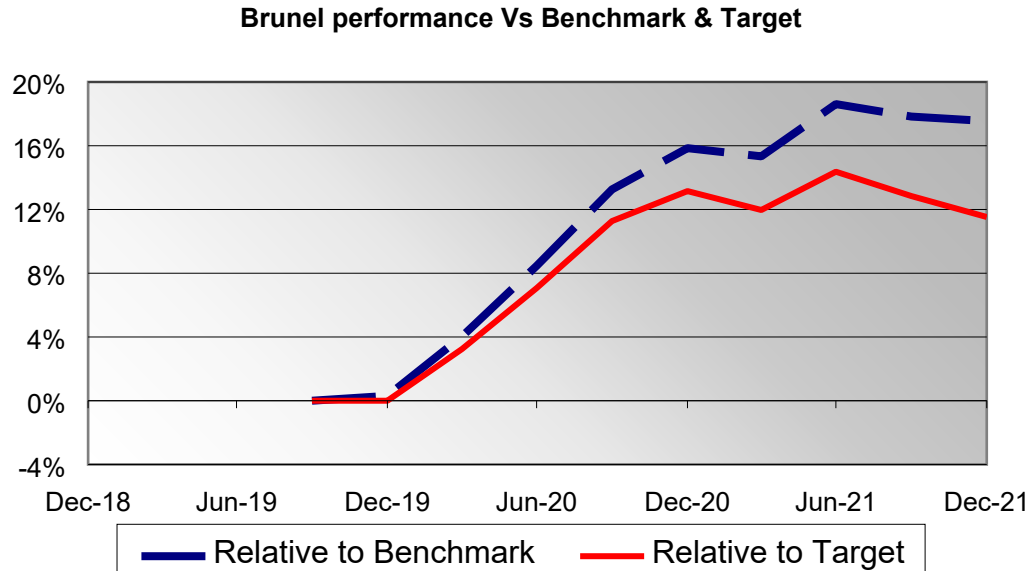
Quarter to 31 December 2021				
Value as at 31 Dec £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
426.4	Global equities	6.3	7.4	-1.1

2.2 The Brunel Global High Alpha portfolio is managed by a combination of Alliance Bernstein, Baillie Gifford, Fiera Capital, Harris Associates and Royal London Asset Management.

2.3 The fund underperformed during the quarter. Absolute returns were positive.

2.4

The Brunel GHA Fund's target is to outperform the benchmark by an annualised return of 2%-3% over continuous three to five-year periods after fees have been deducted. The graph below shows performance against 2%.



2.5

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	21.9	23.5	-1.6
3 years	Initial investment in November 2019		

3. Aberdeen Standard Investments (UK Equities)

3.1 The performance for the quarter to 31st December 2021 is summarised in the following table:

Quarter to 31 December 2021			
Value as at 31 Dec £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
16.2 UK	3.4	4.2	-0.8

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 an excellent quarter relative to their benchmark. Absolute returns were strongly positive. Smaller companies underperformed 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 December 2021 is summarised in the following table:

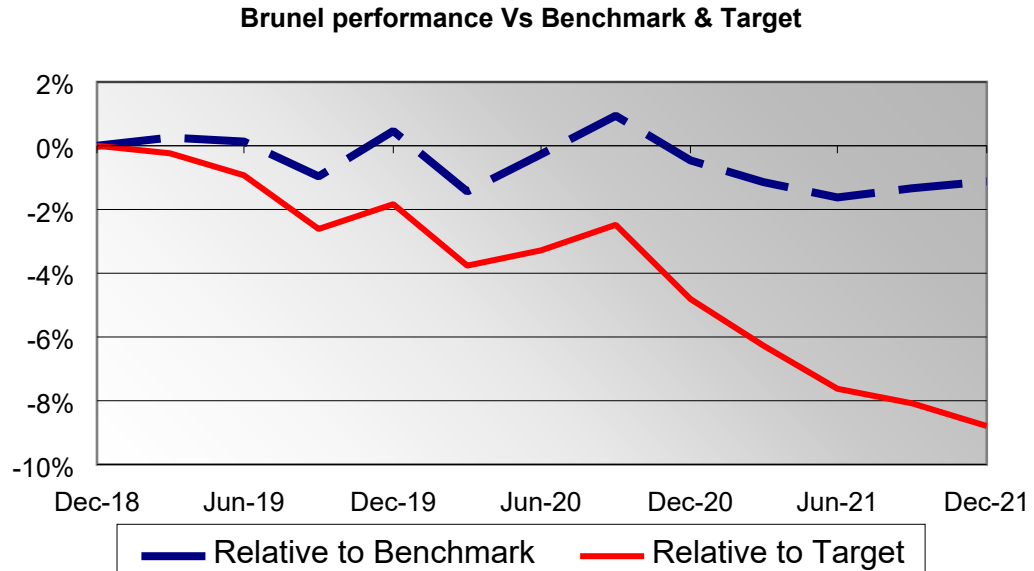
Quarter to 31 December 2021			
Value as at 31 Dec £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
507.5 UK	4.5	4.2	+0.3

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

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

4.4

The Brunel UK Fund’s target is to outperform the benchmark by an annualised return of 2% over continuous three to five-year periods after fees have been deducted.



4.5

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	17.8	18.3	-0.5
3 years	8.0	8.3	-0.3
5 years	Initial investment in November 2018		

5. Brunel (Global Smaller Companies Equity)

5.1 The performance for the quarter to 31st December 2021 is summarised in the following table:

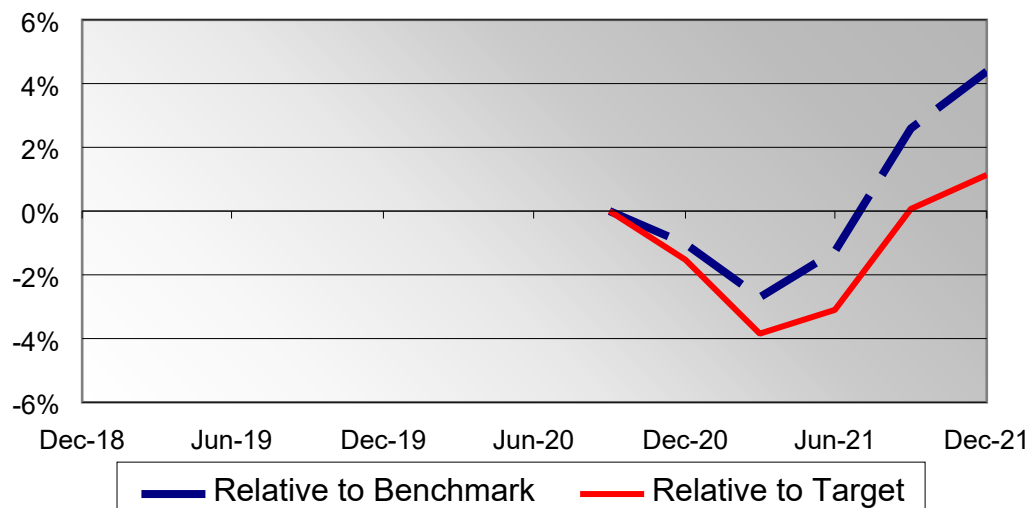
Quarter to 31 December 2021			
Value as at 31 Dec £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
210.2 Smaller Companies	3.0	1.8	+1.2

5.2 The Brunel Smaller Companies Market portfolio is managed by a combination of Montanaro Asset Management, American Century and Kempen Capital Management.

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

5.4 The Brunel Smaller Companies Fund's target is to outperform the benchmark by an annualised return of 2% over continuous three to five-year periods after fees have been deducted.

Brunel performance Vs Benchmark & Target



5.5 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	21.6	16.8	+4.8
3 years	Initial investment in September 2020		

6. Brunel (Emerging Market Equity)

6.1 The performance for the quarter to 31st December 2021 is summarised in the following table:

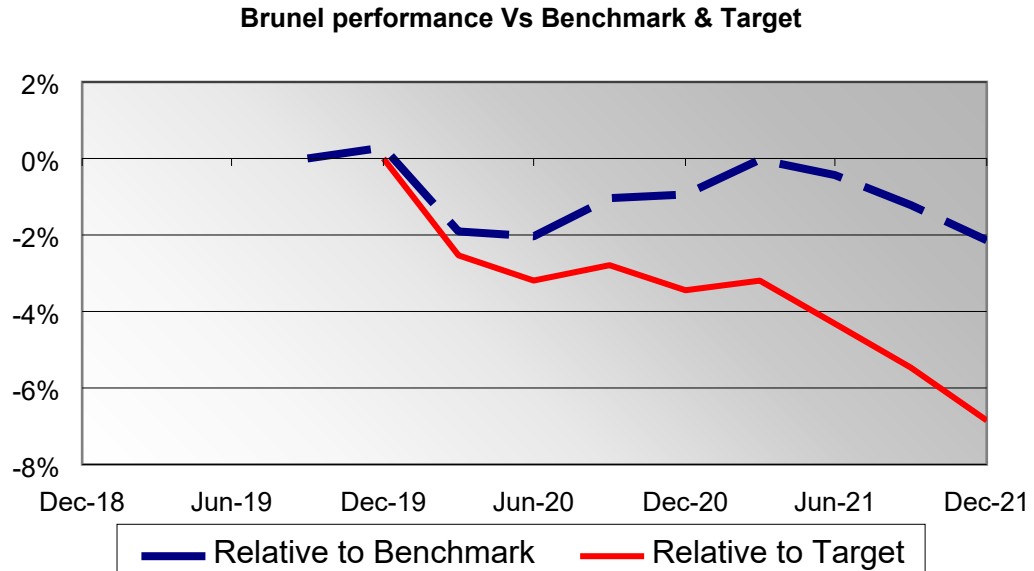
Quarter to 31 December 2021				
Value as at 31 Dec £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
116.4	Emerging Market	-2.5	-1.8	-0.7

6.2 The Brunel Emerging Market portfolio is managed by a combination of Genesis Investment Management, Wellington Management and Investec Asset Management.

6.3 The Brunel portfolio underperformed during the quarter. Absolute performance was negative.

6.4

The Brunel Emerging Market Fund’s target is to outperform the benchmark by an annualised return of 2%-3% over continuous three to five-year periods after fees have been deducted. The graph below shows performance against 2%.



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	-2.7	-1.6	-1.1
3 years	Initial investment in October 2019		

7. Brunel (Passive Gilts)

7.1 The performance for the quarter to 31st December 2021 is summarised in the following table:

Quarter to 31 December 2021				
Value as at 31 Dec £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
71.0	UK Gilts	5.6	5.6	+0.0

7.2 The Blackrock managed passive UK Gilts Fund matched the performance of the benchmark for the quarter. Absolute performance was positive.

8. Brunel (Passive (index-Linked Gilts)

8.1 The performance for the quarter to 31st December 2021 is summarised in the following table:

Quarter to 31 December 2021				
Value as at 31 Dec £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
86.3	UK Index-Linked Gilts	5.3	5.4	-0.1

8.2 The Blackrock managed passive UK Index-Linked Gilts Fund underperformed against the benchmark for the quarter. Absolute performance was positive.

9. Brunel (Sterling Corporate Bonds)

9.1 The performance for the quarter to 31st December 2021 is summarised in the following table:

Quarter to 31 December 2021				
Value as at 31 Dec £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
209.4	£ Corporate Bonds	0.6	0.4	+0.2

9.2 The Brunel Sterling Corporate Bond portfolio is managed by Royal London Asset Management.

9.3 The portfolio outperformed the benchmark during the quarter. Absolute performance was slightly positive.

10. Brunel (Multi Asset Credit)

10.1 The performance for the quarter to 31st December 2021 is summarised in the following table:

Quarter to 31 December 2021				
Value as at 31 Dec £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
79.9	Multi Asset Credit	0.4	0.0	+0.4

10.2 The Brunel Sterling Corporate Bond portfolio is managed by a combination of CQS, Neuberger Berman and Oaktree.

10.3 The portfolio outperformed the benchmark during the quarter. Absolute performance was slightly positive.

11. LaSalle/Brunel (Property Fund of Funds)

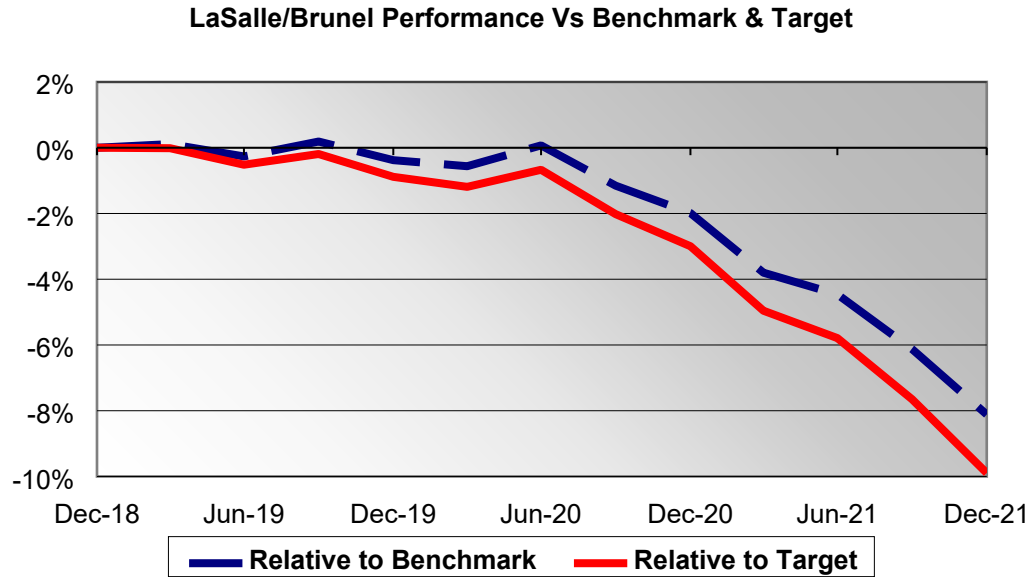
11.1 The performance for the quarter to 31st December 2021 is summarised in the following table:

Quarter to 31 December 2021				
Value as at 31 Dec £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
229.5	UK Property	6.7	7.5	-0.8
0.0	European Property	-2.3		
7.2	Cash	0.1		
236.7	Total	6.1	7.5	-1.4

11.2 Management of the property portfolio moved from LaSalle to Brunel on 1st November 2020. Unlike other asset classes Brunel simply took over management with no underlying change in holdings. Going forward performance records will report the full history of this portfolio.

11.3

Brunel’s target is to outperform the benchmark by an annualised return of 0.5% over continuous five to seven year periods after all 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	13.3	19.1	-5.8
3 years	3.7	6.2	-2.5
5 years	5.4	7.0	-1.6
10 years	5.9	7.7	-1.8

12. Neuberger Berman (Global Private Equity)

12.1 The performance for the quarter to 31st December 2021 is summarised in the following table:

Quarter to 31 December 2021			
Value as at 31 Dec £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
76.8 Private Equity	3.0	0.0	+3.0

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 There is a delay in the reporting of returns on private equity of about a quarter and this needs to be considered when looking at returns on individual funds.

12.4 The 2010 fund continues to make good progress. This fund is due to wind up within the next year or so.

12.5 The Neuberger Berman Crossroads XX fund is also making good progress. The underlying return on this fund for the quarter, excluding currency movements, was 56%.

12.6 The Crossroads XXI fund is also making good progress. The underlying return on this fund for the quarter, excluding currency movements, was 13.3%.

12.7 The Crossroads XXII fund is still relatively young. The return for the quarter, excluding currency movements, was 11.9%.

12.8 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	40.8	22.5	+18.3
3 years	21.6	19.5	+2.1
5 years	16.4	13.4	+3.0
10 years	16.2	14.8	+1.4

13. Brunel (Global private equity)

13.1 The performance for the quarter to 31st December 2021 is summarised in the following table:

Quarter to 31 December 2021			
Value as at 31 Dec £m	Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
7.7 Private Equity	3.9	0.0	+3.9

13.2 Brunel have invested in a number of private equity funds on the Fund's behalf and a small amount of money has been drawn. The portfolio is still very immature.

14. South West Ventures Fund

14.1 The fund continues to make reasonable progress.

15. Combined Fund

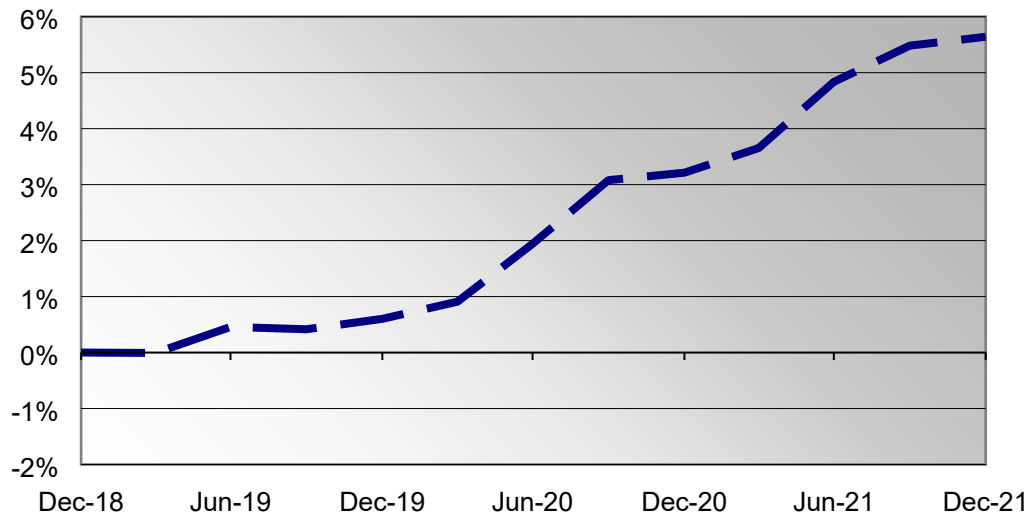
15.1 The performance for the quarter to 31st December 2021 is summarised in the following table:

Quarter to 31 December 2021				
Value as at 31 Dec £m		Fund for quarter %	Performance Benchmark for quarter %	Relative to Benchmark %
802.0	Brunel (Passive GI Eq)	7.1	7.1	+0.0
426.4	Brunel (GHA Eq)	6.3	7.4	-1.1
16.2	ASI (UK Eq)	3.4	4.2	-0.8
507.5	Brunel (UK Eq)	4.5	4.2	+0.3
210.2	Brunel (Small Cap Eq)	3.0	1.8	+1.2
116.4	Brunel (EM Eq)	-2.5	-1.8	-0.7
71.0	Brunel (Passive Gilts)	5.6	5.6	+0.0
86.3	Brunel (Passive I-L)	5.3	5.4	-0.1
209.4	Brunel (£ Corporate)	0.6	0.4	+0.2
79.9	Brunel (MAC)	0.4	0.0	+0.4
236.7	LaSalle/Brunel (Prop)	6.1	7.5	-1.4
1.6	SWRVF	0.0	0.0	+0.0
76.8	Neuberger Berman	3.0	0.0	+3.0
7.7	Brunel (Private Eq)	3.9	0.0	+3.9
0.8	Brunel (holding in Co)			
104.8	Cash	0.1	0.0	+0.1
2,953.7	Whole Fund	4.6	4.6	+0.0

15.2 The fund, as a whole, matched its benchmark during the quarter. The level of absolute return was positive.

15.3 A positive from asset allocation, being overweight equity was broadly matched by stock selection by managers being negative.

Whole Fund Performance Vs Benchmark



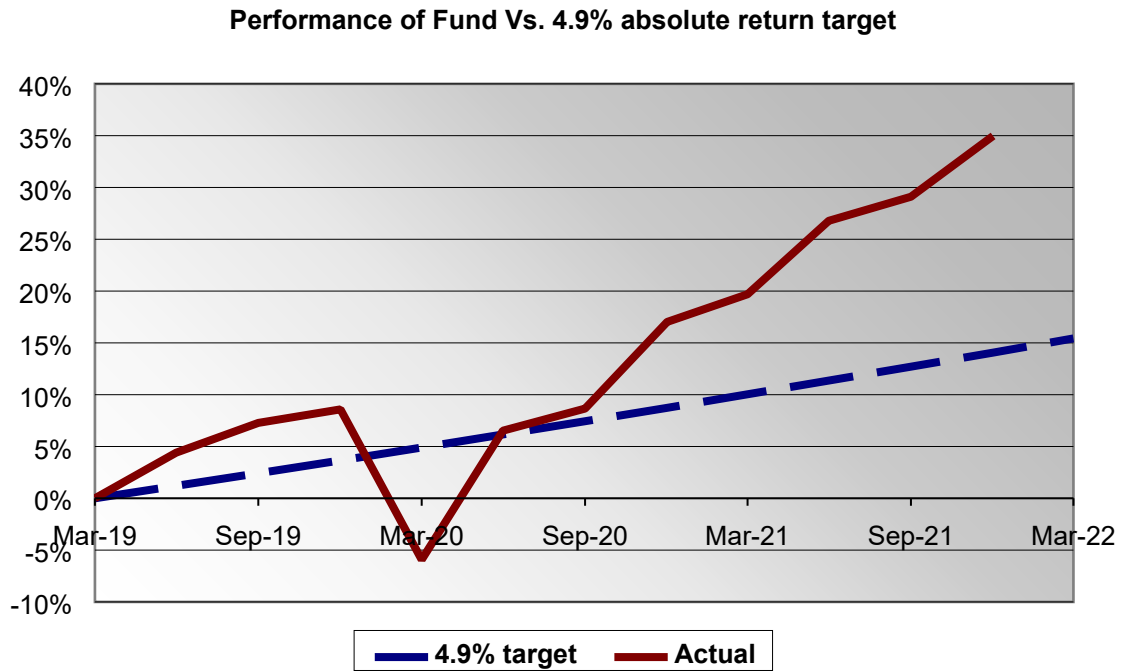
15.4

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	13.8	+1.5
3 years	13.1	11.6	+1.5
5 years	9.0	8.4	+0.6
10 years	10.4	9.8	+0.6

15.5

At the June 2020 committee meeting the committee adopted an absolute return target of 4.9% for the fund as this is consistent with the fund becoming fully funded within the timescales indicated by the actuary as part of the 2019 valuation. Progress against this target for the 2019 to 2022 actuarial cycle is shown in the graph below.



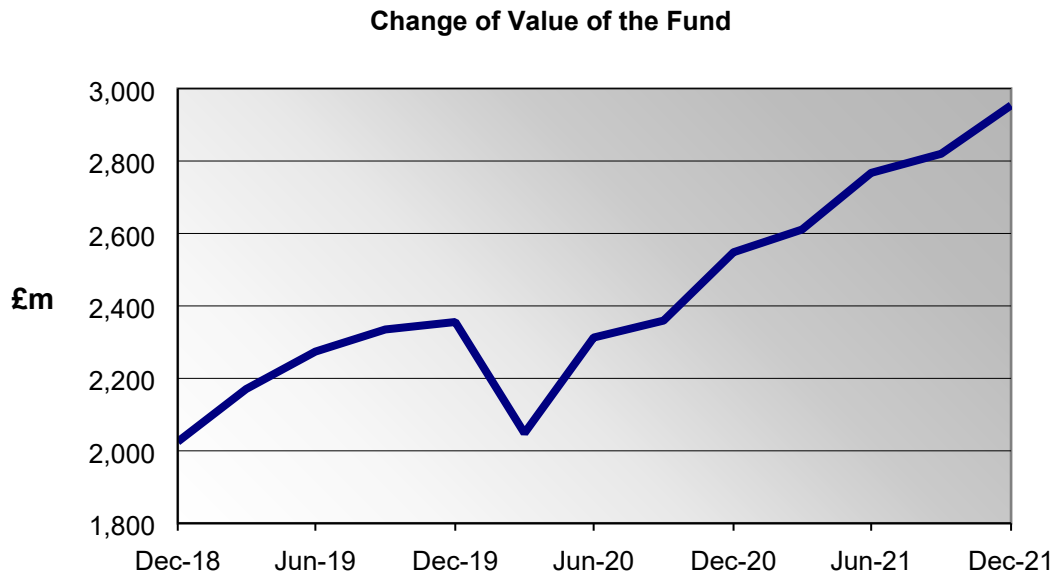
15.6 The movement in the value of the fund over the quarter is summarised in the table below.

	Value as at 30 Sept		Value as at 31 Dec		Strategic
	£m	%	£m	%	Weighting
Brunel (Passive GI Eq)	749.2	27	802.0	27	25
Brunel (GHA Eq)	401.2	14	426.4	14	10
ASI (UK Eq)	15.7	1	16.2	1	0
Brunel (UK Eq)	485.8	17	507.5	17	20
Brunel (Small Cap Eq)	204.0	7	210.2	7	5
Brunel (EM Eq)	119.4	4	116.4	4	5
Transition (FI)	2.8	0	0.0	0	0
Brunel (Passive Gilts)	67.3	3	71.0	2	4
Brunel (Passive I-L)	82.0	3	86.3	3	4
Brunel (Corp bonds)	208.2	7	209.4	7	8
Brunel (MAC)	79.6	3	79.9	3	3
Brunel/LaSalle (Prop)	223.3	8	236.7	8	10
SWRVF	1.6	0	1.6	0	0
Neuberger Berman	81.6	3	76.8	3	0
Brunel (Private Eq)	4.2	0	7.7	0	5
Brunel (holding in Co)	0.8	0	0.8	0	0
Cash	93.2	3	104.8	4	1
Whole Fund	2,819.9	100	2,953.7	100	100

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

- £2.1m was withdrawn from the fixed income transition portfolio.
- £7.1m was withdrawn from the Neuberger Berman's Private equity mandate as cash was returned to us by these funds.
- £3.4m was added to the Brunel private equity fund as the underlying investments started to drawdown on commitments.

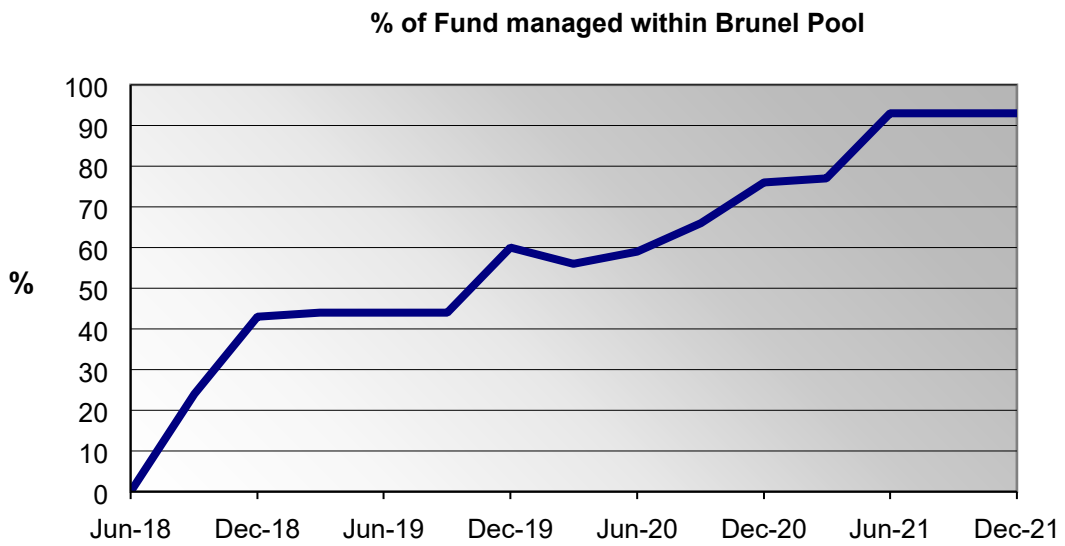
15.8 The change in the value of the investment fund over the last three years can be seen in the graph below.



15.9

Progress on moving to pooling can be seen in the table and graph below

	Value as at 30 Sept		Value as at 31 Dec	
	£m	%	£m	%
Pooled assets	2,624.2	93	2,753.5	93
Retained assets	195.7	7	200.2	7
Whole Fund	2,819.9	100	2,953.7	100



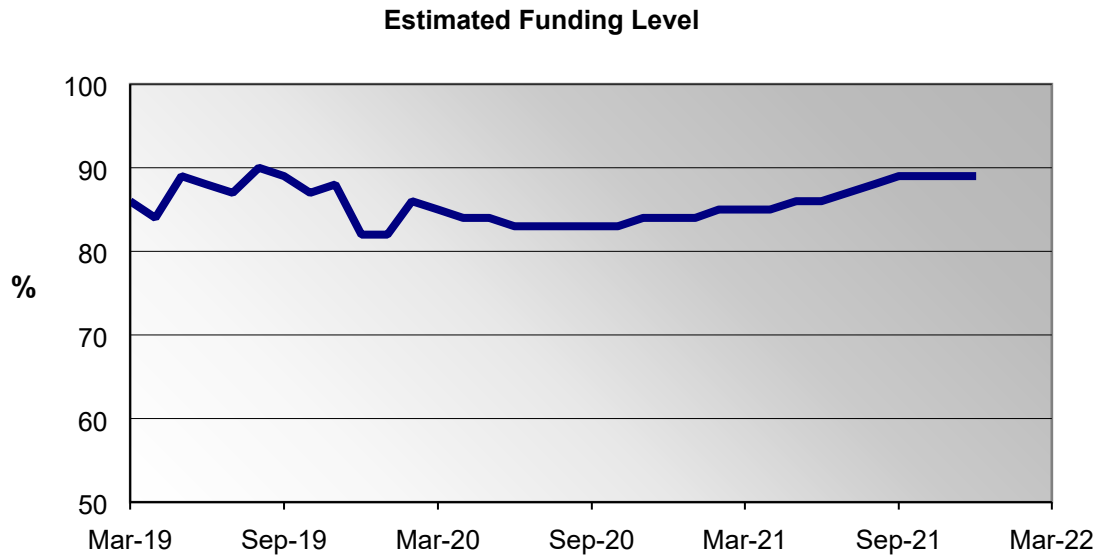
15.10

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

"The results of our assessment indicate that:

- The current projection of the smoothed funding level as at 31 December 2021 is 89.0% and the average required employer contribution would be 28.5% of payroll assuming the deficit is to be paid by 2039.
- This compares with the reported (smoothed) funding level of 85.7% and average required employer contribution of 24.3% of payroll at the 2019 funding valuation.

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



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Review of Administration Performance

<i>Lead Officer:</i>	Jason Vaughan: Director of Finance
<i>Author:</i>	Dan Harris: Head of Peninsula Pensions
<i>Contact Details:</i>	(01392) 383000 daniel.harris@devon.gov.uk
<i>Executive Portfolio Holder:</i>	Not applicable
<i>Division and Local Member:</i>	Not applicable

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.
- 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 Total performance against internal targets for the quarter ending 31st December 2021 was 88% (96% for High Priority procedures), bringing the total performance for the financial year to date to 89%.
- 3.2 Total performance against the Occupational and Personal Pension Schemes (Disclosure of Information) Regulations 2013 for the quarter ending 31st December 2021 was also 88% (97% for High Priority procedures),
- 3.3 Appendix 1 of the report shows a detailed breakdown of administration performance relating to the Somerset Pension Fund only for the quarter

ending 31st December 2021 and for the financial year to date against Peninsula Pensions' internal targets and against the Disclosure Regulations.

3.4 Appendix 2 of the report highlights the longer-term performance of Peninsula Pensions (Somerset Fund only) from 1st January 2019 to 31st December 2021.

4. Employer updates

4.1 New Admitted Bodies:

- Hindhayes School outsourced their cleaning contract to Premier Solutions Ltd with effect from 15th November 2021.

Academies:

- Sexeys School joined Quantock Education Trust on 1st October 2021

5. Background Papers

5.1 None

Administration Performance – 1st April 2021 – 31st December 2021Performance Summary

	Total Cases	01/04/2021 – 31/12/2021		Q3 2021/22	
		Performance (Internal)	Performance (Disc Regs)	Performance (Internal)	Performance (Disc Regs)
High Priority Procedures	5,039	95%	95%	96%	97%
Medium Priority Procedures	6,382	85%	85%	81%	81%
Low Priority Procedures	2,154	86%	86%	89%	89%
TOTAL	13,575	89%	89%	88%	88%

High Priority

	Total Cases	01/04/2021 – 31/12/2021		Q3 2021/22	
		Performance (Internal)	Performance (Disc Regs)	Performance (Internal)	Performance (Disc Regs)
Changes	564	99%	100%	100%	100%
Complaints (Member)	40	100%	100%	100%	100%
Complaints (Employer)	0			-	-
Deaths	501	93%	94%	95%	96%
Payroll	545	97%	97%	98%	98%
Refunds	1,182	100%	100%	99%	99%
Deferred (Over 55)	265	100%	100%	100%	100%
Retirements (Active)	741	96%	96%	98%	98%
Retirements (Deferred)	1,201	88%	88%	90%	90%
TOTAL	5,039	95%	95%	96%	97%

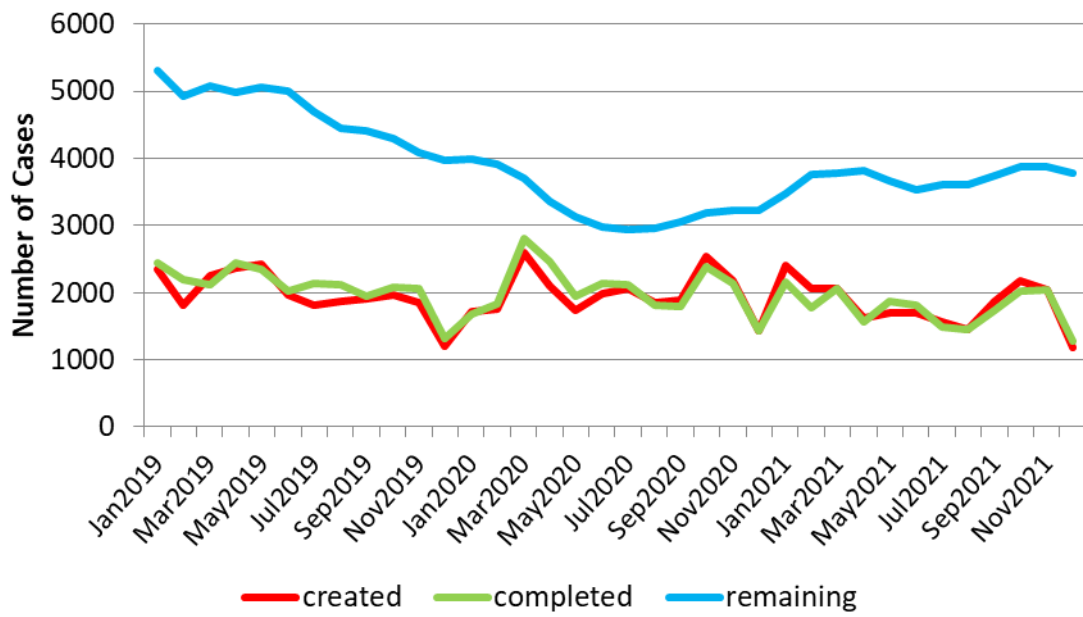
Medium Priority

	Total Cases	01/04/2021 – 31/12/2021		Q3 2021/22	
		Performance (Internal)	Performance (Disc Regs)	Performance (Internal)	Performance (Disc Regs)
Amalgamations	996	67%	68%	62%	63%
Deferred Benefits	1,819	73%	73%	67%	68%
Divorce Calculations	136	88%	88%	100%	100%
Employer Queries	353	73%	75%	48%	52%
Estimates (Bulk)	0	-	-	-	-
Estimates (Employer)	50	100%	100%	100%	100%
Estimates (Member)	145	90%	90%	93%	93%
General	1,427	98%	98%	99%	99%
HMRC	65	100%	100%	100%	100%
Member Self-Service	1,391	100%	100%	100%	100%
TOTAL	6,382	85%	85%	81%	81%

Low Priority

	Total Cases	01/04/2021 – 31/12/2021		Q3 2021/22	
		Performance (Internal)	Performance (Disc Regs)	Performance (Internal)	Performance (Disc Regs)
Estimates (Other)	145	39%	39%	26%	26%
GMP Queries	2	100%	100%	-	-
Interfund Transfers In	198	53%	54%	53%	55%
Interfund Transfers Out	170	71%	72%	75%	76%
Pension Top Ups	212	97%	97%	99%	99%
Frozen Refunds	1,041	98%	98%	99%	99%
New Starters	0	-	-	-	-
Pension Transfers In	186	92%	92%	91%	91%
Pension Transfers Out	200	87%	87%	92%	92%
TOTAL	2,154	86%	86%	89%	89%

Administration Performance - 1st January 2019 – 31st December 2021



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Business Plan Update

Lead Officer: Jason Vaughan: 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. Also to update Committee on relevant developments to the LGPS in general.

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. Under the Scheme of Delegation put in place by the Committee day to day running of the fund has been largely delegated to officers.
- 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. It should be noted all dates are provisional.

4. Progress since last report

- 4.1 Officers continue to monitor legal and regulatory developments in relation to McCloud, Goodwin, the 95k cap and other matters. There has not been any movement from Government on any issues. Government did include reference to "local"investment" by the LGPS in the Levelling up White paper. Government are expected to issue a consultation on this and other investment related issues, such as Task Force for climate-related financial disclosures reporting by the LGPS, in the summer.

5. Consultations undertaken

None

6. Financial Implications

None

7. Background Papers

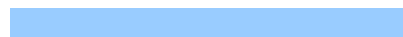
None

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

Pensions Committee Business Plan for 2022

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	Review Investment Strategy Statement	Medium	Summer 2021		Update provided in separate agenda item, draft ISS available for approval
Fund Governance	Review of risk register	Medium	Early 2021		Fully revised register adopted at March 2021 committee meeting
Fund Governance	Review of investment strategy and allocations to Brunel Portfolios	Medium	Spring 2021		Included within the new draft ISS
Fund Governance	Review of ESG investment	High	Spring 2021		Included within the new draft ISS
Fund Governance	Review of Committee and Board structures in advance of move to Unitary authority	Medium	Spring 2022		Paper will be put to March 2022 Committee meeting
Fund Governance	Re-approve all Strategies and policies post election	Medium	Ongoing		Paper will be put to first Committee meeting post May 2022 elections
Fund Governance	Review of CIPFA knowledge and skills framework for members	Medium	By end of 2022		Paper will be put to first Committee meeting post May 2022 elections

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SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2022-2023

Date	Proposed Items of Business	Lead Officer
5th May 2022	Unitary Council Elections	
27th May 2022	Induction training for new Committee members (if applicable)	
10th June 2022	<p><u>FORMAL MEETING</u></p> <p>1. Somerset Unitary To consider any emerging issues for the Pensions Fund from the unitary process</p> <p>2. LGPS Pooling of Investments Report to provide an update on progress on pooling of investments as per government guidance.</p> <p>3. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.</p> <p>4. Review of Investment Performance Report to provide an update of the Fund's performance for the quarter period to 31 March 2022.</p> <p>5. Review of Administration Performance To review the performance of Peninsula Pensions in delivering the administration service to employers and members.</p> <p>6. Business Plan Update To consider progress against the Committees approved business plan.</p> <p>7. Finance and Membership Statistics Update Report to provide an update of the Fund's position for the quarter period to 31 March 2022.</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. Fund Policies To review and where necessary update the fund's policies and documents.</p> <p>10. Review of Committee Knowledge & Skills To agree a framework for assessing Committees Knowledge and Skills and a training programme</p>	<p>AS</p> <p>AS</p> <p>AS</p> <p>AS</p> <p>DH</p> <p>AS</p> <p>AS</p> <p>AS</p> <p>AS</p>

SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2022-2023

Date	Proposed Items of Business	Lead Officer
16th September 2022	<p><u>FORMAL MEETING</u></p> <p>1. Somerset Unitary To consider any emerging issues for the Pensions Fund from the unitary process</p> <p>2. LGPS Pooling of Investments Report to provide an update on progress on pooling of investments as per government guidance.</p> <p>3. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.</p> <p>4. Review of Investment Performance Report to provide an update of the Fund's performance for the quarter period to 30 June 2022.</p> <p>5. Review of Administration Performance To review the performance of Peninsula Pensions in delivering the administration service to employers and members.</p> <p>6. Business Plan Update To consider progress against the Committees approved business plan.</p> <p>7. Finance and Membership Statistics Update Report to provide an update of the Fund's position for the quarter period to 30 June 2022.</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 2021/2022 To consider the accounts and investment performance for the year to 31 March 2022.</p>	<p>AS</p> <p>AS</p> <p>AS</p> <p>DH</p> <p>AS</p> <p>AS</p> <p>AS</p> <p>AS</p>
Autumn 2022 TBC	<p><u>ANNUAL EMPLOYERS MEETING</u></p> <p>Annual Employers' Meeting of the Pension Fund To include provision of preliminary 2022 valuation results from the actuary</p>	

SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2022-2023

Date	Proposed Items of Business	Lead Officer
16th December 2022	<p><u>FORMAL MEETING</u></p> <p>1. Somerset Unitary To consider any emerging issues for the Pensions Fund from the unitary process</p> <p>2. LGPS Pooling of Investments Report to provide an update on progress on pooling of investments as per government guidance.</p> <p>3. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.</p> <p>4. Review of Investment Performance Report to provide an update of the Fund's performance for the quarter period to 30 September 2022.</p> <p>5. Review of Administration Performance To review the performance of Peninsula Pensions in delivering the administration service to employers and members.</p> <p>6. Business Plan Update To consider progress against the Committees approved business plan.</p> <p>7. Finance and Membership Statistics Update Report to provide an update of the Fund's position for the quarter period to 30 September 2022.</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. Preliminary Results of the 2022 Actuarial Valuation To receive a report on the preliminary results from BW</p>	<p>AS</p> <p>AS</p> <p>AS</p> <p>DH</p> <p>AS</p> <p>AS</p> <p>AS</p> <p>AS</p>

SOMERSET COUNTY COUNCIL PENSION FUND

PENSIONS COMMITTEE

MEETING WORKPLAN 2022-2023

Date	Proposed Items of Business	Lead Officer
March 2023 TBC	<p data-bbox="233 376 464 409"><u>FORMAL MEETING</u></p> <p data-bbox="233 483 475 517">1. Somerset Unitary To consider any emerging issues for the Pensions Fund from the unitary process including a review of Committee and Board structures.</p> <p data-bbox="233 629 616 663">2. LGPS Pooling of Investments Report to provide an update on progress on pooling of investments as per government guidance.</p> <p data-bbox="233 734 632 768">3. Independent Advisor's Report To receive a verbal update on market issues and events from the independent advisor.</p> <p data-bbox="233 840 692 873">4. Review of Investment Performance Report to provide an update of the Fund's performance for the quarter period to 31 December 2022.</p> <p data-bbox="233 985 738 1019">5. Review of Administration Performance To review the performance of Peninsula Pensions in delivering the administration service to employers and members.</p> <p data-bbox="233 1131 523 1164">6. Business Plan Update To consider progress against the Committees approved business plan.</p> <p data-bbox="233 1236 783 1270">7. Finance and Membership Statistics Update Report to provide an update of the Fund's position for the quarter period to 31 December 2022.</p> <p data-bbox="233 1344 719 1377">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 data-bbox="233 1449 1182 1482">9. Resources review, Financial target setting and committee objectives setting To conduct a review of the resources available to the fund and to adopt a financial forecast, committee performance objectives for the 2023-2024 financial year and review the overall performance target for 2022 to 2025.</p> <p data-bbox="233 1628 804 1662">10. Review of cash management arrangements To review the management arrangements for the cash resources held by the fund.</p>	<p data-bbox="1453 517 1490 551">AS</p> <p data-bbox="1453 663 1490 696">AS</p> <p data-bbox="1453 880 1490 913">AS</p> <p data-bbox="1453 1025 1490 1059">DH</p> <p data-bbox="1453 1171 1490 1205">AS</p> <p data-bbox="1453 1272 1490 1305">AS</p> <p data-bbox="1453 1373 1490 1406">AS</p> <p data-bbox="1430 1485 1514 1518">AS/SM</p> <p data-bbox="1453 1664 1490 1697">AS</p>

Finance and Membership Statistics Update

<i>Lead Officer:</i>	Jason Vaughan: 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's year to date financial position at 31 December 2021 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. Financial position

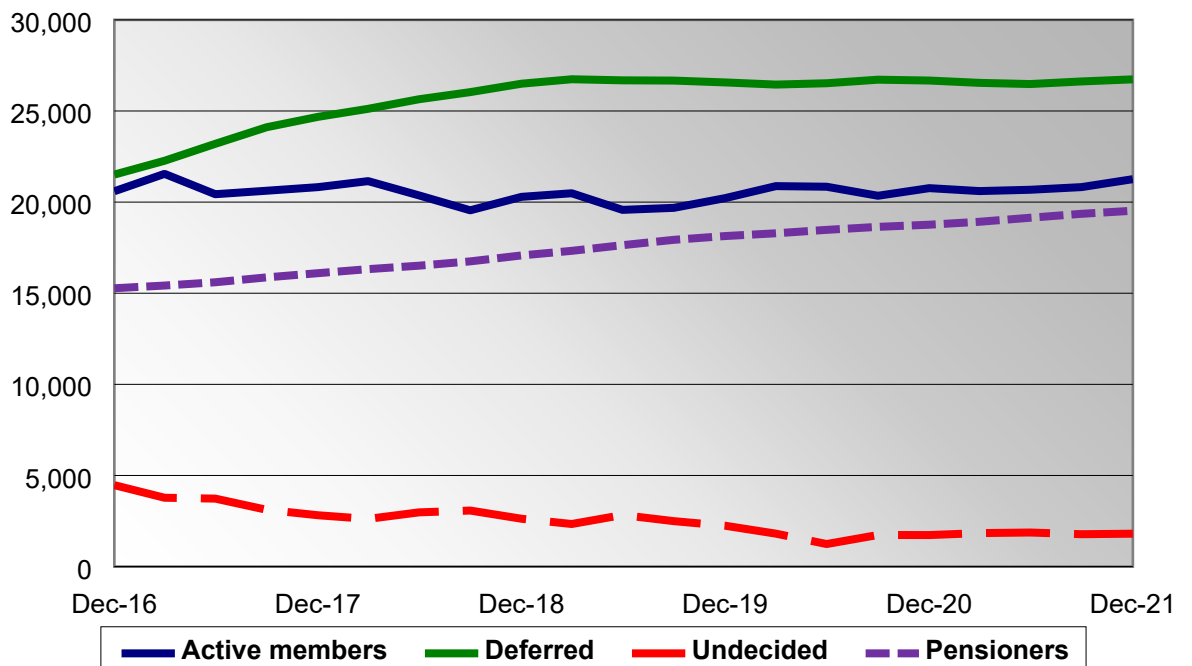
- 3.1 The outturn position for the 3rd quarter of the financial year to 31st March 2022 against the original forecast is shown in appendix A.

4. Membership Statistics

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

	30 Sept	31 Dec	Change
Active members	20,823	21,259	+436
Deferred	26,621	26,736	+115
Undecided	1,777	1,805	+28
Pensioners	19,358	19,526	+168
Total	68,579	69,326	+747

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



5. Background Papers

None

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

Pension Fund Financial Projection

2021 - 2022

	2020-2021 Full Year	2021-2022 March to December			2021-2022 Full Year		
	Actual (a)	Budget (b)	Actual (c)	Variance (d)	Original Budget (e)	Projected Outturn (f)	Variance (g)
	£m	£m	£m	£m	£m	£m	£m
Contributions and other income							
Contributions	111.517	82.750	77.351	-5.399	109.000	115.000	6.000
Recoveries from employers	3.043	1.600	1.565	-0.035	2.100	2.100	0.000
Transfer values received	8.408	3.600	7.470	3.870	4.500	10.000	5.500
	122.968	87.950	86.386	-1.564	115.600	127.100	11.500
Less benefits and other payments							
Recurring pensions	-84.305	-65.300	-65.105	0.195	-88.000	-88.000	0.000
Lump sum on retirement	-10.871	-11.250	-10.208	1.042	-15.000	-15.000	0.000
Lump sum on death	-1.912	-1.800	-1.473	0.327	-2.500	-2.500	0.000
Transfer values paid	-17.031	-7.500	-6.165	1.335	-10.000	-10.000	0.000
Contribution refunds	-0.377	-0.300	-0.458	-0.158	-0.400	-0.600	-0.200
	-114.496	-86.150	-83.409	2.741	-115.900	-116.100	-0.200
Contributions after payments	8.472	1.800	2.977	1.177	-0.300	11.000	11.300
Management Expenses							
Administrative expenses	-1.270	-0.870	-0.918	-0.048	-1.500	-1.500	0.000
Investment management expenses	-7.183	-1.650	-0.908	0.742	-6.000	-7.500	-1.500
Oversight and governance expenses	-0.681	-0.240	-0.167	0.073	-0.625	-0.625	0.000
	-9.134	-2.760	-1.993	0.767	-8.125	-9.625	-1.500
Investment Income							
Investment income	33.203	4.800	10.521	5.721	6.000	12.500	6.500
Net Increase / Decrease (-) in fund	32.541	3.840	11.505	7.665	-2.425	13.875	16.300

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Review of Pension Fund Risk Register

Lead Officer: Jason Vaughan: 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.

3. Changes since last meeting

3.1 There have been no changes since the last committee meeting.

4. Background

4.1 Risk management is central to the management of the Pension Fund as reflected by the coverage of risk in key documents such as the Funding Strategy Statement and the Statement of Investment Principals. The risk register allows for consideration of all of the fund's risks in a single document.

4.2 Guidance issued by CIPFA on the application of the Myner's Principles in the LGPS in 2010 indicated that the creation and adoption by Pensions Committees of a risk register was best practice.

4.3 Following on from CIPFA's guidance the Committee has indicated that it wishes to adopt a risk register. The Committee have agreed that rather than have a static register that is reviewed periodically that the register should be discussed at every meeting and changes agreed and implemented as necessary.

4.4 The current risk register is attached as appendix A and has been prepared using the Somerset County Council risk framework and scoring methodology

5. Consultations undertaken

None

6. Financial Implications

6.1 No direct implications

7. Background Papers

None

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

Somerset County Council Pension Fund Risk Register - March 2022

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. PF - Gov 1 2. Pensions Committee	Failure of Pensions Committee to manage the fund effectively, particularly as a result of insufficient knowledge and skills	Policies and procedures adopted by pensions committee, specifically the committee training policy	3	4	12	Undertake a review of Committee Knowledge and Skills Ensure Pension Board vacancies are filled and regular meetings take place to provide additional review of Committee decisions	2	4	8	Anton sweet	on-going with quarterly review		Current score is influenced by the collective experience and consistency of the Pensions Committee, which has had a number of changes over the last 4 years.
1. PF - Gov 2 2. Pensions Committee	Risk of Regulatory change: - Implementation of change risks - Consequences of change risks	Continuous engagement with MHCLG and other interested stakeholders	4	3	12		4	3	12		on-going with quarterly review	Current score reduced from 15 as inception of pooling is no longer a high risk	The dictated change to pooling of investment arrangements and implementation of this presents a significant risk to the scheme. The frequency of new regulation and the relatively new role of the Pensions Regulator are also factors.
1. PF - Inv1 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		

Somerset County Council Pension Fund Risk Register - March 2022

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. PF - Inv2 2. Pensions Committee	The pension fund has insufficient available assets to meet its long term liabilities.			Funding Strategy Statement Investment Strategy Statement Regular reporting of current position to Committee	3					
1. PF - Inv3 2. Pensions Committee	Under performance of pension investments due to ESG factors, including climate change.	ESG Policy within Investment Strategy Statement requiring ESG factors to be considered in all investment decisions.	2	4	8		2	4	8		on-going with quarterly review		Moving all assets to the management of Brunel, which has a greater focus on ESG and climate change than the majority of our legacy investment managers, has considerably improved our management of these risks. Additional provision is within the draft of the new ISS .
1. PF - Inv4 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		

Somerset County Council Pension Fund Risk Register - March 2022

1. Risk Ref No: 2. Senior Risk Owner:	Description of Risk	Control measures already in place	Current Risk Score (with known controls in place)		Combined score	Additional mitigating actions/control measures planned to achieve target score	Target Risk score		Additional Control measure owner	Target Date	commentary following review, inc. date	Additional Information and explanation
			L	I			L	I				
1. PF - Inv5 2. Anton Sweet	Insolvency of the fund's Global Custodian	Fund's assets held in client accounts not as assets of the custodian Additional oversight of custodian provided by Brunel for the assets they manage Review of credit worthiness and inherent business risk of custodian at tender phase	2	4	8		2	4		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. PF - Admin1 2. Stephen Morton	Failure of Benefits Administration to perform their tasks, specifically leading to incorrect or untimely benefits payment.	Regular reporting to Committee Internal processes and procedures Regular review by Internal and External audit	2	3	6		2	3		on-going with quarterly review		The greater resilience gained from the Peninsula Pensions shaed service has been balanced by greater complexity coming into the sceme benefits.
1. PF - Admin2 2. Stephen Morton	Legal challenge to fund, particularly in respect of the payment of pension benefits	Internal processes and procedures Regular review by Internal and External audit	3	3	9	Receipt of revised regulations in respect of the exit cap, McCloud and Goodwin	2	3		on-going with quarterly review		The introduction and then revocation of the exit payment regulations has significantly increased the short term risk of legal challenge
1. PF - Admin3 2. Stephen Morton	Fraud, corruption, or error either within investment assets or benefits administration	Internal controls and processes Regular review of controls, processes and outputs by internal and external audit	2	4	8		2	4		on-going with quarterly review		Brunel provides an extra layer of scrutiny and control with respect to the activities of external fund managers and related third parties

Somerset County Council Pension Fund Risk Register - March 2022

1. Risk Ref No: 2. Senior Risk Owner:	Description of Risk	Control measures already in place	Current Risk Score (with known controls in place)		Combined score	Additional mitigating actions/control measures planned to achieve target score	Target Risk score		Additional Control measure owner	Target Date	commentary following review, inc. date	Additional Information and explanation
			L	I			L	I				
1. PF - Admin4 2. Stephen Morton	The insolvency of an employer places additional liabilities on the fund and ultimately the remaining employers.	Admission agreements Guarantee bonds or other similar security	2	3	6		2	3	6		on-going with quarterly review	To ensure the on-going suitability of the guarantees in place a review should be undertaken after each formal valuation. Review of guarantee bonds currently underway, September 2020
1. PF - Admin5 2. SCC Section 151 Officer	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	2	3	6		2	3	6		on-going with quarterly review	Size and depth of staff resources at Peninsula Pensions helps to mitigate the risk Brunel provides some extra mitigation with respect to investment asset management Additional use of consultants and advisors could be used to manage loss of internal staff
1. PF - Admin6 2. SCC Section 151 Officer	Resilience of IT including a breach of cyber security	SCC and DCC internal IT security measures Additional cyber security and resilience provided by hosting of benefits administration database and investment accounting database by outside parties	2	4	8		2	4	8		on-going with quarterly review	
1. PF - Admin7 2. SCC Section 151 Officer	Impact of COVID-19 crisis	Staff of Peninsula Pensions and SCC finance are working remotely without significant impact on performance. There are possible knock on consequences for other risks on the risk register	3	2	6		3	2	6		on-going with quarterly review	Added as per Committee request at June 2020 meeting.

Investment Strategy Statement

<i>Lead Officer:</i>	Jason Vaughan: 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 Fund is required under section 7 of the LGPS (Management and Investment of Funds) Regulations 2016 to publish and maintain an Investment Strategy Statement (ISS). The ISS sets out the Somerset Fund's strategy for investing funds not immediately required to pay pensions, covering areas such as strategic asset allocation, ESG and pooling.
- 1.2 The current version of the ISS was adopted in June 2017, the regulations suggest this should be revisited at least every 3 years however it was always the Fund's intention to revisit the ISS and update as appropriate at the end of the initial transition process into the Brunel pool. It was expected this would fit within the 3-year window but the COVID pandemic led to some delays.
- 1.3 Following a number of informal sessions attended by both Pensions Committee and Board members a draft has been produced of a revised ISS for formal consideration.

2. Issues for consideration

- 2.1 The Committee is asked to consider the draft ISS attached as appendix A and if content recommend to the section 151 officer he formally adopt the ISS .

3. Changes from the current adopted ISS

- 3.1 Section 1 is largely unchanged.
- 3.2 Section 2 shows a revised strategic allocation to reflect the new position of the Fund's investments being almost exclusively managed via Brunel.
- 3.3 Section 3 has been significantly re-written to provide much more detail around the investment risks facing the Fund.
- 3.4 Section 4 has been significantly re-written to describe pooling in its post transition set-up, the previous ISS was written before Brunel was launched.
- 3.5 Section 5 has a specific 2-page section on climate change, which has been added since the previous version.
- 3.6 Section 6 on Stewardship has been completely re-written and significantly enhanced to reflect the greater expectations now placed on Stewardship.
- 3.7 Sections 7 and 8 are largely unchanged.

4. Consultations undertaken

- 4.1 The Pension Board considered a draft of the ISS at their meeting on 23rd November. They requested that "or sooner if investment products allow" to the pledge to be net zero by 2040 in section 5. The Board also requested that in the bullet point referring to active management in section 2 that "after all relevant fees and charges" be added.
- 4.2 Offices felt that both of these points were already implied in the draft of the ISS and therefore it was not controversial to make the amendments as requested. The version in appendix A has been amended to include these changes.

5. Financial Implications

- 5.1 The ISS is a key component of managing the Investments.

6. Background Papers

None

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

Somerset County Council Pension Fund

Investment Strategy Statement

1. Introduction

The Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 require administering authorities to formulate and to publish a statement of its investment strategy, in accordance with guidance issued from time to time by the Secretary of State.

The regulations provide a prudential framework, within which administering authorities are responsible for setting their policy on asset allocation, risk and diversity. The Investment Strategy Statement will therefore be an important governance tool for the Somerset Pension Fund as well as providing transparency in relation to how Fund investments are managed.

The Somerset Pension Fund's primary purpose is to provide pension benefits for its members. The Fund's investments will be managed to achieve a return that will ensure the solvency of the Fund and provide for members' benefits in a way that achieves long term cost efficiency and effectively manages risk. The Investment Strategy Statement therefore sets out a strategy that is designed to achieve an investment return consistent with the objectives and assumptions set out in the Fund's Funding Strategy Statement.

The Somerset Pension Fund aims to be a long term investor, it seeks to invest in productive assets that contribute to economic activity, such as equities, bonds and real assets. The Fund diversifies its investments between a variety of different types of assets in order to manage risk.

The Investment Strategy Statement will set out in more detail:

- The Somerset Fund's assessment of the suitability of particular types of investments, and the balance between asset classes.
- The Somerset Fund's approach to risk and how risks will be measured and managed, consistent with achieving the required investment return.
- The Somerset Fund's approach to pooling and its relationship with the Brunel Pension Partnership.
- The Somerset Fund's policy on how social, environmental or corporate governance considerations are taken into account in its investment strategy, including its stewardship responsibilities as a shareholder and asset owner.

Under the previous regulations the Fund was required to comment on how it complied with the Myners Principles. These were developed following a review of institutional investment by Lord Myners in 2000, and were updated following a review by the National Association of Pension Funds in 2008. While a statement on compliance with the Myners Principles is no longer required by regulation, the Somerset Pension Fund considers the Myners Principles to be a standard for Pension Fund investment management. A statement on compliance is included at Annex 1.

This statement will be reviewed by the Pensions Committee at least triennially, or more frequently should any significant change occur.

2. Investment strategy and the process for ensuring suitability of investments

The primary objective of the Somerset Pension Fund is to provide pension and lump sum benefits for members on their retirement and/or benefits on death before or after retirement for their dependants, in accordance with LGPS Regulations.

In line with the Fund's Funding Strategy Statement, the Pensions Committee has set an objective of the Fund being at or above a 100% funding level, as calculated by the Fund's actuary at the triennial valuation, so that it can meet its current and future liabilities.

In order to meet these overriding objectives, the Somerset Pension Fund maintains an investment strategy so as to:

- Maximise the returns from investments whilst keeping risk within acceptable levels and ensuring liquidity requirements are at all times met;
- Contribute towards achieving and maintaining a future funding level of 100%;
- Enable employer contribution rates to be kept as stable as possible.

The Somerset Pension Fund has the following investment beliefs which help to inform the investment strategy derived from the decision making process.

- Funding, investment strategy and contribution rates are linked.
- The strategic asset allocation is the key factor in determining the risk and return profile of the Fund's investments.
- Investing over the long term provides opportunities to improve returns.
- Diversification across asset classes can help to mitigate against adverse market conditions and assist the Fund to produce a smoother return profile due to returns coming from a range of different sources.
- Managing risk is a multi-dimensional and complex task but the overriding principle is to avoid taking more risk than is necessary to achieve the Fund's objectives.
- Environmental, Social and Governance are important factors for the sustainability of investment returns over the long term. More detail on this is provided in Section 5.
- Value for money from investments is important, not just absolute costs. Asset pooling is expected to help reduce costs over the long-term, whilst providing more choice of investments, and therefore be additive to Fund returns.
- Active management, after all relevant fees and charges, can add value to returns, albeit with higher short-term volatility.

The Pensions Committee annually adopts a target return for the investment funds as a whole. This target return is set with specific reference to the investment return assumed by the actuary as part of the valuation process and therefore explicitly links the Fund's targeted level of return with achieving and maintaining a future funding level of 100%.

In order to translate the above objectives and beliefs into a set of investment mandates for practical management of the investments the Pension Committee have created a customised benchmark for the Fund. The customised benchmark is an amalgamation of specific benchmarks for each investment mandate, which is then given to an investment manager (internal or external) for day to day management.

The customised benchmark sets out the intended long term weighting to various types of investment (or asset classes), such as equities, bonds and property and reflects the Fund's investment strategy. The customised benchmark seeks to balance the affordability of contributions with the risk of different types of investments.

The investment strategy and customised benchmark are reviewed by the Pensions Committee annually to ensure they continue to meet the Fund's investment objectives.

The Actuary considers the Pension Fund's assets in broad terms – growth assets and stabilising assets. The table below splits the customised benchmark between these categories, along with an overview of the role each asset plays:

Asset Class	Strategic Allocation	Role(s) within the strategy	Geography	Currency
Equities				
Global Passive (FTSE Russell Paris Aligned series)	20%	Growth Inflation protection	Diversified	Diversified
UK Active	10%	Growth Inflation protection	UK	GBP
Global High Alpha Active	25%	Growth Inflation protection	Diversified	Diversified
Global Smaller Companies Active	5%	Growth Inflation protection	Diversified	Diversified
Emerging Market Active	5%	Growth Inflation protection	Diversified	Diversified
Total	65%			
Maximum	100%			

Bonds				
UK Gov't Bonds	4%	Stabilising	UK	GBP
UK Gov't Index linked bonds	4%	Stabilising Inflation protection	UK	GBP
Investment Grade corporate bonds	8%	Stabilising	Diversified	GBP
Multi-Asset Credit	3	Stabilising	Diversified	Diversified
Total	19%			
Maximum	100%			
Alternatives				
Property	10%	Growth Inflation protection	UK	GBP
Private equity	5%	Growth	Diversified	Diversified
Total	15%			
Maximum	25%			
Cash				
Cash	1%	Liquidity	UK	GBP
Total	1%			
Maximum	100%			

The Fund's benchmark currently includes a significant holding in 'growth' assets, specifically equities, reflecting its need for higher returns than from government bonds in the long term. These long term returns form part of the Actuary's assumptions and mean that employer contributions can be kept lower.

Actual asset allocation varies over time through the impact of market movements and cash flows. The overall balance is monitored regularly by officers and they have delegated authority to rebalance the assets taking into account market conditions and other relevant factors. The actual asset allocation and the actions taken by officers are reported to the Pensions Committee regularly.

As well as monitoring asset allocation officers also regularly monitor the largest single asset exposures and concentrations to ensure inappropriate exposures do not occur.

As there is a strong internal monitoring mechanism in place it is not deemed necessary to place an upper limit on the exposure of the fund to assets that are readily realisable such as assets listed on a regulated exchange or pooled funds that provide daily dealing. This is reflected in the maximum exposures of 100% quoted in the table above although it is not anticipated that this is likely to occur in anything but the most extreme circumstances. For assets that are illiquid, such as property and private equity funds a limit of 25% of the total value of the fund has been set.

It is anticipated that the majority of assets held will be collective investment funds provided by Brunel Pension Partnership Ltd., the Fund's chosen pool provider. Each Brunel offering is created to meet a specification agreed by Brunel and its Clients. Clients regularly review the portfolios to ensure they continue to meet, and do not deviate from, the agreed specifications.

Whilst it is now anticipated that the majority of holdings will be in collective investment funds the Somerset Pension Fund can invest in the following asset types:

- listed stocks, shares and warrants of companies;
- listed government and corporate bonds;
- futures and options;
- Interest rate and inflation swaps
- spot and forward currency contracts;
- cash deposits with suitable banks and building societies;
- stock-lending arrangements;
- unlisted collective investment schemes such as unit trusts and investment companies;
- limited liability partnerships (LLPs) ; and
- unlisted shares.

3. Risk measurement and management

Successful investment involves taking considered risks, acknowledging that the returns achieved will to a large extent reflect the risks taken. There are short-term risks of loss arising from default by brokers, banks or custodians but the Somerset Pension Fund is careful only to deal with reputable counter-parties to minimise any such risk.

Longer-term investment risk includes the absolute risk of reduction in the value of assets through negative returns (which cannot be totally avoided if all major markets fall). It also includes the risk of under-performing the Fund's performance benchmark (relative risk).

Different types of investment have different risk characteristics and have historically yielded different rewards (returns). Equities (company shares) have produced better long-term returns than fixed interest stocks but they are more volatile and have at times produced negative returns for long periods.

In addition to targeting an acceptable overall level of investment risk, the Pensions Committee seeks to spread risks across a range of different sources, believing that diversification limits the impact of any single risk. The Committee aims to take on those risks for which a reward, in the form of excess returns, is expected over time.

The key investment risks that the Somerset Pension Fund is exposed to are:

- The risk that the Fund's growth assets in particular do not generate the returns expected as part of the funding plan in absolute terms.
- The risk that the Fund's assets do not generate the returns above inflation assumed in the funding plan, i.e. that pay and price inflation are significantly more than anticipated and assets do not keep up.
- That there are insufficient funds to meet liabilities as they fall due.
- That active managers underperform their performance objectives.

At Fund level, these risks are managed through:

- Diversification of investments by individual holding, asset class and by the investment managers appointed on behalf of the Fund by the Brunel Pension Partnership.
- Explicit mandates governing the activity of investment managers.
- The appointment of an Independent Investment Advisor.

The external investment managers can control relative risk to a large extent by using statistical techniques to forecast how volatile their performance is likely to be compared to the benchmark. The Fund can monitor this risk and impose limits.

The Somerset Pension Fund is also exposed to operational risk; this is mitigated through:

- A strong employer covenant.
- The use of a Global Custodian for custody of assets.
- Having formal contractual arrangements with investment managers.
- Comprehensive risk disclosures within the Annual Statement of Accounts.
- Internal and external audit arrangements.

The ultimate risk is that the Fund's assets produce worse returns than assumed by the Actuary, who values the assets and liabilities every three years, and that as a result, the solvency of the Fund deteriorates. To guard against this the Investment Strategy seeks to control risk but not to eliminate it. It is quite possible to take too little risk and thereby to fail to achieve the required performance.

The Somerset Pension Fund also recognises the following (predominantly non-investment) risks:

Longevity risk: this is the risk that the members of the Fund live longer than expected under the Actuarial Valuation assumptions. This risk is captured within the Actuarial Valuation report which is conducted at least triennially and monitored by the Committee, but any increase in longevity will only be realised over the long term.

Sponsor Covenant risk: the financial capacity and willingness of the sponsoring employers to support the Fund is a key consideration of the Committee and is reviewed on a regular basis.

Liquidity risk: the Committee recognises that there is liquidity risk in holding assets that are not readily marketable and realisable. Given the long-term investment horizon, the Committee believes that a degree of liquidity risk is acceptable, given the potential return. The majority of the Fund's assets are realisable at relatively short notice.

Regulatory and political risk: across all of the Fund's investments, there is the potential for adverse regulatory or political change. Regulatory risk arises from investing in a market environment where the regulatory regime may change. This may be compounded by political risk in those environments subject to unstable regimes. The Committee will attempt to invest in a manner which seeks to minimise the impact of any such regulatory or political change should such a change occur.

Climate change risk: climate change is a systemic investment risk that may have an impact on investee companies as a result of both the consequences of climate change and the transition to a low carbon economy. The Fund's approach to climate change is included in section 5 of the Investment Strategy Statement, and the Fund will expect Brunel and other fund managers to have policies in place to manage the risk.

Cashflow risk: the Fund's cashflow is currently positive, in that income from contributions currently meet benefit obligations without the need to disinvest from the Fund's investments. Over time, it is likely that the size of pensioner cashflows will increase as the Fund matures and greater consideration will need to be given to raising capital to meet outgoings. The Pensions Committee recognises that this can present additional risks, particularly if there is a requirement to sell assets at inopportune times, and so looks to mitigate this by taking income from investments where possible.

Governance: members of the Pensions Committee and Local Pension Board participate in regular training delivered through a formal programme. Both the Pensions Committee and Local Pension Board are aware that poor governance and in particular high turnover of members may prove detrimental to the investment strategy, fund administration, liability management and corporate governance and seeks to minimise turnover where possible.

The Fund maintains a risk register which is considered by the Pensions Committee regularly and updated as necessary. The risk register considers a number of investment and non-investment risks such as those above.

The Fund's Funding Strategy Statement specifically covers the risks with respect to Funding and how these are managed by the Fund.

4. Approach to asset pooling

The Somerset Pension Fund participates with nine other administering authorities to pool investment assets through the Brunel Pension Partnership. At the centre of the partnership is Brunel Pension Partnership Limited (Brunel), a company established specifically to manage the assets within the pool.

The Somerset Pension Fund, through the Pensions Committee, retains the responsibility for setting the detailed strategic asset allocation for the Fund and allocating investment assets to the portfolios provided by Brunel.

The Brunel Pension Partnership Ltd, established in July 2017, is a company wholly owned by the Administering Authorities (in equal shares) that participate in the pool. The company is authorised by the Financial Conduct Authority (FCA). It is responsible for implementing the detailed strategic asset allocations of the participating funds by investing those funds' assets within defined outcome focused investment portfolios. In particular, it researches and selects the external managers or pooled funds needed to meet the investment objective of each portfolio. Brunel will create collective investment vehicles for quoted assets such as equities and bonds; for private market investments it will create and manage an investment programme with a defined investment cycle for each asset class.

As a client of Brunel, the Somerset Pension Fund has the right to expect certain standards and quality of service. The Service Agreement between Brunel and its clients sets out in detail the duties and responsibilities of Brunel, and the rights of the Somerset Pension Fund as a client. It includes a duty of care of Brunel to act in its clients' interests.

The governance arrangements for the pool have been established. The Brunel Oversight Board is comprised of representatives from each of the Administering Authorities and two fund member observers, with an agreed constitution and terms of reference. Acting for the Administering Authorities, it has ultimate responsibility for ensuring that Brunel delivers the services required to achieve investment pooling and deliver each fund's investment strategy. Therefore, it has a monitoring and oversight function. Subject to its terms of reference it will consider relevant matters on behalf of the Administering Authorities, but does not have delegated powers to take decisions requiring shareholder approval. These will be remitted back to each Administering Authority individually. As shareholders of Brunel, the Administering Authorities' shareholder rights are set out in the Shareholders Agreement and other constitutional documents.

The Oversight Board will be supported by the Client Group, comprised primarily of pension investment officers drawn from each of the Administering Authorities but will also draw on Administering Authorities finance and legal officers from time to time. It has a primary role in reviewing the implementation of pooling by Brunel. It provides a forum for discussing technical and practical matters, confirming priorities, and resolving differences. It is responsible for providing practical support to enable the Oversight Board to fulfil its monitoring and oversight function. The Client Group will monitor Brunel's performance and service delivery for each of the established Brunel portfolios. The Somerset Pensions Committee will receive regular reports covering portfolio and Fund performance and Brunel's service delivery.

The proposed arrangements for asset pooling for the Brunel pool were formulated to meet the requirements of the Local Government Pension Scheme (Management and Investment of Funds) Regulations 2016 and Government guidance. Regular reports have been made to Government on progress, and the Minister for Local Government has confirmed on a number of occasions that the pool should proceed as set out in the proposals made.

Somerset's Pensions Committee approved the full business case for the Brunel Pension Partnership in 2017. The process of transitioning the Fund's assets to the portfolios managed by Brunel started in April 2018 (the passive equity assets transitioned in July 2018) and was completed (except for legacy private market assets) in July 2021.

Following the completion of the transition plan, virtually all of the Somerset Pension Fund's assets are invested through Brunel portfolios except certain cash holdings. However, the Fund has certain commitments to long term illiquid investment funds which will take longer to transition across to the Brunel portfolios. These assets will be managed in partnership with Brunel until such time as they are liquidated, and capital is returned.

5. Social, environmental and corporate governance policy

The Somerset Pension Fund has a fiduciary duty to seek to obtain the best financial return that it can for its members. This is a fundamental principle, and all other considerations are secondary. However, the Fund is also mindful of its responsibilities as a long term shareholder, and the Pensions Committee regularly considers the extent to which it wishes to take into account social, environmental or ethical issues in its investment policies. The Fund's policy is to support engagement with companies to effect change, rather than disinvestment.

In the light of that overarching approach the following principles have been adopted:

- The Fund seeks to be a long term responsible investor. The Fund believes that in the long term it will generate better financial returns by investing in companies and assets that demonstrate they contribute to the long term sustainable success of the global economy and society.
- Social, environmental and ethical concerns will not inhibit the delivery of the Fund's investment strategy and will not impose any restrictions on the type, nature of companies/assets held within the portfolios that the Fund invests in. However, the identification and management of ESG risks that may be financially material is consistent with our fiduciary duty to members.
- The Fund will seek to engage (through the Brunel Pension Partnership, its asset managers or other resources) with companies to ensure they can deliver sustainable financial returns over the long-term as part of comprehensive risk analysis. Engagement with companies is more likely to be successful if the Fund continues to be a shareholder.
- Although social, environmental and ethical issues rarely arise on the agendas of company Annual General Meetings, where an issue does arise the Fund's investment managers will vote in accordance with the Fund's interest on investment grounds. Some issues may be incorporated into generally accepted Corporate Governance Best Practice (e.g. the inclusion of an Environmental Statement in the Annual Report and Accounts). In this case the Council will instruct its external investment managers to vote against the adoption of the Annual Report, if no such statement is included.

- The Fund recognises the risks associated with social, environmental and governance (ESG) issues, and the potential impact on the financial returns if those risks are not managed effectively. The Fund will work with its partners in the Brunel pool and the Brunel Pension Partnership Limited company to ensure that robust systems are in place for monitoring ESG risk, both at a portfolio and a total fund level, and that the associated risks are effectively managed.
- More broadly the Fund adopts the policies set out in the Brunel Responsible Investment Policy. The Brunel policy can be found at: <https://www.brunelpensionpartnership.org/responsible-investment/responsible-investment-policy/>

Climate Change

The Somerset Pension Fund believes climate change poses significant risks to global financial stability and could thereby create climate-related financial risks to the Fund's investments unless action is taken to mitigate these risks. In recognising the need to address the risks associated with climate change posed to both the Fund's investments and our beneficiaries, we acknowledge that there is an urgent need to accelerate the transition towards global net zero emissions and play our part in helping deliver the goals of the Paris Agreement. The Somerset Pension Fund has therefore pledged that its portfolio of investments will be net-zero by 2040, or sooner if investment products allow. In order to achieve this goal, the Fund has set an initial target of a 7% per annum reduction in the Weighted Average Carbon Intensity (WACI) of the Fund's investments, based on the March 2019 calculation of the WACI, to be reviewed in 2022. This recognises the need for significant progress in the earlier part of the period to 2040, with the intention of achieving at least a 50% reduction by 2030. These targets will also be applied to the Fund's exposure to fossil fuel reserves as a proxy for downstream scope 3 emissions which are not captured within the WACI calculation.

This will be achieved by the following strategy.

(a) We recognise that climate change will have impacts across our portfolios. This means we look to the Brunel Pension Partnership and all our asset managers to identify and manage climate-related financial risks as part of day-to-day fund management. The way those risks and opportunities present themselves varies, particularly in evaluating what a portfolio aligned to the Paris Agreement looks like.

(b) The Somerset Pension Fund wants to play its part in achieving real economy emissions reductions. This means that we are looking for investee companies, irrespective of industry or type, to make significant reductions in their emissions, rather than just shifting our investments from higher emitting companies to lower emitting companies. The Fund does not therefore consider a top-down approach to disinvestment to be an appropriate strategy. By integrating climate change into risk management process, using carbon footprinting, assessing fossil fuel exposure and challenging managers on physical risks, we seek to both reduce climate and carbon risk and achieve real reductions in global emissions. Where investee companies fail to engage with climate change issues, selective disinvestment may be appropriate based on investment risk.

c) We are committed to working with Brunel to decarbonise our investments in listed portfolios. Decarbonisation is achieved by being selective in the allocation of capital, particularly to carbon intense companies. This process is informed by using a variety of tools in combination with industry and corporate engagement. For example, engagement with electric utility companies about their future strategy on energy sources informs the investment decisions relating to those companies and indeed the relative attractiveness of the sector over time.

(d) The Somerset Pension Fund will collaborate via the Brunel Pension Partnership and the Local Authority Pension Fund Forum (LAPFF) to advocate policy and regulatory reforms aimed at achieving global net zero emissions by 2050 or sooner. This will include engaging with asset managers, credit rating agencies, auditors, stock exchanges, proxy advisers, investment consultants, and data and service providers to ensure that funds, products and services available to investors are consistent with achieving global net zero emissions by 2050 or sooner.

(e) We expect the engagement and voting conducted on behalf of the Fund by LAPFF, Brunel and underlying investment managers to be consistent with an objective for all assets in the portfolio to achieve net zero emissions by 2040 or sooner. The Fund's stewardship and voting policies are set out more fully in section 6 of the Investment Strategy Statement.

(f) Climate change risk and carbon reduction targets will be a consideration in reviews of the Fund's strategic asset allocation. This will be considered ensuring consistency with the Fund's fiduciary duty to achieve the investment returns required to meet its future pension liabilities.

(g) The Somerset Pension Fund adopts the Brunel Pension Partnership's climate change policy, found at the following link:

<https://www.brunelpensionpartnership.org/climate-change/>

(h) Somerset County Council has committed to reduce the carbon emissions from its operations to net-zero by 2030. This will include the operational emissions of the Somerset County Council Investment Team in the oversight of the Somerset Pension Fund's investments, and the administration of benefits by Peninsula Pensions in conjunction with Devon County Council.

(j) We are committed to being transparent about the carbon intensity of our investments through the publication of the Fund's carbon footprint and reserves exposure on an annual basis. This will enable us to measure progress against the targets set out above. The Fund will also report on delivery through the Brunel Annual Climate Action Plan and work towards meeting the recommendations of the Task Force on Climate-related Financial Disclosures (TCFD).

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6. Stewardship Policy

The Somerset Pension Fund is committed to responsible stewardship and believe that through stewardship it can contribute to the care, and ultimately long-term success, of all the assets within our remit.

The Fund supports and applies the UK Stewardship Code 2020 definition of stewardship: "Stewardship is the responsible allocation, management, and oversight of capital to create long-term value for clients and beneficiaries leading to sustainable benefits for the economy, the environment and society."

The Somerset Pension Fund works with or through the Brunel Pension Partnership, the Local Authority Pension Fund Forum and/or other partners to pursue activities which are outcomes focused, which prioritise the pursuit and achievement of positive real-world goals, and where there is enhanced collaboration which focuses on collective goals to address systemic issues. From a bottom up perspective, this includes:

- Engaging with companies and holding them to account on material issues.
- Exercising rights and responsibilities, such as voting.
- Integrating environmental, social and governance factors into investment decision making.
- Monitoring assets and service providers.
- Collaborating with others.
- Advancing Policy through advocacy.

The Somerset Pension Fund fully endorses and supports the Brunel Pension Partnership Stewardship Policy, and the Somerset Pension Fund's policy should be seen as fully consistent in all aspects. The full Brunel policy can be found at: https://www.brunelpensionpartnership.org/stewardship_report/

The following section sets out in detail the Somerset Pension Fund's policies on stewardship, including its policy on the exercise of rights, including voting rights, attached to investments.

Governance and Oversight

The Pensions Committee approves and is collectively accountable for the Fund's Policies, which includes the Stewardship Policy. Operational accountability on a day-to-day basis is held by officers in line with the Fund's Scheme of Delegation. The Fund requires the Brunel Pension Partnership to provide a suite of public reports on their stewardship activities, and environmental, social and governance metrics to empower the Somerset Pension Fund's stewardship activities and to enable oversight.

The Somerset Pension Fund believes in the importance of regular and in-depth shareholder and stakeholder engagement. Our Stewardship Policy has been developed in conjunction with that of the Brunel Pension Partnership, which in turn has been developed in collaboration with key stakeholders, including the Brunel Oversight Board, Brunel Client Group, and the Client Responsible Investment (RI) Sub-Group. The RI Sub-Group is made up of members of Brunel's clients and meets monthly, it provides an opportunity for clients to:

- Raise stewardship interests.
- Share best practice with Brunel and amongst partner funds.
- Provide insights on concerns, issues, and member perspectives.
- Shape priorities of Brunel and Equity Ownership Services (EOS) at Federated Hermes.
- Review reporting outputs.
- Knowledge share and receive in-depth reports on topics of interest.
- Access expertise.
- Consult on policy design and development.

Identifying and Prioritising Engagement

The Somerset Pension Fund will expect Brunel to identify engagement objectives in four ways:

- Top down, to identify thematic areas of risk and opportunity.
- Bottom up, to review exposure to individual companies and to specific ESG risks and opportunities. Companies should be identified through asset managers, collaborative engagement forums, external research, and Brunel's own internal ESG risk analysis.
- Reactively to events, for example, after a specific, usually significant, incident. The companies that Brunel actively engage with should be prioritised based on our level of exposure and the probability of successful outcome.
- Brunel should be responsive to client concerns. Where the Fund raises specific issues, which could be as a result of Fund member concerns or points raised by Pension Committee or Pension Board members, Brunel will be expected to engage with companies to address the concerns raised.

The Somerset Pension Fund is a global investor and seeks to apply the principles of good stewardship globally. It is a strong advocate of the benefits of global stewardship codes to improve the quality of stewardship, and when updates are made aims to adopt best practice. As a UK-based investor our key reference points are the UK Stewardship Code 2020 and UK Corporate Governance Code and guidance produced by UK industry bodies, for example, the British Venture Capital Association (BVCA – private equity) RI toolkit.

The Somerset Pension Fund is committed to supporting policy makers, regulators and industry bodies in the development and promotion of the codes and supporting guidance. The Fund publishes an annual review of its stewardship and engagement activities in its Annual Report which is intended to meet the best practice requirements of the UK Stewardship Code 2020 and support the Fund's compliance with the Shareholder Rights Directive II. The Fund is a strong supporter of the UK Corporate Governance Code and the application of the Companies Act S172 (Duty to promote the success of the company). It believes that corporate behaviour in line with the spirit of the Act more broadly is essential to the Fund's objective of contributing to a more sustainable and resilient financial system, which supports sustainable economic growth and a thriving society.

The Somerset Pension Fund encourages companies either to comply with such codes or to fully explain their reasons for noncompliance. However, it is also cognisant that good governance cannot be guaranteed solely by adherence to the provisions of best practice governance codes. Therefore, we urge companies to consider carefully how best to apply the principles and the spirit of such codes to their own circumstances and to clearly communicate to investors the rationale behind their chosen approach.

Transparency and Collaboration

Good stewardship requires a good understanding of the assets that the Fund invests in. This is done in collaboration with Brunel, who do it directly, through EOS at Federated Hermes, their asset managers, and other initiatives. Working closely with company boards is one of the most effective means to achieve this but requires the establishment of mutual trust and, at times, confidentiality. It is also acknowledged that, when working collaboratively with other investors, we must respect other disclosure requirements and restrictions.

The Fund publishes regular updates on its stewardship activities, including quarterly engagement and voting activity analysis presented to the Pension Committee, and the annual review included in the Fund's Annual Report.

The Fund believes that working collaboratively is essential to delivering its objectives as the scope and scale of investments means that we need to draw on the expertise of others, including Brunel, the Local Authority Pension Fund Forum (LAPFF), and not least the asset managers employed by both Brunel and directly by the Fund. In addition to managers and specialist advisors, the Fund supports a number of organisations and initiatives that enable its ability to work collaboratively – for example this includes membership of LAPFF. The Fund's reporting will evidence its activities.

Conflicts of Interest

Somerset County Council has a robust Code of Conduct and Conflicts of Interest policy, which all members of the Pensions Committee (whether Somerset County Councillors or not) are required to adhere to. The policies can be found at:

[Members Code of Conduct](#)

Pensions Committee members are required to make declarations of interest prior to committee meetings in line with the Council's code of conduct and interest rules. This would ensure that if committee members had any personal interests in any company that the Fund invests in that may have an impact on stewardship activity then those interests would be declared and managed.

The management of conflicts is important in building long-term relationships with the companies the Fund invests in and with its partnerships. In particular, the Fund expects Brunel to have a robust approach to conflicts of interest. This includes having comprehensive controls operating at all levels within the business to prevent conflicts of interest from adversely affecting the interests of the Somerset Pension Fund and other clients, including the Fund's members and employers.

The effective management of potential Conflicts of Interest is a key component of Brunel's due diligence on all asset managers and service providers, as well as ongoing contract management. Conflict of interest clauses are included in investment management agreements. Conflicts are also considered when undertaking voting and engagement. Details on how EOS at Federated Hermes, Brunel's appointed engagement voting provider, approach conflicts of interest are available on their website at:

<https://www.hermes-investment.com/ukw/wp-content/uploads/2020/05/stewardship-conflicts-of-interest-policy-2020.pdf>

Data and Information

The Fund recognises that ESG data is a developing discipline and is a strong advocate for improved disclosure from companies and assets in which it invests. The Fund will use a variety of data sources to analyse the ESG risks of its investments and asset allocation strategy. It expects Brunel to use its own analysis and that of its asset managers to inform its stewardship activity and risk ESG management, as well as media and company reports and a variety of third party proprietary and public data sources.

Given the lack of standardisation and transparency across ESG data, differing methodologies can lead to different outputs and biases. On behalf of the Fund and other clients, Brunel use a variety of best in class providers, which leverage the Sustainability Accounting Standards Board's (SASB) materiality framework, to reduce bias, provide greater coverage of our assets, improve awareness of differences in data providers or to aid specific targeted engagement priorities. SASB promotes better quality reporting on material ESG risks, the standards focus on financially material issues. Another framework Brunel endorses is the Task Force on Climate-related financial disclosures (TCFD) which has developed a set of consistent climate-related financial disclosures that can be used by companies. Further detail on the TCFD is located in Brunel's Responsible Investment Policy and Climate Change Policy.

These sources of data are embedded into quarterly reports reviewed by Brunel at quarterly Brunel Investment Risk Committee meetings and are included in the reports provided to the Somerset Pensions Committee.

The Fund recognises that data provision is a continuously evolving area. The Fund supports Brunel's policy of reviewing their use of providers annually and providing feedback where developments could be made. Brunel seek to stimulate market-wide improvements in ESG risk analysis and commit to continue to innovate, adapt and improve to ensure the availability of robust, independent and effective data to work collegiately with external asset managers on the management of the whole spectrum of investment risks.

Voting

Responsibility for the exercise of voting rights has been delegated to the Brunel Pension Partnership. For the Brunel passive portfolios, Brunel have further delegated voting to Legal and General Investment Management but have retained the right to direct split voting on significant issues. The below link provides information on Legal and General Investment Management's approach to active ownership.

<https://www.lgim.com/uk/en/capabilities/corporate-governance/>

Brunel have adopted voting guidelines, following extensive consultation with their client funds, which can be found on their website.

The Somerset Pension Fund requires that Brunel will always seek to exercise its rights as shareholders through voting. This means seeking to vote 100% of available ballots. However, as with any process, errors and issues can occur. If the level of voting drops below 95% this would raise a cause for concern, be investigated and corrective action identified.

Votes should be cast applying the following principles:

Consistency: Brunel should vote consistently on issues, in line with their Voting Policy, applying due care and diligence, allowing for case-by-case assessment of companies and market-specific factors. This should include consideration of engagement with companies when voting.

No abstention: Brunel should aim to always vote either in favour or against a resolution and only to abstain in exceptional circumstances or for technical reasons, such as where a vote is conflicted, a resolution is to be withdrawn, or there is insufficient information upon which to base a decision.

Supportive: Brunel should aim to be knowledgeable about companies with whom they engage and to always be constructive. Brunel should aim to support boards and management where their actions are consistent with protecting long-term shareholder value.

Long-term: Brunel should seek to protect and optimise long-term value for shareholders, stakeholders and society.

Engagement: Brunel should support aligning voting decisions with company engagement and escalate the vote if concerns have been raised and not addressed in the prior year.

Transparency: The Somerset Pension Fund expects Brunel to be transparent and publish voting activity no less than twice per year.

The Somerset Pension Fund expects that companies will conduct themselves as follows:

Accountability: The directors of a company must be accountable to its shareholders and make themselves available for dialogue with shareholders.

Transparency: We expect companies to be transparent and to disclose, in a timely and comprehensible manner, information to enable well-informed investment decisions. This includes environmental and social issues that could have a material impact on the company's long-term performance.

One Share, One Vote: We support one share, one vote. Where a company issues shares with differing rights, they must define these rights transparently and clearly explain why rights are not equal.

Informed votes: We expect companies to make complete materials for general meetings available to shareholders and, where possible, to do so in advance of the legal timeframes for the meeting.

Development: We encourage companies to explore technology to improve the voting process and confirmation, such as blockchain, virtual meetings, electronic voting, and split voting (ownership proportion).

The Somerset Pension Fund is a member of the Local Authority Pension Fund Forum (LAPFF). LAPFF also conducts significant engagement with companies on behalf of their member funds, and where there is a significant issue to be voted on at a company AGM they will issue a voting alert, with a recommendation to member funds on how to vote.

Where a voting alert has been issued by LAPFF, the Somerset Pension Fund expects that Brunel (and Legal and General Investment Management) should give consideration to LAPFF's recommendation when deciding how to vote. Brunel should report back to the Fund on how they have voted and the rationale for their vote, especially where they vote differently to the LAPFF recommendation.

In exceptional circumstances, the Somerset Pension Fund may direct a split vote where the Fund has a specific investment policy commitment. Brunel has made provisions to allow clients, by exception, to direct votes, including the passive pooled funds, as an elective service. Client funds need to submit the request in line with the issuance of the meeting notification, usually not less than 2-3 weeks prior to an AGM/EGM.

The following issues are of particular concern to the Somerset Pension Fund in determining how shares should be voted. The Fund's policies on these issues align with Brunel's voting guidelines, which are not repeated in full here, but more details can be found at:

https://www.brunelpensionpartnership.org/voting_guidelines/

Sustainability: Companies should effectively manage environmental and social factors, in pursuit of enhancing their sustainability. A company's governance, social and environmental practices should meet or exceed the standards of its market regulations and general practices and should take into account relevant factors that may significantly impact the company's long-term value creation. Issuers should recognise constructive engagement as both a right and a responsibility.

Human and Natural Capital: Companies operate interdependently with the economy, society, and the physical environment. The availability and retention of an appropriately skilled workforce will impact company productivity. Similarly, companies impact the environment through their use of natural resources e.g. water, waste and raw materials. The physical environment has an impact too; extreme weather can disrupt supply chains, either directly or indirectly which can impact company productivity. Companies should manage their workforce and natural capital effectively to enhance their productivity and to deliver sustainable returns. Companies should regularly disclose key metrics on their capital requirements and risks. Directors of companies should be accountable to shareholders for the management of material environmental and social risks which, over the long term, will affect value and the ability of companies to achieve long term returns.

Company Boards – Conduct and Culture: Corporate culture and conduct have always been important, but recent evidence from incidents where conduct has fallen below the expected standards has reinforced the need to focus on conduct and culture, as well as highlighting the financial risks linked to low standards on conduct.

Board Composition and Effectiveness: The composition and effectiveness of boards is crucial to determining company performance. Boards should comprise a diverse range of skills, knowledge, and experience, including leadership skills, good group dynamics, relevant technical expertise and sufficient independence and strength of character to challenge executive management and hold it to account.

The Somerset Pension Fund believes that to function and perform optimally, companies and their boards should seek diversity of membership. They should consider the company's long-term strategic direction, business model, employees, customers, suppliers and geographic footprint, and seek to reflect the diversity of society, including across race, gender, skill levels, nationality and background. Robust succession planning at the Board and senior management level is vital to safeguard long-term value for any organisation, including planning for both unanticipated and foreseeable changes.

The board is accountable to shareholders and should maintain ongoing dialogue with its long-term shareholders on matters relating to strategy, performance, governance and risk and opportunities relating to environmental and social issues. This dialogue should support, but not be limited to, informing voting decisions at annual meetings.

Executive Remuneration: Executive remuneration is a critical factor in ensuring management is appropriately incentivised and aligned with the best interests of the long-term owners of the business. Whilst judgement of remuneration is therefore made on a case-by-case basis, we adhere to the following guiding principles:

- **Simplicity:** pay schemes should be clear and understandable for investors as well as executives.
- **Shareholding:** the executive management team should make material investments in the company's shares and become long-term stakeholders in the company's success.
- **Alignment and quantum:** pay should be aligned to the long-term success of the company and the desired corporate culture and is likely to be best achieved through long-term share ownership.
- **Accountability:** remuneration committees should use discretion to ensure that pay properly reflects business performance. Pay should reflect outcomes for long-term investors and take account of any decrease in the value of or drop in the reputation of the company.
- **Stewardship:** companies and investors should regularly discuss strategy, long-term performance and the link to executive remuneration.
- **Behaviour:** the most senior executives should willingly embrace the approach described. If they do not, boards should consider the implications.

Audit: The audit process is vital to ensuring the integrity of company reporting and the presentation of a true and fair view, enabling shareholders to assess the financial health and long-term viability of a company.

Protection of Shareholder and Bondholder Rights: The rights of shareholders and bondholders should be protected, including the right to access information, to receive equal treatment and to propose resolutions and vote at shareholder meetings. We support a single share class structure and generally oppose any measures to increase the complexity of shareholding structures. We will generally require the unbundling of resolutions, giving shareholders the right to vote distinctly on the general, and enhanced authorities to issue shares as separate items on the agenda of shareholder meetings. We also support adherence to the highest possible standards on listed stock exchanges.

Stock Lending and Share Recall

The Fund permits holdings in its segregated portfolios to be lent out to market participants. Stock lending is an important factor in the investment decision, providing opportunities for additional return, but that lending should not undermine governance, our ability to vote or long-term investing. The stock lending programme is managed by Brunel, and the Somerset Pension Fund adopts Brunel's policies on stock lending and share recall.

Voting rights attached to a stock or security reside with the borrower for as long as it is out on loan. Stock will be recalled from stock lending where Brunel considers it in the client's best interest and consistent with our investment principles.

Where there is a perceived trade-off between the economic benefit of stock lending, and Brunel's ability to discharge its obligations as a responsible long-term investor, the latter will have precedence. Securities lending entails operational process risks such as settlement failures or delays in the settlement of instructions. The Fund expects Brunel to undertake a comprehensive review of the potential risks and implemented measures to mitigate and reduce the risk. Controls include, but are not limited to:

- An approved borrowers list.
- Retention of 5% of any one stock.
- On average, stock will be lent no longer than 21 days.
- Restrictions on acceptable collateral.

All measures and service level agreements are regularly monitored. Brunel examines the selection criteria for approved borrows to confirm consistency with Brunel's internal requirements regarding appropriate criteria. The selection criteria and content of the Approved List will be reviewed by Brunel at least annually.

There may be some instances where Brunel decides not to stock lend, for example where they have co-filed a shareholder resolution, but particularly where there are concerns of borrowers deliberately entering transactions to sway the outcome of a shareholder vote.

The decision to stock lend is a collective decision made by Brunel's clients and is supported by the Somerset Pension Fund. Stock lending is applied at portfolio level and reviewed annually as part of the product governance cycle. The policy and relevant SLAs are also reviewed annually. Brunel's approach to responsible stock lending is outlined in further detail in a separate policy.

Fixed Interest

Fixed interest instruments are debt instruments and therefore do not usually confer voting rights. However, the Fund believes that well-governed companies are more likely to make their loan repayments and improve their creditworthiness, enabling better access to funds to support the creation of long-term value for shareholders, other stakeholders, society, and the environment.

Where voting rights are not attached and where opportunity to engage is limited, stewardship focuses on the managers' investment decision-making. The Somerset Pension Fund expects Brunel to integrate Environmental Social and Governance (ESG) considerations into manager selection and ongoing manager monitoring to ensure that ESG is imbedded into the investment process at an issuer, sector, and geographic level.

Where voting rights are attached to fixed income, the Fund, via Brunel, will have the opportunity to vote at company meetings (AGM/EGMs). The Fund would look to Brunel to engage particularly prior to issuance, where the most impact can be made. However, we recognise that there is more work to be done in this asset class.

Private Markets

Stewardship is an intrinsic part of private markets investing due to the degree of influence and control, lack of short-term results pressure on capital markets, and long-term nature of the investments that are made. There are however some natural barriers to stewardship due to the lack of disclosure and often opaque nature of the asset classes and arm's length relationships between general partners (GPs) and limited partners (LPs). As a result, in-depth due diligence is critical, alongside building close relationships and exerting influence where possible.

When assessing potential private market investments, the Somerset Pension Fund would expect Brunel to pay particular attention to ESG and sustainability throughout the selection process. We believe that well governed investments and those with strong ESG and sustainability characteristics will offer better long-term risk-adjusted returns.

Managers should have firm ESG and climate change policies in place, and these should be considered across the value chain, from investment due diligence to ongoing managing, monitoring, and ultimately disposal of the assets. As part of this due diligence Brunel examine case studies to evidence these policies are in place and, crucially, are being actioned. Proof of implementation is critical and supersedes all else. The Fund and Brunel will support managers and encourage best practice, forgiving policies and processes not being formalised so long as the manager commits to action in a reasonable timeframe.

Application of robust stewardship in private markets is very dynamic. Brunel seeks to use the appropriate mechanisms relative to the asset class, size and complexity of the investment, position in the capital structure and the influence that does or does not permit.

Stewardship actions across private markets include:

- Ensuring appropriate governance structures are in place, with particular attention paid where managers have minority positions in assets.
- Assessing the manager's approach to diversity and inclusion and where possible tracking metrics to substantiate claims.
- Assessing the manager's knowledge and commitment to Responsible Investment and climate change mitigation and avoidance.
- Assessing how Responsible Investment is integrated into the investment and asset management processes and fully embedded in the culture of the organisation (both deal teams and operations teams), or whether this is siloed in a separate ESG team.
- Supporting the manager's ongoing development of their Responsible Investment and Stewardship practices, including where appropriate participation in events, workshops as a representative on the Limited Partner Advisory Committee (LPAC)
- Establishing what commitments to Responsible Investment through existing or planned memberships/affiliations with organisations such as Principles for Responsible Investment (PRI), TCFD, GRESB and/or have adopted the SASB framework
- Assessing the awareness, training, capacity and track record on Responsible Investment issues
- Working with managers to improve transparency and quality of the manager's ESG approach and reporting.

Further details of Brunel's approach to private markets are included in the Brunel Stewardship Policy.

Reporting

The Pension Committee will monitor Brunel's engagement with the companies they have invested in, through the regular reporting arrangements in place. Brunel and LGIM's voting records will be reported to Committee on a quarterly basis.

The Somerset Pension Fund Annual Report each year includes a report focusing on stewardship and voting activity. A summary of Brunel's stewardship activities is also included.

7. Advice taken

This Investment Strategy Statement has been put together by Somerset County Council's professional investment officers, supported by the Fund's Independent Investment Advisor.

The Fund has committed to pooling investments through the Brunel Pension Partnership Limited (BPP Ltd.), and advice from both Brunel and the Brunel Client Group has also been taken into account in shaping the Fund's response to the pooling initiative and building an investment strategy that can be implemented via Brunel.

The Brunel Client Officer Group has provided support with regard to the impact on strategy of the investment pooling proposals. The group comprises the investment officers from the Avon Pension Fund (Bath and NE Somerset Council), Buckinghamshire Council, Cornwall Council, Devon CC, Dorset Council, Gloucestershire CC, Oxfordshire CC, Somerset CC, Wiltshire Council and the Environment Agency.

8. Arrangements for reviewing this statement

The guidance requires that the Investment Strategy Statement should be revised at least every three years, and when any significant changes are made to the Fund's investment strategy.

This Investment Strategy Statement will be regularly reviewed by the pensions committee, particularly to ensure it continues to meet all regulatory and statutory requirements. Where there is significant change to the Statement the pensions committee will consult relevant stakeholders, particularly the Pension Board, prior to amending the policy.

**Approved by the Pensions Committee
Somerset County Council Pension Fund
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Annex 1

Working in line with Myners

In 2000, the UK Government ordered a review of institutional investment in the UK. The review was carried out by Paul Myners, the chairman of a large fund-management group, and his findings were published in March 2001.

Myners sets out a number of principles of best practice and recommends that pension funds should set out what they are doing to apply these principles. In response to Myners' proposals, the Government issued a set of 10 investment principles in October 2001 that it said it would be taking forward. In November 2008, the Government published a revised set of principles, following on from this CIPFA had produced a set of Myner's principles specifically for Local Government Pension Schemes and guidance on how to compare compliance with the principles. The fund's performance against the CIPFA principles and guidance is set out below.

Principle 1: Effective Decision Making

Administering authority should ensure that:

- **decisions are taken by people or organisations with the skills, knowledge, advice and resources necessary to make them effectively and monitor their implementations; and**
- **those persons or organisations have sufficient expertise to be able to evaluate and challenge the advice they receive, and manage conflicts of interest.**

The fund is fully compliant with this principle but must continue to work to ensure that the knowledge base of officers, board members and committee members remains comprehensive and current.

Principle 2: Clear Objectives

An overall investment objective(s) should be set out for the fund that takes account of the scheme's liabilities, the potential impact on local tax payers, the strength of the covenant for non-local authority employers, and the attitude to risk of both the administering authority and scheme employers, and these should be communicated to advisors and investment managers.

The fund is fully compliant with this principle. The fund will look to make additional progress by further consideration of the needs of the disparate employers within the fund and how their differing needs are reflected in the objectives of the fund as a whole.

Principle 3: Risk and Liabilities

In setting and reviewing their investment strategy, administering authorities should take account of the form and structure of the liabilities.

These include the implications for local tax payers, the strength of the covenant for participating employers, the risk of their default and longevity risk.

The fund is fully compliant with this principle.

Principle 4: Performance Assessment

Arrangements should be in place for the formal measurement of performance of the investments, investment managers and advisors.

Administering authorities should also periodically make a formal assessment of their own effectiveness as a decision making body and report on this to scheme members.

The fund is fully compliant with this principle with respect of measurement of investment performance and investment managers. The fund needs to consider more formal arrangements for the measurement of performance of other advisors and particularly formal assessment of the pension board and pensions committee's performance.

Principle 5: Responsible Ownership

Administering authorities should:

- **adopt, or ensure their investment managers adopt, the Institutional Shareholders' Committee Statement of Principles on the responsibilities of shareholder and agents**
- **include a statement of their policy on responsible ownership in the statement of investment principles**
- **report periodically to scheme members on the discharge of such responsibilities.**

The fund is fully compliant with this principle.

Principle 6: Transparency and Reporting

Administering authorities should:

- **act in a transparent manner, communicated with stakeholders on issues relating to their management of investment, its governance and risks, including performance against stated objectives**
- **provide regular communication to scheme members in the form they consider most appropriate.**

The fund is fully compliant with this principle.

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Resources Review, Financial Projection Setting and Committee Objective Setting

<i>Lead Officer:</i>	Jason Vaughan: Director of Finance
<i>Author:</i>	Anton Sweet: Funds and Investments Manager
<i>Contact Details:</i>	(01823) 356854 asweet@somerset.gov.uk
<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 2022-23 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 2022-23 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 It is generally considered good practice for LGPS Fund's to review their objectives regularly, both for the fund as a whole and for the activity of the Pensions Committee. The setting of objectives is included in the Committee's workplan as an annual item. 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:

- Manage employers' liabilities effectively and ensure that sufficient resources are available to meet all liabilities as they fall due;
- Enable primary contribution rates to be kept as nearly constant as possible and (subject to the administering authority not taking undue risks) at reasonable cost to all relevant parties (such as the taxpayers, scheduled, resolution and admitted bodies), while achieving and maintaining Fund solvency and long-term cost efficiency, which should be assessed in light of the risk profile of the Fund and employers, and the risk appetite of the administering authority and employers alike; and
- Seek returns on investment within reasonable risk parameters.

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 2022-23 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 2019 valuation results is 4.9% pa. The current adopted target is 4.9% agreed at the June 2020 meeting.

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 10) 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.

- 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

2022-2023

	2020-2021 Full Year	2021-2022 Full Year			2022-2023 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	111.517	109.000	115.000	6.000	122.000
Recoveries from employers	3.043	2.100	2.100	0.000	2.100
Transfer values received	8.408	4.500	10.000	5.500	9.000
	122.968	115.600	127.100	11.500	133.100
Less benefits and other payments					
Recurring pensions	-84.305	-88.000	-88.000	0.000	-90.000
Lump sum on retirement	-10.871	-15.000	-15.000	0.000	-15.000
Lump sum on death	-1.912	-2.500	-2.500	0.000	-2.500
Transfer values paid	-17.031	-10.000	-10.000	0.000	-10.000
Contribution refunds	-0.377	-0.400	-0.600	-0.200	-0.600
	-114.496	-115.900	-116.100	-0.200	-118.100
Contributions after payments	8.472	-0.300	11.000	11.300	15.000
Management Expenses					
Administrative expenses	-1.270	-1.500	-1.500	0.000	-1.550
Investment management expenses	-7.183	-6.000	-7.500	-1.500	-8.000
Oversight and governance expenses	-0.681	-0.625	-0.625	0.000	-0.675
	-9.134	-8.125	-9.625	-1.500	-10.225
Investment Income					
Investment income	33.203	6.000	12.500	6.500	9.750
Net Increase / Decrease (-) in fund	32.541	-2.425	13.875	16.300	14.525

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Investment of Pension Fund Cash

<i>Lead Officer:</i>	Jason Vaughan: 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 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 2017 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 or State Street), these balances do earn interest but at very low rates. Since the transition to Brunel managed funds typically these balances are less than £1m in total.
- 3.4 Officers are proposing a similar counterparty policy to the one adopted for 2021-22 (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 or State Street for Brunel holdings) 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 or State Street). 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 regular 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.

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 18th March 2022 (subject to adoption by the SCC Pensions Committee): -

Financial Institutions

Any Financial Institution that is authorised by the Prudential Regulation Authority to accept deposits in the UK, or is a UK Building Society can be lent to, subject to the rating criteria below 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 at least two out of the 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

Any Low Volatility Net Asset Value (LVNAV) Money Market 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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Review of Pensions Committee Terms of Reference

<i>Lead Officer:</i>	Jason Vaughan: 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 Pensions Committee is asked to review its Terms of Reference with a view to recommending any changes for the new Somerset Unitary's Constitution Committee to consider later in 2022.

2. Issues for consideration

- 2.1 The Current Terms of Reference as attached as appendix A

4. Background

- 4.1 The Pensions Committee adopted a formal set of Terms of Reference for the first time in April 2015. They were put in place to clearly define the role of the Committee and how that related to the new Pension Board, which came into existence at that time.
- 4.2 With all constitutional and governance arrangements being reviewed ahead of the new unitary Council vesting in April 2023 it is agreed that this would be a good opportunity to review the Committees Terms of Reference.
- 4.3 Committee's views are sought to feed into the review of the Constitution Committee and ultimately the full Council of the new Unitary.
- 4.4 Committee are free to comment on any element of the Terms of Reference, but officers would specifically like their views on:
- Number of members and split of representation
 - Whether they would advocate independent members
 - Quoracy requirements

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.

**PENSION COMMITTEE OF THE SOMERSET COUNTY COUNCIL PENSION
FUND
TERMS OF REFERENCE**

1. Introduction

- 1.1 This document sets out the terms of reference of the Pensions Committee of Somerset County Council. The Pensions Committee is a committee with delegated decision making powers for the Fund in accordance with Section 101 of the Local Government Act 1972.
- 1.2 The terms of reference will be formally approved by the Council as the Administering Authority and by the Committee itself thereafter.
- 1.3 These terms of reference shall be reviewed by the Council on the advice of the Committee and on an annual basis to ensure that they remain fit for purpose and in accordance with any regulations and guidance issued by the Secretary of State. Any revisions will be agreed by the Council and by the Committee.

2. Definitions

- the Fund - Somerset County Council Pension Fund.
- the Committee – The Pensions Committee of Somerset County Council.
- the Pensions Board – The Pensions Board of Somerset County Council.
- LGPS – The Local Government Pension Scheme

3. Purpose and functions of the Committee

- 3.1 The Committee discharges the functions of the Council in its role as the administering authority of the Somerset County Council Pension Fund as defined in the LGPS Regulations.
- 3.2 The Committee's principal duties are:
- (i) Ensure the fund is run in line with all relevant law, statutory guidance and industry codes of best practice.
 - (ii) Ensure all contributions due are collected from employers.
 - (iii) Ensure that all benefits due are paid correctly and in a timely manner.
 - (iv) Decide the aims of the investment policy.
 - (v) Make arrangements for managing the fund's investments.
 - (vi) Regularly monitor investment performance.
 - (vii) Make arrangements to publish the fund's annual report and accounts.
 - (viii) Consult stakeholders, and publish the funding strategy statement, statement of investment principles and other policies and documents as necessary.
 - (ix) Order actuarial valuations to be carried out in line with the Local Government Pension Scheme Regulations.
 - (x) Consider requests from organisations who want to join the fund as admitted bodies and consider any requests to change the terms of an existing admission agreement.
 - (xi) Make representations to the Government about any planned changes to the Local Government Pension Scheme and all aspects of managing benefits.

4. Membership of the Committee

- 4.1 The Committee shall consist of 8 members and be constituted as follows:
- (a) Seven employer representatives
- (i) Four employer representative will be county councillors who are not a member of the Pension Board or Cabinet and will be selected by the Administering Authority having taken account of their relevant experience and their knowledge and understanding of the Local Government Pension Scheme;
 - (ii) One employer representative of the 5 district councils that are members of the Fund to be selected by the district councils collectively having taken account of their relevant experience and their knowledge and understanding of the Local Government Pension Scheme;

- (iii) One employer representative of the Police and Crime Commissioner for Avon & Somerset to be selected by the Police and Crime Commissioner having taken account of their relevant experience and their knowledge and understanding of the Local Government Pension Scheme;
 - (iv) one employer representative to be nominated by the remaining employers within the Fund who are not represented by (i)-(iii) above having demonstrated their relevant experience, their capacity to represent other scheme employers and their knowledge and understanding of the LGPS. In the event of there being more than one nomination, the Administering Authority will arrange for a voting process of the qualifying employers.
- (b) One scheme member representative:
- (i) To be nominated by the Unions.
- 4.2 The Chair will be appointed annually by the Council as Administering Authority.
- 4.3 Due to the specialist knowledge requirements of Committee members, substitutes to the appointed members of the Committee are not permitted.
- 4.4 The committee will also be attended by:
- (i) an officer; and
 - (ii) a specialist independent adviser. In this respect the term independent means:
 - (i) having no current employment, contractual, financial or other material interest in either Somerset County Council or any scheme employer in the Fund; and
 - (ii) not being a member of the LGPS in the Fund.

The independent advisor will be a remunerated position.

5. Responsibilities of the Chair

5.1 The Chair is responsible for:

- (a) ensuring the Committee delivers its purpose as set out in the Committee's terms of reference;
- (b) the arrangements for meetings of the Committee;
- (c) ensuring that Committee meetings are productive and effective and that opportunity is provided for the views of all Committee members to be expressed and considered; and
- (d) seeking to achieve the consensus of all Committee members on the business presented to the Committee and ensure that decisions are properly put to a vote when that cannot be reached.

6. Conflicts of interest

6.1 All members of the Committee must declare on appointment and at any such time as their circumstances change any potential conflict of interest arising as a result of their position on the Committee.

6.2 On appointment to the Committee and following any subsequent declaration of potential conflict the conflict must be managed in line with the, the internal procedures of Somerset County Council, the requirements of the Public Service Pensions Act 2013 and the requirements of the Pensions Regulator's codes of practice on conflict of interest for Committee members.

6.3 The Council's Monitoring Officer shall include interests registered by all members of the Committee in the published Members' and Co-opted Members' Register of Interests. All such interests are to be registered with the Monitoring Officer within 28 days of appointment to the Committee.

7. Knowledge and understanding including training

- 7.1 All new members must follow an induction training plan and all members of the Committee will be expected to attend the training provided to ensure that they have the requisite knowledge and understanding to fulfil their role.
- 7.2 The Committee has adopted a training policy and all members of the Committee are expected to meet the requirements of that policy.
- 7.3 Failure to attend training or participate in the processes referred to above may lead to removal from the Board.

8. Term of office and removal from office

- 8.1 The members of the Committee serve for a four year term, subject to the following:
 - (a) the representatives of the administering authority shall be appointed annually by the Somerset County Council Annual Council Meeting, but with a view to maintaining stability of membership;
 - (b) the representatives of the district councils and the Police and Crime Commissioner for Avon and Somerset can be replaced by the relevant appointing group at their behest, but with a view to maintaining stability of membership;
 - (c) the members' representative may be replaced by the Unions, but with a view to maintaining stability of membership.
- 8.2 Members of the Committee will be expected to attend all meetings and training sessions. This will be recorded and published.
- 8.3 Other than by ceasing to be eligible for appointment to the Committee, Committee members may only be removed from office during their term of appointment by the unanimous agreement of all of the other members of the Committee at a meeting of the Committee where this is specified as an agenda item or with the agreement of the Council at a Full Council meeting.
- 8.4 Arrangements shall be made for the replacement of Committee members in line with the procedures for their original appointment.

9. Meetings

- 9.1 The frequency of meetings is to be determined by the Committee once it has agreed a workplan, with a minimum of four meetings annually. In addition to this, training sessions will be held as necessary to ensure that Committee members have sufficient knowledge and skills to undertake the role.
- 9.2 The Chair of the Committee may call additional meetings with the consent of other members of the Committee. Urgent business of the Committee between meetings may, in exceptional circumstances, be conducted via communications between members of the Committee including telephone conferencing and emails.
- 9.3 The Committee will meet at the Council's main offices, or another location to be agreed by the Chair. Meetings will be held during normal working hours at times to be agreed by the Chair.
- 9.4 As a committee of the Council, the Rules of Procedure in Section 6 of the Council's constitution apply to meetings of the Committee. Committee meetings will be held in open session with closed sessions where appropriate. The agenda papers will be circulated to members of the Committee and published in advance of meeting in line with Council policy. The minutes of meetings will be recorded and published in line with Council policy.

10. Quorum

- 10.1 The quorum of the Board shall be 3 elected members.

11. Voting rights

- 11.1 Each of the 8 members of the committee will have voting rights. In the event of a tied vote the Chair has the option of having a final casting vote.

12. Code of Conduct

- 12.1 All members of the Committee will be required to formally sign up to comply with the Somerset County Council Code of Conduct set out at Part 2, Section C of the Council's constitution.

13. Allowances and Expenses

- 13.1 Any councillor of the Council appointed to the Committee will be entitled to receive allowances in accordance with Part 2, Section D of the Council's constitution (Scheme of Members' Allowances).
- 13.2 Reimbursement of expenses for all members of the Committee will be claimable in line with Somerset County Council's agreed expenses rates.

14. Budget

- 14.1 All costs arising from accommodation and administrative support to conduct its meetings and other business, and the training needs of the Committee will be met by the Fund.
- 14.2 The Council's Community Governance Team will provide the secretariat services to the Committee, the cost of which will be met by the Fund.

15. Accountability and reporting

- 15.1 The Committee is accountable solely to the County Council for the effective operation of its functions.
- 15.3 The Committee shall report annually to Full Council on its work.

16. Data protection and Freedom of Information

- 16.1 For legal purposes the Committee is considered a committee of and part of the administering authority legal entity. Therefore the Committee must comply with the Council's Data Protection and Freedom of Information policies.

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